REPORT ON THE FIRST QUARTER OF 2017

1 JANUARY – 31 MARCH

ADLER
ALLES PASST

KEY FIGURES

		Q1 2017	Q1 2016	Change absolute	Change relative
Income statement					
Revenue	**€ million**	**108.7**	**105.3**	**3.4**	**3.2 %**
EBITDA	**€ million**	**–12.5**	**–16.6**	**4.1**	**24.7 %**
EBITDA margin		–11.5 %	–15.8 %	4.3 pp	
EBIT	**€ million**	**–16.7**	**–20.6**	**3.9**	**18.9 %**
EBIT margin		–15.4 %	–19.6 %	4.2 pp	
Consolidated net loss	**€ million**	**–13.2**	**–15.0**	**1.8**	**12.0 %**
Per-share figures					
Earnings per share	€	–0.71	–0.81	0.10	12.3 %

		31/3/2017	31/12/2016	Change absolute	Change relative
Financial position					
Total assets	€ million	238.7	222.6	16.1	7.2 %
Equity	€ million	82.7	95.8	–13.1	–13.7 %
Equity ratio		34.6 %	43.1 %	–8.4 pp	
Debt/equity ratio		1.89	1.32		

		Q1 2017	Q1 2016	Change absolute	Change relative
Cash flows					
Cash flows from operating activities (net)	€ million	–11.8	–24.9	13.1	52.6 %
Cash flows from investing activities	€ million	7.4	–3.3	10.7	324.2 %
Free cash flow	€ million	–4.4	–28.1	23.7	84.3 %
Employees					
Employees as at 31 March	Number	3,814	4,160	–346	–8.3 %
Stores					
Stores as at 31 March	Number	183	178	5	2.8 %

FINANCIAL CALENDAR

24 May 2017	Annual General Meeting
3 August 2017	Report on the first half of 2017
9 November 2017	Report on the third quarter of 2017
27 – 29 November 2017	German Equity Forum, Frankfurt

INTERIM GROUP MANAGEMENT REPORT AS AT 31 MARCH 2017

KEY FACTS

- Overall sector outperformed: Total revenue increases by 3.2 % in the first three months of 2017 (like-for-like revenue up 1.5 %)
- Working capital reduced by 15 % year on year thanks to improved cash flow management
- Non-recurring effect from sale of real estate bolsters cash flows from investing activities
- Positive outlook for 2017 confirmed

ECONOMIC SITUATION & BUSINESS DEVELOPMENT

The most important market for the ADLER Group is Germany, where ADLER operated 156 of its 183 stores overall as at the end of the reporting period.

In spite of a large number of uncertainties caused by the international political environment, the German economy proved robust and continued its upwards trend in the first quarter of 2017. According to the German Institute for Economic Research (*Deutsches Institut für Wirtschaftsforschung*, "DIW Berlin") both the industrial sector and the service sector performed positively: the DIW expects Germany's gross domestic product to grow by 0.6 % over the first three months of the year. It forecasts a further increase for 2017 as a whole, with current estimates ranging from 1.4 % (DIW Berlin) to 1.8 % (Organisation for Economic Cooperation and Development, OECD).

ADLER operates 22 stores in Austria. The Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung* – "WIFO") forecasts strong GDP growth there as well during the year. Leading indicators show clear signs of a continued economic upturn. For 2017, WIFO expects 2.0 % growth; the National Bank of Austria is more conservative in its estimate, at 1.5 %. Luxembourg (three stores) and Switzerland (two stores) are thus far only of secondary importance for the ADLER Group's performance. Economic growth is expected to amount to 4.2 % in Luxembourg in 2017 and 1.6 % in Switzerland.

THE ENVIRONMENT FOR THE GERMAN TEXTILE RETAIL INDUSTRY

As often observed in the past, the results of the TW-Testclub survey in the first quarter of 2017 again revealed that the general consumer sentiment of German consumers is not automatically reflected in the revenues generated by the textiles retail sector: in January, which saw very good consumer sentiment according to the market research institute GfK, brick-and-mortar textile retailers recorded losses of 7 % as compared to the previous year, which had already been extremely weak (–4 %). Revenues were also disappointing in February, which saw a decline by 9 % (2016: +3 %). The beginning of 2017 thus represented "the worst first two months of a year since 2002" (TextilWirtschaft 14/2017). Only after the weather became warm and sunny in March did customers have a desire for new clothes: revenues increased by 9 % – even though the general consumer sentiment had dwindled since the beginning of the year. However, the high growth figures must be seen in the context of the previous year's poor showing (–6 %) and in light of the fact that there were two additional sales days in March 2017 as compared to the previous year (27 vs. 25). Overall, revenues for brick-and-mortar textiles retailers in the first quarter of the year were down by 2 % as compared to Q1 2016.

DEVELOPMENT AND ANALYSIS OF REVENUE

For ADLER, the period from January to March is traditionally the weakest quarter due to the sell-off of winter merchandise. Following an initially restrained start into the new year, ADLER was able to maintain the positive trend recorded in the fourth quarter of 2016, generating growth in the first three months of 2017. Thanks to a dynamic business performance in March, ADLER increased its like-for-like revenue by 1.5 % as compared to the same quarter of the previous year, thus clearly beating the general industry trend. For instance, the industry magazine TextilWirtschaft reported a 2.0 % decline in revenues for German textiles retailers in the first quarter of 2017.

Adler Modemärkte AG's total revenue in accordance with IFRSs increased as at 31 March 2017 by 3.2 % year on year to € 108.7 million (Q1 2016: € 105.3 million).

No stores were opened or closed in the reporting period. As at 31 March 2017, the total number of ADLER stores amounted to 183 (31 March 2016: 178). 156 stores were located in Germany, with 22 in Austria, three in Luxembourg, and two in Switzerland.

FINANCIAL PERFORMANCE

The ADLER Group's cost of materials increased less markedly than its revenue, by 2.1 % from € 54.9 million to € 56.0 million. As a result, gross profit improved from € 50.5 million to € 52.7 million. The gross profit on goods sold increased accordingly, from 47.9 % to 48.5 %.

In the first quarter 2017, personnel expenses amounted to € 24.3 million, 7.7 % below the € 26.3 million recognised in the previous year. This decline was due primarily to the lower number of employees as compared to in the first quarter of 2016. The costs for personnel restructuring measures exceeded the prior-year figure slightly by € 0.1 million.

Other operating expenses in the first three months of 2017 were virtually at the same level as in the previous year at € 42.4 million. Marketing expenses remained stable at € 12.1 million and expenses for maintenance and modernisation measures were comparable to in the first quarter of 2016 at € 3.3 million. By contrast, rents increased slightly by € 0.2 million, as the sales network included five additional stores in the reporting period.

EBITDA improved significantly from € – 16.6 million in the previous year to € – 12.5 million in Q1 2017. Since depreciation, amortisation and write-downs amounted to € 4.2 million, and were thus only slightly higher than in the prior-year period (€ 4.1 million), earnings before interest and taxes (EBIT) also increased significantly from € – 20.6 million in 2016 to € – 16.7 million. The net finance costs amounted to € 1.4 million and were thus on a level with the prior-year figure of € 1.3 million.

Earnings before taxes (EBT) increased from € – 21.9 million to € – 18.0 million in the first three months of 2017. ADLER reported a seasonally typical consolidated net loss of € 13.2 million for the first quarter 2017 (Q1 2016: consolidated net loss of € 15.0 million).

The adjusted earnings per share amounted to € – 0.71 (based on 18,510,000 no-par value shares). Earnings per share totalled € – 0.81 in the same period of the previous year.

FINANCIAL POSITION & CASH FLOWS

The ADLER Group's total assets amounted to €238.7 million as at 31 March 2017; this represents a €16.2 million increase compared with total assets as at 31 December 2016 (€222.6 million).

At €6.5 million, intangible assets as at 31 March 2017 were at the same level as in the previous year. Property, plant and equipment increased during the first three months of the year from €78.1 million to €82.1 million. The primarily reason for this increase was in connection to a reclassification of the lease agreement for the store in Strassen, Luxembourg, from an operating to a financing lease amounting to €5.7 million.

The increase in inventories by 15.5% to €87.1 million was due mainly to the procurement of spring and summer merchandise (31 December 2016: €75.4 million). In a quarter-by-quarter comparison, the positive effects from the improvement in merchandise management and sell-offs were evident: Inventories had amounted to €99.7 million as at 31 March 2016, 12.6% higher than the figure as at 31 March 2017.

The systematic focus on optimising cash flow management resulted in a significant year-on-year reduction in the cash outflow typically seen in the first quarter: cash and cash equivalents decreased by €7.4 million as compared to the end of 2016 to €35.4 million. In the same quarter of the previous year, that decrease had amounted to €31 million. In addition to greater revenue and a smaller consolidated net loss than the one recorded in the first quarter of 2016, earnings were improved also as a result of prepayments received in the amount of €12 million (including taxes) for two buildings in Austria. The procurement of spring and summer merchandise, the consolidated net loss for the period and a prepayment of € 1.5 million (including taxes) paid for a building in Klagenfurt reduced earnings.

On the liabilities side, equity as at 31 March 2017 declined from €95.8 million to €82.7 million. This development was attributable primarily to the consolidated net loss for the period, which is typically seen in the first quarter. While total assets increased, the equity ratio decreased from 43.0% as at 31 December 2016 to 34.6% as at 31 March 2017.

Finance lease obligations increased from €52.2 million as at 31 December 2016 to €56.0 million as at 31 March 2017. The primary reason for this was the reclassification of the lease for the store in Strassen, Luxembourg, from an operating lease to a financing lease.

Trade payables rose to €38.6 million as at 31 March 2017 due to seasonal factors, compared to €25.3 million as at 31 December 2016.

Other short- and long-term provisions declined from €5.7 million as at the end of financial year 2016 to €5.1 million as at 31 March 2017. Financial liabilities rose from €13.5 million to €14.6 million.

As previously at the end of financial year 2016, ADLER continued to have no income tax liabilities. The debt/equity ratio increased from 1.32 as at 31 December 2016 to 1.89 as at 31 March 2017.

ADLER's working capital (inventories plus trade receivables less trade payables) is based on the retail business mainly from inventories less accounts payable to suppliers. The improvement in cash flow management made it possible to reduce working capital from €50.7 million as at 31 December 2016 to €48.8 million as at 31 March 2017 despite higher inventories due to seasonal factors. At the reporting date for the first quarter of 2016, this figure had amounted to €57.5 million.

CASH FLOW & CASH FLOW MANAGEMENT

The optimisation of cash flow management is reflected clearly in the cash outflow from operating activities. In the first three months of 2017, this amounted to € 11.8 million, as compared to € 24.9 million in the previous year.

Cash inflows from investing activities amounted to € 7.4 million (Q1 2016: cash outflow of € 3.3 million). The positive figure was attributable primarily to an optimisation of the real estate portfolio, during which ADLER sold off two buildings in St. Pölten and Klagenfurt. This resulted in a € 12 million inflow to the Company from prepayments (incl. taxes). The building in Klagenfurt was initially bought out from a lease agreement set to expire in 2017, which was immediately sold off. The prepayment made for the purchase amounted to € 1.5 million (incl. taxes) and had an opposing effect on cash flow.

At € – 4.4 million, free cash flow was significantly higher than the prior-year figure (Q1 2016: € – 28.1 million).

Net cash flows from financing activities amounted to € – 3.0 million in the first three months of 2017 (Q1 2016: € – 2.8 million) and primarily include payments in relation to finance lease liabilities.

Overall, cash in decreased by a total of € 7.4 million in the first three months of 2017, which was significantly less than in the same period of the previous year (€ 31.0 million decrease).

INVESTMENT

The ADLER Group's investments totalled € 2.6 million in the first three months of 2017 (Q1 2016: € 2.8 million), including the € 1.3 million down payment for the building in Klagenfurt.

€ 2.0 million (Q1 2016: € 2.4 million) was attributable to property, plant and equipment (operating and office equipment) and € 0.6 million (Q1 2016: € 0.8 million) to intangible assets.

EMPLOYEES

As part of the efficiency enhancement programme launched in 2016, ADLER had already initiated and implemented comprehensive measures to optimise processes at the stores and at HQ. This resulted in a reduction of the employee headcount to a total of 3,814 as at the reporting date, or approximately 8.3 % fewer than in the same period of the previous year (31 March 2016: 4,160). The number of FTEs amounted to 2,517.5 as compared to 2,817.3 one year ago, representing a 10.6 % decrease. Accordingly, personnel expenses also decreased significantly during the first quarter by 7.7 % or € 2.0 million (31 March 2016: € 26.3 million).

As a company that takes on trainees, ADLER traditionally also assumes social responsibility for young people. The Company employed a total of 315 trainees and interns (across all apprenticeship years) as at 31 March 2017 (31 March 2016: 359). This corresponds to a 12.2 % decrease as compared to the prior-year figure.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

There were no significant events during the reporting period.

RISK REPORT

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

We have detailed the specific risks and opportunities that could have material long-term effects on our financial position, financial performance or cash flows, as well as the structure of ADLER's risk management system; see pages 62 to 66 of our report on the 2016 financial year.

REPORT ON EXPECTED DEVELOPMENTS & OVERALL ASSERTION

ADLER confirms the forecast for the current year, as given in the 2016 Annual Report. 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). It is expected that revenue generated by the online shop will 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.

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 10 April 2017, Adler Modemärkte AG announced that Lothar Schäfer would be leaving the Executive Board of the Company with effect from 30 April 2017. At the same time, it was announced that the Supervisory Board had appointed Andrew Thorndike to serve on the Executive Board for a five-year term to commence on 1 May 2017. Mr Thorndike will assume the role of Chief Operating Officer. The Supervisory Board intends to appoint a further member of the Executive Board to serve as its Chairman. Until that time, the currently serving members of the Executive Board, Karsten Odemann and Andrew Thorndike, would lead the Company jointly.

Adler Modemärkte GmbH, Austria, sold two buildings in Klagenfurt and St. Pölten with effect from 1 April 2017. The transaction will enable ADLER to meet its projections announced at the beginning of the year by placing continued focus on investment restraint and cash flow management. While the building in St. Pölten had been owned by the Company since 2015, the building in Klagenfurt was bought out from the real estate portfolio which was under a lease that is set to expire on 30 April 2017, and then sold off directly. The proceeds of the sale of the two buildings amount to approximately € 9 million. The liquidity generated through that sale will enable ADLER to acquire the three remaining buildings (in Ansfelden, Salzburg and Vösendorf) contained in the lease which is set to expire. The plan is to sell these properties to a strategic investor in a further step, which will enable ADLER to keep the stores which are successfully in operation at the respective locations.

As part of the transaction, a 10-year lease agreement with favourable terms was agreed for ADLER, which will enable it to continue to operate a part of the building in St. Pölten, which has been used previously as an ADLER store. The sold building in Klagenfurt has not been used as an ADLER store thus far, and there is no intention for it to operate as such in the future. Rather, the existing shop will continue to be operated in a different building in Klagenfurt, independently of the transaction.

ADLER received an inflow of approximately € 10 million from the transactions, part of which will be recognised in the second quarter as an extraordinary positive effect on ADLER's earnings.

Aside from this, there were no further material events after the end of the reporting period which might affect the ADLER Group's financial position, cash flows and financial performance.

ADLER'S SHARE PRICE PERFORMANCE

ADLER shares got off to a dynamic start into the new trading year, posting some significant – in some cases, double-digit – gains over its price of €4.71 as at 30 December 2016. Shares were clearly up on the price as at the end of 2016 until the middle of February, before falling back to their initial level. They trended sideways at around €4.70 for four weeks, followed by a new upwards trend at the middle of March. The shares closed trading at €5.22 on 31 March, a gain of around 10.8%. Thus, ADLER shares outperformed the benchmark indices DAX and SDAX, which saw improvements in the first quarter of 7.2% and 6.0%, respectively.

Adler Modemärkte AG's Executive Board continued its proactive and candid dialogue with investors, analysts and business media in the reporting period and presented at capital market conferences in Lyon and Frankfurt. In addition, the management was available for one-on-one meetings.

Eight research firms are currently monitoring and analysing ADLER shares on a regular basis.

CONSOLIDATED FINANCIAL STATEMENT AS AT 31 MARCH 2017

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2017

€'000	1/1 – 31/3/2017	1/1 – 31/3/2016
Revenue	**108,720**	**105,322**
Other operating income	1,548	1,777
Cost of materials	–56,004	–54,875
Personnel expenses	–24,303	–26,327
Other operating expenses	–42,415	–42,473
EBITDA	**–12,455**	**–16,575**
Depreciation, amortisation and write-downs	–4,197	–4,065
EBIT	**–16,652**	**–20,640**
Other interest and similar income	5	10
Interest and similar expenses	–1,357	–1,268
Net finance costs	**–1,352**	**–1,258**
Net income from operations	**–18,004**	**–21,898**
Income taxes	4,819	6,862
Consolidated net loss for the period	**–13,186**	**–15,036**
of which attributable to shareholders of Adler Modemärkte AG	**–13,186**	**–15,036**
Earnings per share* (continuing operations)		
Basic in EUR	–0.71	–0.81
Diluted in EUR	–0.71	–0.81

* *Earnings per share were calculated on the basis of the weighted average of existing shares in the period from 1 January 2017 to 31 March 2017 in the amount of 18,510,000 shares. 18,510,000 shares were also taken into account in the prior-year period from 1 January 2016 to 31 March 2016.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY TO 31 MARCH 2017

€'000	1/1 – 31/3/2017	1/1 – 31/3/2016
Consolidated net loss for the period	**–13,186**	**–15,036**
Currency translation gains from foreign subsidiaries	–8	9
Remeasurement of defined benefit pension entitlements and similar obligations	0	0
Deferred taxes	0	0
Items that will not be recycled to the income statement going forward	**–8**	**9**
Change in fair value of available-for-sale financial instruments	6	–1
Deferred taxes	0	0
Items that may subsequently be recycled to the income statement	**6**	**–1**
Other comprehensive income	**–2**	**8**
Consolidated total comprehensive income	**–13,188**	**–15,028**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

ASSETS (€'000)	31/3/2017	31/12/2016
Non-current assets		
Intangible assets	6,483	6,476
Property, plant and equipment	82,096	78,136
Investment property	413	413
Other non-current receivables and assets	421	439
Deferred tax assets	14,918	10,046
Total non-current assets	**104,331**	**95,510**
Current assets		
Inventories	87,055	75,399
Trade receivables	400	582
Other receivables and other assets	11,283	8,034
Available-for-sale financial assets	283	277
Cash and cash equivalents	35,376	42,773
Total current assets	**134,397**	**127,065**
TOTAL ASSETS	**238,728**	**222,575**

EQUITY AND LIABILITIES (€'000)	31/3/2017	31/12/2016
EQUITY		
Subscribed capital	18,510	18,510
Capital reserves	127,408	127,408
Accumulated other comprehensive income	−2,338	−2,336
Net accumulated losses	−60,929	−47,743
Total equity	**82,651**	**95,839**
LIABILITIES		
Non-current liabilities		
Provisions for pensions and similar obligations	5,725	5,816
Other non-current provisions	1,241	1,236
Non-current financial liabilities	2,505	2,581
Non-current finance lease obligations	50,455	46,331
Other non-current liabilities	4,485	4,654
Deferred tax liabilities	97	91
Total non-current liabilities	**64,508**	**60,709**
Current liabilities		
Other current provisions	3,849	4,463
Current financial liabilities	12,078	10,938
Current finance lease obligations	5,557	5,823
Trade payables	38,618	25,261
Other current liabilities	31,418	19,479
Current income tax liabilities	49	63
Total current liabilities	**91,570**	**66,027**
Total liabilities	**156,078**	**126,736**
TOTAL EQUITY and LIABILITIES	**238,728**	**222,575**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2017

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Net accumulated losses	Total equity
€'000			Securities	Currency translation	Other changes*		
As at 1/1/2017	**18,510**	**127,408**	**14**	**−159**	**−2,191**	**−47,743**	**95,839**
Dividend payment	0	0	0	0	0	0	0
Consolidated net loss for the period	0	0	0	0	0	−13,186	−13,186
Other comprehensive income	0	0	6	−8	0	0	−2
Consolidated total comprehensive income	0	0	6	−8	0	−13,186	−13,188
As at 31/3/2017	**18,510**	**127,408**	**20**	**−167**	**−2,191**	**−60,929**	**82,651**

* *Other changes relate to actuarial gains and losses.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2016

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Net accumulated losses	Total equity
€'000			Securities	Currency translation	Other changes*		
As at 1/1/2016	**18,510**	**127,408**	**19**	**−134**	**−2,048**	**−38,899**	**104,856**
Dividend payment	0	0	0	0	0	0	0
Consolidated net loss for the period	0	0	0	0	0	−15,036	−15,036
Other comprehensive income	0	0	−1	9	0	0	8
Consolidated total comprehensive income	0	0	−1	9	0	−15,036	−15,028
As at 31/3/2016	**18,510**	**127,408**	**18**	**−125**	**−2,048**	**−53,935**	**89,828**

* *Other changes relate to actuarial gains and losses.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2017

€'000	1/1 – 31/3/2017	1/1 – 31/3/2016
Consolidated net loss for the period before taxes	**–18,004**	**–21,898**
Depreciation (+) of property, plant and equipment and amortisation of intangible assets	4,197	4,065
Increase (+)/decrease (–) in pension provisions	–91	–71
Gains (–)/losses (+) from the sale of non-current assets	–2	137
Gains (–)/losses (+) from currency translation	–12	10
Other non-cash expenses (+)/income (–)	2,623	4,395
Net interest income	1,352	1,258
Interest income	5	10
Interest expense	–122	–67
Income taxes paid	–813	–1,933
Increase (–)/decrease (+) in inventories	–14,201	–22,695
Increase (–)/decrease (+) of trade receivables and other receivables	–4,253	–2,449
Increase (+)/decrease (–) of trade payables, other liabilities and other provisions	15,647	11,437
Increase (+)/decrease (–) in other items of the statement of financial position	1,876	2,948
Cash from (+)/used (–) in operating activities (net cash flow)	**–11,798**	**–24,855**
Payments received/Proceeds from disposals of non-current assets	10,016	13
Prepayments/Payments for investments in non-current assets	–2,607	–3,272
Cash from (+)/used (–) in investing activities	**7,409**	**–3,259**
Free cash flow	**–4,389**	**–28,114**
Payments (–) in connection with the repayment of loan liabilities	–78	–78
Payments in connection with finance lease liabilities	–2,929	–2,764
Cash from (+)/used (–) in financing activities	**–3,008**	**–2,842**
Net decrease (–)/increase (+) in cash and cash equivalents	**–7,397**	**–30,957**
Cash and cash equivalents at beginning of period	42,773	52,076
Cash and cash equivalents at end of period	35,376	21,119
Net decrease (–)/increase (+) in cash	**–7,397**	**–30,957**

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2017

I. PRELIMINARY REMARKS

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

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

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

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

S&E Kapital GmbH, 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 interim financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. Accordingly, these consolidated interim financial

statements as at 31 March 2017 were prepared in accordance with IAS 34 "Interim Financial Reporting". Depreciation and amortisation, additions to provisions for pensions and interest payments are recognised as an expense in the period to which they relate during the year. Income and expenses in connection with taxes on income were determined on the basis of actual tax calculations.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 March 2017. There was no early adoption of standards whose application had not yet become mandatory as at 31 March 2017.

The notes to the 2016 consolidated financial statements apply accordingly in particular with respect to the significant accounting policies adopted.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

The consolidated financial statements include Adler Modemärkte AG as well as four German and 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, 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).

III. OTHER NOTES

1. SEASONAL EFFECTS

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

2. EARNINGS PER SHARE

There were 18,510,000 existing shares during the period under review. The weighted average of existing shares amounted to 18,510,000 shares (Q1 2016: 18,510,000 shares).

Earnings per share amounted to €–0.71 (Q1 2016: €–0.81).

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

IV. 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.

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

31/3/2017 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	108,640	80	108,720
EBITDA	–15,418	2,963	–12,455

31/3/2016 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	105,237	84	105,322
EBITDA	–18,562	1,987	–16,575

The reconciliation contains differences from various account allocations for internal control purposes and differences arising between national accounting standards and IFRSs. Where revenue is concerned, these differences relate primarily to customer discounts, while the differences relating to revenue from trading stem from logistics services and differences relating to total costs stem from differences in the accounting treatment for leases and pension provisions under HGB and IFRSs.

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

	31/3/2017			31/12/2016		
€'000	Germany	Inter-national	Group	Germany	Inter-national	Group
Non-current assets	74,648	14,345	88,993	76,959	8,067	85,025

V. RELATED PARTY DISCLOSURES

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

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

The following transactions were entered into with related parties:
Services were purchased from the Steilmann Group mainly by NTS Holding Ltd., Hong Kong, for € 9.1 million (Q1 2016: € 13.2 million). No goods, services and non-current assets were sold to related parties of the Steilmann Group (Q1 2016: € 117 thousand). There were no receivables from the Steilmann Group (Q1 2016: € 20 thousand). Trade payables/services to related parties of the Steilmann Group amounted to € 3.9 million, primarily in connection with the operating business with NTS Holding Ltd., Hong Kong (Q1 2016: € 5.5 million).

As in the previous year, goods in the amount of € 87 thousand were procured from G&C Enterprise S.p.a., Naples, Italy, and Elan PVT Limited, Hong Kong, in the reporting period. These companies are associated with a member of the Supervisory Board and are therefore treated as related parties in accordance with IAS 24. The outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods amounted to € 22 thousand as at the reporting date (Q1 2016: € 0 thousand).

Family members of individuals in key positions provided services to the ADLER Group in the amount of € 0 thousand (Q1 2016: € 0 thousand). A member of the Executive Board was billed rent amounting to € 0.5 thousand.

Remuneration for members of the Supervisory Board in their function as employees amounted to € 61 thousand (Q1 2016: € 63 thousand) during the reporting period.

No stock appreciation rights (SARs) were issued during the reporting period (previous year: 50,000 SARs). The non-current provision has been reversed (31 December 2016: € 55 thousand).

For information relating to the remuneration of the Executive Board, please refer to the details given in the consolidated financial statements as at 31 December 2016.

Haibach, 5 May 2017

Karsten Odemann
Member of the Executive Board

Andrew Thorndike
Member of the Executive Board

Adler Modemärkte AG
Industriestraße Ost 1 – 7
63808 Haibach, Germany
Phone: +49 (0) 6021 633-0
www.adlermode-unternehmen.com