



Prospectus
for the admission to trading

of 27,651,006 newly issued ordinary shares in dematerialized form with no nominal value (the “**New Shares**”)

on the

regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard)

of

ADO Properties S.A.
Senningerberg, Grand Duchy of Luxembourg

International Securities Identification Number (ISIN): LU1250154413

German Securities Code (*Wertpapierkennnummer*, WKN): A14U78

Common Code: 125015441

Ticker Symbol: ADJ

This document constitutes a prospectus for the purposes of the admission to trading of 27,651,006 New Shares on the regulated market segment of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) (the “**Prospectus**”). This Prospectus has been prepared in the form of a single document within the meaning of Article 6 (3) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the “**Prospectus Regulation**”) in connection with the Commission Delegated Regulation (EU) 2019/980 of March 14, 2019 (the “**Delegated Regulation (EU) 2019/980**”).

The *Commission de Surveillance du Secteur Financier* (the “**CSSF**”), in its capacity as competent authority in the Grand Duchy of Luxembourg under the Prospectus Regulation and the Luxembourg law of July 16, 2019 on prospectuses for securities (the “**Luxembourg Prospectus Law**”), has approved this document as a prospectus. By approving this Prospectus in accordance with Article 20 of the Prospectus Regulation, the CSSF assumes no responsibility and does not give any undertaking with regard to the economic and financial soundness of the transaction or the quality or solvency of ADO Properties S.A. in line with the provisions of Article 6 (4) of the Luxembourg Prospectus Law. In accordance with Article 12 of the Prospectus Regulation, this Prospectus is valid for 12 months after its approval. The obligation to prepare a supplement to the Prospectus pursuant to Article 23 of the Prospectus Regulation applies in cases of a significant new factor, material mistake or material inaccuracy until the later of (i) the admission of the New Shares to trading or (ii) the closing of the offer period. Thereafter, the Prospectus does not have to be supplemented pursuant to Article 23 of the Prospectus Regulation.

This Prospectus will be published in electronic form on the website of the Luxembourg Stock Exchange (www.bourse.lu) and under the *Investor Relations* heading of the website of ADO Properties S.A. (www.ado.properties).

This Prospectus has been notified to the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “**BaFin**”) in accordance with Article 25 (1) of the Prospectus Regulation and the European passporting mechanisms set out in the Prospectus Regulation.

Listing Agent

J.P. Morgan

The date of this Prospectus is April 7, 2020

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SUMMARY OF THE PROSPECTUS

A – INTRODUCTION CONTAINING WARNINGS

This prospectus (the “**Prospectus**”) relates to 27,651,006 newly issued ordinary shares in dematerialized form with no nominal value, International Securities Identification Number (“**ISIN**”) LU1250154413, of ADO Properties S.A. (Legal Entity Identifier (“**LEI**”) 391200OYYFJ3DWAMEC69) (the “**New Shares**”), with its registered office at 1B Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg (“**Luxembourg**”) (telephone: +352 278 456 710; website: www.ado.properties) (the “**Company**” and, together with its consolidated subsidiaries, “**we**”, “**us**”, “**our**” or the “**ADO Properties Group**”).

This Prospectus has been filed with and approved by the *Commission de Surveillance du Secteur Financier* (the “**CSSF**”), 283, route d’Arlon, L-1150 Luxembourg (telephone: +352 26 25 1 - 1 (switchboard); fax: +352 26 25 1 - 2601; e-mail: direction@cssf.lu) as competent authority pursuant to Article 6 of the Luxembourg law of July 16, 2019 on prospectuses for securities (the “**Luxembourg Prospectus Law**”) for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the “**Prospectus Regulation**”) on April 7, 2020.

This Summary should be read as an introduction to this Prospectus. Any decision to invest in the shares of the Company should be based on a consideration of this Prospectus as a whole by an investor. Investors in the shares of the Company could lose all or part of their invested capital. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to persons who have tabled this summary where the summary includes misleading, inaccurate or inconsistent statements, when read together with the other parts of this Prospectus, or where it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the shares of the Company.

B – KEY INFORMATION ON THE COMPANY

Who is the Issuer of the securities?

Issuer Information

The Company’s legal name is ADO Properties S.A. and it operates under the commercial name ADO Properties. The Company, with Legal Entity Identifier (LEI) 391200OYYFJ3DWAMEC69, has its registered office at 1B Heienhaff, L-1736 Senningerberg, Luxembourg, and is registered with the Luxembourg Register of Commerce and Companies (*Registre de Commerce et des Sociétés, Luxembourg*) under number B197554. The Company is a public limited liability company incorporated and operating under Luxembourg law (*société anonyme*).

Principal Activities

The Company is the holding company of the ADO Properties Group. The Company’s business is primarily conducted by its operating subsidiaries. We specialize and focus on the purchase and management of income producing multi-family residential buildings. Our investment and trading portfolio value as of December 31, 2019 was €3.7 billion. As of December 31, 2019, our property portfolio consisted of 16,255 residential units with a total residential lettable area of 1,065,128 sqm, 1,382 commercial units (retail, office and other commercial) with a total commercial lettable area of 162,205 sqm, 5,397 parking spaces and spaces for storage, antennas, etc. Most of our residential units contain one or two rooms and have an average size of 65.5 sqm. As of December 31, 2019, our vacancy rate was 2.7% and 3.6% for our residential units and our commercial units, respectively. The average monthly net rent per sqm was €7.39 and €10.04 for our residential units and commercial units, respectively.

Major Shareholders

As of the date of this Prospectus, the Company's major shareholders are:

<u>Name of the Shareholder</u>	<u>Number of Voting Rights</u>	<u>Voting Rights (in%)(1)</u>
ADLER Real Estate Aktiengesellschaft(2)	14,692,889	20.45
Klaus Wecken(3)	4,125,900	5.74
Fairwater Multi-Strategy Investment ICAV(4)	3,969,292	5.52
Fortitudo Capital SPC(5)	3,815,850	5.31
Free float	45,241,682	62.98
Total	71,845,613	100.00

- (1) The percentage of voting rights was calculated on the basis of the Company's registered share capital as of the date of this Prospectus.
- (2) Indirect shareholding of ADLER Real Estate Aktiengesellschaft, as notified for April 1, 2020. ADLER Real Estate Aktiengesellschaft is, as disclosed in its group notification, the controlling shareholder of ADO Group Ltd., which, in turn, directly holds the shares in the Company.
- (3) Direct and indirect shareholding of Klaus Wecken and Wecken & Cie., as notified for March 31, 2020. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding Mr. Klaus Wecken's and Wecken & Cie.'s shares in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Mr. Klaus Wecken and Wecken & Cie. from the issue of the shares until the settlement of the voluntary public takeover offer.
- (4) Direct shareholding of Fairwater Multi-Strategy Investment ICAV as notified for March 31, 2020, which is managed by Mirabella Malta Limited and acting as AIFM and who holds the shares in and is acting in respect of the sub-fund Fairwater Real Estate Opportunities Fund. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding the shares that Fairwater Multi-Strategy Investment ICAV, which is managed by the AIFM Mirabella Malta Limited, holds in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Fairwater Multi-Strategy Investment ICAV, which is managed by the AIFM Mirabella Malta Limited, from the issue of the shares until the settlement of the voluntary public takeover offer.
- (5) Direct and indirect shareholding of Fortitudo Capital SPC as notified for March 31, 2020, who, on behalf and for the account of Fortitudo Real Estate Opportunities Segregated Portfolio, holds the shares and has appointed Mezzanine IX Investors S.A. and Pruss GmbH, a wholly-owned subsidiary of Mezzanine IX Investors S.A., respectively, to exercise voting rights over the shares and these entities can vote on their own discretion. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding Fortitudo Capital SPC's shares in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Fortitudo Capital SPC from the issue of the shares until the settlement of the voluntary public takeover offer.

No shareholder has control over the Company.

Board of Directors

The Company's board of directors (the "**Board of Directors**") consists of Dr. Peter Maser (Chairman (Independent Director)), Thierry Beaudemoulin (Director), Dr. Ben Irle (Director), Florian Sitta (Director), Arzu Akkemik (Independent Director), Dr. Michael Bütter (Independent Director) and Jörn Stobbe (Independent Director).

Statutory Auditor

The Company appointed KPMG Luxembourg, *Société cooperative* ("**KPMG**"), with registered office at 39, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, as its statutory auditor (*réviseur d'entreprises agréé*).

What is the key financial information regarding the Company?

The financial information contained in this Prospectus, other than where otherwise indicated, is taken or derived from the ADO Properties Group's audited consolidated financial statements as of and for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017 (the "**Audited Consolidated Financial Statements of ADO Properties Group**"), each prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), and the ADO Properties Group's internal accounting and reporting system.

Summary statement of profit or loss data

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand, unless otherwise indicated)		
Total revenue ⁽¹⁾	112,509	112,857	92,678
Operating profit ⁽²⁾	613,920	499,342	463,554
Net profit ⁽³⁾	606,924	397,464	367,512
Earnings per share (in €) ⁽⁴⁾	13.63	8.77	8.07

(1) Referred to as “gross profit” in the consolidated financial statements of the Company.

(2) Referred to as “results from operating activities” in the consolidated financial statements of the Company.

(3) Referred to as “profit for the period” in the consolidated financial statements of the Company.

(4) Referred to as “basic earnings per share” in the consolidated financial statements of the Company.

Summary statement of financial position data

	As of December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Total assets	4,396,465	4,170,173	3,518,263
Total equity	2,698,445	2,197,282	1,831,493
Net financial debt ⁽¹⁾	991,977	1,623,185	1,329,694

(1) Referred to as “net financial liabilities” in another part of this Prospectus.

Summary statement of cash flow statement data

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Net cash flows from operating activities ⁽¹⁾	88,764	103,933	86,313
Net cash flows from investing activities ⁽²⁾	269,061	(334,034)	(494,499)
Net cash from financing activities	1,767	136,537	346,295
Change in cash and cash equivalents during the period	359,592	(93,564)	(61,891)

(1) Referred to as “net cash from operating activities” in the consolidated financial statements of the Company.

(2) Referred to as “net cash used in investing activities” in the consolidated financial statements of the Company.

On December 15, 2019, the Company has announced its decision to make a voluntary takeover offer for all shares of ADLER Real Estate Aktiengesellschaft, a stock corporation (*Aktiengesellschaft*) under the laws of Germany, with its seat in Berlin, its business address at Joachimsthaler Straße 34, 10719 Berlin, Germany, and registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Charlottenburg, Germany, under HRB 180360 B (“**ADLER Real Estate**” and, together with its consolidated subsidiaries, the “**ADLER Group**”) in the form of an exchange offer (the “**Offer**”). In connection with the Offer, the Company has prepared *pro forma* consolidated financial statements, comprised of *pro forma* consolidated profit- or loss data for the period from January 1, 2019 to December 31, 2019 and *pro forma* consolidated financial position data as of December 31, 2019, supplemented by *pro forma* notes (the “**Pro Forma Consolidated Financial Information**”). The purpose of the *Pro Forma* Consolidated Financial Information is to present the material effects that a completion of the Offer would have had on and as of the aforementioned periods. The *Pro Forma* Consolidated Financial Information is prepared solely for illustrative purposes. Due to its nature, the *Pro Forma* Consolidated Financial Information is only descriptive of a hypothetical situation and is based on assumptions and does not reflect the actual net assets, financial position and results of operations of the Company.

Pro forma consolidated statement of profit or loss for the period from January 1, 2019 to December 31, 2019

	ADO Properties Group	ADLER Group	ADO Group (standalone)	Total	Pro Forma Adjustments	Pro Forma consolidated statement of profit or loss
	(in € thousand unless otherwise indicated)					
Revenue	156,520	904,185	24	1,060,729	(21,327)	1,039,402
Results from operating activities	613,920	469,008	(3,569)	1,079,359	(342,819)	736,540
Consolidated profit for the period	606,924	367,764	194,348	1,169,036	(568,772)	600,264
Net profit per share (in €)	—	—	—	—	—	6.20
Net profit per share (diluted) (in €)	—	—	—	—	—	6.01

Pro forma consolidated statement of financial position data as of December 31, 2019

	ADO Properties Group	ADLER Group	Total	Pro Forma Adjustments	Pro Forma consolidated statement of financial position data
	(in € thousand)				
Total assets	4,396,465	10,681,677	15,078,142	(4,095,344)	10,982,798
Total equity	2,698,445	3,547,857	6,246,302	(2,191,233)	4,055,069

What are the key risks that are specific to the Company?

- *Our business is significantly dependent on our ability to generate earnings from rentals. Our rental income and operating profit could particularly be negatively affected by a potential increase in vacancy rates.*
- *Our ability to operate our business successfully relies on assumptions and contingencies that may prove to be incorrect. Such assumptions and contingencies may prove to be inaccurate, either in part or as a whole, in particular due to unexpected liabilities, incomplete or wrong assessment of markets, value determinations and due diligence findings and challenges with respect to achieving anticipated synergies and insufficient investment horizons.*
- *We rely on our ability to identify potential real estate portfolio acquisitions in order to pursue our investment strategies. We may not be able to identify all risks associated with any such acquisitions. Assumptions could prove to be insufficient or incorrect and a successful integration of acquisitions may not be achievable.*
- *Our business is dependent on regional real estate markets and their liquidity, particularly Berlin, which may be subject to adverse market developments. Fluctuation in the development of the currently high demand and prices could make it difficult for us to conduct our business activities and to implement our strategy to capture additional growth opportunities.*
- *Our investments are in real estate and due to the potentially illiquid nature of the real estate market, we may not be able to sell any portion of our portfolio or investments in a timely fashion, on favorable terms or at all.*
- *Property valuation is inherently subjective and uncertain and is based on assumptions which may prove to be inaccurate or affected by factors outside of our control. The property valuation serves as a basis of and is combined with other factors for our fair value model which, ultimately, could require downward revisions of the current fair values of our investment properties.*
- *In the event of a downturn or other developments in the real estate markets in Germany or a downturn in the interest rate environment, the fair values of the properties in our property portfolio may decline, which may have material adverse effects on the valuation of our property portfolio.*
- *An increase in general interest rate levels may increase our financing costs, while the current economic environment, characterized by relatively high values of our properties and the prices at which we are able to sell our properties, may decrease.*
- *German laws protecting residential tenants and existing restrictions on the rate of rental increases could make it more difficult to increase the rents of residential units we own.*
- *Our business is subject to the general legal environment in Germany. Any disadvantageous changes in the legal environment, such as mandatory environmental modernization provisions, restrictions regarding modernization measures or provisions (including taxes) that result in the incurrence of costs in the event of a property sale, or disadvantageous changes to the Berlin Mietspiegel regulation, may be detrimental to us.*

- *The structure of the Company is mainly influenced by the general tax environment in Luxembourg, Germany and further countries of the European Union (Netherlands, Denmark and Ireland) and changes in the tax environment may increase our tax burden.*
- *ADLER Real Estate is a real estate company that is exposed to a variety of risks that we believe are comparable to the risks associated with our business activities. However, it cannot be ruled out that ADLER Real Estate may be exposed to further, previously unrecognized risks, the realization of which could also have a material adverse effect on the net assets, financial position and results of operations of the Combined Group created through the Completion and Integration.*

C – KEY INFORMATION ON THE SECURITIES

What are the main features of the securities?

Type, Class, ISIN

The summary relates to ordinary shares in dematerialized form of the Company with no nominal value; ISIN: LU1250154413; German Securities Code (*Wertpapierkennnummer, WKN*): A14U78; Common Code: 125015441; Trading Symbol: ADJ.

Nominal Value, Number of Securities

As of the date of this Prospectus, the share capital of the Company amounts to €89,088.56 and is divided into 71,845,613 ordinary shares in dematerialized form with no nominal value. All shares of the Company are fully paid up. The subject-matter of this Prospectus is the listing (the “**Listing**”) of the New Shares on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard). This corresponds to the acceptance of the Offer for 66,404,915 shares of ADLER Real Estate, each in exchange for 0.4164 New Shares, which were offered to the shareholders of ADLER Real Estate (each a “**ADLER Shareholder**”) as consideration for the Offer (the “**Offer Consideration**”).

Currency

The Company’s shares are denominated in Euro.

Rights Attached

The New Shares are fully fungible and rank *pari passu* in all respects with the existing shares of the Company. Each share of the Company, including the New Shares, carries one vote at the general meeting of the Company (the “**General Meeting**”). There are no restrictions on voting rights. All shares carry the same voting rights. The New Shares grant full dividend entitlements as from January 1, 2019.

Seniority

Any claim for payment of shareholders are subordinated to all other securities and claims.

Restrictions of Transferability

The shares of the Company, including the New Shares, are freely transferable in accordance with the Luxembourg law of April 6, 2013 on dematerialized securities. There are no restrictions on the transferability of the Company’s shares.

Dividend Policy

The Company aims to distribute an annual dividend of up to 50% of the annual cash flow from rental activities (“**FFO 1**”) to the shareholders of the Company. FFO 1 is derived from the EBITDA from rental activities of the Company for the respective periods, adjusted for the net cash interest and current income taxes. FFO 1 is a customary performance indicator to evaluate the performance of the recurring operating profits of a real estate company. The decision to distribute dividends from annual net profits is subject to a resolution by the General Meeting, whereas the Board of Directors may, pursuant to the articles of association of the Company, also declare interim dividends. Any future determination to pay dividends will be made in accordance with applicable laws, and will depend upon, among other factors, the Company’s results of operations, financial condition, contractual restrictions and capital requirements. The Company’s future ability to pay dividends may be limited by the terms of any existing and future debt or preferred securities.

Where will the securities be traded?

On or about April 8, 2020, the Company intends to apply for admission of the New Shares to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard).

What are the key risks attached to the securities?

- *Future capital measures like the issuance of new shares from authorized capital, which currently amounts to €750,000,000, the exercise of share options and any amendment to the capital structure to be resolved by the General Meeting could lead to a significant dilution, thereby reducing the value of the shareholding of the existing shareholders of the Company.*
- *The share price and the trading volume of the shares of the Company could fluctuate significantly, including due to disposals by any major or majority shareholder, which could, ultimately, result in significant losses for shareholders of the Company.*
- *The ability of the Company to distribute dividends is dependent on a variety of factors. The previous dividend distributions, which amounted to €0.75, €0.60 and €0.45 per share for the fiscal years ended December 31, 2018, 2017 and 2016, respectively, are no indication for future dividend distributions. Additionally, the dividend policy of the Company may change in the future.*

D – KEY INFORMATION ON THE OFFER OF SECURITIES TO THE PUBLIC AND ADMISSION TO TRADING ON A REGULATED MARKET

Under which conditions and timetable can I invest in this security?

Offer Conditions

Not applicable. This Prospectus does not relate to an offering of shares.

Expected Timetable of the Offer

Not applicable. This Prospectus does not relate to an offering of shares.

Admission to Trading

On or about April 8, 2020, the Company intends to apply for admission of the New Shares to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard). The listing approval for the New Shares is expected to be granted on or about April 8, 2020. The trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is currently expected to commence on April 9, 2020.

Dilution

Not applicable. This Prospectus does not relate to an offering of shares.

Total Expenses

The expenses related to the Listing are expected to total approximately between €2 million and €2.5 million and will be borne by the Company.

Expenses Charged to Investors

No expenses will be charged to investors by the Company or its financial advisors.

Why is this prospectus being produced?

Reasons for the Admission to Trading

The Company intends to list the New Shares on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard) to provide the shareholders of ADLER Real Estate who have accepted the Offer with more liquid securities.

Use of Proceeds

Not applicable. This prospectus does not relate to an offering of shares. Accordingly, there are no proceeds to the Company or any shareholder of the Company.

Underwriting

The Listing is not subject to an underwriting agreement and thus not subject to any firm underwriting commitment.

Interests Material to the Offer, Including Conflicting Interests

J.P. Morgan is acting as the Listing Agent to the Company in connection with the Listing and is providing investment banking and related services in this context.

There are no other interests or (potential) conflicts of interest that could be material to the Listing.

ZUSAMMENFASSUNG DES PROSPEKTS

A – EINLEITUNG MIT WARNHINWEISEN

Dieser Prospekt (der „**Prospekt**“) bezieht sich auf 27.651.006 dematerialisierte Aktien ohne Nennwert, internationale Wertpapier-Identifikationsnummer („**ISIN**“) LU1250154413, der ADO Properties S.A. (Rechtsträgerkennung („**LEI**“) 391200OYYFJ3DWAMEC69) (die „**Neuen Aktien**“), Geschäftsanschrift: 1B Heienhaff, L-1736 Senningerberg, Großherzogtum Luxemburg („**Luxemburg**“) (Telefon +352 278 456 710; Website: www.ado.properties) (die „**Gesellschaft**“ und, zusammen mit ihren konsolidierten Tochtergesellschaften, „**wir**“, „**uns**“, „**unsere**“ oder die „**ADO Properties Gruppe**“).

Dieser Prospekt wurde bei der *Commission de Surveillance du Secteur Financier* (die „**CSSF**“), 283, route d’Arlon, L-1150 Luxemburg (Telefon: +352 26 25 11 (Telefonzentrale); Fax: +352 26 25 1 2601; E-Mail: direction@cssf.lu) als zuständige Behörde gemäß Artikel 6 des luxemburgischen Gesetzes vom 16. Juli 2019 über Wertpapierprospekte (das „**Luxemburger Prospektgesetz**“) für Zwecke der Verordnung (EU) 2017/1129 des Europäischen Parlaments und des Rates vom 14. Juni 2017 über den Prospekt, der beim öffentlichen Angebot von Wertpapieren oder bei deren Zulassung zum Handel an einem geregelten Markt zu veröffentlichen ist und zur Aufhebung der Richtlinie 2003/71/EG (die „**Prospektverordnung**“) eingereicht und von dieser am 7. April 2020 gebilligt.

Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt verstanden werden. Anleger sollten sich bei der Entscheidung, in die Aktien der Gesellschaft zu investieren, auf diesen Prospekt als Ganzes stützen. Anleger, die in die Aktien der Gesellschaft investieren, könnten das gesamte angelegte Kapital oder einen Teil davon verlieren. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach nationalem Recht die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben. Nur diejenigen Personen haften zivilrechtlich, die diese Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben: Dies gilt jedoch nur für den Fall, dass diese Zusammenfassung, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass sie, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die Aktien der Gesellschaft für die Anleger eine Entscheidungshilfe darstellen würden.

B – BASISINFORMATIONEN ÜBER DIE GESELLSCHAFT

Wer ist der Emittent der Wertpapiere?

Informationen über den Emittenten

Die juristische Bezeichnung der Gesellschaft ist ADO Properties S.A. und die Gesellschaft ist unter ihrer kommerziellen Bezeichnung ADO Properties tätig. Die Gesellschaft, mit Rechtsträgerkennung (*Legal Entity Identifier* – LEI) 391200OYYFJ3DWAMEC69, hat ihre Geschäftsanschrift in 1B Heienhaff, L-1736 Senningerberg, Luxemburg, und ist im Luxemburger Handels- und Geschäftsregister (*Registre de Commerce et des Sociétés, Luxembourg*) unter Nummer B197554 eingetragen. Die Gesellschaft ist eine nach luxemburgischen Recht gegründete und tätige Aktiengesellschaft (*société anonyme*).

Haupttätigkeiten

Die Gesellschaft ist die Holdinggesellschaft der ADO Properties Gruppe. Die Geschäftstätigkeit der Gesellschaft wird hauptsächlich durch ihre operativen Tochtergesellschaften vorgenommen. Unsere Spezialisierung und unser Fokus liegen auf dem Erwerb und der Verwaltung renditeträchtiger Mehrfamilienhäuser. Zum 31. Dezember 2019 belief sich der Wert unseres Investment- und Handelsportfolios auf EUR 3,7 Mrd. Zum 31. Dezember 2019 umfasste unser Immobilienportfolio 16.255 Wohnungen mit einer vermietbaren Gesamtwohnfläche von 1.065.128 m², 1.382 Gewerbeeinheiten (Einzelhandels-, Büro- und sonstige Gewerbeimmobilien) mit einer vermietbaren Gesamtgewebefläche von 162.205 m² sowie 5.397 Parkflächen, Lagerflächen und Stellflächen für Antennen usw. Unsere Wohneinheiten haben überwiegend ein bis zwei Zimmer und eine durchschnittliche Größe von 65,5 m². Zum 31. Dezember 2019 lag unsere Leerstandsquote bei 2,7 % für Wohneinheiten und 3,6 % für Gewerbeeinheiten, die durchschnittliche Monatsnettomiete je Quadratmeter belief sich auf EUR 7,39 für Wohneinheiten und EUR 10,04 für Gewerbeeinheiten.

Hauptanteilseigner

Zum Datum dieses Prospekts sind die Hauptanteilseigner der Gesellschaft:

<u>Name des Aktionärs</u>	<u>Anzahl der Stimmrechte</u>	<u>Stimmrechte (in %) ⁽¹⁾</u>
ADLER Real Estate Aktiengesellschaft ⁽²⁾	14.692.889	20,45
Klaus Wecken ⁽³⁾	4.125.900	5,74
Fairwater Multi-Strategy Investment ICAV ⁽⁴⁾	3.969.292	5,52
Fortitudo Capital SPC ⁽⁵⁾	3.815.850	5,31
Streubesitz	45.241.682	62,98
Total	71.845.613	100,00

- (1) Der Prozentsatz der Stimmrechte wurde auf der Grundlage des registrierten Grundkapitals der Gesellschaft zum Datum dieses Prospekts berechnet.
- (2) Mittelbarer Anteilsbesitz der ADLER Real Estate Aktiengesellschaft, wie für den 1. April 2020 mitgeteilt. ADLER Real Estate Aktiengesellschaft ist, wie in ihrer Konzernmitteilung aufgeführt, der beherrschende Aktionär der ADO Group Ltd., die wiederum die Aktien an der Gesellschaft unmittelbar hält.
- (3) Direkter und indirekter Anteilsbesitz von Klaus Wecken und Wecken & Cie, wie für den 31. März 2020 mitgeteilt. Gemäß der Stimmrechtsmitteilung hält BNP Paribas Securities Services S.C.A., Zweigniederlassung Frankfurt, die Anteile von Herrn Klaus Wecken und Wecken & Cie. in der Gesellschaft lediglich in ihrer Rolle als Abwicklungsstelle im Namen, im Auftrag und auf Rechnung von und als Stellvertreter von Herrn Klaus Wecken und Wecken & Cie. ab dem Zeitpunkt der Ausgabe der Aktien bis zur Abwicklung des freiwilligen öffentlichen Übernahmeangebots.
- (4) Direkter Anteilsbesitz von Fairwater Multi-Strategy Investment ICAV, wie für den 31. März 2020 mitgeteilt, welches von Mirabella Malta Limited, die auch als Verwalter alternativer Investmentfonds tätig ist und die Aktien für den Sub-Fond Fairwater Real Estate Opportunities Fund hält und für diesen tätig wird, verwaltet wird. Gemäß der Stimmrechtsmitteilung hält BNP Paribas Securities Services S.C.A., Zweigniederlassung Frankfurt, die Anteile, die Fairwater Multi-Strategy Investment ICAV, welches von der als Verwalter alternativer Investmentfonds tätigen Mirabella Malta Limited verwaltet wird, in der Gesellschaft lediglich in ihrer Rolle als Abwicklungsstelle im Namen, im Auftrag und auf Rechnung von und als Stellvertreter von Fairwater Multi-Strategy Investment ICAV, welches von der als Verwalter alternativer Investmentfonds tätigen Mirabella Malta Limited verwaltet wird, ab dem Zeitpunkt der Ausgabe der Aktien bis zur Abwicklung des freiwilligen öffentlichen Übernahmeangebots.
- (5) Direkter und indirekter Anteilsbesitz der Fortitudo Capital SPC wie für den 31. März 2020 mitgeteilt, welche die Aktien für und auf Rechnung von Fortitudo Real Estate Opportunities Segregated Portfolio hält und zur Ausübung der Stimmrechte über die Anteile Mezzanine IX Investors S.A. und Pruss GmbH, eine hundertprozentige Tochtergesellschaft der Mezzanine IX Investors S.A., ernannt hat, die diese nach eigenem Ermessen ausüben können. Gemäß der Stimmrechtsmitteilung hält BNP Paribas Securities Services S.C.A., Zweigniederlassung Frankfurt, die Anteile von Fortitudo Capital SPC in der Gesellschaft lediglich in ihrer Rolle als Abwicklungsstelle im Namen, im Auftrag und auf Rechnung von und als Stellvertreter von Fortitudo Capital SPC ab dem Zeitpunkt der Ausgabe der Aktien bis zur Abwicklung des freiwilligen öffentlichen Übernahmeangebots.

Kein Aktionär beherrscht die Gesellschaft.

Verwaltungsrat

Der Verwaltungsrat der Gesellschaft (der „**Verwaltungsrat**“) besteht aus Dr. Peter Maser (Vorsitzender (Unabhängiges Mitglied)), Thierry Beaudemoulin (Mitglied), Dr. Ben Irlé (Mitglied), Florian Sitta (Mitglied), Arzu Akkemik (Unabhängiges Mitglied), Dr. Michael Bütter (Unabhängiges Mitglied) und Jörn Stobbe (Unabhängiges Mitglied).

Abschlussprüfer

Die Gesellschaft hat KPMG Luxembourg, *Société cooperative* („**KPMG**“), Geschäftsanschrift 39, avenue John F. Kennedy, L-1855 Luxemburg, Großherzogtum Luxemburg, als Abschlussprüfer (*réviseur d'entreprises agréé*) ernannt.

Welches sind die wesentlichen Finanzinformationen über die Gesellschaft?

Die Finanzinformationen in diesem Prospekt wurden, soweit nicht anders angegeben, den geprüften Konzernabschlüssen der ADO Properties Gruppe für die am und zum 31. Dezember 2019, 31. Dezember 2018 und 31. Dezember 2017 endenden Geschäftsjahre („**Geprüfte Konzernabschlüsse der ADO Properties Gruppe**“), jeweils nach den International Financial Reporting Standards wie sie in der Europäischen Union anzuwenden sind („**IFRS**“) erstellt, und dem internen Buchhaltungs- und Berichtssystem der ADO Properties Gruppe entnommen oder aus diesen abgeleitet.

Zusammenfassung von Daten aus der Gewinn- und Verlustrechnung

	Für das Geschäftsjahr zum 31. Dezember		
	2019	2018	2017
		(geprüft)	
		(in TEUR, soweit nicht anders angegeben)	
Einnahmen insgesamt ⁽¹⁾	112.509	112.857	92.678
Operativer Gewinn ⁽²⁾	613.920	499.342	463.554
Nettogewinn⁽³⁾	606.924	397.464	367.512
Ergebnis je Aktie (in EUR)⁽⁴⁾	13,63	8,77	8,07

(1) Als Bruttoergebnis vom Umsatz in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(2) Als Ergebnis der betrieblichen Geschäftstätigkeit in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(3) Als Periodenüberschuss in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(4) Als Unverwässertes Ergebnis je Aktie in den Konzernabschlüssen der Gesellschaft ausgewiesen.

Zusammenfassung von Daten aus der Bilanz

	Zum 31. Dezember		
	2019	2018	2017
		(geprüft)	
		(in TEUR)	
Vermögenswerte insgesamt⁽¹⁾	4.396.465	4.170.173	3.518.263
Eigenkapital insgesamt⁽²⁾	2.698.445	2.197.282	1.831.493
Nettofinanzierungsschulden⁽³⁾	991.977	1.623.185	1.329.694

(1) Als Summe Aktiva in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(2) Als Summe Eigenkapital in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(3) Erscheint als Nettofinanzverbindlichkeiten an anderer Stelle im Prospekt.

Zusammenfassung von Daten aus der Kapitalflussrechnung

	Für das Geschäftsjahr zum 31. Dezember		
	2019	2018	2017
		(geprüft)	
		(in TEUR)	
Netto-Cashflows aus der laufenden Geschäftstätigkeit ⁽¹⁾	88.764	103.933	86.313
Netto-Cashflows aus Investitionstätigkeiten ⁽²⁾	269.061	(334.034)	(494.499)
Netto-Cashflows aus Finanzierungstätigkeiten ⁽³⁾	1.767	136.537	346.295
Veränderungen der Zahlungsmittel und Zahlungsmitteläquivalente in der Berichtsperiode	359.592	(93.564)	(61.891)

(1) Als Nettozahlungsmittel aus betrieblicher Tätigkeit in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(2) Als Nettozahlungsmittel aus Investitionstätigkeit in den Konzernabschlüssen der Gesellschaft ausgewiesen.

(3) Als Nettozahlungsmittel aus Finanzierungstätigkeit in den Konzernabschlüssen der Gesellschaft ausgewiesen.

Am 15. Dezember 2019 hat die Gesellschaft ihre Entscheidung bekanntgegeben, ein freiwilliges öffentliches Angebot zum Erwerb sämtlicher Aktien der ADLER Real Estate Aktiengesellschaft, einer Aktiengesellschaft nach deutschem Recht mit Sitz in Berlin, Geschäftsanschrift Joachimsthaler Straße 34, 10719 Berlin, Deutschland, und eingetragen im Handelsregister Berlin-Charlottenburg, Deutschland, unter HRB 180360 B („ADLER Real Estate“ und, zusammen mit ihren konsolidierten Tochtergesellschaften, die „ADLER Gruppe“), in Form eines Tauschangebots abzugeben (das „Angebot“). In Zusammenhang mit dem Angebot hat die Gesellschaft *pro-forma* Konzernfinanzinformationen erstellt, die aus einer *pro-forma* Konzerngewinn- und -verlustrechnung für den Zeitraum vom 1. Januar 2019 bis zum 31. Dezember 2019 sowie einer *pro-forma* Konzernbilanz zum 31. Dezember 2019, ergänzt um *pro-forma* Anhänge, bestehen („Pro-Forma Konzernfinanzinformationen“). Der Zweck der *Pro-Forma* Konzernfinanzinformationen besteht darin, die wesentlichen Auswirkungen darzustellen, die eine Durchführung des Angebots auf die oben genannten Zeiträume gehabt hätte. Die *Pro-Forma* Konzernfinanzinformationen werden ausschließlich zu Illustrationszwecken erstellt. Aufgrund ihrer Wesensart beschreiben die *Pro-Forma* Konzernfinanzinformationen lediglich eine hypothetische Situation und beruhen auf Annahmen, die nicht die tatsächliche Vermögens-, Finanz- und Ertragslage der Gesellschaft widerspiegeln.

Pro-forma Konzerngewinn- und -verlustrechnung für den Zeitraum vom 1. Januar 2019 bis zum 31. Dezember 2019

	ADO Properties Gruppe	ADLER Gruppe	ADO Group (einzeln)	Summe	Pro-forma Anpassungen	Pro-forma Konzerngewinn- und - verlustrechnung
	(in TEUR soweit nicht anders angegeben)					
Umsatzerlöse	156.520	904.185	24	1.060.729	(21.327)	1.039.402
Ergebnis der betrieblichen Geschäftstätigkeit	613.920	469.008	(3.569)	1.079.359	(342.819)	736.540
Konzernjahresüberschuss	606.924	367.764	194.348	1.169.036	(568.772)	600.264
Reinergebnis je Aktie (in EUR)	—	—	—	—	—	6,20
Reinergebnis je Aktie (verwässert) (in EUR)	—	—	—	—	—	6,01

Pro-forma Konzernbilanz zum 31. Dezember 2019

	ADO Properties Gruppe	ADLER Gruppe	Summe	Pro-forma Anpassungen	Pro-forma Konzernbilanz
	(in TEUR)				
Bilanzsumme	4.396.465	10.681.677	15.078.142	(4.095.344)	10.982.798
Summe Eigenkapital	2.698.445	3.547.857	6.246.302	(2.191.233)	4.055.069

Welches sind die zentralen Risiken, die für die Gesellschaft spezifisch sind?

- *Unser Geschäft hängt in hohem Maße von unserer Fähigkeit ab, Mieteinnahmen zu erzielen. Unsere Mieteinnahmen und unser operative Gewinn können insbesondere durch einen möglichen Anstieg der Leerstandsquote beeinträchtigt werden.*
- *Unsere Fähigkeit, unser Geschäft erfolgreich zu betreiben stützt sich auf Annahmen und Eventualitäten, die sich als unzutreffend erweisen könnten. Solche Annahmen und Eventualitäten können sich insbesondere aufgrund unerwarteter Verbindlichkeiten, unvollständigen oder falschen Marktbewertungen, Wertermittlungen und Ergebnissen aus Due-Diligence-Prüfungen sowie Herausforderungen im Zusammenhang mit der Erzielung erwarteter Synergien und unzureichenden Anlagenshorizonten als teilweise oder vollständig unzutreffend erweisen.*
- *Wir setzen auf unsere Fähigkeit, Immobilienportfolios als mögliche Akquisitionsziele zur Umsetzung unserer Anlagestrategien zu ermitteln. Unter Umständen sind wir nicht in der Lage, alle Risiken im Zusammenhang mit derartigen Akquisitionen zu identifizieren. Annahmen könnten sich als unzureichend oder unzutreffend erweisen und eine erfolgreiche Integration von Akquisitionen könnte uns nicht möglich sein.*
- *Unser Geschäft ist von regionalen Immobilienmärkten (insbesondere Berlin) und deren Liquidität abhängig, die von nachteiligen Marktentwicklungen betroffen sein können. Die Entwicklung der aktuell hohen Nachfrage und Preise könnten unsere Geschäftstätigkeiten und die Umsetzung unserer Strategie zur Ergreifung weiterer Wachstumschancen erschweren.*
- *Unsere Investitionen erfolgen in Immobilien und aufgrund des potenziell illiquiden Charakters des Immobilienmarktes sind wir möglicherweise nicht in der Lage, einen Teil unseres Portfolios oder unserer Investitionen zeitnah, zu günstigen Bedingungen oder überhaupt zu verkaufen.*
- *Die Bewertung von Immobilien ist grundsätzlich subjektiv und unsicher und beruht auf Annahmen, die sich als unzutreffend erweisen können oder durch Faktoren beeinflusst werden, die außerhalb unserer Kontrolle liegen. Die Ergebnisse der Immobilienbewertung bilden zusammen mit anderen Faktoren die Grundlage für unser Zeitwert-Modell, was letztendlich dazu führen könnte, dass die aktuellen Zeitwerte unserer Anlageimmobilien nach unten korrigiert werden müssen.*
- *Im Falle eines Abschwungs oder anderer Entwicklungen auf den Immobilienmärkten in Deutschland oder einer Verschlechterung des Zinsumfelds kann sich der Zeitwert der Immobilien in unserem Immobilienportfolio verringern, was sich erheblich nachteilig auf die Bewertung unseres Immobilienportfolios auswirken kann.*
- *Ein Anstieg des allgemeinen Zinsniveaus kann unsere Finanzierungskosten erhöhen. Gleichzeitig können sich die derzeitigen wirtschaftlichen Rahmenbedingungen, die durch relativ hohe Werte unserer Immobilien gekennzeichnet sind, verschlechtern, und die Preise, zu denen wir unsere Objekte verkaufen können, können sinken.*
- *Das deutsche Mieterschutzrecht und bestehende Beschränkungen für Mieterhöhungen könnten es uns erschweren, die Mieten unserer Wohneinheiten anzuheben.*

- *Unser Geschäft unterliegt den in Deutschland geltenden allgemeinen rechtlichen Rahmenbedingungen. Ungünstige Änderungen der rechtlichen Rahmenbedingungen, wie beispielsweise verbindliche Vorschriften zur umweltgerechten Modernisierung, Einschränkungen bezüglich Modernisierungsmaßnahmen oder Vorschriften (einschließlich Steuern), die zu Mehrkosten beim Immobilienverkauf führen, oder ungünstige Änderungen des Berliner Mietspiegels oder anderer Regelungen können sich nachteilig auf uns auswirken.*
- *Die Struktur der Gesellschaft wird hauptsächlich vom allgemeinen steuerlichen Umfeld in Luxemburg, Deutschland und weiteren Ländern der Europäischen Union (Niederlande, Dänemark und Irland) beeinflusst; Änderungen des steuerlichen Umfelds können unsere Steuerbelastung erhöhen.*
- *ADLER Real Estate ist eine Immobiliengesellschaft, die einer Vielzahl von Risiken ausgesetzt ist, die unserer Ansicht nach mit den mit unserer Geschäftstätigkeit verbundenen Risiken vergleichbar sind. Gleichwohl kann nicht ausgeschlossen werden, dass ADLER Real Estate weiteren, bisher nicht erkannten Risiken ausgesetzt ist, deren Eintritt oder Intensivierung auch erhebliche nachteilige Auswirkungen auf die Vermögens-, Finanz- und Ertragslage des durch Vollzug und Integration geschaffenen Kombinierten Unternehmens haben könnte.*

C – BASISINFORMATIONEN ÜBER DIE WERTPAPIERE

Welches sind die wichtigsten Merkmale der Wertpapiere?

Art, Gattung, ISIN

Diese Zusammenfassung bezieht sich auf dematerialisierte Aktien der Gesellschaft ohne Nennwert; ISIN: LU1250154413; Wertpapierkennnummer (WKN): A14U78; Common Code: 125015441; Börsenkürzel: ADJ.

Nennwert, Anzahl der Wertpapiere

Zum Datum dieses Prospekts beträgt das Grundkapital der Gesellschaft EUR 89.088,56, eingeteilt in 71.845.613 dematerialisierte Aktien ohne Nennwert. Sämtliche Aktien der Gesellschaft sind vollständig eingezahlt. Gegenstand dieses Prospekts ist die Zulassung (die „**Zulassung**“) der Neuen Aktien zum Regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des Regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard). Dies entspricht der Annahme des Angebots für 66.404.915 Aktien der ADLER Real Estate, jeweils im Tausch gegen 0,4164 Neue Aktien, welche den Aktionären der ADLER Real Estate (jeweils ein „**ADLER Aktionär**“) als Gegenleistung im Rahmen des Angebots (die „**Angebotsgegenleistung**“) geboten wurde.

Währung

Die Aktien der Gesellschaft sind in Euro denominated.

Verbundene Rechte

Die Neuen Aktien sind uneingeschränkt fungibel und in jeder Hinsicht gleichrangig mit den bestehenden Aktien der Gesellschaft. Jede Aktie der Gesellschaft, einschließlich der Neuen Aktien, berechtigt zu einer Stimme in der Hauptversammlung der Gesellschaft (die „**Hauptversammlung**“). Es bestehen keine Beschränkungen der Stimmrechte. Alle Aktien sind mit den gleichen Stimmrechten ausgestattet. Die Neuen Aktien sind mit voller Gewinnanteilsberechtigung ab dem 1. Januar 2019 ausgestattet.

Rang

Jeglicher Zahlungsanspruch der Aktionäre ist allen anderen Wertpapieren und Forderungen nachrangig.

Freie Handelbarkeit

Die Aktien der Gesellschaft, einschließlich der Neuen Aktien, sind in Übereinstimmung mit dem Luxemburger Gesetz vom 6. April 2013 über dematerialisierte Wertpapiere frei übertragbar. Es bestehen keine Beschränkungen für die Übertragbarkeit der Aktien der Gesellschaft.

Dividendenpolitik

Die Gesellschaft beabsichtigt, eine jährliche Dividende von bis zu 50% des operativen Ergebnisses aus Vermietung („**FFO 1**“) an die Aktionäre der Gesellschaft auszuschütten. Das FFO 1 ergibt sich aus dem EBITDA aus Vermietung der Gesellschaft für die jeweiligen Zeiträume bereinigt um die allgemeinen Nettobarzinsen und laufende Ertragsteuern. FFO 1 ist ein üblicher Leistungsindikator zur Bewertung der Performance der widerkehrenden operativen Gewinne eines Immobilienunternehmens. Der Beschluss zur Ausschüttung von Dividenden aus dem Jahresüberschuss bedarf eines Beschlusses der Hauptversammlung.

wobei der Verwaltungsrat gemäß der Satzung der Gesellschaft auch Zwischendividenden deklarieren kann. Jegliche zukünftige Entscheidung über die Ausschüttung von Dividenden wird in Übereinstimmung mit den geltenden Gesetzen getroffen und ist unter anderem von der Ertragslage, der Finanzlage, den vertraglichen Beschränkungen und den Kapitalanforderungen der Gesellschaft abhängig. Die zukünftige Fähigkeit der Gesellschaft zur Zahlung von Dividenden kann durch die Bedingungen bestehender und zukünftiger Schuldverschreibungen und Vorzugspapiere eingeschränkt sein.

Wo werden die Wertpapiere gehandelt?

Am oder um den 8. April 2020 beabsichtigt die Gesellschaft, den Antrag zur Zulassung der Neuen Aktien zum Handel im Regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des Regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) zu stellen.

Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?

- *Zukünftige Kapitalmaßnahmen wie die Ausgabe neuer Aktien aus genehmigtem Kapital, welches derzeit EUR 750.000.000 beträgt, die Ausübung von Aktienoptionen und jede durch die Hauptversammlung zu beschließende Änderung der Kapitalstruktur könnten zu einer erheblichen Verwässerung führen und so den Wert der Beteiligung der Altaktionäre der Gesellschaft mindern.*
- *Der Aktienkurs und das Handelsvolumen der Aktie der Gesellschaft könnten erheblich schwanken, u.a. infolge von Verkäufen durch Groß- oder Mehrheitsaktionäre, und letztlich zu erheblichen Verlusten auf Seiten der Aktionäre der Gesellschaft führen.*
- *Die Fähigkeit der Gesellschaft, Dividenden auszuschütten, hängt von unterschiedlichen Faktoren ab. Die in der Vergangenheit ausgeschütteten Dividenden, die für die zum 31. Dezember 2018, 2017 und 2016 endenden Geschäftsjahren jeweils EUR 0,75, EUR 0,60 und EUR 0,45 je Aktie betragen, geben keinen Aufschluss über künftige Dividendenzahlungen. Außerdem kann sich die Dividendenpolitik der Gesellschaft in Zukunft ändern.*

D-BASISINFORMATIONEN ÜBER DAS ÖFFENTLICHE ANGEBOT VON WERTPAPIEREN UND/ODER DIE ZULASSUNG ZUM HANDEL AN EINEM GEREGELTEN MARKT

Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?

Angebotskonditionen

Nicht zutreffend. Dieser Prospekt bezieht sich nicht auf ein Angebot von Aktien.

Voraussichtlicher Zeitplan des Angebots

Nicht zutreffend. Dieser Prospekt bezieht sich nicht auf ein Angebot von Aktien.

Zulassung zum Handel

Am oder um den 8. April 2020 beabsichtigt die Gesellschaft, den Antrag zur Zulassung der Neuen Aktien zum Handel im Regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des Regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) zu stellen. Die Billigung der Zulassung der Neuen Aktien wird voraussichtlich am oder um den 8. April 2020 erteilt. Der Beginn des Handels an der Frankfurter Wertpapierbörse ist gegenwärtig für den 9. April erwartet.

Verwässerung

Nicht zutreffend. Dieser Prospekt bezieht sich nicht auf ein Angebot von Aktien.

Gesamtkosten

Die Kosten in Zusammenhang mit der Zulassung werden insgesamt voraussichtlich zwischen EUR 2 Millionen und EUR 2,5 Millionen betragen und werden von der Gesellschaft getragen.

Kosten, die Anlegern in Rechnung gestellt werden

Anlegern werden von der Gesellschaft und von den Finanzberatern keine Kosten in Rechnung gestellt.

Weshalb wird dieser Prospekt erstellt?

Gründe für die Zulassung zum Handel

Die Gesellschaft beabsichtigt die Neuen Aktien auf dem Regulierten Markt der Frankfurter Wertpapierbörse und gleichzeitig zum Teilbereich des Regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) zuzulassen, um den Aktionären der ADLER Real Estate die das Angebot angenommen haben liquidierte Aktien bereitzustellen.

Gesamtnettoerlöse

Nicht zutreffend. Dieser Prospekt bezieht sich nicht auf ein Angebot von Aktien. Mithin gibt es keine Erlöse zugunsten der Gesellschafter oder irgendeinem Aktionär der Gesellschaft.

Übernahmevertrag

Die Zulassung unterliegt keiner Übernahmvereinbarung und damit keiner festen Zeichnungsverpflichtung.

Wesentliche Interessen am Angebot, einschließlich Interessenkonflikten

J.P. Morgan agiert als Listing Agent der Gesellschaft im Zusammenhang mit der Zulassung und erbringt in diesem Zusammenhang Investmentbanking- und ähnliche Dienstleistungen.

Weitere Interessen oder (potentielle) Interessenkonflikte, die wesentlich für die Zulassung sein könnten, bestehen nicht.

1. RISK FACTORS

Investing in the shares of ADO Properties S.A. (the “Company” and, together with its consolidated subsidiaries, “we”, “us”, “our” or the “ADO Properties Group”) involves a high degree of risk. Investors should carefully consider the risks and uncertainties described below, together with all of the other information in this Prospectus (including any documents incorporated by reference) and the Audited Consolidated Financial Statements, before making a decision to invest in the Company’s shares. We believe the factors described below represent the material risks inherent in investing in the Company’s shares. In all of the following risk categories, the risks are presented in accordance with their likelihood, i.e., based on the likelihood of their occurrence and the extent of their negative impact on the net assets, financial condition and results of operations and cash flows of the Company. The most significant risk categories are presented first in the following risk categories. The risk factors in sections (i) 1.1.1 to 1.1.5, (ii) 1.2.1 to 1.2.3, (iii) 1.3.1 and 1.3.2, (iv) 1.4.1, (v) 1.5.1 to 1.5.3 as well as (vi) 1.6.1 are the principal risks in the Company’s estimation. If any of the risks mentioned herein actually occur, the business, net assets, results of operations, financial condition, cash flows and prospects of the ADO Properties Group and the market price of the Company’s shares could be materially adversely affected. Additional risks and uncertainties that are not presently known to us or that we currently believe are not material may also adversely affect the business, net assets, results of operations, financial condition, cash flows and prospects of the ADO Properties Group. The risks mentioned herein and those not presently known or believed to be not material may materialize individually or cumulatively and may, in each case, have a varying impact on any of the aforementioned factors, including the market price of the Company’s shares.

1.1 Risks related to the ADO Properties Group’s Business Activities and Industry

1.1.1 *Our business is significantly dependent on our ability to generate earnings from rentals. Our rental income and operating profit could particularly be negatively affected by a potential increase in vacancy rates.*

We rely significantly on earnings from rentals. In the fiscal year ended December 31, 2019, 90.4% of our revenue was derived from rental activities (including facility services), and our funds from operations (from rental activities) (“FFO 1”) amounted to €63,173 thousand. Our rental income is impacted predominantly by the size of our portfolio, which consisted of 18,287 units (excluding parking spaces) (with a total lettable area of 1,243,493 sqm) of which 16,255 were residential units (with a total lettable area of 1,065,128 sqm), as well as rents chargeable, which amounted to €7.68 per sqm on average (excluding parking spaces) (all figures as of December 31, 2019). As a result, our performance depends largely on the amount of rental income generated, which in turn is significantly dependent on the vacancy levels of our portfolio. As of December 31, 2019, the average vacancy levels of our residential portfolio (in % per sqm) were at 2.7% (or 29,076 sqm) and of our commercial portfolio at 3.6% (or 5,801 sqm), after 3.2% (or 46,721 sqm) and 4.6% (or 7,920 sqm) as of December 31, 2018. Should we incur an increase in vacancy levels in the future, a worsening economy, in particular, could impede our ability to let our residential units at advantageous conditions.

The vacancy rate could rise, particularly in lower-value residential units within our portfolio, in less attractive locations, in areas with weak infrastructure or in properties where investments do not result in expected market rents or higher occupancy rates. Our strategy also focuses on the renovation and refurbishment of selected parts of our portfolio with the highest vacancy levels. If these measures do not result in a significant reduction in vacancy levels for these properties after completion of the renovation work, this could have an adverse effect on our financial results relative to our business plan. In addition to lost rental income, additional fixed and ancillary costs incurred for the maintenance of vacant residential units would reduce our operating profit. Furthermore, a longer period of higher vacancy levels could generally lead to lower rental levels and make it more difficult to increase average rental levels. As our income from rental activities (including facility services) represents 90.4% of the total revenues generated in the fiscal year ended December 31, 2019, our business success inevitably depends on our ability to reduce vacancy levels or increase rents.

1.1.2 *Our ability to operate our business successfully relies on assumptions and contingencies that may prove to be incorrect. Such assumptions and contingencies may prove to be inaccurate, either in part or as a whole, in particular due to unexpected liabilities, incomplete or wrong assessment of markets, value determinations and due diligence findings and challenges with respect to achieving anticipated synergies and insufficient investment horizons.*

We face the risk that we may not be able to generate returns in the future. In particular, our projections of the future demand for apartments suitable for modernization may turn out to be inaccurate or

inappropriate to achieve a positive return. Also, tenant preferences may change. Further, we may not be in a position to find sufficient investment opportunities to invest the budgeted amount per year. In addition, we may not be able to pass on the costs of these modernization measures to our tenants due to legal constraints or if the tenants are unable to afford rent increases as a result of these modernization measures. Tenants may also cause postponements to our modernization measures by, for example, refusing to vacate the units for modernization work to take place. Further, we may be restricted in our ability to finance the investment program through loans or other debt instruments depending on our current and future debt level and structure.

The success of our business model depends in part on our subsidiaries' ability to achieve an expected level of rental increases through the modernization of the existing real estate portfolio and properties which we may acquire and our ability to estimate and control the costs of modernization. During the fiscal year ended December 31, 2019, we incurred maintenance and capital expenditures in an average amount of €36.2 per sqm (a 8% decrease compared to the fiscal year ended December 31, 2018), whereas our average like-for-like rental growth of the residential portfolio during the fiscal year ended December 31, 2019 amounted to 5%. We plan to continue to invest a significant amount per year for modernization measures. These modernization measures, which sometimes aim at improving energy efficiency, of buildings and refurbishments to current market standard in markets where refurbished apartments are believed to deliver an average rent. Even if the real estate we have acquired, or will acquire in the future, is suitable for repositioning, modernization and refurbishment, such acquisitions or expenditures could prove unsuccessful or ineffective. Further, the assumptions with respect to achievable rental levels, rental increases, vacancy rates, modernization costs, personnel (including in-house facility management personnel) and overhead expenses, and for repairs, maintenance and capital expenditures and similar matters that we have made, or will make, in acquiring a real estate portfolio may prove partly or wholly inaccurate. Furthermore, unexpected problems or unrecognized risks could arise that are outside the parameters of our refurbishment and modernization contracts, including, in particular, changes in any applicable regulatory regime. The resolution of such unanticipated problems and risks could require us to expend unanticipated amounts of capital; or it may be the case that such problems and risks cannot be addressed in an economically reasonable manner. In addition, there are several environmental matters that are relevant with regard to modernization and refurbishments (see "1.3.2 Our business is subject to the general legal environment in Germany. Any disadvantageous changes in the legal environment, such as mandatory environmental modernization provisions, restrictions regarding modernization measures or provisions (including taxes) that result in the incurrence of costs in the event of a property sale, or disadvantageous changes to the Berlin Mietspiegel or other regulation, may be detrimental to us." and "1.3.6 We may incur environmental liabilities, for example, from residual pollution including wartime ordnance, soil conditions, asbestos and contaminants in building materials, as well as from possible building code violations.")

If we discover, during the course of a refurbishment or modernization, that a building we acquired is subject to historic preservation laws, the need to comply with the respective historic preservation requirements could lead to significant delays in the refurbishment or modernization process, our inability to carry out particular refurbishment or modernization measures, and significantly higher costs for the particular project. These factors could result in our inability to perform our contractual obligations to a tenant, with the consequence that the tenant's obligation to make payments would be excused or deferred. The same would be true if the legal requirements relating to existing and permitted properties and their use become more onerous, particularly with respect to construction and environmental requirements; similarly, requirements might be imposed to increase the availability of handicapped-accessible and adapted housing.

Any cases in which we have relied or will rely on incorrect assumptions or contingencies, e.g., with regard to achievable rents, modernization costs, other investments, the profitability of our business or the value or value development of our portfolio, will have a negative effect on our ability to successfully conduct our business and could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

1.1.3 We rely on our ability to identify potential real estate portfolio acquisitions in order to pursue our investment strategies. We may not be able to identify all risks associated with any such acquisitions. Assumptions could prove to be insufficient or incorrect and a successful integration of acquisitions may not be achievable.

As part of our strategy, we evaluate real estate portfolios in order to identify those that might fit in with both our existing portfolios and our current management platform. Between January 1, 2017 and

December 31, 2019, we have acquired 4,650 residential real estate units with a total residential area of 322 thousand sqm. The properties we have acquired or will acquire might achieve less than the originally calculated profit or income due to inaccurate projections and assumptions or for other reasons. Although we have attempted and will continue to attempt to address the relevant issues, including for example tax, legal and operational management issues, arising from acquisitions, we may not have and in the future may not address all relevant issues related thereto and to the successful integration of the acquired portfolios. In particular, the integration risks associated with acquisitions of large portfolios are high due to their significant size. The integration of any future portfolio acquisitions may not be successful or may be more difficult than expected due to legal and contractual restrictions and obligations. In addition, we may be unable to integrate acquisitions or realize anticipated synergies, economies of scale and cost-savings. We may become subject to contractual obligations under acquisition agreements pursuant to which we acquired our real estate portfolio, which limit our ability to fully integrate acquisitions on a legal and operational basis and may result in delays and unforeseen costs. Moreover, laws governing pensions, labor unions and works councils may also limit our ability to integrate acquisitions and especially to move groups of employees from one legal entity to another. To the extent that we are not able to successfully integrate our current portfolio and any potential future portfolio acquisitions, we may be prevented from increasing revenues or reducing costs by achieving economies of scale in the manner that we anticipate. Any such failure could cause reduced levels of rental income and operating profit.

Furthermore, investments in property involve considerable risks. We are not always able to obtain from the seller the records and documents that we need in order to fully verify that the buildings we acquire were constructed in accordance, and that their use complies, with planning laws and building code requirements and regulations. We may only be able to conduct limited due diligence on, or the due diligence conducted may not accurately reveal the risks associated with, the properties or entities we plan to acquire. Accordingly, we may not be in a position to examine whether the original owners of the properties, and/or the properties themselves, have obtained all required permits for new buildings, satisfied all permit conditions, received all necessary licenses and fire, health and safety certificates, or satisfied all comparable requirements. In addition, the properties may suffer from hidden defects, such as contamination, and may thus require significant modernization investments. For example, while performing due diligence, we may not have discovered, or the seller may not have disclosed, that the properties that we have acquired have underground oil tanks underneath them or contain certain types of fungus that eat and rot wood, and thereby may weaken the structural foundations of our acquired properties. In addition, we may not have been able or are unable to undertake (or obtain results for) all searches (including title and security searches), inspections and surveys (including intrusive environmental and asbestos investigations and technical surveys) that we might otherwise carry out in relation to comparable acquisitions. Accordingly, in the course of the acquisition of residential and other property portfolios, specific risks may not be, or might not have been, recognized or evaluated correctly. Thus, legal and/or economic liabilities may be, or might have been, overlooked or misjudged. These circumstances could lead to additional costs and could have an adverse effect on our proceeds from sales and rental income of the relevant properties. The assumptions we rely on when acquiring real estate, particularly with respect to anticipated rents, achievability of vacancy reduction, maintenance expenses, integration costs and expected proceeds from condominium sales (privatizations), could turn out to be incorrect.

Although sellers typically make various warranties in purchase agreements that we enter into in connection with property acquisitions, it is possible that these warranties do not cover all risks or that they fail to cover such risks sufficiently. Additionally, a warranty made by a seller may be unenforceable due to the seller's insolvency or for other reasons. In some cases, a real estate seller makes no representation or warranty as to the sufficiency and correctness of the information that is made available in the context of a due diligence investigation, or as to whether such information remains correct during the period between the conclusion of the due diligence investigation and the closing of the relevant acquisition. Accordingly, such risks can arise despite a thorough due diligence investigation.

It could also subsequently become more difficult to let or sell certain properties; market rents could develop unfavorably; and/or vacancy rates could increase. In addition, the various factors that affect market rents make it difficult to project future rental income, so that the projected rental income in connection with an acquisition of property can develop differently than planned.

Our current portfolios, or portfolios that may be acquired in the future, may not develop as expected. For example, targeted rent increases may not be implemented as planned due to a lack of tenants who are willing or able to pay increased rents, a negative development of the location or property or increased vacancy rates, for example due to unfavorable demographic or economic developments.

Any inability on our part to identify and assess all risks in connection with acquisitions as well as insufficient or inaccurate assumptions could hinder or render impossible a successful integration of acquisitions, as a result of which we may incur higher costs, lower rental income or divergent value developments, which in turn could lead to material adverse effects on our business, net assets, financial position and results of operations, and our prospects.

1.1.4 Our business is dependent on regional real estate markets and their liquidity, particularly Berlin, which may be subject to adverse market developments. Fluctuation in the development of the currently high demand and prices could make it difficult for us to conduct our business activities and to implement our strategy to capture additional growth opportunities.

As of December 31, 2019, our real estate portfolio comprised 17,637 units, of which 16,255 were residential units, with a joint portfolio value of €3.7 billion. Currently, all of the real estate we own is located in Berlin. Accordingly, we are extensively dependent on trends in the Berlin residential real estate market, as well as general economic conditions and developments in Berlin. Our performance and the valuation of our properties are dependent on various factors including demographic and cyclical trends in Berlin, purchasing power of the population, the development of the population, attractiveness of the particular locations of our properties, the unemployment rate and employment offers, infrastructure, social structure, and supply and demand for real estate space and assets in the respective locations and markets in Berlin. Because regional markets within Germany do not develop uniformly, our dependence on the Berlin market due to our portfolio concentration in Berlin could create a disadvantage compared to competitors who have a more geographically diversified real estate portfolio, including due to over-proportionate risk exposure of a single market and concentration risks. In particular, the demand for residential real estate is subject to rapid and occasionally unpredictable changes, including as a result of changes to economic conditions, interest rates and business confidence. The effects of any decline in the attractiveness of the Berlin real estate market and of any downturn or illiquidity in the Berlin real estate market could significantly harm our business. In addition, regional economic and political developments, and other trends in the Berlin market, have a significant impact on the demand for our residential real estate and the rents achievable, as well as on the valuation of our properties. Such local developments may differ considerably from overall developments in Germany. For example, the purchasing power of residents of eastern German states lagged behind the purchasing power of the residents of western German states in 2018 and 2019 (source: GfK–Purchasing Power Germany). While some cities and regions in eastern Germany have seen decreasing unemployment rates and growing purchasing power in recent years, there is no guarantee that this trend will continue. Furthermore, we are also affected by the German economic conditions as a whole, such as growth in gross domestic product (“GDP”), unemployment, interest rates, inflation and financing availability.

1.1.5 Our investments are in real estate and due to the potentially illiquid nature of the real estate market, we may not be able to sell any portion of our portfolio or investments in a timely fashion, on favorable terms or at all.

We invest in real estate and in real estate companies and while our general strategy is to hold properties that we acquire, we may opportunistically from time to time sell properties or portfolios of properties if attractive opportunities or market conditions arise as well as for strategic reasons. Our ability to sell properties generally depends on the liquidity of the real estate markets at the time of the potential sale. The demand for real estate assets is influenced by, among other factors, the quality of the property, vacancy rates, the overall economic and market situation at the time of the sale, the level of interest rates and the availability of debt financing to market participants.

As a result, if we were required to sell parts of our portfolio, particularly on short notice or under legal, financial or time pressure, there is no guarantee that we would be able to do so in a timely fashion or on favorable terms or at all. In the case of a forced sale, if, for example, creditors realize on collateral, there would likely be a significant shortfall between the fair value of the property or property portfolio in question or the shares in the real estate company, as the case may be, and the price achievable upon the sale of such property or property portfolio or shares in such circumstances, and there can be no guarantee that the price obtained by us would represent a fair or market value for the property or property portfolio or shares.

Any of the above factors could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.6 Existing rent restrictions in connection with the promotion of public authorities and with heat supply contracts could limit the rent levels we may be able to charge.

Some of the properties that we have acquired are currently or have been subsidized by public authorities, mainly in the form of loans. As a result of such subsidies, certain restrictions are imposed, *inter alia*, on the maximum rent levels for the properties constructed, acquired or modernized using such subsidies and the eligibility of prospective tenants of publicly subsidized residential space. Such rent levels are significantly below current market rents for a number of rent restricted residential units, and it may be difficult to increase rents to market levels even after the lapse of the period in which subsidy restrictions apply. As of December 31, 2019, 2.5% (by sqm) of our properties were rent-restricted due to subsidies. In the fiscal year ended December 31, 2019, rental income from such residential units amounted to €2.8 million (or 2.5% of our total rental income (excluding the units sold under the Gewobag Sale (as defined below))). As of the same date, 37.0% of the rent restrictions as a result of subsidies are scheduled to expire by 2022. The subsidies are subject to certain conditions. If we become unable to meet those conditions or violate them, we may have to pay a fine (e.g. in the case of not meeting rent restrictions) or subsidies may even be subject to revocation. In addition, we are subject to certain restrictions relating to heat supply contracting (“*Nahwärme*” and “*Fernwärme*”). As of December 31, 2019, 6.9% (by buildings) of our portfolio received heat through heat supply contracting. The German Federal Court of Justice (*Bundesgerichtshof*) has ruled that unless otherwise stipulated in the letting contract, a landlord is not allowed to introduce heat supply contracting without the tenant’s consent. One of the consequences of this ruling is that in some local rent sub-indices in Berlin, the margin by which we can increase the rent for residential units that we let with heat supply contracting has narrowed. Such limitation could ultimately restrict our ability to increase rents for the affected residential units and, ultimately, the profitability of our business activities and our ability to generate earnings from rentals in line with our strategy.

1.1.7 The geographic and/or asset type composition of our property portfolio will change with the Completion and in the future due to further acquisitions or divestitures.

The geographic composition of our property portfolio is expected to change in the future. The completion of the combination of the business (the “**Completion**”) of ADLER Real Estate and its subsidiaries (together, the “**ADLER Group**”) with the business of the ADO Properties Group (together with the ADLER Group, the “**Combined Group**”) (the “**Business Combination**”) would allow the Company to consolidate the ADLER Group’s property portfolio in the Company’s consolidated financial statements. Although the ADLER Group’s property portfolio comprises substantially the same asset classes of properties as our portfolio, the geographical distribution is different. As of December 31, 2019, the *core* residential property portfolio of the ADLER Group (excluding the ADO Properties Group) consisted of 57,188 total units with a lettable area of 3,550,296 sqm and was predominantly located outside of Berlin in secondary conurbations and significant urban areas across Germany. As of the same date, the ADLER Group (excluding the ADO Properties Group) held 1,699 and 2,429, respectively, of these residential units in Berlin (excluding and including project “*Riverside*” in Berlin). As of December 31, 2019, our residential real estate portfolio comprised 16,255 units with a total lettable area of 1,065,128 square meters, 99.7% of which (based on fair value according to the Valuation Report) were located in Berlin. As a result of the Completion, the total portfolio to be reported by us in the context of a consolidation would therefore change.

In addition, we follow an opportunistic approach to acquisitions and focuses on real estate property which we believe has value increase potential. Consequently, we continuously seek investment opportunities throughout our key market Berlin, the region of our strategic focus. Additionally, we monitor other markets that we believe might meet our investment criteria and, ultimately, such acquisition opportunities might arise in markets outside of Berlin. Therefore, the geographical composition of our property portfolio may change further, either as a result of new acquisitions or as a result of divestitures of properties by us, in particular should we shift our strategic focus to new markets. A change in the geographical composition of the property portfolio may lead to increased concentration in certain geographical areas, or introduce or increase dependencies on regional market conditions in new or different geographical areas. These may have different fundamentals, trends or legal, regulatory and tax regimes than the current region where our real estate properties are located. A broader geographical distribution may also result in additional costs in connection with the management of the properties and reduce the benefits of economies of scale. A different geographical distribution of the property portfolio may result in reduced availability of market data, which could limit our ability to accurately predict the performance of our investments.

1.1.8 Our business could be adversely impacted by negative developments in the economy and in the residential real estate markets in Germany.

We are active in the residential real estate market and have focused our activities on the residential real estate market of Berlin, Germany. As of December 31, 2019, the value of our real estate portfolio was €3.7 billion, all of which was located in Berlin. In the fiscal year ended December 31, 2019, we derived 90.4% of our revenue from rental activities (including facility services).

The success of our business therefore significantly depends on the development of the residential real estate market in Germany and, in particular, Berlin. Average German disposable income per capita increased from €21,611 in 2016 to €22,899 in 2018 (*source: Volkswirtschaftliche Gesamtrechnung der Länder*) and unemployment decreased from 4.1% to 3.4% over the same period (*source: Federal Statistical Office–Press Release 075*), while our weighted average monthly rent for residential properties also increased from €6.42 (per sqm) in the fiscal year ended December 31, 2017, to €7.39 (per sqm) in the fiscal year ended December 31, 2019. Real estate markets, however, are generally susceptible to changes in the overall economy. Consequently, our business is affected by factors affecting the general economic environment, such as interest rates, levels of public debt, GDP, inflation rates and political and financial market conditions, primarily in Germany and our various submarkets. These factors play an important role in determining property values, rent levels, re-letting periods, overall demand, vacancy rates and turnover rates in these markets and submarkets. In addition, local and regional variations of these factors may cause their impact to vary significantly across our residential real estate portfolio. In particular, unemployment in Berlin at 6.1% was above the national average (*source: Eurostat–Unemployment*). Additionally, the estimated purchasing power per capita was at €21,689 in Berlin in 2019 and therefore below the national average of €23,779 (*source: GfK–Purchasing Power Germany*). Our business is therefore highly dependent on macroeconomic and political developments, including changes in legislation, as well as other general trends affecting Germany. As an export-driven economy, Germany is particularly affected by the development of the world economy in general and the Eurozone in particular.

While unemployment rates in Germany have been relatively low in recent years, with 3.3% (as adjusted) in Germany as of December 2018 (*source: Federal Statistical Office–Unemployment*), public debt and unemployment levels remain high in many countries in the Eurozone, such as Italy, Ireland, Spain, Greece and Portugal, and future economic growth in the Eurozone is threatened by the fragile state of economic recovery in many Eurozone countries. The European and global economies may be impacted by many factors, *inter alia*, Brexit (see “1.1.21 The withdrawal of the United Kingdom from the European Union may continue to cause significant political and economic uncertainty in the European Union and in the United Kingdom.”), current geopolitical crises such as in Syria and the Ukraine, the uncertain economic prospects in China and other parts of the world, the results of recent and future elections in a number of Eurozone countries (including in Germany) and other factors, such as the fluctuation of raw material prices and currency fluctuations. Furthermore, increased trade barriers resulting from the imposition of tariffs could negatively impact the global and regional economies. For example, in June 2018, the U.S. introduced new trade tariffs on certain steel and aluminum products (in addition to imposing punitive tariffs on trade partners such as China, Canada or Mexico). In response, the EU introduced retaliatory tariffs on a list of American signature products. Any further escalation of trade disputes could lead to a worsening economic environment or outlook. In addition, strengthening populist movements in a number of EU member states create a risk of further destabilization of the EU and increased economic uncertainty. Such uncertainty and the resulting market volatility may create contagion risks for economically strong countries such as Germany and may spread to the Eurozone or other financial sectors and residential real estate markets.

In addition, the rapid spread of SARS-CoV-2 (the “**Coronavirus**”) first identified in December 2019 has resulted in a deterioration of the political, socio-economic and financial situation in Germany, and consequently this is expected to have a negative impact on our business. Any widespread health crisis, including the Coronavirus and future pandemics, could result in our tenants being unable to pay their rents when due or at all, adversely affect the fair value of our real estate properties, cause a significant decline of aggregate rent levels in affected areas and, ultimately, affect our ability to access debt and equity capital on attractive terms, or at all. On March 25, 2020, the German parliament passed a law to mitigate the impact of the Coronavirus pandemic in civil and insolvency laws as well as in criminal law proceedings (*Gesetz zur Abmilderung der Folgen der COVID-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht*) (the “**COVID-Act**”). Pursuant to the COVID-Act, landlords may not terminate residential and commercial lease agreements if the tenant fails to pay rent during the period of April 1, 2020 through June 30, 2020, provided that such non-payment is caused by impacts related to the Coronavirus. Therefore, the tenant must demonstrate that non-payment is caused by impacts related to the Coronavirus

to avoid termination. Payments that become due during the period of April 1, 2020 through June 30, 2020, but that were not settled, will have to ultimately be settled by June 30, 2022.

Adverse economic developments and other negative trends in the commercial and residential real estate markets in which we operate could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.9 *Our future growth depends on the availability of real estate properties with value-add potential at reasonable prices, and growing competition and other factors may lead to increased prices and lower availability.*

As part of our business strategy, we seek to acquire residential real estate portfolios. Since January 1, 2017 and as of December 31, 2019, we have acquired 4,650 residential real estate units with a total residential lettable area of 322 thousand sqm, of which 89 were residential units for privatization with a total property size of approximately 4,000 sqm across three properties. Such acquisitions are only feasible, however, if attractive real estate portfolios and properties are available for purchase at reasonable prices. Given the current high demand for residential real estate in Germany, and, in particular, in our key market Berlin, such portfolios and properties may be unavailable or available only on unfavorable terms. Any such development could impair the growth of our business and could prevent us from generating additional economies of scale and strategically developing our portfolio and properties for privatization through acquisitions and investing into our portfolios with attractive returns.

Our general ability to sell parts of our real estate portfolio depends on the state of investment markets and on market liquidity or declining real estate values. If we were required to sell parts of our real estate portfolio for the purpose of raising cash to support our operations, to repay debt or for other reasons, there is no guarantee that we would be able to sell such parts of our portfolio on favorable terms or at all. In addition, existing contractual obligations under loan or purchase agreements restrict our ability to sell certain parts of our portfolio. As of December 31, 2019, 2.5% (by sqm) of our residential units were subject to rent restrictions that stem from public subsidies. In the case of a forced sale of all or part of our real estate portfolio, for example if creditors realize collateral, there would likely be a significant shortfall between the price obtained and the carrying amount of the portfolio sold.

In the future, we may acquire properties or portfolios in other areas of Germany, including through the planned acquisition of ADLER Real Estate, the rental properties of which are mainly located in the German federal states of Lower Saxony, North Rhine-Westphalia, Saxony, Saxony-Anhalt and Brandenburg. Acquiring properties located outside of Berlin may lead to higher costs. Because we have focused on the real estate market in Berlin in the past, we have limited knowledge of other real estate markets and, in the future, we may have unexpected difficulties in managing real estate in additional markets.

In addition, a number of factors beyond our control, such as the overall development of real estate markets, construction activity, zoning and planning laws, influence the availability of offices, hotels, logistics/wholesale, retail, and residential properties generally. There is no guarantee that we will be able to continue to identify or acquire a sufficient number of suitable properties at reasonable prices that will allow us to successfully implement our business strategy or grow our business effectively.

The supply of real estate properties and portfolios available for sale may also be reduced due to fewer sales by private or public sellers. If for instance state-owned entities reduce or cease privatizing or selling their real estate holdings, as they have done over the past years, then supply, in particular for residential real estate, could be reduced, which may result in increased competition for acquisitions of suitable properties and may motivate potential sellers to sell properties through an auction process. The use of auction processes for the sale of properties has grown increasingly common in Berlin and may increase in the future. Any of these factors may result in increased prices for the types of properties which are our strategic focus. As a result, it could be more difficult for us to successfully acquire properties, which could limit our ability to grow our businesses effectively.

We are exposed to competition from national and international investors in the markets in which we operate. We compete to acquire attractive properties with other investors, such as international real estate funds, German open-ended and closed-ended funds and publicly listed German real estate companies, any of which may have greater resources, better information or better access to properties or financial resources and lower costs of capital than we do. We also compete with other property companies, investment funds, institutional investors, building contractors, individual owners and other entities to attract and retain suitable tenants on favorable terms. Competition in the real estate markets we target is generally

intense and could further intensify in the future. There is no guarantee that we will be able to successfully compete in any of the regions within our strategic focus or will be able to enter new regions successfully. Changes in law or regulation may also create environments in which we can no longer effectively compete. In the future, increased competition could also require us to change our business strategy in part or in whole and could affect our ability to generate sufficient income. There is significant competition among potential acquirers in the German residential real estate market, and there can be no assurance that we will be able to implement our growth strategy or to successfully complete acquisitions.

Any inability to adequately react to regional real estate markets and their developments could jeopardize our efforts, business activities and strategic goals, including our strategy to capture external growth opportunities.

1.1.10 An increase in interest rates could have a material adverse effect on the real estate markets in which we operate.

One of the tools used by governments and central banks to support economic development over the last ten years was a lowering of interest rates. While low interest rates have generally not led to the desired levels of inflation, they have benefitted the Eurozone economies and supported demand for real estate, including commercial and residential real estate, due to the resulting availability of inexpensive financing. The benign interest rate environment has also had a positive impact on real estate valuations, as it tends to result in an increase of the value of future cash flows. Should overall economic growth accelerate, however, the European Central Bank could become more vigilant with regard to inflationary pressures and begin a cycle of monetary tightening, including through progressive increases in base interest rates, particularly if this growth leads to a tightening of the labor market. This could lead to a rise in interest rates in Germany and throughout the Eurozone and could result in increased investor interest in investments with a higher risk profile and a decrease in the attractiveness of real estate investments, resulting in lower demand for real estate and broad declines in real estate valuations, among other effects. An increase in interest rates could adversely impact our business in a number of ways, including the willingness of potential purchasers to acquire real estate in an environment of rising interest rates may be negatively affected, thereby restricting our ability to dispose of our properties on favorable terms when desired. Most purchasers finance their acquisitions with lender provided financing through mortgages and comparable security (in Germany so called land-charges). Lack of availability of such financing at attractive rates could therefore reduce demand for properties.

1.1.11 In connection with certain acquisitions, we have entered into contractual obligations that restrict our ability to freely divest parts of our portfolio or to increase rents for certain units or to rent to tenants not eligible for subsidized housing, and thereby potentially prevent us from extracting the maximum value from the affected properties.

Residential real estate transactions often include contractual clauses that restrict a buyer's right to divest the acquired portfolio or increase rent on the acquired residential units. Furthermore, sellers often restrict the buyer's right to terminate existing leases, which reduces the attractiveness of the affected units for prospective purchasers. The aforementioned restrictions are especially common in connection with the privatization of publicly-owned property, where the selling public authorities often intend to mitigate potential social effects of such transactions, or when these portfolios are subsequently sold on to third parties. Usually, most obligations lapse in full or in part after a certain period of time. As of December 31, 2019, 2.95% (by sqm) of our residential units, with a total of 31,426 sqm of residential area, which accounted for 3.18% of the rental income generated over the fiscal year ended December 31, 2019, were subject to certain contractual restrictions, including multiple restrictions or obligations. These limitations include in particular:

- restrictions on sales;
- preferential subscription rights;
- restrictions on the termination of lease agreements;
- restrictions on permitted use; and
- restrictions on rent increases.

In addition to these contractual obligations entered into in connection with acquisitions, we have acquired properties that have received subsidies from public authorities which restrict the level of rents chargeable

on a part of our portfolio. For more information, see “1.1.6 Existing rent restrictions in connection with the promotion of public authorities and with heat supply contracts could limit the rent levels we may be able to charge.”

The aforementioned restrictions may limit our ability to attractively market parts or all of our portfolio, which in turn could potentially restrain our ability to capitalize on business opportunities, to pass up opportunities for streamlining and generate profit. They could thereby lower the overall value of our property portfolio and limit our ability to generate cash flow from selective divestitures and have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.12 While we employ and work together with a large number of service providers, on whose performance we are dependent, we also have an integrated platform for active asset management and privatizations, which increases our personnel expenses and other fixed costs and may impose limitations to a more flexible business approach as compared to competitors that outsource these same services.

We have implemented a multi-faceted human resource approach to enable flexible management of service volumes by contracting with large numbers of service providers and to, at the same time, retain key business competences within the portfolio management by means of our integrated active asset management and privatization platform.

We employ and work together with a large number of service providers, including energy providers, providers of minor repairs and maintenance services and construction companies and therefore are dependent on their performance. As of December 31, 2019, we had business relationships with more than 1,200 service providers and incurred costs of approximately €150 million during the fiscal year ended December 31, 2019 in connection therewith. Such services may not be rendered in a timely manner or their quality may not comply with our requirements, regulatory framework or stipulations included in the service contracts. Moreover, certain contractors may experience operational or financial issues and certain services may become unavailable to us as a result thereof. Any failures by contractors to deliver in accordance with their contractual obligations may result in delays and additional expenses for us.

Since 2007, we have operated a fully integrated platform whereby we use our own personnel for key functions from portfolio management to modernization and privatization. In 2013, we added facility management to our platform. For these purposes, we have our own business areas of asset and portfolio management, property and facility management, and construction management. We employed 366 full-time employees as of December 31, 2019, of which 61, 258 and 44 are assigned to the areas of asset and portfolio management, property and facility management, and construction management, respectively. As further acquisitions take place, we may increase the number of personnel in the future. In addition, we have entered into agreements with third parties for the provision of additional asset management and services in order to benefit from their expertise and support in the respective areas. During the fiscal year period ended December 31, 2019, we incurred expenses of approximately €9 million (not including non-recurring expenses) in connection with the provision of services by third parties. Our ability to manage our operations and growth requires the continuous improvement of operational, financial and management controls, reporting systems and procedures. If, as a result of business or economic conditions, we were forced to scale down our business operations, it would be substantially more difficult and costly for us to reduce our headcount than to reduce the services provided by third-party contractors.

Despite the existing quality control procedures, the quality of services rendered by our own employees could fall below the level of services performed by third-party contractors and reduce the attractiveness of our properties. Since some of these tasks are performed internally, we may not be in a position to claim compensation for damages from third parties from non-performance or improper performance. Moreover, if services rendered by our employees are not performed as scheduled or in a timely manner, or if the quality of work or the delayed execution of our work falls below applicable standards, we may face claims from our tenants, including rent reductions and additional compensations, or may not be in a position to re-let vacant units that require maintenance and modernization before new tenants can move in. In addition, in the course of rendering services, our employees, third-party suppliers, tenants or other individuals may be injured which, ultimately, exposes us to liability risks in relation thereto.

If the services from third-party providers are not performed in accordance with their contractual obligations or services, including those rendered by personnel of our integrated platform for portfolio management and privatization, are not performed as scheduled or if the quality of work falls below applicable standards, we may face claims from our tenants or from purchasers of individual residential units and

may be exposed to delays and additional expenses, and ultimately not be in a position to re-let vacant units that require maintenance and modernization before new tenants or purchasers can move in.

Any failure to efficiently implement our multi-faceted human resource approach may result in delays, additional expenses, the general failure to be in a position to make apartments available to tenants or purchasers on time, if at all, which could lead to liability claims.

1.1.13 Our business includes condominium sales (privatizations) and our property portfolio contains some commercial units, both of which are subject to different risks than our residential rental units.

As part of our business strategy, we selectively sell individual residential units to owner-occupants or small investors in condominium sales (privatizations). During the fiscal year ended December 31, 2019, we sold a total of 62 residential units at an average price of €3,934 per sqm to owner-occupants or small investors as a part of that strategy. In executing condominium sales (privatizations), we sell individual residential units but not necessarily all units within a building. Any unsold condominiums bind us to continue the maintenance of the building, which may incur increased financial expenses and ultimately negatively affect our ability to sell condominiums at a profit. As of December 31, 2019, we held 140 residential units for sale in 11 apartment buildings. Moreover, our ability to profitably sell condominiums depends on the sales prices we can achieve, which, in turn, depend upon supply and demand. An increase in the supply of residential properties could put pressure on sales prices. In addition, pressure on sales prices could occur through a decline in overall demand, e.g. due to rising unemployment or an increase of interest rates. If real estate becomes less popular as an investment in general or in particular in Berlin, the demand for residential properties could also decrease.

As of December 31, 2019, 69.9% of our properties contain a total of 1,382 commercial units with a total lettable area of 162,205 sqm, which also includes seven purely commercial properties with a cumulative lettable commercial area of 17,201 sqm. The commercial portion of our portfolio accounted for approximately 17% of our rental income as of December 31, 2019. While many of the risks described in this Prospectus also apply to the commercial units, a range of characteristics may increase or affect the risks associated with our commercial units. As our commercial units compete with other commercial properties in the neighborhood, demand for such units is site- and location-specific, which may result in narrower demand relative to residential units and may lead to prolonged or permanent vacancies. In terms of rent, the risk is more concentrated as lease contracts are usually made for higher amounts than for residential units. In addition, the re-letting of a commercial unit generally takes longer than the re-letting of a residential unit. Also, in the event of an economic crisis the demand for commercial units is adversely affected quicker than the demand for residential units. Finally, any vacant commercial unit, or a leased commercial unit that conducts an unsavory type of business, within our residential properties may in turn negatively impact our ability to retain residential tenants or locate new residential tenants for that property.

1.1.14 We are exposed to risks related to the structural condition of our properties and their maintenance, repair and modernization.

In order to sustain demand for a rental property and to generate adequate revenue through rental income over the long-term, a property's condition must be maintained, repaired and/or improved to a standard that meets market demand and complies with environmental and building laws and extensive regulations (see "1.3.2 Our business is subject to the general legal environment in Germany. Any disadvantageous changes in the legal environment, such as mandatory environmental modernization provisions, restrictions regarding modernization measures or provisions (including taxes) that result in the incurrance of costs in the event of a property sale, or disadvantageous changes to the Berlin Mietspiegel or other regulation, may be detrimental to us."). Typically, the costs associated with maintaining a rental property at market standards are borne primarily by the property owner. As maintenance, repair and modernization is required to comply with changing legal or market requirements (e.g. with regard to energy saving), we, as the property owner, may be burdened with substantial expenses. In Germany, rent increases may be introduced to compensate for these expenses only under certain conditions and these rent increases may for all modernization projects announced as of January 1, 2019 not exceed 8% of the total costs incurred in connection with certain modernization measures and is capped at €3.0 per square meter within six years, or if the rent is less than €7.0 per square meter the rent may only increase by €2.0 (by sqm) within six years. In addition, we may not be able to increase rents to the extent legally permissible as a result of prevailing market conditions or the inability of tenants receiving state aid (as is the case for a part of our tenants) to afford these increased rents or otherwise.

During the fiscal year ended December 31, 2019, our maintenance and capital expenditures – on average – amounted to €36.2 per sqm to our overall portfolios, amounting to total costs of approximately €11.6 million in that period. This is a decrease compared to the fiscal year ended December 31, 2018, during which these expenditures averaged €39.2 per sqm. Although we constantly review the condition of our properties and have established a reporting system to monitor and budget the necessary maintenance, repair and modernization measures, numerous factors may generate substantial cost overruns or unexpected increases in costs for maintenance, repairs and modernization. These factors, which may include the material and substances used at the time of construction, currently unknown building code violations, the age of the relevant building and/or any inability to process damage reports in a timely manner, could result in substantial unbudgeted costs for refurbishment, repairs, modernization, damages arising from the delayed execution or non-execution of repairs and/or maintenance measures, decontamination required to remove and dispose of any hazardous materials (e.g. asbestos) which are harmful to the health of the residents, or other maintenance or upgrade work. Approximately 56% of our residential units were built between 1949 and 2005 and approximately 44% were built prior to 1949 (calculated on the basis of our 16,255 residential units as of December 31, 2019).

We would incur additional and unexpected costs if the actual costs of maintaining or modernizing our properties were to exceed currently recognized cost levels, if we are not permitted to raise rents in connection with maintenance and modernization due to statutory or contractual constraints, or if hidden defects that are not covered by insurance or contractual warranties are discovered during the maintenance or modernization processes.

Any failure to undertake appropriate maintenance and modernization work at all or on economically reasonable terms in response to the factors described above could adversely affect the rental income earned from affected properties. Such failures could entitle tenants to withhold or reduce rental payments or even to terminate existing letting contracts.

1.1.15 *We may be unable to find or retain suitable tenants on acceptable terms, and existing tenants may be unable to meet their payment obligations.*

The letting of real estate is the most important aspect of our business as we generated approximately 90.4% of our income from rental activities (including facility services) in the fiscal year ended December 31, 2019. Our rental income depends on, *inter alia*, our ability to let our properties at profitable rent levels. Such efforts are influenced by a number of factors, including the remaining term of existing lease agreements, the commercial conditions of current tenants and the attractiveness of residential real estate units for new or existing tenants. We may be unable to renew expiring lease agreements on acceptable terms or to find suitable tenants willing to enter into new lease agreements. There is also no guarantee that we will be able to successfully compete for suitable tenants with other landlords, who may be able to offer more attractive properties, lease terms and/or rent levels. If we misjudge the current or future attractiveness of our properties, it may be difficult to find suitable tenants that are willing to rent our properties at the rent levels or for the time periods anticipated by us. To a lesser extent, the same applies to our ability to let our commercial real estate properties which, in the fiscal year ended December 31, 2019, generated approximately 17% of our rental income.

Failure to find and retain suitable tenants may prevent us from maintaining our current vacancy rate or letting vacant space, or may force us to reduce the rent levels to demands from current and future tenants.

In addition, the financial capacity or creditworthiness of our tenants may deteriorate over time, reducing their ability to make payments under their leases on time or at all. Reductions in tenants' abilities to make payments under their leases may force us to reduce rent levels for the relevant properties, resulting in rental income that is significantly lower than originally estimated, while our operating and financing costs might remain largely fixed or even increase. We may also be forced to engage in expensive and time-consuming administrative or legal proceedings in order to evict certain defaulting tenants. Further, insolvency or other restructuring activities undertaken by our tenants, with or without our consent, may result in modifications to the terms of our leases. Although we do not consider any single rental agreement to be material to our position, we take steps to verify the financial capacity of our tenants prior to entering into leases with them and, as such steps may not always be adequate or may not reveal undisclosed problems with such tenant's financial capacity. Ultimately, however, we may enter into a significant number of rental agreements on the basis of inadequate verification processes that could, in turn, collectively have a materially adverse impact on us as a whole. In addition, we cannot predict the financial stability of our tenants going forward and we may ultimately be exposed to the risk of cumulative financial instability of a significant number of our tenants.

1.1.16 Damage to our reputation and any reduced tenant satisfaction may result in reduced demand for our residential units and may make it more difficult for us to raise capital on favorable terms or at all.

If we are unable to maintain our reputation and high level of customer service, tenant satisfaction and demand for our services and properties could suffer. In particular, harm to our reputation could make it more difficult for us to let our residential units and could lead to delays in rental payments or the termination of rental contracts by our tenants. Any reputational damage due to our inability to meet customer service expectations could consequently limit our ability to retain existing and attract new tenants. Furthermore, harm to our reputation could impair our ability to raise capital on favorable terms or at all. Any downturn in tenant satisfaction, demand for our services and properties and any damage to our reputation could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.17 Our information technology systems could malfunction or become impaired.

Our information technology systems are essential for our business operations and success. Any interruptions in, failures of, or damage to our information technology systems or our voice-over-internet-protocol telephony system could lead to delays or interruptions in our business processes such as the outage of our customer service or rental hotlines. In addition, we outsource some of our information technology services. Any interruptions or failures by the provider of such services could lead to business process delays and negatively affect our information technology system. In particular, our information technology systems may be vulnerable to security breaches and cyber-attacks from unauthorized persons outside and within the ADO Properties Group. Any malfunction or impairment of our computer systems could interrupt our operations, lead to increased costs and may result in lost revenue. We cannot guarantee that anticipated and/or recognized malfunctions can be avoided by appropriate preventive security measures in every case. The integration of newly acquired portfolios into our information technology systems presents further risks.

If our information technology system and/or backups were to fail, we would have to recreate existing databases, which would be time-consuming and expensive. We may also have to expend additional funds and resources to protect against or to remedy potential or existing security breaches and related consequences. If information technology services provided by service providers were interrupted or were to fail, we possibly might not be able to cover the damages suffered due to reasons including liability limitations or insolvency of the service provider.

In addition, due to the constant development of information technology we might decide to outsource further information technology services or replace a current information technology service provider. If we had to engage a new or replace one of our current information technology service providers, a migration of information technology services would tie up resources that cannot be deployed elsewhere. Such a migration would likely incur substantial costs and potential interruptions in our business processes as well as potential losses of data and could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.18 The benefits expected as a result of the strategic cooperation with Consus Real Estate and our acquisition of a strategic stake in Consus Real Estate could potentially not be fully realized or not realized at all. The interests of the majority shareholders in Consus Real Estate may be inconsistent with our interests. Moreover, we were not able to conduct a complete due diligence exercise of Consus Real Estate.

On December 15, 2019, the Company entered into various share purchase agreements (the “**Share Purchase Agreements**”) with minority shareholders of Consus Real Estate AG (“**Consus Real Estate**”) to acquire a 22.18% stake in Consus Real Estate (the “**Consus Real Estate Acquisition**”). In addition, on December 15, 2019, the Company and Consus Real Estate entered into a strategic cooperation agreement (the “**SCA**”) to engage in a strategic partnership and strategic cooperation and, to the extent legally permissible, work together to fully investigate and potentially undertake mutually beneficial property developments, including the acquisitions of land plots for new-builds (the “**Strategic Cooperation**”). The conclusion of the SCA and the Consus Real Estate Acquisition was a first step in our defined strategy to benefit from access to Consus Real Estate’s development platform with a pipeline of over 15,000 residential rental units in Top 9 Cities. However, it cannot be ruled out that the anticipated benefits will not be realized in full or at all.

In addition, the interests of the majority shareholders of Consus Real Estate could conflict with our interests. The majority shareholders of Consus Real Estate may have strategic objectives or business interests

that could conflict with our own strategies or interests with regard to Consus Real Estate. If the interests of the majority shareholders of Consus Real Estate conflict with our interests, or if the majority shareholders of Consus Real Estate engage in activities or pursue strategic objectives that conflict with our interests, our anticipated benefits may not be fully realized or not realized at all.

Due to restrictions in time and because Consus Real Estate is a stock-listed corporation, we were unable to conduct a complete due diligence exercise of Consus Real Estate prior to the Consus Real Estate Acquisition. As a result thereof, important circumstances that could be relevant for a valuation of Consus Real Estate or in connection therewith may not have been adequately or sufficiently considered. In particular, we may not have been in a position to adequately and sufficiently identify and assess all risks in connection with the Consus Real Estate Acquisition.

Any inadequacy or insufficiency in the identification and assessment of risks associated and in connection with the Completion could negatively affect the Combined Group and therefore have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.1.19 The Business Combination, the Consus Real Estate Acquisition and the Strategic Cooperation will expose the Company to risks related to the development of residential real estate projects.

The majority of Consus Real Estate's revenue is generated from the development of residential real estate projects. Moreover, a part of ADLER Real Estate's business also involves project developments. The development of residential real estate projects involves specific significant risks to which the Company will become exposed by way of the Business Combination, the Consus Real Estate Acquisition and the Strategic Cooperation. Such risks include failures to obtain, or delays in obtaining, the approvals required for a project. In addition, unanticipated costs and delays can arise in a development project due to numerous factors, including increases in the acquisition costs for land, increases in the costs of building materials, adverse events affecting contractors and sub-contractors (including their insolvency), increases in the costs of professional service providers, unidentified property defects, and unforeseen technical and ground conditions. In particular, higher building costs than expected may arise due to the current labor market in Germany, which exhibits a shortage of qualified personnel in the construction sector.

In addition, this Prospectus contains figures representing the estimated gross development value ("GDV") of ongoing development projects of ADLER Real Estate and Consus Real Estate. GDV is a metric which indicates the capital and rental value of a property or development project after completion of all redevelopment works. The estimated GDV of development projects are ascertained on the basis of assumptions. These assumptions can prove to be incorrect. There can be no assurance that the GDV of development projects will reflect the actual sales price or rental income achievable from a development project.

1.1.20 We are subject to certain obligations and restrictions due to the stock listing of the Company which will also apply to the stake in ADLER Real Estate subsequent to the Completion of the Offer.

As of the date of this Prospectus, the Company's shares are admitted to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard). Consequently, the Company is exposed to the restrictions and obligations arising from the applicable laws and regulations in Germany as well as the requirements of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). This stock listing imposes obligations and restrictions on the Company under and in connection with, amongst others, (i) the applicable capital markets provisions on an EU level, such as the European Market Abuse Regulation, including the prohibition of insider trading and obligations to draw up insider lists and disclose inside information, (ii) the implementation of related EU directives in Germany and Luxembourg, respectively, (iii) national legislation in Germany and Luxembourg, and (iv) the applicable rules of the relevant stock exchange on which the Company's shares are traded. In addition, the Company, as a result of being a shareholder of, among others, Consus Real Estate, is subject to applicable capital markets laws and regulations, such as certain notification obligations on shareholding, public takeover regulations and squeeze-out provisions.

Any violation or breach of these laws and regulations could affect the overall reputation of the Company and, depending on the case, expose the Company to administrative or judicial proceedings, which could result in adverse judgments and administrative fines. Furthermore, there is a risk that the obligations and restrictions arising from such laws and regulations may restrict or adversely influence our ability to take material decisions with respect to the Company's interest in Consus Real Estate and, subsequent to the Completion, in ADLER Real Estate, the shares of which are also admitted to trading on the regulated

market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard).

1.1.21 *The withdrawal of the United Kingdom from the European Union may continue to cause significant political and economic uncertainty in the European Union and in the United Kingdom.*

The ongoing political situation surrounding the United Kingdom's withdrawal from the EU ("**Brexit**") is partially characterized by rapid developments and unexpected change. The final consequences of Brexit are impossible to predict. The member states of the EU will face greater barriers to trade and commerce with the United Kingdom, which may in turn diminish overall economic activity between the EU and the United Kingdom, resulting in a general economic downturn. The uncertain consequences of Brexit have already caused additional volatility in the financial markets. Since we rely on access to the financial markets in order to refinance our debt liabilities and gain access to new financing, ongoing political uncertainty and any worsening of the economic environment may reduce our ability to refinance our existing and future liabilities or gain access to new financing, in each case on favorable terms or at all. Furthermore, our counterparties, in particular our hedging counterparties, may not be able to fulfil their obligations under their respective agreements due to a lack of liquidity, operational failure, bankruptcy or other reasons.

Any of the above factors could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.2 Risks related to the ADO Properties Group's Financial Situation

1.2.1 *Property valuation is inherently subjective and uncertain and is based on assumptions which may prove to be inaccurate or affected by factors outside of our control. The property valuation serves as a basis of and is combined with other factors for our fair value model which, ultimately, could require downward revisions of the current fair values of our investment properties.*

Property assets are inherently difficult to value due to their lack of homogeneity and liquidity. We record investment properties at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("**Fair Value**"). Our investment properties undergo a detailed valuation as of June 30 and December 31 of each year and the Fair Value of the investment properties as of December 31, 2019 was determined based on valuations as of December 31, 2019, undertaken by the external valuer (as defined by the Royal Institution of Chartered Surveyors Valuation – Global Standards 2017) CBRE GmbH ("**CBRE**"). As of December 31, 2019, the combined property value of all of our properties was €3.7 billion. Valuations are based on assumptions that could subsequently turn out to have been incorrect. The recording of investment properties at the cost of acquisition or production occurs only at the time the property is received. On the balance sheet dates subsequent to the accession of the property, the fair value of the property is used. The equity attributable to shareholders calculated on the basis of the best practice recommendations of the European Public Real Estate Association ("**EPRA**") (amended for the value from the revaluation of trading properties and adjusted for deferred taxes, the fair value of derivative financial instruments) ("**EPRA NAV**") reflects the fair value of net assets on an ongoing and long-term basis. As of December 31, 2019, the EPRA NAV of our real estate properties amounted to €2,906 million.

The best evidence of fair value is supplied by, for example, the general market environment, interest rate levels, the creditworthiness of the tenants, conditions in the rental market and the quality and potential development of the locations. The valuation of real estate is therefore subject to numerous uncertainties. The past or future assumptions underlying the property valuations may later be determined to have been erroneous. In particular, there can be no certainty regarding the potential economic effects and outcomes of the *Berliner Mietendeckel* (or any future legislative decisions to restrict or limit rents chargeable for residential units) on the valuations or any potential future revision thereof. Accordingly, there is a risk that if a downturn occurs in the real estate market or the general economic situation, we may need to revise downward the values of our total portfolio on the consolidated statement of financial position. Any change in fair value must be recognized as a profit or loss under the fair value adjustment. In the fiscal year ended December 31, 2019, we recognized a profit of €462 million due to a change in fair value.

The valuation of real estate is based on a multitude of factors that also include the appraiser's subjective judgment. In valuing properties, the appraisers are required to make certain key assumptions in respect of matters including, but not limited to, the existence of willing buyers, title to the property, condition of

structure and services, deleterious materials, environmental matters, legal matters, statutory and regulatory requirements and planning, transaction pricing, estimated market rental values, market yields, expected future rental revenues from the property and other factors. The adoption of different assumptions would be likely to produce different valuation results and assumptions may prove to be inaccurate and could negatively affect the valuation of our properties.

Property valuations are complex, involve the use of data which is not publicly available and involve a degree of subjective professional judgment by the appraiser. As a result, any valuation presents the external appraiser's best estimate of the value of our properties or acquisition targets. However, there can be no assurance that the valuations accurately reflect the actual sale proceeds that could be achieved upon a sale (or purchase) of the properties valued, even where any such transactions occur shortly after the relevant valuation date, and particularly if, due to unforeseen circumstances, we would be forced to sell (or purchase) properties under unfavorable conditions. Likewise, there can be no assurance that the estimated yields and estimated rental values will prove to be achievable.

Any deviation between the valuations of our properties or acquisition targets to the reflected value of the underlying properties may require us to make significant fair value adjustments in the future.

1.2.2 In the event of a downturn or other developments in the real estate markets in Germany or a downturn in the interest rate environment, the fair values of the properties in our property portfolio may decline, which may have material adverse effects on the valuation of our property portfolio.

We account for our real estate properties at fair value. The valuation model is predominantly based on the present value of net cash flows to be generated from the property in question, taking into account expected rental growth rates, vacancy periods, occupancy rates, lease incentive costs such as rent-free periods and other costs not paid by tenants, as well as capex and maintenance expenses related to the property. In specific cases the appraisers use special assumptions, assuming facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location, tenant credit quality, lease duration and terms, and the interest rate environment.

Establishing the valuation parameters involves substantial judgment and such judgments may prove to be inaccurate. In addition, any change to valuation methodology, including as a result of changes to the statutory requirements, may result in gains or losses in our financial statements, based on the change to each property's valuation compared with prior valuations. There can be no assurance that any particular valuation could be realized in a third-party sale.

When evaluating our properties, we engage third-party appraisers. The valuations given to properties by third-party appraisers and reflected in our financial statements and in this Prospectus may exceed or be below the actual amount of net proceeds which would be realized on the relevant property at the time of any sale, and are subject to fluctuation over time. Such variations may be driven by factors outside of our control and we may not be able to realize the full property value reflected in any valuation report.

The fair value determination also reflects not only the circumstances directly connected with the property but also the general conditions of the real estate markets, such as regional market developments and general economic conditions or interest rate levels. Accordingly, there is a risk that in the event of a downturn in the real estate market where the property is located or in the general economic situation, we will need to revise downward the value of our portfolio. In addition, rising interest rates generally may have a negative influence on the fair value of property portfolios, and may impact the value of our real estate portfolio (see "1.1.10 An increase in interest rates could have a material adverse effect on the real estate markets in which we operate.").

Any change in fair value must be recognized as a profit or loss under the Fair value Adjustment. Any significant negative Fair Value adjustments that we are required to make could therefore have significant adverse effects on our financial condition and results of operations, as well as the market price of the Company's shares. Additionally, there would be negative effects on certain performance indicators, particularly with respect to net asset value ("NAV") and our loan-to-value ratio ("LTV-Ratio"), which may have a negative influence on the credit rating of the Company and may constitute a covenant breach under certain financing agreements or debt securities.

1.2.3 *An increase in general interest rate levels may increase our financing costs, while the current economic environment, characterized by relatively high values of our properties and the prices at which we are able to sell our properties, may decrease.*

The total amount of our net financial liabilities (calculated as financial liabilities less cash and cash equivalents) was €992 million as of December 31, 2019. As of the same date, the average interest rate payable for the total amount of our financial liabilities was at 1.6% and the weighted average maturity term was 4.3 years. Our business model is also based on leveraging our properties. When concluding financing agreements or extending such agreements, we depend on our ability to agree on terms and conditions pertaining to interest payments that will not impair our targeted profit, and to amortization schedules that do not restrict our ability to pay intended dividends. As of December 31, 2019, more than half of our outstanding financing arrangements expire in or after 2023. Currently, the European Central Bank's lead rate is at a historic low, thus favorably impacting interest rates charged by banks. This trend, however, may reverse itself, resulting in an increase in both interest rates and financing costs.

The global financial and economic crisis has resulted in increased uncertainty regarding future economic developments. This uncertainty regarding the general economic outlook has increased the popularity of investment opportunities that provide stable and largely predictable cash flows, such as investments in German residential real estate, especially in the current low-interest rate environment. The resulting increased popularity of investments in residential real estate has resulted in an increase in property prices and the value of residential real estate companies. These developments could reverse themselves if, for example, interest rates were to rise, which could adversely impact us in a number of ways. For example, the Fair Value recorded on the Company's balance sheet in accordance with International Accounting Standard ("IAS") 40 in conjunction with International Financial Reporting Standards as adopted by the European Union ("IFRS") 13 tends to increase in an environment of rising interest rates, which in turn could result in our properties having a lower Fair Value.

Given our dependence on our ability to access financial markets for the refinancing of our debt liabilities and the access to equity capital to expand our business model, the continued instability or a further deterioration of the economic environment or the capital markets in some Eurozone countries may reduce our ability to refinance our existing and future liabilities. Furthermore, our counterparties, in particular our hedging counterparties, may not be able to fulfill their obligations under the respective agreements due to a lack of liquidity, operational failure, bankruptcy or other reasons (see "1.2.10 *When we attempt to mitigate interest rate risk by entering into hedging agreements, we also become exposed to the risks associated with the valuation of hedging instruments and hedge counterparties and the hedging agreements may not be effective.*").

Our ability to refinance existing financing agreements on economically reasonable terms is, among others, affected by changes in the general economic environment, increases in interest rates and decreases in prices at which we are able to sell our properties.

1.2.4 *A downgrade or a withdrawal of the Company's current credit rating may impact our ability to obtain financing or issue further debt and may have a negative impact on our debt costs and on the share price of the Company.*

As of the date of this Prospectus, the Company is assigned a long-term issuer credit rating of "BBB-" with a negative outlook by Standard & Poor's Global Ratings Europe Ltd. ("S&P") and a "Baa3" rating with negative outlook by Moody's Investors Service Ltd. ("Moody's"). ADLER Real Estate is assigned a long-term issuer credit rating of "BB" with a stable outlook from S&P. Accordingly, ADLER Real Estate is assigned a lower creditworthiness than the Company.

The credit ratings of the Company may be downgraded or withdrawn in the future as a result of factors that are beyond our control, such as a deterioration in the real estate or financial markets, or weakened financial performance by us, or future exposure to the development business, which is characterized by increased capital expenditure and leveraged financial profiles. The Completion could lead to a lower assessment of the creditworthiness of the Company in the event of a new review of the Company's current credit rating, which in turn could result in a downgrade or a withdrawal of the credit rating.

Any negative change in the credit rating of the Company may make future financing and debt issuances by us more difficult and expensive, and may require us to, among other things, pay higher interest rates and/or provide increased collateral or other security if they are able to access additional financing at all. A downgrade or withdrawal of the credit ratings of the Company may also result in a breach of certain financial covenants in their respective credit lines, financing arrangements and/or debt issuances, and may

have a material adverse effect on our businesses. A downgrade or withdrawal of the credit ratings of the Company may also result in a significant decline in the share price of the Company.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

1.2.5 *We have a substantial level of debt and are dependent on refinancing significant amounts as they become due. We may not be able to extend our existing credit arrangements, refinance our debt on substantially similar terms when it matures or obtain acquisition financing on financially attractive terms when needed.*

As of December 31, 2019, we had €992 million of outstanding net financial liabilities (calculated as financial liabilities less cash and cash equivalents). As of December 31, 2019, the total of our existing financial liabilities amounted to €1,380 million with an average interest rate of 1.6%. As of the same date, €224 million of this amount was due until the end of 2022, €938 million between 2023 and the end of 2024, and €179 million only from 2025. We may require additional capital to finance or refinance our debt, capital expenditures, future acquisitions and working capital requirements. In order to undertake our planned programs such as refurbishment, and to acquire further real estate portfolios, we will likewise need to borrow additional funds or to raise additional equity capital. The extent of our future capital requirements will depend on many factors which are beyond our control, and our ability to meet such capital requirements will depend on future operating performance and ability to generate cash flows. Additional sources of financing may include equity, hybrid debt/equity and debt financings or other arrangements. There can be no assurance that we will be able to obtain additional financing on acceptable terms, or at all, when required.

If we do not generate sufficient cash flows or if we are unable to obtain sufficient funds from future equity or debt financings or at acceptable interest rates, we may not be able to pay our debts when due or to fund other liquidity needs which would severely limit our operating flexibility.

1.2.6 *Our level of debt, the terms of current and future borrowings, and the hedging transactions we have entered into, or will enter into in the future, could significantly constrain our operations and could make it more difficult or expensive to obtain new sources of financing without breaching financial covenants.*

In the past, we incurred debt in the form of bonds and/or loans to refinance existing obligations, as well as to finance acquisitions, and we intend to continue to do so in the future. As of December 31, 2019, the total of our existing financial liabilities amounted to €1,380 million with an average interest rate of 1.6%. As of the same date, €224 million of this amount was due until the end of 2022, €938 million between 2023 and the end of 2024, and €179 million only from 2025. As of December 31, 2019, our LTV-Ratio was 27.0%, compared to a LTV-Ratio of 39.6% as of December 31, 2018, with the decrease mainly attributable to adjustments as a result of the sale of approximately 5,900 residential apartments to GEWO-BAG Wohnungsbau-Aktiengesellschaft Berlin (the “**Gewobag Sale**”). Our ability to refinance financial obligations by taking on new debt or extending existing loans could be impeded as a result of our level of debt. Although not currently the case, our level of debt could lead banks to refuse to grant new loans, to make new loans available to us only on less favorable financial terms, to refuse to extend existing credit lines, to extend them only on less favorable terms or to require additional security.

Our existing debt facilities require compliance with certain financial and maintenance covenants, some of which require us not to exceed a certain maximum loan-to-value (“**LTV**”) and/or require us to maintain a minimum debt service coverage ratio. Our failure to comply with such covenants could trigger the respective creditor’s right to terminate the relevant financing arrangement or require us to repay part of our debt to cure a breach in the covenants or may lead to higher interest payments.

Various loans that the Company’s subsidiaries obtain are secured by mortgages on real estate owned by us. Although we seek to obtain mortgages securing indebtedness which encumber only the particular real estate to which the indebtedness relates, certain loans may be collateralized by other real estate as well. If recourse on any loan incurred to acquire or refinance any particular property includes other properties, the equity in such other real estate could be reduced or eliminated through foreclosure on the relevant loan. If a loan is secured by a mortgage on a single property, we could lose that property through foreclosure if we default on that loan. If we were to default on a loan, we could become involved in litigation related to matters concerning the loan, and such litigation could result in significant costs.

Certain situations or events allow our creditors to terminate certain debt facilities even without a breach of covenant, for example, if our economic situation is adversely affected. Any such event could cause all debt outstanding under the relevant facility to become immediately due and payable, and there could be cross defaults under other financing agreements, for example, due to an event of default under another financing agreement or the non-payment of amounts due and payable. If we are forced to repay one or more of our financial obligations early or on short notice, whether due to default, cross default, or otherwise, we might be unable to do so, we might be able to do so only by refinancing on significantly less favorable economic terms or we may be forced to sell some or all of the assets comprising our real estate portfolio. In addition, as of December 31, 2019, 59.0% of our assets served as collateral to our lenders to secure our financial obligations. Creditors might also be able to seize significant amounts of the assets that we have pledged as collateral under certain of these financing agreements.

1.2.7 *We could incur substantial losses from damage not covered by, or exceeding the coverage limits of, our insurance policies.*

As of December 31, 2019, all of our properties are insured against losses due to fire, natural hazards and specified other risks in amounts that we believe to generally be in line with market practice. However, our insurance policies are subject to exclusions and limitations of liability, including with respect to losses resulting from damages from mining, nuclear power or war. We may, therefore, have limited or no coverage for losses that are excluded or that exceed the respective coverage limitations. In addition, our insurance providers could become insolvent. Should an uninsured loss or a loss in excess of our insurance limits occur, we could lose capital invested in the affected property as well as anticipated income and capital appreciation from that property. Moreover, we may incur further costs to repair damage caused by uninsured risks. We could also be held liable for any debt or other financial obligation related to such a property and thus may experience material losses in excess of insurance proceeds.

Any of the above factors could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.2.8 *The Company's cash flows and possible future dividend payments are dependent on the distributable capital and annual profit and profitability of its subsidiaries or must be augmented by borrowed capital.*

The Company is a holding company and does not conduct its operating business itself but does so through its subsidiaries. To cover the Company's operating costs, it relies on, among other things, distributions that it receives from its subsidiaries and other investment interests or, as the case may be, scheduled repayments of loans it has granted to its subsidiaries. The distributions by its subsidiaries depend, in-turn, on the subsidiaries' operating results and their ability to make those distributions under applicable law and potential restrictions of existing and future loan contracts, including the consent of banks to the distribution of surplus cash or the repayment of shareholder loans. Such funds, and the ability to source cash from subsidiaries, may not be sufficient in the future to satisfy all of its payment obligations. If the funds are insufficient, the Company would need to obtain additional funds to be able to pay dividends.

Additionally, the Company requires sufficient distributable results and/or distributable reserves in order to be able to pay out a dividend. The Company intends to pay out a dividend in the amount of up to 50% of FFO 1. The lack of distributable results and/or distributable reserves may hinder the payment of a dividend even if there is sufficient cash to cover a potential dividend payment.

Negative developments in connection with any such factors or at the level of each subsidiary, including any impairment of the ability by such subsidiary to continue making distributions of cash to the Company, could force it to sell properties or borrow money on unfavorable terms. We will most likely refrain from paying dividends if available cash is insufficient for the payment thereof. However, any decision to borrow money to facilitate paying dividends could, while in the short-term potentially strengthen the Company's position among shareholders, result in increased financial obligations over the long run.

1.2.9 *We bear risks in connection with greater indebtedness and higher interest expenses.*

Any acquisition of additional property by us could be financed by taking on additional debt or by issuing and offering new shares in the capital markets or by a combination thereof. If we are unable to obtain the necessary capital on reasonable terms, we may be unable to make further acquisitions, may be able to do so only to a limited extent, or, if debt financing is available, may be able to do so only by taking on

additional debt. As of December 31, 2019, the EPRA NAV of our real estate portfolio amounted to €2,906 million and the LTV-Ratio was at 27.0%. Any additional debt incurred in connection with future acquisitions could have a significant negative impact on our performance indicators EPRA NAV and LTV-Ratio and could result in higher interest expenses for us. If we are no longer able to obtain the debt or equity financing, we need to acquire additional property portfolios, or if we are able to do so only on onerous terms, our further business development and competitiveness could be severely constrained.

1.2.10 When we attempt to mitigate interest rate risk by entering into hedging agreements, we also become exposed to the risks associated with the valuation of hedging instruments and hedge counterparties and the hedging agreements may not be effective.

We have entered, and in the future may enter, into financing agreements with variable interest rates. Although we typically hedge our variable interest rate financing agreements using customary market hedging instruments, the hedging instruments that we use may not completely counterbalance a potential change in interest rates or may not match the loan maturity. As of December 31, 2019, almost all of our loans which carried a variable interest rate, totaling a book value of €73.7 million as of the same date, had been hedged. The valuation of hedging instruments itself depends on the level of interest rates, impacting our equity and, to a lesser extent, our results of operations. A similar decrease in the interest rate would have resulted in the opposite, but even more pronounced, effect, meaning it would have had a negative impact on our equity and a positive effect on our results of operations and our net assets. Further, we may be unable to enter into, or only at significantly higher costs, extensions or renegotiations of hedging instruments that may become necessary given the interest rate terms at the relevant time.

We are exposed to the risk that our hedging counterparties will not perform their obligations as established by the hedging agreements into which we have entered. Hedging counterparties may default on their obligations to us due to lack of liquidity, operational failure, bankruptcy or for other reasons. Following the recent financial crises, the risk of counterparty default has become increasingly relevant. Market conditions have led to the failure or merger of a number of prominent businesses and financial institutions under distressed conditions in recent years.

Further, in case of negative floating interest rates we are obliged under hedging agreements in form of swaps to pay an additional amount to the respective hedge counterparty. Such amount is in addition to our obligation to pay the fixed amount and calculated based on the negative floating interest rates and the relevant nominal amount for the period. Accordingly, in case of material negative floating interest rates these payment obligations will be material as well.

1.2.11 We have grown rapidly since 2015, and there is no guarantee that we will be able to manage future growth successfully. Our historical earnings and other historical financial results are not necessarily predictive of future earnings or other financial results.

The financial information of the Company included in this Prospectus relates to our past performance. We have grown rapidly since 2015, and our future development could deviate significantly from past results due to a large number of internal and external factors. There is no guarantee that we have the capacity to adequately manage and handle our future growth. Our risk management, IT, property management and other operational systems may be unable to handle our growth, and we may be unable to acquire the employees, operating capacity and other resources that we need to handle our growth in the future.

In addition, because of the rapid growth, the historical earnings, historical dividends and other historical financial data of the Company are not necessarily predictive of our future earnings or other financial results. The information presented in this Prospectus often involves forward-looking statements based on our estimates and assumptions. There can be no assurance that these estimates and assumptions will be accurate, reasonable or correct in every market condition, and we may fail to accurately predict future developments.

1.2.12 The assumptions made in preparing the profit forecast included in this Prospectus may prove incomplete or inaccurate.

The profit forecast included in this Prospectus reflects numerous assumptions made by the Company's management. These assumptions relate to commercial expectations and other external factors, including political, legal, fiscal, market and economic conditions and applicable legislation, regulations or rules, all of which are difficult to predict and are beyond the Company's control.

Accordingly, the assumptions made in preparing the profit forecast could prove incomplete or inaccurate and there may be differences between the Company's actual and projected results, which could be material and could in the future impact the price of the Company's shares, including the New Shares. The inclusion of the profit forecast in this Prospectus should not be regarded as an indication that the Company considers such financial targets to be achievable or any outlook to be reliable predictions of future events. Accordingly, investors should not place undue reliance on the profit forecast included in this Prospectus.

1.3 Regulatory and Legal Risks

1.3.1 *German laws protecting residential tenants and existing restrictions on the rate of rental increases could make it more difficult to increase the rents of residential units we own.*

In Germany, the landlord-tenant relationship is subject to a significant level of statutory regulation which, for the most part, provides far-reaching social protection for tenants under residential leases. According to German law, for example, a landlord may not increase residential rents by more than an aggregate of 20% over a three-year period in general and by no more than an aggregate of 15% in Berlin.

If the parties to a tenancy agreement have not agreed on a gradual rent (*Staffelmiete*) or an index-linked rent (*Indexmiete*), which is only permissible within certain limits and unusual in residential leases, and the tenant refuses to amend the tenancy agreement, a rent increase may be effected unilaterally within the statutory and contractual limits set forth in the respective rent index (*Mietspiegel*), or for those units that have been modernized or to compensate for certain necessary construction measures.

Following a rent increase, the tenants may have a special termination right. The Berlin municipality publishes a new qualified rent index every two years. The latest update of the rent index for Berlin has been published on May 13, 2019. The average residential rents in Berlin increased in the time period 2017 – 2019 by 2.5% per year whereas in the time period from 2015 – 2017 the increase was at a level of 4.6 % per year.

In addition to the generally applicable rent increase restrictions as mentioned above, we are subject to additional restraints on rent increases arising from the acquisition agreements through which the respective real estate portfolio or property for privatization was purchased. Such restrictions limit our ability to impose rent increases as the increase may not exceed the average cost of living index for a defined amount. Further mandatory legal provisions impose occupancy restrictions on landlords who have received public subsidies with regard to residential units. As of December 31, 2019, 2.5% (by sqm) of our residential units were subject to rent restrictions that stem from public subsidies, accounting for 2.6% of our total rental income. The assumptions in our business plan with respect to the effect of occupancy rights and restrictions on rent increases may prove to be inaccurate. To the extent that the assumptions made are inaccurate, our rental income and operating profit may not grow over time or not as quickly as we have assumed or may remain static.

Affordable housing has been and continues to be a political topic of controversial discussion in Berlin and throughout Germany. During the last couple of years, legislative developments have adversely affected our business. For example, in 2011 the parliament of the State of Berlin passed a law on social housing (*Wohnraumgesetz Berlin*) that provides for, *inter alia*, stricter rules on rent restrictions for recipients of certain public housing subsidies. Furthermore, this legislation allows tenants of state-subsidized housing to terminate the existing letting contract in certain cases of rent increases, within a period of three months.

Moreover, changes to the legal framework may further negatively impact our ability to increase rents. Affordable housing continues to be a political topic that attracts a high level of attention. German residential landlord tenant law (*Wohnraummietrecht*) is considered to be tenant friendly in many respects, including limits on the amount of rent chargeable.

Restrictions and ceilings for existing and new leases, such as the rent cap (*Mietpreisbremse*) and the rent freeze (*Mietendeckel*), as well as restrictions on rent increases following modernization of the properties in accordance with the German Tenancy Adjustment Act (*Mietrechtsanpassungsgesetz*), which came into force in January 2019, are further examples for restrictions on rent increases.

The German Act on Curbing Rent Increases in Tight Housing Markets and the Strengthening of the Order Principle with respect to the Business of Rental Agents – Tenancy Law Amendment Act (*Gesetz zur Dämpfung des Mietanstiegs auf angespannten Wohnungsmärkten und zur Stärkung des Bestellerprinzips bei der Wohnungsvermittlung – Mietrechtsnovellierungsgesetz*) (“**MietNovG**”) entered into force on June 1, 2015. A provision of MietNovG that authorizes the German federal state governments to determine areas with a tight housing market already entered into force on April 27, 2015. A decree declaring

Berlin as an area with a tight housing market was issued by the Berlin government on April 28, 2015. One of the main topics of MietNovG is a cap on rents for new leases (*Mietpreisbremse*). This rent cap provides that, subject to certain exceptions such as the first-time lease of newly build apartments, no rent may exceed the local comparative rent by a maximum of 10% in case of new lettings of residential units in areas designated as a tight residential rental market. However, the rent cap only applies if the federal states have implemented ordinances designating areas as tight residential rental market.

In addition, the German Tenancy Adjustment Act tightens the provisions for implementing the rent cap at the expense of landlords. According to the new provisions, landlords are obliged in certain cases to provide a tenant with unsolicited information on the rent achieved for the apartment prior to the conclusion of the rental agreement. In addition, it has been made easier for tenants to make a complaint based on the rent cap. Whereas tenants previously had to submit a qualified complaint, which had to contain the facts on which the complaint was based, a simple complaint is sufficient under the new law.

On June 18, 2019, Berlin's municipal government (*Berliner Senat*) announced its intention to freeze rents in Berlin for the next five years. The so-called "Mietendeckel" was passed on January 30, 2020 by Berlin's parliament (*Berliner Abgeordnetenhaus*) and entered into force on February 23, 2020. On the basis of the Law on Rent Limitation in Housing in Berlin (*Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin – MietenWoG Bln*), the rents for living space in Berlin (except for subsidized and newly built living space) shall be capped retrospectively as of June 18, 2019. Among other things, the passed law provides that the administration can take action *ex officio* against landlords in the event of violations of the permitted rent amount. An application by the tenant to lower the rent to the permissible level, as was provided for by the draft law of the Berlin municipal government (*Berliner Senat*), is not necessary. Furthermore, violations of the rent freeze in connection with existing rents and future rent increases, insofar as these exceed the limits intended by the rent freeze constitute administrative offenses. These administrative offenses may be punished with fines of up to €500,000 per individual case. In case we have agreed on provisions in individual or a multitude of cases in connection with our approximately 21,300 existing leases as of December 31, 2019 or with new leases, by which we would violate the provisions of the Law on Rent Limitation in Housing in Berlin or comparable laws that restrict or lower the current rent level, this could have a material adverse effect on our business, net assets, financial condition, results of operations and prospects. The Combined Group has approximately €119 million of rental income as of December 31, 2019, or 35% of its total rental income as of December 31, 2019, exposed to the "Mietendeckel" regulation. It expects the combined impact of such regulation to result in a decrease of rental income in the amount of approximately €1 million for 2020 and €9 million for 2021, mostly due to the reversion of rents to the maximum levels as of November 2020.

Any further tightening of existing or the introduction of additional rent restrictions could limit our ability to implement an increase in rental costs across any part of or all of our portfolio and, ultimately, negatively affect our strategy. Any failure to comply with or violation of legislation regarding rent restrictions could result in our obligation to repay any surplus rents charged and, additionally, to pay substantial fines. Furthermore, any other cap, tenant-friendly regulation or regulation serving the protection of tenants may considerably impair our ability to raise rents.

Further, German law and German courts provide tenants with protection against tenant evictions. Delayed evictions resulting from these protections can lead to substantial losses until the property is actually vacated.

1.3.2 *Our business is subject to the general legal environment in Germany. Any disadvantageous changes in the legal environment, such as mandatory environmental modernization provisions, restrictions regarding modernization measures or provisions (including taxes) that result in the incurrence of costs in the event of a property sale, or disadvantageous changes to the Berlin Mietspiegel or other regulation, may be detrimental to us.*

Our business is subject to the general legal framework that applies to housing, including German tenancy law, as well as special provisions in other laws and regulations, such as social legislation, building and construction laws, monument protection laws and federal or state laws and regulations. Any changes to German or European laws, which could include changes that have retroactive effect, or changes in the interpretation or application of existing laws could, therefore, have a negative effect on our business. Changes to tenant protection laws could make it more difficult to evict tenants, increase rents or pass on ancillary costs or modernization investment costs to the tenants. This could have a material adverse effect on the profitability of our investments, results of operations and prospects.

More restrictive environmental laws could also result in additional expenses. For example, since 2011, owners of specified centralized heated water supply facilities for use in multi-family residential units are obliged to test the level of potential legionella contamination at least every three years, thereby incurring additional costs for the testing as well as for remediation measures, if contamination is detected. Additional costs would also be incurred if the legal requirements relating to the construction and use of existing properties were to become more onerous. Construction and environmental requirements are of particular significance in this context. For example, the currently applicable version of the German Energy Savings Regulation (*Energieeinsparverordnung*) prescribes specified investments into renovation aimed at reducing energy consumption (for instance, with respect to thermal insulation) and requires a landlord to present an energy certificate that discloses the property's energy efficiency to a potential tenant prior to entering into a new lease agreement. The same applies with respect to the sale of properties. Additionally, requirements may be imposed in order to increase the availability of disabled-accessible and adapted housing.

In addition, we could be adversely affected by changes to public building law which could restrict our ability to manage our properties in the way we had previously expected. On March 3, 2015, the Berlin government passed a regulation (*Umwandlungsverordnung*) according to which a conversion of a building into condominiums is prohibited in milieu protection areas (*Milieuschutzgebiete*) of the city unless the relevant district has granted permission by means of an exception to this regulation. The landlords of rented apartments require an exception permission (*Ausnahmebewilligung*) by the relevant district to sell the apartment. Such exception permissions may be granted, for example, in case that the apartment shall be sold to the current tenant. As of December 31, 2019, we owned 48 residential units for sale under our privatization portfolio that are or may potentially be effected by such changes. Although this does not affect the sale of an entire property, regulation may hinder the conversion and sale of single apartments. As of the date of this Prospectus, 61 areas of Berlin are defined as milieu protection areas (*Milieuschutzgebiete*), within which 2,262 residential units of our real estate portfolios are located. The Berlin government may, on an ongoing basis, decide to extend milieu protection (*Milieuschutz*).

If, in the course of a refurbishment or modernization, it should be discovered that a building undergoing said processes is subject to monument protection laws, the need to comply with monument protection requirements could lead to significant delays in the refurbishment or modernization process, in the inability to carry out particular refurbishment or modernization measures, and also in significantly higher costs for the particular project. These factors could render us incapable of performing our contractual obligations *vis-à-vis* a buyer, with the consequence that the buyer's obligation to pay the purchase price would be excused or deferred.

1.3.3 We may fail to comply with applicable or future laws and regulations in relation to privacy and data protection or such laws and regulations may change in a manner that is unfavorable to our business.

Before entering into a lease agreement, a potential tenant provides us with certain personal data on which basis we determine whether to enter into a lease agreement with such tenant. Furthermore, such personal data is stored by us. As of December 31, 2019, we have cumulatively entered into approximately 35,500 lease agreements with more than 52,600 parties (excluding the units sold under the Gewobag Sale) and, as a result thereof, stored a significant amount of personal data. The collection, use and storing of data is subject to regulation under German data protection law. In addition, the EU recently enacted Regulation 2016/679/EU of April 27, 2016 (General Data Protection Regulation) (the "GDPR"). The GDPR automatically came into effect in all EU member states as of May 25, 2018, and imposed stricter conditions and limitations in relation to the processing, use and transmission of personal data. The GDPR introduced extensive documentation obligations and considerably higher transparency requirements, which affect not only initial data collection but also the monitoring and investigation once personal data has been collected.

We may not have prepared for these changes to the extent necessary and our preparations may not yield the expected results. Additionally, although we strive to comply with all applicable laws, regulations and legal obligations relating to data usage and data protection, it is possible that these laws, regulations and other obligations may be interpreted and applied in a manner that is inconsistent with our practices. Furthermore, there can be no assurance that our practices have complied, comply or will comply fully with all such laws, regulations and other legal obligations. Our process of developing and advancing our data protection standards and procedures may take longer and require more resources than originally planned. Any non-compliance by us with the applicable regulations could lead to fines and other sanctions. For example, the GDPR provides that violations can be fined, depending on the circumstances, by up to the higher of €20 million and 4% of the annual global turnover of the non-compliant company.

1.3.4 *Administrative decisions could affect our ability to conduct our business at our discretion.*

We could be adversely affected by decisions from public authorities on a municipal level. For instance, as of December 31, 2019, 3,686 units of our real estate portfolios, accounting for 20.7% of our rental income as of the same date, are situated in preservation areas (*Erhaltungsgebiete*) within Berlin, which imposes certain restrictions on the use and refurbishment of property. Such restrictions require, for example, obtaining the public authority's permission prior to entering into a lease agreement with a term longer than one year or selling the property. In addition, once the redevelopment has been completed, the municipality levies a compensation charge to reflect the increased value of the land due to the redevelopment. Any administrative decision that would affect our ability to conduct our business at our discretion could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.3.5 *The use of standardized contracts could result in claims for damages against us under a number of contracts, or in the loss of certain rights and privileges or of the respective rights to claim damages, if errors or problems arise in connection with the enforcement of such contracts.*

As of December 31, 2019, we are the lessor under approximately 21,300 lease agreements with our tenants. As our business involves a large number of individual units and tenants, each with a relatively small individual value, we maintain numerous legal relationships, in particular with tenants, contractors and service providers, any one of which is not financially material to us. As a means of efficiently managing these legal relationships, we often make use of standardized documents and form contracts. In addition, we have adopted long-term standardized lease agreements through our various acquisitions. These documents and contracts often contain ambiguities or errors, and the fact that any given document or contract is standardized may cause a significant number of contractual terms or even the validity of a large number of contracts to be affected. Due to frequent changes in the law, particularly in case law regarding general terms and conditions (*Allgemeine Geschäftsbedingungen*), the use of such standardized contractual terms is not without risk. For example, it is possible that, as a result of changes to statutes or case law, ambiguities or errors in standard contract terms may give rise to claims or cause such subsidiaries to lose certain rights and privileges, or to lose their right to claim damages which could, in turn, adversely affect our rental income and operating profit.

Even in the case of contracts being prepared with legal advice, it is impossible for us to avoid problems of this nature in advance or in the future, because changes could occur in the legal framework, particularly via case law, making it impossible for us to avoid the ensuing legal disadvantages.

1.3.6 *We may incur environmental liabilities, for example, from residual pollution including wartime ordnance, soil conditions, asbestos and contaminants in building materials, as well as from possible building code violations.*

Properties we own or acquire may contain soil or groundwater contamination, hazardous substances, wartime ordnance (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. A certain number of our assets are listed in the register of contaminated sites. Buildings and their fixtures might also contain asbestos, dichlorodiphenyltrichloroethane (“DDT”), polychlorinated biphenyl (“PCB”), pentachlorophenol (“PCP”) and lindane above the allowable or recommended thresholds, or the buildings could bear other environmental risks, e.g. flooring material containing asbestos (i.e. “Floorflex” flooring). In total, as of December 31, 2019, 24.0% of our residential real estate units (by sqm) and 11.4% of our commercial real estate units (by sqm) contain this flooring material. For example, certain of our properties contain asbestos contamination which, from time to time, requires us to do refurbishments. In particular, we have received notice that one of our buildings contains substantial asbestos contamination for which we expect significant refurbishment expenses. Refurbishment and removal of this material takes place regularly as part of our maintenance and repair efforts and the costs for these regular removals are reflected in our budgeting. Moreover, we own or may acquire properties that may contain undetected hazardous substances, such as lead from pipes in buildings built around the turn of the nineteenth century and legionella (see “1.3.2 *Our business is subject to the general legal environment in Germany. Any disadvantageous changes in the legal environment, such as mandatory environmental modernization provisions, restrictions regarding modernization measures or provisions (including taxes) that result in the incurrence of costs in the event of a property sale, or disadvantageous changes to the Berlin Mietspiegel or other regulation, may be detrimental to us.*”), which are harmful to the health of the residents or contain such other environmental risks or contain substances which are not yet viewed as

being harmful to the health of the residents, and are therefore not being categorized as hazardous. These materials may be detected or categorized as hazardous, and we may be obliged to remove and dispose of such materials.

We bear the risk of cost-intensive assessment, remediation or removal of such ground, soil or water contamination, hazardous substances, wartime ordnance or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the letting or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions, the termination of letting contracts for cause or for damages and other breach of warranty claims against us.

The remediation of any pollution and the related additional measures we would have to undertake could negatively affect us and could involve considerable additional costs that we may have to bear. We are also exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of ground contamination, hazardous materials, wartime ordnance or other residual pollution can negatively affect the value of a property and our ability to let or sell such a property.

Moreover, environmental laws impose actual and contingent obligations on us to undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to properties we currently own or operate, properties we have formerly owned or operated or properties where waste has been deposited. Furthermore, actions for damages or remediation measures may be brought against us, namely under the German Federal Soil Protection Act (*Bundesbodenschutzgesetz*). According to this Act, not only the polluter but also its legal successor, the owner of the contaminated site and certain previous owners may be held liable for soil and pond water contamination. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial, and it may be impossible, for a number of reasons, for us to have recourse against a former seller of a contaminated site or building or the party that may otherwise be responsible for the contamination. Laws and regulations, as may be amended over time, may also impose liability for the release of certain materials into the air or water from a property, including chrysotile containing materials (CCM), and such release could form the basis for liability to third parties for personal injury or other damages. In addition, if our employees infringe or have infringed environmental protection laws, we could be exposed to civil or criminal damages. We may be required to provide for additional reserves to sufficiently allocate toward our potential obligations to remove and dispose of any hazardous and toxic substances.

Our business is also exposed to the risk of non-compliance with building codes or environmental regulations, including those applicable in Berlin. Even though we usually conduct inspections during the acquisition of individual properties, there is a risk that building codes or environmental regulations have not been complied with. It is also possible that landlord responsibilities could be further expanded with respect to fire protection and environmental protection, which could require additional refurbishment, maintenance and modernization requirements. Furthermore, the projected cost of such measures is based on the assumption that the required permits are issued promptly and that they are consistent with our plans. It is possible, however, that the required building permits will not always be issued in due course. If such permits are not issued promptly, or are issued only subject to conditions, this can lead to substantial delays in correcting the problems and result in higher than projected costs and lower rental income for the relevant properties.

1.3.7 *We may not be granted building and other permits, or may be granted them only subject to onerous conditions, or additional requirements may be imposed on existing building and other permits.*

The construction, alteration and refurbishment or a change of use of buildings will not be possible until a building permit is granted, it may be uncertain whether the relevant authorities will approve a respective construction project and what additional requirements may be imposed in connection with the building permit. As of December 31, 2019, we have two pending requests for the issuance of building permits, comprising a total of 1,382 sqm. In addition, special permissions could be required and must be obtained, particularly for measures taking place in urban redevelopment areas (*Sanierungsgebiete*) or preservation areas (*Erhaltungsgebiete*) and for real estates and buildings which are protected historic monuments. If we are not granted a building permit or another required permit, or a building permit or another required permit is granted only subject to onerous conditions, the rental income that we expect to generate from the relevant real estate could be considerably less than originally calculated. If a renovation project becomes financially unfeasible because a building permit or another required permit is not granted or is

granted only subject to onerous conditions, we may not be able to or decide to not carry out the project and any expenditure already incurred may be lost. Moreover, changes in the requirements for construction or modernization of existing real estate could result in unforeseen additional costs. Any increase in operating costs resulting from the above-described events would adversely affect our operating profit. In addition, our remaining project development activities may be substantially impaired if the granting of a building permit is substantially delayed, made subject to additional administrative building constraints (*baurechtliche Auflagen*) or declined altogether.

1.3.8 *We could be subject to liability claims for several years after selling properties.*

In connection with the sale of properties (privatization), we make representations, warranties and negative declarations of knowledge to the purchasers with respect to certain characteristics of the relevant properties. The resulting obligations usually continue to exist after the sale, for a period of several years. In the fiscal year ended December 31, 2019, we have sold 62 residential units of our units held for privatization. In particular, we could be subject to claims for damages from purchasers, who could assert that we failed to meet our obligations, or that the representations we made to them were untrue. We could be required to make payments to the purchasers following legal disputes or litigation. If we do not have cash available to conduct such litigation or make such payments, we may be required to borrow funds, or, if we are unable to borrow funds to make such payments, we may be forced to sell investments to obtain such funds, which would in turn cause reduced levels of rental income and operating profit. If we provide warranties to third parties in connection with maintenance and modernization measures and claims are asserted against us because of defects, it is not always certain that we will have recourse against the companies that performed the work.

As a seller of properties, we are also liable to tenants for any breach of tenancy agreements by the buyer under certain circumstances, even where we no longer have any control over the property. Moreover, we continue to be exposed to liability for breach of contract even if the buyer resells the property and the subsequent buyer breaches any tenancy agreement. If, however, we notify the tenant of the change in ownership and the tenant fails to avail itself of the opportunity to terminate the tenancy at the earliest permitted termination date, we are, in general, released from liability. As a rule, when selling properties, we inform all tenants in writing of the change in landlord either alone or together with the acquirer. Such release from liability does not apply to security deposits (*Mietbürgschaften*) provided by the tenants. If the tenant is unable to receive its security deposit from the buyer of the property, the liability to repay such security deposit remains with the seller.

In connection with any of the aforementioned or similar risks, we may be facing legal or settlement costs, including the costs of defending lawsuits, whether justified or not, as well as potential damages associated with liability for properties that we have sold. This could, in turn, have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

1.3.9 *Our risk management and compliance systems may prove to be partially or completely insufficient or fail, and unknown, unrecognized, underestimated or unexpected risks may materialize, any of which could lead to government investigations and significant reputation, financial or other consequences. We may fail to adequately account for potential liabilities or risk exposures.*

There is no guarantee that our risk management or compliance systems are sufficient to manage the risks we face. We may be faced with risks that were previously unknown, unrecognized, underestimated or unconsidered, and our risk management or compliance systems may function incorrectly or fail. Inappropriate risk management or compliance measures may cause irregularities leading to, among other things, cash losses or delays in completion of development projects, or to official investigations or third-party claims against us, which in turn could have significant financial, reputational and other consequences.

We book provisions for potential liabilities such as tax liabilities, litigation exposure and bad debt. These provisions are based on management's assumptions, estimates and judgements, and there is no guarantee that the provisions we have taken will adequately account for our actual liabilities. Failure to take adequate provisions against potential liabilities could have significant financial consequences for us.

1.4 Risks related to the ADO Properties Group's Tax Structure

1.4.1 The structure of the Company is mainly influenced by the general tax environment in Luxembourg, Germany and further countries of the European Union (Netherlands, Denmark and Ireland) and changes in the tax environment may increase our tax burden.

In addition to the Company, which is established in Luxembourg, we consist of more than 100 companies. These companies have registered offices in Germany, Luxembourg and further countries of the European Union (Netherlands, Denmark and Ireland). Our companies are subject to the tax laws of their jurisdictions of registration and the jurisdictions where they conduct business. The cross-border participation of the Company in its subsidiaries provides for various tax aspects, including cross-border taxation issues governed by directives of the European Union and/or double-tax treaties between Luxembourg and the jurisdictions of the subsidiaries. It cannot be excluded that tax authorities in the countries in which we are active may not share the view of our tax assessment, which could lead to additional tax burdens for us in any of these countries. For example, in the course of our business, we have entered into several cross-border financing transactions and any change or different treatment in the tax treatment in this context may have adverse tax effects. The same applies to the non-deductibility or requalification of intragroup loans and financings with third parties, intragroup payments for services, the different interpretation of the tax residency of a subsidiary, the assumption of a permanent establishment, the non-recognition of the VAT group with regard to the group companies or the non-granting of the so-called further reduction for the German real estate companies. Also, the tax laws in any of these jurisdictions or double-tax treaties between these countries could change in the future, even with retroactive effect, which could cause additional tax burdens for us.

Moreover, some of our companies have significant tax loss carry forwards in an amount above €1 million. The aggregate amount of the companies' tax loss carry forwards as of December 31, 2017 was €134.0 million for corporate income tax (CIT) purposes and €68.3 million for trade tax (TT) purposes ("**Tax Losses**"). Final data regarding tax loss carry forwards following the fiscal year ended December 31, 2017 are not yet available and could turn out to be significant. Some of these Tax Losses may have been or may be forfeited in whole or in part in the past or future, as a result of past restructurings (in particular the acquisition of 50% in the Company by the current shareholders from a former joint venture partner and the migration of the Company from Cyprus to Luxembourg), the initial public offering in July 2015 or future changes of the shareholders. In particular, any past or future corporate reorganization within the Group or relating to the Company's shareholding structure may result in the partial or complete forfeiture of the Tax Losses (to the extent the Tax Losses are not covered by taxable hidden reserves in our assets). With regard to the migration of the Company from Cyprus to Luxembourg, we have received a binding ruling that no RETT has been triggered but did not apply for a ruling regarding impact on the Tax Losses. The tax burden in past or future periods would increase if profits could not be set off against Tax Losses.

1.4.2 We are subject to the tax environment in Luxembourg, Germany and further countries of the European Union (Netherlands, Denmark and Ireland). Our tax burden may increase as a consequence of current or future tax assessments, tax audits or court proceedings based on changes in tax laws or changes in the application or interpretation thereof.

We are subject to the tax environment in Luxembourg, Germany and further countries of the European Union (Netherlands, Denmark and Ireland). Our tax burden primarily depends on various aspects of tax laws, as well as their application and interpretation. Amendments to tax laws may have a retroactive effect, and the application or interpretation of tax laws by tax authorities or courts may change. Furthermore, court decisions are occasionally limited to their specific facts by tax authorities. Any of these developments may increase or alter our tax burden.

A number of factors may also impact our tax situation. We are required to file tax declarations in Luxembourg, Germany and further countries of the European Union, from time to time, and any tax assessments that deviate from our tax declarations may increase or alter our tax obligations. Our individual entities are regularly subject to tax audits by the competent tax authorities which may result in increases in our tax obligations or penalties and fines. We may also be subject to administrative or judicial proceedings with respect to its tax declarations, and may incur substantial time and effort in addressing and resolving tax issues.

In addition, changes in tax legislation, administrative practice or case law, which are possible at any time and may occur on short notice, could have adverse tax consequences for us. The applicable tax rates, for

example with respect to property tax, property transfer tax or capital gains tax, may also change rapidly and with short notice. Changes in German Real Estate Transfer Tax (“RETT”) (*Grunderwerbsteuer*) may also negatively affect the value of our portfolio. Additionally, changes could be made to the ability to depreciate owned real estate. Additionally, divergent statutory interpretations by the tax authorities or the courts are possible.

1.4.3 We are exposed to real estate transfer taxes (RETT).

Increases in the applicable RETT rates for the properties in our portfolio could negatively impact the portfolio by, among other things, reducing the value of and the proceeds from a sale of the affected properties or by reducing purchase demand for the affected properties or by reducing the valuation of the affected properties in the portfolio.

We currently hold real estate in Germany and shares in companies which own real estate in Germany. In Germany, the transfer of real estate or of a 95% or greater interest in a company that owns real estate triggers a potential liability for RETT. It cannot be excluded that RETT will be triggered upon the Completion and/or post-Completion upon an acquisition of additional ADLER Shares after completion of the Offer or the reorganization of the Combined Group.

Because of the complexity of the RETT laws in Germany, we may from time to time seek to acquire properties with less than a 95% stake in the ownership company. This may result in an increased complexity of the transaction and stronger minority rights of the associate parties. As a consequence, transaction costs and future administrative expenses for the newly acquired property would generally rise, too. Recently proposed changes to German RETT laws aim to tighten the statutory RETT framework with regard to share deals. Accordingly, share deals that do not trigger any RETT may no longer be possible in the future or such acquisitions might be more difficult. In broad terms these proposals are to (i) extend the stricter partnership RETT rules to incorporated companies; (ii) reduce the economic ownership threshold upon which RETT is triggered from 95% of the shares or interest in a property company, as it is currently, to 90%; and (iii) extend the 5 year cooling period to 10 years. As a result, RETT will be payable unless the seller retains over 10% of the shares or interest in a property company for at least 10 years. While the draft bill originally stipulated that the respective legislative changes shall come into force in January 2020, it has recently been announced by the political parties currently forming the German government that the intended changes to RETT will not come into force as of January 1, 2020 as originally planned. Instead, it is now expected that a revised draft bill will be introduced to the German parliament in the first six months of 2020. It is currently unclear if and to which extent such changes will enter into force with retroactive effect.

Any increase in applicable RETT rates for the properties in our portfolio could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.5 Risks related to the Company’s Shares

1.5.1 Future capital measures like the issuance of new shares from authorized capital, which currently amounts to €750,000,000, the exercise of share options and any amendment to the capital structure to be resolved by the General Meeting could lead to a significant dilution, thereby reducing the value of the shareholding of the existing shareholders of the Company.

We could in the future be required to raise additional capital to finance our business and our growth. By resolution of the extraordinary General Meeting of June 16, 2015, the Company’s board of directors (the “**Board of Directors**”) is authorized, for a period of five (5) years ending from the date of the publication of such resolution (*i.e.* August 20, 2015) creating the authorized capital in the Official Gazette of Luxembourg (unless amended or extended by the General Meeting), to increase the Company’s share capital up to €750,000,000 by issuing new shares with no nominal value against contributions in cash and/or in kind (the “**Authorized Capital**”). As of the date of this Prospectus, the share capital of the Company amounts to €89,088.65 and, accordingly, the remaining authorization under the Authorized Capital would allow to increase the share capital by €749,910,911.44 as of the same date. As of the date of this Prospectus, the Company is planning to raise additional funds in the amount of approximately €500 million in connection with a rights offering. In addition, the general meeting of the Company may at any time, in compliance with the applicable Luxembourg laws, resolve on changes in the capital structure, in particular by further extending the authorization granted to the Board of Directors in the framework of the Authorized Capital. Raising additional equity by the issuance of new shares and the potential exercise of convertible bonds and option rights by holders of convertible bonds or bonds with option rights that could be exercised in

the future could ultimately reduce the value of the shareholding of the existing shareholders of the Company. Additionally, a dilution could occur as the result of the acquisition of other companies or stakes in companies if these were to occur, as a whole or in part, in exchange for the issuance of new shares of the Company. The same applies to the exercise of stock options by employees of the Company in connection with future stock option programs or the issuance of shares to employees in connection with future employee participation programs.

1.5.2 *The share price and the trading volume of the shares of the Company could fluctuate significantly, including due to disposals by any major or majority shareholder, which could, ultimately, result in significant losses for shareholders of the Company.*

The share price of the Company has previously been subject to volatility and affected by fluctuating trading volumes. These shifts could continue to occur in the future. If the share price of the Company were to fluctuate, shareholders may not be in a position to sell their shares in the Company at purchase price or at a premium.

As of the date of this Prospectus, the shares of the Company are part of the “Small-Cap-DAX”, a stock market index composed of 70 small to medium-sized companies in Germany (“SDAX”). Should the Company’s shares be excluded from the SDAX and included in another index which is not viewed in the same way by investors, as a result of market fluctuations or developments, which could also result from market movements not specific to the real estate sector, in particular also the valuations of other companies, this could have a material adverse effect on the share price of the Company.

Generally, stock markets and, in particular, the shares of real estate companies, have previously been volatile. Factors that could negatively the share price of the Company or result in fluctuations of the share price or the trading volumes of the shares of the Company include, among others:

- changes in the actual or projected earnings performances of the Company or its competitors;
- changes to the earnings forecasts or any failure to meet earnings expectations of investors and analysts;
- a downgrade in the Company’s rating;
- the valuation of the success and the effects of the strategy set forth in this Prospectus by investors and the valuation of the associated risks;
- changes in general economic conditions; and
- changes in the shareholder structure.

Shareholders could, for a variety of reasons, dispose of or sell all or parts of their shareholdings in the Company including, among others, in order to diversify their investments. To the extent any major shareholders or any majority shareholder of the Company disposes of or sells a significant amount of shares held in the Company, or if market participants believe that such disposals could take place, the share price of the Company could be adversely negatively affected.

Additionally, ordinary fluctuations of the share prices, in particular of the share prices of real estate companies, could result in an increased pressure for the share price and for the sale of the shares of the Company, even if these are not necessarily associated to the business- or earnings perspectives of the Company.

1.5.3 *The ability of the Company to distribute dividends is dependent on a variety of factors. The previous dividend distributions, which amounted to €0.75, €0.60 and €0.45 per share for the fiscal years ended December 31, 2018, 2017 and 2016, respectively, are no indication for future dividend distributions. Additionally, the dividend policy of the Company may change in the future.*

The Company may only distribute dividends if they have sufficient funds available for distribution as determined pursuant to the Luxembourg Companies Law. The annual dividend proposal to the general meeting of the shareholders of the Company (the “General Meeting”) is dependent on the development of our business and must be made under consideration of the capital base required for growth measures and current business prospects. At present, the Company intends to distribute an annual dividend of up to 50% of FFO 1 to the shareholders. For the fiscal years ended December 31, 2018, 2017 and 2016, the dividend distribution amounted to €0.75, €0.60 and €0.45 per share. There can be no certainty that future dividends can be distributed in line with the current dividend policy, if at all.

1.5.4 *Future sales or market expectations of sales of a large number of shares by the Company's largest shareholders or other shareholders could cause the share price to decline.*

Following the Completion, there will be no lock-up agreements with respect to the shares in the Company with existing or future shareholders. Thus, all shareholders are free to sell their shares in the Company at any time. The Company's share price could fall substantially if one or more of the major shareholders of the Company sell some or all of their shares or if such sales are anticipated by investors.

In addition, the sale or market expectation of a sale of a large number of shares by significant shareholders could make it difficult for the Company to issue new shares in the future on favorable terms. In addition, this may have a material adverse effect on the market price of the shares of the Company.

1.5.5 *Investors with a reference currency other than the Euro may be subject to foreign exchange rate risks when investing in the shares.*

The Company's equity capital is denominated in Euro, and the vast majority of our revenues and expenses have been and will continue to be incurred in Euro. Furthermore, all returns will be distributed in Euro. If investors' reference currency is a currency other than the Euro, investors may be adversely affected by any reduction in the value of the Euro relative to their reference currency. Investors may also incur further transaction costs by converting Euro into another currency. As a result, prospective investors are strongly urged to consult their financial advisers with a view to determining whether they should enter into hedging transactions to offset these currency risks.

1.5.6 *Fluctuation of market interest rates may have an adverse effect on the value of the shares.*

One of the factors that investors may consider in deciding whether to buy or sell the shares is the expected dividend yield, or the expected dividend payment per share as a percentage of the share price. If market interest rates increase, prospective investors may desire a higher rate of return and therefore may seek securities paying higher dividends or interest or offering a higher rate of return than that of the shares in the Company. As a result, market interest rate fluctuations and other capital market conditions can affect the demand for and market value of the shares. For instance, if interest rates rise, the market price of the shares may decrease, because current stockholders and potential investors will likely require a higher return on their invested capital, as interest-bearing securities, such as bonds, may offer more attractive returns.

1.5.7 *The Company might be classified by U.S. tax authorities as a passive foreign investment company for U.S. federal income tax purposes.*

Generally, if for any taxable year 75% or more of the Company's gross income consists of certain types of "passive income", or at least 50% of the average quarterly value of the Company's assets (which may be determined in part by the market value of the Company's shares, which is subject to change) are held for the production of or produce passive income, the Company would be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. If the Company is characterized as a PFIC, U.S. Holders (as defined below) may suffer adverse tax consequences, including having gains realized on the sale of the New Shares treated as ordinary income rather than capital gain, the loss of the preferential rate applicable to dividends received on New Shares by individuals who are U.S. Holders (as defined below), and having interest charges apply to certain distributions by the Company and the proceeds of share sales.

Certain elections exist that may be available to alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as a mark-to-market election or an election to treat the Company as a "qualified electing fund" election) of the New Shares; however, we do not intend to provide the information necessary for a U.S. Holder (as defined below) to make an election to treat the Company as a "qualified electing fund" with respect to the New Shares if the Company is classified as a PFIC.

For the purposes of this Prospectus section, a "U.S. Holder" is, after the Completion, a beneficial owner of New Shares that is for U.S. federal income tax purposes (i) a citizen or an individual resident of the United States, (ii) a corporation (or other business entity treated as a corporation) that is created or organized in or under the laws of the United States of America, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation without regard to its source or (iv) a trust (a) if a court within the United States of America is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all

substantial decisions of the trust, or (b) that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

1.6 Risks related to the Business Combination

1.6.1 *ADLER Real Estate is a real estate company that is exposed to a variety of risks that we believe are comparable to the risks associated with our business activities. However, it cannot be ruled out that ADLER Real Estate may be exposed to further, previously unrecognized risks, the realization or intensification of which could also have a material adverse effect on the net assets, financial position and results of operations of the Combined Group created through the Completion and Integration.*

The business models of the Company and ADLER Real Estate are comparable in many aspects and areas. Therefore, the Company has reason to believe that ADLER Real Estate is subject to very similar risks with regard to its business activities and the industry as we are. There is, however, a risk that after the Completion, the corresponding risks could increase and negative consequences could have a greater impact on us than we currently expect.

In addition, risks that materialize at ADLER Real Estate will also have an indirect negative impact on us following the Completion. Furthermore, it cannot be ruled out that ADLER Real Estate may be exposed to further, previously unrecognized risks, the realization of which could also have material adverse effects on our business, financial condition, results of operations, cash flows and prospects and those of the Combined Group.

1.6.2 *The integration of the ADLER Group into the ADO Properties Group could potentially not be consummated as intended and could result in expenses not anticipated at all or not adequately accounted for and the Company could potentially be legally bound to consummate the integration regardless of a materially adverse change of its economic rationale.*

Following the Completion, the ADLER Group would have to be integrated into the ADO Properties Group (the “**Integration**”) in order to create a group combining the ADO Properties Group and the ADLER Group (the “**Combined Group**”). It is expected that the Integration will be a multi-year process and require significant human and financial resources. The successful integration of the existing workforces, IT systems, corporate cultures and corporate structures of the Combined Group and the introduction of joint processes for the Combined Group are essential to the success of the Integration. The Integration will be time-consuming and costly and could negatively affect our business operations and/or those of the ADLER Group. We and the ADLER Group could be confronted with a variety of difficulties during the process of the Integration, including, among others:

- The administration of a significantly larger Combined Group, including the size of the portfolio and number of assets;
- The combinations and standardizations of the business activities, including the services offered to tenants and customers and the coordination of the business activities;
- The coordination of the corporate and administrative structures and the harmonization of insurance coverage for the Combined Group;
- Unexpected problems relating to the coordination of the accounting-, IT-, communications and administrative systems and other systems;
- Problems to adequately cope with potential differences in the corporate cultures and leadership philosophies;
- The implementation of uniform standards, control mechanisms, procedures and guidelines for the Combined Group;
- Legal disputes related to the Integration, including legal disputes with shareholders;
- The diversion of the attention of the management from other areas of the business activities;
- Maintaining existing agreements and business relationships with tenants, customers, service providers and financing banks and delays related to the entering into of new contracts with future tenants, customers, service providers and financing banks;
- Unforeseen and unexpected obligations in relation to the Integration and the business of the ADLER Group; and
- The identification and elimination of obsolete business activities and assets, including those that fall short of expectations.

Any inability of the Combined Group to efficiently and effectively carry out the Integration could lead to a reduction or failure or delay in the realization of the anticipated advantages and cost savings envisaged in connection with the Integration could negatively affect the Combined Group.

The Integration could result in additional or unforeseen costs and the anticipated advantages of the Integration could potentially not be realized in full or not at all. To the extent actual growth and costs savings are realized, these could fall short of anticipations and their achievement could require more time than currently anticipated by the Company. Any inability of the Company to adequately address and manage the challenges of the Integration could result in a decrease of the anticipated benefits of the Integration or in the premature termination of the Integration.

1.6.3 *The synergies expected as a result of the Integration could potentially not be fully realized or not realized at all or eroded by expenses not anticipated.*

The Company believes that the Integration could entail various effects from synergies and economies of scale. In particular, it is anticipated that these effects will be realized by the continuous advancement of complementing services and offerings, a combined management organization, combined back-office functions, optimized local managements and a focus to achieve synergies with regards to the overhead costs of the Combined Group. In addition to operational synergies, the Company expects certain financing synergies in relation to ADLER Real Estate's current indebtedness. However, it cannot be ruled out that the anticipated effects from synergies and economies of scale will be realized in full or at all. Additionally, the costs incurred with the realization of these synergies could be higher than currently estimated by the Company.

A transfer of goodwill could occur in connection with the acquisition of ADLER Real Estate. Whether the Company will undertake such transfer of goodwill is dependent on a variety of factors, including, for example, the true value of the net assets of ADLER Real Estate and the share price of the Company at the time of the Completion. The potential goodwill is subject to the usual impairment tests and could, if the realized synergies turn out to be lower than anticipated, result in a significant impairment, which, ultimately, would have to be included as impairment expenses in the consolidated financial statements of the Company.

1.6.4 *The ADLER Shares could continue to be listed following the Completion.*

As of the date of this Prospectus, the shares of ADLER Real Estate with ISIN DE0005008007 with a proportionate amount of the share capital of ADLER Real Estate of €1.00 each, including full dividend entitlements and all ancillary rights (the "ADLER Shares") are listed in the sub-segment of the regulated market segment (*Regulierter Markt*) with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). The ADLER Shares could continue to be listed following the Completion. As a result of a continued listing of the shares, we could be limited in our ability to exercise oversight over and influence on ADLER Real Estate and only be able to implement the synergies envisaged in connection with the Business Combination to a limited extent, if at all, which could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.6.5 *We may be limited in our ability to exercise oversight over and influence on ADLER Real Estate.*

If our shareholding in ADLER Real Estate were to fall below the threshold of 50%, the Company would lose the majority in the voting rights. Such could occur, for example, if ADLER Real Estate were to perform a capital increase and the Company were to be excluded from a participation therein. We may be unable to gain and maintain the majority in the voting rights in the general meeting of ADLER Real Estate.

1.6.6 *We could be exposed to negative reactions and feedback from our employees, tenants, business partners, service providers and financing banks related to the Business Combination.*

In order to facilitate the Integration, the Board of Directors may emphasize their focus on tasks and measures related thereto and not pursue other business opportunities that could be beneficial to us to a similar extent, if at all. As a result thereof, employees, tenants, customers, service providers and financing banks could react negatively to the Business Combination and the Integration.

1.6.7 ADLER Shareholders that did not accept the Offer may take measures to delay or prevent future plans or measures to promote the Integration.

Under German law, ADLER Shareholders that, following the Completion, continue to hold a stake as minority shareholders of ADLER Real Estate, have certain rights. These shareholder rights could result in a delay or disruption of any corporate structural measures intended in relation to ADLER Real Estate (including, among others, a change in their legal form, a squeeze-out, the conclusion of a domination and profit-and-loss transfer agreement or a merger) and the Integration. Any such delay or failure to implement certain essential measures as well as legal disputes in relation thereto could limit our control over and our access to the cash flows of ADLER Real Estate and delay or prevent the execution of corporate structural measures envisaged to facilitate the Integration. Any risk in relation to ADLER Shareholders that did not accept the Offer could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.6.8 Shareholders of the Company may take measures to delay or prevent future plans or measures to promote the Integration.

Shareholders of the Company may take measures that could result in a delay or failure to implement certain measures as part of the Integration. Any such measure as well as legal disputes in relation thereto could delay or prevent the execution of corporate structural measures envisaged to facilitate the Integration. Any risk in relation to shareholders of the Company that take measures to delay or prevent future plans or measures to promote the Integration could have a material adverse effect on our business, net assets, financial condition, results of operations, cash flows and prospects.

1.6.9 We were not able to conduct a complete due diligence exercise of ADLER Real Estate prior to the Completion and, consequently, may not have been in a position to identify and assess all risks in connection with the Completion.

Due to restrictions in time and because ADLER Real Estate is a listed stock corporation, we were unable to conduct a complete due diligence exercise of ADLER Real Estate prior to the Completion, however completed a due diligence extending only to publicly available documents. As a result thereof, important circumstances that could be relevant for a valuation of ADLER Real Estate or in connection therewith, the determination of the consideration under the Offer and the assessment of the commercial benefits of the Integration may not have been adequately or sufficiently considered. In particular, we may not have been in a position to adequately and sufficiently identify and assess all risks in connection with the Completion. Furthermore, the portfolio and assets of ADLER Real Estate may develop differently than anticipated by us or than set out in public information provided by ADLER Real Estate.

Any inadequacy and insufficiency in the identification and assessment of risks associated and in connection with the Completion could negatively affect the Combined Group.

1.6.10 The Pro Forma Consolidated Financial Information of the ADO Properties Group is only provided for assessment purposes and is no indicator for the future business-, asset-, financial- and earnings situation of the Combined Group. It must be assumed that these will deviate substantially from the Pro Forma Consolidated Financial Information of the Combined Group.

The reviewed *pro forma* consolidated financial information of the Company included in this Prospectus (the “**Pro Forma Consolidated Financial Information**”) are only provided for illustrative purposes. They should not be considered as an indicator for the future business-, asset-, financial- and earnings situation of the Combined Group following the Completion and the Integration.

The Pro Forma Consolidated Financial Information is based on historic consolidated financial statements of the Company and, *inter alia*, on the historic consolidated financial statements of ADLER Real Estate, subject to certain adjustments, assumptions and estimates. These adjustments, assumptions and estimates are preliminary and based on information that were available during the time of preparation of the Pro Forma Consolidated Financial Information. For example, it is assumed that the Offer and the Business Combination had taken place prior to January 1, 2019. Additionally, the Pro Forma Consolidated Financial Information could not reflect all costs that the Company will incur in connection with the Completion, the bridge facility agreement the Company as borrower and J.P. Morgan Securities plc as mandated lead arranger, J.P. Morgan AG as original lender and J.P. Morgan Europe Limited as agent entered into (the “**Bridge Facility Agreement**”) or the Integration. As a result thereof, it must be assumed that the

actual prospective business-, asset-, financial- and earnings situation of the Combined Group will differ significantly from the Pro Forma Consolidated Financial Information. In addition, the assumptions made during the preparation of the Pro Forma Consolidated Financial Information could prove incorrect or inaccurate and other factors could significantly negatively affect the prospective business-, asset-, financial- and earnings situation as well as the cash flows and prospects of the Combined Group following the Completion.

1.6.11 Following an integration of ADLER Real Estate, our economic development would also depend on the economic development of ADLER Real Estate, in particular on the value of ADLER Real Estate's property portfolio and the positive continuation of the development projects. Any adverse development or any decline in the fair value of ADLER Real Estate's property portfolio could therefore have a material adverse effect on us.

As a result of the intended integration of ADLER Real Estate into the ADO Properties Group, we will also be dependent on the further development and the intrinsic value of ADLER Real Estate's property portfolio. The Company cannot rule out that ADLER Real Estate's property portfolio will not develop negatively, particularly with regard to its development and fair value. Such a negative development of ADLER Real Estate's real estate portfolio and a decline in the fair value could therefore have a material adverse effect on our business activities and our business, net assets, financial position, results of operations, cash flows and prospects.

1.6.12 The Completion could cause the loss of tax loss carryforwards of ADLER Real Estate.

As of December 31, 2019, ADLER Real Estate recognized deferred tax assets of €78.1 million for corporate income tax loss carryforwards and trade tax loss carryforwards. As of the same date, no deferred tax assets were recognized for corporate income tax loss carryforwards of €179.5 million and trade tax loss carryforwards of €146.7 million, as their recoverability is not sufficiently probable, as well as for corporate tax loss carryforwards of €289.8 million and trade tax loss carryforwards of €188.2 million, as such tax loss carryforwards are expected to be lost in the first half of 2020 due to the Completion.

The Completion could lead to a full or partial forfeiture of the tax loss carryforwards. According to German tax laws, such tax loss carryforwards are completely forfeited if more than 50% of the shares in an entity are transferred to a new acquirer. One exception to this general rule refers to domestic taxable hidden reserves. To the extent such taxable hidden reserves are allocable to ADLER Real Estate for tax purposes, no forfeiture of tax loss carryforwards should occur, if the difference between the tax equity of ADLER Real Estate at Completion compared to the share purchase price based on the value of the Company includes sufficient hidden reserves. However, only some of the existing tax loss carryforwards may survive the Completion and tax loss carryforwards may be partially forfeited.

Furthermore, the German tax law applicable to tax loss carryforwards and their forfeiture is controversial, and at least for the years from 2008 up to and including 2015 and for transfers of up to 50% of the shares of an entity, the German Constitutional Court (*Bundesverfassungsgericht*) has ruled that the applicable laws violate the German constitution and shall be amended with retroactive effect. Accordingly, the legislature has limited the application of Section 8c para. 1 of the German Corporate Income Tax Act (*Körperschaftsteuergesetz – KStG*) with retroactive effect to cases where more than 50% of the shares are transferred to a new acquirer. In addition, there are pending fiscal court cases regarding the loss forfeiture rules applicable in case of a transfer of more than 50% of the shares in an entity. These court proceedings may have an impact on the envisaged Completion and the amount of tax loss carryforwards forfeited.

1.6.13 Financing agreements and other agreements entered into by ADLER Real Estate could include change-of-control provisions that could be triggered by the Completion and we may not be in a position to refinance the existing financing arrangements of ADLER Real Estate. The Combined Group could be affected by the termination of existing agreements of ADLER Real Estate.

As of December 31, 2019, the current liabilities and non-current liabilities of ADLER Real Estate amounted to €377.9 million and €4,928.5 million (pursuant to the published annual report of ADLER Real Estate for the fiscal year ended December 31, 2019), respectively. As of the same date, ADLER Real Estate reported liabilities held for sale in an amount of €1,827.4 million. Some of the corresponding financing agreements and certain other agreements of ADLER Real Estate include so-called

change-of-control provisions that, triggered by the Completion, provide the other parties to the agreements, respectively, with a right to demand early redemption or to declare the termination. Additionally, any financing agreement and other agreement entered into by ADLER Real Estate could include additional termination rights that could be triggered in connection with the Completion (such as, among others, cross-default provisions that allow the lender to declare due a loan or other agreement of ADLER Real Estate if other liabilities of ADLER Real Estate have not been paid, are declared due prior to the agreed maturity or the lender's right to declare the immediate collectability and ADLER Real Estate's inability to fulfill its obligations).

In the case of contracts that provide for termination- or redemption rights, the other party to the contract could exercise their rights following the Completion. To the extent ADLER Real Estate terminates financing agreements or such financing agreements must be repaid otherwise, we could decide to refinance any of the existing financing agreements of ADLER Real Estate. In case of termination of existing financings due to the exercise of termination rights in case of a change of control of ADLER Real Estate, the Company has entered into bridge financings. However, there can be no assurance that we will be in a position to refinance financing agreements beyond the aggregate volume in an amount of up to €2,424,000 thousand available to us under the Bridge Facility. Additionally, in that case, we may not be in a position to refinance our own business and the conditions of a refinancing by the Company could be negatively affected. The termination of contracts of ADLER Real Estate could result in ADLER Real Estate's obligation to pay prepayment penalties. Furthermore, ADLER Real Estate could lose any advantageous provisions of agreements that are terminated as a result of the Completion or be required to re-negotiate such agreements on less favorable terms.

2. GENERAL INFORMATION

2.1 Responsibility Statement

ADO Properties S.A., with its registered office at 1B, Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg, and registered with the Luxembourg Register of Commerce and Companies (*Registre de Commerce et des Sociétés, Luxembourg*) under number B197554 (the “**Company**” and, together with its consolidated subsidiaries, the “**ADO Properties Group**”), assumes responsibility for the content of this prospectus (the “**Prospectus**”) pursuant to Article 5(1) of the Luxembourg Prospectus Law and declares, to the best of its knowledge, that, as of the date of this Prospectus, the information contained in this Prospectus is correct and contains no material omissions likely to affect its import.

If any claims are asserted before a court of law based on the information contained in this Prospectus, the investor appearing as plaintiff may have to bear the costs of translating this Prospectus prior to the commencement of the court proceedings pursuant to the national legislation of the member states of the European Economic Area (the “**EEA**”).

The information provided in this Prospectus will not be updated subsequent to the date hereof except for any significant new factor, material mistake or material inaccuracy relating to the information included in the Prospectus which may affect the assessment of the securities and which arises or is noted between the time when the Prospectus is approved and the time when trading on a regulated market begins. These updates must be disclosed in a prospectus supplement in accordance with Article 23 para. 1 sentence 1 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017.

2.2 Subject-Matter of this Prospectus

The subject-matter of this Prospectus is the admission to trading of 27,651,006 newly issued ordinary shares in dematerialized form with no nominal value of the Company (the “**New Shares**”) on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard). The New Shares grant full dividend rights as of January 1, 2019.

On December 15, 2019, the Company announced its decision to make a voluntary public takeover offer for all shares of ADLER Real Estate Aktiengesellschaft, with its seat in Berlin, its business address at Joachimsthaler Straße 34, 10719 Berlin, Germany, and registered with the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), under registration number HRB 180360 B (“**ADLER Real Estate**” and, together with its consolidated subsidiaries, the “**ADLER Group**”) in the form of an exchange offer (the “**Offer**”). The Offer expired on March 25, 2020.

By resolution of the extraordinary General Meeting of June 16, 2015, the Company’s board of directors (the “**Board of Directors**”) is authorized for a period of five (5) years ending from the date of the publication of such resolution (*i.e.* August 20, 2015) creating the authorized capital in the Official Gazette of Luxembourg (unless amended or extended by the General Meeting), to increase the Company’s share capital up to €750,000,000 by issuing new shares with no nominal value against contributions in cash and/or in kind (the “**Authorized Capital**”).

The issue of the New Shares originated from two separate resolutions of the Board of Directors: (i) a first resolution of the Board of Directors resolving to increase the Company’s share capital against contributions in kind under suppression of the shareholders’ preferential statutory subscription rights, adopted on January 16, 2020, by way of partial utilization of the Authorized Capital and through the issuance of up to 34,100,334 newly issued ordinary shares in dematerialized form with no nominal value of the Company (the “**Basic Resolution**”), and (ii) a second resolution by a duly appointed delegate of and in the name of the Board of Directors determining the final amount of the increase of the share capital and the exact number of 27,651,006 New Shares, which was adopted on March 30, 2020 (the “**Definitive Resolution**” and, together with the Basic Resolution, the “**Offer Capital Increase**”). Following the adoption of the Definitive Resolution on March 30, 2020, the New Shares were issued with effect as of April 1, 2020.

2.3 No Consent for Use of the Prospectus

A consent to the use of the Prospectus with respect to a subsequent resale or a final placement of the Company’s shares by any third party has not been granted.

2.4 Admission to Trading

On or about April 8, the Company intends to apply for admission of the New Shares to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard). The trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is currently expected to commence on April 9, 2020.

2.5 Costs of the Listing

The expenses related to the listing of the New Shares on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard) (the “**Listing**”) are expected to total approximately between €2 million and €2.5 million and will be borne by the Company.

2.6 Information on the New Shares

2.6.1 Form and Certification

All of the Company’s shares are ordinary shares in dematerialized form with no nominal value. The Company’s shares have been issued in dematerialized form only and are subject to the Luxembourg law of April 6, 2013 on dematerialized securities, as amended. All of the Company’s shares are registered in a single securities issuance account with the single settlement organization LuxCSD S.A., 42, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg (“**LuxCSD**”).

Dematerialized shares are only represented, and ownership of the shareholder over such shares is only established, by a record in the securities account. LuxCSD may, however, issue or request the Company to issue certificates relating to the Company’s shares for the purpose of the international circulation thereof.

2.6.2 Voting Rights

Subject to any limitations imposed by Luxembourg laws, each of the Company’s shares entitles a shareholder to one vote at the general meeting of the Company (the “**General Meeting**”), there are no restrictions on voting rights, and all of the Company’s shares carry the same voting rights.

2.6.3 Dividend and Liquidation Rights

The New Shares carry the same rights as the Company’s other shares, including full dividend entitlements as from the beginning of the fiscal year 2019. In the event that the Company is liquidated, once all debts, charges and liquidation expenses have been met, any surplus will be distributed among shareholders in proportion to their interest in the Company’s share capital.

2.6.4 Currency of the New Shares

The Company’s shares, including the New Shares, are denominated in Euro.

2.6.5 ISIN / WKN / Common Code / Ticker Symbol

The trading details of the New Shares are as follows:

International Securities Identification Number (ISIN)	LU1250154413
German Securities Code (<i>Wertpapierkennnummer (WKN)</i>)	A14U78
Common Code	125015441
Ticker Symbol	ADJ

2.6.6 Existing Quotation

As of the date of this Prospectus, 44,194,607 of the Company’s outstanding shares are admitted to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard).

2.6.7 Disposal and Transferability of the New Shares

The New Shares are freely transferable in accordance with the legal requirements for dematerialized shares. At the time of completion of the Business Combination (the “**Completion**”) and subject to applicable law, trading of the New Shares will not be subject to any prohibitions on disposals and there will not be any restrictions with respect to the transferability of the New Shares.

2.7 Material Interests of Persons regarding the Listing, including Conflict of Interests

J.P. Morgan Securities plc, 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom, is acting as listing agent (the “**Listing Agent**”) to the Company in connection with the Listing and is providing investment banking and related services in this context.

There are no other interests or (potential) conflicts of interest that could be material to the Listing.

2.8 Approval of this Prospectus

This Prospectus constitutes a prospectus in the form of a single document within the meaning of Article 6 para. 3 of the Prospectus Regulation and has been prepared in accordance with the Prospectus Regulation. The CSSF, in its capacity as competent authority in the Grand Duchy of Luxembourg under the Prospectus Regulation and pursuant to Article 6 of the Luxembourg law of July 16, 2019 on prospectuses for securities (the “**Luxembourg Prospectus Law**”), has approved this document as a prospectus. By approving this Prospectus in accordance with Article 20 of the Prospectus Regulation, the CSSF assumes no responsibility and does not give any undertaking with regard to the economic and financial soundness of the transaction or the quality or solvency of ADO Properties S.A. in line with the provisions of Article 6 (4) of the Luxembourg Prospectus Law and the responsibility for the contents of this Prospectus are exclusively determined in accordance with Article 5 of the Luxembourg Prospectus Law. The CSSF approves this Prospectus only as regards the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the quality of the securities which are subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

2.9 Forward-looking Statements

This Prospectus contains forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on the ADO Properties Group’s future earnings capacity, plans and expectations regarding its business growth and profitability, and the general economic conditions to which the ADO Properties Group is exposed. Statements made using words such as “believes”, “predicts”, “forecasts”, “plans”, “intends”, “endeavors”, “expects”, “will”, “aims”, “targets” or similar terms and phrases, including reference and assumptions, may be an indication of forward-looking statements.

The forward-looking statements contained in this Prospectus are subject to risks and uncertainties as they relate to future events and are based on estimates and assessments made to the best of the Company’s present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause the Company’s actual results, including the financial condition and profitability of the ADO Properties Group, to differ materially from, or fail to meet, the expectations expressed or implied in the forward-looking statements. These expressions can be found in different sections of this Prospectus, particularly in the sections entitled “*1. Risk Factors*”, “*10. Description Of The Transactions*”, “*11. Markets And Competition*” and wherever information is contained in this Prospectus regarding the Company’s intentions, beliefs, or current expectations relating to its future financial condition and results of operations, plans, liquidity, business outlook, growth, strategy and profitability, as well as the economic and regulatory environment to which the ADO Properties Group is subject.

It should be noted that the Company does not assume any obligation, except as required by law, to update or revise any forward-looking statement or to conform any such statement to new information, future events or developments or otherwise.

2.10 Appraiser

The independent, external valuer CBRE GmbH, Hausvogteiplatz 10, 10117 Berlin, Germany (“**CBRE**”), has prepared a condensed valuation report (the “**Valuation Report**”) on the fair value of the ADO Properties Group’s properties with the valuation date of December 31, 2019 pursuant to IAS 40 in conjunction with IFRS 13 under the International Financial Reporting Standards, as adopted by the European Union (“**IFRS**”), which is reprinted in this Prospectus on pages V-1 *et seqq.* For more information on CBRE’s independence, see “1.9 Compliance with Valuation Standards” on page V-7 of the Valuation Report. CBRE employs members of the Royal Institution of Chartered Surveyors (RICS), as well as real estate experts certified in the area of valuations by HypZert GmbH. CBRE has consented to the inclusion of the Valuation Report in this Prospectus in the unmodified form in which it is presented. The Company affirms that, as of the date of this Prospectus, no material change in the value of the properties appraised in the Valuation Report has occurred since the valuation date of December 31, 2019.

2.11 Sources of Market Data

In this Prospectus, the Company relies on and refers to information regarding its business and the markets in which it operates and competes. Certain economic and industry data, market data and market forecasts set forth in this Prospectus were extracted from the following market research, governmental and other publicly available information and independent industry publications.

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- Amt für Statistik Berlin-Brandenburg, Statistiken – Bevölkerung – Natürliche Bevölkerungsbewegungen – Basisdaten, available at: <https://www.statistik-berlin-brandenburg.de/BasisZeitreiheGrafik/Bas-NBB.asp?Ptyp=300&Sageb=12031&creg=BBB&anzwer=8>, extracted on January 2, 2020 (“**Amt für Statistik Berlin-Brandenburg–Natürliche Bevölkerungsbewegungen**”);
- Amt für Statistik Berlin-Brandenburg, Statistiken – Bevölkerung – Wanderungen – Basisdaten, available at: <https://www.statistik-berlin-brandenburg.de/BasisZeitreiheGrafik/Bas-Wanderungen.asp?Ptyp=300&Sageb=12035&creg=BBB&anzwer=9>, extracted on January 2, 2020 (“**Amt für Statistik Berlin-Brandenburg–Wanderungen**”);
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- Berlin Senate Department for Urban Development and Housing (*Berliner Senatsverwaltung für Stadtentwicklung und Wohnen*), Stadtentwicklungsplan Wohnen 2030: Wohnungsbedarf bis 2030 liegt bei 194.000 Wohnungen, press release dated September 1, 2017, available at: https://www.stadtentwicklung.berlin.de/aktuell/pressebox/archiv_volltext.shtml?arch_1709/nachricht6409.html, extracted on December 23, 2019 (“**Berlin Senate Department for Urban Development and Housing–Press Release**”);
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- Bulwiengesa/BFW – Projektentwicklerstudie 2018 and Bulwiengesa Projektentwicklerstudie 2018: A Städte, (“**Bulwiengesa Projektentwicklerstudie 2018**”);
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- CBRE Research, 2018 Real Estate Market Outlook Germany, available at: <https://www.cbre.com/research-and-reports/Germany-Real-Estate-Market-Outlook-2018>, extracted on December 23, 2019 (“**CBRE–Outlook 2018**”);
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- Creditreform, SchuldnerAtlas Deutschland, Jahr 2018, press release dated November 13, 2018, available at: <https://www.creditreform.de/aktuelles-wissen/presse-meldungen-fachbeitraege/show/>

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- Deloitte Touche Tohmatsu, Property Index, Overview of European Residential Markets, Where does residential price growth end?, 8th edition, July 2019, available at: <https://www2.deloitte.com/content/dam/Deloitte/de/Documents/real-estate/property-index-2019-2.pdf>, extracted on December 23, 2019 (“**Deloitte–Property Index**”);
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 - Deutsche Bundesbank, Comparison of the German MFI interest rate statistics (new business) and the Bundesbank’s former survey of lending and deposit rates, available at: <https://www.bundesbank.de/resource/blob/621950/338ac6f71b4a4000d69950b698ed2ca5/mL/s510athype-data.pdf>, extracted on January 2, 2020 (“**Deutsche Bundesbank–Housing Loans to Households**”);
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None of the information has been separately verified by the Company.

Where information in this Prospectus has been specifically identified as having been extracted from third party documents, the Company confirms that this information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Although the Company has no reason to believe that any of this information is inaccurate in any material respect, the Company has not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. The Company does not make any representation as to the accuracy of such information.

This Prospectus also contains estimates of market data and information derived from these estimates that would not be available from publications issued by market research firms or from any other independent

sources. This information is based on internal estimates of the Company and, as such, may differ from the estimates made by competitors of the Company or from data collected in the future by market research firms or other independent sources. In addition, the Company assumes no obligation, except as required by law, to give updates of these figures.

2.12 Documents Available for Inspection

For the duration of the validity of this Prospectus, copies of the following documents will be available free of charge for inspection during regular business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of the Company at 1B, Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg:

- the Company's articles of association (the "**Articles of Association**");
- the Company's audited consolidated annual financial statements prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2019;
- the Company's audited consolidated annual financial statements prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2018;
- the Company's audited consolidated annual financial statements prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2017; and
- the Prospectus (including the Valuation Report).

The abovementioned documents are also available on the Company's website at www.ado.properties under "*Investor Relations*".

This Prospectus contains certain references to websites. The information on these websites does not form part of the Prospectus (unless information is incorporated by reference) and has not been scrutinized or approved by the CSSF in its capacity as competent authority for the approval of publication of the Prospectus.

The Company's future consolidated financial statements and condensed interim consolidated financial statements will be available from the Company on its website and from the paying agent named in this Prospectus (see "*15.7. Luxembourg Paying Agent and LuxCSD Principal Agent*").

2.13 Currency Presentation and Presentation of Figures

In this Prospectus, unless otherwise indicated, all references to "**€**", "**EUR**" or "**Euro**" are to the currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of May 3, 1998 on the introduction of the Euro, as amended. Furthermore, all references to "**ILS**" or "**Israeli new shekel**" are to the currency of Israel.

Where financial information in tables in this Prospectus is labelled "audited", this means that it has been taken from the audited financial statements included elsewhere in this Prospectus. The label "unaudited" is used in tables in this Prospectus to indicate financial information that has not been taken from the audited financial statements included elsewhere in this Prospectus, but was taken from the Company's internal reporting system, or is based on calculations of figures from the abovementioned sources.

All of the financial data presented in the Prospectus are shown in thousands of Euro (in € thousands or "€ thousand"), except as otherwise stated.

Certain financial information (including percentages) in this Prospectus have been rounded according to established commercial standards. As a result, the aggregate amounts (sum totals or sub-totals or differences or if numbers are put in relation) in tables in this Prospectus may not correspond in all cases to the aggregated amounts of the underlying (unrounded) figures appearing elsewhere in this Prospectus. Furthermore, in those tables, these rounded figures may not add up exactly to the totals contained in those tables. Financial information presented in parentheses denotes the negative of such number presented. In respect of financial information set out in this Prospectus, a dash ("–") signifies that the relevant figure is not available, while a zero ("0.0") signifies that the relevant figure is available but has been rounded to zero.

2.14 Time Specifications

References to "**CET**" in this Prospectus refer to Central European Time or Central European Summer-time, as the case may be. References to time in this Prospectus refer to CET, unless stated otherwise.

References to a “**Bank Business Day**” in this Prospectus refer to a day on which banks in Frankfurt am Main, Germany, are open for general business.

2.15 Rating

The Company is assigned a long-term issuer credit rating of “BBB-” with a negative outlook by S&P. S&P has a registered office in the United Kingdom and has been validly registered by ESMA pursuant to Regulation (EC) 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies, as amended.

The Company is assigned a “Baa3” rating with a negative outlook by Moody’s. Moody’s has a registered office in the United Kingdom and has been validly registered by ESMA pursuant to Regulation (EC) 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies, as amended.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization (see: “*1.2.4 A downgrade or a withdrawal of the Company’s current credit rating may impact our ability to obtain financing or issue further debt and may have a negative impact on our debt costs and on the share price of the Company.*”).

The following statements are based on the information (in English) on the websites of S&P (standardandpoors.com) and Moody’s (moody.com) as of the date of this Prospectus.

An S&P Global Ratings issuer credit rating is a forward-looking opinion about an obligor’s overall credit-worthiness. This opinion focuses on the obligor’s capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. Issuer credit ratings can be either long-term or short-term. The long-term issuer credit rating categories awarded by S&P range from the highest rating “AAA”, which is defined as an extremely strong capacity of an obligor to meet its financial commitments to the lowest rating “D”, which is defined as a default on all or substantially all of an obligor’s financial obligations as they come due, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. S&P define a “BBB” rating for a long-term issuer as follows: An obligor rated “BBB” has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. Ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

Ratings assigned on Moody’s global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Moody’s defines credit risk as the risk that an entity may not meet its contractual financial obligations as they come due and any estimated financial loss in the event of default or impairment. Issuers are assigned long-term ratings. The global long-term rating scales awarded by Moody’s range from the highest rating “Aaa” defined as obligations of the highest quality, subject to the lowest level of credit risk to the lowest rating “C” defined as the lowest rated obligations and typically in default, with little prospect for recovery of principal or interest. Moody’s defines a “Baa” rating as follows: Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from “Aa” through “Caa”. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

3. REASONS FOR THE LISTING

The Company intends to list the New Shares on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard) to provide the shareholders of ADLER Real Estate who have accepted the Offer with more liquid securities.

All of the New Shares will be delivered to the shareholders of ADLER Real Estate who have effectively and bindingly tendered their shares in exchange for the Offer Consideration.

4. DIVIDEND POLICY; RESULTS AND EARNINGS PER SHARE; USE OF PROFITS

4.1 General Provisions relating to Profit Allocation and Dividend Payments

The shareholders' share in profits is determined based on their respective interest in the Company's share capital. In a Luxembourg public limited liability company (*société anonyme*), resolutions concerning the distribution of dividends for a given financial year, and the amount thereof, are adopted by the annual general shareholders' meeting relating to such financial year.

The annual general shareholders' meeting decides on the allocation of the annual profit, if any. In accordance with applicable laws and the Articles of Association, every year at least 5% of the net profit of the Company will be used to build up the legal reserve. This allocation ceases to be compulsory when the legal reserve amounts to 10% of the issued share capital, but is again compulsory if the reserve falls below this threshold. The remaining balance of the net profit will be at the disposal of the annual general shareholders' meeting for distribution.

The annual general shareholders' meeting shall determine how the remainder of the annual net profits shall be used and it may decide to resolve upon and pay dividends from time to time, as in its discretion it believes best suits the corporate purpose and company policy and within the limits of the Luxembourg Companies Law. Dividends, when payable, shall be paid in Euro or any other currency selected by the Board of Directors and will be paid at the time and place fixed by the Board of Directors within the limits of the decision of the general shareholders' meeting.

The Articles of Association also provide that the Board of Directors may decide on and distribute interim dividends (also by way of staggered payments) by way of a cash dividend or by way of a dividend in kind, within the provisions of Article 461-3 of the Luxembourg Companies Law. The provisions included in Article 461-3 of the Luxembourg Companies Law provide that, *inter alia*, (i) interim accounts showing that the funds available for distribution are sufficient shall be drawn up, and (ii) the amount to be distributed may not exceed total profits made since the end of the last financial year for which the annual accounts have been approved, plus any profits carried forward and sums drawn from reserves available for this purpose, less losses carried forward and any sums to be placed to reserve pursuant to the requirements of the law or of the articles. Where the payments on account of interim dividends exceed the amount of the dividend subsequently decided upon by the general meeting, they shall, to the extent of the overpayment, be deemed to have been paid on account of the next dividend.

4.2 Dividend Policy and Earnings per Share

As a dividend policy, the Company intends to pay dividends in an amount of approximately 50% of FFO 1. In accordance with this dividend policy, the amount shall be distributed as annual dividends to the shareholders. FFO 1 is a measure of the ADO Properties Group operational profit (for a definition and reconciliation of FFO 1 see "6.2 Additional Non-IFRS Performance Measures"). The distribution of dividends is subject to a respective resolution of the annual general shareholders' meeting (see "4.1 General Provisions Relating to Profit Allocation and Dividend Payments").

The following table sets forth the Company's distributions to its shareholders for the periods indicated:

	For the year ended December 31,		
	2018	2017	2016
	(audited)		
	(in € thousand, unless otherwise indicated)		
Profit for the year	397,464	367,512	410,768
Weighted number of shares outstanding (in thousand) (IFRS)	44,101	44,100	39,083
Basic earnings per share (in €)	8.77	8.07	10.11
Dividends distributed	26,460	19,845	13,475
Dividend per share (in €)	0.75	0.60	0.45
Adjusted dividend per share (in €, unaudited) ⁽¹⁾	0.46	0.37	0.28

(1) Amount shows theoretical calculation of dividend per share on the basis of the total number of 71,845,613 outstanding shares of the Company as of the date of this Prospectus. The actual paid out dividends per share are in the line item "Dividend per share (in €)".

Other than stated above, the Company has not made any distributions to its shareholders for the fiscal years ended December 31, 2018, 2017 and 2016, and the period up to and including the date of this Prospectus. As of the date of this Prospectus, no distributions of dividends have been declared or made to shareholders for the fiscal year ended December 31, 2019.

5. CAPITALIZATION AND INDEBTEDNESS; STATEMENT ON WORKING CAPITAL AND SIGNIFICANT CHANGES

The following tables set forth the consolidated capitalization and indebtedness of the Company as of January 31, 2020, taken or derived from the Company's internal reporting system. Investors should read these tables in conjunction with "6. Selected Consolidated Financial Information Of The Company", "7. Management's Discussion And Analysis Of Net Assets, Financial Condition And Results Of Operations Of The Ado Properties Group", the consolidated financial statements, including the related notes contained in this Prospectus, and the financial information contained elsewhere in this Prospectus. Regarding the *pro forma* consolidated financial statements of the Company, see "9. Pro Forma Consolidated Financial Information Of Ado Properties S.A. As Of And For The Fiscal Year Ended December 31, 2019".

5.1 Capitalization

	<u>As of January 31, 2020</u>
	(in € thousand) (unaudited)
Total current liabilities	111,714
of which guaranteed	—
of which secured ⁽¹⁾	37,605
of which unguaranteed/unsecured	74,109
Total non-current liabilities	1,586,306
of which guaranteed	—
of which secured ⁽¹⁾	692,078
of which unguaranteed/unsecured	894,228
Shareholder's equity ⁽²⁾	2,506,837
Share capital ⁽³⁾	55
Legal reserves ⁽⁴⁾	500,608
Other reserves ⁽⁵⁾	2,006,174
Total ⁽⁶⁾	4,204,857

- (1) The security comprises land charges, bank account pledges and pledges of shares in affiliates.
(2) Referred to as total equity attributable to owners in the company in the Company's consolidated financial statements.
(3) Referred to as share capital in the Company's consolidated financial statements.
(4) Referred to as share premium in the Company's consolidated financial statements.
(5) Comprises the line items retained earnings and (other) reserves in the Company's consolidated financial statements.
(6) Sum of total current debt, total non-current debt and shareholder's equity.

5.2 Indebtedness

	<u>As of January 31, 2020</u>
	(in € thousand)
	(unaudited)
A. Cash ⁽¹⁾	347,399
B. Cash equivalents	—
C. Trading securities	—
D. Liquidity (A) + (B) + (C)	347,399
E. Current Financial Receivable ⁽²⁾	24,412
F. Current bank debt	—
G. Current portion of non-current debt ⁽³⁾	37,605
H. Other current financial debt ⁽⁴⁾	74,109
I. Current Financial Debt (F) + (G) + (H)	111,714
J. Net Current Financial Indebtedness (I) – (E) – (D)	(260,097)
K. Non-current bank loans ⁽⁵⁾	692,078
L. Bonds Issued ⁽⁶⁾	553,767
M. Other non-current loans ⁽⁷⁾	340,461
N. Non-current Financial Indebtedness (K) + (L) + (M)	1,586,306
O. Net Financial Indebtedness (J) + (N)	1,326,209

(1) Referred to as cash and cash equivalents in the Company's consolidated financial statements.

(2) Comprises the line items trade receivables as well as other receivables in the Company's consolidated financial statements.

(3) Referred to as current portion of other loans and borrowings in the Company's consolidated financial statements.

(4) Comprises the line items current portion of other financial liabilities, trade payables, other payables as well as the current portion of lease liabilities in the Company's consolidated financial statements.

(5) Referred to as non-current portion of other loans and borrowings in the Company's consolidated financial statements.

(6) Comprises the line items corporate bond as well as convertible in the Company's consolidated financial statements.

(7) Referred to as the non-current portion of other financial liabilities in the Company's consolidated financial statements.

As of January 31, 2020, the Company had no indirect or contingent obligations.

Except as set out under "24.1.5 Other Financing Arrangements", no material change in the capitalization and indebtedness of the Company has occurred between January 31, 2020 and the date of this Prospectus.

5.3 Statement on Working Capital

The Company is of the opinion that the ADO Properties Group has sufficient working capital to meet its due payment obligations for at least a period of 12 months from the date of this Prospectus.

5.4 Statement on Material Changes

No significant change in the financial position of the ADO Properties Group has occurred as from December 31, 2019.

6. SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY

The following financial data is extracted or derived from the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2019 (the “**Fiscal Year 2019**”), the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2018 (the “**Fiscal Year 2018**”) and the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2017 (the “**Fiscal Year 2017**”). These audited consolidated annual financial statements annual have been prepared in accordance with IFRS.

KPMG Luxembourg, Société cooperative (“**KPMG**”), has audited and issued an unqualified auditor’s report with respect to the consolidated financial statements for the Fiscal Year 2019, Fiscal Year 2018 and Fiscal Year 2017. The aforementioned audited consolidated annual financial statements are included in this Prospectus beginning on page F-1.

Where financial data in the following tables is labeled “audited”, this means that it has been extracted from the audited financial statements mentioned above. The label “unaudited” is used in the following tables to indicate financial data that has not been taken from the audited financial statements mentioned above, but was taken from the accounting or controlling records of the Company, or is based on calculations of these figures. All of the financial data presented in the text and tables below are shown in thousands of euro (in € thousand), except as otherwise stated. In order to ensure that figures given in the text and the tables sum up to the totals given, the numbers are commercially rounded to the nearest whole number or in some cases to such number that facilitates the summing up. The percentage changes that are stated in the text and the tables have been commercially rounded to one decimal point unless stated otherwise. Financial data presented in parentheses denotes the negative of such number presented. In respect of financial data set out in the Prospectus, a dash (“-”) signifies that the relevant figure is not available, while a zero (“0.0”) signifies that the relevant figure is available, but has been rounded to zero.

The following selected consolidated financial data should be read together with the section “7. Management’s Discussion And Analysis Of Net Assets, Financial Condition And Results Of Operations Of The Ado Properties Group”, the consolidated financial statements including the related notes contained in this Prospectus and additional financial information contained elsewhere in this Prospectus.

6.1 Selected Consolidated Financial Information

6.1.1 Selected Consolidated Statements of Profit or Loss Data

	For the year ended December 31,		
	2019	2018	2017
	(audited)		
	(in € thousand)		
Revenue	156,520	154,853	128,852
Cost of operations	(44,011)	(41,996)	(36,174)
Gross profit	112,509	112,857	92,678
General and administrative expenses	(25,050)	(18,451)	(12,762)
Other expenses	(13,188)	—	—
Other income	78,132	—	—
Changes in fair value of investment properties	461,517	404,936	383,638
Results from operating activities	613,920	499,342	463,554
Finance income	102,475	1,399	1,602
Finance costs	(32,375)	(32,915)	(29,609)
Net finance income (costs)	70,100	(31,516)	(28,007)
Profit before tax	684,020	467,826	435,547
Income tax expense	(77,096)	(70,362)	(68,035)
Profit for the period	606,924	397,464	367,512

6.1.2 Selected Consolidated Statements of Financial Position Data

	As of December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Certain Assets			
Trading properties	25,860	35,028	42,961
Advances in respect of investment properties	6,300	6,300	34,425
Investment properties	3,624,453	4,044,023	3,271,298
Total assets	4,396,465	4,170,173	3,518,263
Certain Liabilities			
Other loans and borrowings (current)	37,605	17,064	72,768
Current liabilities	111,711	74,989	122,860
Other loans and borrowings (non-current)	740,212	1,040,909	953,955
Non-current liabilities	1,586,306	1,897,902	1,563,910

6.1.3 Selected Consolidated Cash Flow Statement Data

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Net cash from operating activities	88,764	103,933	86,313
Net cash used in investing activities	269,061	(334,034)	(494,499)
Net cash from financing activities	1,767	136,537	346,295
Change in cash and cash equivalents during the period	359,592	(93,564)	(61,891)
Cash and cash equivalents at the beginning of the period	27,965	121,530	183,421
Cash and cash equivalents at the end of the period	387,558	27,966	121,530

6.2 Additional Non-IFRS Performance Measures

We believe that the key performance indicators described in this section constitute the most important indicators for measuring the operating and financial performance of the ADO Properties Group's business.

We expect the performance measures EBITDA (from rental activities), EBITDA total, EBITDA margin (from rental activities), EBITDA margin total, EPRA NAV, FFO 1 (from rental activities), FFO 2 (including disposal result) and AFFO to be of use for potential investors. We believe that the performance measures are useful in evaluating the ADO Properties Group's operating performance, the net value of the ADO Properties Group's property portfolio, the level of the ADO Properties Group's indebtedness and of cash flow generated by the ADO Properties Group's business, because a number of companies, in particular companies in the real estate business, also publish these figures as key performance indicators. In particular, we are of the opinion that the performance measures EPRA NAV, FFO 1 (from rental activities), FFO 2 (including disposal results) and AFFO are important indicators to measure the operative and financial performance of the business of the ADO Properties Group and its internal controlling system. The operating result (from rental activities) is an indicator for the sustainable operative earning power of the rental activities and, thereby, a parameter for the inflow of liquidity from real estate companies. Furthermore, we are of the opinion that the performance measures EBITDA (from rental activities), EBITDA total, EBITDA margin (from rental activities) and EBITDA margin total are useful in the assessment of the operating and financial performance of the ADO Properties Group. However, the performance measures are not recognized as line items under IFRS and should not be considered as substitutes for figures on net assets, result before taxes, net earnings, cash flow from operating activities or other income statement, cash flow or balance sheet data, as determined in accordance with IFRS, or as indicators of profitability or liquidity. The performance measures do not necessarily indicate whether cash flow will be sufficient or available for the ADO Properties Group's cash requirements, nor whether any such measure is indicative of the ADO Properties Group's historical operating results. The performance measures are not meant to be indicative of future results. Because not all companies calculate these performance measures in the same way, our presentation of the performance measures is not necessarily comparable with similarly-titled measures used by other companies.

The following table presents a summary of certain performance indicators for the periods presented.

	As of and for the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand, unless otherwise specified)		
Key performance measures			
In-place rent (end of period, annualized)	112,715	135,877	110,782
<i>of which residential units</i>	91,529	114,711	93,806
<i>of which commercial units</i>	18,829	18,509	14,808
<i>of which other & parking units</i>	2,357	2,657	2,168
In-place rent (per month in € per sqm) ⁽¹⁾	7.68	6.75	6.89
<i>residential units</i>	7.39	6.73	6.42
<i>commercial units</i>	10.04	9.42	8.94
EBITDA from rental activities ⁽²⁾	91,997	93,777	77,090
Net profit from privatizations ⁽³⁾	1,809	2,478	2,928
EBITDA from rental activities margin (in %) ⁽⁴⁾	68.6	73.3	74.6
EBITDA total (including disposal results) ⁽⁵⁾	93,806	96,255	80,018
EBITDA total (including disposal results) margin (in %) ⁽⁶⁾	69.0	68.4	65.9
FFO 1 (from rental activities) ^{(7),(8)}	63,173	66,777	54,345
FFO 2 (including disposal results) ^{(7),(9)}	64,982	69,255	57,272
AFFO (from rental activities) ⁽⁸⁾	51,525	53,739	45,857
Financing and financing position			
LTV-Ratio (in %) ⁽¹⁰⁾	27.0	39.6	39.6
Total portfolio value ⁽¹¹⁾	3,650,313	4,079,051	3,314,259
EPRA NAV ⁽¹²⁾	2,905,699	2,429,544	1,988,757
Average interest rate (in %)	1.6	1.7	1.8
Average debt maturity (in years)	4.3	4.7	5.4
Portfolio measures			
Number of units	17,637	23,658	21,970
<i>residential</i>	16,255	22,202	20,649
<i>commercial</i>	1,382	1,456	1,321
Vacancy rate at period end (in % of sqm) ⁽¹³⁾	2.7	3.2	3.6
<i>residential units (1,065,128 sqm as of December 31, 2019)</i>	2.7	3.2	3.6
<i>commercial units (162,205 sqm as of December 31, 2019)</i>	3.6	4.6	4.9
Maintenance and capital expenditures (annualized) (€ per sqm)	36.2	39.2	29.1
Certain per share information			
FFO 1 (from rental activities) per share ⁽¹⁴⁾ (in €)	1.43	1.51	1.23
FFO 2 (including disposal results) per share ⁽¹⁵⁾ (in €)	1.47	1.57	1.30

(1) **In-place rent (per month in € per sqm)** is defined as the current gross rental income per month for rented residential and commercial units as agreed in the corresponding rent agreements as of December 31, 2019, 2018 and 2017, respectively, before deducting non-recoverable operating costs, divided by the lettable area of rented units as of the same dates. Residential in-place rent is often also referred to as “net cold rent”.

- (2) **EBITDA from rental activities** is defined as net rental income and income from facility services, minus cost of rental activities and overhead costs. The following table shows the calculation of EBITDA for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Net rental income	134,141*	127,982*	103,300*
Income from facility services	7,431*	6,606*	5,881*
Income from rental activities ^(2a)	141,572	134,588	109,181
Cost of rental activities ^(2b)	(32,953)	(26,179)	(20,414)
Net operating income (NOI) ^(2c)	108,619	108,409	88,767
Overhead costs ^(2d)	(16,622)	(14,632)	(11,677)
EBITDA from rental activities	91,997	93,777	77,090

* Audited.

(2a) Income from rental activities represents the net rental income plus the income from facility services.

(2b) Cost of rental activities represents the aggregate amount of (a) salaries and other expenses, (b) cost of utilities recharged, net, and (c) property operations and maintenance. The following table shows the calculation of cost of rental activities for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Salaries and other expenses	11,443*	10,320*	7,995*
Cost of utilities recharged, net	1,630*	1,843*	1,409*
Property operations and maintenance	19,880*	14,016*	11,010*
Cost of rental activities	32,953	26,179	20,414

* Audited.

(2c) Net operating income (NOI) represents the total revenue from the property portfolio less all reasonably necessary operating expenses. NOI is used to track the income generation capability of the real estate portfolio and does not include net profit from privatizations.

(2d) Overhead costs represent general and administrative expenses excluding one-off costs and depreciation and amortization. The following table shows the overhead costs for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
General and administrative expenses	25,050*	18,451*	12,762*
One-off costs**	(7,074)	(3,293)	(633)
Depreciation and amortization	(1,354)*	(527)*	(452)*
Overhead costs	16,622	14,632	11,677

* Audited.

** One-off costs include costs for long-term incentive plans, termination fees for previous senior management and legal and audit expenses.

- (3) **Net profit from privatization** is defined as revenue from “Selling of condominiums” less “Selling of condominiums – cost”, less current income taxes relating to the selling of condominiums. The following table shows the calculation of net profit from privatizations for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Selling of condominiums	14,948*	20,265*	19,671*
Selling of condominiums - cost	(11,058)*	(15,817)*	(15,760)*
Current income taxes relating to the selling of condominiums	(2,081)	(1,970)	(983)
Net profit from privatizations	1,809	2,478	2,928

* Audited.

- (4) **EBITDA from rental activities margin** is defined as EBITDA from rental activities divided by net rental income.
(5) **EBITDA total** is defined as EBITDA from rental activities including net profit from privatizations.
(6) **EBITDA total (including disposal results) margin** is the EBITDA total divided by rental income including net profit from privatizations. The following table shows the EBITDA total (including disposal results) margin for the periods shown:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand, unless otherwise specified)		
EBITDA total	93,806	96,255	80,018
Rental income including net profit from privatizations	135,950	130,460	106,228
EBITDA total (including disposal results) margin (in %)	69.0	68.4	65.9

- (7) **Funds from operations (FFO)** is an indicator of available cash flow from operating activities. FFO 1 (from rental activities) is defined as EBITDA from rental activities for the respective periods adjusted to generally reflect net cash interest and current income taxes. FFO 2 (including disposal results) is defined as FFO 1 (from rental activities) including the net profit from privatizations (see footnotes (8) and (9) below).
(8) **Capex-adjusted FFO (AFFO (from rental activities))** is FFO 1 (from rental activities) adjusted for maintenance capital expenditure. The following table shows the calculation of FFO 1 (from rental activities) and AFFO (from rental activities) for the periods shown:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand)		
EBITDA from rental activities ^(8a)	91,997	93,777	77,090
Net cash interest ^(8b)	(27,183)	(25,408)	(21,702)
Current income taxes ^(8c)	(1,641)	(1,592)	(1,043)
FFO 1 (from rental activities)	63,173	66,777	54,345
Maintenance capital expenditure ^(8d)	(11,648)	(13,038)	(8,488)*
AFFO (from rental activities)	51,525	53,739	45,857

* As adjusted for energetic modernization capital expenditures.

(8a) For a calculation of EBITDA from rental activities, see footnote (2) above.

(8b) Net cash interest refers to interest on other loans and borrowings, excluding day-one fair value non-cash adjustments, plus interest on bonds as adjusted for nominal interest. The following table shows the net cash interest for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Interest on other loans and borrowings	19,046*	19,214*	18,279*
Interest on bonds	10,670*	6,927*	2,824*
Adjustment of interest of bonds for nominal interest	(2,533)	(760)	599
Net cash interest	27,183	25,408	21,702

* Audited

(8c) Refers to current income taxes relating to rental activities only.

(8d) Refers to public area investments that are designed to preserve the value of the respective properties.

(9) The following table shows the calculation of FFO 2 (including disposal results) as of the dates shown:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand)		
FFO 1 (from rental activities)	63,173	66,777	54,345
Net profit from privatizations	1,809	2,478	2,928
FFO 2 (including disposal results)	64,982	69,255	57,272

(10) The **LTV-Ratio** (in %) is the ratio of net financial liabilities (calculated as financial liabilities less cash and cash equivalents) to the fair value of properties (including investment properties and trading properties at their fair value, advances paid in respect of investment properties and trading properties as of the respective reporting date). The following table shows the calculation of the LTV-Ratio as of the dates shown:

	As of December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand, unless otherwise specified)		
Financial liabilities ^(10a)	1,379,535*	1,651,151*	1,451,224*
Cash and cash equivalents	(387,558)*	(27,966)*	(121,530)*
Net financial liabilities	991,977*	1,623,185*	1,329,694*
Fair value of properties (including advances) ^(10b)	3,670,023*	4,098,763*	3,355,623*
LTV ratio (in %)	27.0	39.6	39.6

* Audited.

(10a) Includes bonds, other loans and borrowings and other financial liabilities.

(10b) Fair value of properties (including advances) is the fair value of the investment properties, the trading properties and the advances. The following table shows the calculation of the fair value of properties (including advances) as of the dates presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Investment properties	3,624,453*	4,044,023*	3,271,298*
Trading properties	39,270*	48,440*	49,900*
Advances	6,300*	6,300*	34,425*
Fair value of properties (including advances)	3,670,023	4,098,763	3,355,623

* Audited.

(11) **Total portfolio value** is the sum of investment properties and trading properties.

(12) **EPRA NAV** is used as an indicator of ADO Properties Group's long-term equity and is calculated based on the total equity attributable to shareholders of the Company increased by the revaluation of trading properties, the fair value of derivative financial instruments and deferred taxes. The following table shows the calculation of the EPRA NAV as of the dates presented:

	As of December 31,		
	2019	2018	2017
	(unaudited, unless otherwise indicated) (in € thousand)		
Total equity attributable to owners of the Company	2,646,792*	2,150,679*	1,795,390*
Revaluation of trading properties ^(12a)	13,410	13,412	6,939
Fair value of derivative financial instruments	6,150*	16,339*	2,985*
Deferred tax liabilities	239,347*	249,114*	183,443*
EPRA NAV	2,905,699	2,429,544	1,988,757

* Audited.

(12a) The difference between trading properties carried in the balance sheet at cost (IAS 2) and the fair value of those trading properties.

- (13) **Vacancy rate at period end (in % of sqm)** is the sqm of vacant units as of the respective period end, divided by the total sqm of units owned on the respective period end date.
- (14) **FFO 1 (from rental activities) per share (in €)** is calculated using the FFO 1 (from rental activities), divided by number of shares. The following table shows the calculation of FFO 1 (from rental activities) per share (in €) for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand, unless otherwise specified)		
FFO 1 (from rental activities)	63,173	66,777	54,345
Number of shares (in thousand)*	44,163	44,101	44,100
FFO 1 (from rental activities) per share (in €)	1.43	1.51	1.23

- * On December 14, 2018, the Company issued 30,757 new shares to Mr. Shlomo Zohar, the former executive vice chairman of the Board of Directors and on July 5, 2019, the Company issued 63,850 new shares to Mr. Rabin Savion (the former chief executive officer of the Company), Mr. Florian Goldgruber (the former chief financial officer of the Company) and Mr. Eyal Horn (the former chief operating officer of the Company). The number of shares is calculated as weighted average for the related period.

- (15) **FFO 2 (including disposal results) per share (in €)** is calculated using the FFO 2 (including disposal results), divided by the number of shares. The following table shows the calculation of FFO 2 (including disposal results) per share (in €) for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand, unless otherwise specified)		
FFO 2 (including disposal results)	64,982	69,255	57,272
Number of shares (in thousand)*	44,163	44,101	44,100
FFO 2 (including disposal results) per share (in €)	1.47	1.57	1.30

- * On December 14, 2018, the Company issued 30,757 new shares to Mr. Shlomo Zohar, the former executive vice chairman of the Board of Directors and on July 5, 2019, the Company issued 63,850 new shares to Mr. Rabin Savion (the former chief executive officer of the Company), Mr. Florian Goldgruber (the former chief financial officer of the Company) and Mr. Eyal Horn (the former chief operating officer of the Company). The number of shares is calculated as weighted average for the related period.

7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE ADO PROPERTIES GROUP

The financial data contained in the following tables is extracted or derived from the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2019 (the "Fiscal Year 2019"), the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2018 (the "Fiscal Year 2018") and the audited consolidated annual financial statements of the Company as of and for the fiscal year ended December 31, 2017 (the "Fiscal Year 2017"). These audited consolidated annual financial statements have been prepared in accordance with IFRS.

The consolidated financial statements of the Company for the Fiscal Year 2019, Fiscal Year 2018 and Fiscal Year 2017 have each been audited by and issued with an unqualified auditor's report by KPMG. The aforementioned audited consolidated annual financial statements are included in this Prospectus beginning on page F-1.

Where financial data in the following tables is labeled "audited", this means that it has been extracted from the audited financial statements mentioned above. The label "unaudited" is used in the following tables to indicate financial data that has not been taken from the audited financial statements mentioned above, but was taken from the accounting or controlling records of the Company, or is based on calculations of these figures. All of the financial data presented in the text and tables below are shown in thousands of euro (in € thousand), except as otherwise stated. In order to ensure that figures given in the text and the tables sum up to the totals given, the numbers are commercially rounded to the nearest whole number or in some cases to such number that facilitates the summing up. The percentage changes that are stated in the text and the tables have been commercially rounded to one decimal point unless stated otherwise. Financial data presented in parentheses denotes the negative of such number presented. In respect of financial data set out in the Prospectus, a dash ("–") signifies that the relevant figure is not available, while a zero ("0.0") signifies that the relevant figure is available, but has been rounded to zero.

The following management's discussion and analysis should be read together with the section "6. Selected Consolidated Financial Information Of The Company", the consolidated financial statements including the related notes contained in this Prospectus and additional financial information contained elsewhere in this Prospectus.

7.1 Overview

We believe that we are the only company listed on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) that is focused on residential real estate, all of which is currently located in Berlin, Germany. We specialize in and focus on the purchase and the management of income-producing multi-family residential buildings. Our investment and trading portfolio value as of December 31, 2019 was €3.7 billion. As of December 31, 2019, our property portfolio consisted of 16,255 residential units with a total residential lettable area of 1,065,128 sqm, 1,382 commercial units (retail, office and other commercial) with a total commercial lettable area of 162,205 sqm, 5,397 parking spaces and spaces for storage, antennas, etc. As of December 31, 2018, our real estate portfolio consisted of 22,202 residential units with a total residential lettable area of 1,454,255 sqm, 1,456 commercial units (retail, office and other commercial) with a total commercial lettable area of 171,199 sqm, 5,401 parking spaces and spaces for storage, antennas, etc.

Most of our residential units contain one or two rooms and have an average size of 65.5 sqm, which means that we are well positioned to benefit from the growth of one- and two-person households in Germany, which is expected to be particularly strong in Germany's metropolitan areas (*source: Federal Statistical Office—Press Release 272*). As of December 31, 2019, our vacancy rate was 2.7% and 3.6% for our residential units and commercial units, respectively. The average monthly net rent per sqm was €7.39 and €10.04 for our residential units and commercial units, respectively.

Our business activities are influenced by numerous demographic, economic and political factors. Given our involvement in the real estate sector, we are affected by developments affecting and related to the residential property market in Germany, in particular macro-economic indicators such as population growth, economic growth, employment, purchasing power and the consumer price index. Furthermore, we are significantly affected by trends in micro-economic indicators, such as the future development of housing prices, rent levels, vacancy rates and home ownership rates. As a result, we compete with a number of privately and communally owned residential real estate companies.

We believe that the residential real estate market in Berlin benefits notably from positive demographic trends. Berlin is the most populous city in Germany and had 3.64 million inhabitants in December 2018. It is expected that the number of inhabitants in Berlin will increase to 3.83 million by 2030 (*source: Federal Statistical Office–Projected Population Figures*). We also believe that we will continue to benefit from Berlin’s status as the capital and largest city of Germany, which has one of Europe’s strongest economies and is an important center for economy, business, politics and culture in continental Europe. In addition to a growing number of governmental employees in the city, Berlin is a particularly dynamic economic center for, among others, the services, pharmaceuticals, media, creative and technology sectors.

In order to keep up with the fast demographic growth, on the one hand, and to ease the strained situation on the housing market, on the other hand, a total of 194,000 new residential units would have to be built between now and the year 2030 according to the Berlin senate department for urban development and housing (*source: Berlin Senate Department for Urban Development and Housing–Press Release*).

Our business model currently focuses on asset and property management, portfolio and facility management and identifying residential properties in Berlin that present opportunities for us to create value by increasing rents, decreasing vacancy and privatizing condominiums. Market rents as well as the official rent table (“*Mietspiegel*”) have been constantly increasing in Germany over the recent years. The average growth per annum in market rents has been higher in Berlin than for other major German cities (*source: JLL–Housing Market Report Germany*). Despite the recent increases in rent levels, rents in Berlin are still relatively low compared to the other big cities in Germany (*source: JLL–Housing Market Report Germany*), thereby presenting opportunities for our business and future growth. Our residential units face strong demand from broad segments of the population: from the growing youth population to individuals with low and medium household income, some of which are being supported by social benefits and transfer payments from public authorities. We believe that our residential units provide tenants with an attractive value proposition and are suitable to market demand, which is further enhanced by our active approach to capital expenditure for refurbishment.

In addition, we seek to add value through the use of our efficient, fully integrated in-house management and tenant service platform to manage our portfolios. We believe that due to our history and particularly through our operational efforts since our establishment in 2006, we have achieved significant recognition in the market and as evidenced by our long-standing track record in achieving strong rental growth (see “*12.2 Competitive Strengths*”).

During the Fiscal Year 2019, the ADO Properties Group generated **income from rental activities** of €141,572 thousand (Fiscal Year 2018: €134,588 thousand; Fiscal Year 2017: €109,181 thousand) and **EBITDA from rental activities** of €91,997 thousand (Fiscal Year 2018: €93,777 thousand; Fiscal Year 2017: €77,090 thousand). **EBITDA total** for the Fiscal Year 2019 was €93,806 thousand (Fiscal Year 2018: €96,255 thousand; Fiscal Year 2017: €80,018 thousand). During the Fiscal Year 2019, the ADO Properties Group generated **FFO 1 (from rental activities)** of €63,173 thousand (Fiscal Year 2018: €66,777 thousand; Fiscal Year 2017: €54,345 thousand), **FFO 2 (including disposal results)** of €64,982 thousand (Fiscal Year 2018: €69,255 thousand; Fiscal Year 2017: €57,272 thousand) and **AFFO (from rental activities)** of €51,525 thousand (Fiscal Year 2018: €53,739 thousand; Fiscal Year 2017: €45,857 thousand). As of December 31, 2019, the ADO Properties Group’s **EPRA NAV** amounted to €2,905,699 thousand (Fiscal Year 2018: €2,429,544 thousand; Fiscal Year 2017: €1,988,757 thousand). As of December 31, 2019, the ADO Properties Group’s **LTV-Ratio** was 27.0%.

For a reconciliation of EBITDA from rental activities, EBITDA total, EBITDA total margin, FFO 1 (from rental activities), FFO 2 (including disposal results), AFFO (from rental activities), LTV-Ratio and EPRA NAV to the most nearly comparable IFRS figures, see “*6.2 Additional Non-IFRS Performance Measures*”.

On December 15, 2019, the Company and ADLER Real Estate Aktiengesellschaft (“**ADLER Real Estate**”) entered into a business combination agreement (the “**BCA**”) to combine the business of ADLER Real Estate and its subsidiaries (together, the “**ADLER Group**”) with the business of the ADO Properties Group (together with the ADLER Group, the “**Combined Group**”) (the “**Business Combination**”). Following the closing of the Business Combination, we will focus on becoming a leading integrated residential property group that is active throughout Germany. We will continue to create value by active portfolio and property management and opportunistic growth through strategic acquisitions, for which we broaden our scope from Berlin-only to Germany-wide.

In addition, on December 15, 2019, the Company acquired a stake of approximately 22% in and entered into a Strategic Cooperation Agreement (the “**SCA**”) with Consus Real Estate AG (“**Consus Real**

Estate”) to engage in a strategic partnership and, to the extent legally permissible, work together to fully investigate and potentially undertake mutually beneficial property developments, including the acquisitions of land plots for new-builds (the “**Strategic Cooperation**”). Through the Strategic Cooperation, the Company receives access to an experienced development platform focused on Berlin, Cologne, Düsseldorf, Dresden, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart (together, the “**Top 9 Cities**”) in Germany, thereby securing a value-creating growth path for the future. In addition, we have acquired the option to purchase another 51% in Consus by June 2021. See “10.3 Share Purchase Agreements for Consus Real Estate Shares” and “10.5 Strategic Cooperation Agreement”.

7.2 Key Factors Affecting Our Results of Operations

Our results of operation have been, and will continue to be, affected by a number of events and actions, some of which are beyond our control. We believe that the specific factors discussed below have affected our results in the periods for which financial information is presented in this Prospectus and will continue to affect our results in the future.

7.2.1 Economic and Demographic Developments in Berlin and, Following the Closing of the Business Combination, in Germany Generally

Our business activities are subject to general economic conditions especially in Berlin, where, prior to the Business Combination, 99.7% (based on the fair value pursuant to the Valuation Report) of the real estate we own is located. Cyclical economic developments beyond our control, including changes in growth and unemployment rates, price trends and interest rate levels, affect rental income levels, the potential for privatizations and for property sales, opportunities for acquisitions and purchase prices. For example, economic growth and favorable market conditions in the periods under review contributed to higher rents. After years of steady growth there have been increasing signs of a slowdown in the German economy with a GDP decrease of 0.1% for the second quarter of 2019 (compared to 2018) while price-adjusted exports were down 0.8%, resulting in the largest decline recorded in the last six years (*source: Federal Statistical Office press release no. 321*). The German economy returned to growth in the third quarter of 2019 with an increase in GDP of 1.0% (compared to the same quarter in 2018) (*source: Federal Statistical Office press release no. 448*). A decrease in GDP in Germany or an increase in unemployment could adversely affect the population’s purchasing power, and therefore its propensity to acquire residential real estate.

Berlin’s real GDP grew by 3.1% in 2018 which is higher than any other German federal state. Per capita GDP in Berlin stood at €40,568 in 2018 compared to €38,864 in 2017, a nominal increase of 4.4% and a price-adjusted increase of 2.3% (*source: Volkswirtschaftliche Gesamtrechnung der Länder*). This is slightly lower than the average German per capita GDP of €40,851 as of 2018.

Disposable per capita income increased by 4.1% from an average of €19,538 in 2016 to €20,330 in 2017 (latest available, *source: Volkswirtschaftliche Gesamtrechnung der Länder*). The estimated per capita purchasing power in Berlin for 2019 is €21,689 which is lower than the German average of €23,779 but an increase of 3.1% compared to 2018 (*source: GfK–Purchasing Power Germany*). Since 2015, the average gross wages and salaries in Berlin are above the German average. In 2018, they amounted to €36,146, an increase by 4.2% compared to 2017.

In addition, rising interest rates can adversely affect the valuation of our investment properties, which may require us to recognize a valuation impairment charge that would negatively affect our income and balance sheet. In addition, inflation-driven or deflation-driven price increases or decreases affect our expenses. To the extent possible by law and taking into account the market environment, cost increases are compensated for by rent increases and/or allocated to ancillary costs. However, our focus on the affordable segment of the rental market in Berlin may mitigate the impact such developments may have on the Company.

Political and regulatory decisions and developments such as, for example, public subsidies for residential space also influence supply and demand in the residential property market and affect price trends for rented residential units and sales of residential units. Furthermore, an increase in the new construction of residential units can increase the vacancy in our portfolio and adversely affect our results of operations. In addition, in October 2019, the Berlin senate of the governing coalition proposed an edict to freeze rents of existing and new leases of existing residential apartments (except for subsidized or newly constructed apartments) in Berlin for five years. The bill was passed by Berlin’s parliament (*Berliner Abgeordnetenhaus*) on January 30, 2020 and entered into force on February 23, 2020. An adoption of a

law that includes rent caps or similar measures could have a negative impact on our results of operations, cash flows (including FFO 1) and financial condition.

Demographic factors such as changes in average household size, home ownership rate and migration patterns also affect the rental yields and market values of properties in our residential portfolio. For example, the number of households in Berlin stood at 2.028 million in 2018 compared to 2.003 million in 2017, an increase of 1.2% which is higher than the population growth in the same year (*source: Federal Statistical Office–Privathaushalte Bundesländer*). Based on this, Berlin represents the largest residential rental market in Germany. The average number of persons per household amounted to 1.8. Of the private households in Berlin 53% were one person households compared to the German average of 42%. For further information, see also the risk factor “1.1.1 Our business is significantly dependent on our ability to generate earnings from rentals. Our rental income and operating profit could particularly be negatively affected by a potential increase in vacancy rates.”

7.2.2 Acquisitions, Portfolio Size, Rent Level and Vacancy Rates

Rental income depends on the performance of the key operational measures in the rental business: (i) portfolio size, (ii) rent levels and (iii) vacancy rates. The following table sets forth information on our portfolio size, in-place rent per month per square meter and vacancy rate for the periods indicated.

	As of and for the year ended December 31,		
	2019	2018 (unaudited)	2017
Number of units	17,637	23,658	21,970
<i>residential</i>	16,255	22,202	20,649
<i>commercial</i>	1,382	1,456	1,321
In-place rent (in € thousand)	112,715	135,877	110,782
<i>of which residential</i>	91,529	114,711	93,806
<i>of which commercial</i>	18,829	18,509	14,808
<i>of which other and parking</i>	2,357	2,657	2,168
In-place rent (per month in € per sqm) ⁽¹⁾	7.68	6.75	6.89
<i>residential</i>	7.39	6.73	6.42
<i>commercial</i>	10.04	9.42	8.94
Vacancy rate at period end (in % of sqm) ⁽²⁾	2.7	3.2	3.6
<i>residential units (1,065,128 sqm as of December 31, 2019)</i>	2.7	3.2	3.6
<i>commercial units (162,205 sqm as of December 31, 2019)</i>	3.6	4.6	4.9
Total portfolio value (in € thousand) ⁽³⁾	3,650,313	4,079,051	3,314,259

- (1) **In-place rent (per month in € per sqm)** is defined as the current gross rental income per month for rented residential and commercial units as agreed in the corresponding rent agreements as of December 31, 2019, 2018 and 2017, respectively, before deducting non-recoverable operating costs, divided by the lettable area of rented units as of the same dates. Residential in-place rent is often also referred to as “net cold rent”.
- (2) **Vacancy rate at period end (in % of sqm)** is the sqm of vacant units as of the respective period end, divided by the total sqm of units owned on the respective period end date.
- (3) **Total portfolio value** is the sum of investment properties and trading.

Portfolio size: Our rental income is affected by the overall size of our investment portfolio. On September 26, 2019, the Company announced the sale of certain subsidiaries owning 23 properties, consisting in aggregate of approximately 5,900 residential apartment units. The sale price for the shares amounted to €920 million, less €340 million of net debt of the sold companies. The sale was completed on November 29, 2019. Previously, driven by our strategy of increasing our investment portfolio and favorable market conditions, we increased significantly the number of residential and other properties we owned, with our last acquisition having taken place in the fourth quarter of 2018. While such acquisitions will positively affect rental income, the impact on residential in-place rent (per month in € per sqm), vacancy rates and operating measures such as FFO, the LTV-Ratio and EPRA NAV will depend on the characteristics of the acquired portfolio and related financing. Through the Business Combination, we will acquire a portfolio throughout Germany, which will complement our Berlin portfolio.

Rent levels: Our rental income is directly affected by the level of residential in-place rent per square meter per month we are able to charge. Rent levels generally depend on the location and condition of the respective properties. We constantly monitor current market rents and rent indices (*Mietspiegel*) in individual micro markets where our properties are located and seek to set our rents in line with the current

market level to the extent allowed by law and contractual arrangements. In particular, we monitor closely the recently resolved bill to freeze rents of existing and new leases of existing residential apartments in Berlin for five years. We endeavor to improve our residential units, particularly through refurbishments, which increase the economic value of residential units and allow us to increase rents and more easily rent our units. In the past three years, we were able to raise the average in-place rent per square meter per month for our residential units from €6.42 for the year ended December 31, 2017, to €6.73 and to €7.39 for the years ended December 31, 2018 and 2019, respectively.

Vacancy rates and tenant turnover: Vacancy rates also affect our profitability due to the loss of rental income and the inability to pass on to tenants the ancillary expenses with respect to vacant units. The number of our vacant units depends largely on the condition, attractiveness and location of a particular property. Tenant turnover contributes to the number of vacant units due to the fact that time may elapse before a newly vacated unit can be re-let. Although high vacancy rates adversely affect our rental business, we may be able to sell vacant units in individual sales at a premium. Therefore, we decide from time to time to keep certain units designated for privatization vacant. We have implemented measures to reduce vacancy rates and the time it takes to conclude new leases with respect to vacated units and we will continue our efforts in this regard. Such measures contributed to us maintaining an overall vacancy rate, as of December 31, 2019, of approximately 2.7% (where residential vacancy is 2.7% and commercial vacancy is 3.6%).

Subsidies: As of December 31, 2019, 2.5% (by sqm) of the residential units that we own were rent-restricted due to subsidies provided by public authorities through programs for new buildings as well as for the modernization and renovation of existing buildings. Such subsidies were granted in the form of financial aid and grants, which we generally do not have to repay, and interest free or low-interest loans. If we do not meet specific conditions, we may be required to repay subsidies already received. In addition, a portion of our revenue is directly or indirectly dependent on social aid provided to or on behalf of our tenants, such as unemployment benefits (*Arbeitslosengeld I*), social welfare (*Arbeitslosengeld II, Hartz IV*) and housing subsidies (*Wohngeld*). See “1.1.6 Existing rent restrictions in connection with the promotion of public authorities and with heat supply contracts could limit the rent levels we may be able to charge.”

7.2.3 Sales Prices, Sales Proceeds and Profit on Disposals of Properties

Our profit on the disposal of properties depends generally on the number of units sold, market prices for the properties in our portfolio and the mix of properties sold. Sales prices are influenced significantly by the location and condition of the property in question, the level of rental income we are able to generate, whether the unit is occupied or vacant, occupancy rate, prevailing interest rates and the general perception of the relevant asset class by investors. Increases in the construction of new residential units can reduce market demand for our real estate holdings and adversely affect the prices that we can realize from disposals. Political and regulatory decisions and developments, such as, for example, decisions to increase public spending for construction of affordable housing, also influence supply and demand in the residential property market and affect price trends for residential real estate.

We specifically convert apartments into condominium properties and sell these in single unit sales (privatizations). This refers to single units in condominium properties and periodic sales of selected buildings and other properties, fully or partially comprised of condominium properties. On September 26, 2019, the Company announced the sale of certain subsidiaries owning 23 properties, consisting in aggregate of approximately 5,900 residential apartment units. The sale price for the shares amounted to €920 million, less €340 million of net debt of the sold companies. The sale was completed on November 29, 2019. Historically, we have engaged in privatizations and in the future will engage in more as a strategy.

The following table sets forth information regarding single residential units sold by us in the periods under review:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited)		
Number of units sold (recorded sales)	62	66	84
Revenues from disposal of units sold (in € thousand)	14,948	20,265	19,671

7.2.4 Changes in Fair Value of Investment Properties and Assets Classified as Held for Sale

We value our investment properties initially at cost at the time of acquisition, including capitalized borrowing costs. We value assets classified as held for sale at the lower of their carrying amount and their value less expected costs to sell. After an acquisition, we measure the fair value of investment properties and assets classified as held for sale as of June 30 and December 31 of each fiscal year. Changes in certain market conditions such as prevailing rent levels, vacancy rates and interest rates may affect the valuation of investment properties and assets classified as held for sale. Any changes in fair value of the investment portfolio of investment property are recognized as gains or losses on the ADO Properties Group's income statement and can substantially affect the ADO Properties Group's results of operations. Changes in fair value of investment property and assets classified as held for sale amounted to €461,517 thousand in the Fiscal Year 2019, €404,936 thousand in the Fiscal Year 2018 and €383,638 thousand in the Fiscal Year 2017.

7.2.5 Maintenance and Improvements of Properties

We invest in maintaining and improving the quality of our residential properties. Modernization measures include projects to improve the condition of residential units to bring them up to market standards and otherwise to improve housing quality. In addition to ensuring a certain quality standard in our total residential portfolio by maintaining our properties, modernization projects tend to increase rent levels and reduce vacancies and vacancy losses, which positively impacts rental income and leads to increases in the fair value of our residential portfolio.

The following table shows our total maintenance and capital expenditures in the periods under review:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited) (in € thousand)		
Maintenance and Capital Expenditures			
Maintenance	14,537	12,177	8,774
Capitalized maintenance	11,648	13,038	8,488
Energetic modernization	3,143	5,813	2,322
Modernization capital expenditures	29,349	32,415	19,752
Total	<u>58,677</u>	<u>63,443</u>	<u>39,336</u>

Maintenance comprises costs relating to smaller repairs and refurbishment work.

Capitalized maintenance comprises public area investments and form part of the total capitalized capital expenditures.

Energetic modernization comprises investments for increasing the energy efficiency of a property, for example, regarding heating systems.

Modernization capital expenditures comprises general investments in our units.

Most of our maintenance expenses are recognized as property operating and maintenance expenses within cost of revenue and thus impact our results of operations. Capitalized maintenance and modernization measures are not recognized as expenses, but are rather capitalized on the ADO Properties Group's balance sheet and increase the reported value of investment properties on the ADO Properties Group's balance sheet.

7.2.6 Cost of Financing

We are currently benefitting from favorable financing conditions, in particular from low interest rates, which may increase in the future. We were able to reduce our average interest rate to 1.6% as of December 31, 2019, while the average debt maturities amounted to 4.3 years as of the same date. Our properties are largely debt-financed through classic banking loans secured by mortgages. We depend on the availability of financing and our results of operations are materially affected by financing costs. Accordingly, entering into financing agreements on favorable terms, including for the purpose of refinancing our existing financial obligations, is of considerable importance to us and our results of operations are materially affected by financing costs. For additional information, see above "1.2.6 Our level of debt, the terms of

current and future borrowings, and the hedging transactions we have entered into, or will enter into in the future, could significantly constrain our operations and could make it more difficult or expensive to obtain new sources of financing without breaching financial covenants.”.

7.2.7 Changes in Interest Rates

Changes in interest rates affect our business. Changes in interest rates cause variations in interest income and costs on interest-bearing assets and liabilities. Loans obtained at variable rates which are not hedged expose us to cash flow interest risk, which could have adverse effects on our profit or loss and financial position. Interest rates impact capitalization and discount rates, which in turn influence the fair value of our investment portfolio and our assets classified as held for sale. Moreover, lower interest rates in Germany tend to increase demand for residential properties, resulting in higher prices to be paid for acquired properties and also tend to positively impact the sale of properties. Conversely, rising interest rates lead to less favorable financing terms and negatively impact the sale of properties and thus tend to impact capitalization and discount rates.

In addition, changes in interest rates impact our cost of financing. They affect the conditions at which we may obtain fixed rate financing and impact interest payment obligations under our floating rate debt obligations. Most of our interest rates (based on the value weighted interest rates on the liabilities due to financial institutions as of December 31, 2019) are either fixed or hedged, limiting our risk from increasing interest reference rates in the future.

We have engaged in, and currently expect to continue to engage in, hedging transactions to reduce the risk of interest rate fluctuations. We fulfill the requirements of the IAS 39 hedge accounting rules applicable to accounting for hedging instruments (interest rate swaps) in hedging against cash flow risks from variable interest rate loans. When interest rate levels fluctuate, the fair value of the interest rate swaps also fluctuates.

7.2.8 Property Operating Expenses

Our results of operations are impacted by the operating expense associated with our properties. While we are able to pass on many of the operating expenses associated with us owning our properties to our tenants, there are a significant number of expenses which we are not able to so pass along, including salaries and related expenses, net cost of utilities recharged and property operations and maintenance expenses.

7.3 Key Statement of Profit or Loss Items

The following is a description of certain line items in our consolidated profit or loss statement.

Revenue comprises rental income from tenants, sales of housing units and income from facility services.

Cost of operations comprises salaries and related expenses, property operations and maintenance costs, costs of utilities recharged net, and cost of sales of housing units.

General and administrative expenses comprises primarily salaries and related expenses, professional services, office, communication and IT expenses, advertising and marketing expenses, impairment loss on trade receivables, director fee and rent fees.

Other expenses comprises broker fees, bonuses and professional services related to non-current assets and liabilities of disposal groups classified as held for sale.

Changes in fair value of investment properties comprises the changes in the fair value of investment properties of the ADO Properties Group. The fair value is determined by the valuation expert CBRE, an industry specialist with appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. According to our fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as of June 30 and December 31 of each year.

Finance income comprises interest received on bank deposits and change in fair value of derivatives.

Finance costs comprises interest on bank loans and loans from related parties, interest on bonds, change in fair value of derivatives and other finance expenses.

7.4 Results of Operations

The following table provides an overview of our results of operations for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Revenue	156,520	154,853	128,852
Cost of operations	(44,011)	(41,996)	(36,174)
Gross profit	112,509	112,857	92,678
General and administrative expenses	(25,050)	(18,451)	(12,762)
Other expenses	(13,188)	—	—
Other income	78,132	—	—
Changes in fair value of investment properties	461,517	404,936	383,638
Results from operating activities	613,920	499,342	463,554
Finance income	102,475	1,399	1,602
Finance costs	(32,375)	(32,915)	(29,609)
Net finance income (costs)	70,100	(31,516)	(28,007)
Profit before tax	684,020	467,826	435,547
Income tax expense	(77,096)	(70,362)	(68,035)
Profit for the period	606,924	397,464	367,512

7.4.1 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

7.4.1.1 Revenue

The following table provides a breakdown of our revenue for the periods presented:

	For the year ended December 31,		% Change
	2019	2018	
	(audited) (in € thousand)		
Net rental income	134,141	127,982	4.8
Selling of condominiums	14,948	20,265	(26.2)
Income from facility services	7,431	6,606	12.5
Revenue	156,520	154,853	1.1

Revenue increased by 1.1% from €154,853 thousand in the Fiscal Year 2018 to €156,520 thousand in the Fiscal Year 2019 primarily due to like-for-like rental growth generated by targeted capital expenditures for the repositioning and refurbishment of our assets.

7.4.1.2 Cost of operations

The following table provides a breakdown of our cost of operations for the periods presented:

	For the year ended December 31,		% Change
	2019	2018	
	(audited) (in € thousand)		
Salaries and other expenses	11,443	10,320	10.9
Cost of utilities recharged, net	1,630	1,843	(11.6)
Sale of condominiums – cost	11,058	15,817	(30.0)
Property operations and maintenance	19,880	14,016	41.8
Cost of operations	44,011	41,996	4.8

Cost of operations increased by 4.8% from €41,996 thousand in the Fiscal Year 2018 to €44,011 thousand in the Fiscal Year 2019 primarily due to additional employees and increased operating expenses.

7.4.1.3 *Gross profit*

Gross profit decreased by 0.3% from €112,857 thousand in the Fiscal Year 2018 to €112,509 thousand in the Fiscal Year 2019 due to the sale of a portfolio of the Company.

7.4.1.4 *General and administrative expenses*

General and administrative expenses increased by 35.8% from €18,451 thousand in the Fiscal Year 2018 to €25,050 thousand in the Fiscal Year 2019 primarily due to one-off termination fees paid to the previous senior management of the Company in an amount of €4,042 thousand, compensation paid to past members of the Board of Directors as well as an increase in fees for consulting and professional advisory services, e.g. in connection with legal advice on the rent freeze in Berlin.

7.4.1.5 *Other expenses*

Other expenses increased from zero in the Fiscal Year 2018 to €13,188 thousand in the Fiscal Year 2019 primarily due to broker fees, bonuses and professional services related to non-current assets, liabilities of disposal groups classified as held for sale and transaction costs related to the Business Combination.

7.4.1.6 *Other income*

Other income increased from zero in the Fiscal Year 2018 to €78,132 thousand in the Fiscal Year 2019 primarily due to profit from the sale of a property portfolio.

7.4.1.7 *Changes in fair value of investment properties*

Changes in fair value of investment properties increased by 14.0% from €404,936 thousand in the Fiscal Year 2018 to €461,517 thousand in the Fiscal Year 2019 primarily due to ongoing market rent increases, yield compression and operational outcome.

7.4.1.8 *Results from operating activities*

Results from operating activities increased by 22.9% from €499,342 thousand in the Fiscal Year 2018 to €613,920 thousand in the Fiscal Year 2019 primarily due to an increase in the fair value of investment properties, an increase in rental income and the sale of a property portfolio.

7.4.1.9 *Finance income*

Finance income increased from €1,399 thousand in the Fiscal Year 2018 to €102,475 thousand in the Fiscal Year 2019 primarily due to a change in the fair value of derivatives.

7.4.1.10 *Finance costs*

Finance costs decreased by 1.6% from €32,915 thousand in the Fiscal Year 2018 to €32,375 thousand in the Fiscal Year 2019 primarily due to a change in the fair value of the derivative component of a convertible bond and the disposal of a property portfolio, which included net debt in an amount of €350,000 thousand.

7.4.1.11 *Net finance income*

Net finance income increased from finance costs in the amount of €31,516 thousand in the Fiscal Year 2018 to finance income €70,100 thousand in the Fiscal Year 2019 primarily due to an increase in finance income and a change in the fair value of derivatives.

7.4.1.12 *Profit before tax*

Profit before tax increased by 46.2% from €467,826 thousand in the Fiscal Year 2018 to €684,020 thousand in the Fiscal Year 2019 primarily due to an increase in results from operating activities.

7.4.1.13 Income tax expense

Income tax expense increased by 9.6% from €70,362 thousand in the Fiscal Year 2018 to €77,096 thousand in the Fiscal Year 2019 primarily due to an increase of the value of the Company's assets.

7.4.1.14 Profit for the period

Profit for the period increased by 52.7% from €397,464 thousand in the Fiscal Year 2018 to €606,924 thousand in the Fiscal Year 2019 primarily due to profit from the sale of a property portfolio, an increase in changes in the fair value of investment properties and an increase in profit before tax.

7.4.2 Comparison of the Fiscal Years Ended December 31, 2018 and December 31, 2017

7.4.2.1 Revenue

The following table provides a breakdown of our revenue for the periods presented:

	For the year ended December 31,		% Change
	2018	2017	
	(audited) (in € thousand)		
Net rental income	127,982	103,300	23.9
Selling of condominiums	20,265	19,671	3.0
Income facility services	6,606	5,881	12.3
Revenue	154,853	128,852	20.2

Revenue increased by 20.2% from €128,852 thousand in the Fiscal Year 2017 to €154,853 thousand in the Fiscal Year 2018 primarily due to an increase in net rental income in relation to new property acquisitions as well as like-for-like rental growth, mainly due to rent increases based on strategic capital expenditure.

7.4.2.2 Cost of operations

The following table provides a breakdown of our cost of operations for the periods presented:

	For the year ended December 31,		% Change
	2018	2017	
	(audited) (in € thousand)		
Salaries and other expenses	10,320	7,995	29.1
Cost of utilities recharged, net	1,843	1,409	30.8
Sale of condominiums – cost	15,817	15,760	0.4
Property operations and maintenance	14,016	11,010	27.3
Cost of operations	41,996	36,174	16.1

Cost of operations increased by 16.1% from €36,174 thousand in the Fiscal Year 2017 to €41,996 thousand in the Fiscal Year 2018 primarily due to increased salaries and other expenses as well as increased property operations and maintenance costs, both in relation to new property acquisitions.

7.4.2.3 Gross profit

Gross profit increased by 21.8% from €92,678 thousand in the Fiscal Year 2017 to €112,857 thousand in the Fiscal Year 2018 because the increase in revenue was higher than the increase in costs of operations.

7.4.2.4 General and administrative expenses

General and administrative expenses increased by 44.6% from €12,762 thousand in the Fiscal Year 2017 to €18,451 thousand in the Fiscal Year 2018 primarily due to an increase in the number of employees, one-off termination fees for the previous vice chairman of the Board of Directors and an increase in professional services fees incurred in connection with, among other things, the implementation of the new general data protection regulations.

7.4.2.5 *Changes in fair value of investment properties*

Changes in fair value of investment properties increased by 5.6% from €383,638 thousand in the Fiscal Year 2017 to €404,936 thousand in the Fiscal Year 2018 primarily due to new acquisitions, ongoing market rent increases and yield compression.

7.4.2.6 *Results from operating activities*

Results from operating activities increased by 7.7% from €463,554 thousand in the Fiscal Year 2017 to €499,342 thousand in the Fiscal Year 2018 primarily due to an increase in gross profit and an increase in the fair value of investment properties and partially off-set by an increase in general and administrative expenses.

7.4.2.7 *Finance income*

Finance income decreased by 12.7% from €1,602 thousand in the Fiscal Year 2017 to €1,399 thousand in the Fiscal Year 2018 primarily due to a lower increase in the fair value of derivatives.

7.4.2.8 *Finance costs*

Finance costs increased by 11.2% from €29,609 thousand in the Fiscal Year 2017 to €32,915 thousand in the Fiscal Year 2018 primarily due financing costs in relation to a bank loan in the amount of €51,900 thousand as of September 27, 2018, a corporate bond with a total nominal amount of €400,000 thousand issued by the Company in July 2017 as well as a convertible bond with a total nominal amount of €165,000 thousand issued by the Company in November 2018.

7.4.2.9 *Net finance income (costs)*

Net finance costs increased by 12.5% from €28,007 thousand in the Fiscal Year 2017 to €31,516 thousand in the Fiscal Year 2018 primarily due to a decrease in finance income and an increase in finance costs.

7.4.2.10 *Profit before tax*

Profit before tax increased by 7.4% from €435,547 thousand in the Fiscal Year 2017 to €467,826 thousand in the Fiscal Year 2018 primarily due to an increase in results from operating activities, which was partially off-set by an increase in net finance costs.

7.4.2.11 *Income tax expense*

Income tax expense increased by 3.4% from €68,035 thousand in the Fiscal Year 2017 to €70,362 thousand in the Fiscal Year 2018 primarily due to an increase in profit before tax.

7.4.2.12 *Profit for the period*

Profit for the period increased by 8.1% from €367,512 thousand in the Fiscal Year 2017 to €397,464 thousand in the Fiscal Year 2018 primarily due to an increase in profit before tax.

7.5 Real Estate Portfolio and Investments

The following table provides an overview of the development of our real estate portfolio in terms of investment properties and trading properties from January 1, 2017 through December 31, 2019.

	<u>Investment Properties</u>	<u>Trading Properties</u>	<u>Total</u>
	(in € thousand)		
Balance as of January 1, 2017	2,278,935	39,718	2,318,653
Additions by way of acquiring subsidiaries	411,539	12,343	423,882
Additions by way of acquiring assets	169,895	—	169,895
Capital expenditure	31,021	613	31,634
Disposals	—	(13,443)	(13,443)
Transfer from investment properties to trading properties	(3,730)	3,730	—
Fair value adjustments	383,638	—	383,638
Balance as of December 31, 2017	3,271,298	42,961	3,314,259
Balance as of January 1, 2018	3,271,298	42,961	3,314,259
Additions by way of acquiring subsidiaries	229,077	5,651	234,728
Additions by way of acquiring assets	87,150	—	87,150
Capital expenditure	51,562	221	51,783
Disposals	—	(13,805)	(13,805)
Transfer from investment properties to trading properties	—	—	—
Fair value adjustments	404,936	—	404,936
Balance as of December 31, 2018	4,044,023	35,028	4,079,051
Balance as of January 1, 2019	4,044,023	35,028	4,079,051
Additions by way of acquiring subsidiaries	—	—	—
Additions by way of acquiring assets	—	—	—
Capital expenditure	44,013	657	44,670
Disposals	—	(9,825)	(9,825)
Transfer from Investment Property to Property and Equipment	(5,100)	—	(5,100)
Transfer from investment properties to assets of disposal groups classified as held for sale	(920,000)	—	(920,000)
Fair value adjustments	461,517	—	461,517
Balance as of December 31, 2019	3,624,453	25,860	3,650,313

We have no ongoing investments since December 31, 2019, as we have not entered into any agreements regarding the acquisition of real estate, real estate portfolios or real estate development projects and have not acquired any real estate, real estate portfolios or real estate development projects. See the description of purchase agreements under “12.7.6 Purchase Agreements and Letters of Intent”.

7.6 Overview of Our Properties

7.6.1 Investment Properties

Investment property includes our properties held to generate rental income or for capital appreciation or both, rather than for (i) use in the production or supply of goods or services or for administrative purposes; or (ii) sale in the ordinary course of business.

We value investment property initially at cost at the time of acquisition, including capitalized borrowing costs. After acquisition, we measure investment property at fair value. Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of our investment properties as of December 31, 2019, December 31, 2018 and December 31, 2017 were based on valuations undertaken by CBRE. The valuations are based on a discounted cash flow model. The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants.

The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs. secondary), tenant credit quality and lease terms.

As of December 31, 2019, the ADO Properties Group's portfolio also included 4,747 parking spaces and 650 other units. We lease some of our investment property under commercial tenancy or lease agreements. The commercial tenancy or lease agreements usually run for five years. Most of our tenancy agreements for residential property provide for the tenant to give three months' notice as of the end of a month if the agreement is to be terminated.

7.6.2 *Assets Classified as Held for Sale*

Non-current assets are classified as held for sale if it is highly probable that such assets will be sold rather than continuing to be used. We generally value such assets at the lower of cost and realizable value. Once classified as held for sale assets, such assets are no longer depreciated.

7.6.3 *Trading properties*

Trading properties are measured at the lower of cost and net realizable value. The cost of trading properties includes the costs incurred in acquiring the trading properties and bringing them to their existing location and condition. The net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

7.7 **Maintenance and Capital Expenditures**

Targeted investments in our portfolio are at the core of our strategy. The following table provides an overview of the ADO Properties Group's maintenance and capital expenditures for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(unaudited)		
	(in € per sqm)		
Maintenance and Capital Expenditures			
Maintenance	9.0	7.5	6.5
Capitalized maintenance	7.2	8.1	6.3
Energetic modernization	1.9	3.6	1.7
Modernization capital expenditures	18.1	20.0	14.6
Total	<u>36.2</u>	<u>39.2</u>	<u>29.1</u>

The maintenance and capital expenditure cost per square meter of €36.2 in the Fiscal Year 2019 was in line with our expectations for our long-term average levels.

7.8 **Liquidity and Capital Resources**

The ADO Properties Group finances its business activities primarily through cash flows from operating activities as well as raising funds on the debt capital markets and through bank loans.

7.8.1 Cash Flows

The following table provides an overview of the ADO Properties Group's cash flows for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
	(audited)		
	(in € thousand)		
Cash flows from operating activities			
Profit for the period	606,924	397,464	367,512
Adjustments for:			
Depreciation	1,488	527	452
Profit from selling portfolio	(78,132)	—	—
Change in fair value of investment properties	(461,517)	(404,936)	(383,638)
Net finance costs	(70,100)	31,516	28,007
Income tax expense	77,096	70,362	68,035
Share-based payments	1,530	546	564
Change in short-term restricted bank deposits related to tenants	(2,142)	(1,624)	(4,727)
Change in long-term restricted bank deposits from condominium sales	(4,102)	(3,320)	(539)
Change in trade receivables	(2,959)	(2,926)	(3,148)
Change in other receivables	(2,931)	2,427	(3,742)
Change in trading properties	9,168	13,585	12,830
Change in trade payables	5,632	4,623	1,408
Change in other payables	15,896	(156)	4,163
Income tax paid	(7,087)	(4,155)	(864)
Net cash flows from operating activities	88,764	103,933	86,313
Cash flows from investing activities			
Purchase of and CAPEX on investment properties	(44,068)	(117,118)	(189,182)
Advances paid for investment property purchase	—	—	(33,975)
Proceeds from selling portfolio	570,335	—	—
Investment in financial instrument (Consus)	(254,342)	—	—
Purchase of property and equipment	(3,121)	(1,182)	(795)
Interest received	39	143	3
Proceeds from disposal of investment properties	—	—	—
Acquisition of subsidiaries, net of acquired cash	—	(216,685)	(280,542)
Repayment of bank deposit	—	—	—
Change in short-term restricted bank deposits, net	218	808	9,992*
Net cash flows used in investing activities	269,061	(334,034)	(494,499)
Cash flows from financing activities			
Proceeds from issue of corporate bonds, net	—	—	396,185
Proceeds from issue of convertible bonds, net	—	163,740	—
Long-term loans received	79,427	121,637	114,606
Repayment of long-term loans	(15,876)	(93,283)	(116,061)
Proceeds from issuance of commercial papers	—	673,000	—
Repayment of commercial papers	—	(673,000)	—
Repayment of short-term loans	—	(2,300)	(10,487)
Upfront fees paid for credit facilities	(702)	(1,377)	—
Interest paid	(26,427)	(24,873)	(18,103)
Compensation fee payments in respect of other financial liabilities	(768)	(537)	—
Payment of lease liabilities	(789)	—	—
Payment from settlement of derivatives	—	(10)	—
Issuance of ordinary shares, net	**	—	—
Dividend distributed	(33,098)	(26,460)	(19,845)
Net cash from financing activities	1,767	136,537	346,295
Change in cash and cash equivalents during the period	359,592	(93,564)	(61,891)
Cash and cash equivalents at the beginning of the period	27,966	121,530	183,421
Cash and cash equivalents at the end of the period	387,558	27,966	121,530

* Immaterial adjustment of comparative data.

** Represents an amount less than EUR 1 thousand.

7.8.2 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

7.8.2.1 Cash Flows from Operating Activities

Cash flows from operating activities decreased by 14.6% from €103,933 thousand in net cash generated from operating activities in the Fiscal Year 2018 to €88,764 thousand in net cash generated in operating activities in the Fiscal Year 2019 primarily due to an increase in payments for professional services and income tax paid as well as a decrease in the number of property units sold in the Fiscal Year 2019.

7.8.2.2 Cash Flows from Investing Activities

Cash flows from investing activities increased from €334,034 thousand in net cash used in investing activities in the Fiscal Year 2018 to €269,061 thousand in net cash from investing activities in the Fiscal Year 2019 primarily due to proceeds from the disposal of investment properties.

7.8.2.3 Cash Flows from Financing Activities

Cash flows from financing activities decreased from €136,537 thousand in net cash generated from financing activities in the Fiscal Year 2018 to €1,767 thousand in net cash generated in financing activities in the Fiscal Year 2019 primarily due to the issuance of a convertible bond in an amount of €165,000 thousand in the Fiscal Year 2018.

7.8.3 Comparison of the Fiscal Years Ended December 31, 2018 and December 31, 2017

7.8.3.1 Cash Flows from Operating Activities

Cash flows from operating activities increased from €86,313 thousand in net cash generated from operating activities in the Fiscal Year 2017 to €103,933 thousand in net cash generated in operating activities in the Fiscal Year 2018 primarily due to higher rental income.

7.8.3.2 Cash Flows from Investing Activities

Cash flows from investing activities decreased from €494,499 thousand in net cash used in investing activities in the Fiscal Year 2017 to €334,034 thousand in net cash used in investing activities in the Fiscal Year 2018 primarily due to fewer acquisitions in the Fiscal Year 2018.

7.8.3.3 Cash Flows from Financing Activities

Cash flows from financing activities decreased from €346,295 thousand in net cash generated from financing activities in the Fiscal Year 2017 to €136,537 thousand in net cash generated in financing activities in the Fiscal Year 2018 primarily due to the placement of a €400.0 million corporate bond in the Fiscal Year 2017 which was partially offset by the placement of a €165.0 million convertible bond in the Fiscal Year 2018.

7.8.4 Liabilities

7.8.4.1 Financial Liabilities

Our principal financial liabilities comprise secured mortgage loans and capital markets instruments, including corporate bonds and convertible bonds. In connection with the Business Combination, we also entered into an interim credit facility agreement of up to €2,424,000,000 that can be utilized to refinance certain existing liabilities. See “12.7.8 Bridge Facility Agreement”.

The following table sets forth our financial liabilities outstanding as of the dates indicated below:

	As of December 31,		
	2019	2018	2017
		(audited)	
		(in € thousand)	
Corporate bonds	397,433	396,899	396,396
Convertible bonds	156,334	154,252	—
Other loans and borrowings	777,817	1,057,973	1,026,723
Other financial liabilities	47,951	42,027	28,105
Financial liabilities	1,379,535	1,651,151	1,451,224

For further information on our main financings refer to “12.7.9 Other Financing Agreements”.

7.8.4.2 *Contingent Liabilities*

Contingent liabilities are potential obligations towards third parties arising from past events, whose existence or non-existence will be determined in the future. We are involved in a small number of legal actions arising in the ordinary course of business. While the outcome of these legal actions is currently not determinable, it is management’s opinion that these matters will not have a material adverse effect on the Company’s consolidated financial position or results of its operations and therefore no provisions were made for such litigation.

7.9 **Disclosure about Market Risk**

7.9.1 *Credit Risk*

We are exposed to a default risk resulting from the potential failure of a counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with creditworthy third parties. The maximum carrying amount of the financial assets as reported in the statement of financial position. Our exposure to credit risk is included mainly by the individual characteristics of each customer. The revenue of the Company is primarily driven by rental income from more than 21,300 tenants as of December 31, 2019. Accordingly, the ADO Properties Group believes it does not bear any concentration credit risk.

7.9.1.1 *Cash and cash equivalents*

The Company holds cash and cash equivalents with banks and financial institutions. The Company believes that its cash and cash equivalents have low credit risk based on the credit ratings of its counterparties. The carrying amount of financial assets represents the maximum credit exposure, notwithstanding the carrying amount of security or any other credit enhancements.

7.9.1.2 *Assessment of expected credit losses for individual customers*

We use a provision matrix that is based on, *inter alia*, an aging of trade receivables to measure the expected credit losses from individual customers, which comprise a very large number of small balances.

7.9.2 *Market Risk*

We are exposed to the risk of changes in market interest rates as a result of floating rate debt as well as new and follow-on loans. Loans obtained at variable rates expose us to cash flow interest rate risk, which could have adverse effects on our profit or loss or financial position. Changes in interest rates may cause variations in interest expense on interest-bearing assets and liabilities.

We review the need to enter into derivative transactions to manage the interest rate risk arising from our operations and our sources of finance.

7.9.3 *Liquidity Risk*

We continuously monitor all financing options available on the capital and banking markets and use these options in a targeted manner. We also subject our existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under conditions of existing loan agreements, we are obliged to fulfill certain financial covenants. If financial covenants are violated and all commonly practiced solutions will be unsuccessful, the lenders could make such loans due and payable. Fulfilling these financial covenants is continually monitored as part of risk management.

The following table shows the forecast of undiscounted cash flows of non-derivative financial liabilities and derivative financial instruments:

	As of December 31, 2019					
	Carrying amount	Contractual cash flows	2020	2021	2022	Due after five years
			(audited)			
			(in € thousand)			
Corporate bonds	397,433	430,000	6,000	6,000	6,000	412,000
Convertible bonds	156,334	175,314	2,063	2,063	2,063	169,125
Other loans and borrowings	777,817	829,247	57,526	131,401	68,335	571,985
Other financial liabilities	47,951	47,951	1,535	561	437	45,418
Trade payables	22,079	22,079	22,079	—	—	—
Tenants' security deposits	21,133	21,133	21,133	—	—	—
Other payables	18,958	18,958	18,958	—	—	—
Derivatives*	2,766	2,295	163	375	194	1,563
Total	1,444,471	1,546,977	129,457	140,400	77,029	1,200,091

* Cash flow hedges only. Does not include the derivative component of the convertible bond.

7.10 Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with IFRS requires management to use estimates and make assumptions and judgments that affect the ADO Properties Group's results or financial statements. Some of these estimates, assumptions and judgments are critical to the ADO Properties Group due to the high degree of uncertainty of the relevant parameters at the time they are used or due to various alternatives available to management in making decisions that would lead to significantly different results reflected on the ADO Properties Group's financial statements. Following is a summary of the ADO Properties Group's critical accounting policies.

7.10.1 Currency Translation

Transactions expressed in currencies other than Euro are translated into Euro at the exchange rate effective at the time of the transaction.

Formation expenses and long-term assets expressed in currencies other than Euro are translated into Euro at the exchange rate effective at the time of transaction. At the balance sheet date, these assets remain translated at historical exchange rates.

Cash at bank is translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year.

Other assets and liabilities are valued individually at the lower, respectively the higher of their value at the historical exchange rate or their value determined at the exchange rates prevailing at the balance sheet date. The unrealized exchange losses are recorded in the profit and loss account. Realized exchange gains and realized exchange losses are recorded in the profit and loss account at the moment of their realization.

Where there is an economic link between an assets and a liability, these are valued in total according to the method described above, the net unrealized losses are recorded in the profit and loss account, and the net unrealized exchange gains are not recognized.

7.10.2 Formation Expenses

Formation expenses include expenses incurred for the initial public offering, capital increase, bond issuance, and costs incurred on revolving credit facilities. Formation expenses are written off based on a straight-line method over a period of five years or until the maturity date of the related loan.

7.10.3 Financial Assets

Shares in affiliated undertakings/participating interests/loans to these undertakings/investments held as fixed assets/other loans are valued at purchase price/nominal value (loans and claims), including their incidental expenses.

In case of durable diminution in value according to the opinion of the Board of Directors, value adjustments are made in respect of financial assets, to value them at the lower amount attributed to them at the balance sheet date. These value adjustments are not continued if the reasons behind the value adjustments have ceased to apply.

7.10.4 Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments do not continue if the reasons for which the value adjustments were made have ceased to apply.

7.10.5 Derivative Financial Instruments

The Company may enter into derivative financial instruments such as options, swaps and futures. These derivative financial instruments are initially recorded at cost. At each balance sheet date, unrealized losses are recognized in the profit and loss account whereas gains are accounted for when realized. In the case of hedging of an asset or a liability that is not recorded at fair value, unrealized gains or losses are deferred until the recognition of the realized gains or losses on the hedged item.

7.10.6 Prepayments

Prepayments include expenditure incurred during the fiscal year but relating to a subsequent fiscal year.

7.10.7 Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the balance sheet date, are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arrive.

Provisions may also be created to cover charges which originate in the fiscal year under review or in a previous fiscal year, the nature of which is clearly defined and, which at the date of the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Provisions for taxation corresponding to the tax liability estimated by the Company for the fiscal years which the tax return has not yet been filed are recorded under the caption "Provision for taxation". The advance payments are shown in the assets of the balance sheet under "Other debtors".

7.10.8 Creditors

Creditors are recorded at repayable amount.

7.10.9 Net Turnover

The net turnover comprises the amounts of management fees charged to ADO Properties GmbH.

7.10.10 Interest Income and Expenses

Interest income and expenses are recognized on an accrual basis. Dividend income is recognized when the Company receives the cash related to shares in affiliated undertakings.

7.10.11 Value Adjustments

Value adjustments are deducted directly from the related asset.

7.11 Recent Accounting Pronouncements

7.11.1 IFRS 16 (Leases)

We have initially adopted IFRS 16 as of January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the ADO Properties Group, as lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

We elected to apply the standard using the modified retrospective approach, with an adjustment to the balance of retained earnings as of January 1, 2019 and without a restatement of comparative data. In respect of all the leases, we elected to apply the transitional provisions such that on the date of initial application it recognized a liability at the present value of the balance of future lease payments discounted at its incremental borrowing rate at that date calculated according to the average duration of the remaining lease period as from the date of initial application, and concurrently recognized a right-of-use asset at the same amount of the liability, adjusted for any pre-paid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of IFRS 16 did not have an effect on our equity at the date of initial application.

As part of the initial application of IFRS 16, we have chosen to apply the following expedients:

- Applying the practical expedient regarding the recognition and measurement of leases where the underlying asset has a low value; and
- Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within twelve months from the date of initial application and leases for a period of up to twelve months from the date of their inception for all groups of underlying assets to which the right-of-use relates.

On the inception date of the lease, we determine whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of identified asset for a period of time in exchange for consideration. In our assessment of whether an arrangement conveys the right to control the use of an identified asset, we assess whether we have the following two rights throughout the lease term:

- (1) The right to obtain substantially all the economic benefits from use of the identified asset; and
- (2) The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance that are related to a lease component, we elected to account for the contract as a single lease component without separating the components.

As a result of applying IFRS 16, in relation to leases that were previously classified as operating leases, we recognized €1,553 thousand of right-of-use assets and a €1,553 thousand lease liability as of January 1, 2019.

As of December 31, 2019, the balance of right-of-use assets amounted to €814 thousand and of the lease liability of €1,296 thousand. Also in relation to those leases under IFRS 16, we recognized depreciation and interest costs instead of operating lease expense. During the fiscal year ended December 31, 2019, we recognized €739 thousand of depreciation changes and €531 thousand interest costs from these leases.

7.11.2 IFRIC 23 (Uncertainty Over Income Tax Treatments)

We have initially adopted IFRIC 23 as of January 1, 2019, which does not have a material effect on our financial statements.

7.11.3 IFRS 3 (Business Combinations)

The amendment to IFRS 3 is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, as well as for the acquisition of assets that takes place on or after the begin of this period. In each case, an earlier application being permitted.

We examined the effects of adopting the amendment to IFRS 3 and reached the conclusion that in our opinion the amendment to IFRS 3 does not have a material effect on the accounting treatment of our future acquisitions or our operations.

7.11.4 IAS 1

The amendment to IAS 1 replaces certain classification requirements for current or non-current liabilities. For example, pursuant to the amendment to IAS 1, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it “has substance” and is in existence at the end of the reporting period. A right is in existence at the end of the reporting period only if the entity complies with conditions for deferring settlement at that date. Further-

more, the amendment to IAS 1 clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

The amendment to IAS is effective for reporting periods beginning on or after January 1, 2022 and is applicable retrospectively, including an amendment to comparative data.

As of the date of this Prospectus, we have not yet commenced to examine the effects of applying the amendment to IAS 1 on our financial statements.

8. PROFIT FORECAST

8.1 Guidance of the Funds From Operations (FFO 1) for the Fiscal Year 2020 of the Company

On March 31, 2020, the Company published its guidance on its expected funds from operations (from rental activities) (“**FFO 1**”) for the fiscal year ending December 31, 2020 on a consolidated basis (the “**FFO 1 Guidance 2020**”). The FFO 1 Guidance 2020 is not a presentation of facts and should not be interpreted as such by investors.

Rather, it reflects the forward-looking expectations of the Board of Directors with respect to the future development of the Company’s FFO 1. Potential investors should not place undue reliance on this FFO 1 Guidance 2020. Investors should also read the section “2.9 *Forward-looking Statements*” of this Prospectus.

The calculation of the FFO 1 for the purpose of the FFO 1 Guidance 2020 was based on the calculation methodology and reconciliation used by the Company to calculate the FFO 1.

The FFO 1 is an industry standard performance indicator for evaluating operational recurring profit of a real estate firm. The FFO 1 is derived from the EBITDA from rental activities for the respective periods adjusted to generally reflect net cash interest and current income taxes, see “6.2 *Additional Non-IFRS Performance Measures*”.

The FFO 1 Guidance 2020 is based on the following assumptions made by the Board of Directors. These assumptions relate to factors (i) outside of the Company’s influence, (ii) that can be influenced by the Company to a limited extent or (iii) that can be influenced by the Company. Even though the Company considered these assumptions as appropriate when preparing the FFO 1 Guidance 2020, they may prove in retrospect to be inappropriate or unfounded in the future. If one or more of these assumptions should prove to be inappropriate or unfounded, the actual FFO 1 can deviate materially from the FFO 1 Guidance 2020. The FFO 1 Guidance 2020 reflects any effects from the takeover of ADLER Real Estate, which we have assumed will be fully consolidated into the ADO Properties Group as of April 9, 2020, the settlement date of the Business Combination, including certain synergies which are expected to already be realized in 2020.

8.2 FFO 1 Guidance 2020

On March 31, 2020, the Company published its audited consolidated financial statements as of and for the fiscal year ended December 31, 2019, which included the FFO 1 Guidance 2020. The Company expects the FFO 1 for the fiscal year ending December 31, 2020 to amount between €105 million and €125 million. As of the date of this Prospectus, the FFO 1 Guidance 2020 is still valid.

8.3 Explanatory Notes to the FFO 1 Guidance 2020

8.3.1 *Basis of Preparation*

The FFO 1 Guidance 2020 was based on the Company’s accounting information prepared on the basis of the International Financial Reporting Standards as adopted by the European Union (“**IFRS**”). The accounting policies applied by the Company are described in the notes to the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2019. The FFO 1 Guidance 2020 has been compiled and prepared on a basis that is comparable with the audited consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017, and is consistent with the Company’s accounting policies. For the purposes of the FFO 1 Guidance 2020, the Company has assumed that ADLER Real Estate will be fully consolidated as of April 9, 2020.

8.3.2 *Factors and Assumptions*

The FFO 1 Guidance 2020 is influenced by a range of factors as well as assumptions of the Board of Directors.

8.3.2.1 *Factors outside of the Company’s influence*

The FFO 1 Guidance 2020 is generally subject to factors, which are completely outside of the influence of the Company. The main factors and related assumptions are described below:

8.3.2.1.1 Factor: Legislative and regulatory conditions

On June 18, 2019, Berlin's municipal government (*Berliner Senat*) announced its intention to freeze rents in Berlin for the next five years ("*Mietendeckel*"). On January 30, 2020, the Berlin parliament (*Berliner Abgeordnetenhaus*) passed the Law on Rent Limitation in Housing in Berlin (*Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin – MietenWoG Bln*). The law entered into force on February 23, 2020. See "*13.2.2 Rent Freeze ("Mietendeckel")*". As a result, while preparing its FFO 1 Guidance 2020, the Company has assumed a €1 million decrease in its net rental income in the financial year ending December 31, 2020.

On March 25, 2020, the German federal government passed a Law on mitigation of the impact of the COVID-19 pandemic in Civil and Insolvency and Criminal Procedure Law (*Gesetz zur Abmilderung der Folgen der COVID-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht*) (the "**COVID-Act**"). Pursuant to the COVID-Act, landlords may not terminate residential and commercial lease agreements if the tenant fails to pay rent during the period of April 1, 2020 through June 30, 2020, provided that such non-payment is caused by impacts related to the Coronavirus. Payments that become due during the period of April 1, 2020 through June 30, 2020, but that were not settled, will have to ultimately be settled by June 30, 2022. In light of current uncertainty in relation to the impact of the Coronavirus, the Company has not assumed any material impact to FFO 1 as a result of this law.

The Company has otherwise assumed that there will be no or only insignificant changes in the current and legal framework.

8.3.2.1.2 Factor: Demographic developments in the residential real estate industry

For purposes of the FFO 1 Guidance 2020, the Company has assumed that the demographic developments in the German residential real estate market, and in Berlin in particular, remain unchanged. See "*11.3.1 Berlin Macroeconomic Situation and Demographic Drivers*".

8.3.2.1.3 Factor: Changes in interest rates

While preparing the FFO 1 Guidance 2020, the Company has assumed that the current interest rates will remain stable, with the Company's financing strategy and financing structure remaining largely unchanged. As the Company has secured a significant portion of its floating rate liabilities with interest rate hedges, the Company does not expect any significant negative short-term effects on its financial expenses. The Company has assumed that the same remains true for ADLER Real Estate.

8.3.2.1.4 Factor: Cost inflation

For the purposes of the FFO 1 Guidance 2020, the Company did not assume any significant cost inflation in the fiscal year ending December 31, 2020.

8.3.2.1.5 Factor: Unforeseeable events such as "force majeure"

While preparing the FFO 1 Guidance 2020, the Company has assumed that no significant unforeseeable events will occur that could lead to significant constraints in the ongoing business operations of the Company or its subsidiaries, for instance force majeure (e.g. fire, flooding, hurricanes, storms, earthquakes or terrorist attacks), strikes, extraordinary macroeconomic events or war.

The Coronavirus has resulted in a deterioration of the political, socio-economic and financial situation in Germany. With the Coronavirus expanding rapidly, the negative impact on the Company's business cannot be adequately determined or reliably quantified at this time and has therefore not been taken into account when preparing the FFO 1 Guidance 2020. In particular, the potential impact of Coronavirus on tenants' ability to pay rent and the Company's finance costs has not been considered.

8.3.2.2 *Factors that can be influenced by the Company to a limited extent*

Likewise, other factors that can be influenced by the Company to a limited extent affect the FFO 1 Guidance 2020. The relevant assumptions are described below:

8.3.2.2.1 Factor: Net rental income

For the purposes of the FFO 1 Guidance 2020, the Company has assumed that the net rental income for the fiscal year ending December 31, 2020 will be between €280 million and €300 million. Net rental

income of the Company in the fiscal year ending December 31, 2020 will therefore increase by approximately €146 million to €166 million compared to the fiscal year ended December 31, 2019, primarily due to the Business Combination.

Net rental income has been adjusted to take into account the full-year effect of the Gewobag Sale, resulting in an expected €27 million decrease in net rental income, as well as an expected €1 million decrease due to the new legislation in Berlin as mentioned above. The Company has assumed no rental growth at the ADO Properties Group level for 2020.

In addition, ADLER Real Estate's net rental income has been adjusted to include expected lettings of its development project "Riverside" which has been completed at the end of 2019, less the effect from commercial asset disposals which occurred throughout 2019 and will continue in 2020 resulting in a decrease of net rental income. The Company has also assumed rental growth at ADLER Real Estate based on the current market environment.

8.3.2.2.2 Factor: Cost of operations

Costs of operations comprises salaries and related expenses, property operations and maintenance costs, costs of utilities recharged net and cost of sales of housing units. For the purposes of the FFO 1 Guidance 2020, the Company has assumed that the cost of operations in the fiscal year ending December 31, 2020 will increase relative to its net rental income compared to the fiscal year ended December 31, 2019, primarily due to the Business Combination. The Company has assumed that the increase in costs of operations will be partly offset due to the realization of certain operational synergies, which the Company expects to already occur in the fiscal year ending December 31, 2020. The relation of the costs of operations to the net rental income assumed is based on historical experience and may deviate considerably from the budget assumptions owing to events such as unplanned increases of the vacancy rate or major unscheduled maintenance work.

8.3.2.2.3 Factor: General and administrative expenses

General and administrative expenses comprises primarily salaries and related expenses, professional services, office, communication and IT expenses, advertising and marketing expenses, impairment loss on trade receivables, director fee and rent fees. For the purposes of the FFO 1 Guidance 2020, the Company has assumed that, relative to the net rental income, general and administrative expenses in the fiscal year ending December 31, 2020, will increase compared to the fiscal year ended December 31, 2019, primarily due to the Business Combination. The Company has assumed that the increase in general and administrative expenses will be partly offset due to the realization of certain operational synergies, which the Company expects to already occur in the fiscal year ending December 31, 2020.

8.3.2.2.4 Factor: Finance costs

Finance costs comprises interest on bank loans and loans from related parties, interest on bonds, change in fair value of derivatives and other finance expenses. For the purposes of the FFO 1 Guidance 2020, the Company has assumed:

- the refinancing of certain of ADLER Real Estate's debt with amounts available under the Bridge Facility;
- a €500 million rights issue will be completed in 2020, the proceeds of which will be partially used to refinance debt;
- the total amount of debt of €4.8 billion based on the expected amount of debt as of December 31, 2020, which includes debt of ADLER Real Estate in the amount of €3.6 billion;
- the average costs of the Company's overall debt, including the cost of ADLER Real Estate's debt, of 2.0%;
- all of the terms and conditions of its financing contracts, especially financial covenants, will be met;
- the interest rate risk will remain low in the fiscal year ending December 31, 2020, also due to interest rate hedges (interest rate swaps) concluded by the Company;
- the liquidity risk will remain low as the Company has assumed that sufficient liquidity is available and that the current level of the average financing costs of existing loan agreements can be reached even if new loan agreements are concluded or existing loan agreements are extended;

- the net loan-to-value ratio of the property portfolio as a whole will increase to approximately 47% (excluding convertible bonds) due to the Business Combination; and
- the Company has been put on credit watch negative and may be downgraded, which, however will not have an immediate impact on its financings and therefore has not been taken into account.

8.3.2.2.5 Factor: Current income tax expenses

The Company expects corporation income tax rates to remain stable and does not expect the tax laws concerning the Company to change in the fiscal year ending December 31, 2020. The Company expects the current income taxes for the fiscal year ending December 31, 2020 to amount to approximately €5 million.

8.3.2.3 *Factors that can be influenced by the Company*

8.3.2.3.1 Factor: Timing of disposals

The FFO 1 Guidance 2020 has been adjusted downward for certain commercial disposals at ADLER Real Estate, which occurred throughout 2019 and will continue in 2020. The date of such further disposals is not in full control of the Company. A delay in such transactions can have an impact on the FFO 1 Guidance 2020.

8.4 **Other Explanatory Notes**

The FFO 1 Guidance 2020 for the current fiscal year 2020 was prepared on March 31, 2020 in connection with the preparation of the Company's consolidated financial statements as of and for the fiscal year ended December 31, 2019. As the FFO 1 Guidance 2020 relates to a period not yet completed and is prepared on the basis of assumptions about future uncertain events and actions, it naturally entails substantial uncertainties. Because of these uncertainties, it is possible that the actual FFO 1 for the current fiscal year 2020 may differ materially from the FFO 1 Guidance 2020.

9. PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The expected effects of (i) a successful business combination (the “**Business Combination**”) of ADLER Real Estate Aktiengesellschaft (“**ADLER Real Estate**” and, together with its subsidiaries, the “**ADLER Group**”), a stock corporation incorporated under the laws of Germany, the shares of which are admitted to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) (WKN: 500800, ISIN: DE0005008007) with ADO Properties S.A. (the “**Company**” or “**ADO Properties**” and, together with its subsidiaries, the “**ADO Properties Group**”), on the financial position and results of operation of the ADO Properties Group, and (ii) a successful merger (the “**Merger**”) between ADLER Real Estate and ADO Group Ltd. (“**ADO Group**”), a public limited liability company incorporated under the laws of Israel, the shares of which are admitted to trading on the Tel Aviv Stock Exchange (TASE) are presented below on the basis of pro forma financial information.

9.1 Introduction

On September 23, 2019, (i) ADLER Real Estate, (ii) LI Lorgen Ltd., Ramat Gan, Israel, a wholly-owned subsidiary of ADLER Real Estate, which was acquired solely for purposes of the acquisition, and (iii) ADO Group whose most substantial asset is its stake in ADO Properties S.A., entered into an agreement and plan of merger by way of reverse-triangular merger (the “**Merger Agreement**”). According to the Merger Agreement, LI Lorgen Ltd. was merged into ADO Group as the absorbing entity (the Merger Agreement and the transactions contemplated thereby are referred to as the “**Merger**”). As a consequence of the Merger, LI Lorgen Ltd. ceased to exist and ADO Group became a wholly-owned subsidiary of ADLER Real Estate on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with certain provisions of the companies law of the State of Israel.

As of the date of the merger agreement between ADLER Real Estate and ADO Group, ADO Group held a 38.16% stake in ADO Properties. In accordance with a condition for the closing of the Merger, which took place on December 10, 2019, ADO Group sold 4.91% of the share capital and voting rights in ADO Properties, thus effectively reducing its stake in ADO Properties to 33.25%.

On December 15, 2019, the Company announced its intention to make a voluntary public takeover offer for all shares of ADLER Real Estate in the form of an exchange offer and, by entering into a business combination agreement, to combine the business of the ADLER Group with the business of the ADO Properties Group. The Company offered 0.4164 offer shares for every one share of ADLER Real Estate. The offer period commenced on February 7, 2020 and it expired on March 25, 2020. 91.93% of the ADLER Real Estate shareholders accepted the offer.

Since the Business Combination is expected to have a material impact on the net assets, financial position and results of operations of the ADO Properties Group, the following *pro forma* consolidated financial information (the “**Pro Forma Consolidated Financial Information**”) was prepared by the Company, comprising a *Pro Forma* Consolidated Balance Sheet as of December 31, 2019, *Pro Forma* Consolidated Statements of Profit or Loss for the periods from January 1, 2019 to December 31, 2019, and *Pro Forma* Notes. In addition, the *Pro Forma* Consolidated Statement of Profit or loss for the period from January 1, 2019 to December 31, 2019 shows the Merger with ADO Group, as it had a material impact on the results of operations of ADLER Real Estate and is in turn considered as a separate pro forma event. The effects from the Merger are not shown in the *Pro Forma* Consolidated Balance Sheet as of December 31, 2019 as ADLER Real Estate included the ADO Group in its consolidated balance sheet as of December 31, 2019.

The purpose of the *Pro Forma* Consolidated Financial Information is to show the material effects that the Business Combination would have had on the Company’s *Pro Forma* Consolidated Balance Sheet as of December 31, 2019 and *Pro Forma* Consolidated Statements of Profit or Loss for the period from January 1, 2019 to December 31, 2019 as if the ADO Properties Group had already existed since January 1, 2019 in the structure created by (i) the Business Combination and (ii) the Merger.

The *Pro Forma* Consolidated Financial Information is based on assumptions and bears uncertainties and, thus, does not represent the actual performance of the financial development of the ADO Properties Group and the results of its operations and its cash flows as if (i) the Business Combination and (ii) the Merger were already successfully completed as of January 1, 2019. Furthermore, the *Pro Forma* Consolidated Financial Information should not be considered as an indicator for the future performance of the financial position of the ADO Properties Group and the results of its operations and its cash flows following completion of the (i) the Business Combination and (ii) the Merger.

The *Pro Forma* Consolidated Financial Information should only be read in conjunction with the historical audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2019 prepared in accordance with IFRS as adopted by the European Union. The *Pro Forma* Consolidated Financial Information is not meaningful on a stand-alone basis.

9.2 Historical financial information

The preparation of the *Pro Forma* Consolidated Financial Information is based on the following underlying information:

- the Company's audited and published consolidated financial statements as of and for the fiscal year ended December 31, 2019, prepared in accordance with IFRS as adopted by the European Union (the "**ADOP Financials 2019**");
- ADLER Real Estate's audited and published consolidated financial statements as of and for the fiscal year ended December 31, 2019, prepared in accordance with IFRS as adopted by the European Union (the "**ADLER Financials 2019**"); and
- ADO Group's audited separate financial information as of and for the fiscal year ended December 31, 2019, prepared in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970 (annual) (the "**ADO Group Financials 2019**").

With regard to the accounting policies applied consistently to the underlying historical financial information of the *Pro Forma* Consolidated Financial Information, reference is made to the consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2019.

The ADO Group Financials 2019 are originally presented in Hebrew only and were translated into English solely for purposes of preparing these *Pro Forma* Consolidated Financial Information. Moreover, the ADO Group Financials 2019 are presented in Israeli shekel (ILS), whereas the ADLER Financials 2019 and the ADOP Financials 2019 are presented in EUR. To align with the presentation currency of the Company (EUR), the ADO Group Financials 2019 are calculated from ILS to EUR based on the exchange rate of the European Central Bank of ILS to Euro of 0.2574 as of December 31, 2019 for the *Pro Forma* Consolidated Balance Sheet and with the average rate of ILS to Euro of 0.2508 for the *Pro Forma* Consolidated Statement of Profit or Loss for the fiscal year ended December 31, 2019.

9.3 Basis for preparation

The Company and ADLER Real Estate have each prepared their consolidated financial statements in accordance with IFRS as adopted by the European Union. ADO Group has prepared their separate financial information in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970 (annual).

The required *Pro Forma* Adjustments are based on available information, estimates, and certain assumptions, as described in 9.7 Notes to the *Pro Forma* Consolidated Financial Information.

Due to the aforementioned reference to the ADO Group Financials 2019, which are fully consolidated as of December 31, 2019, and the ADLER Financials 2019, the Company has not yet finally determined all potential fair value step-ups and encumbrances in connection with the purchase price allocation in accordance with IFRS 3 for the hypothetical acquisition of ADLER Real Estate including ADO Group and, consequently, the *Pro Forma* Adjustments in the *Pro Forma* Consolidated Financial Information are subject to uncertainties.

The *Pro Forma* Consolidated Financial Information was prepared based on IDW Accounting Practice Statement: Preparation of *Pro Forma* Financial Information (IDW AcPS AAB 1.004) and information available as well as certain *Pro Forma* Assumptions of the Company as described in these *Pro Forma* Notes. The preparation was solely conducted for illustrative purposes. Due to their nature, the *Pro Forma* Consolidated Financial Information present the hypothetical financial position and results of the ADO Properties Group which may differ from the actual financial position and results of the ADO Properties Group.

The *Pro Forma* Consolidated Financial Information is presented in Euro. In addition, certain financial information regarding ADO Group is presented in ILS. Unless otherwise stated, all figures have been rounded to the nearest EUR thousand. The presentation of the *Pro Forma* Consolidated Financial Information in € thousand may result in rounding differences.

Parentheses around any figures in the tables indicate negative values. A dash (“-”) signifies that the relevant figure is not available, while a zero (“0”) signifies that the relevant figure is available but has been rounded to or equals zero.

9.4 Procedures and assumptions

The *Pro Forma* Consolidated Financial Information has been prepared based on the assumption that (i) the Business Combination and (ii) the Merger had been successfully completed as of January 1, 2019, each respectively considered a business combination under IFRS 3. Accordingly, all assets acquired and liabilities assumed and any non-controlling interest in ADLER Real Estate have been recognized within the *Pro Forma* Consolidated Balance Sheet.

The *Pro Forma* Consolidated Financial Information does not include deferred tax effects as a result of accounting policy adjustments or *Pro Forma* Adjustments resulting from (i) the Business Combination and (ii) the Merger. Income tax effects are only considered for *Pro Forma* Adjustments, if a material impact on the *Pro Forma* Consolidated Financial Information was identified and explicitly stated. In addition, the *Pro Forma* Consolidated Financial Information does not include any adjustment to deferred tax assets for tax loss carryforwards that could potentially be lost if shares are transferred and certain thresholds are exceeded.

Furthermore, no fair value adjustments with regard to contractual termination clauses (e.g. for financial liabilities) or contractual termination clauses as such, which could be triggered in the context of a change of control were taken into account. The effects of the Merger on any of the covenants of contracts in place with ADLER Real Estate and/or ADO Group and any third party (e.g. for financial liabilities) could not be conclusively assessed for purposes of the *Pro Forma* Consolidated Financial Information.

No effects of the conversion of stock options were taken into account for purposes of these *Pro Forma* Consolidated Financial Information.

Prior to the Business Combination, ADLER Real Estate and ADO Group were also operating as real estate transfer tax blocker (RETT blocker) for ADO Properties. Considering the new group structure, ADLER Real Estate and ADO Group do not fulfill the requirements of a RETT Blocker and did sell their shares in these investments to third parties. For the Company, the RETT blocker sale does not affect the presentation of equity. Prior to the sale, ADO Properties Group present non-controlling interest for the shares held by ADLER Real Estate and ADO Group in the Company’s subsidiaries. These non-controlling interest will also remain after the RETT blocker sale, as from a Company’s perspective a third party held the interests in those subsidiaries. Therefore, the *Pro Forma* Consolidated Financial Information have not been adjusted for the RETT blocker sale.

To reflect the Company’s assumed shareholding in ADLER Real Estate, the Company’s share capital as of December 31, 2019 was taken into account when preparing the *Pro Forma* Consolidated Financial Information. The same principle was applied with regard to the positions “treasury shares”, “share premium” and “other capital reserves”.

Any goodwill (badwill) recognized in the *Pro Forma* Consolidated Financial Information considers both goodwill attributable to non-controlling interests as well as goodwill (badwill) attributable to owners of the company (accounting policy choice for full goodwill method under IFRS 3.19). The non-controlling interests are, therefore, measured at fair value. Hence, the net assets and liabilities identified for purposes of the preliminary purchase price allocation based solely on the ADLER Financials 2019 and the ADOP Financials 2019 will potentially deviate from the net assets and liabilities that would be determined in the final purchase price allocation.

In the ADLER Financials 2019, the income from charged operating costs are recorded according to the principal method, in particular due to the Company’s business model, which provides for a high share of in-house services. ADLER Real Estate differentiated these services according to whether the company is a principal or an agent. Services, which ADLER Real Estate provides as an agent are recognized as net costs. Other services are recognized as gross costs, because ADLER Real Estate provides these services as a principal. Therefore, the reporting of expenses related to operating costs and the corresponding income from additional charges to the tenant provided as an agent was not offset in accordance with IFRS 15 in the *Pro Forma* Consolidated Statement of Profit or Loss in the ADLER Financials 2019. In the ADOP Financials 2019, the income from charged operating costs are recorded according to the agent method of ADO Properties. Therefore, the reporting of expenses related to operating costs and the corresponding income from additional charges to the tenant provided as a principal was offset in accordance

with IFRS 15 in the Consolidated Statement of Profit or Loss in the ADOP Financials 2019. Both methods are in accordance with IFRS and do not represent an accounting policy choice, therefore, no presentation adjustment were recorded in the *Pro Forma* Consolidated Financial Information.

For purposes of the *Pro Forma* Consolidated Financial Information regarding the alignment of the ADLER Financials 2019 with the Company's accounting policies in relation to the recognition of income and expenses, no different treatment of operating costs was taken into account and in turn no alignment was considered.

9.5 Alignment of the historical financial information of ADO Properties and ADO Group

In order to present uniform historical financial information for purposes of the *Pro Forma* Consolidated Financial Information, the ADLER Financials 2019 and the ADO Group Financials 2019 have been adjusted to align with the accounting policies of ADO Properties.

9.5.1 Accounting policy adjustments as of and for the fiscal year ended December 31, 2019

ADLER Real Estate balance sheet as of December 31, 2019

The following table summarizes the accounting policy adjustments to the consolidated balance sheet of ADLER Real Estate as of December 31, 2019. As no accounting and valuation adjustments were identified, accounting policy adjustments refer to presentation adjustments only.

	<u>Historical ADLER Real Estate</u>	<u>Presentation adjustments</u>	<u>Presentation note</u>	<u>Adjusted ADLER Real Estate</u>
	(in € thousand)			
Assets				
Non-current assets				
Goodwill	169,439	—		169,439
Intangible assets	584	—		584
Investment properties	4,920,008	—		4,920,008
Advances in respect of investment properties . .	—	17,783	(i)	17,783
Property and equipment	19,348	(6,936)	(iii)	12,412
Loans to associated companies	79,524	—		79,524
Investments in associated companies	23,432	—		23,432
Other financial investments	56,603	(56,603)	(ii)	—
Other financial assets	—	56,603	(ii)	56,603
Other non-current assets	17,783	(17,783)	(i)	—
Deferred tax assets	1,955	—		1,955
Advance expenses	—	—		—
Restricted bank deposit	—	—		—
Deferred expenses	—	—		—
Right-of-use-of-assets	—	6,936	(iii)	6,936
	<u>5,288,676</u>	<u>—</u>		<u>5,288,676</u>
Current assets				
Inventories	87,308	(87,308)	(iv)	—
Trading properties	—	87,308	(iv)	87,308
Restricted bank deposits	—	82,125	(i)	82,125
Trade receivables	31,987	—		31,987
Income tax receivables	4,643	(4,643)	(v)	—
Other receivables	—	115,520	(i), (v)	115,520
Other current assets	193,002	(193,002)	(i)	—
Cash and cash equivalents	237,415	—		237,415
Non-current assets held for sale	4,838,646	(4,838,646)	(vi)	—
Assets of disposal groups classified as held for sale	—	4,838,646	(vi)	4,838,646
	<u>5,393,001</u>	<u>—</u>		<u>5,393,001</u>
	<u>10,681,677</u>	<u>—</u>		<u>10,681,677</u>

	Historical ADLER Real Estate	Presentation adjustments	Presentation note	Adjusted ADLER Real Estate
	(in € thousand)			
Shareholders' equity				
Capital stock	71,064	(71,064)	(vii)	—
Share capital	—	71,064	(vii)	71,064
Treasury shares	(1,603)	—		(1,603)
Capital reserves	309,337	(309,337)	(viii)	—
Share premium	—	309,337	(viii)	309,337
Currency translation reserves	—	—		—
Reserves	—	(26,438)	(ix)	(26,438)
Net retained profit	1,093,505	(1,093,505)	(ix)	—
Retained earnings	(26,438)	1,119,943	(ix)	1,093,505
Total equity attributable to owners of the Company	1,445,865	—		1,445,865
Non-controlling interests	2,101,992	—		2,101,992
	3,547,857	—		3,547,857
Non-current liabilities				
Pension provisions	4,092	(4,092)	(xii)	—
Other provisions	3,148	(3,148)	(xii)	—
Liabilities from convertible bonds	122,249	(122,249)	(x)	—
Liabilities from bonds	2,327,846	(2,327,846)	(x)	—
Corporate bonds	—	2,327,846	(x)	2,327,846
Convertible bonds	—	122,249	(x)	122,249
Financial liabilities to banks	2,002,136	(2,002,136)	(xi)	—
Other loans and borrowings	—	2,002,136	(xi)	2,002,136
Other financial liabilities	—	2,661	(xii)	2,661
Other non-current liabilities	29,159	(29,159)	(xii)	—
Other payables	—	7,240	(xii)	7,240
Derivatives	—	5,973	(xii)	5,973
Lease liabilities	—	20,525	(xii)	20,525
Deferred tax liabilities	439,856	—		439,856
	4,928,486	—		4,928,486
Current liabilities				
Other provisions	12	(12)	(xii)	—
Income tax liabilities	15,960	(15,960)	(xiii)	—
Liabilities from convertible bonds	1,947	(1,947)	(x)	—
Liabilities from bonds	101,612	(101,612)	(x)	—
Corporate bonds	—	101,612	(x)	101,612
Convertible bonds	—	1,947	(x)	1,947
Financial liabilities to banks	157,708	(157,708)	(xi)	—
Other loans and borrowings	—	157,708	(xi)	157,708
Other financial liabilities	—	—		—
Trade payables	37,380	—		37,380
Other current liabilities	63,297	(63,297)	(xii)	—
Other payables	—	76,175	(xii), (xiii)	76,175
Lease liabilities	—	2,701	(xii)	2,701
Derivatives	—	393	(xii)	393
Liabilities held for sale	1,827,418	(1,827,418)	(xiv)	—
Liabilities of disposal groups classified as held for sale	—	1,827,418	(xiv)	1,827,418
	2,205,334	—		2,205,334
Total equity and liabilities	10,681,677	—		10,681,677

9.5.2 Notes to the accounting policy adjustments as of and for the fiscal year ended December 31, 2019

ADLER Real Estate balance sheet as of December 31, 2019

(i) Other non-current and current assets

ADLER Real Estate does not disclose advances for investment property as a separate line item. Accordingly, these amounts (€17,783 thousand) were re-classified from other non-current assets to advances for

investment property. Additionally, ADLER Real Estate discloses other current assets (€193,002 thousand) which were re-classified to the following separated lines: restricted bank deposits (€82,125 thousand) and other receivables (€110,877 thousand), respectively.

(ii) Other financial investments

ADLER Real Estate does not separately disclose other financial assets. These assets (€56,603 thousand) represent investments accounted for at fair value through profit and loss and were accordingly re-classified to other financial asset.

(iii) Right-of-use of assets

ADLER Real Estate does not disclose separately right-of-use asset as defined by IFRS 16. The Company, however, separately discloses right-of-use-of assets. Therefore, these assets (€6,936 thousand) were re-classified from property and equipment to right-of-use assets.

(iv) Inventories

The line item inventories represents inventories that were re-classified to trading properties (€87,308 thousand).

(v) Income tax receivables

The Company does not disclose income tax receivables as a separate line item. Accordingly, these assets (€4,643 thousand) were re-classified to other receivables.

(vi) Non-current assets held for sale

The Company discloses assets held for sale on the account assets of disposal groups classified as held for sale. ADLER Real Estate discloses asset held for sale in the account non-current assets held for sale. Therefore, these assets (€4,838,646 thousand) which represent non-current assets held for sale were re-classified to assets of disposal groups classified as held for sale.

(vii) Capital stock

Capital stock (€71,064 thousand) was re-classified to share capital.

(viii) Capital reserves

The Company does not separately disclose a capital reserve. The capital reserve (€309,337 thousand) refers to capital surplus generated from stock issuance and therefore the amount was re-classified to capital share premium.

(ix) Reserves and net retained profit

ADLER Real Estate present its reserves in the balance sheet items retained earnings and its retained earnings in the balance sheet item net retained profit. Accordingly, net retained profit was re-classified to reserves (€26,438 thousands) and net retained profit (€1,093,505 thousands) was re-classified to retained earnings.

(x) Liabilities from (convertible) bonds

ADLER Real Estate discloses liabilities from convertible bonds and liabilities from bonds. The Company discloses corporate bonds and convertible bonds. Therefore, non-current liabilities (€2,327,846 thousand and €122,249 thousand) and current liabilities (€101,612 thousand and €1,947 thousand) were re-classified to corporate bonds and convertible bonds respectively.

(xi) Financial liabilities to banks

ADLER Real Estate disclose short-loans credit from banking entities as current liabilities of which financial liabilities to banks. However, the Company discloses bank loans under other loans and borrowings. Therefore, the entire balance in the amount of €2,002,136 thousand from financial liabilities to banks was re-classified to other loans and borrowings for non-current liabilities and the entire balance in the amount of €157,708 thousand from financial liabilities to banks was re-classified to other loans and borrowings for current liabilities.

(xii) Other non-current and current liabilities

ADLER Real Estate does not disclose derivatives and lease liabilities as a separate line item but includes them in other non-current liabilities. Therefore, derivatives (€5,973 thousands) and lease liabilities (€20,525 thousands) were re-classified to separate lines. Remaining other non-current liabilities (€2,661 thousands) were re-classified to other financial liabilities. Additionally, pension provisions (€4,092 thousands) and other provisions (€3,148 thousands) were re-classified to other payables.

Within current liabilities, other current liabilities (€63,297 thousands) were re-classified to other payables (€60,215 thousand), lease liabilities (€2,701 thousand), derivatives (€393 thousand) and other provisions (€12 thousand).

(xiii) Income tax liabilities

The Company does not disclose income tax liabilities. Accordingly, income tax liabilities in the amount of €15,960 thousand were re-classified to other payables.

(xiv) Liabilities held for sale

The Company discloses liabilities held for sale in account liabilities of disposal groups classified as held for sale. ADLER Real Estate discloses liabilities held for sale in the account current liabilities held for sale. Therefore, these liabilities (€1,827,418 thousand) represent current liabilities held for sale that were re-classified to liabilities of disposal groups classified as held for sale.

	Presentation adjustments						Total presentation adjustments
	Other non-current and current assets	Other financial investments	Right-of-use assets	Inventories	Income tax receivables	Non-current assets held for sale	
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	
Assets							
Non-current assets							
Goodwill	—	—	—	—	—	—	—
Intangible assets	—	—	—	—	—	—	—
Investment properties	—	—	—	—	—	—	—
Advances in respect of investment properties	17,783	—	—	—	—	—	17,783
Property and equipment	—	—	(6,936)	—	—	—	(6,936)
Loans to associated companies	—	—	—	—	—	—	—
Investments in associated companies	—	—	—	—	—	—	—
Other financial investments	—	(56,603)	—	—	—	—	(56,603)
Other financial assets	—	56,603	—	—	—	—	56,603
Other non-current assets	(17,783)	—	—	—	—	—	(17,783)
Deferred tax assets	—	—	—	—	—	—	—
Advance expenses	—	—	—	—	—	—	—
Restricted bank deposit	—	—	—	—	—	—	—
Deferred expenses	—	—	—	—	—	—	—
Right-of-use-of-assets	—	—	6,936	—	—	—	6,936
Current assets							
Inventories	—	—	—	(87,308)	—	—	(87,308)
Trading properties	—	—	—	87,308	—	—	87,308
Restricted bank deposits	82,125	—	—	—	—	—	82,125
Trade receivables	—	—	—	—	—	—	—
Income tax receivables	—	—	—	—	(4,643)	—	(4,643)
Other receivables	110,877	—	—	—	4,643	—	115,520
Other current assets	(193,002)	—	—	—	—	—	(193,002)
Cash and cash equivalents	—	—	—	—	—	—	—
Non-current asset held for sale	—	—	—	—	—	(4,838,646)	(4,838,646)
Assets of disposal groups classified as held for sale	—	—	—	—	—	4,838,646	4,838,646
Total assets	—	—	—	—	—	—	—

Presentation adjustments					
	Capital stock	Capital reserves	Reserves / Net retained profit	Liabilities from (convertible) bonds	Total presentation adjustments
	(vii)	(viii)	(in € thousand) (ix)	(x)	
Shareholders' equity					
Capital stock	(71,064)	—	—	—	(71,064)
Share capital	71,064	—	—	—	71,064
Treasury shares	—	—	—	—	—
Capital reserves	—	(309,337)	—	—	(309,337)
Share premium	—	309,337	—	—	309,337
Currency translation reserves	—	—	—	—	—
Reserves	—	—	(26,438)	—	(26,438)
Net retained profit	—	—	(1,093,505)	—	(1,093,505)
Retained earnings	—	—	1,119,943	—	1,119,943
Total equity attributable to owners of the Company	—	—	—	—	—
Non-controlling interests	—	—	—	—	—
Non-current liabilities					
Pension provisions	—	—	—	—	—
Other provisions	—	—	—	—	—
Liabilities from convertible bonds	—	—	—	(122,249)	(122,249)
Liabilities from bonds	—	—	—	(2,327,846)	(2,327,846)
Corporate bonds	—	—	—	2,327,846	2,327,846
Convertible bonds	—	—	—	122,249	122,249
Financial liabilities to banks	—	—	—	—	—
Other loans and borrowings	—	—	—	—	—
Other financial liabilities	—	—	—	—	—
Other non-current liabilities	—	—	—	—	—
Other payables	—	—	—	—	—
Derivatives	—	—	—	—	—
Lease liabilities	—	—	—	—	—
Deferred tax liabilities	—	—	—	—	—
Current liabilities					
Other provisions	—	—	—	—	—
Income tax liabilities	—	—	—	—	—
Liabilities from convertible bonds	—	—	—	(1,947)	(1,947)
Liabilities from bonds	—	—	—	(101,612)	(101,612)
Corporate bonds	—	—	—	101,612	101,612
Convertible bonds	—	—	—	1,947	1,947
Financial liabilities to banks	—	—	—	—	—
Other loans and borrowings	—	—	—	—	—
Other financial liabilities	—	—	—	—	—
Trade payables	—	—	—	—	—
Other current liabilities	—	—	—	—	—
Other payables	—	—	—	—	—
Lease liabilities	—	—	—	—	—
Derivatives	—	—	—	—	—
Liabilities held for sale	—	—	—	—	—
Liabilities of disposal groups classified as held for sale	—	—	—	—	—
Total equity and liabilities	—	—	—	—	—

	Presentation adjustments				Total presentation adjustments
	Financial liabilities to banks	Other non-current and current liabilities	Income tax liabilities	Liabilities held for sale	
	(xi)	(xii)	(in € thousand) (xiii)	(xiv)	
Shareholders' equity					
Capital stock	—	—	—	—	—
Share capital	—	—	—	—	—
Treasury shares	—	—	—	—	—
Capital reserves	—	—	—	—	—
Share premium	—	—	—	—	—
Currency translation reserves	—	—	—	—	—
Reserves	—	—	—	—	—
Net retained profit	—	—	—	—	—
Retained earnings	—	—	—	—	—
Total equity attributable to owners of the Company	—	—	—	—	—
Non-controlling interests	—	—	—	—	—
Non-current liabilities					
Pension provisions	—	(4,092)	—	—	(4,092)
Other provisions	—	(3,148)	—	—	(3,148)
Liabilities from convertible bonds	—	—	—	—	—
Liabilities from bonds	—	—	—	—	—
Corporate bonds	—	—	—	—	—
Convertible bonds	—	—	—	—	—
Financial liabilities to banks	(2,002,136)	—	—	—	(2,002,136)
Other loans and borrowings	2,002,136	—	—	—	2,002,136
Other financial liabilities	—	2,661	—	—	2,661
Other non-current liabilities	—	(29,159)	—	—	(29,159)
Other payables	—	7,240	—	—	7,240
Derivatives	—	5,973	—	—	5,973
Lease liabilities	—	20,525	—	—	20,525
Deferred tax liabilities	—	—	—	—	—
Current liabilities					
Other provisions	—	(12)	—	—	(12)
Income tax liabilities	—	—	(15,960)	—	(15,960)
Liabilities from convertible bonds	—	—	—	—	—
Liabilities from bonds	—	—	—	—	—
Corporate bonds	—	—	—	—	—
Convertible bonds	—	—	—	—	—
Financial liabilities to banks	(157,708)	—	—	—	(157,708)
Other loans and borrowings	157,708	—	—	—	157,708
Other financial liabilities	—	—	—	—	—
Trade payables	—	—	—	—	—
Other current liabilities	—	(63,297)	—	—	(63,297)
Other payables	—	60,215	15,960	—	76,175
Lease liabilities	—	2,701	—	—	2,701
Derivatives	—	393	—	—	393
Liabilities held for sale	—	—	—	(1,827,418)	(1,827,418)
Liabilities of disposal groups classified as held for sale	—	—	—	1,827,418	1,827,418
Total equity and liabilities	—	—	—	—	—

ADLER Real Estate consolidated statement of Profit or Loss for the fiscal year ended December 31, 2019

The following table summarizes the accounting policy adjustments to the consolidated statement of profit or loss of ADLER Real Estate for the fiscal year ended December 31, 2019. As no accounting and valuation adjustments were identified, accounting policy adjustments refer to presentation adjustments only.

	Historical ADLER Real Estate	Accounting policy adjustments		Adjusted ADLER Real Estate
		Presentation adjustments	Presentation note	
		(in € thousand)		
Revenue	—	904,185	(i)	904,185
Gross rental income	370,362	(370,362)	(i)	—
Income from the sale of properties	533,823	(533,823)	(i)	—
Cost of operations	—	(684,373)	(ii)	(684,373)
Expenses from property lettings	(151,044)	151,044	(ii)	—
Expenses from the sale of properties	(533,329)	533,329	(ii)	—
Gross profit	219,812			219,812
General and administrative expenses	—	(113,442)	(iii)	(113,442)
Personal expenses	(47,130)	47,130	(iii)	—
Other operating income	8,364	(8,364)	(iii)	—
Other operating expenses	(68,964)	68,964	(iii)	—
Other expenses	—	—		—
Changes in fair value of investment properties	362,638	—		362,638
Depreciation and amortization	(5,712)	5,712	(iii)	—
Result from operating activities	469,008	—		469,008
Net income from at-equity valued investment associates	(1,327)	1,327	(iv)	—
Finance income	10,190	—		10,190
Finance cost	(120,885)	(1,327)	(iv)	(122,212)
Net finance costs	(112,022)	—		(112,022)
Profit before tax	356,986	—		356,986
Income tax expense	(81,231)	—		(81,231)
Profit for the period (continued operations)	275,755	—		275,755
Earnings after taxes from discontinued operations	92,009	—		92,009
Profit for the period	367,764	—		367,764
Profit attributable to:				
Owners of the Company	238,338	—		238,338
Non-controlling interest	129,426	—		129,426
Profit for the period	367,764	—		367,764
Basic earnings per share (in EUR)	3.46			3.46
Diluted earnings per share (in EUR)	3.08			3.08

** No different treatment of a gross or a net method regarding operational cost was considered.

ADLER Real Estate consolidated statement of profit or loss for the fiscal year ended December 31, 2019

(i) Gross rental income and income from the sale of properties

ADLER Real Estate does not disclose revenue as a separate line item, but instead discloses the items gross rental income and income from the sale of properties. Accordingly, gross rental income (€370,362 thousand) and income from the sale of properties (€533,823 thousand) were re-classified to revenues (€904,185 thousand).

(ii) Cost of operations

ADLER Real Estate does not separately disclose cost of operations, but instead discloses the items expenses from property lettings and expenses from the sale of properties. Accordingly, expenses from property

lettings (€151,044 thousand) and expenses from the sale of properties (€533,329 thousand) were re-classified to cost of operations (€684,373 thousand).

(iii) General and administrative expenses and other operating income

ADLER Real Estate does not disclose general and administrative expenses as a separate line item, but instead discloses personnel expenses and depreciation and amortization. Accordingly, personnel expenses (€47,130 thousand), and depreciation and amortization (€5,712 thousand) were re-classified to general and administration expenses (€52,832 thousand). Additionally, ADLER Real Estate discloses other operating income in the amount of €8,364 thousand and other operating expenses in the amount of €68,964 thousand, which mainly relate to external services, rent, and other operating items and were also included in general and administrative expenses.

(iv) Net income from at-equity valued investment associates

ADLER Real Estate discloses profit/loss from investments accounted for at equity as a separate line item. Accordingly, a loss in the amount of €1,327 thousand has been re-classified to finance costs.

	Presentation adjustments				
	Gross rental income	Cost of operations	General and administrative expenses / Operating income & expenses	Net income from at-equity valued investment associates	Total presentation adjustments
	(i)	(ii)	(in € thousand) (iii)	(iv)	
Revenue	904,185	—	—	—	904,185
Gross rental income	(370,362)	—	—	—	(370,362)
Income from the sale of properties	(533,823)	—	—	—	(533,823)
Cost of operations	—	(684,373)	—	—	(684,373)
Expenses from property lettings	—	151,044	—	—	151,044
Expenses from the sale of properties	—	533,329	—	—	533,329
Gross profit	—	—	—	—	—
General administrative expenses	—	—	(113,442)	—	(113,442)
Personal expenses	—	—	47,130	—	47,130
Other operating incomes	—	—	(8,364)	—	(8,364)
Other operating expenses	—	—	68,964	—	68,964
Other expenses	—	—	—	—	—
Changes in fair value of investment properties	—	—	—	—	—
Depreciation and amortization	—	—	5,712	—	5,712
Result from operating activities	—	—	—	—	—
Profits from investments accounted for at equity	—	—	—	1,327	1,327
Finance income	—	—	—	—	—
Finance cost	—	—	—	(1,327)	(1,327)
Net finance costs	—	—	—	—	—
Profit before tax	—	—	—	—	—
Income tax expense	—	—	—	—	—
Profit for the period (continued operations)	—	—	—	—	—
Earnings after taxes from discontinued operations	—	—	—	—	—
Profit for the period	—	—	—	—	—
Profit attributable to:					
Owners of the Company	—	—	—	—	—
Non-controlling interest	—	—	—	—	—
Profit for the period	—	—	—	—	—
Basic earnings per share (in EUR)	—	—	—	—	—
Diluted earnings per share (in EUR)	—	—	—	—	—

ADO Group stand-alone statement of profit or loss for the fiscal year ended December 31, 2019

The following table summarizes the accounting policy adjustments to the income statement of ADO Group stand-alone for the twelve-month period ended December 31, 2019. As no accounting and valuation adjustments were identified accounting policy adjustments refer to presentation adjustments only.

	Historical ADO Group	Accounting policy adjustments		Adjusted ADO Group
		Presentation adjustments	Presentation note	
		(in € thousand)		
Revenue	—	24	(i)	24
Revenues from services provided to investee companies . . .	24	(24)	(i)	—
Cost of operations	—	—	—	—
Gross profit	24	—	—	24
General and administrative expenses	(3,593)	—	—	(3,593)
Other income	—	—	—	—
Other expenses	—	—	—	—
Changes in fair value of investment properties	—	—	—	—
Results from operating activities	(3,569)	—	—	(3,569)
Profits from investee companies	223,606	(223,606)	(ii)	—
Finance income	938	223,606	(ii)	224,545
Finance costs	(15,380)	—	—	(15,380)
Net finance costs	209,164	—	—	209,164
Profit before tax	205,595	—	—	205,595
Income tax expense	(11,247)	—	—	(11,247)
Profit for the period (continued operations)	194,348	—	—	194,348
Earnings after taxes from discontinued operations	—	—	—	—
Profit for the period	194,348	—	—	194,348
Profit attributable to:				
Owners of the Company	194,348	—	—	194,348
Non-controlling interest	—	—	—	—
Profit for the period	194,348	—	—	194,348
Basic earnings per share (in EUR)	n/a	n/a	n/a	n/a
Diluted earnings per share (in EUR)	n/a	n/a	n/a	n/a

ADO Group stand-alone statement of profit or loss for the fiscal year ended December 31, 2019

(i) Revenue

ADO Group does not disclose revenues as a separate line item, but instead discloses the item revenues from services provided to investee companies. Accordingly, revenues from services provided to investee companies (€24 thousand) was re-classified to revenue (€24 thousand).

(ii) Profits from investee companies

ADO Group reflects profits from investee companies as a separate line item. As the Company does not show profits from investee companies, profits in the amount of €223,606 thousand were re-classified to finance income.

	Presentation adjustments		
	Revenues	Profits from investee companies	Total presentation adjustments
	(i)	(ii)	
	(in € thousand)		
Revenue	24	—	24
Revenues from services provided to investee companies	(24)	—	(24)
Cost of operations	—	—	—
Gross profit	—	—	—
General administrative expenses	—	—	—
Other income	—	—	—
Other expenses	—	—	—
Changes in fair value of investment properties	—	—	—
Results from operating activities	—	—	—
Profits from investments accounted for at equity	—	—	—
Profit from investee companies	—	223,606	223,606
Finance income	—	(223,606)	(223,606)
Finance costs	—	—	—
Net finance costs	—	—	—
Profit before tax	—	—	—
Income tax expense	—	—	—
Profit for the period (continued operations)	—	—	—
Earnings after taxes from discontinued operations	—	—	—
Profit for the period	—	—	—
Profit attributable to:			
Owners of the Company	—	—	—
Non-controlling interest	—	—	—
Profit for the period	—	—	—
Basic earnings per share (in EUR)	—	—	—
Diluted earnings per share (in EUR)	—	—	—

9.6 *Pro Forma Consolidated Financial Information as of and for the fiscal year ended December 31, 2019*

The following tables present the *Pro Forma* Consolidated Balance Sheet as of December 31, 2019 as well as the *Pro Forma* Consolidated Statement of Profit or Loss for the fiscal year from January 1, 2019 to December 31, 2019.

The financial information contained in column A of the *Pro Forma* Consolidated Balance Sheet as of December 31, 2019 and the *Pro Forma* Consolidated Statement of Profit or Loss for the fiscal year ended December 31, 2019 is taken from the ADOP Financials 2019.

The financial information contained in column B of the *Pro Forma* Consolidated Balance Sheet as of December 31, 2019 and the *Pro Forma* Consolidated Statement of Profit or Loss for the fiscal year ended December 31, 2019 is taken from the ADLER Financials 2019. The figures of ADLER Financials 2019, which fully consolidated ADO Group as of December 31, 2019, within column B were reconciled to the reporting structure of the Company.

The financial information contained in column C of the *Pro Forma* Consolidated Statement of Profit or Loss for the twelve-month period ended December 31, 2019 is taken from the ADO Group Financials 2019. The figures of ADO Group Financials 2019 within column C were reconciled to the reporting structure of the Company.

The *Pro Forma* Adjustments contained in column E1 and E2 reflect the assumption that (i) the Business Combination and (ii) the Merger were successfully completed as of January 1, 2019. These *Pro Forma*

Adjustments are explained in detail in the notes to the *Pro Forma* Consolidated Financial Information below.

The financial information contained in column F represents the *Pro Forma* Consolidated Financial Information as of and for the fiscal year ended December 31, 2019 as if (i) the Business Combination and (ii) the Merger were successfully completed as of January 1, 2019.

Pro Forma Consolidated Balance Sheet as of December 31, 2019

	Historical financial information		
	ADO Properties Group	ADLER Group	Total
	A	B	D=A+B
	(in € thousand)		
Assets			
Non-current assets			
Investment properties	3,624,453	4,920,008	8,544,461
Investment in Consus Real Estate AG	186,158	—	186,158
Advances in respect of investment properties	6,300	17,783	24,083
Goodwill	—	169,439	169,439
Intangible assets	—	584	584
Property and equipment	10,927	12,412	23,339
Loans to associated companies	—	79,524	79,524
Investments in associated companies	—	23,432	23,432
Other financial asset	98,871	56,603	155,474
Restricted bank deposits	3,873	—	3,873
Deferred tax assets	—	1,955	1,955
Deferred expenses	745	—	745
Right-of-use asset	814	6,936	7,750
	3,932,141	5,288,676	9,220,817
Current assets			
Trading properties	25,860	87,308	113,168
Restricted bank deposits	26,494	82,125	108,619
Trade receivables	15,570	31,987	47,557
Other receivables	8,842	115,520	124,362
Cash and cash equivalents	387,558	237,415	624,973
Assets of disposal groups classified as held for sale	—	4,838,646	4,838,646
	464,324	5,393,001	5,857,325
Total assets	4,396,465	10,681,677	15,078,142

	<u>Total</u>		<u>Pro forma adjustments for the Merger</u>	<u>Pro forma adjustments for the Business Combination</u>	<u>Total</u>
	<u>D=A+B</u>	<u>Ref.</u>	<u>E1</u>	<u>E2</u>	<u>F=D+E</u>
	(in € thousand)				
Assets					
Non-current assets					
Investment properties	8,544,461		—	—	8,544,461
Investment in Consus Real					
Estate AG	186,158		—	—	186,158
Advances in respect of					
investment properties	24,083		—	—	24,083
Goodwill	169,439	(9)	—	84,008	253,447
Intangible assets	584		—	—	584
Property and equipment	23,339		—	—	23,339
Loans to associated					
companies	79,524		—	—	79,524
Investments in associated					
companies	23,432	(1), (2) (9), (10)	941,186	(879,330)	85,289
Other financial asset	155,474	(1), (12)	63,146	(63,146)	155,474
Restricted bank deposits	3,873		—	—	3,873
Deferred tax assets	1,955		—	—	1,955
Deferred expenses	745		—	—	745
Right-of-use asset	7,750		—	—	7,750
	<u>9,220,817</u>		<u>1,004,332</u>	<u>(858,467)</u>	<u>9,366,682</u>
Current assets					
Trading properties	113,168		—	—	113,168
Restricted bank deposits	108,619		—	—	108,619
Trade receivables	47,557		—	—	47,557
Other receivables	124,362	(1), (3), (7)	4,081	9,142	137,585
Cash and cash equivalents	624,973	(2), (4), (5), (11)	29,666	500,000	1,154,639
Assets of disposal groups					
classified as held for sale	4,838,646	(1), (2)	(4,784,098)	—	54,548
	<u>5,857,325</u>		<u>(4,750,351)</u>	<u>509,142</u>	<u>1,616,116</u>
Total assets	<u>15,078,142</u>		<u>(3,746,019)</u>	<u>(349,325)</u>	<u>10,982,798</u>

	ADO Properties Group	ADLER Group	Total
	A	B	D=A+B
	(in € thousand)		
Shareholders' equity			
Share capital	55	71,064	71,119
Treasury shares	—	(1,603)	(1,603)
Share premium	500,608	309,337	809,945
Reserves	250,684	(26,438)	224,245
Retained earnings	1,895,445	1,093,505	2,988,950
Total equity attributable to owners of the Company	2,646,792	1,445,865	4,092,657
Non-controlling interests	51,653	2,101,992	2,153,645
Total equity	2,698,445	3,547,857	6,246,302
Liabilities			
Non-current liabilities			
Corporate bonds	397,433	2,327,846	2,725,279
Convertible bonds	156,334	122,249	278,583
Other loans and borrowings	740,212	2,002,136	2,742,348
Other financial liabilities	46,416	2,661	49,077
Other payables	—	7,240	7,240
Derivatives	6,091	5,973	12,064
Lease liabilities	473	20,525	20,998
Deferred tax liabilities	239,347	439,856	679,203
	1,586,306	4,928,486	6,514,792
Current liabilities			
Corporate bonds	—	101,612	101,612
Convertible bonds	—	1,947	1,947
Other loans and borrowings	37,605	157,708	195,313
Other financial liabilities	1,535	—	1,535
Trade payables	22,079	37,380	59,459
Other payables	49,613	76,175	125,788
Lease liabilities	823	2,701	3,524
Derivatives	59	393	452
Liabilities of disposal groups classified as held for sale	—	1,827,418	1,827,418
	111,714	2,205,334	2,317,048
Total equity and liabilities	4,396,465	10,681,677	15,078,142

Historical financial information

	Total D=A+B	Ref.	Pro Forma	Pro Forma	Total F=D+E
			Adjustments for the Merger E1	Adjustments for the Business Combination E2	
(in € thousand)					
Shareholders' equity					
Share capital	71,119	(9), (11)	—	(71,046)	73
Treasury shares	(1,603)	(9), (10)	—	1,585	(18)
Share premium	809,945	(9), (10), (11)	—	696,440	1,506,385
Reserves	224,245	(1), (9)	22,619	3,819	250,684
Retained earnings	2,988,950	(1), (3), (4), (7), (8), (9)	(37,339)	(1,094,411)	1,857,200
Total equity attributable to owners of the Company	4,092,657		(14,720)	(463,613)	3,614,323
Non-controlling interests	2,153,645		(1,758,659)	45,760	440,746
Total equity	6,246,302		(1,773,380)	(417,853)	4,055,069
Liabilities					
Non-current liabilities					
Corporate bonds	2,725,279	(5), (9)	(278,323)	89,728	2,536,684
Convertible bonds	278,583	(9)	—	(71,223)	207,360
Other loans and borrowings	2,742,348		—	—	2,742,348
Other financial liabilities	49,077	(9)	—	(46,416)	2,661
Other payables	7,240		—	—	7,240
Derivatives	12,064		—	—	12,064
Lease liabilities	20,998		—	—	20,998
Deferred tax liabilities	679,203	(9)	—	38,747	717,950
	6,514,792		(278,323)	10,836	6,247,305
Current liabilities					
Corporate bonds	101,612	(5)	(52,580)	—	49,032
Convertible bonds	1,947		—	(135)	1,811
Other loans and borrowings	195,313	(3), (4), (9)	185,404	—	380,717
Other financial liabilities	1,535	(9)	—	(1,535)	—
Trade payables	59,459		—	—	59,459
Other payables	125,788	(3), (4), (11)	278	59,362	185,428
Lease liabilities	3,524		—	—	3,524
Derivatives	452		—	—	452
Liabilities of disposal groups classified as held for sale	1,827,418	(1), (2)	(1,827,418)	—	—
	2,317,048		(1,694,316)	57,692	680,424
Total equity and liabilities	15,078,142		(3,746,019)	(349,326)	10,982,798

Pro Forma Consolidated Statement of Profit or Loss for the year from January 1, 2019 to December 31, 2019

	Historical financial information			
	ADO Properties Group	ADLER Group	ADO Group (Standalone)	Total
	A	B	C	D=A+B+C
	(in € thousand)			
Revenue	156,520	904,185	24	1,060,729
Cost of operations	(44,011)	(684,373)	—	(728,384)
Gross profit	112,509	219,812	24	332,345
General and administrative expenses	(25,050)	(113,442)	(3,593)	(142,085)
Other income	78,132	—	—	78,132
Other expenses	(13,188)	—	—	(13,188)
Changes in fair value of investment properties	461,517	362,638	—	824,155
Results from operating activities	613,920	469,008	(3,569)	1,079,359
Finance income	102,475	10,190	224,545	337,210
Finance costs	(32,375)	(122,212)	(15,380)	(169,967)
Net finance costs	70,100	(112,022)	209,164	167,242
Profit before tax	684,020	356,986	205,595	1,246,601
Income tax expense	(77,096)	(81,231)	(11,247)	(169,574)
Profit for the period (continued operations)	606,924	275,755	194,348	1,077,027
Earnings after taxes from discontinued operations	—	92,009	—	92,009
Profit for the period	606,924	367,764	194,348	1,169,036
Profit attributable to:				
Owners of the Company	601,874	238,338	194,348	1,034,560
Non-controlling interests	5,050	129,426	—	134,476
Profit for the period	606,924	367,764	194,348	1,169,036
Basic earnings per share (in €)	13.63	3.46	n/a	n/a
Diluted earnings per share (in €)	12,74	3.08	n/a	n/a

Historical financial information					
	Total	Ref.	Pro Forma Adjustments for the Merger	Pro Forma Adjustments for the Business Combination	Total
	D=A+B+C		E1	E2	F=D+E
(in € thousand)					
Revenue	1,060,729		(6)	(21,327)	1,039,402
Cost of operations	(728,384)		—	—	(728,384)
Gross profit	332,345		—	(21,327)	311,018
General and administrative expenses	(142,085)	(2), (6)	1,319	(814)	(141,580)
Other income	78,132		—	—	78,132
Other expenses	(13,188)	(3), (7)	10,103	2,153	(932)
Changes in fair value of investment properties	824,155	(2), (6),	(203,200)	(131,053)	489,902
Results from operating activities	1,079,359		(191,778)	(151,041)	736,540
Finance income	337,210		—	(223,606)	113,603
Finance costs	(169,967)	(3), (4), (5), (6), (7), (8)	4,697	(20,343)	(185,613)
Net finance costs	167,242		4,697	(243,949)	(72,010)
Profit before tax	1,246,601		(187,081)	(394,990)	664,530
Income tax expense	(169,574)		—	13,299	(156,275)
Profit for the period (continued operations)	1,077,027		(187,081)	(381,691)	508,255
Earnings after taxes from discontinued operations	92,009		—	—	92,009
Profit for the period	1,169,036		(187,081)	(381,691)	600,264
Profit attributable to:					
Owners of the Company	1,034,560		(116,033)	(380,376)	538,150
Non-controlling interests	134,476		(71,047)	(1,315)	62,113
Profit for the period	1,169,036		(187,081)	(381,691)	600,264
Basic earnings per share (in €)	n/a		n/a	n/a	6.20
Diluted earnings per share (in €)	n/a		n/a	n/a	6.01

9.7 Notes to the Pro Forma Consolidated Financial Information as of and for the fiscal year ended December 31, 2019

In the following notes to the Pro Forma Consolidated Financial Information, the Pro Forma Adjustments in column E1 and E2 are explained in detail in order to illustrate the effects on the Company's pro forma consolidated balance sheet as of December 31, 2019 and consolidated statement of profit or loss for the period from January 1, 2019 to December 31, 2019 as if the Merger and the Business Combination were successfully completed as of January 1, 2019. However, intercompany income and expenses between ADO Group and ADO Properties have not been eliminated for purposes of the Pro Forma Consolidated Financial Information.

Pro Forma Adjustments relating to the merger of ADLER Group and ADO Group (column E1):

(1) *Reversal of Purchase Price Allocation of ADO Properties*

As a result of the Merger Agreement, ADO Group became a wholly owned subsidiary of ADLER. As ADO Group consolidates ADO Properties, ADLER Financials 2019 include all assets and liabilities of ADO Group and ADO Properties following the purchase price allocation performed according to IFRS 3 as of December 31, 2019. Assets and liabilities of ADO Properties were subsequently classified as assets of disposal groups classified as held for sale in the amount of €4,409,098 thousand and liabilities of disposal groups classified as held for sale in the amount of €1,699,844 thousand, respectively. For purposes of the Pro Forma Consolidated Balance Sheet, the consolidation of ADO Properties was reversed and

the investment of 33.25% of ADO Group in ADO Properties was reflected as investments in associated companies in the amount of €879,330 thousand. Additionally, financial assets in the amount of €63,146 thousand are adjusted to reflect the RETT blocker of ADO Group.

In summary, the following adjustments were made to exclude the impact of the purchase price allocation related to ADO Properties for purposes of the *Pro Forma* Consolidated Balance Sheet:

	<u>(in € thousand)</u>
Investments in associated companies	879,330
Other financial assets	63,146
Other receivables	145
Assets of disposal groups classified as held for sale	(4,409,098)
Reserves	22,619
Retained earnings	(30,594)
Liabilities of disposal groups classified as held for sale	(1,699,884)

(2) Sale of partnership interest in Glasmacherviertel GmbH & Co. KG (Project Gerresheim)

On September 22, 2019, Brack Capital Properties N.V., as a fully consolidated subsidiary of ADLER Real Estate, entered into a share purchase agreement to sell 75% of the partnership interest in Glasmacherviertel GmbH & Co.KG as part of the acquisition refinancing. The partnership holds a portfolio of real estate developments with a nominal amount of €375 million. As part of the agreement, the purchaser assumed 75% of the facility agreement with a nominal amount of €90 million previously entered into by the partnership. The facility agreement was subsequently replaced with a new facility with a nominal amount of €132 million which is included in liabilities of disposal groups classified as held for sale in ADLER Financials 2019.

For purposes of the *Pro Forma* Consolidated Financial Information, €375,500 thousand are re-classified from assets of disposal groups classified as held for sale to cash and cash equivalents. Correspondingly, liabilities of disposal groups classified as held for sale €127,574 thousand (included capitalized financing costs) were also re-classified to cash and cash equivalents. 25% of the net amount was subsequently reclassified from cash and cash equivalents to investments in associated companies to reflect the 25% holding in the partnership (€61,857 thousand). Miscellaneous other assets and liabilities related to Project Gerresheim and disposed of were not considered for purposes of the *Pro Forma* Consolidated Financial Information. Therefore, the actual proceeds may differ from the above calculation.

The investment properties of Project Gerresheim resulted in income from fair value adjustments of investment properties in the amount of €203,200 thousand for the fiscal year ended December 31, 2019. This income was eliminated for purposes of the *Pro Forma* Consolidated Financial Information since it is assumed that the transaction had taken place prior to January 1, 2019. Furthermore, due to the deconsolidation of the partnership, goodwill in the amount of €1,319 thousand was expensed and included in other operating expenses in ADLER Financials 2019. A *Pro Forma* Adjustment in the amount of €1,319 thousand was thus made to general and administrative expenses. Other gains and losses as well as income and expenses generated by the partnership were not considered for purposes of the *Pro Forma* Consolidated Financial Information due to materiality considerations.

(3) Transaction costs related to the Merger

The legal and advisory costs and other transaction costs directly attributable to the Merger totaling €21,453 thousand are included in the ADLER Financials 2019.

The consideration as part of the Merger was initially secured by a bridge loan facility with a nominal amount of up to €710,000 thousand.

One-time fees in connection with the original bridge loan facility in the amount of €11,350 thousand until December 31, 2019 are recognized in the ADLER Financials 2019. In February 2020, the bridge loan facility was extended by €175,000 thousand to €885,000 thousand. The increase of the existing bridge facility resulted in additional transaction costs in the amount of €875 thousand and a corresponding adjustment to other payables and loans and borrowings, respectively, were included in the *Pro Forma* Consolidated Balance Sheet.

One-time fees for the bridge loan facility (and extension) were assumed to be amortized over the duration of the entire *Pro Forma* Period (from January 1, 2019 to December 31, 2019). After taking into account the amount already recognized in the ADLER Financials 2019, an adjustment in the amount of €10,404 thousand was made to financial costs in the *Pro Forma* Consolidated Statement of Profit or Loss.

Furthermore, legal and advisory costs in the amount of €10,103 thousand are recognized in the ADLER Financials 2019 in general administrative expenses. As it is assumed that the transaction was finalized prior to January 1, 2019, these costs were excluded from the Pro Forma Statement of Profit or Loss by adjusting other expenses in the amount of €10,103 thousand.

For purposes of the *Pro Forma* Consolidated Financial Information, it is assumed that the entire transaction costs related to the Merger are fully tax-deductible and treated as if incurred prior to January 1, 2019. Correspondingly, the impact on income taxes amounted to €3,937 thousand based on the adjusted transaction costs in the amount of €11,279 thousand and a tax rate of 34.9%. The impact on income taxes is shown as an increase in other receivables and, correspondingly, as an increase in retained earnings.

The adjustment to retained earnings within column E1 is calculated as follows:

	<u>(in € thousand)</u>
One-time fees for the bridge loan facility	11,279
Income taxes related to the Merger	<u>(3,937)</u>
	<u>7,343</u>

(4) Refinancing of Merger

To refinance the Merger, a bridge loan facility in the amount of €710 million was secured in connection with the consideration for the Merger (the “**Merger Bridge Facility**”). In February 2020, the bridge loan facility was extended by €175,000 thousand to €855,000 thousand. An adjustment in the amount of €175,000 thousand was made to other loans and borrowings and a corresponding adjustment in the amount of €175,000 thousand was made to cash and cash equivalents.

The Merger Bridge Facility will be replaced by another bridge loan facility secured by ADO Properties in connection with the Business Combination as described in note (8) in further detail. For purposes of the *Pro Forma* Consolidated Financial Information, it is assumed that the replacement of the Merger Bridge Facility took place prior to January 1, 2019. Therefore no interest expense for the refinancing of the Merger was included in the *Pro Forma* Consolidated Financial Information and an adjustment in the amount of €597 thousand was made to finance costs in order to exclude interest recognized for the Merger Bridge Facility in ADLER Financials 2019.

Pro Forma Adjustments relating to the Business Combination (column E2):

(5) Refinancing of ADO Group Debt

In order to avoid breach of covenants resulting from the change of control event triggered by the Business Combination, ADO Group repaid outstanding convertible and company bonds as follows:

	<u>(in NIS)</u>
Series G	614,227,230
Series H	550,703,348

In order to account for the repayment, an adjustment of €278,323 thousand was made to (non-current) corporate bonds and current corporate bonds were reduced by €52,580 thousand. Additionally, finance costs in the amount of €15,380 thousand were excluded from the Pro Forma Consolidated Statement of Profit or Loss.

(6) Share purchase agreement with GEWO BAG Wohnungsbau-Aktiengesellschaft Berlin (“Project Gewobag”)

On September 26, 2019, ADO Properties entered into a share purchase agreement with GEWO BAG Wohnungsbau-Aktiengesellschaft Berlin (“**Gewobag**”) for the sale of 100% of the shares in certain subsidiaries owning 23 properties consisting in aggregate of approximately 5,900-residential apartment units (the “**Gewobag SPA**”). The sale price for the shares sold to Gewobag, which was received by ADO Properties on November 29, 2019, was €920 million less approximately €350 million of net debt of the companies being sold and is reflected in ADOP Financials 2019.

In the *Pro Forma* Consolidated Statement of Profit or Loss, revenues in the amount of €21,327 thousand, changes in fair value of investment properties in the amount of €131,053 thousand, finance costs in the

amount of €4,197 thousand, general and administrative expenses in the amount of €814 thousand, and income tax expenses in the amount of €13,299 thousand were excluded since it was assumed that the transaction had taken place prior to January 1, 2019. Other gains and losses as well as income and expenses generated by the sale were not considered for purposes of the *Pro Forma* Consolidated Financial Information due to materiality considerations.

(7) ***Transaction costs related to the Business Combination and Rights Offering***

The legal and advisory costs and other transaction costs directly attributable to the Business Combination and Rights Offering estimated by the Company total €25,000 thousand. As of December 31, 2019, an amount of €2,153 thousand has already been included in other expenses in ADOP Financials 2019. Since it is assumed that the transaction had taken place prior to January 1, 2019, an adjustment in the amount of €22,847 thousand (difference of €25,000 thousand and €2,153 thousand) has been made to retained earnings and other payables for purposes of the *Pro Forma* Consolidated Financial Information in order to reflect the full estimated transaction costs not included in ADOP Financials 2019. Furthermore, the amount of €2,153 thousand has been excluded from the *Pro Forma* Consolidated Statement of Profit or Loss to account for the assumption that the transaction, and thus the transaction costs, had taken place prior to January 1, 2019.

The transaction is secured by a bridge loan facility with a nominal amount of up to €2,424,000 thousand (see note (8) for further details). One-time fees in connection with the bridge loan facility are estimated to amount to €13,809 thousand, which are not included in ADOP Financials 2019. For purposes of the *Pro Forma* Consolidated Financial Information, these one-time fees for the bridge loan facility were assumed to be amortized over the duration of the *Pro Forma* period (from January 1, 2019 to December 31, 2019). Thus, the *Pro Forma* Consolidated Statement of Profit or Loss includes an adjustment in the amount of €13,809 thousand to finance costs. Correspondingly, other payables and retained earnings have been adjustment in the amount of €13,809 thousand in the *Pro Forma* Consolidated Balance Sheet.

For purposes of the *Pro Forma* Consolidated Financial Information, it is assumed that the entire transaction costs related to the Business Combination and Rights Offering are fully tax-deductible and treated as if incurred prior to January 1, 2019. Correspondingly the impact on income taxes amounted to €9,142 thousand based on additional transaction costs in the amount of €36,656 thousand and a tax rate of 24.94%. The impact on income taxes is shown as an increase in other receivables and correspondingly as an increase in retained earnings.

The adjustment to retained earnings within column E2 is calculated as follows:

	<u>(in € thousand)</u>
Legal and advisory costs	22,847
One-time fees for the bridge loan facility	13,809
Income taxes related to the Business Combination	<u>(9,142)</u>
	<u><u>27,514</u></u>

(8) ***Refinancing in connection with the Business Combination***

On December 15th, 2019, the Company as borrower and J.P. Morgan Securities plc as mandated lead arranger, J.P. Morgan AG as original lender and J.P. Morgan Europe Limited as agent entered into a bridge term loan facility agreement (the “**Bridge Facility Agreement**”) under which the Company may utilize a bridge term facility with a nominal amount of up to €2,424,000 thousand (the “**Business Combination Bridge Facility**”).

The Bridge Facility has been made available for the purpose of refinancing certain existing financial indebtedness, including bonds and loans, of ADLER Real Estate and its subsidiaries if such instruments are subject to change-of-control termination rights and the relevant creditors exercise such rights upon the Company acquiring control over ADLER Real Estate. Further, if the Company acquires the majority of the shares in Consus Real Estate AG and certain conditions are met, a portion of the Bridge Facility with a nominal amount of up to €1,428,000 thousand may be used to prepay outstanding indebtedness of Consus Real Estate AG and its subsidiaries. As of December 31, 2019, the Company had not drawn any funds and thus had not recognized a liability in ADOP Financials 2019 relating to the Business Combination Bridge Facility.

For purposes of the *Pro Forma* Consolidated Financial Information, it is assumed that besides the prepayment of bonds by ADO Group as detailed in note (5) no other change-of-control events are triggered by

the Business Combination. Furthermore, it is assumed that the Bridge Facility is drawn in the amount of €885,000 thousand in order to replace the Merger Bridge Facility as further described in note (4). As the net amount outstanding is not impacted by the assumption, no adjustment has been included for purposes of the *Pro Forma* Consolidated Balance Sheet. However, as it is assumed that the Business Combination Bridge Facility was drawn prior January 1, 2019, the *Pro Forma* Consolidated Statement of Profit or Loss for the period from January 1, 2019 to December 31, 2019 was adjusted to include interest expense calculated with an average effective interest rate of 1.21% p.a. of the outstanding balance (€885,000 thousand) for the twelve-month period in the amount of €10,731 thousand in finance costs. For purposes of the *Pro Forma* Consolidated Financial information, no outflow of cash is shown. Therefore, the full amount for the corresponding interest payable was included in other payables and recognized in retained earnings.

(9) Purchase price allocation in relation to the Business Combination

Due to the accounting for the Business Combination as a business combination in accordance with IFRS 3, the identifiable assets acquired and the liabilities assumed of ADLER Real Estate are required to be measured at their acquisition date fair values in accordance with IFRS. For purposes of the *Pro Forma* Consolidated Financial Information, the purchase price allocation of ADLER Real Estate was undertaken on the basis of a provisional valuation of the acquired net assets.

The consideration for 94.1% of ADLER Real Estate Shares is calculated based on the ADO Properties closing share price as of December 13, 2019 (€34.94 per share) and the issuance of 28,319 thousand new shares, totaling €989,452 thousand.

The provisional purchase price allocation results in a fair value adjustment of corporate bonds in the amount of (€89,728) thousand and a corresponding deferred tax liability in the amount of €39,161 thousand, included in the *Pro Forma* Consolidated Balance Sheet. Additionally, the indirect holding of ADLER Real Estate in ADO Properties results in a fair value adjustment of investments in associated companies in the amount of €(407,630) (based on the closing share price as of December 31, 2019 (€32.10 per share)). The resulting goodwill amounts to €253,447 thousand.

	(in € thousand)
Total consideration for 94.1% of ADLER Real Estate, we also refer to note (3)	989,452
Non-controlling interest	45,760
To reflect the Company's stake in ADLER Real Estate, 100% of the share capital was taken into account when preparing the <i>Pro Forma</i> Consolidated Financial Information.	
Share capital as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(71,064)
Treasury shares as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	1,603
Share premium as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(309,337)
Reserves as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	3,819
Retained Earnings (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(1,056,166)
Corporate bonds as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	89,728
Deferred tax liabilities as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	39,161
Convertible bonds as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(8,492)
Convertible bonds as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(135)
Other current financial liabilities as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(1,535)
Other non-current financial liabilities as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	(46,416)
Investments in associated companies as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	407,630
Goodwill ADLER Real Estate as of December 31, 2019 (<i>equals column E2 in Pro Forma Balance Sheet</i>)	169,439
Resulting goodwill from the Business Combination	<u>253,447</u>

(10) *Treasury Shares*

ADO Group, which is fully consolidated by ADLER Real Estate, holds a 33.25% stake in the Company, which become treasury shares as a result of the Merger and the Business Combination. Therefore, the *Pro Forma* Consolidated Financial Information was adjusted to eliminate the investments in associated companies (as described in note (1) in detail) and to include treasury shares in the amount of €471,700 thousand, representing the Company's share closing rate as of December 31, 2019. For purposes of the *Pro Forma* Consolidated Financial Information, the adjustment to treasury shares is done based on the average par value of existing shares of €0.001244 per share (share capital of €55 thousand divided by outstanding shares €44,195 thousand). As the number of treasury shares equals 14,695 shares, €18 thousand are recorded in treasury shares for purposes of the *Pro Forma* Consolidated Financial Information. The remainder, i.e. the difference between the fair value of €471,700 thousand and €18 thousand, in the amount of €471,682 is deducted from share premium.

(11) *Rights Offering*

As part of the Business Combination, the Company has announced its intention to issue shares to existing shareholders and other investors in the amount of up to €500,000-thousand (the "**Rights Offering**"). For purposes of the *Pro Forma* Consolidated Financial Information, the adjustment to share premium is done based on the average par value of existing shares of €0.001245 per share (Share capital of €55 thousand divided by outstanding shares of €44,195 thousand). The resulting adjustment to share capital amounts to €18 thousand. The residual amount of €488,007 thousand net of transaction costs is allocated to share premium (gross). A corresponding adjustment in the amount of €500,000 thousand was made to cash and cash equivalents.

	<u>(in € thousand)</u>
Number of shares to be issued via Rights Offering	14,310
Gross proceeds from Rights Offering	500,000
Increase in the Company's share capital from the Rights Offering	18
Increase in the Company's share premium from the Rights Offering	499,982
Directly attributable transaction costs for the Rights Offering, we also refer to note (2) ...	(11,975)
Allocation to share premium	<u>488,007</u>

(12) *Intercompany eliminations*

For purposes of the *Pro Forma* Consolidated Financial Information, other financial assets in the amount of €63,146 thousand, reflecting ADO Group's convertible bond in the Company, have been excluded as a result of the intercompany elimination between ADO Group stand-alone and ADO Properties. Correspondingly, convertible bonds in the amount of €62,732 thousand and deferred tax liabilities in the amount of €414 thousand have been eliminated. Furthermore, finance income was adjusted by €223,606 thousand in order to exclude the profit from ADO Group's investment in the Company.

Additional notes:

(13) *Share Capital*

Share capital as of December 31, 2019 is comprised as follows:

	<u>(in € thousand)</u>
Share capital ADO Properties	55
Share capital ADLER Real Estate	71,063
Subtotal (<i>equals column D in Pro Forma Balance Sheet</i>)	71,118
Business combination agreement, we also refer to note (9)	(71,063)
Rights offering, we also refer to note (11)	18
Subtotal	<u>(71,045)</u>
Share capital in accordance with <i>Pro Forma</i> Consolidated Balance Sheet as of December 31, 2019	<u>73</u>

(14) **Share premium**

The share premium as of December 31, 2019 are comprised as follows:

	<u>(in € thousand)</u>
Share premium ADO Properties	500,608
Share premium ADLER Real Estate	309,337
Subtotal (<i>equals column D in Pro Forma Balance Sheet</i>)	<u>809,945</u>
Business combination agreement, we also refer to note (9)	680,115
Reclassification of treasury shares, we also refer to note (10)	(471,682)
Rights Offering, we also refer to note (11)	488,007
Subtotal	<u>696,440</u>
Share premium in accordance with Pro Forma Consolidated Balance Sheet as of December 31, 2019	<u>1,506,385</u>

(15) **Retained earnings**

Retained earnings as of December 31, 2019 is comprised as follows:

	<u>(in € thousand)</u>
Retained earnings ADO Properties	1,895,445
Retained earnings ADLER Real Estate	1,093,505
Subtotal (<i>equals column D in Pro Forma Balance Sheet</i>)	<u>2,988,950</u>
Elimination of ADLER Real Estate retained earnings as of December 31, 2019, we also refer to note (1,3,4,9)	(1,093,505)
Financing expenses JPM bridge loan facility for the period January 1, 2019 to December 31, 2019, we also refer to note (8)	(10,731)
Transaction costs, we also refer to note (7)	(27,514)
Subtotal	<u>(1,131,750)</u>
Retained earnings in accordance with Pro Forma Consolidated Balance Sheet as of December 31, 2019	<u>1,857,200</u>

(16) **Other payables**

Other payables as of December 31, 2019 are comprised as follows:

	<u>(in € thousand)</u>
Other payables ADO Properties	49,613
Other payables ADLER Real Estate	76,175
Subtotal (<i>equals column D in Pro Forma Balance Sheet</i>)	<u>125,788</u>
Transaction costs Merger (excluding income taxes), we also refer to note (3)	875
Transaction costs Business Combination (excluding income taxes), we also refer to note (7,11)	48,631
Financing bridge loan, we also refer to note (8)	10,731
Financing ADO Group acquisition, we also refer to note (4)	(597)
Subtotal	<u>59,640</u>
Other payables in accordance with Pro Forma Consolidated Balance Sheet as of December 31, 2019	<u>185,428</u>

(17) **Finance costs**

Financial costs for the period from January 1, 2019 to December 31, 2019:

	<u>(in € thousand)</u>
Finance costs ADO Properties	(32,375)
Finance costs ADLER Real Estate	(122,212)
Finance costs ADO Group	<u>(15,380)</u>
Subtotal (<i>equals column D in Pro Forma Balance Sheet</i>)	(169,967)
Amortization of transaction costs related to bridge loan, we also refer to note (3)	(11,279)
Excluding Gewobag, we also refer to note (6)	4,197
Amortization of transaction costs related to bridge loan, we also refer to note (7)	(13,809)
Financing bridge loan, we also refer to note (8)	(10,731)
Refinancing of ADO Group finance cost, we also refer to note (5)	15,380
Financing ADO Group acquisition, we also refer to note (4)	597
Subtotal	<u>(15,646)</u>
Finance costs in accordance with Pro Forma Consolidated Statement of Profit or Loss for the period from January 1, 2019 to December 31, 2019	<u>(185,613)</u>

(18) **Earnings per share**

Earnings per share for the period from January 1, 2019 to December 31, 2019 are calculated as follows:

	<u>(in € thousand, unless stated otherwise)</u>
ADO Properties weighted number of subscribed shares	44,162
Acquisition of ADLER Real Estate, we also refer to note (9) of the notes to the <i>Pro Forma Consolidated Financial Information</i> as of and for the twelve-month period ended December 31, 2019	28,319
Rights Offering, we also refer to note (11) of the notes to the <i>Pro Forma Consolidated Financial Information</i> as of and for the twelve-month period ended December 31, 2019	<u>14,310</u>
<i>Pro Forma weighted number of subscribed shares</i>	86,791
ADO Properties weighted number of subscribed shares (diluted)	46,888
Acquisition of ADLER Real Estate, we also refer to note (9) of the notes to the <i>Pro Forma Consolidated Financial Information</i> as of and for the twelve-month period ended December 31, 2019	28,319
Rights Offering, we also refer to note (11) of the notes to the <i>Pro Forma Consolidated Financial Information</i> as of and for the twelve-month period ended December 31, 2019	<u>14,310</u>
<i>Pro Forma weighted number of subscribed shares (diluted)</i>	89,517
ADO Properties consolidated net profit to owners of the Company	601,874
ADLER Real Estate consolidated net profit to owners of the Company	238,338
ADO Group consolidated net profit to owners of the Company	<u>194,348</u>
	<u>1,034,560</u>
<i>Pro Forma Adjustments Merger (equals column E1 in Pro Forma Consolidated Statement of Profit or Loss) attributable to owners of the Company</i>	(116,033)
<i>Pro Forma Adjustments Acquisition of ADLER Real Estate (equals column E2 in Pro Forma Consolidated Statement of Profit or Loss) attributable to owners of the Company</i>	<u>(380,376)</u>
<i>Pro Forma Adjustments</i>	<u>(496,409)</u>
	<u>538,150</u>
<i>Pro Forma Basic earnings per share</i>	6.20
<i>Pro Forma Basic earnings per share (diluted)</i>	6.01

9.8 Auditor's report on the Pro Forma Consolidated Financial Information

To the Board of Directors of
ADO Properties S.A.
1B, Heihenhaff
L-2453 Luxembourg

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of pro forma financial information of ADO Properties S.A. (the "Company") by the Board of Directors of the Company. The pro forma financial information consists of pro forma consolidated financial position as at December 31, 2019, pro forma income statement for the year then ended and related pro forma notes as set out on "9. Pro Forma Consolidated Financial Information of ADO Properties S.A. as of and for the Year ended December 31, 2019" of the prospectus issued by the Company. The applicable criteria on the basis of which the Board of Directors of the Company has compiled the pro forma financial information are specified in Annex 20 of the Commission Delegated Regulation (EU) 2019/980 and described in the pro forma notes.

The pro forma financial information has been compiled by the Board of Directors of the Company to illustrate the impact of (i) a successful business combination of ADLER Real Estate Aktiengesellschaft ("ADLER") with the Company, on the financial position and results of operation of the Company, and (ii) a successful merger between ADLER and the ADO Group Ltd. ("ADO Group), described in the pro forma notes on the Company's

- financial performance for the year ended December 31, 2019 as if the transactions had taken place at January 1, 2019 and
- consolidated financial position as at December 31, 2019, as if the transactions had taken place at December 31, 2019.

As part of this process, information about the Company's consolidated financial position and consolidated financial performance has been extracted by the Board of Directors of the Company from:

the Company's, ADLER's and ADO Group's consolidated financial statements for the period ended December 31, 2019, on which audit reports have been published.

Responsibility for the Pro Forma Financial Information

The Board of Directors of the Company is responsible for compiling the pro forma financial information on the basis of the applicable criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Auditor's Responsibilities

Our responsibility is to express an opinion, as required by item 3 of the Annex 20 of the Commission Delegated Regulation (EU) 2019/980, about whether the pro forma financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis of the applicable criteria, and whether such basis is consistent with the accounting policies of the Company.

We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Informa-*

tion Included in a Prospectus, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of the Company has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at January 1, 2019 and December 31, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors of the Company in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled, in all material respect, on the basis of the applicable criteria; and
- such basis is consistent with the accounting policies of the Company.

Restriction on Use

This report is required by item 3 of Annex 20 of the Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that regulation and for no other purpose.

This report is issued in English. If the prospectus issued by the Company is drawn up in or translated into another language, the accuracy of the translation of this report is the responsibility of the Company. The translation will expressly mention that the report was issued in English language.

Luxembourg, April 2, 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréée

Bobbi Jean Breboneria
Associate Partner

10. DESCRIPTION OF THE TRANSACTIONS

On December 15, 2019, the Company announced its intention to make a voluntary public takeover bid for all ADLER Shares in the form of an exchange offer. The Company launched the Offer on February 7, 2020 and it expired on March 25, 2020. 91.93% of the ADLER shareholders accepted the Offer. In addition, the Company entered into various share purchase agreements with minority shareholders to acquire 22.18% of the shares in Consus Real Estate and a call/put-option agreement with Aggregate Holdings S.A. for its 50.97% stake. It also entered into a strategic cooperation agreement with Consus Real Estate. With the exception of the description of the business combination agreement, the share purchase agreements, the call/put-option agreement and the strategic cooperation agreement, the following description is predominantly based on publicly available information as the Company was unable to conduct a full due diligence review of the ADLER Group or the Consus Group (see “1.6.9 We were not able to conduct a complete due diligence exercise of ADLER Real Estate prior to the Completion and, consequently, may not have been in a position to identify and assess all risks in connection with the Completion.”).

10.1 Business Combination Agreement

On December 15, 2019, the Company and ADLER Real Estate entered into a business combination agreement (the “**BCA**”) to combine the business of ADLER Real Estate and its subsidiaries (together, the “**ADLER Group**”) with the business of the ADO Properties Group (together with the ADLER Group, the “**Combined Group**”) (the “**Business Combination**”).

Prior to the signing of the BCA, the management board (*Vorstand*) (“**ADLER Real Estate Management Board**”) and the supervisory board (*Aufsichtsrat*) of ADLER Real Estate as well as the Board of Directors have determined that the proposed Business Combination is in the best interest of their respective shareholders, employees, customers and other stakeholders.

The BCA contains, in particular, agreements regarding the implementation of the offer for ADLER Shares (the “**Offer**”) and its completion, the common understanding of the strategic objectives of the Combined Group with regard to portfolio diversification, the intended future governance structure for the Combined Group’s business and the integration process.

As set out in the BCA, the Company offered 0.4164 new shares in the Company as consideration in exchange for each ADLER Share. The implied exchange ratio of 0.4164 to 1.0 was determined on the basis of the Company’s and ADLER Real Estate’s reported EPRA NAV per share as of September 30, 2019. ADLER Real Estate’s EPRA NAV per share referenced for determining the exchange ratio was adjusted for the assumed conversion of ADLER Real Estate’s outstanding convertible bonds. Based on the closing price of the Company’s shares prior to the day of the announcement of the Offer, the resulting offer price would amount to €14.55, thus constituting a premium of 17.33% compared to the closing price of the ADLER Shares as of December 13, 2019. The new shares of the Company carry dividend entitlements as of January 1, 2019.

The New Shares were created by way of the Offer Capital Increase by exercising the authorized capital of the Company pursuant to Section 5 of its articles of association (via two resolutions of the Board of Directors of the Company within the framework of the Authorized Capital).

The BCA has a term of two years from signing. Each party can terminate the BCA, if (i) any competent governmental authority or court has prohibited the Business Combination and such decision has become final and non-appealable or (ii) the respective Offer is not successfully completed by June 30, 2020. Pursuant to the BCA, the Company is obligated to pay a break fee to ADLER Real Estate in the amount of €50.0 million and ADLER Real Estate is obligated to pay a cooperation penalty to the Company in the same amount, respectively, in each case subject to the occurrence of certain events related to the purpose of the BCA.

10.1.1 Support of the Offer

In the BCA, ADLER Real Estate has, subject to applicable law, undertaken to support the Offer in public and to recommend acceptance of the Offer in its statement pursuant to section 27 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). In that respect, ADLER Real Estate has undertaken in the BCA, subject to certain conditions, to confirm that: (a) the Offer is in the best interests of ADLER Real Estate, and (b) the Offer Consideration is fair and reasonable, and that,

therefore, the ADLER Real Estate Management Board supports the Offer and recommends that its shareholders accept the Offer.

Such support and recommendation is in each case subject to, *inter alia*, (i) a final evaluation of the exchange ratio based on a fairness opinion confirming that the consideration is fair from a financial perspective, and (ii) no competing takeover has been announced or launched for which the ADLER Real Estate Management Board determines acting in good faith that it is more favorable to ADLER Real Estate, its shareholders and other stakeholders.

On February 21, 2020, the management board and the supervisory board of ADLER Real Estate have published a joint reasoned statement pursuant to section 27 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) pursuant to which they recommended that ADLER Real Estate's shareholders tender their shares into the Offer.

10.1.2 Conduct of Business

In the BCA, ADLER Real Estate and the Company have undertaken towards each other, subject to certain exceptions, that they and their subsidiaries will conduct their businesses in the ordinary and usual course consistent with past practice and will refrain from taking actions relating to, *inter alia*, (i) issuances, sales, pledges, dispositions of or encumbrances over the capital stock of its subsidiaries as well as convertible instruments or rights to acquire in relation to any capital stock of its subsidiaries; (ii) the declaration, setting aside or payment of any type of dividend in respect of any capital stock; (iii) material increases in long-term indebtedness (including any guarantee of such indebtedness); (iv) material capital expenditures; (v) dispositions of material portions of its assets (including real estate portfolios) unless classified as held for sale; (vi) material acquisitions of assets (including real estate portfolios), whether by way of merger, consolidation, purchase or otherwise; (vii) settlements or compromises of material claims or litigation; and (viii) the entry into material "non-compete" or "exclusivity" arrangements or similar contracts.

10.2 Description of the ADLER Group

ADLER Real Estate Aktiengesellschaft (LEI 529900Y6QFNN3D363B76) is a German stock corporation (*Aktiengesellschaft*) incorporated and operating under the laws of the Federal Republic of Germany ("ADLER Real Estate") and is registered with the commercial register of the local court in Berlin, Charlottenburg under registration number HRB 180360 B. ADLER Real Estate operates under the commercial name "ADLER Real Estate". It has its business address at Joachimsthaler Straße 34, 10719 Berlin, Federal Republic of Germany (telephone: +49-30-398-018-10; website: www.adler-ag.de). The legal predecessor of ADLER Real Estate was incorporated on July 5, 1895 and ADLER Real Estate is established for an indefinite period of time. ADLER Real Estate's financial statements as of and for the fiscal years ended December 31, 2017, 2018 and 2019, which have been audited by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Ludwig-Erhard-Straße 1, 20459 Hamburg, Germany ("Ebner Stolz") and which have been prepared in accordance with IFRS in accordance with § 317 German Commercial Code (*Handelsgesetzbuch*) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), can be found on ADLER Real Estate's website (the "ADLER Real Estate Historical Financials"). For the avoidance of doubt, no information included on the aforementioned website (www.adler-ag.de) forms any part of this Prospectus and no information thereof has been incorporated into this Prospectus by reference, except for the ADLER Real Estate Historical Financials that have been incorporated by reference into this Prospectus. For further information in relation to the ADLER Real Estate Historical Financials, see "20. Incorporation by Reference".

As of the date of this Prospectus, ADLER Real Estate's share capital amounted to €72,236,485.00, divided into 72,236,485 shares with a notional value of ADLER Real Estate's share capital of €1.00 per share, all of which carry the same voting rights. In addition, ADLER Real Estate holds 1,603,232, or 2.22%, of its own shares as treasury shares.

Following the Completion, the Company will hold 66,404,915, or 91.93%, of ADLER Real Estate's shares. As a result, the Company will own more than 30% of the voting rights of the Company and is, therefore, considered to hold a controlling interest in ADLER Real Estate pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). In addition, following the Completion, the Company and ADLER Real Estate will form a "factual group" (*faktischer Konzern*) as the Company will hold more than 50% of the share capital as well as the voting rights in the Company and therefore will hold a controlling interest in the Company. In the event that the Company will continue to hold ADLER Real Estate throughout the fiscal year 2020, ADLER Real Estate will be required to prepare a dependency report (*Abhängigkeitsbereich*) on its relations with the Company in the fiscal year

2020. In the event that the Company's shareholding and its voting rights in ADLER Real Estate will fall below 50% following the Completion, the Company will only continue to hold a controlling interest in ADLER Real Estate if it has the de facto majority of votes during the Company's shareholders meetings due to the limited presence of free shareholders during such meetings (*beherrschender Einfluss durch faktische Hauptversammlungsmehrheit*).

10.2.1 Business of the ADLER Group

10.2.1.1 Overview of development of business operations

The ADLER Group is a fully-integrated residential property company focusing on long-term sustainable value-creation through the management, optimization and expansion of property portfolios that are largely situated in attractive locations benefitting from strong fundamentals in – or on the outskirts of – large and growing conurbations or in major urban areas in Northern, Eastern and Western Germany.

Until the end of the fiscal year 2017, the ADLER Group's business model comprised two fields of activity – "Rental" (investment properties) and "Trading" (inventory properties). However, at the end of November 2017, the ADLER Group sold most of its shares in its trading division ACCENTRO Real Estate AG, thus ceasing its trading activities. Since then, the ADLER Group concentrates on the holding and management of residential properties, which now represents the ADLER Group's main business operation.

As a result of the acquisition of a stake of approximately 70% in Brack Capital Properties N.V. ("**BCP**"), a company listed on the Tel Aviv Stock Exchange, incorporated under the laws of the Netherlands and which owns a substantial real estate portfolio in Germany, mainly comprising high quality residential assets in "A-locations", whereas the ADLER Group's properties were, up to that point, mainly focused on "B-locations", the ADLER Group further geographically diversified its residential real estate portfolio. Since its consolidation into the ADLER Group as of June 30, 2018, BCP forms part of the ADLER Group's "Rental" business operation.

On September 23, 2019, (i) ADLER Real Estate, (ii) LI Lorgen Ltd., Ramat Gan, Israel, a wholly-owned subsidiary of ADLER Real Estate, which was acquired solely for purposes of the acquisition, and (iii) ADO Group Ltd., Tel Aviv, Israel, a public limited liability company organized under the laws of the State of Israel, whose most substantial asset is its stake in ADO Properties S.A., entered into an agreement and plan of merger by way of reverse-triangular merger (the "**Merger Agreement**"). According to the Merger Agreement, LI Lorgen Ltd. was merged into ADO Group Ltd. as the absorbing entity (the Merger Agreement and the transactions contemplated thereby are referred to as the "**Merger**"). As a consequence of the Merger, LI Lorgen Ltd. ceased to exist and ADO Group Ltd. became a wholly-owned subsidiary of ADLER Real Estate on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with certain provisions of the companies law of the State of Israel. Following the completion of the Merger, which was closed on December 10, 2019, the ADLER Group held 33.25% of the shares and voting rights in ADO Properties S.A.

As of the date of this Prospectus, "Rental" generally includes all of the ADLER Group's properties, excluding development projects, through the letting of which the ADLER Group aims to generate long-term gross rental income. Besides the portfolio of residential units, "Rental" also includes a small number of commercial units, which consist entirely of shops and offices of the kind that can often be found in city-center residential properties. Additionally, this includes the expenses for craftsmen and caretaker services which are provided by the ADLER Group's internal facility management.

The remainder of a portfolio of commercial assets of BCP and developments as well as certain other limited operations in residential real estate development business which are intended to be sold to third parties are not part of the rental portfolio. These activities do not constitute a standalone segment reporting and are pooled as "Other".

10.2.1.2 Business Model

Internal property management includes re-letting apartments as well as reducing existing vacancies by entering into new leases. In addition, the potential for rent increases in the portfolio is assessed on an ongoing basis and implemented where appropriate. Leasing and management comprises active rental and receivable management as well as collecting outstanding receivables. To this end, ADLER Wohnen Service GmbH has developed a regional structure which allows for the management of all group properties.

The ADLER Group is taking a similar approach in relation to its facility management, i.e. for craftsmen and caretaker services. The majority of these activities have been integrated into the ADLER Group. To this end, ADLER Gebäude Service GmbH has developed a regional structure very similar to its property management counterpart. Since 2018, ADLER Energie Service GmbH has been set up to manage the energy related activities in the ADLER Group. This includes distribution of heat and energy as well as responsibility for all centralized heating systems within the ADLER Group.

As part of its portfolio optimization, the ADLER Group continually analyzes the opportunities for realizing potential for appreciation and rent increases by modernizing and renovating its portfolio properties. The modernization measures include all measures to improve the fixtures and fittings of the residential units, such as insulation work and the upgrading of outdated fixtures and fittings of the apartments. Renovation activities include all activities intended to fundamentally improve the building stock. In preparation for all modernization and larger renovation activities, the ADLER Group performs cost-benefit analyzes to determine whether the required investments can be recovered with a profit from the realizable appreciation. For modernization and renovation work, the ADLER Group exclusively commissions third-party contractors who provide high-quality services and offer a favorable price-performance ratio. Similarly, the ADLER Group analyzes all potentially developable parts in the portfolio, such as options to build on gaps between buildings, convert attics, expand residential units by adding balconies or terraces, or use unutilized plots on existing properties of the residential complexes for building additional residential units. During implementation, the ADLER Group limits its activities to coordinating and managing the construction work and modernization and renovation measures. In addition, the ADLER Group continuously monitors the operating costs of the portfolios so it can counteract potential increases in service charges. Although most of the service charges are passed on to the tenants, sharp increases in service charges could lead to a reduction in the scope for rent increases, because the tenants may in some circumstances not be able to absorb an increase in total costs.

Properties of high quality in attractive locations form the core portfolio and generally generate stable cash flows. Properties of lower quality as well as properties in less attractive locations are classified as non-core and are thus earmarked for sale. The ADLER Group regularly reviews its holdings within its portfolio management activities to identify such non-core properties. This initially involves evaluating individual properties in terms of their inherent qualities, i.e. determining the volume of maintenance and renovation expenses required to ensure a quality consistent with market standards. The second assessment criterion adopted involves external market and location factors. The most significant external factors determining the positioning of the assets and capital allocation are socio-demographic trends, expected changes in demand and infrastructure measures of all kinds. It also includes political decisions, such as restrictions on contractual rental prices, the tax treatment of property or measures to promote new construction. Depending on the outcome of the portfolio analysis, regular discussions are held with regional managers to ensure operational strategy is implemented, e.g. increasing marketing activities for properties that are of good quality, but are located in less favorable areas.

On average, assets held for sale in the non-core portfolio have significantly lower occupancy rates, generate lower rental income and, accordingly, have lower market values per sqm. The sale of non-core assets decreases administrative costs, in particular if the properties concerned are outside of ADLER Group's core regions, and allows the ADLER Group to achieve profits and generate cash that can be used for additional development and modernization projects and to acquire new properties with greater income or development opportunities. The current market environment, with strong demand for real estate of all sizes, is favorable for the ADLER Group in pursuing its ongoing selective capital recycling. ADLER Group's asset management department deals with non-core properties in ways appropriate to each case, such as increased marketing activities when the property is of good quality but its location factors are less favorable, or by investing in the property when the location factors are good, but the property itself is not.

In order to maximize long-term profitability, the ADLER Group aims at complementing its existing Rental business with opportunistic acquisitions of single residential properties, residential property portfolios or real estate holding companies. For this purpose, the ADLER Group relies on its network of contacts with potential sellers and sales organizations and initially assesses the location of the real estate, its state of development and traffic connections, as well as its integration into regions with steady or rising population numbers. The ADLER Group also observes the regional real estate markets and analyzes the opportunities to further expand its residential property portfolio by acquiring additional single properties or property portfolios. In any of these situations, the ADLER Group assesses the appreciation potential of the properties to implement the acquisition on a financially sustainable basis.

10.2.2 Portfolio of the ADLER Group

10.2.2.1 Portfolio overview

The following table provides a breakdown of rental units by core and non-core units for residential and commercial units held by the ADLER Group (excluding the ADO Properties Group) in the Rental segment for the periods presented (in each case as of the end of period):

	As of December 31,		
	2019	2018	2017
	(unaudited)		
Residential units	57,146	60,854	49,256
thereof core residential units ⁽¹⁾	57,145	57,226	45,440
thereof non-core residential units ⁽²⁾	1	3,628	3,816
Commercial units	950	1,156	1,049
thereof core commercial units ⁽¹⁾	938	887	739
thereof non-core commercial units ⁽²⁾	12	269	310
Total rental units	58,096	62,010	50,305

(1) High-quality properties in attractive locations form the core portfolio (“core” portfolio).

(2) Properties of lower quality and those in less attractive locations are classified as real estate, which are not part of the core portfolio (“non-core” properties) and are therefore earmarked for sale.

10.2.2.2 Residential portfolio

10.2.2.2.1 Overview

The ADLER Group’s business activities focus on Germany, where the ADLER Group holds most of its properties in the Northern, Eastern and Western parts of the country. This remained essentially unchanged during the fiscal years ended December 31, 2017 and 2018, however, following the acquisition of BCP there has been some shift in the state-specific focus areas. As a result of the completion of the merger with ADO Group Ltd. completed on December 10, 2019, ADLER Group’s property portfolio comprised approximately 75,700 rental units as of December 31, 2019. As of December 31, 2019, the regional focus of the ADLER Group’s property core portfolio (excluding the ADO Properties Group) is on Lower Saxony (18,307 rental units, corresponding to 32% of the core portfolio), North Rhine-Westphalia (13,811 rental units, corresponding to 24%) and Saxony (9,673 rental units, corresponding to 17%) while in other states in the Northern, Eastern and Western parts of Germany the number of units per state was between 250 and 3,900 and less than 850 units were held in the states in the Southern part of Germany all together.

With the acquisition of BCP in 2018, the ADLER Group has acquired, according to its own assessment, assets in attractive locations, partly in inner cities (“**A-locations**”) such as Leipzig, Dortmund and Hanover with approximately 12,000 residential units. Nevertheless, its portfolio still predominantly consists of properties located on the outskirts of larger conurbations. This is particularly apparent in North Rhine-Westphalia, where virtually all of ADLER Group’s properties (excluding the ADO Properties Group) are located in the Ruhr area, which remains Germany’s largest industrial region. In Lower Saxony, the property holdings are mainly located in Hanover, the Wolfsburg/Braunschweig/Helmstedt region, a traditionally strong region in economic terms, the Bremen catchment area and in Wilhelmshaven, a city which is benefiting from the deep-water port and the location of the German Navy’s largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the catchment areas of Halle, Leipzig, Chemnitz and Dresden – regions that after the German reunification initially lost their industry and part of their population however are now benefiting from growth in population once again as a consequence of the significant infrastructure investments carried out in these areas over the last 20 years.

In the view of the ADLER Group, property holdings on the edges of conurbations are typically characterized by higher vacancy rates, but also generate higher rental yields than properties in central or “A-locations”. Peripheral locations benefit to a great extent from counter-urbanization. Rent increases in the tight rental markets in the city centers translate into a lower availability of affordable apartments. Due to price sensitive demand this leads to households moving out of the “A-locations” into surrounding areas. However, in order to achieve a stable portfolio mix, the ADLER Group also aims at having a certain portion of “A-locations” in its rental portfolio.

As of December 31, 2019, 13 units were held as non-core properties (excluding the ADO Properties Group).

10.2.2.2.2 Top 20 locations (core portfolio)

Below is an overview of the Top 20 locations (by number of units) of the ADLER Group's residential portfolio (excluding the ADO Properties Group) as of December 31, 2019:

Location	Units	Lettable area (000 sqm)	NRI €/million	NRI €/sqm/ month	YoY NRI Δ €/sqm/ month	Vacancy rate	YoY vacancy Δ ⁽¹⁾
(unaudited)							
Wilhelmshaven	6,895	406.6	23.7	5.15	1.9%	5.9%	(20.0)%
Duisburg	4,925	305.0	19.9	5.55	(2.9)%	2.1%	(24.4)%
Leipzig	4,749	254.8	17.5	5.93	7.8%	3.7%	(36.0)%
Cottbus	1,867	110.0	5.9	4.79	(18.3)%	6.9%	(22.5)%
Halle (Saale)	1,858	105.9	5.5	4.93	(19.6)%	11.9%	8.9%
Dortmund	1,770	103.0	7.1	5.86	(1.2)%	1.5%	(38.2)%
Berlin	1,699	111.7	7.9	5.97	4.6%	1.8%	(42.3)%
Goettingen	1,377	85.2	6.1	6.10	(12.7)%	1.7%	(62.9)%
Wolfsburg	1,301	87.6	6.5	6.31	(4.1)%	1.2%	(79.8)%
Helmstedt	1,219	70.6	4.4	5.26	9.2%	2.0%	(32.0)%
Hanover	1,113	63.3	5.4	7.21	26.5%	1.6%	(52.6)%
Essen	1,043	66.3	4.4	5.75	21.8%	3.0%	(10.8)%
Kiel	970	66.8	5.4	6.81	(16.3)%	0.7%	(41.3)%
Borna	900	50.2	2.1	4.69	(24.3)%	24.5%	79.2%
Bremen	873	53.6	4.0	6.34	21.8%	1.9%	(26.0)%
Schoeningen	846	50.2	2.6	5.01	(5.8)%	15.4%	8.5%
Chemnitz	837	52.5	2.3	4.80	18.3%	15.5%	(6.6)%
Oberhausen	819	62.6	3.7	5.09	10.1%	3.9%	(6.2)%
Schwerin	816	48.0	2.7	4.87	30.8%	3.6%	(8.2)%
Norden	795	50.2	3.3	5.52	9.4%	1.7%	(9.0)%
Top 20 total	36,672	2,203.5	140.2	5.58	(0.1)%	4.8%	(16.9)%
Other locations	21,455	1,342.9	84.2	5.63	6.0%	6.5%	(0.5)%
Total⁽²⁾	58,083	3,546.4	224.4	5.60	2.1%	5.4%	(10.2)%

(1) Percentages are rounded according to recognized commercial standards.

(2) Residential portfolio including commercial units on the ground floor level.

The focus on metropolitan regions outlined above also infers that the properties in ADLER Group's (excluding the ADO Properties Group) 20 most important towns and cities account for approximately 63% of ADLER Group's total portfolio (excluding developments and the ADO Properties Group) in terms of units.

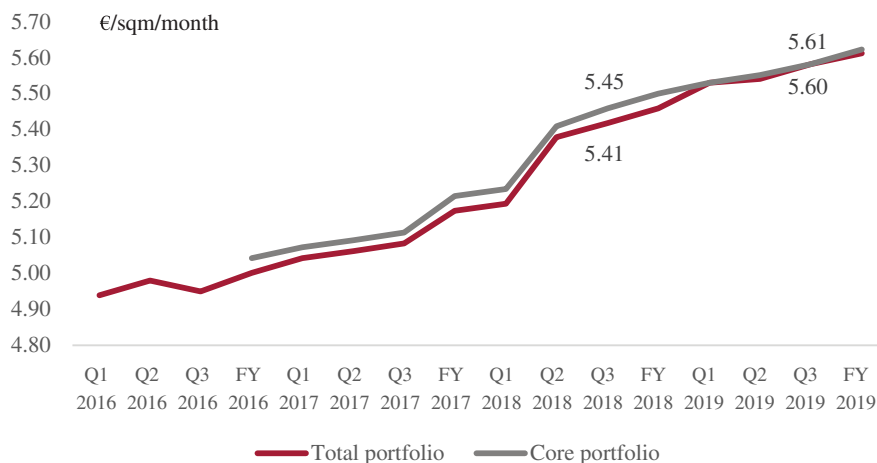
10.2.2.2.3 Average size of apartments

The ADLER Group's portfolio (excluding the ADO Properties Group) is largely composed of small to medium-sized residential units. Since 2016, the average size of its apartments was stable at approximately 60 sqm and are thus well aligned, according to its own assessment, to address the needs of the ADLER Group's target group, namely tenants with low to medium incomes. Its properties satisfy the trend, observed for some time now, towards an ongoing increase in the number of single-person households in Germany. Moreover, the risk of tenants with low incomes defaulting on their rent payments is in the view of the ADLER Group reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own income. Furthermore, this category of affordable living space is also in the sights of municipal and local councils on the lookout for attractive locations for students.

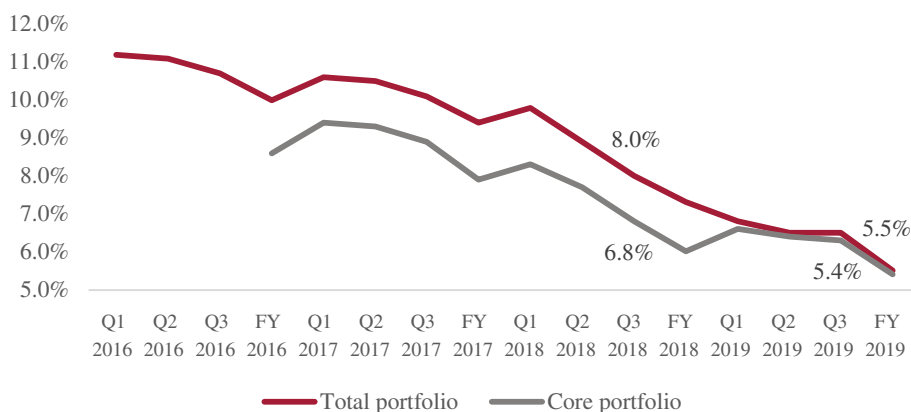
As of December 31, 2019, excluding the ADO Properties Group, 15% of the residential portfolio consists of apartments with a size of less than 45 sqm, 34% with a size from 45 sqm to less than 60 sqm, 35% with a size from 60 sqm to less than 75 sqm, 13% with a size from 75 sqm to less than 90 sqm and 3% with a size of 90 sqm and above.

10.2.2.2.4 Average rent and vacancy rate

As of December 31, 2019, the average rent per sqm per month for the overall portfolio of the ADLER Group (excluding the ADO Properties Group) amounted to €5.60 (core portfolio: €5.60) (as of December 31, 2018: €5.45; as of December 31, 2017: €5.17).



The vacancy rate for the overall rental portfolio (incl. non-core properties) (excluding the ADO Properties Group) reached 5.5% as of December 31, 2019 (core-portfolio: 5.4%) (as of December 31, 2018: 7.3%; as of December 31, 2017: 9.4%). Part of this decrease is also due to the acquisition of BCP. The ADLER Group as a standalone (excluding BCP and the ADO Properties Group) had a vacancy rate of 7.2% as of December 31, 2019. BCP's vacancy rate was 3.7% as of the same date.



10.2.2.2.5 Fair value of residential portfolio

As of December 31, 2019, the fair value of the ADLER Group's (excluding the ADO Properties Group) Top 20 locations (core portfolio) was €2,671.7 million.

The fair value of the total portfolio (investment properties and inventories) (excluding the ADO Properties Group) calculated in accordance with IFRS amounted to €4,139.2 million as of December 31, 2019 (as of December 31, 2018: €4,593.7 million; as of December 31, 2017: €3,021.5 million (without inventories)). The increase in the fiscal year ended December 31, 2018 is mainly due to the acquisition of BCP and to the fair value adjustments of the ADLER Group's existing property portfolio.

Location	Fair Value (in € million)	Fair value (in €/sqm) (unaudited)	Rental yield (in %)
Wilhelmshaven	394.6	970	6.0
Duisburg	335.2	1,099	5.9
Leipzig	395.4	1,552	4.4
Cottbus	85.5	777	6.9
Halle (Saale)	91.7	866	6.0
Dortmund	115.5	1,130	6.1
Berlin	265.3	2,374	3.0
Goettingen	133.1	1,561	4.6
Wolfsburg	136.8	1,562	4.8
Helmstedt	65.8	930	6.6
Hanover	121.1	1,914	4.4
Essen	86.0	1,297	5.2
Kiel	103.4	1,548	5.2
Borna	36.8	734	5.8
Bremen	72.6	1,354	5.5
Schoeningen	40.5	807	6.3
Chemnitz	40.5	772	5.7
Oberhausen	55.6	887	6.6
Schwerin	44.0	917	6.1
Norden	52.4	1,043	6.2
Top 20 total	<u>2,671.7</u>	<u>1,212</u>	<u>5.2</u>
Other locations	1,468.5	1,093	5.7
Total	<u>4,139.2</u>	<u>1,167</u>	<u>5.4</u>

10.2.2.3 Commercial portfolio

The ADLER Group does not pursue a strategy of holding commercial properties. However, to a minor degree, residential properties also include commercial units typically comprising shops and offices of the kind that can often be found in city-center residential properties. As of December 31, 2019, these core commercial units amounted to 938 which accounted for 1.6% of the properties (excluding the ADO Properties Group) held for permanent letting (as of December 31, 2018: 887 units which accounted for 1.5% of the properties held for permanent letting; as of December 31, 2017: 739 units which accounted for 1.5% of the properties held for permanent letting).

The remaining commercial assets of BCP with a lettable area of approximately 107,900 sqm are intended to be sold to third parties and are thus not intended to be transferred to the rental portfolio.

10.2.2.4 Property Development

The ADLER Group holds a number of land plots and properties under current assets which are at different stages of planning or completion. Part of these properties essentially stem from the time prior to the reorganization of ADLER Real Estate as a residential real estate company in 2012. In addition, BCP, in which the ADLER Group acquired a majority interest in April 2018, has its own development department that currently works on five property developments in Düsseldorf and Aachen.

In addition, since the end of 2018, the ADLER Group has been investing in development projects for its own portfolio, with a view to growth through selective development projects in "A-locations" at attractive yields such as adding floors to existing residential properties in Goettingen and Wolfsburg, and in the construction of new facilities, such as project "Riverside" in Berlin. Apartments at the latter's location are expected to be ready for occupancy by the end of the year 2019 and letting activities have started during summer 2019. The acquisition of three neighboring plots of land on the outskirts of Berlin near Schönfeld Airport is the basis for another residential project with space for more than 2,180 apartments. Plan-

ning for the development of the property in Dresden Trachau is expected to commence as soon as the development plan has been approved.

The ADLER Group's development activities are aimed at the development of plots of land until a building permit is granted or the development of new multi-family houses in order to then either profitably dispose of the properties or to transfer them into its own property portfolio. The ADLER Group supports and encourages impending or ongoing official administrative procedures for the preparation of land use and development plans, for example through the public participation process scheduled as part of the preparation of zoning plans. Where appropriate, the ADLER Group ensures that land is developed as required. If the ADLER Group plans to construct the buildings, the ADLER Group first obtains the necessary building permits and ensures that the applicable requirements under building law, such as setbacks and access ways, are met during the design and subsequent construction of the buildings. In addition, ADLER Group monitors each stage of the execution of the construction work to ensure turn-key buildings are completed on schedule. With regard to new constructions, the ADLER Group can meet all requirements relating to energy efficiency and reducing CO₂ emissions which can be achieved in existing buildings often only with difficulty or at higher costs.

The sales activities for land and properties ready for sale are likewise coordinated by the ADLER Group. For presentation purposes, marketing documents are prepared and reworked and, if appropriate, made available online. The ADLER Group receives support from professional marketing organizations, brokers, and other intermediaries.

The portfolio of development projects currently under construction comprises the following properties as of December 31, 2019:

Project	Location	Date of begin of construction	Expected date of completion	Expected total construction costs (in € million)	Units	GDV ⁽¹⁾ (in € million)
Riverside (Wasserstadt)	Berlin	Q4 2017	Q4 2019 to Q4 2024 ⁽²⁾	205.7	730	449.9
Grafental I	Düsseldorf	Q3 2018	Q3 2024	116.1	494	183.4
Grafental II	Düsseldorf	Q3 2013	Q2 2021	143.5	414	257.7

- (1) Gross development value ("GDV") is a metric which indicates the capital and rental value of a property or development project after completion of all development works.
- (2) The residential buildings were finished at the end of 2019. Two commercial areas (Kornversuchsspeicher and Total petrol station) are still ongoing until the end of 2021 and the end of 2024, respectively. Both commercial developments are included in the figures.

The portfolio of undeveloped land for sale or development comprises the following properties as of December 31, 2019:

Project	Location	Lettable area (in sqm)	Expected construction costs (excl. land) (in €/sqm)	Status
Gerresheim (Glasmacherviertel) ⁽¹⁾ . . .	Düsseldorf	187,000	2,300	Land development plan in proposal
Grafenberg	Düsseldorf	13,600	5,540	Land development plan in proposal
Potsdam	Potsdam	6,800	1,560	Land development plan in proposal
Schönefeld	Schönefeld	235,700	3,140	Land development plan in proposal
Späthstraße	Berlin	19,000	2,170	Land development plan in proposal
Trachau	Dresden	36,800	2,600	Land development plan in proposal

(1) The sale of the property has been notarized on September 22, 2019, but the transaction has not yet closed.

10.2.3 Certain Financing Agreements

In addition to various other financing agreements, in particular on a property by property basis, ADLER Real Estate entered into the following financing agreements as of the date of this Prospectus.

10.2.3.1 2021 Convertible Bonds

In July 2016, ADLER Real Estate, based on an authorization of the general meeting of ADLER Real Estate, issued up to 10,000,000 convertible bonds due July 19, 2021 (the "2021 Convertible Bonds")

with currently still 8,425,125 outstanding (as of the date of this Prospectus). The 2021 Convertible Bonds bear interest at a rate of 2.50% per annum, payable in arrears on January 19 and July 19 of each year. The current conversion price of the 2021 Convertible Bonds has been set at €12.5039 for each convertible bond, subject to the conversion mechanisms described in more detail in the terms and conditions of the 2021 Convertible Bonds (see below).

The terms and conditions of the 2021 Convertible Bonds provide that every holder of the 2021 Convertible Bonds may, until the effective date, (i) partially or in whole terminate the 2021 Convertible Bonds held, whereby ADLER Real Estate is obliged to repay these 2021 Convertible Bonds in their principle amount plus any interest accrued until the effective date, or (ii) convert the 2021 Convertible Bonds held on the basis of a conversion price amended against that background, if (a) a third person or a group of third persons acting in concert within the meaning of Section 2 para. 5 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) has become the legal or beneficial owner of more than 50% of the voting rights in ADLER Real Estate, or (b) in the event of a public tender offer for shares in ADLER Real Estate, circumstances where the shares already in the control of the bidder and the shares which have already been tendered carry in aggregate more than 50% of the voting rights in ADLER Real Estate, or (c) in case of the disposition or transfer of all or substantially all of ADLER Real Estate's assets ((a) and (b) each an “**ADLER Change of Control relating to a public tender offer**”, and (a), (b) and (c) together, each an “**ADLER Change of Control**”) and when ADLER Real Estate gives notice thereof and of the relevant effective date to the holders of the 2021 Convertible Bonds. An ADLER Change of Control relating to a public tender offer occurred when 50% of ADLER Real Estate's shareholders unconditionally accepted the Offer. For the avoidance of doubt, under the terms and conditions of the 2021 Convertible Bonds, regardless of the fact that an ADLER Change of Control relating to a public tender offer occurred, holders of the 2021 Convertible Bonds do not have the right to convert their holdings in the 2021 Convertible Bonds into shares of the Company.

Upon occurrence of an ADLER Change of Control and publication by way of notice thereof and of the effective date by ADLER Real Estate, the conversion price of the 2021 Convertible Bonds will be adjusted as further described in the terms and conditions of the 2021 Convertible Bonds and such adjusted conversion price will apply for conversions up to the relevant effective date.

The 2021 Convertible Bonds are subject to the following events of default:

- failure to deliver shares or to pay any amounts due and payable on the 2021 Convertible Bonds within 10 calendar days after the relevant due date;
- failure to perform any other material obligation under the 2021 Convertible Bonds and such failure continuing for 30 days after having received notice from a bondholder or the paying agent;
- cross-default in relation to any financial indebtedness of ADLER Real Estate or its material subsidiaries exceeding an amount of €15 million due to a financial liability or on the basis of a surety or guarantee;
- ADLER Real Estate or one of its material subsidiaries announcing its inability to pay its debts as they become due;
- ADLER Real Estate's or a material subsidiary's assets being subjected to insolvency proceedings, applying for or instituting such proceedings or offering or making an arrangement for the benefit of its creditors generally, or a third party applying for insolvency proceedings against ADLER Real Estate or a material subsidiary and such proceedings not discharged or stayed within 30 days;
- ADLER Real Estate ceasing its business operations in whole or selling or transferring its assets in whole or a material part thereof to a third party;
- ADLER Real Estate or a material subsidiary being wound-up, unless effected in connection with a merger;
- ADLER Real Estate applying for a revocation of the admission of its shares to the regulated market segment of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) or the 2021 Convertible Bonds no longer being admitted to or included in trading at a German securities exchange; or
- the legal inability to issue shares.

10.2.3.2 New York law-governed Notes

On December 6, 2017, ADLER Real Estate issued €800,000,000 senior unsecured notes in two tranches. The first tranche with a coupon of 1.500% per annum and an aggregate principal amount of €500,000,000

matures on December 6, 2021 (the “**2021 Notes**”). The second tranche with an aggregate principal amount of €300,000,000 and a coupon of 2.125% per annum matures on February 6, 2024 (the “**2024 Notes**” and, together with the 2021 Notes, the “**2021/2024 Notes**”). The average coupon for the total issue amounts to 1.734%. The 2021/2024 Notes are admitted to trading on the Main Market of the Euronext Dublin.

Under the terms and conditions of the 2021/2024 Notes, ADLER Real Estate has undertaken not to incur any indebtedness if, immediately after giving effect to the incurrence of such additional indebtedness and the application of the net proceeds of such incurrence, (a) the sum of (i) the consolidated indebtedness of the ADLER Group as of the last reporting date for which the most recent consolidated financial statements of ADLER Real Estate have been published and (ii) the net nominal indebtedness incurred since the reporting date would exceed 60% of the sum of (without duplication) (x) total assets as of the reporting date, (y) the purchase price of any real estate property acquired or contracted for acquisition since the reporting date and (z) the proceeds of any indebtedness incurred since the reporting date (but only to the extent such proceeds were not used to acquire real estate property or to reduce indebtedness); or (b) the sum of (i) the consolidated secured indebtedness of ADLER Group as of the reporting date and (ii) the net nominal secured indebtedness incurred since the reporting date would exceed 40% of the sum of (without duplication) (x) total assets as of the reporting date, (y) the purchase price of any real estate property acquired or contracted for acquisition since the reporting date and (z) the proceeds of any indebtedness incurred since the reporting date (but only to the extent such proceeds were not used to acquire real estate property or to reduce indebtedness).

Furthermore, under the terms and conditions, ADLER Real Estate has undertaken to comply with a so-called consolidated coverage ratio (ratio of the ADLER Real Estate’s adjusted consolidated EBITDA to ADLER Real Estate’s net cash interest in the relevant period) at certain dates. In accordance therewith, the interest cover ratio must be at least (a) 1.70 to 1.00, with respect to any reporting date falling on or after January 1, 2020 and on or before December 31, 2020; and (b) 1.80 to 1.00, with respect to any reporting date falling on or after January 1, 2021 and as long as any 2021/2024 Note is outstanding. In case of a breach of the aforementioned covenants, the noteholders have the right to extraordinary termination and the right to call the notes due immediately.

Additionally, and subject to certain exceptions, ADLER Real Estate has undertaken not merge or consolidate into any other person or sell, convey, transfer or lease all or substantially all of its properties and assets.

The 2021/2024 Notes are subject to the following events of default:

- failure to pay principal or premium due under the 2021/2024 Notes;
- failure to pay any interest or additional amounts due under the 2021/2024 Notes within 30 days from the relevant due date;
- failure to comply with any of the agreements in the 2021/2024 Notes or in the indentures thereof for 30 business days after written notice;
- cross-default in relation to any financial indebtedness of ADLER Real Estate or its subsidiaries to the extent it exceeds an aggregate amount of €15 million;
- failure by ADLER Real Estate or its subsidiaries to pay final and enforceable judgements and/or court orders to the extent it exceeds an aggregate amount of €15 million within 45 days from the relevant due date; or
- certain events of bankruptcy or insolvency with respect to ADLER Real Estate or its subsidiaries or certain group of subsidiaries.

In case of a change of control, subject to certain exceptions, the noteholders of the 2021/2024 Notes have the right to require ADLER Real Estate to repurchase all or any part of each noteholder’s 2021/2024 Notes, whereby ADLER Real Estate shall offer a payment in cash equal to 101% of the aggregate principal amount of the 2021/2024 Notes purchased plus accrued and unpaid interest and additional amounts.

On January 16, 2020, the noteholders of the 2021/2024 Notes consented to waive any obligation of ADLER Real Estate to repurchase the Notes as a consequence of the anticipated change of control which will result when the Business Combination is completed.

10.2.3.3 German law-governed Notes

In April 2018, ADLER Real Estate issued senior unsecured notes in the aggregate principal amount of €500,000,000 due April 27, 2023 (the “**2023 Notes**”) and €300,000,000 due April 27, 2026 (the “**2026**

Notes” and, together with the 2023 Notes, the “**2023/2026 Notes**”). In April 2019, ADLER Real Estate issued senior unsecured notes in an aggregate principle amount of €400,000,000 due April 17, 2022 (the “**2022 Notes**” and, together with the 2023 Notes and the 2026 Notes, the “**Notes**”). The 2023 Notes bear interest at a rate of 1.875 % p.a., the 2026 Notes bear interest at a rate of 3.00 % p.a. and the 2022 Notes bear interest at a rate of 1.500 % p.a. The terms and conditions of the Notes provide that if any person or persons acting in concert within the meaning of Section 2 para. 5 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) or any person or persons acting on behalf of any such person(s), at any time directly or indirectly acquire(s) or come(s) to own (i) more than 50% of the share capital in ADLER Real Estate, or (ii) such number of shares in the share capital of ADLER Real Estate carrying in aggregate more than 50% of the voting rights in ADLER Real Estate, each holder of the Notes shall have the right to require ADLER Real Estate to redeem or purchase in whole or in part his Notes, within 60 days after a put event notice has been published at 101% of the principal amount of such Note plus any unpaid accrued interest.

Under the terms and conditions of the Notes, ADLER Real Estate has undertaken that neither itself nor its material subsidiaries will incur any financial indebtedness subject to compliance with certain financial covenants as further described in the terms and condition of the Notes and that it will maintain a consolidated coverage ratio of 1.70 to 1.00 until December 31, 2020 and 1.80 to 1.00 after January 1, 2020. Furthermore, and subject to certain exceptions, ADLER Real Estate shall not merge, amalgamate or consolidate with or into any other person or sell, convey, transfer or lease all or substantially all of its properties and assets.

The Notes are subject to the following events of default:

- failure to pay any principal due under the Notes;
- failure to pay any interest due under the Notes within 30 days from the relevant due date;
- failure to perform any other material obligation under the Notes and such failure continues for 60 days after having received notice from a holder;
- failure to comply with any financial covenant or the consolidation, merger and sale of asset clause;
- cross-default in relation to any financial indebtedness of ADLER Real Estate or its subsidiaries to the extent it exceeds an amount of €15 million;
- ADLER Real Estate or any subsidiary announcing its inability to pay its debts as they become due;
- ADLER Real Estate’s or a material subsidiary’s assets being subjected to insolvency proceedings or applying for or instituting such proceedings and such proceedings not discharged or stayed within 60 days; or
- ADLER Real Estate entering into liquidation, unless effected in connection with a merger.

On January 8, 2020, ADLER Real Estate launched a consent solicitation to allow ADLER Real Estate to complete the Business Combination without being required to redeem or purchase the Notes as a consequence of the anticipated change of control that will result when the Business Combination is completed. On February 3, 2020, ADLER Real Estate announced that the noteholders have agreed to the changes of the terms and conditions of the notes. Noteholders have the statutory right to contest any resolution adopted by the noteholders. The statutory contestation period expired on March 3, 2020.

10.2.3.4 *Debentures issued by Brack Capital Properties N.V.*

10.2.3.4.1 Series A Debentures

Brack Capital Properties N.V. has published a prospectus on February 28, 2011 and a shelf prospectus on May 24, 2012, under which debentures have been issued on March 1, 2011, June 19, 2012 (private issuance to institutional investors) and November 6, 2012, with an issue size of NIS 200,000,000, NIS 40,000,000 and NIS 160,000,000, respectively (the “**Series A Debentures**”). According to BCP’s audited consolidated financial statements as of and for the period ended December 31, 2019, the outstanding par value balance under the Series A Debentures is NIS 57.3 million. Interest shall be paid biannually on January 14 and July 14 of each of the years 2011 through 2020. The interest rate shall not be set below 4% and shall not exceed 6%, but is linked to the consumer price index and subject to adjustment mechanisms as further described in the debenture. As of December 31, 2019, the annual interest rate was 4.8%. In order to secure the payment of principal and interest under the Series A Debentures, BCP has pledged in favor of the trustee, as trustee of the holders of the Series A Debentures, 943,804 shares of Brack German Properties B.V., a wholly-owned subsidiary of BCP (“**BGP**”), as of December 31, 2019.

The Series A Debentures shall be redeemed in seven annual installments that shall be paid on July 14 of each one of the years 2014 through 2020, whereby in each one of the first six installments 14.28% of the principal shall be paid and in the seventh and last installment 14.32% of the principal shall be paid. ADLER Real Estate intends to repay the Series A Debentures on April 20, 2020.

10.2.3.4.2 Series B Debentures

Brack Capital Properties N.V. has published a shelf prospectus on May 24, 2012 (as amended on May 9, 2013 and on July 14, 2014) and on May 28, 2015, under which debentures have been issued on May 21, 2013 and February 4, 2014, with an issue size of NIS 175,000,000 and NIS 65,000,000, respectively (the “**Series B Debentures**”). According to BCP’s audited consolidated financial statements as of and for the period ended December 31, 2019, the outstanding par value balance under the Series B Debentures is NIS 180.0 million. Interest shall be paid biannually on June 30 and on December 31 of each of the years 2013 through 2024. The interest rate is set by tender, but is linked to the consumer price index and subject to adjustment mechanisms as further described in the debenture. As of December 31, 2019, the annual interest rate was 3.29%. In order to secure the payment of principal and interest under the Series B Debentures, BCP has pledged in favor of the trustee, as trustee of the holders of the Series B Debentures, 640,027 shares of BGP as of December 31, 2019.

The Series B Debentures shall be redeemed in twelve annual installments that shall be paid on December 31 of each one of the years 2013 through 2024, whereby in each one of the first seven installments 4% of the principal shall be paid and in the last five installments 14.4% of the principal shall be paid.

10.2.3.4.3 Series C Debentures

Brack Capital Properties N.V. has published a shelf prospectus on May 24, 2012 (as amended on May 9, 2013 and July 14, 2014), under which debentures have been issued on July 22, 2014 and April 4, 2016, with an issue size of NIS 102,165,000 and NIS 85,015,000, respectively (the “**Series C Debentures**”). According to BCP’s audited consolidated financial statements as of and for the period ended December 31, 2019, the outstanding par value balance under the Series C Debentures is NIS 147.1 million. Interest shall be paid biannually on January 20 and on July 20 of each of the years 2015 through 2026. The interest rate is set by tender, but is linked to the consumer price index and subject to adjustment mechanisms as further described in the debenture. As of December 31, 2019, the annual interest rate was 3.30%. As of December 31, 2019, the annual interest rate was 3.29%. In order to secure the payment of principal and interest under the Series C Debentures, BCP has pledged in favor of the trustee, as trustee of the holders of the Series C Debentures, 394,430 shares of BGP as of December 31, 2019.

The Series C Debentures shall be redeemed in twelve annual installments that shall be paid on July 20 of each one of the years 2015 through 2026, whereby in each one of the nine first installments 2% of the principal shall be paid, in the tenth installment 17% of the principal shall be paid and in the last two installment 32.5% of the principal shall be paid.

10.3 **Share Purchase Agreements for Consus Real Estate Shares**

On December 15, 2019, the Company also entered into various share purchase agreements (the “**Share Purchase Agreements**”) with minority shareholders of Consus Real Estate to acquire a 22.18% stake in Consus Real Estate at an average price of €9.72 per share in Consus Real Estate (the “**Consus Real Estate Acquisition**”). The purchase price amounts to approximately €294 million in cash. The Consus Real Estate Acquisition closed on December 20, 2019 (in relation to the Share Purchase Agreements that are not subject to merger control clearances as a closing condition) and on January 3, 2020 (for one Share Purchase Agreement that is subject to merger control clearance as a closing condition).

Upon completion of the Offer, the Company holds, directly and indirectly, 25.75% of the share capital of Consus Real Estate.

10.4 **Call/Put-Option Agreement**

On December 15, 2019, the Company entered into a call/put-option agreement, as amended on March 26, 2020 (the “**Call/Put-Option Agreement**”) with Aggregate Holding S.A. (“**Aggregate**”) regarding the acquisition of further shares in Consus Real Estate, equaling 50.97% of the share capital; the call option can be exercised until June 16, 2021. Subject to the exercise of the call option, the Company undertakes

to conduct a voluntary tender offer in the form of an exchange offer to acquire the remaining shares of Consus Real Estate (save for any applicable RETT-Blocker). The consideration for one share in Consus Real Estate shall, in each case, be 0.2390 newly issued shares in the Company, provided that this ratio will be adjusted to any dividends paid and equity raise done by the Company or Consus Real Estate, as relevant.

Under the same agreement, Aggregate has an option to put its Consus Real Estate shares to the Company upon the occurrence of a change of control on the level of the Company, which means (a) the acquisition of shares or voting rights in the Company by any third party that leads to such third party holding, directly or indirectly, together with persons acting in concert or connected with it, 50% or more of the shares or voting rights in the Company or (b) the announcement by any third party in accordance with § 23 WpÜG in conjunction with § 14 para. 3 sent. 1 WpÜG (or similar announcements) that such third party (or its affiliates and/or any person acting in concert with such third party or its affiliates) has received declarations of acceptance from holders of shares and/or voting rights in the Company so that it will, after settlement of the relevant takeover offer, hold or control (whether directly or indirectly and whether alone or together with persons acting in concert or connected with it) own or control 50% or more of the shares and/or voting rights in the Company. Upon the exercise of the put option, the Company would have to acquire Aggregate's shares in Consus Real Estate for a consideration per Consus Real Estate share of, at the option of the Company, €8.35 in cash or 0.2390 newly issued shares in the Company, provided that this ratio will be adjusted to any dividends and equity raise done by the Company or Consus Real Estate, as relevant.

The Company does currently not intend to exercise the call-option. Prior to the exercise of the call-option, various factors need to be considered, including the effects on (i) the current investment grade rating of the Company and its implications for the ability of the Company to raise capital at equally favorable conditions, (ii) the total debt on a *pro forma* basis, (iii) the ability to realize financial and operational synergies, (iv) the ability to implement profit-and-loss transfer agreements, and (v) other business considerations. It is therefore assumed that the option is currently not regarded as exercisable and, as a result thereof, does not constitute a substantive right that would trigger the assumption of control over Consus Real Estate.

The Company believes it is improbable that the prerequisites for the exercise of the put option are satisfied in the near future. As a result of the acquisition of at least 33 1/3% of the shares or voting rights in the Company, such persons, subsequent to Luxembourg law, would be obliged to first submit a mandatory offer to purchase all outstanding shares of the Company. Upon closing of such mandatory offer and a resulting indirect change of control at the level of ADLER Real Estate, a mandatory offer for ADLER Real Estate would have to be made pursuant to WpÜG. Irrespective of whether the threshold of 33 1/3% in the Company is reached, the put-option is only exercisable if the relevant acquirer acquires 50% or more of the shares or voting rights in the Company. There are currently no indications to the Company that a person would acquire 50% of the shares or voting rights of the Company. The Company believes that the associated probability, on the basis of the aforementioned reasons and in consideration of the fact that a bidder would in this case, from an economic perspective, be required to carry out three hostile takeovers without a due diligence process, is at 0%.

10.5 Strategic Cooperation Agreement

On December 15, 2019, the Company and Consus Real Estate entered into a strategic cooperation agreement (the "SCA") to engage in a strategic partnership and strategic cooperation and, to the extent legally permissible, work together to thoroughly investigate and potentially undertake mutually beneficial property developments, including the acquisitions of land plots for new-builds, project financing, construction and property management (the "Strategic Cooperation" and, together with the Business Combination, the Consus Real Estate Acquisition, the entry into the Call/Put-Option Agreement, the "Transactions").

As part of the Strategic Cooperation, the Company and Consus Real Estate are working closely together on residential development projects. As part of such Strategic Cooperation, Consus Real Estate has provided a right to the Company to allow it to match any offer from a third party on property development projects worked on together.

Following the conclusion of the SCA, on January 17, 2020, the Company entered into a letter of intent with Consus Swiss Finance AG, which as amended on February 21, 2020, for the purchase of 89.9% of the shares in all companies that hold plots of land belonging to the *Holsten Quartier* project development

in Hamburg (the “**Holsten Quartier**”). The provisional purchase price for 100% of the shares in Holsten Quartier is €320 million on a cash-free debt-free basis, subject to finalization of the Company’s due diligence. In exchange for a €50 million down-payment, of which €40 million do not have to be paid before certain collateral requirements have been fulfilled, Consus Swiss Finance AG granted the Company exclusivity for twelve months to continue and finalize the legal, technical, economic and tax due diligence. There is no obligation to enter into a share purchase agreement and the signing of the share purchase agreement is subject to the satisfactory completion of the due diligence.

10.6 Description of the Consus Group

Consus Real Estate AG (“**Consus Real Estate**” and, together with its consolidated subsidiaries, the “**Consus Group**”) is a German stock corporation (*Aktiengesellschaft*) incorporated under the laws of Germany, registered with the commercial register of the local court (*Amtsgericht*) in Berlin, Charlottenburg under registration number HRB 191887 B and having its business address at Kurfürstendamm 188-189, 10707 Berlin, Germany.

As of the date of this Prospectus, Consus Real Estate’s share capital amounted to €136,581,507.00, divided into 136,581,507 shares with a notional value of the Consus Real Estate’s share capital of €1.00 per share.

10.6.1 Business of the Consus Group

The Consus Group is the leading pure-play developer of real estate properties in Berlin, Cologne, Düsseldorf, Dresden, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart (together, the “**Top 9 Cities**”) in Germany in terms of square meters (*source*: Bulwiengesa—Consus Nr. 1). The Consus Group focuses on the development of residential units in the Top 9 Cities, which we primarily sell to institutional purchasers, including pension funds and insurance companies, by entering into forward sale agreements, which refer to the sale on a turn-key basis of properties still to be built at the expense of the seller. Additionally, it sells condominiums to retail purchasers by entering into purchase agreements providing for staggered payments, which become due when certain development milestones are reached. It also develops commercial and retail spaces to complement its project developments, primarily as part of mixed-use developments.

With the SSN Group AG (renamed to Consus Swiss Finance AG) acquisition in December 2018, and in combination with organic growth, the Consus Group significantly increased its targeted sales volume of its development projects from €6.2 billion of gross development value (“**GDV**”) as of December 31, 2017 to €10.3 billion of GDV as of September 30, 2019 as well as the number of development projects from 53 to 67 as of the same date. Its GDV as of September 30, 2019 was allocated in the Top 9 Cities as follows: Stuttgart/Karlsruhe 21%, Hamburg 19%, Berlin 13%, Frankfurt/Offenbach 13%, Cologne 11%, Düsseldorf/Dortmund 10%, Leipzig/Erfurt 5%, Munich/Bayreuth/Passau 5%, and Dresden 3%.

As a fully integrated development platform, the Consus Group covers the entire value chain of project development, including sourcing and acquisition of suitable land plots and real estate properties, development planning, obtaining required approvals, licenses and permits, marketing and sales of development projects through forward sales with institutional purchasers. In the first phase of the development process, it uses its local teams to utilize its stable and extensive relationships with local authorities and local real estate agents to identify land plots and real estate properties in attractive locations. The Consus Group’s business is carried out through teams at its subsidiaries CG Gruppe AG and Consus Swiss Finance AG (formerly SSN Group AG), which have strong property development track-records and an in-depth understanding of the development of residential real estate properties.

The Consus Group focuses on the development of modern, urban and affordable residential real estate properties that are supplemented by commercial spaces, including retail, hotels and offices, located in the Top 9 Cities, with a particular focus on large scale of residential real estate properties with at least 100 apartments, that are typically 50 to 70 square meters in size each with one to two bedrooms. Based on the net floor area, its projects consisted of approximately 54% residential units and 46% commercial and other units as of September 30, 2019. The Consus Group also renovates and converts office buildings and high-rises into modern residential and commercial complexes, which it then primarily sells to institutional purchasers under its “VauVau” brand (“**Vertical Villages**”). In addition, due to its own construction expertise, it is able to develop such real estate properties by utilizing its own construction teams as well as external contractors.

The Consus Group is headquartered in Berlin and has offices in each of the Top 9 Cities. As of September 30, 2019, it had approximately 895 employees primarily focusing on the construction and sale of its development projects. The realization of a standard development project typically takes 30 to 48 months, and would typically take longer for more complex and larger projects, with the breakdown being 6 to 12 months for development plan and building permit and construction 24 to 36 months. For larger projects where an urban development plan is required, a further 18 months to up to 4 years may be required.

10.6.2 Portfolio of the Consus Group

The following table provides an overview of selected key data relating to the 67 development properties of Consus Group as of September 30, 2019:

No.	Consus Subsidiary Entity	Project Name	City	Approx. Total Sellable Area (sqm)	Sale status	Targeted delivery date
1	CG Gruppe	Four Living VauVau	Leipzig	20,300	Forward sold	2021
2	CG Gruppe	Cologne Apart VauVau	Cologne	21,800	Forward sold	2021
3	CG Gruppe	MaryAnn Apartments VauVau	Dresden	14,500	Forward sold	2021
4	CG Gruppe	UpperNord Tower VauVau	Düsseldorf	25,100	Forward sold	2022
5	CG Gruppe	NewFrankfurt Towers VauVau	Frankfurt/ Offenbach	37,700	Forward sold	2021
6	CG Gruppe	Vitopia-Kampus Kaiserlei Resi	Frankfurt/ Offenbach	14,200	Forward sold	2023
7	CG Gruppe	Residenz am Ernst-Reuter Platz	Berlin	11,100	Forward sold	2020
8	CG Gruppe	Carré Sama Riga	Berlin	12,100	Forward sold	2020
9	CG Gruppe	Ostforum	Leipzig	17,800	Forward sold	2022
10	CG Gruppe	Residenz am Waldplatz	Leipzig	5,600	Forward sold	2020
11	CG Gruppe	Carré Löbtau	Dresden	10,400	Forward sold	2019
12	CG Gruppe	Quartier Hoym	Dresden	26,700	Forward sold	2021
13	CG Gruppe	Dessauer/ Hamburger Straße	Leipzig	10,500	Forward sold	2021
14	CG Gruppe	Cologneo I Corpus sireo	Cologne	54,300	Forward sold	2022
15	CG Gruppe	Königshöfe im Barockviertel	Dresden	15,100	Forward sold	2022
16	Consus Swiss Finance	Franklinstrasse 26	Berlin	11,300	Forward sold	2020
17	Consus Swiss Finance	No.1	Mannheim	18,700	Forward sold	2020
18	Consus Swiss Finance	Bundesallee (incl. MOMENTE)	Berlin	28,700	Forward sold/Condo	2021
19	CG Gruppe	Steglitzer Kreisel Tower	Berlin	27,300	Condo sales	2021
20	CG Gruppe	Palatium (Palaisplatz Altbau)	Dresden	5,000	Condo sales	2020
21	Consus Swiss Finance	Wohnen an der Villa Berg	Stuttgart	4,400	Condo sales	2020
22	CG Gruppe	Miners / Glück-Auf-Haus	Cologne	2,800	Condo sales	2020
23	CG Gruppe	Westend Ensemble - Grand Ouest	Frankfurt	9,100	Condo sales	2021
24	CG Gruppe	Westend Ensemble - Upper West	Frankfurt	19,800		2023
25	CG Gruppe	Cologneo I Part2	Cologne	36,300		2022
26	CG Gruppe	Cologneo II	Cologne	71,600		2025
27	CG Gruppe	COL III (Windmühlenquartier)	Cologne	22,600		2024
28	CG Gruppe	Steglitzer Kreisel Parkhaus & Sockel	Berlin	39,500		2024

No.	Consus Subsidiary Entity	Project Name	City	Approx. Total Sellable Area (sqm)	Sale status	Targeted delivery date
29	CG Gruppe	Forum Pankow	Berlin	36,200	FS in Neg.	2025
30	CG Gruppe	Vitopia-Kampus Kaiserlei Comm	Frankfurt/ Offenbach	31,000		2024
31	CG Gruppe	Ostend	Frankfurt	42,700		2026
32	CG Gruppe	UpperNord Hotel	Düsseldorf	4,800		2022
33	CG Gruppe	UpperNord Quartier	Düsseldorf	25,000	FS in Neg.	2023
34	CG Gruppe	Südtribüne	Dortmund	4,400		2021
35	CG Gruppe	Bahrenfelder Carré Von Sauer Str.	Hamburg	19,400	FS in Neg.	2022
36	CG Gruppe	Neuländer Quarree	Hamburg	81,300		2025
37	CG Gruppe	Billwerder Neuer Deich	Hamburg	44,500		2024
38	CG Gruppe	NY	Hamburg	45,400		2024
39	CG Gruppe	Quartier C	Karlsruhe	111,200		2026
40	CG Gruppe	GEM Hofgarten	Karlsruhe	19,700		2021
41	CG Gruppe	GEM H Portfolio	Karlsruhe	107,700		2025
42	CG Gruppe	Böblingen	Stuttgart	9,000	FS in Neg.	2022
43	CG Gruppe	Schwabenland Tower	Stuttgart	15,900	FS in Neg.	2021
44	CG Gruppe	Max Reger Str	Erfurt	6,500		2023
45	CG Gruppe	TAP Hochhaus	Erfurt	7,200	FS in Neg.	2022
46	CG Gruppe	Plagwitz Bestand	Leipzig	99,400		n/a
47	CG Gruppe	Plagwitz Development	Leipzig	18,700		2023
48	CG Gruppe	Ostplatz - FLI Mensa	Leipzig	3,100		2025
49	CG Gruppe	Kreuzstraße	Leipzig	12,600	LOI signed	2022
50	CG Gruppe	Ritterstraße	Leipzig	1,900		2022
51	CG Gruppe	Mariannenpark	Leipzig	31,300		2025
52	CG Gruppe	Zerbster-/ Wittenberger Straße	Leipzig	13,300		2025
53	CG Gruppe	Wachendorff Quartier	Bergisch- Gladbach	30,900		2024
54	CG Gruppe	Braugold	Erfurt	17,100		2024
55	Consus Swiss Finance	GlockenGut	Bayreuth	16,700	FS in Neg.	2023
56	Consus Swiss Finance	2stay	Frankfurt	27,600		2023
57	Consus Swiss Finance	Holsten Quartier	Hamburg	133,500	LOI signed	2026
58	Consus Swiss Finance	Neues Korallusviertel	Hamburg	34,700	LOI signed	2023
59	Consus Swiss Finance	Peschl Quartiere	Passau	20,800	LOI signed	2023
60	Consus Swiss Finance	VAI Campus	Stuttgart	185,400		2026
61	Consus Swiss Finance	Covent Garden	Munich	29,300		2025
62	Consus Swiss Finance	The Wilhelm	Berlin	15,900		2024
63	CG Gruppe	Benrather Gärten	Düsseldorf	159,000		2029
64	CG Gruppe	Otto Quartier	Wendlingen	73,400		2025
65	CG Gruppe	Katharinenstraße	Leipzig	2,000	Sold / not closed	2020
66	CG Gruppe	Delitzscher Straße B & C	Leipzig	54,200	Sold / not closed	2019
67	CG Gruppe	Hallesches Ufer BT 1 - 3	Berlin	25,500	Sold / not closed	2020
	Total			2,212,200		

In addition to €450,000,000 9.625% senior secured notes due 2024 issued by Consus Real Estate, the majority of the Consus Group's financing arrangements are in connection with the financing of the acquisition or development of land plots and/or real estate properties are in line with customary market practice. Typically, such project financings have a short- or mid-term maturity profile, i.e., a term of up to one year or between one year and of up to five years, to match its general forward sale approach and the value creation process. In the ordinary course of business, the Consus Group continues to finance, refinance and extend its project financings on a rolling basis. In certain cases, such refinancing or extension only occurs following the maturity of the relevant financing. Individual project financings may mature prior to the relevant developments being completed and sold and, in such cases, such financings are refinanced or extended as required. In line with industry practice, the process required for such refinancing or extension is initiated shortly (i.e. usually three months) prior to maturity.

10.6.2.1 Property development business with institutional purchasers

The development of residential real estate properties is the “core” development business of the Consus Group. It primarily develops residential real estate properties by building new multistory apartment buildings. Its property development business planned for institutional purchasers amounted to a GDV of approximately €8.0 billion as of September 30, 2019, corresponding to approximately 78% of the development portfolio by GDV as of September 30, 2019. Additionally, the Consus Group also develops residential real estate properties by converting and refurbishing former commercial and/or industrial real estate properties. As part of mixed use developments, it also develops commercial and retail spaces to complement its project developments.

10.6.2.2 Vertical Villages

Vertical Villages consist of large-scale projects in prominent urban areas located in the Top 9 Cities. The Consus Group renovates and converts office buildings and high-rises into modern residential and commercial complexes, which it then places with the institutional purchasers under its “VauVau”-brand. The Vertical Villages development business amounted to a GDV of approximately €694 million as of September 30, 2019 and 6.7% of the total sellable area.

The Consus Group offers the residential units of its Vertical Villages fully or partially furnished with built-in kitchens and wardrobes. Furthermore, such residential units have shared facilities which either can be used by various tenants simultaneously or are available through a simple-use booking system, including dining rooms, guest apartments or work spaces. In addition, the development projects are supplemented by commercial and retail spaces and certain after-sales services, including full-time concierge services providing a contemporary concept for residential living.

10.6.2.3 Quarter development

With the development of entire quarters (*Quartiersentwicklung*), the Consus Group focuses on long-term developments in sustainable locations in metropolitan areas. These quarters are designed to redefine their respective area with a mix of residential units and commercially used space providing for high living standards. Its quarter development amounted to a GDV of approximately €6.7 billion as of September 30, 2019, corresponding to 66% of the development portfolio by GDV.

10.6.2.4 Condominium sales

For its residential developments of condominiums, the Consus Group develops high quality residential units which it sells to investors and owner-occupiers. With this development segment, the Consus Group taps the broad owner-occupied housing market. It frequently renovates and converts commercial and office buildings to develop high-end residential apartments. Its condominium business development portfolio amounted to a GDV of approximately €2.3 billion as of September 30, 2019.

The condominiums are being sold through “RVG Real Estate Vertriebs GmbH”, which operates as a distribution channel for the Consus Group's residential units by utilizing the experience and knowledge of its sales experts.

10.6.2.5 Yielding assets

The Consus Group owns a small number of yielding assets that generate cash flows from rental income which are often within or part of larger development projects within the Consus Group. The key locations

are in Leipzig and Berlin. The property in Leipzig's Plagwitz urban district is a commercial development on 18 hectares of land that has continuously been developed since 2008. Other yielding assets include the base of the Steglitzer Kreisel in Berlin, where the Consus Group is developing the tower, and a large parking facility in Hamburg.

10.7 Economic and Strategic Reasons for the Transactions

The Company's business strategy is focused on creating one of the leading residential real estate companies in Germany.

10.7.1 Reasons for the Business Combination

Through the Business Combination, the Combined Group will become a top-5 residential real estate company in Germany based on gross asset value and has the potential to ultimately create one of the largest listed residential real estate companies in Europe, characterized by diversification and synergistic growth.

10.7.1.1 Diversifying into Strong Locations Across Germany

The Company and ADLER Real Estate will consolidate approximately €8.6 billion in combined residential assets. The Company's Berlin portfolio will be complemented by ADLER Real Estate's Germany-wide portfolio, focused on German cities with attractive yield potential. In addition, the Combined Group will benefit from enhanced liquidity in the Company's shares.

10.7.1.2 Operating and Financing Synergies

The Company believes that through the Business Combination it will realize income and cost synergies with a positive effect on combined FFO 1 of approximately €15 million to €20 million (before tax) per year. Operating synergies are expected to be derived from economies of scale in purchasing and streamlined corporate structures with a reduction in administrative costs.

A successful completion of the Business Combination will furthermore enable the realization of financing synergies on ADLER Real Estate's debt, which are expected to be between €9 million to €19 million per year in the medium-term.

10.7.2 Reasons for the Consus Transaction

The conclusion of the SCA and the acquisition of a strategic stake in Consus Real Estate was a first step in the Company's defined strategy to enable the Combined Group to benefit from access to Consus Real Estate's market leading development platform with a high quality pipeline of over 15,000 residential rental units in Top 9 Cities. The ongoing housing shortage in Berlin and other densely populated regions in Germany is an issue which the Company takes seriously. The Company is committed to easing the pressure on the market through accelerating the construction of new stock suitable for rent through the access to Consus Real Estate's development platform.

In the event that the Combined Group were to exercise its call-option for the acquisition of the control over Consus Real Estate, the ADO Properties Group believes to expect additional operational synergies of approximately €13 million to €18 million (before tax) per year. Such would primarily result from an increased cost efficiency, including reduced expenses for marketing and sales, based on the shift in strategy from "build to sell" to "build to hold".

Further, the refinancing of the debt structure of the Consus Group would likely result in substantial additional refinancing synergies, resulting in estimated savings of €142 million to €153 million (before tax) per year over time.

11. MARKETS AND COMPETITION

11.1 The German Real Estate Market – Overview and Market Drivers

As of December 31, 2019, the Company and ADLER Real Estate owned 16,255 and 58,139 residential units, respectively, that they held for rental to tenants. These are located exclusively in Germany. While the Company's entire stock of residential units is located in Berlin, ADLER Real Estate's residential units in most cases are located in the vicinity of larger conurbations and offer affordable homes to tenants with medium to low incomes. In recent years, ADLER Real Estate has grown rapidly, e.g. through acquisitions such as the acquisition of a 70% stake in Brack Capital Properties N.V. ("BCP") in 2018. The Company has recently focused its portfolio through the sale of approximately 5,900 residential units in the fourth quarter of 2019. As a Combined Group, the ADO Properties Group and the ADLER Group intend to maintain their existing strategic focus, grow their residential property portfolio and thus continue to serve the needs of their particular segment of the real estate market even more extensively. The Combined Group's business is, therefore, largely dependent on the residential real estate market in Germany.

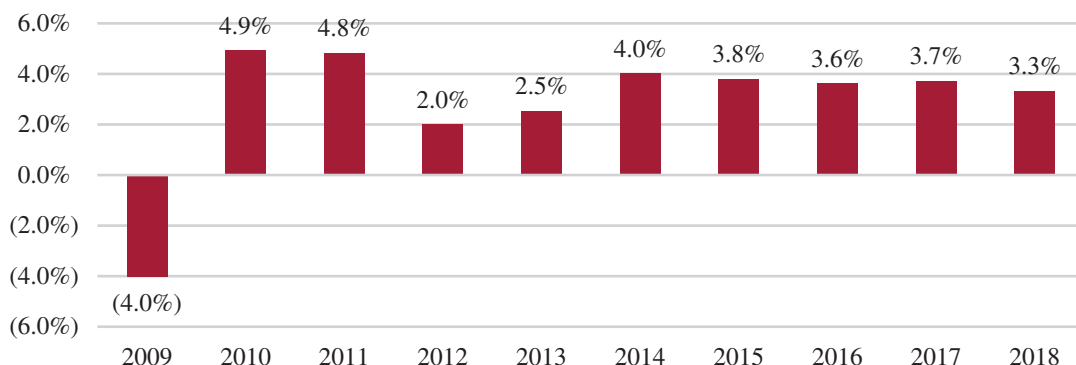
11.1.1 Macroeconomic and Demographic Drivers Affecting the German Real Estate Market

The key factors influencing the German residential real estate market comprise the gross domestic product ("GDP"), the disposable income per capita of the German population as well as the number of households. Additionally, demand and supply on the real estate market are also influenced by socio-demographic factors, the overall demographic development, changes in consumer behavior and ways of life or preferred forms of living. This may have repercussions on the average living space per capita, the average number of people living in household, preferred forms of living such as apartments or single family-houses or the preferred locations like cities, conurbations or rural areas. Furthermore, the Company believes that a decisive factor regarding the attractiveness of a property is the physical condition of the building and, in case of condominiums, the tenant structure.

Over the recent years, the German residential real estate market has benefitted and is expected to further benefit from a relatively positive macroeconomic environment on the basis of e.g. the following trends and developments:

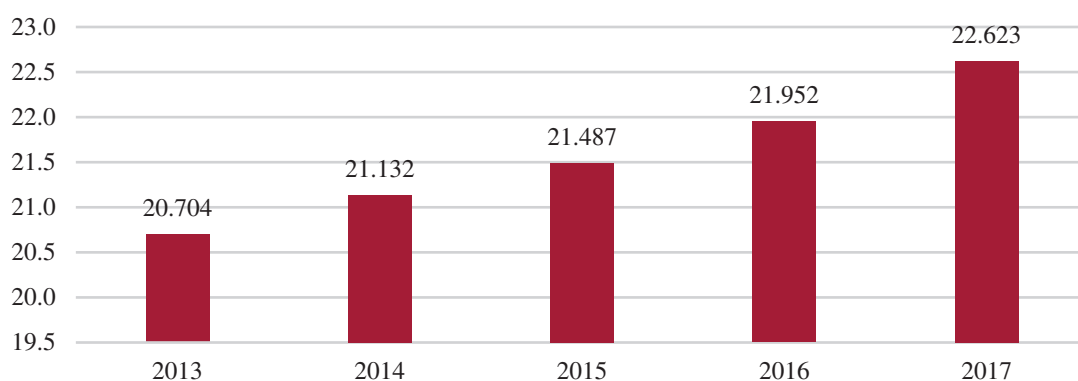
11.1.1.1 GDP Growth (in %)

After years of steady growth there have been increasing signs of a slowdown in the German economy with a GDP decrease of 0.1% for the second quarter of 2019 (compared to 2018) while price-adjusted exports were down 0.8%, resulting in the largest decline recorded in the last six years (source: Federal Statistical Office–Press Release 321). The German economy returned to growth in the third quarter of 2019 with an increase in GDP of 1.0% (compared to the same quarter in 2018) (source: Federal Statistical Office–Press Release 448). A decrease in GDP in Germany or an increase in unemployment could adversely affect the population's purchasing power, and therefore its propensity to acquire residential real estate.



(source: Volkswirtschaftliche Gesamtrechnung der Länder)

Disposable income per capita in Germany (in € thousand)



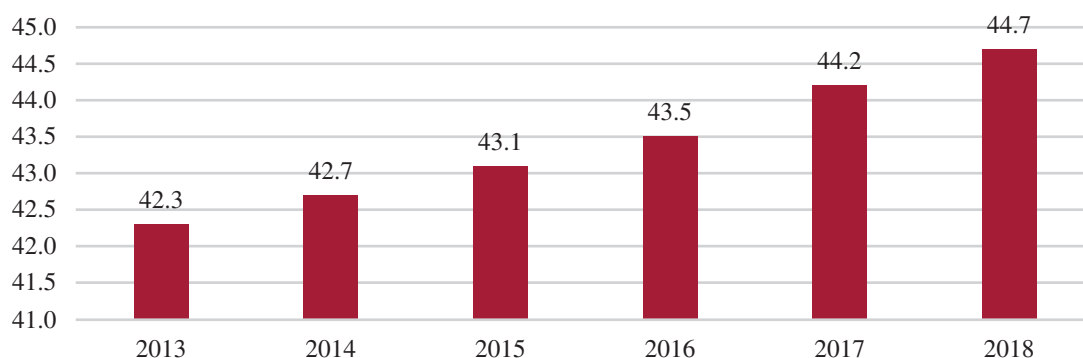
(source: Volkswirtschaftliche Gesamtrechnung der Länder)

While in 1996 living space per capita amounted to 36.5 sqm, it had gone up to 45.2 sqm in 2018 (source: Federal Statistical Office–Anzahl der Wohnungen). Up to the year 2030, the per capita residential space of owner-occupied households is expected to rise further, by approximately 3 sqm in the old federal states to close to 54 sqm, and to approximately 55 sqm in the states of the GDR (source: Statista–Pro-Kopf-Wohnfläche).

11.1.1.2 Employment

In October 2019, roughly 45.4 million persons resident in Germany were in insurable employment. The number of persons in insurable employment in October 2019 was 0.7% (306,000 persons) higher than in October 2018 (source: Federal Statistical Office–Press Release 455).

Employment (in million people)



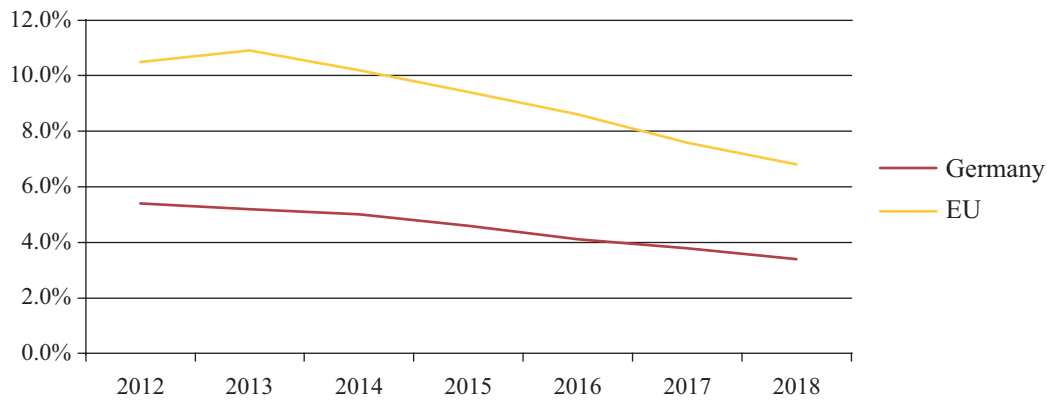
(source: Federal Statistical Office–Press Release 075)

11.1.1.3 Unemployment rate in Germany (in %)

The unemployment rate in Germany continuously declined in the last five years, reaching 5.0% in 2014, 4.6% in 2015, 4.1% in 2016, 3.8% in 2017 and 3.4% in 2018.

The German unemployment rate is significantly lower than the EU average rate. This means that Germany is less affected by unemployment than most other EU Members (source: Eurostat–Unemployment).

Unemployment rate in Germany and the EU 2012-2018 (%)



(source: Eurostat–Unemployment)

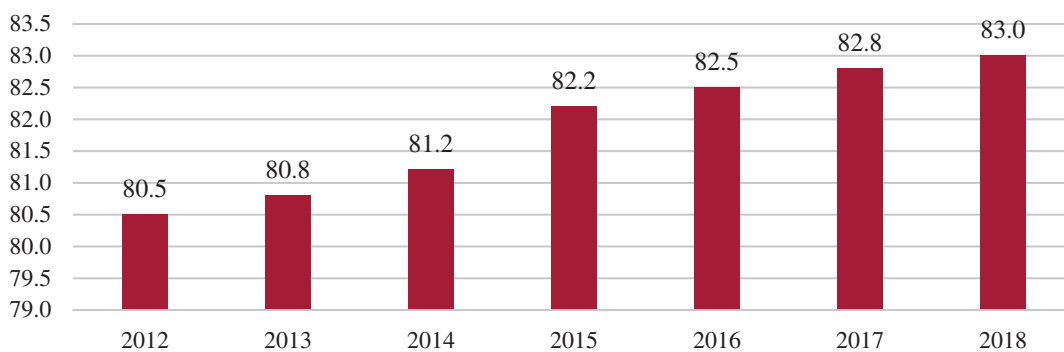
11.1.1.4 Consumer Price Development

The German economy experiences low inflation. In November 2019, the consumer price index is expected to show an increase of 1.1% to November 2018 (source: Federal Statistical Office–Press Release 477). On an annual average, consumer prices in Germany rose by 1.8% in 2018 after 1.5% in 2017 and 0.5% in 2016 (source: Federal Statistical Office–Consumer Prices).

11.1.1.5 Population Growth to Continue

According to the Federal Statistical Office, approximately 83.0 million people were living in Germany at the end of 2018. At the end of 2017, the figure was 82.8 million. Since the last census survey in 2011 on the country's population and the employment and housing conditions carried out by the statistical offices of the Federation and States (*Statistische Ämter des Bundes und der Länder*), the population has been growing steadily, while it had declined slightly between 2002 and 2010. Despite the birth deficit, the number of inhabitants in Germany increased again due to the migration surplus and, at the end of 2018, reached a new record high since German reunification (source: Federal Statistical Office–Press Release 029; Federal Statistical Office–Press Release 244).

German Population (in million)



(source: Federal Statistical Office–Population)

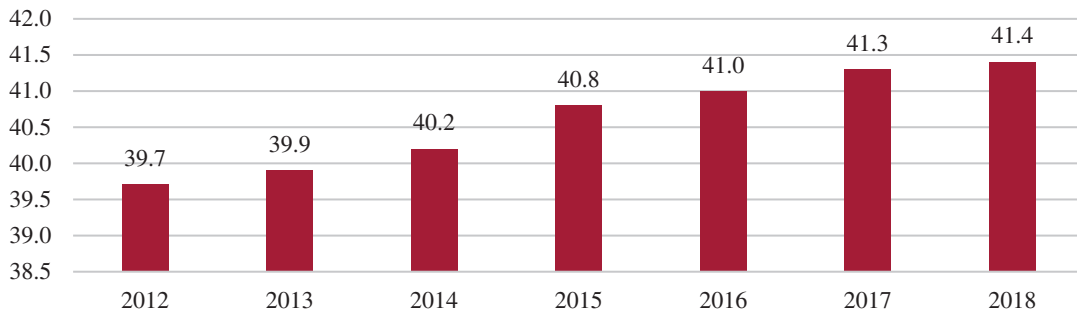
According to the latest forecast of Eurostat, the population in Germany will increase due to immigration to almost 84 million until roughly 2030 and then steadily decline to 80 million until the year 2080 (source: Eurostat–Population Forecast).

In recent years, Germany has seen positive and ever-increasing balances levels of immigration, from around 127,700 people in 2010 to around 416,000 people in 2017 and 400,000 people in 2018 (source: Federal Statistical Office–Press Release 271).

11.1.1.6 Increase in the Number of Households

The number of households in Germany reached almost 41.4 million in 2018, increasing from 41.3 million in the previous year. This, too, is the highest number recorded in Germany over the last 25 years, rising from 36.2 million in 1993 (source: Federal Statistical Office–Privathaushalte Deutschland).

Number of households (in million)



(source: Federal Statistical Office–Privathaushalte Deutschland)

As the increase in the number of household was much stronger than the increase in the overall population, it follows that the average household size has declined over time. In particular, the number of single person households has increased significantly from 35.4% in 1996 to 41.9% in 2018 (source: Federal Statistical Office–Privathaushalte Deutschland).

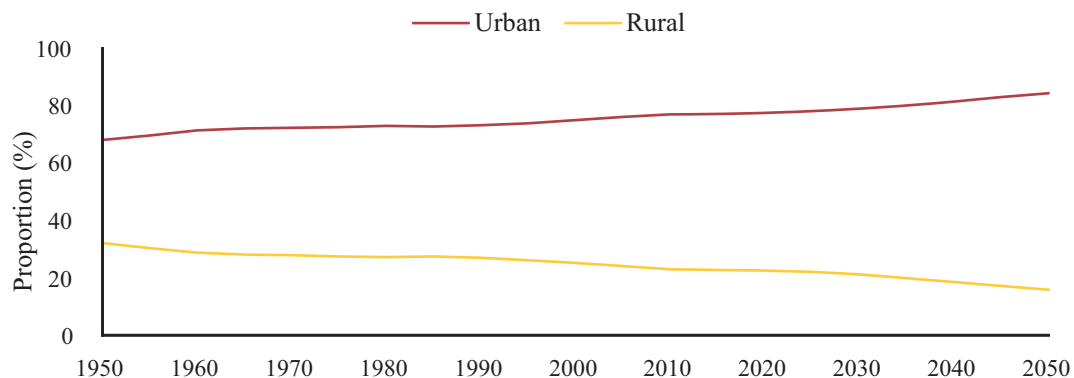
The Company believes that stable and solid growth, high employment, low inflation, a growing population and the continuing trend to single households are positive indicators for further growth in demand for residential space.

11.1.1.7 Urban Population and Immigration Trends

The recent increase in the German population has been driven by immigration, both labor market oriented and as a result of an influx of refugees, and has resulted in an accelerated increase of population density in Germany’s key metropolitan regions, leading to an “urbanization trend” (source: CBRE–Outlook 2018).

The following chart indicates that the urbanization trend is expected to continue in the future and emphasizes that the proportion of population living in urban areas in Germany is expected to increase from approximately 77% in 2015 to approximately 80% in 2035, with a long term forecast of 84% in 2050 (source: United Nations–World Urbanization Prospects).

German Urban Population Proportion ⁽¹⁾



(source: United Nations–World Urbanization Prospects)

(1) Proportions of urban and rural population in the current country or area in per cent of the total population, 1950 to 2050.

11.1.1.8 Household Debt and Low Interest Rates

Since 2011, the volume of housing loans to households has increased from €16.4 billion to approximately €23.2 billion in 2018 (source: Deutsche Bundesbank–Housing Loans to Households).

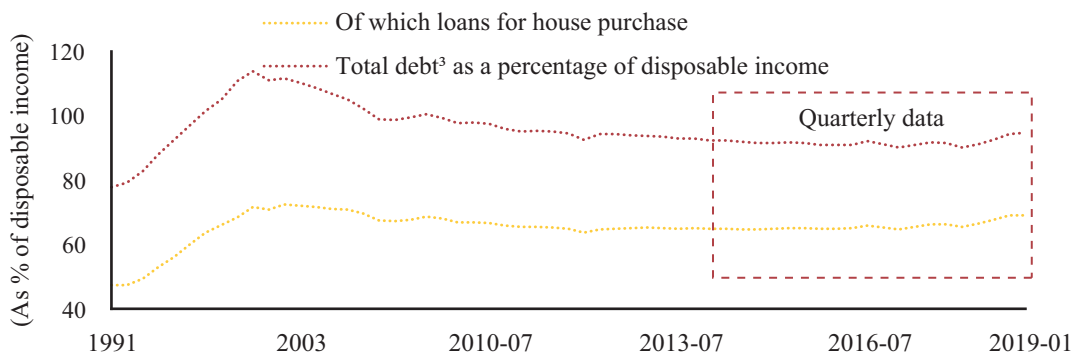
Both the Company and ADLER Real Estate finance their business activities with own equity and borrowed capital and will continue to do so as the Combined Group. Interest rates are closely linked to the main refinancing rate for Europe as determined by the European Central Bank (“**European Central Bank**”). Currently, interest rates in Germany on real estate loans are at historically low levels and the ECB’s main refinancing rate is expected to remain persistently low in 2019 until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon (source: *ECB–Monetary Policy Decisions*). This gives reason to expect that German real estate will continue to be a valuable investment category for private and professional investors.

A general, noticeable increase in interest rates could affect the Company’s ability to finance the acquisition, modernization, maintenance and refurbishment of property portfolios by debt capital and the general ability to refinance debt which becomes due.

The following chart indicates the percentage of debt held by households as percent of disposable income as well as the share of loans for house purchases as percent of disposable income.

Household debt in Germany ⁽¹⁾

(Annual averages ⁽²⁾)



(source: *Deutsche Bundesbank–Indicators for German Residential Property Markets*)

- (1) Unconsolidated, i.e. referring to financial transactions within one sector are not offset against each other. On the contrary, consolidating data results in instances where financial relations within one sector are offset against each other, such data showing an external interdependence of one sector with another sector.
- (2) Until 1998 according to ESA 1995; from 1999 according to ESA 2010.
- (3) Excluding other liabilities.

11.2 German Residential Real Estate Market

11.2.1 Residential Loans

Germany has seen a steady rise in residential loans. The gross residential loans have increased by nominal amount at a compound annual growth rate (“**CAGR**”) of 6.0% from 2010 until 2018. Gross residential loans in Germany had an aggregate amount of approximately €227.8 billion at the end of 2018. The total of outstanding residential loans per capita has also increased with a CAGR of 2.7% from 2010 until 2018 and was at €20,879 at the end of 2018 (source: *EMF Hypostat 2019*). The EU average was at €17,404 at the end of 2018. As such, there is increased mortgage activity in Germany driven by increase in home ownership and increased demand (source: *EMF Hypostat 2019*).

11.2.2 Number of Transactions

The number of transactions is an important metric to measure the activity in the residential real estate sector as it takes into account both, newly constructed and existing properties. The number of transactions is defined as the total number of new or second hand apartments purchased or transferred in the period, including those occupied for the first time. In 2018, the number of new homes delivered was approximately 286,000, while the number of transactions was at 569,000 (source: *EMF Hypostat 2019*). The total sales value associated with the transactions rose by 6.6% compared to the previous year. As such, overall investor activity has been high over the years in both the primary and secondary market (source: *EMF Hypostat 2019*).

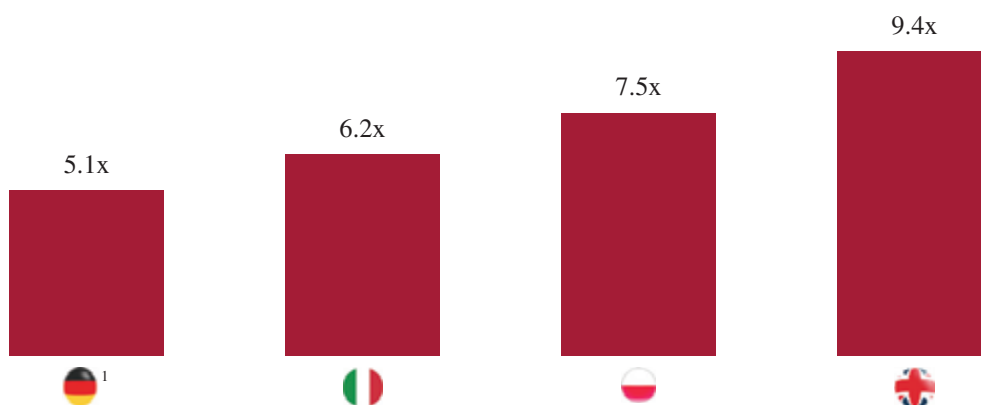
11.2.3 Property Prices Evolution

Property prices across the globe saw a decline post the financial crisis and started to recover since 2012 in most countries. Property prices in Germany were resilient post the financial crisis and only exhibited a slight decline of 0.2% in 2007 and of 0.5% in 2009 (source: EMF Hypostat 2019). There has been a steady increase in the property prices in Germany signifying its strong fundamentals. The nominal house prices have increased at 3.1%, 4.5%, 6.0%, 5.8% and 7.7% in 2014, 2015, 2016, 2017 and 2018, respectively (source: EMF Hypostat 2019).

11.2.4 House Price Affordability

Housing in Germany is amongst the most affordable within the EU. The price to salary multiple in Germany stands at 5.1x. For the United Kingdom, the ratio is as high as 9.4x (source: Deloitte—Property Index). The following chart shows the average housing affordability measured by the multiple of average gross annual salary required to buy a new 70 square meter residential unit in Germany compared to other Western European countries.

Average gross annual salary required to buy a new 70 square meter flat in Western Europe

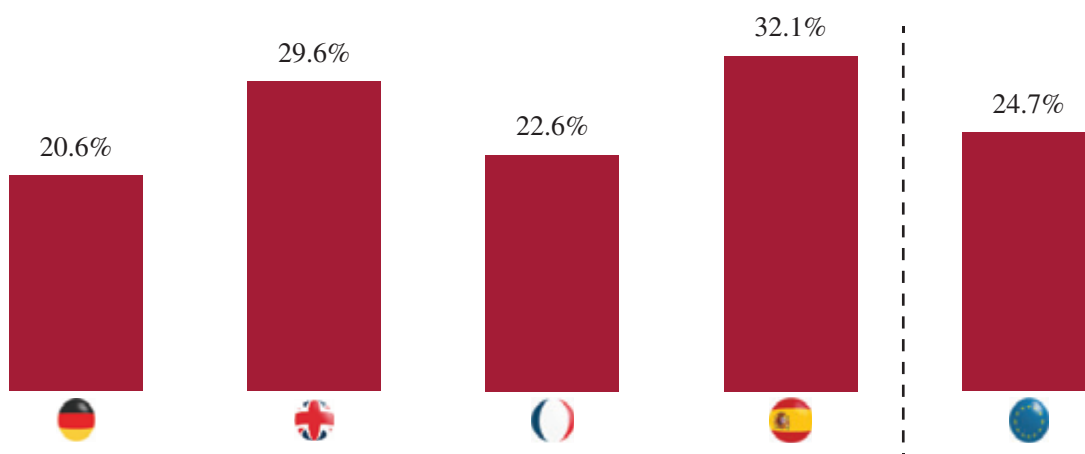


(source: Deloitte—Property Index)

(1) Bid price.

In Germany, the share of rent in disposable income is 20.6% as of 2017 and is therefore significantly lower than the EU average of 24.7% implying that there is still room for rents to rise. The chart below compares the share of rent in disposal household income to other Western European countries.

Share of rent in disposable household income as % of total (2017)

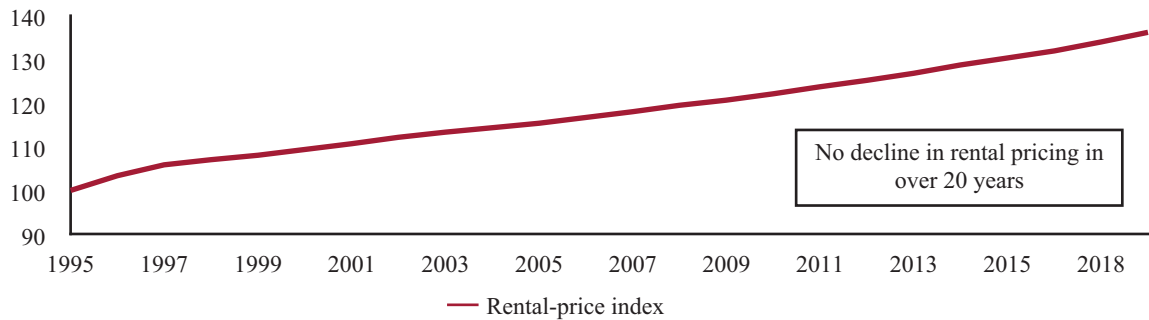


(source: Eurostat – Share of rent)

11.2.5 Steady Rental Price Growth

In the past 20 years, rental prices have been steadily and consistently rising in Germany. The chart below outlines the growing rents in Germany since 1995.

>20 years of strong and constant rental price growth

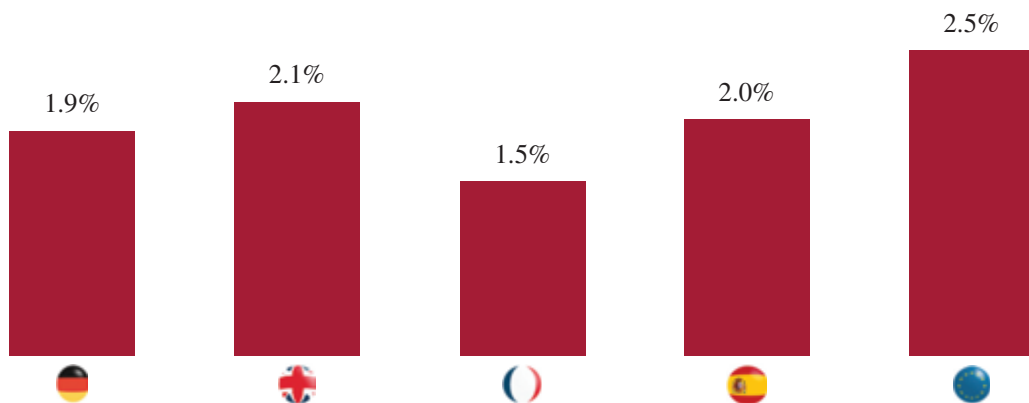


(source: Federal Statistical Office–Residential Rental Price Index)

11.2.6 Mortgage Rates

Mortgage rates in Germany are conducive to the residential market growth. The long term initial fixed period rate (across all interest rate fixation periods) was at 1.8% in 2017 (source: EMF Hypostat 2019), which is among the lowest across the Western European economies. This low interest mortgage rate environment is supportive of home ownership growth in Germany. The following chart shows a comparison of average mortgage rates on the basis of annual averages in 2017 across major Western European economies.

Comparison of average mortgage rates in Western Europe



(source: EMF Hypostat 2019)

From a financing perspective, excessively loose lending conditions can contribute to high valuations for residential properties, but borrowing standards in Germany have been stable. Housing loans are mostly based on relatively long term fixed interest agreements, thereby minimizing the exposure of lenders to interest rate fluctuations.

11.2.7 LTV-Ratio

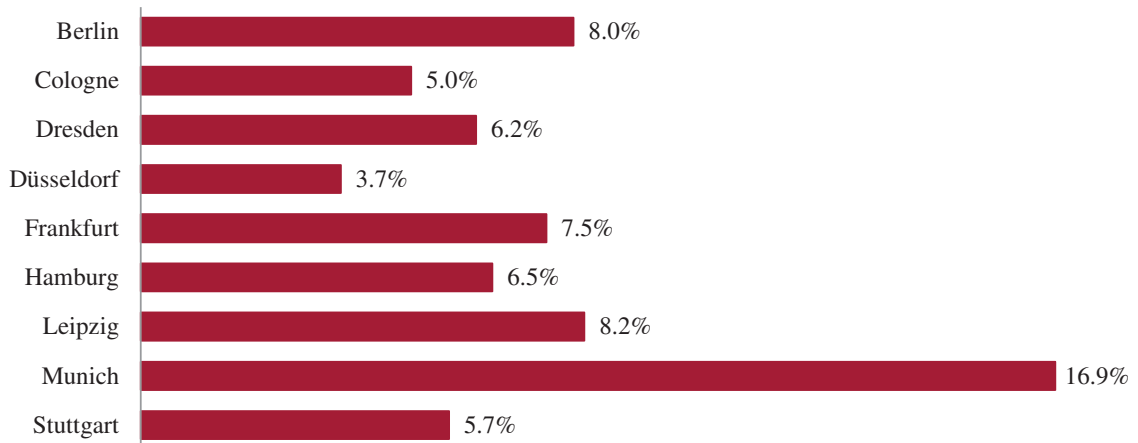
Generally, the LTV-ratio describes the ratio of net debt to the fair value of investment properties and inventories. LTV-ratios in Germany have consistently stayed above 70%, even after the financial crisis in the years of 2007 and 2008. Currently, the typical LTV-ratio is around 78% (source: EMF Hypostat 2019).

11.2.8 Overview of Residential Real Estate – Top 9 Cities

11.2.8.1 Population

As of December 31, 2018, four of the Top 9 Cities report populations over 1 million. Germany's largest city is Berlin, with a population of 3.6 million and therefore is almost twice as large as Hamburg, Germany's second largest city, with a population of 1.8 million. The smallest of the Top 9 Cities are Dresden, Leipzig, Düsseldorf and Stuttgart, with populations ranging between 555,000 and 635,000 (source: Federal Statistical Office–Bevölkerung Kreise).

Expected population growth from 2012 until 2030 across all Top 9 Cities



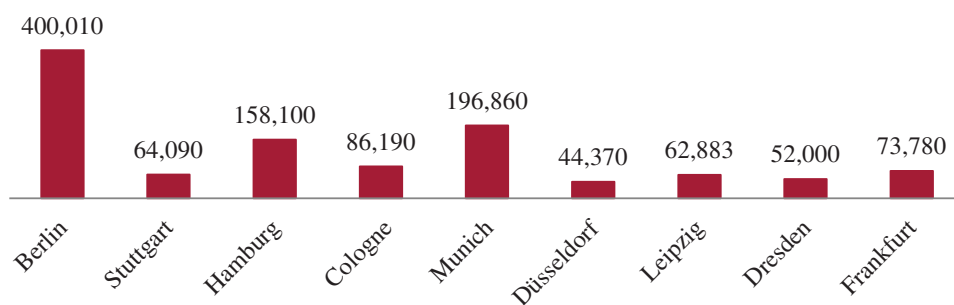
(source: HWWI/Berenberg–30 größten Städte Deutschlands)

The expected population growth rate of a city can be used as an indicator of a city's attractiveness and readiness for the future. Regarding the Top 9 Cities, Munich is expected to grow the most in the period between 2012 and 2030, with an expected growth rate of 17%, whereas Berlin is expected to grow at 8%, Düsseldorf at 4% and Cologne at 5%.

11.2.8.2 Building Permits and Supply & Demand

The overall shortage of apartments will continue to increase over the next years. In the Top 9 Cities, a total shortage of 1,100,000 apartments is expected until 2030. Berlin is expected to face the greatest supply shortage of 400,010 apartments, while Munich is expected to exhibit a shortage of 196,860 apartments and Hamburg a shortage of 158,100. Dresden will exhibit a shortage of 52,000 and Düsseldorf a shortage of 44,370 apartments.

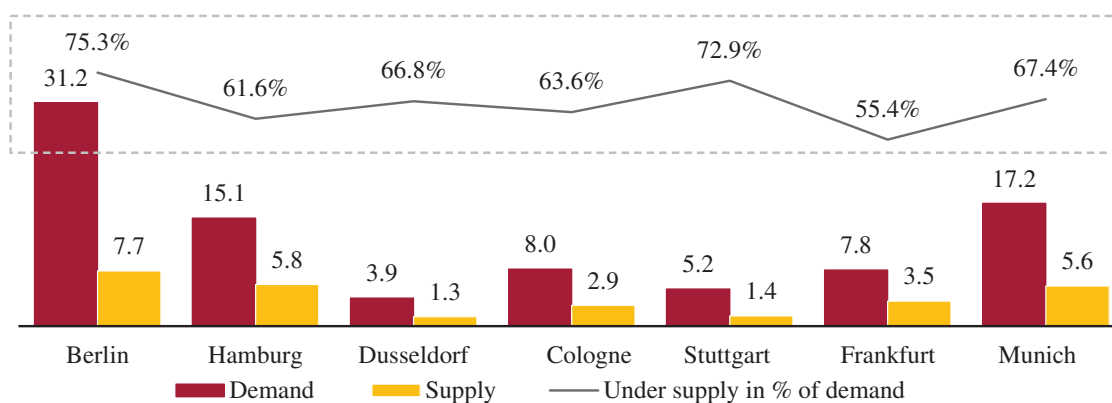
Total shortage of apartments in the Top 9 Cities until 2030



(source: IW Köln–Wohnungsmangel, Leipziger Volkszeitung, Planet Home 2016, Aengevelt–Press Release, Statistic Authority Dresden–Bauen und Wohnen 2016)

Demand for apartments up to 2020 in Germany's Top 9 Cities is outstripping supply by far. Especially in cities such as Berlin (75.3%), Stuttgart (72.9%) or Munich (67.4%) undersupply is distinct.

Supply and demand of apartments across Germany's Top 9 Cities p.a. up to 2020



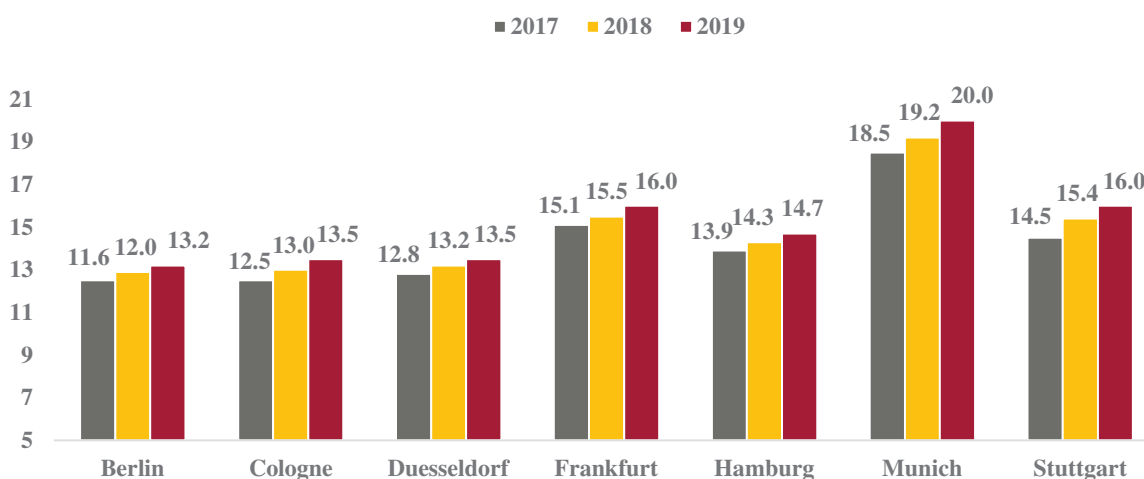
(source: IW Köln-Zuwanderung und Wohnungsnachfrage)

11.2.8.3 Rental Price Development

Rental price growth is highest in Munich, where rents are expected to increase from €18.5 per square meter in 2017 to €20.0 per square meter in 2019, closely followed by Stuttgart, where a CAGR of 5.0% is expected over the two years from 2016 to 2018, reaching €16.0 per square meter in 2019. In absolute terms, rents in Munich are expected to be the highest (€20.0 per square meter), followed by €16.0 per square meter in Frankfurt and Stuttgart. Lowest rents per square meter in 2019 are paid in Berlin and Cologne (both €12.5 per square meter). The increase in rental prices is in line with the expected population growth, led by Munich and followed by Frankfurt and Berlin, and is again an indicator and a result of a city's popularity and attractiveness.

Increase of first occupancy average rents in € per square meter from 2016 to 2018

(First occupancy average rents € per square meter)



(source: DZ HYP-Real Estate Market Germany 2018/2019)

11.2.8.4 Impact of Legislative or Regulatory Measures

The real estate market has ever since been subject to regulatory or legislative changes. On June 1, 2015, the rent control of new leases (*Mietpreisbremse*) was enacted, which enables the federal states to establish individual decrees. The new law limiting rent increases (*MietNovG*) upon re-letting of existing residential units in regions with low supply only allows an increase of rent up to local rental table level plus 10%.

Furthermore, the provisions of landlord-tenant law are especially relevant to the Company. German residential landlord-tenant law (*Wohnraummietrecht*) is considered to be tenant friendly in many respects, restricting the ability to increase rents. If the parties to a tenancy agreement have not agreed on a stepped rent or an indexation – both unusual in the German residential market – a rent increase is feasible only

within certain limits and taking into account statutory limits, for example, as a result of the so-called rent control (so-called “*Mietpreisbremse*”) which was enacted in 2015 and has been implemented by various German federal states. Further obligations for landlords are stipulated in the Tenancy Law Adjustment Act (*Mietrechtsanpassungsgesetz*) which is in effect since January 1, 2019 and pursuant to which allocation of modernization costs shall be reduced from 11% to 8% of the investment amount (applicable to all housing markets) with absolute caps of rent growth following a modernization.

In addition, in light of the housing shortages in certain German cities and regions, where the free market results in high and unaffordable rents, not only for low income but also for middle income households, recent discussions at the state level, in particular in Berlin, have advocated for a freeze of rent levels (so-called “*Mietpreisdeckel*”), which was enacted on February 23, 2020 and the implementation of administrative approvals for rent increases permitted following modernization measures which significantly affect a landlord’s ability to increase rents.

Moreover, on September 12, 2019, the state of Berlin introduced a motion in the German Federal Council (*Bundesrat*) to abolish the possibility of allocating property tax from landlords to tenants (*Miete-Grundsteuer-Entlastungsgesetz*). It is currently unclear whether the motion will be accepted and which federal states will join Berlin’s initiative in the Federal Council (*Bundesrat*). Despite a transitional period which shall apply to tenancies which arose before this Act came into effect, a disallocation of property tax would likely have – at least – a short-term impact on the Company’s performance as such costs would need to be borne by the Company unless such costs could be compensated by higher tenant rates which may be difficult to realize.

11.3 Berlin Macroeconomic Situation, Demographic Drivers and Residential Real Estate Market

Berlin remains a key market for the Combined Group with approximately 50% of gross asset value attributable to the city. As of December 31, 2019, the Company held a portfolio of 16,120 residential units in Berlin while ADLER Real Estate held 1,699 residential units in Berlin at the same time.

11.3.1 Berlin Macroeconomic Situation and Demographic Drivers

With a population of approximately 3.6 million as of 2018 (*source: Federal Statistical Office–Bevölkerung Berlin*), Berlin is the most populous city in Germany. For many years, the city’s number of inhabitants has continued to grow, driven by a steady positive net migration. Net migration to Berlin in 2018 amounted to 29,435 (*source: Amt für Statistik Berlin-Brandenburg–Wanderungen*). The continued natural population growth through a higher number of births than deaths, which in 2018 amounted to 4,303 (*source: Amt für Statistik Berlin-Brandenburg–Natürliche Bevölkerungsbewegungen*), has further reinforced this trend. In 2018, Berlin’s overall population growth amounted to 0.9% or an absolute increase of approximately 31,000. Berlin’s population is expected to reach 3.8 million inhabitants in 2025 (*source: Federal Statistical Office–Vorausberechnete Bevölkerung Berlin*).

The unemployment rate in Berlin was 6.1% in 2018 which represents a decrease of 0.9 percentage points compared to 2017. The unemployment rate has considerably decreased over recent years. In 2014, the city recorded an unemployment rate of 9.8%. Still, Berlin’s unemployment rate remains above the German average which stood at 3.4% in 2018 (*source: Eurostat–Unemployment*).

Berlin’s real GDP grew by 3.1% in 2018 which is higher than any other German federal state. Per capita GDP in Berlin stood at €40,568 in 2018 compared to €38,864 in 2017, a nominal increase of 4.4% and a price-adjusted increase of 2.3% (*source: Volkswirtschaftliche Gesamtrechnung der Länder*). This is slightly lower than the average German per capita GDP of €40,851 as of 2018.

Disposable per capita income increased by 4.1% from an average of €19,538 in 2016 to €20,330 in 2017 (latest available, *source: Volkswirtschaftliche Gesamtrechnung der Länder*). The estimated per capita purchasing power in Berlin for 2019 is €21,689 which is lower than the German average of €23,779 but an increase of 3.1% compared to 2018 (*source: GfK–Purchasing Power Germany*). Since 2015, the average gross wages and salaries in Berlin are above the German average. In 2018, they amounted to €36,146, an increase by 4.2% versus 2017.

The number of households in Berlin stood at 2.028 million in 2018 compared to 2.003 million in 2017, an increase of 1.2% which is higher than the population growth in the same year (*source: Federal Statistical Office–Privathaushalte Bundesländer*). Based on this, Berlin represents the largest residential rental market in Germany. The average number of persons per household amounted to 1.8. Of the private households in Berlin 53% were one person households compared to the German average of 42%.

11.3.2 Berlin Residential Real Estate Market

Construction of new residential units in Berlin has considerably increased in recent years. In 2018, 16,706 residential units were completed compared to 15,669 in 2017, an increase of 6.6%, and compared to 4,321 completed units in 2010.

The number of permits for newly build housing has increased as well. While the number of building permits for newly build apartments was 3,890 in 2010, this number increased to 21,029 in 2018. From 2017 to 2018, there was a decrease in permits by 2.5%.

Housing demand is expected to remain at a high level. The Berlin Senate Department for Urban Development and Housing estimated that close to 200,000 new apartments will be needed by 2030 (*source: Berlin Senate Department for Urban Development and Housing–Press Release*). The city of Berlin’s target for new residential units is 20,000 units per year until 2021 and 10,000 units per year thereafter (*source: JLL–Berlin Residential Profile*).

The residential vacancy rate has been steadily decreasing since 2003 from 5.1% to 0.8% end of year 2018 (*source: CBRE/empirica–Leerstandsindex*).

Rent prices have increased significantly in Berlin over the last years. Rent ask prices in Berlin stood at €12.20 per square meter per month as of H1 2019 which was 4.7% up year over years (*source: JLL–Berlin Residential Profile*).

Prices for condominium apartments have continued to rise in Berlin reaching an average of €4,440 per square meter representing an increase of 5.7% year over year. The growth in purchase prices has therefore slowed down with an average 5-year price increase of 9.9% (*source: JLL–Berlin Residential Profile*).

The volume of real estate transactions in Berlin was €5,512 million in 2018, an increase of 14% compared to 2017 (for residential buildings and mixed use buildings, *source: Engel & Völkers–Residential Investment*).

11.3.3 Impact of Legislative and Regulatory Measures of the Berlin Senate

On June 18, 2019, Berlin’s municipal government (*Berliner Senat*) announced its intention to freeze rents in Berlin for the next five years. On January 30, 2020, the Berlin parliament (*Berliner Abgeordnetenhaus*) passed the Law on Rent Limitation in Housing in Berlin (*Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin – MietenWoG Bln*). The law entered into force on February 23, 2020. The rent freeze has retroactive effect as from June 18, 2019. The rent ceilings in Berlin permitted by law are between €3.92 and €9.80 per sqm, depending on the date of the first occupancy as well as the furnishing of the apartment. The location of the building is taken into account when determining the upper limit in the form of a surcharge or discount. The law also provides that the costs for modernization measures may be apportioned up to a maximum of €1.00 per sqm. There are political discussions ongoing around the legitimacy of such a rent freeze, *i.e.* whether Berlin’s government has the right to issue such a law or if it is even constitutional. The extent to which the increasing regulation of the German housing market and the foreseeable stagnation in construction completions will lead is the subject of a contradictory debate. Nonetheless, a reduction in rental cash flow due to the tightening of the rent control of new leases and the discussion in Berlin regarding the capping of rents as well as uncertainty among investors regarding the reliability and predictability of political decisions could negatively affect the overall value of the leased properties.

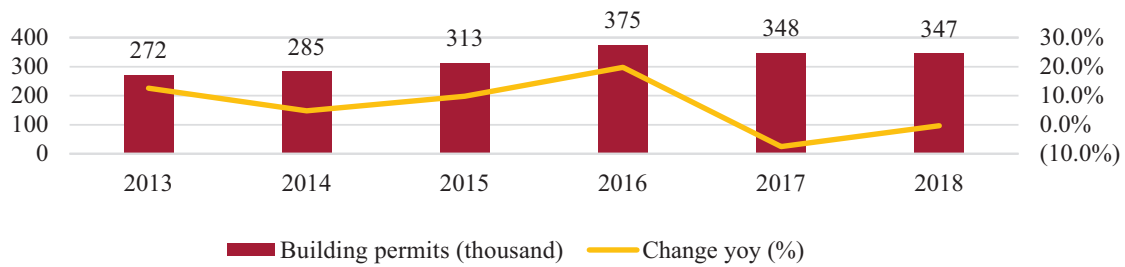
11.4 The German Homebuilding Market

The Company believes that stable and solid growth, high employment, low inflation, a growing population and the continuing trend to single households are positive indicators for further growth in demand for residential space.

In 2016, when building permits had reached a peak, a total of 375,589 permits to build apartments were issued. With this number, estimated demand for new residential units per year is just met. In the previous years, the number of building permits was lower at 313,296 in 2015 and 285,079 in 2014. This sharp rise of over 30% over the last two years indicates a strong reaction to the increasing demand for housing. In 2017 and 2018, however, this growth was not maintained (*source: Federal Statistical Office–Building Permits*).

There were approximately 346,800 building permits awarded (residential and non-residential buildings) in Germany during 2018 (*source: Federal Statistical Office–Building Permits*) which represents a 0.3% decrease when compared to 2017.

11.4.1 Building Permits



(source: Federal Statistical Office–Building Permits)

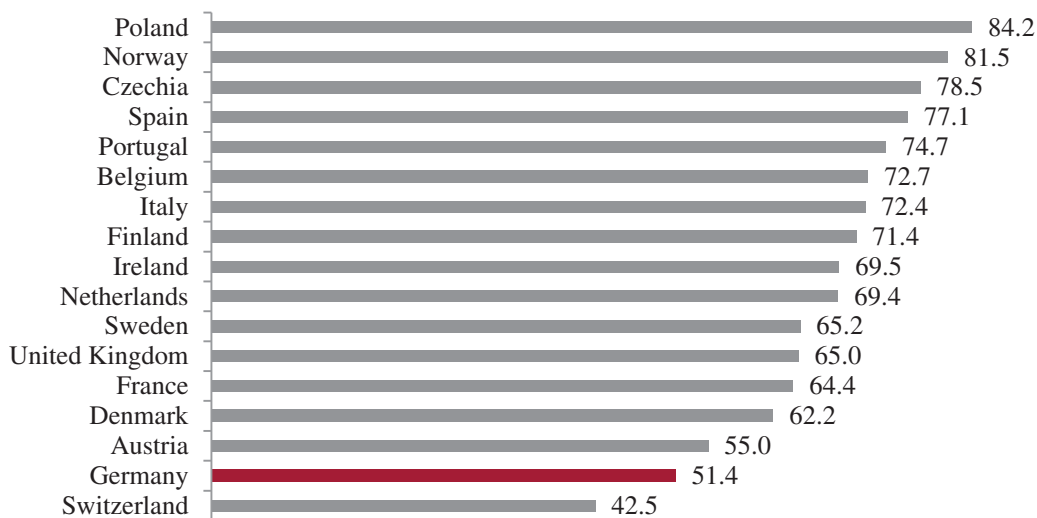
The actual demand for building permits is estimated to be approximately 300,000 to 400,000 units per annum (source: empirica – Wohnungsbauprognose). However, only around 285,000 units were built in 2018. Adding this gap to the gaps of the past years, the result is a number of around 1,000,000 units missing (source: empirica–Wohnungsbauprognose). This gap becomes even higher when affordable or social housing is taken into focus. Here, only approximately 18% of the annual demand of 80,000 apartments are met (source: Prognos–Wohnraumbedarf).

For this reason, the Company believes that the level of building activity is too low to satisfy the demand for housing, in particular as building activities, due to increasing construction costs, are predominantly aimed at superior quality housing, not at the segment of affordable housing.

11.4.2 Residential Real Estate Stock

There were roughly 42.0 million residential units (residential and non-residential buildings) in Germany at the end of 2017 (source: Federal Statistical Office–Press Release 275) of which 51.4% were owned by the people living in them.

Home Ownership Rates in Europe



(source: Eurostat–Distribution of Population by Tenure Status)

The home ownership ratio in Germany is substantially lower than average in Europe. According to the Company, this can largely be attributed to historical causes. In post-war Germany, citizens often did not have the means to purchase real estate or to construct their own homes. To resolve the housing shortage, cities and municipalities became active in the construction and letting of social housing. As rents were also subsidized for decades, private ownership in home ownership was discouraged.

11.4.3 Transaction Volumes on the Real Estate Market in Germany

The German residential sector was amongst the most popular investment sectors in Germany in 2018. During 2018, significantly higher transaction volumes of €15.1 billion (modest decrease of 3% in investment volume compared with the previous year) were recorded. A positive outlook on the sector for 2019 is also expected in line with inflows of capital from foreign investors in search of steady cash flows (source: CBRE–Real Estate Outlook).

The Company is of the opinion that the acquisition prices of residential property are likely to increase further as they do not only reflect current rental income, but also expected rental price increases in the next few years.

11.4.4 Development of Rental Expenses

Rental expenses have increased continuously, but modestly for many years now. In its publications of the consumer price index developments, the Federal Statistical Office recorded an overall increase in the average net rental expense of 1.3% in 2015, 1.1% in 2016, 1.4% in 2017 and 1.5% in 2018 (source: Federal Statistical Office). In November 2019, the increase of net rental expenses is forecasted to be slightly lower at 1.4% (source: Federal Statistical Office–Press Release 454). However, this average is dominated by existing rental contracts and does not indicate the differential between existing and new rental contracts. It also does not reflect the highly varied developments in conurbations and in rural or economically weaker regions in Germany.

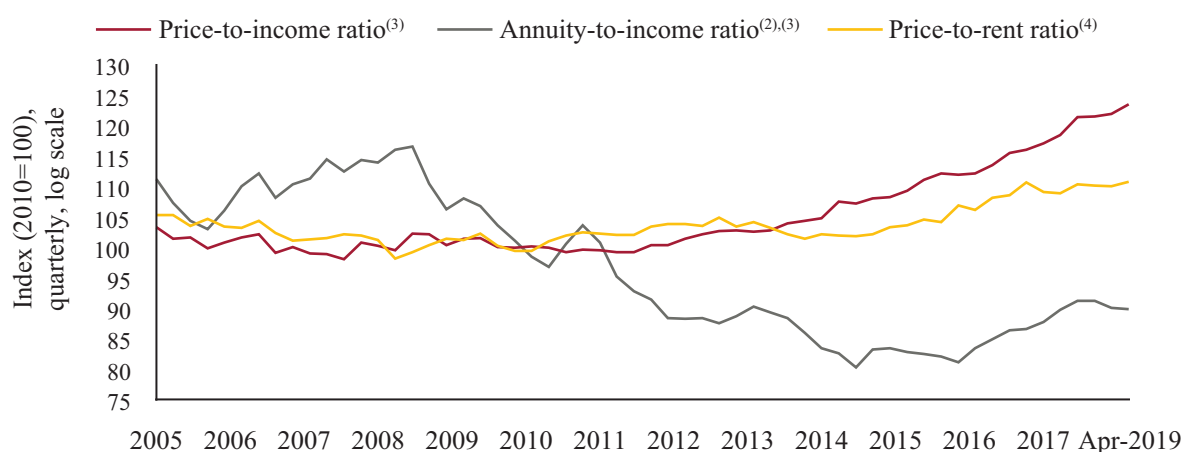
Rents for newly-built residential properties increased by 5.8% in 2018 in “D-cities” according to the property index of the analysis institute bulwiengesa (source: Bulwiengesa). In conurbations in Germany, demand for residential property is still larger than the supply. Regional differences in demand/supply relations were also reflected in vacancy rates for residential properties which in 2018 were at 2.8% (source: CBRE/empirica–Leerstandsindex).

11.4.5 German Property Prices in Relation to Other Major Western European Markets

The Company believes that Germany is one of the most attractive European markets for new residential real estate development. Its structural and legislative environment has a positive impact on the economic development and stability. In addition to the development of real house prices, the German real estate market was considerably less impacted by the financial crisis in 2007 and 2008 than other European countries (source: OECD–House Prices Indicators).

There are signs of a dynamic uptrend in rents and purchase prices in Germany, especially in the high-influx cities, including Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart (together, the “**Top 7 Cities**”), which have experienced a strong population growth and increasing land prices. Annual rental growth has increased by up to 5.5% in the Top 7 Cities from 2012 until 2017, compared to an average of 2.0% in Germany. Condominium purchase prices in the Top 7 Cities also rose at a faster pace than in the rest of Germany over the same time frame, with Stuttgart (11.5%) and Berlin (9.9%) exhibiting the largest price increases (source: CBRE–Outlook 2018). Also, the average price per square meter increased by 15% year-on-year (source: CBRE–Outlook 2019). Standard indicators used to evaluate residential property prices in Germany, such as price-to-income and price-to-rent ratios also show that German housing prices are steadily increasing in proportion to affordability indicators.

Standard indicators to evaluate residential property prices in Germany ⁽¹⁾



(source: Deutsche Bundesbank–Indicators for German Residential Property Markets)

- (1) Bundesbank calculations based on data provided by the Association of German Pfandbrief Banks (vdp).
- (2) Annuity of mortgage loan with fixed interest rate (between 5 and 10 years) and hypothetical term of 30 years in relation to household income.
- (3) Disposable income per household in Germany, nominal.
- (4) Prices and rents of apartments. Deutsche Bundesbank.

11.4.6 Overall Supply Constraints

The German real estate market is less cyclical than markets in other European countries. This is mainly due to its conservative financing practice which makes it fundamentally less susceptible to property bubbles (*source: Helaba Research–Focus on German Housing Market*).

Shortages in the housing market in numerous German cities caused a mega trend of fast rising rents and property prices from an initially low base. The period from 2009 until 2019 exhibited rising house prices by approximately 95% in A-cities and by approximately 70% in B-cities and C-cities. This trend is underpinned by a historically low vacancy rate of 2.8% (*sources: Deutsche Bank–Germany Property and Metropolis Market Outlook 2019, CBRE/empirica–Leerstandsindex*).

11.4.7 Total Home Sales in Country Over Time

The number of residential transactions has remained relatively stable for several years. While the considerable annual increase in supply of newly constructed apartments could point towards a significant reduction of demand, the imbalance has not been solved, and demand is expected to remain significantly above supply in the coming years with a gradual reduction in vacancy rate occurring in parallel. Despite increasing construction activities, the vacancy rate of 4.1% recorded in 2006 is significantly higher than the vacancy rate of 2.8% recorded in 2018 (*source: CBRE/empirica–Leerstandsindex*). In 2018, rents for newly constructed apartments increased by 2.9% while overall rents including existing houses increased by 3.2% (*source: empirica–Preisdatenbank*).

11.4.8 Access to Funding for Construction of Real Estate Properties

The growth of construction and transaction activities combined with rising prices for residential properties has been accompanied by increasing residential lending for several years. In 2018, gross residential loans remained at a high level and amounted to €227.8 billion. The volume of residential loans outstanding totaled €1,446 billion, which corresponded to an increase of 4.9% on 2017 (*source: EMF Hypostat 2019*).

In 2018, mortgage interest rates in Germany were higher than in the previous year. The average mortgage rate went up to 1.87% from 1.83% in 2017 (*source: EMF Hypostat 2019*).

In Germany, the main funding instruments for housing loans are savings, deposits and mortgage bonds. Germany has one of the largest covered bond markets in Europe representing a significant share of the total market (*source: EMF Hypostat 2019*).

11.4.9 Stock of New Homes

The upward trend in residential construction has intensified continuously too since 2010. In 2018, 286,000 residential units were built: the highest result since 2002. This growth was accompanied by structural shifts between single- and two-family houses and multi-family houses (*source: EMF Hypostat 2019*).

According to studies conducted by the German Economic Institute, an average of 385,000 homes needs to be built every year through to 2020 in order to meet the demand for new buildings. Building activity in the top locations significantly falls short of the target by around 88,000 homes per year, and there is currently no easing of this trend in sight (*source: IW Köln–Zuwanderung und Wohnungsnachfrage*).

Regarding the type of apartment stock available, apartments with three to five rooms represent approximately 64% of the total amount.

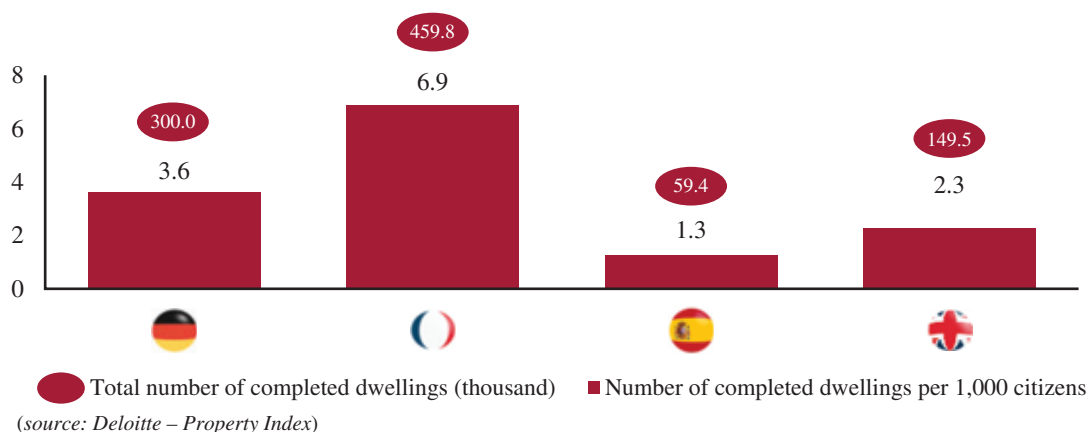
11.4.10 Building Permits and Completed Housing Units in Germany

Information by the German Federal Statistical Office shows that, on the basis of a year-to-year comparison, nationwide the number of building permits decreased by 0.2% in 2018 as compared to 2017. Building permits for newly built multistory residential buildings increased by 0.7%, while permits for one- and two-family homes decrease by 1.0% and 6.5%, respectively (*source: Federal Statistical Office–Building Permits*).

The following chart shows the housing development intensity within the EU. With 3.6 completed apartments per 1,000 citizens, the German housing intensity is above that of the UK and Spain.

Housing development intensity

(Index of the number of completed dwellings per 1,000 citizens, as of 2018)



11.5 Competition

Based on the size and diversity of the German housing market, the Company competes with numerous competitors. Only 2.7 million units, equaling approximately 10% of the total housing stock units, are owned by private housing companies. The rest is owned by private landlords, cooperatives, public housing associations, municipalities or other public real estate companies of the public sector.

According to Savills, at the end of the third quarter of 2018, 25 owners in Germany own more than 1.9 million rental apartments, or around 8% to 9% of the current rental apartment stock including ADLER Real Estate (source: Savills—Ownership in the Residential Market). The 25 largest owners include nine private companies which demonstrates the fragmented and regionally diverse ownership structure of the rental apartment market in Germany. However, seven of these private companies are among the ten largest apartment owners. The two largest apartment owners by far in Germany are Vonovia SE, with around 395,500 apartments (source: Vonovia), and Deutsche Wohnen SE, which owns around 166,700 apartments (source: Deutsche Wohnen). Both are listed companies and operate throughout Germany. The regional focus of the Vonovia SE portfolio, which covers around 649 towns and cities, is on Berlin, Dresden and North Rhine-Westphalia. In the case of Deutsche Wohnen SE, around 69% of apartments owned are in Berlin. Based upon the census data, Vonovia SE and Deutsche Wohnen SE own approximately 10% of all rental apartments in Berlin combined (source: Savills—Ownership in the Residential Market). As such, competition is highly fragmented and varies from location to location.

The Company believes that there are no market-dominating competitors in asset management. As a consequence, the Combined Group faces various partly small-scale private and partly mid-sized municipal competitors in every location where it is present. The Company also believes that there is negligible brand awareness among potential tenants who tend to look for affordable yet well maintained accommodation in certain locations and not strictly for apartments owned by a particular company. Naturally, competition is fiercer in locations that suffer from negative immigration balances as potential tenants have options to choose from and suppliers of residential units exert additional efforts to maintain the marketability of their apartments. The opposite is true in locations with increasing population numbers.

There is also competition with respect to the acquisition of suitable portfolios. As in the residential market, competition among potential bidders varies profoundly in regard to the portfolio size, the quality of the real estate offered or the regional diversification of the portfolio.

The Company believes that in respect of potential portfolio acquisitions its competitors are primarily other medium and large real estate companies and institutional investors, such as insurance companies as well as investment funds investing in real estate. Other important competitors in the residential property portfolios market are local authorities selling or buying back housing stock, as well as so-called “property splitters” who buy residential housing stock for the purpose of its development, segmentation and sale or privatization.

12. BUSINESS

12.1 Overview

We believe that we are the only company listed on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) that is focused on residential real estate, all of which is currently located in Berlin, Germany. We specialize in and focus on the purchase and the management of income producing multi-family residential buildings. Our investment and trading portfolio value as of December 31, 2019 was €3.7 billion. As of December 31, 2019, our property portfolio consisted of 16,255 residential units with a total residential lettable area of 1,065,128 sqm, 1,382 commercial units (retail, office and other commercial) with a total commercial lettable area of 162,205 sqm, 5,397 parking spaces and spaces for storage, antennas, etc. As of December 31, 2018, our real estate portfolio consisted of 22,202 residential units with a total residential lettable area of 1,454,255 sqm, 1,456 commercial units (retail, office and other commercial) with a total commercial lettable area of 171,199 sqm, 5,401 parking spaces and spaces for storage, antennas, etc.

Most of our residential units contain one or two rooms and have an average size of 65.5 sqm, which means that we are well positioned to benefit from the growth of one- and two-person households in Germany, which is expected to be particularly strong in Germany's metropolitan areas (*source: Federal Statistical Office—Press Release 272*). As of December 31, 2019, our vacancy rate was 2.7% and 3.6% for our residential units and commercial units, respectively. The average monthly net rent per sqm was €7.39 and €10.04 for our residential units and commercial units, respectively.

Our business activities are influenced by numerous demographic, economic and political factors. Given our involvement in the real estate sector, we are affected by developments affecting and related to the residential property market in Germany, in particular macro-economic indicators such as population growth, economic growth, employment, purchasing power and the consumer price index. Furthermore, we are significantly affected by trends in micro-economic indicators, such as the future development of housing prices, rent levels, vacancy rates and home ownership rates. As a result, we compete with a number of privately and communally owned residential real estate companies.

We believe that the residential real estate market in Berlin benefits notably from positive demographic trends. Berlin is the most populous city in Germany and had 3.64 million inhabitants in December 2018. It is expected that the number of inhabitants in Berlin will increase to 3.83 million by 2030 (*source: Federal Statistical Office—Projected Population Figures*). We also believe that we will continue to benefit from Berlin's status as the capital and largest city of Germany, which has one of Europe's strongest economies and is an important center for economy, business, politics and culture in continental Europe. In addition to a growing number of governmental employees in the city, Berlin is a particularly dynamic economic center for, among others, the services, pharmaceuticals, media, creative and technology sectors.

In order to keep up with the fast demographic growth, on the one hand, and to ease the strained situation on the housing market, on the other hand, a total of 194,000 new residential units would have to be built between now and the year 2030 according to the Berlin senate department for urban development and housing (*source: Berlin Senate Department for Urban Development and Housing—Press Release*).

Our business model currently focuses on asset and property management, portfolio and facility management and identifying residential properties in Berlin that present opportunities for us to create value by increasing rents, decreasing vacancy and privatizing condominiums. Market rents as well as the official rent table ("*Mietspiegel*") have been constantly increasing in Germany over the recent years. The average growth per annum in market rents has been higher in Berlin than for other major German cities (*source: JLL—Housing Market Report Germany*). Despite the recent increases in rent levels, rents in Berlin are still relatively low compared to the other big cities in Germany (*source: JLL—Housing Market Report Germany*), thereby presenting opportunities for our business and future growth. Our residential units face strong demand from broad segments of the population: from the growing youth population to individuals with low and medium household income, some of which are being supported by social benefits and transfer payments from public authorities. We believe that our residential units provide tenants with an attractive value proposition and are suitable to market demand, which is further enhanced by our active approach to capital expenditure for refurbishment.

In addition, we seek to add value through the use of our efficient, fully integrated in-house management and tenant service platform to manage our portfolios. We believe that due to our history and particularly through our operational efforts since our establishment in 2006, we have achieved significant recognition in the market and as evidenced by our long-standing track record in achieving strong rental growth (see "*12.2 Competitive Strengths*").

During the Fiscal Year 2019, the ADO Properties Group generated **income from rental activities** of €141,572 thousand (Fiscal Year 2018: €134,588 thousand; Fiscal Year 2017: €109,181 thousand) and **EBITDA from rental activities** of €91,997 thousand (Fiscal Year 2018: €93,777 thousand; Fiscal Year 2017: €77,090 thousand). **EBITDA total** for the Fiscal Year 2019 was €93,806 thousand (Fiscal Year 2018: €96,255 thousand; Fiscal Year 2017: €80,018 thousand). During the Fiscal Year 2019, the ADO Properties Group generated **FFO 1 (from rental activities)** of €63,173 thousand (Fiscal Year 2018: €66,777 thousand; Fiscal Year 2017: €54,345 thousand), **FFO 2 (including disposal results)** of €64,982 thousand (Fiscal Year 2018: €69,255 thousand; Fiscal Year 2017: €57,272 thousand) and **AFFO (from rental activities)** of €51,525 thousand (Fiscal Year 2018: €53,739 thousand; Fiscal Year 2017: €45,857 thousand). As of December 31, 2019, the ADO Properties Group's **EPRA NAV** amounted to €2,905,699 thousand (Fiscal Year 2018: €2,429,544 thousand; Fiscal Year 2017: €1,988,757 thousand). As of December 31, 2019, the ADO Properties Group's **LTV-Ratio** was 27.0%.

For a reconciliation of EBITDA from rental activities, EBITDA total, EBITDA total margin, FFO 1 (from rental activities), FFO 2 (including disposal results), AFFO (from rental activities), LTV-Ratio and EPRA NAV to the most nearly comparable IFRS figures, see "6.2 Additional Non-IFRS Performance Measures".

On December 15, 2019, the Company and ADLER Real Estate Aktiengesellschaft ("**ADLER Real Estate**") entered into a business combination agreement (the "**BCA**") to combine the business of ADLER Real Estate and its subsidiaries (together, the "**ADLER Group**") with the business of the ADO Properties Group (together with the ADLER Group, the "**Combined Group**") (the "**Business Combination**"). Following the closing of the Business Combination, we will focus on becoming a leading integrated residential property group that is active throughout Germany. We will continue to create value by active portfolio and property management and opportunistic growth through strategic acquisitions, for which we broaden our scope from Berlin-only to Germany-wide.

On a combined basis, as of and for the fiscal year ended December 31, 2019, the Combined Group achieved €6.2 (ADO Properties Group: €7.4; ADLER Group: €5.6) of rent per square meter per month, like-for-like rental growth of 3.3% (ADO Properties Group: 5.0%; ADLER Group: 2.4%), a vacancy rate of 4.8% (ADO Properties Group: 2.7%; ADLER Group: 5.4%) and an FFO 1 (from rental activities) of €147 million (ADO Properties Group: €63 million; ADLER Group: €84 million) as well as an EPRA NAV of €4,879 million (ADO Properties Group: €2,906 million; ADLER Group: €1,973 million).

In addition, on December 15, 2019, the Company acquired a stake of approximately 22% in and entered into a Strategic Cooperation Agreement (the "**SCA**") with Consus Real Estate AG ("**Consus Real Estate**") to engage in a strategic partnership and, to the extent legally permissible, work together to fully investigate and potentially undertake mutually beneficial property developments, including the acquisitions of land plots for new-builds (the "**Strategic Cooperation**"). Through the Strategic Cooperation, the Company receives access to an experienced development platform focused on Berlin, Cologne, Düsseldorf, Dresden, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart (together, the "**Top 9 Cities**") in Germany, thereby securing a value-creating growth path for the future. In addition, we have acquired the option to purchase another 51% in Consus by June 2021. See "10. Description Of The Transactions."

12.2 Competitive Strengths

We believe that our business is characterized by the following competitive strengths, which have been a primary driver of our success in the past and will continue to be a source for our future business development:

12.2.1 We currently benefit from an efficient, fully integrated, scalable in-house real estate portfolio management platform, led by an experienced management team and focused on growth and value creation.

We benefit from an efficient, fully integrated, scalable real estate portfolio management platform, led by an experienced management team and focused on growth and value creation. This platform enables us to create value across the entire spectrum of real estate portfolio management, including the identification of suitable real estate or real estate portfolios as well as their acquisition and administration. Our platform, combined with our in-depth knowledge of the real estate market and more than a decade of local presence in Berlin, makes us well suited to identify portfolio assets that can be improved through targeted capital expenditures. Our management team is experienced in in-house asset management, property and facility management and construction management. Furthermore, we have qualified teams of real estate

professionals in all areas of our business operations that have been built without legacy constraints, which allow us to be flexible in adapting to market conditions to sustain further portfolio growth. Our approach has led to a competitive EBITDA from rental activities margin of 68.6% for the fiscal year ended December 31, 2019 (73.3% for the Fiscal Year 2018) and a track record of decreasing vacancy in our portfolio.

12.2.2 *We are committed to tenant satisfaction through our business approach.*

We strive for high tenant satisfaction and place our tenants at the center of our operations. We demonstrate high responsiveness to our tenants' needs and actively manage communications with our tenants through in-house and external call lines. Furthermore, we maintain our properties at the market standard suitable for the current demand through ongoing investments. Our business approach leads to better tenant satisfaction as shown by our sustainable high rent collection rate and decreasing vacancy in our properties.

12.2.3 *Our approximately €3.6 billion investment and trading portfolio is currently located in Berlin and predominantly in the districts of Berlin with attractive growth perspectives.*

Our real estate portfolio comprised of 16,255 residential units and 1,382 commercial units as of December 31, 2019, is located in Berlin and in our view covers predominantly districts of Berlin with attractive growth perspectives. The Berlin residential market continuously benefits from a combination of positive net migration, increase of qualified workers, decreasing average household size and limited supply of new rental units, resulting in continued rental growth, which we expect to positively impact our business. Furthermore, we benefit from our in-depth knowledge of the Berlin market, especially of the Berlin micro-locations, from a decade of local presence. We have a local network with good access to information where we have developed a reputation as a reliable business partner and asset manager in Berlin. Our extensive market insights also allow us to identify privatization opportunities.

12.2.4 *We have entered into an SCA with Consus, a leading residential real estate developer, and we have also acquired a strategic shareholding in Consus along with the option to acquire control in the near to mid-term.*

As part of the Strategic Cooperation, we have begun cooperating with Consus Real Estate, Germany's leading pure-play developer of real estate properties in the Top 9 Cities in terms of square meters (*source: Bulwiengesa–Consus Nr. 1*). Under the SCA and within the scope of our cooperation with Consus, we are entitled to match any third-party offer for a residential development project. Through the 22.18% strategic minority shareholding in Consus, which we acquired on December 18, 2019, we have gained additional access to, what is in our view, Consus' market leading development platform and high-quality development assets. Furthermore, Aggregate Holdings S.A. ("**Aggregate**"), Consus' majority shareholder, has granted us a call option, which we may exercise until June 15, 2021, to acquire further 51% of the shares in Consus. If we decide to exercise this option, we intend to make a voluntary offer directed at minority shareholders at essentially the same terms as the call option, being a price of 0.239 new shares in the Company for every one (1) share in Consus. The SCA, the minority stake acquisition and the call option give us access to an experienced development platform securing the value-creating growth path for future NAV accretion through new assets in the most attractive German real estate markets.

12.2.5 *We have a solid balance sheet structure with a conservative target LTV-Ratio and long-term maturity profile at low funding costs.*

Throughout our history, we have based our conservative financing strategy on the financing of assets through mortgages (*Hypothek*) and have built strong relationships with a range of key lenders in Germany. We have a conservative balance sheet with, as of December 31, 2019, an LTV-Ratio of 27.0%, approximately 1.6% cost of debt, an interest coverage ratio of 4.7 to 1.0, long-term financing with no major maturities before 2021 and a weighted average maturity of approximately 4.3 years. We target a conservative LTV-Ratio of less than 50% and aim to maintain our investment grade rating.

12.3 Strategy

12.3.1 Our strategy is focused on creating a top-tier, fully-integrated residential real estate platform with a high quality portfolio, diversifying into core locations across Germany and implementing accretive growth.

Our strategy is focused on creating a top-tier, fully-integrated residential real estate company with a high-quality portfolio, diversifying into strong locations across Germany. Having entered into a BCA with ADLER Real Estate on December 15, 2019, we intend to create one of the largest listed residential real estate companies in Europe, characterized by diversification and synergetic growth. The Company and ADLER Real Estate will consolidate approximately €8.6 billion in combined real estate assets. Our high quality Berlin portfolio will be complemented by the ADLER Group's Germany-wide portfolio, focused on German cities with attractive yield potential. Moreover, the Company will benefit from enhanced liquidity in its shares and may fulfill the requirements of inclusion in the MDAX index in the near-term. In addition, through the business combination, we expect between €24 million and €39 million of total operational and financing run-rate synergies per annum, the majority of which are expected to be realized until 24 months following the closing of the business combination.

Furthermore, we are committed to easing the pressure on the housing market through accelerating the construction of new housing stock suitable for rent. Through our strategic partnership with and our stake in Consus Real Estate, we have access to a market-leading development platform with a high quality pipeline of over 15,000 residential rental units and thus create the needed new housing opportunities in the Top 9 Cities. By June 15, 2021, we intend to acquire a controlling stake in Consus Real Estate. Following such control, we expect an additional €155 million to €171 million of operational and financing run-rate synergies within 24 months.

With the acquisition of ADLER Real Estate and the strategic partnership with Consus Real Estate, we aim to grow and diversify our business throughout Germany by securing a clear and profitable growth path. ADLER Real Estate enables us to increase economies of scale, diversify our portfolio outside of Berlin and benefit from management synergies and knowledge transfer. Consus Real Estate, on the other hand, enables us to secure a growth path in the Top 9 Cities with high-quality projects. The rebalancing of the portfolio towards the Top 9 Cities and to newly-built residential real estate improves the quality of the portfolio of the Combined Group and de-risks the portfolio from an operational and regulatory perspective. This enables us to achieve critical scale across the Top 9 Cities and to establish a real estate portfolio that is accretive to the portfolio yield, resulting in greater cash flow generation and further upside potential.

Our scalable platform is capable of implementing accretive growth through further acquisitions based on significant sourcing capabilities, our cooperation with Consus Real Estate and our existing management operations. Our current platform allows us to add additional units at marginal incremental costs, thereby improving our EBITDA from rental activities margin. Before purchasing assets, we measure any potential acquisition for short-to medium-term accretion potential, potential for increasing rents as well as potential for condominium conversion or privatization.

12.3.2 We continue to focus on increasing rents through active asset management and targeted investments to modernize, refurbish and re-position our properties.

We continue to focus on increasing rents through active asset management and targeted investments to modernize, refurbish and re-position our properties, while constantly screening and anticipating developments in different sub-markets. Our strategy to realize upside potential includes the following approaches. We pursue regular rent increases up to the market levels (i) within the regulatory and legal limits as well as (ii) through tenant fluctuation without capex investment. In addition, we continuously review rent potentials and pursue growth beyond the rent table through targeted capex investments to modernize, refurbish and/or re-position (by improving the prior asset management) our properties allowing for higher rent levels. Lastly, we reduce portfolio vacancy by active marketing with an approach tailored to the respective micro-location. Our strategy allows and also leads us to choose high quality tenants which continuously improves our tenant structure by maintaining our portfolio assets in the market standard suitable for the current demand.

12.3.3 We plan to continue to realize value by converting properties into condominiums and selling them at prices exceeding the current fair value of the properties.

We plan to continue to realize value by converting properties into condominiums and selling them at prices exceeding the current fair value of the properties. As of December 31, 2019, we have 145 units that have been converted or are in the process of being converted into condominiums. We have identified 3,754 additional units in our properties which can be converted into condominiums over the medium term and another 2,169 units which can be converted long term. We expect to sell converted properties at a rate of approximately 100 units per year on a continuous basis, thereby contributing cash flows to our overall business. We will also continue to assess the potential for condominium conversion or sales of existing condominiums in acquired portfolios.

12.3.4 We target continuous dividends with a payout ratio of up to 50% of our yearly FFO 1 (from rental activities).

Our portfolio and operational excellence combined with our sustainable financing strategy allows us to target conservative dividends with a payout ratio of up to 50% of our yearly FFO 1 (from rental activities). We intend to maintain this policy following the Transactions.

12.4 Our Portfolio

12.4.1 Overview

As of December 31, 2019, we held a real estate portfolio comprised of 16,255 residential units, 1,382 commercial units, 4,747 parking spaces and 650 spaces for storage, antennas, etc. All of our portfolio is located in Berlin and consists of multi-family properties.

As of December 31, 2019, the aggregate residential area of our portfolio amounted to 1,065,128 sqm, with an average residential unit size of 65.5 sqm. An average unit consists of one or two rooms. We had leased 97.3% of our residential units and 96.4% of our commercial units and generated an average monthly net rent of €7.39 per sqm for our residential units and €10.04 per sqm for our commercial units. As of December 31, 2019, vacancy rates for our residential units and commercial units were 2.7% and 3.6%, respectively.

12.4.2 Portfolio Overview

The following table sets forth certain key portfolio data:

	As of and for the year ended December 31,		
	2019	2018	2017
	(unaudited)		
	(in € thousand, unless otherwise specified)		
In-place rent (end of period, annualized)	112,715	135,877	110,782
<i>of which residential units</i>	91,529	114,711	93,806
<i>of which commercial units</i>	18,829	18,509	14,808
<i>of which other & parking units</i>	2,357	2,657	2,168
In-place rent (per month in € per sqm) ⁽¹⁾	7.68	6.75	6.89
<i>residential units</i>	7.39	6.73	6.42
<i>commercial units</i>	10.04	9.42	8.94
Total portfolio value ⁽²⁾	3,650,313	4,079,051	3,314,259
Number of units	17,637	23,658	21,970
<i>residential</i>	16,255	22,202	20,649
<i>commercial</i>	1,382	1,456	1,321
Vacancy rate at period end (in % of sqm) ⁽³⁾	2.7	3.2	3.6
<i>residential units (1,065,128 sqm as of December 31, 2019)</i> . . .	2.7	3.2	3.6
<i>commercial units (162,205 sqm as of December 31, 2019)</i> . . .	3.6	4.6	4.9
Maintenance and capital expenditures (annualized) (€ per sqm) . .	36.2	39.2	29.1

(1) **In-place rent (per month in € per sqm)** is defined as the current gross rental income per month for rented residential and commercial units as agreed in the corresponding rent agreements as of December 31, 2019, 2018 and 2017, respectively, before deducting non-recoverable operating costs, divided by the lettable area of rented units as of the same dates. Residential in-place rent is often also referred to as “net cold rent”.

- (2) **Total portfolio value** is the sum of investment properties and trading properties.
- (3) **Vacancy rate at period end (in % of sqm)** is the sqm of vacant units as of the respective period end, divided by the total sqm of units owned on the respective period end date.

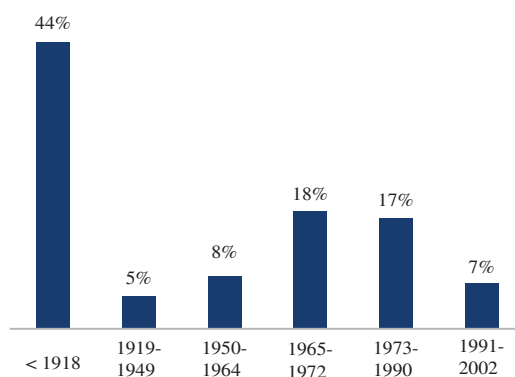
12.4.3 Portfolio by geographical distribution

The following table provides an overview of the geographical distribution of our total portfolio split by areas in Berlin in relation to our residential units as of December 31, 2019:

	Central ⁽¹⁾	S-Bahn Ring	S-Bahn Ring (1960-1990)	City Ring	City Ring (1960-1990)	Total
Fair value (€ million) ⁽²⁾	1,643	629	711	414	266	3,664
Fair value of properties (€/m ²)	3,345	2,843	2,748	2,725	2,380	2,966
Number of residential units	6,484	2,224	4,179	1,464	1,904	16,255
Avg. in-place rent in €/sqm/month	7.68	7.42	7.25	8.50	6.67	7.49
Avg. new letting rent in €/sqm	11.97	10.34	10.25	9.84	9.51	10.91
Occupancy (physical) in %	97.7	96.2	97.2	96.3	98.0	97.3
Tenant turnover in %	7.8	9.0	7.3	11.5	6.6	8.0

- (1) Comprises the districts Charlottenburg-Wilmersdorf, Friedrichshain, Kreuzberg, Mitte, Neukölln-Nord, Steglitz-Nord, Prenzlauer Berg, Reinickendorf-Süd und Schöneberg.
- (2) Fair value includes commercial portfolio. Other values are for residential portfolio only and are including the achieved rents for furnished apartments.

The following diagram shows the diversification of the ADO Properties Group's buildings across construction eras, as split by property value as of December 31, 2019:



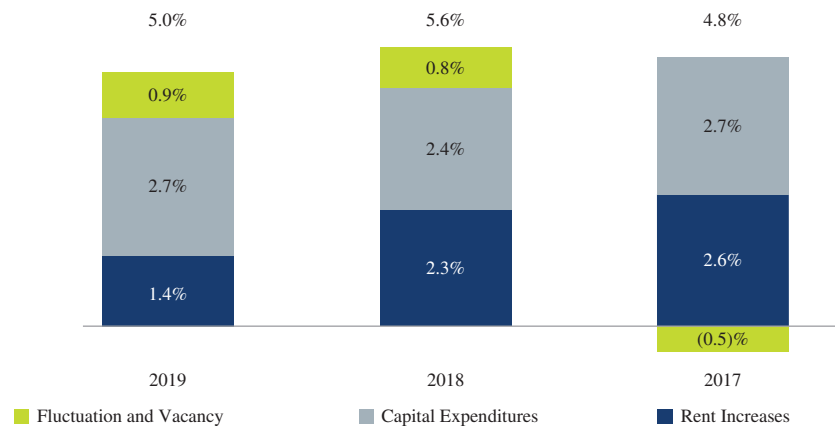
source: Company

12.4.4 Subsidies

As of December 31, 2019, 2.5% (by sqm) of the ADO Properties Group's residential units are under rent restrictions due to subsidies.

12.4.5 Continuously Strong Like-for-Like Rental Growth

The diagram below shows the ADO Properties Group’s like-for-like rental growth for the periods presented in this Prospectus:



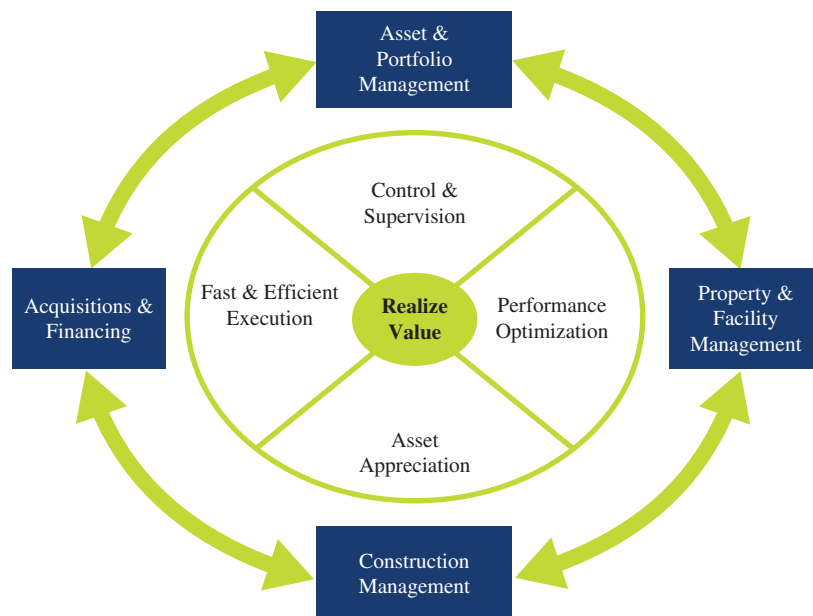
source: Company

12.5 Business Operations

12.5.1 Overview

We consider Berlin residential real estate to be a decisively local business, which requires strong local market intelligence and an in-depth knowledge about our own assets and tenants in order to create value. Our fully integrated, in-house and scalable platform for active asset management and privatizations is led by an experienced management team. Therefore, we manage our operating business in a fashion that enables us to make targeted investments, accretive add-on acquisitions and condominium conversions and privatizations in the various micro-locations in Berlin.

The following chart depicts an overview of our operating model:



We have four business functions that are responsible for (i) asset and portfolio management, (ii) property and facility management, (iii) construction management, and (iv) acquisitions and financing. The teams within each business function collect and process district-specific knowledge related to the relevant task. The performance of each business function is reflected by the building performance that is monitored on the basis of key performance indicators set for each building.

Our business function responsible for asset and portfolio management and financing is conducted by ADO Properties GmbH. ADO Properties GmbH focuses mainly on the purchase and management of

revenue producing real estate in Berlin. It is the coordination and financial arm of our business. Based on their knowledge of the different Berlin micro-markets and the condition of the specific apartments, and taking into account current vacancy rates and refurbishment and modernization requirements, our asset and portfolio management team periodically updates the target rent for new lettings. Furthermore, ADO Properties GmbH provides various support services, including bookkeeping, human resources administration and information technology services for and within the ADO Properties Group.

Our business function responsible for property and facility management is comprised of ADO Immobilien Management GmbH (“**ADO Immobilien**”), formerly Central Asset Management GmbH, and Central Facility Management GmbH (“**CFM**”) that provide property management and services to tenants, respectively. ADO Immobilien specializes in value optimization through residential and commercial property management, providing services in property management, letting management, tenant bookkeeping, rent collection and controlling and reporting. CFM has been a distinct in-sourced team and brand since 2013 and provides an immediate response for all kinds of facility management, including cleaning and janitor services and gardening. The creation of our distinct facility management team has led to cost savings and increased tenant satisfaction because we exercise full control over these services.

Our business function responsible for product optimization through construction management is CCM City Construction Management GmbH (“**CCM**”). CCM offers complete and comprehensive construction management services including site survey and evaluation, coordination with local authorities, budget estimate and control, control and approval of supplier invoices, project scheduling, site management and documentation.

12.5.2 Asset and Portfolio Management

We take a comprehensive approach to asset management, which for us encompasses all areas of improving and increasing the cash flow and value of our business and includes portfolio and transaction management, property management, supply management, organizational management and financial management. Through our asset management activity, we seek to manage our assets to grow FFO 1 (from rental activities) and cash flow resulting in increases of the value of our real estate portfolio. To achieve these goals, we focus on increasing rental income, reducing vacancy, reducing the costs and risks of operating our assets and maintaining a conservative capital structure.

ADO Properties GmbH provides all of our asset management services out of our operational office in Berlin and supervises the development of our portfolio. We consider our portfolio development efforts an important part of our strategy. To this end, we capitalize on major societal trends. The trends that we have identified are demographic trends such as the expected continued increase of one- to two-person households and the increase of population in Berlin over the next ten years.

Targeted sales of condominiums (privatizations) are part of our strategy to actively manage our portfolio. The prices achieved in our value-oriented privatizations significantly exceed the fair value based on multi-family rental blocks. Before September 2014, we purchased buildings that had already been converted into condominiums but we did not immediately begin selling those condominiums. We began the business practice of converting residential units into condominiums and selling them in September 2014 as our total portfolio became sizeable enough for privatizations to commence significant margin potential and attractive conditions presented themselves.

As of December 31, 2019, we have 145 units that have been converted or are in the process of being converted into condominiums. We have identified 3,754 additional units in our properties which can be converted into condominiums over the medium term and another 2,169 units which can be converted long term.

12.5.3 Property and Facility Management

Our property and facility management function comprises all owner-related competencies, including tenancy-related administrative functions within the ADO Properties Group. This business function follows the principle that all tasks that can be performed using standardized and scalable procedures and executes the asset-by-asset strategy developed by our asset management individually for each property. Our goal is to maximize rental revenue by increasing rent, reducing vacancies and managing tenant fluctuation. It is steered by highly integrated interdisciplinary processes. Our property management function manages our letting process, encompassing tenant booking and marketing, rent collection, rent development and technical services. We also manage the commercial units that we own, which are located on the ground floors of our residential buildings.

Letting Services. We have initiated measures to make our letting process more efficient. Our letting department performs virtually all administrative work to support our letting agents, which allows them to focus on closing new letting contracts and letting strategies. Our letting specialists, who have an intimate knowledge of the different districts in Berlin, also have a significant amount of discretion to freely address prospective tenant needs. We support our letting service activities with a wide range of marketing activities (such as signs and illumination of windows and banners) that are focused on an entire property, individual units or individual micro-locations as well as on specific tenant target groups delineated by life cycle or economic situation. In our marketing activities, we conduct a careful tenant screening process that includes tenant credit checks.

Furthermore we perform an ongoing vacancy management. We survey units during the three-month cancellation period and if the technical condition of the unit is satisfactory, we immediately begin our marketing efforts to bring vacancy to a minimum by aiming to immediately rent the units with limited or no period of vacancy in between tenants. Our property and facility management works closely with our in-house construction management to receive recommendations on the scope of refurbishment needed in order to fulfill market needs and to rent out the vacant units successfully.

Rent Collection. We strictly monitor overdue rent from our tenants. We established a structured arrears management process, which is managed by thirteen employees supported by a specialized external law firm, including specified dunning letters, outbound calls, email and on-site visits. Account managers may give tenants the option of a deferred payment or installment payments. To provide this service, we currently employ managers who can give tenants expert advice and who can negotiate individually tailored solutions in order to avoid costly eviction proceedings for all parties involved. We have achieved a sustainable high rent collection rate.

Rent Development. Rent development involves observation of market rents and the ability to increase rents on a regular basis for existing letting contracts. The rent revisions are primarily determined by the Berlin rent table (*Mietspiegel*), the restrictions of the German letting laws, the economic purchasing power of our tenants as well as restrictions due to subsidies. See “13 Regulatory Environment”.

We seek to increase our income from rent through (i) closing the gap to market rents on existing tenancies within the regulatory limits, (ii) adapting rents to market levels as rent restrictions fall away and (iii) higher rents for new lease contracts in relation to rents of existing contracts and (iv) continuing growth in the long-term through opportunistic acquisitions of assets with visible operational upside potential. In the fiscal year ended December 31, 2019, we amended approximately 7,960 residential letting contracts resulting in an additional annualized net rent of approximately €1.2 million. In the fiscal year ended December 31, 2018, we amended approximately 7,630 residential letting contracts resulting in an additional annualized net rent of approximately €2.1 million. In the fiscal year ended December 31, 2017, we amended approximately 6,030 residential letting contracts resulting in an additional annualized net rent of approximately €1.5 million. As of December 31, 2019, average residential in-place rent was €7.39 per month and sqm, which was 18.2% below market rent of €9.03 per month and sqm.

Our tenant turnover rate based on our total portfolio (excluding the units sold under the Gewobag Sale) averaged 7.7% per year for the year ended December 31, 2019, 7.1% per year for the year ended December 31, 2018 and 7.7% for the year ended December 31, 2017, and is a factor in increasing the value of our assets through unit turn refurbishment and modernization and results in rent increase opportunities.

Technical Services. Our property management manages technical services and customer services, including an internal tenant call line and external service call number that can be reached at all times for emergencies. We perform ongoing maintenance in response to tenant requests by hiring external suppliers and work with a strict budget (annual investment program) per building. We provide standard items for residential units such as utilities, cable, etc. Any major technical services needed for vacant units are procured by CCM; property management makes the strategic decisions for investments that are carried out by our construction management.

Management of Commercial Units. Management of the commercial units in our portfolio is handled by a small team in parallel with the management of our residential properties. Apart from the three purely commercial properties that we hold, the commercial units currently held in our property portfolio are integrated into the residential properties that we manage and primarily include small retail businesses within residential buildings.

12.5.4 Construction Management

CCM performs complete and comprehensive in-house construction management services. Through CCM, we continue to invest in our existing real estate portfolio. In the fiscal year ended December 31, 2019, we invested €36.2 per sqm in modernizations and refurbishments. We are continuously investing in modernizing properties to bring them up to market expectations. In the fiscal years ended December 31, 2018 and 2017, the average investment in modernizations and refurbishments was €39.2 per sqm and €29.1 per sqm, respectively, which demonstrates that our approach of capex investment is an integral part of our rental growth strategy and properties enhancement.

In addition we conduct periodic modernization of our properties, for example, the planned replacement of roofs or windows, modernizations of facades, refresh of staircases, etc. Such refurbishment is done according to an annual investment program. Through our standardized procedures and work volume we optimize our costs of construction.

We apply strict criteria when selecting investment opportunities and concentrate on investment opportunities that can be integrated into our asset and portfolio management and that will further improve rent out possibilities. In particular, we seek to acquire properties that will allow for increased rents and decreased vacancy in order to generate high value. This is generally achieved by balancing the following three factors:

- Rent perspective: affordability and at the market standard suitable for the current demand;
- Technical perspective: mix of both necessary and value-creating measures; and
- Economic perspective: adequate returns.

The entire investment process, from project selection to post-completion, is managed by CCM after ADO Properties GmbH, the business function responsible for asset and portfolio management, has reviewed and approved the capex application. As of December 31, 2019, our construction management consists of 44 full-time employees that are building engineers, architects, technicians and other craft specialists with a vast working experience in the real estate market. Through CCM, we also hire third-party service providers and construction companies to perform the modernizations and refurbishments of buildings and apartments to the market standard suitable for current demand. For all major works we typically execute a bidding process to be able and select the best supplier for the requested work.

12.5.5 Acquisitions and Financing

We opportunistically expand our existing property portfolio by purchasing both single properties and portfolios. In addition, through our strategic partnership with Consus Real Estate, we may also acquire certain projects from Consus Real Estate.

Our acquisitions generally follow a standardized, integrated process that results in analysis of the property to be acquired three months before the potential takeover. Throughout this process, negotiations on financing are conducted in parallel. We have diversified funding with several mortgage banks to finance our properties and acquisitions. For further information on our material financing please see “12.7.9 Other Financing Agreements” below.

12.6 Corporate Information

The corporate structure serves as the ADO Properties Group’s logistical backbone for our operations and comprises the human resources, financial accounting and information technology functions of the ADO Properties Group. Third parties provide legal services and property valuation.

12.6.1 Human Resources and Employees

Our human resources are provided centrally by six employees of the ADO Properties Group, all of whom are based in Berlin, and manage payroll, recruitment, employment law measures, human resources reporting and employee development and training. We use an integrated human resources software that includes employee time keeping and payroll accounting. Payroll accounting is processed in-house since February 2020 and utilizes our integrated human resources software.

12.6.1.1 Employees

As of the date of this Prospectus, we have a team of 307 full-time professionals many of whom have degrees in real estate management, accounting, construction engineering and facility management. Apart from the Senior Management, which is based in both Berlin and Luxembourg, the Company's secretary and certain members of the Board of Directors, all of our full-time employees are located in Berlin and are employed in our operating businesses responsible for asset and portfolio management (68 employees), property and facility management (208 employees) and construction management (31 employees). All of our real estate personnel are experts certified in their respective field of employment.

The following table shows the number of full-time employees of the ADO Properties Group for the periods presented (in each case as of the end of the period):

	As of December 31,		
	2019	2018	2017
Full-time employees	366	354	295

There is currently one employee workers council (*Betriebsrat*) in our facility management subsidiary, Central Facility Management GmbH. There are no employee union agreements (*Tarifvertrag*) currently in place.

12.6.1.2 Pension and Incentive Plans

We do not provide a private pension plan for our employees.

Some members of the Board of Directors and the Senior Management participate in long-term incentive plans and have stock options in ADO Group Ltd. See "17.4.4 Long-Term Incentive Program (LTI)".

12.6.2 Financial Management

We conduct financial accounting, all other treasury functions and tenant accounting in-house. Our financial statements are prepared quarterly and annually. As of and for the Fiscal Years 2019, 2018 and 2017, our statutory annual accounts have been prepared in accordance with Luxembourg generally accepted accounting principles and our consolidated financial statements in accordance with IFRS. Our treasury department manages the ADO Properties Group cash flow planning, bank loans and day-to-day payments. Tenant accounting, as part of property management, is integrated into our financial accounting and treasury processes to ensure a consistent high quality of bookkeeping.

12.6.3 Information Technology

We are using information technology software supplied by a third-party, and managed internally by our information technology department, that integrates all ERP, accounting and controlling functions into one software to manage all our portfolios.

12.6.4 Intellectual Property, Trademarks and Domains

We do not hold any patents. The following trademarks which are material for the ADO Properties Group's business are currently registered in favor of ADO Properties GmbH:

- word and figurative mark "ADO Properties" registered under number DE 302018017318 and under number DE 302008045025, respectively;
- wordmark "ADO" registered under number DE 302014071419;
- wordmark "Fortica" registered under number DE 302014022378;
- wordmark "Fortica" registered under number CTM 013031406;
- wordmark "Berlinsider" registered under number DE 302016028439; and
- wordmark "Berlinsiders" registered under number DE 302016028259.

The ADO Properties Group's most significant internet domains are: www.ado.properties and www.ado.immo.

12.6.5 Insurance Coverage

We have procured various operating insurance policies, which include, among others: business and environmental liability coverage, electronic data processing equipment insurance, motor vehicle insurance, employee accident insurance, employee fraud insurance, and property damage and third-party liability insurance that covers fire, lightning and explosions, water damage, storms and hail, natural hazards including, e.g. floods and earthquakes, broken glass and vandalism as well as statutory liability as a property owner.

The Company has provided a directors and officers (“**D&O**”) insurance policy covering the members of the Board of Directors and the Senior Management. A D&O basic insurance policy was entered into with XL Insurance Company SE, expiring on January 1, 2021 and with a limit of annual coverage in the amount of €25 million. A D&O first excess loss insurance policy was entered into with Allianz Global Corporate & Specialty SE, expiring on January 1, 2021 and extending the limit of annual coverage by €25 million, increasing the annual coverage to a total of €50 million. A D&O second excess loss insurance policy was entered into with QBE Insurance (Europe) Limited, expiring on January 1, 2021 and extending the limit of annual coverage by an additional €25 million, increasing the annual coverage to a total of €75 million. A D&O third excess loss insurance policy was entered into with AIG Europe Limited, expiring on January 1, 2021 and extending the limit of annual coverage by an additional €25 million, increasing the annual coverage to a total of €100 million. Each D&O insurance policy provides for a deductible in the amount of €100,000 and cover defense costs until the €25 million limit of annual coverage is reached, respectively. The D&O insurance policies cover financial losses arising from a breach of duty by the members of the Board of Directors in the course of their duties.

12.6.6 Trend Information

Since December 31, 2019, there has been no material adverse change in the prospects of the Company.

Except as described under “*24.1 Recent Developments*”, since December 31, 2019, there have been no significant changes in the financial or trading position of the Company.

12.6.7 Governmental, Legal, Arbitration or Similar Proceedings

During the ordinary course of our business activities, we are regularly involved in legal proceedings, both as a claimant and as a defendant. These proceedings are routine matters of tenancy and other laws, and do not have a significant impact on the ADO Properties Group’s business.

As of the date of this Prospectus, there are no and have not been within the last 12 months governmental, legal or arbitration proceedings (including pending or threatened proceedings) that could have a material adverse effect on our business, net assets, financial condition, cash flows, results of operations and prospects.

However, on October 18, 2019, the Company received a demand for payment of consultancy fees of €18.4 million in connection with the sale of certain subsidiaries owning 23 properties, consisting in aggregate of approximately 5,900 residential apartment units (the “**Gewobag Sale**”). The Company entered into discussions with the consultant and has denied that such fee is due. On November 21, 2019, the consultant stated it would accept a payment of €9.2 million. The consultant stated that it would provide further information to the Company to substantiate its demand. As of the date of this Prospectus, the Company has not received any further information from the consultant. The Company has recorded a provision for the amount and seeks to settle this demand in due course.

12.7 Material Agreements

The following section provides an overview of material agreements to which any member of the ADO Properties Group is a party. All of the ADO Properties Group’s bank loans are non-recourse loans with the related investment and trading properties as their only security.

12.7.1 Business Combination Agreement

For a description of the Business Combination Agreement (BCA), see “*10.1 Business Combination Agreement*”.

12.7.2 Share Purchase Agreements

For a description of the Share Purchase Agreements, see “10.3 Share Purchase Agreements for Consus Real Estate Shares”.

12.7.3 Call/Put-Option Agreement

For a description of the Call/Put-Option Agreement, see “10.4 Call/Put-Option Agreement”.

12.7.4 Strategic Cooperation Agreement

For a description of the Strategic Cooperation Agreement, see “10.5 Strategic Cooperation Agreement”.

12.7.5 Investment Agreement

12.7.5.1 Investment Agreement with ADO Group Ltd.

On January 26, 2016, we entered into an investment agreement with ADO Group Ltd. (the “**Investment Agreement**”) to jointly enter into a transaction to purchase the entire share capital of 14 German property companies (together, the “**Property Companies**”). After completion of the transaction, we held 94.9% and ADO Group Ltd. held 5.1% of the share capital of each of the Property Companies.

It has been agreed that we shall be vested with management rights for each of the Property Companies, in particular, to determine signatory rights (unless otherwise resolved by the General Meeting) and appoint, remove and replace members of the board of directors. Only certain reserved matters shall require unanimous approval of both ADO Group Ltd. and us, e.g. expenditures exceeding the five-year-budget of a Property Company (except for urgent expenditures or expenditures in the ordinary course of business), the realization of any property, asset, securities or other investment (the “**Assets**”) below the book value amount of the last signed financial statement (except for assets classified as condominiums) or the creation or issuance of any shares, warrants, options or convertibles of such Property Company. Furthermore, we have undertaken that each Property Company shall, subject to approval of the respective board of directors, distribute an annual dividend to ADO Group Ltd. and us amounting to 5% of the total value of the transaction for the first ten years following the completion of the purchase.

Moreover, within ten years from the closing of the transaction, ADO Group Ltd. has a put option to sell to us its interest in a Property Company for the higher of (i) the value of its holdings in the respective Property Company (based on the audited financial statements for the preceding calendar year) and (ii) the amount paid by ADO Group Ltd. for its interest (less any dividends paid). The sales of ADO Group Ltd.’s interests in Property Companies to unrelated third parties do not require our approval. If we decide to sell our interests in a Property Company to an unrelated third party, we shall have a drag-along right to demand ADO Group Ltd. to sell its respective interest to such third party for the higher of (i) the commercial value of its interest under the terms of the respective sale and (ii) the amount paid by ADO Group Ltd. for its interest (less any dividends paid). If such third party purchaser decides to not purchase ADO Group Ltd.’s interest in a Property Company, ADO Group Ltd. shall have the right to demand that we purchase its interest on the drag-along right terms.

In the event that ADO Group Ltd. reduces its (direct or indirect) shareholding in the Company to less than 20% of share capital, ADO Group Ltd. shall have the right to demand from us, within 12 months, to (i) purchase all of ADO Group Ltd.’s interests in the Property Companies (on the drag-along right terms), (ii) procure a third party purchase for its interests, or (iii) undertake that the Property Companies continue to pay the annual dividend of 5% to ADO Group Ltd. The Investment Agreement terminates in the event that all the share capital of Property Company becomes owned by either ADO Group Ltd. or us or of a sale of all (or substantially all) of the Assets of a Property Company to an unrelated third party.

The Investment Agreement was terminated on February 6, 2020.

12.7.6 Purchase Agreements and Letters of Intent

12.7.6.1 Holsten Quartier Letter of Intent

Following the conclusion of the SCA, on January 17, 2020, the Company entered into a letter of intent with Consus Swiss Finance AG, which as amended on February 21, 2020, for the purchase of 89.9% of the shares in all companies that hold plots of land belonging to the *Holsten Quartier* project development in Hamburg (the “**Holsten Quartier**”). The provisional purchase price for 100% of the shares in Holsten Quartier is €320 million on a cash-free debt-free basis, subject to finalization of the Company’s due

diligence. In exchange for a €50 million down-payment, of which €40 million do not have to be paid before certain collateral requirements have been fulfilled, Consus Swiss Finance AG granted the Company exclusivity for twelve months to continue and finalize the legal, technical, economic and tax due diligence. There is no obligation to enter into a share purchase agreement and the signing of the share purchase agreement is subject to the satisfactory completion of the due diligence.

12.7.6.2 Acquisition of the Asgard Portfolio

In 2017, the ADO Properties Group purchased the Asgard portfolio, which consists of 1,298 residential units and 60 commercial units located throughout Berlin. The acquisition of the Asgard portfolio was structured as a share transaction (with ADO Group Ltd. taking part) in which the ADO Properties Group acquired 94.9% of the shares in 17 German limited liability companies. The total consideration paid for the Asgard portfolio amounted to approximately €110 million.

12.7.6.3 Acquisition of the Nox I Portfolio

In 2017, the ADO Properties Group purchased the Nox I portfolio, which consists of 374 residential units and 68 commercial units located throughout Berlin. The acquisition included asset transactions and share transactions (with ADO Group Ltd. taking part) in which the ADO Properties Group acquired 94.9% of the shares of five German limited liability companies and several properties by way of an asset deal. The total consideration paid for the Nox I portfolio amounted to €70.2 million.

12.7.6.4 Acquisition of the Wilhelm II Portfolio

In 2017, the ADO Properties Group purchased the Wilhelm II portfolio, which consists of 328 residential units and 39 commercial units located in Berlin-Charlottenburg and Berlin-Friedrichshain. The acquisition of the Wilhelm II portfolio was structured as a share transaction (with ADO Group Ltd. taking part) in which the ADO Properties Group acquired 94.9% of the shares in a German entity. The total consideration paid for the Wilhelm II portfolio amounted to €75.9 million.

12.7.6.5 Acquisition of the Angerburger Allee Portfolio

In 2018, the ADO Properties Group purchased the Angerburger Allee portfolio, which consists of 832 residential units and 24 commercial units with a total lettable area of approximately 66,000 sqm, located in the Berlin district of Charlottenburg. The acquisition of the Angerburger Allee portfolio was structured as a share transaction in which the ADO Properties Group acquired 94% of the shares in a Dutch entity. The purchase price for all of the acquired assets amounted to €153.4 million (including 2.3% transaction costs).

12.7.6.6 Acquisition of the Nox II Portfolio

In 2018, the ADO Properties Group entered into five related purchase agreements to purchase the Nox II portfolio, which consists of 123 residential units and 79 commercial units located throughout Berlin and with a total lettable area of approximately 19,800 sqm. The acquisition included asset transactions and share transactions (with ADO Group Ltd. taking part) in which the ADO Properties Group acquired 94.9% of the issued shares of four German entities. The total consideration paid for the NOX II portfolio amounted to €45.3 million.

12.7.7 Sale Agreements

12.7.7.1 Sale Agreement with Gewobag Wohnungsbau

On September 26, 2019, the Company entered into a share purchase agreement with GEWO BAG Wohnungsbau-Aktiengesellschaft Berlin for the sale of 100% of the shares of certain ADO Properties Group entities owning 23 properties, consisting, in aggregate, of approximately 5,900 residential apartment units (the “**Gewobag Agreement**”). The sale price for the shares amounted to €920 million, less €340 million of net debt of the sold ADO Properties Group entities. The sale closed on November 29, 2019.

12.7.8 Bridge Facility Agreement

12.7.8.1 Overview

The Company as borrower and J.P. Morgan Securities plc as mandated lead arranger, J.P. Morgan AG as original lender and J.P. Morgan Europe Limited as agent entered into a bridge term loan facility agreement (the “**Bridge Facility Agreement**”) under which the Company may utilize a bridge term facility with a nominal amount of up to €2,424,000,000 (the “**Bridge Facility**”). Barclays Bank PLC and Deutsche Bank Luxembourg S.A. acceded to the Bridge Facility Agreement as additional lenders.

In case of a utilization, the Bridge Facility will be made available for the purpose of refinancing certain existing financial indebtedness, including bonds and loans, of ADLER Real Estate and its subsidiaries if such instruments are subject to change-of-control termination rights and the relevant creditors exercise such rights upon the Company acquiring control over ADLER Real Estate. Further, if the Company acquires the majority of the shares in Consus Real Estate and certain conditions are met, a portion of the Bridge Facility with a nominal amount of up to €1,428,000,000 may be used to prepay outstanding indebtedness of Consus Real Estate and its subsidiaries.

12.7.8.2 Maturity Dates

Subject to the extension options for the Bridge Facility described below, the Bridge Facility will mature on the date falling twelve months after the earlier of (i) the first utilization date of the Bridge Facility and (ii) March 15, 2020.

The maturity of the Bridge Facility may be extended four times by six months per extension. Each such extension is subject to the fulfilment of certain conditions and is not subject to any finance party’s consent.

12.7.8.3 Interest and Fees

The Bridge Facility bears interest at a rate per annum equal to the aggregate of the respectively applicable EURIBOR, subject to a floor of zero, plus a margin. The applicable margin is subject to a margin ratchet which is dependent on both the Company’s credit rating provided by S&P and the time elapsed since the date of the Bridge Facility Agreement.

If the Company maintains a BBB- rating for its long-term unsecured and non-credit enhanced debt obligations, the margin will, (a) for the first three months after the date of the Bridge Facility Agreement, be 0.60% per annum, (b) for the 4th until the 6th month after the date of the Bridge Agreement, be 1.00% per annum, (c) for the 7th to 9th month after the date of the Bridge Facility Agreement, be 1.50% per annum. Thereafter, the margin will be increased by 0.25% per annum.

If the Company’s long-term unsecured and non-credit enhanced debt obligations are rated (a) BBB or better, the applicable margin will be 0.25% per annum lower, (b) BB+, the applicable margin will be 0.40% per annum higher, and (c) BB or lower or S&P does not provide such rating anymore, the applicable margin will be 0.90% per annum higher, in each case, than set out in the previous paragraph under the assumption that the Company maintains a BBB- rating for its long-term unsecured and non-credit enhanced debt obligations. All ratchet steps are subject to a margin flex increase of up to 0.50% per annum.

The Company is also required to pay a commitment fee in monthly arrears. The commitment fee will be computed at the rate of (a) 0% for the first two months after the date of the Bridge Facility Agreement, (b) 10% of the applicable margin during the 3rd month after the date of the Bridge Facility Agreement, (c) 20% of the applicable margin during the 4th month after the date of the Bridge Facility Agreement, and (d) 30% of the applicable margin as from the 5th month after the date of the Bridge Facility Agreement onwards.

Additionally, the Company shall pay fees related to the arrangement, the participation, and the duration and, to the extent applicable, the extension, of and certain fees in connection with the Bridge Facility to the agent.

12.7.8.4 Guarantors and Security

As customary for investment-grade financings, the Bridge Facility has not been and will not be either guaranteed or secured. The Bridge Facility Agreement includes a negative pledge clause and other customary undertakings binding on the Company and its subsidiaries. However, the Bridge Facility Agreement

also includes carve-outs from the negative pledge clause which apply, *inter alia*, to take out financing instruments, the net proceeds of which are applied in prepayment of the Bridge Facility.

12.7.8.5 Prepayments

Subject to certain conditions, the Company may voluntarily prepay the whole or any part of any utilization(s) or permanently cancel all or part of the available facility by giving three business days' prior notice to the agent. Furthermore, the Company is, subject to certain conditions, entitled to replace or repay and cancel participations of an individual lender in any utilization(s) by giving five business days' prior notice to the agent and such lender.

In addition to any voluntary prepayments, the Bridge Facility Agreement requires mandatory prepayment in full or in part, and, if applicable, cancellation of the Bridge Facility in certain circumstances, including:

- (1) with respect to any lender, if it becomes unlawful for such lender to perform any of its obligations under the Bridge Facility or to fund, issue or maintain its participation in any utilization under the Bridge Facility;
- (2) following the occurrence of a "change of control" in relation to the Borrower (as defined in the Bridge Facility Agreement), in relation to any lender that exercises its change-of-control termination right within 45 days after being notified of the relevant change of control;
- (3) from the net proceeds received by the Company from the issuance of bonds, the take-out of term loans or the issuance of equity instruments, including new shares in the Company, after the date of the Bridge Facility Agreement; and
- (4) from the net proceeds of the disposal of certain assets, undertakings or businesses, provided that the Bridge Facility Agreement contains certain carve-outs from and a €400,000,000 basket for such prepayment obligation.

12.7.8.6 Covenants

The Bridge Facility Agreement requires the Company to comply with two financial covenants, whereby the Company must ensure that, as of each quarterly reporting date:

- (1) the ratio of "Total Net Debt" to "Total Assets" (in each case, as defined in the Bridge Facility Agreement) does not exceed 60%; and
- (2) the Interest Cover Ratio (as defined in the Bridge Facility Agreement) is at least equal to (i) as long as the Company has not acquired the majority of the shares in Consus Real Estate, (a) 2.25 to 1.00 until December 31, 2020, (b) 2.35 to 1.00 from January 1, 2021 to December 31, 2021, and (c) 2.45 to 1.00 thereafter, and (ii) after the Company acquired the majority of the shares in Consus Real Estate, 1.80 to 1.00 for the remaining term of the Bridge Facility Agreement.

In addition, the Company and its subsidiaries (including, for the avoidance of doubt, subsidiaries acquired after the date of the Bridge Facility Agreement) are subject to certain restrictive and, as the case may be, affirmative covenants under the Bridge Facilities Agreement customary for these types of financing which are subject to certain specified exceptions and/or qualifications (customized to its business and adjusted to the ADO Properties Group's current credit standing). Additionally, the Company is required to provide certain financial information and other information regarding the Company's and the ADO Properties Group's financial condition to the lenders.

12.7.8.7 Events of default

The Bridge Facility sets out certain events of default that are customary for this type of financing. The occurrence of any such event of default would, subject to applicable grace periods and/or rights to subsequent fulfilment and/or agreed exceptions, entitle the lenders to cancel their commitments, declare all or part of the loans (together with accrued interest and all other amounts accrued or outstanding under the Bridge Facility) to be immediately due and payable or payable on demand.

12.7.9 Other Financing Agreements

12.7.9.1 2024 Notes

On July 27, 2017, the Company issued notes in the aggregate principal amount of €400 million (the “**2024 Notes**”). The 2024 Notes were issued in a denomination of €100,000 and bear fixed interest at a rate of 1.500%. Interest is payable annually in arrears on each July 26. The 2024 Notes will mature on July 26, 2024 (subject to early redemption).

Upon the occurrence of a change of control under the 2024 Notes, noteholders may require the Company to redeem the 2024 Notes held by them, in whole or in part, within 30 days after the Company has published a notice regarding the change of control. A change of control occurs each time one person or persons acting jointly acquire(s) 50% of the share capital in the Company or shares carrying 50% of the voting rights.

Under the terms and conditions of the 2024 Notes, the Company has undertaken that it will not incur any financial indebtedness (except for financial indebtedness that is incurred to refinance existing financial indebtedness) to the extent that the loan-to-value-ratio would exceed 60% or the secured loan-to-value ratio (both as further specified in the terms and conditions) would exceed 45%.

The 2024 Notes are subject to the following events of default:

- failure to pay principal, interest, or other amounts due under the 2024 Notes within 30 days from the relevant due date;
- failure to perform any other material obligation under the 2024 Notes and such failure continues for 60 days after the paying agent has received notice from a noteholder;
- cross-default in relation to other financial indebtedness of the Company or its material subsidiaries to the extent it exceeds 1% of the consolidated total assets of the Company;
- the Company announces its inability to meet its financial obligations or ceases its payments generally;
- insolvency proceedings against the Company are initiated and not closed and there is no debt discharge within 90 days, or the Company applies for or initiates such proceedings; or
- the Company enters into liquidation (unless in connection with a merger or other form of combination with another company that assumes all obligations of the Company in connection with the 2024 Notes).

12.7.9.2 2023 Convertible Bonds

On November 23, 2018, the Company issued convertible bonds in the aggregate principal amount of €165 million (the “**2023 Convertible Bonds**”). The 2023 Convertible Bonds were issued in a denomination of €100,000 and will mature on November 23, 2023 (subject to early redemption). The Company may elect to fulfil its obligation to redeem the 2023 Convertible Bonds at maturity by delivering shares on the maturity date. The Company may only exercise such right for all, not just a part of the 2023 Convertible Bonds.

The 2023 Convertible Bonds bear fixed interest at a rate of 1.250%. Interest is payable semi-annually in arrears on each May 23 and November 23. The interest rate is subject to a step-up of 0.50% should the Company receive a non-investment grade rating. Should the Company have more than one rating, the step-up will only apply if more than one rating agency assigns a non-investment grade rating to the Company. However, the interest rate may be reset to the initial interest rate should the respective rating revert to an investment grade rating.

Bondholders have the right to convert the 2023 Convertible Bonds held by them, in whole, but not in part, into shares of the Company at an initial conversion price of €60.5690, which has, with effect as of June 19, 2019, been adjusted to a conversion price of €60.3444, subject to certain adjustments, such as capital increases from capital reserves or retained earnings, share splits, combining of shares and capital decreases, capital increases against cash contribution with subscription rights, issuances of other securities with subscription rights, sales of own shares, transferring mergers, spin-offs, split-ups and distributions. Upon exercise of a conversion right, the Company may elect whether it will deliver shares or make a cash payment in lieu of such delivery.

If the Company gives notice of a change of control, a take-over bid regarding its shares or a free-float of less than 20% of its shares, bondholders may convert all 2023 Convertible Bonds held by them up to the effective date which is to be set by the Company or require the Company to redeem the 2023 Convertible Bonds in cash. If the bondholder chooses to convert the 2023 Convertible Bonds up to the effective date, the conversion price may be subject to an adjustment. Following a change of control, bondholders may also choose to not convert or redeem their 2023 Convertible Bonds.

The 2023 Convertible Bonds are subject to the following events of default:

- failure to pay principal, interest, or other amounts due under the 2023 Convertible Bonds within 30 days from the relevant due date;
- failure to perform any other material obligation under the 2023 Convertible Bonds and such failure continues for 60 days after the paying agent has received notice from a bondholder;
- cross-default in relation to other financial indebtedness of the Company or its material subsidiaries to the extent it exceeds 1% of the consolidated total assets of the Company;
- the Company announces its inability to meet its financial obligations or ceases its payments generally;
- insolvency proceedings against the Company are initiated and not closed and there is no debt discharge within 90 days, or the Company applies for or initiates such proceedings; or
- the Company enters into liquidation (unless in connection with a merger or other form of combination with another company that assumes all obligations of the Company in connection with the 2023 Convertible Bonds).

All of the ADO Properties Group's bank loans are non-recourse loans with the related assets as the only respective security:

12.7.9.3 General Agreement

On March 28, 2018, the Company as issuer as well as ADO Lux Finance S.à r.l. and ADO Treasury GmbH entered into a general agreement with Commerzbank Aktiengesellschaft Frankfurt am Main as arranger and Bayerische Landesbank, BNP Paribas, Société Générale and UBS Limited as dealers (the "**General Agreement**") establishing a €500,000,000 multi-currency commercial paper programme (the "**Programme**"). The obligations under the notes of the Programme (the "**CP Notes**") constitute direct, unconditional, unsecured and unsubordinated obligations of the issuers under the General Agreement, in principle ranking pari passu among themselves and pari passu with all other unsecured and unsubordinated obligations of the issuers under the General Agreement. The Company as guarantor has given an unconditional and irrevocable guarantee for the due and punctual payment of the principal of, and the interest on, and any other amounts payable under the CP Notes. The General Agreement includes market-standard clauses regarding a negative pledge as well as various carve-outs therefrom.

The CP Notes can either be discounted, interest bearing at a fixed rate or, under certain conditions, set out in the global note, interest bearing at a floating rate. The issuers under the General Agreement will redeem each Note at its nominal amount on the relevant maturity date. The General Agreement includes several market standard representations and undertakings, and the CP Notes are subject to market-standard events of default. The issuers under the General Agreement may terminate the Programme by at least 60 days' written notice. The arranger may terminate the Programme by at least 60 days' written notice to the Issuers and the dealers.

12.7.9.4 Facility Agreement of the Company, ADO Lux Finance S.à r.l. and ADO Treasury GmbH with Barclays Bank Plc, ABN AMRO Bank N.V., BNP Paribas S.A., Niederlassung Deutschland and Société Générale S.A., Frankfurt Branch

On March 9, 2018, the Company, ADO Lux Finance S.à r.l. and ADO Treasury GmbH entered into a facility agreement with Barclays Bank Plc, ABN AMRO Bank N.V., BNP Paribas S.A., Niederlassung Deutschland and Société Générale S.A., Frankfurt Branch, as supplemented by an additional commitment confirmation dated March 27, 2018 (the "**Facility Agreement**"). Under the Facility Agreement, the Company may utilize a revolving credit facility (and a swingline facility as part of the revolving facility) with an aggregate nominal amount of €200,000,000 (the "**Facility**"), made available for the purpose of refinancing any note or other instrument maturing under a commercial paper program of any member of the ADO Properties Group and/or general corporate purposes.

The Facility is guaranteed and secured and bears interest at a rate per annum equal to the aggregate of EURIBOR plus a margin, subject to a margin ratchet dependent on the Company's credit rating. The Company is also required to pay a commitment fee at certain intervals, fees related to the arrangement and utilization and agency fees. The Facility Agreement contains market-standard repayment, prepayment and termination provisions. The Facility Agreement also requires mandatory prepayment following the occurrence of a change of control if a lender exercises its termination right. Moreover, the Facility Agreement sets out certain customary events of default. Further, the Facility Agreement requires the Company to comply with certain financial covenants, including a loan-to-value ratio that does not exceed 60%, a secured loan-to-value ratio that does not exceed 45%, an unencumbered asset ratio that is not less than 125% and an interest cover ratio that is not less than 1.80:1.00. Additionally, the Company is required to provide certain financial information and other information regarding the ADO Properties Group's financial condition.

The Facility Agreement has subsequently been extended and will mature on March 9, 2022. As of the date of this Prospectus, €175.0 million has been drawn under the Facility Agreement.

12.7.9.5 Financing Agreement of ADO Sonnensiedlung S.à r.l (formerly named Brandenburg properties 5 S.à r.l.) with Berlin-Hannoversche Hypothekbank AG

On June 26, 2017, ADO Sonnensiedlung S.à r.l. (formerly *Brandenburg Properties 5 S.à r.l.*) a company with limited liability (*société à responsabilité limitée*), incorporated under the laws of the Grand Duchy of Luxembourg, entered into an amendment and restatement agreement to the German law governed term loan agreement originally dated August 22/23, 2013, and amended on August 28, 2013, as borrower with Berlin-Hannoversche Hypothekbank AG as lender now in an aggregate amount of €90,000,000 (the "**BerlinHyp1 Agreement**") and with final maturity date of June 30, 2024, for the purpose of refinancing of existing financial indebtedness with Berlin-Hannoversche Hypothekbank AG, and for other purposes. On January 19, 2017, the company's name was changed from *Brandenburg properties 5 S.à r.l.* to *ADO Sonnensiedlung S.à r.l.*

The BerlinHyp1 Agreement is secured by land charges (together with an assumption of personal liability (*Übernahme der persönlichen Haftung*) and a submission to immediate enforceability (*Unterwerfung unter die sofortige Zwangsvollstreckung*)), security assignments over the rights and claims of ADO Sonnensiedlung S.à r.l. under rental and lease agreements and insurance agreements, pledges over certain bank accounts of the borrower and the shares in the borrower and by way of a subordination agreement with intra-group or third-party creditors. The interest rate of 1.25% per annum is fixed until and including the final maturity date and due and payable on a monthly basis. Repayments must be made on a monthly basis in an amount of €243,750. There is no additional repayment (including prepayment) required or permitted prior to the maturity date, assuming ADO Sonnensiedlung S.à r.l. continues to perform its obligations under the BerlinHyp1 Agreement and no mandatory repayment event occurs, and with the exception that a partial prepayment is permitted in order to comply again with the financial covenants. The BerlinHyp1 Agreement includes several market standard representations, undertakings and events of default. Under certain conditions the prior written consent of Berlin-Hannoversche Hypothekbank AG is required, in particular in case of a change of control, the conclusion of a domination agreement (*Beherrschungsvertrag*) and/or profit and loss transfer agreement (*Ergebnisabführungsvertrag*), the change of the borrower's COMI, the creation or permission to subsist any security or the raising of any financial indebtedness. As financial covenants, the borrower must maintain a minimum debt service coverage ratio of at least 185% and the LTV-Ratio may not exceed until the end of the third year 75% and from the beginning of the fourth year and until maturity 65%.

12.7.9.6 Financing Agreement of Yona Investment GmbH & Co. KG and Yanshuf Investment GmbH & Co. KG with Deutsche Genossenschafts-Hypothekbank AG

On November 27, 2014, Yona Investment GmbH & Co. KG and Yanshuf Investment GmbH & Co. KG, limited partnerships with a limited liability company as general partner being part of the ADO Properties Group, as borrowers entered into a term loan agreement with Deutsche Genossenschafts-Hypothekbank AG as lender in an aggregate amount of €64,500,000 (the "**DGHyp Agreement**") with a seven-year maturity for the purpose of partially financing the purchase of shares in a real estate companies.

The DGHyp Agreement is secured by land charges relating to the properties being financed, an enforceable abstract promise of debt by the borrowers, security assignments (over the rights and claims of the borrowers under rental and lease agreements, insurances and the purchase of shares in the real estate companies) and pledges of certain bank accounts of the borrowers. Interest payments are due on a monthly

basis and the final maturity date will be November 30, 2021. The interest rate is 1.76% and is fixed for a period of seven years. Interest and repayments are due on a monthly basis in an amount of €203,175 starting on January 31, 2015. There is no additional repayment required prior to the final maturity date, assuming the borrowers continue to perform their obligations under this agreement and no mandatory repayment event occurs. Repayment amounts increase over the term but the total monthly payment sum remains stable due to a decrease of interest.

The DGHyp Agreement includes several market standard representations, undertakings and events of default. As financial covenants, the borrowers must maintain a debt service coverage ratio of at least 105% (110% with effect from December 31, 2016) and the LTV-Ratio must not exceed 75%. Furthermore, a change of control of each of the borrowers requires immediate and prompt notification of the borrowers. If the aforementioned event occurs, the borrowers shall be obligated to reach a consensual agreement with the lender regarding a continuation and contractual adjustment of the DGHyp Agreement. The lender is entitled to terminate the agreement if the parties have failed to reach a settlement, unless the lender considers that there are no negative effects on the lender's financing risk.

12.7.9.7 Financing Agreement of Marbien B.V., Alexandra Properties B.V., Jessica Properties B.V. and Meghan Properties B.V. with Deutsche Kreditbank AG

On June 24, 2019, Marbien B.V., Alexandra Properties B.V., Jessica Properties B.V. and Meghan Properties B.V., companies within the ADO Properties Group, as borrowers entered into several term loan agreements with Deutsche Kreditbank AG as lender in an aggregate amount of €80,000,000 (the “**DKB Agreement**”) with an eight-year maturity for the purpose of refinancing existing financial indebtedness of the ADOF.

The DKB Agreement is secured by, amongst others, security interest, land charges and security assignments (including over the rights and claims of the borrowers under rental and lease agreements in relation to the pledged properties). Interest payments are due on a monthly basis and the final maturity date will be June 30, 2027. The interest rate is fixed at a nominal amount equal to 1.07% per annum. Repayments must be made at equal monthly installments in an amount equal to 1.5% (plus the respective amount of interest saved by way of such repayment) starting by no later than August 30, 2019.

The DKB Agreement includes several reporting obligations, a breach of which triggers termination rights. The borrowers must subordinate service of any loans from the shareholders or affiliated companies to the debt service of all financing provided by Deutsche Kreditbank AG and payment of all property-related management costs and other necessary company costs.

12.7.9.8 Financing Agreement of 44 Companies with Berlin-Hannoversche Hypothekbank AG

On June 22, 2016, as amended on June 29, 2016, 44 German limited liability companies of the ADO Properties Group entered into a German governed term loan agreement as borrowers with Berlin-Hannoversche Hypothekbank AG as lender in an aggregate amount of €150,000,000 (the “**BerlinHyp2 Agreement**”) with a final maturity date on January 2, 2023, for the purpose of refinancing of existing financial indebtedness provided by Berlin-Hannoversche Hypothekbank AG and the financing of cancellation fees with regard to certain hedge arrangements and any prepayment fees.

The BerlinHyp2 Agreement is secured by land charges, security assignments over the rights and claims of the borrowers under rental agreements, pledges over certain bank accounts of the borrowers and by way of a subordination agreement with intra-group and third-party creditors. The interest rate is in an amount of 1.33% and fixed for a period ending on the final maturity date. The interest payments are due on a monthly basis. There is no additional repayment (including prepayment) required or permitted prior to the final maturity date, assuming the borrowers continue to perform their obligations under this agreement and no mandatory prepayment event occurs. In case of a sale of real estate, a mandatory unscheduled prepayment must be made in an aggregate amount of that partial loan sum associated with a lending value of the respective real estate and an additional extra charge in an amount of 20% of this partial loan sum.

The BerlinHyp2 Agreement includes several market standard representations, undertakings and events of default. As financial covenants, the borrowers must maintain a minimum interest coverage ratio of at least 150% within a period ending on June 30, 2021, and 100% with effect from July 1, 2021, the LTV-Ratio may not exceed 65% and the ratio of junior ranking security interest registered with the land register to the current market value (*Nachrangwertauslauf*) shall not exceed 0%.

12.7.9.9 Financing Agreement of ADO 9370 Grundstücks GmbH with Berliner Sparkasse

On January 20, 2016, ADO 9370 Grundstücks GmbH, a company within the ADO Properties Group, as borrower entered into a term loan agreement with Berliner Sparkasse, a branch of the Landesbank Berlin AG, as lender in an aggregate amount of €67,100,000 (the “**LBB Agreement**”) with a ten-year maturity for the purpose of financing certain investments in connection with the acquisition of certain properties.

The LBB Agreement is secured by, amongst others, security interest, land charges and security assignments over the rights and claims of the borrower under rental agreements, pledges over certain bank accounts of the borrowers and by way of a subordination agreement with intra-group and third-party creditors.

The interest rate is in an amount of 1.79% and fixed for a period ending on the final maturity date. Interest payments are due on a monthly basis and the final maturity date will be January 31, 2026. Repayments must be made in equal monthly installments in an amount of €225,225. There is no additional repayment (including prepayment) required.

The LBB Agreement includes several market standard undertakings and events of default. As financial covenants, the ratio of junior ranking security interest registered with the land register to the current market value (*Nachrangwertauslauf*) shall not exceed 0%.

13. REGULATORY ENVIRONMENT

Our real estate portfolio currently consists only of real estate located in Berlin. Accordingly our business will be affected by, among others, the regulations affecting the business of owning and managing residential properties in Germany, and especially in Berlin. This section summarizes certain aspects of German property law, real estate law and practices in Berlin in force as of the date of this Prospectus. It does not purport to be a complete analysis – in particular, it does not take into account contractual requirements and restrictions in connection with the acquisition of certain real estate portfolios by us (in this regard, see “12.7 Material Agreements”) – and can, therefore, not be treated as a substitute for comprehensive professional, legal and tax advice on any issue that may be relevant in the context of this Prospectus.

13.1 Limitations of German Tenancy Law

German tenancy law distinguishes between residential and commercial space. The majority of our property portfolio is governed by residential tenancy law, which in large part favors tenants through extensive social safeguards. In particular, it imposes restrictions on the ADO Properties Group with regard to the increase of rent, allocation of ancillary costs including costs for repair and maintenance, the termination of letting contracts and the eviction of tenants which are in breach of contract. Furthermore, the sale of residential space might be restricted.

13.1.1 Written form requirements

German tenancy law is incorporated into the German Civil Code (*Bürgerliches Gesetzbuch*, “BGB”) and generally requires that rental agreements that provide for a term of more than one year must be concluded in written form. The requirements to comply with written form have been specified by comprehensive case law. However, a rental agreement is not invalid in the event of an infringement of the requirement for the written form, but rather it is deemed to have been concluded for an indefinite period. Therefore, it can be terminated at the earliest at the end of one year after handover of the leased property to the tenant in accordance with the statutory notice period (*i.e.*, notice of termination is admissible at the latest on the third working day of a calendar quarter towards the end of the next calendar quarter). Our residential rental agreements are generally concluded for an indefinite period of time. Therefore, this form requirement is of minor relevance.

13.1.2 Statutory Limits on Rent Increases

As set out in more detail below, the landlord is substantially restricted in terminating residential leases and thus may be bound by the leases for a long period of time. Against this background, German law allows the landlord to increase the rent of existing lease agreements under certain circumstances and to a legally defined extent. These are set out in this section, whereas recent statutory regulation to limit the landlord’s right to freely determine the rent for new leases (“*Mietpreisbremse*”) as well as to freeze and retroactively reduce rents (“*Mietendeckel*”) are set out below under “13.2 Current Developments in German Tenancy Law”.

Generally, landlords and existing or new tenants can freely enter into bilateral agreements to establish and increase the amount of rent payable. The underlying freedom to contract in accordance with the wishes of the parties is only limited as follows:

Section 5 of the German Economic Offenses Act (*Wirtschaftsstrafgesetz*) prohibits the willful or reckless letting of space for dwellings at rents or with ancillary costs that are unconscionably high. Such is the case if the rent or ancillary costs substantially exceed the comparative rent levels (*ortsübliche Vergleichsmiete*) due to an abuse of the limited availability of comparable space (generally, a rent exceeding the comparative rent level by 20% is deemed to infringe this provision). In the prior legislative period, a draft bill was introduced into the German parliament that rents exceeding 20% of the prevailing comparative rent level in a municipality or a district of a municipality shall constitute an administrative offense (*Ordnungswidrigkeit*) without it being required that unreasonably high rent is “due to an abuse of the limited availability of comparable room”. The draft bill period has elapsed. The federal council (*Bundesrat*) presented a new draft bill including the before-mentioned changes on November 29, 2019, which shall be introduced into the German parliament. In addition, according to the new draft bill, it is intended to increase the fine (*Bußgeld*) for violations of the regulations from €50,000 to €100,000.

Furthermore, the German Federal Court of Justice (*Bundesgerichtshof*) has held that rents exceeding the comparative rent levels (*ortsübliche Vergleichsmiete*) by about 50% may constitute usury under Section 291 German Criminal Code (*Strafgesetzbuch*).

With lease agreements that are not subject to public rent control and for which restrictions on rent increases have not been contractually agreed the landlord may assert a right of contractual increase of the rent, subject to statutory and contractual requirements, up to locally prevailing comparative rent levels (*ortsübliche Vergleichsmiete*) if the rent has remained unchanged for the 15 months preceding the intended increase. As a rule, however, the rent cannot increase by more than 20% in three years (capping limit) according to the current legal framework. However, the governments of the German Federal States are empowered to adopt regulations to lower the capping limit to 15%, which has occurred in the federal state of Berlin due to which the capping limit has been lowered to 15% for all of Berlin with effect until May 10, 2023 pursuant to the Berlin regulation on cap limits (*Kappungsgrenzen-Verordnung*). The determination of the comparative rent levels (*ortsübliche Vergleichsmiete*) is to some extent linked to respective local rent indexes (*Mietspiegel*).

In connection with freely financed residential units and lease agreements that are not subject to contractual rent restrictions, the landlord may also increase the annual rent by 8% of the costs incurred in modernizing of the respective rental space, subject to statutory and contractual requirements. However, our ability to increase rents following a modernization may also be restricted in cases the works carried out would be considered maintenance in line with the standards established for government subsidized apartment buildings (*geförderte Wohnungsbaumaßnahmen*), or in case of luxury refurbishments, i.e. modernizations that exceed a level an average owner would undertake as an investment in his property. Regarding current developments in this regard, please refer to the section “13.2 Current Developments in German Tenancy Law” below.

Following the rent increases, tenants may have an extraordinary termination right.

Please also see information regarding limitations on our ability to increase rents under “1.3.1 German laws protecting residential tenants and existing restrictions on the rate of rental increases could make it more difficult to increase the rents of residential units we own.”

13.1.3 Owner’s Repair and Maintenance Obligations and Modernizations Measures

Under German law, the landlord must, unless the parties agree otherwise, maintain and repair the property (this obligation extends to the structure, the façade, the roof of the building, but also the interior of the residential units). In general, the landlord is restricted in transferring this maintenance and repair obligation to the tenant in the standard lease agreements used.

Subject to compliance with statutory limitations, the landlord may transfer the obligations to carry out decorative repairs (*Schönheitsreparaturen*) and the costs of minor repairs (*Kleinreparaturen*) for a residential unit’s interior to the tenant, however, the latter of which only under the condition that the costs are limited for each single case as well as with regard to the total sum of the minor repairs per year. If the landlord assigns such obligations within standardized contracts, the terms must comply with the strict requirements for standardized business terms. For example, the German Federal Court of Justice (*Bundesgerichtshof*) has ruled that standard clauses in letting contracts are invalid if they obligate the tenant to carry out decorative repairs (*Schönheitsreparaturen*) within a fixed schedule or to fully renovate the apartment at the end of the letting term regardless of the premises’ condition (*Endrenovierung*). In addition, under standard clauses, the obligation to carry out decorative repairs may only be validly transferred to the tenant if the apartment was handed-over in a renovated condition or, when the apartment was handed-over in an unrenovated condition if an adequate compensation is offered to the tenant in exchange. The invalidity of such clauses results in the landlord being responsible for the repair and maintenance and being required to bear all related costs. If the tenant carries out such repair and maintenance works without actually being obliged to do so, the landlord might have to compensate the corresponding costs. This may increase the landlord’s maintenance costs for such properties.

In general, tenants have to tolerate maintenance measures (*Erhaltungsmaßnahmen*) and modernization measures (*Modernisierungsmaßnahmen*), in particular energetic modernization measures that have been announced by the landlord in writing three months prior to the beginning of the planned measures, unless such measures would constitute an unreasonable hardship for the tenant, family members or members of the household of the tenant. Following the announcement of modernization measures, tenants are entitled to a special termination right (*Sonderkündigungsrecht*). Regarding the possibility to allocate parts of the costs incurred to the tenant by way of a rent increase, see “13.1.2 Statutory Limits on Rent Increases”.

13.1.4 Statutory Protection of the Tenant Against Termination and Eviction

Generally, unless there is good cause (*wichtiger Grund*) justifying an extraordinary termination, the landlord may only terminate a letting contract for residential space with notice (*ordentlich*) and only if he has a legitimate interest (*berechtigtes Interesse*) in ending the tenancy. By law, a legitimate interest in ending the tenancy may only arise if (i) the tenant commits a culpable and substantial contractual breach; (ii) the owner has a claim of personal use in the property (*Eigenbedarf*) for himself, his family members, or members of his household; or (iii) the owner would otherwise be prevented from reasonable economic utilization and would therefore suffer considerable detriment.

“Reasonable economic utilization” as grounds for termination is intended to ensure the free economic disposability of property. Such grounds exist if the owner were to suffer considerable detriment from continuing the tenancy (for example, receiving a significantly lower purchase price; expenses significantly exceed income). However, the possibility of either realizing a higher rent by offering the residential space to another tenant or a landlord’s intention of selling the residential space in connection with the conversion of housing into individually owned residential units, for example, would not qualify.

In fact, in case of conversion to condominiums, the German Civil Code (*Bürgerliches Gesetzbuch*) prohibits personal use and reasonable economic utilization as grounds for termination by the purchaser for three years after transfer of title if the residential space was already rented to a tenant before the conversion to individual ownership. In regions where housing supplies are deemed to be insufficient, the governments of the German Federal States may extend this period against termination to up to ten years by statutory order. Such statutory order has been passed for the Federal State of Berlin, in effect until September 30, 2023.

A residential tenant may object to a termination by the landlord (not in case of a termination for good cause) and demand continuation of the lease, if the termination would mean a hardship to the tenant, his family members or members of his household that is not justifiable even considering the landlord’s legitimate interest (*Sozialklausel*). Pursuant to case law, such objection may be justified, for example, in case the tenant is old, pregnant, has a serious illness, or where there is no comparable accommodation available.

Even if the landlord successfully terminates the letting contract on the basis of a legitimate interest, the tenant is protected under German tenancy law against immediate eviction. In consequence, a court may allow for an appropriate deadline (with a maximum delay of one year) for the tenant to vacate the apartment after the effective termination of the letting contract by the landlord. However, as alternative to the classic eviction procedure, the “*Berliner Räumung*”, offering the landlord the cost-effective opportunity to limit the eviction procedure to the procurement of possession, was implemented with the Tenancy Law Amendment Act (*Mietrechtsänderungsgesetz*). Furthermore, eviction procedures shall no longer be tediously delayed because of a right of possession of a third person that is not covered by the executory title (*Vollstreckungstitel*). A further title against such third person is now obtainable by way of an injunction (*einstweiliger Rechtsschutz*).

On March 25, 2020, the German parliament passed a law to mitigate the impact of the Coronavirus pandemic in civil and insolvency laws as well as in criminal law proceedings (*Gesetz zur Abmilderung der Folgen der COVID-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht*) (the “**COVID-Act**”). Pursuant to the COVID-Act, landlords may not terminate residential and commercial lease agreements if the tenant fails to pay rent during the period of April 1, 2020 through June 30, 2020, provided that such non-payment is caused by impacts related to the Coronavirus. Therefore, the tenant must demonstrate that non-payment is caused by impacts related to the Coronavirus to avoid termination. Payments that become due during the period of April 1, 2020 through June 30, 2020, but that were not settled, will have to ultimately be settled by June 30, 2022.

13.1.5 Statutory Restrictions in Selling Residential Space

If rented residential space that has been converted into condominiums, or is intended for such conversion, is to be sold to third parties (i.e. not to family members or members of the household of the landlord), the German Civil Code (*Bürgerliches Gesetzbuch*) provides for a statutory preferential subscription right (*Vorkaufsrecht*) in favor of the tenant, i.e. the tenant has the right to purchase the space on the same terms as the buyer. However, no preferential subscription rights exist if the unit was already individually owned at the beginning of the term of the letting contract.

13.1.6 Statutory Restrictions on the Change of Use of Residential Properties

On March 4, 2014, the Berlin government passed a regulation (*Zweckentfremdungsverbot-Verordnung*) which entered into force on May 1, 2014, and applies to the whole city of Berlin. Pursuant to the regulation, any change of use of residential properties requires prior approval of the competent district authority (*Bezirksamt*). This applies in particular to the use of residential properties as holiday flats or for commercial or professional purposes, a vacancy of residential properties for more than three months, constructional changes which impede the use as residential properties and the elimination of residential properties. The authorities will only grant approval if the public interest in the permanent provision of residential property does not prevail or an adequate substitute of residential property is available. Since Berlin has been declared as an area with a tight housing market, it is expected that such approval will only be granted by way of an exception.

13.1.7 Statutory Restrictions on the Conversion of Rental Apartments into Condominiums

On March 3, 2015, the Berlin government passed a regulation (*Umwandlungsverordnung*) according to which a conversion of a building into condominiums is prohibited in milieu protection areas (*Milieuschutzgebiete*) of the city unless the relevant district has granted permission by means of an exception to this regulation. The owner of a rented apartment requires an exception permission by the relevant district to sell the apartment. Such exception permission may be granted, for example, in case that the apartment shall be sold to the current tenant. Although this does not affect the sale of an entire property, regulation may hinder the conversion and sale of single apartments. As of the date of this Prospectus, 61 areas of Berlin are defined as milieu protection areas (*Milieuschutzgebiete*). The Berlin government may, on an ongoing basis, decide to extend milieu protection (*Milieuschutz*).

13.1.8 Requirement for Energy Certificates and Energy Conservation Measures

Generally, as part of the construction of a building and, under certain circumstances, in as part of changes, enlargements and expansions of a building, an energy certificate (*Energieausweis*) must be issued. The energy certificate is a document that assesses the building's energy efficiency. It shows the energy state of a building and suggests modernization measures for reduction of energy consumption. The energy certificate is generally valid for ten years. Since May 2014, an energy certificate must also be presented to any potential new tenant or potential buyer. Failure to comply can be penalized as an administrative offense.

The Energy Savings Regulation (*Energieeinsparverordnung*) of July 24, 2007, establishes a legal framework regarding the energy requirements of buildings heated or cooled by using energy. It furthermore sets up requirements regarding energy-saving insulation as well as energy-saving technology. Its overall purpose is to reduce the energy demand (*Verbrauch*) of buildings. In November 2013, the German Federal Government enacted the second regulation amending the Energy Savings Regulation, which came into effect in May 2014. Pursuant to this second regulation, since of January 1, 2016, new buildings have to be built in a more energy efficient way. Compared to the former legal situation, the energy efficiency must increase by 25% with respect to the annual primary energy consumption and by an average of 20% with respect to the thermal insulation of the building shell. As of 2021, European Union law requires that all private buildings must be built satisfying certain low-energy building standards. Already existing buildings (*Bestandsgebäude*) are subject to energy efficiency requirements in the event of certain substantial renovations.

On October 23, 2019, the German federal government resolved a draft of a Building Energy Act (*Gebäudeenergiegesetz, GEG*), which merges the Energy Savings Ordinance (*Energieeinsparverordnung, ENEV*), the Energy Act (*Energiegesetz, ENEG*) and the Renewable Energy Heat Act (*Erneuerbare-Energien-Wärmegesetz, EEWärmeG*). In particular, it should be noted that gas and oil-heating boilers built-in or installed in 1991 or later may only operate for only 30 years, according to the draft. Heating boilers built-in or installed before January 1, 1991 may no longer be operated. The draft contains exceptions therefrom, for example if a house can be supplied neither with gas nor with district heating and the heating cannot be operated also from renewable energies. It is also envisaged that the replacement of old gas / oil heaters should be subsidized.

In order to fulfil the national 2030 climate targets, the federal government announced on September 20, 2019 to introduce emission certificates to the building sector as of 2021. The Federal Government's climate package has been passed by the German federal parliament on December 19, 2019. The certificates will not be sold to the property owners but to the oil and gas companies; the prices for emission

certificates will start at €25 per ton of carbon dioxide and will gradually increase over the next few years. We cannot estimate the additional financial impact that will result from mandatory emission certificates trading.

13.1.9 Requirement for Legionella Testing and Potential Remediation Measures

The Drinking Water Ordinance (*Trinkwasserverordnung*), as revised in January 2018, provides *inter alia* that owners of specified centralized heated water supply facilities for use in multi-family houses are required to analyze stored heated water regarding the concentration of legionella at least every three years. The analysis is carried out by accredited laboratories specified and listed by the respective federal state. Any abnormal test results have to be reported to the local health authority. In case of the unfavorable increase of certain parameters, the owner of the centralized heated water supply facility is obliged to determine the cause, file a report to the competent health authority, and conduct appropriate countermeasures, which may range from chemical filtering or thermal disinfection to a modernization of the entire water supply facility.

We believe that we will be able to allocate the costs for routine analysis of drinking water as provided for under the Drinking Water Ordinance to tenants as part of the operating costs.

13.1.10 Requirement to Install and to Maintain Smoke Detectors

All federal states in Germany have made the installation and maintenance of smoke detectors mandatory in residential units. In almost all federal states where a relevant obligation exists, not only new buildings, but also existing buildings have to be equipped accordingly, usually within a transition period. Ultimately, on June 9, 2016, the Berlin parliament resolved on an obligation to install smoke detectors in residential units which was promulgated on June 28, 2016 and entered into force on January 1, 2017. The fulfillment of these obligations is mandatory for all newly built premises starting January 1, 2017. Existing premises must be equipped with smoke detectors by December 31, 2020 at the latest.

Costs incurred for the initial purchase and installation of smoke detectors in residential buildings may be passed on to the tenant as modernization costs by increasing the annual rent by up to 8% of the costs incurred for the relevant rental unit. Costs for the rent and maintenance of smoke detectors may contractually be allocated to the tenant as part of the operating costs.

13.2 Current Developments in German Tenancy Law

13.2.1 Rent Cap (“Mietpreisbremse”) and Broker’s Fees

On June 1, 2015, the Act on Curbing Rent Increases in Tight Housing Markets and the Strengthening of the Orderer Principle with respect to the Business of Rental Agents – Tenancy Law Amendment Act (*Gesetz zur Dämpfung des Mietanstiegs auf angespannten Wohnungsmärkten und zur Stärkung des Bestellerprinzips bei der Wohnungsvermittlung – Mietrechtsnovellierungsgesetz*) (“MietNovG”) entered into force. The MietNovG is a form of rent control and restricts rent increases for new leases to a maximum of 10% above the locally prevailing comparative rent levels in municipalities or parts of municipalities in which the supply of affordable housing is determined to be threatened (rent cap), unless the rent level agreed with the previous tenant was higher. Furthermore, the restriction on rent increases does not apply to new or fully modernized buildings.

The prevailing comparative rent levels are determined on the basis of contractual rents that were agreed upon for comparable residential space in the relevant municipality during the preceding four years. On December 19, 2019, the German federal parliament has resolved that the calculation period for the local comparative rent shall be extended from four to six years. However, rent increases due to modernization measures are not taken into account for determining the prevailing comparative rent levels. Whether residential space is comparable is determined by taking into account its type, size, furnishings, quality, location, including the energy systems and characteristics. For this purpose, the landlord may, in particular, refer to the following: (i) an official rent index (*Mietspiegel*), (ii) a rent database, (iii) a report from an officially appointed and sworn expert, or (iv) the rent payable for at least three comparable residential units. A rent index is a table that shows the prevailing reference rent in a relevant municipality. The table must be jointly produced or accepted by the municipality or by the landlord and tenant representatives. If the rent index is produced in accordance with recognized scientific principles, it is recognized as a so called qualified rent index (*Qualifizierter Mietspiegel*). Qualified rent indices, as opposed to simple rent indices, create the (rebuttable) assumption that the listed rent levels reflect the reference rent customary in

the relevant municipality. A rent index shall be adjusted to market trends every two years. A qualified rent index must be adjusted every two years; when this is done, a spot check or the trend of the price index for living standards of all private households in Germany, as computed by the Federal Statistical Office (*Statistisches Bundesamt*), may be used as a basis. A new list reflecting the qualified rent index must be generated every four years. A rent database is a collection of rents maintained on an ongoing basis that is used to determine the reference rent prevailing in a municipality. This option is only suitable for use if the collection of rents among other things (i) draws upon an adequate amount of rent data of existing and new lease agreements which are continuously updated, and which are representative for determining the prevailing rent level for individual properties in the respective locality, and (ii) is recognized by the municipality or by the landlord and tenant representatives. As a result, rent databases are hardly used in practice.

The first letting of new or thoroughly modernized buildings is excluded from the rent limitation. Until December 31, 2020, the German federal governments are authorized by the tenancy law amendment act (*Mietrechtsnovellierungsgesetz*) to identify areas where there is pressure on the residential rental market and impose the rent limitation accordingly for a maximum period of five years. Thus, the rent cap (*“Mietpreisbremse”*) only applies in the respective designated areas. The German federal government recently agreed to extend the period until December 31, 2025.

Berlin has introduced the rent cap by way of a Rent Limit Regulation (*Mietenbegrenzungsverordnung*) dated April 28, 2015 and with effect from June 1, 2015. Pursuant to the Rent Limit Regulation, Berlin is a designated community with pressure on the residential rental market, in which the supply of the population with sufficient rental housing at reasonable conditions is particularly scarce. The Regional Court (*Landgericht*) of Berlin considered rent control provisions unconstitutional and presented this legal question to the Federal Constitutional Court (*Bundesverfassungsgericht*). In its decision of July 18, 2019, the Federal Constitutional Court, however, ruled that rent control as such is indeed constitutional.

Furthermore, MietNovG contains provisions for the payment of the broker’s fee for residential letting. Since June 1, 2015, the landlord is obliged to pay the broker’s fee if the owner commissions the broker (so called orderer principle). A tenant continues to have to pay the broker’s fee, if the tenant commissions the broker to look for an apartment for the tenant.

On January 1, 2019, the Tenancy Adjustment Act (*Mietrechtsanpassungsgesetz*) entered into force, lowering the maximum increase of the annual rent from 11% to 8% of the total cost of the modernization measures. The reduction of the modernization levy is applicable to modernization projects announced from January 1, 2019. Furthermore, a cap of €3.00 per square meter within six years now applies to the allocation of modernization costs. If the rent is less than €7.00 per square meter, the rent may only increase by €2.00 within six years as a result of modernization. Additionally, a targeted modernization in order to induce tenants to terminate the lease (*Herausmodernisierung*), e.g., a modernization that has only been announced but not carried out or results in significant, objectively unnecessary burdens on the tenant, now constitutes an administrative offence which can be punished with a fine up to €100,000.

Furthermore, the Tenancy Adjustment Act tightens the provisions on the enforcement of rent control (*Mietpreisbremse*) on the landlord’s disadvantage. According to the new provisions, landlords are obliged in certain cases to provide a tenant with unsolicited information about the rent previously agreed for the housing before concluding the rental agreement. In addition, it is now easier for the tenants to complain about the rent control. While the previous situation required the tenant to make a qualified complaint (*qualifizierte Rüge*) containing the facts on which the complaint was based, a simple complaint suffices under current law.

Currently the tenant can only claim rents that are due after the complaint. However, the federal government has presented a draft bill according to which in the event of a breach of the rent control tenants shall be able to claim back any overpaid rent retroactively up to a period of 2.5 years in the future. In certain cases, retroactive effect of a complaint will remain excluded, namely if the complaint is made later than 2.5 years after the beginning of the tenancy or if the tenancy has already ended. The federal council (*Bundesrat*) has approved the German parliament’s legislative resolution of the draft bill. The amendment of the regulation on the rent control is expected to enter into force on April 1, 2020.

13.2.2 Rent Freeze (*“Mietendeckel”*)

On June 18, 2019, Berlin’s municipal government (*Berliner Senat*) announced its intention to freeze rents in Berlin for the next five years (*“Mietendeckel”*). On January 30, 2020, the Berlin parliament (*Berliner Abgeordnetenhaus*) passed the Law on Rent Limitation in Housing in Berlin (*Gesetz zur Mietenbegrenzung im Wohnungswesen in Berlin – MietenWoG Bln*). The law entered into force on February 23, 2020.

The rent freeze has retroactive effect as from June 18, 2019. Excluded from the rent freeze are publicly subsidized housing, flats for which public-sector funds have been granted for modernization and repair, and which are subject to rent control, as well as dormitories, living quarters and new builds from 2014 onwards. Key points of the draft bill are, among others:

- The rent freeze will last for five years. As of 2022, lessors may annually increase rents up to 1.3% of the current rent;
- The permissible rent limit is determined on the basis of the rents of the official Berlin rent table (“*Berliner Mietspiegel*”) of the year 2013 as adjusted to reflect the development of real wages until 2019;
- When re-letting apartments, the maximum rent amount equals the rent that was agreed upon in the previous lease agreement on June 18, 2019. If this previous rent amount is above the permissible rent limit, it shall be capped;
- In existing lease agreements, tenants may elect to reduce their rent if it equals more than 120% of the permissible rent limit. Certain allowances and deductions for the type of location shall be taken into account. The administration can take action *ex officio* against landlords in the event of violations of the permitted rent amount. These regulations shall begin to apply 9 months after the rent bill is enacted into law;
- If the rent of a modern equipped apartment is particularly low (i.e. below €5.02 per sqm), the lessor may raise the rent by a maximum of €1.00 per sqm to a maximum of €5.02 per sqm when re-letting the apartment; and
- Modernization measures may only be allocated in the amount of €1.00 per sqm. For costs of modernization exceeding this amount, up to a maximum of one additional euro per square meter of living space, the Senate will provide subsidy programs.

Violations (intentionally or negligently) of the provisions can constitute an administrative offense (*Ordnungswidrigkeit*) which can be sanctioned with fines up to €500,000.

It is expected that the Berlin rent freeze will be challenged in court immediately after its entry into force before the constitutional courts at federal and state level. However, it cannot be excluded that the law will enter into force unchanged or with its essential content. The Regional Court (*Landgericht*) of Berlin considers the so-called rent freeze to infringe German constitutional law and submitted the question to the German Constitutional Court (*Bundesverfassungsgericht*) for a decision.

13.2.3 Expropriation of Residential Real Estate

In addition, to the recent legislative changes with regard to tenancy law, a citizens’ initiative was formed in Berlin, which tries to force a legislative project in the federal state parliament by means of a petition for a referendum, according to which “Deutsche Wohnen SE and others” are to be expropriated in respect of their Berlin portfolios in accordance with Article 14 para. 3 of the German constitutional law (*Grundgesetz*, “**Constitutional Act**”).

The protection of ownership in Germany is guaranteed under the Constitutional Act. As a result of this guarantee, the owner of properties is in principle entitled to proceed with the property at his own will and to exclude others from any influence, unless the law or the rights of third parties’ conflict with this. Conversely, the guarantee of property does not per se preclude the state from withdrawing this legal position protected by expropriation. Pursuant to Article 15 sentence 1 Constitutional Act, land, natural resources and means of production may be transferred to common ownership or other forms of public service for the purpose of socialization by a law regulating the nature and extent of compensation. However, there are high legal requirements for the expropriation of the real estate.

While the citizen’s initiative in Berlin seems to be primarily directed against Deutsche Wohnen SE, the proposed draft legislation would capture all companies with profit motivation that own at least 3,000 apartments in Berlin. Thus, in addition to Deutsche Wohnen SE other real estate companies would also be affected by the proposed expropriation if the proposed bill is adopted. Although the Constitutional Act provides in principle for compensation in the event of expropriation, it would be possible that such compensation would be significantly lower than the market value of the property. The outcome of the current initiative (“Deutsche Wohnen und Co. enteignen”) in Berlin to hold a referendum to expropriate residential real estate companies is uncertain. If a petition of a referendum has come about, a referendum must rather be brought about. Only if this referendum is successful, the state of Berlin would be obliged to

implement the draft law. In this case, it could be assumed that the law on expropriation would be challenged in extensive and lengthy court proceedings. While legal experts have pointed out that there is considerable uncertainty whether the proposed legislative measure would be in line with constitutional law, it cannot be excluded that the objective pursued by the initiative will be achieved in some way in the future.

13.3 Restrictions Applicable to Subsidized Housing

13.3.1 General Overview

The German federal government, federal states (*Bundesländer*) and municipalities promote and subsidize social housing, i.e. housing available to families and individuals which do not have appropriate access to housing on the general market and hence need public support. Public subsidies on social housing can be granted in different forms, such as loans for costs of construction of housing (*Baudarlehen*), grants or loans for costs of the running expenses (*Aufwendungszuschüsse* and *Aufwendungsdarlehen*) or as loans to cover payments of current interest rates and loan repayment (annuity-aid-loan (*Annuitätshilfedarlehen*)).

13.3.2 Effects of Public Subsidies

Subsidized social housing generally triggers restrictions on the maximum amount of rent and may limit the group of possible tenants to persons in special social situations (e.g. large families, persons with disabilities) or those holding a housing eligibility certificate (*Wohnberechtigungsschein*) whose issuance mainly depends on the tenant's income. The applicable period of these restrictions (*Bindungszeitraum*) as well as the technical modalities depend on the specific kind of subsidy granted. Further restrictions, for example those relating to the sale and transfer of subsidized property, may apply in individual cases. In particular, these restrictions may result from administrative acts (*Verwaltungsakte*) or public law contracts (*öffentlich-rechtliche Verträge*), and, as the case may be, other agreements, such as loan agreements. In case of breach of obligations applicable to the individual subsidized property, the granting of the subsidy may be terminated and the relevant subsidy plus interest claimed back.

Upon the expiry of the restriction period (*Bindungszeitraum*), the properties subsidized are regulated in the same way as unsubsidized properties.

13.3.3 Applicable Laws and Regulations

As of December 31, 2019, 2.5% (by sqm) of the ADO Properties Group's residential units were subject to rent restrictions as a result of subsidies (the "**Subsidized Properties**"). In addition, some of these properties are restricted in terms of possible tenants. As of the same date, 37.0% of the rent restrictions as a result of subsidies are scheduled to expire by 2022.

The Subsidized Properties have been subsidized at different times based on various programs and legal bases. The programs include subsidies for new buildings as well as for the modernization and renovation of existing buildings. Accordingly, and depending on the time of the granting of the public subsidies, the statutory bases for the subsidies granted for the Subsidized Properties vary.

Statutory bases are mainly found in the First Housing Act (*Erstes Wohnungsbaugesetz*), which applied from 1950 to 1956, and the Second Housing Act (*II. Wohnungsbaugesetz*) of 1956, as well as the Controlled Tenancies Act (*Wohnungsbindungsgesetz*), the 1970 Rent Ordinance for New Construction (*Neubaumietenverordnung*) and the Second Calculation Ordinance (*II. Berechnungsverordnung*). These provisions are further specified at the state level. On January 1, 2002, the Housing Assistance Act (*Wohnraumförderungsgesetz*) replaced the Second Housing Act. However, decisions and measures based on the Second Housing Act remained valid, and the Second Housing Act generally continues to apply to subsidies granted before January 1, 2002 (or, in specific cases, before January 1, 2003).

With the enactment of the Housing Assistance Act (*Wohnraumförderungsgesetz*) in 2002, housing subsidies can be granted by way of loans or grants, guarantees or the provision of building ground at preferential conditions. The Housing Assistance Act (*Wohnraumförderungsgesetz*) requires such subsidies to be granted on the basis of a subsidy notification (*Förderzusage*), which can take the form of an administrative act (*Verwaltungsakt*) or a public law contract (*öffentlich-rechtlicher Vertrag*). In the subsidy notification, the authority granting the subsidies must specify the conditions under which the subsidy is granted, in particular the purpose, use and amount of the subsidy, as well as restrictions on eligible tenants and rent restrictions (*Belegungs- und Mietbindungen*) or rights of the authority to assign specific tenants

(*Belegungsrechte*). The applicable period for these restrictions (*Bindungszeitraum*) will generally also be specified in the subsidy notification. As a consequence, specific restrictions with regards to individual cases generally follow from the subsidy notification.

The legislative competence to subsidize social housing was transferred from the Federal Republic of Germany to the German federal states (*Länder*) as of September 1, 2006. Based on that change of legislative competence, some federal states have since issued new social housing laws. However, federal legislation (in particular the Housing Assistance Act (*Wohnraumförderungsgesetz*) and the Controlled Tenancies Act (*Wohnungsbindungsgesetz*)) remains applicable to the extent that it is not replaced by legislation of the particular federal state. Berlin has enacted the Law on Social Housing (*Wohnraumgesetz Berlin*) in 2011 (as last amended on July 20, 2017), which complements federal legislation, but does not substitute it.

Depending on the type of subsidy, and the legal basis on which it was granted, the restrictions on the maximum amount of rent and limitations on the group of possible tenants, as well as the applicable restriction periods, vary. For instance, as the result of subsidies granted before the entering into force of the Housing Assistance Act (*Wohnraumförderungsgesetz*) in 2002, the subsidy recipient may only be able to charge a cost-covering rent (*Kostenmiete*) during the restriction period as a matter of statutory law. The cost-covering rent is the rent necessary to cover all expenses for the property, including a return on equity capital and is adjusted over time.

After public funding has ended, general statutory provisions such as the above-mentioned capping limit which generally limits a rent increase (Section 558 paragraph 3 German Civil Code (*Bürgerliches Gesetzbuch*)) apply.

13.3.4 Forms of Public Subsidies; Subsidy Notification and Loan Agreement

Public subsidies on social housing can be granted in different forms such as loans for costs of construction of housing (*Baudarlehen*), grants for costs of the running expenses (*Aufwendungszuschüsse*) or as loans to cover payments of current interest rates (*Aufwendungsdarlehen*) and loan repayment (annuity-aid-loan (*Annuitätshilfedarlehen*)).

Generally, if a property is subsidized with a loan, the competent public authority first issues a subsidy notification. On the basis of this notification, the addressee concludes a loan agreement with either a public authority or a bank. Usually, the subsidy notification refers (either explicitly or indirectly by referring to the subsidized building) to the subsidized loan and vice versa.

The consequence of this legal connection is a strong link between the subsidy notification and the subsidized loan. Generally, the subsidized loan agreements stipulate that any right to terminate or revoke the subsidy notification automatically triggers the right to revoke the loan agreement. In other cases, depending on the provisions in the loan agreement, noncompliance with the provisions of the subsidy notification and a subsequent revocation of the subsidy notification will, for example, lead to a right of the lender to claim back or amend the loan agreement or to terminate the contract. On the other hand, non-compliance with the terms of the loan agreement may also affect the subsidy notification, which might provide that a breach of the loan agreement entitles the authority granting the subsidy to withdraw the subsidy notification.

Additionally, the subsidy notification or the subsidized loan agreement may also set out conditions for commercial loans which the borrower contracts to finance the subsidized property in addition to the subsidized loan. The breach of such conditions might entitle the public authority to withdraw the subsidy notification or the lender to terminate the subsidized loan agreement.

13.3.5 Sale and Transfer of Subsidized Properties

If a subsidized property is sold and transferred, a consent by the competent authority representing the entity granting the subsidy may be required. Furthermore, the restrictions arising from legislation and/or the subsidy notification generally also apply to replacements in title of the property. If the restrictions follow directly from legal provisions, they apply to the respective owner of the property. If they follow from the subsidy notification, the notification, while still addressed to the original recipient of the subsidy, may also apply to the new owner of the subsidized property under general principles of German administrative law. The authority may also transfer or re-issue the subsidy notification to the new owner. However, the subsidy notification or the subsidized loan agreement may include deviating provisions regarding the effects of a sale and transfer of the property on the public subsidy.

However, the sale and transfer of the property does not automatically transfer the loan agreement based on the subsidy notification to the replacement in title. Since the loan agreements are governed by civil law only, a transfer of the loan agreement can only be achieved with the agreement of the respective lender. Moreover, should an apartment be converted into a condominium and sold for personal use (*Eigennutzung*), any public subsidies will be claimed back.

13.4 Further Restrictions on the Use of Properties under Private and Public Law

13.4.1 Restrictions Arising Out of Easements in the Land Register

An easement (*Dienstbarkeit*) encumbers a particular property to the benefit of the respective owner of another property (*Grunddienstbarkeit*) or to the benefit of a third party, establishing a personal right unrelated to the ownership of a certain property (*beschränkte persönliche Dienstbarkeit*). It requires the owner of the charged property “*in rem*” to refrain from taking action (e.g. not to build on specific parts of the property) or to accept actions taken by the respective owner of the benefitted property or the benefitted third party (e.g. a right of way or a right to run cables or pipes for third parties). Furthermore, easements may result in the obligation to bear certain costs, e.g. for maintenance and repair of buildings or pipelines. The content of the respective obligation can be enforced by the owner of the benefitted property or the benefitted third party. Since registered easements are “attached” to the property itself, they can be enforced against the current and any subsequent owner of the charged property as well as against legal successors. For some of the properties in the portfolio, easements are registered in the land register.

13.4.2 Public Easements

A public easement (*Baulast*) requires the owner of the charged property to take action (for example, to create a certain number of parking spaces), refrain from taking action (for example, not to build on specific parts of the property) or to accept actions by third parties (for example, laying pipes or cables by third parties). The content of the obligation can be enforced by means of an administrative order. Such public easements have been established for a number of properties in the portfolio.

Various properties of the portfolio are also subject to unification public easements (*Vereinigungsbaukasten*). These public easements create a single “construction property” (*öffentlich-rechtliches Baugrundstück*) out of the affected properties which continue to be independent properties under civil law. Many provisions of public building law, such as the requirements of minimum distances between buildings, apply to the construction property as if the plot boundaries did not exist.

According to the Berlin building code (*Bauordnung Berlin*), public easements take effect with their registration in the public easement register. Since public easements attach to the property itself, they can be enforced against the owner of the charged property and against third parties. The public easement is also effective against legal successors (*i.e.* buyers of the charged properties) and can only be suspended by a waiver of the competent authority. The restrictions resulting from the public easement may affect the value of the charged property. The public easement lapses through written waiver of the competent authority.

Further restrictions regarding the properties in the ADO Properties Group’s portfolio may arise from urban development agreements (*städtebauliche Verträge*) or public law agreements (*öffentlich-rechtliche Verträge*) concluded with public authorities, e.g. for the development of certain urban spaces by us.

13.4.3 General Legal Requirements Under German Planning and Zoning Law

Generally, most projects and measures affecting major buildings as well as their use require a building permit (*Baugenehmigung*). This does not only apply for the erection and substantial modifications of a building, but also for a substantial change of use (*Nutzungsänderung*), even if such change of use does not come along with construction works, as well as for a demolition and removal of buildings or parts thereof.

By way of granting the building permit the competent authority states that the proposed project does comply with the applicable law, both, with regard to federal planning law (*Bauplanungsrecht*), including provisions of applicable local development plans, and the building law (*Bauordnungsrecht*) regulated in the respective State Building Acts (*Landesbauordnungen*). While the planning law rules the purpose for which a property may be used, describing in particular the kind of use and the type and size of buildings permissible, building law determines how buildings may be designed and constructed in order to safeguard safety and the prohibition of dangers.

If not challenged, building permits, generally, become final/ not appealable (*bestandskräftig*) and then safeguard the permitted building for the future, independent of any changes of the relevant planning and zoning law.

However, the competent authority may, under certain circumstances, require alterations to buildings with respect to safety (e.g. fire safety) or health risks. While mere non-compliance with prevailing regulations generally does not warrant such orders, the occurrence of imminent safety or health risks with respect to users of the building or the general public allows the competent authority to demand immediate action from the owner. Relevant risks in this regard include, *inter alia*, fire risks, traffic risks, risk of collapse and health risks from hazardous building materials, such as asbestos or water contamination.

13.4.4 Restrictions for Properties Affected by Monument Protection and/or Special Urban Planning Legislation

With regard to restrictions on use and disposal, some of the ADO Properties Group's real estate is situated in preservation areas (*Erhaltungsgebiete*) and may in the future be situated in urban redevelopment areas (*Sanierungsgebiete*). Additionally, some of the real estate is listed as protected historical monuments. The applicable statutory regime in these cases is that of special preservation statutes based on the Federal Building Code (*Baugesetzbuch*) and the Berlin legislation for the preservation of protected monuments (*Denkmalschutzgesetz Berlin*).

With respect to real estate situated in an urban redevelopment area (*Sanierungsgebiet*), we are required to obtain the permission of the municipality in particular for demolition or alteration of buildings, entering into lease agreements with a fixed term of more than one year, the sale of the property, the granting of encumbrances and the creation, amendment or suspension of an easement. In addition, at the end of the redevelopment measure the relevant municipality will levy a compensation charge (*Ausgleichsbetrag*) that is aimed to balance the increased land value in consequence of the redevelopment. The owner of the real estate is responsible for the implementation of the necessary measures defined by the public authorities. Only if the owner is unable to realize the measures quickly and expediently, the authorities may take action instead.

A substantial part of the ADO Properties Group's real estate is situated in preservation areas (*Erhaltungsgebiete*), which requires it to obtain the permission (irrespective of the requirement of a building permit) of the relevant public authority for demolition, alteration of buildings or change of use. Also, ordinances may determine that permission is required for the establishment of individual ownership for personal use (condominium and part-ownership) in respect of residential units. Milieu protection areas (*Milieuschutzgebiete*) as well as preservation areas (*Erhaltungsgebiete*) are both regulations based on the Federal Building Code (*Baugesetzbuch*). Preservation areas primarily serve the preservation of the urban characteristic of the area and can be stipulated by local development plans and other local statutes. Milieu protection areas (*Milieuschutzgebiete*) serve the preservation of the areas as well, focusing on the composition of the resident population in a specific area. In order to preserve the existing composition of the resident population, the Federal Building Code (*Baugesetzbuch*) enables the federal states to enact ordinances that prohibit the transformation of rented apartments into freehold apartments. As mentioned before, a respective ordinance (*Umwandlungsverordnung*) was passed by the Berlin government on March 3, 2015, in force until March 13, 2020. The Berlin government decided to extend the ordinance (*Umwandlungsverordnung*) for another five years, i.e. until 2025.

A small part of the buildings in the ADO Properties Group's total portfolio are listed as protected monuments, which requires that the properties are to be maintained for historical, artistic, scientific or urban development interests. The owner is under a specific obligation to maintain and repair the real estate listed as historical monuments. Any change to the building itself or its use requires specific permission. In the permit, the authority usually imposes certain requirements as to how to carry out the construction measures envisaged by the developer. These requirements might restrict the measures planned, cause additional costs and take more time and, therefore, need to be taken into consideration before deciding on a development and in the course of such development. Furthermore, if a building is located in the near surrounding of a building that is subject to monument protection, such building might also be subject to restrictions to the extent it can influence the monumental character of the protected building.

13.5 Liability for Environmental Contamination

Liability for environmental contamination and hazardous soil contamination may arise under public law and civil law provisions. Liability under public law cannot be excluded by contract. Civil law warranty

liability, by contrast, can be limited or excluded by contract. See “1.3.6 We may incur environmental liabilities, for example, from residual pollution including wartime ordnance, soil conditions, asbestos and contaminants in building materials, as well as from possible building code violations.”

13.5.1 Environmental Liability Under Public Law

13.5.1.1 Soil Contamination

Pursuant to the Federal Soil Protection Act (*Bundesbodenschutzgesetz*), the parties responsible for environmental contamination include, among others, the party that caused the contamination, its legal successor, the owner of the contaminated property and each previous owner of the contaminated property (if such former owner transferred the property after the entering into force of the Federal Soil Protection Act on March 1, 1999 and knew or should have known about the contamination), as well as the person with actual control over the property. With regard to these potentially liable parties, there is no general ranking as to which of the parties is primarily liable. It is within the discretion of the relevant local authority to decide which party shall be held liable. The party most likely to be held liable is the current owner of the contaminated site, because it is legally entitled to carry out the required remedial measures. Furthermore, the liability of the entities and persons who can be held liable by the authorities for remediation does not require a showing of negligence or intent on the part of the liable parties.

The Federal Soil Protection Act (*Bundesbodenschutzgesetz*) authorizes the local authorities to require risk inspections, investigations, remedial measures, and other necessary measures for the protection against hazardous soil changes or residual environmental contamination.

The Federal Soil Protection Act contains a statutory indemnity obligation on the part of the responsible parties that, irrespective of an official order, allocates liability among the parties in accordance with their respective contribution to the cause of the contamination. The indemnity obligation may be waived or transferred by express contractual agreement.

13.5.1.2 Groundwater Contamination

According to the Federal Water Resources Act (*Wasserhaushaltsgesetz*) and related provisions of the federal and the state environmental protection and water laws the parties responsible for any contamination of water can be held liable for the required remedial measures by the authorities.

If the contamination of water has detrimental effects on the property of third parties, the polluters may be held liable for the resulting damage. Such liability exists independently of any potential action taken by the public authorities.

13.5.1.3 Asbestos

German law imposes obligations to remediate asbestos contamination under certain circumstances. Under the asbestos guidelines (*Asbest-Richtlinien*) of the German Federal States, the standard for determining a remediation obligation is the presence of any health threat. The law distinguishes between friable asbestos, which is capable of releasing asbestos fibers into the air as it ages or breaks, and non-friable asbestos, from which asbestos fibers are usually not released and which, therefore, poses a limited risk to human health. Except in the event of structural alterations, there is generally no obligation to remove non-friable asbestos under the asbestos guidelines.

Friable asbestos is generally found in construction materials that provide fire safety, noise abatement, moisture protection, heat insulation and thermal protection. The asbestos guidelines set out criteria used in assessing the urgency of remedying contamination, ranging from immediate action (including demolition, removal or coating of the asbestos) to risk assessments at intervals of no more than five years. The removal and disposal of asbestos-containing materials requires specific safety measures and may trigger elevated costs.

In the case of asbestos contamination, a tenant may also assert a right of rent reduction or, in extreme circumstances, termination for good cause. German courts have held that a landlord may be presumed to be in breach of its statutory obligations if the existence of a health threat cannot be excluded. Accordingly, the courts have granted the right to rent reduction even in cases where the asbestos guidelines do not require immediate remediation. Tenants may also claim compensatory damages if the defect was present at the time the contract was concluded, and they may claim compensation for personal suffering (*Schmerzensgeld*). Finally, tenants also have the right, subject to certain conditions, to remedy the defect on their own and require that their reasonable expenses be reimbursed.

13.5.1.4 Pentachlorophenol (PCP), Lindane, Dichlorodiphenyltrichloroethane (DDT), and Polychlorinated Biphenyl (PCB)

Due to negative effects on human health, the use of PCP is prohibited. However, PCP may still exist in buildings, such as in wood preservatives, synthetic materials, insulations, or joints as it was used as a fungicide against mold. DDT and Lindane are synthetic pesticides which were also used in wood preservatives, and which are suspected to have serious negative effects on human health. Their use is prohibited. The use of PCB is generally prohibited. However, it has been widely used as a softener in synthetic materials as well as a fire-retardant component in the past and may also negatively affect human health.

The existence of PCP, Lindane, DDT and PCB in buildings may, under certain circumstances, entitle the tenant to reduce the rent or to claim damages. Moreover, the remediation of rooms or buildings may be required where PCP, Lindane, DDT and PCB concentrations exceed certain thresholds.

In particular with regard to PCB, the owner of a building may be required to remedy PCB sources through the elimination or sealing of construction elements that contain PCB. Remediation measures may become necessary if the PCB concentration in rooms which are designed for human use exceeds 300 nanograms per 1 cubic meter of air.

With regard to PCP, further investigations are required if with regard to rooms permanently used for residential purposes the PCP concentration in dust and wood exceeds defined thresholds. If further investigations then show that the PCP concentration exceeds 0.1 microgram per 1 cubic meter of air, further medical tests are required with regard to the residents. Depending on defined thresholds for a maximum PCP concentration a remediation may then be necessary.

13.5.1.5 War Ordnance

In Germany, the federal states are responsible for the clearance of ordnance and other remnants of war. In most states, public services are responsible for the clearance of war ordnance, while other states commission private specialized firms. All states assume, and dispose of, unexploded ordnance themselves. However, the extent to which a private investor or an owner of contaminated real estate incurs liabilities in connection with the clearing of remnants of war or ordnance, including preparatory measures like the disposal of plants and layers of soil or preventive search measures, where the initial suspicions prove unfounded, varies from state to state.

13.5.2 Environmental Liability Under Civil Law

Civil liability for environmental contamination can arise under contractual warranty obligations and under statutory obligations. Warranty claims can generally be waived or limited by contractual provisions. The statutory claims can oblige the party causing contamination of the soil or water to pay damages or to remedy the contamination and its consequences. We could be subject to such liability for damages or remediation if a property in our portfolio has detrimental effects on the property of third parties. This civil liability exists independent of any official action taken in accordance with the provisions of the Federal Soil Protection Act.

13.5.3 Restitution rights and transfer approval

Under the Law on the Settlement of Open Property Issues (*Gesetz zur Regelung offener Vermögensfragen*), former owners of properties who were dispossessed either by the national socialist government between January 30, 1933 and May 8, 1945 or by the former German Democratic Republic (*Deutsche Demokratische Republik*) can demand the restitution of such properties. If return of the properties is impossible due to a valid sale to a third party, the former owners have compensation claims under the German Restitution Act (*Entschädigungsgesetz*). The German Asset Allocation Law (*Vermögenszuordnungsgesetz*) provides for similar regulations.

With regard to properties located in the former German Democratic Republic (*Deutsche Demokratische Republik*), the German Real Estate Transfer Ordinance (*Grundstücksverkehrsordnung*) generally requires owners of properties to obtain approval from the competent authorities prior to disposing of any properties, unless such approval was previously granted for a transfer of the property completed after September 28, 1990. If any restitution claims have been filed for a property, such approval will not be granted until the claim has been settled.

14. SHAREHOLDER STRUCTURE

As of the date of this Prospectus, the Company's share capital amounts to €89,088.56, divided into 71,845,613 ordinary shares in dematerialized form with no nominal value. To the knowledge of the Company and based on the notifications received by the Company as of the date of this Prospectus, the following shareholders held an interest (direct or indirect) of at least 5% in the Company's shares as of the date of this Prospectus. The percentage values shown in the table below are the shares of voting rights last notified to the Company in relation to the Company's share capital as of the date of the respective notification. It should be noted that the number and share of voting rights last notified may have changed since the respective notification was submitted to the Company given that there is no obligation to notify unless the voting rights reached, exceeded or fell below notifiable thresholds:

<u>Shareholder</u>	<u>Share of Voting Rights (in %)⁽¹⁾</u>
ADLER Real Estate Aktiengesellschaft ⁽²⁾	20.45
Klaus Wecken ⁽³⁾	5.74
Fairwater Multi-Strategy Investment ICAV ⁽⁴⁾	5.52
Fortitudo Capital SPC ⁽⁵⁾	5.31
Free float	62.98
Total	100.00

- (1) The percentage of voting rights was calculated on the basis of the Company's registered share capital as of the date of this Prospectus.
- (2) Indirect shareholding of ADLER Real Estate Aktiengesellschaft, as notified for April 1, 2020. ADLER Real Estate Aktiengesellschaft is, as disclosed in its group notification, the controlling shareholder of ADO Group Ltd., which, in turn, directly holds the shares in the Company.
- (3) Direct and indirect shareholding of Klaus Wecken and Wecken & Cie., as notified for March 31, 2020. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding Mr. Klaus Wecken's and Wecken & Cie.'s shares in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Mr. Klaus Wecken and Wecken & Cie. from the issue of the shares until the settlement of the voluntary public takeover offer.
- (4) Direct shareholding of Fairwater Multi-Strategy Investment ICAV as notified for March 31, 2020, which is managed by Mirabella Malta Limited and acting as AIFM and who holds the shares in and is acting in respect of the sub-fund Fairwater Real Estate Opportunities Fund. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding the shares that Fairwater Multi-Strategy Investment ICAV, which is managed by the AIFM Mirabella Malta Limited, holds in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Fortitudo Capital SPC from the issue of the shares until the settlement of the voluntary public takeover offer.
- (5) Direct and indirect shareholding of Fortitudo Capital SPC as notified for March 31, 2020, who, on behalf and for the account of Fortitudo Real Estate Opportunities Segregated Portfolio, holds the shares and has appointed Mezzanine IX Investors S.A. and Pruss GmbH, a wholly-owned subsidiary of Mezzanine IX Investors S.A., respectively, to exercise voting rights over the shares and these entities can vote on their own discretion. Pursuant to the shareholding notification, BNP Paribas Securities Services S.C.A., Frankfurt branch, is holding Fortitudo Capital SPC's shares in the Company in its role as settlement agent only, in the name, on behalf and for the account of and acting as proxy of Fortitudo Capital SPC from the issue of the shares until the settlement of the voluntary public takeover offer.

Subject to any limitations imposed by Luxembourg laws, each share in the Company confers one vote at the General Meeting. The Company is neither directly nor indirectly owned nor controlled by any other company or person. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change of control in the Company.

15. GENERAL INFORMATION ON THE COMPANY AND THE ADO PROPERTIES GROUP

15.1 Formation and Incorporation, History and Development, Commercial Name

On November 13, 2007, the Company was incorporated as a private limited liability company in Cyprus with the Cyprus Department of Registrar of Companies and Official Receiver under the legal name “Swallowbird Trading & Investments Limited” and with its registered office at 48 Inomenon Ethnon, Guricon House, Ground floor, Flat/office D, 6042, Larnaca, Cyprus, registered number HE212131.

The Company moved its registered office and central administration to Luxembourg by decision of the General Meeting dated June 8, 2015 and adopted the form of a private limited liability company under Luxembourg law (*société à responsabilité limitée*) and changed its legal name to “ADO Properties S.à r.l.” The Company was subsequently converted to a public limited liability company under Luxembourg law (*société anonyme*) by decision of the General Meeting dated June 16, 2015 and changed its legal name to “ADO Properties S.A.”.

On June 11, 2015, the Company was registered with the Luxembourg Register of Commerce and Companies (*Registre de Commerce et des Sociétés, Luxembourg*) under registration number B197554. Deletion of the Company’s registration in Cyprus was completed on June 8, 2015.

On July 23, 2015, the Company completed its initial public offering and all of its shares are traded on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and on the sub-segment thereof with additional post-admission obligations (*Prime Standard*).

The Company’s commercial name is “ADO Properties”.

15.2 Legal and Commercial Name, Address and LEI

The legal name of the Company is ADO Properties S.A. and the Company operates under its commercial name ADO Properties.

The Company, with Legal Entity Identifier (LEI) 391200OYYFJ3DWAMEC69, has its business address at 1B Heienhaff, L-1736 Senningerberg, Luxembourg, and is registered in the Luxembourg Register of Commerce and Companies (*Registre de Commerce et des Sociétés, Luxembourg*) under number B 197554.

The Company is a public limited liability company incorporated and operating under Luxembourg law (*société anonyme*).

15.3 Corporate Purpose, Registered Office, Fiscal Year and Duration

As a Luxembourg public limited liability company (*société anonyme*), the Company is governed by the laws of the Grand Duchy of Luxembourg and in particular the Luxembourg Companies Law.

Pursuant to Article 4 of the Articles of Association, the Company’s corporate purpose is as follows:

- The Company’s corporate purpose is the long-term creation of value by investment in and development of real estate properties and immovable property as well as the purchase, rental and disposal of such properties. It may also carry out real estate management for its own purposes and any other activity whatsoever in the real estate sector.
- The Company may realize that corporate purpose either directly or through the creation of companies, the acquisition, holding or acquisition of interests in any companies or partnerships, membership in any associations, consortia and joint ventures.
- The Company may also acquire by purchase, subscription or in any other manner as well as transfer by sale, exchange or in any other manner shares, bonds, debt securities, warrants and other securities and instruments of any kind.
- The Company may borrow in any form including by way of public offer of securities. It may issue, shares, notes, bonds and debentures and any kind of debt and/or equity securities. The Company may lend funds including the proceeds of any borrowings and/or issuances of debt securities to affiliated and group companies. It may also give guarantees and grant securities in favor of third parties to secure its obligations or the obligations of its affiliated and group companies. The Company may further pledge, transfer, encumber or otherwise create security over all or over some of its assets.

- The Company may engage independent attorneys, accountants, consultants, advisors, appraisers, and such other persons as the Company may deem necessary or advisable.
- The Company may employ any techniques and instruments relating to its investments for the purpose of their efficient management, including techniques and instruments designed to protect the Company against credit, currency exchange, interest rate risks and other risks.
- The Company may carry out any commercial and/or financial transactions with respect to the direct or indirect investments in movable and immovable property, including real estate property and including but not limited to acquiring, owning, hiring, letting, leasing, renting, dividing, draining, reclaiming, developing, improving, cultivating, building on, selling or otherwise alienating, mortgaging, pledging or otherwise encumbering movable or immovable property, and it may otherwise deal in the assets or businesses underlying the Company's direct or indirect investments and engage in all such activities and transactions as the Company may deem necessary, advisable or incidental to the carrying out of any of the foregoing objects and purposes.
- The above description is to be understood in the broadest senses and the above enumeration is not limiting.

The Company's registered office is at 1B Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg (telephone: +352 278 456 710). The Company's website is www.ado.properties. The information contained on this website does not constitute a part of this Prospectus.

The Company's fiscal year begins on January 1 of each year and terminates on December 31 of the same year.

The Company is established for an unlimited period of time.

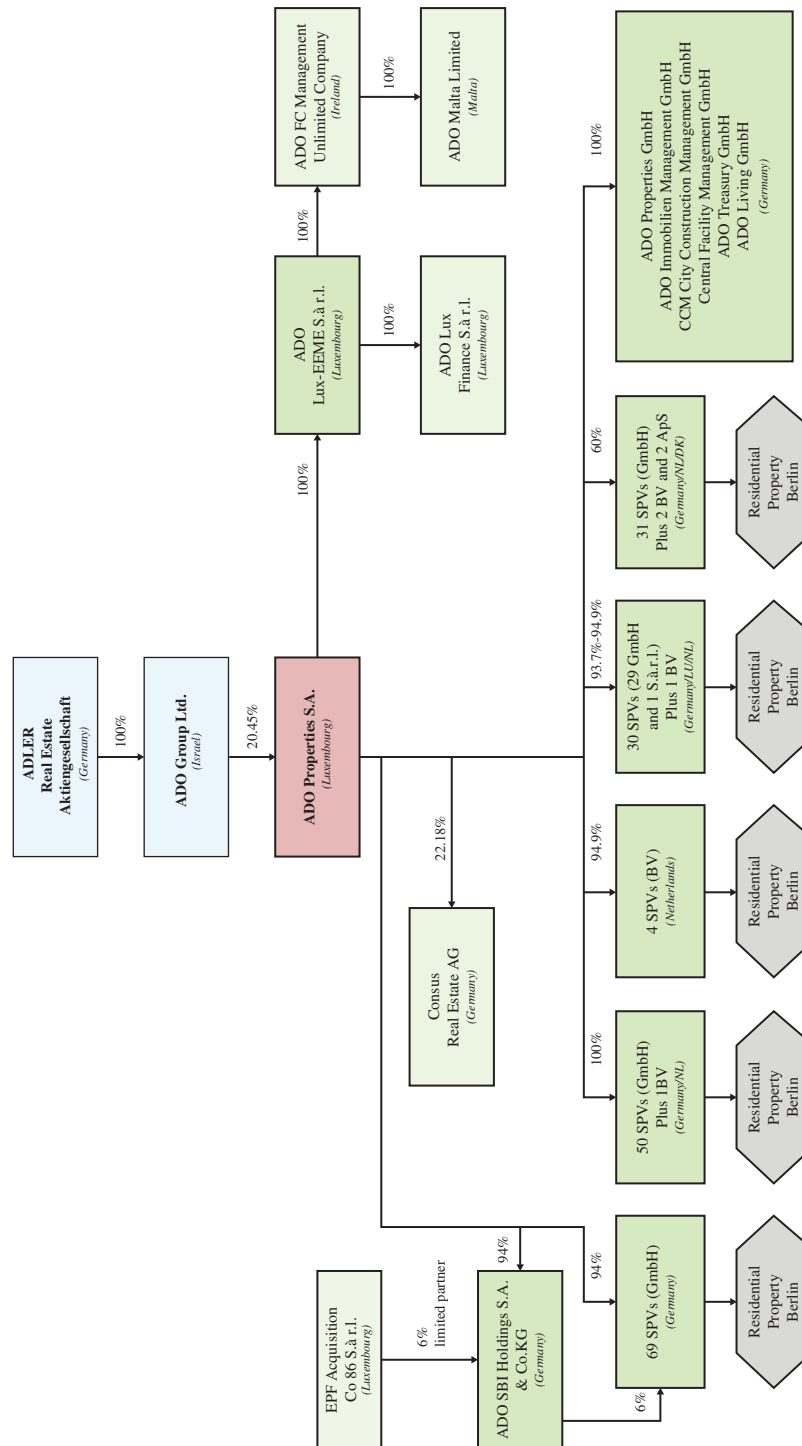
15.4 Group Structure

The Company is the holding company of the ADO Properties Group. The Company's business is primarily conducted by the relevant operating subsidiaries. The ADO Properties Group's consolidated financial statements include all material subsidiaries whose financial and business policy can be controlled, either directly or indirectly, by the Company and the equity interests of the material subsidiaries whose financial and business policy can be influenced by the ADO Properties Group to a significant extent. The group of consolidated companies comprises 197 subsidiaries as of December 31, 2019. As of the date of this Prospectus, the group of consolidated companies comprises 199 subsidiaries.

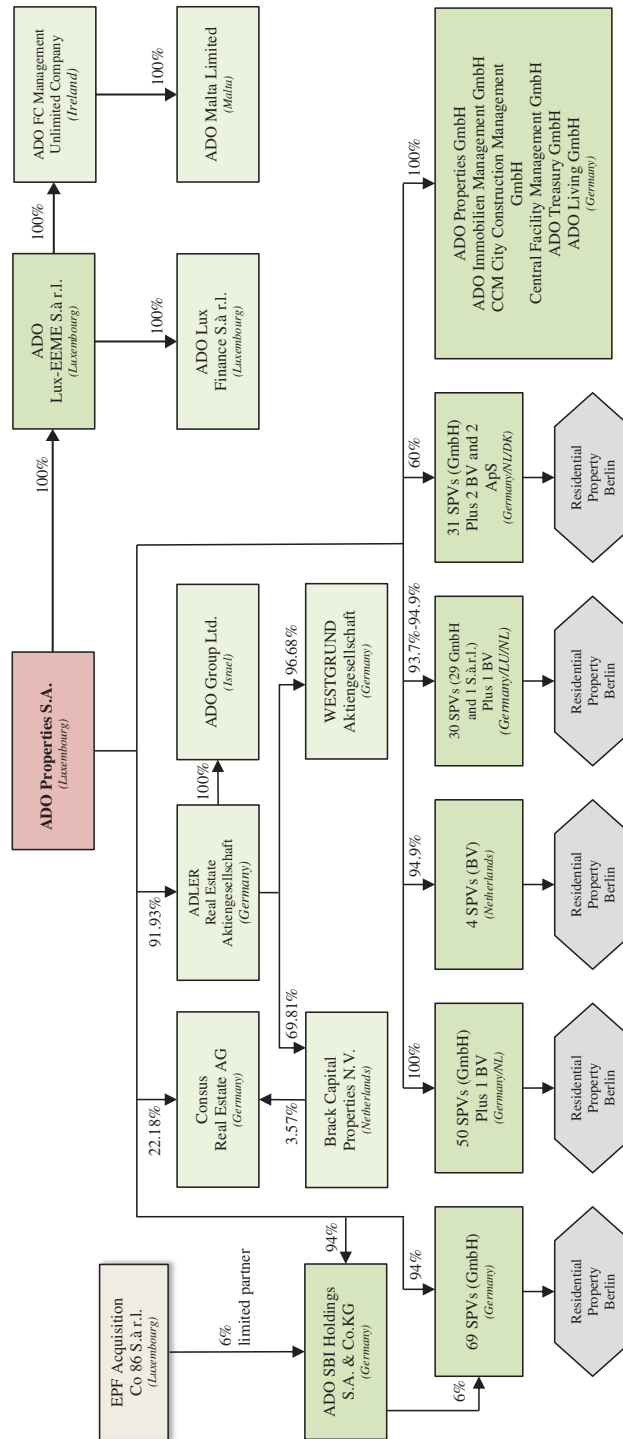
Furthermore, as of the date of this Prospectus, the ADO Properties Group is consolidated on the level of ADLER Real Estate and forms a part of the ADLER Group. After the Completion, the ADLER Group will be consolidated on the level of the Company and will form a part of the ADO Properties Group.

The Company has concentrated certain group managerial and administrative functions, such as controlling, legal, tax, treasury, public relations, investor relations and human resources, at the level of the Company. In doing so, the Company has entered into service agreements with the majority of the ADO Properties Group companies.

The following organization chart sets forth an overview (in simplified form) of the Company's significant subsidiaries as of the date of this Prospectus taking into account the relevant successive interests (*durchgerechneter Beteiligungsanteil*). The ADO Properties Group's limited partnerships (*Kommanditgesellschaften*) are held through third-party companies. The shareholdings presented below are rounded to whole numbers (unless otherwise stated).



The following organization chart sets forth an overview (in simplified form) of the Company's significant subsidiaries after the Completion taking into account the relevant successive interests (*durchgerechneter Beteiligungsanteil*). The ADO Properties Group's limited partnerships (*Kommanditgesellschaften*) are held through third-party companies. The shareholdings presented below are rounded to whole numbers (unless otherwise stated).



15.5 The Company's Subsidiaries

The Company is the holding company of the ADO Properties Group. The following table shows the Company's subsidiaries held directly or indirectly as of December 31, 2019, except as otherwise indicated, with a book value representing at least:

- (i) 5% of the fair value of our total real estate portfolio as of December 31, 2019;
- (ii) 5% of our consolidated rental income for the period January 1, 2018-December 31, 2019; or
- (iii) which are significant for our business.

The figures are taken from the Company's internal accounting records. The Company's equity holdings correspond to its voting rights in each of the Company's significant subsidiaries. The shareholdings below are rounded to two decimal points.

Company name	Country of incorporation	Share of equity and voting rights (in%)			
		As of December 31,			
		2019	2018	2017	2016
ADO Properties GmbH	Germany	100.00	100.00	100.00	100.00
ADO Immobilien Management GmbH	Germany	100.00	100.00	100.00	100.00
Central Facility Management GmbH	Germany	100.00	100.00	100.00	100.00
CCM City Construction Management GmbH	Germany	100.00	100.00	100.00	100.00
ADO FC Management Unlimited Company	Ireland	100.00	100.00	100.00	100.00
ADO Lux-EEME S.à r.l.	Luxembourg	100.00	—	—	—
ADO Malta Limited	Malta	100.00	—	—	—
ADO Sonnensiedlung S.à r.l.	Luxembourg	94.90	94.90	94.90	94.90
RVB Angerburgerallee B.V.	Netherlands	94.00	94.00	—	—

The only material tangible, fixed assets that the Company owns (including leased properties) are residential properties, all of which are pledged against mortgage bank loans.

15.6 Statutory Auditor

The Company's statutory auditor (*réviseur d'entreprises agréé*) is KPMG Luxembourg, *Société cooperative* ("KPMG"), with registered office at 39, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, and registered with the Luxembourg financial sector supervisory authority (*Commission de Surveillance du Secteur Financier*) ("CSSF") as an approved audit firm (*cabinet de révision agréé*) and with the Luxembourg Register of Commerce and Companies (*Registre de Commerce et des Sociétés, Luxembourg*) under number B149133 and is a member of the Luxembourg Institute of Company Auditors (*Institut des Réviseurs d'Entreprises, Luxembourg*). KPMG Luxembourg has audited the Company's consolidated financial statements for the fiscal years ended December 31, 2019, 2018 and 2017, prepared in accordance with IFRS, and issued an unqualified auditor's report in each case.

15.7 Luxembourg Paying Agent and LuxCSD Principal Agent

The Luxembourg paying agent and LuxCSD Principal Agent for the Company's shares is BNP Paribas Securities Services, Luxembourg branch. The mailing and registered address of BNP Paribas Securities Services, Luxembourg branch, is 60, avenue J.F. Kennedy, L-2085 Luxembourg, Luxembourg. All shares of the Company are registered in a single securities account at the sole settlement agent LuxCSD. LuxCSD enables the deposit of issuances and the centralized settlement and deposit of securities of all kinds, including shares in dematerialized form.

16. DESCRIPTION OF THE SHARE CAPITAL OF ADO PROPERTIES S.A. AND APPLICABLE REGULATIONS

16.1 Current Share Capital; Shares

As of the date of this Prospectus, the Company's share capital amounts to €89,088.56 divided into 71,845,613 ordinary shares in dematerialized form with no nominal value. The share capital has been fully paid up. The New Shares have been issued pursuant to Luxembourg law.

All dematerialized shares are registered with a single settlement organization in Luxembourg, LuxCSD. The New Shares shall be issued in dematerialized form only and shall be subject to the Luxembourg law of April 6, 2013 on dematerialized securities.

16.2 Development of the Share Capital

The Company's share capital has developed as follows within the period covered by the historical financial information:

On January 1, 2017, the Company's share capital amounted to €54,684 divided into 44,100,000 ordinary shares in dematerialized form with no nominal value.

By resolution of the Board of Directors dated November 13, 2018 and a confirmation by a delegate of the Board of Directors on December 14, 2018, the Company's share capital was increased, by incorporation of reserves in an amount of €38.14 from €54,684 to €54,722.14 represented by 44,130,757 ordinary shares in dematerialized form with no nominal value (for the purposes of issuing new shares under a long term incentive plan).

By resolution of the Board of Directors dated June 13, 2019 and a confirmation by two delegates of the Board of Directors on July 5, 2019, the Company's share capital was increased, by incorporation of reserves in an amount of €79.17 from €54,722.14 to €54,801.31 represented by 44,194,607 ordinary shares in dematerialized form with no nominal value (for the purposes of issuing new shares under a long term incentive plan).

By resolutions of the Board of Directors dated January 16, 2020 and March 30, 2020 and by the resolution of the delegate of the Board of Directors dated March 31, 2020, the Company's share capital was increased, by contribution in kind in an amount of €34,287.25, from €54,801.31 to €89,088.56, represented by 71,845,613 ordinary shares in dematerialized form with no nominal value.

16.3 Authorized Capital

As of the date of this Prospectus, the Company's authorized capital amounts to €750,000,000, of which €89,088.56 has been issued and, accordingly, the remaining authorization under the Authorized Capital would allow to increase the share capital by €749,910,911.44 as of the same date.

16.4 Issuance of New Shares

The General Meeting or the Board of Directors (within the limits as described below) may from time to time issue shares up to the amount of the authorized capital. Shares in dematerialized form shall be issued in accordance with Chapter II, Section 1 of the Luxembourg law of April 6, 2013 on dematerialized securities.

Pursuant to Article 5 of the Articles of Association, authorization is given to the Board of Directors (or delegates duly appointed by the Board of Directors) to issue shares from time to time within the limits of the Authorized Capital at such times and on such terms and conditions, including the issue price, as the Board of Directors or its delegates may in its or their discretion resolve in its or their own discretion. The Board of Directors is authorized to grant existing shares or issue new shares to the following persons free of charge: employees or a certain category of employees of the Company; employees of subsidiaries in which the Company directly or indirectly holds at least 10% of share capital or voting rights; employees of companies of which at least 50% of share capital or voting rights are held directly or indirectly by a company that itself holds directly or indirectly at least 50% of the share capital of the Company; officers of the Company or of any of the companies mentioned above or certain categories of such officers. The Board of Directors is authorized to determine the conditions and modalities of any grant or issue of shares free of charge (including any required minimum holding period).

Pursuant to Article 5 of the Articles of Association, subject to applicable laws and the Articles of Association, the shareholders have statutory preferential subscription rights in case of an issuance of new shares in return for contributions in cash. Preferential subscription rights are granted proportional to the fraction of the capital represented by the shares held by each shareholder. The Board of Directors is authorized to suppress, waive or limit the shareholders' preferential subscription rights in any decision regarding a capital increase to the extent the Board of Directors deems such suppression, waiver or limitation advisable for any issuance or issuances of shares within the scope of the Company's authorized unissued capital. In addition, the General Meeting may take a decision to limit or exclude the preferential subscription rights of shareholders in accordance with the relevant provisions of law.

If the Company decides to issue new shares in the future and does not exclude the preferential subscription rights of existing shareholders, the Company will publish the decision by placing an announcement in the *Recueil électronique des sociétés et associations*, in a newspaper published in Luxembourg and on the website of the Company. The announcement will specify the period in which the preferential subscription rights may be exercised. Such period may not be shorter than 14 days from the date of publication in the *Recueil électronique des sociétés et associations*. Luxembourg law does not provide for any procedure for determining the preferential subscription right exercise date and such date is in practice defined in the relevant resolution on the issue of shares. The announcement will also specify the details regarding the procedure for exercise of the preferential subscription rights. The preferential subscription right is exercised by placing an order with the Company and paying for the newly issued shares. Under Luxembourg law, preferential subscription rights are transferable and tradable property rights.

The Articles of Association prohibit the Company from issuing fractional shares. The Board of Directors is authorized at its discretion to provide for the payment of cash in lieu of any fraction of a share.

16.5 Share Premium

In addition to the issued capital, the Company may have a premium account into which any premium paid on any share is transferred. The amount standing to the credit of the premium account may be used by the Board of Directors (i) to pay for any of the Company's shares, which the Company may repurchase from its shareholders, (ii) to offset any net realized losses, (iii) to make distributions to the shareholders in the form of a dividend or (iv) to allocate funds to the legal reserve.

16.6 Non-Share Capital Contribution

The Company may, without limitation, accept equity or other contributions from existing shareholders without issuing any shares or other securities in consideration for the contribution and may credit the contributions to one or more accounts. Decisions as to the use of such accounts are to be taken by the Board of Directors subject to compliance with the Articles of Association and applicable law. For the avoidance of doubt, any such decision does not need to allocate to the contributor any amount contributed to such accounts.

16.7 Purchase of Own Shares

The Company and its subsidiaries currently do not hold any own shares, nor does a third party on behalf of the Company or its subsidiaries. After the Completion, ADLER Real Estate will become a part of the ADO Properties Group. ADLER Real Estate is the sole shareholder of ADO Group Ltd., which holds 20.45% of the Company's shares. Therefore, after the Completion, the Company will indirectly hold 20.45% of its own shares.

According to Article 5 of the Articles of Association, the Company may, to the extent and under the terms permitted by law, repurchase its own shares. Without prejudice to the principle of equal treatment of shareholders in the same situation and the provisions of the Luxembourg law of December 23, 2016 on market abuse, pursuant to Article 430-15 of the Luxembourg Companies Law, the Company may acquire its own shares either itself or through a person acting in its own name but on the Company's behalf subject, *inter alia*, to the following statutory conditions:

- (1) the authorization to acquire shares is to be given by a general shareholders' meeting, which determines the terms and conditions of the proposed acquisition and in particular the maximum number of shares to be acquired, the duration of the period for which the authorization is given and which may not exceed five years and, in the case of acquisition for value, the maximum and minimum consideration;

- (2) the acquisitions must not have the effect of reducing the net assets of the Company below the aggregate of the subscribed capital and the reserves, which may not be distributed pursuant to Article 461-2, paragraphs 1 and 2 of the Luxembourg Companies Law or the Articles of Association; and
- (3) only fully paid-up shares may be included in the transaction.

At the time each authorized acquisition is carried out, the Board of Directors must ensure that the statutory conditions mentioned in the preceding paragraph are complied with.

Where the acquisition of the Company's own shares is necessary in order to prevent serious and imminent harm to the Company, no authorization will be required from the General Meeting. In such a case, the next General Meeting must be informed by the Board of Directors of the reasons for and the purpose of the acquisitions made, the number and nominal values, or in the absence thereof, the accounting par value of the shares acquired, the proportion of the subscribed capital which they represent and the consideration paid for them.

No authorization will likewise be required from the General Meeting in the case of shares acquired either by the Company itself or by a person acting in his/her own name but on behalf of the Company for the distribution thereof to the staff of the Company or to the staff of a company with which it is in a control relationship (within the meaning of Article 1711-1 of the Luxembourg Companies Law). The distribution of any such shares must take place within twelve months from the date of their acquisition.

Pursuant to Article 430-16 of the Luxembourg Companies Law, none of the abovementioned statutory conditions, except for the condition described under (2) above, apply to the acquisition of:

- (a) shares acquired pursuant to a decision to reduce the capital or in connection with the issue of redeemable shares;
- (b) shares acquired as a result of a universal transfer of assets;
- (c) fully paid-up shares acquired free of charge or acquired by banks and other financial institutions pursuant to a purchase commission contract;
- (d) shares acquired because of a legal obligation or a court order for the protection of minority shareholders, in particular, in the event of a merger, the division of the Company, a change in the Company's object or form, the transfer abroad of its registered office or the introduction of restrictions on the transfer of shares;
- (e) shares acquired from a shareholder in the event of failure to pay them up; and
- (f) fully paid-up shares acquired pursuant to an allotment by court order for the payment of a debt owed to the Company by the owner of the shares;
- (g) fully paid-up shares issued by an investment company with fixed capital and acquired at the investor's request by that company or by a person acting in his/her own name, but on behalf of that company.

Shares acquired in the cases indicated under (b) to (f) must, however, be disposed of within a maximum period of three years after their acquisition, unless the nominal value, or, in the absence of nominal value, the accounting par value of the shares acquired, including shares which the Company may have acquired through a person acting in its own name, but on behalf of the Company, does not exceed ten percent of the subscribed capital.

If the shares so acquired are not disposed of within the period prescribed, they must be cancelled. The subscribed capital may be reduced by a corresponding amount. Such a reduction is compulsory where the acquisition of shares and their subsequent cancellation results in the Company's net assets having fallen below the amount of the subscribed capital and the reserves which may not be distributed under applicable laws or the Articles of Association.

Any shares acquired in contravention of the above conditions (a) to (f) must be disposed of within a period of one year after the acquisition. If they have not been disposed of within that period, they must be cancelled.

Any shares acquired in contravention of Articles 430-15 and 430-16 of the Luxembourg Companies Law, must be disposed of within a period of one year after the acquisition. If they have not been disposed of within that period, they must be cancelled and the preceding paragraph regarding (compulsory) capital reduction and cancellation shall also apply.

In those cases where the acquisition of its own shares by the Company is permitted in accordance with the foregoing, the holding of such shares is subject to the following conditions: (i) among the rights attaching to the shares, the voting rights in respect of the Company's own shares are suspended; and (ii) if the said shares are included among the assets shown in the balance sheet, a non-distributable reserve of the same amount is to be created among the liabilities.

Where the Company has acquired own shares in accordance with the abovementioned, the annual report of the Board of Directors must indicate: (i) the reasons for acquisitions made during the fiscal year, (ii) the number and, if applicable, the nominal value of the shares acquired and disposed of during the fiscal year and the proportion of the subscribed capital which they represent, (iii) in the case of acquisition or disposal for value, the consideration for the shares and (iv) the number and, if applicable, the nominal value of all the shares acquired and held in the Company's portfolio as well as the proportion of the subscribed capital which they represent.

16.8 Share-Based Remuneration and Stock Plans

The Company had entered into service agreements with the previous members of the Board of Directors and the Senior Management which contain long-term and short-term incentive payments. The respective service agreements with each previous member of the Board of Directors and the Senior Management have been terminated with effect as of the end of June 2020. The current member of the Senior Management also has a service agreement with long-term incentive payment and short-term incentive payment. For more information, see "17.4.3 Short-Term Incentive Program (STI)" and "17.4.4 Long-Term Incentive Program (LTI)".

16.9 Ownership and Transfer of Shares

The dematerialized shares will only be represented, and the ownership of such shares will only be established by a record in the name of the shareholder in a securities account. LuxCSD may issue or request the Company to issue certificates relating to dematerialized shares for the purpose of international circulation of securities.

The dematerialized shares issued by the Company shall be recorded at all times in the single securities issuance account of LuxCSD, which shall indicate the identification elements of these dematerialized shares, the quantity issued and any subsequent changes.

To allow the account keepers or, where applicable, the foreign account keepers to exercise their associational rights and their rights of action against the Company or third parties, they shall issue certificates to their account holders in exchange for written certification by the latter that they hold the securities concerned for own account or act pursuant to a right granted by the holder of the securities. Reference shall be made of it on the certificate.

The Company's shares will be freely transferable in accordance with the legal requirements for dematerialized shares. The Board of Directors may, however, impose transfer restrictions for the Company's shares that are registered, listed, quoted, dealt in or have been placed in certain jurisdictions in compliance with the requirements applicable therein.

The transfer of a dematerialized share occurs by book entry (*virement de compte à compte*).

16.10 Variation of Rights; Amendments of the Articles of Association

All or any of the rights attached to the shares may from time to time (whether or not the Company is being wound up) be varied by decision of the extraordinary General Meeting in the manner required for the amendment of the Articles of Association. Any provisions of the Articles of Association may be amended by resolution of the shareholders at an extraordinary General Meeting.

16.11 Changes in Share Capital

The Company may by resolution adopted at a General Meeting in the manner required for amendment of the Articles of Association, increase, reduce, consolidate or sub-divide its shares or any of them. In addition, the Board of Directors is authorized to issue shares up to the total amount of the authorized unissued share capital (see "16.4 Issuance of New Shares" above).

The Company may proceed to repurchase its own shares within the limits laid down by law (see “16.7 Purchase of Own Shares”).

16.12 Dividends

There are no fixed dates on which a shareholder is entitled to receive a dividend. The Company may declare and pay dividends in accordance with Luxembourg Companies Law. Dividends may be declared by the General Meeting upon approval of the annual accounts for the immediately preceding financial year.

The Articles of Association also provide that the Board of Directors has the power to decide on and distribute interim dividends (including by way of staggered payments) by way of a cash dividend or by way of a dividend in kind, in accordance with the statutory provisions applicable to commercial companies.

Dividends may be declared or paid in cash as well as in kind including by way of issuance of shares.

The amount of a dividend declared by the General Meeting upon approval of the annual accounts may not exceed the amount of the profits at the end of the last financial year plus any profits carried forward and any amounts drawn from reserves which are available for that purpose, minus any losses carried forward and sums to be placed in reserve in accordance with the law or the Articles of Association. Interim dividends may be declared and paid by the Board of Directors out of available net profits, premium or other available reserves subject to compliance with conditions required by the Luxembourg Companies Law subject to such dividend not exceeding the amount available for distribution which shall not exceed total profits made since the end of the last financial year for which the annual accounts have been approved, plus any profits carried forward and sums drawn from reserves available for this purpose, less losses carried forward and any sums to be placed to reserve pursuant to the requirements of the law or the Articles of Association.

No dividend or other moneys payable on or in respect of an ordinary share shall bear interest required to be paid by the Company. If the Company declares to pay dividends to its shareholders, each shareholder is entitled to receive a dividend in proportion to the amount of capital held by it in the Company. Any dividend unclaimed after a period of five years from the date on which such dividend was declared or became due for payment shall be forfeited and shall revert to the Company. There are no specific dividend restrictions or procedures for non-resident shareholders.

The Company shall make dividend payments only into the hands of LuxCSD and that payment shall release the Company from any and all obligations in respect of such payment.

16.13 Voting Rights, General Meeting

Subject to restrictions under applicable laws, each of the Company’s shares entitles its holder to attend all General Meetings, either in person or by proxy, to address the General Meeting and to exercise voting rights and each of the Company’s shares entitles the holder to one vote at a General Meeting. There is no minimum shareholding required to be able to attend or vote at a General Meeting.

As long as the Company’s shares are admitted to trading on a regulated market within a member state of the European Union, general meetings of the shareholders will be convened in accordance with the provisions of the Luxembourg law of May 24, 2011 on the exercise of certain rights of shareholders in general meetings of the shareholders of listed companies and implementing Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies, as amended by the Luxembourg law of August 1, 2019 to implement Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement (the “**Luxembourg Shareholder Rights Law**”) and the Articles of Association.

To vote at meetings, shareholders entitled to vote must duly evidence their shareholdings as of the record date determined in accordance with the Luxembourg Shareholder Rights Law. A shareholder may act at any General Meeting by appointing another person (who need not be a shareholder) as his/her/its proxy in accordance with the provisions of the Luxembourg Shareholder Rights Law.

In accordance with Luxembourg Shareholder Rights Law, the convening notice is to be published at least thirty days before the day of the meeting in the official gazette of the Grand Duchy of Luxembourg (*Recueil électronique des sociétés et associations*), and a Luxembourg newspaper and in media which may reasonably be relied upon for the effective dissemination of information to the public throughout the European Economic Area, and which is accessible rapidly and on a non-discriminatory basis. If a General

Meeting is adjourned for lack of quorum, provided that the convening requirements of the Luxembourg Shareholder Rights Law have been complied with and no new item has been added to the agenda, the 30-day period is reduced to a 17-day period.

These convening notices must, *inter alia*, contain the precise date and location of the General Meeting and the proposed agenda. It must also set out the conditions for attendance and representation at the meeting.

Luxembourg law distinguishes between ordinary resolutions and extraordinary resolutions. Extraordinary resolutions relate to proposed amendments to the articles of association and certain other limited matters. All other resolutions are generally ordinary resolutions.

Extraordinary resolutions are generally required for any of the following matters, among others: (a) an increase or decrease of the authorized or issued capital, (b) a limitation or exclusion of preferential subscription rights, (c) approval of a statutory merger or de-merger (scission) or certain other restructurings, (d) dissolution of the Company and (e) an amendment to the Articles of Association.

For any extraordinary resolutions to be considered at a General Meeting, the quorum must generally be at least one-half of the issued share capital to which voting rights are attached under the Articles of Association or Luxembourg law, unless otherwise provided by the Articles of Association or mandatorily required by law. If such quorum is not present, a second General Meeting may be convened at a later date with no quorum according to the appropriate notification procedures. Extraordinary resolutions must generally be adopted at a General Meeting (except as otherwise provided by mandatory law or the Articles of Association) by a two-thirds majority of the votes validly cast on such resolution. Abstentions are not considered “votes.”

Any increases in the commitments of shareholders are subject to unanimous approval.

No quorum is required for any ordinary resolutions to be considered at a General Meeting. Ordinary resolutions are adopted by a simple majority of votes validly cast on such resolution by shareholders present or represented, subject in certain circumstances to a different majority as required under the Articles of Association or Luxembourg law. Abstentions are not considered “votes”.

The Company’s annual General Meeting shall be held in accordance with Luxembourg law within six months of the end of the Company’s financial year (the “**Annual General Meeting**”) in Luxembourg at the registered office of the Company, or at such other place in Luxembourg as may be specified in the convening notice of the meeting.

Other general meetings of the shareholders may be called as often as the interest of the Company demands and be held at such place and time as may be specified in the respective convening notice of the meeting.

If the entire issued share capital of the Company is present or represented at a General Meeting and declare that they have been informed of the agenda, the General Meeting may be held without prior convening notice.

The Board of Directors as well as the statutory auditor, have the right to convene a General Meeting. The Board of Directors is obliged to call a General Meeting to be held within one month when a group of shareholders representing at least one-tenth of the issued share capital requests the convening of a General Meeting in writing indicating the agenda of the proposed meeting. If further to a valid request by shareholders, no General Meeting is convened within the time limit, the General Meeting may be called by a person designated by the president of the commercial division of the district court (*président du tribunal d’arrondissement*) at the request of shareholders representing at least one-tenth of the issued share capital.

In accordance with the Luxembourg Shareholder Rights Law, shareholders holding individually or collectively at least 5% of the issued share capital of the Company (a) have the right to put items on the agenda of the General Meeting and (b) have the right to table draft resolutions for items included or to be included on the agenda of the General Meeting. Those rights shall be exercised by the request in writing of the relevant shareholders submitted to the Company by postal services or electronic means. The request must be accompanied by a justification or a draft resolution to be adopted in the General Meeting and shall include the electronic or mailing address at which the Company can acknowledge receipt of the request. Any such request from shareholders must be received by the Company not later than on the twenty-second day prior to the date of the General Meeting.

16.14 Information Rights

In accordance with the Luxembourg Shareholder Rights Law, the Company shall make, *inter alia*, available to its shareholders on its website for a continuous period beginning on the day of publication of the convening notice of the general meeting (which must be at least 30 days prior to the meeting) and including the day of the General Meeting, the total amount of shares (and as the case may be, class of shares) and voting rights as at the date of the convening notice, *inter alia*, such documents which need to be submitted to the General Meeting, the convening notice, a draft of the resolutions to be taken for each item on the agenda or an explanation from the Board of Directors if such draft is not available. Shareholders may upon request obtain a copy of the full, unabridged text of the documents to be submitted to the General Meeting by electronic means or at the registered office of the Company.

The Board of Directors may take the decision to adjourn the General Meeting at any time during the meeting for a period of up to four weeks. It is required to do so on request by shareholders representing at least 10% of the issued share capital. The adjournment (which also applies to the general meetings called to amend the Articles of Association) will render null and void any decisions taken at the General Meeting so adjourned. The second General Meeting may adopt final decisions, provided that, in the case of an amendment to the Articles of Association, the requisite quorum is present.

In accordance with the Luxembourg Shareholder Rights Law, shareholders have the right to ask questions at the general meetings of the shareholders related to items on the agenda. The right to ask questions and the obligation of the Company to answer are subject to the measures to be taken by the Company to ensure the identification of shareholders, the good order of the General Meeting and its preparation as well as the protection of confidentiality and business interests of the Company.

As from the Annual General Meeting held in 2020, shareholders must be informed in detail of the remuneration of directors and the Company's remuneration policy. The Company must prepare a management remuneration policy describing all components, criteria, methods and modalities applied to determine the fixed and variable remuneration of directors in accordance with the Luxembourg Shareholder Rights Law. Shareholders have an advisory vote on this policy, unless the Articles of Association provide otherwise. The remuneration policy must be submitted to the General Meeting for approval each time there is a significant change thereto and at least every four years. In addition, the Company must prepare a report for the General Meeting on the remuneration and benefits granted to directors.

The Company is required to publicly disclose material transactions (excluding "transactions" taking place as part of the Company's ordinary activity and concluded under normal market conditions) with related parties no later than the conclusion of the transaction. The Board of Directors must approve material transactions with related parties (*i.e.* any transaction between the Company and a related party, the publication or disclosure of which could have a material impact on the economic decisions of the Company's shareholders and which could have a risk for the Company and the shareholders, including minority shareholders, which are not related parties). With regard to the definition of a material transaction, both the nature of the transaction and the position of the related party must be taken into account. The obligation to disclose material transactions also applies in case of material transactions between related parties of the Company and the Company's subsidiaries. Note that under the Luxembourg Shareholder Rights Law, certain disclosure obligations (including certain annual disclosure obligations) are also imposed on institutional investors and asset managers (more in particular, in respect of their engagement policy and how such policy is implemented). In addition, certain obligations are imposed on proxy advisors and intermediaries.

16.15 Distribution Of Assets on Winding-Up

In the event of liquidation, dissolution or winding-up of the Company, the net assets remaining after payment of all debts, charges and expenses shall be distributed to the shareholders in proportion to their respective shareholdings.

In the event of the dissolution of the Company for whatever reason, the liquidation will be performed by liquidators appointed by the General Meeting or, if no liquidators are so appointed, by all members of the Board of Directors. Once all debts, charges and liquidation expenses have been met, any balance resulting shall be paid to the shareholders.

16.16 Mandatory Takeover Bids and Exclusion of Minority Shareholders

16.16.1 Mandatory Bids, Squeeze-Out and Sell-Out Rights

The Luxembourg Takeover Law (*Offres Publiques d'Acquisition*) provides that if a person, acting alone or in concert, obtains voting securities of the Company which, when added to any existing holdings of the Company's voting securities, give such person control over the Company, which under the Luxembourg Takeover Law is set at 33 1/3% of all of the voting rights attached to the voting securities in the Company, this person is obliged to launch a mandatory bid for the remaining voting securities in the Company at a fair price.

Following the implementation of Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004, any voluntary bid for the takeover of the Company and any mandatory bid will be subject to shared regulation by the Financial Sector Supervisory Authority (*Commission de Surveillance du Secteur Financier*) of the Grand Duchy of Luxembourg ("CSSF") pursuant to the Luxembourg Takeover Law, which has implemented the Takeover Directive into Luxembourg law, and by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) ("BaFin") pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

Under the shared regulation regime, German takeover law applies to the matters relating to the consideration offered, the bid procedure, the content of the offer document and the procedure of the bid. The German Regulation on the Applicability of the Takeover Code (*WpÜG-Anwendbarkeitsverordnung*) specifies the applicable provisions in more detail. Matters regarding company law (and related questions), such as, for instance, the question relating to the percentage of voting rights which give control over a company and any derogation from the obligation to launch a bid or regarding information to be provided to employees of the target company, and, to the extent applicable, any sell-out or squeeze-out procedures further to a voluntary or mandatory takeover bid, will exclusively be governed by Luxembourg law.

The Luxembourg Takeover Law provides that, when an offer (mandatory or voluntary) is made to all of the holders of voting securities of the Company and the bidder holds voting securities representing not less than 95% of the share capital that carry voting rights to which the offer relates and 95% of the voting rights, the bidder may require the holders of the remaining voting securities to sell those securities to the bidder. The price offered for such securities must be a "fair price." The price offered in a voluntary offer would be considered a "fair price" in the squeeze-out proceedings if at least 90% of the securities comprised in the bid were acquired in such voluntary offer. The price paid in a mandatory offer is deemed a "fair price." The consideration paid in the squeeze-out proceedings must take the same form as the consideration offered in the offer or consist solely of cash. Moreover, an all-cash option must be offered to the remaining shareholders of the Company. Finally, the right to initiate squeeze-out proceedings must be exercised within three months following the expiration of the acceptance period of the offer.

The Luxembourg Takeover Law provides that, when an offer (mandatory or voluntary) is made to all of the holders of voting securities of the Company and if after such offer the bidder (and any person acting in concert with the bidder) holds voting securities carrying more than 90% of the voting rights, the remaining security holders may require that the bidder purchase the remaining voting securities. The price offered in a voluntary offer would be considered "fair" in the sell-out proceedings if at least 90% of the securities comprised in the bid were acquired in such voluntary offer. The price paid in a mandatory offer is deemed a "fair price." The consideration paid in the sell-out proceedings must take the same form as the consideration offered in the offer or consist solely of cash.

Moreover, an all-cash option must be offered to the remaining shareholders of the Company. Finally, the right to initiate sell-out proceedings must be exercised within three months following the expiration of the acceptance period of the offer.

Where the Company has issued more than one class of voting securities, the rights of squeeze-out and sell-out described in the last two preceding paragraphs can be exercised only in the class in which the applicable thresholds have been reached.

16.16.2 Luxembourg Mandatory Squeeze-Out and Sell-Out Law

The Company may also be subject to the Luxembourg law of July 21, 2012 on the squeeze-out and sell-out of securities of companies admitted or having been admitted to trading on a regulated market or which have been subject to a public offer (the "**Luxembourg Mandatory Squeeze-Out and Sell-Out Law**"). The Luxembourg Mandatory Squeeze-Out and Sell-Out Law provides that if any individual or legal entity, acting alone or in concert with another, becomes the owner directly or indirectly of a number

of shares or other voting securities representing at least 95% of the voting share capital and 95% of the voting rights of the Company: (i) such owner may require the holders of the remaining shares or other voting securities to sell those remaining securities (the “**Mandatory Squeeze-Out**”); and (ii) the holders of the remaining shares or securities may require such owner to purchase those remaining shares or other voting securities (the “**Mandatory Sell-Out**”). The Mandatory Squeeze-Out and the Mandatory Sell-Out must be exercised at a fair price according to objective and adequate methods applying to asset disposals. The procedures applicable to the Mandatory Squeeze-Out and the Mandatory Sell-Out must be carried out in accordance with the Luxembourg Mandatory Squeeze-Out and Sell-Out Law and under the supervision of the CSSF.

16.17 Shareholding Disclosure Requirements

16.17.1 Luxembourg Transparency Law

Holders of the shares and derivatives or other financial instruments linked to the shares may be subject to notification obligations pursuant to the Luxembourg law of January 11, 2008 on transparency requirements regarding information about issuers whose securities are admitted to trading on a regulated market, as amended (the “**Luxembourg Transparency Law**”). The following description summarizes these obligations. The Company’s shareholders are advised to consult with their own legal advisers to determine whether the notification obligations apply to them.

The Luxembourg Transparency Law provides that, if a person acquires or disposes of a shareholding in the Company, and if following the acquisition or disposal the proportion of voting rights held by the person reaches, exceeds or falls below one of the thresholds of 5%, 10%, 15%, 20%, 25%, 33¹/₃%, 50% or 66²/₃% of the total voting rights existing when the situation giving rise to a declaration occurs (the “**Relevant Threshold**”), such person must simultaneously notify the Company and the CSSF of the proportion of voting rights held by it further to such event.

A person must also notify the Company and the CSSF of the proportion of his or her voting rights if that proportion reaches, exceeds or falls below the Relevant Threshold as a result of events changing the breakdown of voting rights and on the basis of the information disclosed by the Company.

The same notification requirements apply to a natural person or legal entity to the extent they are entitled to acquire, to dispose of, or to exercise voting rights in any of the following cases or a combination of them:

- (a) voting rights held by a third party with whom that person or entity has concluded an agreement, which obliges them to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the management of the Company;
- (b) voting rights held by a third party under an agreement concluded with that person or entity providing for the temporary transfer for consideration of the voting rights in question;
- (c) voting rights attaching to shares which are lodged as collateral with that person or entity, provided the person or entity controls the voting rights and declares their intention of exercising them;
- (d) voting rights attaching to shares in which that person or entity has the life interest;
- (e) voting rights which are held, or may be exercised within the meaning of points (a) to (d), by an undertaking controlled by that person or entity;
- (f) voting rights attaching to shares deposited with that person or entity which the person or entity can exercise at his/her/its discretion in the absence of specific instructions from the shareholders;
- (g) voting rights held by a third party in its own name on behalf of that person or entity; and
- (h) voting rights which that person or entity may exercise as a proxy where the person or entity can exercise the voting rights at their discretion in the absence of specific instructions from the shareholders.

The notification requirements also apply to a natural person or legal entity who holds, directly or indirectly, financial instruments that result in an entitlement to acquire, on such holder’s own initiative alone, under a formal agreement, shares to which voting rights are attached and already issued.

The above notification requirements also apply to a natural person or legal entity that holds, directly or indirectly:

- (i) financial instruments that, on maturity, give the holder, under a formal agreement, either the unconditional right to acquire or the discretion as to his right to acquire shares, to which voting rights are attached, already issued by the Company, or
- (ii) financial instruments which are not included in point (i) above but which are referenced to the shares referred to in that point and with an economic effect similar to that of the financial instruments referred to in that point, whether or not they confer a right to a physical settlement.

The notification required shall include the breakdown by type of financial instruments held in accordance with point (i) above and financial instruments held in accordance with point (ii) above, distinguishing between the financial instruments which confer a right to a physical settlement and the financial instruments which confer a right to a cash settlement.

The number of voting rights shall be calculated by reference to the full notional amount of shares underlying the financial instrument except where the financial instrument provides exclusively for a cash settlement, in which case the number of voting rights shall be calculated on a 'delta-adjusted' basis, by multiplying the notional amount of underlying shares by the delta of the instrument. For this purpose, the holder shall aggregate and notify all financial instruments relating to the same underlying issuer. Only long positions, i.e. such buyer positions, which are entered into in the expectation that the value of the share will increase, shall be taken into account for the calculation of voting rights. Long positions shall not be netted with short positions, i.e. such seller positions, which are entered into in the expectation that the value of the share will decrease, relating to the same underlying issuer.

For the purposes of the above, the following shall be considered to be financial instruments, provided they satisfy any of the conditions set out in points (i) or (ii) above:

- (a) transferable securities;
- (b) options;
- (c) futures (i.e. forward transactions in which a seller contractually undertakes to deliver goods or assets to the buyer at a previously agreed date and price);
- (d) swaps (i.e. agreements regarding the exchange of liabilities or claims);
- (e) forward rate agreements (i.e. agreements about interest rate futures that enable securing an interest rate for a future investment period);
- (f) contracts for differences; and
- (g) any other contracts or agreements with similar economic effects which may be settled physically or in cash.

The notification requirements described above shall also apply to a natural person or a legal entity when the number of voting rights held directly or indirectly by such person or entity aggregated with the number of voting rights relating to financial instruments held directly or indirectly reaches, exceeds or falls below a Relevant Threshold. Any such notification shall include a breakdown of the number of voting rights attached to shares and voting rights relating to financial instruments.

Voting rights relating to financial instruments that have already been notified to that effect shall be notified again when the natural person or the legal entity has acquired the underlying shares and such acquisition results in the total number of voting rights attached to shares issued by the same issuer reaching or exceeding a Relevant Threshold.

The notification to the Company and the CSSF must be effected promptly, but not later than four trading days after the date on which the shareholder, or person to whom the voting rights are attributed as set out above (i) learns of the acquisition or disposal or of the possibility of exercising voting rights, or on which, having regard to the circumstances, should have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect, or (ii) is informed of an event changing the breakdown of voting rights by the Company. Upon receipt of the notification, but not later than three trading days thereafter, the Company must make public all the information contained in the notification as regulated information within the meaning of the Luxembourg Transparency Law.

As long as the notifications have not been made to the Company in the manner prescribed, the exercise of voting rights relating to the shares exceeding the fraction that should have been notified is suspended. The suspension of the exercise of voting rights is lifted as of the moment the shareholder makes the notification.

Where within the fifteen days preceding the date for which the general shareholders' meeting has been convened, the Company receives a notification or becomes aware of the fact that a notification has to be or should have been made in accordance with the Luxembourg Transparency Law, the Board of Directors may postpone the general shareholders' meeting for up to four weeks.

In accordance with Article 8(4) of the Luxembourg Transparency Law, the disclosure requirements do not apply to the acquisition or disposal of a major holding by a market maker (*teneur de marché*) in securities insofar as the acquisition or disposal is effected in their capacity as a market maker in securities and insofar as the acquisition is not used by the market maker to intervene in the management of the Company.

In accordance with Article 8(6) of the Luxembourg Transparency Law, the disclosure requirements do not apply to voting rights attached to securities acquired for stabilization purposes, provided that the voting rights attached to these shares are not exercised or otherwise used to intervene in the management of the Company.

16.17.2 German Securities Trading Act

The Company is also subject to certain provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*), which governs disclosure to shareholders and reporting duties. These provisions state, among other things, that the Company must publish notices made by shareholders in accordance with the Luxembourg Transparency Law that such shareholder's shareholding in the Company reached, exceeded or fell below one of the thresholds of 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% and 66 2/3% immediately, but no later than within three trading days after receiving them, via media outlets or outlets where it can be assumed that the notice will be disseminated in the European Union and the non-European Union parties to the agreement on the European Economic Area. The Company must also transmit the notice to the BaFin and to the German Company Register (*Unternehmensregister*) for storage.

16.17.3 Luxembourg Squeeze-out and Sell-out Law

Pursuant to Article 3 of the Luxembourg Mandatory Squeeze-Out and Sell-Out Law, any individual or legal entity, acting alone or in concert with another, who (i) becomes the owner directly or indirectly of a number of shares or other voting securities representing at least 95% of the voting share capital and 95% of the voting rights of the Company, (ii) falls below one of the thresholds under (i) above (after having crossed these thresholds) or (iii) acquires additional shares (after having crossed the thresholds), must notify the Company and the CSSF. The notification by the relevant individual or legal entity shall include, in addition to the relevant percentage of the participation held in the Company, (i) the transaction that triggered the notification requirement, (ii) the effective date of such transaction, (iii) its identity, and (iv) the ways the shares or other voting securities are being held.

The notification to the Company and the CSSF must be effected as soon as possible, but not later than four working days after obtaining knowledge of the effective acquisition or disposal or of the possibility of exercising or not the voting rights. Upon receipt of the notification, but no later than three working days in Luxembourg thereafter, the Company must make public all the information contained in the notification in a manner ensuring fast access to the information and on a non-discriminatory basis.

16.18 Directors Dealings

A person discharging managerial responsibilities within the meaning of Article 3 para. 1 no. 25 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 ("**MAR**"), must notify the Company and CSSF of transactions undertaken for their own account relating to the Company's shares or to financial instruments based on the Company's shares (subject to a €5,000.00 *de-minimis* exception per calendar year for all such transactions). This also applies to persons closely associated with a person discharging managerial responsibilities within the meaning of Article 3 para. 1 no. 26 MAR. Such notifications shall be made promptly and no later than three business days after the date of the relevant transaction. The Company shall ensure that such notifications are made public promptly and no later than three business days after the relevant transaction.

During a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report which the Company is required to make public according to (i) the rules of the trading venue where the Company's shares are admitted to trading or (ii) national law, persons discharging managerial responsibilities are prohibited from conducting for their own account or for the account of a third party any transactions directly or indirectly relating to shares or debt instruments of the Company, or to derivatives or other financial instruments linked to such securities.

17. DESCRIPTION OF THE GOVERNING BODIES OF THE COMPANY

17.1 Overview

The governing bodies of the Company are the Board of Directors (as defined below) and the General Meeting (as defined below). The powers of these governing bodies are defined in the Luxembourg Companies Law and the Articles of Association. The Board of Directors together with the Senior Management (as defined below) manages the Company in accordance with applicable laws (see “17.9 Corporate Governance”).

17.2 Board of Directors

The management of the Company is vested in the board of directors (the “**Board of Directors**”). The Articles of Association provide that the Board of Directors must comprise at least one member if there is only one shareholder and if there is more than one shareholder, the Board of Directors shall comprise at least three members.

The Board of Directors convenes whenever required by the Company’s affairs. The meetings are called by the chairman of the Board of Directors (the “**Chairman**”). Furthermore, the Board of Directors is convened if so requested by any member of the Board of Directors. The Chairman presides at meetings of the Board of Directors.

The meetings of the Board of Directors shall be held in Luxembourg at the location and the time indicated in the convening notice unless the meetings need to be held abroad for exceptional reasons. Except in an instance of urgency or for regularly scheduled meetings, the meetings of the Board of Directors shall be announced in writing at least five days in advance. A convening notice may be dispensed with if all members of the Board of Directors consent. The meetings of the Board of Directors and its committees may be held by using means of telecommunication (e.g. video or telephone conference) which are continuously on-line, enabling the identification of the members taking part in the meeting and enabling all persons taking part to communicate.

A majority of the members of the Board of Directors present or represented at a meeting of the Board of Directors constitutes a quorum, and resolutions are adopted by the simple majority vote of the members of the Board of Directors present or represented. The Board of Directors may also take decisions by means of circular resolutions in writing signed by all directors. Each member of the Board of Directors can mandate another member of the Board of Directors in writing to represent him. Each member of the Board of Directors can represent one or more other members of the Board of Directors.

The General Meeting elects members of the Board of Directors who may, but do not have to, be shareholders and decides their respective terms which may not exceed six years. Directors may be re-elected. The General Meeting may dismiss one or more directors at any time, with or without cause, by a resolution passed by simple majority vote, irrespective of the number of the Company’s shares present at such General Meeting. If the Board of Directors has a vacancy, the remaining directors have the right to appoint a replacement until the next General Meeting.

The business address of all members of the Board of Directors is that of the Company’s registered office: 1B Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg.

17.2.1 *Duties of a Member of the Board of Directors under Luxembourg Law*

The members of the Board of Directors are liable towards the Company, in accordance with general Luxembourg law, for the execution of the mandate given to them and for any misconduct in the management of the Company’s business. They are jointly and severally liable towards the Company as well as to any third party for damages resulting from any violation of the law or the Articles of Association, but they may be discharged from such liability in the case of a violation in which they did not participate, provided no misconduct is attributable to them and they have reported any violation to the next General Meeting after having been made aware of it.

The responsibility of members of the Board of Directors may be asserted in the name of the Company following a decision by the General Meeting.

It is possible for minority shareholders and holders of beneficial parts to commence judicial proceedings against members of the Board of Directors for the account of the Company. Such proceedings may be brought by one or several shareholders or owners of beneficial parts that hold at least 10% of votes

attaching to instruments conferring the right to vote at any General Meeting that has decided on a discharge of members of the Board of Directors.

One or more shareholders representing at least 10% of the issued capital or 10% of the votes attaching to all existing instruments giving voting rights, either individually or as a group, may put questions relating to one or several operations of the Company, as well as any affiliated companies controlled by the Company within the meaning of Article 1711-1 of the Luxembourg Companies Law, to the Board of Directors in writing. In the latter case, the request has to be considered in the light of the interests of the companies that are consolidated. A copy of the response is furnished to the auditor of the Company. If no response is received within one month, the shareholders may ask the president of the district court to nominate one or several experts to establish a report on the operations that form the basis of the written request. If the request is accepted, the judge will determine the experts' powers and the extent of their mission. It may charge the related costs to the Company. The judge decides whether the report should be published.

17.2.2 Power and Duties of the Board of Directors

The Board of Directors is vested with the broadest powers to take any action necessary or useful to fulfill the Company's corporate objective with the exception of the actions reserved, by law or by the Articles of Association, to the General Meeting.

According to the Articles of Association, the Board of Directors may, in particular, purchase real estate directly or through intervening companies, issue bonds and other debt obligations, provide mortgages or other security, reduce or forgive debts and conclude settlements on behalf of the Company. Within the limits provided for by law, the Board of Directors may delegate to one or more persons the daily management of the Company and the authority to represent the Company (a "**Daily Manager**"). The Board of Directors may revoke any such delegation of any one or more Daily Managers at any time. As of the date of this Prospectus, Thierry Beaudemoulin (Chief Executive Officer) is, and, with effect as of April 9, 2020, Maximilian Rienecker will be, appointed as a Daily Manager.

The Board of Directors is empowered by the Articles of Association to elect a Chairman, an Executive Vice Chairman and one or more deputy chairmen.

The Board of Directors' duties, responsibilities and internal rules of procedures are described in the Company's rules of procedure (the "**Rules of Procedure**") as adopted by the Board of Directors' on January 16, 2020. The Board of Directors may amend the Rules of Procedure from time to time.

17.2.3 Representation Towards Third Parties

The Company shall be bound by (i) the joint signatures of two members of the Board of Directors or (ii) by the sole or joint signature(s) of any person or persons to whom such signatory power shall have been delegated by the Board of Directors.

The Daily Manager represents the Company *vis-à-vis* third parties in the course of the daily management.

17.2.4 Composition of the Board of Directors

As of the date of this Prospectus, the Board of Directors is composed of seven members.

<u>Name</u>	<u>Position</u>	<u>Start of Appointment</u>	<u>End of Appointment</u>
Dr. Peter Maser	Independent Director, Chairman	December 10, 2019	Date of the Annual General Meeting held in 2020
Thierry Beaudemoulin . . .	Director	December 10, 2019	Date of the Annual General Meeting held in 2020
Dr. Ben Irlé	Director	December 10, 2019	Date of the Annual General Meeting held in 2020
Florian Sitta	Director	December 10, 2019	Date of the Annual General Meeting held in 2020
Dr. Michael Bütter	Independent Director	June 20, 2019	Date of the Annual General Meeting held in 2020
Arzu Akkemik	Independent Director	December 10, 2019	Date of the Annual General Meeting held in 2020
Jörn Stobbe	Independent Director	June 20, 2019	Date of the Annual General Meeting held in 2020

Dr. Peter Maser is qualified to practice law in Germany and obtained his doctorate in law at the University of Tübingen, Germany. Between 1989 and 1995, he held various positions at audit firms and trust agencies and at Mediagroup Ebner. As of 1992, Dr. Maser practices as an attorney-at-law and was a partner at a law firm in Freiburg im Breisgau, Germany. Since 2003, he is a partner at Deloitte Legal Rechtsanwalts-gesellschaft mbH.

Thierry Beaudemoulin graduated from the Institut d'Études Politiques de Paris, France in 1993 and obtained a master's degree in real estate and urban planning from the same institution in 1995. From 1996 to 1998, Mr. Beaudemoulin was special advisor to the chief executive officer of Batigere. Between 1998 and 2000, he was head of property management at Foncia and held positions as asset manager and managing director France at ING REIM (Europe) between 2000 and 2004. From 2004 to 2006, Mr. Beaudemoulin was managing director for the Paris region at Batigere. Between 2006 and October 2019 he was chief executive officer at Covivio Germany and member of the executive board at Covivio.

Dr. Ben Irle completed an apprenticeship as a publisher at Gruner & Jahr in Hamburg, Germany and London, United Kingdom, following which he completed his legal studies at the University of Hamburg and Birmingham, United Kingdom, including post-graduate studies in business law in Hamburg and an LL.M. degree from the University of Birmingham. Moreover, Dr. Irle holds a doctorate in law from the University of Hamburg. Between 2005 and 2011, he was founding partner at a law firm in Berlin, Germany. Thereafter, in 2012 and 2013, he was managing partner at Irle Kalckreuth LLP and as of 2014, managing partner at Irle Moser Rechtsanwälte PartG in Berlin. Since 2017, Dr. Irle is chairman of the supervisory board of Focus Hören AG (Hamburg) and since 2019, Dr. Irle is member of the board of directors of ADO Group Ltd. in Israel.

Florian Sitta completed his legal studies in Kiel, Germany, Düsseldorf, Germany and New York, United States between 1994 and 2002. In 2003, Mr. Sitta was admitted to the German bar as an attorney-at-law. From 2004 to 2015, he was legal counsel and head of legal at Beate Uhse Aktiengesellschaft in Flensburg, Germany. Since 2016, Mr. Sitta is head of legal at ADLER Real Estate AG in Hamburg, Germany, and Berlin, Germany. Moreover, since 2019, he is chief executive officer of ADO Group Ltd. in Israel.

Arzu Akkemik holds a degree in international finance and accounting from the London School of Economics in London, United Kingdom. Ms. Akkemik started her career as an analyst at Barings Securities in London in 1993. From 1994 onwards, Ms. Akkemik worked in the practice areas of corporate finance and fund management in London. From 2005 to 2013, she was a director/senior fund manager at Rexiter Capital Management in London. In 2013, she founded Cornucopia Advisors Limited and Cornucopia Asset Management Limited.

Dr. Michael Bütter is qualified to practice law in Germany, holds a doctorate in law and graduated with a Master of Studies from the University of Oxford, England. Between 2001 and 2008, he worked at various law firms. From 2005 to 2008, Dr. Bütter was a partner at Hogan Lovells LLP. Between 2008 and 2013, he was, among others, the general counsel and chief compliance officer at Deutsche Annington SE (now Vonovia SE). From 2015 to 2018, he was a member of the executive board of Scout24 AG and chief executive officer of Immobilien Scout GmbH. Between 2016 and 2018, Dr. Bütter was a member of the advisory board and chief executive officer of Corestate Capital S.A.

Jörn Stobbe studied law at the University of Kiel, Germany, and completed his German law state examinations in 1995. Mr. Stobbe started his career at Landgesellschaft Schleswig-Holstein mbH in 1995. From 2000 to 2013, he worked at Clifford Chance. From 2013 to 2017, Mr. Stobbe was employed at RREEF Management GmbH. In 2017, he joined Union Investment Real Estate GmbH, where he currently serves as a member of the management board and Union Investment Institutional Property GmbH, where he also serves as a member of the management board.

17.2.5 Directorships Held by Members of the Board of Directors

Except as set forth below, no member of the Board of Directors has held any directorship at any company (other than companies in the ADO Properties Group and companies that are subsidiaries of companies of which the respective member of the Board of Directors is or was a member of its board of directors or other governing body) or partnerships within the last five years:

<u>Name</u>	<u>Entity</u>	<u>Position</u>	<u>Until</u>
Dr. Peter Maser . . .	Volksbank Stuttgart eG	Vice chairman of the supervisory board	Ongoing
	BF.direkt AG	Chairman of the supervisory board	Ongoing
	EURAM Bank AG	Chairman of the supervisory board	Ongoing
	The Grounds Real Estate Development AG	Vice chairman of the supervisory board	Until August 2019
	DEMIRE Deutsche Mittelstands Real Estate AG	Vice chairman of the supervisory board	Until February 2017
Thierry Beaudemoulin	Covivio SA	Member of the executive board	Until October 2019
Dr. Ben Irle	ADO Group Ltd.	Member of the board of directors	Ongoing
	Focus Hören AG	Chairman of the supervisory board	Ongoing
Florian Sitta	ADO Group Ltd.	Member of the board of directors	Ongoing
	Sitta & Partner Gesellschaft für Logistik mbH	Managing director	Ongoing
Dr. Michael Bütter	ASSMANN BERATEN+PLANEN AG	Deputy chairman of the supervisory board	Ongoing
	RICS Germany	Member of the management board	Ongoing
	Realconnect.com	Chairman of the advisory board	Ongoing
	Bots4YouGmbH	Member of the advisory board and stakeholder	Ongoing
	TLG Immobilien AG	Deputy chairman of the supervisory board	Until 2019
	Corestate Capital S.A.	Member of the advisory board and chief executive officer	Until 2018
	Scout 24 AG	Member of the executive board	Until 2018
	Immobilien Scout GmbH	Chief executive officer	Until 2018
Jörn Stobbe	Union Investment Real Estate GmbH	Member of the management board	Ongoing
	Union Investment Institutional Properties GmbH	Member of the management board	Ongoing
	1. FC Köln KGaA	Chairman of the advisory board	Ongoing
	Geneba Properties N.V.	Member of the advisory board	Until 2018
	RREEF Management GmbH	Member of the management board	Until 2017

Other than the above-mentioned directorships, no member of the Board of Directors performs any other activities outside of the Company which are significant with respect to the Company.

17.2.6 Compensation and Shareholdings of Members of the Board of Directors

Compensation of the members of the Board of Directors is determined by the General Meeting. At the Annual General Meeting held in 2019, the General Meeting approved a fixed annual remuneration of €50,000 for each member of the Board of Directors (except Mr. Rabin Savion and Mr. David Daniel), and an additional €1,500 per attendance at a meeting of the Board of Directors or any committee of the Board of Directors (in each case except Mr. Rabin Savion and Mr. David Daniel). Mr. Rabin Savion only received payment in relation to his former position as chief executive officer of the Senior Management. Mr. David Daniel only received payment in relation to his position as a Daily Manager (irrespective of the fact that the General Meeting had previously approved remuneration to be paid to Mr. David Daniel for his position as a member of the Board of Directors).

The current members of the Board of Directors will receive a fixed annual remuneration of €50,000, and an additional €1,500 per attendance at a meeting of the Board of Directors or any committee of the Board of Directors until the next General Meeting. In the fiscal year ended December 31, 2019, no remuneration was paid to the current chairman of the Board of Directors.

All members of the Board of Directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with attending meetings of the Board of Directors and meetings of committees. The respective fixed annual remuneration for members of the Board of Directors shall be paid *pro rata* for the days served as a member of the Board of Directors during each respective year. In addition, the Company has included the members of the Board of Directors in a D&O group insurance (see “13.6.5 Insurance Coverage”).

With the exception of the service agreement entered into with Mr. Thierry Beaudemoulin in respect of his role as co-chief executive officer of the Company and as Daily Manager (see “17.4.2 Compensation and Shareholdings of the Senior Management of the Company and its Subsidiaries”), no service contracts that provide for benefits after the termination of the employment relationship exist between members of the Board of Directors and the Company or a subsidiary within the ADO Properties Group.

As of the date of this Prospectus, no member of the Board of Directors directly holds any shares in the Company or options on shares in the Company.

17.3 Committees

The Board of Directors may from time to time create one or several committees composed of members of the Board of Directors and/or external persons and to which it may delegate powers and roles as appropriate. At the date of this Prospectus, the Company has established three committees: the Audit Committee, the Nomination and Compensation Committee and the Ad Hoc Committee. The rules of procedure for the committees are governed by the Company’s rules of procedure for the Audit Committee, the Nomination and Compensation Committee and the Ad-Hoc Committee as adopted by the Board of Directors’ on January 16, 2020 (the “**Committees Rules of Procedure**”). According to the Committees Rules of Procedure to which the committees are subject, the committees convene whenever required by the Company’s affairs. The meetings are called by the chairman of the relevant committee. Furthermore, the committee is convened if so requested by any committee member. The meetings of the committees shall be held in Luxembourg at the location and the time indicated in the convening notice unless the meetings need to be held abroad for exceptional reasons. Except in an instance of urgency or for regularly scheduled meetings, the meetings of the committees shall be announced in writing at least five days in advance. A convening notice may be dispensed with if all members of the respective committee consent. The meetings of the committees may be held by using means of telecommunication (e.g. video or telephone conference) which are continuously on-line, enabling the identification of the members taking part in the meeting and enabling all persons taking part to communicate. A majority of the committee members present or represented at a committee meeting constitutes a quorum, and resolutions are adopted by the simple majority vote of the committee members present or represented. Each committee member can mandate another committee member in writing to represent him. Each committee member can represent one or more other committee members.

17.3.1 Audit Committee

The purpose of the Audit Committee is (i) to assist the Board of Directors in fulfilling its oversight responsibilities relating to the integrity of the financial statements and the adequacy of internal control systems over financial reporting, (ii) to monitor the effectiveness of the Company’s internal quality control

and risk management systems and (iii) to make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of, the external auditors. It is further responsible for evaluating whether any transaction between the Company and a related party is a material transaction which would require approval of the Board of Directors and publication. The Audit Committee also performs other duties imposed by applicable laws and regulations of the regulated market or markets on which the Company's shares are listed, as well as any other duties entrusted to the committee. The Audit Committee reports periodically to the Board of Directors on its activities. For the avoidance of doubt, the Audit Committee has an internal function only. No decision making powers or powers of representation have been delegated to the Audit Committee. The chairman of the Audit Committee must be independent from the Company. The members of the Audit Committee are Dr. Michael Bütter (chairman), Dr. Peter Maser and Jörn Stobbe. The Committees Rules of Procedure do not provide for a fixed membership term.

17.3.2 Nomination and Compensation Committee

The purpose of the Nomination and Compensation Committee is to review the compensation policy, make proposals as to the remuneration of the Senior Management, and advise on any benefit or incentive schemes. It further assists the Board of Directors with respect to matters relating to the nomination of candidates for the Board of Directors and the committees. The Nomination and Compensation Committee decides on the qualifications of potential candidates and recommends candidates to the Board of Directors for election as directors by the General Meeting, as required. The Nomination and Compensation Committee shall furthermore assist with the preparation of any remuneration report of the Company, to the extent such a report is legally required. For the avoidance of doubt, the Nomination and Compensation Committee has an internal function only. No decision making powers or powers of representation have been delegated to the Nomination and Compensation Committee. The members of the Nomination and Compensation Committee are Dr. Peter Maser (chairman), Jörn Stobbe and Arzu Akkemik. The Committees Rules of Procedure do not provide for a fixed membership term.

17.3.3 Ad Hoc Committee

The purpose of the Ad Hoc Committee is to resolve on the disclosure of information by the Company to meet its obligation under MAR. The Ad Hoc Committee shall, sometimes at short notice, review, identify and resolve if information is to be considered inside information and if it should be subject to disclosure or whether the prerequisites for a delay in the disclosure of such inside information are applicable. It is a key requirement of the Ad Hoc Committee that its members be available at short notice. Decision making powers and power of representation in respect of the disclosure of information by the Company to meet its obligation under MAR have been delegated by the Board of Directors to the Ad Hoc Committee. The members of the Ad Hoc Committee are Thierry Beaudemoulin, Florian Sitta and Nicole Müller. The Committees Rules of Procedure do not provide for a fixed membership term.

17.4 Senior Management of the ADO Properties Group

The Company's objective is the long-term creation of value by investment in and development of real estate properties as well as real estate management for its own purposes. The Company's real estate is held by operational subsidiaries which are led by the senior management (the "**Senior Management**"), which, as of the date of this Prospectus, only comprises Thierry Beaudemoulin as chief executive officer. As of April 9, 2020, Thierry Beaudemoulin and Maximilian Rienecker will act as co-chief executive officers of the Company. The Senior Management of the ADO Properties Group is integral to the management of the Company's subsidiaries and is responsible for the day-to-day management of the business of such subsidiaries. Thierry Beaudemoulin is and, as of April 9, 2020, Maximilian Rienecker will be, a member of the Senior Management and a member of the Board of Directors.

Maximilian Rienecker holds a Master of Science in Management (with distinction) from the University of Nottingham. Between 2008 and 2013, he worked for ING Investment Management in Hong Kong and SMB Offshore in Monaco. Thereafter, between 2013 and 2017, he worked as a financial analyst for a multi-family office based in the United Kingdom. In February 2017, Mr. Rienecker joined ADLER Real Estate as the head of corporate finance and strategy, where he was appointed co-chief executive officer in 2018. In the same year, he became chief executive officer of WESTGRUND Aktiengesellschaft in Germany.

17.4.1 Directorships Held by Members of the Senior Management of the ADO Properties Group

No member of the Senior Management (including Maximilian Rienecker) holds any directorship of any company (other than companies within the ADO Properties Group and companies that are subsidiaries of companies of which the member of the Senior Management is or was a member of the Senior Management) or partnerships. Furthermore, no member of the Senior Management (including Maximilian Rienecker) performs any other activities outside of the ADO Properties Group that are significant with respect to the Company.

17.4.2 Compensation and Shareholdings of the Senior Management of the Company and its Subsidiaries

Thierry Beaudemoulin has been appointed as co-chief executive officer of the Company with effect as of April 9, 2020. Pursuant to a service agreement between the Company and Thierry Beaudemoulin, entered into with effect as of December 10, 2019 and as amended and restated on April 6, 2020 (the “**TB Service Agreement**”), Thierry Beaudemoulin will receive as from 9 April 2019, a fixed gross annual remuneration in the amount of €600,000, payable in 12 equal installments at the end of each calendar month.

Maximilian Rienecker, co-chief executive officer of ADLER Real Estate, was appointed as co-chief executive officer of the Company with effect as of April 9, 2020. Pursuant to (i) a service agreement between the Company and Maximilian Rienecker, and (ii) a managing director’s service agreement between ADO Properties GmbH and Maximilian Rienecker, (collectively, the “**MR Service Agreements**” and together with TB Service Agreement, the “**Service Agreements**”), Maximilian Rienecker will receive a fixed gross annual remuneration of €600,000, payable in 12 equal installments at the end of each calendar month.

Compensation of the members of the Senior Management further includes a performance-related annual variable cash payment in the form of a short-term incentive (“**STI**”) (see “17.4.3 Short-Term Incentive Program (STI)”) and a performance-related variable cash or share payment in the form of a long-term incentive (“**LTI**”) (see “17.4.4 Long-Term Incentive Program (LTI)”).

In addition to the fixed and the variable remuneration, under the Service Agreements, each member of the Senior Management is entitled to further benefits such as the continued payment of the fixed remuneration for a certain period of time in the event of an incapacity to perform services due to illness, payment of contributions to a health insurance (capped at an amount of €1,500 per month), usage of a company car for business and private use (or, if no company car is provided, a monthly payment of €2,000 in lieu thereof), an annual payment of up to €3,000 for purposes of health care as well as reimbursements of out-of-pocket expenses, including travel expenses, reasonably incurred in the course of the services as a member of the Senior Management in accordance with the applicable policies of the Company.

Further, under the Service Agreements, the Board of Directors may, in its reasonable discretion, grant an additional bonus to each member of the Senior Management for outstanding performances, whereas a legal claim to such discretionary bonus does not exist.

During the term of the Service Agreements, each member of the Senior Management is prohibited from working for a company that is a direct or indirect competitor of the Company and prohibited from establishing, acquiring or directly or indirectly investing in such a competitor. However, it is permissible to invest in a competitor to the extent that the interest in such company does not enable the member of the Senior Management to exert any influence on its business activities and does, in any case, not exceed 5% of the share capital of such company. The member of the Senior Management is obligated to notify the Company of any such investments. Furthermore, each member of the Senior Management has agreed to a post-contractual prohibition of competition for a term of three months. During such period, the member of the Senior Management will receive a compensation for each month in the amount of 50% of their most recent total monthly remuneration, whereas the compensation may be reduced under certain circumstances. Additionally, the Company may, prior to termination, waive its rights under the post-contractual non-competition clause, in which case the Company does not have an obligation to pay the compensation.

The term of the Service Agreements expires on December 9, 2023. In the event of a re-appointment as Daily Manager, the term of the Service Agreements shall be extended accordingly.

The Service Agreements shall terminate in the event that the member of the Senior Management is removed or resigns from the position as Daily Manager. The Service Agreements may be terminated by the Company at any time and without prior notice in the event of a material breach of duty of the member of the Senior Management. Furthermore, the Service Agreements may be terminated by written notice, subject to a notice period of 90 days. During such notice period, the Company is entitled to release the member of the Senior Management from his duties.

In the event of a termination of the Service Agreements by the Company for reasons other than those for which the member of the Senior Management is responsible, the member of the Senior Management is entitled to a severance payment which may not exceed the lower of (i) two annual remunerations (including entitlements under its STI and LTI) and (ii) the remuneration that would be due for the remaining term under the Service Agreements.

In the event that a permanent invalidity is preventing the member of the Senior Management from performing his duties, the Service Agreements automatically expire at the end of the calendar quarter in which such a determination was made.

In the event that a change of control occurs or in the event that the member of the Senior Management is removed from his position on the Board of Directors by the general meeting of the Company, the member of the Senior Management may terminate the Service Agreements with a notice period of three months at the end of a calendar month, provided that the termination is submitted to the Company within a period of six months from the day on which the member of the Senior Management becomes aware of the change of control or the loss of the position on the Board of Directors, as applicable. A change of control occurs if one or more third parties acting jointly, and in each case not affiliated with the Company, acquire more than 30% of the stock in the Company and the position as a member of the Senior Management is more than insignificantly affected as a result thereof (for the avoidance of doubt, ADO Group Ltd. and ADLER Real Estate are not deemed to be third parties in this respect). The position of the member of the Senior Management is in particular deemed to be more than insignificantly affected in case of a material (i) change in the strategy of the Company or (ii) change in the position of the member of the Senior Management, or (iii) relocation of the place of work (e.g. abroad or more than 500 km from the current place of work). Upon such a termination of the Service Agreements as a result of a change of control, the member of the Senior Management is, subject to certain conditions, entitled to a severance payment which may not exceed the lower of (i) two annual remunerations (including entitlements under STI and LTI) and (ii) the remuneration that would be due for the remaining term under the Service Agreements.

As set forth in the Service Agreements, the Company has included the member of the Senior Management in a D&O group insurance (see *12.6.5 Insurance Coverage*).

In addition, the Company had entered into service agreements with previous members of the Senior Management and one former member of the Board of Directors in respect of his role as a Daily Manager, which also contained LTIs. The respective service agreements with the former member of the Board of Directors and the former members of the Senior Management have been terminated with effect as of March 31, 2020 and June 30, 2020, respectively. However, the terms of the settlement agreements in relation to one former member of the Senior Management and the former member of the Board of Directors are not finalized yet.

In the fiscal year ended December 31, 2019, the Company issued a total of 63,850 shares with no nominal value free of charge to Mr. Rabin Savion (the former chief executive officer of the Company), Mr. Florian Goldgruber (the former chief financial officer of the Company) and Mr. Eyal Horn (the former chief operating officer of the Company), in each case based on their respective LTI plan.

17.4.3 Short-Term Incentive Program (STI)

The Service Agreements include an STI, which is subject to achieving certain STI-Targets and the equal weighting of each STI-Target. The STI-Targets shall be composed of (i) several quantitative targets in the form of an EBITDA target, and (ii) several qualitative targets. The STI-Targets shall be agreed by the parties of the Service Agreements by the end of the month of April for the respective calendar year or, if no such agreement can be reached between the parties to the Service Agreements, shall be set by the Company at its reasonable discretion. Payments under the STI range from a minimum target achievement of 50% for each STI-Target up to a maximum target achievement of 100% for each STI-Target, calculated on a linear basis. The STI is, as from April 9, 2020, capped at €350,000 per calendar year.

Subject to certain conditions, in the event of an extraordinary event resulting in a significant change in the bonus parameters, the Board of Directors, under the Service Agreements, may adjust each STI-Target to an appropriate extent which, ultimately, may result in an increase in the variable remuneration thereunder.

17.4.4 Long-Term Incentive Program (LTI)

The Service Agreements also include an LTI, which is subject to achieving certain LTI-targets. Payments under the LTI range from a minimum target achievement of 50% up to a maximum target achievement of 100%. The LTI is, as from April 9, 2020, capped at €350,000 per calendar year.

Subject to certain conditions, in the event of extraordinary events that result in a significant change of the LTI parameters, the Board of Directors, under the Service Agreements, may adjust each LTI-Target to reflect such events.

17.5 Certain Information on the Members of the Board of Directors, Audit Committee, Nomination and Compensation Committee, Ad Hoc Committee and Senior Management of the ADO Properties Group

No member of the Board of Directors or Senior Management has, within the past five years, been convicted of any fraudulent offenses, publicly incriminated and/or sanctioned by statutory or regulatory authorities (including professional associations) or, acting in the capacity of a member of the administrative, management or supervisory entity or as a founder of a company, been associated with any bankruptcies and/or insolvencies, receiverships, liquidations or companies put into administration.

No member of the Board of Directors or Senior Management has, within the past five years, been deemed by a court to be unfit for membership in an administrative, management or supervisory entity of a company or to be unfit to exercise management duties or to manage the business of a company.

None of the members of the Board of Directors or Senior Management are related to one another by blood or marriage.

The Company has not granted any members of the Board of Directors any loans, nor has it assumed any guarantees or sureties on their behalf. The members of the Board of Directors have not been and are not now involved in any business outside the scope of the Company's corporate purpose as defined in its Articles of Association or in any other transactions of the Company considered unusual with respect to their form or substance.

17.6 Conflicts Of Interest

Four members of the Board of Directors are independent.

Florian Sitta is chairman of the board of directors of ADO Group Ltd., the Company's largest single shareholder, and simultaneously a member of the Board of Directors. Dr. Ben Irle is a member of the board of directors of ADO Group Ltd. and simultaneously a member of the Board of Directors. As of the date of this Prospectus, ADLER Real Estate is the sole shareholder of ADO Group Ltd., which in turn holds 20.45% of the shares in the Company. If the interests of ADO Group Ltd. and the Company diverge, conflicts of interest could arise.

None of the other members of the Board of Directors have any conflicts of interest between their duties to the Company and their private interests or other duties.

17.7 General Meeting

The Company shall ensure equal treatment for all shareholders who are in the same position with regard to participation in, and the exercise of voting rights at, the General Meeting. Any duly constituted General Meeting represents all the shareholders of the Company. The General Meeting is empowered with the widest powers to order, implement or ratify all acts connected with the Company's operations that were not conferred on the Board of Directors.

17.7.1 Convening of General Meetings (other than the Annual General Meeting) and Location

General Meetings (other than the Annual General Meeting) may be called as often as the interests of the Company demand and be held at the Company's registered office in Luxembourg or any other place in Luxembourg as may be specified in the respective convening notice of the meeting. The Board of Directors is obliged to call a General Meeting when a group of shareholders representing at least one-tenth of the issued and outstanding shares requests the convening of a General Meeting in writing, indicating the agenda of the proposed meeting.

The convening notice is to be published at least thirty days before the day of the meeting in the Official Gazette of Luxembourg (*Recueil électronique des sociétés et associations*), a Luxembourg newspaper and in media which may reasonably be relied upon for the effective dissemination of information to the public throughout the European Economic Area, and which is accessible rapidly and on a non-discriminatory basis. If a General Meeting is adjourned for lack of quorum, provided that the convening requirements of the Luxembourg Shareholder Rights Law have been complied with and no new item has been added to the agenda, the thirty-day period is reduced to a seventeen-day period.

The convening notice must, *inter alia*, contain the precise date and location of the General Meeting and the proposed agenda. It must also set out the conditions for attendance and representation at the meeting.

Shareholders holding individually or collectively at least 5% of the issued share capital of the Company (a) have the right to put items on the agenda of the General Meeting and (b) have the right to table draft resolutions for items included or to be included on the agenda of the General Meeting. Those rights shall be exercised by a request in writing, which shall be submitted to the Company by postal services or electronic means. The request must be accompanied by a justification or a draft resolution to be adopted in the General Meeting and shall include the electronic or mailing address at which the Company can acknowledge receipt of the request. Any such request from shareholders must be received by the Company not later than on the twenty-second day prior to the date of the General Meeting.

Subject to restrictions under applicable laws, each shareholder is entitled to attend the General Meeting, in person or by proxy, and to exercise voting rights in accordance with the Articles of Association and each of the Company's shares (excluding any of the Company's shares held by the Company) entitles its holder to one vote.

The record date for General Meetings is the fourteenth day at midnight (24:00 hours) (Luxembourg time) before the date of the General Meeting (the "**Record Date**"). Shareholders are entitled to attend the General Meetings and exercise their rights only if they hold the Company's shares at the latest at the Record Date. Shareholders must notify the Company of their intention to participate in the General Meeting in writing by post or electronic means no later than the day, which may not be earlier than the Record Date, indicated in the convening notice.

17.7.2 Chairman, Quorum and Majority

General Meetings are chaired by the Chairman. In the absence of the Chairman, the General Meeting is presided over by the most senior member of the Board of Directors present.

At any General Meeting, other than an extraordinary General Meeting convened for the purpose of amending the Articles of Association or voting on resolutions whose adoption is subject to the quorum and majority requirements for amendment of the Articles of Association, no quorum is required and resolutions shall be adopted, irrespective of the number of Company's shares represented, by a simple majority of votes cast.

At any extraordinary General Meeting for the purpose of amending the Articles of Association or voting on resolutions whose adoption is subject to the quorum and majority requirements for amendment of the Articles of Association, the quorum must be at least on half of all of the Company's shares issued and outstanding. If a quorum is not reached at a first General Meeting, a second General Meeting may be convened at which there is no quorum requirement. In order for the proposed resolutions to be adopted at a General Meeting, and save as otherwise provided by law, a two-thirds majority of the votes of the shareholders present or represented and voting is required at any such General Meeting.

In the event that all the shareholders are present or represented at a General Meeting and declare that they have been informed of the agenda of the General Meeting, the General Meeting may be held without prior notice of meeting.

17.8 Annual General Meeting

The Annual General Meeting shall be held in accordance with Luxembourg law within six months of the end of the Company's fiscal year at the Company's registered office or at any other place in the Grand Duchy of Luxembourg indicated in the convening notice. The agenda of the Annual General Meeting, the reports and the documents required for such meeting are published on the Company's website. Following the approval of the annual accounts and consolidated accounts, the Annual General Meeting shall decide by special vote on the discharge of the liability of the members of the Board of Directors.

17.9 Corporate Governance

The Company's corporate governance practices are governed by Luxembourg law, particularly the Luxembourg Companies Law and the Company's Article of Association. As a Luxembourg company listed solely on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company is not subject to any specific mandatory corporate governance rules. In particular, the Company is currently not required to adhere to the "Ten Principles of Corporate Governance" of the Luxembourg Stock Exchange or to declare whether they comply with the recommendations of German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), the latter of which are only applicable to listed companies incorporated in Germany.

18. CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

In accordance with IAS 24, transactions with persons or companies that are, inter alia, members of the same group as the Company or which are in control of or controlled by the Company must be disclosed, unless they are already included in the Company's audited financial statements as consolidated companies. Control exists if a shareholder owns more than one half of the voting rights in the Company or, by virtue of an agreement, has the power to control the financial and operating policies of the Board of Directors. The disclosure requirements under IAS 24 also extend to transactions with associated companies (including joint ventures) as well as transactions with persons who have significant influence on the Company's financial and operating policies, including close family members and intermediate entities. This includes the members of the Board of Directors and close members of their families, as well as those entities over which the members of the Board of Directors or their close family members are able to exercise a significant influence or in which they hold a significant share of voting rights.

During the fiscal years ended December 31, 2019, 2018 and 2017 up to and including the date of this Prospectus, there have been no relevant related-party transactions except as described in this section. Further information of related party transactions, including quantitative amounts, are contained in the notes to the respective Consolidated Financial Statements, which are included in the section "21. Financial Information" of this Prospectus.

ADO Group Ltd., incorporated in Israel, holds 20.45% of all issued and paid share capital of the Company as of the date of this Prospectus. The sole shareholder of ADO Group Ltd. is ADLER Real Estate.

On January 26, 2016, the ADO Properties Group entered into an investment agreement with ADO Group Ltd. to jointly enter into a transaction to purchase the entire share capital of fourteen German Property Companies so that upon completion of the transaction, the ADO Properties Group would hold 94.9% and ADO Group Ltd. would hold 5.1% of the share capital of each of the Property Companies (see "12.7.5.1 Investment Agreement with ADO Group Ltd.").

On December 15, 2019, the Company and ADLER Real Estate entered into a BCA to combine the business of the ADLER Group with the business of the ADO Properties Group (see "12.7.1 Business Combination Agreement".)

The transactions between the Company and its related parties are set forth in the following tables:

	For the year ended December 31,		
	2019	2018	2017
	(audited)		
	(in € thousand)		
Current assets			
ADO Properties Group	—	280	—
Current liabilities			
ADO Properties Group	63	5	42
Other financial liabilities	1,535	1,535	867
Interest payable	82	83	—
Non-current liabilities			
Other financial liabilities	46,416	40,492	27,238
Convertible bond	(59,782)	58,940	—
Derivative	(1,294)	5,182	—
Other loans and borrowings	23,634	22,600	21,610
	For the year ended December 31,		
	2019	2018	2017
	(audited)		
	(in € thousand)		
Consolidated statement of profit or loss			
Services and management fee charges	87	46	64
Interest expense payable to ADO Properties Group	1,584	165	—
Interest expense payable to Harel Insurance Company Ltd	1,035	990	946

On November 16, 2018, the Company placed senior, unsecured convertible bonds in a total nominal amount of €165 million. ADO Group Ltd. was allocated bonds reflecting its pro rata shareholding in the Company at the time of the placement of the bonds.

Under IAS 24, key management personnel includes persons having authority and responsibility for planning, directing and controlling, directly or indirectly, the activities of the relevant entity, including any executive or non-executive director, and close members of the key management personnel's families.

With respect to the Company, the individuals in key positions pursuant to IAS 24 include the Board of Directors. Compensation and benefits to key management personnel that are employed by the ADO Properties Group:

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Short-term employee benefits	1,687	800	955
Share-based payments	2,341	335	350
Other compensation	2,266	279	—
Total	6,294	1,414	1,305

The emoluments granted to the members of supervisory bodies in that capacity for the relevant periods are as follows:

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Directors fee granted to the members of the Board of Directors	1,165	608	714
One-time termination payment	1,261	279	—
Total	2,426	887	714

The emoluments granted to the members of the Senior Management are as follows:

	For the year ended December 31,		
	2019	2018	2017
	(audited) (in € thousand)		
Fixed salary	936	662	662
Short-term cash incentive	202	349	343
Long-term incentive to be paid in shares or cash	220	376	387
Office rent	3	—	—
One-time termination payment	4,351	—	—
Total	5,712	1,390	1,392

The ADO Properties Group is renting an office from the previous chief financial officer of the Company, for which the total amount paid in the year ended December 31, 2019 amounted to €2,700. Apart for the Board of Directors remuneration, no remuneration was paid to such related parties in the Fiscal Year 2019, the Fiscal Year 2018 or the Fiscal Year 2017.

All transactions with related parties are executed at arm's length on the basis of international methods of price comparison in accordance with IAS 24.

The rules of procedure for related parties' transactions are governed by the Company's specific rules of procedure for related parties' transactions as adopted by the Board of Directors' on January 16, 2020 (the "Specific Rules of Procedure").

19. TAXATION

Investors should note that tax legislation of their respective home state and of the Company's country of incorporation, i.e. Luxembourg, may have an impact on the income from the Company's shares.

19.1 Taxation in the Federal Republic of Germany

The following sections describe a number of key German taxation principles that may be relevant for purchasing, holding or transferring the Company's shares. The information provided does not constitute a comprehensive or definitive explanation of all possible aspects of taxation in this area. This summary is based on applicable German tax law as of the date of this Prospectus, including the double taxation treaties that Germany has concluded with other countries. It should be noted that the legal situation may change, including, in certain cases, with retroactive effect. Persons interested in purchasing the Company's shares are strongly advised to seek advice from their own tax counsel regarding the tax implications of purchasing, holding, disposing, donating and bequeathing the Company's shares, and the regulations on reclaiming previously withheld withholding tax (*Kapitalertragsteuer*). Due consideration to a shareholder's specific tax-related circumstances can only be given within the scope of an individual tax consultation. Shareholders of the Company are subject to taxation in connection with the holding of the Company's shares (see: "19.1.1.1 Taxation of Dividends"), the disposal of the Company's shares (see: "19.1.1.4 Taxation of Capital Gains") and the gratuitous transfer of the Company's shares (see: "19.1.4 Inheritance and Gift Tax"), etc.

19.1.1 General principles of taxation of shareholders of the Company

19.1.1.1 Taxation of Dividends

In the case of dividends paid by a non-German corporation, German withholding tax is generally withheld regardless of whether and to what extent the dividend is exempt from tax at the level of a German tax resident shareholder if the shares are kept in custody with a German Disbursing Agent (as defined herein). However, no German withholding tax should be imposed on such dividends that are paid to German tax resident corporations, non-German shareholders or, subject to certain prerequisites, if the dividends are business income of a domestic business. The withholding tax amounts to 25% on the amount of the distribution. A solidarity surcharge of 5.5% is also levied on the withholding tax amount, resulting in a total withholding of 26.375% (plus church tax, if any). The solidarity surcharge shall be partially abolished as of January 1, 2021. However, the solidarity surcharge shall continue to apply for capital investment income unless the individual income tax burden for an individual holder is lower than 25%. If shares – as it is the case with the Company's shares – are held in collective safe custody (*Sammelverwahrung*) with a central securities depository (*Wertpapiersammelbank*) pursuant to Section 5 German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such central securities depository for collective safe custody in Germany, which is tax resident in Germany, the withholding tax is withheld and discharged for the account of the German tax resident shareholders by the domestic branch of the domestic or foreign credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps and administers the shares and disburses or credits the dividends (hereinafter referred to jointly or separately as "**German Disbursing Agent**"). The Company assumes no responsibility for the withholding of German capital gains taxes at the source.

If and to the extent funds from the tax contribution account (*steuerliches Einlagekonto*) are declared to be used for the distribution, the distribution is generally not taxable and, therefore, not subject to withholding tax, income tax (including solidarity surcharge and church tax if applicable) or corporate tax and trade tax, however provided that the Company applies for a special assessment procedure with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) and subject to further prerequisites. Such distributions from the tax contribution account accordingly reduce the acquisition costs or the book value of the Company's shares, which may result in a greater amount of taxable capital gain upon the respective shareholder's sale of the Company's shares. To the extent that dividends from the tax contribution account exceed the acquisition costs of the Company's shares, a capital gain is recognized by the shareholder, which may be subject to tax in accordance with the provisions outlined below.

19.1.1.2 Taxation of dividends of Shareholders with tax residence in Germany

19.1.1.2.1 Shares Held as Private Assets

In principle, the tax liability applicable to dividend payments to individual shareholders who are German tax residents and who hold shares as part of their private assets is generally satisfied by withholding a flat tax (*Abgeltungsteuer*) of 25% plus a solidarity surcharge of 5.5% thereon, resulting in a total tax rate of 26.375% (plus church tax, if any) as described above (see: “19.1.1.1 Taxation of Dividends”). Income-related expenses incurred in connection with private capital income are not tax deductible. The only deduction that may be made is an annual lump sum deduction amount of €801 (€1,602 for jointly assessed married couples and registered partners) on all private capital income (*Einkünfte aus Kapitalvermögen*). Shareholders may apply for the whole amount of their capital income, including dividends, to be taxed at their individual income tax rate instead of the flat-rate withholding tax if this results in a lower tax liability. In such cases, it is also impossible to deduct any income-related expenses other than the annual lump sum deduction amount. Furthermore, dividend income may generally be offset by capital losses from other sources (with the exception of losses from the sale of shares; further, losses from worthless shares may only be offset against other investment income in the amount of €10,000 p.a.). Shareholders may be liable for church tax, which is generally deducted by way of withholding by the German Disbursing Agent, unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office. Where church tax is not levied by way of withholding, it is determined by means of an income tax assessment.

Individual shareholders who privately hold, directly or indirectly, an interest of at least 25% in the Company, and shareholders who privately hold, directly or indirectly, at least 1% in the Company and work for the Company, and thereby are able to exert a significant influence on the companies economic activity, may, in principle, demand exemption from the compensatory taxation of capital income in the amount of 25 % within the meaning of Section 32d para. 1 sentence 1 German Income Tax Act (*Einkommensteuergesetz* – “**ESTG**”). In this case, 60% of the dividends paid to the shareholder are subject to income tax according to the applicable rate plus solidarity surcharge (plus church tax, if any, for which, however, the 40% tax exemption does not apply) thereon. Expenses incurred in connection with dividend income are then generally 60% tax-deductible. The levied withholding tax is offset against the income tax and any excess withholding tax is refunded. Distributions that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, not taxable.

Tax withheld in Luxembourg (15% of the dividends, see: “19.2.3.1 Withholding Tax”) can generally be credited against the German tax liability on the Luxembourg dividends received by the German tax resident individual.

19.1.1.2.2 Shares held by corporations as business assets

In principle, dividends paid to corporations that are German tax residents are generally subject to corporate tax (and solidarity surcharge thereon) at a rate of 15.825%. However, dividends received are effectively 95% exempt from corporate tax (and solidarity surcharge thereon), if the corporation holds a direct participation of at least 10% in the share capital of the Company at the beginning of the calendar year in which the dividends are paid. The acquisition of a participation of at least 10% in the course of a calendar year is deemed to have occurred at the beginning of such calendar year for the purpose of this rule. Participations in the share capital of the Company which a corporate shareholder holds through a partnership, including co-entrepreneurships (*Mitunternehmenschaften*), are attributable to such corporate shareholder only on a pro rata basis at the ratio of the interest share of the corporate shareholder in the assets of relevant partnership and are deemed to be a direct holding. However, 5% of the dividend distributions are treated as non-deductible business expenses and are subject to corporate tax. Business expenses actually incurred in connection with dividend income are generally tax-deductible.

For trade tax purposes, dividends paid by a corporation resident in another EU member state are only exempt as described above if the entity that is receiving the dividends held a stake of at least 15% in the share capital of the Company at the beginning of the assessment period. Otherwise, the dividends will be fully subject to trade tax. Under certain conditions no withholding tax should be levied by the German Disbursing Agent on dividends to corporations that are German tax residents. The same applies to the solidarity surcharge, which is levied in addition to the corporate income tax. Distributions that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, not taxable.

Tax withheld in Luxembourg (15% of the dividends, see: “19.2.3.1 Withholding Tax”), if any, can generally be credited against the German tax liability on the Luxembourg dividends received by the German tax resident corporation. However, it is not possible to offset income that is exempt from corporation tax pursuant to Section 8b para. 1 of the German Corporate Income Tax Act (*Körperschaftsteuergesetz* – “KStG”). In this case, it is also not possible to offset the 5% non-deductible operating expenses within the meaning of Section 8b para. 5 sentence 1 KStG against corporate tax.

19.1.1.2.3 Shares held as business assets of individuals (sole proprietors)

In principle, only 60% of the dividends paid to individuals who are German tax residents and who hold shares as part of their business assets are subject to income tax according to the applicable rate. A solidarity surcharge of 5.5% of this amount also applies as well as church tax (levied on the full amount of the dividend), if any. Subject to certain prerequisites, no withholding tax should be imposed on sole proprietors that are German tax residents by the German Disbursing Agent. To the extent withholding tax is levied, such withholding tax is offset against the personal income tax due and any excess amount is refunded. The same applies to the solidarity surcharge and church tax, if any. Business expenses incurred in connection with dividend income from a tax perspective are generally only 60% tax-deductible. The dividends are also subject to trade tax, which is fully or partly credited towards the individual’s income tax by means of a flat-rate imputation procedure. The dividends are exempt from trade tax, provided that the shareholder holds at least 15% of the Company’s share capital at the beginning of the relevant assessment period. Distributions that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, not taxable.

Tax withheld in Luxembourg (15% of the dividends, see: “19.2.3.1 Withholding Tax”) can generally be credited against the German tax liability on the Luxembourg dividends received by the German tax resident individual.

19.1.1.2.4 Shares held by a commercial partnership

Income tax or corporate income tax (in each case including solidarity surcharge and church tax, if any) is not levied at the level of the partnership (*Mitunternehmerschaft*) but rather at the level of the respective shareholder. Taxation is determined by whether the shareholder is a corporation or an individual.

If the shareholder is a corporation, the dividends contained in its profit share are taxed in accordance with the principles applicable to corporations (see: “19.1.1.4.1.2 Shares held by corporations”). If the partner is an individual (sole proprietors) and the shares are held as business assets, dividends contained in their profit share are taxed in accordance with the principles applicable to sole proprietors (see: “19.1.1.2.3 Shares held as business assets of individuals (sole proprietors)”). Subject to certain conditions, an individual shareholder may request that its personal income tax in relation with earnings not withdrawn from the partnership may be subject to a favorable income tax rate.

If the partnership is liable for trade tax, it is levied at the level of the partnership. If an individual holds an interest in the partnership, the proportionate trade tax may be credited fully or partly towards the individual’s income tax by means of a flat-rate imputation procedure. The dividends are exempt from trade tax, provided that the partnership holds at least 15% of the Company’s share capital at the beginning of the relevant assessment period. Distributions that are made using funds from the tax contribution account (*steuerliches Einlagekonto*) are generally, subject to certain prerequisites, not taxable.

Tax withheld in Luxembourg (15% of the dividends, see: “19.2.3.1 Withholding Tax”), can generally be credited against the individual partners’ personal German tax liability on the share of Luxembourg dividends.

19.1.1.2.5 Shares held as part of the assets of certain companies in the financial and insurance sector

The tax exemption applicable to dividends does not apply to dividends paid to certain companies in the financial and insurance sector.

Dividends from shares that are part of the trading books of banks and financial services institutions in the meaning of the German Banking Act (*Kreditwesengesetz*), as well as dividends from shares that are acquired by certain financial enterprises with the aim of generating a short-term proprietary trading profit, are fully liable for corporate income tax (plus solidarity surcharge). If the stake held at the beginning of the relevant assessment period is 15% or higher, subject to certain conditions, the dividends can be fully

exempted from trade tax. Dividends from shares that are classified as investments in the case of life insurers, health insurers and pension funds are fully subject to corporate income tax and trade tax.

Tax withheld in Luxembourg (15% of the dividends, see: “19.2.3.1 Withholding Tax”), if any, can generally be credited against the German tax liability on the Luxembourg dividends received by the German tax resident corporation.

19.1.1.3 Shareholders with tax residence outside of Germany

Dividends paid to shareholders who are not German tax residents (individuals and corporations) should, absent a German limited tax liability, in principle not be subject to German taxation. However, if the Company’s shares are held as part of business assets in Germany (that is, via a permanent establishment or as part of business assets for which a permanent representative in Germany has been appointed), the provisions outlined above with respect to the taxation of shareholders that are German tax residents holding the Company’s shares as business assets principally apply accordingly. No withholding tax should be imposed on to corporations that are German tax residents by a German Disbursing Agent. If the imposition of withholding tax was not refrained from by a German Disbursing Agent, the withholding tax amounts should be credited towards the shareholder’s income tax or corporate income tax liability or refunded in the amount of any excess paid.

19.1.1.4 Taxation of Capital Gains

19.1.1.4.1 Shareholders with tax residence in Germany

19.1.1.4.1.1. Shares held as private assets

Capital gains are classified as private capital income and are subject to income tax (plus solidarity surcharge and church tax, if any) irrespective of how long the shares have been held.

If the shares are held in custody or administered by a German Disbursing Agent, the tax on the capital gains will in general be discharged for the account of the seller by the German Disbursing Agent imposing the withholding tax on investment income at the rate of 25% (plus 5.5% solidarity surcharge, resulting in a total withholding of 26.375%, and church tax, if any). The taxable capital gain is calculated by deducting the acquisition costs of the Company’s shares and the expenses directly related to the disposal from the proceeds of the disposal.

A shareholder’s income tax and solidarity surcharge liability is generally satisfied through the withholding of the withholding tax. Shareholders may, however, request that a tax assessment be carried out on their income from capital investments if this results in a lower tax liability. Investment income may be reduced only by an annual lump sum deduction amount of €801 (€1,602 for jointly assessed married couples and registered partners); it is not possible to further deduct expenses actually incurred except for expenses incurred directly in connection with the disposal. Capital gains generated by the disposal of shares can be offset against other losses from capital income while capital losses incurred from the disposal of shares can only be offset against capital gains from the disposal of shares. Shareholders may be liable for church tax, which is generally deducted by way of withholding by the German Disbursing Agent, unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the Federal Central Tax Office. Where church tax is not levied by way of withholding, it is determined by means of an income tax assessment.

If the shareholder making the disposal – or, in the event of a sale of shares acquired without consideration, its legal predecessor – held a direct or indirect stake of at least 1% in the Company’s share capital at any time in the five years preceding or at the moment of the disposal, any capital gains realized are deemed to be trade income such that any withholding tax levied on the capital gains does not satisfy the tax liability. The capital gains are 60% taxable at the individual income tax rate of the shareholder (plus 5.5% solidarity surcharge thereon, and church tax (levied on the full amount of the capital gain), if any), and, correspondingly, only 60% of the operating expenses economically related to the capital gain and only 60% of any capital losses will be recognized for income tax purposes. The withholding tax and solidarity and church tax, if any, surcharge withheld are credited towards the shareholders’ tax liability or refunded.

19.1.1.4.1.2. Shares held by corporations

Gains from the disposal of shares held by corporations that are German tax residents (registered office or place of management) are generally not subject to withholding tax and are in principle exempt from corporate income tax and trade tax. However, 5% of the capital gains are deemed non-deductible business expenses and are thus subject to corporate income tax (plus solidarity surcharge thereon) and to trade tax. Consequently, capital gains are generally effectively 95% exempt from tax. As a rule, losses on disposals and other profit reductions in connection with the shares sold may not be deducted as business expenses.

19.1.1.4.1.3. Shares held as business assets of a sole proprietor

Gains from the disposal of shares held by individuals are not subject to withholding tax if the shares are held as business assets of the sole proprietor with tax residence in Germany and the sole proprietor declares this fact to the German Disbursing Agent on the designated official form. If withholding tax including solidarity surcharge was levied, this does not have a compensatory effect. Instead, the amounts withheld are credited towards the seller's income tax (plus solidarity surcharge) liability or refunded in the amount of any excess paid. 60% of the gains from the disposal of the shares are subject to income tax (plus solidarity surcharge and church tax, if any; church tax is levied on the full amount of the capital gain) at the individual tax rate of the shareholder and – if the shares are held as part of commercial business assets in Germany – to trade tax. The trade tax is (partially) credited to the shareholder's personal income tax by means of a flat-rate imputation procedure. Generally, only 60% of the losses on disposals and business expenses commercially linked to the shares sold may be deducted.

19.1.1.4.1.4. Shares held as business assets of a commercial partnership

Income tax or corporate income tax is not levied at the level of the partnership (*Mitunternehmerschaft*) but at the level of the respective shareholder. If shares are held as business assets of the partnership, taxation is determined as if the partner held a direct interest in the Company, according to the rules outlined above depending on whether the partner is a corporation (see: “19.1.1.4.1.2 Shares held by corporations”) or an individual (see: “19.1.1.2.3 Shares held as business assets of individuals (sole proprietors)”). Upon application and subject to further conditions, a partner that is an individual may, subject to certain conditions, have its personal income tax lowered for earnings attributable to him and that have not been withdrawn from the partnership.

Trade tax, however, is assessed and levied at the level of the partnership considering the trade tax rules applicable to the partners holding the interest in the relevant partnership. In case the partner is an individual, the trade tax paid by the partnership is generally credited on a pro-rata basis as a lump-sum against the individual partners' personal income tax liability.

19.1.1.4.1.5. Shares held as part of assets of certain companies in the financial and insurance sector

Capital gains realized by certain companies in the financial and insurance sector are, as an exception to the aforementioned rules, fully taxable. This applies to gains from the disposal of shares in the trading books of banks and financial services companies in the meaning of the German Banking Act (*Kreditwesengesetz*), to gains from the disposal of shares that were acquired by financial enterprises with the aim of generating a short-term proprietary trading profit, as well as to gains from the disposal of shares held as investments by life insurers, health insurers and pension funds. In turn, capital losses are generally fully tax deductible.

19.1.1.4.1.6. Shareholders with tax residence outside Germany

Gains from the sale of shares held by shareholders (individuals and corporations) who are not tax resident in Germany may also be subject to taxation in Germany as of January 1, 2019 due to changes in the law, provided that (i) the shareholder, taking into account a period of five years prior to the sale date or at the moment of the sale, directly or indirectly held at least 1% of the share capital of the Company and (ii) the value of the shares at any time during the 365 days prior to the sale was based directly or indirectly on more than 50% of immovable assets located in Germany. The extent to which applicable double taxation treaties restrict the right of taxation of Germany or assign the sole right of taxation to the state of residence must be examined individually for each investor in accordance with the provisions of the double taxation treaties. In the event of taxation of capital gains in Germany, the same provisions that apply to the taxation of shareholders resident in Germany and holding shares as business assets apply (see “19.1.1.4 Taxation of Capital Gains”).

Gains from the disposal of shares held as part of German business assets (that is, via a permanent establishment or as part of business assets for which a permanent representative in Germany has been appointed) by non-resident shareholders are taxed in Germany principally according to the same provisions that apply to the taxation of shareholders that are German tax residents holding the shares as business assets (see: “19.1.1.4 Taxation of Capital Gains” above).

19.1.2 If the Company qualifies as investment fund in the sense of the German Investment Tax Act

As of January 1, 2018 changes to the German Investment Tax Act became effective introducing a new taxation regime for (retail) investment funds, whereas the semi-transparent taxation regime for special investment funds basically continues to apply (general treatment of the unit holder, as if he would hold the fund’s assets directly with certain exemptions), if the relevant requirements are fulfilled. If the company would not qualify as special investment fund the unit holders would be subject to taxation on (i) distributions, (ii) pre-determined tax bases (*Vorabpauschalen*) and (iii) capital gains from the sale of investment fund units. Special partial tax exemptions would be available on such income received from the fund depending on the investment strategy of the fund and the individual tax status of the unit holder (e.g. private, business or corporate investor).

19.1.3 German CFC Rules

German resident investors (individuals or corporate shareholders) collectively holding 50% or more of the shares or voting rights in the Company may become subject to the German CFC rules (*Hinzurechnungsbesteuerung*) pursuant to the German Foreign Tax Act (*Außensteuergesetz*) to the extent that the income of the Company qualifies as (low taxed) passive income (*Zwischeneinkünfte*) for German CFC rules purposes. The effective low tax rate in the sense of German CFC rules is currently set at 25%.

Irrespective of the 50% threshold each German resident shareholder that holds at least 1% of the shares or voting rights in the Company may become subject to the German CFC rules to the extent that the income of the Company qualifies as passive capital investment income (*Zwischeneinkünfte mit Kapitalanlagecharakter*) provided that gross earnings, on which the passive capital investment income are based on, make up more than 10% of the entire gross earnings of all passive income of the Company in the respective fiscal year.

However, in either of the above situations German CFC rules may not result in an income attribution for German tax purposes to the extent that the German resident investor is able to evidence to the German tax authorities that the Company carries out an actual business in Luxembourg.

The draft bill regarding the implementation of the Anti Tax Avoidance Directive (ATAD) by the EU in 2016 in Germany has been published on December 10, 2019 and includes the revision of the current CFC rules in Germany. It is anticipated that the final bill will be applicable with retroactive effect to January 1, 2020.

The current version of the draft bill includes amendments regarding the threshold of foreign share holdings by German resident investors. The current law takes into account with regard to the “control of a foreign company” criterion, the collective holdings of all German resident investors in a foreign based (low taxed) company whereas the amendments within the draft bill stipulate a shareholder-related approach, taking into account related parties. Thus, for the present case only shareholders who individually or taking into account related parties hold more than 50% of the Company may fall under the scope of CFC rules.

19.1.4 Inheritance and Gift Tax

The transfer of shares to another person upon death or as a gift is generally subject to German inheritance or gift tax in the following circumstances:

- (i) the place of residence, customary place of abode, place of management or registered office of the testator, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five consecutive years outside Germany without having a place of residence in Germany (this term is extended to ten years for German expatriates with U.S. residence); or
- (ii) the testator’s or donor’s shares were part of business assets for which there was a place of business in Germany or for which a permanent representative was appointed.

The small number of double taxation treaties regarding inheritance and gift tax that Germany has concluded to date generally provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special arrangements apply to certain German nationals and former German nationals living outside Germany.

19.1.5 Other Taxes

No German capital transfer tax, value added tax, stamp duty or similar taxes are levied on the purchase or disposal of shares or other forms of share transfer. However, an entrepreneur can opt to pay VAT on the sale of shares, despite being generally exempt from value-added tax, if the shares are sold to another entrepreneur for the entrepreneur's business. Wealth tax is currently not levied in Germany.

19.1.6 The Proposed Financial Transaction Tax

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax ("FTT") in certain participating Member States.

The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

According to a press announcement of the EU Council, ten participating Member States, including Germany, currently intend to work on the introduction of an FTT based on a progressive implementation of such tax. The progressive implementation shall first focus on the taxation of shares and certain derivatives only. As to the further implementation of any FTT there is currently no detailed plan or timetable available.

Nevertheless, the proposed Directive remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. In December 2019, the German Federal Minister of Finance presented his European counterparts with a first draft bill on the Financial Transaction Tax. This draft bill initially provides for a tax on share purchases in ten EU Member States.

19.2 Taxation in the Grand Duchy of Luxembourg

The following is an overview discussion of certain material Luxembourg tax consequences with respect to the Company and its shares. This overview does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular holder of the Company's shares, and does not purport to include tax considerations that arise from rules of general application or that are generally assumed to be known to holders of the Company's shares. It is not intended to be, nor should it be construed to be, legal or tax advice. This discussion is based on Luxembourg laws and regulations as they stand on the date of this Prospectus and is subject to any change in law or regulations or changes in interpretation or application thereof that may take effect after such date. Prospective shareholders should therefore consult their own advisers as to the effects of state, local or foreign laws and regulations, including Luxembourg tax law and regulations, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge (which are collectively referred to as Luxembourg corporation taxes) invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual tax payers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

19.2.1 Taxation of the Exchange of ADLER Shares against shares in the Company

The exchange of ADLER Shares against New Shares would in principle lead to the realization of latent gains at the level of the ADLER Shareholders who are Luxembourg residents pursuant to the provisions of article 22 (5) of the Luxembourg income tax law. According to these provisions, an exchange of assets is treated as the effective transfer of the said assets for their market value followed by the subsequent acquisition of the assets received.

For individual or corporate ADLER Shareholders who are Luxembourg residents, the exchange of ADLER Shares for New Shares will not trigger the realization of capital gains in application of the roll-over mechanism provided for in article 22bis (2) 4 of the Luxembourg income tax law assuming that all the conditions are met as the Company will acquire at least a majority of the voting rights in ADLER Real Estate under the Offer.

As a consequence of the roll-over mechanism, the New Shares received by the Luxembourg resident will keep the same acquisition value and date as their ADLER Shares.

Individual or corporate holders of ADLER Shares who are Luxembourg residents may opt for realizing the capital gains arising from the exchange of shares. In such event, the Luxembourg holders of ADLER Shares will be fully subject to Luxembourg income tax on the capital gains realized, unless they can rely on any of the applicable exemptions provided for by the Luxembourg income tax law as further outlined below.

19.2.2 Taxation of the Company

19.2.2.1 Corporate Income Tax

The Company is liable for Luxembourg corporation taxes. The aggregate maximum applicable rate, including corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*) and a contribution to the employment fund, is 24.94% for a company established in Senningerberg in 2019 or 2020. Liability for such corporation taxes extends to the Company's worldwide profits including capital gains, subject to the provisions of any relevant double taxation treaty and the tax exemptions for qualifying participations provided by the Article 166 of the Luxembourg income tax law or the Grand-ducal decree dated December 21, 2001. The taxable income of the Company is computed by application of the Luxembourg income tax law of December 4, 1967, as amended (*loi concernant l'impôt sur le revenu*), as commented and currently applied by the Luxembourg tax authorities. The Company is a fully taxable Luxembourg resident and should therefore, from a Luxembourg tax perspective, be able to benefit from double taxation treaties and European directives on income tax matters.

19.2.2.2 Net Wealth Tax

The Company is fully subject to the annual net wealth tax charge (*impôt sur la fortune*) which amounts to 0.5% of the net asset value of the Company on a net asset value up to and including €500,000,000. In case the net asset value of the Company exceeds €500,000,000, any amount in excess of said threshold will be subject to net wealth tax at a rate of 0.05%. Certain assets (such as qualifying participations) might be excluded from the net asset value for the purposes of the net wealth tax computation, provided that the provisions of paragraph 60 of the valuation law of October 16, 1934, as amended (*BewG*) are met.

The Company is subject to the fixed minimum net wealth tax of €4,815 if the sum of fixed financial assets, receivables on related entities, transferable securities and cash at bank exceeds 90% of its balance sheet and €350,000. If the Company should not fall within the scope of the €4,815 minimum net wealth tax, a progressive minimum net wealth tax will be applicable ranging from €535 to €32,100, depending on the Company's total gross assets.

19.2.3 Taxation of Investors

This tax disclosure is limited to the tax consequences to investors owning the Company's shares. This discussion therefore is limited to taxation issues in respect of the holding and selling of these shares.

19.2.3.1 Withholding Tax

A 15% withholding tax will be due in Luxembourg on distribution paid by the Company to its shareholders unless the domestic withholding tax exemption regime or a withholding tax reduction or exemption

under a double tax treaty concluded by Luxembourg applies. Liquidation proceeds will not be subject to withholding taxes. Should any withholding taxes be payable on amounts paid by the Company, the Company assumes responsibility for the withholding of Luxembourg taxes at the source.

19.2.3.2 Non-resident Shareholders

A shareholder will not become resident, nor be deemed to be resident, in Luxembourg solely by virtue of the acquisition, the holding and/or disposing of the Company's shares or the execution, performance, delivery and/or enforcement of his/her rights thereunder.

Capital gains realized by a shareholder of the Company who is not a resident of Luxembourg for tax purposes and who has no permanent establishment or permanent representative to which the Company's shares are attributable are not taxable in Luxembourg, except if the Company's shares are part of a substantial participation of more than 10% in the Company and provided these shares are sold within six months of their acquisition or, under certain conditions, the individual shareholder has been a Luxembourg resident for more than 15 years and has become a non-resident less than 5 years after the sale disposal or redemption of the Company's shares and provided that no double taxation treaty denies Luxembourg the right to tax.

Non-resident corporate shareholders which have a permanent establishment or a permanent representative in Luxembourg, to which the Company's shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of the Company's shares, in their taxable income for Luxembourg assessment purposes. The same inclusion applies to individuals, acting in the course of the management of a professional or business undertaking, who have a permanent establishment or a permanent representative in Luxembourg, to which the Company's shares are attributable.

19.2.3.3 Luxembourg-resident Shareholders

19.2.3.3.1 Luxembourg-resident Individuals

Any dividends and other payments derived from the Company's shares received by resident individuals who act in the course of either their private wealth or their professional/business activity, are subject to income tax at the progressive ordinary rates on half of the amounts received, the other half being tax exempt pursuant to the provisions of Article 115 paragraph 15a of the Luxembourg income tax law. For the years 2019 and 2020 the top marginal rate including solidarity surcharge is at 45.78%.

A gain realized upon the sale, disposal or redemption of the Company's shares by Luxembourg resident individual shareholders acting in the course of the management of their private wealth is not subject to Luxembourg income tax, provided this sale, disposal or redemption took place more than 6 months after the Company's shares were acquired or the disposal of the Company's shares did not precede the acquisition and provided the Company's shares do not represent a substantial participation.

A participation is deemed to be substantial where a resident individual shareholder holds or has held, either alone or together with his/her spouse or partner and/or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the company whose shares are being disposed of. A shareholder is also deemed to alienate a substantial participation if he acquired free of charge, within the 5 years preceding the transfer, a participation that constituted a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same 5-year period). Capital gains realized on a substantial participation more than 6 months after the acquisition thereof are taxed according to the half-global rate method (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the participation.

Capital gains realized on the disposal of the Company's shares by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are defined as being the difference between the price for which the Company's shares have been disposed of and the lower of their cost or book value.

19.2.3.3.2 Luxembourg-resident Companies

Luxembourg resident corporate shareholders will be subject to corporation taxes at the rate of up to 24.94% for entities having their registered office in Luxembourg-City on dividend distributions made by

the Company and the gains received upon disposal of the Company's shares unless a tax exemption pursuant to the provisions of the Article 166 of the Luxembourg income tax law or the Grand-ducal decree dated December 21, 2001 applies or unless the shareholders benefit from a special tax regime such as undertakings for collective investment subject to the law of December 17, 2010, as amended, specialized investment funds subject to the law of February 13, 2007, as amended, investment companies in risk capital subject to the law of June 15, 2004, as amended, or family wealth management companies subject to the law of May 11, 2007, as amended, or reserved alternative investment funds subject to the law of July 23, 2016.

19.2.3.4 Net Wealth Tax

Non-resident and resident individual shareholders are exempt from net wealth tax on the Company's shares in Luxembourg.

19.2.3.4.1 Non-resident Shareholders

The mere holding of the shares in Luxembourg custody accounts does not create a permanent establishment or a permanent representative in Luxembourg. Absent any permanent establishment or a permanent representative in Luxembourg, non-resident corporate shareholders will not be subject to net wealth tax in Luxembourg as a result of them holding the Company's shares.

Non-resident shareholders who have a permanent establishment or a permanent representative in Luxembourg to which the Company's shares are attributable are subject to Luxembourg net wealth tax on the Company's shares, unless the conditions provided for by paragraph 60 of the valuation law of October 16, 1934, as amended (*BewG*) are met.

19.2.3.4.2 Luxembourg-resident Shareholders

Shares of the Company held by Luxembourg resident corporate shareholders, will be subject to an annual net wealth tax charge (*impôt sur la fortune*) of 0.5% (of 0.05% applicable to the net wealth exceeding €500,000,000) except if:

- (i) the conditions provided for by the valuation law of October 16, 1934, as amended (*BewG*) are met; or
- (ii) the Luxembourg resident company benefits from a special tax regime such as undertakings for collective investment subject to the law of December 17, 2010, as amended, specialized investment funds subject to the law of February 13, 2007, as amended, investment companies in risk capital subject to the law of June 15, 2004, as amended, or family wealth management companies subject to the law of May 11, 2007, as amended, a professional pension institution governed by the amended law of July 13, 2005, a securitization company governed by the amended law of March 22, 2004 on securitization, or a reserved alternative investment fund vehicle governed by the amended law of July 23, 2016.

Luxembourg resident corporate shareholders are subject to the fixed minimum net wealth tax of €4,815 if the sum of fixed financial assets, receivables on related entities, transferable securities and cash at bank exceeds 90% of their balance sheet and €350,000. If the Luxembourg resident corporate shareholders should not fall within the scope of the €4,815 minimum net wealth tax, a progressive minimum net wealth tax will be applicable ranging from €535 to €32,100, depending on their total gross assets.

Investment companies in risk capital subject to the law of June 15, 2004, as amended, a professional pension institution governed by the amended law of July 13, 2005, a securitization company governed by the amended law of March 22, 2004 on securitization or a reserved alternative investment fund vehicle governed by the amended law of July 23, 2016 provided that its exclusive object is the investment in risk capital and that article 48 of the amended law of July 23, 2016 applies, remain subject to the minimum net wealth tax.

19.2.3.5 Other Tax Consequences

19.2.3.5.1 Stamp Taxes and Transfer Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the holders of the Company's shares as a consequence of the issuance of the Company's shares,

nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Company's shares, unless the documents relating to the Company's shares are voluntarily registered or appended to a document that requires mandatory registration in Luxembourg.

19.2.3.5.2 Gift Taxes

No estate or inheritance tax is levied on the transfer of the Company's shares upon death of a holder of the Company's shares in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and no gift tax is levied upon a gift of the Company's shares if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg. Where a holder of the Company's shares is a resident for tax purposes of Luxembourg at the time of his death, the Company's shares are included in its taxable estate for inheritance tax or estate tax purposes.

19.2.3.5.3 VAT

If the activities of the Company do not exceed a mere holding activity, the Company should not be able to register for value added tax, (VAT), purposes in Luxembourg and any VAT suffered by the Company will, in principle, be final and irrecoverable. In case the Company provides services that are subject to VAT, it would have to register for VAT purposes in Luxembourg and it will be allowed to recover all or only a portion of the VAT incurred on its costs.

20. INCORPORATION BY REFERENCE

The pages specified below of the following documents, which have been previously published on ADLER Real Estate's website at www.adler-ag.com, are incorporated by reference into this Prospectus. The page numbers set out below refer to the page numbers of the respective pdf-documents of the ADLER Real Estate Historical Financials published on ADLER Real Estate's website.

1. The English language annual report 2019 containing the audited consolidated financial statements (prepared in accordance with IFRS in accordance with Section 317 German Commercial Code (*Handelsgesetzbuch*)) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW)) of ADLER Real Estate as of and for the fiscal year ended December 31, 2019, which can be accessed by using the following hyperlink: <https://adler-ag.com/new/wp-content/uploads/2020/03/Annual-report-2019-1.pdf> and the following pages:

Audited consolidated financial statements (prepared in accordance with IFRS) of ADLER Real Estate Aktiengesellschaft as of and for the fiscal year ended December 31, 2019

Consolidated Balance Sheet	80-81
Consolidated Statement of Comprehensive Income	82-83
Consolidated Statement of Cash Flows	84-85
Consolidated Statement of Changes in Equity	86-87
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2. The English language annual report 2018 containing the audited consolidated financial statements (prepared in accordance with IFRS in accordance with Section 317 German Commercial Code (*Handelsgesetzbuch*)) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW)) of ADLER Real Estate as of and for the fiscal year ended December 31, 2018, which can be accessed by using the following hyperlink: <https://adler-ag.com/new/wp-content/uploads/2019/10/Annual-Report-2018.pdf> and the following pages:

Audited consolidated financial statements (prepared in accordance with IFRS) of ADLER Real Estate Aktiengesellschaft as of and for the fiscal year ended December 31, 2018

Consolidated Balance Sheet	78-79
Consolidated Statement of Comprehensive Income	80-81
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3. The English language annual report 2017 containing the audited consolidated financial statements (prepared in accordance with IFRS in accordance with Section 317 German Commercial Code (*Handelsgesetzbuch*)) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW)) of ADLER Real Estate as of and for the fiscal year ended December 31, 2017, which can be accessed by using the following hyperlink: <https://adler-ag.com/new/wp-content/uploads/2019/10/Annual-Report-2017.pdf> and the following pages:

Audited consolidated financial statements (prepared in accordance with IFRS) of ADLER Real Estate Aktiengesellschaft as of and for the fiscal year ended December 31, 2017

Consolidated Balance Sheet	80-81
Consolidated Statement of Comprehensive Income	82-83
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All of these pages shall be deemed to be incorporated by reference into, and to form part of, this Prospectus.

Copies of the documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of ADLER Real Estate and by accessing the aforementioned hyperlinks.

The auditor's reports of each of the ADLER Real Estate Historical Financials have been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) and relate to each of the ADLER Real Estate Historical Financials, comprising the consolidated balance sheets, the consolidated statements of income and accumulated earnings, consolidated cash flow statements, consolidated statements of changes in equity and notes and the group management reports (*Konzernlageberichte*) as of and for the fiscal years ended December 31, 2019, 2018 and 2017, respectively. The group management reports of ADLER Real Estate are neither included nor incorporated by reference in this Prospectus.

Any information not incorporated by reference into this Prospectus but contained in each of the ADLER Real Estate Historical Financials above is either not relevant for investors or covered in another part of this Prospectus.

The ADLER Real Estate Historical Financials incorporated by reference into this Prospectus have been sourced from a third party. The Company confirms that the ADLER Real Estate Historical Financials, to the extent incorporated by reference into this Prospectus, have been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by ADLER Real Estate, no facts have been omitted which would render the reproduced information inaccurate or misleading. Although the Company has no reason to believe that any of this information is inaccurate in any material respect, the Company has not independently verified this information. The Company does not make any representation as to the accuracy of such information.

21. FINANCIAL INFORMATION

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ADO Properties S.A.

**Consolidated financial statements of ADO Properties S.A. as of and for the fiscal year ended
December 31, 2019**

To the Shareholders of

ADO Properties | S.A. | 1B Heienhaff | L-1736 Senningerberg | Luxembourg

Report of the Réviseur d'Entreprises agréé

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ADO Properties S.A. and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 on the audit profession (the “Law of July 23, 2016”) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (the “CSSF”). Our responsibilities under the EU Regulation N° 537/2014, the Law of July 23, 2016 and ISAs are further described in the «Responsibilities of “Réviseur d'Entreprises agréé” for the audit of the consolidated financial statements» section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition for investment properties

a) *Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period*

Refer to Note 17 to the consolidated financial statements for related disclosures. Revenue for the Group consists primarily of rental income. We identified revenue recognition as a key audit matter as revenue is an important measure used to evaluate the performance of the Group and there is a risk that revenue is overstated.

b) *How the matter was addressed in our audit*

Our procedures over revenue recognition included, but were not limited to:

- Evaluating the design and implementation and of operating effectiveness of key internal controls over the recording of revenue for the investment properties;
- Comparing rental revenue with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, on a sample basis, and assessing whether fixed rental revenue had been recorded in the appropriate accounting period; and

- Performing substantive analytical procedures on the rental income by building an expectation for the rental income and comparing it to the actual rental income disclosed in the consolidated financial statements.

Valuation of investment properties

a) *Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period*

Refer to Note 5 to the consolidated financial statements for related disclosures. We identified the valuation of investment properties as a key audit matter as they represent approximately 82.44% of total assets of the Group, and significant judgement is required in determining their fair value.

The investment properties are stated at their fair values based on reports by independent external valuers (hereafter “the Valuer”).

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. In determining the property’s valuation, the Valuer takes into account property specific characteristics and information including the rental income. The Valuer applies assumptions for estimated market rent, capitalization interest rate and discount rate, which are influenced by prevailing market conditions and comparable market transactions, to arrive at the final valuation.

The significance of the estimates and judgements involved, together with the fact that only a small percentage difference in individual property valuation, when aggregated, could result in a material misstatement on the consolidated statement of profit or loss and the consolidated statement of financial position, requires specific audit focus in this area.

b) *How the matter was addressed in our audit*

Our procedures over the valuation of investment properties included, but were not limited to:

- Evaluating the qualifications and competence of the external Valuer and reading the terms of engagement of the Valuer with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.
- Involving our own valuation specialists to evaluate the valuation methodologies used and to test the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents on a sample basis;
- Involving our own valuation specialists to challenge the capitalisation and discount rates used in the valuation by comparing them with historical rates and available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the Valuer; and
- Assessing the adequacy of the descriptions in the consolidated financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the combined management report and the Corporate Governance Report but does not include the consolidated financial statements and our report of “Réviseur d’Entreprises agréé” thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is 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 Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the Audit of the Consolidated Financial Statements

The objectives of our audit 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 to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of 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 our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been appointed as “Réviseur d’Entreprises agréé” by the General Meeting of the Shareholders on June 20, 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years, four years of which was since the Company became a public interest entity.

The combined management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Report is presented on pages 18 to 27. The information required by Article 68ter paragraph (1) letters c) and d) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Other Matter

The Corporate Governance Report includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Luxembourg, March 30, 2020



KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Bobbi Jean Breboneria
Associate Partner

Consolidated Statement of Financial Position

In EUR thousand

	Note	As at December 31,	
		2019	2018 ^(*)
Assets			
Non-current assets			
Investment properties	5	3,624,453	4,044,023
Investment in financial instruments	27D	186,158	—
Advances in respect of investment properties		6,300	6,300
Property and equipment	5A	10,927	3,495
Other financial assets	27D	98,871	6,615
Restricted bank deposits	7	3,873	3,859
Deferred expenses		745	791
Right-of-use assets	2	814	—
Deferred tax assets	16D	—	732
		3,932,141	4,065,815
Current assets			
Trading properties	6	25,860	35,028
Restricted bank deposits	7	26,494	24,752
Trade receivables	8	15,570	13,313
Other receivables	9	8,842	3,299
Cash and cash equivalents	10	387,558	27,966
		464,324	104,358
Total assets		4,396,465	4,170,173
Equity and liabilities			
Shareholders' equity			
Share capital	12	55	55
Share premium	12A	500,608	499,209
Reserves		250,684	324,877
Retained earnings		1,895,445	1,326,538
Total equity attributable to owners of the Company		2,646,792	2,150,679
Non-controlling interests		51,653	46,603
Total equity		2,698,445	2,197,282
Liabilities			
Non-current liabilities			
Corporate bonds	13	397,433	396,899
Convertible bonds	13	156,334	154,252
Other loans and borrowings	14	740,212	1,040,909
Other financial liabilities	11	46,416	40,492
Derivatives	22	6,091	16,236
Lease liabilities	2	473	—
Deferred tax liabilities	16D	239,347	249,114
		1,586,306	1,897,902
Current liabilities			
Other loans and borrowings	14	37,605	17,064
Other financial liabilities	11	1,535	1,535
Trade payables		22,079	18,497
Other payables	15	49,613	37,790
Lease liabilities	2	823	—
Derivatives	22	59	103
		111,714	74,989
Total equity and liabilities		4,396,465	4,170,173

(*) See note 2 regarding the adaptation of IFRS 16.

The accompanying notes are an integral part of these consolidated financial statements.

CHIEF EXECUTIVE OFFICER



Thierry Beaudemoulin

CHAIRMAN OF THE BOARD OF DIRECTORS



Dr. Peter Maser

Date of approval: March 30, 2020

Consolidated Statement of Profit or Loss

In EUR thousand

	Note	For the year ended December 31,		
		2019	2018 ^(*)	2017 ^(*)
Revenue	17	156,520	154,853	128,852
Cost of operations	18	(44,011)	(41,996)	(36,174)
Gross profit		112,509	112,857	92,678
General and administrative expenses	19	(25,050)	(18,451)	(12,762)
Other expenses	27B, C	(13,188)	—	—
Other income	27B	78,132	—	—
Changes in fair value of investment properties	5	461,517	404,936	383,638
Results from operating activities		613,920	499,342	463,554
Finance income	27D	102,475	1,399	1,602
Finance costs		(32,375)	(32,915)	(29,609)
Net finance costs	20	70,100	(31,516)	(28,007)
Profit before tax		684,020	467,826	435,547
Income tax expense	16	(77,096)	(70,362)	(68,035)
Profit for the year		606,924	397,464	367,512
Profit attributable to:				
Owners of the Company		601,874	386,964	355,970
Non-controlling interest		5,050	10,500	11,542
Profit for the year		606,924	397,464	367,512
Basic earnings per share (in EUR)	21	13.63	8.77	8.07
Diluted earnings per share (in EUR)		12.74	8.77	8.07

(*) See note 2 regarding the adaptation of IFRS 16.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

In EUR thousand

	Note	For the year ended December 31,		
		2019	2018	2017
Profit for the year		606,924	397,464	367,512
Items that may be reclassified subsequently to profit or loss				
Hedging reserve classified to profit or loss, net of tax		—	10	—
Effective portion of changes in fair value of cash flow hedges	22	10	200	1,218
Related tax		(2)	(33)	60
Reserve from financial asset measured at fair value through other comprehensive income net of tax		(67,510)	—	—
Total other comprehensive income		(67,502)	177	1,278
Total comprehensive income for the year		539,422	397,641	368,790
Total comprehensive income attributable to:				
Owners of the Company		534,372	387,141	357,246
Non-controlling interests		5,050	10,500	11,544
Total comprehensive income for the year		539,422	397,641	368,790

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In EUR thousand

	Note	For the year ended December 31,		
		2019	2018 (*)	2017 (*)
Cash flows from operating activities				
Profit for the year		606,924	397,464	367,512
Adjustments for:				
Depreciation		1,488	527	452
Profit from selling portfolio		(78,132)	—	—
Change in fair value of investment properties	5	(461,517)	(404,936)	(383,638)
Net finance costs	20	(70,100)	31,516	28,007
Income tax expense	16	77,096	70,362	68,035
Share-based payment		1,530	546	564
Change in short-term restricted bank deposits related to tenants		(2,142)	(1,624)	(4,727)
Change in long-term restricted bank deposits from condominium sales		(4,102)	(3,320)	(539) (**)
Change in trade receivables		(2,959)	(2,926)	(3,148)
Change in other receivables		(2,931)	2,427	(3,742)
Change in trading properties		9,168	13,585	12,830
Change in trade payables		5,632	4,623	1,408
Change in other payables		15,896	(156)	4,163
Income tax paid		(7,087)	(4,155)	(864)
Net cash from operating activities		88,764	103,933	86,313
Cash flows from investing activities				
Purchase of and CAPEX on investment properties	5	(44,068)	(117,118)	(189,182)
Advances paid for investment property purchase		—	—	(33,975)
Proceeds from selling portfolio		570,335	—	—
Investment in financial instrument		(254,342)	—	—
Purchase of property and equipment		(3,121)	(1,182)	(795)
Interest received		39	143	3
Acquisition of subsidiaries, net of acquired cash	3	—	(216,685)	(280,542)
Change in short-term restricted bank deposits, net		218	808	9,992 (**)
Net cash used in investing activities		269,061	(334,034)	(494,499)
Cash flows from financing activities				
Proceeds from issuance of corporate bonds, net	13	—	—	396,185
Proceeds from issuance of convertible bonds, net	13	—	163,740	—
Long-term loans received	14	79,427	121,637	114,606
Repayment of long-term loans	14	(15,876)	(93,283)	(116,061) (**)
Proceeds from issuance of commercial papers	14	—	673,000	—
Repayment of commercial papers	14	—	(673,000)	—
Upfront fees paid for credit facilities	14	(702)	(1,377)	—
Repayment of short-term loans		—	(2,300)	(10,487) (**)
Interest paid		(26,427)	(24,873)	(18,103)
Payment of lease liabilities		(789)	—	—
Compensation fee payments in respect of other financial liabilities	11	(768)	(537)	—
Payment from settlement of derivatives		—	(10)	—
Issuance of ordinary shares, net		(***)	—	—
Dividend distributed	12	(33,098)	(26,460)	(19,845)
Net cash from financing activities		1,767	136,537	346,295
Change in cash and cash equivalents during the year		359,592	(93,564)	(61,891)
Cash and cash equivalents at the beginning of the year		27,966	121,530	183,421
Cash and cash equivalents at the end of the year		387,558	27,966	121,530

(*) See note 2 regarding the adaptation of IFRS 16.

(**) Immaterial adjustment of comparative data.

(***) Represents an amount less than EUR 1 thousand.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In EUR thousand

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Reserve financial asset measured at fair value through other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2019	55	499,209	(859)	325,736	—	1,326,538	2,150,679	46,603	2,197,282
Total comprehensive income for the year									
Profit for the year	—	—	—	—	—	601,874	601,874	5,050	606,924
Other comprehensive income for the year, net of tax	—	—	9	—	(67,510)	—	(67,501)	—	(67,501)
Total comprehensive income for the year	—	—	9	—	(67,510)	601,874	534,373	5,050	539,423
Transactions with owners, recognized directly in equity									
Issuance of ordinary shares, net (see note 12)	(*)	1,399	—	—	—	(1,399)	—	—	—
Changes in put option (see note 11)	—	—	—	(6,692)	—	—	(6,692)	—	(6,692)
Dividend distributed (see note 12)	—	—	—	—	—	(33,098)	(33,098)	—	(33,098)
Share-based payment	—	—	—	—	—	1,530	1,530	—	1,530
Balance as at December 31, 2019	55	500,608	(850)	319,044	(67,510)	1,895,445	2,646,792	51,653	2,698,445

(*) Represents an amount less than EUR 1 thousand.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In EUR thousand

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2018	55	498,607	(1,036)	331,674	966,090	1,795,390	36,103	1,831,493
Total comprehensive income for the year								
Profit for the year	—	—	—	—	386,964	386,964	10,500	397,464
Other comprehensive income for the year, net of tax	—	—	177	—	—	177	—	177
Total comprehensive income for the year	—	—	177	—	386,964	387,141	10,500	397,641
Transactions with owners, recognized directly in equity								
Issuance of ordinary shares, net (see note 12)	(*)	602	—	—	(602)	—	—	—
Changes in put option (see note 11)	—	—	—	(5,938)	—	(5,938)	—	(5,938)
Dividend distributed (see note 12)	—	—	—	—	(26,460)	(26,460)	—	(26,460)
Share-based payment (see note 20)	—	—	—	—	546	546	—	546
Balance as at December 31, 2018	55	499,209	(859)	325,736	1,326,538	2,150,679	46,603	2,197,282

(*) Represents an amount less than EUR 1 thousand.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In EUR thousand

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2017	55	499,520	(2,312)	336,184	628,498	1,461,945	24,559	1,486,504
Total comprehensive income for the year								
Profit for the year	—	—	—	—	355,970	355,970	11,542	367,512
Other comprehensive income for the year, net of tax	—	—	1,276	—	—	1,276	2	1,278
Total comprehensive income for the year	—	—	1,276	—	355,970	357,246	11,544	368,790
Transactions with owners, recognized directly in equity								
Changes in put option (see note 11)	—	—	—	(4,520)	—	(4,520)	—	(4,520)
Dividend distributed	—	(913)	—	—	(18,932)	(19,845)	—	(19,845)
Share-based payment (see note 20)	—	—	—	10	554	564	—	564
Balance as at December 31, 2017	55	498,607	(1,036)	331,674	966,090	1,795,390	36,103	1,831,493

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – ADO Properties S.A.

ADO Properties S.A. (the “Company”) was incorporated on November 13, 2007 as a private limited liability company in Cyprus, and until June 8, 2015, its legal name was “Swallowbird Trading & Investments Limited”. The Company holds and operates a mainly residential assets portfolio and sells units as a separate condominium in Berlin, Germany.

The Company deleted its registration in Cyprus and moved its registered office and central administration to Luxembourg by decision of the General Meeting of shareholders dated June 8, 2015 and adopted the form of a private limited liability company (*société à responsabilité limitée*) under Luxembourg law. The Company was then converted to a public limited liability company (*société anonyme*) under Luxembourg law by decision of the General Meeting of shareholders dated June 16, 2015 and changed its name to “ADO Properties S.A.” (B-197554). The address of the Company’s registered office is Aerogolf Center, 1B Heienhaff, L-1736 Senningerberg, Luxembourg.

On July 23, 2015 the Company completed an initial public offering (“IPO”) and its shares have since been traded on the regulated market (Prime Standard) of Frankfurt Stock Exchange.

The Company is a direct subsidiary of ADO Group Ltd. (“ADO Group”), an Israeli company.

The consolidated financial statements of the Company as at December 31, 2019 and for the year then ended comprise the Company and its subsidiaries (together referred to as the “Group”).

Note 2 – Basis of Preparation

A. Statement of compliance

The consolidated financial statements as at and for the year ended December 31, 2019, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2020.

B. Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Group’s functional currency. All financial information presented in euro (“EUR”) has been rounded to the nearest thousand, unless otherwise indicated. Due to rounding, the figures reported in tables and cross-references may deviate from their exact values as calculated.

C. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except, in particular, investment properties, other financial asset, other financial liabilities and derivatives, which are measured at fair value.

D. Operating cycle

The Group has two operating cycles:

- Holding and operating residential and commercial units: the operating cycle is one year.
- Selling of units as a separate condominium: the operating cycle is up to three years.

As a result, current assets and current liabilities also include items the realization of which is intended and anticipated to take place within the operating cycle of these operations of up to three years.

E. Use of estimates, judgments and fair value measurement

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

Judgments and use of estimates

Information about judgments, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- **Note 16 – Uncertain tax positions (judgments)**

The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience. New information may become available that causes the Group to change its judgment, resulting in recognition of additional income tax expense in the period that such a change in judgment occurs.

- **Note 16 – Regarding the utilization of losses carried forward (estimations)**

Deferred tax assets are recognized in respect of tax losses carried forward when there is a high probability that in the future there will be taxable profits against which losses carried forward can be utilized. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its estimation regarding the utilization of existing tax assets; any such changes to deferred tax assets will impact tax income/expense in the period that such a change in estimate occurs.

- **Note 5 – Regarding fair value measurement of investment properties (estimations)**

The fair value of investment properties as at December 31, 2019 was assessed by CBRE, an industry specialist that has appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. The valuation includes assumptions regarding rent, vacancies, maintenance costs and discount rate. These assumptions are subject to uncertainties that may lead to either positive or negative value adjustments in the future, impacting the profit or loss from changes in fair value of investment properties in the period that such a change in estimations occurs.

- **Note 22 – Regarding measurement of derivatives at fair value (estimation)**

Derivative valuations are calculated by the financing bank and checked by management. The risk that derivatives will not be appropriately valued exists, since the Group needs to make judgments about the estimation of the credit risk used by the lending bank and about whether the bank used the appropriate market observation for the other variables. New information may become available that causes the Group to change its estimation, impacting the profit or loss from changes in fair value of derivatives in the period that such a change in estimations occurs.

- **Note 3 – Regarding acquisitions of companies holding real estate assets (judgment)**

When buying a company holding real estate assets ("Property Company"), the Group exercises judgment to determine whether it is the purchase of a business or a group of assets and liabilities, for the purpose of determining the accounting treatment of the transaction. In determining whether a Property Company is a business, the Group examines, inter alia, the nature of existing processes in the Property Company, including the extent and nature of management, security, cleaning and maintenance services provided to tenants.

- **Note 17 – Regarding principle versus agent considerations (judgment)**

The Group provides ancillary services to tenants, mainly utilities, for which it re-charges the tenants. The Group uses judgment when it examines whether it acts as a principal or as an agent in providing the services to tenants. The Group examined the indicators in IFRS 15, mainly whether it is the primarily responsible for fulfilling the promise to perform the specific services and whether it has

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

discretion in determining the price for the services. For charges with respect to utilities such as supply of cold water, draining, street cleaning etc., the Group believes that it is acting as an agent and such charges are recognized on a net basis. For other charges, such as cleaning, gardening and certain maintenance services, the Group believes that it is acting as a principal and accordingly they are recognized on a gross basis. Property tax and insurance are not within the scope of IFRS 15.

• Note 27 – Control analysis

The Group exercises judgment in examining control over investees. For the purpose of this assessment, the Group examines the structure and characteristics of the investee companies, the relevant activities and shareholder agreements in these companies, as well as potential voting rights. In accordance with this examination, the Group exercises discretion as to whether it has the current ability to direct relevant activities in the investees, whether its rights in these companies are substantial and provide power over the investee and whether it has the ability to use its power to affect the returns from its investment. Determining the existence of control may affect the consolidation of the assets, liabilities and results of operations of the investee companies.

• Note 27 – Significant influence analysis

The Group exercises judgment in examining significant influence over investees. For the purpose of this assessment, the Group examines its voting rights in the investee, whether it has board representation, the relative size and dispersion of the holdings of other shareholders and the existence of potential voting rights that are currently exercisable or convertible. In accordance with this examination, the Group exercises discretion as to whether it has power to participate in the financial and operating policy decisions of the investee. Determining the existence of significant influence may lead to equity accounting regarding the investee's assets, liabilities and results of operations.

Determination of fair values

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 5, investment properties; and
- Note 22, financial instruments.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

F. Changes in accounting policies

As from January 1, 2019, the Group applies the new standards and amendments to standards described below:

- IFRS 16 *Leases*

The Group has initially adopted IFRS 16 from January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

Note 2 – Basis of Preparation (continued)

F. Changes in accounting policies (continued)

The Group elected to apply the standard using the modified retrospective approach, with an adjustment to the balance of retained earnings as at January 1, 2019 and without a restatement of comparative data. In respect of all the leases, the Group elected to apply the transitional provisions such that on the date of initial application it recognized a liability at the present value of the balance of future lease payments discounted at its incremental borrowing rate at that date calculated according to the average duration of the remaining lease period as from the date of initial application, and concurrently recognized a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard did not have an effect on the Group's equity at the date of initial application.

Furthermore, as part of the initial application of the standard, the Group has chosen to apply the following expedients:

- Applying the practical expedient regarding the recognition and measurement of leases where the underlying asset has a low value;
- Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within 12 months from the date of initial application and leases for a period of up to 12 months from the date of their inception for all groups of underlying assets to which the right-of-use relates.

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

- (1) The right to obtain substantially all the economic benefits from use of the identified asset; and
- (2) The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognized EUR 1,553 thousand of right-of-use assets and a EUR 1,553 thousand lease liability as at January 1, 2019.

As at December 31, 2019, the balance of right-of-use assets amounted to EUR 814 thousand and of the lease liability to EUR 1,296 thousand. Also in relation to those leases under IFRS 16, the Group recognized depreciation and interest costs instead of operating lease expense. During the year ended December 31, 2019, the Group recognized EUR 739 thousand of depreciation changes and EUR 531 thousand interest costs from these leases.

- *IFRIC 23 Uncertainty Over Income Tax Treatments*

The Group has initially adopted *IFRIC 23 Uncertainty Over Income Tax Treatments* from 1 January 2019, but it does not have a material effect on the Group's consolidated interim financial statements.

G. New standards and interpretations not yet adopted

- *IFRS 3 Business Combinations*

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

In the opinion of the Group, application of the Amendment does not have a material effect on the accounting treatment of future acquisitions of operations.

- Amendment to IAS 1

The Amendment replaces certain classification requirements for current or non-current liabilities. Thus for example, according to the Amendment, a liability will be classified as non-current when the entity

Note 2 – Basis of Preparation (continued)

G. New standards and interpretations not yet adopted (continued)

has the right to defer settlement for at least 12 months after the reporting period, and it “has substance” and is in existence at the end of the reporting period. A right is in existence at the end of the reporting period only if the entity complies with conditions for deferring settlement at that date. Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

The Amendment is effective for reporting periods beginning on or after January 1, 2022 and is applicable retrospectively, including an amendment to comparative data.

The Group has not yet commenced examining the effects of applying the Amendment on the financial statements.

H. Change in classification

The Group performed immaterial reclassifications in the comparative figures in order to align the classification in the comparative figures to the figures of the year ended December 31, 2019.

Note 3 – Basis of Consolidation

Consolidation methods

The consolidated financial statements comprise the Company and the subsidiaries it controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In addition to the Company, 199 subsidiaries (2018: 206) have been included in these consolidated financial statements.

When buying a company holding real estate assets (“Property Company”), the Group exercises judgment to determine whether it is the purchase of a business or a group of assets and liabilities, for the purpose of determining the accounting treatment of the transaction. In determining whether a Property Company is a business, the Group examines, inter alia, the nature of existing processes in the Property Company, including the extent and nature of management, security, cleaning and maintenance services provided to tenants. In transactions in which the acquired company is a business, the transaction is accounted for as a business combination according to IFRS 3.

However, in transactions in which the acquired Property Company is not a business, the acquisition cost, including transaction costs, is allocated in proportion to the identified assets and liabilities acquired, based on their relative fair values at the acquisition date. In this case, neither goodwill nor deferred taxes on the temporary difference existing at the date of acquisition are recognized.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the Company. Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests.

A put option granted by the Group to non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price. In subsequent periods, changes in the value of the liability and dividends distributed to non-controlling interests in respect of put options are recognized in equity. The Group’s share of a subsidiary’s profits includes the share of the non-controlling interests to which the Group granted a put option, also when the non-controlling interests have access to the returns arising from the interests in the investee company.

Note 4 – Significant Accounting Policies

A. Investment properties

Investment property is property held to earn rental income or for capital appreciation or both and is not owner-occupied or held for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs. In subsequent periods, investment property is measured at fair value, and changes in fair value are recognized in the statement of profit and loss.

Profits or losses on the disposal of investment property are determined by comparing the net proceeds from the disposal with the asset's carrying amount (the fair value of the investment property as at the disposal date). The profit or loss on the disposal of investment properties is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts to complete under the contract.

In certain circumstances the Group decides to change the use of existing buildings that are rented out and classified as investment property into trading properties; the Group then begins the process of converting such buildings. When the conversion is completed, the necessary approvals are received and the marketing of the apartments begins, the aforesaid buildings are reclassified from investment properties to trading properties. The cost of trading properties is determined according to the fair value at the time of the change in use.

The Group presents advances in respect of investment properties as non-current assets and does not include them as part of the investment properties. In subsequent periods, when the transactions are completed, the advances are reclassified to investment properties.

B. Trading properties

Trading properties are measured at the lower of cost and net realizable value. The cost of the trading properties includes the costs incurred in acquiring the trading properties and bringing them to their existing location and condition. The net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

C. Restricted bank deposits

Restricted bank deposits consist of deposits in banks that the Group has pledged to secure banking facilities, deposits received from tenants, and restricted proceeds from condominium sales. The Group cannot use these deposits freely for operations. The basis of measurement of the restricted bank deposits is amortized cost.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits in banks and short-term investments with an original term of up to three months. The basis of measurement of the cash and cash equivalents is amortized cost.

E. Financial instruments

(1) Non-derivative financial assets – policy applicable as from January 1, 2018

Initial recognition and measurement of financial assets

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Except of items measured at fair value through profit or loss, a financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets not classified as measured at amortized cost as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss.

In certain cases, on initial recognition of an equity investment that is not held for trading, the Group irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the timing or amount of the cash flows;
- Terms that may change the stated interest rate, including variable interest; and
- Terms that limit the Group's claim to cash flows from specified assets (for example a non-recourse financial asset).

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through other comprehensive income

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in other comprehensive income.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

The Group's non-derivative financial assets are receivables. The Group initially recognizes receivables on the date that they originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses.

Receivables comprise cash and cash equivalents, trade and other receivables and restricted bank deposits.

(3) Non-derivative financial liabilities

Non-derivative financial liabilities include bonds, loans and borrowings from banks and others, trade and other payables.

The Group initially recognizes financial liabilities on the trade date when the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

An exchange of debt instruments having substantially different terms between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

The terms are substantially different if the discounted present value of the cash flows according to the new terms (including any commissions paid, less any commissions received and discounted using the original effective interest rate) is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability. In addition to the aforesaid quantitative criterion, the Group also examines qualitative factors, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

The accounting policy with regard to non-derivative financial liabilities in 2019 is similar to the accounting policy in 2018.

(4) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or recognized in profit or loss as finance expense if the issuance is no longer expected to take place.

(5) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments mainly to hedge its interest rate risk exposures from variable interest rate bank loans to a fixed interest rate. On initial designation of the derivative instruments for hedge accounting, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity.

The amount recognized in the other comprehensive income is transferred to profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit or loss as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in the hedging reserve is reclassified to profit or loss.

Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss. Other derivatives include other financial liabilities and other financial asset.

(6) Hybrid financial instruments (convertible bond)

Liabilities that are convertible into shares at the option of the holder, including a cash settlement option in favor of the Group, are a hybrid instrument (combined) that is fully presented as a financial liability.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

The instrument is split into two components for measurement purposes: a liability component without a conversion feature that is measured at amortized cost according to the effective interest method, and a conversion option that is an embedded derivative and is measured at fair value at each reporting date.

Separable embedded derivatives that do not serve hedging purposes

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset. Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognized in profit or loss, as financing income or expense.

F. Impairment

(1) Non-derivative financial assets – policy applicable as from January 1, 2018

Financial assets

The Group recognizes a provision for expected credit losses in respect of financial assets at amortized cost.

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis based on the Group's past experience and informed credit assessment, and it includes forward looking information.

The Group assumes that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are past due for more than 180 days.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full; or
- The contractual payments of the financial asset are past due for more than 180 days.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured at the nominal value of the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes a breach of contract such as a default or payments being past due.

Note 4 – Significant Accounting Policies (continued)

F. Impairment (continued)

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a derecognition event.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(3) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, trading property and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

G. Provisions

Provisions are recognized in other payables when the Group has a present, legal or constructive obligation as a result of a past event that can be estimated reliably and it is probable that it will require an outflow of resources embodying economic benefits to settle the obligation.

The Group recognizes indemnification as an asset if, and only if, it is virtually certain that the indemnification will be received if the Group will settle the obligation. The amount recognized for the indemnification does not exceed the amount of the provision. Provisions are measured on the basis of discounted expected future cash flows.

H. Employee benefits

Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based

Note 4 – Significant Accounting Policies (continued)

H. Employee benefits (continued)

on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Share-based payment arrangements in which equity instruments are granted by the parent company to the employees of the Group are recognized in the reserve from transactions with the controlling shareholder. Share-based payment arrangements, in which the Company's equity instruments are granted, are recognized in the retained earnings.

I. Revenue recognition

Policy applicable as from January 1, 2018

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Group can identify the payment terms for the goods or services, that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

Note 4 – Significant Accounting Policies (continued)

I. Revenue recognition (continued)

Revenue from the sale of trading property is measured at the fair value of the consideration. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the trading property, and the amount of the revenue can be measured reliably.

Principal or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenue in the gross amount of the consideration, or to arrange that another party provides the goods or services, which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

Policy applicable before January 1, 2018

Rental income from operating leases of investment property is recognized in the profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income. In respect of utilities services, the Group recognizes the income amount net of costs recharged to the tenants.

Other revenues, including management services fee and third party's asset management income, are recognized in the accounting period in which the services are rendered, and are measured at the fair value of the consideration received or receivable for services provided in the normal course of business.

J. Finance income and costs

Finance income comprises interest income on funds invested including changes in the fair value of financial assets or liabilities at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets or liabilities at fair value through profit or loss, impairment losses recognized on financial assets, losses from refinance and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows from financing activities.

K. Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years and any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability is not recognized for the following taxable temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

Note 4 – Significant Accounting Policies (continued)

K. Taxation (continued)

- Differences relating to investments in subsidiaries, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is recognized in other comprehensive income or equity, respectively.

L. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise options granted to employees.

Note 5 – Investment Properties

A. Reconciliation of carrying amount

<u>In EUR thousand</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Balance as at January 1	4,044,023	3,271,298
Additions by way of acquiring subsidiaries (see note 3B)	—	229,077
Additions by way of acquiring assets	—	87,150
Capital expenditure	44,013	51,562
Transfer from investment properties to property and equipment (1)	(5,100)	—
Disposal of subsidiaries (see note 27C)	(920,000)	—
Fair value adjustments	461,517	404,936
Balance as at December 31	<u>3,624,453</u>	<u>4,044,023</u>

(1) During the reporting period, the Group reclassified a building from investment properties to property and equipment in a total amount of EUR 5,100 thousand, representing its fair value for the reclassification date. The transfer was evidenced by a change in use (commencement of owner-occupation).

As at December 31, 2019, the closing balance of investment properties consisted of 16,115 (2018: 22,067) residential units with a total residential lettable area of 1,056,930 (2018: 1,454,255) m², 1,377 (2018: 1,450) commercial units (retail, office and other commercial) with a total commercial lettable area of 161,721 (2018: 171,199) m² and 4,914 (2018: 5,401) parking spaces and spaces for storage, antennas, etc., all in Berlin.

According to the Group's fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as at June 30 and December 31 of each year. The valuations are based on a discounted cash flow model. The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants.

Note 5 – Investment Properties (continued)

A. Reconciliation of carrying amount (continued)

The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs. secondary), tenant credit quality and lease terms.

Within the discussions to embark the increasing rents in Berlin, several citizens and politicians requested for the expropriation of housing associations and rental freezing. On November 26, 2019, the Berlin Senate of the governing social democrat-socialist-green coalition concluded the Rental Freeze Proposition for Berlin. The rental freezing covered by the “Gesetz zur Neuregelung gesetzlicher Vorschriften zur Mietenbegrenzung” was passed on January 30, 2020 and entered into force on February 23, 2020.

The law is divided into two phases:

1) Rents will be frozen retroactively at the level of the rent effectively agreed on June 18, 2019: the rent level of existing and new leases of residential apartments completed before 2014 and with exception of publicly subsidized apartments will remain stable for five years. As of January 2022 rent increases that equal the inflation since the effective date (limited to 1.3%) will be permitted.

2) Furthermore rent caps will apply nine months after the law commencement. Starting from December 1, 2020 the key regulation will be as follows:

The rent caps are based on the rental table (“Mietspiegel”) of Berlin of 2013 in accordance with the year of construction and equipment. In addition, surcharges and discounts for the location and modern equipment up to EUR 1.00 per m² can be taken into account. These rent caps may not be exceeded by more than 20%, otherwise the tenant may demand a reduction of the rent.

- Existing rents (plus, if applicable, individual adjustments) will have to be decreased to the rent level of the local rental table 2013 plus 20%.
- Rents of re-lettings (plus, if applicable, individual adjustments) will have to be decreased to the rent level of the local rental table 2013 plus 13.5% (compensation for inflation).

Not affected by the rental freezing are mainly publicly subsidized properties, living space subject to a fixed rent and new buildings after 01 January 2014. In addition, the law grants tenants the right to freeze rents if the rent caps specified in the law (depending on the year of construction, the standard of equipment and the location) are exceeded by more than 20%.

From the point of view of CBRE, the realization of the “Berliner Mietendeckel” in detail as at December 31, 2019 is still uncertain. Currently it is legally uncertain whether the law is constitutionally permissible and whether the legislative competence lies with the State of Berlin. This means that there are discussions among lawyers, whether the rental law for privately financed housing is exclusively regulated by federal law (Building Code; rent control) or whether individual laws or regulations can be passed at the level of the federal state and/or municipality. A standard control procedure at the Berlin Constitutional Court or the Federal Constitutional Court was announced by members of the opposition CDU and FDP after the law entered into force on 23 February 2020.

As at December 31, 2019, economical and legal effects/outcomes of the “Berliner Mietendeckel” are not predictable. CBRE states that in terms of market sentiment from the direct investors’ side, they so far have not seen any decreases in pricing. Also, CBRE states that they are continuing to monitor the pricing of recent transactions, which will be relevant for the valuation as at December 31, 2019. So far, CBRE did not incorporate any changes in the cash flow of the DCF model as there is no existing legal framework for it. Further, CBRE carried out a survey based on real transaction prices from the local land valuation board and asking prices, both for multifamily houses in Berlin. By comparing July to October 2019 with the first half of 2019 the result of our analysis is that both sources of information indicate stable to slightly increasing prices despite the announcement of the rental freeze proposition. However, the valuer noted, that investors are more cautious and sometimes transactions are on hold. Therefore, the discount and exit cap rates, as at the date of approving these financial statements, generally remain stable.

According to German law, residential rental contracts are unlimited in their duration or lease period. The tenants have the sole right to terminate the contract with three months’ notice in writing. According to German law, the owner can terminate the residential contract only if the owner has “justified cause”, such as if the tenant is in default for more than two months’ rent. The termination or cancellation of the contract

Note 5 – Investment Properties (continued)

A. Reconciliation of carrying amount (continued)

must be in writing. Contracts are denominated in euro. Tenants are generally required to pay a rental deposit of three months' "cold" rent or to provide a bank guarantee in the same amount at the inception of any lease contract. Further, they are requested to pay rent, facility management, utilities and heating prepayments for a one month period in advance. The right to increase the rent is subject to German law and can be further defined in the lease contract (e.g. index rent or stepped rent). Rent prices are set according to the market prices or upon a given price index that is dependent on property characteristics ("Mietspiegel"). The latter is also available for the Berlin residential market.

The rent development is restricted by the German law (§558 BGB). Hence, the landlord can only increase the rent upon the local comparable rent, that is stated in the Mietspiegel, if:

- current rent paid has remained unchanged for the last fifteen months;
- no rent increase over 20% (capping limit) was made in the course of the past three years; the capping limit is reduced to 15% for tense residential markets such as Berlin.

In addition, a rent control regulation ("Mietpreisbremse") passed by the German parliament in June 2015 aims to restrict landlords in areas with stressed housing markets such as Berlin from implementing rent increases by more than 10% above the local comparable rent that is stated in the Mietspiegel. The rent control regulation is not applicable for new residential properties or residential properties that have been modernized significantly. The regulation applies to existing buildings only, where the current rent paid is below the stated threshold. According to the rent control regulation, the landlord is not allowed to increase the current rent paid (existing lease) or the newly agreed rent (new lease) by more than 10% above the local comparable rent.

Some of the residential buildings of the Group's investment property portfolio include commercial units on the ground floor. Lease renewals are negotiated with the lessee.

As at December 31, 2019, approximately 2.5% of the residential units were subject to rent restrictions ("Cost Rent").

B. Measurement of fair value

(1) Fair value hierarchy

The fair value of investment properties was determined by the valuation expert CBRE, an industry specialist with appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. According to the Group's fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as at June 30 and December 31 of each year.

The fair value measurement for all of the investment properties has been categorized as a level 3 fair value due to prevailing use of unobservable inputs to the adopted valuation method.

(2) Valuation technique and significant unobservable inputs

The Group values its portfolio using the discounted cash flow method (DCF). Under the DCF methodology, the expected future income and costs of the property are forecasted over a period of 10 years and discounted to the date of valuation. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account.

Note 5 – Investment Properties (continued)

B. Measurement of fair value (continued)

The following table gives an overview of the main valuation parameters and valuation results:

	December 31, 2019					
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	Total
Fair value (EUR thousand)	1,614,243	625,410	704,630	414,330	265,840	3,624,453
Fair value per m ² (EUR)	3,332	2,839	2,750	2,725	2,380	2,959
Average residential in-place rent (EUR/m ²)	7.71	7.42	7.25	8.50	6.67	7.50
CBRE market rent (EUR/m ²)	9.64	9.16	8.52	8.86	7.76	9.03
Average new letting rent (EUR/m ²)	11.97	10.34	10.25	9.84	9.51	10.91
Multiplier (current rent)	34.07	32.80	31.06	29.89	29.45	32.35
Multiplier (CBRE market rent)	27.79	25.99	26.09	25.03	25.05	26.58
Multiplier (new letting rent)	22.38	23.02	21.68	22.54	20.45	21.99
Discount rate (%)	4.53%	4.63%	4.63%	4.80%	4.76%	4.61%
Capitalization interest rate (%)	2.57%	2.71%	2.76%	2.85%	2.88%	2.69%

	December 31, 2018					
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	Total
Fair value (EUR thousand)	1,478,973	481,740	678,360	316,010	1,088,940	4,044,023
Fair value per m ² (EUR)	3,011	2,650	2,435	2,494	1,970	2,479
Average residential in-place rent (EUR/m ²)	7.23	6.98	7.10	7.24	5.93	6.70
CBRE market rent (EUR/m ²)	9.00	8.77	7.99	8.59	6.96	8.02
Average new letting rent (EUR/m ²)	11.90	9.77	10.13	8.91	7.30	9.42
Multiplier (current rent)	32.73	31.96	28.53	28.34	27.93	30.14
Multiplier (CBRE market rent)	26.85	25.31	24.69	23.84	23.23	25.01
Multiplier (new letting rent)	20.30	22.70	19.47	23.00	22.16	21.28
Discount rate (%)	4.61%	4.73%	4.77%	4.93%	4.97%	4.77%
Capitalization interest rate (%)	2.65%	2.79%	2.91%	2.96%	3.02%	2.84%

(3) Sensitivity analysis

The main value drivers influenced by the market are the market rents and their development, current rent increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter in the following table. Interactions between the parameters are possible but cannot be quantified due to the complexity of the interrelationships:

Valuation parameters	December 31, 2019		
	Change in parameters	Change in values	
		In EUR thousand	%
Average new letting rent (EUR/m ²)	+10%	258,997	7.1
Vacancy rate (%)	+1%	(45,471)	(1.2)
Discount and Capitalization rate (%)	25bps	(321,501)	(8.8)

Valuation parameters	December 31, 2018		
	Change in parameters	Change in values	
		In EUR thousand	%
Average new letting rent (EUR/m ²)	+10%	277,967	6.8
Vacancy rate (%)	+1%	(48,181)	(1.2)
Discount and Capitalization rate (%)	25bps	(341,351)	(8.3)

Assuming all other variables remain constant, a negative change in the parameters at the same percentage would have a similar impact on the value, although in the opposite direction.

Note 5 – Investment Properties (continued)

C. Amounts that were recognized in the consolidated statement of profit or loss

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Rental income from investment property	134,141	127,982	103,300
Direct operating expenses arising from investment property that generated rental income during the period	(26,746)	(20,736)	(15,551)
Total	<u>107,395</u>	<u>107,246</u>	<u>87,749</u>

Note 6 – Trading Properties

During the reporting period, the Group completed the sale of 63 condominium units for a total consideration of EUR 14,948 thousand (2018: 66 units for EUR 20,265 thousand).

Note 7 – Restricted Bank Deposits

As at December 31, 2019 and December 31, 2018, the restricted bank deposits are denominated in euro and they carry no interest.

The balance as at December 31, 2019 includes EUR 21,123 thousand of pledged bank deposits received from tenants (December 31, 2018: EUR 23,250 thousand), EUR 5,371 thousand pledged to secure banking facilities (December 31, 2018: EUR 1,501 thousand) and EUR 3,873 thousand of restricted proceeds from condominium sales (December 31, 2018: EUR 3,860 thousand).

Note 8 – Trade Receivables

A. The balances represent amounts receivable from leases of residential and commercial units less any allowance for expected credit losses (see note 23A). The Group recognizes provisions in accordance with future-looking estimates. The breakdown of trade receivables is as follows:

	December 31, 2019		
	Gross carrying amount	Provision for impairment	Credit-impaired financial asset
	In EUR thousand		
Not past due	9,476	—	9,476
0-30 days past due	119	(44)	75
31-180 days past due	3,477	(397)	3,080
180 days to one year past due	1,725	(818)	907
More than one year past due	4,929	(2,897)	2,032
Total	<u>19,726</u>	<u>(4,156)</u>	<u>15,570</u>

	December 31, 2018		
	Gross	Impairment	Total
	In EUR thousand		
Not past due	7,896	—	7,896
0-30 days past due	1,724	(187)	1,537
31-180 days past due	3,713	(680)	3,033
180 days to one year past due	2,211	(1,490)	721
More than one year past due	5,566	(5,440)	126
Total	<u>21,110</u>	<u>(7,797)</u>	<u>13,313</u>

Note 8 – Trade Receivables (continued)

Trade accounts receivables are non-interest bearing and are generally subject to 30 days' terms. There were no material transitional adjustments to IFRS 9.

B. Impairment losses on trade receivables changed as follows:

	<u>2019</u>	<u>2018</u>
	<u>In EUR thousand</u>	
Balance as at January 1	(7,797)	(6,315)
Additions	(1,575)	(3,194)
Reversals (*)	3,827	1,541
Write off of irrecoverable debts	<u>1,389</u>	<u>171</u>
Balance as at December 31	<u>(4,156)</u>	<u>(7,797)</u>

(*) EUR 1,969 thousand relate to provisions reversals released due to the sale of a portfolio (see note 27C).

Note 9 – Other Receivables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<u>In EUR thousand</u>	
Advance to suppliers	372	1,244
Prepaid expenses	4,567	655
VAT	948	728
Parent company (ADO Group) (see note 26)	—	280
Others	<u>2,955</u>	<u>392</u>
Total	<u>8,842</u>	<u>3,299</u>

Note 10 – Cash and Cash Equivalents

As at December 31, 2019 and December 31, 2018, cash and cash equivalents include cash on hand and demand deposits denominated in euro and free from any restrictions.

Note 11 – Other Financial Liabilities

In relation to purchase agreements of 94%-94.9% of the shares of German, Dutch and Luxembourgish property holding companies, the Company entered into an agreement with ADO Group to purchase the remaining 5.1%-6% of the shares of the German, Dutch and Luxembourgish property holding companies.

As part of the agreement, it was decided that upon the completion of a period of ten years following the closing of the transaction, ADO Group shall have the right to sell its interest to the Company for the higher of: (i) the fair value of the shares; and (ii) the amount paid by ADO Group to purchase its interest, less any dividends distributed to ADO Group by the property companies during the 10-year period.

Based on profit transfer agreements, ADO Group is entitled to an annual compensation fee in respect of its interest in the German property holding companies.

The Company recognized the put option and compensation fee as a financial liability measured at fair value at each reporting date, whereas the changes in the fair value are recognized in equity. In respect of the put option and the compensation fee, the following balances are included in the consolidated statement of financial position:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>In EUR thousand</u>	
Current liabilities		
Compensation fee	1,535	1,535
Non-current liabilities		
Compensation fee	998	1,766
Put option	<u>45,418</u>	<u>38,726</u>
Total	<u>47,951</u>	<u>42,027</u>

Note 12 – Equity

A. Share capital and share premium

	Ordinary shares (in thousands of shares)	
	2019	2018
In issue as at January 1	44,131	44,100
Share issuance under the LTI plan (1)	64	31
In issue as at December 31	<u>44,195</u>	<u>44,131</u>

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at the General Meetings of the Company. All shares rank equally with regard to the Company's residual assets.

- (1) On July 5, 2019, based on their Long Term Incentive plan the Company issued 63,850 shares without nominal value free of charge to the previous Senior Management.
- (2) A dividend in the amount of EUR 33.1 million (EUR 0.75 per share) was paid based on a decision of the annual General Meeting which took place on June 20, 2019.

B. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of the related deferred tax.

C. Capital reserve from transactions with controlling shareholder

The capital reserve from transactions with controlling shareholder comprises the differences between the fair value and the consideration received/paid in relation to transactions with the controlling shareholder. The change in the capital reserve from transactions with the controlling shareholder is driven by the change in put option of ADO Group (see note 11).

D. Capital reserve from financial assets measured at fair value through other comprehensive income

The capital reserve from financial assets measured at fair value through other comprehensive income comprises the differences between the fair value of the investment date and the the reporting period.

Note 13 – Corporate Bonds and Convertible Bonds

- A. On July 20, 2017, the Company placed unsecured, fixed-rate corporate bonds with a total nominal amount of EUR 400 million with institutional investors. The bonds carry an interest rate of 1.5% (effective interest rate of 1.64%) per annum and mature on July 26, 2024. The gross proceeds resulting from the transaction amounted to EUR 398.6 million with an issue price of 99.651%. The net proceeds of the bond were mainly used to fund future acquisitions.
- B. On November 16, 2018, the Company placed senior, unsecured convertible bonds in a total nominal amount of EUR 165 million with institutional investors, convertible into new and/or existing ordinary registered shares of the Company. The initial conversion price has been set at EUR 60.5690, which represents a 27.5% premium over the reference share price on the pricing date. The bondholders may exercise their conversion right from (and including) January 4, 2019 to (and including) the earlier of (i) the 40th business day prior to the maturity date; or (ii) in the event of early redemption, the 10th business day prior to the date fixed for redemption. The coupon has been set at 1.25% p.a. (effective interest rate of 1.34%), payable semi-annually in arrear. The bonds will mature on November 23, 2023.

The Company will be entitled to redeem the convertible bonds at their principal amount (plus accrued interest) at any time (i) on or after December 14, 2021, if the price per share is equal or exceeds 130% of the then prevailing conversion price over a certain period; or (ii) if 15% or less of the aggregate principal amount of the bonds remain outstanding.

ADO Group received an allocation in the accelerated bookbuilding reflecting pro rata its shareholding in the Company at the time of the placement. The Company used the net proceeds to repay existing short-term debt, extend the Company's debt maturity profile as well as to strengthen the Company's liquidity position.

Note 13 – Corporate Bonds and Convertible Bonds (continued)

- C. The Company undertakes not to incur any financial indebtedness after the issue date of the bonds, and will also procure that its subsidiaries will not incur any financial indebtedness after the issue date of the bonds (except for refinancing existing financial indebtedness), if immediately after giving effect to the incurrence of such additional financial indebtedness (taking into account the application of the net proceeds of such incurrence), the following tests would not be met: (i) Loan-to-Value Ratio (LTV) \leq 60%; (ii) Secured Loan-to-Value Ratio \leq 45%; (iii) Unencumbered Asset Ratio \geq 125%; and (iv) Interest Coverage Ratio (ICR) \geq 1.8.

As at December 31, 2019, the Company is fully compliant with all covenant requirements.

Note 14 – Other Loans and Borrowings

	December 31, 2019		December 31, 2018	
	Non-current	Current	Non-current	Current
In EUR thousand				
Loans from banks	692,078	37,605	993,809	17,064
Other creditors	48,134	—	47,100	—
Total	740,212	37,605	1,040,909	17,064

- A. All the loans were borrowed in order to finance the purchase of the properties in Berlin.
- B. All bank loans are non-recourse with the related assets (investment properties and trading properties) as their only security which is valued higher than the related loans on an asset basis. Other creditors include a loan from Harel Insurance Company Ltd to finance its holding in a common transaction with the Company, and unsecured Schuldscheindarlehen.
- C. Re-pricing on the variable interest loans is done on a quarterly basis. As at December 31, 2019 other loans and borrowings carry an average effective interest rate (i.e. considering the swap interest hedge deals from variable to fixed) of 1.8% per annum (as at December 31, 2018: 1.8%). The average maturity of other loans and borrowings is 4 years (as at December 31, 2018: 4 years).
- D. On March 9, 2018, the Group signed a EUR 200 million revolving credit facility agreement with a 2-year term and two extension options, each for one year. The relating upfront fees were recognized under deferred expenses in the statement of financial position and will be amortized over four years. On January 30, 2019, the Group exercised one extension option for one year in an amount of EUR 175 million. On February 2020, the Group exercised the second option for one year in an amount of EUR 50 million.
- E. On June 28, 2019, the Group received a bank loan in the amount of EUR 80 million to finance existing assets. The new loan carries an annual fixed interest rate of 1.07% per annum for an 8-year term.
- F. On December 15, 2019, the Company signed a EUR 3,463 million bridge facility agreement with a 1-year term and four extension options, each for six months (see note 27C). The maximum amount of the bridge facility agreement has subsequently been reduced and, as of March 31, 2020, is EUR 2,424 million.
- G. Following the Company's announcement on December 15, 2019 for a voluntary public takeover offer for all shares in ADLER Real Estate AG, and the acquisition of a 22.18% strategic minority stake in CONSUS Real Estate AG, S&P and Moody's have placed the Company's long term corporate credit rating of BBB- / Baa3 under review. S&P and Moody's will conclude their review processes once the transaction has been finalised and the rating agencies have more visibility on the combined business and credit profile, amongst others debt leverage ratios, financing needs, liquidity position and also corporate governance. The Company continues to reiterate the benefits of the combination and continues to communicate with the agencies to address their outstanding concerns. It is management's intention to maintain financial discipline and strong credit profile.

Note 15 – Other Payables

	December 31,	
	2019	2018
	In EUR thousand	
Accrued expenses	14,075	3,061
Accrued interest payable	2,924	3,172
Tenants' deposits	21,133	23,260
Parent company (ADO Group) (see note 26)	63	5
Deferred income	2,154	2,503
Corporate tax	3,108	3,416
VAT	738	1,068
Other	5,418	1,306
Total	49,613	37,790

Note 16 – Taxes

A. The main tax laws imposed on the Group companies in their countries of residence

(1) Germany

- The standard rate of corporation tax for both residents and non-residents is 15%. A “solidarity surcharge” is also levied resulting in an effective rate of 15.825% which applies to companies which hold German property regardless of their residence. Trade tax at the relevant rate (trade tax rate depends on the municipality of the Company) is also levied on the income of the companies, except for non-residents with no permanent establishment in Germany or if the companies' business purpose is restricted to the holding and letting of real estate property (property holding companies). Dividends received from another company are 95% tax exempt when the investment in the other company is at least 10% at the beginning of the calendar year or the investment was increased by 10% during the year.
- No tax is withheld on rental payments to non-resident companies holding German property.
- Capital gains on the sale of German property are subject to corporation tax at the standard rate for both residents and non-residents. Trade tax is also applicable at the relevant rate, except for non-residents with no permanent establishment in Germany or for property holding companies as long as the sale of the asset is classified as part of that business (detailed and strict regulations apply). Capital gains realized by a company on the sale of shares in a property holding company are 95% tax exempt.
- German real estate owned at the start of the calendar year is subject to annual property tax at 3.5% to 6.5% (depending on the location of the property, 6.0% for Berlin) on the specially assessed value of the property (dependent on the rental value and age of the property). The tax payable is a deductible expense for profit tax purposes such as trade tax and corporation tax.
- The transfer of German real estate or a share transaction that unifies at least 95% (expected to be reduced to 90%) of the shares of a company holding a real estate property is subject to a real estate transfer tax (RETT), which is payable by the buyer on the purchase price (on transfer of the property) or a specially assessed value as above (on transfer of shares). The tax rate varies between 3.5% and 6.5%, depending on the municipality where the property is located. In Berlin the tax rate is 6%.
- Limitation on the tax deductibility of interest expenses, and simultaneous repeal of the existing thin-capitalization rules. The “interest barrier rule” allows the deduction of net interest expenses exceeding EUR 3 million p.a. only to the extent that total net interest expenses do not exceed 30% of the EBITDA, unless the total net interest does not exceed EUR 3 million p.a. or other exemption criteria are met. The net interest expenses that are not deductible can be carried forward.
- Accumulated tax losses can be carried forward without time restriction and can be deducted from future profits and capital gains unless they exceed EUR 1 million. Losses carried forward that exceed EUR 1 million can only be deducted to the amount of 60% of the profits/capital gains that exceed EUR 1 million (minimum taxation). Those parts that cannot be deducted on the basis of the minimum taxation can be carried forward again and are subject to minimum taxation in the following years.

The corporation tax rate used to calculate deferred tax assets and deferred tax liabilities as at December 31, 2019 and as at December 31, 2018 is 15.825% for the property holding companies which only hold real

Note 16 – Taxes (continued)

A. The main tax laws imposed on the Group companies in their countries of residence (continued)

estate assets and 30.18% for the management companies that operate the real estate in Berlin, as these management companies are subject to corporate income tax of 15.825% and trade tax at the relevant rate.

In 2018, a Group tax audit for the financial years 2013 until 2016 was commenced by the tax authorities. Currently, 32 companies are included in the sample, representing the entire Group. The authorities reserve the right to extend the sample. So far, no tax audit findings have been made.

(2) Luxembourg

- The Company is liable for Luxembourg corporation taxes. The aggregate maximum applicable rate, including corporate income tax, municipal business tax and a contribution to the employment fund, is 24.94% for the fiscal year ending 2019 for a company established in Luxembourg City.
- The Company is fully subject to the annual net wealth tax charge which amounts to 0.5% of the net asset value of the Company. Certain assets might be excluded from the net asset value for the purposes of the net wealth tax computation, provided that the provisions of paragraph 60 of the valuation law of October 16, 1934, as amended (BewG), are met.
- A 15% withholding tax will be due in Luxembourg on dividends paid by the Company to its shareholders unless the domestic withholding tax exemption regime or a withholding tax reduction or exemption under a double tax treaty concluded by Luxembourg applies. Normal interest payments (i.e. not profit-linked interest) and liquidation proceeds are generally not subject to withholding tax, unless the EU Savings Directive applies. Should any withholding taxes be payable on amounts paid by the Company, the Company assumes responsibility for the withholding of Luxembourg taxes at the source.

(3) Ireland

- An Irish tax resident company is subject to corporation tax on its worldwide income (subject to any relevant exemptions) at either 12.5% or 25% depending on the activities undertaken by the Company. Any capital gains recognized by an Irish company (subject to any relevant exemptions) will also be subject to corporation tax. However, such gains are re-grossed for corporation tax purposes to ensure they are taxed at the capital gains tax rate of 33%.
- Dividends received by an Irish resident company from another Irish resident company are exempt from corporation tax. Dividends received from a foreign company in the hands of an Irish resident company are subject to corporation tax; however, a credit should be available for underlying corporate and withholding tax generally for foreign tax paid.
- In general, with respect to non-resident companies, interest and patent royalties which are derived from Ireland are subject to withholding tax in Ireland at the rate of 20%. However, there are a number of domestic exemptions from this withholding tax. In addition, there may be exemptions or reliefs available under a treaty or under the EU directives.

(4) Malta

- A Malta tax resident company is subject to corporation tax on its worldwide income (subject to any relevant exemptions) at 35%. Any capital gains recognized by a Maltese company (subject to any relevant exemptions) will also be subject to corporation tax.
- The corporation income tax rate of a Maltese company may be reduced to 3.5%, based on the Notional Interest Deduction (NID) provision, and subject to conditions, or based on the refund mechanism subject to the conditions under the domestic law in Malta.
- Malta does not impose any withholding tax on an outbound payment of dividends. Consequently, dividends distribution by a Maltese resident company to its shareholder should not be subject to withholding tax in Malta.
- Interest payments generated in Malta by non-residents should not be subject to withholding tax in Malta based on the domestic tax law.

Note 16 – Taxes (continued)

B. Income taxes

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>In EUR thousand</u>		
Current year	(3,722)	(3,562)	(2,026)
Adjustments for prior years	(3,817)	(1,894)	(179)
Deferred tax expense	(69,557)	(64,906)	(65,830)
Total	<u>(77,096)</u>	<u>(70,362)</u>	<u>(68,035)</u>

C. Reconciliation of statutory to effective tax rate

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>In EUR thousand</u>		
Statutory income tax rate	24.94%	26.01%	27.08%
Profit before taxes	684,020	467,826	435,547
Tax using the Company's domestic tax rate	170,595	121,682	117,946
Non-deductible expense	720	142	152
Utilization of tax losses from prior years for which deferred taxes were not created	(8,053)	(7,598)	(1,413)
Effect of tax rates in foreign jurisdictions	(42,142)	(49,457)	(49,033)
Deferred tax assets not recognized for tax losses and other timing differences	3,919	14,227	7,296
Inter-company transaction effect	(10,742)	(10,528)	(7,092)
Tax exempt income from sale of assets held for sale	(19,486)	—	—
Income subject to special tax rate	(22,219)	—	—
Adjustments for prior years	3,817	1,894	179
Other differences, net	687	—	—
Income tax expenses	<u>77,096</u>	<u>70,362</u>	<u>68,035</u>

D. Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>In EUR thousand</u>	
Assets		
Derivatives	184	185
Convertible bonds	—	732
Tax losses carried forward	20,178	12,057
Investment in financial instrument (Consus) (22D)	538	—
	<u>20,900</u>	<u>12,974</u>
Liabilities		
Investment properties	(257,249)	(259,503)
Trading properties	(1,188)	(1,853)
Convertible bonds	(1,082)	—
Call option (22D)	(728)	—
	<u>(260,247)</u>	<u>(261,356)</u>
Net tax liabilities	<u>(239,347)</u>	<u>(248,382)</u>

Note 16 – Taxes (continued)

D. Recognized deferred tax assets and liabilities (continued)

The following are the deferred tax assets and liabilities recognized by the Group, and the respective movements, during the current and prior reporting periods:

	Investment properties	Trading properties	Derivatives	Convertible bonds	Tax losses	Call option	Investment in financial instruments	Total
	In EUR thousand							
Balance as at January 1,								
2017	(194,286)	(2,750)	216	—	13,377	—	—	(183,443)
Changes recognized in profit or loss	(65,217)	897	2	732	(1,320)	—	—	(64,906)
Changes recognized in equity or other comprehensive income	—	—	(33)	—	—	—	—	(33)
Balance as at December 31,								
2018	(259,503)	(1,853)	185	732	12,057	—	—	(248,382)
Changes recognized in profit or loss	(75,801)	666	1	(1,815)	8,121	(728)	—	(69,557)
Changes recognized in equity or other comprehensive income	—	—	(2)	—	—	—	538	537
Transfer to disposal group held for sale	78,056	—	—	—	—	—	—	78,056
Balance as at December 31,								
2019	(257,249)	(1,187)	184	(1,082)	20,178	(728)	538	(239,346)

Losses for tax purposes carried forward to future years, based on the Group's estimation:

Tax losses carried forward amounted to EUR 103,460 thousand at December 31, 2019 (2018: EUR 70,277 thousand). Tax losses can be carried forward indefinitely.

Deferred tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of EUR 4,650 thousand as at December 31, 2019 (2018: EUR 6,065 thousand) in respect of losses carried forward amounting to EUR 29,385 thousand as at December 31, 2019 (2018: EUR 38,324 thousand) that can be carried forward against future taxable income due to its expectation for their utilization.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Note 17 – Revenue

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Net rental income	134,141	127,982	103,300
Selling of condominiums	14,948	20,265	19,671
Income from facility services	7,431	6,606	5,881
Total	156,520	154,853	128,852

Note 18 – Cost of Operations

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Salaries and other expenses (*)	11,443	10,320	7,995
Cost of utilities recharged, net	1,630	1,843	1,409
Selling of condominiums – cost	11,058	15,817	15,760
Property operations and maintenance	19,880	14,016	11,010
Total	44,011	41,996	36,174

(*) See note 19A regarding personal expenses and employees.

Note 19 – General and Administrative Expenses

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Salaries and related expenses (A)	7,727	3,671	2,605
Share-based payment	1,724	376	387
Directors fee (A)	1,165	887	714
Rent	15	1,056	1,015
Professional services	8,973	6,952	3,417
Traveling	383	331	188
Office, communication and IT expenses	1,635	1,459	1,284
Advertising and marketing	535	601	438
Impairment loss on trade receivables	1,037	1,646	1,900
Depreciation	1,354	450	452
Services from parent company (see note 26)	87	46	64
Others	415	976	298
Total	25,050	18,451	12,762

A. As at December 31, 2019, the Group has 366 full-time employees (2018: 354, 2017: 295). On an annual average, 416 people (2018: 327, 2017: 271) were employed.

During the year the contracts of some of the Senior Management were expired or were terminated. According to the agreement they were entitled to a total amount of EUR 4,042 thousand to be settled in cash.

Note 20 – Net Finance Costs

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Interest received on bank deposits	39	143	3
Change in fair value of derivative component of convertible bond	10,180	—	—
Change in fair value of other financial assets	92,256	1,256	1,599
Total finance income	102,475	1,399	1,602
Interest on bonds	(10,670)	(6,927)	(2,824)
Change in fair value of derivative component of convertible bond	—	(3,896)	—
Interest on other loans and borrowings	(19,046)	(19,214)	(18,279)
One-off refinance costs	—	(613)	(6,741)
Other finance expenses	(2,659)	(2,265)	(1,765)
Total finance costs	(32,375)	(32,915)	(29,609)
Total net finance costs	70,100	(31,516)	(28,007)

Note 21 – Earnings per Share

A. Basic and diluted earnings per share

The calculation of basic earnings per share as at December 31, 2019 was based on the profit attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding, calculated as follows:

- (1) Earnings attributable to the owners of the Company (basic)

	For the year ended December 31,		
	2019	2018	2017
	In EUR thousand		
Profit attributable to the owners of the Company	601,874	386,964	355,970

- (2) Weighted average number of ordinary shares

	For the year ended December 31,		
	2019	2018	2017
	Thousands of shares		
Balance as at January 1	44,131	44,100	44,100
Effect of issuance of regular shares	31	1	—
Weighted average number of shares	44,162	44,101	44,100

	For the year ended December 31,		
	2019	2018	2017
	In EUR		
Basic earnings per share	13.63	8.77	8.07
Diluted earnings per share	12.74	8.78	8.07

Note 22 – Financial Instruments

The Group has exposure to the following risks arising from its use of financial instruments:

- A. Credit risk
- B. Market risk
- C. Liquidity risk

A. Credit risk

The Group is exposed to a default risk resulting from the potential failure of a counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with creditworthy third parties. The maximum credit risk is the carrying amount of the financial assets as reported in the statement of financial position.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The revenue of the Company is primarily driven by rental income from more than 17,000 tenants. Accordingly, the Group does not bare any concentration credit risk.

Cash and cash equivalents

The Company holds cash and cash equivalents with banks and financial institutions. The Company considers that its cash and cash equivalents have low credit risk based on the credit ratings of the counterparties.

The carrying amount of financial assets represents the maximum credit exposure, notwithstanding the carrying amount of security or any other credit enhancements.

Note 22 – Financial Instruments (continued)

A. Credit risk (continued)

The maximum exposure to credit risk for cash and cash equivalents at the reporting date was as follows:

	December 31,	
	2019	2018
	In EUR thousand	
Cash and cash equivalents in banks and financial institutions		
Rated AA	763	—
Rated A+	275,641	1,643
Rated A	844	—
Rated AA-	3,345	3,646
Rated A-	106,956	21,097
Rated BBB-	—	916
Other	9	664
	<u>387,558</u>	<u>27,966</u>

Assessment of expected credit losses for individual customers

The Group uses a provision matrix that is based on, inter alia, an aging of trade receivables, to measure the expected credit losses from individual customers, which comprise a very large number of small balances.

B. Market risk

The Group is exposed to the risk of changes in market interest rates as a result of floating rate debt as well as new and follow-on loans. Loans obtained at variable rates expose the Group to cash flow interest rate risk, which could have adverse effects on the Group's profit or loss or financial position. Changes in interest rates may cause variations in interest expense on interest-bearing assets and liabilities.

The Group's management reviews the need to enter into derivative transactions to manage the interest rate risk arising from the Group's operations and its sources of finance.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	December 31,	
	2019	2018
	In EUR thousand	
Fixed rate instruments		
Financial assets	417,925	56,577
Financial liabilities	1,365,947	1,622,768
Variable rate instruments		
Financial liabilities	75,758	76,895

On the basis of the valuation as at December 31, 2019, the Group performed a sensitivity analysis to determine the change in profit and loss given a parallel shift in the interest rate structure:

	Change in interest basis points	Effect on the profit before tax EUR thousand
December 31, 2019		
Variable rate instruments	+50	(12)
December 31, 2018		
Variable rate instruments	+50	(12)

Assuming all other variables remain constant, a negative change in the interest rate at the same amount would have a similar impact on the profit and loss, but in the opposite direction.

Note 22 – Financial Instruments (continued)

C. Liquidity risk

In order to limit the liquidity risk, the Group continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, the Group subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under the conditions of existing loan agreements, the Group is obliged to fulfill certain financial covenants. If financial covenants are violated and all commonly practiced solutions will be unsuccessful, the lenders could call in the loan. Fulfilling these financial covenants is continually monitored as part of risk management.

The following table shows the forecast for undiscounted cash flows of non-derivative financial liabilities and derivative financial instruments:

	December 31, 2019					
	Carrying amount	Contractual cash flows	2020	2021	2022	Due after 3 years
	In EUR thousand					
Corporate bonds	397,433	430,000	6,000	6,000	6,000	412,000
Convertible bonds	1 56,334	175,314	2,063	2,063	2,063	169,125
Other loans and borrowings	777,817	829,247	57,526	131,401	68,335	571,985
Other financial liabilities	47,951	47,951	1,535	561	437	45,418
Trade payables	22,079	22,079	22,079	—	—	—
Tenants' security deposits	21,133	21,133	21,133	—	—	—
Other payables	18,958	18,958	18,958	—	—	—
Derivatives (*)	2,766	2,295	163	375	194	1,563
Total	1,444,471	1,546,977	129,457	140,400	77,029	1,200,091

(*) Cash flow hedges only. Does not include the derivative component of the convertible bond.

	December 31, 2018					
	Carrying amount	Contractual cash flows	2019	2020	2021	Due after 3 years
	In EUR thousand					
Corporate bonds	396,899	436,000	6,000	6,000	6,000	418,000
Convertible bonds	154,252	175,314	2,063	2,063	2,063	169,125
Other loans and borrowings	1,057,973	1,133,308	34,875	82,321	141,306	874,806
Other financial liabilities	42,027	42,027	1,535	768	561	39,163
Trade payables	18,497	18,497	18,497	—	—	—
Tenants' security deposits	23,260	23,260	23,260	—	—	—
Other payables	6,755	6,755	6,755	—	—	—
Derivatives (*)	2,776	2,969	92	220	378	2,279
Total	1,702,439	1,838,130	93,077	91,372	150,308	1,503,373

(*) Cash flow hedges only. Does not include the derivative component of the convertible bond.

Note 22 – Financial Instruments (continued)

D. Fair value

(1) Financial assets and liabilities measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, restricted and other bank deposits and trade and other payables are considered to be the same or proximate to their fair value due to their short-term nature. The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying amount	December 31, 2019		
		Fair value		
		Level 1	Level 2	Level 3
		In EUR thousand		
Liabilities				
Corporate bonds	397,433	397,140	—	—
Convertible bonds	156,334	—	172,348	—
Variable rate loans and borrowings (*)	75,758	—	—	78,878
Fixed rate loans and borrowings (*)	702,059	—	—	713,609
Total	1,331,584	397,140	172,348	792,487

(*) Including the current portion of long-term loans and borrowings.

	Carrying amount	December 31, 2018		
		Fair value		
		Level 1	Level 2	Level 3
		In EUR thousand		
Liabilities				
Corporate bonds	396,899	375,992	—	—
Convertible bonds	154,252	—	156,387	—
Variable rate other loans and borrowings (*)	76,895	—	—	79,207
Fixed rate other loans and borrowings (*)	981,078	—	—	1,002,513
Total	1,609,124	375,992	156,387	1,081,720

(*) Including the current portion of long-term loans and borrowings.

Fair value for liabilities is estimated by discounting future cash flows by the market interest rate on the date of measurement.

In respect of the liability component of convertible bonds, the market rate of interest is determined by bid and ask quotes in the market.

The market interest rates used to determine the fair value of other loans and borrowings are the discount rate of Euribor+1.2% for the variable interest bank loans (2018: Euribor+1.2%) and the discount rate of 1.07% for the fixed interest bank loans (2018: 1.73%).

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analyzes financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	December 31, 2019			December 31, 2018	
	Level 1	Level 2	Level 3	Level 2	Level 3
	In EUR thousand				
Investment in Consus	186,158	—	—	—	—
Other financial assets (a)	—	—	98,871	—	6,615
Derivative financial liabilities (b)	—	6,150	—	16,339	—
Other financial liabilities (c)	—	—	47,951	—	42,027

(a) Other financial assets relate to the Group's option for purchasing the non-controlling interest in a transaction completed at the end of 2013 (EUR 6,862 thousand) which is measured at fair value and a call option agreement with a major shareholder of Consus Estate AG ("Consus") to acquire an additional 50.97% in Consus in the amount of EUR 92,009 thousand (see note 27D). The model used

Note 22 – Financial Instruments (continued)

D. Fair value (continued)

by an external and independent valuator for Consus' call option is based on a multivariate Monte-Carlo simulation applying a Cholesky decomposition with correlated random numbers in order to model two correlated stock prices.

- (b) The fair value of the interest rate swaps, including both current and non-current liabilities, is measured by discounting the future cash flows over the period of the contract and using market interest rates appropriate for similar instruments. The credit risk used by the bank is not a material component of the valuation made by the bank and the other variables are market-observable.

The fair value of the derivative component of convertible bonds is determined by an external valuer, calculated by reference to the market terms of similar convertible securities.

- (c) Other financial liabilities relate to a put option and an annual compensation fee granted to ADO Group (see note 11) measured at fair value. The fair value is calculated based on the expected payment amounts and the liability is discounted to present value using the market interest rate at the reporting date.

The table hereunder presents a reconciliation from the opening balance to the closing balance of financial instruments carried at fair value level 3 of the fair value hierarchy:

	2019	
	Other financial asset	Other financial liabilities
	In EUR thousand	
Balance as at January 1, 2019	6,615	42,027
Fair value adjustment	247	6,692
Fair value adjustment (27D)	92,009	—
Dividend payment	—	(768)
Balance as at December 31, 2019	<u>98,871</u>	<u>47,951</u>
	2018	
	Other financial asset	Other financial liabilities
	In EUR thousand	
Balance as at January 1, 2018	5,359	28,105
Fair value adjustment	1,256	5,938
New acquisitions	—	8,522
Dividend payment	—	(537)
Balance as at December 31, 2018	<u>6,615</u>	<u>42,027</u>

E. Capital management

The Company's management aims to maximize a long-term increase in value for the investors, taking into account financial risks by maintaining a degree of financial flexibility in order to be able to pursue the Group's growth and portfolio optimization.

The key figure for capital management is Loan-to-Value Ratio, which is the ratio of net financial liabilities compared to the value of the investment and trading properties. The Company aims to achieve a long-term Loan-to-Value Ratio of maximum 40%.

	December 31, 2019	December 31, 2018
	In EUR thousand	
Corporate bonds	397,433	396,899
Convertible bonds	156,334	154,252
Other loans and borrowings	777,817	1,057,973
Other financial liabilities	47,951	42,027
Cash and other deposits	(387,558)	(27,966)
Net financial liabilities	<u>991,977</u>	<u>1,623,185</u>
Investment properties and advances in respect of investment properties	3,630,753	4,050,323
Trading properties	25,860	35,028
Total assets	<u>3,656,613</u>	<u>4,085,351</u>
Loan-to-Value Ratio	<u>27.1%</u>	<u>39.7%</u>

Note 22 – Financial Instruments (continued)

F. Movement in liabilities deriving from financing activities

	Corporate bonds	Convertible bonds	Other loans and borrowings	Other financial liabilities	Total
	In EUR thousand				
Balance as at January 1, 2019	396,899	154,252	1,057,973	42,027	1,651,151
Changes from financing cash flows					
Receipt of loans and borrowings	—	—	79,427	—	79,427
Repayment of loans and borrowings	—	—	(15,876)	—	(15,876)
Compensation fee payments	—	—	—	(768)	(768)
Total net financing cash flows	—	—	63,551	(768)	62,783
Changes arising from selling group of assets and liabilities classified as held for sale	—	—	(345,777)	—	(345,777)
Changes in fair value	—	—	—	6,692	6,692
Other changes	534	2,082	2,071	—	4,687
Balance as at December 31, 2019	<u>397,433</u>	<u>156,334</u>	<u>777,817</u>	<u>47,951</u>	<u>1,379,535</u>
	Corporate bonds	Convertible bonds	Other loans and borrowings	Other financial liabilities	Total
	In EUR thousand				
Balance as at January 1, 2018	396,396	—	1,026,723	28,105	1,451,224
Changes from financing cash flows					
Receipt of loans and borrowings	—	165,000	121,637	—	286,637
Repayment of loans and borrowings	—	—	(95,583)	—	(95,583)
Transaction costs related to borrowings	—	(1,260)	—	—	(1,260)
Compensation fee payments	—	—	—	(537)	(537)
Total net financing cash flows	—	163,740	26,054	(537)	189,260
Changes arising from obtaining control of subsidiaries	—	—	2,498	8,308	10,806
Changes in fair value	—	—	—	5,938	5,938
Derivative component of convertible bond	—	(9,667)	—	—	(9,667)
Other changes	503	179	2,698	214	3,591
Balance as at December 31, 2018	<u>396,899</u>	<u>154,252</u>	<u>1,057,973</u>	<u>42,027</u>	<u>1,651,151</u>

Note 23 – Contingent Liabilities and Commitments

A. Contingent liabilities

The Group is involved in few legal actions arising in the ordinary course of business. It is management's opinion, on the basis of a legal opinion, that these matters will not have a material adverse effect on the Group's consolidated financial position or results of its operations, therefore no provision was recorded. An exception for that, the Company recorded a provision for broker fees accrued as a result of the sale of shares of certain subsidiaries (see note 27B).

B. Securities, guarantees and liens under bank finance agreements

In order to secure loans granted for purchasing the assets, the Group has granted banks with regard to certain subsidiaries: first ranking liens on all the investment property assets, including rights on the land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party, including general contractor contracts, long-term tenants' leases and subordination of all shareholder loans to the financing bank; liens on all of the rights deriving from each material contract to which the borrower company is a party.

In some cases, payments to the shareholders, including dividend distribution, are subject to financial covenants. Several German companies undertook not to sell or transfer a substantial part of their assets

Note 23 – Contingent Liabilities and Commitments (continued)

B. Securities, guarantees and liens under bank finance agreements (continued)

without the prior consent of the financing bank. In certain events the project companies undertook not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the project companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the project company in favor of third parties.

C. Future minimum lease payments

The Group leases out to external parties a number of commercial properties (investment property). The lease agreements are usually for five years (on average), are non-cancellable and linked to the CPI. Renewal of the agreements at the end of the period is subject to the consent of the Group and the lessees. The average renewal period of these agreements ranges from three to five years.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are as follows:

	December 31,	
	2019	2018
	In EUR thousand	
Less than one year	35,517	33,682
Between one and three years	28,349	26,727
More than three years	27,347	25,605

Note 24 – Segments Reporting

The Company reports by business segments on the basis of the information provided to the Group's Chief Operating Decision Maker (CODM). Segment information is not reported by geographical region of the properties as all operational activities are located in Berlin.

The following summary describes the operations in each of the Group's operating segments:

- Residential property management – the Group's core business activity is the rent and management of the residential properties, which includes the modernization and maintenance of the properties, the management of tenancy agreements and marketing of residential units. The focus of property management is on the optimization of rental income;
- Privatization – this segment includes all aspects of the preparation and execution of the sale of units. In addition, this segment is also subject to modernization, maintenance and management, and generates rental income for non-vacant units.

A Group-wide planning and controlling system ensures that resources for both segments are efficiently allocated and their successful use is monitored. The CODM does not view assets and liabilities separately by segment.

The accounting policies of the operating segments are the same as described in note 4 regarding significant accounting policies.

Performance is measured based on segment gross profit before revaluation of investment properties. Segment results reported to the CODM include items directly attributable to a segment on a reasonable basis.

Note 25 – Related Parties

A. Related companies

In these financial statements, ADO Group, Harel Insurance Company Ltd and ADLER Real Estate AG are considered as related parties.

Transactions with related companies:

The following amounts with related parties are included in the consolidated statement of financial position:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>In EUR thousand</u>	
Current assets		
ADO Group (presented under other receivables)	—	280
Current liabilities		
ADO Group (presented under other payables)	63	5
Other financial liabilities (see note 11)	1,535	1,535
Interest payable	82	83
Non-current liabilities		
Other financial liabilities (see note 11)	46,416	40,492
Convertible bond (see note 13B)	59,782	58,940
Derivative (see note 13B)	1,294	5,182
Other loans and borrowings (see note 14B)	23,634	22,600

The following amounts with related parties are included in the consolidated statement of profit or loss:

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>In EUR thousand</u>		
Consolidated statement of profit or loss			
Services and management fee charges from ADO Group	87	46	64
Interest expense payable to ADO Group (see note 13B)	1,584	165	—
Interest expense payable to Harel Insurance Company Ltd (see note 14B) . .	1,035	990	946

B. Transactions with key management personnel

Within the Group, the individuals in key positions pursuant to IAS 24 include the Board of Directors of ADO Properties S.A. Compensation and benefits to key management personnel that are employed by the Group:

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>In EUR thousand</u>		
Short-term employee benefits	849	800	955
Share-based payment	108	335	350
Other compensation (see note 19B)	2,132	279	—
Total	3,089	1,414	1,305

The Board of Directors and members of their immediate families do not personally have any business relationship with the Group other than in their capacity as members of the Board of Directors.

Note 25 – Related Parties (continued)

C. Emoluments granted to the members of the management and supervisory bodies

The emoluments granted to the members of the supervisory bodies in that capacity for the financial year are broken down as follows:

	For the year ended December 31,	
	2019	2018
	In EUR thousand	
Directors fee granted to the members of the Board of Directors	1,165	608
One-time termination payment (see note 12A)	1,515	279
Total	2,680	887

The emoluments granted to the members of the Senior Management (CEO, CFO and COO) are broken down as follows:

	For the year ended December 31,	
	2019	2018
	In EUR thousand	
Fixed salary	936	662
Short-term cash incentive	329	349
Long-term incentive to be paid in shares or cash	1,724	376
Office rent	3	3
One-time termination payment (see note 12A)	3,241	—
Total	6,233	1,390

The Group was renting an office from the previous CFO for a monthly amount of EUR 300. The total amount for 2019 is EUR 2,700.

Note 26 – Auditors’ Fees

Fees billed to the Company and its subsidiaries by KPMG Luxembourg, Société coopérative, Luxembourg, and other member firms of the KPMG network during the year are as follows (excluding VAT):

	For the year ended December 31,	
	2019	2018
	In EUR thousand	
Audit fees (*)	1,171	828
Thereof: KPMG Luxembourg, Société coopérative	113	90
Tax consultancy services	166	55
Thereof: KPMG Luxembourg, Société coopérative	16	16
Other non-audit related services	100	164
Thereof: KPMG Luxembourg, Société coopérative	—	12

(*) Including audit-related services in relation to bond issuance.

Note 27 – Material Events in the Reporting Period and Subsequent Events

A. On January 30, 2020, the World Health Organization (WHO) declared an international health emergency due to the outbreak of coronavirus. Since March 11, 2020, the WHO has classified the spread of the coronavirus as a pandemic. The further spread of the coronavirus and its consequences on the business of ADO Properties S.A. are constantly being monitored. The impact of the coronavirus on the overall economy in Germany is uncertain at the time the financial statements were prepared and could be considerable. However, it is not yet expected to have any direct or significant effects on the German real estate market. Currently in Germany the rents are still continuing to rise and the demand for living space is increasing as well. This leads to a very low risk of losing tenants and a high occupancy rate due to a change in the general conditions on the residential market.

Note 27 – Material Events in the Reporting Period and Subsequent Events (continued)

As at March 25, 2020, the Federal Government issued a legislative package to mitigate the consequences of the coronavirus which also affects rental and lease agreements. The landlord is not entitled to terminate a contract solely on account of default of payment by the tenant in the period April 1 to June 30, 2020 if the default is due to the effects of the pandemic and the tenant can provide credible evidence of the connection between the pandemic and the delay in payment. The Federal Government is authorized to extend the regulations from July 1 to September 30, 2020.

ADO Properties S.A. is continuously monitoring the impact of COVID-19, however this event has been considered a non-adjusting event in the preparation of these consolidated financial statements.

- B.** On September 26, 2019, the Company announced the conclusion of a share purchase agreement for the sale of 100% of the shares of certain subsidiaries owning 23 properties consisting in aggregate of approximately 5,900 residential apartment units. The sale price for the shares is EUR 920 million, less approximately EUR 340 million of net debt of the companies being sold, as a result, the company recognized an increase in fair value of investment property in an amount of EUR 84 million. The assets are located in the Spandau and Reinickendorf districts in the West and the North of Berlin, most of which were acquired in 2015. The Company recognized transaction costs in a total amount of EUR 10.8 million including broker fees, bonuses and professional services related to the sale. In addition, the Company also recognized profit from the sale in an amount of EUR 78 million for deferred tax liabilities which were not included in the purchase price calculation. On November 29, 2019 the Company announced the completion of its sale.
- C.** On December 15, 2019, the Company resolved to make a voluntary public takeover offer in the form of an exchange offer (“Offer”) to the shareholders of ADLER Real Estate Aktiengesellschaft (“Adler”). ADO Properties has offered 0.4164 new shares in ADO Properties as consideration in exchange for each tendered share in Adler. The offered ADO Properties shares will be created by way of a capital increase by exercising the authorized capital of ADO Properties pursuant to Section 5 of its articles of association (via a Board of Directors’ resolution of ADO Properties).

The Offer closed on March 25, 2020 with an acceptance rate of 91.93%. The newly issued shares of ADO Properties will be listed on the Frankfurt stock exchange.

Closing of the Offer will trigger change-of-control rights under, inter alia, a EUR 885 million bridge loan of ADLER and certain other financings entered into by Adler and/or its respective subsidiaries. ADO Properties intends to refinance the EUR 885 million bridge loan and all other debt of ADLER and ADLER’s subsidiaries in relation to which creditors exercise their change-of-control rights with loans utilized under the EUR 3,463 million bridge facility agreement with J.P. Morgan Securities Plc, J.P. Morgan AG and J.P. Morgan Europe Limited. As at December 31, 2019, the maximum nominal amount of the bridge facility agreement will be reduced to EUR 2,424 million.

As at the reporting date, the business combination agreements have not been completed and therefore are not reflected in these financial statements.

- D.** On 15 December 2019, the Company also entered into an agreement with several shareholders of Consus Real Estate AG (“Consus”) to acquire 22.18% of the outstanding shares. Additionally, the Company entered into a call/put option and agreement with the major shareholder of Consus to acquire an additional 50.97% in Consus. As a last step, the Company committed itself to also make a voluntary public takeover offer over the remaining Consus’ shares should the Company exercise the call option. As at 31 December 2019 the company acquired 18.62% of Consus shares. The remaining 3.56% was acquired in January 2020.

Upon investment of the Company into Consus, the Company did not receive any right to appoint any board members and does not have any representation in any of the boards of Consus as at December 31, 2019.

The call option is exercisable from the date of signing of the option agreement, i.e. 15 December 2019, until 16 June 2021. If the Company wants to exercise the option, it needs to issue an exercise notice and the assignment of the shares needs to occur within 15 business days after all relevant merger clearance approvals have been obtained. Under the put option, the shareholder of Consus shall have the right to request from the Company that it acquires the relevant shares, if a change of control event at the Company occurs. It shall be exercisable by the shareholder within 5 business days after the occurrence of a change of control event by giving written notice thereof to the Company.

Note 27 – Material Events in the Reporting Period and Subsequent Events (continued)

The Group has assessed its investment in Consus and determined that it does not have significant influence due to, inter alia, its current voting rights, the lack of board representation, the relative size and dispersion of the holdings of other shareholders. In addition, the option is not currently exercisable as it requires various approvals which are not merely a formality. Therefore, the investment is classified as a financial asset and measured at fair value through OCI.

- E.** Following the conclusion of the Strategic Cooperation Agreement, on January 17, 2020, the Company entered into a letter of intent with Consus Swiss Finance AG, which was amended on February 21, 2020, for the purchase of 89.9% of the shares in all companies that hold plots of land belonging to the Holsten Quartier project development in Hamburg (the “Holsten Quartier”). The provisional purchase price for 100% of the shares in Holsten Quartier is EUR 320 million on a cash-free debt-free basis, subject to the finalization of the Company’s due diligence. In exchange for a EUR 50 million down-payment, of which EUR 40 million does not have to be paid before certain collateral requirements have been fulfilled, Consus Swiss Finance AG granted the Company exclusivity for twelve months to continue and finalize the legal, technical, economic and tax due diligence. There is no obligation to enter into a share purchase agreement and the signing of the share purchase agreement is subject to the satisfactory completion of the due diligence.
- F.** On February 6, 2020, ADO Properties granted an interest-bearing loan of EUR 43,542,242 to Taurecon Invest IX GmbH i.Gr. (“Taurecon”). The loan has a term until February 15, 2023 and was used by Taurecon to purchase from ADO Group Ltd. (a wholly owned subsidiary of Adler) its minority shareholdings in various entities in which ADO Properties (directly or indirectly) owns the majority of shares. The loan amount may increase or decrease as the case may be, if and to the extent the final purchase price to be paid by Taurecon for the purchase or the shares may be adjusted going forward.
- G.** On March 25, 2020, the Company decided to make a voluntary public takeover offer (the “Takeover Offer”) to all shareholders of WESTGRUND Aktiengesellschaft (the “Target”) for the acquisition of all bearer shares in the Target, each share representing a proportionate amount of EUR 1.00 of the share capital of the Target (the “WESTGRUND Shares”) against payment of a cash consideration, the amount of which at least corresponds to the value of the business per WESTGRUND share calculated on the basis of a valuation of the Target in accordance with Section 31 para. 1, 2 and 7 WpÜG in conjunction with Section 5 para. 4 of the German WpÜG Offer Ordinance (WpÜG-Angebotsverordnung).
- H.** In respect of the revolving credit facility agreement (see note 14D), on March 26, 2020, the Group drew down an amount of EUR 175 million.

Note 28 – List of the Company Shareholdings

	Company	Country	Shareholding and control at December 31,	
			2019	2018
			%	%
1	Adest Grundstücks GmbH	Germany	99.64	99.64
2	Adoa Grundstücks GmbH	Germany	99.64	99.64
3	Adom Grundstücks GmbH	Germany	99.64	99.64
4	Adon Grundstücks GmbH	Germany	99.64	99.64
5	Ahava Grundstücks GmbH	Germany	99.64	99.64
6	Anafa 1 Grundstücks GmbH	Germany	99.64	99.64
7	Anafa 2 Grundstücks GmbH	Germany	99.64	99.64
8	Gamazi Grundstücks GmbH	Germany	99.64	99.64
9	Anafa Grundstücks GmbH	Germany	99.64	99.64
10	Badolina Grundstücks GmbH	Germany	99.64	99.64
11	Berale Grundstücks GmbH	Germany	99.64	99.64
12	Bamba Grundstücks GmbH	Germany	99.64	99.64
13	Zman Grundstücks GmbH	Germany	99.64	99.64
14	ADO Immobilien Management GmbH	Germany	100	100
15	CCM City Construction Management GmbH	Germany	100	100
16	Drontheimer Str. 4 Grundstücks GmbH	Germany	99.64	99.64
17	Eldalote Grundstücks GmbH	Germany	99.64	99.64
18	Nuni Grundstücks GmbH	Germany	99.64	99.64
19	Krembo Grundstücks GmbH	Germany	99.64	99.64

Note 28 – List of the Company Shareholdings (continued)

		Shareholding and control at December 31,		
		2019	2018	
		%	%	
Company	Country			
20	Tussik Grundstücks GmbH	Germany	99.64	99.64
21	Geut Grundstücks GmbH	Germany	99.64	99.64
22	Gozal Grundstücks GmbH	Germany	99.64	99.64
23	Gamad Grundstücks GmbH	Germany	99.64	99.64
24	Geshem Grundstücks GmbH	Germany	99.64	99.64
25	Lavlav 1 Grundstücks GmbH	Germany	99.64	99.64
26	Lavlav 2 Grundstücks GmbH	Germany	99.64	99.64
27	Lavlav 3 Grundstücks GmbH	Germany	99.64	99.64
28	Lavlav Grundstücks GmbH	Germany	99.64	99.64
29	Mastik Grundstücks GmbH	Germany	99.64	99.64
30	Maya Grundstücks GmbH	Germany	99.64	99.64
31	Mezi Grundstücks GmbH	Germany	99.64	99.64
32	Muse Grundstücks GmbH	Germany	99.64	99.64
33	Papun Grundstücks GmbH	Germany	99.64	99.64
34	Nehederet Grundstücks GmbH	Germany	99.64	99.64
35	Neshama Grundstücks GmbH	Germany	99.64	99.64
36	Osher Grundstücks GmbH	Germany	99.64	99.64
37	Pola Grundstücks GmbH	Germany	99.64	99.64
38	ADO Properties GmbH	Germany	100	100
39	Reshet Grundstücks GmbH	Germany	99.64	99.64
40	Sababa18 Grundstücks GmbH	Germany	99.64	99.64
41	Sababa19 Grundstücks GmbH	Germany	99.64	99.64
42	Sababa20 Grundstücks GmbH	Germany	99.64	99.64
43	Sababa21 Grundstücks GmbH	Germany	99.64	99.64
44	Sababa22 Grundstücks GmbH	Germany	99.64	99.64
45	Sababa23 Grundstücks GmbH	Germany	99.64	99.64
46	Sababa24 Grundstücks GmbH	Germany	99.64	99.64
47	Sababa25 Grundstücks GmbH	Germany	99.64	99.64
48	Sababa26 Grundstücks GmbH	Germany	99.64	99.64
49	Sababa27 Grundstücks GmbH	Germany	99.64	99.64
50	Sababa28 Grundstücks GmbH	Germany	99.64	99.64
51	Sababa29 Grundstücks GmbH	Germany	99.64	99.64
52	Sababa30 Grundstücks GmbH	Germany	99.64	99.64
53	Sababa31 Grundstücks GmbH	Germany	99.64	99.64
54	Sababa32 Grundstücks GmbH	Germany	99.64	99.64
55	Shemesh Grundstücks GmbH	Germany	—	99.64
56	Stav Grundstücks GmbH	Germany	99.64	99.64
57	Tamuril Grundstücks GmbH	Germany	99.64	99.64
58	Tara Grundstücks GmbH	Germany	99.64	99.64
59	Tehila1 Grundstücks GmbH	Germany	99.64	99.64
60	Tehila2 Grundstücks GmbH	Germany	99.64	99.64
61	Tehila Grundstücks GmbH	Germany	99.64	99.64
62	Trusk Grundstücks GmbH	Germany	99.64	99.64
63	Wernerwerkdamm 25 Berlin Grundstücks GmbH	Germany	99.64	99.64
64	Yarok Grundstücks GmbH	Germany	99.64	99.64
65	Yahel Grundstücks GmbH	Germany	99.64	99.64
66	Yussifun Grundstücks GmbH	Germany	99.64	99.64
67	Bombila Grundstücks GmbH	Germany	99.64	99.64
68	ADO SBI Holdings S.A. & Co. KG	Germany	94	94
69	Central Facility Management GmbH	Germany	100	100
70	Sheket Grundstücks GmbH	Germany	100	100
71	Seret Grundstücks GmbH	Germany	100	100
72	Melet Grundstücks GmbH	Germany	100	100
73	Yabeshet Grundstücks GmbH	Germany	100	100
74	ADO Finance B.V.	Holland	100	100

Note 28 – List of the Company Shareholdings (continued)

		Shareholding and control at December 31,		
Company		Country	2019	2018
			%	%
75	Yadit Grundstücks GmbH	Germany	100	100
76	Zamir Grundstücks GmbH	Germany	100	100
77	Arafel Grundstücks GmbH	Germany	100	100
78	Sharav Grundstücks GmbH	Germany	100	100
79	Sipur Grundstücks GmbH	Germany	100	100
80	Matok Grundstücks GmbH	Germany	100	100
81	Barbur Grundstücks GmbH	Germany	94.9	94.9
82	Parpar Grundstücks GmbH	Germany	100	100
83	Jessica Properties B.V.	Holland	94.50	94.50
84	Alexandra Properties B.V.	Holland	94.44	94.44
85	Marbien B.V.	Holland	94.90	94.90
86	Meghan Properties B.V.	Holland	94.44	94.44
87	Matok Löwenberger Straße Grundstücks GmbH	Germany	100	100
88	Songbird 1 ApS	Denmark	60	60
89	Songbird 2 ApS	Denmark	60	60
90	Joysun 1 B.V.	Holland	60	60
91	Joysun 2 B.V.	Holland	60	60
92	Yona Investment GmbH & Co. KG	Germany	60	60
93	Yanshuf Investment GmbH & Co. KG	Germany	60	60
94	Ziporim Investment GmbH	Germany	60	60
95	Ofek 1 Grundstücks GmbH	Germany	—	100
96	Ofek 2 Grundstücks GmbH	Germany	—	100
97	Ofek 3 Grundstücks GmbH	Germany	—	100
98	Ofek 4 Grundstücks GmbH	Germany	—	100
99	Ofek 5 Grundstücks GmbH	Germany	—	100
100	Galim 1 Grundstücks GmbH	Germany	—	100
101	Galim 2 Grundstücks GmbH	Germany	—	100
102	Galim 3 Grundstücks GmbH	Germany	—	100
103	JS Nestorstrasse Grundstücks GmbH	Germany	60	60
104	JS Florapromenade Grundstücks GmbH	Germany	60	60
105	JS Cotheniusstrasse Grundstücks GmbH	Germany	60	60
106	JS Taurogener Grundstücks GmbH	Germany	60	60
107	JS Kiehlufer Grundstücks GmbH	Germany	60	60
108	JS Rubenstrasse Grundstücks GmbH	Germany	60	60
109	Yona Stettiner Grundstücks GmbH	Germany	60	60
110	Yona Schul Grundstücks GmbH	Germany	60	60
111	Yona Otawi Grundstücks GmbH	Germany	60	60
112	Yona Strom Grundstücks GmbH	Germany	60	60
113	Yona Gutenberg Grundstücks GmbH	Germany	60	60
114	Yona Kameruner Grundstücks GmbH	Germany	60	60
115	Yona Schichauweg Grundstücks GmbH	Germany	60	60
116	Yona Alt-Tempelhof Grundstücks GmbH	Germany	60	60
117	Yona Gruberzeile Grundstücks GmbH	Germany	60	60
118	Yona Schloss Grundstücks GmbH	Germany	60	60
119	Yona Lindauer Grundstücks GmbH	Germany	60	60
120	Yona Nogat Grundstücks GmbH	Germany	60	60
121	Yona Bötzwow Grundstücks GmbH	Germany	60	60
122	Yona Herbst Grundstücks GmbH	Germany	60	60
123	Yona Danziger Grundstücks GmbH	Germany	60	60
124	Yona Schön Grundstücks GmbH	Germany	60	60
125	Yanshuf Kaiser Grundstücks GmbH	Germany	60	60
126	Yanshuf Binz Grundstücks GmbH	Germany	60	60
127	Yanshuf Antonien Grundstücks GmbH	Germany	60	60
128	Yanshuf See Grundstücks GmbH	Germany	60	60
129	Yanshuf Hermann Grundstücks GmbH	Germany	60	60

Note 28 – List of the Company Shareholdings (continued)

		Shareholding and control at December 31,		
Company		Country	2019	2018
			%	%
130	Yanshuf Schmidt-Ott Grundstücks GmbH	Germany	60	60
131	Hanpaka Holding GmbH	Germany	100	100
132	Hanpaka Immobilien GmbH	Germany	94.90	94.90
133	Dvash 1 Holding GmbH	Germany	100	100
134	Dvash 2 Holding GmbH	Germany	100	100
135	Dvash 3 B.V.	Holland	100	100
136	Rimon Holding GmbH	Germany	100	100
137	Bosem Grundstücks GmbH	Germany	100	100
138	Rimon Grundstücks GmbH	Germany	94.90	94.90
139	Dvash 21 Grundstücks GmbH	Germany	94.90	94.90
140	Dvash 22 Grundstücks GmbH	Germany	94.90	94.90
141	Dvash 23 Grundstücks GmbH	Germany	94.90	94.90
142	Dvash 24 Grundstücks GmbH	Germany	94.90	94.90
143	Dvash 11 Grundstücks GmbH	Germany	94.90	94.90
144	Dvash 12 Grundstücks GmbH	Germany	94.90	94.90
145	Dvash 13 Grundstücks GmbH	Germany	94.90	94.90
146	Dvash 14 Grundstücks GmbH	Germany	94.90	94.90
147	ADO FC Management Unlimited Company	Ireland	100	100
148	5. Ostdeutschland Invest GmbH	Germany	94.90	94.90
149	8. Ostdeutschland Invest GmbH	Germany	94.90	94.90
150	Horef Holding GmbH	Germany	100	100
151	ADO 9110 Holding GmbH	Germany	100	100
152	Silan Holding GmbH	Germany	100	100
153	ADO Sonnensiedlung S.à r.l.	Luxembourg	94.90	94.90
154	Horef Grundstücks GmbH	Germany	94.93	94.93
155	Sprengelstraße 39 GmbH	Germany	94	94
156	Scharnweberstraße 112 Verwaltungsgesellschaft mbH	Germany	94.90	94.90
157	Kantstraße 62 Grundstücks GmbH	Germany	100	100
158	ADO Treasury GmbH	Germany	100	100
159	ADO 9160 Grundstücks GmbH	Germany	94.90	94.90
160	ADO 9200 Grundstücks GmbH	Germany	94.90	94.90
161	ADO 9210 Grundstücks GmbH	Germany	94.90	94.90
162	ADO 9220 Grundstücks GmbH	Germany	94.90	94.90
163	ADO 9230 Grundstücks GmbH	Germany	94.90	94.90
164	ADO 9240 Grundstücks GmbH	Germany	94.90	94.90
165	ADO 9250 Grundstücks GmbH	Germany	94.00	94.00
166	ADO 9260 Grundstücks GmbH	Germany	94.90	94.90
167	ADO 9270 Grundstücks GmbH	Germany	94.80	94.80
168	ADO 9280 Grundstücks GmbH	Germany	94.90	94.90
169	ADO 9290 Grundstücks GmbH	Germany	94.90	94.90
170	ADO 9300 Grundstücks GmbH	Germany	94.90	94.90
171	ADO 9310 Grundstücks GmbH	Germany	94.90	94.90
172	ADO 9320 Grundstücks GmbH	Germany	94.90	94.90
173	ADO 9330 Grundstücks GmbH	Germany	94.90	94.90
174	ADO 9340 Grundstücks GmbH	Germany	94.90	94.90
175	ADO 9350 Grundstücks GmbH	Germany	94.90	94.90
176	ADO 9360 Holding GmbH	Germany	100	100
177	ADO 9370 Grundstücks GmbH	Germany	94.90	94.90
178	ADO 9380 Grundstücks GmbH	Germany	94.90	94.90
179	ADO 9390 Grundstücks GmbH	Germany	94.90	94.90
180	ADO 9400 Grundstücks GmbH	Germany	94.90	94.90
181	ADO 9410 Grundstücks GmbH	Germany	94.90	94.90
182	ADO 9420 Grundstücks GmbH	Germany	94.90	94.90
183	ADO 9430 Grundstücks GmbH	Germany	94.90	94.90
184	ADO 9440 Grundstücks GmbH	Germany	94.90	94.90

Note 28 – List of the Company Shareholdings (continued)

		Country	Shareholding and control at	
			December 31,	
			2019	2018
Company			%	%
185	ADO 9450 Grundstücks GmbH	Germany	94.90	94.90
186	ADO 9460 Grundstücks GmbH	Germany	94.90	94.90
187	ADO 9470 Grundstücks GmbH	Germany	94.90	94.90
188	ADO 9480 Grundstücks GmbH	Germany	94.90	94.90
189	ADO 9490 Grundstücks GmbH	Germany	94.90	94.90
190	ADO 9500 Grundstücks GmbH	Germany	94.90	94.90
191	ADO 9510 Grundstücks GmbH	Germany	94.90	94.90
192	ADO 9520 Grundstücks GmbH	Germany	94.90	94.90
193	ADO 9530 Grundstücks GmbH	Germany	94.90	94.90
194	ADO 9540 Holding GmbH	Germany	100	100
195	ADO Lux Finance S.à r.l.	Luxembourg	100	100
196	ADO 9550 Grundstücks GmbH	Germany	94.90	94.90
197	ADO 9560 Grundstücks GmbH	Germany	94.90	94.90
198	ADO 9570 Grundstücks GmbH	Germany	94.90	94.90
199	ADO 9580 Holding GmbH	Germany	100	100
200	RVB Angerburgerallee B.V.	Holland	94	94
201	ADO 9600 Grundstücks GmbH	Germany	94.90	94.90
202	ADO 9610 Grundstücks GmbH	Germany	94.90	94.90
203	ADO 9620 Grundstücks GmbH	Germany	94.90	94.90
204	ADO 9630 Grundstücks GmbH	Germany	94.90	94.90
205	ADO Living GmbH	Germany	100	100
206	ADO 9640 Grundstücks GmbH	Germany	94.90	94.90
207	ADO Lux-EEME S.à r.l.	Luxembourg	100	—
208	ADO Malta Limited	Malta	100	—

ADO Properties S.A.

**Consolidated financial statements of ADO Properties S.A. as of and for the fiscal year ended
December 31, 2018**

To the Shareholders of
ADO Properties S.A.
1B Heienhaff
L-1736 Senningerberg
Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ADO Properties S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 on the audit profession (the "Law of July 23, 2016") and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (the "CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of July 23, 2016 and ISAs are further described in the «Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements» section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition for investment properties

a) *Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period*

Refer to Note 17 to the consolidated financial statements for related disclosures. Revenue for the Group consists primarily of rental income. We identified revenue recognition as a key audit matter as revenue is an important measure used to evaluate the performance of the Group and there is a risk that revenue is overstated.

b) *How the matter was addressed in our audit*

Our procedures over revenue recognition included, but were not limited to:

- Evaluating the design and implementation and of operating effectiveness of key internal controls over the recording of revenue for the investment properties;
- Comparing rental revenue with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, on a sample basis, and assessing whether fixed rental revenue had been recorded in the appropriate accounting period; and

- Performing substantive analytical procedures on the rental income by building an expectation for the rental income and comparing it to the actual rental income disclosed in the consolidated financial statements.

Valuation of investment properties

a) Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period

Refer to Note 5 to the consolidated financial statements for related disclosures. We identified the valuation of investment properties as a key audit matter as they represent approximately 96.97% of total assets of the Group, and significant judgement is required in determining their fair value.

The investment properties are stated at their fair values based on reports by independent external valuers (hereafter “the Valuer”).

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. In determining the property’s valuation, the Valuer takes into account property specific characteristics and information including the rental income. The Valuer applies assumptions for estimated market rent, capitalization interest rate and discount rate, which are influenced by prevailing market conditions and comparable market transactions, to arrive at the final valuation.

The significance of the estimates and judgements involved, together with the fact that only a small percentage difference in individual property valuation, when aggregated, could result in a material misstatement on the consolidated statement of profit or loss and the consolidated statement of financial position, requires specific audit focus in this area.

b) How the matter was addressed in our audit

Our procedures over the valuation of investment properties included, but were not limited to:

- Evaluating the qualifications and competence of the external Valuer and reading the terms of engagement of the Valuer with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.

Involving our own valuation specialists to evaluate the valuation methodologies used and to test the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents on a sample basis;

Involving our own valuation specialists to challenge the capitalisation and discount rates used in the valuation by comparing them with historical rates and available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the Valuer; and

Assessing the adequacy of the descriptions in consolidated the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the combined management report and the Corporate Governance Report but does not include the consolidated financial statements and our report of “Réviseur d’Entreprises agréé” thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is 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 Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit 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 to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Conclude on the appropriateness of Board of 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 our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as “Réviseur d’Entreprises agréé” by the General Meeting of the Shareholders on June 19, 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is four years, three years of which was since the Company became a public interest entity.

The combined management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Report is presented on pages 55 to 62. The information required by Article 68ter paragraph (1) letters c) and d) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Other matter

The Corporate Governance Report includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Luxembourg, March 19, 2019

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Bobbi Jean Breboneria

Consolidated Statement of Financial Position as at

(In thousands EUR)

	Note	As at December 31,	
		2018	2017
Assets			
Non-current assets			
Investment properties	5	4,044,023	3,271,298
Advances in respect of investment properties		6,300	34,425
Property and equipment		3,495	2,783
Other financial asset	23	6,615	5,359
Restricted bank deposits	7	3,859	539 (*)
Deferred expenses	14	791	—
Deferred tax assets	16	732	—
		<u>4,065,815</u>	<u>3,314,404</u>
Current assets			
Trading properties	6	35,028	42,961
Restricted bank deposits	7	24,752	23,813 (*)
Trade receivables	8	13,313	10,324
Other receivables	9	3,299	5,231
Cash and cash equivalents	10	27,966	121,530
		<u>104,358</u>	<u>203,859</u>
Total assets		<u>4,170,173</u>	<u>3,518,263</u>
Shareholders' equity			
Share capital	12	55	55
Share premium		499,209	498,607
Reserves		324,877	330,638
Retained earnings		1,326,538	966,090
Total equity attributable to owners of the Company		<u>2,150,679</u>	<u>1,795,390</u>
Non-controlling interests		<u>46,603</u>	<u>36,103</u>
Total equity		<u>2,197,282</u>	<u>1,831,493</u>
Liabilities			
Non-current liabilities			
Corporate bonds	13	396,899	396,396
Convertible bonds	13	154,252	—
Other loans and borrowings	14	1,040,909	953,955
Other financial liabilities	11	40,492	27,238
Derivatives	23	16,236	2,878
Deferred tax liabilities	16	249,114	183,443
		<u>1,897,902</u>	<u>1,563,910</u>
Current liabilities			
Other loans and borrowings	14	17,064	72,768
Other financial liabilities	11	1,535	867
Trade payables		18,497	13,642
Other payables	15	37,790	35,476
Derivatives	23	103	107
		<u>74,989</u>	<u>122,860</u>
Total equity and liabilities		<u>4,170,173</u>	<u>3,518,263</u>

Rabin Savion
CEO

Florian Goldgruber
CFO

Date of approval: March 19, 2019

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

(In thousands EUR)

	Note	For the year ended December 31,		
		2018	2017	2016
Revenue	17	154,853	128,852	109,775
Cost of operations	18	(41,996)	(36,174)	(32,596) (*)
Gross profit		112,857	92,678	77,179
General and administrative expenses	19	(18,451)	(12,762)	(13,245) (*)
Changes in fair value of investment properties	5	404,936	383,638	444,268
Results from operating activities		499,342	463,554	508,202
Finance income		1,399	1,602	1,972
Finance costs		(32,915)	(29,609)	(29,700)
Net finance costs	21	(31,516)	(28,007)	(27,728)
Profit before tax		467,826	435,547	480,474
Income tax expense	16	(70,362)	(68,035)	(69,706)
Profit for the year		397,464	367,512	410,768
Profit attributable to:				
Owners of the Company		386,964	355,970	395,150
Non-controlling interest		10,500	11,542	15,618
Profit for the year		397,464	367,512	410,768
Basic and diluted earnings per share (in EUR)	22	8.77	8.07	10.11

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(In thousands EUR)

	Note	For the year ended December 31,		
		2018	2017	2016
Profit for the year		397,464	367,512	410,768
Items that may be reclassified subsequently to profit or loss				
Hedging reserve classified to profit or loss, net of tax		10	—	5,275
Effective portion of changes in fair value of cash flow hedges	23	200	1,218	(512)
Related tax		(33)	60	53
Total other comprehensive income		177	1,278	4,816
Total comprehensive income for the year		397,641	368,790	415,584
Total comprehensive income attributable to:				
Owners of the Company		387,141	357,246	399,938
Non-controlling interests		10,500	11,544	15,646
Total comprehensive income for the year		397,641	368,790	415,584

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(In thousands EUR)

	Note	For the year ended December 31,		
		2018	2017	2016
Cash flows from operating activities				
Profit for the year		397,464	367,512	410,768
Adjustments for:				
Depreciation		527	452	356
Change in fair value of investment properties	5	(404,936)	(383,638)	(444,268)
Net finance costs	21	31,516	28,007	27,728
Income tax expense	16	70,362	68,035	69,706
Share-based payment		546	564	859
Change in short-term restricted bank deposits related to tenants		(1,624)	(4,727)	(2,883)
Change in long-term restricted bank deposits from condominium sales		(3,320)	(539) (*)	—
Change in trade receivables		(2,926)	(3,148)	1,116
Change in other receivables		2,427	(3,742)	976
Change in trading properties		13,585	12,830	15,007
Change in advances in respect of trading properties		—	—	(6,419)
Change in trade payables		4,623	1,408	1,509
Change in other payables		(156)	4,163	2,276
Income tax paid		(4,155)	(864)	(352)
Net cash from operating activities		103,933	86,313	76,379
Cash flows from investing activities				
Purchase of and CAPEX on investment properties	5	(117,118)	(189,182)	(116,839)
Advances paid for investment property purchase		—	(33,975)	(11,805)
Purchase of property and equipment		(1,182)	(795)	(784)
Interest received		143	3	29
Proceeds from disposal of investment properties		—	—	1,015
Acquisition of subsidiaries, net of acquired cash	3	(216,685)	(280,542)	(160,244)
Repayment of bank deposit		—	—	65,000
Change in short-term restricted bank deposits, net		808	9,992 (*)	(4,662)
Net cash used in investing activities		(334,034)	(494,499)	(228,290)
Cash flows from financing activities				
Proceeds from issuance of corporate bonds, net	13	—	396,185	—
Proceeds from issuance of convertible bonds, net	13	163,740	—	—
Long-term loans received	14	121,637	114,606	182,721
Repayment of long-term loans	14	(93,283)	(116,061) (*)	(158,300)
Proceeds from issuance of commercial papers	14	673,000	—	—
Repayment of commercial papers	14	(673,000)	—	—
Upfront fees paid for credit facilities	14	(1,377)	—	—
Repayment of short-term loans		(2,300)	(10,487) (*)	(13,088)
Interest paid		(24,873)	(18,103)	(18,762)
Compensation fee payments in respect of other financial liabilities	11	(537)	—	—
Payment from settlement of derivatives		(10)	—	(6,184)
Issuance of ordinary shares, net		—	—	292,975
Dividend distributed	12	(26,460)	(19,845)	(13,475)
Net cash from financing activities		136,537	346,295	265,887
Change in cash and cash equivalents during the year		(93,564)	(61,891)	113,976
Cash and cash equivalents at the beginning of the year		121,530	183,421	69,445
Cash and cash equivalents at the end of the year		27,966	121,530	183,421

(*) Immaterial adjustment of comparative data.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2018	55	498,607	(1,036)	331,674	966,090	1,795,390	36,103	1,831,493
Total comprehensive income for the year								
Profit for the year	—	—	—	—	386,964	386,964	10,500	397,464
Other comprehensive income for the year, net of tax	—	—	177	—	—	177	—	177
Total comprehensive income for the year	—	—	177	—	386,964	387,141	10,500	397,641
Transactions with owners, recognized directly in equity								
Issuance of ordinary shares, net (see note 12)	(*)	602	—	—	(602)	—	—	—
Changes in put option (see note 11)	—	—	—	(5,938)	—	(5,938)	—	(5,938)
Dividend distributed (see note 12)	—	—	—	—	(26,460)	(26,460)	—	(26,460)
Share-based payment (see note 20)	—	—	—	—	546	546	—	546
Balance as at December 31, 2018	55	499,209	(859)	325,736	1,326,538	2,150,679	46,603	2,197,282

(*) Represents an amount less than EUR 1 thousand.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2017	55	499,520	(2,312)	336,184	628,498	1,461,945	24,559	1,486,504
Total comprehensive income for the year								
Profit for the year	—	—	—	—	355,970	355,970	11,542	367,512
Other comprehensive income for the year, net of tax	—	—	1,276	—	—	1,276	2	1,278
Total comprehensive income for the year	—	—	1,276	—	355,970	357,246	11,544	368,790
Transactions with owners, recognized directly in equity								
Changes in put option (see note 11)	—	—	—	(4,520)	—	(4,520)	—	(4,520)
Dividend distributed	—	(913)	—	—	(18,932)	(19,845)	—	(19,845)
Share-based payment (see note 20)	—	—	—	10	554	564	—	564
Balance as at December 31, 2017	55	498,607	(1,036)	331,674	966,090	1,795,390	36,103	1,831,493

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2016	—	206,600	(7,100)	339,277	246,739	785,516	8,913	794,429
Total comprehensive income for the year								
Profit for the year	—	—	—	—	395,150	395,150	15,618	410,768
Other comprehensive income for the year, net of tax	—	—	4,788	—	—	4,788	28	4,816
Total comprehensive income for the year	—	—	4,788	—	395,150	399,938	15,646	415,584
Transactions with owners, recognized directly in equity								
Issuance of ordinary shares, net	55	292,920	—	—	—	292,975	—	292,975
Changes in put option (see note 11)	—	—	—	(3,146)	—	(3,146)	—	(3,146)
Dividend distributed	—	—	—	—	(13,475)	(13,475)	—	(13,475)
Share-based payment (see note 20)	—	—	—	53	84	137	—	137
Balance as at December 31, 2016	55	499,520	(2,312)	336,184	628,498	1,461,945	24,559	1,486,504

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – ADO Properties S.A.

ADO Properties S.A. (the “Company”) was incorporated on November 13, 2007 as a private limited liability company in Cyprus, and until June 8, 2015, its legal name was “Swallowbird Trading & Investments Limited”. The Company holds and operates a mainly residential assets portfolio and sells units as a separate condominium in Berlin, Germany.

The Company deleted its registration in Cyprus and moved its registered office and central administration to Luxembourg by decision of the general meeting of shareholders dated June 8, 2015 and adopted the form of a private limited liability company (*société à responsabilité limitée*) under Luxembourg law. The Company was then converted to a public limited liability company (*société anonyme*) under Luxembourg law by decision of the general meeting of shareholders dated June 16, 2015 and changed its name to “ADO Properties S.A.” (B-197554). The address of the Company’s registered office is Aerogolf Center, 1B Heienhaff, L-1736 Senningerberg, Luxembourg.

On July 23, 2015 the Company completed an initial public offering (“IPO”) and its shares have since been traded on the regulated market (Prime Standard) of Frankfurt Stock Exchange.

The Company is a direct subsidiary of ADO Group Ltd (“ADO Group”), an Israeli company traded on the Tel Aviv Stock Exchange.

The consolidated financial statements of the Company as at December 31, 2018 and for the year then ended comprise the Company and its subsidiaries (together referred to as the “Group”).

Note 2 – Basis of Preparation

A. Statement of compliance

The consolidated financial statements as at and for the year ended December 31, 2018, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

The consolidated financial statements were authorized for issue by the Board of Directors on March 19, 2019.

B. Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Group’s functional currency. All financial information presented in euro (“EUR”) has been rounded to the nearest thousand, unless otherwise indicated. Due to rounding, the figures reported in tables and cross-references may deviate from their exact values as calculated.

C. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except, in particular, investment properties, other financial asset, other financial liabilities and derivatives, which are measured at fair value.

D. Operating cycle

The Group has two operating cycles:

- Holding and operating residential and commercial units: the operating cycle is one year.
- Selling of units as a separate condominium: the operating cycle is up to three years.

As a result, current assets and current liabilities also include items the realization of which is intended and anticipated to take place within the operating cycle of these operations of up to three years.

E. Use of estimates, judgments and fair value measurement

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments and use of estimates

Information about judgments, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 16 – Uncertain tax positions (judgments)

The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience. New information may become available that causes the Group to change its judgment, resulting in recognition of additional income tax expense in the period that such a change in judgment occurs.
- Note 16 – Regarding the utilization of losses carried forward (estimations)

Deferred tax assets are recognized in respect of tax losses carried forward when there is a high probability that in the future there will be taxable profits against which losses carried forward can be utilized. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its estimation regarding the utilization of existing tax assets; any such changes to deferred tax assets will impact tax income/expense in the period that such a change in estimate occurs.
- Note 5 – Regarding fair value measurement of investment properties (estimations)

The fair value of investment properties as at December 31, 2018 was assessed by CBRE, an industry specialist that has appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. The valuation includes assumptions regarding rent, vacancies, maintenance costs and discount rate. These assumptions are subject to uncertainties that may lead to either positive or negative value adjustments in the future, impacting the profit or loss from changes in fair value of investment properties in the period that such a change in estimations occurs.
- Note 23 – Regarding measurement of derivatives at fair value (estimation)

Derivative valuations are calculated by the financing bank and checked by management. The risk that derivatives will not be appropriately valued exists, since the Group needs to make judgments about the estimation of the credit risk used by the lending bank and about whether the bank used the appropriate market observation for the other variables. New information may become available that causes the Group to change its estimation, impacting the profit or loss from changes in fair value of derivatives in the period that such a change in estimations occurs.
- Note 3 – Regarding acquisitions of companies holding real estate assets (judgment)

When buying a company holding real estate assets ("Property Company"), the Group exercises judgment to determine whether it is the purchase of a business or a group of assets and liabilities, for the purpose of determining the accounting treatment of the transaction. In determining whether a Property Company is a business, the Group examines, inter alia, the nature of existing processes in the Property Company, including the extent and nature of management, security, cleaning and maintenance services provided to tenants.
- Note 17 – Regarding principle versus agent considerations (judgment)

The Group provides ancillary services to tenants, mainly utilities, for which it re-charges the tenants. The Group uses judgment when it examines whether it acts as a principal or as an agent in providing the services to tenants. The Group examined the indicators in IFRS 15, mainly whether it is the primarily responsible for fulfilling the promise to perform the specific services and whether it has

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

discretion in determining the price for the services. For charges with respect to utilities such as supply of cold water, draining, street cleaning etc., the Group believes that it is acting as an agent and such charges are recognized on a net basis. For other charges, such as cleaning, gardening and certain maintenance services, the Group believes that it is acting as a principal and accordingly they are recognized on a gross basis. Property tax and insurance are not within the scope of IFRS 15.

Determination of fair values

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 5, investment properties; and
- Note 23, financial instruments

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

F. Changes in accounting policies

As from January 1, 2018 the Group applies the new standards and amendments to standards described below:

- IFRS 15 *Revenue from Contracts with Customers*

As from January 1, 2018 the Group initially applies International Financial Reporting Standard 15 (“IFRS 15” or “the standard”), which provides guidance on revenue recognition.

The Group elected to apply the standard using the cumulative effect approach with an adjustment to the balance of retained earnings as at January 1, 2018 and without a restatement of comparative data.

The standard introduces a new five-step model for recognizing revenue from contracts with customers:

- (1) Identifying the contract with the customer.
- (2) Identifying distinct performance obligations in the contract.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to distinct performance obligations.
- (5) Recognizing revenue when the performance obligations are satisfied.

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

In the property rental and management sector, the Group provides management services to the tenants. In cases where the Group cannot direct the service transferred to the customer and it actually acts as an agent, the revenue is recognized on a net basis. In other cases, the revenue is recognized on a gross basis.

As part of the initial application of the standard, the Group has chosen to apply the following expedients:

- (1) Application of the cumulative effect approach only for contracts not yet completed at the transition date; and

Note 2 – Basis of Preparation (continued)

F. Changes in accounting policies (continued)

- (2) Examining the aggregate effect of contract changes that occurred before the date of initial application, instead of examining each change separately.

The application of IFRS 15 did not have a material effect on the financial statements of the Group.

- IFRS 9 (2014) *Financial Instruments*

As from the first quarter of 2018, the Group applies IFRS 9 (2014) *Financial Instruments* (“IFRS 9” or “the standard”), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). Furthermore, as from that date the Group applies the amendment to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*.

The Group has chosen to apply the standard and the amendment to the standard as from January 1, 2018 without amendment of the comparative data, other than where required by the standard with respect to certain hedging items, with an adjustment to the balance of retained earnings and other components of equity as at the date of initial application.

The application of IFRS 9 did not have a material effect on the financial statements of the Group.

- Amendment to IAS 40 *Investment Property: Transfers of Investment Property*

The amendment clarifies that an entity shall transfer property into, or out of, investment property only when there is evidence of a change in use. Change in use occurs when the property meets, or ceases to meet, the definition of investment property. The amendment clarifies that a change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment also states that the list of evidence of change in use that is included in paragraph 57 of IAS 40 is a non-exhaustive list of examples.

The amendment is applied on a prospective basis.

The application of the amendment did not have a material effect on the consolidated financial statements, but may affect the classification of assets such that they will be classified as investment property or cease to be classified as investment property as a result of future changes in use.

G. Change in classification

The Group performed immaterial reclassifications in the comparative figures in order to align the classification in the comparative figures to the figures of the year ended December 31, 2018.

Note 3 – Basis of Consolidation

A. Consolidation methods

The consolidated financial statements comprise the Company and the subsidiaries it controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In addition to the Company, 206 subsidiaries (2017: 195) have been included in these consolidated financial statements.

When buying a company holding real estate assets (“Property Company”), the Group exercises judgment to determine whether it is the purchase of a business or a group of assets and liabilities, for the purpose of determining the accounting treatment of the transaction. In determining whether a Property Company is a business, the Group examines, inter alia, the nature of existing processes in the Property Company, including the extent and nature of management, security, cleaning and maintenance services provided to tenants. In transactions in which the acquired company is a business, the transaction is accounted for as a business combination according to IFRS 3.

However, in transactions in which the acquired Property Company is not a business, the acquisition cost, including transaction costs, is allocated in proportion to the identified assets and liabilities acquired, based on their relative fair values at the acquisition date. In this case, neither goodwill nor deferred taxes on the temporary difference existing at the date of acquisition are recognized.

Note 3 – Basis of Consolidation (continued)

A. Consolidation methods (continued)

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the Company. Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests.

A put option granted by the Group to non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price. In subsequent periods, changes in the value of the liability and dividends distributed to non-controlling interests in respect of put options are recognized in equity. The Group's share of a subsidiary's profits includes the share of the non-controlling interests to which the Group granted a put option, also when the non-controlling interests have access to the returns arising from the interests in the investee company.

B. Scope of consolidation

- (1) On January 1, 2018, the Group carried out a transaction to take over 94.9% of the issued shares of three German entities holding one condominium building and three residential buildings located in Berlin, Germany, for a total consideration of EUR 17.4 million. As at the takeover date, the buildings included 102 residential units and 6 commercial units with a total leasable area of approximately 6.1 thousand m².

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3 *Business Combinations*, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	<u>thousands EUR</u> <u>(Unaudited)</u>
Cash and cash equivalents	134
Trade and other receivables	13
Trading properties	5,651
Advances in respect of investment properties (1)	2,437
Investment properties (2)	12,591
Trade and other payables	(658)
Bank loans (3)	(2,498)
Other financial liabilities (4)	<u>(258)</u>
Total consideration	17,412
Consideration already paid in 2017	(2,750)
Less cash acquired	<u>(134)</u>
Net cash flow during the reporting period from the acquisition of subsidiaries . . .	<u>14,528</u>

(1) The takeover of an additional residential building was completed during the reporting period for a total consideration of EUR 5.6 million. Consequently, an amount of EUR 1.6 million was reclassified from advances to investment properties in the condensed consolidated statement of financial position. The fair value of the building as at the takeover date was EUR 5.3 million, and it includes 33 residential units and 1 commercial unit with a total leasable area of approximately 2 thousand m².

(2) The fair value of the investment properties as at the takeover date was EUR 12.5 million. After the takeover of the additional building (see note 1 above), acquisition costs of EUR 0.5 million were recognized under changes in fair value of investment properties in the condensed consolidated profit or loss statement (approximately 3% of the total consideration).

(3) The bank loans were repaid during the period.

(4) Other financial liabilities refers to a put option granted to the non-controlling interests (see note 11).

- (2) On April 16, 2018, the Group carried out a transaction to take over 94% of the issued shares of a Dutch entity holding one residential building complex located in Berlin, Germany, for a total consideration of EUR 153.4 million (including approximately 2.3% transaction costs). As at the takeover date, the buildings included 832 residential units and 24 commercial units with a total leasable area of approximately 65.6 thousand m².

Note 3 – Basis of Consolidation (continued)

B. Scope of consolidation (continued)

The purchase of the entity was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3 *Business Combinations*, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	thousands EUR (Unaudited)
Cash and cash equivalents	346
Trade and other receivables	145
Investment properties (1)	160,640
Property and equipment	57
Trade and other payables	(679)
Other financial liabilities (2)	<u>(7,069)</u>
Total consideration	153,440
Consideration to be paid after the reporting period (3)	(1,013)
Less cash acquired	<u>(346)</u>
Net cash flow during the reporting period from the acquisition of subsidiaries . . .	<u>152,081</u>

(1) The fair value of the investment properties as at the takeover date was EUR 157 million, therefore acquisition costs of approximately EUR 3.6 million were recognized under changes in fair value of investment properties in the condensed consolidated profit or loss statement.

(2) Other financial liabilities refers to a put option granted to the non-controlling interests (see note 11).

(3) Consideration to be paid refers to transaction costs invoiced after the reporting period.

- (3) On May 1, 2018, the Group carried out a transaction to take over 94.9% of the issued shares of four German entities holding four residential buildings and one commercial building located in Berlin, Germany, for a total consideration of EUR 31.3 million (including approximately 2.9% transaction costs). As at the takeover date, the buildings included 51 residential units and 68 commercial units with a total leasable area of approximately 13.8 thousand m².

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3 *Business Combinations*, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	thousands EUR (Unaudited)
Cash and cash equivalents	318
Restricted bank deposits	124
Trade and other receivables	29
Investment properties (1)	31,953
Trade and other payables	(320)
Other financial liabilities (2)	<u>(772)</u>
Total consideration	31,332
Less cash acquired	<u>(318)</u>
Net cash flow during the reporting period from the acquisition of subsidiaries . . .	<u>31,014</u>

(1) The fair value of the investment properties as at the takeover date was EUR 31.1 million, therefore acquisition costs of approximately EUR 0.9 million were recognized under changes in fair value of investment properties in the condensed consolidated profit or loss statement.

(2) Other financial liabilities refers to a put option granted to the non-controlling interests (see note 11).

- (4) On October 1, 2018, the Group carried out a transaction to take over 94.9% of the issued shares of a German entity holding one commercial building located in Berlin, Germany, for a total consideration of EUR 19.6 million (including approximately 4.2% transaction costs). As at the takeover date, the buildings included 19 commercial units with a total leasable area of approximately 6.0 thousand m².

Note 3 – Basis of Consolidation (continued)

B. Scope of consolidation (continued)

The purchase of the entity was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3 *Business Combinations*, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	thousands EUR (Unaudited)
Cash and cash equivalents	343
Trade and other receivables	17
Investment properties (1)	19,668
Trade and other payables	(133)
Other financial liabilities (2)	(280)
Total consideration	19,615
Consideration to be paid after the reporting period (3)	(210)
Less cash acquired	(343)
Net cash flow during the reporting period from the acquisition of subsidiaries . . .	<u>19,062</u>

- (1) The fair value of the investment properties as at the takeover date was EUR 18.9 million, therefore acquisition costs of approximately EUR 0.8 million were recognized under changes in fair value of investment properties in the condensed consolidated profit or loss statement.
- (2) Other financial liabilities refers to a put option granted to the non-controlling interests (see note 11).
- (3) Consideration to be paid refers to transaction costs invoiced after the reporting period.

Note 4 – Significant Accounting Policies

A. Investment properties

Investment property is property held to earn rental income or for capital appreciation or both and is not owner-occupied or held for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs. In subsequent periods, investment property is measured at fair value, and changes in fair value are recognized in the statement of profit and loss.

Profits or losses on the disposal of investment property are determined by comparing the net proceeds from the disposal with the asset's carrying amount (the fair value of the investment property as at the disposal date). The profit or loss on the disposal of investment properties is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts to complete under the contract.

In certain circumstances the Group decides to change the use of existing buildings that are rented out and classified as investment property into trading properties; the Group then begins the process of converting such buildings. When the conversion is completed, the necessary approvals are received and the marketing of the apartments begins, the aforesaid buildings are reclassified from investment properties to trading properties. The cost of trading properties is determined according to the fair value at the time of the change in use.

The Group presents advances in respect of investment properties as non-current assets and does not include them as part of the investment properties. In subsequent periods, when the transactions are completed, the advances are reclassified to investment properties.

B. Trading properties

Trading properties are measured at the lower of cost and net realizable value. The cost of the trading properties includes the costs incurred in acquiring the trading properties and bringing them to their existing location and condition. The net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Note 4 – Significant Accounting Policies (continued)

C. Restricted bank deposits

Restricted bank deposits consist of deposits in banks that the Group has pledged to secure banking facilities, deposits received from tenants, and restricted proceeds from condominium sales. The Group cannot use these deposits freely for operations. The basis of measurement of the restricted bank deposits is amortized cost.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits in banks and short-term investments with an original term of up to three months. The basis of measurement of the cash and cash equivalents is amortized cost.

E. Financial instruments

(1) Non-derivative financial assets – policy applicable as from January 1, 2018

Initial recognition and measurement of financial assets

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Except of items measured at fair value through profit or loss, a financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets not classified as measured at amortized cost as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss. On initial recognition, the Group designates financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the timing or amount of the cash flows;
- Terms that may change the stated interest rate, including variable interest; and
- Terms that limit the Group’s claim to cash flows from specified assets (for example a non-recourse financial asset).

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

The Group’s non-derivative financial assets are receivables. The Group initially recognizes receivables on the date that they originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses.

Receivables comprise cash and cash equivalents, trade and other receivables and restricted bank deposits.

(3) Non-derivative financial liabilities

Non-derivative financial liabilities include bonds, loans and borrowings from banks and others, trade and other payables.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

The Group initially recognizes financial liabilities on the trade date when the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

An exchange of debt instruments having substantially different terms between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms (including any commissions paid, less any commissions received and discounted using the original effective interest rate) is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability. In addition to the aforesaid quantitative criterion, the Group also examines qualitative factors, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

The accounting policy with regard to non-derivative financial liabilities in 2018 is similar to the accounting policy in 2017.

(4) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or recognized in profit or loss as finance expense if the issuance is no longer expected to take place.

(5) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments mainly to hedge its interest rate risk exposures from variable interest rate bank loans to a fixed interest rate. On initial designation of the derivative instruments for hedge accounting, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity.

The amount recognized in the other comprehensive income is transferred to profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit or loss as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in the hedging reserve is reclassified to profit or loss.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

The accounting policy applied in the comparative information presented for 2017 and 2016 is similar to that applied for 2018. For cash flow hedges that were terminated before 2016, the change in fair value that is attributed to the forward element was recognized immediately in profit or loss.

Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss. Other derivatives include other financial liabilities and other financial asset.

(6) Hybrid financial instruments (convertible bond)

Liabilities that are convertible into shares at the option of the holder, including a cash settlement option in favor of the Group, are a hybrid instrument (combined) that is fully presented as a financial liability.

The instrument is split into two components for measurement purposes: a liability component without a conversion feature that is measured at amortized cost according to the effective interest method, and a conversion option that is an embedded derivative and is measured at fair value at each reporting date.

Separable embedded derivatives that do not serve hedging purposes

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset. Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognized in profit or loss, as financing income or expense.

F. Impairment

(1) Non-derivative financial assets – policy applicable as from January 1, 2018

Financial assets

The Group recognizes a provision for expected credit losses in respect of financial assets at amortized cost.

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis based on the Group's past experience and informed credit assessment, and it includes forward looking information.

The Group assumes that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are past due for more than 180 days.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full; or
- The contractual payments of the financial asset are past due for more than 180 days.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Note 4 – Significant Accounting Policies (continued)

F. Impairment (continued)

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the nominal value of the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes a breach of contract such as a default or payments being past due.

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a derecognition event.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(3) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, trading property and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Note 4 – Significant Accounting Policies (continued)

G. Provisions

Provisions are recognized when the Group has a present, legal or constructive obligation as a result of a past event that can be estimated reliably and it is probable that it will require an outflow of resources embodying economic benefits to settle the obligation.

The Group recognizes indemnification as an asset if, and only if, it is virtually certain that the indemnification will be received if the Group will settle the obligation. The amount recognized for the indemnification does not exceed the amount of the provision. Provisions are measured on the basis of discounted expected future cash flows.

H. Employee benefits

Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Share-based payment arrangements in which equity instruments are granted by the parent company to the employees of the Group are recognized in the reserve from transactions with the controlling shareholder. Share-based payment arrangements in which the Company's equity instruments are granted are recognized in the retained earnings.

I. Revenue recognition

Policy applicable as from January 1, 2018

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Group can identify the payment terms for the goods or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs:

Note 4 – Significant Accounting Policies (continued)

I. Revenue recognition (continued)

the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

Principal or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenue in the gross amount of the consideration, or to arrange that another party provides the goods or services, which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

Policy applicable before January 1, 2018

Rental income from operating leases of investment property is recognized in the profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income. In respect of utilities services, the Group recognizes the income amount net of costs recharged to the tenants.

Revenue from the sale of trading property is measured at the fair value of the consideration. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the trading property, and the amount of the revenue can be measured reliably.

Other revenues, including management services fee and third party's asset management income, are recognized in the accounting period in which the services are rendered, and are measured at the fair value of the consideration received or receivable for services provided in the normal course of business.

J. Finance income and costs

Finance income comprises interest income on funds invested including changes in the fair value of financial assets or liabilities at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets or liabilities at fair value through profit or loss, impairment losses recognized on financial assets, losses from refinance and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

Note 4 – Significant Accounting Policies (continued)

J. Finance income and costs (continued)

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows from financing activities.

K. Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years and any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability is not recognized for the following taxable temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- Differences relating to investments in subsidiaries, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is recognized in other comprehensive income or equity, respectively.

L. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise options granted to employees.

M. New standards and interpretations not yet adopted

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. Nonetheless, IFRS 16 includes two exceptions to the general model whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

Note 4 – Significant Accounting Policies (continued)

M. New standards and interpretations not yet adopted (continued)

In addition, IFRS 16 permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively to apply a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease, with respect to leases entered into before the date of initial application. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 is applicable for annual periods as of January 1, 2019.

The Group plans to adopt IFRS 16 as from January 1, 2019 using the cumulative effect method, with an adjustment to the balance of retained earnings as at January 1, 2019.

IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the two alternatives at initial application: full retrospective application or recognizing a cumulative effect, which means application (with the possibility of certain practical expedients) as from the mandatory effective date with an adjustment to the balance of retained earnings at that date.

The Group examined the effects of adopting IFRS 16 on the financial statements, and in its opinion, the expected effect on the financial statements will be an increase of approximately EUR 1,250 thousand in total liabilities and in total assets

IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes.

The new standard is effective for annual reporting periods beginning on or after January 1, 2019. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation.

The Group has examined the effects of applying IFRIC 23, and in its opinion, the effect on the financial statements will be immaterial.

IFRS 3, Business Combinations

The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a “business” or an asset. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination.

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

The Group has not yet commenced examining the effects of adopting the Amendment on the financial statements.

Note 5 – Investment Properties

A. Reconciliation of carrying amount

	December 31,	
	2018	2017
	Thousands EUR	Thousands EUR
Balance as at January 1	3,271,298	2,278,935
Additions by way of acquiring subsidiaries (see note 3B)	229,077	411,539
Additions by way of acquiring assets	87,150	169,895
Capital expenditure	51,562	31,021
Transfer from investment properties to trading properties	—	(3,730)
Fair value adjustments	404,936	383,638
Balance as at December 31	4,044,023	3,271,298

As at December 31, 2018, the closing balance of investment properties consisted of 22,067 (2017: 20,421) residential units with a total residential lettable area of 1,454,255 (2017: 1,343,786) sqm, 1,450 (2017: 1,309) commercial units (retail, office and other commercial) with a total commercial lettable area of 171,199 (2017: 149,748) sqm and 5,401 (2017: 5,464) parking spaces and spaces for storage, antennas, etc., all in Berlin.

According to German law, residential rental contracts are unlimited in their duration or lease period. The tenants have the sole right to terminate the contract with three months' notice in writing. According to German law, the owner can terminate the residential contract only if the owner has a "justified cause" such as if the tenant is in default for more than two months' rent. The termination or cancellation of the contract must be in writing. Contracts are denominated in euro. Tenants are generally required to pay a rental deposit of three months' "cold" rent or to provide a bank guarantee in the same amount at the inception of any lease contract. Further, they are requested to pay rent, facility management, utilities and heating prepayments for a one month period in advance. The right to increase the rent is subject to German law and can be further defined in the lease contract (e.g. index rent or stepped rent). Rent prices are set according to the market prices or upon a given price index that is dependent on property characteristics ("Mietspiegel"). The latter is also available for the Berlin residential market.

The rent development is restricted by the German law (§558 BGB). Hence, the landlord can only increase the rent upon the local comparable rent, that is stated in the Mietspiegel, if:

- current rent paid has remained unchanged for the last fifteen months
- no rent increase over 20% (capping limit) was made in the course of the past three years; the capping limit is reduced to 15% for tense residential markets such as Berlin

In addition, a rent control regulation ("Mietpreisbremse") passed by the German parliament in June 2015 aims to restrict landlords in areas with stressed housing markets such as Berlin from rent increases by more than 10% above the local comparable rent that is stated in the Mietspiegel. The rent control regulation is not applicable for new residential properties or residential properties that were significantly modernized. The regulation is applicable for existing buildings only, where the current rent paid is below the stated threshold. According to the rent control regulation, the landlord is not allowed to increase the current rent paid (existing lease) or the newly agreed rent (new lease) by more than 10% above the local comparable rent.

Some of the residential buildings of the Group's investment property portfolio include commercial units on the ground floor. Lease renewals are negotiated with the lessee.

As at December 31, 2018, approximately 8.3% of the residential units were subject to rent restrictions ("Cost Rent").

B. Measurement of fair value

(1) Fair value hierarchy

The fair value of investment properties was determined by the valuation expert CBRE, an industry specialist with appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. According to the Group's fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as at June 30 and December 31 of each year.

Note 5 – Investment Properties (continued)

B. Measurement of fair value (continued)

The fair value measurement for all of the investment properties has been categorized as a level 3 fair value due to prevailing use of unobservable inputs to the adopted valuation method.

(2) Valuation technique and significant unobservable inputs

The Group values its portfolio using the discounted cash flow method (DCF). Under the DCF methodology, the expected future income and costs of the property are forecasted over a period of 10 years and discounted to the date of valuation. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account.

The following table gives an overview of the main valuation parameters and valuation results:

	December 31, 2018					
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	Total
Fair value (EUR thousand)	1,478,973	481,740	678,360	316,010	1,088,940	4,044,023
Value per sqm (EUR)	3,011	2,650	2,435	2,494	1,970	2,479
Average residential in-place rent (EUR/sqm)	7.23	6.98	7.10	7.24	5.93	6.70
CBRE market rent (EUR/sqm)	9.00	8.77	7.99	8.59	6.96	8.02
Avg. new letting rent (EUR/sqm)	11.90	9.77	10.13	8.91	7.30	9.42
Multiplier (current rent)	32.73	31.96	28.53	28.34	27.93	30.14
Multiplier (CBRE market rent)	26.85	25.31	24.69	23.84	23.23	25.01
Multiplier (new letting rent)	20.30	22.70	19.47	23.00	22.16	21.28
Discount rate (%)	4.61%	4.73%	4.77%	4.93%	4.97%	4.77%
Capitalization interest rate (%)	2.65%	2.79%	2.91%	2.96%	3.02%	2.84%

	December 31, 2017					
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	Total
Fair value (EUR thousand)	1,249,758	408,910	432,550	240,300	939,780	3,271,298
Value per sqm (EUR)	2,669	2,355	2,171	2,378	1,699	2,187
Average residential in-place rent (EUR/sqm)	6.92	6.64	6.85	7.09	5.72	6.42
CBRE market rent (EUR/sqm)	8.81	8.54	7.52	8.40	6.61	7.71
Avg. new letting rent (EUR/sqm)	11.18	9.83	9.95	8.58	6.82	9.04
Multiplier (current rent)	31.18	29.42	26.07	27.33	24.71	27.87
Multiplier (CBRE market rent)	24.57	22.98	23.25	22.85	20.99	22.95
Multiplier (new letting rent)	19.36	19.98	17.56	22.36	20.34	19.57
Discount rate (%)	4.81%	4.97%	4.86%	5.00%	5.20%	4.96%
Capitalization interest rate (%)	2.86%	3.02%	3.00%	3.02%	3.26%	3.02%

Note 5 – Investment Properties (continued)

B. Measurement of fair value (continued)

(3) Sensitivity analysis

The main value drivers influenced by the market are the market rents and their development, current rent increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter in the following table. Interactions between the parameters are possible but cannot be quantified due to the complexity of the interrelationships:

December 31, 2018			
Valuation parameters	Change in parameters	Change in values	
		thousands EUR	%
Average new letting rent (EUR/sqm)	+10%	277,967	6.8%
Vacancy rate (%)	+1%	(48,181)	(1.2%)
Discount and Capitalization rate (%)	25bps	(341,351)	(8.3%)

December 31, 2017			
Valuation parameters	Change in parameters	Change in values	
		thousands EUR	%
Average new letting rent (EUR/sqm)	+10%	316,999	9.5%
Vacancy rate (%)	+1%	(38,261)	(1.2%)
Discount and Capitalization rate (%)	25bps	(261,270)	(7.9%)

Assuming all other variables remain constant, a negative change in the parameters at the same percentage would have a similar impact on the value, although in the opposite direction.

B. Amounts that were recognized in the consolidated statement of profit or loss

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Rental income from investment property	127,982	103,300	84,673
Direct operating expenses arising from investment property that generated rental income during the period	(20,736)	(15,551)	(11,790) (*)
Total	107,246	87,749	72,883

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

Note 6 – Trading Properties

During the reporting period, the Group completed the sale of 66 condominium units for a total consideration of EUR 20,265 thousand (2017: 84 units for EUR 19,671 thousand).

During the period, the Group acquired an entity holding a condominium building with 24 residential units and 2 commercial units in Berlin at a total cost of EUR 5.7 million. See note 3B for more information regarding newly acquired trading properties during the period.

Note 7 – Restricted Bank Deposits

As at December 31, 2018 and December 31, 2017, the restricted bank deposits are denominated in euro and they carry no interest.

The balance as at December 31, 2018 includes EUR 23,250 thousand of pledged bank deposits received from tenants (December 31, 2017: EUR 21,503 thousand), EUR 1,501 thousand pledged to secure banking facilities (December 31, 2017: EUR 2,310 thousand) and EUR 3,860 thousand of restricted proceeds from condominium sales (December 31, 2017: EUR 539 thousand).

Note 8 – Trade Receivables

- A. The balances represent amounts receivable from leases of residential and commercial units less any allowance for expected credit losses (see note 23A). The Group recognizes provisions in accordance with future-looking estimates. The breakdown of trade receivables is as follows:

	December 31,		
	2018		
	Gross carrying amount	Provision for impairment	Credit- impaired financial asset
	thousands EUR		
Not past due	7,896	—	7,896
0-30 days past due	1,724	(187)	1,537
31-180 days past due	3,713	(680)	3,033
180 days to one year past due	2,211	(1,490)	721
More than one year past due	5,566	(5,440)	126
Total	21,110	(7,797)	13,313

	December 31,		
	2017		
	Gross	Impairment	Total
	thousands EUR		
Not past due	5,138	—	5,138
0-30 days past due	1,206	(128)	1,078
31-180 days past due	3,718	(908)	2,810
180 days to one year past due	1,905	(1,211)	694
More than one year past due	4,672	(4,068)	604
Total	16,639	(6,315)	10,324

Trade accounts receivables are non-interest bearing and are generally subject to 30 days' terms.

There were no material transitional adjustments to IFRS 9.

- B. Impairment losses on trade receivables changed as follows:

	2018	2017
	thousands EUR	thousands EUR
Balance as at January 1	(6,315)	(5,020)
Additions	(3,194)	(3,167)
Reversals	1,541	1,204
Write off of irrecoverable debts	171	668
Balance as at December 31	(7,797)	(6,315)

Note 9 – Other Receivables

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Advance to suppliers	1,244	745
Prepaid expenses	655	260
VAT	728	638
Parent company (ADO Group) (see note 26)	280	—
Others	392	3,588
Total	3,299	5,231

Note 10 – Cash and Cash Equivalents

As at December 31, 2018 and December 31, 2017, cash and cash equivalents include cash on hand and demand deposits denominated in euro and free from any restrictions.

Note 11 – Other Financial Liabilities

In relation to purchase agreements of 94%-94.9% of the shares of German, Dutch and Luxembourgish property holding companies, the Company entered into an agreement with ADO Group to purchase the remaining 5.1%-6% of the shares of the German, Dutch and Luxembourgish property holding companies.

As part of the agreement, it was decided that upon the completion of a period of ten years following the closing of the transaction, ADO Group shall have the right to sell its interest to the Company for the higher of: (i) the fair value of the shares; and (ii) the amount paid by ADO Group to purchase its interest, less any dividends distributed to ADO Group by the property companies during the 10-year period.

Based on profit transfer agreements, ADO Group is entitled to an annual compensation fee in respect of its interest in the German property holding companies.

The Company recognized the put option and compensation fee as a financial liability measured at fair value at each reporting date, whereas the changes in the fair value are recognized in equity. In respect of the put option and the compensation fee, the following balances are included in the consolidated statement of financial position:

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Current liabilities		
Compensation fee	1,535	867
Non-current liabilities		
Compensation fee	1,766	772
Put option	38,726	26,466
Total	<u>42,027</u>	<u>28,105</u>

Note 12 – Equity

A. Share capital and share premium

	Ordinary shares (in thousands of shares)	
	2018	2017
In issue as at January 1	44,100	44,100
Share issuance under the LTI plan (1)	31	—
In issue as at December 31	<u>44,131</u>	<u>44,100</u>

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at the General Meetings of the Company. All shares rank equally with regard to the Company's residual assets.

- (1) On December 14, 2018, based on the Long Term Incentive plan (see note 20) the Company issued 30,757 shares without nominal value to Mr. Shlomo Zohar, the former acting vice chairman of the Company's Board of Directors.
- (2) A dividend in the amount of EUR 26.5 million (EUR 0.60 per share) was paid based on a decision of the Annual General Meeting which took place on June 19, 2018. The ex-dividend date was June 18, 2018.

B. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of the related deferred tax.

Note 12 – Equity (continued)

C. Capital reserve from transactions with controlling shareholder

The capital reserve from transactions with controlling shareholder comprises the differences between the fair value and the consideration received/paid in relation to transactions with the controlling shareholder. The change in the capital reserve from transactions with controlling shareholder is driven by the change in put option of ADO Group (see note 11).

Note 13 – Corporate Bonds and Convertible Bonds

- A. On July 20, 2017, the Company placed unsecured, fixed-rate corporate bonds with a total nominal amount of EUR 400 million with institutional investors. The bonds carry an interest rate of 1.5% (effective interest rate of 1.64%) per annum and mature on July 26, 2024. The gross proceeds resulting from the transaction amounted to EUR 398.6 million with an issue price of 99.651%. The net proceeds of the bond were mainly used to fund future acquisitions.
- B. On November 16, 2018, the Company placed senior, unsecured convertible bonds in a total nominal amount of EUR 165 million with institutional investors, convertible into new and/or existing ordinary registered shares of the Company. The initial conversion price has been set at EUR 60.5690, which represents a 27.5% premium over the reference share price on the pricing date. The bondholders may exercise their conversion right from (and including) January 4, 2019 to (and including) the earlier of (i) the 40th business day prior to the maturity date; or (ii) in the event of early redemption, the 10th business day prior to the date fixed for redemption. The coupon has been set at 1.25% p.a. (effective interest rate of 1.34%), payable semi-annually in arrear. The bonds will mature on November 23, 2023.

The Company will be entitled to redeem the convertible bonds at their principal amount (plus accrued interest) at any time (i) on or after December 14, 2021, if the price per share is equal or exceeds 130% of the then prevailing conversion price over a certain period; or (ii) if 15% or less of the aggregate principal amount of the bonds remain outstanding.

ADO Group received an allocation in the accelerated bookbuilding reflecting pro rata its shareholding in the Company at the time of the placement. The Company used the net proceeds to repay existing short-term debt, extend the Company's debt maturity profile as well as to strengthen the Company's liquidity position.

	<u>Thousands EUR</u>
Proceeds from issuance of convertible bonds	165,000
Transaction costs	<u>(1,297)</u>
Net proceeds	163,703
Amount initially classified as derivative, measured at fair value	(9,743)
Transaction costs allocated to the derivative component	<u>76</u>
Amount initially classified as liability, measured at amortized cost	<u>154,036</u>

- C. The Company undertakes not to incur any financial indebtedness after the issue date of the bonds, and will also procure that its subsidiaries will not incur any financial indebtedness after the issue date of the bonds (except for refinancing existing financial indebtedness), if immediately after giving effect to the incurrence of such additional financial indebtedness (taking into account the application of the net proceeds of such incurrence), the following tests would not be met: (i) Loan-to-Value Ratio (LTV) \leq 60%; (ii) Secured Loan-to-Value Ratio \leq 45%; (iii) Unencumbered Asset Ratio \geq 125%; and (iv) Interest Coverage Ratio (ICR) \geq 1.8.

As at December 31, 2018, the Company is fully compliant with all covenant requirements.

Note 14 – Other Loans and Borrowings

	December 31, 2018		December 31, 2017	
	Non-current	Current	Non-current	Current
	Thousands EUR			
Loans from banks	993,809	17,064	932,345	72,768
Other creditors	47,100	—	21,610	—
Total	<u>1,040,909</u>	<u>17,064</u>	<u>953,955</u>	<u>72,768</u>

- A.** All the loans were borrowed in order to finance the purchase of the properties in Berlin.
- B.** All bank loans are non-recourse with the related assets (investment properties and trading properties) as their only security which is valued higher than the related loans on an asset basis. Other creditors include a loan from Harel Insurance Company Ltd to finance its holding in a common transaction with the Company, and unsecured Schuldscheindarlehen.
- C.** Re-pricing on the variable interest loans is done on a quarterly basis. As at December 31, 2018 other loans and borrowings carry an average effective interest rate (i.e. considering the swap interest hedge deals from variable to fixed) of 1.8% per annum (as at December 31, 2017: 1.9%). The average maturity of other loans and borrowings is 4 years (as at December 31, 2017: 5 years).
- D.** On March 22, 2018, the Group received a bank loan in the amount of EUR 7.7 million to finance existing assets. The new loan carries an annual fixed interest rate of 1.49% per annum for a 7-year term.
- E.** On September 27, 2018, the Group repaid a bank loan in the amount of EUR 51.9 million with an average effective interest rate of 3.16% per annum.
- F.** On November 11, 2018, the Group issued unsecured Schuldscheindarlehen in a total amount of EUR 24.5 million, with tenors of five to ten years, including fixed and floating rate tranches. The fixed-rate tranches were issued subject to an interest rate of between 2.05% and 3.15%, and the floating rate tranche carries an interest rate of 6-months-EURIBOR + 1.7%.
- G.** On December 10, 2018, the Group received a bank loan in the amount of EUR 90 million, secured with the existing collateral from the Carlos portfolio. The new loan carries an annual fixed interest rate of 1.12% and will mature on March 31, 2022, similar to the existing bank loan.
- H.** On December 27, 2018, the Group repaid a bank loan in the amount of EUR 15 million with an average effective interest rate of 1.80% per annum. Consequently, an amount of EUR 0.1 million was recognized as one-off refinance costs in profit or loss.
- I.** At the end of December 2018, under the existing loan agreements, the Group is fully compliant with its obligations (including loan covenants) to the financing banks.
- J.** On March 9, 2018, the Group signed a EUR 200 million revolving credit facility agreement with a 2-year term and two extension options, each for one year. The relating upfront fees were recognized under deferred expenses in the statement of financial position and will be amortized over four years. During the reporting period, the Group drew down an amount of EUR 10 million from the revolving credit facility. As at December 31, 2018 this amount was paid back in full.
- K.** During the reporting period, the Group set up a commercial paper program with a maximum volume of EUR 500 million, which allows funds with a maximum term of 364 days to be raised at short notice. As at December 31, 2018 all of the commercial papers were paid back in full.
- L.** On November 8, 2018, the Group entered into a EUR 50 million bilateral credit facility agreement, maturing on December 30, 2019, and carrying an interest rate of 1 or 3-months-EURIBOR + a margin of between 1.00% and 2.25%, depending on the number of months elapsed after signing the agreement. As at December 31, 2018 the bilateral credit facility was terminated.
- M.** On October 11, 2018, Moody's downgraded the Company's long-term issuer rating to Baa3 from Baa2 and the short-term rating to P-3 from P-2. All ratings have been placed on review for further downgrade. On November 8, 2018, Moody's announced that the recent financing activities of the Company substantially reduce the likelihood of multi-notch downgrades.

Note 15 – Other Payables

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Accrued expenses	3,061	2,799
Accrued interest payable	3,172	3,488
Tenants' deposits	23,260	21,513
Parent company (ADO Group) (see note 26)	5	42
Deferred income	2,503	1,896
Corporate tax	3,416	2,197
VAT	1,068	2,171
Other	1,306	1,370
Total	<u>37,790</u>	<u>35,476</u>

Note 16 – Taxes

A. The main tax laws imposed on the Group companies in their countries of residence:

(1) Germany

- The standard rate of corporation tax for both residents and non-residents is 15%. A “solidarity surcharge” is also levied resulting in an effective rate of 15.825% which applies to companies which hold German property regardless of their residence. Trade tax at the relevant rate (trade tax rate depends on the municipality of the company) is also levied on the income of the companies, except for non-residents with no permanent establishment in Germany or if the companies' business purpose is restricted to the holding and letting of real estate property (property holding companies). Dividends received from another company are 95% tax exempt when the investment in the other company is at least 10% at the beginning of the calendar year or the investment was increased by 10% during the year.
- No tax is withheld on rental payments to non-resident companies holding German property.
- Capital gains on the sale of German property are subject to corporation tax at the standard rate for both residents and non-residents. Trade tax is also applicable at the relevant rate, except for non-residents with no permanent establishment in Germany or for property holding companies as long as the sale of the asset is classified as part of that business (detailed and strict regulations apply). Capital gains realized by a company on the sale of shares in a property holding company are 95% tax exempt.
- German real estate owned at the start of the calendar year is subject to annual property tax at 0.2% to 3.4% (depending on the location of the property, 2.8% for Berlin) on the specially assessed value of the property (dependent on the rental value and age of the property). The tax payable is a deductible expense for profit tax purposes such as trade tax and corporation tax.
- The transfer of German real estate or a share transaction that unifies at least 95% of the shares of a company holding a real estate property is subject to a real estate transfer tax (RETT), which is payable by the buyer on the purchase price (on transfer of the property) or a specially assessed value as above (on transfer of shares). The tax rate varies between 3.5% and 6.5%, depending on the municipality where the property is located. In Berlin the tax rate is 6%.
- Limitation on the tax deductibility of interest expenses, and simultaneous repeal of the existing thin-capitalization rules. The “interest barrier rule” allows the deduction of net interest expenses exceeding EUR 3 million p.a. only to the extent that total net interest expenses do not exceed 30% of the EBITDA, unless the total net interest does not exceed EUR 3 million p.a. or other exemption criteria are met. The net interest expenses that are not deductible can be carried forward.
- Accumulated tax losses can be carried forward without time restriction and can be deducted from future profits and capital gains unless they exceed EUR 1 million. Losses carried forward that exceed EUR 1 million can only be deducted to the amount of 60% of the profits/capital gains that exceed EUR 1 million (minimum taxation). Those parts that cannot be deducted on the basis of the minimum taxation can be carried forward again and are subject to minimum taxation in the following years.

The corporation tax rate used to calculate deferred tax assets and deferred tax liabilities as at December 31, 2018 and as at December 31, 2017 is 15.825% for the property holding companies which only hold real

Note 16 – Taxes (continued)

A. The main tax laws imposed on the Group companies in their countries of residence: (continued)

estate assets and 30.18% for the management companies that operate the real estate in Berlin, as these management companies are subject to corporate income tax of 15.825% and trade tax at the relevant rate.

In 2018, a Group tax audit for the financial years 2013 until 2016 was commenced by the tax authorities. Currently, 32 companies are included in the sample, representing the entire Group. The authorities reserve the right to extend the sample. So far, no tax audit findings have been made.

(2) Luxembourg

- The Company is liable for Luxembourg corporation taxes. The aggregate maximum applicable rate, including corporate income tax, municipal business tax and a contribution to the employment fund, is 26.01% for the fiscal year ending 2018 for a company established in Luxembourg City.
- The Company is fully subject to the annual net wealth tax charge which amounts to 0.5% of the net asset value of the Company. Certain assets might be excluded from the net asset value for the purposes of the net wealth tax computation, provided that the provisions of paragraph 60 of the valuation law of October 16, 1934, as amended (BewG), are met.

A 15% withholding tax will be due in Luxembourg on dividends paid by the Company to its shareholders unless the domestic withholding tax exemption regime or a withholding tax reduction or exemption under a double tax treaty concluded by Luxembourg applies. Normal interest payments (i.e. not profit-linked interest) and liquidation proceeds are generally not subject to withholding tax, unless the EU Savings Directive applies. Should any withholding taxes be payable on amounts paid by the Company, the Company assumes responsibility for the withholding of Luxembourg taxes at the source.

(3) Ireland

- An Irish tax resident company is subject to corporation tax on its worldwide income (subject to any relevant exemptions) at either 12.5% or 25% depending on the activities undertaken by the company. Any capital gains recognized by an Irish company (subject to any relevant exemptions) will also be subject to corporation tax. However, such gains are re-grossed for corporation tax purposes to ensure they are taxed at the capital gains tax rate of 33%.
- Dividends received by an Irish resident company from another Irish resident company are exempt from corporation tax. Dividends received from a foreign company in the hands of an Irish resident company are subject to corporation tax; however, a credit should be available for underlying corporate and withholding tax generally for foreign tax paid.
- In general, with respect to non-resident companies, interest and patent royalties which are derived from Ireland are subject to withholding tax in Ireland at the rate of 20%. However, there are a number of domestic exemptions from this withholding tax. In addition, there may be exemptions or reliefs available under a treaty or under the EU directives.

B. Income taxes:

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Current year	(3,562)	(2,026)	(1,288)
Adjustments for prior years	(1,894)	(179)	(195)
Deferred tax expense	(64,906)	(65,830)	(68,223)
Total	<u>(70,362)</u>	<u>(68,035)</u>	<u>(69,706)</u>

Note 16 – Taxes (continued)

C. Reconciliation of statutory to effective tax rate:

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Statutory income tax rate	26.01%	27.08%	29.22%
Profit before taxes	467,826	435,547	480,474
Tax using the Company's domestic tax rate	121,682	117,946	140,395
Non-deductible expense	142	152	155
Utilization of tax losses from prior years for which deferred taxes were not created	(7,598)	(1,413)	(3,874)
Effect of tax rates in foreign jurisdictions	(49,457)	(49,033)	(65,235)
Deferred tax assets not recognized for tax losses and other timing differences	14,227	7,296	2,765
Inter-company transaction effect	(10,528)	(7,092)	(4,686)
Adjustments for prior years	1,894	179	195
Other differences, net	—	—	(9)
Income tax expenses	70,362	68,035	69,706

D. Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Assets		
Derivatives	185	216
Convertible bonds	732	
Tax losses carried forward	12,057	13,377
	<u>12,974</u>	<u>13,593</u>
Liabilities		
Investment properties	(259,503)	(194,286)
Trading properties	(1,853)	(2,750)
	<u>(261,356)</u>	<u>(197,036)</u>
Net tax liabilities	<u>(248,382)</u>	<u>(183,443)</u>

The following are the deferred tax assets and liabilities recognized by the Group, and the respective movements, during the current and prior reporting periods:

	Investment properties	Trading properties	Derivatives	Convertible bonds	Tax losses	Total
	thousands EUR					
Balance as at January 1, 2017	(125,273)	(1,311)	156	—	8,755	(117,673)
Changes recognized in profit or loss	(69,013)	(1,439)	—	—	4,622	(65,830)
Changes recognized in equity or other comprehensive income	—	—	60	—	—	60
Balance as at December 31, 2017	(194,286)	(2,750)	216	—	13,377	(183,443)
Changes recognized in profit or loss	(65,217)	897	2	732	(1,320)	(64,906)
Changes recognized in equity or other comprehensive income	—	—	(33)	—	—	(33)
Balance as at December 31, 2018	<u>(259,503)</u>	<u>(1,853)</u>	<u>185</u>	<u>732</u>	<u>12,057</u>	<u>(248,382)</u>

Losses for tax purposes carried forward to future years, based on the Group's estimation:

Tax losses carried forward amounted to EUR 70,277 thousand at December 31, 2018 (2017: EUR 84,793 thousand). Tax losses can be carried forward indefinitely.

Note 16 – Taxes (continued)

D. Recognized deferred tax assets and liabilities (continued)

Deferred tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of EUR 6,065 thousand as at December 31, 2018 (2017: EUR 3,158 thousand) in respect of losses carried forward amounting to EUR 38,324 thousand as at December 31, 2018 (2017: EUR 19,955 thousand) that can be carried forward against future taxable income due to its expectation for their utilization.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Note 17 – Revenue

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Net rental income	127,982	103,300	84,673
Selling of condominiums	20,265	19,671	19,965
Income from facility services	6,606	5,881	5,137
Total	154,853	128,852	109,775

Note 18 – Cost of Operations

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Salaries and other expenses (*)	10,320	7,995	6,873
Cost of utilities recharged, net	1,843	1,409	271
Selling of condominiums – cost	15,817	15,760	16,726
Property operations and maintenance	14,016	11,010	8,726 (**)
Total	41,996	36,174	32,596

(*) See note 19A regarding personal expenses and employees.

(**) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation.

Note 19 – General and Administrative Expenses

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Salaries and related expenses (A)	3,671	2,605	2,472
Share-based payment	376	387	682
Directors fee (B)	887	714	661
Rent	1,056	1,015	1,027 (*)
Professional services	6,952	3,417	3,081
Traveling	331	188	312
Office, communication and IT expenses	1,459	1,284	996
Advertising and marketing	601	438	404
Impairment loss on trade receivables	1,646	1,900	1,799
Depreciation	450	452	356
Services from parent company (see note 26)	46	64	75
Others	976	298	1,380
Total	18,451	12,762	13,245

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation.

A. As at December 31, 2018, the Group has 354 full-time employees (2017: 295, 2016: 247). On an annual average 327 people (2017: 271, 2016: 237) were employed.

B. On November 14, 2018, Mr. Shlomo Zohar, a director and the former acting vice chairman of the Company's Board of Directors, submitted his resignation letter to the Company, with such resignation to take effect on December 15, 2018. On November 29,

Note 19 – General and Administrative Expenses (continued)

2018 the Company and Mr. Zohar signed a mutual termination agreement. According to the agreement, upon Mr. Zohar's resignation, he was entitled to receive an amount of EUR 420 thousand, to be settled in cash (EUR 141 thousand for the period between January 1, 2018 until December 15, 2018 and the rest as termination fees). The Company recognized the full amount as an expense in General and Administrative Expenses. As at December 31, 2018, the Company paid Mr. Zohar the full termination amount in cash. On December 14, 2018, based on the Long Term Incentive plan the Company issued 30,757 shares free of charge to Mr. Zohar.

Note 20 – Share-based Payment

Under the Long Term Incentive plan ("LTI"), the Company's management has the possibility to receive together each year shares equaling a total volume of EUR 771,000 assuming maximum LTI-Target Achievement divided by the average trading price of the Company's shares. The LTI shall depend on the achievement of certain individual targets and the relevant weighting of each of such LTI-Targets in relation to the other applicable targets over the service agreement period starting at the commencement of each fiscal year (the "LTI-Period"). The LTI-Targets shall be composed of (i) the development of the net asset value ("NAV") per share as being targeted by the Board (weighting of 50%) and (ii) the development of the Company's share price in relation to the EPRA GERMANY index (weighting of 50%), both LTI-Targets measured over the duration of the LTI-Period. The fair value was measured at the grant date for the first year using the Monte-Carlo simulation considering the following: (i) the NAV Target was estimated at 100%; (ii) the expected EPRA Target was estimated at approximately 108%. During the reporting period, the Company recognized a total expense of EUR 546 thousand (2017: EUR 554 thousand) against retained earnings.

Note 21 – Net Finance Costs

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Interest received on bank deposits	143	3	29
Change in fair value of other financial asset	1,256	1,599	1,943
Total finance income	1,399	1,602	1,972
Interest on bonds	(6,927)	(2,824)	—
Change in fair value of derivative component of convertible bond	(3,896)	—	—
Interest on other loans and borrowings	(19,214)	(18,279)	(18,526)
One-off refinance costs	(613)	(6,741)	(9,465)
Other finance expenses	(2,265)	(1,765)	(1,709)
Total finance costs	(32,915)	(29,609)	(29,700)
Total net finance costs	(31,516)	(28,007)	(27,728)

Note 22 – Earnings per Share

A. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share has been based on the profit attributable to the Company's ordinary shareholders divided by the weighted average number of ordinary shares outstanding, calculated as follows:

- (1) Earnings attributable to the owners of the Company (basic)

	For the year ended December 31,		
	2018	2017	2016
	thousands EUR		
Profit attributable to the owners of the Company	386,964	355,970	395,150

Note 22 – Earnings per Share (continued)

A. Basic and diluted earnings per share (continued)

(2) Weighted average number of ordinary shares

	For the year ended December 31,		
	2018	2017	2016
	thousands of shares		
Balance as at January 1	44,100	44,100	35,000
Effect of issuance of regular shares	1	—	4,083
Weighted average number of shares	<u>44,101</u>	<u>44,100</u>	<u>39,083</u>
	For the year ended December 31,		
	2018	2017	2016
	in EUR		
Basic and diluted earnings per share (*)	<u>8.77</u>	<u>8.07</u>	<u>10.11</u>

(*) The Company has no material dilutive potential ordinary shares

Note 23 – Financial Instruments

The Group has exposure to the following risks arising from its use of financial instruments:

- A. Credit risk
- B. Market risk
- C. Liquidity risk

A. Credit risk:

The Group is exposed to a default risk resulting from the potential failure of a counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with creditworthy third parties. The maximum credit risk is the carrying amount of the financial assets as reported in the statement of financial position.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The revenue of the Company is primarily driven by rental income from more than 20,000 tenants. Accordingly, the Group does not bare any concentration credit risk.

Cash and cash equivalents

The Company holds cash and cash equivalents with banks and financial institutions. The Company considers that its cash and cash equivalents have low credit risk based on the credit ratings of the counterparties.

The carrying amount of financial assets represents the maximum credit exposure, notwithstanding the carrying amount of security or any other credit enhancements.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date was as follows:

	December 31	
	2018	2017
	thousands EUR	
Cash and cash equivalents in banks and financial institutions:		
Rated A+	1,643	80,466
Rated AA-	3,646	119
Rated A-	21,097	20,494
Rated BBB-	916	9,145
Other	664	11,306
	<u>27,966</u>	<u>121,530</u>

Note 23 – Financial Instruments (continued)

A. Credit risk: (continued)

Assessment of expected credit losses for individual customers

The Group uses a provision matrix that is based on, inter alia, an aging of trade receivables, to measure the expected credit losses from individual customers, which comprise a very large number of small balances.

B. Market risk:

The Group is exposed to the risk of changes in market interest rates as a result of floating rate debt as well as new and follow-on loans. Loans obtained at variable rates expose the Group to cash flow interest rate risk, which could have adverse effects on the Group's profit or loss or financial position. Changes in interest rates may cause variations in interest expense on interest-bearing assets and liabilities.

The Group's management reviews the need to enter into derivative transactions to manage the interest rate risk arising from the Group's operations and its sources of finance.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Fixed rate instruments		
Financial assets	56,577	145,882
Financial liabilities	1,622,768	1,409,761
Variable rate instruments		
Financial liabilities	76,895	83,460

On the basis of the valuation as at December 31, 2018, the Group performed a sensitivity analysis to determine the change in profit and loss given a parallel shift in the interest rate structure:

	Change in interest basis points	Effect on the profit before tax thousands EUR
December 31, 2018		
Variable rate instruments	+50	(12)
December 31, 2017		
Variable rate instruments	+50	(14)

Assuming all other variables remain constant, a negative change in the interest rate at the same amount would have a similar impact on the profit and loss, but in the opposite direction.

C. Liquidity risk:

In order to limit the liquidity risk, the Group continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, the Group subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under the conditions of existing loan agreements, the Group is obliged to fulfill certain financial covenants. If financial covenants are violated and all commonly practiced solutions will be unsuccessful, the lenders could call in the loan. Fulfilling these financial covenants is continually monitored as part of risk management.

Note 23 – Financial Instruments (continued)

C. Liquidity risk: (continued)

The following table shows the forecast for undiscounted cash flows of non-derivative financial liabilities and derivative financial instruments:

	December 31, 2018					
	Carrying amount	Contractual cash flows	2019	2020	2021	Due after 5 years
Corporate bonds	396,899	436,000	6,000	6,000	6,000	418,000
Convertible bonds	154,252	175,314	2,063	2,063	2,063	169,125
Other loans and borrowings	1,057,973	1,133,308	34,875	82,321	141,306	874,806
Other financial liabilities	42,027	42,027	1,535	768	561	39,163
Trade payables	18,497	18,497	18,497	—	—	—
Tenants' security deposits	23,260	23,260	23,260	—	—	—
Other payables	6,755	6,755	6,755	—	—	—
Derivatives (*)	2,776	2,969	92	220	378	2,279
Total	1,702,439	1,838,130	93,077	91,372	150,308	1,503,373

(*) Cash flow hedges only. Does not include the derivative component of the convertible bond.

	December 31, 2017					
	Carrying amount	Contractual cash flows	2018	2019	2020	Due after 5 years
Bonds	396,396	442,000	6,000	6,000	6,000	424,000
Other loans and borrowings	1,026,723	1,114,407	90,854	46,484	79,020	898,049
Other financial liabilities	28,105	28,105	867	328	325	26,585
Trade payables	13,642	13,642	13,642	—	—	—
Tenants' security deposits	21,513	21,513	21,513	—	—	—
Other payables	6,842	6,842	6,842	—	—	—
Derivatives	2,985	3,242	264	135	230	2,613
Total	1,496,206	1,629,751	139,982	52,947	85,575	1,351,247

D. Fair value:

(1) Financial assets and liabilities measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, restricted and other bank deposits and trade and other payables are considered to be the same or proximate to their fair value due to their short-term nature. The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31, 2018			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
		thousands EUR		
Liabilities:				
Corporate bonds	396,899	375,992	—	—
Convertible bonds	154,252	—	156,387	—
Variable rate loans and borrowings (*)	76,895	—	—	79,207
Fixed rate loans and borrowings (*)	981,078	—	—	1,002,513
Total	1,609,124	375,992	156,387	1,081,720

(*) Including the current portion of long-term loans and borrowings.

Note 23 – Financial Instruments (continued)

D. Fair value: (continued)

	Carrying amount	December 31, 2017		
		Fair value		
		Level 1	Level 2	Level 3
thousands EUR				
Liabilities:				
Corporate bonds	396,396	404,056	—	—
Variable rate other loans and borrowings (*)	83,460	—	—	85,751
Fixed rate other loans and borrowings (*)	943,263	—	—	944,092
Total	1,423,119	404,056	—	1,029,843

(*) Including the current portion of long-term loans and borrowings.

Fair value for liabilities is estimated by discounting future cash flows by the market interest rate on the date of measurement.

In respect of the liability component of convertible bonds, the market rate of interest is determined by bid and ask quotes in the market.

The market interest rates used to determine the fair value of other loans and borrowings are the discount rate of Euribor+1.2% for the variable interest bank loans (2017: Euribor+1.2%) and the discount rate of 1.12% for the fixed interest bank loans (2017: 1.73%).

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analyzes financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	December 31, 2018		December 31, 2017	
	Level 2	Level 3	Level 2	Level 3
	thousands EUR			
Other financial asset (a)	—	6,615	—	5,359
Derivative financial liabilities (b)	16,339	—	2,985	—
Other financial liabilities (c)	—	42,027	—	28,105

(a) Other financial asset relates to the Group's option for purchasing the non-controlling interest in a transaction completed at the end of 2013. This other financial asset is measured at fair value.

(b) The fair value of the interest rate swaps, including both current and non-current liabilities, is measured by discounting the future cash flows over the period of the contract and using market interest rates appropriate for similar instruments. The credit risk used by the bank is not a material component of the valuation made by the bank and the other variables are market-observable.

The fair value of the derivative component of convertible bonds is determined by an external valuer, calculated by reference to the market terms of similar convertible securities.

(c) Other financial liabilities relate to a put option and an annual compensation fee granted to ADO Group (see note 11) measured at fair value. The fair value is calculated based on the expected payment amounts and the liability is discounted to present value using the market interest rate at the reporting date.

Note 23 – Financial Instruments (continued)

D. Fair value: (continued)

The table hereunder presents a reconciliation from the opening balance to the closing balance of financial instruments carried at fair value level 3 of the fair value hierarchy:

	2018	
	Other financial asset	Other financial liabilities
	thousands EUR	
Balance as at January 1, 2018	5,359	28,105
Fair value adjustment	1,256	5,938
New acquisitions	—	8,522
Dividend payment	—	(537)
Balance as at December 31, 2018	<u>6,615</u>	<u>42,027</u>
	2017	
	Other financial asset	Other financial liabilities
	thousands EUR	
Balance as at January 1, 2017	3,760	15,137
Fair value adjustment	1,599	4,520
New acquisitions	—	8,488
Dividend payment	—	—
Balance as at December 31, 2017	<u>5,359</u>	<u>28,108</u>

E. Capital management:

The Company's management aims to maximize a long-term increase in value for the investors, taking into account financial risks by maintaining a degree of financial flexibility in order to be able to pursue the Group's growth and portfolio optimization.

The key figure for capital management is Loan-to-Value Ratio, which is the ratio of net financial liabilities compared to the value of the investment and trading properties. The Company aims to achieve a long-term Loan-to-Value Ratio of maximum 40%.

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Corporate bonds	396,899	396,396
Convertible bonds	154,252	—
Other loans and borrowings	1,057,973	1,026,723
Other financial liabilities	42,027	28,105
Cash and other deposits	(27,966)	(121,530)
Net financial liabilities	<u>1,623,185</u>	<u>1,329,694</u>
Investment properties and advances in respect of investment properties	4,050,323	3,305,723
Trading properties	35,028	42,961
Total assets	<u>4,085,351</u>	<u>3,348,684</u>
Loan-to-Value Ratio	<u>39.7%</u>	<u>39.7%</u>

Note 23 – Financial Instruments (continued)

F. Movement in liabilities deriving from financing activities

	Corporate bonds	Convertible bonds	Other loans and borrowings	Other financial liabilities	Total
	thousands EUR				
Balance as at January 1, 2018	396,396	—	1,026,723	28,105	1,451,224
Changes from financing cash flows					
Receipt of loans and borrowings	—	165,000	121,637	—	286,637
Repayment of loans and borrowings	—	—	(95,583)	—	(95,583)
Transaction costs related to borrowings	—	(1,260)	—	—	(1,257)
Compensation fee payments	—	—	—	(537)	(537)
Total net financing cash flows	—	163,740	26,054	(537)	189,260
Changes arising from obtaining control of subsidiaries	—	—	2,498	8,308	10,806
Changes in fair value	—	—	—	5,938	5,938
Derivative component of convertible bond	—	(9,667)	—	—	(9,667)
Other changes	503	179	2,698	214	3,591
Balance as at December 31, 2018	<u>396,899</u>	<u>154,252</u>	<u>1,057,973</u>	<u>42,027</u>	<u>1,651,151</u>

Note 24 – Contingent Liabilities and Commitments

A. Contingent liabilities

The Group is involved in few legal actions arising in the ordinary course of business. While the outcome of all legal actions and their expected timing is currently not determinable, it is management's opinion, on the basis of a legal opinion, that these matters will not have a material adverse effect on the Group's consolidated financial position or results of its operations, therefore no provision was recorded.

B. Securities, guarantees and liens under bank finance agreements

In order to secure loans granted for purchasing the assets, the Group has granted banks with regard to certain subsidiaries: first ranking liens on all the investment property assets, including rights on the land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party, including general contractor contracts, long-term tenants' leases and subordination of all shareholder loans to the financing bank; liens on all of the rights deriving from each material contract to which the borrower company is a party.

In some cases, payments to the shareholders, including dividend distribution, are subject to financial covenants. Several German companies undertook not to sell or transfer a substantial part of their assets without the prior consent of the financing bank. In certain events the project companies undertook not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the project companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the project company in favor of third parties.

C. Future minimum lease payments

The Group leases out to external parties a number of commercial properties (investment property). The lease agreements are usually for five years (on average), are non-cancellable and linked to the CPI. Renewal of the agreements at the end of the period is subject to the consent of the Group and the lessees. The average renewal period of these agreements is ranging from three to five years.

Note 24 – Contingent Liabilities and Commitments (continued)

C. Future minimum lease payments (continued)

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are as follows:

	December 31,	
	2018	2017
	thousands EUR	thousands EUR
Less than one year	33,682	28,214
Between one and three years	26,727	22,705
More than three years	25,605	21,295

Note 25 – Segments Reporting

The Company reports by business segments on the basis of the information provided to the Group's chief operating decision maker (CODM). Segment information is not reported by geographical region of the properties as all operational activities are located in Berlin.

The following summary describes the operations in each of the Group's operating segments:

- Residential property management – the Group's core business activity is the rent and management of the residential properties, which includes the modernization and maintenance of the properties, the management of tenancy agreements and marketing of residential units. The focus of property management is on the optimization of rental income;
- Privatization – this segment includes all aspects of the preparation and execution of the sale of units. In addition, this segment is also subject to modernization, maintenance and management, and generates rental income for non-vacant units.

A group-wide planning and controlling system ensures that resources for both segments are efficiently allocated and their successful use is monitored. Assets and liabilities are not viewed separately by segment.

The accounting policies of the operating segments are the same as described in note 4 regarding significant accounting policies.

Performance is measured based on segment gross profit before revaluation of investment properties. Segment results reported to the CODM include items directly attributable to a segment on a reasonable basis.

A. Information about reportable segments

Information regarding the results of each reportable segment is included below:

	For the year ended December 31, 2018		
	Residential property management	Privatization thousands EUR	Total consolidated
External income from residential property management	133,736	852	134,588
External income from selling condominiums	—	20,265	20,265
Consolidated revenue	133,736	21,117	154,853
Reportable segment gross profit	107,966	4,891	112,857
General and administrative expenses			(18,451)
Changes in fair value of investment properties			404,936
Finance income			1,399
Finance expense			(32,915)
Consolidated profit before tax			467,826
Income tax expense			(70,362)

Note 26 – Related Parties (continued)**A. Related companies: (continued)**(1) Transactions with related companies:

The following balances with related parties are included in the consolidated statement of financial position:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>thousands EUR</u>	
Current assets		
ADO Group (presented under other receivables)	280	—
Current liabilities		
ADO Group (presented under other payables)	5	42
Other financial liabilities (see note 11)	1,535	867
Interest payable	83	—
Non-current liabilities		
Other financial liabilities (see note 11)	40,492	27,238
Convertible bond (see note 13B)	58,940	—
Derivative (see note 13B)	5,182	—
Other loans and borrowings (see note 14B)	22,600	21,610

The following balances with related parties are included in the consolidated statement of profit or loss:

	<u>For the year ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>thousands EUR</u>		
Consolidated statement of profit or loss			
Services and management fee charges from ADO Group	46	64	75
Interest expense payable to ADO Group (see note 13B)	165	—	—
Interest expense payable to Harel Insurance Company Ltd (see note 14B) . .	990	946	907

On November 16, 2018, the Company placed senior, unsecured convertible bonds in a total nominal amount of EUR 165 million (see note 13B). ADO Group received an allocation in the accelerated bookbuilding reflecting pro rata its shareholding in the Company at the time of the placement.

B. Transactions with key management personnel:

Within the Group, the individuals in key positions pursuant to IAS 24 include the Board of Directors of ADO Properties S.A.

Compensation and benefits to key management personnel that are employed by the Group:

	<u>For the year ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>thousands EUR</u>		
Short-term employee benefits	800	955	915
Share-based payments	335	350	376
Other compensation (see note 19B)	279	—	—
Total	<u>1,414</u>	<u>1,305</u>	<u>1,291</u>

The Board of Directors and members of their immediate families do not personally have any business relationship with the Group other than in their capacity as members of the Board of Directors.

Note 26 – Related Parties (continued)

C. Emoluments granted to the members of the management and supervisory bodies:

The emoluments granted to the members of the supervisory bodies in that capacity for the financial year are broken down as follows:

	For the year ended December 31,	
	2018	2017
	thousands EUR	
Directors fee granted to the members of the Board of Directors	608	714
One-time termination payment	279	—
Total	887	714

The emoluments granted to the members of the senior management (CEO, CFO and COO) are broken down as follows:

	For the year ended December 31,	
	2018	2017
	thousands EUR	
Fixed salary	662	662
Short-term cash incentive	349	343
Long-term incentive to be paid in shares	376	387
Office rent	3	—
Total	1,390	1,392

The Group is renting an office from the CFO for a monthly amount of EUR 300. The total amount for 2018 is EUR 2,850.

Note 27 – Auditors’ Fees

Fees billed to the Company and its subsidiaries by KPMG Luxembourg, Société coopérative, Luxembourg, and other member firms of the KPMG network during the year are as follows (excluding VAT):

	For the year ended December 31,	
	2018	2017
	thousands EUR	
Audit fees (*)	828	690
Thereof: KPMG Luxembourg, Société coopérative	90	148
Tax consultancy services	55	184
Thereof: KPMG Luxembourg, Société coopérative	16	27
Other non-audit related services	164	49
Thereof: KPMG Luxembourg, Société coopérative	12	—

(*) Including audit-related services in relation to bond issuance.

Note 28 – Subsequent Events

- A. On January 24, 2019 the Company’s Board appointed Mr. David Daniel as a member and Executive Vice Chairman of the Board of Directors with immediate effect. David Daniel was appointed on a provisional basis until his membership may be confirmed by a general meeting of the Company, scheduled to be held in April 2019. He will fill the vacant position on the Board of Directors following the resignation of Mr. Shlomo Zohar.
- B. On March 19, 2019 the Company’s Board proposed to the shareholders at the Annual General Meeting to pay a dividend in the amount of EUR 33 million (EUR 0.75 per share). The Annual General Meeting will take place on June 20, 2019.
- C. In respect of the revolving credit facility agreement (see note 14J), on January 30, 2019, the Group exercised one extension option, for one year.
- D. On March 12, 2019 Mr. Moshe Lahmani resigned from his position as a member and Chairman of the Board. Mr. Moshe Dayan was appointed by co-optation by the Board to succeed Mr. Moshe Lahmani

Note 28 – Subsequent Events (continued)

as a new member and Chairman of the Board. Furthermore, Dr. Sebastian-Dominik Jais was appointed by co-optation by the Board as a new member of the Board in replacement of Mr. Yuval Dagim who resigned in July 2018. Both appointments are provisional until their ratification and confirmation by the next General Meeting of the Company.

Note 29 – List of the Company Shareholdings

		Country	Shareholding and control at December 31,	
			2018	2017
Company			%	
1	Adest Grundstücks GmbH	Germany	99.64	99.64
2	Adoa Grundstücks GmbH	Germany	99.64	99.64
3	Adom Grundstücks GmbH	Germany	99.64	99.64
4	Adon Grundstücks GmbH	Germany	99.64	99.64
5	Ahava Grundstücks GmbH	Germany	99.64	99.64
6	Anafa 1 Grundstücks GmbH	Germany	99.64	99.64
7	Anafa 2 Grundstücks GmbH	Germany	99.64	99.64
8	Gamazi Grundstücks GmbH	Germany	99.64	99.64
9	Anafa Grundstücks GmbH	Germany	99.64	99.64
10	Badolina Grundstücks GmbH	Germany	99.64	99.64
11	Berale Grundstücks GmbH	Germany	99.64	99.64
12	Bamba Grundstücks GmbH	Germany	99.64	99.64
13	Zman Grundstücks GmbH	Germany	99.64	99.64
14	ADO Immobilien Management GmbH	Germany	100	100
15	CCM City Construction Management GmbH	Germany	100	100
16	Drontheimer Str. 4 Grundstücks GmbH	Germany	99.64	99.64
17	Eldalote Grundstücks GmbH	Germany	99.64	99.64
18	Nuni Grundstücks GmbH	Germany	99.64	99.64
19	Krembo Grundstücks GmbH	Germany	99.64	99.64
20	Tussik Grundstücks GmbH	Germany	99.64	99.64
21	Geut Grundstücks GmbH	Germany	99.64	99.64
22	Gozal Grundstücks GmbH	Germany	99.64	99.64
23	Gamad Grundstücks GmbH	Germany	99.64	99.64
24	Geshem Grundstücks GmbH	Germany	99.64	99.64
25	Lavlav 1 Grundstücks GmbH	Germany	99.64	99.64
26	Lavlav 2 Grundstücks GmbH	Germany	99.64	99.64
27	Lavlav 3 Grundstücks GmbH	Germany	99.64	99.64
28	Lavlav Grundstücks GmbH	Germany	99.64	99.64
29	Mastik Grundstücks GmbH	Germany	99.64	99.64
30	Maya Grundstücks GmbH	Germany	99.64	99.64
31	Mezi Grundstücks GmbH	Germany	99.64	99.64
32	Muse Grundstücks GmbH	Germany	99.64	99.64
33	Papun Grundstücks GmbH	Germany	99.64	99.64
34	Nehederet Grundstücks GmbH	Germany	99.64	99.64
35	Neshama Grundstücks GmbH	Germany	99.64	99.64
36	Osher Grundstücks GmbH	Germany	99.64	99.64
37	Pola Grundstücks GmbH	Germany	99.64	99.64
38	ADO Properties GmbH	Germany	100	100
39	Reshet Grundstücks GmbH	Germany	99.64	99.64
40	Sababa18 Grundstücks GmbH	Germany	99.64	99.64
41	Sababa19 Grundstücks GmbH	Germany	99.64	99.64
42	Sababa20 Grundstücks GmbH	Germany	99.64	99.64
43	Sababa21 Grundstücks GmbH	Germany	99.64	99.64
44	Sababa22 Grundstücks GmbH	Germany	99.64	99.64
45	Sababa23 Grundstücks GmbH	Germany	99.64	99.64
46	Sababa24 Grundstücks GmbH	Germany	99.64	99.64
47	Sababa25 Grundstücks GmbH	Germany	99.64	99.64

Note 29 – List of the Company Shareholdings (continued)

Company		Country	Shareholding and control at	
			December 31,	
			2018	2017
			%	
48	Sababa26 Grundstücks GmbH	Germany	99.64	99.64
49	Sababa27 Grundstücks GmbH	Germany	99.64	99.64
50	Sababa28 Grundstücks GmbH	Germany	99.64	99.64
51	Sababa29 Grundstücks GmbH	Germany	99.64	99.64
52	Sababa30 Grundstücks GmbH	Germany	99.64	99.64
53	Sababa31 Grundstücks GmbH	Germany	99.64	99.64
54	Sababa32 Grundstücks GmbH	Germany	99.64	99.64
55	Shemesh Grundstücks GmbH	Germany	99.64	99.64
56	Stav Grundstücks GmbH	Germany	99.64	99.64
57	Tamuril Grundstücks GmbH	Germany	99.64	99.64
58	Tara Grundstücks GmbH	Germany	99.64	99.64
59	Tehila1 Grundstücks GmbH	Germany	99.64	99.64
60	Tehila2 Grundstücks GmbH	Germany	99.64	99.64
61	Tehila Grundstücks GmbH	Germany	99.64	99.64
62	Trusk Grundstücks GmbH	Germany	99.64	99.64
63	Wernerwerkdamm 25 Berlin Grundstücks GmbH	Germany	99.64	99.64
64	Yarok Grundstücks GmbH	Germany	99.64	99.64
65	Yahel Grundstücks GmbH	Germany	99.64	99.64
66	Yussifun Grundstücks GmbH	Germany	99.64	99.64
67	Bombila Grundstücks GmbH	Germany	99.64	99.64
68	ADO SBI Holdings S.A. & Co. KG	Germany	94	94
69	Central Facility Management GmbH	Germany	100	100
70	Sheket Grundstücks GmbH	Germany	100	100
71	Seret Grundstücks GmbH	Germany	100	100
72	Melet Grundstücks GmbH	Germany	100	100
73	Yabeshet Grundstücks GmbH	Germany	100	100
74	ADO Finance B.V.	Holland	100	100
75	Yadit Grundstücks GmbH	Germany	100	100
76	Zamir Grundstücks GmbH	Germany	100	100
77	Arafel Grundstücks GmbH	Germany	100	100
78	Sharav Grundstücks GmbH	Germany	100	100
79	Sipur Grundstücks GmbH	Germany	100	100
80	Matok Grundstücks GmbH	Germany	100	100
81	Barbur Grundstücks GmbH	Germany	94.9	94.9
82	Parpar Grundstücks GmbH	Germany	100	100
83	Jessica Properties B.V.	Holland	94.50	94.50
84	Alexandra Properties B.V.	Holland	94.44	94.44
85	Marbien B.V.	Holland	94.90	94.90
86	Meghan Properties B.V.	Holland	94.44	94.44
87	Matok Löwenberger Straße Grundstücks GmbH	Germany	100	100
88	Songbird 1 ApS	Denmark	60	60
89	Songbird 2 ApS	Denmark	60	60
90	Joysun 1 B.V.	Holland	60	60
91	Joysun 2 B.V.	Holland	60	60
92	Yona Investment GmbH & Co. KG	Germany	60	60
93	Yanshuf Investment GmbH & Co. KG	Germany	60	60
94	Ziporim Investment GmbH	Germany	60	60
95	Ofek 1 Grundstücks GmbH	Germany	100	100
96	Ofek 2 Grundstücks GmbH	Germany	100	100
97	Ofek 3 Grundstücks GmbH	Germany	100	100
98	Ofek 4 Grundstücks GmbH	Germany	100	100
99	Ofek 5 Grundstücks GmbH	Germany	100	100
100	Galim 1 Grundstücks GmbH	Germany	100	100

Note 29 – List of the Company Shareholdings (continued)

Company		Country	Shareholding and control at	
			December 31,	
			2018	2017
			%	
101	Galim 2 Grundstücks GmbH	Germany	100	100
102	Galim 3 Grundstücks GmbH	Germany	100	100
103	JS Nestorstrasse Grundstücks GmbH	Germany	60	60
104	JS Florapromenade Grundstücks GmbH	Germany	60	60
105	JS Cotheniusstrasse Grundstücks GmbH	Germany	60	60
106	JS Tauroggener Grundstücks GmbH	Germany	60	60
107	JS Kiehlufer Grundstücks GmbH	Germany	60	60
108	JS Rubenstrasse Grundstücks GmbH	Germany	60	60
109	Yona Stettiner Grundstücks GmbH	Germany	60	60
110	Yona Schul Grundstücks GmbH	Germany	60	60
111	Yona Otawi Grundstücks GmbH	Germany	60	60
112	Yona Strom Grundstücks GmbH	Germany	60	60
113	Yona Gutenberg Grundstücks GmbH	Germany	60	60
114	Yona Kameruner Grundstücks GmbH	Germany	60	60
115	Yona Schichauweg Grundstücks GmbH	Germany	60	60
116	Yona Alt-Tempelhof Grundstücks GmbH	Germany	60	60
117	Yona Gruberzeile Grundstücks GmbH	Germany	60	60
118	Yona Schloss Grundstücks GmbH	Germany	60	60
119	Yona Lindauer Grundstücks GmbH	Germany	60	60
120	Yona Nogat Grundstücks GmbH	Germany	60	60
121	Yona Bötzwow Grundstücks GmbH	Germany	60	60
122	Yona Herbst Grundstücks GmbH	Germany	60	60
123	Yona Danziger Grundstücks GmbH	Germany	60	60
124	Yona Schön Grundstücks GmbH	Germany	60	60
125	Yanshuf Kaiser Grundstücks GmbH	Germany	60	60
126	Yanshuf Binz Grundstücks GmbH	Germany	60	60
127	Yanshuf Antonien Grundstücks GmbH	Germany	60	60
128	Yanshuf See Grundstücks GmbH	Germany	60	60
129	Yanshuf Hermann Grundstücks GmbH	Germany	60	60
130	Yanshuf Schmidt-Ott Grundstücks GmbH	Germany	60	60
131	Hanpaka Holding GmbH	Germany	100	100
132	Hanpaka Immobilien GmbH	Germany	94.90	94.90
133	Dvash 1 Holding GmbH	Germany	100	100
134	Dvash 2 Holding GmbH	Germany	100	100
135	Dvash 3 B.V.	Holland	100	100
136	Rimon Holding GmbH	Germany	100	100
137	Bosem Grundstücks GmbH	Germany	100	100
138	Rimon Grundstücks GmbH	Germany	94.90	94.90
139	Dvash 21 Grundstücks GmbH	Germany	94.90	94.90
140	Dvash 22 Grundstücks GmbH	Germany	94.90	94.90
141	Dvash 23 Grundstücks GmbH	Germany	94.90	94.90
142	Dvash 24 Grundstücks GmbH	Germany	94.90	94.90
143	Dvash 11 Grundstücks GmbH	Germany	94.90	94.90
144	Dvash 12 Grundstücks GmbH	Germany	94.90	94.90
145	Dvash 13 Grundstücks GmbH	Germany	94.90	94.90
146	Dvash 14 Grundstücks GmbH	Germany	94.90	94.90
147	ADO FC Management Unlimited Company	Ireland	100	100
148	5. Ostdeutschland Invest GmbH	Germany	94.90	94.90
149	8. Ostdeutschland Invest GmbH	Germany	94.90	94.90
150	Horef Holding GmbH	Germany	100	100
151	ADO 9110 Holding GmbH	Germany	100	100
152	Silan Holding GmbH	Germany	100	100
153	ADO Sonnensiedlung S.à.r.l.	Luxembourg	94.90	94.90

Note 29 – List of the Company Shareholdings (continued)

Company		Country	Shareholding and control at	
			December 31,	
			2018	2017
			%	
154	Horef Grundstücks GmbH	Germany	94.93	94.93
155	Sprengelstraße 39 GmbH	Germany	94	94
156	Scharnweberstraße 112 Verwaltungsgesellschaft mbH	Germany	94.90	94.90
157	Kantstraße 62 Grundstücks GmbH	Germany	100	100
158	ADO Treasury GmbH	Germany	100	100
159	ADO 9160 Grundstücks GmbH	Germany	94.90	94.90
160	ADO 9200 Grundstücks GmbH	Germany	94.90	94.90
161	ADO 9210 Grundstücks GmbH	Germany	94.90	94.90
162	ADO 9220 Grundstücks GmbH	Germany	94.90	94.90
163	ADO 9230 Grundstücks GmbH	Germany	94.90	94.90
164	ADO 9240 Grundstücks GmbH	Germany	94.90	94.90
165	ADO 9250 Grundstücks GmbH	Germany	94.00	94.00
166	ADO 9260 Grundstücks GmbH	Germany	94.90	94.90
167	ADO 9270 Grundstücks GmbH	Germany	94.80	94.80
168	ADO 9280 Grundstücks GmbH	Germany	94.90	94.90
169	ADO 9290 Grundstücks GmbH	Germany	94.90	94.90
170	ADO 9300 Grundstücks GmbH	Germany	94.90	94.90
171	ADO 9310 Grundstücks GmbH	Germany	94.90	94.90
172	ADO 9320 Grundstücks GmbH	Germany	94.90	94.90
173	ADO 9330 Grundstücks GmbH	Germany	94.90	94.90
174	ADO 9340 Grundstücks GmbH	Germany	94.90	94.90
175	ADO 9350 Grundstücks GmbH	Germany	94.90	94.90
176	ADO 9360 Holding GmbH	Germany	100	100
177	ADO 9370 Grundstücks GmbH	Germany	94.90	94.90
178	ADO 9380 Grundstücks GmbH	Germany	94.90	94.90
179	ADO 9390 Grundstücks GmbH	Germany	94.90	94.90
180	ADO 9400 Grundstücks GmbH	Germany	94.90	94.90
181	ADO 9410 Grundstücks GmbH	Germany	94.90	94.90
182	ADO 9420 Grundstücks GmbH	Germany	94.90	94.90
183	ADO 9430 Grundstücks GmbH	Germany	94.90	94.90
184	ADO 9440 Grundstücks GmbH	Germany	94.90	94.90
185	ADO 9450 Grundstücks GmbH	Germany	94.90	94.90
186	ADO 9460 Grundstücks GmbH	Germany	94.90	94.90
187	ADO 9470 Grundstücks GmbH	Germany	94.90	94.90
188	ADO 9480 Grundstücks GmbH	Germany	94.90	94.90
189	ADO 9490 Grundstücks GmbH	Germany	94.90	94.90
190	ADO 9500 Grundstücks GmbH	Germany	94.90	94.90
191	ADO 9510 Grundstücks GmbH	Germany	94.90	94.90
192	ADO 9520 Grundstücks GmbH	Germany	94.90	94.90
193	ADO 9530 Grundstücks GmbH	Germany	94.90	94.90
194	ADO 9540 Holding GmbH	Germany	100	100
195	ADO Lux Finance S.à.r.l.	Luxembourg	100	100
196	ADO 9550 Grundstücks GmbH	Germany	94.90	—
197	ADO 9560 Grundstücks GmbH	Germany	94.90	—
198	ADO 9570 Grundstücks GmbH	Germany	94.90	—
199	ADO 9580 Holding GmbH	Germany	100	—
200	RVB Angerburgerallee B.V.	Holland	94	—
201	ADO 9600 Grundstücks GmbH	Germany	94.90	—
202	ADO 9610 Grundstücks GmbH	Germany	94.90	—
203	ADO 9620 Grundstücks GmbH	Germany	94.90	—
204	ADO 9630 Grundstücks GmbH	Germany	94.90	—
205	ADO Living GmbH	Germany	100	—
206	ADO 9640 Grundstücks GmbH	Germany	94.90	—

ADO Properties S.A.

**Consolidated financial statements of ADO Properties S.A. as of and for the fiscal year ended
December 31, 2017**

To the Shareholders of
ADO Properties S.A.
1B Heienhaff
L-1736 Senningerberg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ADO Properties S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (the "CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition for investment properties

a) Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period

Refer to Note 17 to the consolidated financial statements for related disclosures. Revenue for the Group consists primarily of rental income. We identified revenue recognition as a key audit matter as revenue is an important measure used to evaluate the performance of the Group and there is a risk that revenue is overstated.

b) How the matter was addressed in our audit

Our procedures over revenue recognition included, but were not limited to:

- Evaluating the design and implementation and of operating effectiveness of key internal controls over the recording of revenue for the investment properties;
- Comparing rental revenue with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, on a sample basis, and assessing whether fixed rental revenue had been recorded in the appropriate accounting period;
- Performing substantive analytical procedures on the rental income by building an expectation for the rental income and comparing it to the actual rental income disclosed in the consolidated financial statements.

Valuation of investment properties

a) Why the matter was considered to be one of most significance in our audit of the consolidated financial statements of the current period

Refer to Note 5 to the consolidated financial statements for related disclosures. We identified the valuation of investment properties as a key audit matter as they represent approximately 93% of total assets of the Group, and significant judgement is required in determining their fair value.

The investment properties are stated at their fair values based on reports by independent external valuers (hereafter “the Valuer”).

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. In determining the property’s valuation, the Valuer takes into account property specific characteristics and information including the rental income. The Valuer applies assumptions for estimated market rent, capitalization interest rate and discount rate, which are influenced by prevailing market conditions and comparable market transactions, to arrive at the final valuation.

The significance of the estimates and judgements involved, together with the fact that only a small percentage difference in individual property valuation, when aggregated, could result in a material misstatement on the consolidated statement of profit or loss and the consolidated statement of financial position, requires specific audit focus in this area.

b) How the matter was addressed in our audit

Our procedures over the valuation of investment properties included, but were not limited to:

- Evaluating the qualifications and competence of the external Valuer and reading the terms of engagement of the Valuer with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.
- Involving our own valuation specialists to evaluate the valuation methodologies used and to test the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents on a sample basis.
- Involving our own valuation specialists to challenge the capitalisation and discount rates used in the valuation by comparing them with historical rates and available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the Valuer.
- Assessing the adequacy of the descriptions in consolidated the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the combined management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of “réviseur d’entreprises agréé” thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is 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 Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the “Réviseur d’Entreprises Agréé” for the audit of the Consolidated Financial Statements

The objectives of our audit 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 to issue a report of “Réviseur d’Entreprises Agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with the EU Regulation N°537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of 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 our report of “Réviseur d’Entreprises Agréé” to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of “Réviseur d’Entreprises Agréé”. However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been appointed as “Réviseur d’Entreprises Agréé” by the General Meeting of the Shareholders on 2 May 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is three years, of which 2 years since ADO Properties S.A. became a Public Interest entity

The combined management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement is presented on pages 50 to 55. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Luxembourg, 19 March 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Stephen Nye

Consolidated Statement of Financial Position as at

(In thousands EUR)

	Note	As of December 31,	
		2017	2016
Assets			
Non-current assets			
Investment properties	5	3,271,298	2,278,935
Advances in respect of investment properties	28	34,425	11,805
Property and equipment		2,783	2,148
Other financial asset	23	5,359	3,760
		<u>3,313,865</u>	<u>2,296,648</u>
Current assets			
Trading properties	6	42,961	39,718
Advances in respect of trading properties		—	6,419
Restricted bank deposits	7	24,352	28,207
Trade receivables	8	10,324	6,604
Other receivables	9	5,231	1,377
Cash and cash equivalents	10	121,530	183,421
		<u>204,398</u>	<u>265,746</u>
Total assets		<u>3,518,263</u>	<u>2,562,394</u>
Shareholders' equity			
Share capital	12	55	55
Share premium		498,607	499,520
Reserves		330,638	333,872
Retained earnings		966,090	628,498
Total equity attributable to owners of the company		<u>1,795,390</u>	<u>1,461,945</u>
Non-controlling interests		<u>36,103</u>	<u>24,559</u>
Total equity		<u>1,831,493</u>	<u>1,486,504</u>
Liabilities			
Non-current liabilities			
Bonds	13	396,396	—
Other loans and borrowings	14	953,955	877,326
Other financial liabilities	11	27,238	14,723 *
Derivatives	23	2,878	3,926
Deferred tax liabilities	16	183,443	117,673
		<u>1,563,910</u>	<u>1,013,648</u>
Current liabilities			
Other loans and borrowings	14	72,768	27,388
Other financial liabilities	11	867	414 *
Trade payables		13,642	8,957
Other payables	15	35,476	25,224
Derivatives	23	107	259
		<u>122,860</u>	<u>62,242</u>
Total equity and liabilities		<u>3,518,263</u>	<u>2,562,394</u>

Rabin Savion
CEO

Florian Goldgruber
CFO

Date of approval: March 19, 2018

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

(In thousands EUR)

	Note	For the year ended December 31,		
		2017	2016	2015
Revenue	17	128,852	109,775	75,753
Cost of operations	18	(36,174)	(32,596) *	(19,186) *
Gross profit		92,678	77,179	56,567
General and administrative expenses	19	(12,762)	(13,245) *	(7,197) *
Changes in fair value of investment properties and assets held for sale ...	5	383,638	444,268	158,579
Other expenses		—	—	(430)
Results from operating activities		463,554	508,202	207,519
Finance income		1,602	1,972	1,584
Finance costs		(29,609)	(29,700)	(25,724)
Net finance costs	21	(28,007)	(27,728)	(24,140)
Profit before tax		435,547	480,474	183,379
Income tax expense	16	(68,035)	(69,706)	(27,372)
Profit for the year		367,512	410,768	156,007
Profit attributable to:				
Owners of the company		355,970	395,150	148,192
Non-controlling interest		11,542	15,618	7,815
Profit for the year		367,512	410,768	156,007
Basic and diluted earnings per share (in EUR)	22	8.07	10.11	5.04

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(In thousands EUR)

	Note	For the year ended December 31,		
		2017	2016	2015
Profit for the year		367,512	410,768	156,007
Items that may be reclassified subsequently to profit or loss				
Hedging reserve classified to profit or loss, net of tax		—	5,275	—
Effective portion of changes in fair value of cash flow hedges	23	1,218	(512)	2,840
Related tax		60	53	(666)
Total other comprehensive income		1,278	4,816	2,174
Total comprehensive income for the year		368,790	415,584	158,181
Total comprehensive income attributable to:				
Owners of the company		357,246	399,938	150,359
Non-controlling interest		11,544	15,646	7,822
Total comprehensive income for the year		368,790	415,584	158,181

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(In thousands EUR)

	Note	For the year ended December 31,		
		2017	2016	2015
Cash flows from operating activities				
Profit for the year		367,512	410,768	156,007
Adjustments for:				
Depreciation	19	452	356	256
Change in fair value of investment properties and assets held for sale	5	(383,638)	(444,268)	(158,579)
Net finance costs	21	28,007	27,728	24,140
Income tax expense	16	68,035	69,706	27,372
Share-based payment		564	859	349
Change in short-term restricted bank deposits related to tenants		(4,727)	(2,883)	(5,878)
Change in trade receivables		(3,148)	1,116	(3,477)
Change in other receivables		(3,742)	976	(1,563)
Change in trading properties		12,830	15,007	7,928
Change in advances in respect of trading properties		—	(6,419)	—
Change in trade payables		1,408	1,509	1,036
Change in other payables		4,163	2,276	8,207
Income tax paid		(864)	(352)	(83)
Net cash from operating activities		86,852	76,379	55,715
Cash flows from investing activities				
Purchase and CAPEX of investment properties	5	(189,182)	(116,839)	(416,372)
Advances paid for investment property purchase	28	(33,975)	(11,805)	(799)
Purchase of property and equipment		(795)	(784)	(1,564)
Interest received		3	29	35
Proceeds from disposal of investment properties and assets held for sale		—	1,015	954
Acquisition of subsidiaries, net of acquired cash	3	(280,542)	(160,244)	(89,010)
Investments in bank deposit		—	—	(100,000)
Repayment of bank deposit		—	65,000	35,000
Change in short-term restricted bank deposits, net		9,453	(4,662)	(3,165)
Net cash used in investing activities		(495,038)	(228,290)	(574,921)
Cash flows from financing activities				
Proceeds from issue of bonds, net	13	396,185	—	—
Long-term loans received	14	114,606	182,721	338,248
Repayment of long-term loans	14	(113,163)	(158,300)	(42,535)
Short-term loans received		—	—	5,980
Repayment of short-term loans		(13,385)	(13,088)	(13,062)
Interest paid		(18,103)	(18,762)	(16,791)
Payment from settlement of derivatives		—	(6,184)	—
Proceeds from issue of share capital		—	—	29
Issuance of ordinary shares, net		—	292,975	193,000
Dividend distributed	12	(19,845)	(13,475)	—
Loans received from related parties		—	—	2,870
Loans received from related parties (issuance of capital note)		—	—	111,250
Net cash from financing activities		346,295	265,887	578,989
Change in cash and cash equivalents during the year		(61,891)	113,976	59,783
Cash and cash equivalents at the beginning of the year		183,421	69,445	9,662
Cash and cash equivalents at the end of the year		121,530	183,421	69,445

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2017	55	499,520	(2,312)	336,184	628,498	1,461,945	24,559	1,486,504
Total comprehensive income for the year								
Profit for the year	—	—	—	—	355,970	355,970	11,542	367,512
Other comprehensive income for the year, net of tax	—	—	1,276	—	—	1,276	2	1,278
Total comprehensive income for the year	—	—	1,276	—	355,970	357,246	11,544	368,790
Transactions with owners, recognized directly in equity								
Changes in put option (see note 11)	—	—	—	(4,520)	—	(4,520)	—	(4,520)
Dividend distributed (see note 12)	—	(913)	—	—	(18,932)	(19,845)	—	(19,845)
Share-based payment (see note 20)	—	—	—	10	554	564	—	564
Balance at December 31, 2017	55	498,607	(1,036)	331,674	966,090	1,795,390	36,103	1,831,493

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2016	—	206,600	(7,100)	339,277	246,739	785,516	8,913	794,429
Total comprehensive income for the year								
Profit for the year	—	—	—	—	395,150	395,150	15,618	410,768
Other comprehensive income for the year, net of tax	—	—	4,788	—	—	4,788	28	4,816
Total comprehensive income for the year	—	—	4,788	—	395,150	399,938	15,646	415,584
Transactions with owners, recognized directly in equity								
Issuance of ordinary shares, net	55	292,920	—	—	—	292,975	—	292,975
Changes in put option (see note 11)	—	—	—	(3,146)	—	(3,146)	—	(3,146)
Dividend distributed	—	—	—	—	(13,475)	(13,475)	—	(13,475)
Share-based payment (see note 20)	—	—	—	53	84	137	—	137
Balance at December 31, 2016	55	499,520	(2,312)	336,184	628,498	1,461,945	24,559	1,486,504

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands EUR)

	Share capital	Share premium	Hedging reserves	Capital reserve from transactions with controlling shareholder	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2015	2	13,569	(9,267)	27,350	98,326	129,980	1,091	131,071
Total comprehensive income for the year								
Profit for the year	—	—	—	—	148,192	148,192	7,815	156,007
Other comprehensive loss for the year, net of tax	—	—	2,167	—	—	2,167	7	2,174
Total comprehensive income for the years	—	—	2,167	—	148,192	150,359	7,822	158,181
Transactions with owners, recognized directly in equity								
Contribution from shareholders, net of tax	—	—	—	11,339	—	11,339	—	11,339
Increase of share premium	—	29	—	—	—	29	—	29
Stock split	(2)	2	—	—	—	—	—	—
Issuance of ordinary shares, net	—	193,000	—	—	—	193,000	—	193,000
Conversion of shareholder loans to equity	—	—	—	300,460	—	300,460	—	300,460
Share-based payment (see note 20)	—	—	—	128	221	349	—	349
Balance at December 31, 2015	—	206,600	(7,100)	339,277	246,739	785,516	8,913	794,429

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – ADO Properties S.A.

ADO Properties S.A. (the “Company”) was incorporated as a private limited liability company in Cyprus and until June 8, 2015, its legal name was “Swallowbird Trading & Investments Limited”. The Company holds and operates a mainly residential assets portfolio and sells units as a separate condominium in Berlin, Germany.

The Company deleted its registration in Cyprus and moved its registered office and central administration to Luxembourg by decision of the general meeting of shareholders dated June 8, 2015 and adopted the form of a private limited liability company (société à responsabilité limitée) under Luxembourg law. The Company was then converted to a public limited liability company (société anonyme) under Luxembourg law by decision of the general meeting of shareholders dated June 16, 2015 and changed its name to “ADO Properties S.A.” (B-197554). The address of the Company’s registered office is Aerogolf Center, 1B Heienhaff, L-1736 Senningerberg, Luxembourg.

On July 23, 2015 the Company completed an initial public offering (“IPO”) and its shares are traded on the regulated market (Prime Standard) of Frankfurt Stock Exchange.

The Company is a directly held subsidiary of ADO Group Ltd (“ADO Group”), an Israeli company traded on the Tel Aviv Stock Exchange.

The consolidated financial statements of the Company as at December 31, 2017 and for the year then ended comprise the Company and its subsidiaries (together referred to as the “Group”).

Note 2 – Basis of Preparation

A. Statement of compliance

The consolidated financial statements as at and for the year ended December 31, 2017, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

The consolidated financial statements were authorized for issue by the board of directors on March 19, 2018.

B. Functional and presentation currency

These consolidated financial statements are presented in Euro, which is the Group’s functional currency. All financial information presented in Euro (“EUR”) has been rounded to the nearest thousand, unless otherwise indicated. Due to rounding, the figures reported in tables and cross-references may deviate from their exact values as calculated.

C. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except, in particular, investment properties, other financial asset, other financial liabilities and derivatives, which are measured at fair value.

D. Operating cycle

The Group has two operating cycles:

- Holding and operating residential and commercial units: the operating cycle is one year.
- Selling of units as a separate condominium: the operating cycle is up to three years.

As a result, current assets and current liabilities also include items the realization of which is intended and anticipated to take place within the operating cycle of these operations of up to three years.

E. Use of estimates, judgments and fair value measurement

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments and use of estimates

Information about judgments, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 16 – Uncertain tax positions (judgments)
The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience. New information may become available that causes the Group to change its judgment, resulting in recognition of additional income tax expense in the period that such a change in judgment occurs.
- Note 16 – Regarding the utilization of losses carried forward (estimations)
Deferred tax assets are recognized in respect of tax losses carried forward when there is a high probability that in the future there will be taxable profits against which carried forward losses can be utilized. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its estimation regarding the utilization of existing tax assets; any such changes to deferred tax assets will impact tax income/expense in the period that such a change in estimate occurs.
- Note 5 – Regarding fair value measurement of investment properties (estimations)
The fair value of investment properties as at December 31, 2017 was assessed by CBRE, an industry specialist that has appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. The valuation includes assumptions regarding rent, vacancies, maintenance costs and discount rate. These assumptions are subject to uncertainties that may lead to either positive or negative value adjustments in the future, impacting the profit or loss from changes in fair value of investment properties in the period that such a change in estimations occurs.
- Note 23 – Regarding measurement of derivatives at fair value (estimation)
Derivative valuations are calculated by the financing bank and checked by management. The risk that derivatives will not be appropriately valued exists, since the Group needs to make judgments about the estimation of the credit risk used by the lending bank and about whether the bank used the appropriate market observation for the other variables. New information may become available that causes the Group to change its estimation, impacting the profit or loss from changes in fair value of derivatives in the period that such a change in estimations occurs.

Determination of fair values

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 5, investment properties; and
- Note 23, financial instruments

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Note 2 – Basis of Preparation (continued)

E. Use of estimates, judgments and fair value measurement (continued)

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

F. Changes in accounting policies

- Amendment to IAS 7, Statement of Cash Flows

According to the Amendment, an entity is required to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. These disclosures are to be provided with respect to the following changes in liabilities arising from financing activities; changes from financing cash flows: changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes. The new disclosure requirements were included in Note 23 regarding Financial Instruments.

G. Change in classification

The Group performed immaterial classifications in the comparative figures in order to align the classification in the comparative figures to the figures of the year ended December 31, 2017.

Note 3 – Basis of Consolidation

A. Consolidation methods

The consolidated financial statements comprise the Company and the subsidiaries it controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In addition to the Company, 195 subsidiaries (2016: 156) have been included in these consolidated financial statements.

When buying a company holding real estate assets (“Property Company”), the Group exercises judgment to determine whether it is the purchase of a business or a group of assets and liabilities, for the purpose of determining the accounting treatment of the transaction. In determining whether a Property Company is a business, the Group examines, inter alia, the nature of existing processes in the Property Company, including the extent and nature of management, security, cleaning and maintenance services provided to tenants. In transactions in which the acquired company is a business, the transaction is accounted for as a business combination according to IFRS 3.

However, in transactions in which the acquired Property Company is not a business, the acquisition cost, including transaction costs, is allocated in proportion to the identified assets and liabilities acquired, based on their relative fair values at the acquisition date. In this case, neither goodwill nor deferred taxes on the temporary difference existing at the date of acquisition are recognized.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the Company. Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests.

A put option granted by the Group to non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price. In subsequent periods, changes in the value of the liability and dividends distributed to non-controlling interests in respect of put options are recognized in equity. The Group’s share of a subsidiary’s profits includes the share of the non-controlling interests to which the Group granted a put option, also when the non-controlling interests have access to the returns arising from the interests in the investee company.

Note 3 – Basis of Consolidation (continued)

B. Scope of consolidation

- (1) During the first quarter of 2017, the Group carried out two separate transactions to take over 94% and 94.9%, respectively, of the issued shares of two German entities holding one condominium building and one residential building located in Berlin, Germany. The total consideration amounted to EUR 11.6 million (including approximately 2% transaction costs). The buildings include 86 residential units and 4 commercial units with a total leasable area of approximately 5.5 thousand sqm.

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3, Business combinations, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	<u>thousands EUR</u>
Cash and cash equivalents	349
Restricted bank deposits	32
Trade and other receivables	80
Trading properties	6,696
Investment properties (*)	5,115
Trade and other payables	(410)
Other financial liabilities (**)	<u>(267)</u>
Total consideration	11,595
Consideration already paid in 2016	(6,419)
Consideration to be paid after the reporting period (***)	(41)
Less cash acquired	<u>(349)</u>
Net cash flow from the acquisition of subsidiaries	<u>4,786</u>

(*) The fair value of the investment properties as at the takeover date was EUR 4,900 thousand, therefore acquisition costs of approximately EUR 0.2 million were recognized under changes in fair value of investment properties in the consolidated statement of profit or loss.

(**) Other financial liabilities refer to a put option granted to the non-controlling interests (see note 11).

(***) Consideration to be paid refers to transaction costs invoiced after the reporting period.

- (2) During the second quarter of 2017, the Group took over 94.9% of the issued shares of a German entity holding 10 residential buildings located in Berlin, Germany. The total consideration amounted to EUR 75.5 million (including approximately 3% transaction costs). The buildings include 298 residential units and 30 commercial units with a total leasable area of approximately 27.4 thousand sqm.

Note 3 – Basis of Consolidation (continued)

B. Scope of consolidation (continued)

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3, Business combinations, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	<u>thousands EUR</u>
Cash and cash equivalents	40
Restricted bank deposits	562
Trade and other receivables	105
Investment properties (*)	77,887
Trade and other payables	(514)
Other financial liabilities (**)	<u>(2,557)</u>
Total consideration	75,523
Consideration to be paid after the reporting period (***)	(229)
Less cash acquired	<u>(40)</u>
Net cash flow from the acquisition of subsidiaries	<u>75,254</u>

(*) The fair value of the investment properties as at the takeover date was EUR 75,900 thousand, therefore acquisition costs of approximately EUR 2 million were recognized under changes in fair value of investment properties in the consolidated statement of profit or loss.

(**) Other financial liabilities refer to a put option granted to the non-controlling interests (see note 11).

(***) Consideration to be paid refers to transaction costs invoiced after the reporting period.

- (3) During the third quarter of 2017, the Group carried out six separate transactions to take over 94%-94.9% of the issued shares of 15 German entities holding 20 residential buildings and one commercial building located in Berlin, Germany. The total consideration amounted to EUR 86.8 million (including approximately 3.3% transaction costs). The buildings include 524 residential units and 63 commercial units with a total leasable area of approximately 44.4 thousand sqm.

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3, Business combinations, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	<u>thousands EUR</u>
Cash and cash equivalents	644
Restricted bank deposits	88
Trade and other receivables	278
Property and equipment	292
Advances in respect of investment properties	450
Investment properties (*)	115,028
Trade and other payables	(1,400)
Bank loans (**)	(25,594)
Other financial liabilities (***)	<u>(2,924)</u>
Total consideration	86,862
Consideration to be paid after the reporting period (****)	(677)
Less cash acquired	<u>(644)</u>
Net cash flow from the acquisition of subsidiaries	<u>85,541</u>

(*) The fair value of the investment properties as at the takeover date was EUR 111,150 thousand. Acquisition costs of approximately EUR 3.8 million were recognized under changes in fair value of investment properties in the consolidated statement of profit or loss.

Note 3 – Basis of Consolidation (continued)

B. Scope of consolidation (continued)

(**) The bank loans were repaid during the period, consequently, an amount of EUR 2.5 million was recognized as one-off refinance costs in the consolidated statement of profit or loss.

(***) Other financial liabilities refer to a put option granted to the non-controlling interests (see note 11).

(****) Consideration to be paid refers to transaction costs invoiced after the reporting period.

- (4) During the fourth quarter of 2017, the Group carried out two separate transactions to take over 94.9% of the issued shares of 18 German entities holding 21 residential buildings and one condominium building located in Berlin, Germany. The total consideration amounted to EUR 116.1 million (including approximately 3.6% transaction costs). The buildings include 1,325 residential units and 62 commercial units with a total leasable area of approximately 102 thousand sqm.

The purchase of the entities was treated as a purchase of a group of assets and liabilities and not as a business combination based on IFRS 3, Business combinations, mainly since the Group's view was to purchase a portfolio of assets and not to acquire activities, processes and previous management. Therefore, the total purchase costs were allocated to the assets and liabilities based on their relative fair values at the purchase date without the recognition of goodwill and deferred tax as follows:

	<u>thousands EUR</u>
Cash and cash equivalents	612
Restricted bank deposits	189
Trade and other receivables	221
Trading properties	5,647
Investment properties (*)	213,509
Trade and other payables	(1,229)
Bank loans	(100,115)
Derivatives	(18)
Other financial liabilities (**)	(2,722)
Total consideration	116,094
Consideration to be paid after the reporting period (***)	(521)
Less cash acquired	(612)
Net cash flow from the acquisition of subsidiaries	<u>114,961</u>

(*) The fair value of the investment properties as at the takeover date was EUR 205,840 thousand. Acquisition costs of approximately EUR 7.7 million were recognized under changes in fair value of investment properties in the consolidated statement of profit or loss.

(**) Other financial liabilities refer to a put option granted to the non-controlling interests (see note 11).

(***) Consideration to be paid refers to transaction costs invoiced after the reporting period.

Note 4 – Significant Accounting Policies

A. Investment properties

Investment property is property held to earn rental income or for capital appreciation or both and is not owner-occupied or held for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs. In subsequent periods, investment property is measured at fair value, and changes in fair value are recognized in the statement of profit and loss.

Profits or losses on the disposal of investment property are determined by comparing the net proceeds from the disposal with the asset's carrying amount (the fair value of the investment property as of the disposal date). The profit or loss on the disposal of investment properties is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts to complete under the contract.

In certain circumstances the Group decides to change the use of existing buildings that are rented out and classified as investment property into trading properties; the Group then begins the process of converting such buildings. When the conversion is completed, the necessary approvals are received and the marketing of the apartments begins, the aforesaid buildings are reclassified from investment properties to trading properties. The cost of trading properties is determined according to the fair value at the time of the change in use.

Note 4 – Significant Accounting Policies (continued)

A. Investment properties (continued)

The Group presents advances in respect of investment properties as non-current assets and does not include them as part of the investment properties. In subsequent periods, when the transactions are completed, the advances are reclassified to investment properties.

B. Trading properties

Trading properties are measured at the lower of cost and net realizable value. The cost of the trading properties includes the costs incurred in acquiring the trading properties and bringing them to their existing location and condition. The net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

C. Restricted bank deposits

Restricted bank deposits consist of deposits in banks that the Group has pledged to secure banking facilities, deposits received from tenants, and restricted proceeds from condominium sales. The Group cannot use these deposits freely for operations.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits in banks and short-term investments with an original term of up to three months.

E. Financial instruments

(1) Non-derivative financial assets

The Group's non-derivative financial assets are loans and receivables. The Group initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and restricted bank deposits.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include bonds, loans and borrowings from banks and others, trade and other payables.

The Group initially recognizes financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Note 4 – Significant Accounting Policies (continued)

E. Financial instruments (continued)

An exchange of debt instruments having substantially different terms between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms (including any commissions paid, less any commissions received and discounted using the original effective interest rate) is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability. In addition to the aforesaid quantitative criterion, the Group also examines qualitative factors, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

(3) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or recognized in profit or loss as finance expense if the issuance is no longer expected to take place.

(4) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments mainly to hedge its interest rate risk exposures from variable interest rate bank loans to a fixed interest rate. On initial designation of the derivative instruments for hedge accounting the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity.

The amount recognized in the other comprehensive income is transferred to profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit or loss as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in the hedging reserve is reclassified to profit or loss.

Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss. Other derivatives include other financial liabilities and other financial asset.

Note 4 – Significant Accounting Policies (continued)

F. Impairment

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, trading property and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost the reversal is recognized in profit or loss.

G. Transactions with controlling shareholder

Transactions with shareholders in their capacity as shareholders are considered as capital transactions and are recognized directly in equity. Loans received from the controlling shareholder bearing interest rate below market rate are considered to be capital transactions with the shareholder. The difference between the fair value of the loan and the amount received at initial recognition is recognized directly in equity in capital reserve from transactions with controlling shareholder.

When a shareholder forgives a debt while acting in its capacity as a shareholder, the Group considers it to be a capital transaction. The outstanding financial liability is reclassified to equity and no gain or loss is recognized.

H. Provisions

Provisions are recognized when the Group has a present, legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that it will require an outflow of resources embodying economic benefits to settle the obligation.

The Group recognizes indemnification as an asset if, and only if, it is virtually certain that the indemnification will be received if the Group will settle the obligation. The amount recognized for the indemnification does not exceed the amount of the provision.

I. Employee benefits

Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Note 4 – Significant Accounting Policies (continued)

I. Employee benefits (continued)

Share-based payment arrangements in which equity instruments are granted by the parent company to the employees of the Group are recognized in the reserve from transactions with controlling shareholder. Share-based payment arrangements in which the Company's equity instruments are granted are recognized in the retained earnings.

J. Revenue recognition

Rental income from operating leases of investment property is recognized in the profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income. In respect of utilities services, the Group recognizes the income amount net of costs recharged to the tenants.

Revenue from the sale of trading property is measured at the fair value of the consideration. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the trading property, and the amount of the revenue can be measured reliably.

Other revenues, including management services fee and third party's asset management income, are recognized in the accounting period in which the services are rendered, and are measured at the fair value of the consideration received or receivable for services provided in the normal course of business.

K. Finance income and costs

Finance income comprises interest income on funds invested including changes in the fair value of financial assets or liabilities at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets or liabilities at fair value through profit or loss, impairment losses recognized on financial assets, losses from refinance and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows from financing activities.

L. Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years and any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability is not recognized for the following taxable temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- Differences relating to investments in subsidiaries, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the

Note 4 – Significant Accounting Policies (continued)

L. Taxation (continued)

carrying amount of the investment property will be recovered through sale. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is recognized in other comprehensive income or equity, respectively.

M. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise options granted to employees.

N. New standards and interpretations not yet adopted

- IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a comprehensive framework for determining whether revenue should be recognized and when and at what amount.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Group examined the effects of applying IFRS 15, and in its opinion the effect on the financial statements will be immaterial.

- IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) replaces the current guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets (debt or equity instruments), and new guidance and requirements with respect to hedge accounting.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted.

The Group examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

- IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases and its related interpretations. For lessees, the standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15, Revenue from Contracts with Customers.

The Group started to examine the effects of adopting IFRS 16 on the financial statements, and in its opinion the effect on the financial statements will be immaterial.

Note 4 – Significant Accounting Policies (continued)

N. New standards and interpretations not yet adopted (continued)

- Amendment to IAS 40, *Investment Property: Transfers of Investment Property*

The amendment clarifies that an entity shall transfer property into, or out of, investment property only when there is evidence of a change in use. Change in use occurs when the property meets, or ceases to meet, the definition of investment property. The amendment clarifies that a change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment also states that the list of evidence of change in use that is included in paragraph 57 of IAS 40 is a non-exhaustive list of examples.

The amendment is applicable for annual periods beginning on or after January 1, 2018.

The Group has examined the effects of applying the amendment to IAS 40, and in its opinion the effect on the financial statements will be immaterial.

Note 5 – Investment Properties

A. Reconciliation of carrying amount

	December 31,	
	2017	2016
	Thousands EUR	Thousands EUR
Balance at January 1	2,278,935	1,456,804
Additions by way of acquiring subsidiaries (see note 3B)	411,539	272,132
Additions by way of acquiring assets (see note 5A(1))	169,895	98,285
Capital expenditure	31,021	25,351
Disposals	—	(1,015)
Transfer from investment properties to trading properties (see note 5A(2))	(3,730)	(16,890)
Fair value adjustments	383,638	444,268
Balance at December 31	<u>3,271,298</u>	<u>2,278,935</u>

As of December 31, 2017, the closing balance of investment properties consisted of 20,421 (2016: 17,701) residential units with a total residential lettable area of 1,343,786 (2016: 1,153,840) sqm, 1,309 (2016: 999) commercial units (retail, office and other commercial) with a total commercial lettable area of 149,748 (2016: 107,816) sqm and 5,464 (2016: 3,839) parking spaces and spaces for storage, antennas, etc., all in Berlin.

According to German law, residential rental contracts are unlimited in their duration/period. The tenants have the sole right to terminate the contract with 3 months' notice in writing. According to German law, the owner can terminate the residential contract only if the owner has a "justified cause" such as if the tenant is in default for more than 2 months' rent. Termination/cancellation of the contract must be in writing. Contracts are denominated in EUR. Tenants are required to make rental deposits generally equal to 3 months' "cold" rent at the inception of any lease contract, and pay in advance rent, facility management and utilities and heating prepayments for a 1 month period. The right to increase the rent is defined in the contract (e.g. stepped rent) and it is subject to German law. Rent prices are set according to the market prices or upon a given price index ("rent mirror") which exists in Berlin, Germany.

The rent increase is restricted by the law and can only be increased if several parameters are being met. The main two are: the existing rent price is below the rent mirror for the specific area where the apartment is located and the rent has remained unchanged for fifteen months and that no rent increase over 20% (capping limit) was made in the course of the last three years; the capping limit is 15% in areas where the adequate supply of rented dwellings is at risk and these areas are determined by means of a legal ordinance, like e.g. in Berlin.

In addition, a rent control law passed by parliament in June 2015 aims to prevent landlords in areas with stressed housing markets, e.g. the German capital from raising rents for new tenants by more than 10% above the local average ("rent mirror"). Furthermore, the last rent paid can also be used for the new contract and therefore the owner can use the higher of the two in practice. In cases of extensive modernization works (similar to new build standards) in the unit prior being newly rented out, the landlord is exempt from

Note 5 – Investment Properties (continued)

A. Reconciliation of carrying amount (continued)

handling under the rent control law and can rent the unit for market price without being capped by the legislation.

Some of the residential buildings include commercial units on the ground floor. Lease renewals are negotiated with the lessee. Tenants are required to make rental deposits generally equal to 3 months' rent at the inception of any lease contract.

As at December 31, 2017, approximately 10.6% of the investment properties were subject to rent restrictions ("Cost Rent"), and 19% of them were released from restrictions as of January 1, 2018 (based on the number of units).

- (1) During the reporting period the Group took over a total of 816 residential units and 145 commercial units in Berlin as part of asset acquisitions.
- (2) During the reporting period the Group reclassified 1 building from investment properties to trading properties in a total amount of EUR 3,730 thousand, representing its fair value for the reclassification date.

B. Measurement of fair value

(1) Fair value hierarchy

The fair value of investment properties was determined by valuation expert CBRE, an industry specialist that has appropriate and recognized professional qualifications and up-to-date experience regarding the location and category of the properties. According to the Group's fair value valuation policies for investment properties, investment properties generally undergo a detailed valuation as at June 30 and December 31 of each year.

The fair value measurement for all of the investment properties has been categorized as a level 3 fair value due to prevailing use of unobservable inputs to the adopted valuation method.

(2) Valuation technique and significant unobservable inputs

The Group values its portfolio using the discounted cash flow method (DCF). Under the DCF methodology the expected future income and costs of the property are forecasted over a period of 10 years and discounted to the date of valuation. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account.

The following table gives an overview of the main valuation parameters and valuation results:

	December 31, 2017					Total
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	
Fair value (EUR thousand)	1,249,758	408,910	432,550	240,300	939,780	3,271,298
Value per sqm (EUR)	2,669	2,355	2,171	2,378	1,699	2,187
Average residential in-place rent (EUR/sqm)	6.92	6.64	6.85	7.09	5.72	6.42
CBRE market rent (EUR/sqm)	8.81	8.54	7.52	8.40	6.61	7.71
Avg. new letting rent (EUR/sqm)	11.18	9.83	9.95	8.58	6.82	9.04
Multiplier (current rent)	31.18	29.42	26.07	27.33	24.71	27.87
Multiplier (CBRE market rent)	24.57	22.98	23.25	22.85	20.99	22.95
Multiplier (new letting rent)	19.36	19.98	17.56	22.36	20.34	19.57
Discount rate (%)	4.81%	4.97%	4.86%	5.00%	5.20%	4.96%
Capitalization interest rate (%)	2.86%	3.02%	3.00%	3.02%	3.26%	3.02%

Note 5 – Investment Properties (continued)

B. Measurement of fair value (continued)

	December 31, 2016					
	Central	S-Bahn ring	S-Bahn ring (1960-1990)	City ring	City ring (1960-1990)	Total
Fair value (EUR thousand)	875,895	266,440	338,980	147,490	650,130	2,278,935
Value per sqm (EUR)	2,253	2,023	1,810	2,127	1,377	1,824
Average residential in-place rent (EUR/sqm)	6.52	6.35	6.56	6.72	5.45	6.09
CBRE market rent (EUR/sqm)	7.80	7.64	6.99	7.76	6.13	6.98
Avg. new letting rent (EUR/sqm)	11.04	9.65	8.92	7.97	6.35	7.91
Multiplier (current rent)	27.45	26.04	22.82	24.77	21.20	24.34
Multiplier (CBRE market rent)	23.12	22.00	20.88	21.84	18.35	21.02
Multiplier (new letting rent)	16.34	17.43	16.37	21.01	17.73	18.55
Discount rate (%)	4.48%	4.63%	4.69%	4.77%	5.16%	4.74%
Capitalization interest rate (%)	3.02%	3.17%	3.29%	3.29%	3.68%	3.28%

(3) Sensitivity analysis

The main value drivers influenced by the market are the market rents and their movement, rent increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter in the following table. Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships:

December 31, 2017			
Valuation parameters	Change in parameters	Change in values	
		thousands EUR	%
Average new letting rent (EUR/sqm)	+10%	316,999	9.5%
Vacancy rate (%)	+1%	(38,261)	(1.2%)
Discount and Capitalization rate (%)	25bp	(261,270)	(7.9%)

December 31, 2016			
Valuation parameters	Change in parameters	Change in values	
		thousands EUR	%
Average new letting rent (EUR/sqm)	+10%	245,038	10.5%
Vacancy rate (%)	+1%	(27,821)	(1.2%)
Discount and Capitalization rate (%)	25bp	(169,770)	(7.3%)

Assuming all other variables remain constant, a negative change in the parameters at the same percentage would have a similar impact on the value, although in the opposite direction.

C. Amounts that were recognized in the consolidated statement of profit or loss

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Rental income from investment property	103,300	84,673	61,732
Direct operating expenses arising from investment property that generated rental income during the period	(15,551)	(11,790) *	(7,014) *
Total	87,749	72,883	54,718

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

Note 6 – Trading Properties

During the reporting period the Group completed the sale of 84 condominium units for a total consideration of EUR 19,671 thousand (2016: 109 units for EUR 19,965 thousand).

During the period, the Group acquired two new condominium buildings with 70 residential units and 2 commercial units in Berlin at a total cost of EUR 12.3 million. See note 3B for more information regarding newly acquired trading properties during the period.

Note 6 – Trading Properties (continued)

During the reporting period, the Group reclassified 1 building from investment properties to trading properties for a total amount of EUR 3,730 thousand, representing its fair value for the reclassification date (see note 5A(2)).

Note 7 – Restricted Bank Deposits

As at December 31, 2017 and December 31, 2016, the short-term restricted bank deposits are denominated in Euro and they carry no interest.

The balance as at December 31, 2017 includes EUR 21,503 thousand of pledged bank deposits received from tenants (December 31, 2016: EUR 16,188 thousand), EUR 2,310 thousand pledged to secure banking facilities (December 31, 2016: EUR 10,123 thousand) and EUR 539 thousand of restricted proceeds from condominium sales (December 31, 2016: EUR 1,896 thousand).

Note 8 – Trade Receivables

A. The balances represent amounts receivable from leases of residential and commercial units less any allowance for doubtful debts. The breakdown of trade receivables is as follows:

	December 31,					
	2017			2016		
	Gross	Impairment	Total	Gross	Impairment	Total
	thousands EUR					
Not past due	5,138	—	5,138	3,787	—	3,787
0-30 days past due	1,206	(128)	1,078	1,091	(235)	856
31-180 days past due	3,718	(908)	2,810	2,649	(899)	1,750
180 days to one year past due	1,905	(1,211)	694	1,470	(1,298)	172
More than one year past due	4,672	(4,068)	604	2,627	(2,588)	39
Total	<u>16,639</u>	<u>(6,315)</u>	<u>10,324</u>	<u>11,624</u>	<u>(5,020)</u>	<u>6,604</u>

Trade accounts receivables are non-interest bearing and are generally on 30 days' terms.

B. Impairment losses on trade receivables changed as follows:

	2017	2016
	thousands EUR	thousands EUR
Balance as at January 1	(5,020)	(3,049)
Additions	(2,928)	(2,383)
Additions by way of acquiring subsidiaries	(239)	(404)
Reversals	1,204	585
Write off of irrecoverable debts	668	231
Balance as at December 31	<u>(6,315)</u>	<u>(5,020)</u>

Note 9 – Other Receivables

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Advance to suppliers	745	159
Prepaid expenses	260	303
VAT	638	545
Others (*)	3,588	370
Total	<u>5,231</u>	<u>1,377</u>

(*) Others mainly include receivables from the previous owner of entities acquired during 2017 in the amount of EUR 3.4 million, due to purchase price adjustments. The outstanding balance was settled after the reporting period.

Note 10 – Cash and Cash Equivalents

As at December 31, 2017 and December 31, 2016 cash and cash equivalents include cash on hand and demand deposits denominated in Euro and free from any restrictions.

Note 11 – Other Financial Liabilities

In relation to purchase agreements of 94%-94.9% of the shares of German property holding companies, the Company entered into an agreement with ADO Group to purchase the remaining 5.1%-6% of the shares of the German property holding companies.

As part of the agreement, it was decided that upon the completion of a period of ten years following the closing of the transaction, ADO Group shall have the right to sell its interest to the Company for the higher of: (i) the fair value of the shares; and (ii) the amount paid by ADO Group to purchase its interest, less any dividends distributed to ADO Group by the property companies during the 10-year period.

Based on profit transfer agreements ADO Group is entitled to an annual compensation fee in respect of its interest in the German property holding companies.

The Company recognized the above put option and compensation fee as a financial liability measured at fair value at each reporting date, whereas the changes in the fair value are recognized in equity. In respect of the put option and the compensation fee the following balances are included in the consolidated statement of financial position:

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Current liabilities		
Compensation fee	867	414 (*)
Non-current liabilities		
Compensation fee	772	619 (*)
Put option	26,466	14,104 (*)
Total	28,105	15,137

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

Note 12 – Equity

A. Share capital and share premium

	Ordinary shares (in thousands of shares)	
	2017	2016
In issue as at January 1	44,100	35,000
Issued for cash	—	9,100
In issue as at December 31	44,100	44,100

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at the General Meetings of the Company. All shares rank equally with regard to the Company's residual assets.

A dividend in the amount of EUR 19.8 million (EUR 0.45 per share) was paid based on a decision of the Annual General Meeting which took place on May 2, 2017. The record date was May 3, 2017.

B. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of the related deferred tax.

C. Capital reserve from transactions with controlling shareholder

The capital reserve from transactions with controlling shareholder comprises the differences between the fair value and the consideration received/paid in relation to transactions with controlling shareholder. The

Note 12 – Equity (continued)

C. Capital reserve from transactions with controlling shareholder (continued)

main change in the capital reserve from transactions with controlling shareholder is driven by share-based payment to ADO Group's shares (see note 20) and change in put option of ADO Group (see note 11).

Note 13 – Bonds

On July 20, 2017 the Company placed unsecured, fixed-rate corporate bonds with a total nominal amount of EUR 400 million with institutional investors. The bonds carry an interest rate of 1.5% (effective interest rate of 1.64%) per annum and mature on July 26, 2024. The gross proceeds resulting from the transaction amounted to EUR 398.6 million with an issue price of 99.651%. The net proceeds of the bond will mainly be used to fund future acquisitions.

The Company undertakes not to incur any financial indebtedness after the issue date of the bond, and will also procure that its subsidiaries will not incur any financial indebtedness, after the issue date of the bond (except for refinancing existing financial indebtedness), if immediately after giving effect to the incurrence of such additional financial indebtedness (taking into account the application of the net proceeds of such incurrence), the following tests would not be met: (i) Loan-to-Value Ratio (LTV) \leq 60%; (ii) Secured Loan-to-Value Ratio \leq 45%; (iii) Unencumbered Asset Ratio \geq 125%; and (iv) Interest Coverage Ratio (ICR) \geq 1.8.

As at December 31, 2017, the Company is fully compliant with all covenant requirements.

Note 14 – Other Loans and Borrowings

	December 31, 2017		December 31, 2016	
	Non-current	Current	Non-current	Current
	Thousands EUR			
Loans from banks	932,345	72,768	856,662	27,388
Other creditors	21,610	—	20,664	—
Total	953,955	72,768	877,326	27,388

- A. All the loans were borrowed in order to finance the purchase of the properties in Berlin.
- B. All bank loans are non-recourse with the related assets (investment properties and trading properties) as their only security which is valued higher than the related loans on an asset basis. Other creditors relate to one loan from Harel Insurance Company Ltd to finance its holding in a common transaction with the Company.
- C. Re-pricing on the variable interest loans is done on a quarterly basis. As at December 31, 2017 other loans and borrowings carry an average effective interest rate (i.e. considering the swap interest hedge deals from variable to fixed) of 1.9% per annum (as at December 31, 2016: 2.1%). The average maturity of other loans and borrowings is 5 years (as at December 31, 2016: 5.3 years).
- D. Bank loans in an amount of EUR 125.7 million were taken over as part of the new acquisitions. Part of them, in the amount of EUR 25.6 million, was already repaid during the period (see note 3B(3)). As at December 31, 2017 the remaining bank loans carry an average market effective interest rate (i.e. considering the swap interest hedge deals from variable to fixed) of 1.7% per annum and their average maturity is 8.24 years.
- E. On June 30, 2017 the Group received a bank loan in an amount of EUR 90 million for the purpose of refinancing an old bank loan that was taken over as part of an acquisition of the issued shares of a Luxembourg entity in 2016. The existing bank loan amounted to EUR 59.8 million (with a book value of EUR 65.6 million), and carried an annual fixed interest rate of 3.98% per annum. The new loan carries an annual fixed interest rate of 1.25% per annum for a 7-year term. The refinance was accounted for as a substantial modification of the terms of debt instruments, i.e. treated as an extinguishment of the original loan. Consequently, an amount of EUR 4.2 million was recognized as one-off refinance costs in profit or loss.
- F. On September 13, 2017, the Group received a bank loan in an amount of EUR 17.5 million and on November 7, 2017 an additional amount of EUR 7.8 million to finance existing assets. The new loan carries an annual fixed interest rate of 1.49% per annum for a 7-year term. As part of the same

Note 14 – Other Loans and Borrowings (continued)

agreement, an additional amount of EUR 7.7 million is expected to be drawn down during the first quarter of 2018.

- G. At the end of December 2017, under the existing loan agreements, the Group is fully compliant with its obligations including loan covenants to the financing banks.

Note 15 – Other Payables

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Accrued expenses	2,799	2,755
Accrued interest payable	3,488	835
Tenants' deposits	21,513	16,188
Parent company (ADO Group) (see note 26)	42	16
Deferred income	1,896	1,429
Corporate tax	2,197	930
VAT	2,171	1,934
Other	1,370	1,137
Total	<u>35,476</u>	<u>25,224</u>

Note 16 – Taxes

A. The main tax laws imposed on the Group companies in their countries of residence:

(1) Germany

- The standard rate of corporation tax for both residents and non-residents is 15%. A 'solidarity surcharge' is also levied resulting in an effective rate of 15.825% which applies to companies which hold German property regardless of their residence. Dividends received from another company are 95% tax exempt when the investment in the other company is at least 10% at the beginning of the calendar year or the investment was increased by 10% during the year.
- No tax is withheld on rental payments to non-resident companies holding German property.
- Capital gains on the sale of German property are subject to corporation tax at the standard rate for both residents and non-residents. Trade tax is also applicable at the relevant rate, except for non-residents with no permanent establishment in Germany or limited companies that only hold assets for capital investments as long as the sale of the asset is classified as part of that business (detailed regulations apply). Capital gains realized by a company on the sale of shares in a property holding company are 95% exempt.
- German real estate owned at the start of the calendar year is subject to annual property tax at 0.2% to 3.4% (depending on the location of the property, 2.8% for Berlin) on the specially assessed value of the property (dependent on the rental value and age of the property). The tax payable is a deductible expense for profit tax purposes such as trade tax and corporation tax.
- The transfer of German real estate or a share transaction that unifies at least 95% of the shares of a company holding a real estate property is subject to a real estate transfer tax (RETT) which is payable by the buyer on the purchase price (on transfer of the property) or a specially assessed value as above (on transfer of shares). The tax rate varies between 3.5% and 6.5%, depending on the municipality where the property is located. In Berlin the tax rate is 6%.
- Limitation on the tax deductibility of interest expenses, and simultaneous repeal of the existing thin-capitalization rules. The "interest barrier rule" allows the deduction of net interest expenses exceeding EUR 3 million p.a. only to the extent that total net interest expenses do not exceed 30% of the EBITDA, unless the total net interest does not exceed EUR 3 million p.a. or other exemption criteria are met. The net interest expenses which are not deductible can be carried forward.
- Accumulated tax losses can be carried forward without time restriction and can be deducted from future profits and capital gains unless they exceed EUR 1 million. Losses carried forward that exceed

Note 16 – Taxes (continued)

A. The main tax laws imposed on the Group companies in their countries of residence: (continued)

EUR 1 million can only be deducted to the amount of 60% of the profits / capital gains that exceed EUR 1 million (minimum taxation). Those parts that cannot be deducted on the basis of the minimum taxation can be carried forward again and are subject to minimum taxation in the following years.

The corporation tax rate used to calculate deferred tax assets and deferred tax liabilities as at December 31, 2017 and as at December 31, 2016 is 15.825% for the companies which hold the investment properties real estate assets and 30.18% for the management companies that operate the real estate in Berlin.

(2) Luxembourg

- The Company is liable for Luxembourg corporation taxes. The aggregate maximum applicable rate, including corporate income tax, municipal business tax and a contribution to the employment fund, is 27.08% for the fiscal year ending 2017 for a company established in Luxembourg City.
- The Company is fully subject to the annual net wealth tax charge which amounts to 0.5% of the net asset value of the Company. Certain assets might be excluded from the net asset value for the purposes of the net wealth tax computation, provided that the provisions of paragraph 60 of the valuation law of October 16, 1934, as amended (BewG) are met.

A 15% withholding tax will be due in Luxembourg on dividends paid by the Company to its shareholders unless the domestic withholding tax exemption regime or a withholding tax reduction or exemption under a double tax treaty concluded by Luxembourg applies. Normal interest payments (i.e. not profit-linked interest) and liquidation proceeds are generally not subject to withholding tax, unless the EU Savings Directive applies. Should any withholding taxes be payable on amounts paid by the Company, the Company assumes responsibility for the withholding of Luxembourg taxes at the source.

(3) Ireland

- An Irish tax resident company is subject to corporation tax on its worldwide income (subject to any relevant exemptions) at either 12.5% or 25% depending on the activities undertaken by the company. Any capital gains recognized by an Irish company (subject to any relevant exemptions) will also be subject to corporation tax. However, such gains are re-grossed for corporation tax purposes to ensure they are taxed at the capital gains tax rate of 33%.
- Dividends received by an Irish resident company from another Irish resident company are exempt from corporation tax. Dividends received from a foreign company in the hands of an Irish resident company are subject to corporation tax, however, a credit should be available for underlying corporate and withholding tax generally for foreign tax paid.
- In general, with respect to non-resident companies, interest and patent royalties which are derived from Ireland are subject to withholding tax in Ireland at the rate of 20%. However, there are a number of domestic exemptions from this withholding tax. In addition, there may be exemptions or reliefs available under a treaty or under the EU directives.

B. Income taxes:

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Current year	(2,026)	(1,288)	(217)
Adjustments for prior years	(179)	(195)	(54)
Deferred tax expense	(65,830)	(68,223)	(27,101)
Total	(68,035)	(69,706)	(27,372)

Note 16 – Taxes (continued)

C. Reconciliation of statutory to effective tax rate:

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Statutory income tax rate	27.08%	29.22%	29.22%
Profit before taxes	435,547	480,474	183,379
Tax using the Company's domestic tax rate	117,946	140,395	53,583
Non-deductible expense	152	155	55
Utilization of tax losses from prior years for which deferred taxes were not created	(1,413)	(3,874)	(247)
Effect of tax rates in foreign jurisdictions	(49,033)	(65,235)	(25,128)
Deferred tax assets not recognized for tax losses and other timing differences	7,296	2,765	1,704
Inter-company transaction effect	(7,092)	(4,686)	(2,595)
Adjustments for prior years	179	195	54
Other differences, net	—	(9)	(54)
Income tax expenses	68,035	69,706	27,372

D. Recognized deferred tax assets and liabilities

Deferred taxes recognized are attributable to the following:

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Assets		
Derivatives	216	156
Tax losses carried forward	13,377	8,755
	13,593	8,911
Liabilities		
Investment properties	(194,286)	(125,273)
Trading properties	(2,750)	(1,311)
	(197,036)	(126,584)
Net tax liabilities	(183,443)	(117,673)

The following are the deferred tax assets and liabilities recognized by the Group, and the movements thereon, during the current and prior reporting periods.

	Investment properties	Trading properties	Derivatives	Tax losses	Total
	thousands EUR				
Balance at January 1, 2016	(53,637)	—	1,142	3,902	(48,593)
Changes recognized in profit or loss	(71,636)	(1,311)	(129)	4,853	(68,223)
Changes recognized in equity or other comprehensive income	—	—	(857)	—	(857)
Balance at December 31, 2016	(125,273)	(1,311)	156	8,755	(117,673)
Changes recognized in profit or loss	(69,013)	(1,439)	—	4,622	(65,830)
Changes recognized in equity or other comprehensive income	—	—	60	—	60
Balance at December 31, 2017	(194,286)	(2,750)	216	13,377	(183,443)

Losses for tax purposes carried forward to future years, based on the Group's estimation:

Tax losses carried forward amounted to EUR 84,793 thousand at December 31, 2017 (2016: EUR 58,023 thousand). Tax losses can be carried forward indefinitely.

Note 16 – Taxes (continued)

D. Recognized deferred tax assets and liabilities (continued)

Deferred tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of EUR 3,158 thousand at December 31, 2017 (2016: EUR 2,448 thousand) in respect of losses carried forward amounting to EUR 19,955 thousand at December 31, 2017 (2016: EUR 15,467 thousand) that can be carried forward against future taxable income due to its expectation for their utilization.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Note 17 – Revenue

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Net rental income	103,300	84,673	61,732
Selling of condominiums	19,671	19,965	9,954
Income from facility services	5,881	5,137	4,067
Total	128,852	109,775	75,753

Note 18 – Cost of Operations

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Salaries and other expenses (**).	7,995	6,873	5,504
Cost of utilities recharged, net	1,409	271	312
Selling of condominiums – cost	15,760	16,726	8,471
Property operations and maintenance	11,010	8,726 (*)	4,899 (*)
Total	36,174	32,596	19,186

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

(**) See note 19A regarding personal expenses and employees

Note 19 – General and Administrative Expenses

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Salaries and related expenses (A)	2,605	2,472	1,635
Share-based payment	387	682	283
Directors fee	714	661	167
Rent	1,015	1,027 (*)	683 (*)
Professional services	3,417	3,081	1,799
Traveling	188	312	119
Office, communication and IT expenses	1,284	996	828
Advertising and marketing	438	404	386
Impairment loss on trade receivables	1,900	1,799	646
Depreciation	452	356	256
Services from parent company (see note 26)	64	75	146
Others	298	1,380	249
Total	12,762	13,245	7,197

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

A. As at December 31, 2017 the Group has 295 full-time employees (2016: 247, 2015: 228). On an annual average 271 people (2016: 237, 2015: 194) were employed.

Note 20 – Share-based Payment

- A. In 2014 ADO Group's Board of Directors approved a share-based remuneration program to the Company's management which granted a total of 160,000 options, each option being exercisable into one of ADO Group's shares of NIS 1 par value with an exercise price of 0.357 NIS per share.

The options were exercised on June 8, 2017. During the reporting period, the Company recognized a total expense of EUR 10 thousand (2016: EUR 53 thousand) against reserve from transactions with controlling shareholder.

- B. Under the Long Term Incentive plan ("LTI"), the Company's management and the vice chairman have the possibility to receive together each year shares equaling a total volume of EUR 785,000 assuming maximum LTI-Target Achievement divided by the average trading price of the Company's shares. The LTI shall depend on the achievement of certain individual targets and the relevant weighting of each of such LTI-Targets in relation to the other applicable targets over the service agreement period starting at the commencement of each fiscal year (the "LTI-Period"). The LTI-Targets shall be composed of (i) the development of the net asset value ("NAV") per share as being targeted by the Board (weighting of 50%) and (ii) the development of the Company's share price in relation to the EPRA GERMANY index (weighting of 50%), both LTI-Targets measured over the duration of the LTI-Period. The fair value was measured at the grant date for the first year using the Monte-Carlo simulation considering the following: (i) the NAV Target was estimated at 100%; (ii) The expected EPRA Target was estimated at approximately 108%. During the reporting period, the company recognized a total expense of EUR 554 thousand (2016: EUR 806 thousand) against retained earnings.

Note 21 – Net Finance Costs

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Interest received on bank deposits	3	29	35
Change in fair value of derivatives	—	—	400
Change in fair value of other financial asset	1,599	1,943	1,149
Total finance income	1,602	1,972	1,584
Interest on bonds	(2,824)	—	—
Interest on other loans and borrowings	(18,279)	(18,526)	(18,058)
Interest on loans from related parties (*)	—	—	(5,801)
One-off refinance costs	(6,741)	(9,465)	—
Other finance expenses	(1,765)	(1,709)	(1,865)
Total finance costs	(29,609)	(29,700)	(25,724)
Total net finance costs	(28,007)	(27,728)	(24,140)

(*) Interest on loans from related parties includes interest from loans and capital note from ADO Group until July 23, 2015.

Note 22 – Earnings per Share

A. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share has been based on the profit attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding, calculated as follows:

- (1) Earnings attributable to the owners of the Company

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Profit attributable to the owners of the Company	355,970	395,150	148,192

Note 22 – Earnings per Share (continued)

A. Basic and diluted earnings per share (continued)

(2) Weighted average number of ordinary shares

	For the year ended December 31,		
	2017	2016	2015
	thousands of shares		
Balance as of January 1	44,100	35,000	25,000 (*)
Effect of issuance of regular shares	—	4,083	4,423
Weighted average number of shares	44,100	39,083	29,423

	For the year ended December 31,		
	2017	2016	2015
	in EUR		
Basic and diluted earnings per share (**)	8.07	10.11	5.04

(*) Restated due to stock split committed on June 16, 2015.

(**) The Company has no material dilutive potential ordinary shares.

Note 23 – Financial Instruments

The Group has exposure to the following risks arising from its use of financial instruments:

- A. Credit risk
- B. Market risk
- C. Liquidity risk

A. Credit risk:

The Group is exposed to a default risk resulting from the potential failure of counterparty to fulfill its part of the contract. In order to minimize risks, financial transactions are only executed with creditworthy third parties. The maximum credit risk is the carrying amount of the financial assets as reported in the statement of financial position.

B. Market risk:

The Group is exposed to the risk of changes in market interest rates as a result of floating rate debt as well as new and follow-on loans. Loans obtained at variable rates expose the Group to cash flow interest rate risk, which could have adverse effects on the Group's profit or loss or financial position. Changes in interest rates may cause variations in interest expense on interest-bearing assets and liabilities.

The Group's management reviews the need to enter into derivative transactions to manage the interest rate risk arising from the Group's operations and its sources of finance.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Fixed rate instruments		
Financial assets	145,882	211,628
Financial liabilities	1,409,761	858,001
Variable rate instruments		
Financial liabilities	83,460	90,944

Note 23 – Financial Instruments (continued)

B. Market risk: (continued)

On the basis of the valuation as at December 31, 2017, the Group performed a sensitivity analysis to determine the change in profit and loss given a parallel shift in the interest rate structure:

	<u>Change in interest basis points</u>	<u>Effect on the Profit before tax thousands EUR</u>
December 31, 2017		
Variable rate instruments	+50	(14)
December 31, 2016		
Variable rate instruments	+50	(67)

Assuming all other variables remain constant, a negative change in the interest rate at the same amount would have similar impact on the profit and loss, although in the opposite direction.

C. Liquidity risk:

In order to limit the liquidity risk, the Group continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, the Group subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

Under the conditions of existing loan agreements, the Group is obliged to fulfill certain financial covenants. If financial covenants are violated and all commonly practiced solutions will be unsuccessful, the lenders could call in the loan. As part of risk management, the fulfillment of these financial covenants is continually monitored.

The following table shows the forecast for undiscounted cash flows of the non-derivative financial liabilities and derivative financial instruments:

	<u>December 31, 2017</u>					
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>>2021</u>
Bonds	396,396	442,000	6,000	6,000	6,000	424,000
Other loans and borrowings	1,026,723	1,114,407	90,854	46,484	79,020	898,049
Other financial liabilities	28,105	28,105	867	328	325	26,585
Trade payables	13,642	13,642	13,642	—	—	—
Tenants' security deposits	21,513	21,513	21,513	—	—	—
Other payables	6,842	6,842	6,842	—	—	—
Derivatives	2,985	3,242	264	135	230	2,613
Total	<u>1,496,206</u>	<u>1,629,751</u>	<u>139,982</u>	<u>52,947</u>	<u>85,575</u>	<u>1,351,247</u>
	<u>December 31, 2016</u>					
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>>2020</u>
Other loans and borrowings	904,714	990,862	45,729	84,066	42,617	818,450
Other financial liabilities	15,137	15,137	414 (*)	206 (*)	205 (*)	14,312 (*)
Trade payables	8,957	8,957	8,957	—	—	—
Tenants' security deposits	16,188	16,188	16,188	—	—	—
Other payables	3,949	3,949	3,949	—	—	—
Derivatives	4,185	4,587	212	389	197	3,789
Total	<u>953,130</u>	<u>1,039,680</u>	<u>75,449</u>	<u>84,661</u>	<u>43,019</u>	<u>836,551</u>

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

D. Fair value:

(1) Financial assets and liabilities measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, restricted and other bank deposits and trade and other payables are

Note 23 – Financial Instruments (continued)

D. Fair value: (continued)

considered to be the same or proximate to their fair value due to their short-term nature. The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value (Level 3)	Carrying amount	Fair value (Level 3)
thousands EUR				
Liabilities:				
Bonds	396,396	404,056	—	—
Variable rate loans and borrowings (*)	83,460	85,751	90,944	94,228
Fixed rate loans and borrowings (*)	943,263	944,092	813,770	827,143
Total	1,423,119	1,433,899	904,714	921,371

(*) Including the current portion of long-term loans and borrowings

Fair value for liabilities is estimated by discounting future cash flows by the market interest rate on the date of measurement. The market interest rates used to determine the fair value are discount rate of Euribor+1.2% for the variable interest bank loans (2016: Euribor+1.3%) and discount rate of 1.73% for the fixed interest bank loans (2016: 1.3%).

(3) Fair value hierarchy of financial instruments measured at fair value

The table below analyzes financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	December 31, 2017		December 31, 2016	
	Level 2	Level 3	Level 2	Level 3
thousands EUR				
Other financial asset (a)	—	5,359	—	3,760
Derivative financial liabilities (b)	2,985	—	4,185	—
Other financial liabilities (c)	—	28,105	—	15,137

(a) Other financial asset relates to the Group's option for purchasing the non-controlling interest in a transaction completed at the end of 2013. This other financial asset is measured at fair value.

(b) Fair value of derivatives, including both current and non-current liabilities, is measured by discounting the future cash flows over the period of the contract and using market interest rates appropriate for similar instruments. The credit risk used by the bank is not a material component of the valuation made by the bank and the other variables are market-observable.

(c) Other financial liabilities relate to a put option and an annual compensation fee granted to ADO Group (see note 11) measured at fair value. The fair value is calculated based on the expected payment amounts and the liability is discounted to present value using the market interest rate at the reporting date.

Although the Group believes that the estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

E. Capital management:

The Company's management aims to maximize a long-term increase in value for the investors, taking into account financial risks by maintaining a degree of financial flexibility in order to be able to pursue the Group's growth and portfolio optimization.

Note 23 – Financial Instruments (continued)

E. Capital management: (continued)

The key figure for capital management is Loan-to-Value, which is the ratio of net financial liabilities compared to the value of the investment and trading properties. The Company aims to achieve a long-term Loan-to-Value ratio of maximum 45%.

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Bonds	396,396	—
Other loans and borrowings	1,026,723	904,714
Other financial liabilities	28,105	15,137
Cash and other deposits	(121,530)	(183,421)
Net financial liabilities	1,329,694	736,430
Investment properties and advances in respect of investment properties	3,305,723	2,290,740
Trading properties and advances in respect of trading properties	42,961	46,137
Total assets	3,348,684	2,336,877
Loan-to-Value Ratio	39.7%	31.5%

F. Movement in liabilities deriving from financing activities

	Bonds	Other loans and borrowings	Other financial liabilities	Total
	thousands EUR			
Balance at January 1, 2017	—	904,714	15,137	919,851
Changes from financing cash flows				
Receipt of loans and borrowings	398,604	114,606	—	513,210
Repayment of loans and borrowings	—	(126,548)	—	(126,548)
Transaction costs related to borrowings	(2,419)	—	—	(2,419)
Total net financing cash flows	396,185	(11,942)	—	384,243
Changes arising from obtaining control of subsidiaries	—	125,709	8,470	134,157
Changes in fair value	—	—	4,520	4,520
Other changes	211	8,242	(23)	8,453
Balance at December 31, 2017	396,396	1,026,723	28,105	1,451,224

Note 24 – Contingent Liabilities and Commitments

A. Contingent liabilities

The Group is involved in few legal actions arising in the ordinary course of business. While the outcome of all legal actions and their expected timing is currently not determinable, it is management's opinion that these matters will not have a material adverse effect on the Group's consolidated financial position or results of its operations, therefore no provision was recorded.

B. Securities, guarantees and liens under bank finance agreements

In order to secure loans granted for purchasing the assets, the Group has granted banks with regard to certain subsidiaries: first ranking liens on all the investment property assets, including rights on the land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party, including general contractor contracts, long-term tenants' leases and subordination of all shareholder loans to the financing bank; liens on all of the rights deriving from each material contract to which the borrower company is a party.

In some cases, payments to the shareholders, including dividend distribution, are subject to financial covenants. Several German companies undertook not to sell or transfer a substantial part of their assets without the prior consent of the financing bank. In certain events the Project Companies undertook not to

Note 24 – Contingent Liabilities and Commitments (continued)

B. Securities, guarantees and liens under bank finance agreements (continued)

allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the Project Company in favor of third parties.

C. Future minimum lease payments

The Group leases out to external parties a number of commercial properties (investment property). The lease agreements are usually for 5 years (on average), are non-cancellable and linked to the CPI. Renewal of the agreements at the end of the period is subject to the consent of the Group and the lessees. The average renewal period of these agreements is ranging from 3 to 5 years.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases as follows:

	December 31,	
	2017	2016
	thousands EUR	thousands EUR
Less than one year	28,214	22,672
Between one and 3 years	22,705	19,039
More than 3 years	21,295	17,523

Note 25 – Segments Reporting

The Company reports by business segments on the basis of the information provided to the Group's chief operating decision maker (CODM). Segment information is not reported by geographical region of the properties, as all operational activities are located in Berlin.

The following summary describes the operations in each of the Group's operating segments:

- Residential property management – the Group's core business activity is the rent and management of the residential properties, which includes the modernization and maintenance of the properties, the management of tenancy agreements and marketing of residential units. The focus of property management is on the optimization of rental income.
- Privatization – this segment includes all aspects of the preparation and execution of the sale of units. In addition this segment is also subject to modernization, maintenance and management, and for non-vacant units generates rental income.

A group-wide planning and controlling system ensures that resources for both segments are efficiently allocated and their successful use is monitored. Assets and liabilities are not viewed separately by segment.

The accounting policies of the operating segments are the same as described in note 4 regarding significant accounting policies.

Performance is measured based on segment gross profit before revaluation of investment properties. Segment results reported to the CODM include items directly attributable to a segment on a reasonable basis.

Note 25 – Segments Reporting (continued)

A. Information about reportable segments

Information regarding the results of each reportable segment is included below.

	Year ended December 31, 2017		
	Residential property management	Privatization	Total consolidated
	thousands EUR		
External income from residential property management	108,303	878	109,181
External income from selling condominiums	—	19,671	19,671
Consolidated revenue	108,303	20,549	128,852
Reportable segment gross profit	88,368	4,310	92,678
General and administrative expenses			(12,762)
Changes in fair value of investment properties			383,638
Finance income			1,602
Finance expense			(29,609)
Consolidated profit before tax			435,547
Income tax expense			(68,035)
	Year ended December 31, 2016		
	Residential property management	Privatization	Total consolidated
	thousands EUR		
External income from residential property management	88,704	1,106	89,810
External income from selling condominiums	—	19,965	19,965
Consolidated revenue	88,704	21,071	109,775
Reportable segment gross profit	73,486	3,693	77,179
General and administrative expenses			(13,245)
Changes in fair value of investment properties			444,268
Finance income			1,972
Finance expense			(29,700)
Consolidated profit before tax			480,474
Income tax expense			(69,706)
	Year ended December 31, 2015		
	Residential property management	Privatization	Total consolidated
	thousands EUR		
External income from residential property management	64,575	1,224	65,799
External income from selling condominiums	—	9,954	9,954
Consolidated revenue	64,575	11,178	75,753
Reportable segment gross profit	54,467	2,100	56,567
General and administrative expenses			(7,197)
Changes in fair value of investment properties and assets held for sale			158,579
Other expenses			(430)
Finance income			1,584
Finance expense			(25,724)
Consolidated profit before tax			183,379
Income tax expense			(27,372)

B. Entity level disclosures

The Group has no major customers from which 10% or more of the Group's revenue derives.

Note 26 – Related Parties

A. Related companies:

In these financial statements, ADO Group is considered as a related party.

(1) Transactions with related companies:

The following balances with related parties are included in the consolidated statement of financial position:

	December 31,	
	2017	2016
	thousands EUR	
Current liabilities		
ADO Group (presented under other payables)	42	16
Other financial liabilities (see note 11)	867	414 (*)
Non-current liabilities		
Other financial liabilities (see note 11)	27,238	14,723 (*)

(*) Immaterial adjustment of comparative data – see note 2G regarding basis of preparation

The following balances with related parties are included in the consolidated statement of profit or loss:

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Consolidated statement of profit or loss			
Services and management fee charges from ADO Group	64	75	146
Interest on loans from ADO Group (*)	—	—	891
Interest on Capital note to ADO Group (*)	—	—	4,910

(*) Interest on loans from and capital note to ADO Group Ltd. comprises interest until July 23, 2015.

B. Transactions with key management personnel:

Within the Group, the individuals in key positions pursuant to IAS 24 include the Board of Directors of ADO Properties S.A.

Compensation and benefits to key management personnel that are employed by the Group:

	For the year ended December 31,		
	2017	2016	2015
	thousands EUR		
Short-term employee benefits	955	915	526
Share-based payments	350	376	199
Total	<u>1,305</u>	<u>1,291</u>	<u>725</u>

The Board of Directors and members of their immediate families do not personally have any business relationship with the Group other than in their capacity as members of the Board of Directors.

C. Emoluments granted to the members of the management and supervisory bodies:

The emoluments granted to the members of the supervisory bodies in that capacity for the financial year are broken down as follows:

	For the year ended December 31,	
	2017	2016
	thousands EUR	
Directors fee granted to the members of the board of directors	714	661
Total	<u>714</u>	<u>661</u>

Note 26 – Related Parties (continued)

C. Emoluments granted to the members of the management and supervisory bodies: (continued)

The emoluments granted to the members of the senior management (CEO, CFO and COO) are broken down as follows:

	For the year ended December 31,	
	2017	2016
	thousands EUR	
Fixed salary	662	720
Short-term cash incentive	343	311
Long-term incentive to be paid in shares	387	462
One-time termination payment	—	612
Total	1,392	2,105

Note 27 – Auditors’ Fees

Fees billed to the Company and its subsidiaries by KPMG Luxembourg, Société coopérative, Luxembourg, and other member firms of the KPMG network during the year are as follows (excluding VAT):

	For the year ended December 31,	
	2017	2016
	thousands EUR	
Audit fees (*)	690	1,051
Thereof: KPMG Luxembourg, Société coopérative	148	651
Tax consultancy services	184	87
Thereof: KPMG Luxembourg, Société coopérative	27	26
Other non-audit related services	49	68
Thereof: KPMG Luxembourg, Société coopérative	—	—

(*) Including audit-related services in relation to share and bond issuance.

Note 28 – Subsequent Events

- A. After the reporting date, the Group carried out a transaction to take over 94% of the issued shares of a Dutch entity holding a residential building complex located in Berlin, Germany. The total consideration amounted to EUR 160.4 million (including approximately 2% transaction costs). The building includes 832 residential units and 24 commercial units with a total leasable area of approximately 66 thousand sqm. At the date of acquisition, the total annual net cold rent from the new acquisition amounted to EUR 5.6 million.
- B. In addition to the above transaction, after the reporting date, the Group acquired 22 assets in 12 different deals, some of them initially assessed as asset deals, and others as share deals, comprising a total of 581 residential units and 26 commercial units in Berlin. The gross purchase price for 100% of the acquired assets amounted to EUR 91.9 million. At the date of acquisition, the total annual net cold rent from the new acquisitions amounted to EUR 2.9 million. As at December 31, 2017, the Group paid an advance of EUR 34 million that was recorded as advances in respect of investment properties.
- C. On March 9, 2018 the Group signed a EUR 175 million revolving credit facility with a 2 year term and two extension options, each for 1 year.
- D. As of the reporting date the Group is in the final steps to set-up a commercial paper program with a maximum volume of EUR 500 million under which funds with a maximum term of 364 days can be raised at short notice.
- E. On March 19, 2018 the Company’s Board proposed to the Annual General Meeting to pay a dividend in the amount of EUR 26.5 million (EUR 0.60 per share). The Annual General Meeting will take place on June 19, 2018.

Note 29 – List of the Company Shareholdings

		Shareholding and control at December 31,		
Company		Country	2017	2016
			%	
1	Adest Grundstücks GmbH	Germany	99.64	99.64
2	Adoa Grundstücks GmbH	Germany	99.64	99.64
3	Adom Grundstücks GmbH	Germany	99.64	99.64
4	Adon Grundstücks GmbH	Germany	99.64	99.64
5	Ahava Grundstücks GmbH	Germany	99.64	99.64
6	Anafa 1 Grundstücks GmbH	Germany	99.64	99.64
7	Anafa 2 Grundstücks GmbH	Germany	99.64	99.64
8	Gamazi Grundstücks GmbH	Germany	99.64	99.64
9	Anafa Grundstücks GmbH	Germany	99.64	99.64
10	Badolina Grundstücks GmbH	Germany	99.64	99.64
11	Berale Grundstücks GmbH	Germany	99.64	99.64
12	Bamba Grundstücks GmbH	Germany	99.64	99.64
13	Zman Grundstücks GmbH	Germany	99.64	99.64
14	ADO Immobilien Management GmbH	Germany	100	100
15	CCM City Construction Management GmbH	Germany	100	100
16	Drontheimer Str. 4 Grundstücks GmbH	Germany	99.64	99.64
17	Eldalote Grundstücks GmbH	Germany	99.64	99.64
18	Nuni Grundstücks GmbH	Germany	99.64	99.64
19	Krembo Grundstücks GmbH	Germany	99.64	99.64
20	Tussik Grundstücks GmbH	Germany	99.64	99.64
21	Geut Grundstücks GmbH	Germany	99.64	99.64
22	Gozal Grundstücks GmbH	Germany	99.64	99.64
23	Gamad Grundstücks GmbH	Germany	99.64	99.64
24	Geshem Grundstücks GmbH	Germany	99.64	99.64
25	Lavlav 1 Grundstücks GmbH	Germany	99.64	99.64
26	Lavlav 2 Grundstücks GmbH	Germany	99.64	99.64
27	Lavlav 3 Grundstücks GmbH	Germany	99.64	99.64
28	Lavlav Grundstücks GmbH	Germany	99.64	99.64
29	Mastik Grundstücks GmbH	Germany	99.64	99.64
30	Maya Grundstücks GmbH	Germany	99.64	99.64
31	Mezi Grundstücks GmbH	Germany	99.64	99.64
32	Muse Grundstücks GmbH	Germany	99.64	99.64
33	Papun Grundstücks GmbH	Germany	99.64	99.64
34	Nehederet Grundstücks GmbH	Germany	99.64	99.64
35	Neshama Grundstücks GmbH	Germany	99.64	99.64
36	Osher Grundstücks GmbH	Germany	99.64	99.64
37	Pola Grundstücks GmbH	Germany	99.64	99.64
38	ADO Properties GmbH	Germany	100	100
39	Reshet Grundstücks GmbH	Germany	99.64	99.64
40	Sababa18 Grundstücks GmbH	Germany	99.64	99.64
41	Sababa19 Grundstücks GmbH	Germany	99.64	99.64
42	Sababa20 Grundstücks GmbH	Germany	99.64	99.64
43	Sababa21 Grundstücks GmbH	Germany	99.64	99.64
44	Sababa22 Grundstücks GmbH	Germany	99.64	99.64
45	Sababa23 Grundstücks GmbH	Germany	99.64	99.64
46	Sababa24 Grundstücks GmbH	Germany	99.64	99.64
47	Sababa25 Grundstücks GmbH	Germany	99.64	99.64
48	Sababa26 Grundstücks GmbH	Germany	99.64	99.64
49	Sababa27 Grundstücks GmbH	Germany	99.64	99.64
50	Sababa28 Grundstücks GmbH	Germany	99.64	99.64
51	Sababa29 Grundstücks GmbH	Germany	99.64	99.64
52	Sababa30 Grundstücks GmbH	Germany	99.64	99.64
53	Sababa31 Grundstücks GmbH	Germany	99.64	99.64
54	Sababa32 Grundstücks GmbH	Germany	99.64	99.64

Note 29 – List of the Company Shareholdings (continued)

		Country	Shareholding and control at December 31,	
			2017	2016
Company			%	
55	Shemesh Grundstücks GmbH	Germany	99.64	99.64
56	Stav Grundstücks GmbH	Germany	99.64	99.64
57	Tamuril Grundstücks GmbH	Germany	99.64	99.64
58	Tara Grundstücks GmbH	Germany	99.64	99.64
59	Tehila1 Grundstücks GmbH	Germany	99.64	99.64
60	Tehila2 Grundstücks GmbH	Germany	99.64	99.64
61	Tehila Grundstücks GmbH	Germany	99.64	99.64
62	Trusk Grundstücks GmbH	Germany	99.64	99.64
63	Wernerwerkdamm 25 Berlin Grundstücks GmbH	Germany	99.64	99.64
64	Yarok Grundstücks GmbH	Germany	99.64	99.64
65	Yahel Grundstücks GmbH	Germany	99.64	99.64
66	Yussifun Grundstücks GmbH	Germany	99.64	99.64
67	Bombila Grundstücks GmbH	Germany	99.64	99.64
68	ADO SBI Holdings S.A. & Co. KG	Germany	94	94
69	Central Facility Management GmbH	Germany	100	100
70	Sheket Grundstücks GmbH	Germany	100	100
71	Seret Grundstücks GmbH	Germany	100	100
72	Melet Grundstücks GmbH	Germany	100	100
73	Yabeshet Grundstücks GmbH	Germany	100	100
74	ADO Finance B.V.	Holland	100	100
75	Yadit Grundstücks GmbH	Germany	100	100
76	Zamir Grundstücks GmbH	Germany	100	100
77	Arafel Grundstücks GmbH	Germany	100	100
78	Sharav Grundstücks GmbH	Germany	100	100
79	Sipur Grundstücks GmbH	Germany	100	100
80	Matok Grundstücks GmbH	Germany	100	100
81	Barbur Grundstücks GmbH	Germany	94.9	94.9
82	Parpar Grundstücks GmbH	Germany	100	100
83	Jessica Properties B.V.	Holland	94.50	94.50
84	Alexandra Properties B.V.	Holland	94.44	94.44
85	Marbien B.V.	Holland	94.90	94.90
86	Meghan Properties B.V.	Holland	94.44	94.44
87	Matok Löwenberger Straße Grundstücks GmbH	Germany	100	100
88	Songbird 1 ApS	Denmark	60	60
89	Songbird 2 ApS	Denmark	60	60
90	Joysun 1 B.V.	Holland	60	60
91	Joysun 2 B.V.	Holland	60	60
92	Yona Investment GmbH & Co. KG	Germany	60	60
93	Yanshuf Investment GmbH & Co. KG	Germany	60	60
94	Ziporim Investment GmbH	Germany	60	60
95	Ofek 1 Grundstücks GmbH	Germany	100	100
96	Ofek 2 Grundstücks GmbH	Germany	100	100
97	Ofek 3 Grundstücks GmbH	Germany	100	100
98	Ofek 4 Grundstücks GmbH	Germany	100	100
99	Ofek 5 Grundstücks GmbH	Germany	100	100
100	Galim 1 Grundstücks GmbH	Germany	100	100
101	Galim 2 Grundstücks GmbH	Germany	100	100
102	Galim 3 Grundstücks GmbH	Germany	100	100
103	JS Nestorstrasse Grundstücks GmbH	Germany	60	60
104	JS Florapromenade Grundstücks GmbH	Germany	60	60
105	JS Cotheniusstrasse Grundstücks GmbH	Germany	60	60
106	JS Taurogener Grundstücks GmbH	Germany	60	60
107	JS Kiehlufer Grundstücks GmbH	Germany	60	60
108	JS Rubenstrasse Grundstücks GmbH	Germany	60	60

Note 29 – List of the Company Shareholdings (continued)

Company		Country	Shareholding and control at December 31,	
			2017	2016
			%	
109	Yona Stettiner Grundstücks GmbH	Germany	60	60
110	Yona Schul Grundstücks GmbH	Germany	60	60
111	Yona Otawi Grundstücks GmbH	Germany	60	60
112	Yona Strom Grundstücks GmbH	Germany	60	60
113	Yona Gutenberg Grundstücks GmbH	Germany	60	60
114	Yona Kameruner Grundstücks GmbH	Germany	60	60
115	Yona Schichauweg Grundstücks GmbH	Germany	60	60
116	Yona Alt-Tempelhof Grundstücks GmbH	Germany	60	60
117	Yona Gruberzeile Grundstücks GmbH	Germany	60	60
118	Yona Schloss Grundstücks GmbH	Germany	60	60
119	Yona Lindauer Grundstücks GmbH	Germany	60	60
120	Yona Nogat Grundstücks GmbH	Germany	60	60
121	Yona Bötzwow Grundstücks GmbH	Germany	60	60
122	Yona Herbst Grundstücks GmbH	Germany	60	60
123	Yona Danziger Grundstücks GmbH	Germany	60	60
124	Yona Schön Grundstücks GmbH	Germany	60	60
125	Yanshuf Kaiser Grundstücks GmbH	Germany	60	60
126	Yanshuf Binz Grundstücks GmbH	Germany	60	60
127	Yanshuf Antonien Grundstücks GmbH	Germany	60	60
128	Yanshuf See Grundstücks GmbH	Germany	60	60
129	Yanshuf Hermann Grundstücks GmbH	Germany	60	60
130	Yanshuf Schmidt-Ott Grundstücks GmbH	Germany	60	60
131	Hanpaka Holding GmbH	Germany	100	100
132	Hanpaka Immobilien GmbH	Germany	94.90	94.90
133	Dvash 1 Holding GmbH	Germany	100	100
134	Dvash 2 Holding GmbH	Germany	100	100
135	Dvash 3 B.V.	Holland	100	100
136	Rimon Holding GmbH	Germany	100	100
137	Bosem Grundstücks GmbH	Germany	100	100
138	Rimon Grundstücks GmbH	Germany	94.90	94.90
139	Dvash 21 Grundstücks GmbH	Germany	94.90	94.90
140	Dvash 22 Grundstücks GmbH	Germany	94.90	94.90
141	Dvash 23 Grundstücks GmbH	Germany	94.90	94.90
142	Dvash 24 Grundstücks GmbH	Germany	94.90	94.90
143	Dvash 11 Grundstücks GmbH	Germany	94.90	94.90
144	Dvash 12 Grundstücks GmbH	Germany	94.90	94.90
145	Dvash 13 Grundstücks GmbH	Germany	94.90	94.90
146	Dvash 14 Grundstücks GmbH	Germany	94.90	94.90
147	ADO FC Management Unlimited Company	Ireland	100	100
148	5. Ostdeutschland Invest GmbH	Germany	94.90	94.90
149	8. Ostdeutschland Invest GmbH	Germany	94.90	94.90
150	Horef Holding GmbH	Germany	100	100
151	ADO 9110 Holding GmbH	Germany	100	100
152	Silan Holding GmbH	Germany	100	100
153	ADO Sonnensiedlung S.à.r.l.	Luxembourg	94.90	94.90
154	Horef Grundstücks GmbH	Germany	94.93	94.93
155	Sprengelstraße 39 GmbH	Germany	94	—
156	Scharnweberstraße 112 Verwaltungsgesellschaft mbH	Germany	94.90	—
157	Kantstraße 62 Grundstücks GmbH	Germany	100	—
158	ADO Treasury GmbH	Germany	100	—
159	ADO 9160 Grundstücks GmbH	Germany	94.90	—
160	ADO 9200 Grundstücks GmbH	Germany	94.90	—
161	ADO 9210 Grundstücks GmbH	Germany	94.90	—
162	ADO 9220 Grundstücks GmbH	Germany	94.90	—

Note 29 – List of the Company Shareholdings (continued)

		Country	Shareholding and control at December 31,	
			2017	2016
Company			%	
163	ADO 9230 Grundstücks GmbH	Germany	94.90	—
164	ADO 9240 Grundstücks GmbH	Germany	94.90	—
165	ADO 9250 Grundstücks GmbH	Germany	94.00	—
166	ADO 9260 Grundstücks GmbH	Germany	94.90	—
167	ADO 9270 Grundstücks GmbH	Germany	94.80	—
168	ADO 9280 Grundstücks GmbH	Germany	94.90	—
169	ADO 9290 Grundstücks GmbH	Germany	94.90	—
170	ADO 9300 Grundstücks GmbH	Germany	94.90	—
171	ADO 9310 Grundstücks GmbH	Germany	94.90	—
172	ADO 9320 Grundstücks GmbH	Germany	94.90	—
173	ADO 9330 Grundstücks GmbH	Germany	94.90	—
174	ADO 9340 Grundstücks GmbH	Germany	94.90	—
175	ADO 9350 Grundstücks GmbH	Germany	94.90	—
176	ADO 9360 Holding GmbH	Germany	100	—
177	ADO 9370 Grundstücks GmbH	Germany	94.90	—
178	ADO 9380 Grundstücks GmbH	Germany	94.90	—
179	ADO 9379 Grundstücks GmbH	Germany	94.90	—
180	ADO 9400 Grundstücks GmbH	Germany	94.90	—
181	ADO 9410 Grundstücks GmbH	Germany	94.90	—
182	ADO 9420 Grundstücks GmbH	Germany	94.90	—
183	ADO 9430 Grundstücks GmbH	Germany	94.90	—
184	ADO 9440 Grundstücks GmbH	Germany	94.90	—
185	ADO 9450 Grundstücks GmbH	Germany	94.90	—
186	ADO 9460 Grundstücks GmbH	Germany	94.90	—
187	ADO 9470 Grundstücks GmbH	Germany	94.90	—
188	ADO 9480 Grundstücks GmbH	Germany	94.90	—
189	ADO 9490 Grundstücks GmbH	Germany	94.90	—
190	ADO 9500 Grundstücks GmbH	Germany	94.90	—
191	ADO 9510 Grundstücks GmbH	Germany	94.90	—
192	ADO 9520 Grundstücks GmbH	Germany	94.90	—
193	ADO 9530 Grundstücks GmbH	Germany	94.90	—
194	ADO 9540 Holding GmbH	Germany	100	—
195	ADO Lux Finance S.à.r.l.	Luxembourg	100	—

22. VALUATION REPORT

in the form of a condensed valuation report (“Valuation Report”) of the determination of Fair Value carried out by CBRE in accordance with the International Financial Reporting Standards (IFRS), the International Standards for the Valuation of Real Estate for Investment Purposes (“International Valuation Standards”) and the RICS Valuation – Global Standards (2017 – Red Book) der Royal Institution of Chartered Surveyors, that relates to the issuing of new shares issued in connection with the public tender offer by **ADO Properties S.A.** (the “Company”¹) for shares of Adler Real Estate Aktiengesellschaft. The valuation report comprises a total of 423 valuation units as at 31 December 2019. With the exception of two valuation units in Oranienburg and one valuation unit in Nuthetal all valuation units are located in the city of Berlin. The majority of the 423 valuation units in the portfolio are residential buildings with less than 20% commercial use (336 valuation units). The remainder comprises mixed-use buildings with more than 20% and up to 80% commercial use (72 valuation units), 14 commercial buildings with more than 80% commercial use and one parking unit without area. In total, the portfolio consists of 16,220 residential units (of which 443 are under public rent control), 1,486 commercial units, 585 miscellaneous units and 4,744 parking lots. The total lettable area of the portfolio adds up to 1,235,117 sq m. The area is split into 1,063,446 sq m residential area and 171,670 sq m commercial area.

Date of Valuation: 31 December 2019

Date of Valuation Report: 31 March 2020

Valuer:

CBRE

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(in their capacity as Listing Agent)

CBRE is a “Gesellschaft mit beschränkter Haftung” (limited liability company), registered under commercial law in Germany under the company registration number 13347. The German company CBRE GmbH was established on April 3, 1973 and has its registered office at Große Gallusstraße 18, 60312 Frankfurt/Main, Germany.

CBRE is not a company that is regulated by any regulatory authority; however, in its valuation department it employs amongst others members of the Royal Institution of Chartered Surveyors (RICS), and valuers certified by HypZert GmbH.

¹ The “Company” herein referred to as “ADO”.

MARKET INSTABILITY**Residential Sector – capping of rents of new leases & Berlin law for rent control**

On 1st of June 2015, the rent control of new leases (“Mietpreisbremse”) was enacted, which enables the federal states to establish individual decrees. The law limits rent increases (“MietNovG”) upon re-letting of existing residential units, completed before the 1st of October 2014, in regions with low supply and allows an increase of rent up to local rental table level plus 10 per cent only.

Becoming effective most likely the 1st of April 2020, there are some more adoptions of the federal legal framework for housing: the federal states and municipalities will have the right until the end of 2020 to define whether the “Mietpreisbremse” will be prolonged for another five years until the end of 2025.

Albeit the legal framework is defined and clear, there remains uncertainty if and when the individual federal states and/or municipalities will prolongate or implement the rent control of new leases.

Since the beginning of 2019, there have been public discussions about a rental freeze proposition for rental apartments in Berlin. The Berlin Parliament (“Berliner Abgeordnetenhaus”) finally enacted the law for rent control in the housing sector (“MietenWoG Bln”) as at the 30th of January 2020. The law came into force as at the 23rd of February 2020 by publishing it in the Berlin bulletin for legislation (“Berliner Gesetzes- und Verordnungsblatt”).

At the date of valuation, 31 December 2019, the endurance of the Berlin Rental Freeze law was totally unclear. There is a debate among the advocates whether the free market rental law is exclusively ruled by federal legislation (as “Baugesetzbuch”, “Mietpreisbremse”) or if individual laws or decrees can be passed by a federal state parliament. A check of compatibility of this rental freeze act with constitutional law in front of the Berlin Constitutional Court (“Verfassungsgerichtshof Berlin”) or the Federal Constitutional Court in Karlsruhe (“Bundesverfassungsgericht”) will be pursued by members of parliament from the political parties CDU/CSU und FDP in the next couple of months.

Until there is no final legal decision, there is some uncertainty with regards to rental cashflow which can have some impact on market pricing and thus valuation results. We therefore recommend observing the behavior of market participants and of the credit procedures of the financing banks constantly.

As we are not legal experts, we cannot forecast if or when this check of compatibility will take place, how long it takes and what the conclusion finally will be. From our perspective it is very likely that there will be long-term legal disputes on this controversial law.

At the date of valuation, 31 December 2019, the process of enacting and the endurance of the Berlin Rental Freeze law, as for today, was totally unclear. For this present valuation, we therefore neither have incorporated any changes in cashflow modelling nor have observed any material changes in market pricing and thus impact on valuation results.

Important Warning – The effect of Novel Coronavirus on the real estate market

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a global health emergency on the 30th January 2020, is causing heightened uncertainty in both local and global market conditions. Originating in Wuhan, China, the outbreak continues to develop – and cases are progressively being detected around the world and impacting global financial markets. Travel restrictions have been implemented by many countries, restricting travel to and from Mainland China and other countries affected such as South Korea, Iran, Spain, northern Italy and the USA.

The effect that COVID-19 will have on the real estate market in Germany is currently unknown – and will vary from sector to sector. It will also largely depend on both the scale and longevity of the outbreak. At this stage Tourism, Food & Beverage and the Retail sectors are likely to be the first impacted, due to the increased response by local and global authorities – including home quarantine, restriction of travel and growing international concern. A prolonged outbreak could have a significant (and yet unknown or unquantifiable) impact on other sectors of the property market. Our valuation is based on the information available to us at the date of valuation.

Given the heightened uncertainty, looking forward, a degree of caution should be exercised in the use of our valuation, as values and incomes may change more rapidly and significantly than during standard market conditions. We would therefore recommend that you keep the valuation of this property under frequent review.

SUMMARY OF THE VALUATION CONCLUSIONS

Upon the assumption that, after reasonable inquiry of the Company, there are no onerous restrictions or unusual outgoing of which we have no knowledge and based on the specific comments and assumptions set out in this Valuation Report, we are of the opinion that the aggregate of the individual Fair Values (net) of the freehold / ground-leasehold interests in the assets in the portfolio, rounded on asset-to-asset basis, as at 31 December 2019 and held as at that date, is:

3,669,323,000 EUR

(three billion six-hundred-sixty-nine million and three-hundred-twenty-three thousand Euros)

The unrounded net capital value is 3,669,369,688 EUR. The unrounded gross capital value is 3,970,552,543 EUR including 301,182,855 EUR purchaser's costs (8.2%).

The assessment of the Fair Value was carried on asset-to-asset basis. The aggregate of the individual Fair Values presented here takes account of the marketing period and the transaction costs of the individual assets and does not reflect any discounts or premiums on the sales of the whole portfolio or if part of the portfolio were to be marketed simultaneously or in lots.

CBRE has not been engaged to update the CBRE valuation for the purpose of the Prospectus, has no obligation to do so and has not updated the CBRE valuation after the date of valuation, 31 December 2019.

The following table shows aggregated key asset data for the portfolio:

Fair Value	3,669,323,000 EUR
Total lettable area:	1,235,117 sq m
Average Fair Value per sq m lettable area:	2,971 EUR
Current annual rental income (gross):	112,681,468 EUR
Potential annual rental income (gross):	116,636,669 EUR
Annual market rent (gross):	137,502,541 EUR
Multiplier (based on current rent):	32.6 times
Multiplier (based on potential rent):	31.5 times
Multiplier (based on market rent):	26.7 times
Net initial yield (based on current rent):	2.38%
Net initial yield (based on potential rent):	2.50%
Net initial yield (based on market rent):	3.03%

Our opinion of "Fair Value" is based upon the scope of work and valuation assumptions as detailed in Part 3 "Explanation of Valuation" and Part 4 "Valuation Conclusions" of this Valuation Report and has been derived mainly using recent comparable market evidence on arm's length terms.

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1 BASIS OF VALUATION

1.1 Preamble

CBRE has been valuing the ADO portfolio for the Company since 2015 for accounting purposes. CBRE provides semi-annual update valuations with full valuation reports.

1.2 Instruction

CBRE has been appointed to undertake a Fair Value valuation of the Company's assets held as at 31 December 2019 and to prepare a valuation report.

The valuation is based on the information provided for previous valuations (see preamble) and on current data provided by the Company as at 31 December 2019 (date of rent roll: 30 November 2019).

1.3 Purpose of Valuation

We acknowledge that our Valuation Report will be used by the Company as one of many sources for the determination of the Fair Value of its properties as part of the prospectus that relates to (i) the issuing of new shares in connection with the optional public tender offer by ADO Properties S.A. to the shareholders of Adler Real Estate Aktiengesellschaft in form of an offering of exchange and (ii) the ensuing admission of new shares of ADO Properties S.A. to the regulated Frankfurt stock exchange.

The Valuation Report complies with the legal requirements, in particular the European Commission Regulation (EC) 2017/1129 dated 14 June 2017 and paragraphs 128 to 130 of the European Securities and Market Authority (ESMA), update of the Committee of European Securities Regulators' (CESR) recommendations for the consistent implication of (EC) no. 809/2004.

1.4 Addressees

The present Valuation Report is addressed to:

- ADO Properties S.A., – Luxembourg; 1B Heienhaff, L1736 Senningerberg, Luxembourg;
- JP Morgan Securities plc; 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom.

1.5 Publication

CBRE acknowledges and agrees that the Valuation Report will be published in an unabbreviated form in the Prospectus and will be referred to in marketing and other materials prepared in the context of (i) the issuing of new shares in connection with the optional public tender offer by ADO Properties S.A. to the shareholders of Adler Real Estate Aktiengesellschaft in form of an offering of exchange and (ii) the ensuing admission of new shares of ADO Properties S.A. to the regulated Frankfurt stock exchange. The Prospectus will be accessible to potential Investors on the Company's website. Apart from that, neither the whole nor any part of our Valuation Report nor any references thereto may be included in any published document, circular statement nor published in any way without our prior written approval of the form and context in which it will appear.

1.6 Date of Valuation

The valuation date is 31 December 2019.

1.7 Subject Assets

In accordance with the valuation instructions, the subject of the valuation is ADO's assets held as at 31 December 2019. The valuation report comprises a total of 423 valuation units as at 31 December 2019. With the exception of two valuation units in Oranienburg and one valuation unit in Nuthetal all valuation units are located in the city of Berlin. The majority of the 423 valuation units in the portfolio are residential buildings with less than 20% commercial use (336 valuation units). The remainder comprises mixed-use buildings with more than 20% and up to 80% commercial use (72 valuation units), 14 commercial buildings with more than 80% commercial use and one parking unit without area.

In total, the portfolio consists of 16,220 residential units (of which 443 are under public rent control), 1,486 commercial units, 585 miscellaneous units and 4,744 parking lots. The total lettable area of the portfolio adds up to 1,235,117 sq m. The area is split into 1,063,446 sq m residential area and 171,670 sq m commercial area.

1.8 Tenure

1.8.1 Freehold

Of the 423 valuation units 421 valuation units are freehold-equivalent. Furthermore, 76 of the 421 freehold-equivalent valuation units are separated into condominiums according to German Condominium Act (“WEG”).

In addition, there is an owner’s heritable building right in the valuation unit VU_7011b. The property is split up according to WEG (Wohnungseigentumsgesetz). The commercial units (ground floor) are not part of the owner’s heritable building right. Furthermore, there is a further owner’s heritable building right in the valuation unit VU_1606.

1.8.2 Heritable building right

With reference to the land register extracts provided by the Company, the two valuation units VU_8611 and VU_4802b are subject to heritable building rights.

1.9 Compliance with Valuation Standards

This valuation has been prepared in accordance with the RICS Valuation – Global Standards 2017, (Red Book), published by the Royal Institution of Chartered Surveyors. The property details on which each valuation is based are as set out in this report.

The guidelines of the International Valuation Standards Council (IVSC) correspond to the guidelines of the RICS with respect to the definition and interpretation of market value.

We confirm that we have sufficient current local and national knowledge of the particular property market involved and have the skills and understanding to undertake the valuation(s) competently.

Where the knowledge and skill requirements of The Red Book have been met in aggregate by more than one valuer within CBRE, we confirm that a list of those valuers has been retained within the working papers, together with confirmation that each named valuer complies with the requirements of The Red Book.

This Valuation is a professional opinion and is expressly not intended to serve as a guarantee of any particular value of the subject property. Other valuers may reach different conclusions as to the value of the subject property. This Valuation is for the sole purpose of providing the intended user with the Valuer’s independent professional opinion of the value of the subject property as at the valuation date.

1.10 Capital Values

The valuation has been prepared on the basis of “Fair Value” according to IAS 40 in connection with IFRS 13.9 of the “International Financial Reporting Standards” which has been published by the “International Accounting Standards Board” (IASB) and is defined as:

“The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.”

“Fair Value” is effectively the same as “Market Value” according to Valuation Practise Statements (VPS) 4 of the Valuation Global Standards (2017 – Red Book) of the Royal Institution of Chartered Surveyors (RICS), London which is defined as:

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

1.11 Currency

The currency used in the Valuation Report is Euro (EUR).

1.12 Documents and Information provided

CBRE has assumed that it was provided with all information and documents that were relevant to CBRE in carrying out this appraisal report. We have assumed that the information and documentation had unrestricted validity and relevance as at the date of valuation.

1.13 Deleterious Material etc.

Since no information to the contrary has been brought to our attention, we have assumed that there are no building materials or structures and no characteristics of the site that could endanger or have a deleterious effect on either the fitness of the subject properties for its purpose or the health of its occupiers and users. Common examples include high alumina cement concrete, calcium chloride, asbestos and wood wool as permanent shuttering.

1.14 Site Conditions

We did not carry out investigations on site in order to determine the suitability of ground conditions and services, nor did we undertake environmental, archaeological, or geotechnical surveys. Unless notified to the contrary, our valuations were carried out on the basis that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.

In the case of a property which may have redevelopment potential, we have assumed that the site has load bearing capacity suitable for the anticipated form of redevelopment without the need for additional and expensive foundations or drainage systems. Furthermore, we have assumed in such circumstances that no unusual costs will be incurring in the demolition and removal of any existing structure on the property.

1.15 Environmental Contamination

We have neither carried out nor evaluated any environmental impact assessment, which may indicate a real or potential environmental impact. Furthermore, we have not undertaken any investigation into the past or present uses of either the properties or any adjoining or nearby land, to establish whether there is any potential for contamination from these uses and assume that none exists.

Based on the information provided by the Company, the following 65 of the 423 valuation units are listed in the register of potentially contaminated sites.

Valuation Unit	City	Postal Code	Address
VU_3801	Berlin	13359	Drontheimer Str. 20
VU_1014	Berlin	10559	Birkenstr. 56
VU_1093	Berlin	10553	Huttenstr. 6, 7; Rostocker Str. 47-50, 52
VU_1094	Berlin	10553	Huttenstr. 8, 9
VU_1101	Berlin	10559	Rathenower Str. 25
VU_1701	Berlin	10559	Turmstr. 24; Lübecker Str. 52
VU_2101	Berlin	13357	Pankstr. 46
VU_2201	Berlin	13055	Große-Leege-Str. 97, 98
VU_2901	Berlin	13347	Oudenarder Str. 22
VU_3401	Berlin	13349	Müllerstr. 59b
VU_3901	Berlin	10551	Birkenstr. 47
VU_4601	Berlin	12439	Brückenstr. 27
VU_4702	Berlin	13089	Prenzlauer Promenade 47-48; Treskowstr. 30-34

Valuation Unit	City	Postal Code	Address
VU_4807	Berlin	13353	Föhler Str. 3, 4, 5; Buchstr. 9
VU_5401	Berlin	10551	Putlitzstr. 14
VU_5402	Berlin	13349	Müllerstr. 118
VU_5902	Berlin	10777	Regensburger Str. 10a
VU_6201	Berlin	13359	Koloniestr. 28
VU_6202	Berlin	10553	Huttenstr. 30
VU_6402	Berlin	13347	Reinickendorfer Str. 120
VU_7001	Berlin	14193	Friedrichsruher Str. 33, 33 a-c; Cunostr. 52, 52a
VU_7003	Berlin	14193	Friedrichsruher Str. 14, 15, 17, 18, 20, 21, 23
VU_7023	Berlin	13359	Gotenburger Str. 1, 3, 5; Prinzenallee 65, 66
VU_7024	Berlin	13359	Osloer Str. 33; Drontheimer Str. 1; Koloniestr. 143
VU_7061	Berlin	12043	Karl-Marx-Str. 170, 172; Mittelweg 10, 12, 14, 16
VU_7094	Berlin	14059	Stülpnagelstr. 7, 9, 11, 11a, 13
VU_7096	Berlin	12103	Burgemeisterstr. 30, 32, 34, 36; Friedrich-Wilhelm-Str. 52, 54, 54a, 54b
VU_8011	Berlin	13359	Wollankstr. 32-39
VU_8181	Berlin	13347	Schulstr. 52-53, Martin-Opitz-Str. 8-9
VU_8191	Berlin	13351	Otawistr. 3, 5
VU_8221	Berlin	13351	Kameruner Str. 9
VU_8231	Berlin	12307	Schichauweg 56, 60, 62, 64
VU_8241	Berlin	12099	Alt-Tempelhof 5, 7; Götzstr. 11, 11a, 11b
VU_8354	Berlin	13351	Transvaalstr. 13
VU_8362	Berlin	13353	Seestr. 23
VU_8371	Berlin	12049	Hermannstr. 44, 45; Selchower Str. 35
VU_8604	Berlin	12161	Bundesallee 64, 65
VU_8905	Berlin	14059	Sophie-Charlotten-Str. 24
VU_9021	Berlin	10119	Alte Schönhauser Str. 13
VU_9031	Berlin	13403	Auguste-Viktoria-Allee 45-47; Antonienstr. 51
VU_9055	Berlin	10247	Frankfurter Allee 51; Samariterstr. 1
VU_9044	Berlin	14199	Hohenzollerndamm 53
VU_9033	Berlin	13353	Müllerstr. 138d
VU_9015	Berlin	10559	Perleberger Str. 17
VU_7062	Berlin	10783	Potsdamer Str. 203; Steinmetzstr. 39, 39a, 39b
VU_8974	Berlin	12045	Sonnenallee 77
VU_7043	Berlin	10553	Beusselstr. 31
VU_9121	Berlin	10707	Olivaer Platz 8, 9, 10
VU_9131	Berlin	13353	Sprengelstr. 39
VU_9167	Berlin	10589	Kaiserin-Augusta-Allee 40
VU_9182	Berlin	13357	Hochstr. 33
VU_1606	Berlin	12559	Salvador-Allende-Str. 76 a-u
VU_9281	Berlin	10997	Wrangelstr. 64
VU_9301	Berlin	12347	Buschrosensteig 5-7

Valuation Unit	City	Postal Code	Address
VU_1603	Berlin	13595	Adamstr. 11 /Földerichstr. 40,42
VU_2203	Berlin	12109	Mariendorfer Damm 88-90
VU_9411	Berlin	13359	Koloniestr. 27
VU_9431	Berlin	13357	Pankstr. 80
VU_9531	Berlin	13583	Seegefelder Str. 59 / Staakener Str. 7
VU_9461	Berlin	13409	Ritterlandweg 40
VU_9372	Berlin	12309	Groß-Ziethener Str. 84-104, Nahariyastr. 40, Skarbinastr. 78-88 (Ringo II)
VU_9194	Berlin	10315	Alt-Friedrichsfelde 86
VU_7102	Berlin	12555	Kiekebuschstr. 9
VU_9222	Berlin	12487	Louis-Bleriot-Str. 5; Sportfliegerstr. 9
VU_9571	Berlin	13347	Liebenwalder Str. 41

Currently there is no indication that the above-mentioned sites pose a threat to public health or unacceptable conditions due to substances hazardous to the environment. We must point out that findings of contaminations might lead to an effect on value in the event of future structural alterations; these have not been taken into account in the present valuation. We assume there is no effect on value and that the information provided by the local authority is correct and up-to-date. Furthermore, we assume that the current use of the properties will continue to be viable in the medium to long term and therefore that no construction works will be necessary. For the purposes of this valuation, we therefore assume that the suspected contamination would not have a significant effect on value.

Furthermore, there are six valuation units which are not listed but also named in the information of the local authority, due to the former commercial use.

Valuation Unit	City	Postal Code	Address
VU_6401	Berlin	12051	Emscher Str. 40
VU_9192	Berlin	12459	Tabbertstr. 34
VU_9195	Berlin	13347	Lindower Str. 23
VU_9381	Berlin	10551	Emdener Str. 29
VU_9441	Berlin	10553	Wittstocker Str. 19
VU_9493	Berlin	10555	Jagowstr. 18

For 60 of the 423 valuation units we have not been provided with an extract of the register of potentially contaminated sites. For these and all other valuation units, for the purposes of our valuation we have assumed that the subject properties are free from contamination and that the present and previous uses do not indicate a substantial potential for contamination.

1.16 Legal Requirements / Consents and Authorisation for the Use of the Property

An investigation of the compliance of the properties with legal requirements (including (permanent) planning consent, building permit, acceptance, restrictions, building, fire, health and safety regulations etc.) or with any existing private-law provisions or agreements relating to the existence and use of the site and building has not been carried out.

In preparing our valuation, we have assumed that all necessary consents and authorisations for the use of the properties and the processes carried out at the properties are in existence, will continue to subsist and are not subject to any onerous conditions.

1.17 Taxes, Contributions, Charges

We have assumed that all public taxes, contributions, charges etc. which could have an effect on value will have been levied and paid as at the date of valuation.

1.18 Insurance Policy

We have assumed that the subject properties are covered by a valid insurance policy that is adequate both in terms of the sum assured and the types of potential loss covered.

1.19 Town planning and Road Proposals

We have not undertaken planning enquiries but have relied upon the information provided where appropriate. For the purposes of our valuation we assumed that there are no adverse town planning, highways or other schemes or proposals that will have a detrimental effect on our valuations.

1.20 Statements by Public Officials

In accordance with established legal practice, we have not regarded statements by public officials, particularly regarding factual information, as binding. We do not assume any liability for the application of any such statements or information in the subject appraisal report.

1.21 Assumptions regarding the Future

For the purpose of determining the Fair Value of the subject properties, we have assumed that the existing business will continue (as regards both manner and extent of usage of the subject properties) for the remainder of the useful life determined for the buildings, or that comparable businesses would be available to take over the use of the subject properties.

1.22 Tenants

No investigations have been carried out concerning either the status of payments of any contractually agreed rent or ground rent at the date of valuation, or of the creditworthiness of any tenant(s). Since no information to the contrary has been brought to our attention, we have assumed that there are no outstanding rental payments and that there are no reservations concerning the creditworthiness of any of the tenants.

1.23 Pending Litigation, Legal Restrictions (Easements on Real Estate, Rent Regulation etc.)

Since no information to the contrary has been brought to our attention, we have assumed that the properties are free from any pending litigation, that the ownership is unencumbered and that there are no other legal restrictions such as easements on real estate, rent regulations, restrictive covenants in leases or other outgoings which might adversely affect value. Further information on existing easements can be found under the heading 3.4.16.

Important: Should any of the information or assumptions on which the valuation is based be subsequently found incorrect or incomplete, our calculations may need to be amended and the valuation figure may also be incorrect and should be re-evaluated. We therefore cannot accept any liability for the correctness of this assessment or for any loss or damage resulting there from.

1.24 Verification

We recommend that before any financial transaction is entered into based upon these valuations, you obtain verification of the information contained within our valuation statement and the validity of the assumptions we have adopted.

We would advise you that whilst we have valued the properties reflecting current market conditions, there are certain risks, which may be or may become uninsurable. Before undertaking any financial transaction based upon this valuation, you should satisfy yourselves as to the current insurance cover and the risks that may be involved should an uninsured loss occur.

1.25 Conflict of Interest

We hereby confirm that we have no existing potential conflict of interest in providing the valuation report, either with the Company or with the properties.

Furthermore, we confirm that we will not benefit (other than from receipt of the valuation fee) from this valuation instruction.

1.26 Assignment of Rights

The Addressee of the Valuation Report is not entitled to assign its rights – either in whole or in part – to third parties.

1.27 Place of Performance and Jurisdiction

German law applies. The place of performance and jurisdiction is Frankfurt am Main. For the avoidance of doubt, the German-speaking version has priority over the English-speaking version of this report.

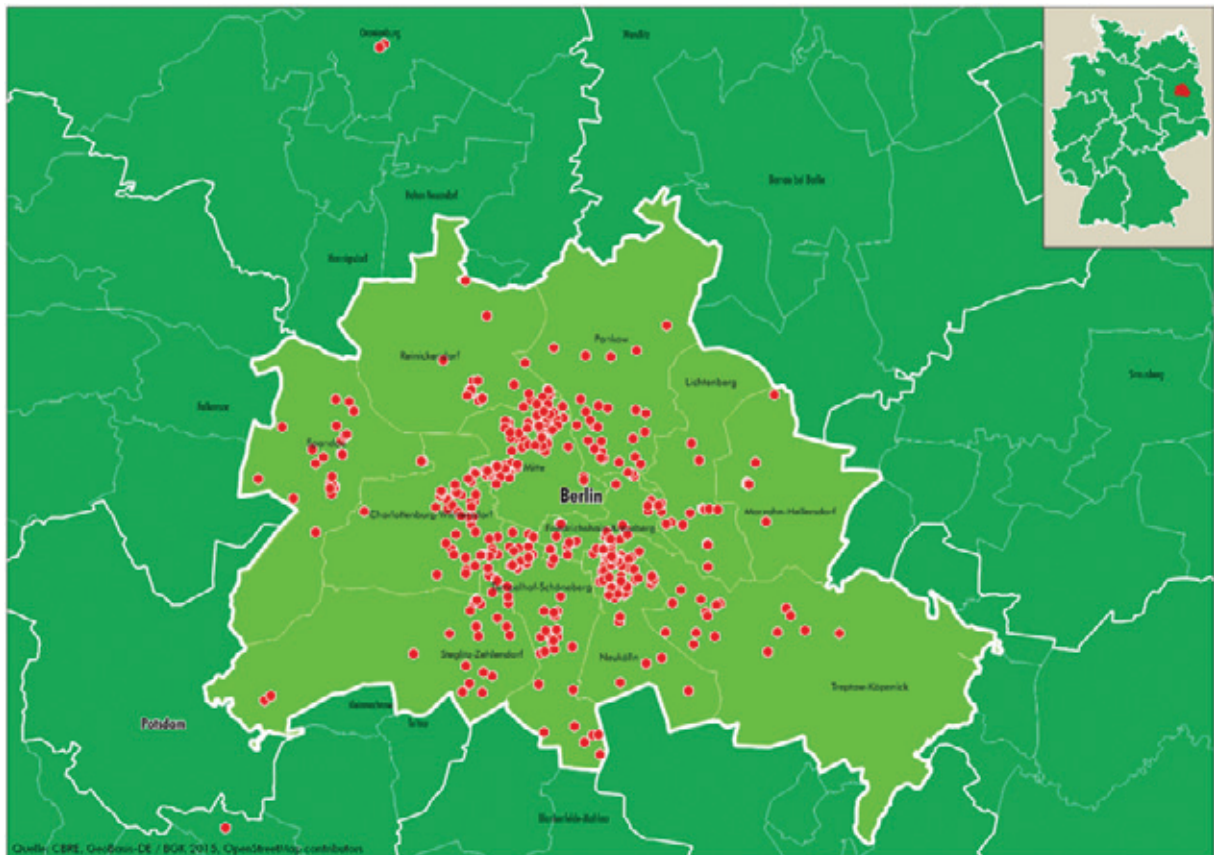
2 ASSET HOLDINGS

The geographical distribution of the valuation units as well as the proportional distribution of the lettable area, rental income and reported values by location, are shown in the following parts. The locations are divided into the districts of Berlin and into the locations Oranienburg and Nuthetal.

2.1 Geographic Allocation

With the exception of two valuation units in Oranienburg and one valuation unit in Nuthetal all valuation units are located in the city of Berlin.

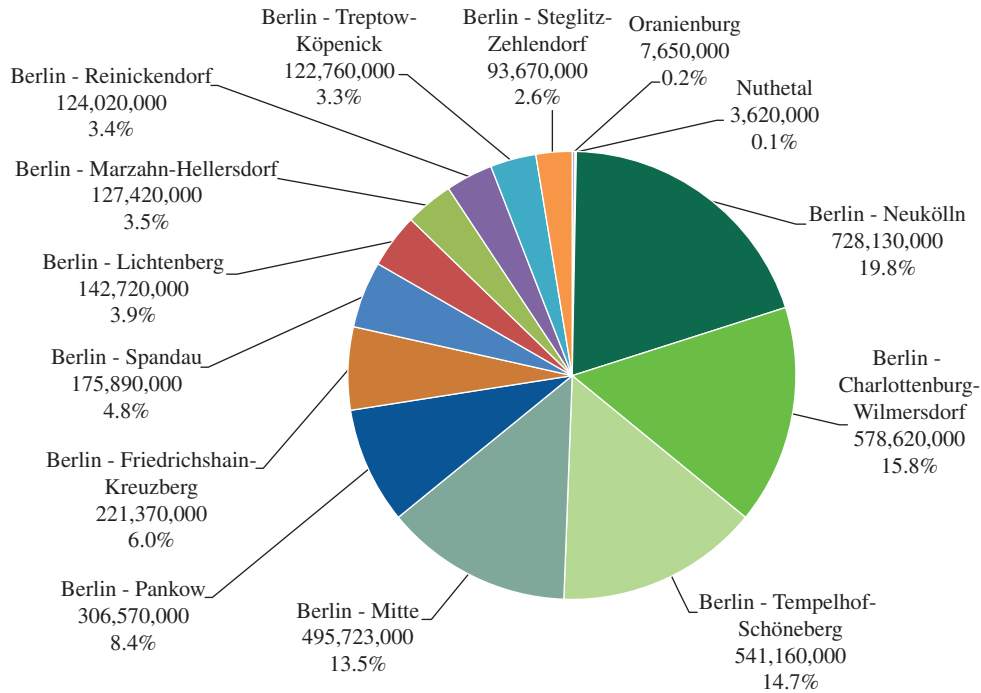
The following map shows the allocation of the 423 valuation units within the districts of Berlin as well as in Oranienburg and Nuthetal.



Source: GeoBasis-DE / BGK 2020, OpenStreetMap contributors

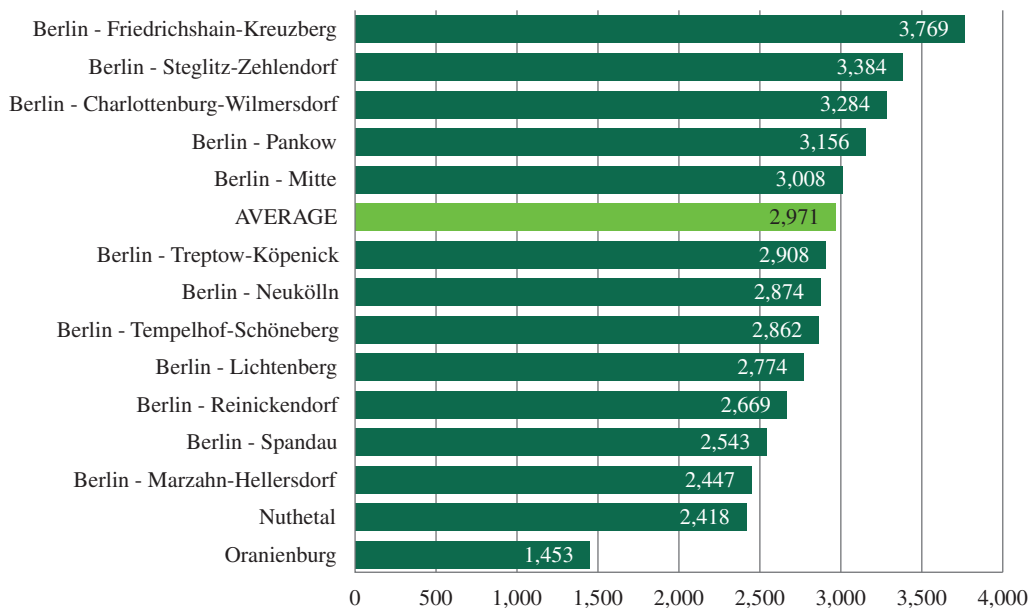
2.2 Fair Value (EUR) by location

The total Fair Value of the valuation subject amounts to 3,669,323,000 EUR. The district Neukölln has the largest proportion (19.8%) with a Fair Value of 728,130,000 EUR. It is followed by the districts Charlottenburg-Wilmersdorf with 578,620,000 EUR (15.8%), Tempelhof-Schöneberg with 541,160,000 EUR (14.7%), Mitte with 495,723,000 EUR (13.5%) and Pankow with 306,570,000 EUR (8.4%). These five locations represent more than two-thirds of the total portfolio Fair Value. The smallest proportion has Nuthetal with 0.1% (3,620,000 EUR).



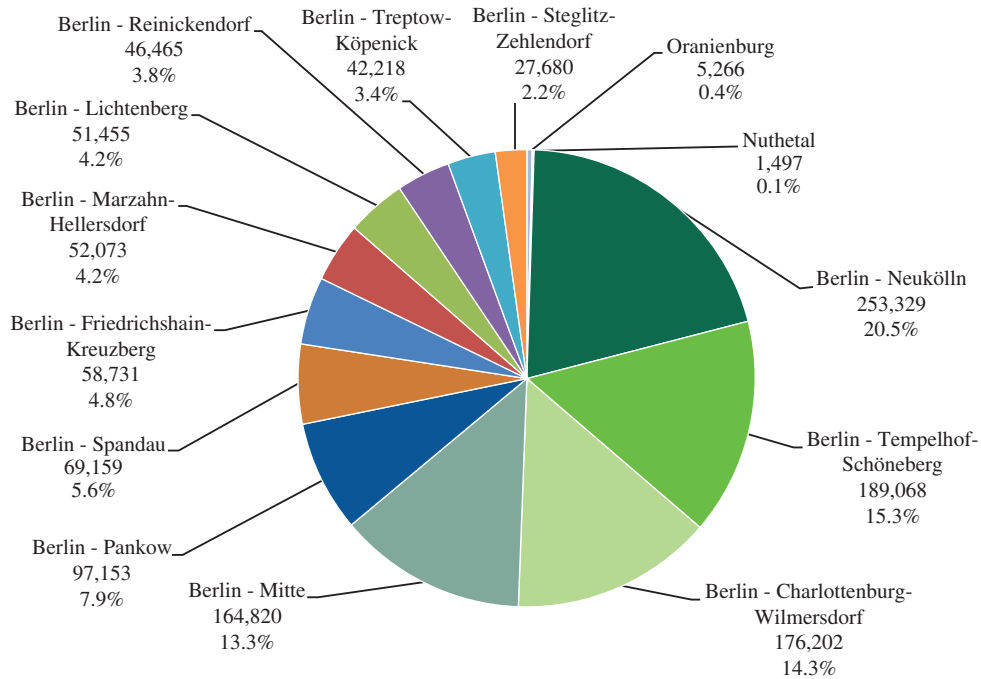
2.3 Fair Value per Lettable Area (EUR per sq m) by Location

The chart below shows the Fair Value per sq m lettable area by location. The average Fair Value per sq m of the portfolio amounts to 2,971 EUR. The highest average Fair Value per sq m (3,769 EUR) was determined in the district Friedrichshain-Kreuzberg. Oranienburg is the location with the lowest average Fair Value per sq m (1,453 EUR).



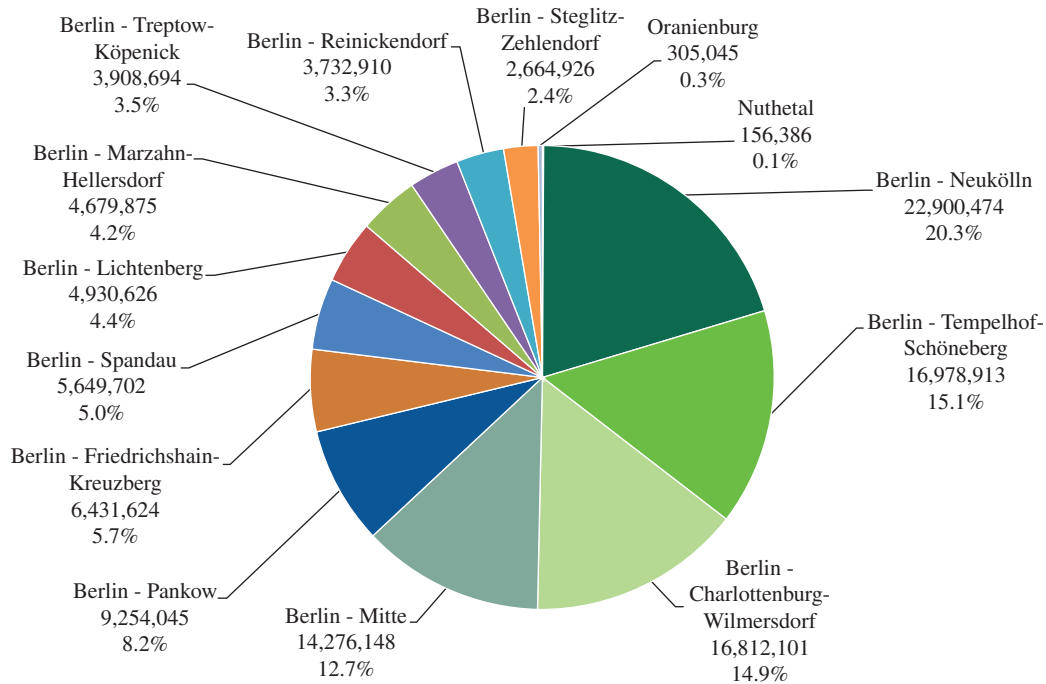
2.4 Total Lettable Area (sq m) by Location

The valuation subject has a total lettable area of 1,235,117 sq m. With 253,329 sq m the valuation units located in the district Neukölln have the largest proportion, representing 20.5% of the total portfolio area. Approximately 15.3% of the total area is located in the district Tempelhof-Schöneberg (189,068 sq m), 14.3% in the district Charlottenburg-Wilmersdorf (176,202 sq m), 13.3% in the district Mitte (164,820 sq m) and 7.9% in the district Pankow (97,153 sq m). These five biggest locations by area represent more than two-thirds of the total portfolio. The smallest proportion of the total portfolio area has Nuthetal with 0.1% (1,497 sq m).



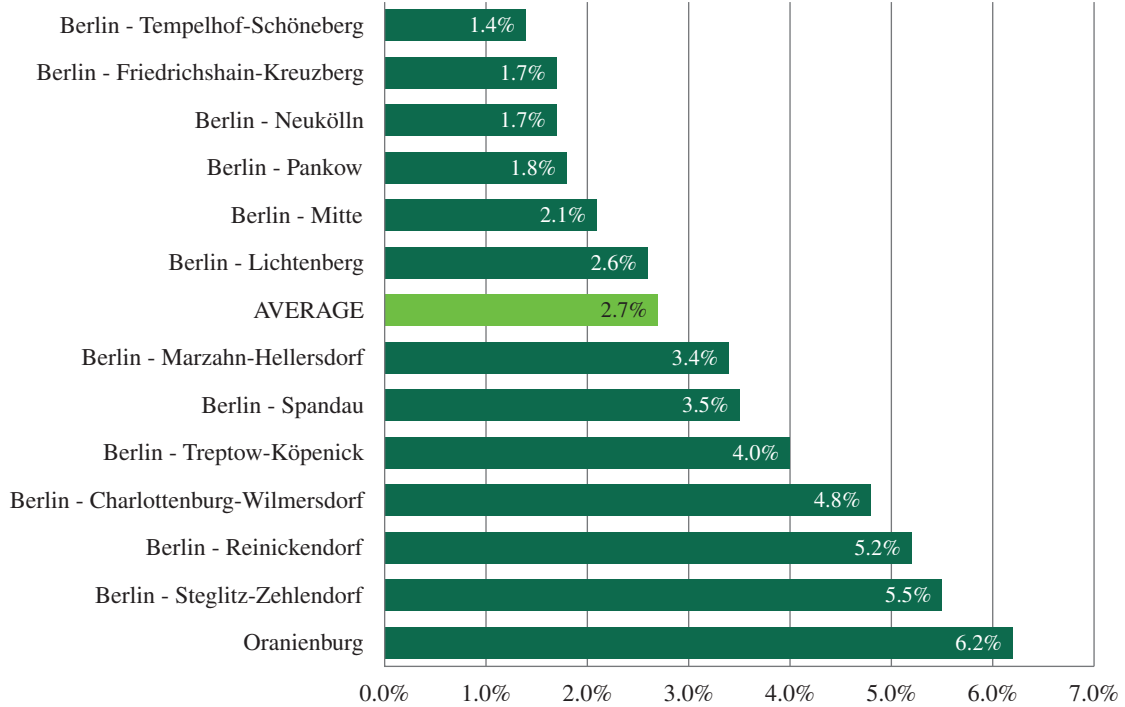
2.5 Current Gross Rental Income (EUR p.a.) by Location

The current annual gross rental income of the portfolio (current annual rent per month according to tenant list x 12) amounts to 112,681,468 EUR. The properties located in the district Neukölln have the highest proportion of the current gross rental income of all locations (22,900,474 EUR). The district Tempelhof-Schöneberg represents the location with the second largest proportion of the gross rental income (16,978,913 EUR), followed by the district Charlottenburg-Wilmersdorf (16,812,101 EUR), the district Mitte (14,276,148 EUR) and the district Pankow (9,254,045 EUR). These five biggest locations represent more than two-thirds of the total portfolio's GRI.



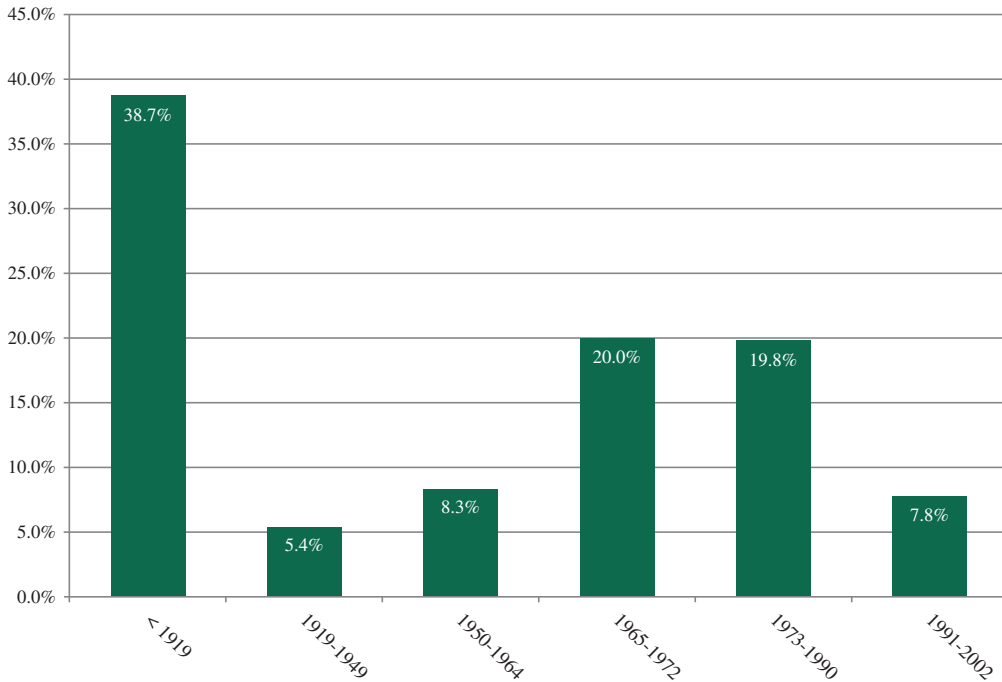
2.6 Vacancy Rate by Location

The average vacancy rate of the portfolio is 2.7%. The valuation units located in the district Tempelhof-Schöneberg have the lowest average vacancy rate of all locations with 1.4%. The valuation units located in Oranienburg (Brandenburg; in total 5,266 sq m) have the highest average vacancy rate (6.2%). The valuation units located in the district Neukölln, the location with the biggest proportion of Fair Value, have an average vacancy rate of 1.7%.



2.7 Lettable Area by Period of Construction

The construction years of the valuation units within the portfolio are broadly diversified. Buildings with the date of construction before 1919 (38.7% of the lettable area) have the largest proportion of the portfolio. Buildings with construction dates between 1965-1972 (20.0% of the total lettable area) have the second largest and buildings with construction dates between 1973-1990 (19.8% of the total lettable area) have the third largest proportion of the portfolio.



2.8 Portfolio Breakdown

The following table shows the breakdown of the valuation results by location (districts of Berlin, Oranienburg and Nuthetal).

Borough	Residential Units	Commercial Units	Total Area m ²	Vacancy Rate	G RI on Current	G RI on Market	Market Value Total	Market Value per sq m
				%	EUR	EUR	EUR	EUR/sq m
Berlin – Neukölln	3,549	192	253,329	1.7%	22,900,474	27,418,128	728,130,000	2,874
Berlin – Charlottenburg- Wilmersdorf	2,184	162	176,202	2.6%	16,812,101	21,050,577	578,620,000	3,284
Berlin – Tempelhof-Schöneberg	2,308	181	189,068	2.1%	16,978,913	20,861,865	541,160,000	2,862
Berlin – Mitte	2,322	187	164,820	1.7%	14,276,148	18,442,433	495,723,000	3,008
Berlin – Pankow	1,071	199	97,153	1.8%	9,254,045	10,816,429	306,570,000	3,156
Berlin – Friedrichshain- Kreuzberg	823	75	58,731	5.2%	6,431,624	7,746,719	221,370,000	3,769
Berlin – Spandau	920	42	69,159	3.5%	5,649,702	6,966,805	175,890,000	2,543
Berlin – Lichtenberg	886	201	51,455	5.5%	4,930,626	5,484,371	142,720,000	2,774
Berlin – Marzahn-Hellersdorf	553	130	52,073	1.4%	4,679,875	5,095,998	127,420,000	2,447
Berlin – Reinickendorf	610	37	46,465	4.0%	3,732,910	4,969,313	124,020,000	2,669
Berlin – Treptow-Köpenick	514	58	42,218	0.0%	3,908,694	4,749,115	122,760,000	2,908
Berlin – Steglitz-Zehlendorf	375	15	27,680	6.2%	2,664,926	3,309,521	93,670,000	3,384
Oranienburg	90	0	5,266	3.4%	305,045	426,546	7,650,000	1,453
Nuthetal	15	7	1,497	4.8%	156,386	164,721	3,620,000	2,418
AVERAGE	16,220	1,486	1,235,117	2.7%	112,681,468	137,502,541	3,669,323,000	2,971

3 EXPLANATION OF VALUATION

3.1 Inspections

In accordance with the instructions, the valuation of the properties was carried out on an individual level.

As part of the previous valuations (see preamble), since 2015 all properties were fully inspected (internal and external inspection) at least once. As part of the half-year and year-end valuations, CBRE conducted again external inspections of the entire portfolio.

3.2 Method of Valuation

3.2.1 Discounted Cash Flow (DCF)

The determination of the Fair Value of the individual assets has been carried out using the internationally recognised Discounted Cash Flow (DCF) method. This method, which is based on dynamic investment calculations, allows valuation parameters to be reflected explicitly and, therefore, combines a transparent arithmetical determination of Market Value with comparison elements (in relation to market rents, costs, Fair Value etc.). In the DCF method, the future income and expenditure flows associated with the subject asset are explicitly forecasted over a 10-year period of detailed consideration, assuming a letting scenario which is not taking into account any potential privatisations of individual apartments. The cash flows calculated for the period of detailed consideration are discounted, monthly in advance, to the date of valuation, allowing the effect on the current Market Value of the receipts and payments at varying dates during the 10-year period to be properly reflected.

The discount rate chosen reflects not only the market situation, location, condition and letting situation of the asset and the yield expectations of a potential investor but also the level of security of the forecast future cash flows. As the discounting process means that the effect of future cash flows reduces in importance while at the same time the uncertainty of forecasting tends to increase over time, it is usual in real estate investment considerations for the sustainable net rental income after a ten-year time horizon (the period of detailed consideration) to be capitalised, using a growth-implicit yield, and then discounted to the date of valuation.

The assumptions adopted in the valuation model reflect the average estimates based on comparable data (if available) that would be made at the respective date of valuation by investors active in the market. The result of

the DCF method is, therefore, the price that a relevant investor in the market would be prepared to pay for the asset at the respective date of valuation, in order to achieve a return from the proposed investment that is in line with present asset market expectations.

3.2.2 Rental Values

Rental values indicated in this report are those which have been adopted by us as appropriate in assessing the capital value or the letting potential of the properties, subject to market conditions that are either current or expected in the short term. They are mainly based on recent lease agreements within the properties, our experience of the markets and our knowledge of actual comparable market activity.

3.2.3 Berlin Rental Freeze Proposition

In its plenary session January, 30th, 2020, the Berlin Parliament (“Abgeordnetenhaus”) has officially enacted the Rental Freeze Proposition for Berlin (“Berliner Mietendeckel”). The rent level of existing and new leases of residential apartments completed before 2014 and with exception of publicly subsidized apartments will remain stable for five years at the level as at June, 18th, 2019. Furthermore, starting from October, 1st, 2020 the key regulation will be as follows:

- Existing rents (plus, if applicable, individual adjustments) will have to be decreased to the rent level in accordance with the local rental table 2013 plus 20%
- Rents of re-lettings (plus, if applicable, individual adjustments) will have to be decreased to the rent level in accordance with the local rental table 2013 plus 13.5% (compensation for inflation)

From a valuation perspective, as at 31st December 2019 however, the endurance of it and some details are still unclear. There is a debate among the advocates whether the free market rental law is exclusively ruled by federal building legislation (“Baugesetzbuch”, “Mietpreisbremse”) or if individual laws or decrees can be passed by a federal state parliament. A check of compatibility of this rental freeze act with constitutional law in front of the Berlin Constitutional Court (“Verfassungsgerichtshof Berlin”) or the Federal Constitutional Court (“Bundesverfassungsgericht”) will be pursued by members of parliament from the political parties CDU/CSU und FDP in the next couple of months.

So far, as at 31st December 2019, we do not incorporate any changes in the cashflow of our DCF model as there is no acknowledged and approved legal framework for it. Our assessment of the market rent, independent from the valuation methodology, is carried out based on the existing federal legislation of the capping of rents of new leases (“Mietpreisbremse”).

In terms of market sentiment from the direct investors’ side, we so far haven’t seen any decreases in pricing. Investors are just more cautious and transaction processes are on hold. At the end of January 2020, we carried out a survey based on real transaction prices from the local land valuation board and asking prices, both for multifamily houses, as well as portfolio transactions of multifamily houses in Berlin. By comparing the second half with the first half of 2019 the result of our analysis is that all sources of information indicate stable to slightly increasing prices despite the announcement of the rental freeze proposition. Therefore, our discount and exit cap rates as for today remain stable.

As we are not legal experts, we cannot forecast how this rent freeze proposition will finally end up. From our perspective it is for sure that there will be a long-term legal dispute, as even the legal experts have different opinions on this subject in detail.

3.3 General Valuation Assumptions

3.3.1 The property

Landlord’s fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our valuations. Tenant-specific process plant and machinery, tenants’ fixtures and specialist trade fittings have been excluded from our valuations.

3.3.2 Repair and Condition

We have not carried out building surveys, tested services, made independent site investigations, inspected woodwork, exposed parts of the structure which were covered, unexposed or inaccessible, nor arranged for any

investigations to be carried out to determine whether or not any deleterious or hazardous materials or techniques have been used, or are present, in any part of the properties. We are unable, therefore, to give any assurance that the properties are free from defect.

- a. In the absence of any information to the contrary, we have assumed that:
- b. there are no abnormal ground conditions, nor archaeological remains, present which might adversely affect the current or future occupation, development or value of the properties;
- c. the properties are free from rot, infestation, structural or latent defect;
- d. no currently known deleterious or hazardous materials or suspect techniques, including but not limited to Composite Panelling, have been used in the construction of, or subsequent alterations or additions to, the properties; and
- e. the services, and any associated controls or software, are in working order and free from defect.

We have otherwise had regard to the age and apparent general condition of the properties. Comments made in the property details do not purport to express an opinion about, or advise upon, the condition of uninspected parts and should not be taken as making an implied representation or statement about such parts.

3.3.3 Floor Areas

If not otherwise stated, we have not measured the properties but have relied upon the schedules of area that were provided to us within the tenancy lists and the technical due diligence assessment. In undertaking our work, we have assumed that these floor areas are correct.

3.3.4 Title, Tenure, Planning and Lettings

Unless stated otherwise within this Report and in the absence of any information to the contrary, we have assumed that:

- a. the Property possesses a good and marketable title free from any onerous or hampering restrictions or conditions;
- b. all buildings have been erected either prior to planning control, or in accordance with planning permissions, and have the benefit of permanent planning consents or existing use rights for their current use;
- c. the Property is not adversely affected by town planning or road proposals;
- d. all buildings comply with all statutory and local authority requirements including building, fire and health and safety regulations;
- e. there are no tenant's improvements that will materially affect our opinion of the rent that would be obtained on review or renewal;
- f. tenants will meet their obligations under their leases;
- g. there are no user restrictions or other restrictive covenants in leases which would adversely affect value;
- h. where appropriate, permission to assign the interest being valued herein would not be withheld by the landlord where required; and
- i. vacant possession can be given of all accommodation which is unlet or is let on a service occupancy.

3.3.5 Infrastructure and Services

It is assumed that all the sites are serviced within the meaning of paragraph 123 of the German statutory building code (Baugesetzbuch § 123) i.e. that they are connected to the road system, service mains (water, electricity, gas and district heat) and sewers (for both waste and surface water) and that refuse collection was provided.

3.3.6 Taxes, Insurance

In undertaking our valuation, we have assumed that:

- a. all public taxes, contributions, charges etc. which could have an effect on value will have been levied and paid as at the date of valuation.
- b. the subject properties are covered by a valid insurance policy that is adequate both in terms of the sum assured and the types of potential loss covered.

3.3.7 Purchaser's costs

Notary and legal fees: The allowance for each individual property of 0.30% to 1.10% is in line with average costs for notarizing a purchase contract (compulsory under German law), land registry costs and miscellaneous legal charges and depends on the volume of the individual property.

Agent's fees: In the German market it is common for the purchaser to be responsible for paying all or at least part of the agent's fees. We have therefore adopted a level for each individual property of 1.00% to 3.00%.

Land transfer tax: Under German tax law, a transfer tax based on the purchase price has to be paid on property purchase. This is generally paid by the purchaser. The tax rate is different in each of the German federal states. At the date of valuation, the tax rate is 6,00% for the federal state Berlin and 6,50% for the federal state Brandenburg.

3.4 Valuation Parameters

The assessment of Fair Value is based on future cash flows, which reflect normal market expectations taking into account past figures from the subject assets or comparable investments. The valuation parameters have been assessed by CBRE, using its best judgement, based on the information provided by the Company.

Under German law, neither management nor maintenance costs are transferable to residential tenants. We have applied our considerable property management experience for the purposes of this valuation. The amounts reflected depend on the number of properties or, in the case of maintenance, the age and condition of the buildings.

3.4.1 Non-Recoverable Management Costs

Residential leases generally involve non-recoverable management costs. For the purposes of this valuation and on the basis of experience of CBRE and an analysis of costs of public and private housing associations, non-recoverable management costs have been allowed for at between 200 EUR and 350 EUR per residential unit p.a. (depending on the number of residential units in the individual building and the assumed expense).

The weighted average non-recoverable management costs amount to 236 EUR per residential unit p.a.

For the commercial units we have allowed non-recoverable management costs of 3% of the gross rental income on potential rent.

For parking we have allowed non-recoverable management costs of 37 EUR per year per unit.

3.4.2 Non-recoverable Costs for regular Maintenance

The annual costs per square metre of the lettable area adopted for the purposes of this valuation are average figures for the types of use concerned, arrived at on the basis of experience by CBRE and the analysis of costs of similar buildings by third-party firms. They take into account the necessary cost inputs for long-term operation of the assets. The maintenance and repair costs allowed for in the valuation are between 8.00 EUR per sq m p.a. to 12.75 EUR per sq m p.a, with a weighted average of 10.17. These figures reflect the age and the state of repair of the subject properties. The existence of a lift system is taken into account with an additional 1.25 EUR per sq m p.a. For listed monuments we assumed an increase of ongoing maintenance costs of 10%. For internal parking (garages/underground parking) we have assumed 70 EUR per year per unit and for external parking spaces 30 EUR per year per unit.

3.4.3 Non-recoverable Costs for Tenant Improvements

Under German law, it is frequently the tenant's responsibility to carry out decorative and minor repairs.

Upon a change in tenants, however, additional expenses for basic repairs and renovation of the interior of the individual rental units must be incurred, e.g. in the bathrooms and kitchens of residential space, to facilitate renewed letting.

For each of the valuation units we have adopted an amount, based on current market experience, for initial refurbishments or in case of tenant fluctuation as follows:

- 45 EUR per sq m on to 150 EUR per sq m for residential space (Ø approx. 88 EUR per sq m)
- 30 EUR per sq m for retail space
- 60 EUR per sq m on to 115 EUR per sq m for office space
- 20 EUR per sq m on to 85 EUR per sq m for other commercial space

Average maintenance costs and costs for tenant improvement for residential area sum up to approximately 17.24 EUR per sq m p.a.

3.4.4 Non-recoverable Service Charges on vacant space

This heading refers to a book reserve for costs such as charges that would normally be borne by the tenant such as heating costs, property tax but due to the vacancy cannot be recovered. Based on the analysis of the German Tenant Association ("Deutscher Mieterbund") a level of 24.00 EUR per sq m per year has been adopted for vacant residential accommodation. For commercial units, a level of 12.00 EUR per sq m per year has been chosen.

3.4.5 Void Period for currently vacant Space/ Future Void Periods on Re-Letting

Currently, the portfolio has a weighted average vacancy rate of 2.7% (weighted by area). On re-letting of rental units currently occupied as well as for future vacant accommodation, a void period of one to six months for residential units (average of approximately 1.8 months) has been assumed. Our assumptions are based on experience of the local property market and depend on the quality of situation, the respective condition of the individual property and the current rental situation.

Depending on the quality of situation and the respective property, the current rental situation and the local vacancy rate we have assumed an initial downtime until structural vacancy of six to twelve months for commercial space. For future vacant accommodation, a void period of three months for commercial units has been assumed.

3.4.6 Deferred maintenance Costs (structural Costs)

In addition to the non-recoverable ancillary costs, which are deducted monthly from the gross rental income during the period of detailed consideration, capital expenditure on repair and maintenance work already planned at the date of valuation has also been reflected. CBRE has not undertaken technical surveys.

Based on our inspections and the information which we were provided with, it is our opinion that the overall condition of the buildings and its technical equipment has been regularly maintained.

The calculations of outstanding, structural maintenance costs in year one are mainly based on the information provided by the Company. In total, we have adopted an amount for deferred maintenance costs of 2,934,671 EUR in this valuation.

3.4.7 Structural Vacancy

Currently, the average vacancy rate (weighted by area) for residential area of the portfolio is 2.7% (Ø vacancy rate residential area 2.6%). We are assuming that the weighted average vacancy rate for residential area of the

portfolio has the potential to decrease to a structural vacancy rate of approx. 0.52% with a range of 0.25% to 3.00% at asset level.

Commercially-occupied units were not subject to this modelling process. The cash flow from the commercially-occupied units is oriented on the lease data. If these were not available, CBRE resumed a remaining lease term by 31 December 2022.

3.4.8 Fluctuation Rate

We have done an analysis of about 1,000,000 records based on our database. As a result, we found out that there are different fluctuation rates in Germany. Therefore, we have developed a table with different fluctuation rates (range between 8.0% – 12.0%) for all German cities and districts. For the valuation, we have assumed a fluctuation rate of 8.0% for Berlin and Nuthetal and a fluctuation rate of 9.75% for Oranienburg.

The only exception is valuation unit VU_8031 (Löwenberger Str. 2, 4). Due to the fact that there are almost entirely small apartments with a higher fluctuation rate we have assumed a fluctuation rate of 15.0%.

3.4.9 Credit Loss

We have not conducted credit enquiries on the financial status of any tenants. We have, however, reflected our general understanding of purchasers' likely perceptions of the financial status of tenants. In the absence of information to the contrary, we have assumed that there are no significant rent arrears.

3.4.10 Inflation and Rental Growth

Taking explicitly into account inflation, we have assumed annual rates of 1.60% in the first year and 2.00% in the following years. The sources are Consensus Forecast and EZB.

Growth of the residential market rent has been explicitly reflected on a regional basis for all of Germany in eight segments with rates ranging between 0.3% and 3.0% in year 1 to 5 and with rates ranging between 0.25% and 2.0% in year 6 to 10 reflecting the

- household trend in the last 12 years (source: official statistics)
- household forecast 2025 (source: official statistics)
- purchasing power index, latest available figures (source: gfk Nürnberg)
- GDP per capita, latest available figures (source: official statistics)
- Prognos Sustainability Rating
- Vacancy Index, latest available figures (source: CBRE-empirica)
- Residential rental forecast, latest available figures (source: BulwienGesa AG)
- CBRE Rental Database with more 6 million entries

The base case has been individually adjusted considering the respective situation and property condition.

3.4.11 Selection of Discount Rate and Capitalization Rate

The Capitalisation Rate is derived from the average Net Initial Yield ("NIY") achieved in comparable transactions involving residential properties that were observed by CBRE and reflects the market situation as well as the yield expectations of a potential investor. It includes rental growth assumptions implicitly. The Discount Rate, which explicitly reflects rental growth in the cash flows, is derived from the Capitalisation Rate plus the average rental growth.

The Discount Rate and Capitalisation Rate are adjusted individually for each local market to be valued, in accordance with the following criteria:

- Quality of the location
- Demand and levels of value in the relevant local real estate market

- The prospects for the local market
- Development of rents and prices (yield compression)

The assessment of the Discount Rate and Capitalisation Rate for the individual property involves several components. Starting from a basic rate for each location, additions and deductions are made according to various criteria specific to the buildings concerned:

Adjustment for commercial proportion		
Commercial proportion up to	5%	0.00%
Commercial proportion up to	20%	0.25%
Commercial proportion up to	50%	0.50%
Commercial proportion up to	50%	1.00%
Adjustment for quality of situation		
Very good residential area	1	-0.50%
Good residential area	2	-0.25%
Medium residential area	3	0.00%
Modest residential area	4	0.25%
Adjustment for size of building		
No. of storeys: up to	4	0.00%
No. of storeys: up to	6	0.10%
No. of storeys: more than	7	0.20%
Adjustment for type of building		
Detached house	1	-1.00%
Duplex/semi-detached/terraced house	2	-0.75%
Apartment building	3	0.00%
Other adjustments		
Addition for stove heating		0.40%
Addition for ground lease		0.25%
Deduction for new buildings		-0.50%

Additionally, the Discount Rate and Capitalisation Rate can be adjusted individually in accordance with the following criteria:

- The current letting situation in the property as regards vacancy, over-rented or under-rented status, the quality of the tenancy structure, the remaining lease term(s) and (for commercial leases) the indexation provisions and extension options
- The nature of the property, its age, size and condition
- Additional risk adjustments to take into account uncertainties in the forecasting of future cash flows

For example, the limited risk of a lower subsidised rent compared to rents on market level can be reflected in a reduced Discount Rate and/or Capitalisation Rate. On the other hand, a current rent above market level implies the risk that the current rent cannot be achieved in the future; to reflect this a risk premium is appropriate and required.

The Capitalisation Rate is used to capitalise the net rental income after the cashflow period (“Exit Value”). This net rental income comprises the assumed rental income at that time less the non-recoverable operating costs.

The cash flows and the Exit Value are discounted using the selected Discount Rate, monthly in advance.

The resulting net present values were checked against our analysis of comparable transactions (if available) from the sale price data collected by the relevant local valuation committee (Gutachterausschuss) and an analysis of

the internal lease and sale database of the CBRE Valuation Department. If necessary, in the absence of transaction data, asking prices for comparable assets on offer at empirica systeme were also considered. If, in particular instances, results of our DCF calculations were found not to reflect the Fair Value of an individual building, the calculation was adjusted by means of a change in the discount rate and Capitalisation Rate using expert and experienced judgement.

For the subject properties we have adopted a Discount Rate of 3.45% to 5,95% (Ø 4.61%) and an Exit Cap Rate of 1.45% to 4.15% (Ø 2.68%).

3.4.12 Market Rent (ERV)

The market rents adopted for properties which are not applicable for the capping of rents of new leases (“Mietpreisbremse”) are in accordance with the results of the recent lease agreements (12 months), our internal CBRE rental data base and other internal sources, the internet data base empirica systeme GmbH (asking rents) and the local rental tables (Mietspiegel) for residential rents, if available.

Since 1 June 2015 the capping of rents of new leases is in force, which enables the federal states to establish individual decrees. The new law limiting rent increases (MietNovG) upon re-letting of existing residential units in regions with low supply only allows an increase of rent up to local rental table level plus 10%. This law applies for five years. There are, however, exceptions: residential units completed after 1 October 2014 are not affected as well as rent increases reflecting modernisation works, pursuant to § 559 section 1 to 3 BGB (German civil code). In such cases, 11% of the total CapEx may still be recouped from the tenant each year. This new law also does not apply for the small market segment of furnished apartments.

The city states Berlin, Bremen and Hamburg were joined by more than 300 local authorities in the federal states of Baden-Württemberg, Bavaria, Brandenburg, Hesse, Lower Saxony, Mecklenburg-Western Pomerania, North Rhine-Westphalia, Rhineland-Palatinate, Schleswig-Holstein and Thuringia in introducing the Mietpreisbremse (capping of rents on re-letting). However, according to CBRE research, neither Bremen nor approx. 200 of these local authorities have either a simple or qualified rent index (as of 31 December 2019).

In our valuation, for the determination of the market rent of properties located in cities where the brake on rents has already been implemented we have adopted the following approach:

1. The upper end of market rents (rents upon re-letting) is determined on rental unit level. An auxiliary calculation provides an overview of market rents on property level based on the weighted floor areas of the individual residential units.
2. In cases where the Company’s rents upon re-letting are not aligned with the Local Rental Table (Mietspiegel), we have calculated the maximum rents upon re-letting, which can be adopted, as follows:
(Local Rental Table Average plus Local Rental Table Maximum) / 2 + 10%
3. Additional Check: if the last rent of an apartment is higher than the calculated rent upon re-letting, then the last rent is taken into consideration
4. Should the determined upper end of the market rent exceed the rent achieved by documented recent leases, we then do not adopt the higher rent by default but the actually achievable rent.
5. For locations where the capping of rents of new leases applies without any existing local rental table we determine the market rent as before the introduction of the capping.

3.4.13 Hereditary Building Rights

With reference to the land register extracts provided by the Company, the two valuation units VU_8611 and VU_4802b are subject to heritable building rights. The affected valuation units, the ground rents and the individual expiration dates are shown in the table below.

Valuation unit	Address	Postal Code	City	Ground Rent EUR p.a.	Expiration Date
VU_4802b	Soldiner Str. 104	13359	Berlin	3,170	2051-06-30
VU_8611	Kantstr. 38; Leibnizstr. 35a	10625	Berlin	0	2067-12-31

In addition, there is an owner's heritable building right in the valuation unit VU_7011b. The property is split up according to WEG (Wohnungseigentumsgesetz). Only the commercial units (ground floor) are not part of the owner's heritable building right.

Furthermore, there is a further owner's heritable building right in the valuation unit VU_1606.

3.4.14 Public Subsidies

A number of the residential units were subject to rent control as at the valuation date. Instead of the rent increase method of the BGB (*Bürgerliches Gesetzbuch*) the subsidized residential units are subject to an economic rent (*Kostenmiete*). For these valuation units, we have calculated with a rental growth of 0.5%, based on our experience.

According to the information provided by the Company 14 of the 423 valuation units are completely or partly under public rent control.

The subsidised valuation units including their expiration date are shown in the following table:

Valuation Unit	City	Postal Code	Address	Expiration Date
VU_4802a	Berlin	13359	Freienwalder Str. 28, 29	2022-12-31
VU_4803	Berlin	10551	Oldenburger Str. 35	2022-12-31
VU_4804	Berlin	10781	Goltzstr. 50	2022-12-31
VU_4805	Berlin	10967	Hasenheide 88	2022-12-31
VU_4806	Berlin	13409	Sommerstr. 10; Nordbahnstr. 15	2022-12-31
VU_9011	Berlin	13583	An der Kappe 128, 128A	2024-12-31
VU_9013	Berlin	10437	Dunckerstr. 70, 70a	2019-12-31
VU_9166	Berlin	10553	Huttenstr. 39	2022-09-02
VU_9164	Berlin	10587	Lohmeyerstr. 25; Otto-Suhr-Allee 141; Kaiser-Friedrich-Str. 105	2021-12-31
VU_1606	Berlin	12559	Salvador-Allende-Str. 76 a-u	2029-12-31
VU_9301	Berlin	12347	Buschrosensteig 5-7	2032-12-31
VU_9321	Berlin	12439	Schnellerstr. 23	2020-11-30
VU_2203	Berlin	12109	Mariendorfer Damm 88-90	2045-12-31
VU_7103	Berlin	12105	Kurfürstenstr. 84, 86, 87, 90, 92	2028-03-31

3.4.15 Listed Buildings

Based on our internet research on the website of the Berlin Senate Department for Urban Development and the Environment (<http://www.stadtentwicklung.berlin.de/denkmal/>) 19 of the 423 valuation units are completely or partly listed as ancient monuments.

Valuation Unit	City	Postal Code	Address
VU_1041	Berlin	13629	Wernerwerkdamm 25; Hefnersteig 1-4; Ohmstr. 7-9
VU_1051	Berlin	12043	Karl-Marx-Str. 12, 12a
VU_1802	Berlin	10245	Seumestr. 11
VU_2101	Berlin	13357	Pankstr. 46
VU_5302	Berlin	10437	Milastr. 2
VU_7011b	Berlin	13597	Carl-Schurz-Str. 49, 49a
VU_7081	Berlin	13507	Buddestr. 5; Veitstr. 1-4b; Berliner Str. 85
VU_8801	Berlin	10967	Kottbusser Damm 72; Lenastr. 1

Valuation Unit	City	Postal Code	Address
VU_9021	Berlin	10119	Alte Schönhauser Str. 13
VU_9083	Berlin	10119	Max-Beer-Str. 7
VU_9042	Berlin	12209	Parallelstr. 11
VU_9077	Berlin	10999	Wiener Str. 8
VU_8971	Berlin	12055	Karl-Marx-Str. 194
VU_9122	Berlin	10965	Friesenstr. 11
VU_9161	Berlin	10245	Mainzer Str. 15 / Boxhagener Str. 98
VU_9251	Berlin	12159	Schnackenburgstr. 4
VU_1611	Berlin	10829	Kolonnenstr. 10,11 / Leberstr. 1,3
VU_2203	Berlin	12109	Mariendorfer Damm 88-90
VU_9191	Berlin	12105	Prühßstr. 26 / Richterstr. 33

3.4.16 Land Register Section II

With reference to the land register extracts provided by the Company, for 207 of the 423 valuation units encumbrances or easements are entered in land register section II. The majority of the entries are common agreements in terms of infrastructure provision of the properties or adjacent properties. Based on the inspections as well as in consideration of the entry dates, we have assumed that there are no entries, information or circumstances that could have an impact on Fair Values (including any easements, restrictions, or similar restrictions and encumbrances). We reserve the right to amend our valuation should any such factors be found to exist.

One notable exception is the valuation unit VU_1061 (Steglitzer Damm 42-46; Kellerstr. 3, 12169 Berlin). There is a limited personal easement which specifies a right of residence (“Wohnrecht”). In our valuation, we have therefore determined the period of loss of rent with the aid of the mortality table and considered a deduction of 68,424 EUR for the valuation unit.

3.4.17 Public Land Charges

According to the information provided by the Company, 26 of the 423 valuation units have entries in the public land register. The entries are common agreements. We have assumed that they are in line with the actual condition and use of the properties.

We do not have any information that the actual condition and use of the properties do not comply with the admissibility under building law. Taking into account the existing development, there is no influence on values in these cases.

Valuation Unit	City	Postal Code	Address
VU_1093	Berlin	10553	Huttenstr. 6, 7; Rostocker Str. 47-50, 52
VU_1094	Berlin	10553	Huttenstr. 8, 9
VU_1096	Berlin	10963	Hedemannstr. 10
VU_1097	Berlin	10963	Wilhelmstr. 15
VU_7022	Berlin	13359	Stockholmer Str. 1-3
VU_7023	Berlin	13359	Gotenburger Str. 1, 3, 5; Prinzenallee 65, 66
VU_7081	Berlin	13507	Buddestr. 5; Veitstr. 1-4b; Berliner Str. 85
VU_7095	Berlin	10999	Wiener Str. 46
VU_7096	Berlin	12103	Burgemeisterstr. 30, 32, 34, 36; Friedrich-Wilhelm-Str. 52, 54, 54a, 54b
VU_8231	Berlin	12307	Schichauweg 56, 60, 62, 64

Valuation Unit	City	Postal Code	Address
VU_8251	Berlin	13593	Gruberzeile 89
VU_8381	Berlin	12165	Schmidt-Ott-Str. 5a, 5b
VU_9021	Berlin	10119	Alte Schönhauser Str. 13
VU_9061	Berlin	13189	Berliner Str. 69
VU_7055	Berlin	13587	Hakenfelder Str. 9, 9A
VU_7033	Berlin	12685	Fichtelbergstr. 5-15; Allee der Kosmonauten 151-151 a-h
VU_8993	Berlin	12057	Dieselstr. 3, 5, 7, 9, 11, 13, 15
VU_9121	Berlin	10707	Olivaer Platz 8, 9, 10
VU_1606	Berlin	12559	Salvador-Allende-Str. 76 a-u
VU_1603	Berlin	13595	Adamstr. 11 /Földerichstr. 40,42
VU_9193	Berlin	12355	Alt Rudow 68
VU_9351	Berlin	13589	Falkenseer Chaussee 167-171
VU_9591	Berlin	14055	Angerburger Allee 35-55
VU_9601	Berlin	12437	Ligusterweg 24, 26
VU_7104	Berlin	12109	Mariendorfer Damm 48
VU_7109	Berlin	12107	Lankwitzer Str. 44

For 165 of the 423 valuation units we were not provided with an extract of the register of public land charges.

3.4.18 Potential for additional floor space

According to the information provided by the Principal 4 of the 423 valuation units have potential for additional floor space. The potential for additional floor space was considered as “Other influences” in the valuation and materializes in the following properties:

Valuation Unit	Address	Postal Code	City	Type	Influence on Value in EUR
VU_2903	Schwartzstr. 5, 7	13409	Berlin	Extension of the attic floor	243,438
VU_5302	Milastr. 2	10437	Berlin	Conversion of the vacant theatre in the backyard to office units	4,114,950
VU_7061	Karl-Marx-Str. 170, 172 / Mittelweg 10, 12, 14, 16	12043 / 12053	Berlin	Construction of new residential units	4,486,320
VU_9125	Reinbeckstr. 1 / Wilhelminenhofstr. 82A	12459	Berlin	Extension of the attic floor	71,377

4 VALUATION CONCLUSIONS

Upon the assumption that, after reasonable inquiry of the Company, there are no onerous restrictions or unusual outgoing of which we have no knowledge and based on the specific comments and assumptions set out in this Valuation Report, we are of the opinion that the aggregate of the individual Fair Values (net) of the freehold / ground-leasehold interests in the assets in the portfolio, rounded on asset-to-asset basis, as at 31 December 2019 and held as at that date, is:

3,669,323,000 EUR

(three billion six-hundred-sixty-nine million and three-hundred-twenty-three thousand Euros)

The unrounded net capital value is 3,669,369,688 EUR. The unrounded gross capital value is 3,970,552,543 EUR including 301,182,855 EUR purchaser’s costs (8.2%).

The assessment of the Fair Value was carried on asset-to-asset basis. The aggregate of the individual Fair Values presented here takes account of the marketing period and the transaction costs of the individual assets and does not reflect any discounts or premiums on the sales of the whole portfolio or if part of the portfolio were to be marketed simultaneously or in lots.

CBRE has not been engaged to update the CBRE valuation for the purpose of the Prospectus, has no obligation to do so and has not updated the CBRE valuation after the date of valuation, 31 December 2019.

The following table shows aggregated key asset data for the portfolio:

Fair Value	3,669,323,000 EUR
Total lettable area:	1,235,117 sq m
Average Fair Value per sq m lettable area:	2,971 EUR
Current annual rental income (gross):	112,681,468 EUR
Potential annual rental income (gross):	116,636,669 EUR
Annual market rent (gross):	137,502,541 EUR
Multiplier (based on current rent):	32.6 times
Multiplier (based on potential rent):	31.5 times
Multiplier (based on market rent):	26.7 times
Net initial yield (based on current rent):	2.38%
Net initial yield (based on potential rent):	2.50%
Net initial yield (based on market rent):	3.03%

Our opinion of “Fair Value” is based upon the scope of work and valuation assumptions as detailed in Part 3 “Explanation of Valuation” and Part 4 “Valuation Conclusions” of this Valuation Report and has been derived mainly using recent comparable market evidence on arm’s length terms.

5 VALUATION KEY DEFINITIONS

Lettable area

The lettable area in this valuation is defined by the entry in the Company’s rent roll provided.

Total lettable area

Total lettable area in square metres – sum of residential and commercial floor area – and excluding land; as at 31 December 2019

Residential units

Residential units – number of residential premises excluding internal and external parking units and other units; as at 31 December 2019

Commercial units

Commercial units – number of commercial and special premises; excluding internal and external parking units and other units; as at 31 December 2019

Internal/ External Parking units (Parking lots)

Internal/ External Parking units – number of internal and external parking spaces; as at 31 December 2019

Other units

Other units – e.g. number of antennas; as at 31 December 2019

Current annual rental income (gross):

The current gross rental income represents the rent paid for the units let on contractual agreements as at 31 December 2019, before deducting non-recoverable operating costs and VAT, multiplied by 12. Rent-free periods have been taken into account.

Potential annual rental income (gross):

The potential rent is the sum of the current monthly gross rental income and the market rent of vacant units – irrespective of any vacancy – as at 31 December 2019, multiplied by 12.

Annual market rent (gross):

The (monthly) market rent of all units as at 31 December 2019 (irrespective of any vacancy), multiplied by 12.

Multiplier (based on current rent):

Net capital value divided by current rental income (gross)

Multiplier (based on potential rent):

Net capital value divided by potential rental income (gross)

Multiplier (based on market rent):

Net capital value divided by market rent (gross)

Net initial yield (based on current rent):

Current rental income (net) divided by gross capital value

Net initial yield (based on potential rent):

Potential rental income (net) divided by gross capital value

Net initial yield (based on market rent):

Market rental income (net) divided by gross capital value

Note: the valuation keys above are defined in accordance with the gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V. Arbeitskreis Real Estate Investment Management.

Freehold or freehold-equivalent refers to *Eigentum* title.

Ground lease/leasehold refers to *Erbbauerecht* title.

ppa. Michael Schlatterer, MRICS

Residential Valuation Germany
Senior Director
CBRE GmbH

ppa. Sandro Höselbarth

Head of Residential Valuation Germany
Managing Director
CBRE GmbH

23. GLOSSARY

ADLER Change of Control	If a third person or a group of third persons acting in concert within the meaning of Section 2 para. 5 of the German Securities Acquisition and Takeover Act (<i>Wertpapiererwerbs- und Übernahmegesetz</i>) become the legal or beneficial owner of more than 50% of the voting rights in ADLER Real Estate, or (ii) in the event of a public tender offer for ADLER Shares, circumstances where the shares already in the control of the bidder and the shares which have already been tendered carry in aggregate more than 50% of the voting rights in ADLER Real Estate.
ADLER Change of Control relating to a public tender offer	In the event of a public tender offer for ADLER Shares, where the shares already in the control of the bidder and the shares which have already been tendered carry in aggregate more than 50% of the voting rights in ADLER Real Estate.
ADLER Group	ADLER Real Estate together with its consolidated subsidiaries.
ADLER Real Estate	ADLER Real Estate Aktiengesellschaft.
ADLER Real Estate Management Board	The management board of ADLER Real Estate.
ADLER Shares	All ordinary shares of ADLER Real Estate with ISIN DE0005008007 and with a proportionate amount of the share capital of ADLER Real Estate of €1.00 each, including full dividend entitlements and all ancillary rights.
ADLER Shareholder	Each shareholder of ADLER Real Estate.
ADOF	ADO Lux Finance S.à r.l.
ADO Immobilien	ADO Immobilien Management GmbH.
ADO Properties Group	The Company together with its consolidated subsidiaries.
Aggregate	Aggregate Holding S.A.
Annual General Meeting	The annual General Meeting.
Annual Tax Act 2019	The German Act on the Further Tax Promotion of Electric Mobility and the Amendment of Further Tax Regulations (<i>Jahressteuergesetz 2019</i>).
Articles of Association	The Company's articles of association.
Assets	Any property, asset, securities or other investment.
Audited Consolidated Financial Statements of ADO Properties Group	The audited consolidated financial statements of the ADO Properties Group as of and for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017.
Authorized Capital	The authorization of the Board of Directors for a period of five (5) years ending from the date of the publication of such resolution (<i>i.e.</i> August 20, 2015) creating the authorized capital in the Official Gazette of Luxembourg (unless amended or extended by the General Meeting) to increase the Company's share capital up to €750,000,000 by issuing new shares with no nominal value against contributions in cash and/or in kind.
BaFin	The German Federal Financial Supervisory Authority (<i>Bundesanstalt für Finanzdienstleistungsaufsicht</i>).
Bank Business Day	A day on which banks in Frankfurt am Main, Germany are open for general business.
Basic Resolution	The resolution of the Board of Directors resolving to increase the Company's share capital against contributions in kind under suppression of the shareholders' preferential statutory subscription rights that was adopted on January 16, 2020 by way of partial utilization of the authorized capital and through the issuance of up to 34,100,334 newly issued ordinary shares in dematerialized form with no nominal value of the Company.
BCA	The business combination agreement dated December 15, 2019 between the Company and ADLER Real Estate.
BCP	Brack Capital Properties N.V.

BCP Acquisition	Acquisition of BCP by the ADLER Group.
BCP Group	BCP together with its subsidiaries.
BerlinHyp1 Agreement	The amendment and restatement agreement dated June 26, 2017 between ADO Sonnensiedlung S.à r.l. and Berlin-Hannoversche Hypothekenbank AG.
BerlinHyp2 Agreement	The term loan agreement dated June 22, 2016 between 44 German limited liability companies of the ADO Properties Group and Berlin-Hannoversche Hypothekenbank AG.
BGB	The German Civil Code (<i>Bürgerliches Gesetzbuch</i>).
Board of Directors	The board of directors of the Company.
Brexit	The withdrawal of the United Kingdom from the EU.
Bridge Facility	A bridge term facility available to the Company under the Bridge Facility Agreement with a nominal amount of up to €2,424,000,000.
Bridge Facility Agreement	The bridge term loan facility agreement between the Company as borrower and J.P. Morgan Securities Plc as mandated lead arranger, J.P. Morgan AG as original lender and J.P. Morgan Europe Limited as agent.
Business Combination	The combination of the business of ADLER Group with the business of ADO Properties Group.
CAGR	Compound annual growth rate.
Call/Put-Option Agreement	The call/put-option agreement dated December 15, 2019 between the Company and Aggregate Holding S.A.
CBRE	CBRE GmbH.
CCM	CCM City Construction Management GmbH.
CET	Central European time or Central European summertime, as the case may be.
CFM	Central Facility Management GmbH.
Chairman	The chairman of the Board of Directors.
Combined Group	ADO Properties Group together with ADLER Group.
Committees Rules of Procedure	The rules of procedure for the committees, governed by the Company's rules of procedure for the Audit Committee, the Nomination and Compensation Committee, the Investment and Financing Committee and the Ad-Hoc Committee as adopted by the Board of Directors on January 16, 2020.
Company	ADO Properties S.A.
Completion	The completion of the Business Combination.
Consus Group	Consus Real Estate together with its consolidated subsidiaries.
Consus Real Estate	Consus Real Estate AG.
Consus Real Estate Acquisition	The acquisition of a 22.18% stake in Consus Real Estate by the Company at an average price of €9.72 per Consus Real Estate share.
CSSF	The Financial Sector Supervisory Authority (<i>Comission de Surveillance du Secteur Financier</i>) of the Grand Duchy of Luxembourg, a public institution which supervises the professionals and products of the Luxembourg financial sector.
Custodian Bank	The respective custodian credit institution of the respective ADLER Shareholder.
D&O	Directors and officers.
Daily Manager	One or more persons appointed for the daily management of the Company and the authority to represent the Company.
DDT	Dichlorodiphenyltrichloroethane.
Definitive Resolution	The resolution by a delegate of and in the name of the Board of Directors determining the final amount of the increase of the share capital and the exact number of New Shares, which was adopted on March 30, 2020.
DGHyp Agreement	The term loan agreement dated November 27, 2014 between Yona Investment GmbH & Co. KG and Yanshuf Investment GmbH & Co. KG and Deutsche Genossenschafts-Hypothekenbank AG.

€, EUR or Euro	The currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of May 3, 1998 on the introduction of the Euro, as amended.
EBITDA from rental activities	Net rental income and income from facility services, minus cost of rental activities and overhead costs.
EBITDA from rental activities margin	EBITDA from rental activities divided by net rental income.
EBITDA total	EBITDA from rental activities including net profit from privatizations.
EBITDA total margin	EBITDA total divided by net rental income and revenues from selling of condominiums.
EEA	The European Economic Area.
EPRA NAV	An indicator of the ADO Properties Group’s long-term equity which is calculated based on the total equity attributable to shareholders of the Company increased by the revaluation of trading properties, the fair value of derivative financial instruments and deferred taxes.
EPRA Vacancy Rate	Vacancy rate calculated in accordance with the definition recommended by the European Public Real Estate Association.
EstG	The German Income Tax Act (<i>Einkommenssteuergesetz</i>).
Fair Value	Value of the Company’s properties.
FCO	Federal Cartel Office (<i>Bundeskartellamt</i>).
FFO	Funds from operations is an indicator of available cash flow from operating activities.
FFO 1	EBITDA from rental activities for the respective periods adjusted to generally reflect net cash interest and current income taxes.
FFO 2	FFO 1 (from rental activities) including the net profit from privatizations.
FFO 1 (from rental activities) per share (in €) and FFO 2 (including disposal results) per share (in €)	Is calculated using the weighted average of shares for the respective period.
Fiscal Year 2017	As of and for the fiscal year ended December 31, 2017.
Fiscal Year 2018	As of and for the fiscal year ended December 31, 2018.
Fiscal Year 2019	As of and for the fiscal year ended December 31, 2019.
FTT	The proposal for a Directive by the European Commission for a common Financial Transaction Tax.
GDP	Gross domestic product. The gross domestic product is the value of all goods and services produced in a country (or in a region or a city etc.) in a certain period.
GDPR	Regulation 2016/679/EU of April 27, 2016 (General Data Protection Regulation).
GDR	The former German Democratic Republic (<i>Deutsche Demokratische Republik</i>).
GDV	Gross development value.
Germany	Federal Republic of Germany.
German Disbursing Agent	The domestic branch of the domestic or foreign credit or financial services institution (<i>inländisches Kredit- oder Finanzdienstleistungsinstitut</i>), the domestic securities trading company (<i>inländisches Wertpapierhandelsunternehmen</i>) or the domestic securities trading bank (<i>inländische Wertpapierhandelsbank</i>) which keeps and administers the shares and disburses or credits the dividends.
General Meeting	The general meeting of the shareholders of the Company.
Gewobag	GEWOBAG Wohnungsbau-Aktiengesellschaft Berlin.
Gewobag Agreement	The share purchase agreement dated September 26, 2019 between the Company and GEWOBAG Wohnungsbau-Aktiengesellschaft Berlin.
Gewobag Sale	The Company’s sale of certain subsidiaries owning 23 properties, consisting in aggregate of approximately 5,900 residential apartment units to Gewobag.
Holsten Quartier	The Holsten Quartier project development in Hamburg.

IAS	International Accounting Standards.
IFRS	The International Financial Reporting Standards, as adopted by the European Union.
In-place rent (per month in € per sqm)	The current gross rental income per month for rented residential and commercial units as agreed in the corresponding rent agreements, before deducting non-recoverable operating costs, divided by the lettable area of rented units as of the same dates.
Integration	The integration of the ADLER Group into the ADO Properties Group.
Interest-Free Loan	The interest-free loan facility agreement between IrishCo and ADOF dated December 20, 2017.
Internal Restructuring	The internal restructuring of the ADO Properties Group that was completed in early January 2020.
Investment Agreement	The investment agreement dated January 26, 2016 between the Company and ADO Group Ltd.
IrishCo	ADO FC Management Unlimited Company.
ISIN	International Securities Identification Number.
KPMG	KPMG Luxembourg, <i>Société cooperative</i> .
LEI	Legal Entity Identifier.
Listing	Listing of the New Shares on the regulated market segment (<i>Regulierter Markt</i>) of the Frankfurt Stock Exchange (<i>Frankfurter Wertpapierbörse</i>) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard)
Listing Agent	J.P. Morgan Securities plc.
Like-for-like rental growth (residential)	The growth for the respective period in rental income on residential units owned at the end of the respective period compared to the rental income on the same units owned at the end of the corresponding period in the prior year.
LTI	A performance-related variable cash or share payment in the form of a long-term incentive.
LTV	Loan-to-value ratio.
LTV-Ratio	The ratio of the net financial liabilities (calculated as financial liabilities less cash and cash equivalents, net assets and liabilities of disposal groups classified as held for sale and deferred taxes related to liabilities held for sale) to the fair value of properties (including investment properties and trading properties at their fair value, advances paid in respect of investment properties and trading properties as of the respective reporting date).
Luxembourg	Grand Duchy of Luxembourg.
Luxembourg Companies Law	The Luxembourg Commercial Companies Law of August 10, 1915, as amended (<i>loi du 10 août 1915 sur les sociétés commerciales telle que modifiée</i>).
LuxCSD	The single settlement organization LuxCSD S.A.
Luxembourg Mandatory Squeeze-Out and Sell-Out Law	The Luxembourg law of July 21, 2012 on the squeeze-out and sell-out of securities of companies admitted or having been admitted to trading on a regulated market or which have been subject to a public offer (<i>loi du 21 juillet 2012 relative au retrait obligatoire et au rachat obligatoire de titres de sociétés admis ou ayant été admis à la négociation sur un marché réglementé ou ayant fait l'objet d'une offer au public</i>).
Luxembourg Shareholder Rights Law	The Luxembourg law of May 24, 2011 on the exercise of certain rights of shareholders in general meetings of the shareholders of listed companies and implementing Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies, as amended by the Luxembourg law of August 1, 2019 to implement Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement.
Luxembourg Transparency Law	The Luxembourg law of January 11, 2008 on transparency requirements regarding information about issuers whose securities are admitted to trading on a regulated market, as amended.

MaltaCo	ADO Malta Limited.
Mandatory Sell-Out	The holders of the remaining shares or securities of a company that may require the owner of 95% of the share capital of that company to purchase the remaining shares or other voting securities of that company.
Mandatory Squeeze-Out	The owner of 95% of the share capital of a company that may require the holders of the remaining shares or other voting securities of that company to sell these remaining securities to the respective owner of 95% of the share capital of that company.
MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014.
MietNovG	The German Act on Curbing Rent Increases in Tight Housing Markets and the Strengthening of the Orderer Principle with respect to the Business of Rental Agents — Tenancy Law Amendment Act (<i>Gesetz zur Dämpfung des Mietanstiegs auf angespannten Wohnungsmärkten und zur Stärkung des Bestellerprinzips bei der Wohnungsvermittlung — Mietrechtsnovellierungsgesetz</i>) entered into force on June 1, 2015.
Moody's	Moody's Investors Service Ltd.
NAV	Net asset value.
New LuxCo	ADO Lux-EEME S.à r.l.
New Shares	The 27,651,006 newly issued ordinary shares in dematerialized form with no nominal value of the Company.
Notes	The 2022 Notes together with the 2023 Notes and together with the 2026 Notes.
Novation	The novation of IrishCo's rights and obligations to MaltaCo under the Interest-Free Loan.
Offer	The Company's voluntary public takeover offer for ADLER Shares in the form of an exchange offer as announced on December 15, 2019.
Offer Capital Increase	The Basic Resolution together with the Definitive Resolution.
Offer Consideration	The consideration set forth in the Offer.
PCB	Polychlorinated biphenyl.
PCP	Pentachlorophenol.
PFIC	A passive foreign investment company.
Pro Forma Consolidated Financial Information	The pro forma consolidated profit- or loss data for the period from January 1, 2019 to December 31, 2019 and pro forma consolidated financial position data as of December 31, 2019, supplemented by pro forma notes, as included in the Prospectus.
Property Companies	Fourteen German property companies, whose entire share capital is to be purchased by the Company (in an amount of 94.9%) and ADO Group Ltd. (in an amount of 5.1%) under the Investment Agreement.
Prospectus	Means this prospectus in relation to ordinary shares in dematerialized form with no nominal value, International Securities Identification Number: LU1250154413, of the Company.
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017.
Record Date	The record date for general meetings is the fourteenth day at midnight (24:00 hours) (Luxembourg time) before the date of the general meeting.
Rules of Procedure	The rules of procedure of the Company.
RETT	German Real Estate Transfer Tax (<i>Grunderwerbssteuer</i>).
Series A Debentures	Debentures issued by BCP on March 1, 2011, June 19, 2012 and November 6, 2012, with an issue size of NIS 200,000,000, NIS 40,000,000 and NIS 160,000,000, respectively.
Series B Debentures	Debentures issued by BCP on July 22, 2014 and April 5, 2016, with an issue size of NIS 102,165,000 and NIS 60,058,000, respectively.

Series C Debentures	Debentures issued by BCP on July 22, 2014 and April 4, 2016, with an issue size of NIS 102,165,000 and NIS 85,015,000, respectively.
S&P	Standard & Poor's Global Ratings Europe Ltd.
SCA	The strategic cooperation agreement dated December 15, 2019 between the Company and Consus Real Estate.
Securities Act	The United States Securities Act of 1933, as amended.
Senior Management	The senior management of the Company.
Share Purchase Agreements	Various share purchase agreements dated December 15, 2019 between the Company and the minority shareholders of Consus Real Estate in the course of the acquisition of a 22.18% share in Consus Real Estate.
Specific Rules of Procedure	The rules of procedure for related parties' transactions as adopted by the Board of Directors on January 16, 2020.
STI	A performance-related annual variable cash payment in the form of a short-term incentive.
STI-Targets	The achievement of certain individual targets, which affect payments under the STI.
Strategic Cooperation	The cooperation between the Company and Consus Real Estate to fully investigate and potentially undertake mutually beneficial property developments, including the acquisitions of land plots for new-builds.
Tax Losses	The aggregate amount of the ADO Properties Group's companies tax loss carry forwards.
Top 7 Cities	Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart.
Top 9 Cities	Berlin, Cologne, Düsseldorf, Dresden, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart.
Total portfolio value	The sum of investment properties and trading properties.
Transactions	The strategic cooperation agreement together with the Business Combination, the Consus Real Estate Acquisition and the Call/ Put-Option Agreement.
U.S. Holder	A beneficial owner of ADLER Shares exchanged for New Shares that after the Completion is to be treated as a U.S. person for U.S. federal income tax purposes.
Vacancy rate at period end (in % of sqm)	The sqm of vacant units as of the respective period end, divided by the total sqm of units owned on the respective period end date.
Valuation Report	The condensed valuation report on the fair value of the ADO Properties Group's investment properties prepared by the CBRE as of December 31, 2019.
Vertical Villages	Office buildings and high-rises which are renovated by the Consus Group and converted into modern residential and commercial buildings, which it then sells primarily to institutional purchasers under its "VauVau" brand.
WpÜG	The German Securities Acquisition and Takeover Act (<i>Wertpapiererwerbs- und Übernahmegesetz</i>).
2021 Convertible Bonds	The up to 10,000,000 convertible bonds due July 19, 2021 issued by ADLER Real Estate.
2021 Notes	The senior unsecured notes issued by ADLER Real Estate in an aggregate principal amount of €500,000,000 with a coupon of 1.500% per annum due 2021.
2021/2024 Notes	The 2021 Notes together with the 2024 Notes.
2022 Notes	The senior unsecured notes issued by ADLER Real Estate in an aggregate principal amount of €400,000,000 with a coupon of 1.500% per annum due 2022.
2023 Notes	The senior unsecured notes issued by ADLER Real Estate in an aggregate principal amount of €500,000,000 with a coupon of 1.875% per annum due 2023.
2023/2026 Notes	The 2023 Notes together with the 2026 Notes.

2024 Notes	The senior unsecured notes issued by ADLER Real Estate in an aggregate principal amount of €300,000,000 with a coupon of 2.125% per annum due 2024.
2026 Notes	The senior unsecured notes issued by ADLER Real Estate in an aggregate principal amount of €300,000,000 with a coupon of 3.000% per annum due 2026.

24. RECENT DEVELOPMENTS AND OUTLOOK

24.1 Recent Developments

Except for the developments mentioned below, no significant changes in our financial performance, financial position or results of operations have occurred between December 31, 2019 and the date of this Prospectus.

24.1.1 *The Business Combination*

On December 15, 2019, the Company announced its decision to make a voluntary public takeover offer for all shares of ADLER Real Estate Aktiengesellschaft, with its seat in Berlin, its business address at Joachimsthaler Straße 34, 10719 Berlin, Germany, and registered with the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), under registration number HRB 180360 B (“**ADLER Real Estate**” and, together with its consolidated subsidiaries, the “**ADLER Group**”) in the form of an exchange offer (the “**Offer**”). The Offer expired on March 25, 2020. 91.93% of ADLER Real Estate shareholders accepted the Offer.

On March 30, 2020, the Board of Directors, by a duly appointed delegate, resolved to increase the share capital by 27,651,006 New Shares. The New Shares were issued with effect as of April 1, 2020.

Settlement of the Offer and completion of the Business Combination is expected to occur on April 9, 2020.

On March 30, 2020, the Board of Directors appointed Maximilian Rienecker, the current co-chief executive officer of ADLER Real Estate, as a co-chief executive officer of the Company, as a member of the Senior Management and as Daily Manager, in each case with effect as of April 9, 2020.

Upon completion of the Offer, the Company holds, directly and indirectly, 25.75% of the share capital of Consus Real Estate.

24.1.2 *Letter of Intent regarding the Holsten Quartier*

Following the conclusion of the SCA, on January 17, 2020, the Company entered into a letter of intent with Consus Swiss Finance AG, which as amended on February 21, 2020, for the purchase of 89.9% of the shares in all companies that hold plots of land belonging to the *Holsten Quartier* project development in Hamburg (the “**Holsten Quartier**”). The provisional purchase price for 100% of the shares in Holsten Quartier is €320 million on a cash-free debt-free basis, subject to finalization of the Company’s due diligence. In exchange for a €50 million down-payment, of which €40 million do not have to be paid before certain collateral requirements have been fulfilled, Consus Swiss Finance AG granted the Company exclusivity for twelve months to continue and finalize the legal, technical, economic and tax due diligence. There is no obligation to enter into a share purchase agreement and the signing of the share purchase agreement is subject to the satisfactory completion of the due diligence.

24.1.3 *Internal Reorganization*

The ADO Properties Group has undertaken an internal reorganization which was completed in early January 2020 (the “**Internal Reorganization**”). In the context of the Internal Reorganization, a new Luxembourg entity was added to the ADO Properties Group, ADO Lux-EEME S.à r.l. (the “**New LuxCo**”). Following the incorporation of the New LuxCo on December 18, 2019, the Company transferred its shares held in ADO Lux Finance S.à r.l. (“**ADOF**”) and ADO FC Management Unlimited Company (“**IrishCo**”) to the New LuxCo. In addition to this contribution in kind, the Company also proceeded to make a cash capital contribution without issuance of shares to New LuxCo.

ADOF, on its part, paid an interim dividend to its new sole shareholder, the New LuxCo, which in turn proceeded to make a cash capital contribution without issuance of shares to ADOF. The New LuxCo then subscribed to additional shares in IrishCo while ADOF made a drawdown under an interest-free loan facility agreement between IrishCo and ADOF dated December 20, 2017 (the “**Interest-Free Loan**”).

In parallel, a Maltese company was added to the ADO Properties Group, ADO Malta Limited (“**MaltaCo**”), incorporated in early January 2020. The IrishCo novated its rights and obligations under the Interest-Free Loan to MaltaCo (the “**Novation**”), following which MaltaCo increased its capital in an amount equal to that of the consideration outstanding under the Novation agreement and issued the resulting shares to IrishCo.

24.1.4 Takeover Offer for WESTGRUND Aktiengesellschaft

On March 25, 2020, the Company announced its decision to make a voluntary public takeover offer to all shareholders of WESTGRUND Aktiengesellschaft, with its business address at Joachimsthaler Straße 34, 10719 Berlin, Germany, and registered with the commercial register of the local court (*Amtsgericht*) of Charlottenburg, Berlin, Germany, under registration number HRB 144811 B (“WESTGRUND”), for the acquisition of all ordinary bearer shares of WESTGRUND against payment of a cash consideration.

As of the date of this Prospectus, ADLER Real Estate holds 77,093,817 WESTGRUND Shares (corresponding to 96.88% of the share capital and voting rights of WESTGRUND as of the date of this Prospectus). As of the same date, the offer document containing the detailed terms and conditions of the offer, as well as further information relating thereto, has not been published.

24.1.5 Other Financing Arrangements

On February 6, 2020, the Company granted an interest-bearing loan of €43.5 million to Taurecon Invest IX GmbH i.Gr. (“Taurecon”). The loan has a term until February 15, 2023 and was used by Taurecon to purchase from ADO Group Ltd. its minority shareholding in various entities in which the Company (directly or indirectly) owns the majority of shares.

On March 26, 2020, the Company, ADO Lux Finance S.à r.l. and ADO Treasury GmbH drew down an amount of €175.0 million under the Facility Agreement. See “12.7.9.4 Facility Agreement of the Company, ADO Lux Finance S.à r.l. and ADO Treasury GmbH with Barclays Bank Plc, ABN AMRO Bank N.V., BNP Paribas S.A., Niederlassung Deutschland and Société Générale S.A., Frankfurt Branch”.

24.2 Outlook

The development of real property prices, the dynamic uptrend in rents, higher purchase prices in Germany (especially in major cities), and strong population growth is expected to continue to contribute to the strong fundamentals of the German residential real estate market. To counteract increasing rent levels, a legislative process Berlin is trying to achieve a freezing of rents. Such resolutions have negatively affected the market, even though strict rental limitations and controls have existed nationwide in Germany for some time. The immediate future of Berlin will be influenced by challenges but, outside of Berlin, the fundamentals, such as the housing deficit, population growth, negative interest rates, and cheap mortgages, are intact.

The Coronavirus has resulted in a deterioration of the political, socio-economic and financial situation in Germany. With the Coronavirus expanding rapidly, the negative impact on our business cannot be adequately determined or reliably quantified at this time.

In the event of a successful completion of the Business Combination, the Combined Group will implement the strategy pursued with the business combination and consolidate its position as one of the leading German residential real estate companies with improved governance and leverage the expected synergies (see “10.7 Economic and Strategic Reasons for the Transactions”).

The Company has issued a profit forecast as set out under “8. Profit Forecast”. Assuming the ADLER Group had been consolidated as of January 1, 2020, we would expect our FFO 1 to range between €120 million and €140 million and our net rental income to range between €340 million and €360 million for the fiscal year ending December 31, 2020, subject to the assumptions set out under “8. Profit Forecast”.

25. ADDRESSES

REGISTERED OFFICES OF THE COMPANY

ADO Properties S.A.
1B Heienhaff
L-1736 Senningerberg
Grand Duchy of Luxembourg

LISTING AGENT

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom