ANNUAL REPORT 2016

ADLER
ALLES PASST

MULTI-YEAR OVERVIEW

		2012*	2013	2014	2015	2016	Change 2016 to 2015 absolute	Change 2016 to 2015 relative
Revenue	**€ million**	**506.1**	**528.6**	**535.3**	**566.1**	**544.6**	**–21.5**	**–3.8 %**
Material expenses	€ million	–238.2	–234.9	–243.2	–261.2	–256.5	4.7	–1.8 %
Gross profit	€ million	267.9	293.7	292.0	304.9	288.1	–16.8	–5.5 %
Gross profit margin		52.9 %	55.6 %	54.6 %	53.9 %	52.9 %	–1.0	–1.9 %
EBITDA	**€ million**	**35.5**	**42.9**	**41.5**	**33.3**	**23.3**	**–10.0**	**–30.0 %**
EBITDA margin		7.0 %	8.1 %	7.8 %	5.9 %	4.3 %	–1.6	–27.5 %
Depreciation	€ million	–15.0	–14.0	–15.4	–16.3	–16.7	–0.4	2.5 %
EBIT	**€ million**	**20.5**	**28.9**	**26.2**	**17.0**	**6.5**	**–10.5**	**–61.8 %**
EBIT margin		4.1 %	5.5 %	4.9 %	3.0 %	1.2 %	–1.8	–60.2 %
Net income from operations	**€ million**	**16.2**	**24.6**	**21.2**	**12.1**	**1.7**	**–10.4**	**–86.0 %**
Income taxes	€ million	–6.1	–6.0	–7.1	–4.2	–1.3	2.9	–69.0 %
Consolidated profit for the year	**€ million**	**10.1**	**18.6**	**14.1**	**7.9**	**0.4**	**–7.5**	**–94.9 %**
Earnings per share	€	0.56	1.05	0.77	0.43	0.02	–0.41	–95.3 %
Cash flows								
Net cash flows from operating activities	€ million	30.7	40.9	36.4	19.5	22.2	2.7	13.8 %
Net cash flows from investing activities	€ million	–9.7	–9.2	–11.4	–16.6	–10.9	5.7	–34.3 %
Free cash flow	€ million	21.0	31.8	25.0	2.9	11.4	8.5	293.1 %
Total assets	**€ million**	**213.2**	**228.4**	**244.3**	**243.4**	**222.6**	**–20.8**	**–8.5 %**
Non-current assets	€ million	80.8	89.1	93.1	99.7	95.5	–4.2	–4.2 %
Current assets	€ million	132.4	139.4	151.2	143.7	127.1	–16.6	–11.6 %
Inventories	€ million	81.1	77.5	75.6	81.3	75.4	–5.9	–7.3 %
Cash and cash equivalents	€ million	42.1	54.5	69.7	52.1	42.8	–9.3	–17.9 %
Equity	**€ million**	**80.3**	**92.0**	**105.6**	**104.9**	**95.8**	**–9.1**	**–8.7 %**
Equity ratio		37.7 %	40.3 %	43.3 %	43.1 %	43.0 %	–0.1	–0.1 %
Non-current liabilities	€ million	54.1	62.1	63.5	64.6	60.7	–3.9	–6.0 %
Current liabilities	€ million	78.8	74.3	75.1	74	66.0	–8.0	–10.8 %
Debt equity ratio		1.66	1.48	1.31	1.32	1.32		
Employees								
Number of employees as of December 31		4,390	4,301	4,154	4,203	3.984	–219.0	–5.2 %
Personnel expenses	€ million	–85.3	–92.0	–95.2	–102.5	–102.3	0.2	–0.2 %
Total number of stores		**169**	**171**	**170**	**177**	**183**		
of which in Germany		139	143	145	153	156		
of which in Austria		27	25	22	21	22		
of which in Luxembourg		2	2	2	2	3		
of which in Switzerland		1	1	1	1	2		

* Adjusted

MEETING CHALLENGES *leveraging potential*

» The textile industry is changing dramatically and the market is more demanding than ever before. Thanks to its unique market position and the implementation of cost-cutting measures, ADLER is well prepared to overcome short-term challenges and leverage medium- to long-term potential. «

LOTHAR SCHÄFER
CEO OF ADLER MODEMÄRKTE AG

KARSTEN ODEMANN CFO

LOTHAR SCHÄFER CEO

INTERVIEW

MEDIUM- AND LONG-TERM GROWTH PROSPECTS INTACT

2016 offers textile industry no cause for cheer. According to the leading survey panel in the German retail textiles sector, TW-Testclub, retailers only managed to beat their prior-year end-of-month figures for three months of the year and merely matched the prior-year month-end figures for the months of October and December. Full-year revenue declined by 2 percent. ADLER was unable to escape from this trend and closed 2016 with revenue down by 3.8 percent. CEO Lothar Schäfer and CFO Karsten Odemann take stock and discuss how they aim to bring ADLER back to the growth path.

Mr Schäfer, several big names in the textiles industry filed for insolvency last year – including a shareholder of yours, Steilmann. How has ADLER fared?

SCHÄFER 2016 was indeed a major challenge – for the overall industry as well as for ADLER. Twice we had to adjust our March revenue and earnings forecast downwards: once in August and once in November. That's not a step a CEO is eager to take, yet it was unavoidable in light of the revenue trend. While a 3.8 percent decline in revenue meant that our results were below-average for the industry, we still managed to outperform a number of other retailers.

KARSTEN ODEMANN CFO
Since his appointment as CFO in 2011, Karsten Odemann has been responsible for Finance, Controlling, Audits, Human Resources, Legal, IT, Logistics, Technical Purchasing and Investor Relations at Adler Modemärkte AG.

LOTHAR SCHÄFER CEO
As CEO, Lothar Schäfer is responsible for Strategy, Mergers & Acquisitions, Purchasing, Marketing, Sales, and Public Relations. He joined ADLER's Executive Board in 2009 and, among other things, oversaw the Company's IPO.

What led to the drop in revenue?
ODEMANN Several factors played a role. First and foremost, unpredictable weather took a heavy toll on the industry. The mild winter, a rainy spring and September heatwaves made it simply impossible to move seasonal merchandise. On top of this came a trend that has been emerging for several years now: while consumers are spending less and less on clothing – both in absolute terms and relative to their disposable income – the total floor space for retail fashion is increasing. This means that there is heavier competition over an ever-smaller piece of the pie. We will have to adapt to these conditions going forward.

SCHÄFER In addition, issues that are specific to ADLER also weighed down revenue. For instance, our marketing budget was not ideally allocated. We've made significant adjustments based on detailed analyses in order to optimise our return on investment. Put simply, we now have a much better understanding of which medium works best to actually produce the desired effect for the right target group at the right time. We are therefore optimistic that, with a marketing budget of the same size as in 2016, we will be able to significantly increase the number of visitors to our stores and our online shop in the coming years.

» We are optimistic that we will be able to significantly increase the number of visitors to our stores. «

LOTHAR SCHÄFER

How has the Steilmann insolvency affected ADLER's development?
ODEMANN Immediately after the insolvency was announced, we made it very clear that thanks to its economic independence ADLER did not anticipate any significant impacts on its own operating business, financial position, cash flows or financial performance. We have been proven correct.

Where procurement activities are concerned, our partnership with NTS – a purchasing agent which is majority-owned by Steilmann but was not affected by the insolvency – continues as normal. Even if supplies become limited at some point, we would have no problem shifting procurement volume to other agents. At any rate, we purchase the majority of our merchandise via Metro Group Buying.

The product range at ADLER stores also included the Steilmann brand, the rights to which you acquired at the end of 2016. Do you plan to revive the label?
SCHÄFER Steilmann merchandise was highly popular with our customers and thus performed well. Thus it makes sense for ADLER to continue to carry Steilmann as an own brand. So that's just what we're going to do. We've taken on Steilmann's brand team and now control the entire value chain from design through to distribution. This will have a positive effect on the margin because we will be cutting out the middlemen.

Has the current market consolidation given rise to any acquisition opportunities for ADLER?

SCHÄFER Our focus at present lies squarely on consolidating and optimising our working capital. In the short and medium term, we are therefore not planning any internal or external growth initiatives which would require considerable investments. For instance, in 2017 we plan to open only one new store, and will be postponing a number of renovations. For the time being, we are concentrating on leveraging already existing, untapped potential. We believe that there is still a lot of room for optimisation, both where revenue and where earnings are concerned.

Nevertheless, we are currently testing a new sales concept in cooperation with the METRO GROUP: we now offer ADLER fashions at shops-in-shop at several Metro locations in Austria, Belgium and the Netherlands. However, it is still too early to provide a substantiated assessment as to whether the concept is sustainable.

» All areas were closely examined for savings potential and we've initiated a variety of measures to leverage that potential. The positive effects will be fully felt this year. «

KARSTEN ODEMANN

How do you aim to bring ADLER back to the growth path?

ODEMANN Where revenue is concerned, we are not expecting any great leaps for the time being – that's simply not realistic in the current market. However, we have done our homework and reacted very quickly to the market trend by implementing a comprehensive efficiency enhancement programme. All areas were closely examined for savings potential and we've initiated a variety of measures to leverage that potential. We already saw initial successes in 2016. The positive effects will be fully felt this year, and we anticipate approximately € 10 million in savings. This will improve profitability accordingly.

SCHÄFER One key step in this context was the restructuring and consolidation of our distribution organisation. We have established an internal distribution team that has made us much leaner while at the same time significantly increasing the efficiency of collaboration between our distribution organisation and our approximately 180 stores. This makes it possible for store managers to spend more time on customer service, which of course has a positive effect on the sales closing ratio.

What is your overall outlook for 2017?

SCHÄFER The industry environment will undoubtedly remain challenging for textile retailers such as ADLER. We don't expect to leverage any positive momentum from the overall market trend in 2017. Revenue is therefore expected to decline slightly as compared to the 2016 financial year. However, we believe that the online shop will continue its excellent trajectory and generate significant growth. While the revenue generated by the online shop has increased by an average of more than 28 % every year since 2013, it still only made up a small share (€ 8.9 million) of total revenue in 2016. We again expect revenue to increase substantially

in the current year. EBITDA is expected to significantly exceed the figure generated in 2016 and amount to between €27–30 million on account of the implemented efficiency measures.

In the past four years, ADLER consistently paid out a rising or stable dividend. Will there be a dividend for financial year 2016?
ODEMANN When the Company generates a profit, its shareholders should of course also share in that profit. However, the Company reported a consolidated profit of only €0.4 million. For that reason, we and the Supervisory Board have decided to propose to the Annual General Meeting that no dividend be paid this year. At the present time, we think that it would not be appropriate to liquidate assets in order to make a distribution.

And finally, looking further ahead: ADLER in 2025 – how might the Group look then?
SCHÄFER No doubt: the general conditions will be different, and not easier. But we are making active efforts to adapt to change and are confident that we will return to profitable growth in the medium term. However, it is currently virtually impossible to make specific long-term forecasts – particularly in our industry. However, we are confident that ADLER's business model is absolutely viable and that its medium- and long-term growth prospects remain intact. With our focus on customers aged 45 and up, we are concentrating on a growing target group whom we offer attractive products at excellent value for money. The increasingly important ADLER Online Shop helps us to reach new customers, who are on average much younger than our store customers. This helps us to ensure that our core target group continues to grow.

Mr Schäfer, Mr Odemann, thank you for sitting down with us.

PURCHASING

ALL A QUESTION OF PLANNING

Knowing today what customers will want to have and wear in twelve months' time is no easy task. Purchasing is responsible for finding the best possible solution: It decides when and where what quantities of which product groups will be ordered and which products find their way to the sales floors.

With names like Bexleys, Via Cortesa or Thea they form the heart of ADLER's product range: the eleven ADLER own brands. They generate nearly 80 % of total revenue and cover the complete spectrum of women's and men's clothing: everything from classic to modern styles, form-fitting to plus sizes and entry-level to mid-level prices.

With up to 80 collections per year, meticulous planning is necessary in order to optimally tailor the product offering to the customers' expected needs in the coming season. "Gazing into the crystal ball does little," says purchasing manager Andrea Spahn. "Instead, reviewing detailed market and peer analyses, attending fashion trade fairs and above all evaluating buyer behaviour at ADLER stores gives us the information we need." This presents a particular challenge for ADLER Modemärkte, whose customers are on average 60 years of age: "The self-image and the consumer habits of our target group have changed profoundly in the past few years. In essence, age no longer determines the style of clothing, merely the size and fit," says Andrea Spahn, dispelling any preconceptions.

Precisely because the builds but also the perceptions and preferences of customers change over time, ADLER places great importance on internal analyses in order to heighten awareness of and cater to customers' wishes. A key component of this strategy is the "Customer Heartbeat" survey with specific questions for customers after every visit: What were you looking for? Did you find what you were looking for? Were the collections to your liking? What do you wish were different? The internal design teams then take this information into account when designing subsequent collections.

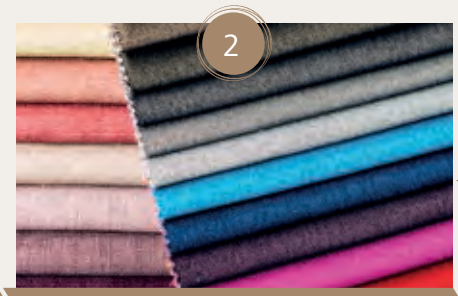
Once the collections have been designed, Purchasing faces its next challenge: engaging the suppliers. What sounds easy is in fact a complex undertaking with many moving parts that all need to be adjusted to optimise the processes and save costs. "Nowadays, fine-tuning the procurement process is a vital step in optimising the working capital and long-term competitiveness of a clothing company."

LEAN AND VERTICALLY INTEGRATED BUSINESS MODEL

Full information control along the entire value chain

PRODUCT DEVELOPMENT

- In-house design team
- Focus on own brands
- Minimising risk by being a trend follower

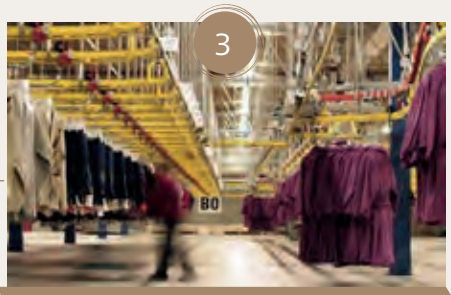


SOURCING

- Completely outsourced production
- Diversified supplier base
- Tried-and-true partnerships with purchasing agents:
  - Metro Group Buying (MGB)
  - NTS
  - Direct

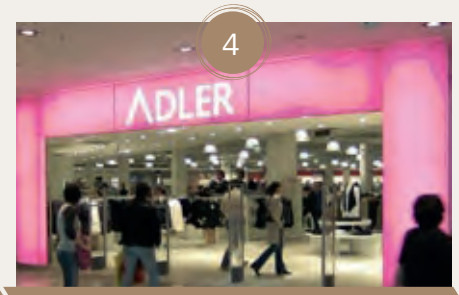
Flexibility and shorter delivery times are therefore the order of the day. More so than ever, ADLER nowadays takes a gradual approach to exhausting the order volume. In the past, the entire estimated quantity was not ordered in one fell swoop either, reports Andrea Spahn. However, shorter-term procurement possibilities have once again significantly gained in importance. As a consequence, ADLER is working with its Asian suppliers to reduce delivery times as well as once again increasing its focus on Europe for its on-demand procurement needs. ADLER also gained extensive know-how about manufacturing in eastern Europe by acquiring the Steilmann brand and a small team. These measures represent some important steps ADLER has taken to increase vertical integration and meet (long-term) market challenges.

ANDREA SPAHN
Head of Purchase



LOGISTICS

- Centralised logistics operations with highly efficient push-and-pull warehousing system
- Organised by proven partners: BLG, MGB and NTS



DISTRIBUTION

- Targeted customer relationship management and marketing
- Omni-channel distribution
- Highly flexible, modular store system

OWN BRANDS OF ADLER MODEMÄRKTE AG

	BEXLEYS WOMAN	Malva	THEA	MY OWN	VIA CORTESA
Revenue contribution 2017 (expected)*	65 %	10 %	7.5 %	7.3 %	3.1 %
Style	Modern classic	Classic	Modern classic	Modern	Modern
Target group characteristics	Well-groomed, sporty, elegant	Feminine, conservative, value-for-money	Big-sized, easy-care fashion	Trend oriented, spontaneous	Active, sporty, authentic, casual
Age of target group	45+	60+	35+	35+	40+
Collections p. a.	6	6	10	10	6
Sizes	38–54	36–54	42–56	36–50	36–48
Price range	Medium – high	Low – medium	Medium	Medium	Medium

** Within Women's/Men's division (based on gross revenues of own brands)*

 VIVENTY BERND BERGER	 steilmann	 BEXLEYS MAN	 SENATOR	 EAGLE No7	 Big fashion	 VIA CORTESA	 BERND BERGER
3.1 %	4 %	63 %	4 %	15 %	9.8 %	5.2 %	3 %
Modern	Modern classic	Modern classic	Classic	Modern	Modern classic	Modern	Modern
Stylish, confident	Charming, well-groomed	Well-groomed, sporty, elegant	Traditional, practical, value-for-money	Trend oriented, casual	Big-sized, easy-care fashion	Active, sporty, authentic, casual	Refined, elegant, confident
40+	45+	45+	55+	35+	40+	40+	35+
6	8	4	4	6	4	6	4
36–50	36–52	48–58	48–58	46–58	60–70	46–58	48–58
Medium –– high	Medium – high	Medium – high	Low –– medium	Medium	Medium – high	Medium	Medium – high

MARKETING

ENGINE THAT DRIVES THE BUSINESS

There are hardly any reliable statistics on how many ads a person encounters day in, day out. Depending on lifestyle and use of media, estimates range from a few hundred to several thousand. Ultimately, the exact number is immaterial as experience will tell you: there are simply too many for one person to consciously perceive and process. For an ad to actually be noticed and remembered, it has to be one thing above all: relevant.

The industry magazine "TextilWirtschaft" ranks Adler Modemärkte AG among the largest textiles retailers in Germany. When it comes to marketing expenditure, the Company is among the top 10 in the textiles sector. During the period under review, investments in marketing went towards mailshots, print adverts, online ads and radio and TV spots. There is a reason for the relatively high ad buys as compared to those for brick-and-mortar stores in high-traffic locations. As opposed to its competitors, which generate customer footfall and brand visibility at expensive city centre locations, ADLER focuses primarily on retail parks at less expensive locations on the outskirts of cities. Traditional walk-ins are more the exception here.

It is all the more important to present the ADLER brand anew in the media and create incentives for customers to visit stores or the online shop. Hence, marketing is the engine that drives ADLER's business model. And relevance is the fuel that feeds the engine.

"By its very nature, relevance is not absolute; rather, it varies from customer to customer", says Frank Mayerhofer, Head of Marketing, to describe the challenge facing ADLER. "The key is to reach customers at the right time, with the right product via the right channel."

This is because the more relevant the advertisements, the more efficient they are. And efficiency can be measured. To learn more about the effectiveness of individual ads, ADLER systematically examined even its tried-and-tested concepts in the past year. It found that mailshots are perfect for generating additional revenue from existing customers, while TV spots primarily help attract new customers. Radio advertising is particularly effective in increasing footfall at stores.

Beginning in 2017, quantitative analyses will be supplemented by qualitative statements: the "Consumer Heartbeat" survey asks in-store customers why they did or did not buy a certain article. ADLER aims to leverage this to further improve its range of merchandise and adapt it to suit the needs of its target group. This is because for all the advertising, at the end of the day one thing matters: clothes that people like.

FRANK MAYERHOFER
Head of Marketing

Mr Mayerhofer, you held positions of responsibility in the foodstuffs industry for many years. To what extent does this expertise transfer to the textiles sector?

MAYERHOFER The marketing of everyday consumer goods is extremely consumer- and data-driven. This approach has stuck with me. Just because a campaign is creative and "appealing" doesn't mean it will produce the results desired by the company. This is just as true for a grocer as it is for a clothing retailer. Creativity and intuition are important, but only if it is based on what we know about the customer.

What does that mean, specifically?

For one thing, ADLER does not use advertising media that have not been thoroughly vetted for quality and effectiveness. For another, every marketing initiative is analysed in detail, for instance using benchmark groups: How does revenue develop in stores A and B if a radio campaign is only broadcast in store A's catchment area? Or, how do customers in different regions react to the same ad? It's extremely interesting!

How do you make sure that the marketing expenses actually pay off?

Of course there are always uncertainties. When a heatwave strikes in September, not even the best campaign can have winter merchandise flying off the racks. However, our data-driven approach helps us to never stop learning. And by calculating advertising expenses per customer for analytical purposes, we ensure the greatest-possible effectiveness and overall budget conformity.

ELEVEN OWN BRANDS, ONE FIT

ADLER's in-house design team makes sure that the fit is consistent across all ADLER brands, essentially enabling customers to buy clothes without having to try them on.

DISTRIBUTION

THE CHANGING WORLD OF RETAIL – OPTIMISATION OF DISTRIBUTION PROCESSES

Appealing shop-in-shop concepts for ADLER's own brands create incentives to buy. The Distribution department's Visual Merchandising Team creates eye-catching, innovative display concepts for ADLER merchandise.

A wide selection of fashionable and comfortable feel-good sizes – that's what many people like in particular about ADLER. While unrealistic fashion ideals are not imposed on the customers, internal processes are held to a different standard: The leaner the better. In financial year 2016, ADLER therefore completely restructured its distribution organisation in order to leverage untapped revenue and efficiency potential within the Company.

The ADLER distribution network covered 183 stores at the end of 2016. All the individual threads of the Group's activities come together at these stores, for it is here that customers' shopping decisions reveal whether the "overall ADLER package" appeals to them – from marketing to the actual range of merchandise all the way through to the friendliness and competence of the sales staff. 183 stores, that's 183 independent units in different regions with larger or smaller sales floors, in the centre of town or at the outskirts, each with its own individual customer base. The only thing they have in common: the objective of being successful, of growing and getting people excited about the ADLER brand. In light of the massive transformations in the textiles industry, this is a constant challenge.

In order to enable store employees to concentrate first and foremost on productive activities such as customer service, the newly established internal distribution team provides them comprehensive support. The new team functions

as a liaison that ensures good communication between the stores and ADLER HQ in Haibach. "The internal distribution team helps the stores to focus on their core competences and make the best of the prevailing conditions. There was much potential for improvement in this area", said Leif Heppner, who came aboard as Head of Distribution in 2016 and is responsible for restructuring the unit.

The reorganisation thus focused on establishing an internal distribution team which considerably helps to streamline processes through cross-departmental management: "Before, the stores were in direct contact with the individual Corporate departments such as Procurement or Marketing. This meant an enormous amount of work for both sides. This communication is now handled entirely by the internal distribution team", says Leif Heppner. This approach has already cut the volume of e-mails by 40 – 50 %, greatly simplifying the work of the individual store managers. They used to spend so much time coordinating the day-to-day business, but now they can focus on specific sales activities and employee training. The difference is noticeable. "Generally speaking, we focus on three main objectives in our day-to-day business: Marketing aims to increase visits to stores and the online shop. Purchasing must ensure that merchandise is available. And Distribution must make sure that visitors become customers", says Leif Heppner. Achievement of the latter objective is measured by the conversion ratio or sales closing ratio. And that ratio has already been increased by two percentage points since the new structure was introduced. Active inventory management, which is the responsibility of the internal distribution team, also has a positive effect. It ensures that merchandise can be rapidly shifted from store to store if necessary. This means it is available where it is needed, resulting in lower mark-downs.

Yet the Distribution reorganisation has taken this one step further: even the sales region itself was restructured to facilitate a clearer allocation. This also resulted in changes to the individual regional managers' duties – fewer administrative activities and more active management of the stores based on defined targets. In their regular visits to the individual stores, they furthermore gain an impression of the selling space and decide where the Area Visual Merchandisers should be sent next. Area Visual Merchandisers are employees who regularly optimise and adapt the presentation of merchandise and store layout, thus optimising the placement of products and creating additional sales appeal.

Overall, Leif Heppner thinks the measures implemented to date have been a success: "An improved conversion ratio, increased gross profit and of course the significant upper-six-figure cost savings expected for 2017 resulting from generally leaner structures – we've already accomplished so much. And we will continue to build on those gains."

LEIF HEPPNER
Bereichsleiter
Vertrieb

FASHION FOR EVERYONE

Similarly to the rest of the German textile retail market, ADLER generates approximately one-fourth of its revenue with menswear.

FUTURE STORE

JUST 1 KM/H AND STILL LIGHTNING-FAST

TORY is a professional through and through. Even though he is only scheduled to work nights, he's putting in the extra mile this afternoon and is already tirelessly navigating the aisles of the ADLER Future Store in Erfurt. After all, the camera crew came just for him, and TORY – the world's first 24/7 inventory robot – wants to show off what he can do.

TORY plays the starring role in an episode of *"Einfach genial – Das MDR Erfindermagazin"*, a television programme that presents ingenious new inventions and technologies. His endurance and the careful manner in which he navigates people and obstacles of all types helps him during filming as the camera crew attempts to capture the whole story: In countless shots, the crew films the robot deftly navigating the store at 1km/h, while taking an exact inventory by reading the RFID tags affixed to merchandise with lightning speed. He can read and record 40,000 and 70,000 tags per hour with an accuracy of nearly 100 % – a feat that would be impossible for a human and that saves store employees enormous amounts of work and time. Time that employees can now put to better use by helping customers.

However, TORY is not the only technological feature at the ADLER Future Store in Erfurt. The prominent digital display in the shop window draws the attention of passers-by to current promotional campaigns and sales and hints at the new ground that ADLER is breaking in Erfurt.

The innovative technologies include the interactive fitting rooms that were installed last autumn. The fitting rooms also call up the data stored by the RFID tags and detect which are currently being tried on. Via touchscreens installed in the fitting rooms, customers can view suggestions for matching outfits, see what other colours and sizes are available, read the product information or use a call button to ask the sales staff for assistance. The sales staff will immediately receive an alert on their iPod directing them to the fitting room where they are needed. This enables them to be at the right place at the right time, something that was not always easy to do in a two-storey store with 3,460 m² of sales space.

Technology that benefits the customers, employees and thus the Company: that is the premise under which ADLER tests and fields innovations.

In Erfurt the future is already here. Stay tuned.

Thanks to RFID technology, "intelligent" changing rooms recognise which clothes customers are trying on. Customers can call up additional product information and view suggestions for matching outfits via touchscreens.

Mr Leitz, ADLER is one of Germany's innovation leaders in the textile retailer industry. What drives you?

LEITZ For me, personally, technology is simply fun. However, technology must never be an end in itself and instead must always serve to make workflows more efficient and further improve customer service. We have always placed extremely high demands on the services and in-store consultations ADLER provides its customers – something that came naturally given that we focus on a more mature and sophisticated target group. If technology can help us in this regard, even better!

So the objective behind using technology is not to replace employees but to make their jobs easier?

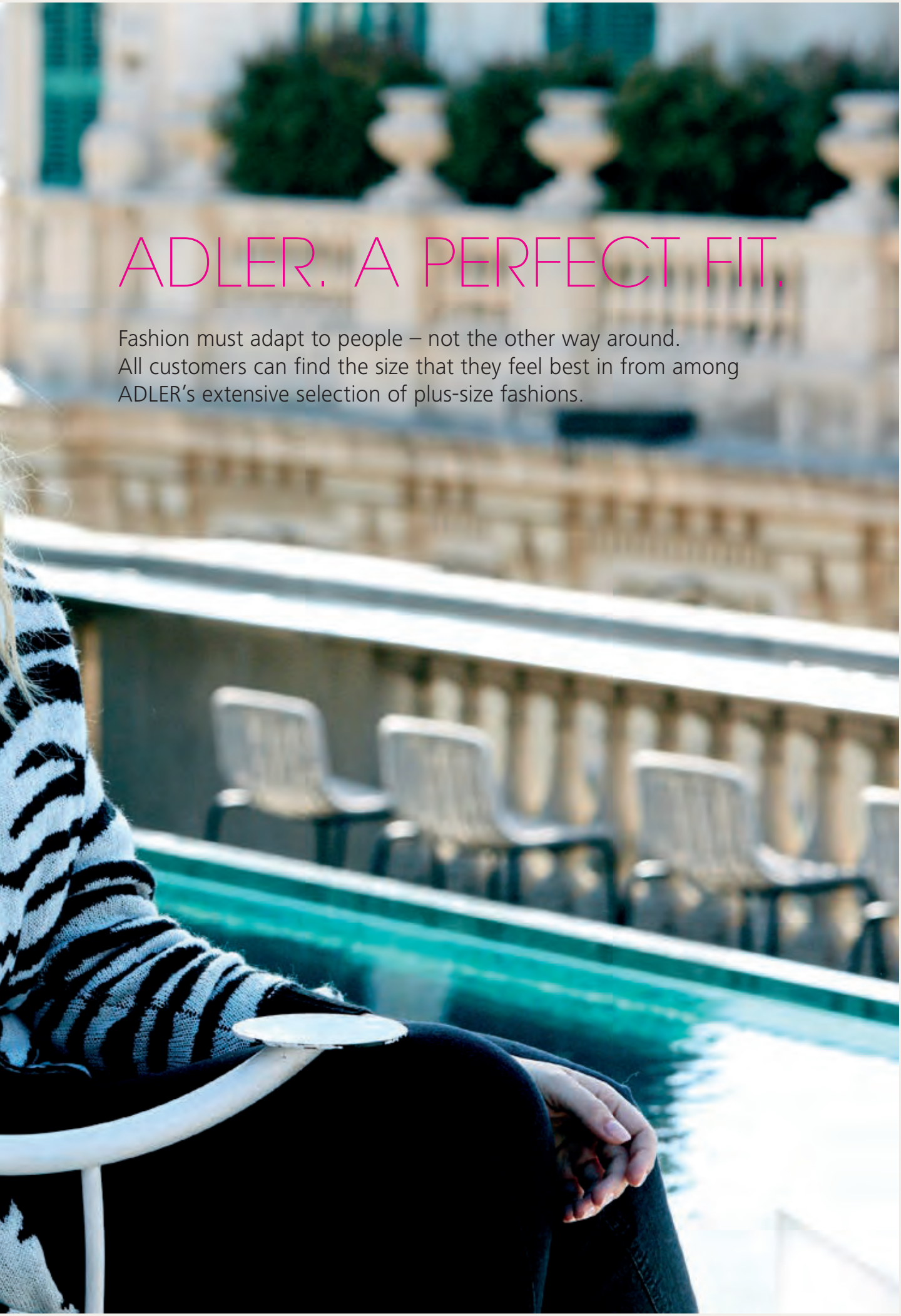
Absolutely! Individual customer service and one-on-one contact with our sales staff must remain a key selling point of our stores. We're offering our customers technological innovations because we believe that these features will pique their interest, make shopping even more convenient and ultimately generate more revenue for ADLER. But that's just one direction we're taking. Thus, our motto isn't "either... or" but "as well as".

What does the future hold for TORY & Co.?

Besides Erfurt, TORY and his colleagues also work in three other ADLER stores. Our long-term plan is to outfit all of our stores with their own inventory robot. However, this will of course mean investing capital, which is why we're taking this one step at a time. As is the case with the interactive fitting rooms, at the end of the day this also has to make sense from a cost-benefit standpoint.

The robot can read and record 40,000 and 70,000 tags per hour with an accuracy of nearly 100 % – an impossible feat for a human.

ROLAND LEITZ HEAD OF IT



ADLER. A PERFECT FIT.

Fashion must adapt to people – not the other way around.
All customers can find the size that they feel best in from among ADLER's extensive selection of plus-size fashions.

ADLER Online shop

GOING FULL THROTTLE

Approximately 95 % of the orders received by 4 p.m. at ADLER's online shop are shipped on the same day.

Online shopping is only for young people? Far from it! Online shopping has long since become a practical alternative to in-store shopping for consumers across all age groups. ADLER's online shop has also steadily gained in popularity since going live in 2010.

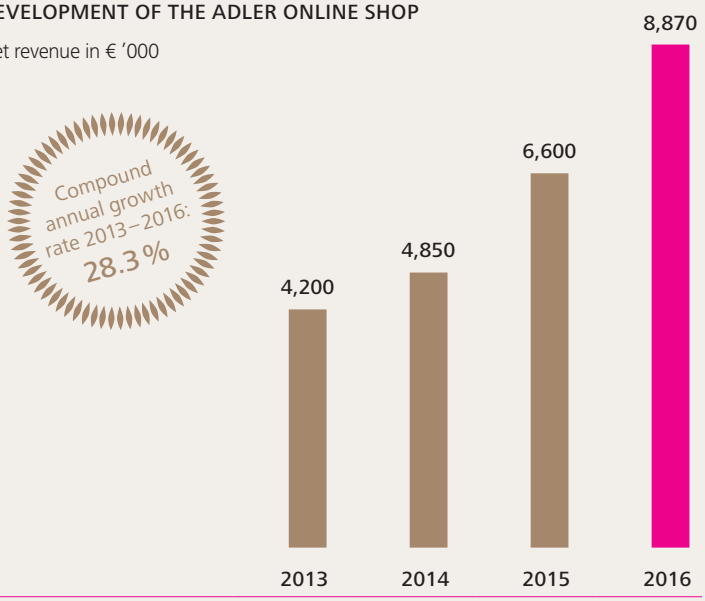
One look at the growth figures dispels all doubt: The revenue generated by ADLER's online shop has increased by roughly a third every year since 2013. While online revenue still only makes up a small share (just under 2 %) of the Group's total revenue, this is set to change. ADLER aims to generate a upwards of 10 % of its revenue through its online shop by no later than 2020. The chances of achieving this target are good. Not only has the number of customers been steadily increasing (some 170,000 in 2016), but so, too, has the sales closing ratio and the average shopping cart value, that is the purchase value per order.

ADLER's online shop is operated by an independent division, which like a high-performance speedboat, is able to navigate the market with particular flexibility. For instance, a portion of the roughly 6,000 available items belong to rapidly changing fashion product ranges.

ADLER has already laid the foundation for customer-oriented, scalable growth. In addition to offering an attractive product mix and a stable IT infrastructure, this primarily includes ongoing efforts to make the online shop more user-friendly, including on mobile devices, successfully addressing customers through efficient marketing and, of course, reliable logistics. In today's fast-paced world, consumers are rarely forgiving when it comes to delays and long delivery times. There are just too many alternatives. Therefore, we work together with a logistics partner specialising in fashion in order to ensure that customer orders are processed quickly: approximately 95 % of the orders received by 4 p.m. at ADLER's online shop are shipped on the same day. This collaboration also ensures the utmost flexibility in terms of warehouse capacity, allowing us to meet increasing order volumes over the long term. Thus, ADLER's online shop is primed to become a key pillar of ADLER Modemärkte's success going forward.

DEVELOPMENT OF THE ADLER ONLINE SHOP

Net revenue in € '000



	2013	2014	2015	2016
Site visits in '000	5,000	6,300	8,000	9,400
Mobile share in %	14.5	22.2	33.3	42.3
Shopping cart in €	75.0	74.9	79.2	80.7
Clients in '000	93.0	108.9	141.6	165.7

RALF RECKMANN
Head of e-commerce

Mr Reckmann, extremely high growth rates are expected for ADLER's online shop. Who is driving this growth – existing or new customers?

RECKMANN Both, actually! As it happens, we attract approximately 10 % of our new customers through ADLER's online shop. It is particularly interesting that the average age of this group is significantly lower than the average age of our overall customer base. The online shop is helping us reach customers who have yet to grow into ADLER's core target group. Thus, the online shop is a key component for the Company's long-term success.

Is there anything else noteworthy about online customers?

It is particularly exciting for those customers who shop both online and at our stores. On average, they spend approximately 80 % more on ADLER merchandise than those customers who use only one of the two sales channels. They therefore exhibit a particularly high degree of customer loyalty. This is also a reason why we place such significance on dovetailing our online and brick-and-mortar sales channels via our Click&Collect service and further expanding this popular service, which allows customers to pick up the merchandise they purchased online at ADLER stores.

What plans do you have to further enhance the online shop?

Thanks to the information we gain from the ADLER customer loyalty card, we know our customers nearly as well as pure-play online retailers know their customers. Our aim is to use this knowledge in a targeted manner across various sales channels in order to make our sales offers more relevant and improve the shopping experience of our customers. For example: If a customer's purchase history indicates that she primarily buys MyOwn brand clothing in stores, then we will first and foremost display attractive deals for her favourite brand when she visits our online shop.

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LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Dear Sir or Madam,

After an already challenging year in 2015, the past financial year brought no respite for the Germany textile industry as retailers saw their revenues decline by 2 % year on year. In addition to the anaemic quarterly figures posted by nearly every listed fashion retailer, the insolvencies filed by well-known players in the industry also made many retailers and investors anxious.

Adler Modemärkte also looks back on a year in which its original growth targets were missed. Instead, we found ourselves forced to twice adjust the forecast downwards. And yet, we made great strides forward in the past year as we took important steps to meet the challenges of the future as a financially sound and competitive company.

EXTENSIVE SET OF MEASURES IMPLEMENTED

It is undeniable that the market today is much less predictable than it was five or ten years ago. Various trends are transforming the industry and intensifying pricing pressure: consumers are increasingly preferring to spend their money on tech products and travel; the widespread popularity of online shopping across all age groups; the increasing frequency of extreme weather; and not least fashion trends that are becoming ever more fleeting, demanding even greater flexibility along the value chain, from the design stage through to final delivery.

ADLER has reacted to these recent developments – and we have used the past year to actively meet these challenges head on. We believe that the external circumstances described above are not short-term phenomena, but will instead continue to gain in significance. It is therefore all the more important that we lay the groundwork that will allow us to emerge from a shakeout and continue to grow in a challenging market in a manner that is both healthy and profitable as well as in the interests of our shareholders, employees and customers.

That is why we systematically examined all areas in 2016 to determine the potential for savings and improving efficiency. We used the findings of the analyses to initiate and implement extensive measures designed to make Adler Modemärkte more competitive and profitable: We completely restructured the sales organisation, which is now not just significantly leaner but also better positioned. Purchasing arranged shorter delivery times with manufacturers, giving ADLER greater flexibility to react and respond to trends and customer demands. Tried-and-tested marketing measures were scrutinised and the marketing budget was reallocated. The Company's e-commerce strategy will now be bolstered by an online marketing budget structured for growth.

The effectiveness of these measures is reflected in earnings before interest, taxes, depreciation and amortisation (EBITDA), which at the end of the year significantly exceeded the most recent forecast range.

LOTHAR SCHÄFER
Chairman of the Executive Board

EARNINGS FORCAST EXCEEDED

The overall unfavourable conditions led to a decline in revenue in 2016. As at 31 December 2016, revenue amounted to € 544.6 million, 3.8 % below the € 566.1 million generated in the previous year. EBITDA totalled € 23.3 million, significantly exceeding the mid-October forecast of € 14 – 17 million.

After-tax earnings were slightly positive at € 0.4 million, thereby also exceeding management's most recent forecast, which had projected a loss.

Despite the fact that earnings before taxes (€ 1.7 million) were lower than in the previous year (2015: € 12.1 million), ADLER improved its operating cash flow from € 19.5 million to € 22.2 million.

The strict policy of cost savings and a reduction in the number of expansion measures positively impacted free cash flow, which increased significantly from € 2.9 million in the previous year to € 11.4 million.

PROPOSAL TO SUSPEND THE DIVIDEND PAYMENT

The Executive Board and Supervisory Board strive to share the profits with Adler Modemärkte AG's shareholders when the Company is performing well, provided that a careful review does not reveal any compelling reasons to the contrary. In light of the low consolidated profit, the Executive Board and the Supervisory Board will propose that the Annual General Meeting on 24 May 2017 resolve to not distribute a dividend for the 2016 financial year. This is in line with our consolidation strategy, which aims to optimise the working capital and cash flows in the short term.

MEDIUM- AND LONG-TERM GROWTH PROSPECTS INTACT

Management believes that ADLER Modemärkte's medium- and long-term growth prospects remain intact, thanks in part to the measures initiated in 2016 to make the Company more competitive and profitable. By targeting customers aged 45 and up, ADLER sets itself apart from other vendors and will tap the potential of this target group as it continues to grow against the backdrop of demographic change. The current consolidation phase will allow the Company to once again grow profitably by opening new stores or through acquisitions.

Management does not expect the overall industry environment to generate any significant momentum for the time being. Rather, the Executive Board expects that the overall conditions will remain unfavourable in financial year 2017, which will lead to a slight decline in revenue against the 2016 financial year. By contrast, the share of revenue generated by ADLER's online arm is expected to increase substantially. To achieve this objective, ADLER will on the one hand intensify its advertising efforts for the online shop in a bid to appeal to new customers in particular. On the other hand, newsletters will increasingly alert existing customers to relevant offers available to them in the online shop.

The measures initiated to save costs and increase efficiency are expected to continue to take hold in the current financial year. Therefore, management expects EBITDA to significantly exceed the prior-year figure and amount to between €27–30 million.

THANK YOU

Successfully mastering the fashion industry's unique challenges requires a committed and passionate team that gives its all to the Company every single day. I would therefore like to express my deep gratitude to the some 4,000 employees whose expertise, dedication and keen sense of customer service make the ADLER brand what it is today.

I would also like to thank you, the shareholders of Adler Modemärkte AG, for your unwavering loyalty this past year. Your trust in us allows ADLER to move forward constructively, even in trying times, in an effort to further advance and expand the Company in the interests of the shareholders.

Last but not least, I would also like to sincerely thank the Supervisory Board. In the past year, your expertise and experience were once again indispensable to the management team.

Best regards,
Haibach, 16 March 2017

Lothar Schäfer
Chairman of the Executive Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Financial year 2016 was a difficult year, marked primarily by a sustained slump in sales in the retail textiles sector and the predatory competition that followed in its wake. Thanks in part to the collaboration between the Supervisory Board and the Executive Board, increases in efficiency necessitated by the market environment resulted in substantial cost reductions during the year under review.

In 2016, the Supervisory Board performed the duties incumbent upon it by operation of law, the Articles of Association and its rules of procedure. The Supervisory Board regularly advised the Executive Board in managing the Company and assisted it in coordinating the Company's strategic objectives. The Executive Board fulfilled its duties with regard to the provision of information, notifying the Supervisory Board regularly, promptly and in detail, both in writing and orally, on the events and measures relevant for the Company. Based on these reports and during joint discussions with the members of the Executive Board, the Supervisory Board carefully and continually monitored the management. The full Supervisory Board voted on matters as required by operation of law or pursuant to the Articles of Association. In justified cases, resolutions were adopted outside of meetings. The Supervisory Board granted its consent to individual transactions to the extent this was required by law, the Articles of Association or the rules of procedure for the Executive Board. Above and beyond Supervisory Board meetings, the Chairman of the Supervisory Board and the Chairman of the Audit Committee maintained regular contact with the Executive Board and kept apprised of the current development of the business situation.

In preparation for the meetings of the full Supervisory Board, the shareholder and employee representatives addressed the agenda items in separate preliminary meetings. Overall, four regular meetings and three extraordinary meetings were held, with an average attendance rate of more than 90 %. The committees convened with an average attendance rate in excess of 94 %.

EFFECTIVE WORK IN THE COMMITTEES

In order to effectively perform its duties, the Supervisory Board formed four committees. The committees prepare issues and resolutions to be addressed by the full Supervisory Board. In appropriate individual cases, the full Supervisory Board may, to the extent permitted by law, assign powers to adopt resolutions to committees; the Supervisory Board exercised this right in 2016. The committee chairmen provided each subsequent Supervisory Board meeting with a detailed report of the matters discussed and resolved at the individual committee meetings. With the exception of the Audit Committee, the Chairman of the Supervisory Board chairs all committees. The composition of the committees can be found in the chapter Corporate Governance, Supervisory Board.

The Personnel Committee met twice in the year under review. It addressed the structure of the Executive Board remuneration system, and reviewed and set the remuneration for existing members of the Executive Board as well as those members set to be reappointed. For further details, we refer to the remuneration report in the management report. Discussions focused on expiring Executive Board appointments in the context of long-term succession planning and the related decision made in December 2016 to recommend that Executive Board member Karsten Odemann's term of office be extended. The Supervisory Board also approved Executive Board member Lothar Schäfer's sideline position as editorial advisor to the German trade newspaper "Der Handel" in accordance with the rules of procedure.

MASSIMILIANO MONTI
Chairman

The Audit Committee held four meetings in the year under review. In the presence of the auditor, the Chairman of the Executive Board, and the CFO, it discussed the annual and consolidated financial statements and management reports for Adler Modemärkte AG and the Group, and issued its recommendation to the full Supervisory Board regarding the Supervisory Board's nomination for the election of the auditor for financial year 2016 by the Annual General Meeting. The interim reports were discussed in detail prior to their publication. The auditor reported on all events material to the duties of the Supervisory Board that had arisen during the conduct of the audit and the auditor's review of the semi-annual financial report. The independence and qualifications of the auditor and additional services rendered by it were the subject of extensive discussions. On the basis of these discussions and the statement of independence by the auditor, it engaged it as auditor for financial year 2016 and specified the focal points of the audit, taking into account the recommendations of the full Supervisory Board. The Committee also addressed the impacts of audit reform, specifically the new requirements under Regulation (EU) 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities as well as the German Audit Reform Act (Abschlussprüfungsreformgesetz, "AReG"). In this connection, the Committee passed a resolution on the approval of non-audit services by the auditor for financial year 2017. Moreover, the Audit Committee addressed the Company's accounting process and risk management system, as well as the effectiveness of internal audits and the internal control system. In line with its supervisory duties, the Audit Committee obtained reports from the Risk Management Officer and the head of the Internal Audit department regarding the focal points and findings of the audits conducted and the organisation and audit requirements. In addition, the Compliance Officer reported on the Company's compliance regime.

The Nomination Committee did not meet in the year under review.

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

MEETINGS AND RESOLUTIONS OF THE FULL SUPERVISORY BOARD

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

In its extraordinary meeting on 8 January 2016, the Supervisory Board assessed the Company's expansion strategy.

Another extraordinary meeting was held on 29 January 2016. In addition to the expansion strategy, other key topics at that meeting were the audit and approval of the budget prepared by the Executive Board for

financial year 2016 and the presentation of a multi-year budget by the Executive Board, Executive Board personnel matters as well as the approval of a transaction requiring the Supervisory Board's approval in accordance with the applicable rules of procedure.

By resolution passed outside of a meeting, the Supervisory Board decided in mid-February 2016 to extend Executive Board member and Labour Director Karsten Odemann's appointment by another seven months.

The meeting on 15 March 2016 to discuss the annual accounts was centred around the annual and consolidated financial statements as at 31 December 2015, the management report, the Group management report and the dependent company report. In addition, the Supervisory Board discussed the agenda for the 2016 Annual General Meeting, including resolution proposals and the 2015 Annual Report and the corporate governance report contained therein. The full Supervisory Board also discussed updates to the rules of procedure for the governing bodies as well as the current key financial indicators.

The meeting of the Supervisory Board on 3 May 2016 focused mainly on the Steilmann insolvency, which in the opinion of the Executive Board and the Supervisory Board had a negligible effect on the Company's operating business and its financial position, cash flows and financial performance, as well as the revocation of the election of Dott. Michele Puller as Chairman of the Supervisory Board and the subsequent election of Massimiliano Monti as the new Chairman of the Supervisory Board of Adler Modemärkte AG. Massimiliano Monti thereby also replaced Dott. Michele Puller as chair of the Personnel, Nomination and Conciliation Committees. Further topics at the meeting were the implementation of the recommendations of the then-applicable version of the German Corporate Governance Code, the Company's current key financial indicators, new marketing strategies and ADLER's online shop.

Following a review of the implementation of the recommendations of the German Corporate Governance Code, the full Supervisory Board resolved in early May by way of a resolution outside of a meeting to issue a new Declaration of Conformity by the Executive Board and the Supervisory Board in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, "AktG").

Another regular meeting of the Supervisory Board was held on 2 August 2016 at which former Deputy Chairwoman Martina Zimlich, who passed away on 30 July 2016, was remembered. In addition to the report by the Chairman of the Audit Committee on the semi-annual financial report and the audit review findings in this regard, the full Supervisory Board addressed the audit findings and results of the Committee concerning the effectiveness of the internal control system and internal audits. The Supervisory Board also discussed the general market environment for the textile retail sector, the Company's strategies and measures to adapt to that new environment and their impact on the Company's business performance, the potential implementation of a transaction requiring approval under the rules of procedure as well as the new Market Abuse Regulation. Moreover, the Executive Board reported in detail on the business performance during the current financial year.

Focus of the extraordinary meeting held on 20 October 2016 was the election of Majed Abu-Zarur as the new Deputy Chairman of the Supervisory Board and member of the Audit Committee. Upon his election as Deputy Chairman of the Supervisory Board, Majed Abu-Zarur also became a member of the Personnel and Conciliation Committees. Further topics of intense discussion for the full Supervisory Board were the Company's current business performance and the status of the measures introduced to increase efficiency and their impact on the Company's performance going forward.

The full Supervisory Board meeting held on 14 December 2016 dealt with the audit and approval of the budget prepared by the Executive Board for financial year 2017, the presentation of a multi-year budget by the Executive Board and the extension of Karsten Odemann's appointment to the Executive Board. The full Supervisory Board also discussed business matters requiring approval and the revised versions of the rules of procedure for the Supervisory Board and for the Executive Board. The meeting also covered the analysis of the Supervisory Board's annual efficiency review.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board discussed in detail the contents of the German Corporate Governance Code. Although the Executive Board and the Supervisory Board had issued a Declaration of Conformity on 12 May 2015, the Executive Board in its meeting on 11 May and the Supervisory Board on 9 May 2016 outside the context of a meeting resolved to issue an updated Declaration of Conformity pursuant to § 161 AktG. This was made permanently available on the Company's website. According to that declaration, the Company has been in conformity with the Code's recommendations since 11 May 2016, with four exceptions, and will continue to be in future.

As previously reported, the work of the Supervisory Board during the year under review stood out by virtue of its high attendance rate of approximately 92 % for Committee meetings and the meetings of the full Supervisory Board. No member of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board or the meetings of the committees on which they served. Apart from their role as board members and the transactions and legal relationships with related parties referred to in the notes to the annual and consolidated financial statements, the Supervisory Board members have no other legal relationships with the Company. Supervisory Board members Dott. Michele Puller and Paola Viscardi-Giazzi have contractual and professional ties to companies that are affiliates of S&E Kapital GmbH, Bergkamen. Mr Cosimo Carbonelli D'Angelo is a member of the governing body/proprietor of one of the Company's suppliers. Therefore the three Supervisory Board members also have obligations towards the interests of these companies. The interests of these companies might not be identical to the interests of Adler Modemärkte AG, meaning that there is potential for conflicts to arise in individual cases. Apart from this, there was no basis for conflicts of interest on the part of Supervisory Board and Executive Board members in terms of their obligations towards Adler Modemärkte AG.

Apart from this report, the corporate governance of the Company is also presented in the Annual Report under the chapter entitled Corporate Governance Report. That report was submitted jointly by the Executive Board and Supervisory Board and also contains the full text of the Declaration of Conformity dated 11 May 2016, including the notes on the four deviations from the recommendations of the German Corporate Governance Code.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Adler Modemärkte AG as at 31 December 2016 prepared by the Executive Board in accordance with German commercial law provisions and the Group management report combined with the management report and issued them all an unqualified auditors' report. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the supplemental commercial law provisions pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch, "HGB").

The dependent company report submitted by the Executive Board for financial year 2016, concerning relationships with affiliated companies, was also audited by the auditor. The dependent company report of the Executive Board was issued the following unqualified auditors' report: "After our due audit and assessment, we confirm that 1. the factual statements of the report are correct, 2. the consideration paid by the Company was not unreasonably high for the legal transactions set forth in the report."

The aforementioned documents and the Executive Board's recommendation for the appropriation of net retained profits have been provided to the Supervisory Board in good time. At its meeting on 7 March 2017 the Audit Committee first addressed the aforementioned documents in detail. At the meeting on 14 March 2017, the full Supervisory Board then discussed in detail and audited the aforementioned submissions by the Executive Board after the Committee Chairman had reported on the meeting of the Audit Committee. Both

meetings were attended by representatives of the auditor, who reported on the key findings of the audit. It was also found that there are no material weaknesses in the internal control system and the risk early warning system related to the accounting process. In addition, the representatives of the auditor answered questions by the members of the Supervisory Board and confirmed that the risk early warning system established by the Executive Board is suitable for detecting at an early stage developments that may jeopardise the Company as a going concern. The auditor also examined the scope, costs and the focal points of the audit stipulated by the Audit Committee. There are no objections to be raised after audit and discussion of the annual financial statements, the consolidated financial statements, the management report, the Group management report as well as the Executive Board's dependent company report in the Audit Committee and our own audit in the Supervisory Board. The Supervisory Board has approved the findings of the audit by the auditor and unanimously approved the annual financial statements and consolidated financial statements. The annual financial statements are therefore adopted. The Audit Committee and the Supervisory Board also examined the withdrawal from other revenue reserves to offset the net loss for the year. In this respect we agreed within the approval of the annual financial statement with the Executive Board's proposal not to pay a dividend.

CHANGES TO COMPOSITION OF THE SUPERVISORY BOARD

On 3 May 2016 the full Supervisory Board elected Massimiliano Monti as its new Chairman. He follows Dott. Michele Puller, whose election as Chairman was earlier revoked. Massimiliano Monti thereby also replaced Dott. Michele Puller as chair of the Personnel, Nomination and Conciliation Committees.

On 30 July 2016, former Deputy Chairwoman of the Supervisory Board, Martina Zimlich, passed away and thereby dissociated from the Supervisory Board and its committees. For the remaining term of office of the dissociated member, Frank König joined the Supervisory Board with immediate effect as a substitute member elected in 2013.

In its meeting held on 20 October 2016, the Supervisory Board elected Majed Abu-Zarur as its new Deputy Chairman of the Supervisory Board and member of the Audit Committee. He has since then also been a member of the Personnel and Conciliation Committees.

CHANGES TO COMPOSITION OF THE EXECUTIVE BOARD

In its meeting on 14 December 2016, the Supervisory Board unanimously appointed Karsten Odemann to the Company's Executive Board for a further three years, i.e., until the end of December 2019.

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

Haibach, 14 March 2017
For the Supervisory Board

Massimiliano Monti
Chairman

SUPERVISORY BOARD

Massimiliano Monti [1*, 2, 3*, 4*] – *Lugano, Switzerland*
Chairman of the Supervisory Board
Partner Equinox S.A.

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

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

Cosimo Carbonelli D'Angelo [1, 4] – *Sorengo, Schweiz*
Managing Director of G.&C. Holding S.r.l.

Corinna Groß – *Neuss, Germany*
District Managing Director ver.di North Rhine-Westphalia

Frank König – *Berlin, Germany*
Staff Member Information Desk and Cash Desk Adler Modemärkte AG

Peter König [1, 2] – *Rottendorf, Germany*
Secretary of the National Executive Board of the ver.di Union

Georg Linder [1, 2, 4] – *Hösbach, Germany*
Divisional Head of Purchasing Planning and Merchandise Management Adler Modemärkte AG

Giorgio Mercogliano – *Montagnola – Lugano, Switzerland*
Partner Equinox S.A.

Dott. Michele Puller – *Bergkamen, Germany*
Chairman of the Executive Board of Steilmann Holding AG i.I.

Paola Viscardi-Giazzi [2] – *Dortmund, Germany*
Executive Board Member of Steilmann Holding AG i.I.

Beate Wimmer – *Nettetal, Germany*
Consultant on Info, Cash and Sales Adler Modemärkte AG

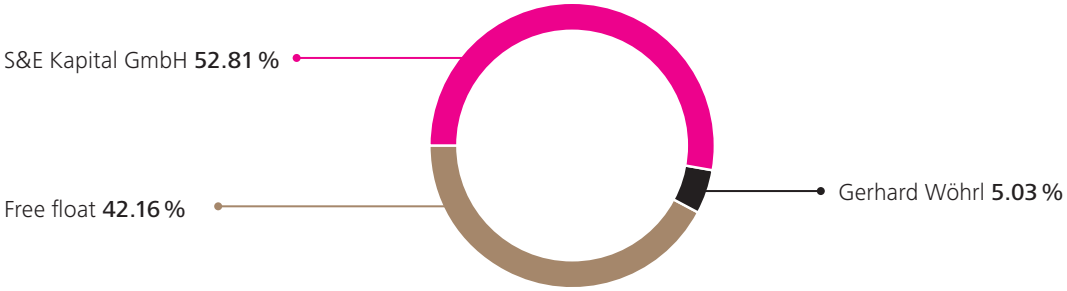
Memberships in (as at 31 Dec. 2016):
[1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee
* Chairman of the Committee

ADLER SHARES

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

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

SHAREHOLDER STRUCTURE*



** reportable shareholdings, as of 28 February 2017*

ADLER'S SHARE PRICE PERFORMANCE

Given the challenging conditions facing the textiles industry, investors were once again sceptical of fashion stocks in the 2016 year under review. Against the backdrop of a more anaemic stock market environment than in 2015, less than half of the stocks listed on the MAI fashion share index (Modeaktienindex) maintained by industry magazine "TextilWirtschaft" had recorded price gains by year's end: 11 stocks were profitable while 16 stocks had recorded declines.

Shares in Adler Modemärkte AG also came under severe pressure and recorded losses during the reporting period.

After closing the final trading day in 2015 at € 10.10, the shares initially tracked the major indices, which had a weak start to the new trading year, falling significantly in the first few weeks of the year. At the end of March, ADLER's share price performance was also held in check by news of Steilmann SE's insolvency, with which ADLER is indirectly affiliated as a subordinate company via majority shareholder S&E Kapital GmbH. In addition to concerns about the possible effects on the operating business, uncertainty also stemmed in particular from the unresolved issue surrounding the potential disposal of the block of shares (52.81 %) held by S&E.

The downward trend continued in May after the publication of weak quarterly figures that were attributable primarily to unfavourable weather conditions. The dividend payment of €0.50 per share also led to a corresponding drop in share price. The share price declined further following the forecast adjustment on 2 August and news of the Wöhrl fashion retail chain's insolvency; the shares did not recover these losses during the further course of the year. Following a second forecast adjustment on 20 October, the share price hit its low for the year of €4.66 on the following day. At the end of the year, ADLER shares trended sideways to close at €4.71 on 30 December.

ADLER SHARE PRICE VERSUS DAX

After ending 2015 on a high note, the DAX started off the new year with significant declines on the heels of weak economic data from China. In the first six weeks, the index fell by approximately 19 % and hit its low for the year of 8,753 points in mid-February. Despite the subsequent upward trend, which lasted well into April, the DAX was unable to recover the ground it lost. In light of the impending Brexit referendum, the DAX remained significantly below the level recorded on 30 December 2015. It took until August to regain the ground it had lost, only to then encounter headwinds and level off just shy of this mark. The breakout finally came in early December: The DAX gained momentum and closed the trading year up 6.9 % at 11,481 points.

While the SDAX in general closely tracked the DAX in 2016, its upward trends were overall more dynamic. After recording comparable losses at the beginning of the year, the SDAX outperformed the DAX – at times significantly – from March onwards. For long stretches in the second half of the year, the SDAX maintained its positive momentum before its gains were reversed in November. The SDAX's rally at the end of the year was less pronounced than that of the DAX and it closed at 9,519 points on 30 December 2016, up 4.6 % year on year.

ADLER shares were only able to track the DAX and SDAX at the beginning of the year before following a different trajectory due to the factors outlined above.

ADLER SHARE VERSUS DAX AND SDAX (INDEX AT 30 DECEMBER 2015 = 100)

DIVIDEND DISTRIBUTION

The Executive Board and the Supervisory Board of Adler Modemärkte AG continued the shareholder-oriented dividend policy in the year under review and maintained the attractive dividend: On 4 May 2016, the Annual General Meeting once again approved the proposed dividend of €0.50 per bearer share. Based on undiluted earnings of €0.43 per share, this corresponds to a distribution ratio of 116%. Based on the Xetra closing price on 30 December 2015, the dividend yield amounts to 5%. In other words, the Company distributed a total of €9.3 million to its shareholders.

INVESTOR RELATIONS

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

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

In order to achieve this objective, the Executive Board once again participated in capital market conferences and roadshows, including the Oddo Forum in Lyon, the German Corporate Conference in Frankfurt, the Baader Investment Conference in Munich and the German Equity Forum in Frankfurt. In addition, a large number of one-on-one meetings were again held with analysts and investors in 2016.

ADLER also held its first Capital Markets Day at its headquarters in Haibach on 1 June 2016, which was met with extremely positive feedback from the participants. The Executive Board and representatives of second-tier management reported on current developments in marketing, purchasing, operations, eCommerce, expansion and IT.

DESIGNATED SPONSORS

In financial year 2016, M.M. Warburg and Oddo Seydler (formerly Close Brothers Seydler) were the designated sponsors of ADLER's shares.

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

CORPORATE GOVERNANCE REPORT

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

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a German stock corporation listed on the Prime Standard sub-segment of the regulated market (regulierter Markt) of the Frankfurt Stock Exchange, ADLER mainly bases its corporate governance on the laws applicable in Germany and the recommendations and suggestions of the German Corporate Governance Code. In financial year 2016, the Executive Board and the Supervisory Board discussed in detail the stipulations of the Code in the version adopted on 5 May 2015 and published on 12 June 2015, which was unchanged in 2016. In 2016, the Supervisory Board focussed on the recommendations concerning Executive Board remuneration, the composition of the Supervisory Board and diversity at the Company during its in-depth deliberations. After the Executive Board and the Supervisory Board issued a declaration of conformity on 12 May 2015, the declaration of conformity was updated on 11 May 2016; it is published on ADLER's website and included at the end of this report. Since 11 May 2016, Adler Modemärkte AG complies with all but four recommendations of the Code (see Declaration of Conformity).

EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

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

When filling management positions in the Company, it has always been the ADLER Executive Board's fundamental approach to not only factor in professional qualifications but also to strive for the greatest possible

level of diversity and reasonable inclusion of women. Personnel decisions in financial year 2016 were also made on the basis of this fundamental approach. Because diversity translates into opportunity, the ADLER Executive Board will take this principle into account going forward as well in the context of the targets set pursuant to § 76 (4) AktG and laid out in the corporate governance statement pursuant to § 289a (2) no. 4 HGB.

The *Supervisory Board* has a total of twelve members and, pursuant to the German Co-determination Act, has an equal number of shareholder and employee representatives. According to its own estimation, the Supervisory Board has a reasonable number of independent members. Its members should have complementary professional experience and skills in order to duly perform their duties. The members as a whole are also familiar with the sector in which the Company operates. However, the Supervisory Board continues to not specify any targets in terms of its constitution since this would too greatly limit its flexibility in searching for candidates with the necessary expertise and experience. For the same reason, the Company has also opted not to set an age limit for members of the Supervisory Board and, when making nominations, will not take into account specific targets, but rather stated intentions. However, the Supervisory Board in its current composition meets the requirements of the law and the Articles of Association. Only the percentage of women, which is currently 25 %, is slightly below that which is required under § 96 (2) AktG. As such, women are to continue to be reasonably represented on the Supervisory Board and in compliance with the statutory minimum of 30 %.

AVOIDANCE OF CONFLICTS OF INTEREST

In performing their board work, members of both the Executive Board and the Supervisory Board have an obligation towards ADLER's corporate interest. On this basis, personal interests may not be pursued nor may benefits be granted to third parties when decisions are taken. In financial year 2016 there were no conflicts of interest requiring disclosure to the Supervisory Board without undue delay. Transactions involving the Company, its executive bodies and related parties were always executed at arm's length received the approval of the Supervisory Board if they exceeded the materiality threshold. No member of the Supervisory Board performed special consultancy or other services for the Company in financial year 2016.

We refer to the notes to the consolidated financial statements for information on the memberships held by Executive Board and Supervisory Board members in statutory supervisory boards and comparable domestic and foreign boards of commercial enterprises. On this basis, no Executive Board member presently holds a supervisory board office in listed companies outside the Group. The notes to the consolidated financial statements include related party disclosures.

D&O INSURANCE DEDUCTIBLE

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

REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS

Persons discharging managerial responsibilities and persons closely associated with them within the meaning of the Market Abuse Regulation (MAR), which specifically includes members of the Executive Board and the Supervisory Board, are required under article 19 MAR to disclose reportable transactions relating to the shares or debt instruments of Adler Modemärkte AG or to derivatives or other financial instruments linked thereto if the total value of the transactions reaches or exceeds €5,000 in a calendar year. No such transactions were reported to the Company in financial year 2016. Detailed information in this regard is published on the ADLER website. The total shareholding of all Executive Board and Supervisory Board members in Adler Modemärkte AG as at 31 December 2016 was less than 1 % of the shares issued by the Company.

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

SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

CONTROL AND RISK MANAGEMENT

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

CORPORATE COMPLIANCE AS A MANAGEMENT DUTY OF THE EXECUTIVE BOARD

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

ACCOUNTING AND AUDITING

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

TRANSPARENT CORPORATE GOVERNANCE

ADLER is committed to ensuring the greatest possible transparency by providing prompt, detailed and regular information on the Company's position and key business changes. Only in this way can the trust investors, capital providers, the media, and the interested public placed in ADLER be ensured long-term. The investor relations work was once again intensified in financial year 2016, so that ADLER is in even closer contact with the capital market. Moreover, there is an in-depth dialogue at analyst and investor conferences and during teleconferences and roadshows. These are presented regularly to discuss the annual financial statements, the publication of interim reports and current affairs. In addition, the Company publishes the accompanying presentations on ADLER's website.

Information on current developments for the ADLER Group and all publications are available to the shareholders and potential investors online at www.adlermode-unternehmen.com. All press releases and ad hoc disclosures by Adler Modemärkte AG are published in German and English under the heading "Investor Relations", under "News & Releases". Apart from ad hoc disclosures pursuant to article 17 MAR, ADLER has a policy of providing transparent and prompt information through press releases, notices on voting rights changes and reportable securities transactions. The Company's Articles of Association and information on implementation of the recommendations of the German Corporate Governance Code may be found in the "Corporate Governance" section, and the consolidated financial statements, interim financial reports and presentations may be found under "Reports & Publications". In addition, the ADLER website offers extensive, up-to-date information on recurring dates, the date of the Annual General Meeting, publication dates for the financial reports and Company appearances at capital market forums under the heading "Financial Calendar".

DECLARATION OF CONFORMITY

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

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

The Executive Board and Supervisory Board of Adler Modemärkte AG declare that the recommendations of the German Corporate Governance Code ("Code") as amended on 24 June 2014, published by the Federal Ministry of Justice on 30 September 2014 in the official section of the Federal Gazette, were complied with during the time period since the last Declaration of Conformity from 12 May 2015 to 11 June 2015 with the following exceptions.

The Executive Board and Supervisory Board further declare that the recommendations of the German Corporate Governance Code ("Code") as amended on 5 May 2015, published by the Federal Ministry of Justice on 12 June 2015 in the official section of the Federal Gazette, have since then been and will in future be complied with subject to the following exceptions:

Fixed amount as cap for the overall Executive Board remuneration (Section 4.2.3 para. 2 sent. 6 of the Code)

All Executive Board employment contracts currently in force contain caps on the amount of both the fixed and variable remuneration components. However, there is no express cap on the overall amount of remuneration in the Executive Board contracts currently in force. The Supervisory Board does not see the necessity of expressly stipulating a cap on the overall amount of remuneration, as all Executive Board employment contracts provide for a cap on the amount of all material remuneration components, which effectively means that the overall amount of remuneration is limited.

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

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

Composition of Supervisory Board (Section 5.4.1 para. 2 and 3 of the Code)
The Company's Supervisory Board has not named any specific targets relating to the composition of the Board; for that reason, there is also no publication of the target and status of implementation in the Corporate Governance report. It is true that the Supervisory Board aims to have members with different and complementary professional experience and skills. Nevertheless, the Supervisory Board believes that the stipulation of specific targets would restrict the flexibility of the Supervisory Board too greatly in its search for candidates with the necessary ability and experience. For the same reason, the Company does not stipulate an age or term limit for members of the Supervisory Board either. With regard to nominations of the Supervisory Board, therefore, no specific targets are taken into consideration, but rather the intentions mentioned above.

Haibach, 11 May 2016

Adler Modemärkte Aktiengesellschaft

The Executive Board The Supervisory Board"

CORPORATE GOVERNANCE STATEMENT

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

GROUP MANAGEMENT REPORT

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In March 2016, Steilmann SE filed for insolvency. Adler Modemärkte AG is indirectly affiliated with Steilmann SE as a subordinate company via the majority interest held by shareholder S&E Kapital GmbH. Financially and operationally, ADLER is independent of Steilmann SE. The Steilmann insolvency did not significantly affect ADLER's operating business or its financial position, cash flows or financial performance in financial year 2016 nor does management expect any effects therefrom going forward.

At the beginning of April, Steilmann SE i.I. announced that further Steilmann Group companies had filed for insolvency due to the inability to pay their debts as they fall due. In this regard, Adler Modemärkte AG reiterated its statement that it does not expect any significant effects on its operating business or its financial position, cash flows or financial performance.

ADLER opened a store in Chur in March 2016, its second in Switzerland. A new store was opened in Neumarkt in der Oberpfalz in April, followed by another in Hard near Bregenz, Austria, in May and one in Selfkant in North Rhine-Westphalia in September. In November, ADLER strengthened its position in Luxembourg by opening a new store in Wemperhardt. In the month of November, the Company also opened new stores in Dillenburg (Hesse) and in Halle. The lease agreement for the unprofitable store in Günthersdorf was terminated during the reporting period; the store was closed in September.

As at the end of the financial year on 31 December 2016, the total number of ADLER stores had increased to 183 (31 December 2015: 177).

The stores in Georgsmarienhütte, Weiden, Gotha and Neuwied were extensively renovated under the programme to modernise older existing ADLER stores. Renovations gave the stores in Rüsselsheim and Mannheim Neu-Edingen a fresh, modern look. Flood damage forced the closure of the Schwäbisch Gmünd store from July to October 2016.

In the middle of November, Adler Modemärkte AG acquired the rights to the "Steilmann" brand, and since then has marketed merchandise it previously sold under that brand as an own brand. A brand management and product development team was engaged at the Bochum location of A-Team Fashion GmbH, Munich, an ADLER Group company. The team's fashion designs are manufactured by production partners in eastern Europe. ADLER expects the margins on Steilmann products to improve as a result.

In mid-December 2016, the Supervisory Board of Adler Modemärkte AG unanimously resolved to renew CFO Karsten Odemann's service agreement until the end of December 2019. He will continue to carry out the same responsibilities he first assumed at ADLER in December 2011.

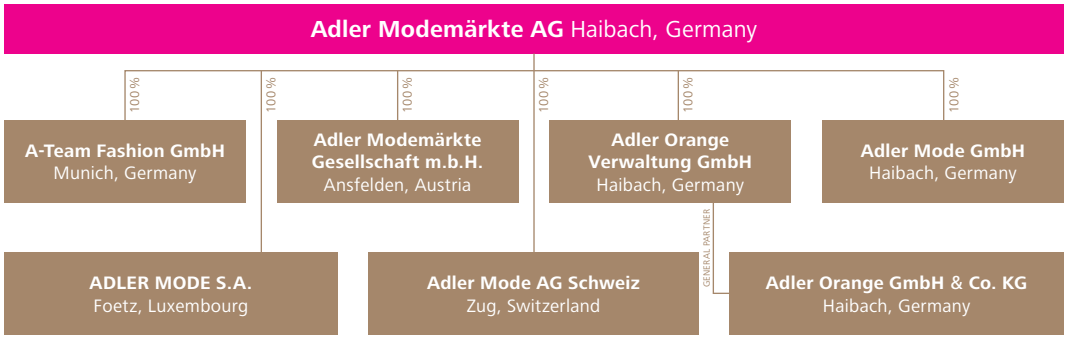
BUSINESS & GENERAL CONDITIONS

GROUP STRUCTURE AND CORPORATE ORGANISATION

Adler Modemärkte AG, having its registered office in Haibach near Aschaffenburg, is the strategic and operating holding company of the ADLER Group. In Germany, ADLER operates its own stores itself and via its wholly owned subsidiaries Adler Mode GmbH, Haibach, and Adler Orange GmbH & Co. KG, Haibach. In Luxembourg, Austria and Switzerland, ADLER operates its stores via the wholly owned subsidiaries ADLER MODE S.A., Foetz, Luxembourg, Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, and Adler Mode AG Schweiz, Zug, Switzerland, respectively. A-Team Fashion GmbH, Munich, serves as a facilitator of new business models and is responsible for vertical product refinement, in particular the design of and production processing of the Steilmann product range.

In its function as the Group parent, Adler Modemärkte AG oversees the areas of responsibility affecting all companies within the Group. These include procurement and marketing, IT infrastructure management, finance and accounting, internal audit and controlling, and legal issues.

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



GENERAL DESCRIPTION OF BUSINESS ACTIVITIES

Adler Modemärkte AG is one of the leading and largest textile retail chains in Germany. The industry magazine TextilWirtschaft ranks the Company 22nd in its Top 100 Ranking for 2015. At the end of 2016, the Group operated a total of 183 stores (2015: 177), 156 (153) of which in Germany, 22 (21) in Austria, 3 (2) in Luxembourg and 2 (1) in Switzerland. The Company also operates an online shop at *www.adlermode.com*.

In terms of fit, fashionability, functionality and quality, ADLER's product range is primarily tailored to those aged 45 and up, a segment of the population which is steadily growing. ADLER offers high-quality products that represent attractive value for money in the lower mid-range price segment. The product range includes a broad selection of womenswear, menswear and underwear. With a supplementary range consisting of accessories, footwear, kidswear and babywear, traditional dress and durable goods, ADLER offers a well-rounded product portfolio, thus harnessing the cross-selling potential in its stores.

The Group's own brands are ADLER's main revenue drivers. At the end of the 2016 financial year, these included Bexleys, Malva, Thea, My Own, Via Cortesa, Viventy by Bernd Berger and Steilmann for women, as well as Bexleys, Senator, Eagle No.7, Big Fashion, Via Cortesa and Bernd Berger for men. These represent approximately 75 % of the Group's revenue and the majority of its earnings.

ADLER also offers external brands for womenswear, menswear and kidswear at many of its stores. While ADLER sells various men's and women's fashion brands popular in Germany and elsewhere, the Company has partnered exclusively with Tom Tailor, Hamburg, to offer kidswear since 2012.

The external brands that the Company carries – often showcased in shop-in-shop concepts – are frequently positioned near the entrances of ADLER stores. This helps contribute to an attractive storefront design, a highlight found especially in new and modernised stores. ADLER specifically combines the external brands with the younger and fashionable brands. ADLER hopes to win over new customers in this manner, i.e. customers who previously did not shop at the Company or who are only now entering the 45-plus age group. At the same time, this also introduces new customers to ADLER's own brands.

CORPORATE GOVERNANCE

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

REVENUE AND EBITDA AS KEY PERFORMANCE INDICATORS

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

CORE ELEMENTS OF THE INTERNAL CONTROL SYSTEM

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

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

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

REGULAR UPDATES OF GROUP FINANCIAL PLANNING AND PROJECTIONS

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

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

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

GENERAL ECONOMIC ENVIRONMENT

According to the International Monetary Fund's (IMF) January 2017 forecast, the global economy grew by 3.1 % in the past year. Economic growth in industrialised countries slowed from 2.1 % in 2015 to 1.6 % in 2016. Economic growth in emerging markets and developing countries (4.1 %) was on par with the previous year's growth (2015: 4.1 %). Overall, growth in Asia slowed to 6.3 % (2015: 6.7 %). The economy in the euro area grew at a less dynamic rate (1.7 %) during the year under review than in the previous year (2015: 2.0 %).

Economic growth in Germany, Adler Modemärkte AG's most important market, picked up pace from 1.5 % in 2015 to 1.7 % in 2016. The US economy expanded by 1.6 % (2015: 2.6 %). The UK's referendum and resulting vote to leave the European Union in June (commonly referred to as the Brexit) in particular was cause for market unrest in industrialised countries, which continued to feel the effects of historically low interest rates. The mood in emerging markets and developing countries was dampened in particular by the further slowdown of growth in China, the continuing low commodities prices as well as national conflicts, political bickering and geopolitical tensions in certain countries.

CONSUMER CLIMATE REMAINS POSITIVE IN GERMANY

According to a study conducted by GfK, a market research institute based in Nuremberg, consumer sentiment in Germany was on the whole positive at the end of 2016. Economic expectations improved slightly while income expectations even increased significantly. By contrast, propensity to spend fell slightly. Overall, consumers showed themselves to be highly resistant to a number of risk factors such as the outcome of the US elections, the Brexit decision and the increasing risk of terrorist attacks. It appears that consumers primarily based their decision to buy on the health of the labour market, with low fear of unemployment boosting consumer confidence. Low interest rates also had a positive influence.

In its economic outlook for the past year published in December 2016, the Austrian Institute of Economic Research forecast growth of 1.5 % (2015: 1.0 %). The mood in Austria continued to lighten as private households increased spending as a result of higher income levels due to tax reliefs and companies across many different sectors saw their situations improve.

The Swiss economy returned to moderate growth following the unpegging and the resulting sharp appreciation of the Swiss franc in 2015. According to the calculations of the KOF Swiss Economic Institute, GDP grew by 1.6 % in the past year. Private consumption increased by 1.0 %.

RETAIL AND TEXTILES

On the whole, 2016 was a satisfactory year for the retail industry: according to estimates by the German Federal Statistical Office (Destatis), retail companies in Germany generated between 1.8 % and 2.1 % (in real terms) and between 2.4 % and 2.6 % (in nominal terms) more revenue than in 2015. This estimate is based on revenues for January to November 2016. However, the situation was different for brick-and-mortar fashion retailers: six out of ten retailers ended the year in the red. Nearly one in ten even recorded declines in the double-digit percentage range. The companies of Testclub, the TextilWirtschaft trade journal's and German fashion retailers' most popular survey panel, reported an average year-on-year decline in revenue of 2 % – a significant deterioration after revenue for brick-and-mortar fashion retailers had remained level in 2015. The mix of unfavourable weather, poor timing in terms of bringing seasonal collections to market and increasingly fierce competition caused problems for many retailers.

At the end of the first half of 2016, the decrease in revenue in the fashion retail industry already amounted to 1 %. This was followed by a sharp decline of 16 % in the month of September. During the full year 2016, an increase in revenue was recorded in only three months: February (+3 %), April (+2 %) and November (+1 %). While revenue stagnated at the prior-year level in October and December, revenue in the remaining seven months declined: May (–1 %), June (–2 %), July and August (–3 %), January (–4 %), March (–6 %) and September (–16 %). The holiday business was also disappointing since the continuing mild temperatures did little in the way of stimulating purchases of winter merchandise.

DEVELOPMENT AND ANALYSIS OF REVENUE

DEVELOPMENT OF REVENUE

In financial year 2016, consolidated revenue decreased by 3.8 % to € 544.6 million (2015: € 566.1 million). ADLER was unable to buck the decline in sales affecting the textile retail industry and much like the rest of the industry suffered under the accompanying pricing pressure and difficult weather conditions.

On a like-for-like basis, revenue for the past financial year declined by 4.6 %, representing a significant year-on-year deterioration. Furthermore, the newly opened stores (€ 6.6 million) have thus far failed to completely offset the decline in revenue attributable to the closure of stores (€ 8.4 million). The product range optimisation at the ADLER Orange stores and the associated clearance sales, in particular for high-quality merchandise, led to a € 1.9 million decline in revenue.

SEASONAL, QUARTERLY PERFORMANCE

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

DEVELOPMENT OF REVENUE BY QUARTER

A quarterly analysis reveals the following: In 2016, ADLER was unable to buck the negative trend in the textile retail industry. In the traditionally weak first quarter, revenue fell by 8.5 % to € 105.3 million (Q1 2015: € 115.1 million). In the second quarter, revenue decreased by 1.0 % to € 151.8 million (Q2 2015: € 153.3 million). In the third quarter, revenue dropped by 9.4 % to € 117.9 million (Q3 2015: € 130.2 million). Only in the fourth quarter of 2016 did the Company generate a 1.3 % increase in revenue to € 169.6 million (Q4 2015: € 167.4 million).

On a like-for-like basis, ADLER reported a decline in revenue in the first (– 7.7 %), second (– 1.7 %), third (– 9.7 %) and fourth (– 1.2 %) quarters.

ANALYSIS OF REVENUE BY COUNTRY

In financial year 2016, ADLER generated € 453.7 million (83.3 %) of its consolidated revenue in its traditional core market, Germany (2015: € 474.2 million). In Austria, the Company generated revenue of € 71.2 million (2015: € 73.0 million), corresponding to 13.1 % of ADLER's total revenue. The revenue generated in Luxembourg remained level at € 16.7 million. Accordingly, the share of total revenue amounted to 3.1 %. In 2016, ADLER's two stores in Switzerland increased revenue, generating € 3.0 million as compared to € 2.1 million in 2015.

FINANCIAL PERFORMANCE

GROSS PROFIT MARGIN DECLINES

The 1.8 % decline to € 256.5 million (2015: € 261.2 million) in the ADLER Group's cost of materials was less pronounced than the decrease in revenue. Accordingly, the gross profit in financial year 2016 declined at a faster rate than revenue, sliding 5.5 % from € 304.9 million to € 288.1 million. The gross profit margin decreased slightly from 53.9 % to 52.9 %.

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

Other operating income amounted to € 8.7 million (financial year 2015: € 8.9 million). This includes primarily reversals of provisions, construction subsidies, income from special projects and income from the hanger recycling project.

PERSONNEL EXPENSES

Despite the wage and salary increases set out in the collective bargaining agreement entered into in 2014, personnel expenses decreased slightly by 0.1 % from € 102.5 million in 2015 to € 102.3 million. This was due primarily to the decline in the number of employees, the lower provisions for severance payments and the lower provisions for anniversaries and death benefits due to interest rate effects. The personnel expenses ratio increased from 18.1 % in 2015 to 18.8 %.

OTHER OPERATING EXPENSES

In 2016, other operating expenses decreased by 3.8 % to € 171.2 million (2015: € 178.0 million), corresponding to 31.4 % of consolidated revenue, as was also the case in the previous year. This item includes in particular building management expenditures, marketing and advertising outlays, freight and transport expenses and

costs for technical facilities, such as those incurred in modernising six stores. ADLER responded quickly to the decline in revenue by initiating appropriate cost-saving programmes that began to show their effect in the year under review. Marketing outlays decreased by €8.4 million year on year and expenditures for maintenance and modernisation measures as well as administrative expenses each declined by €0.6 million.

EARNINGS

In total, EBITDA of €23.3 million was generated in financial year 2016 (2015: €33.3 million).

In financial year 2016, depreciation, amortisation and write-downs increased by €0.4 million from €16.3 million in 2015 to €16.7 million. The increase was due primarily to finance leases. EBIT decreased to €6.6 million (2015: €17.0 million). The EBIT margin thus decreased from 3.0% to 1.2%.

As in the previous year, the net finance costs amounted to €4.9 million. EBT decreased year on year, amounting to €1.7 million during the year under review (financial year 2015: €12.1 million).

In financial year 2016, income taxes decreased year on year, amounting to €−1.3 million as compared to €−4.2 million in 2015. The tax expense decreased on account of the decline in earnings before taxes and deferred tax reversal effects. The consolidated net profit for the year fell from €7.9 million in 2015 to €0.4 million in 2016.

EARNINGS PER SHARE

The net earnings per share amounted to €0.02 (based on 18,510,000 no-par value shares). Earnings per share had amounted to €0.43 in the previous year (based on 18,510,000 no-par value shares).

FINANCIAL POSITION AND CASH FLOWS

FINANCIAL POSITION

The ADLER Group's total assets as at 31 December 2016 decreased year on year to €222.6 million (2015: €243.4 million). Property, plant and equipment decreased to €78.1 million (2015: €81.6 million). This included expenditures for the modernisation of existing stores, including the associated procurement of other office equipment for store construction, as well as new or renewed finance leases. The lease agreements relate to leased store buildings, whereby the Group is deemed the beneficial owner for the purpose of the underlying lease agreements.

Inventories at the end of the reporting period decreased by €5.9 million to €75.4 million (2015: €81.3 million). This was due to the decline in purchased goods as a result of the decrease in revenue.

The ADLER Group's cash and cash equivalents decreased by €9.3 million from €52.1 million in 2015 to €42.8 million due mainly to the lower revenue consolidated profit.

Group equity decreased to €95.8 million (2015: €104.9 million). The equity ratio (43.1%) was at previous years' level (2015: 43.1%). As in the previous year, a dividend payment of €9.3 million was made to the shareholders of Adler Modemärkte AG.

DEBT/EQUITY RATIO

As at 31 December 2016, ADLER's liabilities decreased by € 11.8 million to € 126.7 million (2015: € 138.5 million). As at the end of the reporting period, ADLER no longer had any liabilities to banks. Liabilities related in particular to finance lease obligations (€ 52.2 million; 2015: € 56.3 million) and current and non-current financial liabilities (€ 13.5 million; 2015: € 14.6 million). Unclaimed rebates offered to participants in the customer loyalty card programme amounted to € 10.6 million (2015: € 11.4 million).

The decline in provisions for pensions and similar obligations declined slightly by € 0.1 million to € 5.8 million (2015: € 5.9 million), and income tax liabilities amounted to € 0.1 million (2015: € 0.2 million). The debt/equity ratio (1.32) was level with the previous year's ratio (2015: 1.32).

DECREASE IN WORKING CAPITAL

Working capital (inventories plus trade receivables, less trade payables) decreased by € 0.5 million to € 50.7 million as at the end of the reporting period (2015: € 51.2 million). The working capital ratio increased to 9.3 % (2015: 9.0 %).

CASH FLOW MANAGEMENT

Cash flows from operating activities (net cash flow) are one key indicator of ADLER's operating earnings power. Net cash flow increased during the year under review by € 2.7 million from € 19.5 million to € 22.2 million. Cash flows used in investing activities decreased by € 5.8 million to € 10.8 million (2015: € 16.6 million). Of that amount, approximately € 4.5 million in the previous year had been attributable to the acquisition of the ADLER Orange companies and the purchase of the hefa stores in Mömlingen and Lollar; € 1.0 million had been attributable to the acquisition of a building in St. Pölten, Austria. This item also includes the costs for modernising existing markets.

Free cash flow increased in 2016 by € 8.5 million to € 11.4 million (2015: € 2.9 million). The increase was attributable primarily to a strict policy of cutbacks, a reduction in the number of modernisation measures and the lack of company acquisitions.

Cash flows used in financing activities totalled € 20.7 million, nearly on par with the prior-year's figure of € 20.5 million.

As at the end of the reporting period, the ADLER Group's cash and cash equivalents amounted to € 42.8 million, representing a decrease of € 9.3 million from € 52.1 million as at 31 December 2015.

INVESTMENT

The ADLER Group's investments during financial year 2016 totalled € 13.3 million (2015: € 21.6 million). Of that amount, € 8.8 million (2015: € 11.6 million) was invested in property, plant and equipment (operating and office equipment) and € 2.4 million was attributable to the renewal of finance lease agreements. Investments in intangible assets amounted to € 2.2 million (2015: € 1.5 million). This includes the acquisition of the Steilmann brand as well as IT investments. Capital expenditure commitments include investments that had already been authorised as at the reporting date. Investments during the year under review included new store openings as well as the modernisation of existing stores.

PROCUREMENT

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

ADLER has many years of experience in procuring textiles in Asia. The production of textiles is outsourced to strategic partners. ADLER works mainly with a core group of suppliers, which represented 46 % of the purchasing volume in financial year 2016.

ADLER sells products from its own-brand range and brand-name items (external brands).

ADLER's primary direct suppliers of own brands in Asia are the procurement agents MGB Metro Group Buying HK Ltd., Hong Kong (MGB), and NTS Holding Limited, Hong Kong (NTS). MGB bundles the procurement activities of the METRO Group in Asia and accordingly has a great deal of market power there. And as one of MGB's most important customers for textiles, this is much to the benefit of ADLER. NTS in China is the Steilmann Group's former procurement arm.

ADLER's purchasing department directly manages individual producers in Morocco and Turkey.

In financial year 2016, ADLER purchased merchandise valued at a total of € 234 million. Of this amount, 24 % or € 56 million was used to purchase external brands and € 178 million to purchase own brands. Of the own brands, € 97 million was purchased from the procurement agents MGB and NTS in Asia and € 10 million was purchased directly from producers. In financial year 2016, the share purchased from EU-based suppliers amounted to 30 % or € 71 million.

ADLER intends to further optimise its procurement sources over the medium term since increasing gross profit is one of the Company's strategic objectives. In this vein, in financial year 2016, ADLER arranged shorter delivery times with its Asian suppliers and strengthened its partnerships with its European suppliers in order to ensure that its procurement activities are even more demand-driven. ADLER also gained extensive know-how about manufacturing in eastern Europe by acquiring the Steilmann brand and team.

DIVERSIFIED SUPPLIER RELATIONSHIPS

ADLER makes sure that it distributes its purchase volumes evenly across a worldwide network of suppliers in order to spread the risk and to minimise its dependency on any one procurement market or manufacturing site. ADLER has therefore entered into a large number of agreements with importers, each of which accounted for considerably less than 5 % of the total volume delivered to ADLER in financial year 2016. Some importers also guarantee rapid responses to changes in demand since their production facilities are close to Europe. Some of the agreements with importers pertain to NOS items ("never-out-of-stock"), which are automatically replenished when they sell out. ADLER maintains additional supplier relationships with the manufacturers of the external brands it offers in its stores.

DISTRIBUTION, SALES & MARKETING

SALES STRATEGY

ADLER pursues a multi-channel sales strategy. For its brick-and-mortar business, ADLER focusses on large-space retail concepts, i.e., the space occupied by the stores it operates is usually more than 1,400 m². Large sales floors with wide aisles, spacious fitting rooms and rest areas exemplify the Company's customer-oriented approach. At the end of 2016, the Company had an extensive sales network spanning 183 stores in Germany (156), Austria (22), Luxembourg (3) and Switzerland (2), as well as its online shop. ADLER has also been collaborating with the METRO GROUP since 2016 to test new sales models: ADLER fashions are currently carried at shops-in-shop at a total of five Metro stores in Austria, Belgium and the Netherlands.

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

In order to generate economies of scale and to strengthen its market position, ADLER's growth strategy calls for expanding its network of stores organically as well as through acquisitions. Given the challenging conditions facing the textile retail industry, the short- and medium-term focus is on consolidating and optimising working capital. Accordingly, only one new store opening is planned for 2017. In the long term, the Company sees the potential for five to ten new stores per year. It seeks to leverage opportunities created by the decline in small mom-and-pop shops.

ADLER wants to generate additional cost benefits and optimise internal processes by employing innovative technology. After the successful Company-wide introduction of RFID technology, ADLER is currently reviewing how the underlying systems of the technology can be used to further automate processes and to implement them if they prove to be suitable. Radio frequency identification, or RFID, uses electromagnetic waves to automatically detect and identify merchandise.

ADLER ONLINE SHOP

ADLER first launched its online shop at *www.adlermode.com* in Germany, Austria and Luxembourg in 2010. The online shop is complemented by ADLER +Size, a shop-in-shop for plus-size fashion. As part of ADLER's multi-channel sales strategy, the online shop serves as the Company's display window and focuses its products and offers primarily at customers aged 55 and younger. The online shop's repertoire is rounded out by rapidly changing fashion product ranges, the targeted development of brands, excellent products in traditional women's fashions for blouses, jackets and dresses and a segmented approach to market niches such as plus-sizes and traditional dress.

Having brought in more than 10 % of the new customers acquired in 2016, ADLER's eCommerce department is becoming an increasingly important tool to reach and gain new customer groups. The online shop and the corporate website and their 10-million-plus visitors are primarily responsible for the Company's ROPO (research online, purchase offline) effects.

The Company significantly improved its knowledge of its customers in 2016 by conducting a cross-channel analysis of the behaviour of its customers and visitors across all digital offerings and personally-addressed print advertisements.

Growth drivers in the year under review were the targeted expansion of the plus-size product range and external brands as well as a stronger focus on share of wallet (SOW) with regard to the multi-channel offerings. For instance, customers that shop both online and in stores spend on average 80 % more than customers who use only one sales channel. The ADLER online shop also teamed up with Amazon in an effort to gain new customer groups.

Moreover, different approaches to leveraging various digital shopping mediums (e.g. mobile and desktop) to generate sales are gaining in importance. For instance, online orders via mobile devices amounted to more than 40 % at the end of 2016. The launch of the ADLER app will round out the digital sales offering in spring 2017.

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

MARKETING

ADLER has positioned itself as the clear market leader for men's and women's clothing for the target group aged 45 and up in the German fashion market. Since the target group is growing from a demographic standpoint, the Company wants to further expand this position. The entire brand, product and pricing policy in terms of fit, quality requirements and the offering is tailored primarily to this target group.

As an operator of large-space retail concepts, the Company uses extensive brand and product advertisements in the form of inserts, mailshots or TV and radio adverts to generate as much customer footfall at its stores as possible.

An important marketing tool is ADLER's customer loyalty card programme, which, on account of its popularity, collects large amounts of data that the Company can then use for advertising and customer retention purposes. ADLER gleans additional information from targeted, in-store customer surveys, and then uses this data to continuously improve the quality of its services and products. To this end, the Company installed electronic terminals at all of its stores in order to better collect customer feedback. The surveys allow customers to anonymously rate their shopping experience and provide open-ended comments, which may be entered in a textbox. In addition, the "Consumer Heartbeat" survey was launched in 2016 in an effort to obtain regular, independent feedback from ADLER and other customers. It collects information about, among other things, why customers did or did not purchase certain products.

THE ADLER LOYALTY CARD

The ADLER loyalty card programme was first launched in 1974 and is one of the oldest and most successful loyalty card programmes in Germany. In financial year 2016, the loyalty card programme had some 3.6 million members and generated a total of approximately 92 % of the Company's revenue.

The card is used to quickly identify trends and customer needs and preferences, and to align future collections to their current preferences. Furthermore, the data collected by the cards is also analysed to optimise the selection of target groups, content, design and coverage dates for the purpose of targeted marketing measures.

ADVERTISING

In an effort to counter the general decline in footfall that has befallen the industry, ADLER systematically reviewed all of its advertising activities in 2016 and adjusted its marketing outlays accordingly. For instance, assigning customers to specific groups on the basis of information collected by the ADLER customer loyalty card has been key to addressing the right customers at the right time with the right products.

Mailshots personally addressed to customer loyalty cardholders and advertising inserts for newspapers and magazines also remained a focus of the Company's advertising efforts in 2016. These advertising tools give regular and new customers an incentive to visit ADLER stores. In 2016, ADLER sent a total of 63 million advertising mailshots to customers. During the same period, the total number of all newspaper and magazine inserts was approximately 183 million.

In addition, in the first quarter of 2016, the Company launched its integrated image campaign: "Discover the new side of ADLER" *(Entdecke die neue Seite von ADLER)*. It primarily targets consumers who have yet to identify with the ADLER brand and invites them to form their own opinion of the Company's product offering.

The eCommerce and Marketing departments also directly worked together to plan and implement the digital communication strategy.

Marketing outlays in 2016 decreased by approximately 16 % year on year due to more efficient advertising measures.

ADLER DISTINGUISHED AS "GERMANY'S CUSTOMER CHAMPIONS"

For the ninth time, the market research institute forum! Marktforschung and the German Society for Quality (*Deutsche Gesellschaft für Qualität e.V.*, "DGQ") distinguished companies as "Germany's Customer Champions" *(Deutschlands Kundenchampions)* – and for the ninth consecutive year, ADLER Modemärkte was a recipient of the award. In the year under review, ADLER won third place in the category for large enterprises.

Recipients of the award are companies that are particularly successful in appealing to consumers on a service and on an emotional level, thus gaining them as customers and turning them into fans. The key factor driving customer loyalty at ADLER is how the Company dovetails customised marketing efforts, attractive product ranges and one-on-one customer services at its stores.

ELECTRONIC TERMINALS FOR CUSTOMER SATISFACTION SURVEYS

In mid-2015, ADLER installed electronic terminals with customer satisfaction surveys in all of its stores in order to better collect customer opinions and feedback. Customers can use these satisfaction surveys to anonymously send us feedback and open-ended comments, which may be entered in a textbox. The information received helps ADLER further improve the quality of its services.

EMPLOYEES

As at the end of the 2016 financial year, ADLER had a total of 3,984 employees (31 December 2015: 4,203). In addition to efficiently accomplishing the tasks at the Company headquarters, ADLER places particular importance on direct contact with its customers through the sales staff. Having a keen eye for the wishes and needs of the target group is especially important. An important objective of the Company's HR development is therefore to provide its employees with training in order to continually heighten their sensitivity to the needs of individual customers. At the same, the objective is also to strengthen and steadily foster the employees' self-motivation and customer service skills as well as the team spirit at ADLER. To this end, the Company regularly provides local training seminars with internal and external instructors.

CORPORATE CULTURE

ADLER is a company with more than 60 years of tradition and a well-established corporate culture which rests on the pillars of excellent service orientation, team spirit, creativity, openness and transparency. Great importance is placed on fostering a work environment that enables each employee to optimally apply themselves and their unique set of skills. For ADLER, this type of work environment is an excellent starting point to continue improving our customer focus and the quality of the service we provide.

EXPERIENCED LOCAL MANAGEMENT TEAMS

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

EMPLOYEE TURNOVER

Compared to other companies in the retail industry, employee turnover at the Company headquarters and at ADLER's stores is low. The turnover rate was approximately 13 % in the reporting year. This moderate rate is a good indication on the one hand that ADLER adheres to high social standards and on the other hand that the employees hold the Company in high regard. A large number of employees have been with the ADLER Group for many years. The average ADLER employee has been with the Company for more than 11 years. As they have worked for the Company for many years, many employees have built up personal relationships with customers, which has contributed to the high proportion of regular customers.

DIVERSITY AT ADLER

ADLER is an employer that does not take nationality, gender, background, religion, age, disabilities or sexual preferences into account when considering and evaluating employees and applicants. Given current demographic changes, ADLER wants to fully tap the potential that a diverse applicant pool has to offer. The professional qualifications, personal integrity and commitment of the applicants are the only attributes given priority during the Company's selection process. ADLER considers a diverse staff a competitive advantage, as this allows employees with skills and talents that complement one another to successfully work together in the Company. At the end of 2016, ADLER employed people from 47 different countries.

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

ADLER GROUP EMPLOYEES AS AT THE END OF THE FINANCIAL YEAR (31 DECEMBER 2016):

	31/12/2016	31/12/2015
Total employees	**3,984**	**4,203**
of which managers	219	228
of which full-time employees	715	808
of which part-time employees	2,714	2,790
of which trainees/interns	336	377
Average age in years	46.4	46.1
Men	9.8 %	9.8 %
Women	90.2 %	90.2 %

Personnel expenses at the ADLER Group amounted to € 102.3 million in 2016, a decrease of € 0.2 over the previous year (€ 102.5 million).

VOCATIONAL TRAINING AND CONTINUING EDUCATION

ADLER will continue to rely on qualified and service-oriented employees going forward. The Company therefore promotes young talent from within its own ranks. In principle, ADLER offers vocational training positions based on which positions it needs to fill. Currently, ADLER offers vocational training for the following positions: office management assistant in retail sales, office management assistant, wholesale and export merchants, software engineer and visual marketing designer.

As at 31 December 2016, of the 336 trainees and interns, the Company had 221 trainees it employed directly, 65 trainees from joint vocational programmes *(überbetriebliche Ausbildung)*, 7 trainees with entry-level qualifications, 41 interns and 2 students from the dual education programme with LDT Nagold.

ADLER provides its employees with continuing education opportunities which are matched to their individual abilities. Employees may also be transferred to other departments or positions as part of the employee training programme (cross-functional work model). Moreover, ADLER offers opportunities for advancement within the Group as well as options for its employees to expand their areas of responsibility and gain new skills. Sales employees attend regular training sessions to improve their customer focus and increase their motivation when providing customer service. An established monitoring system based on regular sales analyses allows management to provide sales staff with targeted training and encouragement.

SUSTAINABILITY AND THE ENVIRONMENT

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

INTEGRATED SUSTAINABILITY MANAGEMENT

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

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

COMPLIANCE WITH BSCI STANDARDS BY SUPPLIERS AND PRODUCERS

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

All suppliers who supply ADLER via MGB Metro Group Buying HK Ltd. and NTS Holding Limited or who have products made in "risky" countries are audited in accordance with the criteria of the Business Social Compliance Initiative (BSCI). Audits are carried out at the production facilities.

At the end of 2016, 42 % of the 185 producers had received a rating of "good" from the auditors. Room for improvement was identified at 52 % of the producers. Only 6 % received a qualified "non-compliant" rating for the BSCI audit and must remedy the deficiencies identified in the audit and to provide proof that improvement measures have been implemented within 18 months. If no such proof is submitted, no further orders may be sent to the production facilities. As part of process improvement efforts, suppliers and producers receive support from the purchasers in planning improvement measures.

Since 2013, ADLER has required European suppliers, which have one of ADLER's own brands made in countries deemed risky by the BSCI, demonstrate that the relevant producer has passed a BSCI audit.

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

COTTON

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

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

FAIRTRADE AT ADLER

ADLER has offered entire collections of Fairtrade articles since 2010 and was the first textile retailer to do so. Fairtrade sows the seeds for social progress for small-scale farmers and workers in countries that are usually designated as non-industrialised countries. By buying Fairtrade cotton, ADLER pays farmers both a fair price and a Fairtrade premium. The premium is used, for example, to build hospitals, schools, or kindergartens, for adult education or infrastructure such as the construction of roads and bridges.

RECYCLING OF USED CLOTHING

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

A total of 3.5 million kilogrammes of used clothing have been collected since ADLER became the first clothing company in Germany to enter into a partnership with I:CO in 2009. In 2016 alone, 350 tonnes of used clothing were recycled. By recycling used merchandise, ADLER has made a significant contribution to reducing CO_2 emissions and to conserving water.

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

PARTNERSHIP FOR SUSTAINABLE TEXTILES

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

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

OPPORTUNITIES AND RISK REPORT

REPORT ON OPPORTUNITIES

The ADLER Group is the only major vendor in the fashion industry consistently focused on the fashion needs of the growing group of customers aged 45 and up. ADLER's market position is thus not only clearly established, the Company is also reaping the benefits of demographic changes in Germany and Europe: the target group – and with it, revenue potential – will continue to grow going forward. This solid foundation will be further bolstered through the judicious expansion of the product range. ADLER will leverage its product range to appeal to potential new customers, who will flow into the primary target group, thus lending additional momentum to the business.

Given the challenging environment and the structural changes in the textile retail industry, ADLER slowed the pace of its short-term organic and inorganic growth. The ADLER management is currently focusing on increasing profitability by lowering costs and improving efficiency. To this end, a thorough analysis was conducted at all divisions in 2016 to determine the respective potential for cost savings and improving efficiency; appropriate measures were taken on the basis of those findings. These measures include an optimisation of the marketing activities and an overhaul of the sales organisation. For instance, an internal distribution team was established and tasked with coordinating activities between the stores and the Company, thus freeing up the sales and store managers to focus on their management duties and customer service, creating the potential for additional revenue.

These and other measures are important steps that were taken to create a stable and sustainable basis on which the planned growth course can continue to be pursued in the medium term. It calls for new store openings in regions which have previously not been highly developed, the roll-out of additional brand shop concepts and the modernisation of existing stores.

ADLER successfully launched its online shop in 2010 in response to the increasing importance of online retail and the changing buying patterns of its customers. The online shop is continuously being expanded and optimised to meet the rising expectations of consumers and to further improve their shopping experience. Aside from the stores, the online shop is ADLER's most important sales channel and is key to attracting new and younger customer groups: in 2016, 10 % of new customers were gained via this sales channel. By coupling its in-store and online retail activities, ADLER is also leveraging cross-selling effects on the one hand by using the Click&Collect system, which allows customers to order online and pick up or return the merchandise at an ADLER store, and on the other via ROPO effects. An analysis of the behaviour of the 10-million-plus online visitors demonstrated that products are selected online and then purchased in stores. In both cases customers are encouraged to purchase additional products by visiting a store, thus creating the potential for additional revenue.

In the middle of November, Adler Modemärkte AG acquired the rights to the "Steilmann" brand, and since then has marketed merchandise it previously sold under that brand as an own brand. A brand management and product development team was engaged at the Bochum location of A-Team Fashion GmbH, Munich, an ADLER Group company. The team's fashion designs are manufactured by production partners in eastern Europe. ADLER expects the margins on Steilmann products to improve as a result.

By taking advantage of its longstanding experience, a large network of manufacturers in Asia, India, Turkey, northern Africa and eastern Europe, and increasing globalisation, ADLER can leverage procurement-related opportunities and continuously improve its procurement structures and purchasing conditions.

RISK MANAGEMENT SYSTEM – SECURING THE COMPANY'S CONTINUED EXISTENCE

The risk management system at Adler Modemärkte AG secures the Company's continued existence and its profitability. It facilitates the identification of developments that might jeopardise the Company as a going concern early on, so that they can be countered effectively. At the same time, it aids the Company in leveraging existing opportunities to tap into new potential successes and to increase the value of the Company through a controlled approach to risk. By maintaining a balance between opportunities and risks, potential detriments to the success of the Company are minimised to the furthest extent possible.

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

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

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

In terms of day-to-day business operations, risk management means weighing the identified opportunities and the efforts involved in managing the associated risks. Risks assumed and the management thereof are continually monitored. A co-ordinated set of measures to mitigate risks requires a suitable framework with clearly delineated responsibilities. In this respect, risk management falls under the duties of the management.

RISK REPORTING

Risk reporting serves to monitor risks on an ongoing basis. It ensures that existing risks are identified, analysed and evaluated and that risk-related information is systematically forwarded on to the responsible decision-makers. Risks are monitored with the aid of indicators and management is notified of any pertinent developments if thresholds are exceeded.

MARKET RISKS

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

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

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

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

ADLER's economic success depends in large part on the brand image of the ADLER umbrella brand and its long-term strong positioning among the customer segment aged 45 and up. Therefore, the utmost priority is placed on protecting and maintaining ADLER's brand image. By the same token, this theoretically gives rise to the risk that ADLER could damage the umbrella brand through poor decisions or incorrect actions. Such decisions or actions may adversely affect the Company's growth prospects.

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

MACROECONOMIC RISKS

Although there are presently no indications of such, the economic situation can worsen at any time. Both in theory and in practice there are numerous causes and triggers that would lead consumers to spend less or to maintain lower spending levels. A significant deterioration of the global economic climate would also negatively impact the European Union and the situation in ADLER's sales markets. The occurrence of the aforementioned risks could have an adverse effect on the ADLER Group's financial position, cash flows and financial performance.

FINANCIAL AND LIQUIDITY RISKS

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

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

CURRENCY RISKS

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

However, ADLER normally purchases the delivered merchandise at fixed prices that are agreed upon in advance on which it can base its sales price calculation.

ADLER procures merchandise from Europe as well as the Far East. The procurement sources in Europe include more than 80 suppliers for various fashion segments. ADLER is not dependent on any single supplier to the extent that this might have a noticeable adverse effect on revenue development. If problems with a given supplier arise, alternative procurement sources are available. Merchandise procurement from the Far East is conducted largely via Metro Group Buying HK Ltd., which operates as an intermediary procurement agent. ADLER also procures merchandise from a large number of manufacturers bundled through MGB. There are no dependencies or major risks in the event of problems with MGB suppliers. ADLER uses NTS Holding Limited to conduct a portion of its business with Chinese suppliers.

RISKS ASSOCIATED WITH THE PROCUREMENT OF MERCHANDISE

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

ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

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

INTERNAL CONTROL & RISK MANAGEMENT SYSTEM

Internal control and risk management system (ICS) related to the (Group) accounting process (report in accordance with §§ 289 (5), 315 (2) no. 5 of the German Commercial Code (*Handelsgesetzbuch*, "HGB"))

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

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

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

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

REMUNERATION REPORT

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

PERFORMANCE-BASED REMUNERATION SCHEME FOR THE EXECUTIVE BOARD

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

Based on applicable law, specifically the German Act on the Appropriateness of Executive Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*, "VorstAG") as well as a corresponding provision in the rules of procedure for the Supervisory Board, the full Supervisory Board is responsible for setting and periodically reviewing the remuneration of the individual Executive Board members. The remuneration scheme for the Executive Board – the underlying principles of which remained unchanged in 2016 – was approved most recently by the Annual General Meeting held on 13 May 2015 in accordance with § 120 (4) of the German Stock Corporation Act (*Aktiengesetz*, "AktG").

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

Base remuneration

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

Short-term incentive bonus (STI)

The STI is the first remuneration component, and continues to be based on the Company's performance for the past financial year. In financial year 2016, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and based on targets and further financial ratios to be defined at the beginning of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. Each member's STI is capped at € 1,000 thousand annually.

The Supervisory Board may reasonably reduce the STI if it is based on circumstances which are not adequately attributable to the performance of Executive Board members; or are attributable to extraordinary developments. The STI for the past financial year is due and payable no earlier than two weeks and no later than two months after the conclusion of the Annual General Meeting. The STI for financial years 2017 and beyond is due and payable no earlier than two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the STI will be paid on a *pro rata temporis* basis.

Long-term incentive bonus (LTI)

The LTI bonus, the calculation of which takes several years into account, is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value.

With a term of five years in total, the LTI applicable until the end of financial year 2016 is determined as follows: the members of the Executive Board undertake to acquire shares of the Company and to hold these for at least one year from the date of acquisition. For each share of the Company subscribed, the Executive Board members receive five stock appreciation rights ("SARs"). One SAR grants a claim to payment contingent upon the performance of the stock exchange price of the shares; it does not, however, grant an option to acquire a share in the Company. The waiting period for the exercise of SARs is three years from the date of acquisition. SARs may only be exercised if the closing price of the Company's stock at the end of the waiting period is at least 30 % higher than the acquisition price. SARs may be exercised after the waiting period expires either in whole or in part within a two-year period ("Exercise Period"). The payout amount for each SAR at the exercise date is calculated as the difference between the average closing price of Adler Modemärkte AG shares over a period of five trading days prior to the exercise date and the price of the share upon acquisition by the

respective Executive Board member. Upon expiry of the Exercise Period, those SARs which have not been exercised will expire. Due to the fact that SARs were exercised during the year and/or the fact that the closing price was not reached at the end of the waiting period, the LTI agreed with all members of the Executive Board until the end of financial year 2016 in relation to the SARs granted comprises a total of 0 SARs and is limited in each case to a maximum for each charge and Executive Board member and to a total amount of € 1,300 thousand. If any of the eligible members of the Executive Board steps down before the expiration of their service agreement, the payout with respect to the SARs is also limited to the maximum payment amount defined under the severance scheme set forth in the respective service agreement.

Since the financial year 2015, in addition to receiving the existing SAR-based LTI bonus described above, some members of the Executive Board also received an additional new LTI bonus. This new LTI bonus, which all members of the Executive Board will receive beginning in financial year 2017, is based on EBITDA as reported in the audited IFRS consolidated financial statements for the financial year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The new LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of € 1,000 thousand (until the end of financial year 2016: € 500 thousand) and is not paid out if ADLER shares do not perform accordingly. The new LTI bonus for each financial year ended is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the new LTI bonus will be paid on a *pro rata temporis* basis.

Commitments in connection with the termination of Executive Board membership

In the event an Executive Board membership is terminated early, the current service agreements provide for the payment of severance benefits. The payments, including ancillary benefits, may not exceed the equivalent of two annual salaries ("Severance Cap") and may not amount to more than the remaining term of the service agreement. The Severance Cap is calculated based on the total remuneration for the past financial year and the expected total remuneration for the current financial year. No commitments have been made to pay benefits to members of the Executive Board for early termination of the Executive Board membership as a result of a change of control.

Pensions

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

TOTAL REMUNERATION FOR FINANCIAL YEAR 2016

The Company's Annual General Meeting on 4 May 2016 resolved that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2016, remuneration for the Executive Board totalled € 1,313 thousand (previous year: € 1,380 thousand). The breakdown of the remuneration is as follows:

€'000	2016	2015
Fixed remuneration	1,009	1,009
Non-cash benefits	22	21
Bonuses	210	250
Total short-term benefits payable to Executive Board members	**1,241**	**1,280**
LTI bonus	72	100
Total benefits payable to Executive Board members from long-term bonus (LTI)	**72**	**100**
Total	**1,313**	**1,380**

SUPERVISORY BOARD REMUNERATION

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

Accordingly, the members of the Supervisory Board receive annual remuneration in the amount of € 20,000 for their activities, payable following the conclusion of a given financial year. The chairman of the Supervisory Board receives double this amount and the deputy chairman receives 1.5 times this amount. For each Supervisory Board committee of which they are a member, members receive an additional 10 % to the amount set out above, provided that the respective committee has met at least twice in the respective financial year. Excepted from this provision is the membership in the Conciliation Committee pursuant to § 27 (3) MitbestG. Supervisory Board members who have not been a member or chairman of the Supervisory Board or a committee for an entire financial year shall be remunerated on a *pro rata temporis* basis. Remuneration is due and payable at the end of the Annual General Meeting resolving on the ratification of the acts of the Supervisory Board. Supervisory Board members also receive € 300 for each Supervisory Board meeting attended. The chairman receives double this amount and the deputy chairman receives 1.5 times this amount. Members of the Supervisory Board are also reimbursed for all expenses as well as VAT payable on their remuneration and out-of-pocket expenses. The Annual General Meeting shall decide by resolution on other methods of remuneration for the members of the Supervisory Board and benefits of a remunerative nature.

In financial year 2016, the total remuneration for members of the Supervisory Board was €322 thousand (previous year: €299 thousand). The breakdown of the remuneration is as follows:

	2016				2015			
€'000	Fixed remuneration	Committee membership	Meeting attendance	Total remuneration	Fixed remuneration	Committee membership	Meeting attendance	Total remuneration
Supervisory Board members in office as at 31 December 2016								
Massimiliano Monti, Chairman [1]	33.3	6.0	3.3	42.6	20.0	2.0	1.2	23.2
Majed Abu-Zarur, Deputy Chairman [1]	22.0	1.2	2.4	25.6	20.0	–	1.2	21.2
Wolfgang Burgard [1]	20.0	4.0	1.8	25.8	20.0	2.0	1.2	23.2
Cosimo Carbonelli D'Angelo [1]	20.0	2.0	2.1	24.1	20.0	–	1.2	21.2
Corinna Groß	20.0	–	1.2	21.2	20.0	–	0.9	20.9
Frank König [1, 2]	8.4	–	0.9	9.3	–	–	–	–
Peter König [1]	20.0	4.0	2.1	26.1	20.0	2.0	1.2	23.2
Georg Linder [1]	20.0	4.0	2.1	26.1	20.0	2.0	1.2	23.2
Giorgio Mercogliano	20.0	–	2.1	22.1	20.0	–	0.9	20.9
Dott. Michele Puller [1]	26.8	1.3	3.3	31.4	40.0	–	2.4	42.4
Paola Viscardi-Giazzi [1]	20.0	2.0	0.9	22.9	20.0	2.0	1.2	23.2
Beate Wimmer	20.0	–	2.1	22.1	20.0	–	1.2	21.2
Former members of the Supervisory Board								
Martina Zimlich, Deputy Chairwoman [1, 2]	17.4	3.5	1.8	22.7	30.0	3.0	1.8	34.8
Total	**267.8**	**28.0**	**26.1**	**322.0**	**270.0**	**13.0**	**15.6**	**298.6**

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

[2] Frank König was elected with immediate effect to replace Martina Zimlich, who passed away on 30 July 2016 and was thus no longer on the Supervisory Board.

MISCELLANEOUS

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

LEGAL DISCLOSURES

The following section primarily contains disclosures and explanations pursuant to § 289 (4), § 289a and § 315 (4) of the German Commercial Code (*Handelsgesetzbuch*, "HGB"). These disclosures concern corporate legal structures and other legal relationships and serve to provide a better overview of the Company and any obstacles that may exist with respect to an acquisition.

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement under § 289a of the German Commercial Code (*Handelsgesetzbuch*, "HGB") constitutes a component of the management report. Pursuant to § 317 (2) sentence 3 HGB, the disclosures provided under § 289a HGB are not to be included in the audit. The statement published on the ADLER website at *www.adlermode-unternehmen.com* under the heading Investor Relations/Corporate Governance contains the declaration of conformity, information on corporate governance practices, a description of the procedures applied by the Executive Board and the Supervisory Board and information on targets set pursuant to § 76 (4) and § 111 (5) AktG.

REPORT ON RELATIONSHIPS WITH AFFILIATES

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

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

DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO § 289 (4) AND § 315 (4) HGB AS AT 31 DECEMBER 2015 AND EXPLANATORY REPORT

Composition of subscribed capital

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

Restrictions on voting rights or the transferability of shares, even if these could arise from agreements between shareholders, to the extent these are known to the Executive Board of the parent company

In their service agreements, the members of the Executive Board had undertaken vis-à-vis the Company to hold those shares of the Company which they acquired pursuant to the performance-based component of their remuneration for a period of at least one year from the date of acquisition. For further details on the remuneration scheme for the Executive Board, please refer to the remuneration report.

Equity interests in excess of 10 % of the voting rights

As at 31 December 2016, to the best of ADLER's knowledge, direct and indirect equity interests held in the Company in excess of 10 % of the voting rights as disclosed pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*, "WpHG") exist as follows:

Direct equity interest held by S&E Kapital GmbH, Bergkamen, representing 52.81 % of the voting interest in the Company.

Indirect equity interests by virtue of the attribution of the 52.81 % voting interest in the Company held by S&E Kapital GmbH, Bergkamen, under the WpHG: STB Fashion Holding GmbH i.l., Herne; Steilmann SE i.l., Bergkamen; Miro Radici Hometextile GmbH i.l., Bergkamen; Steilmann Holding AG i.l., Bergkamen; Excalibur I S.A., Luxembourg; Equinox Two S.C.A., Luxembourg; and Equinox S.A., Luxembourg. Changes may have arisen after the reporting date which were not required to be disclosed to the Company. The complete notifications are contained in the notes ("Voting rights notifications"). In addition, all notifications received by the Company pertaining to voting rights may be viewed on ADLER's website *(www.adlermode-unternehmen.com)* under the heading Investor Relations / News & Releases / Voting Rights Announcements.

Shares with special rights granting control powers

No shares with special rights granting control powers exist.

Type of voting rights control where employees hold equity interests and do not directly exercise their control rights

The Company has not currently issued any shares to employees under any employee stock option plan.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association

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

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

Executive Board's authority to issue shares

Pursuant to article 5 (5) of the Articles of Association currently in force, the Executive Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital against cash and/or in-kind contributions, on one or several occasions in the period until 10 February 2016, by a total of up to € 7,930,000 by issuing new no-par value bearer shares (Authorised Capital). Shareholders were generally granted a pre-emptive subscription right in such case; the statutory subscription right may also be granted such that the new shares are underwritten by a bank or banking syndicate selected by the Executive Board subject to the obligation to offer them to the Company's shareholders for subscription.

The Executive Board was authorised, subject to the consent of the Supervisory Board, to exclude the shareholders' statutory pre-emptive right (a) in the case of capital increases against in-kind contributions that are performed for the purpose of acquiring companies, parts of companies or equity investments in companies; (b) in the case of capital increases against cash contributions where the issue price of the new shares issued subject to the exclusion of pre-emptive rights pursuant to § 186 (3) sentence 4 AktG is not substantially lower than the stock exchange price of the Company's shares of the same class and with the same features, and where the proportion of share capital attributable to the new shares issued subject to the exclusion of pre-emptive rights pursuant to § 186 (3) sentence 4 AktG does not in the aggregate exceed 10 % of the share capital existing at the time the authorisation enters into effect or is exercised, provided that shares which were issued during the term of the authorisation until the date on which it is exercised by direct or analogous application of § 186 (3) sentence 4 AktG are to be counted toward this threshold of 10 % of share capital; or (c) to avoid fractional amounts.

By resolution of the Company's extraordinary General Meeting held on 30 May 2011, the Executive Board was authorised, subject to the Supervisory Board's consent, to issue, on one more occasions on or before 30 April 2016, warrant-linked and/or convertible bonds with a total nominal amount of up to € 250,000,000 with a maximum term to maturity of 20 years and, subject to the specific stipulations of the respective terms and conditions of the warrant-linked and/or convertible bonds, to grant option rights to the holders of warrant-linked bonds and conversion rights to the holders of convertible bonds in respect of up to € 7,930,000 no-par value ordinary bearer shares of the Company.

The bonds may be issued both in euros and in the national currency of an OECD country, provided the corresponding euro equivalent limits are adhered to. They may also be issued by a domestic or foreign company in which the Company directly or indirectly holds the majority of votes and capital (hereinafter "Majority-held Affiliated Company") In this case the Executive Board will be authorised to assume the guarantee on behalf of the issuing company regarding the redemption of the bonds and to grant shares of the Company to the holders of such bonds to satisfy the option or conversion rights attached to such bonds.

Subject to the specific stipulations of the bond terms and conditions, the holders or creditors of convertible bonds are entitled to exchange their convertible bonds for new shares of the Company. The terms and conditions may also provide for a conversion obligation at the end of the term or an earlier date. In this case the terms and conditions may provide that the Company shall be entitled to compensate fully or partially in cash any difference between the nominal amount of the bond and a stock market price of the shares at the time of the conversion obligation to be specified in the bond terms and conditions (the "Market Price at the Time of Conversion"), multiplied by the conversion ratio. However, the Market Price at the Time of Conversion must amount to at least 80 % of the market price of the Company's shares (calculated on the basis set forth below) at the time the bonds are issued.

In the case where warrant-linked bonds are issued, one or more warrants will be attached to each bond which entitle the bearer to subscribe for New Shares of the Company in accordance with the warrant terms and conditions to be stipulated by the Executive Board. The term of the option right may not exceed twenty years. The proportionate amount of the share capital attributable to the no-par value shares to be subscribed for per warrant-linked bond may not exceed the nominal amount of the warrant-linked bond.

For convertible bonds, the conversion ratio is determined by dividing the nominal amount of one bond by the fixed conversion price for one new share of the Company. The conversion ratio may also be determined by dividing the issue price of one bond that is less than the nominal amount by the fixed conversion price for obtaining one new share of the Company. The terms and conditions may also provide that the conversion ratio shall be variable and may be rounded up or down to an even figure; in addition, a supplementary cash payment may be stipulated. Furthermore, the terms and conditions may provide for fractional amounts to be combined or compensated for in cash. The proportionate amount of the share capital represented by the shares to be issued upon conversion, or to be subscribed for upon exercise of the option, may on no account exceed the nominal amount and issue price of the convertible or warrant-linked bonds.

The warrant-linked and convertible bonds (bonds) may also be issued against in-kind contributions if the value of the in-kind contributions reflects the issue price, which may not be substantially lower than the theoretical market value of the bonds as established in accordance with recognised principles of financial mathematics.

Shareholders will generally be entitled to the statutory pre-emptive rights upon issue of the bonds. The bonds may also be offered to shareholders by way of an indirect subscription right; in this case, they will be underwritten by a bank or banking syndicate with the obligation of offering the bonds to the shareholders for subscription. However, the Executive Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' pre-emptive rights with respect to the bonds in the following cases:

- in order to exclude fractional amounts resulting from the subscription ratio from the shareholders' pre-emptive right;
- if (i) they are issued against cash contributions; and (ii) the issue price is not significantly lower than the theoretical market value of the bonds as calculated in accordance with generally accepted actuarial methods; this shall apply, however, only to the extent that the shares to be issued in order to satisfy the option and/or conversion rights thereby created do not in the aggregate exceed 10 % of the registered share capital, neither at the time this authorisation becomes effective nor at the time it is exercised. This figure shall take into account the proportionate amount of the share capital attributable to the shares issued from authorised capital during the period from the date of the Annual General Meeting resolving on the authorisation to the end of the term of this authorisation by way of a cash capital increase under exclusion of the pre-emptive rights in accordance with § 186 (3) sentence 4 AktG. Furthermore, this figure shall take into account the proportionate amount of the share capital attributable to own shares (treasury shares) sold during the term of this authorisation with the exclusion of pre-emptive rights by analogous application of § 186 (3) sentence 4 AktG;
- where bonds are issued against in-kind contributions and the exclusion of pre-emptive rights is in the interests of the Company; and/or
- where necessary in order to grant holders of convertible bonds, warrants or convertible profit participation rights issued by the Company or its subordinate group companies a pre-emptive right to the extent that such right would be available to them after exercising the rights or after satisfying the conversion obligations.

The option or conversion price will be calculated on the basis of the following principles: even when the following anti-dilution rules are applied, the option or conversion price must amount to at least 80 % of the volume-weighted average market price of the Company's shares in the XETRA trading system of the Frankfurt Stock Exchange (or a comparable successor system) during the period between commencement of the book-building procedure and the final setting of the bond price by the banks accompanying the issue or, if shareholders are eligible to subscribe for the bonds, during the subscription period, with the

exception of the last four exchange trading days prior to such period's expiry, or over the ten trading days prior to the date of the Executive Board's resolution on the issue of the bonds.

The terms and conditions may also provide that, depending on the share price performance or based on the anti-dilution provisions, the option or conversion price may be amended during the bond's period of validity provided such amendments fall within the fluctuation margin to be set by the Executive Board.

Notwithstanding § 9 (1) AktG, the option or conversion price may be reduced under an anti-dilution clause in accordance with the terms and conditions by payment of a corresponding amount in cash upon exercise of the conversion right or by reduction of the supplementary payment if, during the option or conversion period, the Company increases the share capital while granting its shareholders pre-emptive rights, or if the Company and/or its Majority-held Affiliated Company issue additional warrant-linked or convertible bonds or grant any other option rights and do not grant the holders of (existing) option or conversion rights pre-emptive rights to the extent to which they would have been entitled after exercising the option or conversion rights. Instead of a cash payment or a reduction of the supplementary payment the conversion ratio may also – to the extent possible – be adjusted by dividing it with the reduced conversion price. In addition, the terms and conditions may provide for an adjustment of the option or conversion rights in the case of a capital reduction or measures resulting in a dilution of the value of the issued shares of the Company.

The terms and conditions may provide or permit that the Company shall not grant the holders of option or conversion rights shares of the Company but instead pays an equivalent amount in cash in accordance with the terms and conditions. The terms and conditions may also provide that the bonds may, at the Company's option, be converted into already existing shares of the Company instead of into new shares out of contingent capital, or that the option right or the option obligation may be satisfied by delivery of such shares.

The Executive Board was authorised, subject to the consent of the Supervisory Board, to stipulate the terms and conditions of the bonds as well as the further details of the issuance and features of the warrant-linked and/or convertible bonds, particularly with respect to interest rate, issue price, term to maturity and denomination, and to stipulate the option or conversion period.

By resolution of the extraordinary General Meeting held on 30 May 2011 and pursuant to article 5 (6) of the Company's current Articles of Association, the Company's share capital was increased on a contingent basis by € 7,930,000 through the issue of up to 7,930,000 new no-par value ordinary bearer shares (*Contingent Capital* 2011). The contingent capital increase will be implemented only to the extent that

- the holders or creditors of the warrant-linked and/or convertible bonds, which were issued by the Company or its direct or indirect Majority-held Affiliated Companies based on the authorisation resolution of the Company's Annual General Meeting on 30 May 2011, do in fact exercise their conversion or option rights; or
- the holders or creditors of convertible bonds under a conversion obligation, which were issued by the Company or its direct or indirect Majority-held Affiliated Companies based on the authorisation resolution of the Annual General Meeting held on 30 May 2011, satisfy such obligation, and to the extent that no cash compensation is made or already existing shares are used to satisfy these rights. The new shares will be issued at the respective option or conversion price to be determined in accordance with the authorisation resolution of the Annual General Meeting of 30 May 2011. The new shares will carry dividend rights as from the commencement of the financial year in which they are created as a result of the exercise of option or conversion rights or the satisfaction of conversion obligations.

The Executive Board was authorised to determine the further details of the implementation of the contingent capital increase.

Executive Board's authority to buy back shares

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

The Executive Board shall be authorised to use shares of the Company, which have been acquired pursuant to this authorisation or any prior issued authorisation, for any purpose permitted by law. Specifically, the Executive Board's authorisation shall cover the following: (i) The Executive Board shall be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, over the stock exchange or by tender offer to all the shareholders. Shares sold over the stock exchange shall not carry any shareholders' pre-emptive subscription rights. In the event shares are sold by way of a public tender, the Executive Board shall be authorised, subject to the Supervisory Board's consent, to exclude shareholders' pre-emptive subscription rights on fractional shares. (ii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, in a manner other than over the stock exchange or by tender offer to all the shareholders, provided the treasury shares acquired are sold at a price that is not substantially lower than the stock exchange price of the Company's shares with the same features at the time of any such sale. Shareholders' pre-emptive subscription rights shall be excluded in this context. This authorisation shall be limited to a total of 10 % of the share capital existing at the time the resolution is adopted by the Annual General Meeting or to the Company's share capital existing at the time this authorisation is exercised, whichever is lower. The proportionate amount of the share capital represented by the shares which pursuant to this authorisation may be sold in a manner other than over the stock exchange or by tender offer to all the shareholders shall be reduced by the proportionate amount of the share capital represented by those shares which were issued since the grant of this authorisation based on the authorisation under article 5 (5) of the Articles of Association (Authorised Capital), and by those shares for which the holders or creditors of warrant-linked and/or convertible bonds issued since the grant of this authorisation are or were eligible to subscribe, in each case to the extent that, when shares were issued from authorised capital or when warrant-linked and/or convertible bonds were issued, pre-emptive subscription rights under § 186 (3) sentence 4 AktG were excluded. (iii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to use treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, as (partial) consideration in the context of corporate mergers or to acquire companies, equity

investments in companies, parts of companies or other assets. (iv) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to employees of the Company or its Group companies. The Supervisory Board shall be authorised to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to members of the Company's Executive Board. (v) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to third parties who, as business partners of the Company or its Group companies, play a significant role in assisting the Company in achieving its corporate goals. (vi) The Executive Board shall furthermore be authorised to use treasury shares, which were acquired pursuant to this or any prior issued authorisation, to satisfy conversion or subscription rights arising under convertible or warrant-linked bonds granted by the Company or its Group companies. (vii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to cancel treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, without the need for a separate resolution by the Annual General Meeting. The authorisation to cancel shares may be exercised in whole or in part. The cancellation of shares would result in a capital reduction. Alternatively, the Executive Board may determine that the share capital will not be reduced and that the cancellation will instead result in the proportionate interest in the share capital held by the other shareholders being increased pursuant to § 8 (3) AktG. In this case, the Supervisory Board is authorised to amend the number of shares set out in the Articles of Association. (viii) Shareholders' pre-emptive subscription rights shall be excluded in effecting the measures under ii. to vi.

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

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

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

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

Compensation agreements entered into by the Company with members of the Executive Board or employees in the event of a takeover offer

No commitments have been made to pay benefits to members of the Executive Board or employees for premature termination of the Executive Board position as a result of a change of control.

REPORT ON EXPECTED DEVELOPMENTS

GLOBAL ECONOMY EXPECTED TO GROW IN 2017

In its most recent update of the World Economic Outlook dated January 2017, the International Monetary Fund (IMF) forecasts global economic growth of 3.4 % for 2017, representing a slight increase over the previous year (2016: 3.1 %). Experts at the IMF listed the rise in protectionism, an unexpected deterioration of the global financing conditions for certain eurozone countries and certain developing countries, growing geopolitical tensions or an unexpected sharp slowdown in growth in China as considerable risks to global economic growth. The ultimate impact of the Brexit and the continuing relatively low commodities prices represent economic risks that are difficult to forecast for 2017.

At 1.6 %, the IMF expects growth in the eurozone to be slightly lower than in 2016 (1.7 %). The forecast calls for growth of 1.5 % in Germany (2016: 1.7 %). The US economy will expand by 2.3 %, representing an improvement on the previous year (2016: 1.6 %). Economic growth in Asia is forecast at 6.4 % (2016: 6.3 %). The world's largest economy, China, is forecast to grow by 6.5 % in 2017 after 6.7 % in 2016.

GERMAN CONSUMERS CONTINUE TO BUY

The Nuremburg-based market research institute GfK expects the positive consumer sentiment in Germany to stretch into 2017. According to the GfK forecast, private consumer spending will again increase in real terms by approximately 2 % this year. Private consumption in Germany is expected to grow slightly faster than the gross domestic product (GDP), which, according to the German Council of Economic Experts, in 2017 will grow at a slightly less pronounced rate (1.3 %) than in the previous year. Economic expectations will improve slightly while income expectations will increase significantly. By contrast, propensity to spend will fall moderately. The outcome of the US presidential election, which came as a surprise to many, so far does not seem to have had an impact on consumer sentiment.

The Austrian Institute of Economic Research forecasts GDP growth of 1.5 % for 2017 (2016: 1.5 %). This will be attributable to continuing strong domestic demand. However, this will be tempered by the expiration of the tax relief in the middle of the year, a decline in demand for new vehicles and only moderate demand for Austrian products from abroad. According to the experts, the fewer number of work days represented an additional drag on growth in 2017.

Despite stagnating employment figures, the KOF Swiss Economic Institute expects a slight, albeit low, increase in real terms in disposable income in Switzerland due to the moderate increase in nominal wages and declining prices. According to the KOF Swiss Economic Institute, private consumption will therefore increase slightly by 1.4 % in 2017 (2016: 1.6 %).

OUTLOOK FOR THE TEXTILE RETAIL INDUSTRY

Brick-and-mortar fashion retailers are taking a pessimistic approach to 2017. According to a TW-Testclub survey, six out of ten retailers expect that the consumer climate for textiles will continue to deteriorate. Almost every other retailer expects the competition to intensify in the coming twelve months. Just as many retailers expect customer footfall to continue to decline in 2017. In order to increase returns, experts are advising that companies increase their conversion rate, enhance their digital networking and improve their timing in terms of bringing seasonal collections to market.

FORECAST AND OVERALL ASSERTION

The forecast provided in this section of last year's annual report called for an increase in consolidated revenue in the low single-digit percentage range (2015: €566.1 million) and an increase in EBITDA (2015: €33.3 million) in the high single-digit percentage range that outpaced the growth in revenue. Due to the challenges that continue to plague the market environment, this forecast twice had to be adjusted downwards by the Executive Board of Adler Modemärkte AG in financial year 2016. The previous forecast from October 2016 called for consolidated revenue to be significantly below the prior-year figure and for EBITDA to amount to between €14 million and €17 million. In financial year 2016, ADLER generated consolidated revenue of €544.6 million and EBITDA of €23.3 million.

ADLER's Executive Board expects the environment in the textile retail industry to remain challenging in the 2017 financial year and therefore expects revenue to decline slightly as compared to the 2016 financial year (€544.6 million). Revenue is not expected to meet the prior-year figure; however, revenue generated by the online shop is expected to once again significantly exceed the 2016 figure. The measures introduced in 2016 to save costs and increase efficiency are expected to continue to have an impact. The savings pertain to all Group levels and will positively impact in particular personnel expenses and marketing outlays. Therefore, EBITDA is expected to significantly exceed the figure generated in 2016 and amount to between €27–30 million. This forecast takes into consideration the slight uptick in personnel expenses, due to the increase in wages, salaries and benefits, as well as a slight rise in transport and logistics costs. ADLER expects only minor changes as it pertains to the EUR/USD exchange rate. The same applies to the development of key commodity prices.

FORWARD-LOOKING STATEMENTS

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

€'000	Note	2016	2015
Revenue	1	**544,553**	**566,054**
Other operating income	2	8,734	8,862
Cost of materials	3	–256,467	–261,157
Personnel expenses	4	–102,333	–102,480
Other operating expenses	5	–171,187	–178,005
EBITDA		**23,300**	**33,275**
Depreciation and amortisation	6	–16,660	–16,285
EBIT		**6,640**	**16,989**
Other interest and similar income	7	19	46
Interest and similar expenses	7	–4,948	–4,897
Net finance costs	7	**–4,929**	**–4,851**
Net income from operations		**1,711**	**12,138**
Income taxes	8	–1,301	–4,223
Consolidated net profit for the year		**410**	**7,915**
of which attributable to shareholders of Adler Modemärkte AG		410	7,915
Basic in €	33	0.02	0.43
Diluted in €	33	0.02	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

€'000	Note	2016	2015
Consolidated net profit for the year		**410**	**7,915**
Currency translation losses from foreign subsidiaries		–24	–120
Remeasurement of defined benefit pension entitlements and similar obligations	19	–209	955
Deferred taxes		65	–268
Items that will not be recycled to the income statement going forward		**–168**	**567**
Change in fair value of available-for-sale financial instruments		–5	–1
Items subsequently recycled to the income statement		**–5**	**–1**
Other comprehensive income		**–173**	**566**
Consolidated total comprehensive income		**237**	**8,481**
of which attributable to shareholders of Adler Modemärkte AG		237	8,481

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

ASSETS (€'000)	Note	31 Dec. 2016	31 Dec. 2015
Non-current assets			
Intangible assets	9	6,476	6,721
Property, plant and equipment	10	78,136	81,566
Investment property	11	413	413
Other non-current receivables and assets	12	439	470
Deferred tax assets	14	10,046	10,484
Total non-current assets		**95,510**	**99,654**
Current assets			
Inventories	15	75,399	81,266
Trade receivables	16	582	1,908
Other current receivables and assets	12	8,034	8,205
Available-for-sale financial assets	13	277	282
Cash and cash equivalents	17	42,773	52,076
Total current assets		**127,065**	**143,737**
TOTAL ASSETS		**222,575**	**243,390**

EQUITY AND LIABILITIES (€'000)	Note	31 Dec. 2016	31 Dec. 2015
Capital and reserves			
Subscribed capital	18	18,510	18,510
Capital reserves	18	127,408	127,408
Accumulated other comprehensive income	18	−2,336	−2,163
Net accumulated losses	18	−47,743	−38,899
Total equity	18	**95,839**	**104,856**
LIABILITIES			
Non-current liabilities			
Provisions for pensions and similar obligations	19	5,816	5,870
Other non-current provisions	20	1,236	1,499
Non-current financial liabilities	21	2,581	2,897
Non current finance lease liabilities	22	46,331	49,488
Other non-current liabilities	24	4,654	4,693
Deferred tax liabilities	14	91	129
Total non-current liabilities		**60,709**	**64,576**
Current liabilities			
Other current provisions	20	4,463	3,433
Current financial liabilities	21	10,938	11,705
Non current finance lease liabilities	22	5,823	6,769
Trade payables	23	25,261	32,027
Other current liabilities	24	19,479	19,807
Current income tax liabilities	25	63	217
Total current liabilities		**66,027**	**73,958**
Total liabilities		**126,736**	**138,534**
TOTAL EQUITY AND LIABILITIES		**222,575**	**243,390**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Net accumulated losses	Total equity
€'000			Securities	Currency translation	Other changes[2]		
As at 1 Jan. 2015	**18,510**	**127,408**	**20**	**–14**	**–2,735**	**–37,559**	**105,630**
Dividend payment	0	0	0	0	0	–9,255[1]	–9,255
Transactions with shareholders	**0**	**0**	**0**	**0**	**0**	**–9,255**	**–9,255**
Consolidated net profit for the year	0	0	0	0	0	7,915	7,915
Other comprehensive income	0	0	–1	–120	687	0	566
Consolidated total comprehensive income	0	0	–1	–120	687	7,915	8,481
As at 31 Dec. 2015	**18,510**	**127,408**	**19**	**–134**	**–2,048**	**–38,899**	**104,856**
As at 1 Jan. 2016	**18,510**	**127,408**	**19**	**–134**	**–2,048**	**–38,899**	**104,856**
Dividend payment	0	0	0	0	0	–9,255[1]	–9,255
Transactions with shareholders	**0**	**0**	**0**	**0**	**0**	**–9,255**	**–9,255**
Consolidated net profit for the year	0	0	0	0	0	410	410
Other comprehensive income	0	0	–5	–24	–143	0	–173
Consolidated total comprehensive income	0	0	–5	–24	–143	410	237
As at 31 Dec. 2016	**18,510**	**127,408**	**14**	**–159**	**–2,191**	**–47,743**	**95,839**

[1] *A dividend of €0.50 per share was distributed in the financial year (previous year: €0.50 per share).*
[2] *Other changes relate to actuarial gains and losses.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

€'000	Note	2016	2015
Consolidated net profit for the period before tax		**1,711**	**12,138**
Depreciation (+) of property, plant and equipment and amortisation of intangible assets		16,660	16,285
Increase (+)/decrease (–) in pension provisions		–263	–323
Gains (–)/losses (+) from the sale of non-current assets		25	25
Gains (–)/losses (+) from currency translation		–38	–149
Other non-cash expenses (+)/income (–)		2,246	1,360
Net interest income		4,929	4,851
Interest income		10	35
Interest expense		–344	–151
Income taxes paid		–2,270	–7,807
Increase (–)/decrease (+) in inventories		4,200	–2,291
Increase (–)/ decrease (+) of trade receivables and other receivables		485	–4,244
Increase (+)/decrease (–) of trade payables, other liabilities and other provisions		–7,289	–6,642
Increase (+)/decrease (–) in other items of the statement of financial position		2,129	6,426
Cash from (+)/used (–) in operating activities (net cash flow)	26	**22,191**	**19,513**
Proceeds from disposals of non-current assets		183	178
Payments for investments in non-current assets		–11,013	–13,297
Payments for company acquisitions (net less cash received)	26	0	–3,523
Cash from (+)/used (-) in investing activities	26	**–10,830**	**–16,642**
Free cash flow	26	**11,361**	**2,871**
Payments in connection with the repayment of loan liabilities		–314	–308
Dividend payment		–9,255	–9,255
Payments in connection with finance lease liabilities		–11,095	–10,889
Cash from (+)/used (–) in financing activities	26	**–20,664**	**–20,452**
Net decrease (–)/increase (+) in cash and cash equivalents	26	**–9,303**	**–17,581**
Cash and cash equivalents at beginning of period		52,076	69,656
Cash and cash equivalents at end of period		42,773	52,076
Net decrease (–)/ increase (+) in cash	26	**–9,303**	**–17,581**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

I. PRELIMINARY REMARKS

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

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

The consolidated financial statements were prepared by the Executive Board on 6 March 2017 and authorised for publication.

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

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

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

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

ACCOUNTING POLICIES

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. The consolidated financial statements conform to the directives relating to consolidated accounts issued by the European Union (Directive 83/349/EEC). In order to ensure equivalence with consolidated financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB"), all of the disclosures and explanations required by § 315a HGB over and above the requirements of the IASB have also been provided. The consolidated financial statements in the form in which they are presented here comply with the provisions of § 315a HGB; those provisions constitute the legal basis for the preparation of consolidated accounts in accordance with international accounting

standards in Germany in conjunction with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 December 2016. There was no early adoption of standards whose application had not yet become mandatory as at 31 December 2016.

STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME

The application of the following standards and interpretations revised or newly issued by the IASB was mandatory for the first time from the start of financial year 2016:

Standards	
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (Effective (EU) as from 1 January 2016)
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions (Effective (EU) as from 1 February 2015)
Annual Improvements Cycle 2010–2012	Amendments and clarifications to various IFRSs/Effective (EU) as from 1 February 2015
Annual Improvements Cycle 2012–2014	Amendments and clarifications to various IFRSs/Effective (EU) as from 1 January 2016
Amendments to IAS 1	Disclosure obligations
Amendments to IAS 16/IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16/IAS 41	Agriculture: Bearer plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations

On 11 September 2014, the IASB adopted the amendments to IFRS 10 and IAS 28 with regard to the sale or contribution of assets between an investor and an associate or joint venture. This includes guidance on unrealised profits and losses from transactions among investors and associates or joint ventures. If the asset is a business within the meaning of IFRS 3 "Business Combinations", the investor must recognise the profit or loss in full. If the transaction relates exclusively to an asset, a portion of profit or loss must be recognised.

On 18 December 2014, the IASB published the amendments to IAS 1. The following four amendments are intended to outline the improvements to disclosures in financial reporting: greater emphasis on the principle of materiality; further disaggregation of line items presented in the statement of financial position and reporting of subtotals; greater flexibility in the preparation of the notes as it pertains to the order of the notes; removal of guidance in IAS 1 with regard to the identification of significant accounting policies as a component of the notes.

The amendments to IAS 16 and IAS 38 clarify that a revenue-based method of depreciation and amortisation will no longer be an appropriate method of depreciation and amortisation. This is because revenue represents the generation of expected economic benefits rather than the consumption of economic benefits. In certain cases a revenue-based method will still be acceptable, provided that it leads to the same result as the application of a performance-based method.

On 30 June 2014, the IASB adopted the amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture". Previously, bearer plants including fruit were measured pursuant to IAS 41, i.e., at fair value less costs to sell. However, since mature bearer plants equate to production facilities, they must be accounted for in accordance with IAS 16 going forward. However, the fruit produced by the bearer plants will continue to be accounted for in accordance with IAS 41.

The amendments to IAS 27 "Equity Method in Separate Financial Statements" reinstated the option to use the equity method to measure investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor. However, the options to account for the investments pursuant to IAS 39 and IFRS 9 continue to apply.

On 6 May 2014, the IASB published the amendments to IFRS 11 "Joint Arrangements". The amendments clarify the accounting for acquisitions of an interest in a joint operation when this joint operation constitutes a business. Accordingly, the accounting principles on business combinations (IFRS 3) must be applied for acquisitions of interests in such a joint operation.

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

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

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

Standards		Mandated by IASB from*	Adopted by EU Commission
IFRS 15	Revenue Recognition Revenue from Contracts with Customers	1 Jan. 2018	Yes
Amendments to IFRS 15	Clarifications to IFRS 15 (Application mandated by IASB from 1 January 2018)	1 Jan. 2018	No
Amendments to IFRS 10/IAS 28	Sale of contributions assets between an investor and its associate or joint venture	TBD	No
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 Jan. 2017	No
Amendments to IAS 7	Disclosures about changes in financial liabilities	1 Jan. 2017	No
IFRS 9	Financial Instruments	1 Jan. 2018	Yes
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 Jan. 2018	No
Amendment to IFRS 4	Amendments in relation to the interaction of IFRS 4 and IFRS 9 – Insurance Contracts	1 Jan. 2018	No
IFRS 16	Leasing	1 Jan. 2019	No
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	No
Amendment to IAS 40	Transfers of Investment Property	1 Jan. 2018	No
Annual Improvements Cycle 2014–2016	Amendments and clarifications to various IFRSs/Effective (EU) as from 1 January 2017/1 January 2018	1 Jan. 2017/ 1 Jan. 2018	No

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

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

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

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

The amendments to IAS 12 "Income Taxes" clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value and recognised in other comprehensive income.

The amendments to IAS 7 require the disclosure of changes in liabilities arising from financing activities whose payments are recognised under cash flows from financing activities.

On 24 July 2014, the IASB published the final version of IFRS 9 "Financial Instruments". This version added guidance on the impairment of financial instruments and guidance on a new fair value through other comprehensive income (FVTOCI) measurement category. Under the standard, financial instruments are impaired on the basis of the expected loss model. As at the first-time application, the 12-month expected credit losses are generally recognised. If the credit risk deteriorates significantly, a loss allowance for full lifetime expected credit losses must be recognised from this point forward. This version also introduces a third measurement category of fair value through other comprehensive income for certain debt instruments on the assets side of the balance sheet. To be classified as such, the instruments must (1) fulfil the cash flow criterion and (2) the business model must allow for both the holding and selling of the instruments.

The amendments to IFRS 2 clarify the accounting of certain cash-settled share-based payment transactions. The most significant amendment is that the standard now contains guidance relating to the fair value calculation of liabilities resulting from share-based payment transactions.

Amendments IFRS 4 in relation to the interaction of IFRS 4 and IFRS 9 – Insurance Contracts

The first application of IFRS 9 and IFRS 15 are not expected to have any effects on Adler Modemärkte AG's accounting.

To date, the aforementioned amendments to IAS 12, IAS 7, IFRS 9, IFRS 2 and IFRS 4 have not had any effect on Adler Modemärkte AG's accounting.

IFRS 16 "Leases" requires that lessees recognise all leases as lease liabilities in the statement of financial position. Lessees must recognise the right to use an underlying asset by recognising the present value of future lease payments plus directly attributable costs. A distinction will no longer be drawn between operating and finance leases. These new provisions affect Adler Modemärkte AG's accounting and will apply from financial year 2019 onwards. The amendment will primarily affect the accounting of lease agreements and motor vehicle and IT leases. A large portion of the lease agreements are currently already recognised as finance leases. Recognising all lease agreements will significantly increase assets and liabilities. ADLER does not expect this to significantly affect profit or loss. Recognising all lease agreements will improve EBITDA due to the fact that other operating expenses will be reclassified to depreciation, amortisation and write-downs and net finance costs.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" and IAS 40 "Transfers of Investment Property" do not have any effect on ADLER's accounting.

These consolidated financial statements are based on the historical cost principle. Available-for-sale financial assets and investment property are accounted for at fair value. The income statement was prepared using the nature of expense method. Items in the consolidated statement of financial position are classified according to their maturities. Assets and liabilities falling due within one year are reported as current. Assets and liabilities are classified as non-current if they remain within the Group for longer than one year. Trade receivables and payables and also inventories are of an exclusively short-term nature and are therefore reported under the current items.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

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

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

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

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

The Adler Orange companies were acquired in the previous year.

CONSOLIDATION PRINCIPLES

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

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

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

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

CONSOLIDATION OF SUBSIDIARIES

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

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

COMPANY ACQUISITIONS

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

No companies were acquired during the financial year.

CURRENCY TRANSLATION

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

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

The exchange rates used in currency translation were as follows:

Currency	Spot rates*		Average rates*	
	31 Dec. 2016	31 Dec. 2015	2016	2015
Swiss franc (CHF)	1.0739	1.0835	1.0902	1.0676

** equivalent in €*

ACCOUNTING POLICIES

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

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

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

Goodwill

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

Other intangible assets

Purchased and internally generated intangible assets are recognised at cost.

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

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

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

Intangible assets which are not yet available for use are tested for impairment at least once annually.

If impairment in excess of the amortisation charged is identified, the asset is written down to the recoverable amount.

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

Property, plant and equipment

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

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

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

INVESTMENT PROPERTY

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

LEASING

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL AND FINANCIAL ASSETS

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

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

GOVERNMENT GRANTS

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

The Group received government grants, that are recorded as income, as compensation for costs arising in connection with partial retirement agreements. As a result of the conditions attached to the government grants, the Group is under an obligation to keep open the positions occupied by partially retired employees and to recruit new employees to fill them.

BUILDING COST SUBSIDIES

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

CURRENT INCOME TAXES

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

DEFERRED TAXES

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

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

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

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

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

INVENTORIES

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

RECEIVABLES AND OTHER ASSETS

Trade receivables

Trade receivables are recorded initially at fair value and measured in subsequent periods at amortised cost less any impairment losses. An impairment charge is recorded in respect of trade receivables if there are objective indications that the amounts of receivables due are not collectible in full. The amount of the impairment charge is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from that receivable, determined using the effective interest rate method. The impairment charge is reported in profit or loss. Trade receivables are classified under the loans and receivables category. Once the item is no longer expected to generate cash flows, it is derecognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have either been allocated to this category or have not been allocated to any of the other measurement categories set out in IAS 39. They are measured at fair value. Unrealised gains and losses resulting from changes in fair value are recorded outside profit or loss in other comprehensive income. When securities within the available-for-sale financial assets category are disposed of or become impaired, the adjustments to fair value accumulated directly in equity are recorded in the income statement as gains or losses from financial assets. For example, ADLER classifies securities with a longer-term investment horizon under this category. Once the item is no longer expected to generate cash flows, it is derecognised.

Other receivables and other assets and loans

Other receivables and other assets and loans are recorded initially at fair value and measured in subsequent periods at amortised cost using the effective interest method – in the case of non-current receivables – less any impairment losses. Appropriate valuation allowances are recognised in respect of any risks existing. At the end of each reporting period the carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective indications of impairment (such as significant financial difficulties on the part of the debtor, a high probability of insolvency proceedings against the debtor, a significant change in the technological, economic or legal environment, or in the market environment of the issuer or a permanent decline in the fair value of the financial asset to below amortised cost). Any impairment charge, based on a lower fair value in comparison with the carrying amount, is reported in the income statement. If it becomes clear at subsequent measurement dates that the fair value has risen objectively as a result of events that occurred after the date when the impairment charge was recognised, the impairment charge is reversed through profit or loss in the relevant amount. The fair value determined for the purpose of reviewing possible impairment losses in respect of loans and receivables measured at amortised cost is equal to the present value of the estimated future cash flows, discounted at the original effective rate of interest. Once the item is no longer expected to generate cash flows, it is derecognised.

Other receivables and other assets and loans are allocated to the "loans and receivables" category.

Financial assets are generally recorded at the trade date.

CASH AND CASH EQUIVALENTS

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

Financial assets are recorded at the time at the fair value.

EQUITY

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

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

PROVISIONS

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

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

EMPLOYEE BENEFITS

Pension obligations

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

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

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

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

The actuarial calculation of the pension provisions for the Company's old-age pension benefits is based on the projected unit credit method prescribed by IAS 19 "Employee Benefits". An actuarial valuation is carried out by independent actuarial experts for this purpose at the end of each reporting period. The projected unit credit method takes account of the known pensions and vested benefits at the end of the reporting period and includes increases in salaries and pensions expected in the future. The valuations are based on the legal, economic and tax environment of the individual country, as well as that country's specific demographic trends. The obligations, which exist solely in the European Economic Area, were measured using an actuarial rate of interest of 1.6 % (previous year: 2.0 %), projected annual wage and salary increases of 2.5 % (previous year: 2.5 % – 3.0 %) and projected annual pension increases of 2.0 % (previous year: 2.0 %). Employee turnover is determined for each specific company and taken into account on the basis of age and length of service. The actuarial valuations are mostly based on specific mortality tables for each country. The provision is made up of the present value of the expected benefits less the fair value of the plan assets plus or minus any actuarial gains and losses. The expected return on the plan assets in accordance with the amendment to IAS 19 was adjusted in the previous year in line with the actuarial rate of interest.

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

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

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

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

Obligations for severance payments

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

Termination benefits

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

Share-based remuneration

In connection with the Executive Board service agreements, the members of Adler Modemärkte AG's Executive Board have been granted a long-term incentive bonus. Based on the level of personal investment, the active members were granted 0 SARs (stock appreciation rights) as at the end of the reporting period (previous year: 50,000 SARs). The SARs granted were classified and measured as cash-settled share-based payment transactions in accordance with IFRS 2.30 et seq. In accordance with IFRS 2, the fair value of the work performed by the members of the Executive Board as consideration for the granting of the options is recognised as an expense allocated over the vesting period. The fair value of the options is recalculated at the end of each reporting period using Monte Carlo simulation. (Reference to Note 31)

LIABILITIES

Financial liabilities

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

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

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

Liabilities from finance leases

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

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

Trade payables and other liabilities

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

CONTINGENT LIABILITIES

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

RECOGNITION OF INCOME AND EXPENSES

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

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

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

Expenses are recognised when the goods or services are utilised or when the expense is incurred. This also applies to the recognition of advertising expenses. The latter are recorded in accordance with the provisions of IAS 38 when the service – in this case the provision of advertising services – has been performed for the ADLER Group and not at the later date when the ADLER Group is conducting the relevant advertising campaigns.

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

NET FINANCE COSTS

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

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

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

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

OTHER COMPREHENSIVE INCOME

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

SEGMENT REPORTING

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

Segments are structured for the purpose of segment reporting according to the entity's principal activities.

As in the previous year, there was only one reportable segment in financial year 2016: "Stores (Modemärkte)".

EARNINGS PER SHARE

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

LITIGATION AND CLAIMS FOR DAMAGES

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

USE OF ESTIMATES AND ASSUMPTIONS

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

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

Useful lives of non-current assets

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

Valuation allowances on inventories

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

Income taxes

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

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

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

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

Provisions

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

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

Impairment

Goodwill is tested annually for impairment in accordance with IAS 36 “Impairment of Assets” and IAS 38 “Intangible Assets”. If events or changes in circumstances give rise to indications of possible impairment, impairment testing must also be carried out more frequently. The amortisation of goodwill is not permitted. For the purpose of testing goodwill for impairment, the carrying amount of the individual cash-generating unit to which the goodwill has been allocated is compared with the respective recoverable amount, i.e. the higher of the net selling price and the value in use. In those cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, the difference represents an impairment loss. Impairment losses calculated in this manner are deducted initially from the carrying amount of the goodwill allocated to the strategic business unit in question. Any remaining amount is allocated to the other assets in the respective strategic business unit pro rata on the basis of their carrying amounts, to the extent that IAS 36 applies. The calculation of the recoverable amount is based on the future cash flows expected to be derived from the continuing use of the cash-generating unit. The cash flow projections were based on the Company’s current business plans. The cost of capital is calculated as the weighted average of the cost of equity and the cost of debt, taking into account the proportions of total capital represented by equity and debt respectively. The cost of equity represents the expected return from the cash-generating unit and is derived from a suitable peer group. The cost of debt is based on the average cost of debt derived from bonds with an average remaining maturity of 20 years.

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

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

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

III. NOTES TO THE INCOME STATEMENT

1. REVENUE

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

€'000	2016	2015
Germany	453,663	474,240
Austria	71,209	73,027
Luxembourg	16,699	16,701
Switzerland	2,982	2,086
	544,553	**566,054**

2. OTHER OPERATING INCOME

€'000	2016	2015
Passthrough expenses/reimbursement of expenses	2,465	2,200
Rent	2,059	2,251
Income from the reversal of other liabilities and provisions	1,155	1,579
Income from damages claims	806	328
Income from the derecognition of expired liabilities	503	168
Income from the hanger recycling project	359	389
Personnel-related government grants	329	242
Royalties	256	404
Income from recoveries on receivables written off	210	320
Commissions	87	77
Credits from suppliers	76	99
Restaurant	65	67
Other	364	737
	8,734	**8,862**

Passthrough expenses and reimbursements primarily include income from construction subsidies.

The rental income was generated from subletting to store concessionaires. Rental income from investment property amounted to € 36 thousand (previous year: € 54 thousand).

Income from the reversal of other liabilities and provisions related to personnel expenses and rent and incidental rental expenses.

The increase in income from damages claims is attributable primarily to insurance claims for one insurance event related to water damage and one insurance event related to fire damage.

Income from the derecognition of expired liabilities includes primarily the derecognition of expired discounts.

3. COST OF MATERIALS

The cost of materials amounting to € 256,467 thousand (previous year: € 261,157 thousand) consists entirely of purchased merchandise.

4. PERSONNEL EXPENSES

€'000	2016	2015
Wages and salaries	84,658	84,393
Other social security contributions	9,229	9,620
Employer's contribution towards the statutory pension scheme	7,922	7,593
Expenditures for old-age pensions	490	445
Expenditures for partial retirement/death benefits/anniversaries	34	429
	102,333	**102,480**

Personnel expenses decreased slightly despite the wage and salary increases set out in the collective bargaining agreement entered into in 2014. This was due primarily to the decline in the number of employees, the lower provisions for severance payments and the lower provisions for anniversaries and death benefits due to interest rate effects.

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

Employees	2016	2015
Managers	223	225
Full-time employees	750	815
Part-time employees	2,773	2,874
Trainees	336	323
	4,082	**4,237**

5. OTHER OPERATING EXPENSES

€'000	2016	2015
Operating lease payments and building expenditures	70,024	69,251
Advertising expenses	45,410	53,765
Freight and transport costs	18,098	17,142
Technical equipment	13,382	14,055
External cleaning fees	4,576	4,484
Administrative expenses	4,384	4,995
Consultancy fees	3,909	2,485
Consumables	3,329	3,595
Office expenses	1,606	1,540
Incidental costs of monetary transactions	1,227	1,435
Low-value assets	659	677
Losses from disposals of assets	268	286
Other	4,315	4,295
	171,187	**178,005**

The increase in operating lease payments and building expenditures was attributable primarily to the six new stores, which were classified as operating leases.

The operating lease agreements relate primarily to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2016, the contingent rental payments under operating lease agreements amounted to € 35 thousand (previous year: € 384 thousand). The decrease in contingent rental payments from operating lease agreements is due mainly to lease amendments.

The decline in advertising expenses is due to a change in the mix of marketing instruments and the fact that in the previous year the item included the expenses related to the integration of the Adler Orange stores.

The increase in freight and transport costs was due mainly to an increase in freight costs attributable to the online shop.

The decrease in expenses for technical facilities was attributable primarily to modernisation measures conducted at 7 stores in 2016; this was offset by income from construction subsidies amounting to € 610 thousand.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

The amounts of depreciation and amortisation are presented in the consolidated statement of changes in non-current assets. No impairment charges were recognised in respect of non-current assets during the financial year.

7. NET FINANCE COSTS

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

€'000	2016	2015
Interest income		
Receivables from banks	5	34
Other	14	12
	19	**46**
Interest expense		
Finance leases	–4,601	–4,641
Interest effect on pension obligations and provisions for anniversaries	–136	–105
Liabilities to banks	–10	–5
Other	–201	–146
	–4,948	**–4,897**
Net finance costs	**–4,929**	**–4,851**

Interest income from banks relates to current account balances. The related items were allocated to the loans and receivables category.

All interest income and interest expenses arising from financial assets and financial liabilities were calculated using the effective interest method.

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

8. INCOME TAXES

The income tax expense was made up as follows:

€'000	2016	2015
Actual tax expense (–)/income (+)	–836	–3,049
Deferred tax expense (–)/income (+)	–466	–1,174
	–1,301	**–4,223**

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

The income tax rate of 29.512 % (previous year: 29.125 %) applied for the German company is made up of corporation tax amounting to 15.825 % (previous year: 15.825 %) (including the solidarity surcharge of 5.500 %) and the trade tax rate of 13.687 % (previous year: 13.300 %). Foreign income taxes are calculated on the basis of the laws and regulations in force in the particular countries. The overall income tax rate applicable for the ADLER Group amounts to 29.510 % (previous year: 29.100 %).

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

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

€'000	2016	2015
Consolidated net profit before income taxes	1,711	12,138
Applicable income tax rate	29.51 %	29.10 %
Expected income tax expense	505	3,532
Effects of different foreign tax rates	5	–91
Effects of different domestic tax rates	–4	–4
Tax effects		
Addition/reduction of trade tax	881	862
Non-recognition of current tax losses	457	553
Non-deductible expenses for tax purposes	83	89
Initial recognition of deferred tax assets	–452	0
Prior-period tax income (–)/expense (+)	–111	–721
Effect of Group tax rate adjustment on deferred taxes	–85	0
Tax-exempt income	–65	–19
Recognition of previously unused tax loss carryforwards	–4	0
Utilisation of unrecognised taxable losses	0	–5
Other deviations	91	27
Total tax effects	783	786
Actual tax expense (+)/income (–)	**1,301**	**4,223**
Actual tax rate	76.04 %	34.79 %

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

IV. NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. INTANGIBLE ASSETS

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

The development of intangible assets in financial year 2016 was as follows:

€'000	Software, rights, licences	Goodwill	Licences, Finance leases	Internally-generated assets	Construction in progress	Total
Cost as at 1 Jan. 2016	34,842	900	289	2,258	0	38,289
Additions	2,082	0	0	0	75	2,157
Disposals	0	0	–5	0	0	–5
Reclassifications	10	0	0	0	0	10
As at 31 Dec. 2016	**36,934**	**900**	**284**	**2,258**	**75**	**40,451**
Depreciation, amortisation and write downs as at 1 Jan. 2016	–28,785	0	–77	–892	0	–29,754
Additions	–2,361	0	–51	0	0	–2,412
Disposals	0	0	5	0	0	5
As at 31 Dec. 2016	**–31,146**	**0**	**–123**	**–892**	**0**	**–32.161**
Impairments as at 1 Jan. 2016	–448	0	0	–1,367	0	–1,815
As at 31 Dec. 2016	**–448**	**0**	**0**	**–1,367**	**0**	**–1,815**
Net carrying amount as at 1 Jan. 2016	5,609	900	212	0	0	6,721
Net carrying amount as at 31 Dec. 2016	**5,340**	**900**	**161**	**0**	**75**	**6,476**

Additions to software, rights and licences relate primarily to software for the online shop, expanded RFID functions, personnel resource planning, intelligent fitting rooms and rights to use the Steilmann brand. Licences, finance leases relate to trademark rights.

The development of intangible assets in financial year 2015 was as follows:

€'000	Software, rights, licences	Goodwill	Licences, Finance leases	Internally-generated assets	Construction in progress	Total
Cost as at 1 Jan. 2015	33,675	0	284	2,257	0	36,216
Additions from business acquisitions	2	800	5	0	0	807
Additions	1,165	0	0	0	0	1,165
Disposals	−20	0	0	0	0	−20
Reclassifications	20	100	0	0	0	120
As at 31 Dec. 2015	**34,842**	**900**	**289**	**2,258**	**0**	**38,289**
Depreciation, amortisation and write downs as at 1 Jan. 2015	−26,731	0	−21	−892	0	−27,643
Additions	−2,058	0	−55	0	0	−2,113
Disposals	3	0	0	0	0	3
As at 31 Dec. 2015	**−28,785**	**0**	**−77**	**−892**	**0**	**−29,754**
Impairments as at 1 Jan. 2015	−448	0	0	−1,367	0	−1,815
As at 31 Dec. 2015	**−448**	**0**	**0**	**−1,367**	**0**	**−1,815**
Net carrying amount as at 1 Jan. 2015	6,496	0	263	0	0	6,760
Net carrying amount as at 31 Dec. 2015	**5,609**	**900**	**212**	**0**	**0**	**6,721**

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least once annually. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that the assets may be impaired. The higher of the value in use and the fair value less costs of disposal of the relevant cash-generating unit is generally used to test goodwill and intangible assets with indefinite useful lives for impairment. The value in use is measured on the basis of the management's current planning. This planning is based on expectations with regard to future macroeconomic developments and the resulting assumptions about the textile retail markets, market shares and profitability of the products. This takes into consideration appropriate assumptions regarding macroeconomic trends (currency, interest rate and commodity price developments) as well as historical developments. Please refer to the report on expected developments in the management report for information regarding assumptions in the detailed planning period. Plausible assumptions regarding future developments are made for subsequent years. The planning assumptions are adjusted in each case to the information currently available. The weighted average cost of capital (WACC) before taxes is used to measure the value in use when testing goodwill, intangible assets with indefinite useful lives and intangible assets with finite useful lives for impairment. The cost of capital is calculated on the basis of the interest rate for risk-free assets, the market risk premium and the interest rate on debt. Furthermore, specific peer group information for beta factors and the debt/equity ratio are also taken into account. The composition of the peer groups for calculating the beta factors is reviewed on an ongoing basis and adjusted, if necessary.

Goodwill at the level of the cash-generating unit (CGU) is regularly tested for impairment at the end of the year, or when there are indications of impairment, using the discounted cash flow calculation based on the WACC before taxes, derived from the multi-year plan.

IAS 36 stipulates that goodwill must be tested for impairment annually. The impairment tests were conducted on the basis of the medium-term plans in place for the respective CGUs as at the end of the reporting period using a discount rate of 6.17 %. The sales, income and expense developments are in line with the management's expectations. No growth rates were applied for extrapolating the cash flows beyond the detailed planning period.

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

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include leased land and buildings attributable to the Group as economic owner as a result of the structure of the underlying lease agreements. In order to ensure that these lease agreements, capitalised as finance leases, are measured at the appropriate amount, they were reviewed with the aim of identifying any impairment write-downs that might be necessary due to a lack of earnings prospects. The reviews of the individual stores do not result in any indications of impairment.

The remaining items of property, plant and equipment consist mainly of the fixtures and fittings of the stores.

The development of property, plant and equipment in financial year 2016 was as follows:

€'000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties	Finance lease buildings	Other operating and office equipment	Construction in progress	Total
Cost as at 1 Jan. 2016	795	72,207	150,789	66,964	115	290,870
Additions	0	5,149	2,391	3,583	19	11,144
Disposals	0	−3,226	0	−5,125	0	−8,351
Reclassifications	0	0	0	94	−104	−10
Foreign exchange differences	0	11	0	6	0	17
As at 31 Dec. 2016	**795**	**74,141**	**153,179**	**65,523**	**30**	**293,668**
Depreciation, amortisation and write downs as at 1 Jan. 2016	0	−49,335	−105,840	−52,823	0	−207,998
Additions	0	−3,474	−6,441	−4,334	0	−14,249
Disposals	0	3,147	0	4,876	0	8,023
Foreign exchange differences	0	−2	0	−2	0	−4
As at 31 Dec. 2016	**0**	**−49,664**	**−112,281**	**−52,283**	**0**	**−214,228**
Impairments as at 1 Jan. 2016	−297	−813	0	−194	0	−1,303
As at 31 Dec. 2016	**−297**	**−813**	**0**	**−194**	**0**	**−1,303**
Net carrying amount as at 1 Jan. 2016	498	22,058	44,947	13,948	115	81,566
Net carrying amount as at 31 Dec. 2016	**498**	**23,664**	**40,898**	**13,046**	**30**	**78,136**

The development of property, plant and equipment in financial year 2015 was as follows:

€'000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties)	Finance lease buildings	Other operating and office equipment	Construction in progress	Total
Cost as at 1 Jan. 2015	582	65,526	142,318	63,878	102	272,407
Additions from business acquisitions	0	1,487	0	1,112	0	2,599
Additions	0	6,174	8,471	5,324	115	20,084
Disposals	0	−2,394	0	−3,371	−2	−5,767
Reclassifications	213	1,391	0	0	−100	1,504
Foreign exchange differences	0	23	0	21	0	44
As at 31 Dec. 2015	**795**	**72,207**	**150,789**	**66,964**	**115**	**290,870**
Depreciation, amortisation and write downs as at 1 Jan. 2015	0	−47,857	−99,594	−51,489	0	−198,940
Additions	0	−3,331	−6,246	−4,594	0	−14,171
Disposals	0	2,049	0	3,267	0	5,316
Reclassifications	0	−191	0	0	0	−191
Foreign exchange differences	0	−5	0	−7	0	−12
As at 31 Dec. 2015	**0**	**−49,335**	**−105,840**	**−52,823**	**0**	**−207,998**
Impairments as at 1 Jan. 2015	−205	−583	0	−194	0	−982
Reclassifications	−91	−230	0	0	0	−321
As at 31 Dec. 2015	**−296**	**−813**	**0**	**−194**	**0**	**−1,303**
Net carrying amount as at 1 Jan. 2015	377	17,086	42,723	12,195	102	72,483
Net carrying amount as at 31 Dec. 2015	**498**	**22,058**	**44,947**	**13,948**	**115**	**81,566**

Individual assets whose cost is less than € 150 are not recognised as described above. The total costs of the relevant assets in the financial year amounted to € 659 thousand (previous year: € 677 thousand).

The finance lease agreements relate primarily to leased buildings for stores. The decline in finance leases can be explained by straight-line amortisation and the fact that the agreements were increasingly classified as operating leases.

As in the previous year, no impairment losses were recognised in respect of assets from finance leases in financial year 2016. There are indications of impairment if internal reporting provides evidence that a store is less profitable or will be less profitable than expected.

The terms of the leases generally amount to between 5 and 20 years with renewal options. The renewal options must be exercised by the Company, depending on the particular lease agreement, at a specified time prior to expiry of the lease agreement. This period ranges between three and twelve months prior to expiry of the lease agreement. The renewal terms amount to between 1 year and 5 years.

Expenses for operating leases amounted to € 67,454 thousand during the financial year (previous year: € 65,817 thousand). The operating lease agreements contain similar renewal options.

Property, plant and equipment amounting to € 3,130 thousand (previous year: € 3,260 thousand) serves as collateral for financial liabilities.

11. INVESTMENT PROPERTY

The investment property reported in the financial statements consists of land and a building held by the structured entity ALASKA GmbH & Co. KG included in the consolidation. The building is not used in its entirety by the ADLER Group; some portions are sublet. The sub-let portion is classified as an investment property and reported as such. The investment property is carried at fair value, which was determined by an expert valuer on the basis of market data. In financial year 2016, €36 thousand in rental income was generated (previous year: €54 thousand).

€'000	2016	2015
Carrying amount as at 1 Jan.	**413**	**1,525**
Reclassification to property, plant and equipment	0	1,112
As at 31 Dec.	**413**	**413**

As in the previous year, the full amount of investment property serves as collateral for financial liabilities.

Expenses for maintenance and repairs amounting to €37 thousand (previous year: €31 thousand) were incurred during financial year 2016.

12. OTHER RECEIVABLES AND OTHER ASSETS

€'000	31 Dec. 2016	31 Dec. 2015
Non-current receivables and other assets		
Prepaid expenses	162	192
Payments towards a money market fund to hedge commitments for time-off credits	119	119
Deposits	159	159
	439	**470**
Current receivables and other assets		
Credit card receivables	1,972	1,335
Prepaid expenses	916	1,399
Tax assets	3,249	2,070
Miscellaneous	1,896	3,401
	8,034	**8,205**

Other receivables and other assets include financial assets amounting to €2,250 thousand (previous year: €1,613 thousand).

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

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

The miscellaneous item relates mainly to creditors with debit balances.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets amounting to €277 thousand (previous year: €282 thousand) include securities that could not be allocated to any of the other measurement categories set out in IAS 39. The item consists entirely of fund units. They were initially recognised and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

14. DEFERRED TAX ASSETS AND LIABILITIES

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

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

€'000	31 Dec. 2016	31 Dec. 2015
Deferred tax assets		
Intangible assets	309	332
Investment property	70	70
Property, plant and equipment	93	100
Inventories	418	2,292
Receivables and other current assets	97	78
Prepaid expenses	11	0
Provisions	1,498	924
Liabilities	16,133	19,925
Tax loss carryforwards	3,900	3,196
Total deferred tax assets	**22,529**	**26,918**
of which current	6,123	7,151
of which non-current	16,405	19,766
Deferred tax liabilities		
Intangible assets	150	171
Investment property	70	70
Property, plant and equipment	12,106	13,101
Inventories	135	135
Receivables and other current assets	5	5
Prepaid expenses	54	65
Provisions	53	3,014
Liabilities	1	3
Total deferred tax liabilities	**12,574**	**16,563**
of which current	1,579	1,593
of which non-current	10,995	14,970
Offsetting of deferred tax assets and deferred tax liabilities	–12,483	–16,434
Carrying amount of deferred tax assets	**10,046**	**10,484**
Carrying amount of deferred tax liabilities	**91**	**129**

The change in deferred taxes was attributable to the measurement of pension entitlements in the amount of €65 thousand (previous year: €–268 thousand) and was therefore recognised in other comprehensive income. Changes in other deferred taxes as compared to the previous year were recognised in profit or loss.

The corporation and trade tax loss carryforwards shown here relate to Adler Modemärkte AG, Haibach, Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, Adler Mode GmbH, Haibach, and A-Team Fashion GmbH, Munich. No deferred tax assets were recognised in respect of additional existing corporation tax and trade tax loss carryforwards relating primarily to Adler Orange GmbH & Co. KG, Haibach, and Adler Mode AG Schweiz, Zug, Switzerland, and amounting to €8,280 thousand (previous year: €5,187 thousand).

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

No deferred tax liabilities were recognised in respect of temporary differences in connection with investments in subsidiaries amounting to €3,389 thousand (previous year: €4,969 thousand).

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

15. INVENTORIES

€'000	31 Dec. 2016	31 Dec. 2015
Domestic	65,491	72,124
International	9,908	9,142
	75,399	**81,266**

Inventories are measured respectively at the lower of cost and the net realisable selling price as at the end of the reporting period. In accordance with IAS 2.36 (e), impairment allowances were recognised in financial year 2016 for the purpose of reducing risks.

In 2016, impairment allowances on inventories were €11,198 thousand, €1,668 thousand higher compared with the previous year (€9,530 thousand). Impairment allowances are recognised primarily for merchandise from prior seasons and for slow-selling articles. The carrying amount of the inventories measured at the net selling price amounts to €68,530 thousand (previous year: €71,444 thousand).

Inventories consist primarily of merchandise.

16. TRADE RECEIVABLES

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

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

Trade receivables past due are reviewed and tested for impairment regularly. Due to the fact that customers pay primarily in cash, any impairment is negligible. Nearly all of the receivables are denominated in euros. For those receivables that were not impaired, there were no indications at the end of the reporting period that the associated payments will not be made when they fall due. This decrease in receivables is attributable primarily to the decline in rent receivables and the sale of the Dillenburg store in the previous year.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were made up as follows:

€'000	31 Dec. 2016	31 Dec. 2015
Balances with banks	37,748	47,364
Cash-in-hand	5,026	4,712
	42,773	**52,076**

With the exception of € 100 thousand in bank balances pledged in line with industry practice for trade credit insurance policies, none of the cash was subject to restrictions on disposal at the end of the respective reporting periods.

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

18. EQUITY

SUBSCRIBED CAPITAL

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

The shares of the shareholders are fully paid in.

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

DIVIDEND RESTRICTIONS

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

CAPITAL MANAGEMENT

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

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

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

€'000	31 Dec. 2016	31 Dec. 2015
Equity	95,839	104,856
Debt	126,736	138,534
Debt/equity ratio	**1.32**	**1.32**

19. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

€'000	31 Dec. 2016	31 Dec. 2015
Defined benefit obligations (unfunded)	5,472	5,382
Defined benefit obligations (wholly or partially funded)	2,166	2,299
Subtotal	**7,638**	**7,681**
Less fair value of plan assets	–1,822	–1,811
Provision for old-age pension benefits as at 31 Dec.	**5,816**	**5,870**

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

€'000	31 Dec. 2016	31 Dec. 2015
As at 1 Jan.	**7,681**	**8,763**
Current service cost	116	124
Interest expense	149	111
Pensions paid	–657	–404
Actuarial gains (–)/losses (+)		
from changes to demographic assumptions	23	0
from changes to financial assumptions	309	–890
from experience adjustments	16	–23
As at 31 Dec.	**7,638**	**7,681**

The associated plan assets developed as follows:

€'000	31 Dec. 2016	31 Dec. 2015
As at 1 Jan.	**1,811**	**1,615**
Contributions (employer)	163	172
Expected interest income	37	22
Pension payments (severance payments)	–325	–34
Administrative expenses for insurance	–4	–5
Experience adjustments (gains (+)/losses (–))	140	41
Fair value of plan assets as at 31 Dec.	**1,822**	**1,811**

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

The expected return is calculated on the basis of the actuarial rate of interest in accordance with IAS (rev. 2011). The actual gain on plan assets in financial year 2016 amounted to € 177 thousand (previous year: € 63 thousand).

Future cash flows (€'000)	31 Dec. 2016	31 Dec. 2015
Expected pension and severance payments in subsequent year	549	463
Total expected payments in subsequent years 2 to 5	2,111	2,241
Total expected payments in subsequent years 6 to 10	2,259	2,397
Expected contributions to plan assets in subsequent year	–163	–168

The weighted average maturity of the obligations is 12.7 years (previous year: 10.6 years).

Sensitivity analysis regarding the defined benefit obligation for pensions and severance payments:
Provided all other factors remain unchanged, an adjustment in each case of just one measurement parameter has the following effects. The sensitivity analysis accounts for the change of one factor at a time, leaving the other factors unchanged. Thus, potential correlation effects between the premises remain unconsidered.

Measurement parameters	Starting value	Sensitivity	Effect on DBO
Actuarial interest rate	1.60 %	+1.00 percentage point	–733
Actuarial interest rate	1.60 %	–1.00 percentage point	882
Projected annual pension increase/decrease	2.00 %	+0.25 percentage points	129
Projected annual pension increase/decrease	2.00 %	–0.25 percentage points	–123
Projected annual wage and salary increase/decrease	2.50 %	+0.50 percentage points	85
Projected annual wage and salary increase/decrease	2.50 %	–0.50 percentage points	–80

The current employers' contributions to the statutory pension scheme are included as an expense in the operating profit or loss for the relevant year and amounted to € 7,922 thousand for the Group as a whole in financial year 2016 (previous year: € 7,922 thousand).

20. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

€'000	Restructuring/ severance payments	Rent and incidental rental expenses	Other provisions for personnel expenses	Other provisions	Total
As at 1 Jan. 2015	**949**	**1,707**	**1,338**	**1,625**	**5,619**
Additions from business acquisitions	692	155	0	5	852
Utilisations	–1,076	–896	–162	–550	–2,684
Additions	1,224	1,035	189	564	3,012
Reversals	–565	–391	–16	–904	–1,876
Reclassifications	0	–24	0	24	0
Accrued interest	0	0	9	0	9
As at 31 Dec. 2015	**1,224**	**1,586**	**1,358**	**764**	**4,932**
Non-current	0	0	1,324	175	1,499
Current	1,224	1,586	34	589	3,433
As at 1 Jan. 2016	**1,224**	**1,586**	**1,358**	**764**	**4,932**
Utilisations	–1,001	–873	–209	–215	–2,298
Additions	1,848	1,474	119	497	3,938
Reversals	–223	–228	–194	–239	–884
Accrued interest	0	0	11	0	11
As at 31 Dec. 2016	**1,848**	**1,959**	**1,084**	**808**	**5,699**
Non-current	0	0	1,066	170	1,236
Current	1,848	1,959	18	638	4,463

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

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

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

Other provisions include provisions for the costs of retaining documents with a non-current portion amounting to € 170 thousand (previous year: € 175 thousand). The short-term component of other provisions includes € 141 thousand (previous year: € 269 thousand) in maintenance expenditures.

21. FINANCIAL LIABILITIES

€'000		31 Dec. 2016	31 Dec. 2015
Liabilities to METRO Finance B.V.	< 1 year	314	314
Liabilities to METRO Finance B.V.	> 1 year	2,581	2,897
		2,895	**3,211**
Liabilities arising from the ADLER customer loyalty card	< 1 year	10,624	11,391
		10,624	**11,391**
		13,519	**14,602**

The liability to METRO Finance B.V. comprises a loan at a current fixed rate of interest since 1 April 2015 of 0.936 % p.a. (until 31 March 2015: 1.321 % p.a.). The interest rate is fixed from 1 April 2015 until 31 March 2017. The loan has a maturity date of 31 July 2024 and is repaid in quarterly instalments.

The liabilities from the ADLER customer loyalty card represent discount entitlements not yet utilised due to customers who have settled their purchases using the ADLER customer loyalty card. The customers can offset the discount entitlement obtained from making a purchase against a subsequent purchase or can have the amount paid in cash. Since the entitlements expire at the latest on 31 December of the following year, the item is included in current financial liabilities. The amounts credited to customers do not bear interest. The amount not yet utilised at the end of the reporting period is reported in full as a financial liability in accordance with the requirements of IAS 39. However, recent years' experience has shown that a significant number of customers do not claim their discount before they expire. The full amount is reported, however, since the discount entitlements classified as financial liabilities may be claimed in full.

As at 31 December 2016, the financial liabilities were secured by items of property, plant and equipment with a carrying amount of € 3,130 thousand (previous year: € 3,260 thousand) and by investment property with a carrying amount of € 413 thousand (previous year: € 413 thousand).

With the exception of liabilities amounting to CHF 69 thousand from the customer loyalty card of Adler Mode Schweiz AG, financial liabilities are repayable in euros.

22. LIABILITIES FROM FINANCE LEASES

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

€'000	31 Dec. 2016	31 Dec. 2015
Finance lease agreements		
Minimum finance lease payments payable		
up to 1 year	10,086	11,094
1 to 5 years	28,821	30,093
more than 5 years	38,673	43,471
	77,580	**84,658**
Discounts		
up to 1 year	–4,263	–4,325
1 to 5 years	–9,517	–11,249
more than 5 years	–11,645	–12,827
	–25,425	**–28,401**
Present value		
up to 1 year	5,823	6,769
1 to 5 years	19,303	18,844
more than 5 years	27,028	30,644
	52,154	**56,257**

The finance lease agreements relate primarily to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2016, the contingent rental payments under finance lease agreements amounted to € 1,088 thousand (previous year: € 1,831 thousand). The decline in finance leases is attributable primarily to lease amendments and rent decreases. The terms of the leases generally amount to between 5 and 20 years with renewal options. All of the liabilities from finance leases are repayable in euros.

Due to the renewal of the lease for the store in Strassen, Luxembourg, that store's operating lease will be reclassified as a finance lease in financial year 2017.

23. TRADE PAYABLES

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

Trade payables are primarily due in euros, as in previous years.

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

24. OTHER LIABILITIES

€'000	31 Dec. 2016	31 Dec. 2015
Liabilities from value added tax	6,331	6,030
Wage and salary commitments	4,166	4,560
Liabilities to customers for gift vouchers sold	4,217	3,816
Deferred building cost subsidies	1,254	1,968
Liabilities from customs duties	966	1,040
Liabilities from wage tax	886	907
Workmen's compensation	551	564
Social security contributions	358	377
Deferred lease payments	288	126
Other	462	419
Other current liabilities	**19,479**	**19,807**
Deferred building cost subsidies	3,290	3,572
Deferred lease payments	1,364	1,121
Other non-current liabilities	**4,654**	**4,693**

Other current liabilities include financial liabilities amounting to € 3,636 thousand (previous year: € 4,406 thousand).

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

25. INCOME TAX LIABILITIES

Income tax liabilities of € 63 thousand (previous year: € 217 thousand) relate to corporation tax and trade tax liabilities.

26. STATEMENT OF CASH FLOWS

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

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

€'000	2016	2015
Cash from (+)/used (–) in operating activities (net cash flow)	22,191	19,513
Cash from (+)/used (–) in investing activities	–10,830	–16,642
Free cash flow	**11,361**	**2,871**
Cash from (+)/used (–) in financing activities	–20,664	–20,452
Net increase in cash and cash equivalents	**–9,303**	**–17,581**

Cash and cash equivalents as at 31 December 2016 amounted to €42,773 thousand (previous year: €52,076 thousand) and include demand deposits with banks, current time deposits with terms of less than three months, cheques and cash-in-hand. As in the previous year, there was no cash subject to restrictions on disposal during the reporting period.

The following material non-cash transactions took place in financial year 2016: Other non-cash income and expenses amounting to €2,246 thousand (previous year: €1,360 thousand) include in particular the change in inventories and trade receivables.

Non-current assets and liabilities from finance leases both rose by €2,391 thousand (previous year: €8,471 thousand) with no effect on cash as a result of the addition of new finance leases or the renewal of existing leases.

In the previous year, cash used in investing activities increased by €3,523 thousand due to payments for company acquisitions.

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

€'000	2016	2015
Interest paid from finance leases	4,601	4,641
Interest paid from operating activities	344	151
Total	**4,945**	**4,792**

27. SEGMENT REPORTING

2016 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	537,638	6,914	544,553
Other operating income	15,547	–6,813	8,734
Cost of materials	–278,641	22,174	–256,467
Personnel expenses	–105,383	3,051	–102,333
Other operating expenses	–156,827	–14,360	–171,187
EBITDA	**12,334**	**10,966**	**23,300**
Depreciation, amortisation and write-downs	–9,947	–6,714	–16,660
EBIT	**2,388**	**4,253**	**6,640**

2015 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	560,145	5,910	566,054
Other operating income	13,786	–4,924	8,862
Cost of materials	–282,655	21,498	–261,157
Personnel expenses	–106,234	3,754	–102,480
Other operating expenses	–163,624	–14,380	–178,005
EBITDA	**21,417**	**11,858**	**33,275**
Depreciation, amortisation and write-downs	–9,725	–6,560	–16,285
EBIT	**11,692**	**5,298**	**16,989**

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

The segment report was prepared in accordance with IFRS 8 "Operating Segments". The segments were defined in accordance with the ADLER Group's internal management and reporting procedures. "Stores (Modemärkte)" was the only segment at the end of the reporting period. The Stores segment comprises the Company's entire activities relating to the stores operated by the ADLER Group. Due to the retail business in the segment "Stores (Modemärkte)", there is no concentration risk stemming from important or significant clients.

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

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

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

	2016			2015		
€'000	Germany	International	Group	Germany	International	Group
Non-current assets	76,958	8,067	85,025	80,804	7,896	88,700

28. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Liquidity risks

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

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

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

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

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

The ADLER Group is mainly financed by its own liquid resources generated from its operating activities. The long-term leases of certain stores are reported as finance leases in accordance with IFRSs. The recognised long-term finance lease obligation amounted to €46,331 thousand at the end of the reporting period (previous year: €49,488 thousand). In addition, the Group has only one loan outstanding, to a company within the METRO AG group, which was used for a property financing transaction. The outstanding amount of the loan amounted to €2,895 thousand at the end of the reporting period (previous year: €3,211 thousand). Current loan liabilities at the end of the reporting period amounted to €314 thousand (previous year: €314 thousand). The remaining current financial liabilities at the end of the reporting period amounted to €10,624 thousand (previous year: €11,391 thousand).

Maturity analysis of financial liabilities

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

2016 (€'000)	up to 1 year	more than 1 year
Trade payables	25,261	0
Financial liabilities	10,964	2,676
Liabilities from finance leases	10,086	67,494
Other financial liabilities	3,636	0

2015 (€'000)	up to 1 year	more than 1 year
Trade payables	32,027	0
Financial liabilities	11,735	3,018
Liabilities from finance leases	11,094	73,564
Other financial liabilities	4,406	0

The undiscounted cash outflows are subject to the condition that the liabilities are repaid on the earliest due date.

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

€'000	31 Dec. 2016	31 Dec. 2015
Carrying amount	**25,261**	**32,027**
Thereof falling due within the following time bands:		
Less than 30 days	17,866	19,438
30–90 days	7,393	12,546
90–180 days	0	21
180 days–1 year	2	22

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

€'000	31 Dec. 2016	31 Dec. 2015
	10,964	**11,786**
Thereof falling due within the following time bands:		
Less than 30 days	10,624	11,392
30–90 days	86	99
90–180 days	86	99
180 days–1 year	171	197

The liabilities from the ADLER customer loyalty card are presented within the "less than 30 days" time band since the customers are entitled to redeem their credit at any time within twelve months. In accordance with IFRS 7, liabilities of this nature that are payable at any time are allocated to the earliest time band.

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

€'000	31 Dec. 2016	31 Dec. 2015
Total falling due within one year	**10,086**	**11,094**
Thereof falling due within the following time bands:		
Less than 30 days	797	794
30–90 days	2,118	1,980
90–180 days	2,391	2,774
180 days–1 year	4,781	5,547

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

€'000	31 Dec. 2016	31 Dec. 2015
Total falling due within one year	**3,636**	**4,406**
Thereof falling due within the following time bands:		
Less than 30 days	3,085	3,842
30–90 days	0	0
90–180 days	551	564
180 days–1 year	0	0

Credit risks

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

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

The loans and receivables reported in the consolidated financial statements amounting to €3,189 thousand (previous year: €3,401 thousand) are not secured. The maximum risk of default is therefore equal to the carrying amount of the loans and receivables reported.

Valuation allowances in appropriate amounts are generally recognised in order to take account of identifiable risks of default in respect of receivables.

None of the loans and receivables reported at the end of the reporting period were impaired or overdue.

Market risks (interest rate and currency risks)

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

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

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

Risks due to changes in interest rates can arise mainly as a result of potential changes in the value of a financial instrument which is sensitive to interest rates, in response to changes in market rates of interest which lead to changes in the expected cash flows. In order to minimise the risk of changes in interest rates within the ADLER Group, where necessary, loans are taken out only on a long-term basis and leases are entered into at fixed rates of interest. With the exception of the liability to METRO Finance B.V. (see Note 21), the ADLER Group is not a party to any financial instruments bearing a variable rate of interest. If the level of interest rates had been 100 basis points higher at the date when the new rate of interest was determined for this liability in financial year 2016, the interest expense for financial year 2016 would have been € 8 thousand higher (previous year: € 11 thousand higher). If the level of interest rates had been 100 basis points lower at the date when the new rate of interest was determined for this liability in financial year 2016, the interest expense for financial year 2016 would have been € 7 thousand lower (previous year: € 10 thousand lower). Since the period for which the interest rate was fixed included the whole of financial year 2016, there was no sensitivity to interest rates in this period.

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

The sensitivity analysis of the available-for-sale financial assets resulted in the following potential changes as at 31 December 2016: In the event of an increase of 5 % in the market price, equity would have risen by € 10 thousand (previous year: € 11 thousand). In the event of a decrease of 5 % in the market price, equity would have fallen by € 10 thousand (previous year: € 11 thousand).

Carrying amounts and fair values of financial instruments

The table below shows the carrying amounts and fair values of the financial assets and liabilities for each measurement category in accordance with IAS 39. The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

	At amortised cost		At fair value (no effect on profit/loss)			
2016 (€'000)	Other liabilities	Loans and receivables	Available-for-sale financial assets	Carrying amount pursuant to IAS 17	Total	Total
Item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Available-for-sale financial assets	–	–	277	–	277	277
Cash and cash equivalents	–	42,773	–	–	42,773	42,773
Trade receivables	–	582	–	–	582	582
Other financial assets	–	2,250	–	–	2,250	2,250
Total financial assets	**–**	**45,605**	**277**	**–**	**45,882**	**45,882**
Trade payables	25,261	–	–	–	25,261	25,261
Financial liabilities	13,519	–	–	–	13,519	14,662
Liabilities from finance leases	–	–	–	52,154	52,154	59,301
Other financial liabilities	3,636	–	–	–	3,636	3,636
Total financial liabilities	**42,416**	**–**	**–**	**52,154**	**94,572**	**102,861**

	At amortised cost		At fair value (no effect on profit/loss)			
2015 (€'000)	Other liabilities	Loans and receivables	Available-for-sale financial assets	Carrying amount pursuant to IAS 17	Total	Total
Item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Available-for-sale financial assets	–	–	282	–	282	282
Cash and cash equivalents	–	52,076	–	–	52,076	52,076
Trade receivables	–	1,908	–	–	1,908	1,908
Other financial assets	–	1,493	–	–	1,493	1,493
Total financial assets	**–**	**55,477**	**282**	**–**	**55,759**	**55,759**
Trade payables	32,027	–	–	–	32,027	32,027
Financial liabilities	14,602	–	–	–	14,602	15,432
Liabilities from finance leases	–	–	–	56,257	56,257	63,710
Other financial liabilities	4,406	–	–	–	4,406	4,406
Total financial liabilities	**51,035**	**–**	**–**	**56,257**	**107,292**	**113,793**

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

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

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

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

Other financial assets, financial liabilities, liabilities from finance leases and other financial liabilities reported in the statement of financial position comprise current and non-current financial assets and liabilities. The fair values of assets and liabilities with remaining maturities of more than 1 year are calculated by discounting the cash flows associated with those assets and liabilities using current interest rate parameters. For this purpose, the individual credit ratings used by ADLER are reflected in the form of normal market credit and liquidity spreads for the purpose of determining the present values.

Net gains and losses from financial instruments by measurement category

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

2016 (€'000)	Loans and receivables	Other liabilities	Total
From interest	5	–211	–206
Total	**5**	**–211**	**–206**

2015 (€'000)	Loans and receivables	Other liabilities	Total
From interest	34	–151	–117
Total	**34**	**–151**	**–117**

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

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

Other disclosures

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

V. OTHER NOTES

29. OTHER FINANCIAL OBLIGATIONS

As at the end of the reporting period on 31 December 2016, there were other financial obligations arising from rental, lease and service agreements entered into by the Group in the ordinary course of business that cannot be terminated prior to maturity. The maturity analysis of the future payments arising from those agreements attributable to continuing operations is as follows:

2016 (€'000)	up to 1 year	1–5 years	more than 5 years	Total
Rental and lease obligations	47,872	150,826	125,306	324,004
Other obligations	21,586	0	0	21,586
Total	**69,458**	**150,826**	**125,306**	**345,590**

2015 (€'000)	up to 1 year	1–5 years	more than 5 years	Total
Rental and lease obligations	48,617	155,392	140,410	344,419
Other obligations	20,156	0	0	20,156
Total	**68,773**	**155,392**	**140,410**	**364,575**

The total rental and lease obligations from operating lease agreements amounting to € 324,004 thousand (previous year: € 344,419 thousand) relate to rental and lease agreements for land and buildings in an amount of € 321,128 thousand (previous year: € 339,476 thousand) and to operating lease agreements for other facilities and operating and office equipment in an amount of € 2,876 thousand (previous year: € 4,943 thousand).

Furthermore, there were capital expenditure commitments of € 768 thousand (previous year: € 2,735 thousand) at the end of the reporting period on 31 December 2016.

Capital expenditure commitments include investments planned for 2016 which had already been contractually agreed as at the end of the reporting period.

The total future minimum lease payments arising from subleases amounted to € 6,744 thousand (previous year: € 9,942 thousand) at 31 December 2016. The decrease is attributable to the termination of the Dillenburg store's sublease.

2016 (€'000)	up to 1 year	1–5 years	more than 5 years	Total
Minimum lease payments arising from subleases	1,285	2,385	3,074	6,744
Total	**1,285**	**2,385**	**3,074**	**6,744**

2015 (€'000)	up to 1 year	1–5 years	more than 5 years	Total
Minimum lease payments arising from subleases	1,453	3,538	4,951	9,942
Total	**1,453**	**3,538**	**4,951**	**9,942**

30. CONTINGENT LIABILITIES

The Group has a guarantee facility in an amount of € 7,000 thousand (previous year: € 7,000 thousand) with various banks. As at 31 December 2016 the guarantee facility was being utilised in an amount of € 4,608 thousand (previous year: € 3,657 thousand). This includes rental guarantees for € 2,843 thousand (previous year: € 2,038 thousand), deliveries of goods amounting to € 270 thousand (previous year: € 210 thousand) and a customs guarantee in an amount of € 1,500 thousand (previous year: € 1,500 thousand).

31. REMUNERATION

The Company's Annual General Meeting on 4 May 2016 resolved that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2016, remuneration for the Executive Board totalled € 1,313 thousand (previous year: € 1,380 thousand). The breakdown of the remuneration is as follows:

€'000	2016	2015
Fixed remuneration	1,009	1,009
Non-cash benefits	22	21
Bonuses	210	250
Total short-term benefits payable to Executive Board members	**1,241**	**1,280**
LTI bonus	72	100
Total benefits payable to Executive Board members from long-term bonus (LTI)	72	100
Total	**1,313**	**1,380**

The Supervisory Board has adopted a long-term incentive bonus (hereinafter "LTI Bonus") for the members of the Executive Board of Adler Modemärkte AG. The LTI bonus, the calculation of which takes several years into account, is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value. With a term of five years in total, the LTI applicable until the end of financial year 2016 is determined as follows: the members of the Executive Board undertake to acquire shares of the Company and to hold these for at least one year from the date of acquisition. For each share of the Company subscribed, the Executive Board members receive five stock appreciation rights ("SARs"). One SAR grants a claim to payment contingent upon the performance of the stock exchange price of the shares; it does not, however, grant an option to acquire a share in the Company. The waiting period for the exercise of SARs is three years from the date of acquisition. SARs may only be exercised if the closing price of the Company's stock at the end of the waiting period is at least 30 % higher than the acquisition price. SARs may be exercised after the waiting period expires either in whole or in part within a two-year period ("Exercise Period"). The payout amount for each SAR at the exercise date is calculated as the difference between the average closing price of Adler Modemärkte AG shares over a period of five trading days prior to the exercise date and the price of the share upon acquisition by the respective Executive Board member. Upon expiry of the Exercise Period, those SARs which have not been exercised will expire. Due to the fact that SARs were exercised during the year and/or the fact that the closing price was not reached at the end of the waiting period, the LTI agreed with all members of the Executive Board until the end of financial year 2016 in relation to the SARs granted comprises a total of 0 SARs and is limited in each case to a maximum for each charge and Executive Board member and to a total amount of € 1,300 thousand. If any of the eligible members of the Executive Board steps down before the expiration of their service agreement, the payout with respect to the SARs is also limited to the maximum payment amount defined under the severance scheme set forth in the respective service agreement.

Since the financial year 2015, in addition to receiving the existing SAR-based LTI bonus described above, some members of the Executive Board also received an additional new LTI bonus. This new LTI bonus, which all members of the Executive Board will receive beginning in financial year 2017, is based on EBITDA as reported in the audited IFRS consolidated financial statements for the financial year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The new LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of € 1000 thousand (until the end of financial year 2016: € 500 thousand) and is not paid out if ADLER shares do not perform accordingly. The new LTI bonus for each financial year ended is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the new LTI bonus will be paid on a pro rata temporis basis.

The number of SARs granted and outstanding as at 31 December 2016 amounted to 0 (previous year: 50,000). In the previous year, the weighted average exercise price amounted to 7.69.

The SARs granted were classified and measured as cash-settled share-based payment transactions. The fair value of the provision to be recognised in relation to the SARs was calculated on the basis of a Monte Carlo model. As at 31 December 2016, no provision was recognised under other provisions (previous year: € 118 thousand). The current gain for the period amounts to € 46 thousand (previous year: € 16 thousand).

The total payments to former members of the executive bodies and their surviving dependants amounted to € 168 thousand (previous year: € 165 thousand). This includes remuneration to former managing directors of € 168 thousand (previous year: € 165 thousand). Pension provisions in the amount of € 1,881 thousand (previous year: € 1,926 thousand) have been recognised for former members of management and their surviving dependants.

The members of the Supervisory Board are also key management personnel of the ADLER Group in accordance with IAS 24. The total remuneration for members of the Supervisory Board during the financial year was € 322 thousand (previous year: € 297 thousand).

In financial year 2016 as well as in the previous year, no member of the Supervisory Board or an enterprise in which such member holds a key position provided the Company with any consultancy services.

32. RELATED PARTY DISCLOSURES

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

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

The following transactions were entered into with related parties:

€'000	2016	2015
Goods and services purchased from related parties:		
Steilmann Group	30,012	28,572
Sale of goods, services and non-current assets to related parties		
Steilmann Group	328	939

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

€'000	31 Dec. 2016	31 Dec. 2015
Trade receivables/services from related parties:		
Steilmann Group	**0**	**1,075**
Trade payables/services to related parties:		
Steilmann Group	**656**	**3,302**

Family members of key management personnel did not provide any services to the ADLER Group (previous year: €6 thousand). In the period under review, no property, plant or equipment was sold to or acquired from family members in key positions of controlled companies.

As in the previous year, one member of the Executive Board was billed rent in the amount of €2 thousand per year.

Goods amounting to €407 thousand were procured from Elan PVT Limited, Hong Kong, in the year under review. The company is associated with a member of the Supervisory Board and is therefore treated as a related party in accordance with IAS 24. The outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods amounted to €44 thousand as at the reporting date.

Remuneration for members of the Supervisory Board in their function as employees amounted to €264 thousand (previous year: €275 thousand) during the year under review.

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

33. EARNINGS PER SHARE

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

In the reporting period, outstanding shares are weighted on a pro-rata basis for the period in which they are in circulation. The number of outstanding shares fluctuates as follows on the basis of the outlined share buyback programme:

€'000		2016	2015
Outstanding shares	as at 1 January	18,510,000	18,510,000
Shares sold during the year		0	0
Outstanding shares	as at 31 December	18,510,000	18,510,000
Consolidated net profit for the year (€'000)		410	7,921
Weighted average of outstanding shares	as at 31 December	18,510,000	18,510,000
Basic earnings per share	€	0.02	0.43
Diluted earnings per share	€	0.02	0.43

There were no dilutive effects in the reporting periods shown.

Up to the date on which these consolidated financial statements were prepared, the Executive Board had not proposed a dividend distribution.

34. LITIGATION AND CLAIMS FOR DAMAGES

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

35. AUDITORS' FEES

Fees amounting in total to € 383 thousand (prior year € 407 thousand) were incurred in financial year 2016 for services provided by the auditor within the meaning of § 318 HGB:

€'000	2016	2015
Audit services	211	235
Other certification services	81	53
Tax advisory services	68	119
Other services	23	0
Total	**383**	**407**

36. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no further matters arising after the end of the financial year up to the date of preparation of the consolidated financial statements that have a material effect on the financial position, cash flows and financial performance of the Company for financial year 2016.

37. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

On 11 May 2016, the Executive Board and the Supervisory Board of Adler Modemärkte AG jointly issued the Declaration of Conformity with the recommendations of the German Corporate Governance Code as amended on 5 May 2015 in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, "AktG"). The form and content of the Declaration of Conformity is permanently available to shareholders on the Company's website at *http://www.adlermode-unternehmen.com/en/investor-relations/corporate-governance/*.

38. EXECUTIVE BODIES OF THE COMPANY

The following persons exercised an executive board function in financial year 2016 and up to the date of preparation of the financial statements:

Lothar Schäfer, *Villmar, Germany*, Chairman of the Executive Board, Executive Board member for Strategy, Merger & Acquisition, Purchasing, Marketing, Sales, E-Commerce, Store Expansion and Public Relations

Karsten Odemann, *Bad Tölz, Germany,* Executive Board member and Labour Director, Executive Board member for Finance, Controlling, Audits, Human Resources, Legal, IT, Logistics, Technical Purchasing, and Investor Relations

The members of the Supervisory Board of Adler Modemärkte AG in financial year 2016 were as follows:

Massimiliano Monti [1*, 2, 3*, 4*] *Lugano, Switzerland,* Chairman of the Supervisory Board (since 3 May 2016), partner at Equinox S.A., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

Majed Abu-Zarur [1, 2, 4] *Viernheim*, *Germany,* Deputy Chairman of the Supervisory Board (since 20 October 2016), Chairman of the Joint Works Council at Adler Modemärkte AG

Dott. Michele Puller, *Bergkamen*, *Germany,* former Chairman of the Supervisory Board (until 3 May 2016), Chairman of the Executive Board of Steilmann Holding AG i.l., Chairman of the Executive Board of Steilmann SE i.l., other supervisory board positions and comparable memberships: Chairman of the Advisory Board of S&E Kapital GmbH, Member of the Advisory Board of Borussia Dortmund Geschäftsführungs-GmbH, Member of the Council of Economic Affairs of BV. Borussia 09 e.V. Dortmund

Martina Zimlich, *Hausen*, *Germany,* former Deputy Chairwoman of the Supervisory Board, Chairwoman of the Joint Works Council at Adler Modemärkte AG, (member of the Supervisory Board until 30 July 2016)

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

Cosimo Carbonelli D'Angelo [1, 4] *Sorengo, Switzerland,* Chairman of the Managing Board of G.&C. Holding S.r.l., other supervisory board positions and comparable memberships: Member of the Advisory Board of S&E Kapital GmbH

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

Frank König, *Berlin*, *Germany,* Staff Member Information Desk and Cash Desk at Adler Modemärkte AG (Supervisory Board member since 30 July 2016)

Peter König [1, 2] *Rottendorf*, *Germany,* secretary of the national executive board of the ver.di union, other supervisory board positions and comparable memberships: BayWa AG

Georg Linder [1, 2, 4] *Hösbach*, *Germany,* Divisional Head of Procurement Planning and Merchandise Management at Adler Modemärkte AG

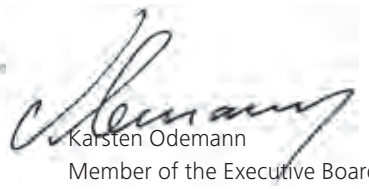
Giorgio Mercogliano, *Montagnola – Lugano, Switzerland,* partner at Equinox S.A., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

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

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

*(Last amended: 31 Dec. 2016) Memberships in: [1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee *Chairman of the Committee*

Haibach, 6 March 2017



Lothar Schäfer
Chairman of the Executive Board

Karsten Odemann
Member of the Executive Board

RESPONSIBILITY STATEMENT

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

Haibach, 6 March 2017

Lothar Schäfer
Chairman of the Executive Board

Karsten Odemann
Member of the Executive Board

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Adler Modemärkte AG, Haibach, Germany – consisting of the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements –, and the Group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as adopted in the EU and the supplementary provisions of German commercial law required to be applied under § 315a (1) of the German Commercial Code (Handelsgesetzbuch, "HGB") is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements or violations materially affecting the presentation of the financial position, cash flows and financial performance in the consolidated financial statements in accordance with the relevant financial reporting standards and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the group of consolidated companies, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as the evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under § 315a (1) HGB and give a true and fair view of the financial position, cash flows and financial performance of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with the statutory provisions, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 6 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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FINANCIAL CALENDAR

16 March 2017	2016 Annual Report
11 May 2017	Report on the first quarter of 2017
24 May 2017	2017 Annual General Meeting
3 August 2017	Report on the first half of 2017
9 November 2017	Report on the first nine months of 2017

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