# ADLER

ALLES PASST

ANNUAL REPORT 2011

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This English version of the annual report is a translation of the original German version. Sole authoritative and universally valid version is the original German language document.

# KEYFIGURES

| Income statement | | 2011 | 2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| **Revenue** | **€ million** | **476.6** | **444.8** | **31.8** | **7.1%** |
| Material expenses | € million | -231.0 | -210.4 | -20.6 | 9.8% |
| **Gross profit** | **€ million** | **245.6** | **234.4** | **11.2** | **4.8%** |
| Gross profit margin | % | 51.5% | 52.7% | -1.2% | -2.2% |
| **EBITDA** | **€ million** | **30.7** | **37.8** | **-7.1** | **-18.8%** |
| EBITDA margin | % | 6.5% | 8.5% | -2.1% | -24.2% |
| Depreciation | € million | -13.9 | -13.6 | -0.3 | 2.7% |
| Impairment | € million | -0.9 | 0.0 | -0.9 | |
| **EBIT** | **€ million** | **15.9** | **24.3** | **-8.4** | **-34.6%** |
| EBIT margin | % | 3.3% | 5.5% | -2.1% | -38.9% |
| **Net income from operations** | **€ million** | **12.7** | **23.7** | **-11.0** | **-46.4%** |
| Income taxes | € million | -4.4 | 4.8 | -9.2 | -191.7% |
| Net income from continuing operations | € million | 8.3 | 28.5 | -20.2 | -70.9% |
| Net income from discontinued operations | € million | 0.0 | -1.1 | 1.1 | |
| **Consolidated profit for the year** | **€ million** | **8.3** | **27.4** | **-19.2** | **-69.9%** |

| Earnings per share | | 2011 | 2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| Earings per share | € | 0.47 | 1.62 | -1.15 | -71.0% |

| Net assets | | 12/31/2011 | 12/31/2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| Total assets | € million | 187.1 | 162.7 | 24.4 | 15.0% |
| Non-current assets | € million | 66.4 | 67.5 | -1.1 | -1.6% |
| Current assets (without cash and cash equivalents) | € million | 80.7 | 62.3 | 18.4 | 29.5% |
| Inventories | € million | 73.5 | 56.7 | 16.8 | 29.6% |
| Cash and cash equivalents | € million | 40.0 | 33.0 | 7.0 | 21.2% |
| Equity | € million | 74.6 | 41.2 | 33.4 | 81.1% |
| Equity ratio | % | 39.9% | 25.3% | | |
| Non-current liabilities | € million | 38.2 | 47.2 | -9.0 | -19.1% |
| Current liabilities | € million | 74.4 | 74.4 | 0.0 | 0.0% |
| Debt equity ratio | | 1.51 | 2.95 | | |

| Financial position | | 2011 | 2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| Net cash flows from operating activities | € million | 8.8 | 25.8 | -17.0 | -65.9% |
| Net cash flows from investing activities | € million | -13.2 | -16.8 | 3.5 | -21.4% |
| Free cash flow | € million | -4.4 | 9.0 | -13.4 | -148.9% |

| Employees | | 12/31/2011 | 12/31/2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| Number of employees as of December 31 | number | 4,404 | 4,141 | 263 | 6.4% |
| Personnel expenses | € million | 78.1 | 75.0 | 3.1 | 4.1% |

| Stores by country | | 12/31/2011 | 12/31/2010 | Change absolute | Change relative |
|---|---|---|---|---|---|
| Total number of stores | number | 163 | 135 | 28 | 20.7% |
| of which in Germany | | 133 | 107 | 26 | 24.3% |
| of which in Austria | | 28 | 26 | 2 | 7.7% |
| of which in Luxembourg | | 2 | 2 | 0 | 0.0% |

# HIGHLIGHTS2011

## FINANCIALS

+ Net sales up +7.1% to € 476.6 million in 2011
+ Prices increase of 11.3% penetrated
+ Cost-efficent direct sourcing via MGB up to nearly 41%
+ Winter business fell short of expectations due to warm temperatures and industry-wide discounts
+ Gross profit declined from 52.7% to 51.5%
+ EBITDA of € 30.7 million with 18.8% under the figure of 2010
+ Net profit of € 8.4 million

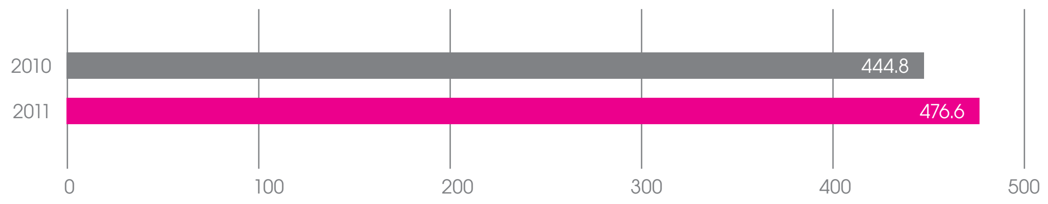
## GROWTH

+ Store expansion with 29 store openings exceed expectations
+ 13 organic store openings
+ Acquisition of 18 Wehmeyer stores, two stores due to strategic reasons resold
+ Net sales of new stores € 38.3 million

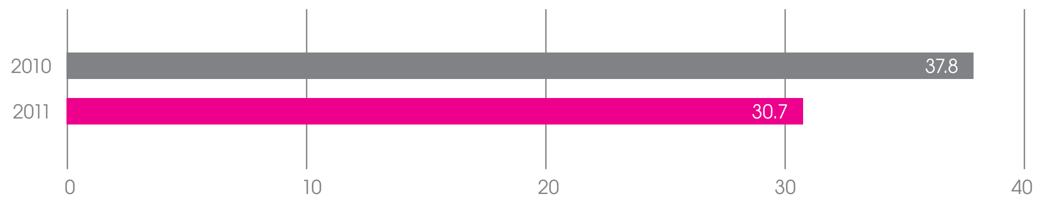
## OUTLOOK 2012

+ Store expansion with app. 20 openings
+ Revenue growth in the upper single-digit to lower double-digit percentage range
+ EBITDA improvement in accordance with revenue growth

**Revenue in € mn.**




**EBITDA in € mn**



# MILESTONES

**1948:**
Foundation of ADLER by Wolfgang Adler

**1970:**
Opening of first store in Haibach

**1974:**
Launch of ADLER customer card

**1981:**
Market launch in Luxembourg

**1982:**
Sale to ASKO Deutsche Kaufhaus AG

**1987:**
Market launch in Austria

**1996:**
Sale of ASKO Deutsche Kaufhaus AG to Metro

**2005-2008:**
Re-design and refurbishment of layout and collections targeting younger and more fashion oriented consumer group

**2009:**
bluO acquires ADLER from Metro
New management team
Successful repositioning of ADLER

**2010:**
15 store openings
Launch of e-shop
Acquisition and integration of Woolworth Austria
Successful materialisation of strategic initiatives

**2011:**
IPO at the stock exchange in Frankfurt on June 22, 2011
Acquisition of 18 Wehmeyer stores on September 30, 2011
163 stores in Germany, Austria und Luxembourg (as of December 31, 2011)

Lothar Schäfer
Chairman of the
Executive Board of
Adler Modemärkte AG

# ADLER **PLUS**

# LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Dear Sir or Madam,

You are holding the first fully valid annual report of Adler Modemärkte AG in your hands. The year 2011 was a historic year for our Company. The strategy introduced in 2009 by the new Management has worked out and produced a good operating profit and the successful initial public offering. ADLER thus set the foundation stone for continued organic growth and expansion as well as the modernisation of its portfolio of existing stores.

On June 22, 2011 the shares of Adler Modemärkte AG were issued at the Frankfurt Stock Exchange under very difficult market conditions. The total amount of € 26.5 million (roughly € 23 million net) which ADLER received from the capital increase following the issue will be invested into further growth. The opening of new fashion stores and the acquisition of chains as well as outlets take priority.

Regarding the expansion of locations ADLER was able to accelerate the growth beyond the originally planned 20 new stores during the past financial year. 29 new fashion stores were opened in Germany and Austria, of which 16 stores stem from the acquisition of the stores from the Wehmeyer Lifestyle GmbH on September 30, 2011.

From both a strategic as well as financial perspective, the acquisition of the Wehmeyer stores is of major importance to ADLER. The positioning of Wehmeyer amongst customers aged 45 and over, however with a younger average age, is the ideal match to ADLER's focus on what are called "Best Agers". With the take-over, ADLER not only gained new customer segments, but in comparison with a conventional new opening of a store by its own means, reduced development costs, investments as well as training input for new staff.

The year 2011 started out perfectly and brought a plus in sales of initially over 10%. However, the textile retail trade was hit during the month of September and especially in the fourth quarter by unfavourable weather conditions and major price reductions by competitors. ADLER was consequently not able to quite achieve its original targets and did not live up to the high expectations.

Still, we were able to positively advance the revenues of Adler Modemärkte AG in 2011. During the year under review, sales rose by 7% compared to the previous year, to around € 476 million. ADLER sees this gratifying operational development as proof that the strategic re-positioning of the Company is on the right course. Amongst others, the overall negative development in the industry had an impact on the profit situation, as a result of which the Earnings before interest, taxes, depreciation and amortization (EBITDA) remained below last year's value even if reaching a solid € 30.6 million.

It is the firm conviction of the Executive Board that our business model is working and holds a promising future. We feel committed towards increasing the shareholder value and continually strive to increase the value of the ADLER share. During the current financial year the Executive Board will further intensify its Investor Relations. Several road shows and analyst meetings are already planned and the Management will participate in investment conferences again. Value-increasing measures for our shares include also the share buyback programme started in January 2012.

The basis for our continued efforts is ADLER's solid positioning as the market leader in the textile retail trade for customers aged 45 and over in the lower medium price bracket. This is where ADLER has clearly positioned itself and enjoys a unique selling proposition. With this focus we intentionally distinguish ourselves from the majority of competitors whose strategy tends to be geared towards a younger clientele. Due to the demographic development, ADLER regards the group of customers 45+ as a growing market segment and intends to serve this significant target group even in future with priority.

In doing so ADLER benefits in regard to the acquisition of new customers from its particular strength of being able to adapt time and again to the specific needs of these consumers. Our brand and product policy, with its perfect fit, high quality claim and reasonably-priced fashionable clothing, targets this very group. And our slogan testifies to just that: ADLER – alles passt.

Our customers thank us for our commitment to this brand philosophy with their loyalty. This is also mirrored in the major success and the large acceptance of the ADLER customer loyalty card, which has been available since 1974. It is one of the oldest and most successful customer cards in Germany. The customer master data often reach back decades and offer the perfect basis for target-group oriented advertising as well as detailed data mining. The customer loyalty card also contributes towards the brand awareness of ADLER amongst the 45+ target group. Our traditional promotional mailings and newspaper inserts are largely known and are a popular read because they are entirely geared towards the customers.

ADLER creates sustainability by way of assuming responsibility and aiming for a long-term direction of its business activities. All decisions are taken to ensure that they lastingly contribute towards the Company's success, while simultaneously taking into consideration the interests of all stakeholders. For this reason ADLER has geared its entire supply chain and product line policy towards durability and quality. In doing so, we contribute substantially towards reducing the demand for raw materials. Moreover, ADLER participates in the "I:CO" project, an initiative which collects used clothes and footwear and professionally recycles these. This is how we contribute towards the preservation of natural resources. Also, ADLER markets products which are Fairtrade certified. The Fairtrade seal acknowledges that recognised social standards are complied with during the production of garments labelled as Fairtrade products. ADLER thus consolidates its positive brand image and establishes a solid, positive reputation for the Company.

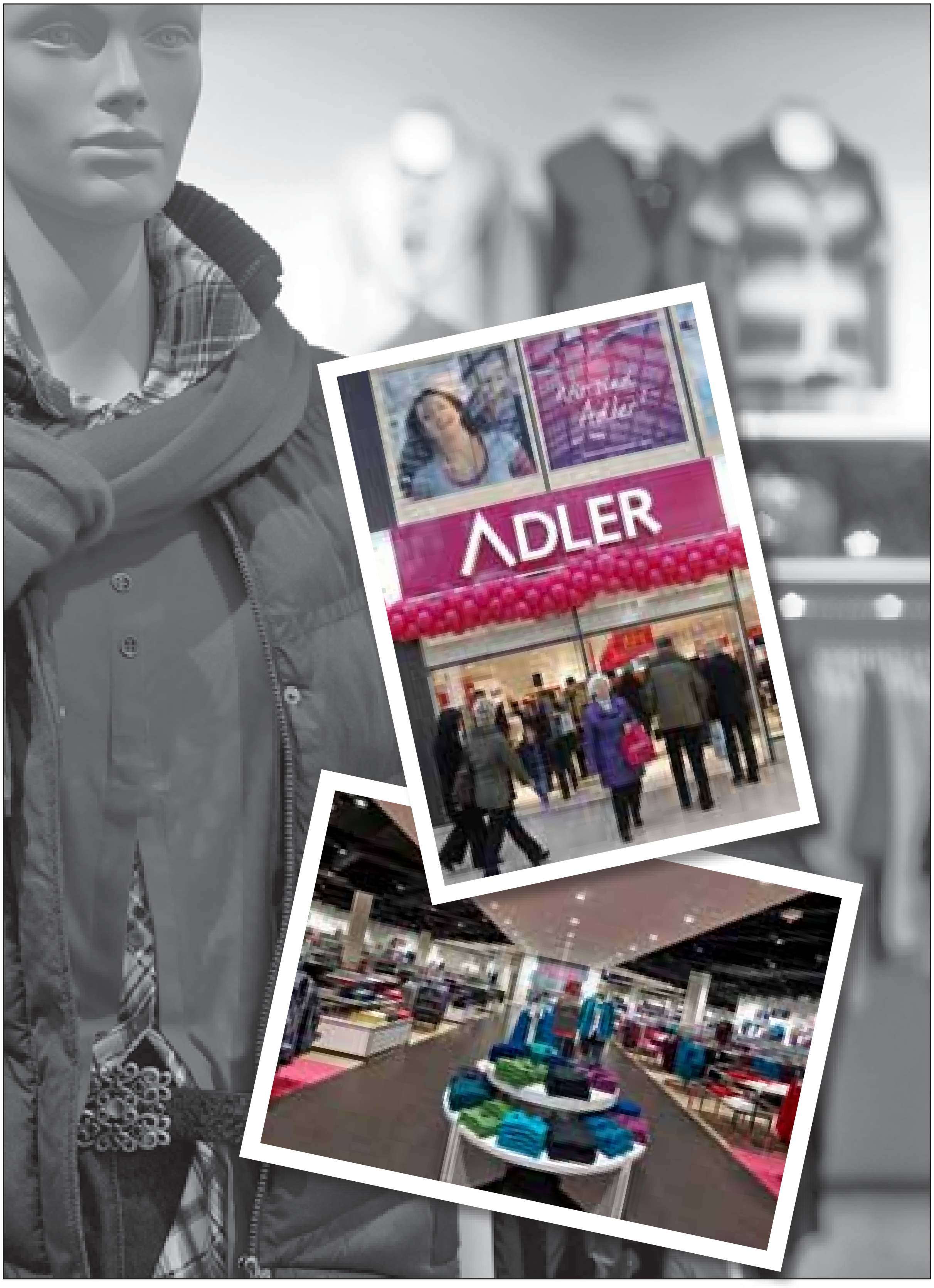
We would like to extend to you, dear shareholders, customers and suppliers, landlords and service providers, our gratitude for placing your trust and your loyalty in us every day. The Executive Board assures you that ADLER will continue to do everything in future to utilise its business potential to the benefit of all stakeholders, to successfully form the future of the Company.

We wish to thank in particular our loyal and committed employees and naturally also our new colleagues from the former Wehmeyer stores. Only with your greatly esteemed support were we able to continuously improve our operational activities and move the Company towards where it stands today.

Best regards,

Lothar Schäfer
Chairman of the Executive Board

Haibach, March 16, 2012


ADLER

# ADLER FASHION STORES

ADLER is customer-focused, offering a both broad and extensive range of womenswear, menswear and underwear. With a supplementing product line of accessories, footwear, children's clothing and babywear, traditional dress and sportswear, ADLER aims to round off its product portfolio and create additional cross-selling potential in its some 163 fashion stores.

The new ADLER store concept is characterised by wider aisles, a sufficient number of spacious changing cubicles and rest areas with seating areas and convenience shops. With an eye to the needs of its main target group, ADLER has also improved how customers navigate its stores. The store design is based on functionality, brightness, cleanliness and a clear layout. Ample customer parking is available at ADLER and its locations are usually easily accessible.

# CORPORATE SOCIAL RESPONSIBILITY, SUSTAINABILITY & ENVIRONMENT

Corporate social responsibility, sustainability and environmental awareness are considered prerequisites to long-term business success at ADLER. Aspects of sustainability are incorporated into all strategic decisions and investment projects.

In addition to this, ADLER always works on improving working conditions and the ethical standards in the global supply chain and assumes social responsibility in this way.

# WELL-KNOWN BRAND AMBASSADORS

ADLER reinforces its promotional activities through brand ambassadors characterised by authentic charisma, a positive attitude to life, social conservatism and a down-to-earth mentality. For example, well-known TV moderator Birgit Schrowange acts as a cross-brand promotional ambassador for ADLER. Customers are very well disposed towards Birgit Schrowange and her involvement strengthens awareness of ADLER as an umbrella brand and recall of its advertising messages.

Reiner Calmund, former manager of first division football team Bayer 04 Leverkusen, also works on behalf of ADLER. With his strong media presence, particularly his numerous TV appearances, he is a well-known and credible medium for promoting the Big Fashion plus-size collection.


ADLER
Katrin Adler

# ADLER
# CUSTOMER LOYALTY CARD+

ADLER's customer loyalty card system dates back to 1974 and is one of the oldest and most successful loyalty programmes in Germany. According to a survey conducted by the German consumer magazine Finanztest in August 2010, the ADLER customer loyalty card, compared to the programmes available from 24 other renowned retailers is "close to being an ideal card". The assessment criteria for such a rating included the regular financial advantage associated with the customer loyalty card even outside of special promotions, the outline conditions for accumulating reductions and the processing of personal customer data by the respective companies. As an incentive to use the customer loyalty card, ADLER refers to discount credit notes, loyalty discounts, low-cost rates for alteration services as well as prize draws, gifts, free rewards and extended exchange rights

# DESIGN & CUT

When planning product ranges and designing collections, ADLER primarily focuses on the over-45s when looking at fit, stylish shaping, functionality and quality. ADLER takes into consideration that this target group values contemporary, fashionable clothing but has different fit and sizing requirements than younger people. The fit philosophy at ADLER takes biological and physical changes from increasing age into account and is specifically considered when designing its own brand collections. ADLER thereby occupies a market segment that is little served or completely ignored by competitors. The collections cover a wide spectrum from standard sizes to plus sizes, including half-sizes and special sizes.

ADLER's in-house design team and cutting department makes sure that fits are as tailored as possible to accommodate all customer profiles. The high import share of the collections means that the creative potential of the design team is called for. Product ranges characterised by a modern appearance, high-quality materials and elaborate workmanship with an eye for detail are developed in close cooperation between design and purchasing. The collections are perfectly matched to the needs and wants of ADLER customers. The Company is careful to ensure that each of its own brands has its own distinctive appearance and consistent presentation, differentiating itself from the other labels.

Precise monitoring of the competitive environment, detailed analysis of own sales and attendance at national and international fabric and fashion fairs are as much tools of the trade of the design team as evaluating industry and specialist information. Brand-specific sizing charts also contribute to the perfect fit. These ensure that the brand's claim is credibly honoured: ADLER – alles passt.

# MYOWN+

MyOwn speaks to the confident modern woman who knows exactly what she wants and what looks good on her. This customer is enthusiastic about trendy looks. The MyOwn collection focuses on feminine themes; it is "casual" and all pieces can be combined. This creates a lot of freedom for very individual but consistent outfits. Structured attractively as a shop-in-shop, MyOwn also acts as the connection between ADLER's own brands and the external brands in the store. Through its focus on a female target group from their mid-thirties onwards who keep themselves informed about fashion trends, MyOwn is the ideal entry point to the ADLER ranges for new customers in terms of age and fashion focus.

The MyOwn customer wants to be "in" at all times and is always looking to update her wardrobe. Therefore, ADLER changes the collections every month. The MyOwn collection is always on trend, but never over-the-top.

MY OWN®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# EAGLE NO. 7+

The Eagle No. 7 man feels good in relaxed trendy jeans and casual tops which can be combined in ever new ways with each other. The jeans collection is available in the hot colours of the respective season and creative cuts. This casual collection is ideal for leisure pursuits and offers a younger male target group the perfect entry point to ADLER product lines. The Eagle No. 7 label is synonymous with trendy denim fashion for men in their early thirties and older.


VIA CORTESA

# VIA CORTESA WOMAN & MAN

Via Cortesa stands for a smart casual look with a distinctively sporty focus. The collection's style borrows from sports such as polo, yachting, golf and hockey. Frequently used elements include badges and contrast embroidery, cords and belts. The workmanship is very elaborate overall and full of attention to detail. High-quality materials and accessories are used. Via Cortesa customers remain true to their style and value an authentic sporty look. Women and men from their mid-thirties onwards are the target group.

VIA CORTESA

# VIVENTY BY BERND BERGER+

ADLER understands what modern women need which is why it offers Viventy by Bernd Berger, a label aimed at women who like to dress well and look feminine.

VIVENTY by Bernd Berger sets new tones in trendy looks and covers a broad range of clothing needs, from casual to business. The outfits are always individually casual while remaining very well-groomed and, above all else, style-conscious. Thanks to the way in which the clothing can be combined, the collection offers many opportunities for individual compositions.

The label combines classic, timeless elegance with trendy highlights for an individual look. This is achieved through constant variation with eight collections per year. VIVENTY is an independent ADLER premium label aimed at women from their late thirties onwards.

VIVENTY
BERND BERGER


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# THEA42 PLUS+

Thea42 plus is for today's confident woman. This label stands for outfits that really suit the fuller figure. Sizes run from 42 to 56[1]. Fashion is not a question of sizing at ADLER. Women should feel comfortable with their curves. Thea42 plus combines both sporty and feminine elements. Thanks to the polished cuts, top-class quality and good fits, this combination collection presents femininity in the right light. Customers not only appreciate the Thea42 plus collection's fashionable appeal but also that it is a plus-size collection at a reasonable price. With this label, ADLER consciously avoids price jumps as implemented by some competitors. The customer shows her appreciation through a high degree of loyalty and attention to advertising.

1 All sizes according to German sizing chart


Big fashion

# BIG FASHION+

Big Fashion is the label for well-built men who want to be perfectly dressed, even in plus sizes. It combines style standards with convenience and wearing comfort.

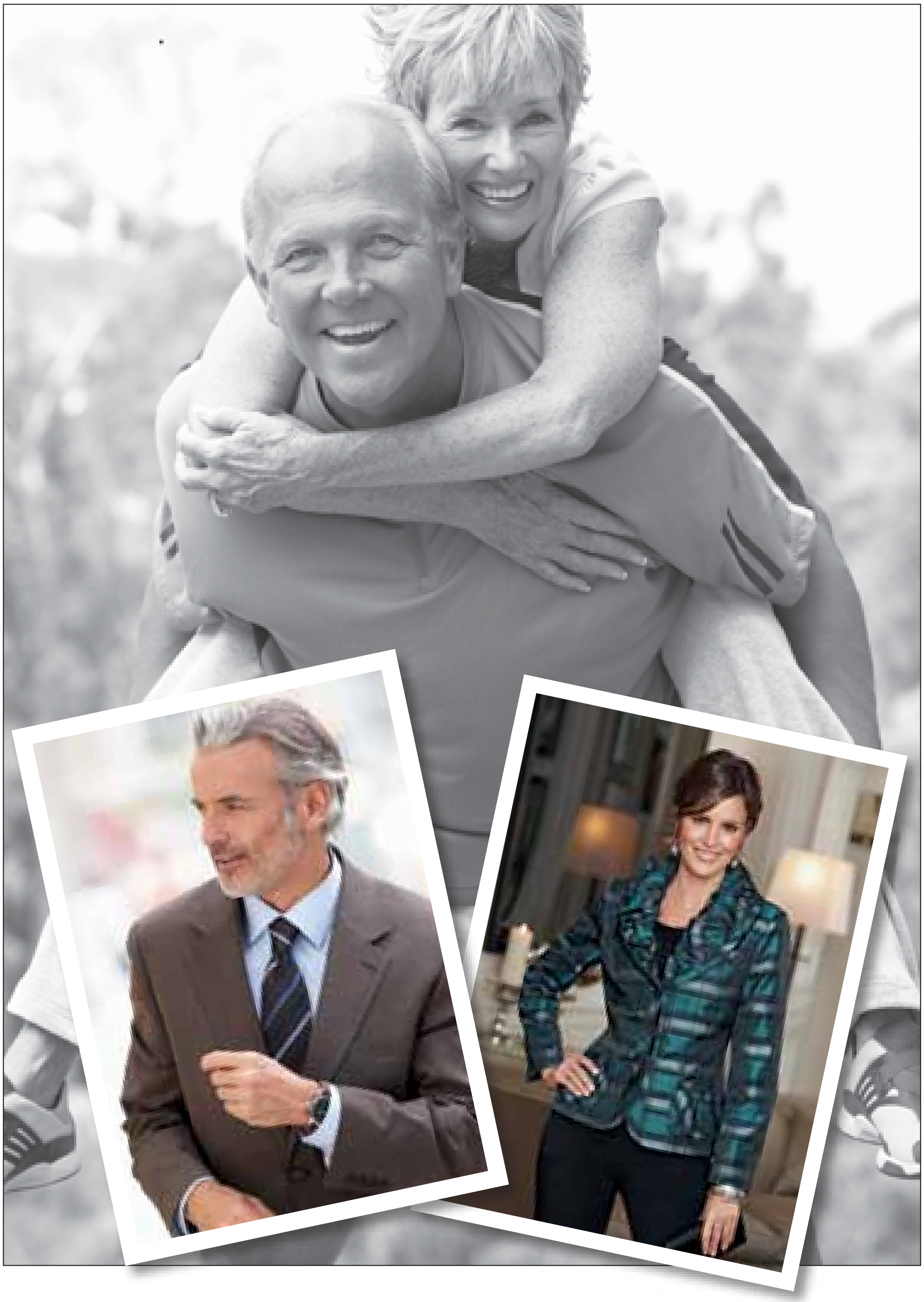
The clothes from Big Fashion prove that plus-sized men can look just as chic as men with standard sizes. Discriminating men can find everything they need for their wardrobe in Big Fashion - from business to leisure, knitwear, outdoor jackets and vests through to shirts, trousers and suits. Unlike many competitors, ADLER also has one price for all sizes here. The "Technical Support" department guarantees the collection is the right fit through the design and monitoring of the cuts. The target group here is men in their mid-thirties and older with sizes from 60-70.

# BEXLEYS WOMAN+

Trendy cuts and high-quality materials as well as harmoniously current colour schemes characterise the modern Bexleys label. Bexleys Woman meets the customer's fashion taste, while remaining timeless. The collection is aimed at well-groomed, sporty and elegant women in their late forties and older who set great store by quality, fit and workmanship. Bexleys Woman has been a steady part of ADLER collections for many years and accounts for a big share of the overall range.

# BEXLEYS MAN

Bexleys Man stands for classic, sophisticated men's fashion. It is all about smart material, the perfect cut and high-class workmanship. Timeless elegance combines with contemporary accents to create modern classics. Bexleys is synonymous with quality and class, which is obvious at first sight and worth the price. This line targets men in their late forties and older who want feel-good quality and the perfect fit.

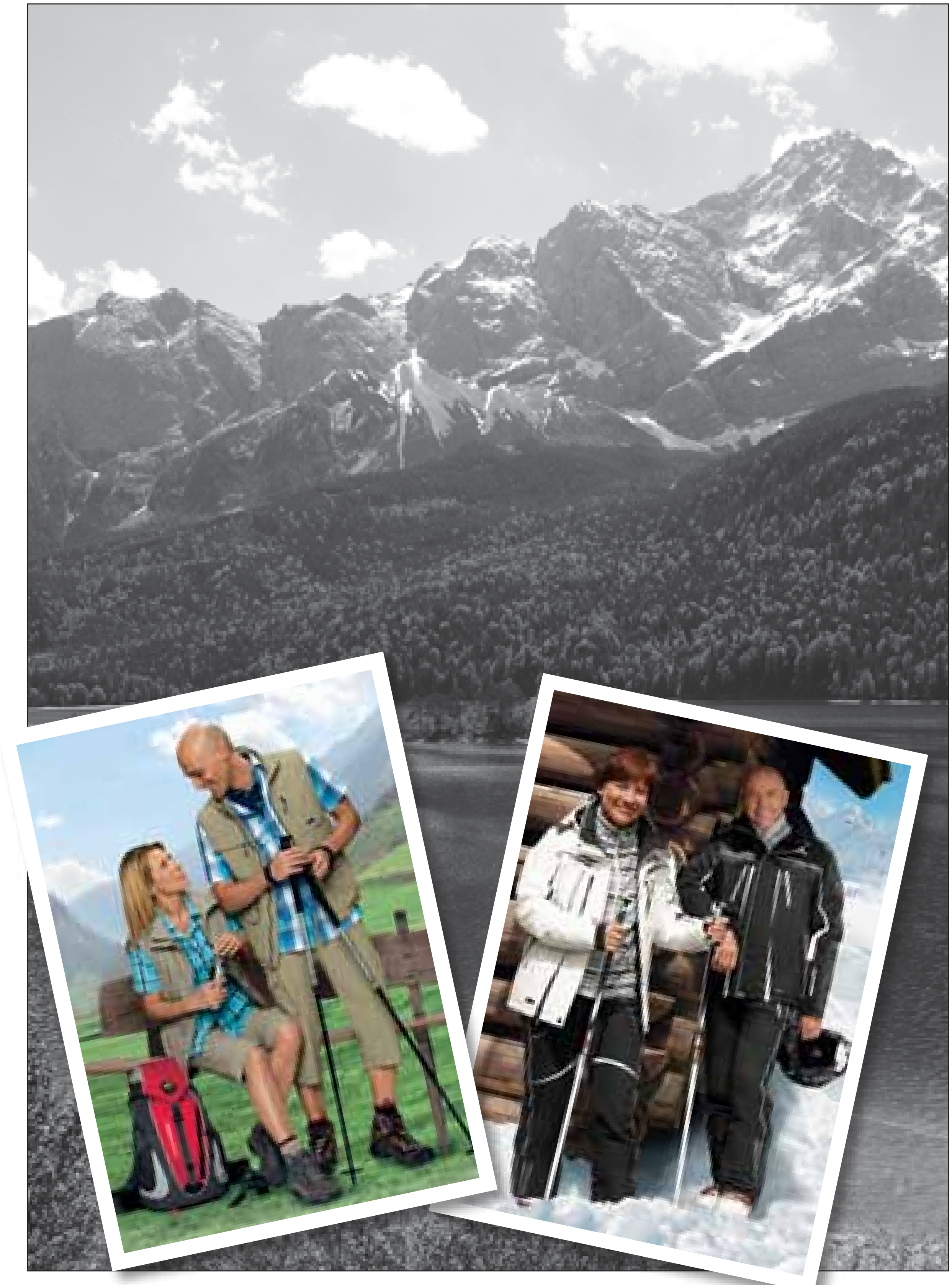


# MALVA & SENATOR

Both labels offer customers with an eye for the traditional everything they need while still remaining stylistically authentic. The collections are mainly about one thing - a classic look. Timeless cuts and good workmanship are the focus. ADLER concentrates on attributes such as convenience, wearing comfort, ease of care and function when designing for these labels. Popular colour harmonies and details define the traditionally-minded clothing style of the Malva womenswear label. The reasonable price is as much a winner as the quality. The typical Malva customer is a woman from her late fifties onwards. The price-performance ratio is very important to her and she buys according to need.

# LINGERIE AT ADLER+

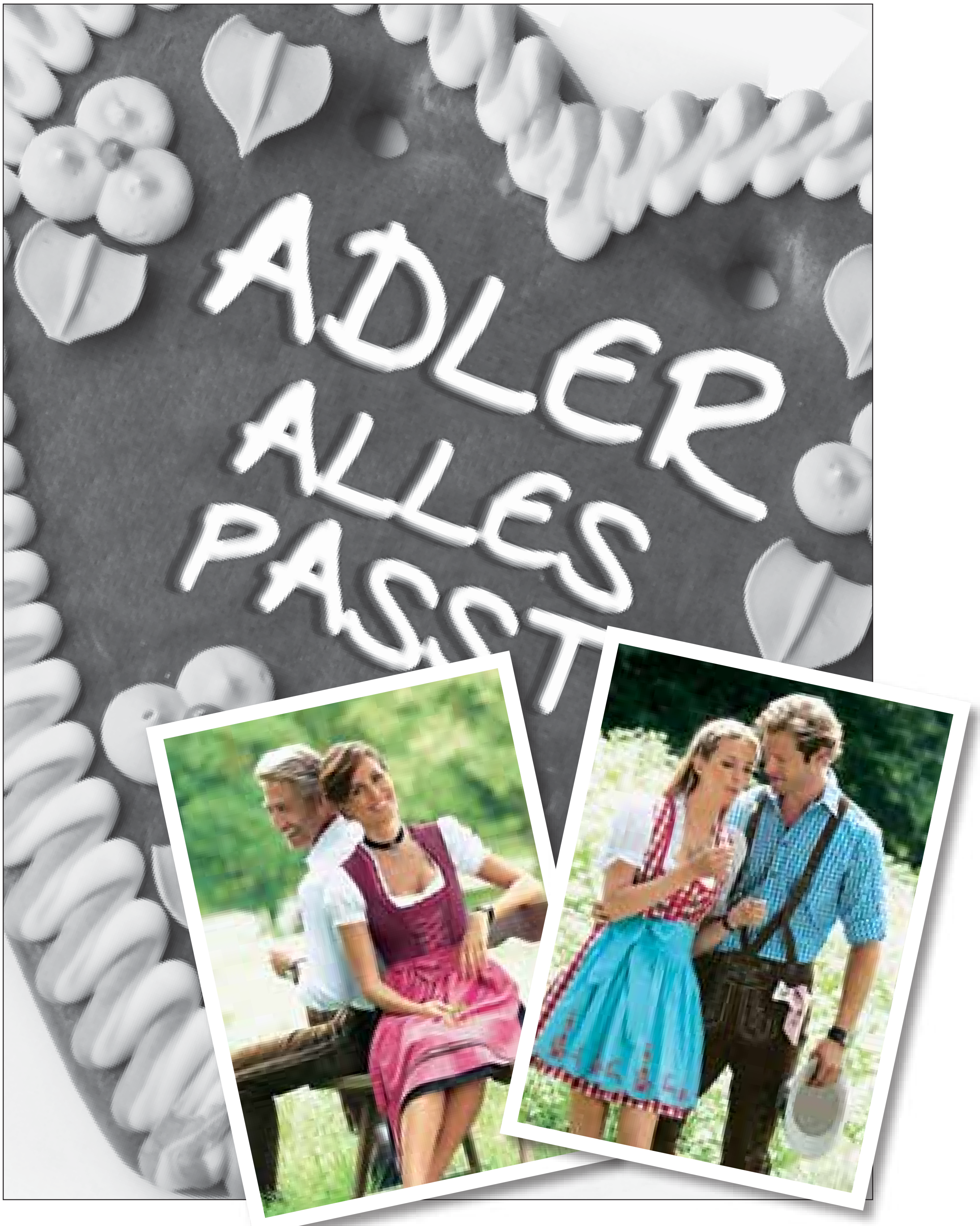
Tailored to the Bexleys, Malva, MyOwn and Thea42 plus labels, customers will always find the right underwear and nightwear at ADLER. The labels of all kinds are synonymous with comfort, function, fashion and plus sizes. The own brands are arranged consistently throughout the store according to the customer's needs and wishes and help to guide her. With regard to the lingerie range in particular, ADLER places a high value on expert, sensible advice and uses specifically trained staff.



# EIBSEE+

eibsee is synonymous with high-quality functional materials and sporty styles. eibsee sportswear was developed by ADLER itself as functional fashion for him and her. It is not only great for Nordic Walking, hiking and skiing, but increasingly for everyday use also. The target group is active folk who like to spend time outdoors in nature. Whether waterproof jackets, warm fleece vests, breathable shirts, comfortable hiking pants or rucksacks, eibsee always has the right gear. By using cotton/synthetic fibre blended fabrics, the eibsee label not only guarantees a good fit but also the typical properties of good functional clothing - freedom of movement, temperature control, moisture dissipation and sporty elegance. Of course, the eibsee products also look good on and are very easy to care for.

eibsee


ADLER
ALLES
PASST

# ALPHORN+

Original Alphorn is traditional attire with a broad product range. It is popular with lovers of classic country fashion and the trendy target group looking for a traditional and elegant outfit for the Munich Oktoberfest or similar occasion. The decorative details in traditional Alpine style, high-quality materials, finest workmanship and great attention to detail make Alphorn a highly coveted collection for men, women and even children. The excellent price-performance ratio turns the penchant for the modern traditional style into a pure joy.

Alphorn was one of ADLER's first own brands and has established itself with the target group for many years. The Alphorn collection has built up a sizeable fan base through the continuing trend for traditional fashion in everyday life and across all sections of society.


TOM TAILOR
TOM TAILOR
CECIL

# EXTERNAL BRANDS AT ADLER+

The over-45s have grown up with labels. That is why many ADLER stores have included well-known external brands since 2009. They must fit the existing product structure while also meaningfully complementing it. The customer will often find these labels at the entrance and principally in shop-in-shops. New to ADLER are labels such as Tom Tailor, Street One, Cecil, s.Oliver, OneTouch and Steilmann as well as Mexx since 2011. The Triumph and Schiesser labels for underwear, Wrangler, HIS and Pioneer for jeans and Seidensticker for shirts have been available in store for many years. Through this complementary strategy, ADLER aims at new customers growing into the target age group.

s.Oliver MEXX TOM TAILOR

GIN TONIC® Wrangler® Triumph

PIONEER® AUTHENTIC JEANS SCHIESSER PADDOCK'S® JEANS

steilmann ONE TOUCH Street One seidensticker

# 45+ TARGET GROUP+

"It's hard to believe it, but I'm almost 50 now! I certainly don't want to dress like I'm still 25. But I don't want to look like my mother did at this age either. That's why I go to ADLER. That's where I find what I'm looking for! ADLER – alles passt!"

# PLUS SIZE TARGET GROUP+

"I feel good about my size and it's great that I can find stylish clothes at ADLER that suit me and my body but do not cost the world. A passion for fashion isn't a matter of size! ADLER – alles passt!"

*Holger Kowarsch*
*Chairman of the*
*Supervisory Board*

# CORPORATE GOVERNANCE & REPORT OF THE SUPERVISORY BOARD

# REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The 2011 financial year was a year of many challenges for Adler Modemärkte AG, and was marked by the initial public offering of June 22, 2011. The close, trusting and constructive co-operation between the Supervisory Board and the Executive Board contributed significantly towards successfully mastering these tasks in a difficult capital market environment.

During the year under review, the Supervisory Board met the responsibilities incumbent on it under the law, the Company's Articles of Association and Rules of Procedure. We regularly advised the Executive Board in managing the Company and co-ordinated the Company's strategic alignment with it. The Executive Board complied with its duty to inform and regularly, promptly and comprehensively communicated to us in written and verbal form the occurrences and measures of relevance to the Company. Based on these reports, as well as within the realms of joint considerations with the Executive Board members, such as in the event of variations in the business development to the plans and of business transactions that are vital to the Company, we continually and carefully monitored the Management. Insofar as mandated by law and according to the Articles of Association, we cast our votes. In justified cases, resolutions were also taken outside of meetings by written procedure. Beyond the meetings of the Supervisory Board, the Chairman of the Supervisory Board was in regular contact with the Executive Board and gained information about the current development of the business situation and the principal business transactions.

In preparation of the plenary meetings, the representatives of the shareholders and of employees conferred during separate preliminary talks about the items of the agenda. In total, four regular and one extraordinary meeting took place, each in full attendance. The Committees convened in full attendance, with the exception of one meeting.

## EFFICIENT CONDUCT OF BUSINESS BY THE COMMITTEES

To effectively perform its duties the Supervisory Board formed four Committees. Due to the Company's change of legal structure and name to Adler Modemärkte AG in March 2011 and the newly stipulated Articles of Association, the already existing Personnel Committee and the Mediation Committee were joined by a new Audit Committee as well as a new Nomination Committee. The Committees prepare subject matters and resolutions which the plenary assembly is to address. In the individual case, as appropriate, we referred within the legally permissible possibilities to assigning the authority over resolutions to the Committees. We were comprehensively informed about the contents and outcome of the Committees' meetings. With the exception of the Audit Committee, all Committees are chaired by the Chairman of the Supervisory Board. The composition of the Committees is listed in the Corporate Governance / Supervisory Board chapter of this annual report.

The Personnel Committee convened seven times during the year under review. It dealt comprehensively with the configuration of the remuneration system for the Executive Board as well as with ascertaining and reviewing the remuneration for the members of the Executive Board. For details, reference is made to the compensation report included in the Annual Report. Within the framework of the authority to pass resolutions assigned by the plenary assembly, the Personnel Committee addressed specific topics related to the public offering, including the takeover agreement as well as the definition of the price range and offer price and formed the respective resolutions. Moreover, it gave its approval on the signing of a consultancy agreement between the Company and the Supervisory Board member, Mr. Jörg Ulmschneider. In addition, the Personnel Committee prepared decisions of the Supervisory Board assembly for several personnel matters relating to members of the Executive Board.

The Audit Committee is comprised of four members and following the Company's conversion into a joint stock company, was newly formed in line with the Articles of Association and the recommendations issued by the German Corporate Governance Code. In its Chairman, Mr. Eduard Regele, the Committee has an independent member who, according to Section 100 para. 5 of the German Stock Corporation Act (Aktiengesetz, "AktG") has competence in accounting and auditing and particular experience in the application of internal control procedures. During the year under review, the quarterly and semi-annual financial reports with the associated interim financial statements were dealt with during three meetings. The subject matter of extensive consultations was the independence and qualification of the Statutory Auditor as well as the supplementary services rendered by the same. Based on these discussions the Audit Committee awarded the audit assignment to the Statutory Auditor for the 2011 financial year and, taking into consideration the ideas submitted by the plenary assembly, defined the audit's focus. Within the scope of its monitoring responsibilities the Audit Committee conferred with and obtained information from the Compliance Officer about the Company's compliance and dealt with the Company's financial reporting and risk management system as well as the effectiveness of the internal audit and internal controlling.

The equally newly formed Nomination Committee, whose task it is to identify suitable candidates to be elected to the Supervisory Board and to suggest these to the Supervisory Board for its election proposals to the Annual General Meeting, did not convene during this financial year.

The Mediation Committee, which is to be established by law (Section 27 para. 3 of the German Co-determination Act (Mitbestimmungsgesetz, "MitbestG") equally did not have to convene during the year under review.

## MATERIAL TOPICS ADDRESSED DURING THE MEETINGS AND RESOLUTIONS TAKEN BY THE SUPERVISORY BOARD

The subject matter during regular plenary discussions included the development of sales, revenue and employment of Adler Modemärkte GmbH respect. following the conversion of Adler Modemärkte AG and the Group, the financial situation as well as the status of the market expansion. The Executive Board regularly and comprehensively informed us as to the business planning, the strategic progress, the course of business as well as the Group's current situation.

During the extraordinary meeting of the Supervisory Board held on January 25, 2011 we discussed the key financial data of the 2010 financial year and adopted the 2011 budget submitted by the Management Board.

The subject matter of the meeting convened on March 4, 2011 to review the Group's accounts included the annual and consolidated financial statements of Adler Modemärkte GmbH as per December 31, 2010 as well as the management report and the consolidated management report. Moreover, following comprehensive consultation, we unanimously adopted the proposals submitted by the Personnel Committee in regard to the appointment of Messrs. Lothar Schäfer, Jochen Strack and Thomas Wanke for the duration of three years respectively as members of the Executive Board. Mr. Jochen Strack was also appointed Labour Director pursuant to Section 33 MitbestG. Moreover, we followed the recommendation of the Personnel Committee in regard to the signing of the individual contracts of service with the appointed members of the Executive Board after being convinced of the conformity with statutory principles of appropriateness pursuant to Section 87 AktG, as well as the recommendations set forth by the German Corporate Governance Code. In addition to the resolution taken in relation to the schedule of responsibilities of the Executive Board and the election of the members of the Audit Committee, the plenum issued Rules of Procedure to the Executive Board and itself and took an enabling resolution regarding the transfer of duties and the authority of resolution in conjunction with the Company's public offering to the Personnel Committee.

The focus at the Supervisory Board meeting of June 30, 2011 was the Company's risk management system and corporate governance. The audit substantiated the recommendations in relation to the Executive Board's information and reporting duties and a resolution of approval about the Declaration of Conformity submitted by the Executive Board pursuant to Section 161 AktG was adopted. A further subject matter at this meeting was to give advice relating to the process of the efficiency audit of the Supervisory Board and the Rules of Procedure of the Audit Committee as well as the election of the members of the Nomination Committee.

A further meeting of the Supervisory Board was held on September 29, 2011. The Executive Board, in addition to the regular consolidated management report and according to the Executive Board's Rules of Procedure, requested the Supervisory Board's approval to form a subsidiary in Switzerland. We issued our approval in this regard and discussed the outcome of the self-evaluation of the Supervisory Board's efficiency.

The focus of the plenary assembly on December 1, 2011 was the review and adoption of the budget prepared by the Executive Board for the 2012 financial year, as well as the recommended resolutions prepared by the Personnel Committee in regard to two changes to the Executive Board. After the Chairman of the Supervisory Board, who is simultaneously the Chairman of the Personnel Committee, detailed the reasons for the mutually agreed early resignation of the Executive Board member, Mr. Jochen Strack and the negotiations relating to the termination of the contract of service, we unanimously approved of the suggested early resignation by mutual agreement of Mr. Jochen Strack from the Executive Board and as Labour Director effective December 1, 2011. Also, Mr. Karsten Odemann was appointed to the Executive Board and as Labour Director for the duration of three years.

By way of written vote we issued to the Executive Board on September 19, 2011 on the grounds of sufficient information the approval for the acquisition of 18 points of sale of Wehmeyer Lifestyle GmbH, as well as on

December 22, 2011 the approval to buy the Company's own shares by June 30, 2012 within the framework of the enabling resolution of the Annual General Meeting of May 30, 2011 at a maximum purchase price in the amount of € 10.00 per share.

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

As a result of the stock exchange listing in June 2011 and the respective first-time application of the German Corporate Governance Code we intensively addressed its contents. The Executive Board and the Supervisory Board decided during their meetings of June 15 respect. 30, 2011 to issue a Declaration of Conformity pursuant to Section 161 AktG and to make this declaration permanently available on the Company's Internet site. According to this declaration, the Company complies with the recommendations stated in the Code, with the exception of four exemptions, and shall continue to do so in future. Consequently, shareholders and the public can access a comprehensive presentation of the Company's valid principles on ADLER's Internet site.

The self-imposed claim to fulfil the Supervisory Board activities as efficiently as possible requires the regular review and optimisation of not only internal process flows, but also of the Executive Board and the Supervisory Board to enter into an open and constructive dialogue. This was reason for us to design a questionnaire based on which a self-evaluation in regard to the current efficiency of operations was carried out in 2011 already. The findings gained will contribute towards the further optimisation of the Supervisory Board's future work.

As already detailed in the beginning, the work of the Supervisory Board during the year under review was also characterised by the full attendance of all members at all plenary assemblies and over 97% attendance at Committee meetings. In addition to their capacity as members of the boards as well as the business transactions and legal relationships detailed in the notes to the annual, respect. the consolidated financial statements with related parties, the Supervisory Board members do not maintain any other legal relationships with the Company. The Supervisory Board members Holger Kowarsch, Mona Abu-Nusseira, Eduard Regele, Markus Roschel and Jörg Ulmschneider maintain professional or contractual relationships with companies that are affiliates of Cheverny Investments Limited, Malta. For this reason they are committed to serve the interests of these companies. The interests of these companies might not be identical with the interests of Adler Modemärkte AG. Any such diverging interests could result in conflicts. Apart from this, there were no indicators relating to conflicts of interest of Supervisory Board and Executive Board members in regard to their duties towards Adler Modemärkte AG on the one hand and their personal interests or other obligations on the other, which are to be immediately disclosed to the Supervisory Board and about which the Annual General Meeting should be informed.

The Company's corporate governance will be portrayed separately beyond this in the Corporate Governance Report of the annual report. This report has been prepared jointly by the Executive Board and the Supervisory Board and also contains the complete wording of the Declaration of Conformity of June 30, 2011 including the explanations on the four exemptions from the recommendations stated in the German Corporate Governance Code.

## AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart audited the annual financial statements and consolidated financial statements of Adler Modemärkte AG as of December 31, 2011 as well as the Management Report summarised in the Consolidated Management Report, which were prepared by the Executive Board in accordance with German commercial law regulations, and issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary applicable commercial law regulations according to Section 315a para. 1 of the German Commercial Code (Handelsgesetzbuch, "HGB").

The report submitted by the Executive Board pertaining to relations with affiliated companies for the 2011 financial year was equally a subject matter of the audit performed by the Statutory Auditor. The report pertaining to the relations with affiliated companies by the Executive Board was confirmed by the following unqualified opinion: "According to our due audit and assessment we confirm that the statements of facts in the report are correct and that the consideration of the Company in the course of the transactions listed in the report was not unreasonably high."

The documents referred to were forwarded to us by the Executive Board in time. During its meeting held on February 28, 2012 the Audit Committee initially dealt extensively with the aforementioned documents. During the meeting of March 7, 2012 we then intensively discussed and inspected the respective submissions from the Executive Board once the Chairman of the Committee had reported on the Audit Committee meeting. Representatives of the Statutory Auditor attended the meeting of the Audit Committee as well as the plenary assembly, presented their material findings of the audit and stated that internal controlling and the Early Risk Detection System hold no significant flaws. The representatives of the Statutory Auditor also answered questions of the Supervisory Board members and confirmed that the Early Risk Detection System set up by the Executive Board suffices to identify at an early stage any developments that could jeopardise the Company's continuity. The Statutory Auditor further detailed the scope and the costs as well as the focus determined by the Audit Committee for the audit. Following verification and discussion of the annual financial statements, the consolidated annual financial statements, the Management Report and Consolidated Management Report as well as the Executive Board Report pertaining to relations with affiliated companies by the Audit Committee and our own audit by the Supervisory Board, no objections are raised. We concurred with the findings of the audit by the Statutory Auditor and unanimously adopted the annual financial statements and the consolidated financial statements. The annual financial statements have thus been approved. The Audit Committee and the Supervisory Board also examined the allocation of the annual surplus to other revenue reserves according to Section 58 para. 2 AktG in conjunction with Section 26 of the Company's Articles of Association. In this respect we agreed within in the approval of the annual financial statement to the allocation of the annual surplus in its entirety to other revenue reserves.

## CHANGES TO THE COMPOSITION OF THE SUPERVISORY BOARD

Mr. Oliver Apelt resigned his Supervisory Board mandate effective February 28, 2011. For the remainder of the term of office of the resigned member, Mr. Eduard Regele has been appointed to the Supervisory Board effective March 1, 2011.

The Company's change of legal structure and name did not entail any changes to the Supervisory Board. According to Section 203 of the German Reorganisation Act (Umwandlungsgesetz, "UmwG") all members of the Supervisory Board remained in office since the shareholders of the legal entity changing its structure did not exercise their right pursuant to Section 203 sentence 2 UmwG to instruct that their Supervisory Board members terminate their office.

On March 4, 2011 Mr. Markus Zöllner resigned his chairmanship and the plenary assembly appointed Mr. Holger Kowarsch as the new Chairman. As a result of this change the composition of the Personnel and Mediation Committee also changed, as Mr. Eduard Regele was respectively appointed to both Committees.

On March 17, 2011 Mr. Markus Zöllner relinquished his Supervisory Board mandate with immediate effect. For the remainder of the term of office of the resigned member, Mr. Markus Stillger was appointed to the Supervisory Board effective March 18, 2011. The Supervisory Board thanked Messrs. Markus Zöllner and Oliver Apelt for the good co-operation.

## CHANGES TO THE COMPOSITION AND ORGANISATION OF THE EXECUTIVE BOARD

During its meeting of June 30, 2011 the Supervisory Board resolved to change the schedule of responsibilities of the Executive Board.

Mr. Jochen Strack resigned effective December 1, 2011 by mutual agreement as Executive Board member and Labour Director of Adler Modemärkte AG. On behalf of the Supervisory Board I would like to thank Mr. Strack for his work and trusting co-operation. Effective December 1, 2011 the Supervisory Board appointed Mr. Karsten Odemann unanimously as a new member to the Executive Board as well as Labour Director of the Company.

The Supervisory Board wishes to thank the members of the Executive Board, all employees as well as the representatives of the employees of Adler Modemärkte AG for their work. They contributed towards a year which, in spite of its many challenges, was a successful one for ADLER.

On behalf of the Supervisory Board

Holger Kowarsch
Chairman

Haibach, March 7, 2012

# EXECUTIVE BOARD

**LOTHAR SCHÄFER**

Villmar

**Chief Executive Officer**

(Chairman of the Executive Board)
responsible for the sectors Strategy, Procurement, Logistics, Supply Chain Management, Quality Assurance, Public Relations and Investor Relations
(member of the Executive Board since March 4, 2011; joined the Company in March 2009)

**KARSTEN ODEMANN**

Bad Tölz

**Chief Financial Officer and Labour Director**

responsible for the sectors Finance, Controlling, Internal Auditing, HR, Legal and IT
(member of the Executive Board since December 1, 2011)

**THOMAS WANKE**

Braunschweig

**Chief Marketing & Sales Officer**

responsible for the sectors Marketing, Sales, Visual Merchandising and POS Expansion
(member of the Executive Board since March 4, 2011; joined the Company in July 2009)

# SUPERVISORY BOARD

**HOLGER KOWARSCH** [1*, 3*, 4*]

Hochstadt

**Chairman of the Supervisory Board**
Member of the Supervisory Board of AlzChem AG

**ANGELIKA ZINNER** [1, 2, 4]

Kettenis, Belgium

**Deputy Chairwoman of the Supervisory Board**
Chairwoman of the Joint Works Council
of Adler Modemärkte AG

**MONA ABU-NUSSEIRA** [2]

Munich

Principal M&A of bluO International Affiliates Ltd.

**MAJED ABU-ZARUR**

Mannheim

Specialist Consultant Information Desk,
Cash Desk and Sales of Adler Modemärkte AG

**INGRID DÜSMANN-SCHULZ**

Bessenbach

Training Officer of Adler Modemärkte AG

**CORINNA GROSS**

Neuss

Regional Managing Director of the United Services Union ver.di

**GEORG LINDER [1, 2, 4]**
Haibach

Divisional Director Procurement Planning and Product Management of Adler Modemärkte AG

**EDUARD REGELE [1, 2*, 3, 4]**
Eurasburg
(since March 1, 2011)

Graduate in business administration (VWA), bluO International Affiliates Ltd.

**ERIKA RITTER**
Berlin

Area Director Commerce of the United Services Union ver.di

**MARKUS ROSCHEL**
Sasbachwalden

Investment Manager bluO International Affiliates Ltd.

**MARKUS STILLGER [3]**
Brechen
(since March 18, 2011)

Managing Partner of Stillger & Stahl Vermögensverwaltung GbR, CFO of ABID Senioren Immobilien GmbH, Managing Shareholder (CEO) of MB Fund Advisory GmbH and Managing Shareholder (CEO) of Stikma GmbH

**JÖRG ULMSCHNEIDER**
Schmelz

Business Consultant, Managing Partner of new connections

Member of:
1) Personnel Committee
2) Audit Committee
3) Nomination Committee
4) Mediation Committee
* Chairman of the Committee (as of Dec. 31, 2011)

# CORPORATE GOVERNANCE REPORT

At ADLER, effective corporate governance complying with high standards at both a national and international level is part of the basic corporate concept. So corporate governance stands for responsible and transparent management and control of the company, oriented to sustained value added. Efficient co-operation between Executive Board and Supervisory Board, consideration of shareholder and employee interests, respect for the fundamental interests of the Company in general as well as frank and transparent communication within the Company are all major aspects of corporate governance and apply to all sectors of the Company. By complying with these principles ADLER aims to ensure responsible, professional and transparent management oriented to long-term success and to boost further the confidence placed in the Company by employees, shareholders and the general public. In the following, the Executive Board and the Supervisory Board are reporting jointly in conformance with Section 3.10 of the German Corporate Governance Code.

## IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a German listed stock corporation, corporate governance at ADLER is primarily geared to the law applicable in Germany and the recommendations and proposals in the German Corporate Governance Code. Thus in the 2011 financial year, and in particular in the course of preparation for IPO, the Executive Board and the Supervisory Board have worked in-depth on meeting the requirements of the German Corporate Governance Code as amended on May 26, 2010 and announced on July 2, 2010. With four exceptions, Adler Modemärkte AG has followed all the recommendations in the Code (see Declaration of Conformity). So the Executive Board and the Supervisory Board presented a Declaration of Conformity on June 30, 2011 which has a permanent place on the ADLER website and is included at the end of this Report.

### COMPOSITION AND CO-OPERATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

#### CO-OPERATION

For the benefit of the Company, the Executive Board and the Supervisory Board co-operate closely and are in regular contact. An intensive dialogue between the two bodies is the basis for efficient company management. The Executive Board gives the Supervisory Board regular, comprehensive and timely notification of all issues of significance for the Company, such as business development, planning, risk situation, risk management, conformance with compliance policy and any deviations of business development from original plans. The Supervisory Board has specified the Executive Board's reporting duties to the extent that they exceed legal requirements. The Chairman of the Executive Board also has a regular exchange of information with the Chairman of the Supervisory Board.

## COMPOSITION

The German Corporate Governance Code recommends that there should be appropriate consideration of diversity and appointment of women in the composition of the Supervisory Board and the Executive Board and when management posts are filled.

The Executive Board of Adler Modemärkte AG is currently composed of three male members. In its decisions hitherto, in particular when appointing the new Chief Financial Officer as of December 1, 2011, the Supervisory Board has taken the recommendations of the German Corporate Governance Code into account and will also continue, in the course of the work of the Personnel Committee, to ensure the greatest possible diversity and appropriate consideration of women.

When making appointments to management posts in the Company, it has long been one of the basic concepts of ADLER's Executive Board to bear in mind, along with professional qualifications, both the greatest possible diversity and appropriate consideration of women. Precisely the opportunities offered to ADLER by such diversity confirm the Executive Board in its resolution to continue to give this aspect appropriate consideration in the future.

The aim of the Supervisory Board is to ensure that its members have different and complementary professional experience and skills so that they can duly address the assignments that arise. In addition, women, who currently constitute more than 40% of members, are scheduled to continue to be appropriately represented on the Supervisory Board. However, the Supervisory Board has not stipulated any specific targets in relation to its composition, since it believes that the definition of specific targets would restrict the Supervisory Board's flexibility too greatly in its search for candidates with the necessary ability and experience. For the same reason, the Company does not stipulate an age limit for members of the Supervisory Board either.

## AVOIDING CONFLICTS OF INTEREST

When performing their Board duties, members of both the Executive Board and the Supervisory Board have an obligation to protect ADLER's corporate interests. Thus, when taking decisions, they must neither consider their personal interests nor grant benefits to third parties. In the 2011 financial year, there were no conflicts of interests which had to be disclosed to the Supervisory Board immediately. In the reporting year, the only consultancy or other service and works agreement between members of the Supervisory Board and the Company was that of Mr. Jörg Ulmschneider, who is a member of the Company's Supervisory Board and simultaneously an independent consultant in the field of commerce and industry. The Personnel Committee agreed in advance to Mr. Ulmschneider's work in Procurement. The remuneration paid to Mr. Ulmschneider in the reporting year is shown in the Compensation Report.

The posts held by the members of the Executive Board and Supervisory Board on statutory supervisory boards or on comparable German and foreign controlling bodies of business enterprises are shown in the Notes to the consolidated financial statements. According to this information, no member of the Executive Board currently holds a post on a supervisory board of a non-Group listed company. Relations with related parties are disclosed in the Notes to the consolidated financial statements.

## EXCESS FOR D&O INSURANCE

With consideration of the statutory requirements of Section 93 para. 2 sentence 3 of the German Stock Corporation Act (Aktiengesetz "AktG"), the Company has taken out a D&O insurance policy for its company organs. The appropriate excess provided in this policy has been agreed for members of the Executive Board and also for members of the Supervisory Board.

## REPORTABLE SECURITY TRANSACTIONS, SHARES HELD BY EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS AND SECURITY-BASED INCENTIVE SYSTEMS

Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz "WpHG"), members of the Executive Board and the Supervisory Board, employees with management assignments as defined in the German Securities Trading Act or persons related to the same have an obligation to disclose any reportable transactions with shares of Adler Modemärkte AG or related financial instruments if the value of such transactions reaches or exceeds € 5,000 within a calendar year. Five transactions were reported to Adler Modemärkte AG for the 2011 financial year and they are published on our website.

As of December 31, 2011, the total shares in Adler Modemärkte AG held by all the members of the Executive Board and the Supervisory Board amounted to less than 1% of the shares issued by the Company.

Except for the share-related part of Executive Board remuneration of which details are given in the Compensation Report, the Company does not currently operate any security-based incentive systems.

## SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders in Adler Modemärkte AG exercise their rights at the Company's Annual General Meeting, at which each share grants one vote. The ordinary Annual General Meeting is held once every year and serves to provide the shareholders with comprehensive and meaningful information. At the Annual General Meeting, shareholders can either exercise their voting rights themselves or arrange for them to be exercised by an authorised person of their choice or by an instruction-bound Company proxy. In addition, shareholders can cast an absentee vote in writing without authorising a representative. All the important information and documents for the Annual General Meeting are posted in due time on ADLER's website.

## APPROPRIATE CONTROL AND RISK MANAGEMENT

For ADLER, professional management based on good corporate governance also includes ongoing and systematic management of business opportunities and risks. In this context, risk management and risk controlling systems, for the maintenance of which the Executive Board is responsible, make a major contribution to risks being recognised and assessed at an early stage and to risk items being reduced and controlled by appropriate action. Together with monitoring the accounting process and auditing annual financial statements, the Audit Committee set up by the Supervisory Board also regularly reviews the efficiency of the internal controlling, risk management and auditing systems. These systems are continuously developed and adjusted to conform with a changing environment. The major features of our internal controlling and risk management systems are described for the shareholders in the Risk Report.

## CORPORATE COMPLIANCE AS AN EXECUTIVE BOARD ASSIGNMENT

ADLER considers Corporate Compliance to be a major management and monitoring assignment, to ensure that there is conformance with both statutory and public-authority regulations and internal corporate guidelines. Together with the undertaking to promote social and ecological sustainability, which ADLER implements through sale of "Fairtrade" products, affiliation with the "I:CO" recycling system and conformance with the BSCI Code of Conduct to protect the rights of workers in the supply chain, this also means compliance with the provisions of capital market, corruption and antitrust law. Applying existing internal regulations and rulings, ADLER's Executive Board has set itself the task of developing Corporate Compliance in line with the demands made on a listed enterprise. ADLER has summarised its understanding of Corporate Compliance in the newly drafted Code of Conduct scheduled to apply throughout the Group. This improved Code of Conduct primarily covers avoiding corruption and breaches of competition and antitrust law but also includes proper and respectful dealings with company property, employees, customers and suppliers and will be implemented in stages in 2012 with the help of the Compliance Officer. To ensure sustained implementation, ADLER will arrange staff training courses and compliance audits.

## ACCOUNTING AND AUDITING

ADLER's consolidated financial statements and quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The individual financial statements required by law for Adler Modemärkte AG are prepared in accordance with the regulations in the German Commercial Code (Handelsgesetzbuch, "HGB"). For the reporting year, the Supervisory Board has agreed with the statutory auditor – PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart – that the chairman of the Audit Committee will be notified immediately of any possible grounds for exclusion or conflict of interest which may be found during the audit, insofar as they are not eliminated immediately. The auditor must also report immediately on all findings and occurrences which may become apparent during performance of the audit and are of primary importance for the assignments of the Supervisory Board. In addition, the auditor must notify the Supervisory Board or, respectively, note in the audit report if any facts are discovered during performance of the audit which show that the Declaration of Conformity made by the Executive Board and Supervisory Board under Section 161 AktG is incorrect. The Supervisory Board has also obtained a Statement of Independence from the auditor as per Section 7.2.1 of the German Corporate Governance Code.

## TRANSPARENT MANAGEMENT WITH THE HELP OF EXTENSIVE INFORMATION

By providing timely, comprehensive and regular information on the position of the Company and major corporate changes, ADLER aims to warrant utmost transparency for all target groups. Only in this way can the confidence of investors and financers and that of the interested general public be ensured in the long term. Through its investor relations work, ADLER is in close contact with the capital market. In addition, there is in-depth dialogue at analyst and investor conferences and in the course of telephone conferences and road shows which are held regularly upon publication of annual and interim reports and for special reasons. In addition, presentations prepared especially for this purpose can be seen on the ADLER website.

All significant information on current developments in the ADLER Group and all publications are available at all times for our shareholders and prospective investors on the Internet at www.adlermode-unternehmen.com. Under the heading of Investor Relations on the ADLER company website, all press and ad-hoc releases of Adler Modemärkte AG are published under "News and Releases" in German and English. In addition to ad-hoc releases relating to ADLER as required by law in Section 15 WpHG, ADLER also provides press releases, reports on changes in voting rights and reportable security transactions, thus warranting a transparent and simultaneous information policy. The Company's Articles of Association and information on implementation of the recommendations and proposals in the German Corporate Governance Code can be found under the heading of "Corporate Governance" and the consolidated financial statements, interim reports and presentations under "Reports and Publications".

Under the heading of "Financial Calendar", the ADLER website also provides extensive information on recurring events, such as the date of the Annual General Meeting or the dates of publication of interim reports. They are regularly updated and also to be found in the ADLER Annual Report and the interim reports. On the website, all interested parties can subscribe to an electronic newsletter which reports on current news from the Group.

## DECLARATION OF CONFORMITY

The Executive Board and Supervisory Board of Adler Modemärkte AG have made the following declaration as per Section 161 of the German Stock Corporation Act as of June 30, 2011:

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

The Executive Board and Supervisory Board of Adler Modemärkte AG confirm compliance as of now with the recommendations of the German Corporate Governance Code ("Code") as amended on May 26, 2010, published by the Federal Ministry of Justice on July 2, 2010 in the official section of the electronic Federal Gazette, subject to the following exceptions:

### NO INDIVIDUALISED DISCLOSURE OF EXECUTIVE BOARD REMUNERATION (SECTION 4.2.4 OF THE CODE)

The Company's Annual General Meeting on May 30, 2011 passed a resolution that there would be no individualised disclosure of Executive Board remuneration. In the opinion of the Company, individualised disclosure involves the risk of undesired alignment of Executive Board remuneration.

### COMPOSITION OF THE SUPERVISORY BOARD (SECTION 5.4.1 PARA. 2 OF THE CODE)

The Company's Supervisory Board has not named any specific targets relating to the composition of the Board. It is true that the Supervisory Board aims to have members with different and complementary professional experience and skills and it is planned that women, who now constitute more than 40% of members, will continue to be represented appropriately on the Supervisory Board. 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 limit for members of the Supervisory Board either.

### NO SUCCESS-ORIENTED SUPERVISORY BOARD REMUNERATION (SECTION 5.4.6 PARA. 2 OF THE CODE)

The members of the Supervisory Board do not receive success-oriented remuneration. The Company believes that success-oriented remuneration of members of the Supervisory Board could lead to false incentives which run contrary to the monitoring and consultancy function of the Supervisory Board.

### DEADLINES FOR PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND INTERIM REPORTS (SECTION 7.1.2 OF THE CODE)

The Company will arrange for publication of the consolidated and interim financial statements within the statutory periods. The Company will make every effort to observe the specified deadlines but will not yet be able to give a warranty to this effect during the first year after first quotation due to organisational changes.

Haibach, June 30, 2011
Adler Modemärkte Aktiengesellschaft

The Executive Board The Supervisory Board"

## CORPORATE GOVERNANCE STATEMENT

Further information on corporate governance of the Company, especially the method of operation of the Executive Board and Supervisory Board and major management practices, is given in the Corporate Governance Statement pursuant to Section 289a HGB, which is published on the ADLER website (www.adlermode-unternehmen.com) under the heading of Investor Relations / Corporate Governance.

# COMPENSATION REPORT

The Compensation Report describes the principles that are applied when total remuneration for the members of the Executive Board is decided and explains the structure and the figures for the remuneration of the Executive Board members. The Report also outlines the principles and the figures for the remuneration paid to the members of the Supervisory Board. The Report includes the information required by the German Commercial Code (Handelsgesetzbuch, "HGB"), the International Financial Reporting Standards (IFRS) and the Declaration of Conformity in accordance with the recommendations of the German Corporate Governance Code.

## PERFORMANCE-RELATED REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD

At ADLER, the remuneration system for the Executive Board is designed to create an appropriate incentive for successful and sustainable management of the Company. The remuneration is comparable with that customary in the sector and oriented to the size and economic position of the Company. It is designed both to appropriately reward special achievements and perceptibly censure any failure to meet targets. The members of the Executive Board are requested to enter into a long-term commitment to ADLER. Such a commitment, which is very much in the interest of the shareholders in an attractive investment, is recompensed by a linking of Executive Board remuneration to the multiyear - and thus sustained - increase in the value of the Company as shown by the price of the ADLER share.

Pursuant to legal requirements, in particular the German Act on the Commensurability of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, "VorstAG"), and a corresponding ruling in the Rules of Procedure for the Supervisory Board, the full Supervisory Board is responsible for determining and regularly monitoring individual Executive Board remuneration, after preparatory work has been completed by the Personnel Committee. The Executive Board and the Supervisory Board plan to submit the Executive Board remuneration system for approval at the first ordinary Annual General Meeting after the IPO.

The remuneration for the members of the Executive Board consists firstly, of a basic remuneration unrelated to achievement and, secondly, of the success-related components. The success-related components are the profit share "Short Term Incentive" (STI) and the bonus "Long Term Incentive" (LTI):

### BASIC SALARY

The basic remuneration for members of the Executive Board consists of a fixed annual rate and is paid as a monthly salary in twelve equal instalments. In addition, the members of the Executive Board receive subsidiary non-monetary benefits, primarily consisting of use of a company car, a telephone, allowances for accommodation expenses and insurance premiums. The Company always reimburses the members of the Executive Board for 50% of costs for health and care insurance, of which evidence must be provided by the relevant member of the Board, but will not reimburse more than the amount of the share in contributions which the Company would have to pay for an employment contract made under social insurance law.

**SHORT-TERM INCENTIVE (STI)**

The Short-Term Incentive is the first component in the remuneration related to the Company's business success and is based on the results of the previous financial year. Under the STI ruling decided by the Supervisory Board, the amount of the STI depends on the earnings before tax (EBT) as per IFRS pursuant to the Company's audited income statement contained in the consolidated financial statements plus provisions for the Executive Board's short-term and long-term incentive. Accordingly, the STI for members of the Executive Board amounts in each case to a maximum of 1% of the EBT exceeding € 10,000,000 but no more than a figure of up to € 500,000 per year.

The Supervisory Board can reduce the STI by a reasonable amount if it is based on circumstances which were not triggered by achievements of the members of the Executive Board or if it is caused by exceptional developments. The STI for the previous financial year is payable two months after the end of the ordinary Annual General Meeting. If an appointment as a member of the Company's Executive Board only covered part of the financial year, the STI will be paid in proportion to the relevant time of service as a member of the Board.

**LONG-TERM INCENTIVE (LTI)**

The Long-Term Incentive (LTI) with a term of a total of five years is designed to reward the Executive Board's contribution to the increase in the value of the Company and is calculated as follows: The members of the Executive Board undertake to buy shares in the Company and keep them for at least one year after purchase. For each share in the Company which they buy, the members of the Executive Board receive five so-called Stock Appreciation Rights (SAR). An SAR grants a claim to a payment in an amount which depends on the development of the quoted market price of the share but it does not grant an option to purchase a share in the Company. The waiting period for exercising the SARs is three years as of the respective date of purchase. The SARs can only be exercised if the final price of the Company share at the end of the waiting period is at least 30% above the respective purchase price. The SARs can be exercised, either in whole or in part, within a period of two years as of the end of the waiting period ("Exercising Period"). The amount paid out when each SAR is exercised is calculated as the difference between the average closing price of the share in Adler Modemärkte AG over a period of five trading days before the right is exercised and the price of the share when bought by the relevant member of the Executive Board. SARs will be forfeited if they have not been exercised by the end of the Exercising Period. In relation to the SARs granted, the LTI currently agreed with all the members of the Executive Board is limited to an individual maximum amount per member of the Executive Board and to a total amount of currently k€ 4,900. If one of the beneficiary members of the Executive Board resigns before the end of his contract as a member of the Executive Board, payment of the SARs is also restricted to the maximum payments specified in the settlement rulings.

**UNDERTAKINGS IN CONNECTION WITH TERMINATION OF MEMBERSHIP OF THE EXECUTIVE BOARD**

In the event of premature termination of membership of the Executive Board without good cause, the contracts with Executive Board members provide for a compensation payment. The amount of the payments to the relevant member of the Executive Board including subsidiary benefits is limited to the value of the remuneration for two years ("Settlement Cap") and must not remunerate more than the remaining term. The criterion for the calculation and, if applicable, contractual ascertainment of the Settlement Cap is the total remuneration in the previous financial year and the anticipated total remuneration for the ongoing financial year. No undertakings have been made to members of the Executive Board for benefits due to premature termination of membership of the Executive Board as a result of a change of control.

### PENSIONS

The active members of the Executive Board have no contractual pension claims.

### SPECIAL BONUS

For the successful IPO in 2011, the members of the Executive Board in office at the time of the IPO each received a non-recurring special bonus amounting to € 50,000, payable with the monthly salary instalment following the IPO.

### TOTAL REMUNERATION FOR THE 2011 FINANCIAL YEAR

The Annual General Meeting held on May 30, 2011 adopted a resolution not to disclose individual Executive Board remuneration. In the 2011 financial year, the remuneration of the members of the Executive Board totalled k€ 1.434 (previous year: k€ 576). Remuneration can be broken down as follows:

| in k€ | 2011 | 2010 |
|---|---|---|
| Fixed remuneration | 573 | 494 |
| Non-monetary remuneration | 25 | 9 |
| Short-term incentives | 409 | 73 |
| **Payments to Executive Board members due in short term*** | **1,007** | **576** |
| **Payments due to termination of membership in Executive Board*** | **427** | **0** |
| | **1,434** | **576** |

* Remuneration in 2010 includes the salaries paid to the managing directors of the then Adler Modemärkte GmbH (after conversion: Adler Modemärkte AG); the relevant salaries are included proportionately in the remuneration for 2011.

## REMUNERATION OF THE SUPERVISORY BOARD

The current remuneration system for the Supervisory Board was adopted by resolution of the Shareholders' Meeting of Adler Modemärkte GmbH within the framework of the resolution to change the legal form of the Company on March 1, 2011 and recorded in Section 14 of the Articles of Association of Adler Modemärkte AG. Contrary to a recommendation in the German Corporate Governance Code, the remuneration of the Supervisory Board at ADLER is designed purely as fixed remuneration. In the same way as the remuneration of the Executive Board, the remuneration of the Supervisory Board is oriented to the size of the Company and is designed to do justice both to the work involved and the responsibility held.

Thus the members of the Supervisory Board receive remuneration of € 10,000, payable at the end of the financial year, for their work. The Chairman receives double remuneration and his deputy 1.5 times the said remuneration. These amounts are increased by 10% for each membership in a Supervisory Board committee, provided that the relevant committee has met at least twice in the financial year. The exception from this remuneration ruling is membership of the Mediation Committee as per Section 27 para. 3 of the German Co-Determination Act (Mitbestimmungsgesetz, "MitbestG"). Members of the Supervisory Board who have not belonged to the Supervisory Board or a committee for a full financial year or have not been the chair for a full financial year will receive proportionate remuneration. Remuneration is payable at the end of the Annual General Meeting which ratifies the acts of the Supervisory Board. In addition, each member of the Supervisory Board is paid a session fee of € 300 for every session of the Supervisory Board which said member attends. The Chairman receives a double session fee and his deputy 1.5 times the session fee. The members of the Supervisory Board are also reimbursed for all their expenses and for any value-added tax payable on their remuneration and expenses. The Annual General Meeting will adopt resolutions on other types of remuneration for the members of the Supervisory Board and any benefits with the character of remuneration.

In the 2011 financial year, the total remuneration of the members of the Supervisory Board amounted to k€ 144.0 (previous year: k€ 40.2) and can be broken down as follows:

**Supervisory Board remuneration in 2011**

| k€ | Fixed remuneration[1] | Committee work | Session fee[1] | Total remuneration |
|---|---|---|---|---|
| Holger Kowarsch, Chairman [2, 3] | 15.8 | 1.6 | 1.8 | 19.2 |
| Angelika Zinner, Deputy Chairwoman [2] | 13.0 | 2.4 | 2.6 | 17.9 |
| Mona Abu-Nusseira [2] | 7.9 | 0.8 | 0.9 | 9.6 |
| Majed Abu-Zarur | 8.7 | - | 2.1 | 10.8 |
| Oliver Apelt (until Feb. 28, 2011) [3] | 0.0 | - | - | - |
| Ingrid Düsmann-Schulz | 8.7 | - | 2.1 | 10.8 |
| Corinna Groß | 8.7 | - | 2.1 | 10.8 |
| Georg Linder [2] | 8.7 | 1.6 | 2.1 | 12.4 |
| Eduard Regele (since March 1, 2011) [2, 3] | 7.9 | 1.6 | 0.9 | 10.4 |
| Erika Ritter | 8.7 | - | 2.1 | 10.8 |
| Markus Roschel [3] | 7.9 | - | 0.9 | 8.8 |
| Markus Stillger (since March 18, 2011) | 7.9 | - | 0.9 | 8.8 |
| Ulmschneider, Jörg [4] | 11.7 | - | 2.1 | 13.8 |
| Markus Zöllner (until March 17, 2011) [3] | - | - | - | - |
| **Total** | **115.5** | **8.0** | **20.6** | **144.0** |

## Supervisory Board remuneration in 2010

| k€ | Fixed remuneration[1] | Committee work | Session fee[1] | Total remuneration |
|---|---|---|---|---|
| Holger Kowarsch, Chairman [2), 3)] | - | - | - | - |
| Angelika Zinner, Deputy Chairwoman [2)] | 5.4 | - | 2.4 | 7.8 |
| Mona Abu-Nusseira [2)] | - | - | - | - |
| Majed Abu-Zarur | 3.6 | - | 2.4 | 6.0 |
| Oliver Apelt (until Feb. 28, 2011) [3)] | - | - | - | - |
| Ingrid Düsmann-Schulz | 3.6 | - | 2.4 | 6.0 |
| Corinna Groß | 3.6 | - | 2.4 | 6.0 |
| Georg Linder [2)] | 3.6 | - | 2.4 | 6.0 |
| Eduard Regele (since March 1, 2011) [2), 3)] | - | - | - | - |
| Erika Ritter | 3.6 | - | 2.4 | 6.0 |
| Markus Roschel [3)] | - | - | - | - |
| Markus Stillger (since March 18, 2011) | - | - | - | - |
| Ulmschneider, Jörg [4)] | - | - | 2.4 | 2.4 |
| Markus Zöllner (until March 17, 2011) [3)] | - | - | - | - |
| **Total** | **23.4** | **-** | **16.8** | **40.2** |

1) The figures contain the remuneration to which the members of the Supervisory Board are entitled in accordance with the rulings of the remuneration system of Adler Modemärkte GmbH (after conversion: Adler Modemärkte AG) for 2010 and proportionately for 2011.

2) The Chairman and the Deputy Chairwoman of the Supervisory Board receive higher fixed remuneration and a higher session fee. Upon application of the new Supervisory Board remuneration system in line with the Articles of Association of Adler Modemärkte AG, Supervisory Board remuneration is increased by 10% per membership of a committee and these amounts are entered separately as remuneration for committee work.

3) The representatives of the shareholders have waived the remuneration for 2010 and 2011 (proportionately) to which they are entitled under the remuneration rulings in the Articles of Association of Adler Modemärkte GmbH.

4) The basic remuneration for the 2010 financial year is included in the fixed remuneration for 2011, amounting to € 3,000. In addition to his remuneration as a member of the Supervisory Board, Mr. Jörg Ulmschneider is entitled to € 5,004.43 (incl. VAT) for consultancy services in the 2011 financial year, which were approved in advance by the Supervisory Board.

## MISCELLANEOUS

For the members of the Company organs, in particular, the Company has taken out a D&O insurance policy. For the members of the Supervisory Board and the Executive Board, the insurance includes an excess in accordance with Section 93 para. 2 sentence 3 of the German Stock Corporation Act (Aktiengesetz, "AktG") and the German Corporate Governance Code.

*Lothar Schäfer and Thomas Wanke on June 22, 2011, the ADLER share premiered its listing in the Frankfurt Stock Exchange*

# INVESTOR **RELATIONS**

# ADLER EQUITY STORY

## AFTER REALIGNMENT, IPO FINANCES FURTHER GROWTH

### REALIGNMENT – DEVELOPMENT OF UNIQUE SELLING PROPOSITIONS

In 2011, the successful realignment of the Company led to the IPO with the clear target of financing further growth. In the course of realignment, the product portfolio was adjusted to suit the over-45 age group in terms of fit and fashion level. In view of demographic developments, this is a target group - and ADLER's major customer potential – that will continue to expand. ADLER is the only supplier which has expressed a clear commitment to this target group and which orients its fashion stores, products and services to its needs. As a result, ADLER has developed a USP in the industry. At the same time, operational business has been prepared for profitable growth by improvement of cost structure, addition of external brands to its programme, time-tested marketing and sales action and optimisation of purchasing.

### GROWTH STRATEGY

In Germany and Austria, ADLER will stay on the path to growth instigated in 2009. As part of its location expansion programme, ADLER plans to open about 20 new fashion stores per year, depending on the market situation. Alongside the opening of new stores from its own resources, ADLER will also play a role in consolidation of the retail textiles trade. Here the Company is targeting further acquisitions, ranging from individual fashion outlets to medium-size chains. In the long term, ADLER sees potential to double the number of fashion stores in Germany and Austria, of which there are currently about 160. In addition, sales growth is scheduled to be achieved by greater market penetration, by better exploitation of the vertical branch concept and by boosting the attractiveness of the ADLER umbrella brand. For this purpose, prestigious brand ambassadors are already acting successfully for the Company.

### ONGOING IMPROVEMENT MEASURES

As part of a permanent improvement process, modernisation work is under way in existing stores to make them more attractive and customer-friendly. To win and keep customers who are new to the over 45-year old age group, the roll-in of external brands to the ADLER fashion stores is being continued. In the new visual merchandising programme, these external brands are placed in the entrance area of the fashion stores (new store front design). In addition, the share of own brands is being further boosted, as, for example, through the recent introduction of the eibsee sports label. In the field of purchasing, the proportion of direct buying from Asia is scheduled to be increased from the current 43% with the aim of achieving a further reduction in cost prices.

# ADLER SHARE

## SUCCESSFUL INITIAL PUBLIC OFFERING

### LISTING ON STOCK EXCHANGE ON JUNE 22, 2011

On June 22, 2011 the ADLER share premiered its listing (Prime Standard) on the Frankfurt Stock Exchange. In line with going public, the sole shareholder at the time, Cheverny Investments Ltd., Malta parted with in total 8,162,553 ADLER shares (inclusive of partial exercise of Greenshoe option). Also, ADLER issued within the framework of going public 2,650,000 new shares from a capital increase resolved at the Annual General Meeting. In total, 10,812,553 ADLER shares were issued with the initial public offering. The issue price per share totalled € 10.00. The issue was performed by Crédit Agricole Corporate and Investment Bank as the Global Co-ordinator and Sole Bookrunner.

The issue of in total 2,650,000 new shares generated proceeds from the capital increase of € 26.5 million gross (around € 23 million net). The shareholding of Cheverny Investments Ltd., Malta, fell as a result of the Company going public from 100% to around 41.59%. The remaining ADLER shares have been in free float since the initial public offering, totalling according to the definition by Deutsche Börse AG 58.41% since the Company went public.

**The initial public offering**

| | | |
|---|---|---|
| Stock exchange listing | | Prime Standard on Frankfurt Stock Exchange |
| First time listing | | June 22, 2011 |
| Issue price | € | 10.00 |
| Number of shares issued (inclusive of the partial exercise of the so-called. Greenshoe option) | Shares | 10,812,553 |
| - of which capital increase | Shares | 2,650,000 |
| - of which share replacement (no Greenshoe option) | Shares | 7,463,000 |
| - of which share replacement in line with Greenshoe option | Shares | 699,553 |
| Nominal capital per share | € | 1.00 |
| Global co-ordinator | | Crédit Agricole Corporate and Investment Bank |

## INVESTOR RELATIONS EXTENDED

### TRANSPARENT & OPEN COMMUNICATION

The aim of Investor Relations activities is to raise the awareness of the ADLER brand and of the ADLER share. The goal is to achieve by way of an open, continuous and target-group specific dialogue with all capital market partners an appropriate evaluation of the ADLER share and to ensure sufficient liquidity on the stock exchange. These activities are to consolidate the perception of the ADLER share as a future growth value and at the same time strengthen the trust of investors. In 2011 the Executive Board and the Investor Relations department pursued a regular dialogue with existing and prospective institutional investors as well as private investors, financial analysts and other financial intermediaries in order to keep them informed about the Company`s development.

### INVESTOR RELATIONS

Following the publication of the report, ADLER held a first meeting with analysts in the third quarter and went on road shows in Germany, England, France, Sweden, Italy, the Netherlands, Austria, Belgium and Switzerland. In addition, many telephone conferences and individual telephone calls were conducted – mainly with institutional investors, but also with small-scale investors. A valuable tool for communicating with institutional investors, private shareholders and the interested public is also the Internet. The Website supplies in addition to general information and key figures about the Company also the latest financial reports, corporate presentations, press releases as well as the financial calendar and contact data of the Investor Relations department.

### CIRCLE OF DESIGNATED SPONSORS WIDENED

ADLER appointed Crédit Agricole Cheuvreux as the designated sponsor to take the Company public. In the third quarter of 2011, the circle of designated sponsors was widened following the appointment of DZ Bank AG (carried out by ICF Kursmakler AG) and Viscardi AG (carried out by MWB Fairtrade Wertpapierhandelsbank AG).

### RESEARCH COVERAGE ENHANCED

During the 2011 financial year ADLER was able to gain various investment management companies to prepare regular surveys and commentaries (so-called research reports) about the ADLER share and to publish these. Beyond the bank accompanying the issue, i.e. Crédit Agricole Cheuvreux, DZ Bank AG and Viscardi AG could also be gained for research coverage in line with designated sponsoring. In December 2011 Montega AG, a research house specialised in German investors of secondary stock, took up research coverage of the ADLER share. As a result, financial studies about ADLER are currently being published by four institutes (update December 31, 2011).

**ADLER share details**

| | | |
|---|---|---|
| Class of shares | | No-par value bearer shares |
| ISIN | | DE000A1H8MU2 |
| WKN | | A1H8MU |
| Ticker symbol | | ADD |
| Number of shares | Shares | 18,510,000 |
| Subscribed capital | € | 18,510,000 |
| Designated sponsors | | Crédit Agricole Cheuvreux, DZ Bank AG, Viscardi AG |

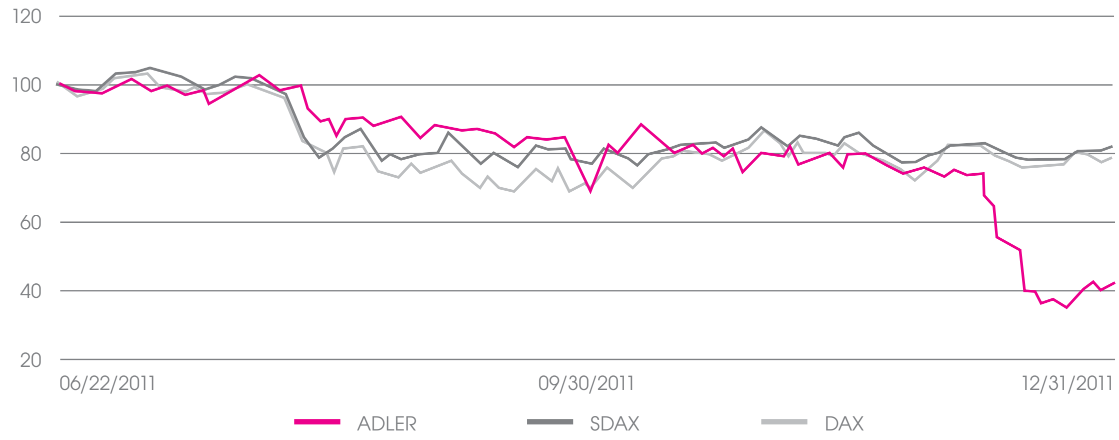
## THE ADLER SHARE

The share capital of Adler Modemärkte AG is divided into 18,510,000 no-par value bearer shares with a pro rata amount in the share capital of € 1.00 per share. ADLER shares are admitted for trading on the regulated market of the Frankfurt stock exchange as well as for the section of the regulated market with additional post-admission obligations (Prime Standard) and have been traded there since the start of trading on June 22, 2011. The ADLER share is included in several indices of Deutsche Börse AG and here in particular in the CDAX as well as the Classic All Share, the Prime All Share, the DAX Consumer and DAX Subsector Clothing & Footwear. The share is thus allocated to the consumer goods share sector, sub-sector clothing & footwear. It is traded on the stock exchange as ADD and listed with Reuters as ADDG.DE.

### ADLER SHARE PRICE IN COMPARISON WITH SDAX & DAX

The start of the ADLER share on June 22, 2011 was overshadowed by difficult circumstances in the capital market and payment issues on behalf of several EU countries and USA. On July 27, 2011 the ADLER share reached its current all-time high of € 10.18. In parallel with the SDAX the ADLER share yielded under the pressure from the downgrading affecting the USA as well as their impending insolvency. In the following, after a temporary strong decline in prices at the end of September, the ADLER share price surged distinctly following the announcement of the take-over of the Wehmeyer stores. Following the publication of the report of the third quarter in which ADLER featured the very weak autumn sales in the industry, the share price started to fall again. In the months that followed, the number of doomed industry reports increased, also from the TW Testclub of the trade journal "Textilwirtschaft", as did profit warnings of comparable companies. The price of the ADLER share had to endure further pressure. On December 14, 2011 ADLER, just like other companies, in an ad-hoc message announced that the expectations of the financial analysts in regard to the gross revenue for the 2011 financial year would presumably not be achieved. As a result the ADLER share price fell further and reached on December 21, 2011 its low of € 3.88. The stock's performance closed on December 31, 2001 with a closing price of € 4.47. Consequently, the share closed at -55.3% below the opening price from when it went public. During the same period under review, the SDAX fell by -16.7%.

**ADLER share indexed in comparison with SDAX and DAX (Index: June 22, 2011 = 100)**




The market capitalisation totalled around € 83 million by December 31, 2011. The adjusted income per share amounted to € 0.47. A closing price of € 4.47 complies with a price–earnings ratio (P/E) of 9.5.

**Development during the FY 2011***

| | | |
|---|---|---|
| Starting price on June 22, 2011 | € | 10.00 |
| All time high | € | 10.18 |
| All time low | € | 3.88 |
| Closing price on December 31, 2011 | € | 4.47 |
| Adjusted income per share | € | 0.47 |
| Market capitalisation as of Dec. 31, 2011 | € | 82,739,700 |

*XETRA, closing prices

## OWNERSHIP STRUCTURE

### FREE FLOAT AS PER DECEMBER 31, 2011 TOTALS 58.41%

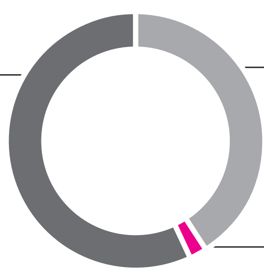
Following the capital increase by issuing 2,650,000 new shares and the sale of in total 8,162,553 shares by the sole shareholder at the time, Cheverny Investments Limited, Malta in line with the public offering, the free float of ADLER shares according to the definition of Deutsche Börse AG as per December 31, 2011 amounts to 58.41%. In addition to the shareholding of Cheverny Investments Limited, Malta in the amount of 41.59% which, according to the definition of Deutsche Börse AG is not included in the free float, ADLER knew on December 31, 2011 of reportable interests with two investment companies which according to the definition of Deutsche Börse AG are considered free float:

Deutsche Bank AG, London informed ADLER that the shareholdings of its subsidiary, DWS Investment GmbH, Frankfurt in Adler Modemärkte AG had exceeded the thresholds of 3 and 5 per cent on June 24, 2011 and totalled 7.563% on that day. Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt informed ADLER that its shareholdings in Adler Modemärkte AG exceeded the 3% threshold for voting rights on June 24, 2011 and reached 3.11% on this day and that its voting rights in Adler Modemärkte AG had fallen below the 3% threshold on November 29, 2011 again, totalling 2.97% on this day.

After the end of the financial year 2011 Mr. Gerhard Wöhrl communicated that his shareholding in Adler Modemärkte AG exceeded the 3% threshold of the voting rights on January 11, 2012, totalling 3.1% on this day, of which 1.003% are to be allocated to him pursuant to Section 22 para. 1 sentence 1 No. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG").

**Shareholder structure***

Update: March 2, 2012




* reportable interests

### FOCUS ON INSTITUTIONAL INVESTORS IN EUROPE

The range of prospective investors in Adler Modemärkte AG focuses on European institutional investors, especially in Germany, Great Britain and France.

### SHARE BUYBACK PROGRAMME

The Executive Board of Adler Modemärkte AG decided on January 12, 2012, following a previously issued approval from the Supervisory Board, to partly exercise the authorisation issued by the extraordinary general meeting of May 30, 2011 to buy back up to 1,000,000 of its own shares (approximately 5.4% of the current share capital) by June 30, 2012 at a maximum price of € 10.00 per share (exclusive of ancillary costs of the purchase) via the stock exchange. The buyback was subject to the respective application of safe harbour principles for share buybacks pursuant to the Commission Regulation (EG) No. 2273/2003 under the auspices of a credit institution which autonomously makes its decisions regarding the time of the purchase of the shares independently from and without interference by the Company. The share buyback started on January 17, 2012 and will presumably end no later than by June 30, 2012. The Executive Board of Adler Modemärkte AG may at any moment terminate the buyback prematurely.

## DIVIDEND PAYMENT

### DIVIDEND PAYMENT PLANNED FOR 2012 AND 2013 FINANCIAL YEAR

In future, the trust in the development and earning power of Adler Modemärkte AG shall be mirrored in an up-to-date dividend policy. In the medium run, a dividend policy is aimed at similar to that of other listed companies of the textile retail trade. A first dividend payment can be expected in 2013 for the for the 2012 financial year. Until such time the operational cash flows generated will be re-invested internally to finance the growth targets.

*Thomas Wanke*
*Chief Marketing*
*& Sales Officer*

# CONSOLIDATED
# MANAGEMENT REPORT

# SIGNIFICANT EVENTS IN THE YEAR UNDER REVIEW

## INITIAL PUBLIC OFFERING

Adler Modemärkte AG went public on June 22, 2011. Since then, ADLER shares have been listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange. The previous sole shareholder Cheverny Investments Ltd., Malta, disposed of 8.16 million shares for the IPO, thereby reducing its holding in the Company from 100% to 41.59%. Parallel to this, Adler Modemärkte AG issued a capital increase of 2.65 million shares. This netted ADLER gross proceeds of € 26.5 million (some € 23 million net), not only strengthening the capital base and increasing financial flexibility but also facilitating the implementation of the strategy aimed at sustained growth. Therefore, 11.81 million shares were placed on the capital market in total, corresponding to a free float of 58.41%. The issue price was € 10.00. Crédit Agricole Corporate and Investment Bank acted as global coordinator and sole book runner for the placement.

## ORGANISATION UND STRUCTURE

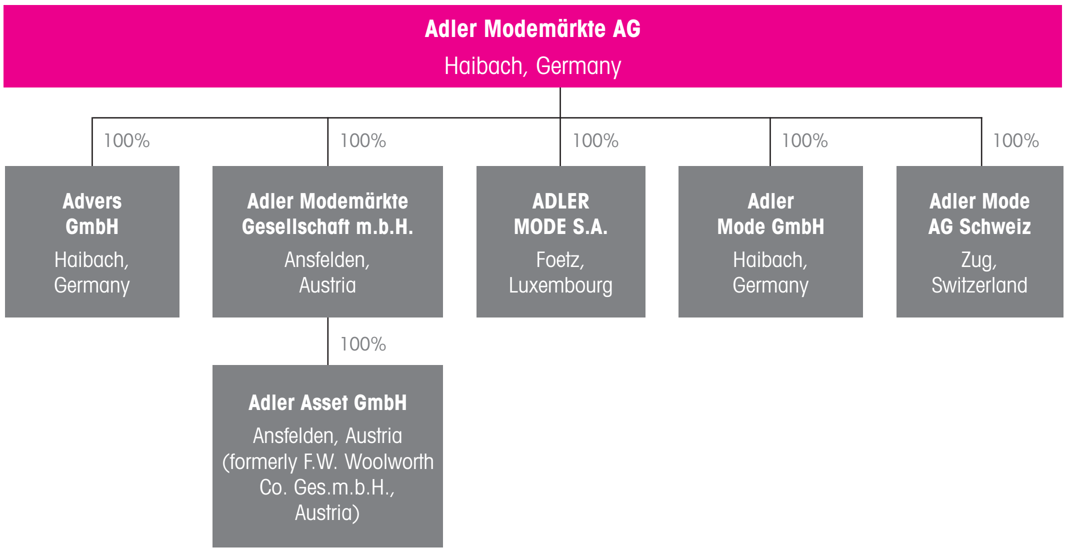
Adler Modemärkte AG, headquartered in Haibach, is the strategic and operational management company of the ADLER Group. ADLER itself operates the stores in Germany. ADLER operates in Luxembourg and Austria via its fully-owned subsidiaries ADLER MODE S.A., Luxembourg (ADLER Luxembourg), Adler Modemärkte Gesellschaft m.b.H., Ansfelden/Austria, and Adler Asset GmbH, Ansfelden/Austria (ADLER Austria).

ADLER founded Adler Mode GmbH, Haibach, at the end of the third quarter. On September 23, 2011, Adler Mode GmbH, Haibach, acquired the assets and business operations of the insolvent Wehmeyer Lifestyle GmbH as part of an asset deal.

Advers GmbH, which has been operating exclusively as an intercompany finance company under ADLER since the relinquishment of the insurance brokerage business at the start of 2009, is also part of the Group. Adler Mode AG Schweiz, headquartered in Zug/Switzerland, was founded in the fourth quarter of 2011 for future expansion.

As part of its role as the management company of the ADLER Group, ADLER is in charge of the areas of responsibility spanning the consolidated companies, including procurement and marketing, safeguarding and managing the IT infrastructure, finance and accounting, auditing and controlling and the processing and handling of legal issues.

As of the balance sheet date, the ADLER Group is structured as follows:



# BUSINESS & OUTLINE CONDITIONS

## GENERAL DESCRIPTION OF BUSINESS OPERATIONS

Adler Modemärkte AG controls a group that is one of the largest and leading textile retail chains in Europe. As of the end of 2011, the ADLER Group was operating a total of 163 stores (previous year: 135), 133 of these in Germany (previous year: 107), 28 in Austria (previous year: 26) and 2 in Luxembourg (previous year: 2). Apart from the local stores, the Company also operates its own online shop at www.adlermode.com.

In terms of fit, fashionability, functionality and quality, ADLER's product lines are mainly tailored to the over-45s, whose proportion of the total population is constantly growing. ADLER offers high-quality products that represent attractive value for money in the lower medium price bracket. The product lines cover a broad and extensive range of womenswear, menswear and undergarments. With a supplementing product line made up of accessories, shoes, children's clothing and babywear, traditional dress and hardware goods, ADLER is dedicated to rounding off the product portfolio and availing of the cross-selling potential that exists in the stores.

The Group's own brands are important sales drivers. The Senator label offers traditional men's fashion in sizes 48 to 58[1], while the Malva label is the equivalent for women in sizes 38 to 54. Thea42 plus marries current trends with exceptional wearing comfort and convenience for women in sizes 42 to 56. Via Cortesa combines the confident style of classic arrangements with Italian chic for the fashionable man and woman. Eagle No. 7 is the unconventional label with cool outfits in a jeans look. MyOwn is the personal trend line which delights women with its extravagant cuts, off-beat patterns and high-quality materials. Bexleys Man and Bexleys Woman offer classic sophisticated fashion with exceptional quality. Big Fashion, available in sizes 60 to 70, wins over customers with its light materials and optimal wearing comfort for business and leisure. Besides these, Viventy by Bernd Berger is the fashion label used by ADLER. The Alphorn traditional attire label combines a classic look with modern details. ADLER has been selling sportswear designed for jogging and leisure in particular under the fit & more private label for many years. In 2011, ADLER also introduced a broader selection of sportswear and functional clothing and a ski collection under the newly designed eibsee private label.

In addition to this, ADLER increasingly offers familiar external brands such as Tom Tailor, Cecil, Street One, s.Oliver, OneTouch, Gin Tonic, Steilmann and since 2011 Mexx in certain stores, particularly in the womenswear segment. ADLER has included external brands in its range for men for a long time. For example, the Wrangler, Paddock's and Pioneer labels have already been on offer for years in parallel to the Eagle No. 7 private label. In the area of menswear, ADLER has enhanced the range by adding Tom Tailor, Cecil Men and Gin Tonic.

1) All sizes according to German sizing chart

It is hoped that these measures will win new customers who will soon reach the target over-45 age group. These should be introduced to ADLER as a place to go shopping. The proportion of external brands was already increased in 2011 to some 10%. In the medium-term, the proportion of external brands can be expanded to max. 20%. The goal is to interest new customers in ADLER's product lines. ADLER is increasingly combining the familiar external brands in the merchandise structure with the respective equivalent in the younger own brands, particularly MyOwn, Via Cortesa and Eagle No. 7, in a continuously growing number of stores. The external brands are mainly positioned at the entrance to the stores, thereby contributing to the new store front design.

## MANAGEMENT OF THE GROUP

### EXECUTIVE BOARD RESPONSIBLE FOR MANAGEMENT OF THE GROUP

The ADLER Group is managed by the Executive Board which in particular establishes the Group's strategic orientation. The Group strategy is operationally implemented in close co-operation with the sales managers and the regional managers of the central units. The organisational and managerial structure clearly assigns powers and responsibilities internally and defines the reporting lines. It aligns all company resources towards the sustained increase of the corporate value.

### TURNOVER AND EBITDA AS CRUCIAL MANAGEMENT PARAMETERS

As a growth-oriented enterprise ADLER attaches particular importance to the profitable increase of turnover. All activities contributing towards a rise in turnover are measured by their potential of increasing the EBITDA and EBITDA margin in the long run. The EBITDA was chosen due to its ability to control operational activities. The main EBITDA driver is the gross profit margin. Improvements in procurement as well as the optimisation of discount policies constitute in this context the most vital measures. Moreover, other operating expenses are strictly monitored.

### CONTROL OF CURRENT ASSETS AND LIABILITIES

The management of inventories and trade payables are the responsibility of the Executive Board, of Controlling and of the Purchase Department. Trade receivables hardly play a role at ADLER since the merchandise is sold directly to the end consumer and paid in cash or by credit card.

### INVESTMENT FOCUS ON STORES

The expansion and modernisation of retail trade activities form the Group's investment focus. In a first step, the investment controlling process estimates the investment volume and then, in the framework of a profitability analysis, the Return on Investment is calculated. Using the findings as the basis, decisions pertaining to required investments are made during the regularly scheduled cross-functional investment meetings.

### CORE ELEMENTS OF INTERNAL CONTROLLING SYSTEM

The Group's planning, controlling and monitoring activities are geared towards the optimisation of the described central controlling parameters. The core elements of the Company's internal controlling system include group planning, group-wide and IT-supported reporting as well as investment controlling.

## REGULAR UPDATING OF GROUP PLANNING AND PROJECTIONS

The group planning is laid out for a three-year period and relies on monthly projections for the current financial year. The three-year planning is generated within the framework of the company-wide annual budgeting, taking into consideration the current business situation.

During the planning process the Group's Executive Board sets planning and business targets on the grounds of central targets for the operational units. On this basis they project results and determine the required investment total.

The annual planning is reviewed at regular intervals against the background of the actual business trend and existing opportunities and risks, in order to reach a projection of the anticipated consolidated profit or loss for the current year. Based on the Group's projected development the controlling department also prepares weekly forecasts on the liquidity situation. This allows for an early recognition of financial risks and the implementation of programmes as regards to financial demands. Detailed information on how financial risks are being controlled is stated in the risk report.

# MACROECONOMIC CONDITIONS

## GLOBAL ECONOMY STAGNANT IN 2011

Following an extremely strong year of growth in 2010, 2011 failed to meet expectations according to the OECD Economic Outlook of November 2011. The figures for 2011 are not yet completely known at the time of printing, however, the growth to date by 2.1% compared to the previous year already indicates a weak production year. Cyclical pressures, natural catastrophes and the effects of the European debt crisis on the real economy have been responsible for this. Thus, the eurozone crisis is still the outstanding risk for global economic development.

## EUROPE

The eurozone economy was still experiencing strong growth up to the first quarter of 2011 in spite of the European sovereign debt crisis because the stresses were restricted to the small peripheral nations. This changed in the summer when the large peripheral countries also got caught up in the mix – partly due to concerns about growth and partly due to a lack of confidence in the EU's response to the Greek crisis. Events such as the earthquake, tsunami and nuclear disaster in Japan, political upheaval in Africa and financial crises in the USA and Europe compounded this. Therefore, the Western European economy fell by around 0.2% in 2011.

## GOOD ECONOMIC SITUATION IN GERMANY IN 2011

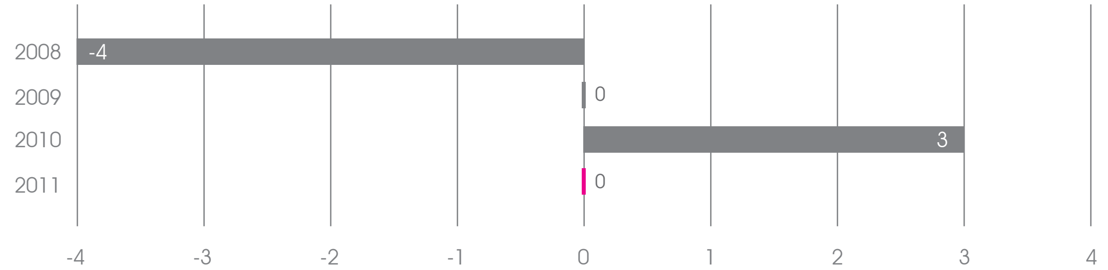
However, the German economy experienced strong price-adjusted growth of 3.0% in 2011 according to data from the German Federal Statistical Office on the initial preliminary annual results of January 11, 2012. This growth was more than double the average annual growth of 1.3% since reunification. Following robust momentum in the first three quarters of 2011, in which there was 0.7% price-adjusted expansion of gross domestic product (GDP) on average per quarter, the trends were weak for development in the fourth quarter. The lack of confidence caused by the financial and sovereign debt crises and the slowdown in European and other international economies also affected German business according to the Federal Ministry of Economics.

The OECD stated in November 2011 that the economy actually seemed to have entered a slight recession in the fourth quarter. This was due to the effects of a considerable deterioration in global trade and a rapid loss of confidence in relation to the sovereign debt crisis in some eurozone countries.

## GERMAN TEXTILE RETAIL SECTOR STAGNANT IN 2011

According to information from the TW Testclub, the panel of the Textilwirtschaft magazine with the most members in the German textile retail sector, the German textile retail sector experienced stagnating sales. 2011 initially began with a picture-perfect start and industry growth of +10%. The outlook was still positive, if somewhat dampened, up to September. However, the unusual weather conditions in autumn 2011 cast clouds over industry developments. The German Weather Service reported that 2011 was one of the five warmest years since 1881. Therefore, the textile retail industry experienced a very weak start to the winter trade in September, leading to early price reductions. Overall, industry sales in the textile retail sector did not increase year-on-year in 2011.

**Industry sales trend in %**




Source: Testclub der Textilwirtschaft, 2011

# DEVELOPMENT & ANALYSIS OF SALES

## CONSOLIDATED SALES ACCORDING TO IFRS

### SEASONAL FLUCTUATIONS OF SALES

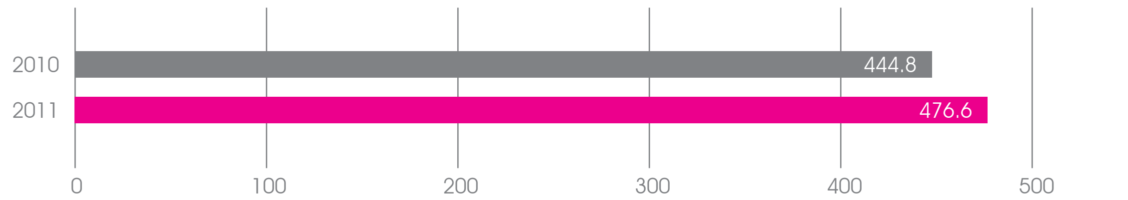
Net sales of the ADLER Group fluctuate for industry-specific reasons from one quarter to the next. The second and fourth quarter tend to be the strongest-selling months. The new summer collection premieres in spring, however at a lower retail price due to the more delicate summer wear. The strongest selling season is the fourth quarter as a result of the higher-priced winter wear and Christmas sales. The first and third quarter tend to start out weaker and are marked by the sale of seasonal wear.

However, in 2011 this regularity was burdened by the extremely weak month of September. As a result of slow jacket sales in autumn, the winter season equally took off to a slow start, leading to high stocks in the entire industry. In combination with slow pre-Christmas sales this led in the fourth quarter to major price markdowns in the German textile retail trade, ADLER's essential retail market.

### REVENUE +7%

Consolidated sales recorded pursuant to IFRS totalled € 476.6 million (previous year: € 444.8 million) in 2011. This corresponds to a growth compared to the same period during the previous year of +7.1%.

**Revenue in € million**




### SALES ANALYSIS – POSITIVE PRICE TREND

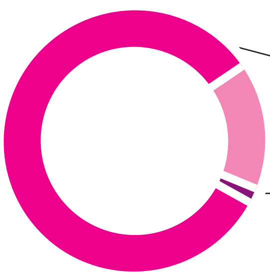
With total garment sales reaching 27.4 (previous year: 28.8) million pieces, an average gross retail price was reached which at the end of 2011, compared to the previous year (€ 17.8) had risen by 11.3% to now € 19.8. This also expresses ADLER's target-group specific improvement of the product line with quality external brands.

MANAGEMENT REPORT

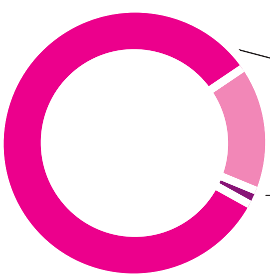
## SALES ANALYSIS BY COUNTRY

Sales in Germany, ADLER's traditional core market, totalled € 382.2 million. Last year's business volume of € 356.2 million was thus exceeded by 7.3%. In Austria, sales worth € 79.1 million were generated, marking 6.1% more than for the previous year (€ 74.6 million). Also, the ADLER Group continued to operate two stores in Luxembourg during the year under review. Sales here reached € 15.3 million and were thus 9.5% higher than during the previous year (€ 14.0 million).

**Revenue development by region**



| Dec. 31, 2010 | in € mn | share in sales |
|---|---|---|
| Germany | 356.2 | 80.1% |
| Austria | 74.6 | 16.8% |
| Luxembourg | 14.0 | 3.1% |
| Total | 444.8 | 100.0% |



| Dec. 31, 2011 | in € mn | share in sales |
|---|---|---|
| Germany | 382.2 | 80.2% |
| Austria | 79.1 | 16.6% |
| Luxembourg | 15.3 | 3.2% |
| Total | 476.6 | 100.0% |

## SALES ANALYSIS BY STORE – DISPROPORTIONATE GROWTH

As per December 31, 2011 ADLER has in total over 163 stores, of which 133 stores are in Germany, 28 stores are in Austria and a further two stores are in Luxembourg. During the first half of 2011, four new stores were opened. In the third quarter, a further four new stores were opened. As per September 30, 2011 ADLER took over 18 stores from Wehmeyer Lifestyle GmbH. As a result, the third quarter of 2011 recorded a total increase of 22 new stores. In quarter four, two Wehmeyer stores, in Koblenz and Göttingen respectively, were resold for strategic reasons. Towards the end of the year under review, an additional five new stores were opened. One store was closed as a result of an about-to-expire lease agreement. In total, the number of stores rose in 2011 by 28, after the original plan anticipated around 20 new stores.

## SALES AT NEW STORES

The 29 new stores opened in 2011 are joined by the 15 new stores from 2010 which are all considered "new stores". These 44 new stores are defined as new stores.

Sales at these new stores totalled € 38.3 million in 2011. ADLER is thus growing disproportionately compared to the intentions communicated during the public offering, which detailed that 20 new stores were to be opened or acquired per annum. These stores, however, need a certain start-up phase before breaking even respect. reaching their ROI.

## LIKE-FOR-LIKE SALES EASIER DUE TO WEATHER

Stores which were opened in 2009 and before are considered so-called "existing stores". During the 2011 financial year ADLER owned 116 comparable existing stores. The 44 new stores, the online shop as well as temporarily and finitely closed stores are not included in the comparable existing stores.

Sales at all existing stores, also termed like-for-like sales, totalled € 428.0 million during the year under review, 1% above last year's figure of € 424.0 million.

**Like-for-like & new stores revenue**

| in € million | 2011 | 2010 |
|---|---|---|
| Revenue | 476.6 | 444.8 |
| of which revenue by existing stores | 428.0 | 424.0 |
| of which revenue by new stores | 38.3 | 11.3 |

# PROFIT & LOSS

## HIGHER GROSS PROFIT

At € 231.0 million, the cost of material, due to higher sales, was proportionately above last year's cost in the amount of € 210.4 million. The gross trading profit (consolidated sales minus cost of material) in relation to sales of € 245.6 million is thus above last year's level (previous year: € 234.4 million). The rise in the gross profit by € 11.2 million is caused by higher sales volumes and increased prices. However, at 51.5% the gross profit margin is below last year's level (previous year: 52.7%).

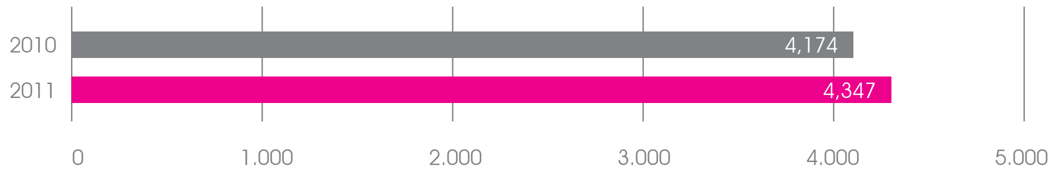
### PERSONNEL EXPENSES CONCURRENT WITH NEW STORE OPENINGS

Personnel expenses in 2011, in spite of numerous new store openings, were slightly above the previous year's level and reached +4.1% at € 78.1 million (previous year: € 75.0 million). The reason for this minor increase in cost is mainly good personnel management at all ADLER stores. In addition, synergies were used and economies of scale referred to while integrating additional stores. The average number of employees had risen to 4,347 by December 31, 2011, of which 260 employees are from former Wehmeyer stores. Further information inclusive of the number of staff on December 31, 2011 is detailed in the Personnel chapter.

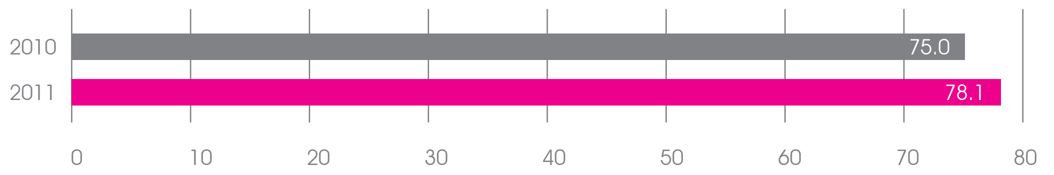


**Personnel expenses**

Average number of employees[1]




Personnel expenses[1] in € million




1) Incl. employees from Wehmeyer stores

### INCREASE OF OTHER OPERATING EXPENSES

Other operating expenses increased during the year under review by 13.2% to € 146.9 million (previous year: € 129.8 million). Other operating expenses increased as a result of the higher number of stores, reflected in particular in the expenses for buildings and marketing. Marketing expenses also include additional promotional activities for the acquired Wehmeyer stores.

## EBITDA € 30.7 MILLION

The earnings trend for the first two quarters confirmed the successful implementation of ADLER's growth strategy. The third quarter recorded a slower trend at the start of the winter season due to the weather because of the particularly slow month of September. Quarter four was as usual the strongest-selling quarter of the year, however it fell short of ADLER's expectations. This was due to the warm, above-average temperatures and industry-wide discount campaigns.

During the year under review the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) in total of € 30.7 million was below last year's level (previous year: € 37.8 million). The weaker earnings are mainly the result of the decreased gross profit margin and higher operating expenses. The gross profit margin was burdened by market-based discount campaigns during the winter and Christmas business.

### DEPRECIATION AND AMORTISATION, IMPAIRMENT, EBIT

Depreciation and amortisation at € 13.9 million was largely at the same level of last year in the amount of € 13.6 million. Impairments in the amount of € 0.9 million were made for goodwill resulting from the acquisition of F.W. Woolworth Ges. m.b.H. Earnings Before Interest and Taxes (EBIT) thus amounted to € 15.9 million (previous year: € 24.3 million).

### FINANCIAL RESULT AND EBT

The financial result worsened to € -3.2 million (previous year: € -0.6 million). An improvement occurred in interest expenses which could be reduced to € 3.4 million (previous year: € 4.1 million). On the other hand, ADLER barely earned interest in 2011, whereas in the previous year this still amounted to € 3.5 million.

### EARNINGS BEFORE TAXES AND ANNUAL NET PROFIT

Earnings Before Taxes (EBT) consequently reached € 12.7 million (previous year: € 23.7 million). A tax expenditure of € 4.4 million (previous year: tax income of € 4.8 million) produced an income from continuing operations of € 8.3 million (previous year: € 28.5 million). The consolidated annual net profit after taxes totalled € 8.3 million (previous year: € 27.4 million), which corresponds to the same amount of earnings allocated to the shareholders of Adler Modemärkte AG.

### SALES AND EARNINGS-RELATED DECLINE OF EARNINGS PER SHARE

The adjusted earnings per share total € 0.47 (basis: 17,629,723 shares). During the same period of the previous year there was only one GmbH share. Currently, ADLER 18,510,000 ADLER shares are outstanding.

# FINANCIAL POSITION & FINANCIAL PERFORMANCE

## GROUP FINANCIAL POSITION IMPROVED

The total assets of the ADLER Group amounted to € 187.1 million on December 31, 2011. Compared to December 31, 2010 (€ 162.7 million) this constitutes a plus of € 24.4 million.

The asset side of the statement of financial position (balance sheet) recorded higher inventories on December 31, 2011 compared to the previous year. Compared to the previous year, inventories rose by around € 16.8 million (December 31, 2010: € 56.7 million) to now € 73.5 million. In addition to the organic growth in sales this is in particular due to the strong rise in the number of stores. Every one of the 29 newly opened and acquired stores requires a starting volume of merchandise (inventories) worth an average € 0.4 million. To be able to maintain regular operations beyond this for additional new store openings and acquisitions within the realms of the growth strategy, inventories were strategically increased, a step that already paid off during the take-over of the Wehmeyer stores. In addition, inventories increased by the stock existing at the Wehmeyer stores. In addition to the rise in the number of stores, establishing the shop-in-shop concept at over 40 stores paired with the launch of the eibsee private label ties additional stock. On December 31, 2011 liquid funds rose compared to the previous year to € 40.0 million.

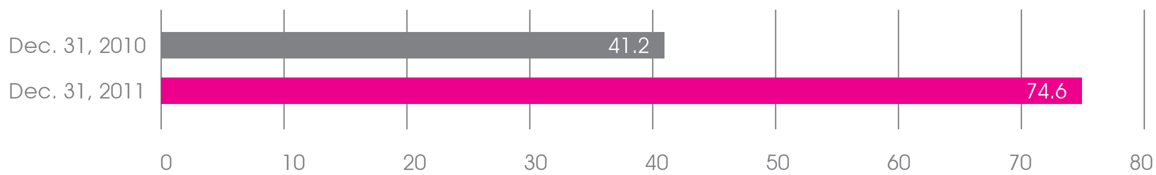
Intangible assets rose by € 0.5 million to € 3.5 million. Property, plant and equipment (PPE) fell by € 1.6 million to € 50.7 million (December 31, 2010: € 52.2 million). Depreciations and amortisations in the amount of € 13.2 million stand opposite investments worth € 12.1 million.

### EQUITY RATIO UP TO 39.9% FOLLOWING PUBLIC OFFERING

On the liabilities side of the statement of financial position equity is mainly marked by the inflow of funds from the capital increase following the public offering (after transaction costs and deferred taxes € 25.1 million) and the consolidated annual net profit for 2011 (€ +8.3 million) to € 74.6 million (December 31, 2010: € 41.2 million). The equity capital ratio rose to a solid 39.9% (at the start of the year 25.3%).

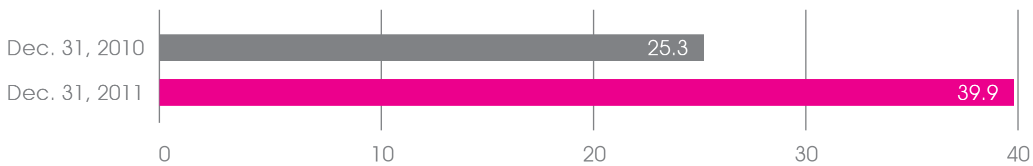
**Development of equity**

Equity in € million




MANAGEMENT REPORT

Equity ratio in %




## DEBT EQUITY RATIO REDUCED

The debt equity ratio improved towards the end of the 2011 financial year to 1.51, following 2.95 towards the end of the year 2010.

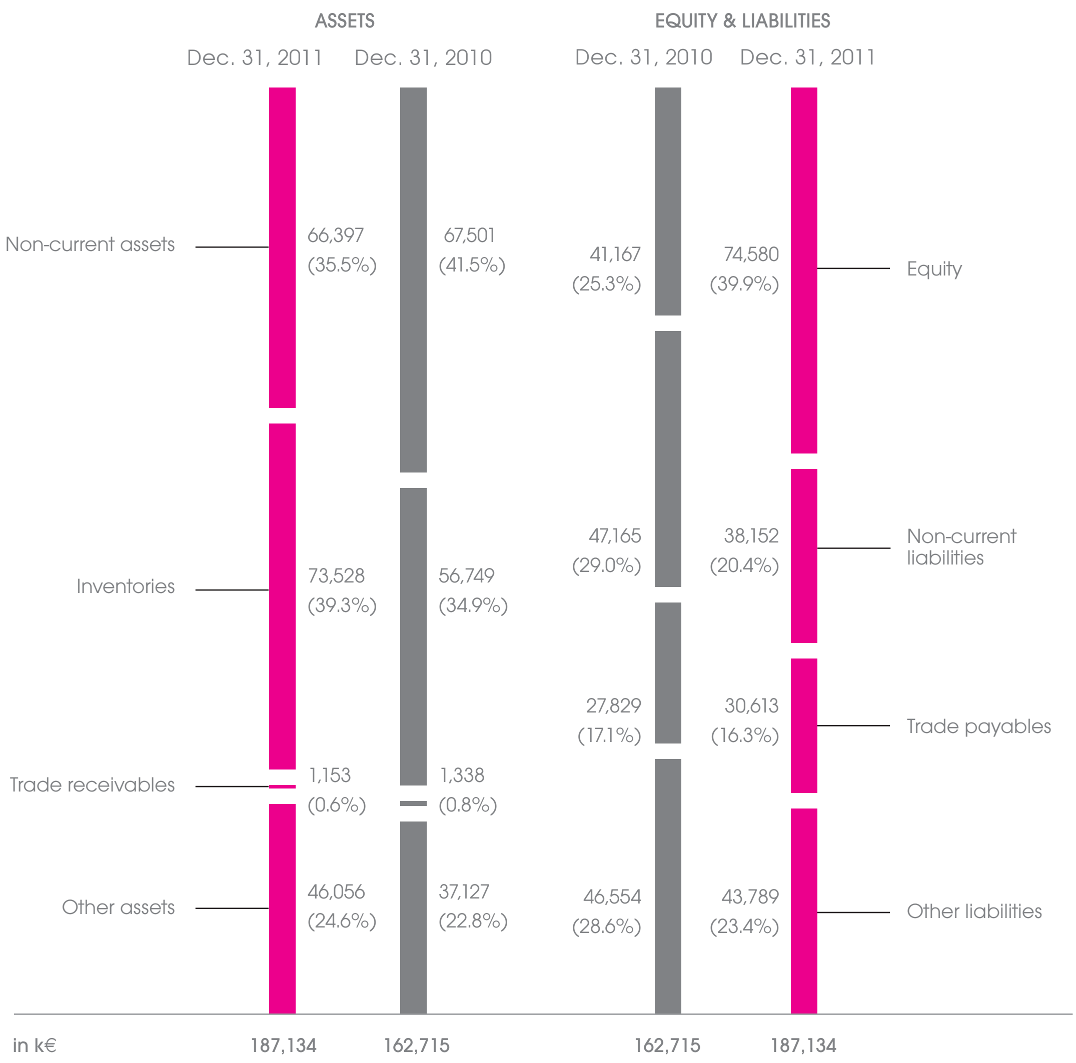
ADLER debts totalled € 112.6 million (previous year: € 121.5 million) on December 31, 2011. Finance lease obligations fell from € 46.0 million in the previous year to € 37.1 million. Finance lease agreements mainly refer to buildings rented for stores which on the basis of the underlying lease agreements are attributable to the Group as the beneficial owner. The decline of finance lease obligations corresponds to the reduction of the rental payment obligations. Additional debt items refer to trade payables in the amount of € 30.6 million (previous year: € 27.8 million), financial liabilities in the amount of € 19.1 million (previous year: € 18.6 million) and other liabilities in the amount of € 17.6 million (previous year: € 19.8 million). Financial liabilities are mainly comprised of discount which customers buying with the ADLER customer loyalty card are entitled to but have not yet drawn on. The other liabilities result for the most part from liabilities from VAT respect. duties, wage and salary obligations as well as obligations towards customers for gift vouchers sold. ADLER thus does not owe any amounts to credit institutions.

**Overview current and non-current liabilities**

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Amounts owed to credit institutions | 0 | 0 |
| Provisions | 7,812 | 8,443 |
| Financial liabilities | 19,114 | 18,573 |
| Finance lease obligations | 37,100 | 46,039 |
| Trade payables | 30,613 | 27,829 |
| Other liabilities | 17,604 | 19,751 |
| Deferred taxes and income tax liabilities | 311 | 913 |
| TOTAL LIABILITIES | 112,554 | 121,548 |

ADLER did not show any financial instruments in the 2011 statement of financial position which are affected by the government debt crisis according to in IAS 39, IFRS 7 or Section 315 para. 1 of the German Commercial Code (Handelsgesetzbuch, "HGB").

**Balance sheet**



## INCREASE OF WORKING CAPITAL

ADLER's working capital (inventories plus trade receivables minus trade payables), due to its genuine retail trade business, is mainly comprised of inventories minus liabilities to suppliers. Trade receivables play a subordinate role. The working capital rose to € 44.1 million (December 31, 2010: € 30.3 million) in 2011. The rise in inventories as a result of the strategic expansion, the stock from Wehmeyer stores and the weather-related decline in sales, as detailed above, are the main cause of the increase in working capital.

## CASH FLOW MANAGEMENT

The cash flow from operating activities is crucial for ADLER. Compared to the previous year, the increase in inventories mainly related to the opening of new stores led in 2011 to a lower cash inflow from operating activities in the amount of € 8.8 million (January 1, 2010 to December 31, 2010: € 25.8 million).

The cash outflow from investing activities totalled € 13.2 million (previous year: € 16.8 million). The free cash flow thus amounted to € -4.4 million (previous year: € 9.0 million).

The cash inflow from financing activities was positively influenced during the 2011 financial year as a result of the capital increase which brought the Company € 26.5 million (approx. € 23.5 million net). It totalled € 11.4 million (previous year: € -13.1 million) during the 2011 financial year. Consequently, cash during the period under review rose by € 7.1 million (previous year: decline by € 4.0 million).

## INVESTMENTS

The investments of the ADLER Group totalled € 14.2 million (previous year: € 5.4 million) during the 2011 financial year. € 12.1 million (previous year: € 4.9 million) of this amount are attributable to PPE (operating and business equipment) and € 2.1 million (previous year: € 0.5 million) to intangible assets.

Investments made during the year under review include openings of new stores in Kulmbach, Essen, Neunkirchen, Herne, Hamburg-Harburg, Bad Hersfeld, Altenburg, Berlin-Reinickendorf, Eschwege, Halle, Braunschweig, Steyer and Tulln in addition to the 18 Wehmeyer stores located in Aachen, Alsdorf, Borken, Düren, Geldern, Göttingen, Grevenbroich, Hagen, Hückelhoven, Hürth, Jülich, Koblenz, Marl, Mühlheim-Kärlich, Nordhorn, Porta-Westfalica, Siegburg and Worms.

# PROCUREMENT

ADLER does not own independent production sites. The Company has a lean organisation and concentrates on its core competencies, which is why the product lines are imported directly at a cost-effective price from Asia, Turkey and in future, even North Africa as well as indirectly via importers and brand manufacturers. The top criterion for procurement and logistics is to purchase high quality at a low price, secure delivery and optimal provision of the products to customers.

## COST-EFFICIENT DIRECT PROCUREMENT

ADLER has acquired many years of experience in the procurement of textiles in Asia. Between 1976 and 1989, ADLER operated its own sites in South Korea and Sri Lanka. Today, the production of textiles has been outsourced to strategic partners in Asia, and orders are processed largely by Metro Group Buying HK Ltd., Hong Kong (MGB). MGB merges the procurement operations of the METRO Group in Asia, where it enjoys a respectively large market power, much to the benefit of ADLER. At the same time ADLER is one of MGB's largest clients in the textiles segment. In the 2011 financial year ADLER purchased almost 41% of its entire purchase volume as direct imports. Of these, over 90% were produced in East Asia, South East Asia and on the Indian subcontinent, hence chiefly in low-wage countries, and transported to Europe by sea.

ADLER will expand its share of directly procured textiles in the medium run to 60% (38% in 2009). As a result, the purchasing conditions will improve further. During the past financial year the direct purchase volume rose by more than 10% to € 96 million. Via MGB ADLER procures merchandise mainly from Asia which, due to the lower buying prices and high order volumes, are more economical than indirect purchases from Europe. This generates positive economies of scale. The disadvantage lies in the long pre-order respect. delivery times via container ship.

### VOLUME OF SUPPLIER CONTRACTS SECURES PROCUREMENT

ADLER makes sure that it evenly distributes its purchase volumes across a world-wide network of suppliers in order to spread the risk and to become as independent as possible from the individual procuring markets and production sites. ADLER therefore has signed a number of contracts with importers which during the 2011 financial year each assumed less than 5% of the entire volume supplied to ADLER. Some importers can respond at short notice to changes in demand because their production sites are in the vicinity to Europe. The contracts with importers partly cover never-out-of-stock (NOS) items which are automatically reordered when sold. ADLER maintains additional supplier relationships with the manufacturers of the external brands marketed at the stores.

# DISTRIBUTION, SALES & MARKETING

## MULTI-CHANNEL SALES STRATEGY

ADLER pursues a multi-channel strategy for its sales. As for the most important sales channel - the stores - ADLER focuses on large-space retail concepts. ADLER is planning to continuously expand the existing network of stores in its German and Austrian core markets, in order to step up market penetration.

When expanding its network of stores in Germany, ADLER will chiefly focus on peripheral locations of conurbations, on rural areas in the vicinity of speciality market centres as well as on shopping malls in agglomeration with self service department stores and department stores, as well as on city locations in small and medium-sized towns whose catchment areas can draw on a population of over 50,000 people. ADLER reviews prospective future locations mainly for their compatibility with a large-space concept, i.e. for stores whose premises offer over 1,000 m² of retail space and are located in retail parks, shopping malls and inner-city locations. Retail parks are particularly suitable locations for ADLER, because they provide a high basic customer frequency which the stores benefit from, paired with highly beneficial external conditions, such as sufficient parking and easy accessibility, all of which accommodate the needs of ADLER customers.

## RELAUNCH OF THE ADLER ONLINE SHOP

Within the framework of continuous improvement efforts the existing online shop was optimised in 2011 and went live at the start of 2012 already. Great value was placed on even more convenient order processing for customers. Next to a new, more transparently-structured and user-friendly design, the secure payment options of Paypal and Instant Transfers are now available. Further added benefits include availability checks at the stores, payment and return at the ADLER stores for holders of the customer loyalty card, new filter options for a specific item by colour, style and price, and when looking for the matching trousers, entering the size and circumference of the waist and thigh prompts the matching ADLER label inclusive of fit.

## TARGETED MARKETING MEASURES

ADLER enjoys an excellent position in Germany as a market leader in the lower price range fashion market for women and men aged 45+ and intends to further enlarge this position. Its entire product and brand policy is primarily geared towards this target group in regard to fit, quality claim and offer of reasonably priced fashionable clothing even in plus sizes. ADLER refers to various media to promote its image and products. As an operator of large-space concepts located mainly outside of inner cities, ADLER generates customer frequency for its stores through intensive marketing measures.

## CONTINUOUS ANALYSIS OF MARKET AND CUSTOMERS

ADLER constantly performs market and customer analyses. Especially the Company's vertical integration and ADLER's customer loyalty card allow for the specific analysis of the customers' needs. This helps ADLER to recognise changes in the sector environment at an early stage and to swiftly align the product line with changed customer requirements.

## TRADITIONAL ADVERTISING MEASURES

ADLER's advertising relies mainly on two pillars: mailings addressed directly to owners of the customer loyalty card as well as inserts in newspapers and magazines. These measures create for existing customers as well as for new customers ever new incentives to pay a visit to ADLER stores. In addition, these promotions include at times target-group specific response enhancers. They vary throughout the season and can be anything from a raffle or free giveaways to discounts for all or some product lines. 2011 recorded a total print run of personalised mailings set to customers of 48 million copies. Inserts are distributed in the vicinity of stores using a range of media, thus serving mainly the purpose of acquiring new customers. In 2011, the print run for all inserts totalled 269 million copies. Additionally, advertisements are placed and leaflets are distributed to promote special events or specific stores.

# HUMAN RESOURCES & DIVERSITY

## PROMOTION OF EMPLOYEES & CORPORATE CULTURE

The operations performed by ADLER's 4,400-strong workforce constitute the foundation of the Company's success. Employees impart their skills on a daily basis, creating ADLER `s signature distinctiveness in proximity to the customer. Especially the feel and the understanding of the sensitive clientele aged 45+ are of major importance. The aim of ADLER's human resources work is therefore to support these employees and to further them, their team spirit and their efficiency, in order to build a working environment in which customer orientation and service quality can evolve freely.

### ADLER CORPORATE CULTURE

ADLER's corporate culture is based on service orientation, team spirit, creativity, openness and transparency. It creates an atmosphere in which the potential of all employees can unfold. Especially in the textile retail trade where employees interact daily with customers on the floor, it is vital to develop a strong communal spirit.

### EXPERIENCED AND QUALIFIED MANAGEMENT AND PERSONNEL

ADLER's management, as a result of personnel-related and organisational decisions, has ensured that operations at the individual stores are managed by managerial personnel on site, who are present on the floor and have been given their own decision-making freedom. This has led, amongst others, to ADLER being able to attract for its locational expansion numerous qualified and experienced employees from the competition.

### LOW STAFF TURNOVER

The staff turnover at ADLER at the head office as well amongst sales personnel at the stores is extremely low in comparison with other retail companies. The low staff turnover is a good indicator for compliance with social standards on behalf of ADLER, as well as the employees' appreciation of the Company. Over 75% of ADLER's employees have been with the Company for more than two years. More than 60% of employees can show for five years of service or more with the Company. With an average age of 46, many employees of the ADLER Group share the age of the primary target group of 45+. As a result of their company affiliation, ADLER employees were able to build up long-term relations with many customers, which contributes towards the high share of regulars at ADLER. ADLER's staff turnover rate during the year under review, as in 2010 already, was only around 11%.

### DIVERSITY AT ADLER AND ENTRY-LEVEL JOBS

ADLER intends to become the preferred employer for all employees and applicants – regardless of gender, origin, religion, age, disability or sexual preference. In view of the demographic change ADLER wants to exploit the potential provided by all applicants. With the knowledge that the 45+ target group will continue to grow for demographic reasons, ADLER equally intends to satisfy its clientele through its employee structure.

The share of women at ADLER has been very high since the Company's formation. Of the 189 employees in the first and second managerial levels, 101 are female. This means that the share of women in managerial positions at ADLER is more than 50%. Women make up a good 40% of the Supervisory Board. Many mothers have to master job and family in day-to-day life. For this reason, ADLER intends to align working conditions with its mission statement regarding the compatibility of family and professional life. ADLER equally supports human beings with severe disabilities to participate in professional life with equal rights.

**Diversity of HR**

| | Dec. 31, 2011 | In % |
|---|---|---|
| Total number of employees | 4,404 | 100% |
| Share of men | 389 | 8.8% |
| Share of women | 4,015 | 91.2% |
| Average age in years | 46.1 | |

## HR AND SOCIAL SEGMENT

### EXPANSION OF GROUP HEADCOUNT IN 2011

The economic success of the ADLER Group in 2011 was also reflected by the rise in the number of employees. Converted to full-time jobs, the number of employees towards the end of the 2011 financial year totalled 2,830 (previous year: 2,549), inclusive of inactive working relationships. The end of the year under review recorded for the first time 177 employees (converted to full-time jobs) at Adler Mode GmbH (formerly Wehmeyer). The annual mean of full-term employees at the ADLER Group (inclusive of Adler Mode GmbH) totalled 2,704 (incl. apprentices). The number (count) of employees (updated December 31, 2011) has increased to in total 4,404 employees, of which 265 employees come from the former Wehmeyer stores.

**Number of employees, year-end (headcount)**

| | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Executives | 189 | 172 |
| Full-time employees | 828 | 706 |
| Part-time employees (incl. marginal part-time workers) | 3,110 | 3,016 |
| Apprentices | 277 | 247 |
| TOTAL MANPOWER | 4,404 | 4,141 |

### APPRENTICES

At the end of the financial year the ADLER Group recorded 277 apprentices, 141 of whom were in their first year of training. These figures reflect the voluntary commitment of ADLER towards more training.

## VOCATIONAL TRAINING AND FURTHER EDUCATION / HR DEVELOPMENT

### PROMOTION OF JUNIOR RECRUITS

Also for the future ADLER relies on qualified and service-oriented staff. For this reason the Company has been supporting junior staff especially from its own circles. Vocational training at ADLER is in principle demand-oriented. Currently the commercial segment offers apprenticeship opportunities for the following professions: office administrator; management assistant in the retail trade; IT specialist and visual marketing designer.

### TRAINING AND SUPPORT

ADLER reinforces the customer orientation and service motivation of its employees with regular training seminars for the sales personnel. The middle management is responsible for these programmes. As a result of an established governance system which is also based on monthly test buys, the management can target the sales personnel to improve customer orientation and service quality.

### INDIVIDUAL HR DEVELOPMENT

With its demand-oriented HR development ADLER meets its responsibilities in regard to the qualification of employees. The individual needs and potential of every single employee constitute the focus. The specific support helps employees to improve the performance of their daily work and advance their knowledge beyond the current requirements of their present job. Moreover, the further development of the individual employee at the Group is supported in many ways, such as for example by changing into other departments or assuming alternative capacities, by being promoted into managerial positions or expanding the individual scope of responsibilities.

# SUSTAINABILITY & CORPORATE SOCIAL RESPONSIBILITY

For ADLER, corporate social responsibility, sustainability and environmental awareness constitute a crucial requisite for the Company's long-term success. Considerations regarding sustainability are included in all strategic and operational decisions and in particular, when it comes to the co-operation with suppliers and manufacturers. The responsible treatment of our environment and its resources is paramount for ADLER.

## BSCI - A DEVELOPMENT-BASED APPROACH

ADLER is an active member of the Business Social Compliance Initiative (BSCI), which unites hundreds of companies in its capacity as a co-operation platform dedicated to improving the working conditions within the global supply chain. On the grounds of a centralised certification system, member companies of the BSCI database have access to the ratings of all BSCI suppliers. An ethically acceptable supply chain is secured by the BSCI Code of Conduct which is reviewed in regular audits, as well as supplementing training activities. The BSCI Code of Conduct is based on the most essential international accords aimed at the protection of workers' rights, especially by the Convention of the International Labour Organisation (ILO) as well as other significant international provisions, such as the UN Charta of Human Rights.

Agreements with suppliers regulate especially such fields as discrimination, child labour, forced labour, working hours, wages, working conditions, dwellings as well as the freedom to gather. In a first step, the suppliers answer a standardised questionnaire based on the international SA8000 standard by Social Accountability International (SAI). In a second step, the production facilities are regularly audited and rated by independent audit companies accredited by the international Social Accountability Accreditation Services (SAAS) organisation.

The fact that the majority of long-term suppliers at the time of the introduction of the BSCI Code of Conduct were awarded the BSCI certification during the first audit is indicative of the conscious and socially responsible action of the ADLER purchasing team. ADLER continues to intensively work on achieving the BSCI Code of Conduct for all suppliers. For example, ADLER is introducing via the Hong Kong-based MGB buying agency qualification measures amongst all suppliers in Asia so as to support these actively in reaching and maintaining the BSCI Code of Conduct.

## I:CO COLLECTION INITIATIVE

With the I:CO initiative, ADLER was the first textile company to support I:Collect AG following the Germany-wide launch of the campaign in February 2009 - a campaign which professionally recycles used garments by applying innovative repurposing concepts. ADLER's participation in the I:CO concept actively contributes towards the preservation of natural resources. Within the I:CO initiative, garments and shoes that are dropped off are sorted, analysed and in a next step repurposed by I:CO according to the latest technical and scientific guidelines as well as up-to-date expertise. Since the old garments and footwear collected by ADLER remain in the cycle, this process is particularly environmentally-friendly and benefits every participating customer, since ADLER extends discount vouchers to the campaign participants which can be redeemed during the next shopping trip. In addition, ADLER supports CharityStar social projects with a donation for every kilogram of clothes collected. ADLER collected some 498 tons of used clothing at its stores in 2011 and forwarded these to I:CO.

## ADLER STRENGTHENS FAIRTRADE

ADLER decided in 2010 already as the first German textile retail chain to produce part of its collection under the Fairtrade seal. Fairtrade cotton contributes directly towards overcoming poverty in the producing countries. At the same time, the development opportunities of small farmers and workers in these countries are being increased. ADLER offers ladies' and men's shirts made of Fairtrade cotton, thus taking up a pioneering role in the textile industry. This year will see ADLER double the amount of Fairtrade products sold in 2010. The gradual expansion of the production range is to support this growth. To communicate the Fairtrade collection more effectively to customers, ADLER has set up small shops-in-shop at its Points of Sale which at some locations have been complemented in co-operation with GEPA by further products. ADLER demonstrates here that fair trade need not be solely comprised of products from the food segment, but can also be implemented for clothing.

Moreover, ADLER will encode Fairtrade merchandise accordingly as from the second half of 2012. ADLER thus lends greater transparency to the supply chain of Fairtrade products in addition to making the history behind the products more understandable. Customers can enter the code stated on the Fairtrade product on the Fairtrade website and trace the path of an ADLER garment all the way to the producer at the country of production. This is how ADLER communicates the social sustainability of the supply chain and sensitises the customer towards a conscious buying decision in favour of sustainable products. Through the co-operation with Fairtrade ADLER assumes further responsibility within the supply chain.

Fair trading allows cotton producers to rely on a fixed minimum price. Additionally, a Fairtrade premium is paid to the co-operatives and is spent on community projects. For local residents this means next to the fact that their lives and working conditions improve lastingly also that they are able to plan for future investments.

ADLER sees the Fairtrade standards and the Fairtrade code as an example for the further development of a more transparently-structured and socially responsible supply chain.

# OPPORTUNITY & RISK REPORT

## OPPORTUNITY REPORT

The ADLER Group is the only large retailer in the fashion industry with a consistent focus on the style needs of the over-45s. As a result, ADLER is clearly positioned and benefiting from demographic trends in Germany and Europe. The target group is set to grow considerably. This will increase ADLER's sales potential accordingly.

These solid foundations are further strengthened through carefully selected supplemental product lines so that people yet to enter the over-45 age group are also increasingly addressed. This is lending further impetus to business.

The growth strategy foresees further openings of new stores, the further roll-out of the brand shop concepts and the modernisation of ADLER stores. In addition to these measures for organic growth, ADLER will also use acquisitions where these allow for a long-term increase in overall profitability. Besides the ADLER stores, which are the most important distribution channel, ADLER has also set up an online shop. It is expected that ADLER's positive image will also spread on to the online shop and that, in turn, customers who became aware of ADLER online will also frequent ADLER stores in increasing numbers.

By broadening the business foundation, ADLER is tapping into new synergies with economy-of-scale effects and thus further opportunities to increase the Company's efficiency with the knock-on positive effects on the earnings performance. In addition to this, ADLER is increasingly availing of revenue-boosting opportunities via the extension of direct procurement through improved purchasing conditions.



## RISK MANAGEMENT SYSTEM

The risk policy of the ADLER Group is dedicated to ensuring a sustained increase in the corporate value of the Company and the achievement of financial and strategic business objectives. By balancing opportunities and risks, possible negative effects on corporate success are minimised.

### SECURING THE COMPANY'S CONTINUED EXISTENCE

The risk management system at Adler Modemärkte AG is dedicated to securing the Company's continued existence and continually increasing the corporate value of the Company into the long-term. To achieve this, developments that could endanger the business must be identified early on in order for them to be countered effectively. At the same time, the opportunities which exist should be used to tap into new potential for success and the Company's market value should be increased through a controlled approach to risk.

The risk management manual is the core medium of the risk management system. All of the Company's key risk management issues are laid down in the risk management manual. The Company's risk areas, the evaluation of the risks and the organisation of how risks should be dealt with are defined there. An established process chain for dealing with risks in the risk management manual allows for efficient detection and systematic implementation of countermeasures at all times.

The risk management system extends to all of the Company's divisions, including subsidiaries. All strategic and operational factors, events and actions which might significantly impact on the existence and economic position of the Company are considered risks. The risks of all external factors, e.g. the competitive environment, demographic trends, etc., which might restrict the achievement of business objectives and strategies are also examined. These include factors and actions from daily routine business as well as strategic decisions taken by the management and the Executive Board. In everyday operations, risk management means weighing up the identified opportunities and the effort involved in managing the associated risks as well as continuous monitoring of the risks entered into and their control measures. Clear responsibilities and a framework for action are required to facilitate the coordinated deployment of measures. Thus, risk management is a major task and has always been pursued via numerous measures.

## RISK REPORTING

Risk reporting serves as an information medium for the permanent monitoring of risks. It ensures that existing risks are identified, analysed and evaluated and risk-related information is systematically forwarded to the relevant decision-makers. Risks are observed with the aid of indicators and management are made aware of relevant developments if threshold values are exceeded. This improves the ability to manage the Company, thereby contributing positively to the corporate value.

The bodies of Adler Modemärkte AG have laid down basic rules on the assumption of risk. These allow ADLER to accept specific business risk if the associated opportunities are expected to increase corporate value.

### EXTERNAL RISKS

#### MARKET RISKS

The business development and further growth of the ADLER Group depend to a large extent on general demand trends in the retail clothing trade amongst the target customer group of the ADLER Group. Demand in the domestic German market in particular, which accounts for the major share of the Company's sales, as well as in the Austrian and Luxembourg markets are key to this. Demand, again, depends to a large extent on the general economic situation and the associated buying patterns of consumers.

Therefore, weak economic activity in the markets of the ADLER Group or a reduction in the disposable income of ADLER's target customer group for the purchase of clothing for other reasons considerably increase the risk of a negative sales trend. This could lead to increased price pressure on goods sold by the ADLER Group and a corresponding reduction in margins.

Fluctuations in supply and demand amongst suppliers or on commodity markets could lead to delivery bottlenecks, quality defects and increased logistics and production costs which it may not be possible to (completely) compensate for through higher prices. ADLER is countering these risks through a broad diversified supplier policy, while concurrently focusing on reliable partners such as Metro Group Buying (MGB). In addition to this, ADLER intends to expand its retail business further. This would ensure greater margin flexibility and allow for the possibility of compensating for price fluctuations on supplier markets.

The main country risks are in respect of international procurement, i.e. possible economic, political and other entrepreneurial risks abroad. ADLER counters these through diversification of the supplier structure. Country risks are compensated for on the sales side by the products being exclusively sold in neighbouring German-speaking countries with stable economic and political environments. As is the case for all companies, there is a possible risk of damage to the Company's financial position and financial performance from acts of terrorism and environmental catastrophes.

### MACROECONOMIC RISKS

Although there was an economic upturn in Germany in particular following the financial and economic crisis, the economic climate may deteriorate again, e.g. due to further political or economic crises or catastrophes at home or abroad, and consumers may reduce their consumption accordingly or keep it at a low level. There are risks for global economic development as a result of the financial and economic crisis and therefore also for the German economy which, as an export nation, is particularly dependent on global economic growth, but also for other markets where the ADLER Group sells its products. A renewed deterioration in the global economic situation would affect the economic climate in the European Union and thus conditions in ADLER's sales markets. There could be significant detrimental effects on the financial position and financial performance of the ADLER Group if one or more of the aforementioned risks were to arise.

## INTERNAL RISKS

### STRATEGIC RISKS

ADLER's economic success also rests on the brand image of the ADLER umbrella brand and its long-term strong positioning in the over-45s customer segment. Therefore, particular priority is given to protecting and maintaining the brand image at ADLER. The further development and strengthening of the ADLER umbrella brand might fail in spite of the careful brand strategy and this could affect growth prospects. Therefore great importance is placed on protecting, maintaining and also improving the brand image at ADLER.

ADLER is quick to detect current trends in the over-45s target group and accommodate these trends as needed in its stores. If ADLER should end up being unsuccessful at some stage in detecting current trends and meeting the tastes of the target group in the target markets, setting the right prices or developing and launching successful new products, this could have a detrimental effect on the Group's competitive position, growth opportunities and profitability.

### RISK OF PAYING A DIVIDEND

Dividends are paid out depending on the financial position and financial performance of Adler Modemärkte AG and the distribution/transfer of profits by its operational subsidiaries. The decision on paying out future dividends always depends on the respective conditions, including the profits and losses and the Company's financial and investment needs as well as the availability of net profit.

### FINANCIAL AND LIQUIDITY RISKS

ADLER's long-term business financing is assured through the availability of high levels of own liquid funds and satisfactory terms for accounts payable payments. Nevertheless, the Company has sufficient credit lines available to it to cope with shortfalls in liquidity. Business financial planning with additional weekly rolling liquidity planning means that there are always sufficient cash reserves. ADLER is not subject to any underfunding risk thanks to the liquid funds that are available and the positive business development expected.

The Company is largely financed via equity. Therefore, the Company is only slightly affected by interest rate changes. As a result, there is no interest hedging.

### CURRENCY RISKS

ADLER is subject to direct currency risks only to a limited extent as sales and the purchasing of merchandise are largely in euros. There may be indirect currency risks in the form of importers passing on their own currency fluctuations to ADLER via the sales price. ADLER normally agrees prices in advance on which it can base its sales price calculation.

## OPERATIONAL RISKS

### RISKS RELATED TO THE SOURCING OF GOODS

ADLER sources goods from within Europe and the Far East. The sources within Europe consist of more than 70 suppliers for different fashion sectors. There are no dependencies on individual suppliers which might have a significant effect on sales trends. If a supplier goes out of business, there are alternative sources available. The goods sourced from the Far East go through Metro Group Buying (MGB), which acts as an intermediary buying agent. ADLER has bundled access to a large number of manufacturers via MGB. There are no dependencies or risks which could endanger the Company if suppliers connected with MGB were to go out of business.

Rising wages in emerging regions and increasing commodity prices mean there is a risk of increasing production costs and lower margins. The ADLER Group is reacting to this through margin-based collection planning in order to ensure an early response to increasing production costs. Possible negative effects on the gross profit margin are being reduced through the expansion and continued professionalisation of operational business, company-wide measures to increase the efficiency of production and procurement processes, improved material use and the consistent implementation of the pricing policy.

### LOGISTICS RISKS

MOTEX Mode-Textil-Service Logistik und Management GmbH (MOTEX) handles goods and transport logistics for ADLER. This includes, amongst other areas, goods acceptance, goods preparation, order-picking and the supplying of all stores from the MOTEX logistics centre.

### DISTRIBUTION RISKS

A balanced customer structure is maintained at ADLER to avoid distribution risks. Dependency on individual stores will be further reduced through expanded retail activities. Key performance indicators such as orders in hand and sales revenues are subject to continuous and timely monitoring by the sales controlling department.

### SALES RISKS

Sales risks can arise through losing customers due to price wars, lapses in fashion taste, the effects of the weather and an unfavourable value-for-money ratio. ADLER carries out continuous market and customer analyses. This allows ADLER to identify changes in the industry and competitive environment early on and to proactively and quickly align business policy in general and product lines in particular to changing requirements. Product lines consistently tailored to the needs of ADLER customers, always characterised by high quality at a good price and with sales promoted by targeted advertising measures, are the highest priority. In addition to this, the sales risks are spread more widely through the horizontal and vertical strategic expansion of the business. Important examples in this regard include the customer-oriented expansion of the product range, the opening-up of new stores, the new ADLER online shop and external growth through acquisitions.

### LOCATION RISKS

The ADLER Group rents most of the ADLER stores. These are usually long-term rentals. Therefore, ADLER may not be in a position to close or relocate unprofitable locations at short notice and an acceptable cost. This is taken into account through a dedicated evaluation system before contract signing and shorter terms for new contracts.

### ENVIRONMENTAL RISKS

The Company is not aware of soil contamination in the properties used by ADLER. ADLER has sublet two petrol stations on rented land, but the Company believes it does not maintain any premises with facilities that represent a particular risk in respect of environmental pollution.

## COMPANY ORGANISATION RISKS

### COMMUNICATION AND INFORMATION TECHNOLOGY RISKS

Group-wide standard IT infrastructure facilitates smooth business processes. Various measures in the form of multilevel safety and virus concepts, the assignment of access rights, access control systems and independent energy supplies are used to reduce communication and information technology risks such as system crashes, data loss and unauthorised access.

### LEGAL RISKS

Possible legal risks may arise for ADLER within the context of global business activities. All major legal transactions of the ADLER Group are checked and approved by the central legal department in order to avoid legal disputes to the greatest possible extent.

ADLER is not currently the subject of state interventions or involved in major legal or arbitration proceedings which have arisen or been concluded in the last 12 months or still exist or are imminent according to the Company's knowledge and which might have or have recently had a significant effect on the financial position or financial performance of ADLER.

### PERSONNEL RISKS

Risks in relation to personnel may arise for ADLER through recruitment, lack of qualifications and staff turnover. These risks are limited by ADLER through comprehensive further training initiatives, performance-based remuneration and early succession planning. ADLER is characterised by a trust-based corporate culture with flat hierarchies. Responsible action and thinking are fostered at every level. Access to confidential information and the transfer of a high level of business responsibility contain the risk of abuse in spite of sophisticated, multilevel checking and control mechanisms. In order to comply with the principles of good corporate governance, ADLER has therefore added corresponding regulations to the employment agreements of all personnel. Individuals with insider knowledge pursuant to German stock corporation law are added to an insider directory and informed of the associated rules. Furthermore, the existing authorisation rules are regularly checked and refined.

## ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

Individual or aggregated risks which might endanger the Company's continued existence cannot be detected according to the current information available.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Internal control and risk management system (ICS) related to the (consolidated) accounting process (report as per Sections 289 (5), 315 (2) No. 5 of the German Commercial Code (Handelsgesetzbuch, "HGB"))

The internal control and risk management system in relation to the accounting process at Adler Modemärkte AG has suitable structures and defined processes which are implemented in 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, the ICS at ADLER ensures compliance with obligatory statutory norms, accounting rules and internal accounting instructions. Changes to laws and accounting standards and other announcements are continuously analysed for relevance and effect on the consolidated financial statements, with the resulting changes being integrated into intra-group guidelines and systems.

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

The financial statements of the Group companies outside of Germany are prepared by the head office. 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 central points of contact throughout the entire accounting process.

Appropriate measures are implemented within the context of the accounting process to ensure consolidated financial statements that are compliant with regulations. The measures are particularly used to identify and evaluate risks and to limit and monitor known risks.

The consolidated financial statements are prepared by the head office on the basis of the data received from the companies included in the consolidation group. The consolidation measures, certain reconciliation measures and the monitoring of timeframes and procedural guidelines are performed by employees at the head office. The consolidation steps to be performed for the preparation of the consolidated financial statements are subject to various system and manual checks. Control mechanisms implemented at Group level are comparisons of target figures with actual results, the four-eyes-principle and analysis of the content and changes to individual items contained in the statement of financial position and income statement.

The consolidated financial statements are approved internally through the report to the Executive Board, the Audit Committee and finally through the approval of the Supervisory Board.

It should be taken into account that an internal control system, regardless of how it is designed, cannot provide absolute certainty that significant misstatements in accounting will be avoided or uncovered. However, it can be used with sufficient certainty to prevent business risks having a significant effect.

# COMPENSATION REPORT

The Compensation Report describes the principles that are applied when total remuneration for the members of the Executive Board is decided and explains the structure and the figures for the remuneration of the Executive Board members. The Report also outlines the principles and the figures for the remuneration paid to the members of the Supervisory Board. The Report includes the information required by the German Commercial Code (Handelsgesetzbuch, "HGB"), the International Financial Reporting Standards (IFRS) and the Declaration of Conformity in accordance with the recommendations of the German Corporate Governance Code.

## PERFORMANCE-RELATED REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD

At ADLER, the remuneration system for the Executive Board is designed to create an appropriate incentive for successful and sustainable management of the Company. The remuneration is comparable with that customary in the sector and oriented to the size and economic position of the Company. It is designed both to appropriately reward special achievements and perceptibly censure any failure to meet targets. The members of the Executive Board are requested to enter into a long-term commitment to ADLER. Such a commitment, which is very much in the interest of the shareholders in an attractive investment, is recompensed by a linking of Executive Board remuneration to the multiyear - and thus sustained - increase in the value of the Company as shown by the price of the ADLER share.

Pursuant to legal requirements, in particular the German Act on the Commensurability of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, "VorstAG"), and a corresponding ruling in the Rules of Procedure for the Supervisory Board, the full Supervisory Board is responsible for determining and regularly monitoring individual Executive Board remuneration, after preparatory work has been completed by the Personnel Committee. The Executive Board and the Supervisory Board plan to submit the Executive Board remuneration system for approval at the first ordinary Annual General Meeting after the IPO.

The remuneration for the members of the Executive Board consists firstly, of a basic remuneration unrelated to achievement and, secondly, of the success-related components. The success-related components are the profit share "Short Term Incentive" (STI) and the bonus "Long Term Incentive" (LTI):

### BASIC SALARY

The basic remuneration for members of the Executive Board consists of a fixed annual rate and is paid as a monthly salary in twelve equal instalments. In addition, the members of the Executive Board receive subsidiary non-monetary benefits, primarily consisting of use of a company car, a telephone, allowances for accommodation expenses and insurance premiums. The Company always reimburses the members of the Executive Board for 50% of costs for health and care insurance, of which evidence must be provided by the relevant member of the Board, but will not reimburse more than the amount of the share in contributions which the Company would have to pay for an employment contract made under social insurance law.

## SHORT-TERM INCENTIVE (STI)

The Short-Term Incentive is the first component in the remuneration related to the Company's business success and is based on the results of the previous financial year. Under the STI ruling decided by the Supervisory Board, the amount of the STI depends on the earnings before tax (EBT) as per IFRS pursuant to the Company's audited income statement contained in the consolidated financial statements plus provisions for the Executive Board's short-term and long-term incentive. Accordingly, the STI for members of the Executive Board amounts in each case to a maximum of 1% of the EBT exceeding € 10,000,000 but no more than a figure of up to € 500,000 per year.

The Supervisory Board can reduce the STI by a reasonable amount if it is based on circumstances which were not triggered by achievements of the members of the Executive Board or if it is caused by exceptional developments. The STI for the previous financial year is payable two months after the end of the ordinary Annual General Meeting. If an appointment as a member of the Company's Executive Board only covered part of the financial year, the STI will be paid in proportion to the relevant time of service as a member of the Board.

## LONG-TERM INCENTIVE (LTI)

The Long-Term Incentive (LTI) with a term of a total of five years is designed to reward the Executive Board's contribution to the increase in the value of the Company and is calculated as follows: The members of the Executive Board undertake to buy shares in the Company and keep them for at least one year after purchase. For each share in the Company which they buy, the members of the Executive Board receive five so-called Stock Appreciation Rights (SAR). An SAR grants a claim to a payment in an amount which depends on the development of the quoted market price of the share but it does not grant an option to purchase a share in the Company. The waiting period for exercising the SARs is three years as of the respective date of purchase. The SARs can only be exercised if the final price of the Company share at the end of the waiting period is at least 30% above the respective purchase price. The SARs can be exercised, either in whole or in part, within a period of two years as of the end of the waiting period ("Exercising Period"). The amount paid out when each SAR is exercised is calculated as the difference between the average closing price of the share in Adler Modemärkte AG over a period of five trading days before the right is exercised and the price of the share when bought by the relevant member of the Executive Board. SARs will be forfeited if they have not been exercised by the end of the Exercising Period. In relation to the SARs granted, the LTI currently agreed with all the members of the Executive Board is limited to an individual maximum amount per member of the Executive Board and to a total amount of currently k€ 4,900. If one of the beneficiary members of the Executive Board resigns before the end of his contract as a member of the Executive Board, payment of the SARs is also restricted to the maximum payments specified in the settlement rulings.

## UNDERTAKINGS IN CONNECTION WITH TERMINATION OF MEMBERSHIP OF THE EXECUTIVE BOARD

In the event of premature termination of membership of the Executive Board without good cause, the contracts with Executive Board members provide for a compensation payment. The amount of the payments to the relevant member of the Executive Board including subsidiary benefits is limited to the value of the remuneration for two years ("Settlement Cap") and must not remunerate more than the remaining term. The criterion for the calculation and, if applicable, contractual ascertainment of the Settlement Cap is the total remuneration in the previous financial year and the anticipated total remuneration for the ongoing financial year. No undertakings have been made to members of the Executive Board for benefits due to premature termination of membership of the Executive Board as a result of a change of control.

### PENSIONS

The active members of the Executive Board have no contractual pension claims.

### SPECIAL BONUS

For the successful IPO in 2011, the members of the Executive Board in office at the time of the IPO each received a non-recurring special bonus amounting to € 50,000, payable with the monthly salary instalment following the IPO.

### TOTAL REMUNERATION FOR THE 2011 FINANCIAL YEAR

The Annual General Meeting held on May 30, 2011 adopted a resolution not to disclose individual Executive Board remuneration. In the 2011 financial year, the remuneration of the members of the Executive Board totalled k€ 1.434 (previous year: k€ 576). Remuneration can be broken down as follows:

| in k€ | 2011 | 2010 |
|---|---|---|
| Fixed remuneration | 573 | 494 |
| Non-monetary remuneration | 25 | 9 |
| Short-term incentives | 409 | 73 |
| **Payments to Executive Board members due in short term*** | **1,007** | **576** |
| **Payments due to termination of membership in Executive Board*** | **427** | **0** |
| | **1,434** | **576** |

* Remuneration in 2010 includes the salaries paid to the managing directors of the then Adler Modemärkte GmbH (after conversion: Adler Modemärkte AG); the relevant salaries are included proportionately in the remuneration for 2011.

## REMUNERATION OF THE SUPERVISORY BOARD

The current remuneration system for the Supervisory Board was adopted by resolution of the Shareholders' Meeting of Adler Modemärkte GmbH within the framework of the resolution to change the legal form of the Company on March 1, 2011 and recorded in Section 14 of the Articles of Association of Adler Modemärkte AG. Contrary to a recommendation in the German Corporate Governance Code, the remuneration of the Supervisory Board at ADLER is designed purely as fixed remuneration. In the same way as the remuneration of the Executive Board, the remuneration of the Supervisory Board is oriented to the size of the Company and is designed to do justice both to the work involved and the responsibility held.

Thus the members of the Supervisory Board receive remuneration of € 10,000, payable at the end of the financial year, for their work. The Chairman receives double remuneration and his deputy 1.5 times the said remuneration. These amounts are increased by 10% for each membership in a Supervisory Board committee, provided that the relevant committee has met at least twice in the financial year. The exception from this remuneration ruling is membership of the Mediation Committee as per Section 27 para. 3 of the German Co-Determination Act (Mitbestimmungsgesetz, "MitbestG"). Members of the Supervisory Board who have not belonged to the Supervisory Board or a committee for a full financial year or have not been the chair for a full financial year will receive proportionate remuneration. Remuneration is payable at the end of the Annual General Meeting which ratifies the acts of the Supervisory Board. In addition, each member of the Supervisory Board is paid a session fee of € 300 for every session of the Supervisory Board which said member attends. The Chairman receives a double session fee and his deputy 1.5 times the session fee. The members of the Supervisory Board are also reimbursed for all their expenses and for any value-added tax payable on their remuneration and expenses. The Annual General Meeting will adopt resolutions on other types of remuneration for the members of the Supervisory Board and any benefits with the character of remuneration.

In the 2011 financial year, the total remuneration of the members of the Supervisory Board amounted to k€ 144.0 (previous year: k€ 40.2) and can be broken down as follows:

**Supervisory Board remuneration in 2011**

| k€ | Fixed remuneration[1] | Committee work | Session fee[1] | Total remuneration |
|---|---|---|---|---|
| Holger Kowarsch, Chairman [2, 3] | 15.8 | 1.6 | 1.8 | 19.2 |
| Angelika Zinner, Deputy Chairwoman [2] | 13.0 | 2.4 | 2.6 | 17.9 |
| Mona Abu-Nusseira [2] | 7.9 | 0.8 | 0.9 | 9.6 |
| Majed Abu-Zarur | 8.7 | - | 2.1 | 10.8 |
| Oliver Apelt (until Feb. 28, 2011) [3] | 0.0 | - | - | - |
| Ingrid Düsmann-Schulz | 8.7 | - | 2.1 | 10.8 |
| Corinna Groß | 8.7 | - | 2.1 | 10.8 |
| Georg Linder [2] | 8.7 | 1.6 | 2.1 | 12.4 |
| Eduard Regele (since March 1, 2011) [2, 3] | 7.9 | 1.6 | 0.9 | 10.4 |
| Erika Ritter | 8.7 | - | 2.1 | 10.8 |
| Markus Roschel [3] | 7.9 | - | 0.9 | 8.8 |
| Markus Stillger (since March 18, 2011) | 7.9 | - | 0.9 | 8.8 |
| Ulmschneider, Jörg [4] | 11.7 | - | 2.1 | 13.8 |
| Markus Zöllner (until March 17, 2011) [3] | - | - | - | - |
| **Total** | **115.5** | **8.0** | **20.6** | **144.0** |

**Supervisory Board remuneration in 2010**

| k€ | Fixed remuneration[1] | Committee work | Session fee[1] | Total remuneration |
|---|---|---|---|---|
| Holger Kowarsch, Chairman [2), 3)] | - | - | - | - |
| Angelika Zinner, Deputy Chairwoman [2)] | 5.4 | - | 2.4 | 7.8 |
| Mona Abu-Nusseira [2)] | - | - | - | - |
| Majed Abu-Zarur | 3.6 | - | 2.4 | 6.0 |
| Oliver Apelt (until Feb. 28, 2011) [3)] | - | - | - | - |
| Ingrid Düsmann-Schulz | 3.6 | - | 2.4 | 6.0 |
| Corinna Groß | 3.6 | - | 2.4 | 6.0 |
| Georg Linder [2)] | 3.6 | - | 2.4 | 6.0 |
| Eduard Regele (since March 1, 2011) [2), 3)] | - | - | - | - |
| Erika Ritter | 3.6 | - | 2.4 | 6.0 |
| Markus Roschel [3)] | - | - | - | - |
| Markus Stillger (since March 18, 2011) | - | - | - | - |
| Ulmschneider, Jörg [4)] | - | - | 2.4 | 2.4 |
| Markus Zöllner (until March 17, 2011) [3)] | - | - | - | - |
| **Total** | **23.4** | **-** | **16.8** | **40.2** |

1) The figures contain the remuneration to which the members of the Supervisory Board are entitled in accordance with the rulings of the remuneration system of Adler Modemärkte GmbH (after conversion: Adler Modemärkte AG) for 2010 and proportionately for 2011.

2) The Chairman and the Deputy Chairwoman of the Supervisory Board receive higher fixed remuneration and a higher session fee. Upon application of the new Supervisory Board remuneration system in line with the Articles of Association of Adler Modemärkte AG, Supervisory Board remuneration is increased by 10% per membership of a committee and these amounts are entered separately as remuneration for committee work.

3) The representatives of the shareholders have waived the remuneration for 2010 and 2011 (proportionately) to which they are entitled under the remuneration rulings in the Articles of Association of Adler Modemärkte GmbH.

4) The basic remuneration for the 2010 financial year is included in the fixed remuneration for 2011, amounting to € 3,000. In addition to his remuneration as a member of the Supervisory Board, Mr. Jörg Ulmschneider is entitled to € 5,004.43 (incl. VAT) for consultancy services in the 2011 financial year, which were approved in advance by the Supervisory Board.

## MISCELLANEOUS

For the members of the Company organs, in particular, the Company has taken out a D&O insurance policy. For the members of the Supervisory Board and the Executive Board, the insurance includes an excess in accordance with Section 93 para. 2 sentence 3 of the German Stock Corporation Act (Aktiengesetz, "AktG") and the German Corporate Governance Code.

# LEGAL INFORMATION

The following section primarily contains data and explanations pursuant to Sections 289 para. 4, 289a and 315 para. 4 of the German Commercial Code (Handelsgesetzbuch, "HGB"). This data refers to structures under corporate law and other legal relations and is intended to enable a better overview of the Company and any obstacles to take-over.

## CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement under Section 289a HGB is part of the Management Report. Under Section 317 para. 2 sentence 3 HGB, the information pursuant to Section 289a HGB is not to be included in the audit. The statement published on the ADLER website (www.adlermode-unternehmen.com) under the heading Investor Relations / Corporate Governance includes the Statement of Compliance, data on management practices and a description of the method of operation of the Executive Board and the Supervisory Board.

## REPORT ON RELATIONS WITH AFFILIATED COMPANIES

Cheverny Investments Limited with seat of business in Gzira, Malta, was the sole shareholder in Adler Modemärkte GmbH. Since the change in legal form and conversion to Adler Modemärkte AG (effective as of entry in the Commercial Register on March 17, 2011), Cheverny Investments Limited had a holding in the Company with 100% of voting shares until June 21, 2011 and a minority holding as of June 21, 2011, which could represent a majority at the Annual General Meeting in view of the anticipated presence at the same. blu Finance Ltd., St. Julians, Malta, has a majority holding in Cheverny Investments Limited. bluO Malta Holding Ltd., St. Julians, Malta, has a majority holding in blu Finance Ltd., St. Julians, Malta. bluO SICAV-SIF, Luxembourg, has a majority holding in bluO Malta Holding Ltd., St. Julians, Malta. Adler Modemärkte AG has no controlling or profit transfer agreement with Cheverny Investments Limited.

Thus the Executive Board of Adler Modemärkte AG has prepared a dependence report showing relations with affiliated companies as per Section 312 of the German Stock Corporation Act (Aktiengesetz, "AktG"). At the end of the report, the Executive Board has made the statement "[…] that Adler Modemärkte AG and its subsidiaries have received an appropriate consideration for every legal transaction pursuant to the circumstances known to the Executive Board at the time at which the legal transactions were performed. No measures have been taken or omitted to be taken in the interest or at the instigation of the controlling company or the companies affiliated with the same."

## DATA UNDER TAKE-OVER LAW PURSUANT TO SECTIONS 289 PARA. 4 AND 315 PARA. 4 HGB AS OF DECEMBER 31, 2011 AND EXPLANATORY REPORT

### COMPOSITION OF SUBSCRIBED CAPITAL

The currently subscribed (issued) capital (share capital) of Adler Modemärkte AG is € 18,510,000.00 and is divided into 18,510,000 ordinary shares made out to the bearer without any nominal amount (no par-value shares), with a proportional amount in share capital of € 1.00 in each case. Each share grants the same rights and one vote at the Annual General Meeting.

Through the reorganisation resolution dated March 1, 2011 adopted by the sole shareholder Cheverny Investments Ltd., Gzira/Malta, the Company was converted, by way of change of legal form pursuant to Sections 190 et seq., 238 et seq. of the German Reorganisation Act (Umwandlungsgesetz, "UmwG"), into a stock corporation with a share capital of € 15,860,000, divided into 15,860,000 ordinary shares made out to the bearer without any nominal amount (no par-value shares), with a proportional amount in share capital of € 1.00 in each case. It was entered in the Commercial Register on March 17, 2011. By resolution of the Annual General Meeting on May 30, 2011 and entry in the Commercial Register on June 22, 2011, the share capital of the Company was increased by € 2,650,000, divided into 2,650,000 no par-value shares made out to the bearer with an accounting par value of € 1.00.

### RESTRICTIONS RELATING TO VOTING RIGHTS OR TRANSFER OF SHARES, INCLUDING THOSE THAT MAY RESULT FROM AGREEMENTS BETWEEN SHAREHOLDERS, INSOFAR AS KNOWN TO THE EXECUTIVE BOARD OF THE PARENT COMPANY

In the take-over agreement (the "Take-over Agreement") made on May 27, 2011 with Cheverny Investments Limited, Malta, and Crédit Agricole Corporate and Investment Bank, Paris ("Sole Global Coordinator"), the undertakings made by the Company included the following: not to, without obtaining the prior written consent of the Sole Global Coordinator for a period of twelve months after the date of first listing, (a) either directly or indirectly, issue, sell, offer, undertake to sell or otherwise dispose of shares in the Company resulting from a capital increase or, if applicable, originating from its own share portfolio or to announce an offer relating to the same. This does not include any share issue under employee participation or management stock option programmes described in the Offering Memorandum; (b) either directly or indirectly, issue, sell, offer, undertake to sell or otherwise dispose of securities or uncertified rights which can be converted into Company shares or which certify a right to purchase shares in the Company or to publish an offer relating to the same; (c) announce or perform a capital increase from authorised capital; (d) propose a capital increase to its Annual General Meeting for adoption by resolution; nor (e) enter into any transactions (including derivative transactions) which correspond to the above measures in economic terms.

In the course of the IPO in June 2011, Cheverny Investments Limited, Malta, made the following undertakings to the syndicate banks in the Take-Over Agreement: (a) neither to instigate nor approve the above Company measures and (b) not to, without obtaining the prior written consent of the Sole Global Coordinator for a period of twelve months after the date of first listing, (i) either directly or indirectly, sell, offer, market, undertake to sell or otherwise dispose of shares or other securities or uncertified rights which can be converted into Company shares or exchanged for them or which certify a right to purchase shares in the Company or to publish or announce an offer relating to the same; (ii) propose a capital increase to the Company or approve the same or support such a proposal nor (iii) enter into any transactions (including derivative transactions) which correspond to the transactions described under (i) and (ii) in economic terms.

In their employment contracts, the members of the Executive Board have undertaken to the Company to hold for at least one year as of acquisition the Company shares to which they have subscribed as part of their success-related remuneration component. For further details of the Executive Board remuneration system, please see the Remuneration Report.

### CAPITAL HOLDINGS EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2011, there are the following direct holdings in Company capital which exceed 10% of voting rights and of which ADLER has been notified in compliance with the regulations of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG"):

1) Pursuant to Section 21 para. 1a WpHG, Cheverny Investments Limited, Gzira, Malta, notified us on June 28, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Deutschland, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG.

2) Pursuant to Section 21 para. 1a WpHG, blu Finance Ltd., St. Julians, Malta, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Deutschland, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to blu Finance Ltd., St. Julians, Malta, pursuant to Section 22 para. 1 sentence 1 no. 1 WpHG. The chain of controlled companies is as follows: Cheverny Investments Limited, Gzira, Malta.

3) Pursuant to Section 21 para. 1a WpHG, bluO Malta Holding Ltd., St. Julians, Malta, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Deutschland, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to bluO Malta Holding Ltd., St. Julians, Malta, pursuant to Section 22 para. 1 sentence 1 no. 1 WpHG. The chain of controlled companies is as follows (beginning with the bottom company): Cheverny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta.

4) Pursuant to Section 21 para. 1a WpHG, bluO SICAV-SIF, Luxembourg, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Deutschland, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to bluO SICAV-SIF, Luxembourg, pursuant to Section 22 para. 1 sentence 1 no. 1 WpHG. The chain of controlled companies is as follows (beginning with the bottom company): Cheverny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta; bluO Malta Holding Ltd., St. Julians, Malta.

In the course of the handling of the IPO and placement of Company shares, Crédit Agricole Corporate and Investment Bank, Paris, France, had a temporary holding which exceeded 10% of voting rights. Thus the share in voting rights was 62.83% on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG, and 0% on June 24, 2011. The voting rights were attributable in each case to Crédit Agricole S.A., Paris, France, and SAS Rue la Boétie, Paris, France, pursuant to Section 22 para. 1 sentence 1 no. 1 WpHG.

## SHARES WITH SPECIAL RIGHTS GRANTING CONTROLLING POWERS

There are no shares with special rights granting controlling powers.

## TYPE OF VOTING RIGHTS CONTROL, IF AS EMPLOYEES HAVE A HOLDING IN CAPITAL AND DO NOT DIRECTLY EXERCISE THEIR CONTROLLING RIGHTS

The Company has not currently issued any shares to employees under an employee share programme.

## APPOINTMENT AND DISMISSAL OF THE MEMBERS OF THE EXECUTIVE BOARD, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of the members of the Executive Board of Adler Modemärkte AG are governed by Sections 84 and 85 AktG and by Section 31 of the German Co-Determination Act (Mitbestimmungsgesetz, "MitbestG") in association with Section 6 of the Articles of Association. According to the above, the members of the Executive Board are appointed by the Supervisory Board for no more than five years. Repeated appointment or extension of the period of office, for no more than five years in each case, is permitted. Under Section 31 para. 2 MitbestG, a majority of at least two-thirds of the members of the Supervisory Board is required for the appointment of members of the Executive Board. If no appointment is achieved on this basis, the Arbitration Committee of the Supervisory Board must, within one month of the ballot, submit to the Supervisory Board a proposal for appointment. Then the Supervisory Board will appoint the members of the Executive Board by the majority of votes of its members. If no appointment is possible in this case either, the Chairman of the Supervisory Board will hold two votes in a renewed ballot. Under Section 6 para. 1 of the Articles of Association, the Executive Board shall consist of at least two persons; the number of members of the Executive Board is decided by the Supervisory Board. Pursuant to Section 84 AktG and Section 6 para. 1 of the Articles of Association, the Supervisory Board can assign a Chairman of the Executive Board and a Deputy Chairman. If a required member of the Executive Board is lacking, a member will be appointed by the court in urgent cases pursuant to Section 85 AktG upon request by a party. Under Section 84 para. 3 AktG, the Supervisory Board can revoke the appointment of a member of the Executive Board and the assignment as Chairman of the Executive Board if there is good reason to do so.

An amendment to the Articles of Association will be decided by the Annual General Meeting with a majority of at least three-quarters of the share capital represented when the resolution is presented; Sections 179 et seq. AktG are applicable. Pursuant to Section 16 of the Articles of Association, the Supervisory Board is authorised to decide on amendments to the Articles of Association which relate to the wording only. In addition, the Supervisory Board is authorised to amend the wording of Section 4 of the Articles of Association (amount and division of share capital) in accordance with the then current utilisation of authorised or contingent capital.

## POWERS OF THE EXECUTIVE BOARD TO ISSUE SHARES

Pursuant to Section 5 para. 5 of the Articles of Association that currently apply, the Executive Board is authorised - subject to the consent of the Supervisory Board - to increase the share capital by a maximum of a total of € 7,930,000 until February 10, 2016, this being either in whole or in part, either once or repeatedly and by issuing no par-value shares made out to the bearer in return for cash and/or non-cash contributions (Authorised Capital). Shareholders must be granted a subscription right. The statutory subscription right can also be granted by the new shares being underwritten by a bank or a syndicate of banks with the obligation to offer them to the Company's shareholders for subscription.

However, the Executive Board is authorised to exclude the shareholders' statutory subscription right subject to the consent of the Supervisory Board (a) in the event of a capital increase against non-cash contributions as part of the purchase of a company, parts of a company or holdings in companies; (b) in the event of a capital increase against cash contributions if the offering price of the new shares issued with exclusion of the subscription right as per Section 186 para. 3 sentence 4 AktG is not significantly less than the quoted market price of the shares already listed with the same class and structure and the proportional amount of the total share capital assignable to the new shares issued with exclusion of the subscription right as per Section 186 para. 3 sentence 4 AktG does not exceed 10% of the share capital existing at the time at which this authorisation becomes effective and at the time at which such authorisation is utilised. To this restriction to 10% of share capital are to be attributed any shares issued during the term of this authorisation until the time of its utilisation in direct or corresponding application of Section 186 para. 3 sentence 4 AktG or (c) to avoid fractional amounts.

By a resolution adopted by an Extraordinary General Meeting on May 30, 2011, the Executive Board was authorised to issue until April 30, 2016 – subject to the consent of the Supervisory Board – either once or repeatedly, warrant-linked and/or convertible bonds made out to the bearer for a total nominal sum of up to € 250,000,000.00 with a term of no more than 20 years and to grant the holders of warrant-linked bonds option rights and the holders of convertible bonds conversion rights to up to € 7,930,000.00 in ordinary shares in the Company made out to the bearer without any nominal amount (no par-value shares), subject to the detailed requirements of the warrant-linked or convertible bond conditions.

Besides in euros, the bonds can also be issued in the legal currency of an OECD country, with restriction to the equivalent euro value. They can also be issued by a domestic or foreign company in which the Company has a direct or indirect holding with the majority of votes and capital (hereinafter "Majority Holding Company"). In such a case, the Executive Board is authorised to assume the guarantee for the repayment of the bonds for the issuing company and to grant the holders of such bonds Company shares to service the option or conversion rights granted with these bonds.

The holders or creditors of convertible bonds have the right to exchange their convertible bonds into new shares in the Company subject to the detailed requirements in the appropriate conditions. These conditions may also create a conversion obligation at the end of the term or at an earlier time. In such a case, the conditions can provide for the Company to be entitled to compensate in cash, either in whole or in part, for any difference between the nominal amount of the bond and the quoted market price of the shares - which will be defined in detail in the conditions - at the time of the conversion obligation (the "Quoted Market Price at the Time of Conversion"), multiplied by the exchange ratio. However, at the time of conversion, the Quoted Market Price at the Time of Conversion must correspond to at least 80% of the quoted market price of the Company shares at the time of issue of the bonds, calculated as described below.

If warrant-linked bonds are issued, one or more warrants will be enclosed with each bond, entitling the holder to subscribe to new shares in the Company, subject to the detailed requirements in the option conditions to be specified by the Executive Board. The term of the option right must not be more than a maximum of 20 years. The proportional amount of share capital assignable to the no par-value shares available for subscription per warrant-linked bond must not exceed the nominal amount of the warrant-linked bonds.

For convertible bonds, the exchange ratio results from division of the nominal amount of a bond by the fixed conversion price for a new share in the Company. The exchange ratio can also result from division of a bond offering price that is less than the nominal amount by the fixed conversion price for a new share in the Company. In addition, the conditions can provide for the conversion ratio to be variable and permit it to be rounded up or down to a full number; an additional payment to be made in cash can also be specified. Provision can also be made for fractional shares to be combined or compensated in cash. Under no circumstances may the proportion in the share capital represented by the shares to be issued in conversion or to be purchased per bond when an option is exercised exceed the nominal amount and offering price of the convertible or warrant-linked bonds.

Warrant-linked and convertible bonds (partial debentures) can be also be issued in return for non-monetary contributions, insofar as the value of the non-monetary contributions corresponds to the offering price and the latter is not significantly less than the theoretical fair value of the partial debentures calculated by recognised methods of financial mathematics.

Upon issue of bonds, shareholders always hold a statutory subscription right. Shareholders can also be offered the bonds by way of an indirect subscription right; the bonds will then be underwritten by a bank or a bank syndicate with the obligation to offer them to the shareholders for subscription. However, subject to the consent of the Supervisory Board, the Executive Board is authorised to exclude the shareholders' subscription right to partial debentures

+ in order to exempt from the shareholders' subscription rights any fractional amounts resulting from subscription ratios;

+ if (i) they are issued against cash payment and (ii) the offering price is not significantly less than the theoretical fair value of the partial debentures calculated by recognised methods of financial mathematics; however, this only applies insofar as the shares to be issued to service the option and conversion rights thus created do not exceed a total of 10% of share capital, neither at the time of becoming effective nor at the time at which this authorisation is utilised. To this amount must be credited the proportional amount of share capital attributable to shares which are issued, with exclusion of the subscription right pursuant to Section 186 para. 3 sentence 4 AktG, from Authorised Capital by way of a cash capital increase between the date of the Annual General Meeting adopting the resolution on such authorisation and the end of the term of such authorisation. In addition, there must be crediting to this amount of the proportional amount of share capital attributable to the sale of the Company's own shares, provided this is done during the term of this authorisation with exclusion of the subscription right pursuant to Section 186 para. 3 sentence 4 AktG;

+ if partial debentures are issued in return for non-monetary contributions and the exclusion of subscription rights is in the interest of the Company and/or

+ insofar as necessary to grant to the holders of convertible bonds, option warrants or convertible profit participation rights issued by the Company or its downstream affiliates a subscription right of the scope to which they would be entitled after exercising such rights or meeting conversion obligations.

Calculation of the option or conversion price will be based on the following principles: Even on the basis of the following antidilutive rulings, the option or conversion price must amount to at least 80% of the volume-weighted average quoted market price of the Company shares in the XETRA trading system at the Frankfurt Stock Exchange (or a comparable successor system), this being in the period between the beginning of the bookbuilding process and the final pricing of the bonds by the banks supporting issue or, if the shareholders have a subscription right to the bonds, either during the subscription period, with the exception of the last four stock-exchange trading days before said period expires or on the ten stock-exchange trading days before the date of the resolution of the Executive Board on the issue of the bonds.

The conditions can also provide for the option or conversion price to be amended within a margin which will be decided by the Executive Board and will be related to the development of the share price or result from antidilutive provisions during the term.

Without prejudice to Section 9 para. 1 AktG, the option or conversion price can be reduced pursuant to a antidilutive clause, as specified in greater detail in the conditions, by payment of a corresponding cash amount upon the exercising of the conversion right or by decreasing the additional payment, if the Company has increased share capital during the option or conversion period and granted a subscription right to its shareholders or if the Company or its Majority Holding Company issue further warrant-linked or convertible bonds or grant other option rights and the holders of convertible or option rights are not granted a subscription right of the scope to which they would be entitled after exercising the option or conversion rights. Instead of a cash payment or a reduction of the additional payment, the exchange ratio can also – as far as possible – be adjusted by division by the reduced conversion price. Furthermore, the conditions can provide for adjustment of the option or conversion rights in the event of a capital decrease or measures which may lead to a dilution of the value of the shares issued by the Company.

The conditions can provide for or allow the Company not to grant any shares to the holders of option or conversion rights but to pay the equivalent value in cash, with further details being specified in the conditions. The conditions can also provide for the bonds to be able to be converted – at the discretion of the Company – into existing Company shares instead of into new shares from contingent capital or, respectively, for the option right to be serviced or option obligation met by the supply of such shares.

The Executive Board is authorised to specify, subject to the consent of the Supervisory Board, the bond conditions and other particulars relating to the issue and features of the warrant-linked and/or convertible bonds, especially the interest rate, offering price, term and denominations and the option or conversion period.

On the basis of the resolution adopted by the Extraordinary General Meeting on May 30, 2011 and pursuant to Section 5 para. 6 of the Company's current Articles of Association, a contingent increase in the Company's share capital by € 7,930,000.00 was performed by issue of up to 7,930,000 00 new ordinary shares made out to the bearer without any nominal amount (no par-value shares) (Contingent Capital 2011). The contingent capital will only be used under the following circumstances:

+ if conversion or option rights are actually exercised by the holders or creditors of bonds with conversion or option rights which were issued by the Company or its direct or indirect Majority Holding Companies on the basis of the authorisation resolution of the Annual General Meeting of May 30, 2011; or

+ if the holders or creditors of bonds with conversion obligations, which were issued by the Company or its direct or indirect Majority Holding Companies on the basis of the authorisation resolution of the Annual General Meeting of May 30, 2011, meet their conversion obligation and to this extent no cash compensation is paid or already existing shares used to service these rights. The new shares will be issued at the option or conversion price which will be set in each case in accordance with the authorisation resolution of the Annual General Meeting of May 30, 2011. The new shares will participate in Company profit from the beginning of the financial year in which they were created by the exercising of conversion or option rights or by the meeting of conversion obligations.

The Executive Board is authorised to specify further details of performance of the increase in contingent capital.

## POWERS OF THE EXECUTIVE BOARD TO BUY BACK SHARES

The Extraordinary General Meeting on May 30, 2011 authorised the Executive Board to buy the Company's own shares (treasury shares) until March 31, 2016, subject to the consent of the Supervisory Board, this being in a volume of up to 10% of the share capital existing at the time at which the resolution was passed. Purchase for the purpose of trading with its own shares is not permitted. No more than 10% of share capital must be attributable to the shares purchased on the basis of this authorisation, in conjunction with other Company shares which the Company has acquired by the time of purchase of the above shares and still holds. This authorisation can be used in whole or partial amounts and once or repeatedly by the Company or by controlled companies or companies in which the Company has a majority holding or by third parties acting for the account of the Company or controlled companies or companies in which the Company has a majority holding. Purchase can be through the stock exchange or by means of a public purchase offer addressed to all the shareholders. In the event of purchase through the stock exchange, the purchase price (excluding subsidiary purchase costs) must not exceed or fall short of the share price established by opening auction on the relevant trading day in the XETRA trading system (or a comparable successor system) by more than 10%. In the event of a public purchase offer, the purchase price offered or the limits of the purchase price spread per share (excluding subsidiary purchase costs) must not exceed or fall short of the closing price in the XETRA trading system (or a comparable successor system) by more than 10% on the third stock exchange trading day before the day of public announcement of the offer. The offer can be adjusted if there are significant variations in the relevant price after publication of the public purchase offer. In this case, the criterion will be the price on the third stock exchange trading day before the day of public announcement of any such adjustment. The volume of the offer can be limited. If the total subscription to the offer exceeds the specified volume, acceptance must be by allocation. Preferential acceptance of low numbers of up to 100 offered shares per shareholder can be scheduled.

Subject to the consent of the Supervisory Board, the Executive Board is authorised to use Company shares purchased on the basis of this authorisation as follows: (i) The shares can be retired and such retirement or its implementation does not require a further resolution by the Annual General Meeting. The retirement authorisation can be applied as a whole or in parts. Retirement leads to a reduction in capital. In deviation from this ruling, the Executive Board can stipulate that share capital will not be reduced but the proportion held in share capital by the remaining shareholders increased as per Section 8 para. 3 AktG. In such a case, the Executive Board is authorised to amend the information given in the Articles of Association relating to the number of shares. (ii) The shares can be offered and assigned to third parties in the course of business combinations or in the event of acquisition of companies or holdings in the same. (iii) The shares can be offered for sale to members of the Executive Board or employees of the Company or of its affiliates and assigned to the same. (iv) The shares can be offered for sale or assigned to third parties who, as strategic partners of the Company or of its affiliates, have made a significant contribution to achievement of the entrepreneurial objects of the Company. (v) The shares can be used to meet the Company's obligations resulting from conversion bonds it has issued or warranted.

## MAJOR AGREEMENTS OF THE PARENT COMPANY SUBJECT TO THE CONDITION OF A CHANGE OF CONTROL AS A RESULT OF A TAKE-OVER BID

Adler Modemärkte AG has two general loan agreements totalling € 10 million and a guarantee facility for € 2.5 million which provide for an exceptional termination right in the event of a change of control. Two of the agreements provide for a termination right of the lender in the event that the justified interests of the lender are impaired - in the substantiated opinion of said lender - by the assumption of direct or indirect control of the Company by one or more legal entities. The other credit line allows termination by the lender if there is a change of control and no agreement is reached by the parties in due time before such a change relating to continuation of the facility subject to possibly different conditions, e.g. as regards interest, provision of security or other arrangements.

In the event of the sale of the Company, the purchasing commission agency agreement between MGB Metro Group Buying HK Ltd., Hong Kong, and the Company provides for the automatic ending of the agreement within three months of the date of sale.

## COMPANY COMPENSATION AGREEMENTS MADE WITH MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES IN THE EVENT OF A TAKE-OVER BID

No undertakings have been made to members of the Executive Board or employees regarding benefits in the event of premature termination of Executive Board work as a result of a change of control ("Change of Control").

# SUPPLEMENTARY REPORT

## SHARE BUYBACK PROGRAMME

The Executive Board of Adler Modemärkte AG resolved on January 12, 2012 in response to the prior consent issued by the Supervisory Board, to partially exercise the authorisation granted by the Extraordinary General Meeting held on May 30, 2011 for the purchase of ADLER shares and to acquire by June 30, 2012 up to 1,000,000 ADLER shares (approx. 5.4% of the current share capital) at a maximum purchase price of € 10.00 per share (exclusive of ancillary acquisition costs) through the stock exchange. The buyback has been authorised for every purpose as set forth by the resolution of the Extraordinary General Meeting held on May 30, 2011, and here in particular for the transfer or sale in conjunction with business combinations or the acquisition of companies or holdings in the same; the transfer respect. the sale to members of the Executive Board or employees of the Company or of its affiliates; the transfer or the sale to strategic partners of the Company or of its affiliates who have made a significant contribution to achievement of the entrepreneurial objects of the Company, or for the fulfilment of the Company's obligations resulting from convertible bonds issued or guaranteed by the latter. More information about the share buyback as well as an update about shares purchased is regularly published on the Internet:

http://www.adlermode-unternehmen.com/en/investor-relations/the-adler-share/share-buyback-program/

## NEW INVESTOR GERHARD WÖHRL

Mr. Gerhard Wöhrl, Munich, informed ADLER pursuant to Section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") on January 17, 2012 that the percentage of voting rights which he holds in Adler Modemärkte AG exceeded the 3% threshold on January 11, 2012 and on this day equalled 3.1%. Apart from the voting rights (2.1%) that Gerhard Wöhrl personally owns an additional 1.0% are attributable to him pursuant to Section 22 para. 1 sentence 1, no. 1 WpHG.

# OUTLOOK

## GENERAL ECONOMIC CONDITIONS

### GROWTH RECESSION AND MAJOR UNCERTAINTIES

In economic terms, the year 2012 started out surprisingly well. The US economic data towards the end of 2011 were rather favourable. For this reason, ADLER believes 2012 to provide good opportunities for moderate growth of the global economy in spite of the recession in Europe. The downward risks have been alleviated during the first weeks of 2012 as a result of the measures taken by the European Central Bank (ECB).

### CONTINUED SIGNS OF RECESSION IN EUROPE

The ECB's three-year longer-term refinancing operation (LRO) at the end of December 2011, paired with the promise to introduce further programmes, have clearly reduced the risk of a systemic crisis in Europe for 2012 from ADLER's perspective. This warrants that banks maintain sufficient liquidity. The increase in bank deposits with the ECB demonstrates that banks remain reluctant to extend loans or to invest in government bonds of peripheral countries. However, this could change as of mid-2012 once the European Banking Federation (EBF) has checked the banks' equity base, which could potentially eliminate the main cause of the economic weakness.

The commodity price inflation continues to slow down in general; food and energy prices fell in December 2011. Notwithstanding a slight rise in oil prices in January 2012, due to tensions in the Middle East, the oil price inflation seems to have further slowed.

ADLER's forecast from the Q3 report pertaining to the potential growth, even slight recession for the eurozone could be considered optimistic especially since major scepticism prevails in the financial sector as to whether the monetary union will survive 2012 without any harm to its institutional standing. However, indications that support a merely moderate recession and muted recovery during the second half of 2012 also show that the eurozone should be able to benefit from a noteworthy foreign demand this year.

### GERMANY

"The economy - impacted by a world-wide loss of confidence and the poor growth in global trading, which tends to hit Germany harder due to a decline in exports and investments – is faced with a period of weakness", says the OECD. "It is expected that the economic activity, during 2012 and in line with diminishing uncertainties and a stimulation of trade, will gradually recover. As of mid-2012 the growth figures could rise beyond the potential figures as the balance sheets of private budgets as well as of companies do not show any underlying imbalance and there being merely a moderate need to consolidate the budget."

The Ifo Institute, the leading economic think tank in Germany, is optimistic for 2012. The German economy took off to a positive start in 2012, as a result of which a recession should be more unlikely. The Institute's prospects are optimistic for the first six months in 2012. The mood in the industry improved significantly, equally in the construction industry and amongst service providers. The wholesale and retail trade, however, eased slightly.

According to the Organisation for Economic Cooperation and Development (OECD), Germany's economic prospects, however, are clearly clouded. The OECD anticipates for 2012 merely a 0.6% growth for its Gross Domestic Product (GDP), following 3.0% in 2011. The reasons for this include the loss of investors' confidence and a resulting deterioration of the business climate.

### OUTLOOK FOR THE TEXTILE TRADE

According to a survey conducted by TW Testclub in November 2011, 70% of textile retailers expect the overall economy to worsen. Still, sales forecasts amongst many retailers remain positive. This, however, is due to the success of past strategies.

German Fashion Modeverband Deutschland e.V. "expects an average 5% increase of prices for clothing in 2012. The reason for this are higher procurement costs. Even if the situation for cotton has calmed, wages in the production countries continue to rise. The German clothing industry remains at least cautiously optimistic for the current year."

## OUTLOOK FOR THE ADLER GROUP

### DEVELOPMENT OF SALES AND INCOME

In spite of the stagnating respect. slightly recessive economic trend, ADLER can presumably still rely on good conditions for continued growth. The consumer behaviour continues to evolve towards high-quality products at an economical price. ADLER, as a "value-for-money" retailer, therefore finds itself in a good position.

For the year 2012, ADLER assumes that it will be able to maintain the growth strategy that it pursues. Many factors contribute to this: In 2012, the share of merchandise procured directly from Asia is to be raised further; product lines will be improved; more non-private brands for the 45+ target group – and thus also shop-in-shops – will be made available; the store front design will be modernised at more stores.

ADLER will continue the expansion of its network of stores also in 2012 and most likely will open a further 20 stores. The offer of select external brands within the framework of branded shop concepts will be extended to additional stores. ADLER assumes that it will be able to tap the planned sales potential with these measures, but also as a result of the growing acceptance of the online shop.

## OUTLOOK AND OVERALL VIEW

Provided that there will be no unforeseen negative effects on ADLER's procurement or sales and that any increases in purchasing costs can be offset by higher sales prices and that the newly opened stores as well as the acquired Wehmeyer stores will generate the planned income during the 2012 financial year already, the Company considers a growth of consolidated sales in the upper single-digit to lower double-digit percentage range feasible for the 2012 financial year. In regard to income it is assumed that the 2012 EBITDA will improve accordingly.

Even for 2013, a positive trend in sales and income compared to 2012 is assumed. ADLER will pay particular attention especially to the development of the cost structure, also against the background of the expiration of the supplementary collective agreement at the end of 2012.

## FORWARD-LOOKING STATEMENTS

This Management Report contains statements that relate to the future of Adler Modemärkte AG, its subsidiaries and holding companies as well as the economic environment which may impact the future business development of Adler Modemärkte AG. All these statements are based on assumptions which the Management has made on the grounds of information available at the date of the report. Insofar as these assumptions do not, or only partially, materialise, or additional risks arise, the actual business performance may differ from the anticipated development. For this reason, no guarantee can be given in regard to the forward-looking statements made in the Management Report.

*Karsten Odemann*
*Chief Financial Officer*
*and Labour Director*

# FINANCIAL STATEMENTS
# AS OF DECEMBER 31, 2011

# CONSOLIDATED INCOME STATEMENT

**for the financial year from January 1 to December 31, 2011**

| k€ | Note | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | 1 | **476,590** | **444,809** |
| Other operating income | 2 | 10,149 | 8,172 |
| Material expenses | 3 | -230,967 | -210,360 |
| Personnel expenses | 4 | -78,114 | -74,996 |
| Other operating expenses | 5 | -146,913 | -129,776 |
| **EBITDA** | | **30,745** | **37,849** |
| Depreciation and amortisation | 6 | -13,936 | -13,565 |
| Impairment | 6 | -868 | 0 |
| **EBIT** | | **15,941** | **24,284** |
| Other interest and similar income | | 168 | 3,538 |
| Interest and similar expenses | | -3,416 | -4,121 |
| **Financial result** | 7 | **-3,248** | **-583** |
| **Net income from operations** | | **12,693** | **23,701** |
| Income taxes | 8 | -4,435 | 4,778 |
| **Net income from continuing operations** | | 8,258 | 28,479 |
| **Net income from discontinued operations** | 9 | **0** | **-1,057** |
| **Consolidated profit for the year** | | **8,258** | **27,422** |
| of which attributable to shareholders of Adler Modemärkte AG | | **8,258** | **27,422** |
| **Earnings per share (from continuing operations)** | 35 | | |
| Basic in € | | 0.47 | 1.62* |
| Diluted in € | | 0.47 | 1.62* |
| **Earnings per share (from continuing operations)** | 35 | | |
| Basic in € | | 0 | -0.06* |
| Diluted in € | | 0 | -0.06* |

* For purposes of comparability, earnings per share were calculated on the basis of the weighted average number of existing shares in the period from March 17 (conversion date) until December 31, 2011 in the amount of 17,629,723 shares. In actual fact, however, only one GmbH share existed as reported in the consolidated financial statements as of December 31, 2010.

FINANCIAL **STATEMENTS**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**for the financial year from January 1 to December 31, 2011**

| k€ | Note | 2011 | 2010 |
|---|---|---|---|
| **Consolidated profit for the year** | | **8,258** | **27,422** |
| Exchange differences on translation of foreign operations | | 1 | 0 |
| Change in Fair Value of available-for-sale financial instruments | | -16 | 0 |
| Deferred tax assets/liabilities | | 0 | 0 |
| **Other comprehensive income** | | **-15** | **0** |
| **Consolidated total comprehensive income** | | **8,243** | **27,422** |
| of which attributable to shareholders of Adler Modemärkte AG | | 8,243 | 27,422 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## as of December 31, 2011

| ASSETS in k€ | Note | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | 3,503 | 2,994 |
| Property, plant and equipment | 11 | 50,654 | 52,215 |
| Investment property | 12 | 3,374 | 3,374 |
| Other non-current receivables and assets | 13 | 934 | 649 |
| Deferred tax assets | 15 | 7,932 | 8,269 |
| **Total non-current assets** | | **66,397** | **67,501** |
| **Current assets** | | | |
| Inventories | 16 | 73,528 | 56,749 |
| Trade receivables | 17 | 1,153 | 1,338 |
| Other current receivables and assets | 13 | 5,786 | 3,908 |
| Available-for-sale financial assets | 14 | 246 | 263 |
| Cash and cash equivalents | 18 | 40,024 | 32,956 |
| **Total current assets** | | **120,737** | **95,214** |
| **Total ASSETS** | | **187,134** | **162,715** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## as of December 31, 2011

| EQUITY AND LIABILITIES in k€ | Note | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| EQUITY | | | |
| **Capital and reserves** | | | |
| Subscribed capital | | 18,510 | 15,860 |
| Capital reserves | | 123,521 | 101,001 |
| Accumulated other comprehensive income | | -15 | 0 |
| Net accumulated losses | | -67,436 | -75,694 |
| **Total equity** | 19 | **74,580** | **41,167** |
| LIABILITIES | | | |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | 20 | 4,276 | 4,607 |
| Other non-current provisions | 21 | 1,115 | 1,044 |
| Non-current financial liabilities | 22 | 4,103 | 4,360 |
| Non-current finance lease obligations | 23 | 27,687 | 36,277 |
| Other non-current liabilities | 25 | 660 | 249 |
| Deferred tax liabilities | 15 | 311 | 628 |
| **Total non-current liabilities** | | **38,152** | **47,165** |
| **Current liabilities** | | | |
| Other current provisions | 21 | 2,421 | 2,792 |
| Current financial liabilities | 22 | 15,011 | 14,213 |
| Current finance lease obligations | 23 | 9,413 | 9,762 |
| Trade payables | 24 | 30,613 | 27,829 |
| Other current liabilities | 25 | 16,944 | 19,502 |
| Current income tax liabilities | 26 | 0 | 285 |
| **Total current liabilities** | | **74,402** | **74,383** |
| **Total liabilities** | | **112,554** | **121,548** |
| **Total EQUITY and LIABILITIES** | | **187,134** | **162,715** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the financial year from January 1 to December 31, 2010**

| k€ | Note | Sub-scribed Capital | Capital reserves | Other accu-mulated equity | Net accu-mulated losses | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | | **15,860** | **138,157** | **0** | **-84,743** | **69,274** |
| Withdrawals from capital reserves | | 0 | -39,228 | 0 | 0 | -39,228 |
| Income subsidies from shareholders | | 0 | 500 | 0 | 0 | 500 |
| Contributions to capital reserves | | 0 | 1,572 | 0 | 0 | 1,572 |
| Profits transferred to shareholders | | 0 | 0 | 0 | -18,373 | -18,373 |
| Capital increase (net of transaction costs and tax) | | 0 | 0 | 0 | 0 | 0 |
| **Total transactions with shareholders** | | **0** | **-37,156** | **0** | **-18,373** | **-55,529** |
| Consolidated profit for the year[1] | | 0 | 0 | 0 | 27,422 | 27,422 |
| Changes in translation of foreign operations | | 0 | 0 | 0 | 0 | 0 |
| Changes in available-for-sale securities | | 0 | 0 | 0 | 0 | 0 |
| **Consolidated total comprehensive income [1]** | | **0** | **0** | **0** | **27,422** | **27,422** |
| **Balance at Dec. 31, 2010** | | **15,860** | **101,001** | **0** | **-75,694** | **41,167** |

[1] Due to a lack of "other comprehensive income" the consolidated net profit for the year equals the consolidated total comprehensive income.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the financial year from January 1 to December 31, 2011**

| k€ | Note | Sub-scribed Capital | Capital reserves | Other accu-mulated equity | Net accu-mulated losses | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | | **15,860** | **101,001** | **0** | **-75,694** | **41,167** |
| Withdrawals from capital reserves | | 0 | 0 | 0 | 0 | 0 |
| Income subsidies from shareholders | | 0 | 0 | 0 | 0 | 0 |
| Contributions to capital reserves | | 0 | 0 | 0 | 0 | 0 |
| Profits transferred to shareholders | | 0 | 0 | 0 | 0 | 0 |
| Capital increase (net of transaction costs and tax) | | 2,650 | 22,520 | 0 | 0 | 25,170 |
| **Total transactions with shareholders** | | **2,650** | **22,520** | **0** | **0** | **25,170** |
| Consolidated profit for the year | | 0 | 0 | 0 | 8,258 | 8,258 |
| Changes in translation of foreign operations | | 0 | 0 | 1 | 0 | 1 |
| Changes in available-for-sale securities | | 0 | 0 | -16 | 0 | -16 |
| **Consolidated total comprehensive income** | | **0** | **0** | **-15** | **8,258** | **8,243** |
| **Balance at Dec. 31, 2011** | **19** | **18,510** | **123,521** | **-15** | **-67,436** | **74,580** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**for the financial year from January 1 to December 31, 2011**

| k€ | Note | 2011 | 2010 |
|---|---|---|---|
| **Consolidated net profit for the year before tax** | | **12,693** | **22,935** |
| (+) Depreciation of PPE and amortisation of intangible assets | | 13,936 | 14,124 |
| (+) Impairment | | 868 | 2,664 |
| Decrease (-) of provisions for pensions | | -331 | -197 |
| Loss (+) resulting from sale of non-current assets | | 142 | 516 |
| Profit (-)/Loss (+) from translation of foreign operations | | 0 | 0 |
| Other non-cash expenses (+) | | 11,247 | 10,311 |
| Net interest income | | 3,249 | 581 |
| Interest income | | 167 | 139 |
| Interest expense | | -207 | -168 |
| Income taxes paid | | -5,009 | -462 |
| Increase (-) of inventories | | -17,483 | -2,024 |
| Increase (-) of trade receivables and other receivables | | -974 | -179 |
| Decrease (-) of trade payables, other payables and other provisions | | -10,477 | -22,310 |
| Increase (+)/Decrease (-) of other items contained in the statement of financial position | | 1,009 | -130 |
| **Net cash flows from operating activities** | **27** | **8,830** | **25,800** |
| Proceeds from disposal of non-current assets | | 259 | 572 |
| Payments for investments in non-current assets | | -11,275 | -4,418 |
| Proceeds from the disposal of businesses (net of cash disposed) | | 0 | -376 |
| Payments for business acquisitions (net of cash acquired) | | -2,195 | -237 |
| Payments for short-term deposits | | 0 | -12,300 |
| **Net cash flows from investing activities** | **27** | **-13,211** | **-16,759** |
| **Free cash flow** | **27** | **-4,381** | **9,041** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**for the financial year from January 1 to December 31, 2011**

| k€ | Note | 2011 | 2010 |
|---|---|---|---|
| Payments resulting from the repayment (-)/borrowing (+) of current financial liabilities | | -52 | 57 |
| Capital increase | | 26,500 | 0 |
| Capital increase-related expense | | -1,822 | 0 |
| Payments in connection with the repayment of loan liabilities | | -298 | -240 |
| Contributions of shareholders | | 0 | 0 |
| Payments in connection with finance lease liabilities | | -12,879 | -12,893 |
| **Net cash flows from financing activities** | **27** | **11,449** | **-13,076** |
| **Net change in cash and cash equivalents** | **27** | **7,068** | **-4,035** |
| Cash and cash equivalents at beginning of period | | 32,956 | 36,991 |
| Cash and cash equivalents at end of period | | 40,024 | 32,956 |
| **Net change in cash** | **27** | **7,068** | **-4,035** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011

## I. PRELIMINARY REMARKS

Adler Modemärkte AG is a corporation under German law and has its seat of business at Industriestrasse Ost 1-7, Haibach, Federal Republic of Germany. The competent court of register is located in Aschaffenburg (registered under Number HRB 11581).

The financial year corresponds to 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 and approved by the Executive Board on February 28, 2012.

The ADLER Group (Adler Modemärkte AG and its subsidiaries) operates in the textile retail trade and has specialist clothing stores in Germany, Luxembourg and Austria. Under the name of "ADLER", there is operation of stand-alone specialist clothing stores or specialist clothing stores in specialist store centres or shopping centres or at joint locations with other retailers. The product range of the ADLER stores includes ladies', men's and children's clothing.

The currency for preparation of financial statements and simultaneously the functional currency in the ADLER Group is the euro (€). The figures in the notes to the consolidated financial statements are given in thousand euros (k€).

Until February 28, 2011, the sole shareholder in Adler Modemärkte AG was AMODA GmbH, Haibach. The top controlling company was bluO beta equity Limited, Birmingham, United Kingdom, with administrative seat of business in Vienna, Austria. On February 28, 2011, the then shareholder passed to Cheverny Investments Ltd., Gzira/Malta. The top controlling company is bluO SICAV-SIF, Luxembourg.

By a conversion resolution adopted on March 1, 2011 by the sole shareholder Cheverny Investments Ltd., Gzira/Malta, the Company was converted, by way of a change of legal form pursuant to Sections 190 et seq., 238 et seq. of the German Transformation Act (Umwandlungsgesetz, "UmwG"), into a stock corporation with a share capital of € 15,860,000, divided into 15.86 million ordinary shares made out to the bearer without any nominal amount (no par-value shares), with a notional value of € 1.00 in each case. The Company was entered in the Commercial Register on March 17, 2011.

By resolution of the Annual General Meeting on May 30, 2011, the share capital of the Company was increased by € 2,650,000, divided into 2.65 million no par-value shares made out to the bearer with a notional value of € 1.00. This was entered in the Commercial Register on June 21, 2011. Thus the share capital amounts to € 18,510,000. Pursuant to Section 5 para. 5 of the Articles of Association that currently apply, the Executive Board is authorised - subject to the consent of the Supervisory Board - to increase the share capital by a maximum of a total of € 7,930,000 until February 10, 2016, this being either in whole or in part, either once or repeatedly and by issuing new no par-value shares made out to the bearer in return for cash and/or non-cash contributions (authorised capital). In addition, a contingent increase in share capital by € 7,930,000 was decided by resolution of the Annual General Meeting on May 30, 2011 and serves to grant shares to the holders of warrant-linked and convertible bonds, which can be issued until April 30, 2016.

On June 22, 2011, Adler Modemärkte AG successfully completed its IPO on the Frankfurt Stock Exchange, with first listing on the regulated market and simultaneous admission to listing on a sub-section of the regulated market with additional obligations arising from admission (Prime Standard). In the course of the offering, 2.65 million shares at a nominal value of € 1.00 from the capital increase resolved on May 30, 2011 were placed and registered on June 21, 2011. At an offering price of € 10.00 per share, the Company obtained gross issuing proceeds of € 26.5 million.

In addition, the ADLER Group via MOTEX Mode-Textil-Service Logistik und Management GmbH offered logistic services for third parties in the previous year until September 30, 2010. These services comprised the distribution, processing, transhipment, order picking, price marking and transportation with its own and external vehicles of textile sector goods at home and abroad. MOTEX Mode-Textil-Service Logistik und Management GmbH was sold on September 30, 2010 and so is no longer part of the group of consolidated companies. The sale qualified as discontinued operations as defined in IFRS 5. In the individual items of the income statement, only the costs and income allocable to continuing operations are entered. The results from discontinued operations are entered in a separate item in the income statement. MOTEX Mode-Textil-Service Logistik und Management GmbH was no longer part of the group of consolidated companies in the period from January 1 to December 31, 2011, so no further discontinued operations were entered.

## II. NOTES ON THE PRINCIPLES AND METHODS APPLIED TO THE CONSOLIDATED FINANCIAL STATEMENTS

### ACCOUNTING PRINCIPLES

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London, in compliance with the International Financial Reporting Standards (IFRS) as applicable within the EU. The interpretations issued by the IFRS Interpretations Committee (formerly IFRIC and SIC) were applied. The consolidated financial statements are in conformity with the accounting standards set by the European Union (Directive 83/349/EEC). To ensure that the consolidated financial statements are equivalent to consolidated accounts prepared in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB"), all disclosures and details required above and beyond the provisions of the

IASB have been provided in accordance with Section 315a HGB. In their current version, the consolidated financial statements are in compliance with the stipulation set forth in Section 315a HGB; this stipulation together with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 concerning the application of international accounting standards provides the legal basis for consolidated accounting according to international accounting standards in Germany.

Such provisions of the International Financial Reporting Standards (IFRS) were applied which were mandatory as per balance sheet date on December 31, 2011. The early adoption of not yet mandatory standards as per December 31, 2011 was not referred to.

## STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME

As of the 2011 financial year, the following revised and newly issued Standards and Interpretations of the IASB are mandatory for the first time:

| | |
|---|---|
| **Standards** | |
| IFRS 1 | Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters |
| IAS 24 | Related Party Disclosures |
| IAS 32 | Classification of Rights Issues |
| various | Annual Improvements Project (2010) |
| **Interpretations** | |
| IFRIC 14 | Prepayments of a Minimum Funding Requirement |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |

+ The modifications of IFRS 1 in line with the modifications of IFRS 7 exempt IFRS first-time adopters from having to disclose details in the notes introduced by IFRS 7. The modification of IFRS 1 enables companies adopting IFRS for the first time to be exempted from comparative evaluations on the fair value to be applied and to be referred to for the liquidity risk. IFRS 7 stipulates exemptions in those cases in which the comparative periods end prior to December 31, 2009. This ensures that also IFRS first-time adopters benefit from the transition rules for application of the modified IFRS 7. The amendments connected to IFRS1 and IFRS 7 were mandatory by the beginning of such first financial year starting after June 30, 2010.

  In regard to the current consolidated financial statements, the ADLER Group no longer constitutes an IFRS first-time adopter. For this reason, the amendments to IFRS 1 are irrelevant for the ADLER Group.

+ The amendments of IAS 24 were published in November 2009. The amendments that apply to state-controlled or significantly influenced companies do not impact the presentation of the financial information. Also, the amendment of IAS 24 clarifies the definition of Related Parties. The modified standard comes into effect for reporting periods starting on or after January 1, 2011. An earlier application is possible. The modifications did not impact the financial position and financial performance of the ADLER Group.

+ Amendments of IAS 32 "Financial instruments: presentation": The amendments set out the requirements for the accounting of subscription rights, options and warrants at the level of the issuer on the acquisition of a fixed number of equity instruments denominated in a currency other than the issuer's functional currency. So far, such cases were reported as derivative liabilities. Such subscription rights, which are issued to existing shareholders of an entity at a fixed price on a pro-rata basis, are to be classified as equity. The currency of the exercise price is irrelevant. The amendments did not impact the financial position and financial performance of the ADLER Group.

+ Amendment of IFRIC 14: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The amendment of IFRIC 14 is relevant in those rare cases when an entity falls under minimum funding requirements and pays contributions in advance in order to fulfil these minimum funding obligations. The amendment permits entities in such cases to treat the benefit of such an early contribution as an asset. The amendments became mandatory for the first time for the financial years starting on or after January 1, 2011. The amendments did not impact the financial position and financial performance of the ADLER Group.

+ IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments" explains the IFRS requirements if an entity extinguishes a financial liability partly or fully by issuing shares or other equity instruments. The interpretation clarifies that equity instruments which a debtor issues to creditors to fully or partially extinguish a financial liability must be regarded as part of the consideration paid according to IAS 39.41 and the respective equity instruments must be measured based on their fair value. If this value cannot be determined reliably, the equity instruments shall be measured using the fair value of the extinguished liability and the difference between the carrying amount of the financial liability to be derecognized and the initial measurement of the equity instruments issued shall be recognized in profit and loss. The interpretation became mandatory for the first time for the financial years starting on or after July 1, 2010. The amendments did not impact the financial position and financial performance of the ADLER Group.

+ The IASB publishes annual improvements to the existing standards. As a rule, these improvements constitute minor changes. The presentation of the amendments resulting from the 2010 annual improvement project which largely apply as of January 1, 2011 is omitted for considerations of materiality. The first-time adoption of the amended standards did not impact the financial position and financial performance of the ADLER Group.

## STANDARDS, INTERPRETATIONS AND AMENDMENTS ON PUBLISHED STANDARDS WHICH ARE NOT AS YET MANDATORY

The following standards, amendments of standards and interpretations have already been adopted, however, they only become mandatory for those reporting periods starting post-January 1, 2011. The ADLER Group shall apply these as of the required date and has assessed the presumed impact on the financial position and financial performance of the individual standards, amendments to the standards and interpretations insofar as such an assessment was feasible at this point in time.

| Standards | | Mandatory as of* | Adopted by EU Commission |
|---|---|---|---|
| IFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | July 1, 2011 | No |
| IFRS 7 | Disclosures – Transfers of Financial Assets | July 1, 2011 | Yes |
| IFRS 9 | Financial Instruments: Classification and Impairment of Financial Assets | January 1, 2013 | No |
| IFRS 10 | Consolidated Financial Statements | January 1, 2013 | No |
| IFRS 11 | Joint Arrangements | January 1, 2013 | No |
| IFRS 12 | Disclosure of Interests in Other Entities | January 1, 2013 | No |
| IFRS 13 | Fair Value Measurement | January 1, 2013 | No |
| IAS 1 | Presentation of Financial Statements | July 1, 2012 | No |
| IAS 12 | Income Taxes | January 1, 2012 | No |
| IAS 19 | Employee Benefits | January 1, 2013 | No |
| IAS 27 | Separate Financial Statements | January 1, 2013 | No |
| IAS 28 | Investments in Associates and Joint Ventures | January 1, 2013 | No |
| IFRS 9 / IFRS 7 | Amendments to Mandatory Effective Date and Transition Disclosures | January 1, 2015 | No |
| **Interpretations** | | | |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | January 1, 2013 | No |

*) Mandatory first-time adoption according to IASB. Unless already adopted by the EU Commission the mandatory first-time adoption applies as of EU adoption.

The IASB issued the final versions of IFRS 10, IFRS 11 and IFRS 12 as well as of the amendments to IAS 27 and IAS 28 on May 12, 2011. Within the realms of IFRS 10 a standardised definition of the term Control is being created which will entail a standardised foundation of what constitutes a parent-subsidiary relationship as well as the respective segregation of the consolidated group. IFRS 11 regulates the accounting of specific areas in which an entity controls a joint venture jointly with others or undertakes specific activities jointly with others. The amendment regulated by IFRS 11 refers mainly to the elimination of the proportionate consolidation method and instead, the mandatory recognition of the respective areas based on the equity method. IFRS 12 contains details in conjunction with business combinations to be disclosed in the notes of consolidated financial statements which fall under the scope of IFRS 10 and IFRS 11. In this context, information must be submitted about the nature, the risks and financial impact which are connected to the interest in subsidiaries, associates, joint arrangements and special purpose entities.

The amendments to IFRS 7 issued in October 2010 largely standardise the relevant disclosure obligations under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). The amendments to IFRS 7 relate to extended disclosure obligations regarding the transfer of financial assets and shall allow users of financial statements to improve their understanding of the possible effects of any risks that may remain with the entity. It is mandatory for entities to apply the amendments for financial years starting on or after July 1, 2011. An earlier application is possible. Comparative disclosures may be omitted in the first year of application. At present, the ADLER Group cannot make any binding statement as to the effects this amendment will have.

IFRS 9 "Financial Instruments: Classification and Measurement" was issued in November 2009 (IFRS 9 2009). This standard is dedicated to the classification and measurement of financial instruments. IFRS 9 replaces the former measurement categories "Loans and Receivables", "Assets Held to Maturity", "Available-for-Sale Financial Assets", "Assets Valued at Fair Value through Profit and Loss" with the following categories: "Amortised Cost" and "Fair Value". Whether an instrument can be assigned to the category "Amortised Cost" depends on the one hand on the entity's business model, meaning how the entity controls its financial instruments, and on the other on the product features of the individual instruments. Instruments which do not fulfil the defining characteristics of the "Amortised Cost" category are measured at fair value through profit and loss. The measurement at fair value that is not taken to the income statement is possible for selected equity instruments. The formulation of this new category does not comply with the current "available-for-sale financial assets" category. IFRS 9 (2009) does not contain any regulations that specify the measurement of financial liabilities. In addition to IFRS 9 (2009), IFRS 9 (2010) was issued in October 2010. IFRS 9 (2010) contains in addition to IFRS 9 (2009) the regulations pertaining to the classification and measurement of financial liabilities as well as for the de-recognition of financial assets and liabilities. As to financial liabilities, IFRS 9 (2010) does not contain any major amendments, except for the Fair Value Option. Fair value amendments under the Fair Value Option due to the inherent credit risk are to be recorded in the OCI; all other fair value amendments in profit and loss (one-step-approach). As regards the de-recognition IFRS 9 (2010) adopts the regulation currently stipulated in IAS 39. IFRS 9 is to be applied to financial years starting on or after January 1, 2013. An earlier adoption is possible as from 2009. In order for these amendments to apply within the EU they still require endorsement in line with the prescribed EU process. At present, the ADLER Group cannot make any binding statement as to the effects this new standard will have.

In December 2010 the International Accounting Standards Board (IASB) issued amendments to IAS 12 Income Taxes. These equally lead to amendments to the scope of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. The amendment partially clarifies the treatment of taxable temporary differences in conjunction with the application of the fair value model of IAS 40. The amendment stipulates to assume in principle a reversal of taxable differences through sale. The amendment is mandatory for financial years starting on or after January 1, 2012 and applies retrospectively. The first-time adoption of the amended standard will not affect the financial position and financial performance of the ADLER Group.

On June 16, 2011 the IASB issued an amendment to IAS 1. This amendment refers to the separate presentation of items shown in other comprehensive income. A difference is to be made in future as to whether they will be recognized in profit and loss (recycling) or not. A presentation of the shown items before taxes equally requires that the respective amounts of tax are separately shown.

The IASB issued the final version of amendments to IAS 19 on June 16, 2011. The most significant amendment refers to the replacement of the current option to recognise actuarial gains and losses. The amendments to be mandatorily applied as of January 1, 2013 stipulate that these be directly recognised in other comprehensive income. Additionally, the second major amendment stipulates that in future the Management is no longer to assess interest of the plan assets according to the expected return of the asset allocation, but instead must only record income in the amount of the discounted interest rate based on the expected return of the plan assets. Also, the amendments include extended information in connection with the notes. The ADLER Group will apply the amendments as of the mandatory date. If the amendment to IAS 19 had been applied to the 2011 financial year already, the annual expenditure for the provisions for pensions, severance compensation, service anniversary bonuses, death benefits and phased retirement agreements would have decreased from k€ 581 to k€ 516. Expenditure to be recognised in other comprehensive income would total k€ 778.

On October 19, 2011 the IASB issued IFRIC 20 on the treatment of stripping costs in the production phase of a surface mine. This interpretation will not be adopted by the ADLER Group as there is no relevant context.

The present consolidated financial statements are based on the cost model. The option to use fair-value accounting is made for available-for-sale financial assets and for investment property. The income statement is prepared on the basis of the total cost method. The consolidated statement of financial position is structured according to maturity. Current assets and liabilities that are due within one year, non-current assets and liabilities are classified as such if they remain with the Group for more than one year. Trade receivables and payables as well as inventories are of current nature only and for this reason are itemised as current assets and liabilities.

The accounting policies and measurement principles presented in the following were applied in preparing the consolidated financial statements.

## SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS/SHAREHOLDINGS

The consolidated financial statements include in addition to Adler Modemärkte AG two German and four foreign subsidiaries in which Adler Modemärkte AG holds directly or indirectly the majority of the voting rights:

| Name, seat | Share in capital in % | Currency | Subscribed capital in na-tional cur-rency in '000 |
|---|---|---|---|
| Adler Modemärkte Gesellschaft m.b.H., Ansfelden / Austria | 100 | € | 37 |
| ADLER MODE S.A., Foetz / Luxembourg | 100 | € | 31 |
| Advers GmbH, Haibach (formerly ADVERS Versicherungsmakler GmbH, Haibach) | 100 | € | 25 |
| Adler Asset GmbH, Ansfelden / Österreich (formerly F. W. Woolworth Co. Ges.m.b.H., Ansfelden / Austria) | 100 | € | 5,087 |
| Adler Mode GmbH, Haibach | 100 | € | 25 |
| Adler Mode AG Schweiz, Zug / Switzerland | 100 | CHF | 100 |

Additionally, ALASKA GmbH & Co. KG, Munich, whose shares are wholly-owned by non-consolidated companies, was included in the consolidated financial statements due to a lease agreement with Adler Modemärkte AG (pertaining to an administration building in Haibach) in accordance with SIC-12 as the property company.

In the previous year, Adler Ateliermoden GmbH merged as the result of a merger agreement of December 29, 2010, entered in the Commercial Register of the receiving company on January 17, 2011, as per June 30, 2010 with ADVERS Versicherungsmakler GmbH. The merger did not impact the financial position and financial performance of the ADLER Group. ADVERS Versicherungsmakler GmbH, until relinquishing its business activities at the end of 2008, offered insurance brokerage services for the ADLER Group. Since early 2009, the company has been in charge of the ADLER Group's cash pooling. Following an amendment to the Articles of Association, ADVERS Versicherungsmakler GmbH was renamed Advers GmbH and entered into the relevant Commercial Register on May 19, 2010, which was published on May 26, 2010.

Adler Modemärkte AG sold its shareholding in MOTEX Mode-Textil-Service Logistik und Management GmbH, Hörselgau on September 30, 2010. The date of sale corresponds to the deconsolidation date.

Under the purchase agreement of December 17, 2010, Adler Modemärkte Gesellschaft m.b.H., Ansfelden / Austria acquired all shares in F.W. Woolworth Co. Ges.m.b.H., Ansfelden / Austria as per December 31, 2010. This company was renamed Adler Asset GmbH in 2011.

Following the notice of September 20, 2011 and entry on September 14, 2011 into the Commercial Register, Adler Mode GmbH, Haibach, was formed.

Following entry into the Commercial Register of October 25, 2011, Adler Mode AG Schweiz, headquartered in Zug / Switzerland, was formed.

## CONSOLIDATION PRINCIPLES

Subsidiaries include all such entities (inclusive of special purpose entities) whose financial and business policies are controlled by the Group, which tends to be accompanied by a percentage of voting shares in excess of 50%. In determining whether the Group has control, the existence and effects of voting rights that can currently be exercised or converted are also taken into consideration. Subsidiaries are included in the consolidated financial statements as of such moment when the Group has assumed control (full consolidation). They are deconsolidated at such moment when the Group control is terminated.

The financial statements of domestic and foreign subsidiaries included in the consolidation are prepared under IAS 27 on the grounds of standardised accounting policies and measurement principles.

Intra-Group profits and losses, revenue, expenses and income as well as accounts receivable and payable amongst consolidated subsidiaries are eliminated. Third-party debt is consolidated to the extent that the requirements for such consolidations are met. Interim profits are eliminated. Deferred taxes in accordance with IAS 12 (Income Taxes) are recognised in respect of temporary differences from consolidation measures.

Special Purpose Entities (SPE) are formed to meet a specific purpose and shall be consolidated if the Group can exert a controlling influence on the SPE. This is reviewed on the grounds of the following criteria:

+ Whether the SPE performs its business activities in line with its special business needs as such that the Group benefits from the business activities of the SPE.

+ Whether the Group holds the decision-making power to derive the majority of benefit from the SPE.

+ Whether the Group has the right to derive the majority of benefit from the SPE and is therefore exposed to potential risks which are associated with the business activities of the SPE.

+ Whether the Group maintains the majority in the residual or property risks or assets associated with the SPE to benefit from the business activities of the SPE.

If a controlling influence is determined on the grounds of these circumstances, the Special Purpose Entity will be included in the consolidated financial statements.

## CAPITAL CONSOLIDATION

Acquired subsidiaries are recognised according to the acquisition method. The acquisition costs correspond to the fair value of the assets paid, the equity instruments issued and the debts resulting or taken over on the date of exchange plus the costs that can be directly allocated to the acquisition. On initial consolidation, the assets, liabilities and contingent liabilities that are identifiable in the course of a business combination are measured at their fair value at the transaction date, irrespective of any minority interests.

The surplus of the acquisition costs incurred in the acquisition over the Group's share of the net assets measured at fair value is recognised as goodwill; if the acquisition costs are lower than the net assets of the acquired subsidiary measured at fair value, the remaining amount is recognised directly in profit and loss.

## CORPORATE ACQUISITIONS

In the previous year, Adler Modemärkte Gesellschaft m.b.H., Ansfelden / Austria purchased on December 31, 2010 all shares in F.W. Woolworth Co. Ges.m.b.H., Ansfelden / Austria. The transaction constitutes a business combination under joint control. Within the ADLER Group such transactions are recognised in accordance with the regulations of IFRS 3 Business Combinations.

On September 30, 2011 Adler Mode GmbH closed an asset deal and took over specific assets and liabilities as well as the employees and rights of use of Wehmeyer Lifestyle GmbH.

The ADLER Group applies the acquisition method for the recognition of business combinations. The consideration given corresponds to the fair value of the assets transferred, the liabilities taken on and the issued equity interest at the transaction date. All other acquisition-related costs are recognised as expenses. On initial consolidation, the assets, liabilities and contingent liabilities that are identifiable in the course of a business combination are measured at their fair value at the transaction date. The excess of the consideration transferred, the amount of all non-controlling interests and the fair value of the equity interest previously held in the acquired entity above the balance of the net assets existing at the transaction date and measured at fair value is recognised as goodwill. If the consideration transferred is lower than the net assets of the acquired subsidiary measured at fair value, the remaining amount is recognised directly in the income statement following a repeated audit. For further information please refer to Item 30 "Corporate Acquisitions".

## CURRENCY TRANSLATION

The separate financial statements of the subsidiaries prepared in euro measure foreign currency business transactions using the rate at the time of the initial recognition. Exchange differences incurred on the translation of receivables and liabilities up to the balance sheet date are recognised accordingly. Gains and losses from exchange rate changes are recognised in profit and loss. The annual financial statements of the foreign consolidated companies are translated to the presentation currency of the ADLER Group. The functional currency is the national currency. The functional currency and presentation currency of the parent company and thus of the consolidated financial statements is the euro.

ADLER translates the assets and liabilities of foreign consolidated companies with a functional currency other than the euro using the closing rate at the end of the period. Expenses, income and earnings, on the other hand, are translated at the average rate of the period. All resultant exchange differences are represented as an individual item within equity.

The exchange rates based on which the currencies are translated are presented in the following table:

| Currency | Closing rate* | | Average rate* | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Dec. 31, 2010 | 2011 | 2010 |
| Swiss franc (CHF) | 1.2156 | - | 1.2293 | - |

*) Equivalent value in euro

## III. ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

The accounting policies and measurement principles are continuously applied.

### NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

#### GOODWILL

Goodwill arising on consolidation represents the excess of the cost of a corporate acquisition over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary. According to IFRS 3 Business Combinations, goodwill is not amortised systematically. Instead, according to IAS 36 Impairment of Assets, goodwill is subject to an annual impairment test (and also whenever there is reason to suspect impairment) and written down to its recoverable amount if required. Any impairment is instantly recognised through profit and loss. There is no later reversal. The goodwill, for the purpose of the impairment test, is allocated to cash-generating units. The allocation is made to cash generating units of groups of cash generating units which are expected to benefit from the synergies of the underlying business combination.

#### OTHER INTANGIBLE ASSETS

Purchased intangible assets are recognised at cost.

All purchased intangible assets with a determinable useful life are amortised on a scheduled straight-line basis. The following economic useful lives apply across the Group for scheduled amortisation:

+ Concessions, rights, licences: 3 to 7 years or poss. shorter contract terms
+ Software: 3 to 5 years

Self-originated intangible assets consist mainly of software. Costs that are incurred in connection with the operation and maintenance of software are reported as expenses at the point in time at which they are incurred. Costs that are incurred directly in connection with generating identifiable individual software products that the Group can dispose of are disclosed under intangible assets insofar as it is likely that the intangible asset will generate a future economic benefit, is technically feasible and the costs can be reliably determined. Directly allocable costs include, among other things, expenses for employees engaged in the development work as well as other costs that can be allocated directly to software development. Capitalised development costs for computer software of a limited useful life are amortised on a straight-line basis over their expected useful life, not exceeding five years.

Intangible assets that are not yet ready for use are tested for impairment at least once each year.

If an impairment is recognised that exceeds the scheduled amortisation, the asset must be amortised to the recoverable amount.

During the period under review there were no other intangible assets of indefinite useful life.

## PROPERTY, PLANT AND EQUIPMENT

Assets relating to property, plant and equipment with an individual procurement cost of under € 150 tend to be recorded directly as expenses. Assets acquired during the year under review which for the purpose of the ADLER Group constitute material assets (e.g. mannequins and shop interiors) if used in business operations for more than one year and irrespective of the amount of their acquisition cost and in particular irrespective of the aforementioned threshold limit for acquisition costs, following scheduled depreciation are recognized during the year under review at cost over their economic useful life, and recorded under property, plant and equipment. Material components of property, plant and equipment are separated and depreciated accordingly. Subsequent costs of acquisition are only recorded as part of the asset's acquisition costs if it is probable that the Group will gain an economic benefit from its use in future and the asset's costs can be reliably identified. All other repairs and maintenance are recognised as expenses in the income statement during the financial year in which they are incurred.

Land is not depreciated on a scheduled basis. All other assets are depreciated on a straight-line basis, whereby the acquisition costs are depreciated over the expected useful life of the assets as follows:

+ Buildings: 33 years
+ Operational facilities: 3 to 10 years
+ Operational and office equipment: 3 to 10 years
+ Vehicles: 4 to 6 years
+ Tenant installations: 10 years

The residual carrying amounts and economic useful lives are reviewed on each balance sheet date and adjusted where necessary. An asset is immediately depreciated to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses arising from the disposal of property, plant and equipment are determined as the difference between the net proceeds and the residual carrying amount of the item and are recognised through profit and loss.

## INVESTMENT PROPERTY

Investment property includes land and buildings held for obtaining rental income and/or for capital appreciation which are not used during ordinary business activities. These are recognised at fair value. The fair value of the investment property has been determined by a property expert.

## LEASES

Leases are classified as finance leases insofar as the terms and conditions of the lease transfer all risks and rewards related to the property to the lessee. All other leases are classified as operating leases.

Non-current assets that are rented or leased and whose beneficial ownership lies with the respective Group company (finance lease) are capitalised in accordance with the regulations set forth in the IAS 17 (Leases) using the present value of the minimum lease payments or a lower fair value and depreciated accordingly over their useful lives. Insofar as the conveyance of the property to the lessee at the beginning of the lease is not sufficiently certain, the respective asset will be depreciated over the shorter of the two periods (lease term or useful life).

The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. The lease payments are allocated to the interest expenses and reduction of lease obligations in such a way as to generate a constant periodic rate of return on the lessor's net investments outstanding in respect of the finance leases.

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

## IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets whose useful life is indefinite are not subject to scheduled depreciation; they are subject to annual impairment tests and whenever there is an indication of impairment. Assets that are subject to scheduled depreciation are subject to annual impairment tests whenever there are relevant events or changes in the circumstances that indicate that the carrying amount is possibly not recoverable. Equally, intangible assets which are not yet in operational conditions are subject to an annual impairment test. An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less the cost of sale and the value in use. For purposes of the impairment test, assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units).

Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. An impairment loss is not reversed on goodwill.

## GOVERNMENT GRANTS

Government grants are recognised at fair value if it can be assumed with a high degree of certainty that the grants will be extended and the Group fulfils the necessary requirements for receiving the grants. Government grants for costs are recognised for the time period during which the respective costs for the compensation of which they were granted are incurred.

The Group receives government grants in compensation for the costs incurred in conjunction with part-time early retirement agreements which are recognised as income. Due to conditions tied to such government grants, the Group is required to maintain the respective workplace of a part time retiree and to fill such position anew.

## CONSTRUCTION COST GRANTS

The Group companies designate grants for construction costs either to the lessee, with the aim to improve the quality of the property, or to the lessor in order for them to be used for independent construction for establishing a fashion store. The payment of construction cost grants is reported under Other Assets and is consumed over the remaining minimum term of contract and recognised in profit or loss. Construction cost grants received are recognised under Other Liabilities and reversed through profit or loss over the minimum term of contract.

## CURRENT INCOME TAXES

The applicable income tax rate is calculated on the basis of the fiscal laws that apply on the balance sheet date for the countries in which the Company's subsidiaries operate. The applicable specific national income tax rates range between 17.8% and 30.0% (previous year between 17.2% and 30.0%). On the basis of these tax regulations taxes that are expected to be payable are taken into consideration through adequate and relevant provisions.

A profit and loss transfer agreement and single-entity relationship for income tax purposes [ertragsteuerliche Organschaft] was in place between Adler Modemärkte AG and the shareholder, AMODA GmbH until December 31, 2010 so that Adler Modemärkte AG, as the controlled company, did not incur any income tax liability for the duration of the single-entity relationship. The profit and loss transfer agreement was terminated on September 30, 2010 and the termination came into effect on December 31, 2010. As from January 1, 2011 the single-entity relationship for tax purposes has ceased to exist. Since at the level of Adler Modemärkte AG no tax payments were incurred until December 31, 2010, recognition of the tax expense was dispensed with until termination of the single-entity relationship. Following the termination of the single-entity relationship on December 31, 2010 effects from current taxes were taken into consideration for the first time starting January 1, 2011. For subsidiaries outside of the tax consolidation group the expected future income tax load or relief is taken into consideration.

## DEFERRED TAXES

As set out in IAS 12, deferred taxes are recognised for all temporary differences between the tax base of the respective assets/liabilities and their carrying amount in the IFRS consolidated financial statements (so-called liability method). Deferred taxes are measured by applying tax rates (and tax laws) that are valid at the balance sheet date or which have been substantially enacted and are expected to apply to the period when the tax asset is realised or the liability settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. If the future tax advantage from loss carry-forwards can be utilised with sufficient certainty in future periods, deferred tax assets are capitalised.

According to IAS 12.39 deferred taxes arising from temporary differences relating to investments in subsidiaries ("outside basis differences") are only to be recognised in the consolidated financial statements if the following criteria are not met:

+ the parent, investor or venturer is able 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 does not apply to the ADLER Group. The temporary difference tends to be reversed only upon the sale of the entity. Currently the ADLER Group is not planning on selling any subsidiaries, however, would be able to control the moment of such a sale. Therefore, no deferred taxes for temporary differences in relation to investments in subsidiaries are formed in the consolidated financial statements of the ADLER Group.

The presentation of deferred taxes on differences between the carrying amounts of assets and liabilities and the currently recognised amounts within Adler Modemärkte AG for the period of the single-entity relationship for tax purposes was dispensed with since the reversal of such differences would not produce any tax effects. The termination of the single-entity relationship between Adler Modemärkte AG and AMODA GmbH that came into effect on December 31, 2010 led to deferred taxes resulting from different measurements according to IFRS and German income tax law and had to be recognised for the first time by December 31, 2010. For all entities not included in the single-entity relationship deferred taxes according to the regulations of IAS 12 were recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the current tax assets against the current tax liabilities, and if the deferred tax relates to taxes levied by the same tax authority.

## INVENTORIES

The merchandise reported as inventories are carried at the lower of acquisition or manufacturing costs and net realisable value. The net realisable value is the estimated selling price less the variable costs necessary to make the sale. The manufacturing costs contain not only the cost of material and direct cost of labour but also directly allocable costs and such appropriate parts of the required overheads and depreciations. The acquisition or manufacturing costs are determined on the basis of the weighted average method.

## RECEIVABLES AND OTHER ASSETS

### TRADE RECEIVABLES

Trade receivables are initially recognised at fair value and in the following measured at amortised cost less impairment. An impairment for trade receivables is recognised if there is an objective indication that the due amounts receivable will not be received in full. The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, determined by applying the effective interest rate. The impairment is recognised in profit or loss. Trade receivables are allocated to "Loans and Receivables".

### AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets which were either allocated to this very category or to none of the other IAS 39 measurement categories. They are recognised at fair value. Unrealised gains and losses resulting from the change of the fair value are recognised under Other Comprehensive Income. If securities belonging to the "available for sale financial assets" category are sold or their carrying amount is reduced for impairment, the cumulative adjustments to the fair value within equity are recognised in the income statement as a gain or loss from financial assets.

### DERIVATIVES

The ADLER Group did not hold any derivative financial instruments during the period under review.

### OTHER RECEIVABLES AND ASSETS AS WELL AS LOANS

The other receivables and assets as well as loans are initially recognised at fair value and subsequently measured at amortised cost, applying the effective interest rate method – for non-current receivables - and allowing for impairments. Any risks are accounted for by appropriate value adjustments. At each balance sheet date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed to determine whether there is any substantial objective evidence of impairment (such as significant financial difficulties on the part of the debtor, a high probability that insolvency proceedings will be brought against the debtor, significant negative changes in technological, economic, legal or market conditions affecting the issuer, a persistent decline in the fair value of the financial asset below its amortised cost). Any impairment loss, which is shown by a fair value which is lower than the respective carrying value, is recognised in profit or loss. If in subsequent periods, as a result of events that took place after the date of recognition of the impairment, the fair value has objectively increased, the impairments are reduced through profit or loss by a corresponding amount. The fair value of credits and receivables carried at amortised cost which is determined in the course of impairment tests corresponds to the present value of the estimated future cash flow discounted using the original effective interest rate.

Other receivables and assets as well as loans are allocated to "Loans and Receivables".

As a rule, financial assets are recognised at the value as at the trading date.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid financial assets with an original maturity of up to three months. Utilised current account credits are recognised as amounts owed to banks under Current Financial Liabilities.

## EQUITY

The consolidated equity consists of subscribed capital, the capital reserve, accumulated other comprehensive incomeand revenue reserves (net loss). The subscribed capital represents the parent's nominal capital. The capital reserves consist of equity that is supplied externally and which does not constitute subscribed capital.

Following the reorganisation resolution of March 1, 2011 to change the Company into a joint stock company, the subscribed capital (share capital) is comprised of 15,860,000 shares with a notional amount in the share capital of € 1.00 each. The subscribed capital recorded up until then (share capital) totalled a [GmbH] share with a notional value of € 15.86 million.

On June 22, 2011 Adler Modemärkte AG successfully completed its public offering with the listing of the Company's shares on the regulated market and simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. Under the Offer, 2.65 million shares at a nominal value of € 1.00 each were placed as a result of the capital increase resolved on May 30, 2011 and entered in the Commercial Register on June 21, 2011. At an issue price of € 10.00 per share, the Company generated gross proceeds of € 26.5 million.

As a result of the capital increase, the subscribed capital rose by € 2,650,000 to € 18,510,000 and the capital reserve by € 22,519,993 to € 123,521,101. In determining the capital reserve the cost of the capital increase less the associated tax advantage was deducted. Costs in the amount of € 1,822,000 have been incurred in connection with the capital increase.

## PROVISIONS

Provisions are formed where the Group has a current legal or actual obligation resulting from a past event and where it is probable that the payment of the obligation will negatively impact assets and where it was possible to determine reliably the level of the provision. Where several of the same obligations exist, the likelihood of a negative impact on the assets based on this group of obligations is determined. The provisions are recognised taking into account all identifiable resulting risks at the expected settlement amount and are not offset against recourse claims.

Non-current provisions are recognised at their settlement amount discounted to the balance sheet date where the interest portion is material. The interest rate applied equals interest before taxes which takes into account the current economic and market situation and the risk related to such obligation.

## EMPLOYEE BENEFITS

### PENSION OBLIGATIONS

The ADLER Group has various employee benefit plans in place. This includes defined benefit plans as well as defined contribution plans. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (such as a fund or insurance company) and will have no legal or constructive obligation to pay further contributions if the fund or the benefits to be drawn on from the insurance taken out do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit plan is a plan which does not constitute a defined contribution plan.

The agreements on which the defined benefit plans are based stipulate various benefits within the Group, depending on the individual subsidiary. These mainly comprise

+ pension commitments as of reaching the respective retirement age,

+ single payments due upon termination of employment.

The provision recognised for defined benefit plans in the consolidated statement of financial position is derived from the present value of pension obligations at the balance sheet date less the fair value of any existing plan assets, taking into account not yet recognised actuarial gains and losses and past service cost.

The actuarial valuation of pension provisions for pension benefits under IAS 19 (Employee Benefits) uses the Projected Unit Credit Method, with an actuarial valuation being carried out at each balance sheet date by independent actuaries. Within the framework of this Projected Unit Credit Method, the known pensions and vested benefits as well as the expected future increases in salaries and pensions known on the balance sheet date are taken into account. Ratings are based on the legal, financial and tax situation of the respective country. The commitments existing exclusively in the European economic area are rated with an interest rate of 4.2% (previous year 4.75%); a trend of 2.5 – 3.0% for wages and salaries (previous year 2.5%) and of 2.5% for retirement benefits (previous year 2.0%). The employee turnover rate is determined per entity, taking into account the respective age and years of service of the individual employee. The actuarial valuations are largely based on country-specific life tables. The provision consists of the defined benefit obligation less the fair value of plan assets, minus / plus unrecognised actuarial gains and losses. The expected return on plan assets was rated at 3.5% (previous year 3.5%).

The cumulative actuarial gains and losses resulting from the deviation between planned and actual year-end pension obligations and plan assets over the years are only recognised if they exceed the greater of 10% of the present value of the obligation respect. of the plan assets. In this case, the excess divided by the average remaining period of service of actively eligible employees is recorded as an additional expense or income. The past service cost of vested rights is spread over the remaining period of service before the vesting date. For vesting benefits the cost is immediately recognised. The interest component of the provisions included in the pension expenses (cost of interest for pension obligations and the expected return on plan assets) is shown in personnel expenses as interest expenses.

Payments from a defined contribution plan are recognised in profit and loss and included in the personnel expenses.

### POST-EMPLOYMENT BENEFIT OBLIGATIONS

Employees whose employment contracts commence in Austria on or after January 1, 2003 fall under a defined contribution plan. Obligations arising from post-employment payments for employees whose employment started prior to January 1, 2003 are covered by defined benefit plans. Upon termination of employment by the Company, upon retirement, disability or death, eligible employees receive a redundancy payment which - depending on their years of service – constitutes a multiple of their basic monthly salary, yet which does not exceed twelve monthly salaries. Upon termination of employment a maximum three months' salary are paid immediately; any amounts payable beyond this are paid out over a period of several months. In the event of death, the heirs of the eligible employees are entitled to 50% of the redundancy payment.

### TERMINATION BENEFITS

Termination benefits are effected if an employee is dismissed prior to their regular retirement or if an employee voluntarily retires from the employment relationship in return for payment of redundancy. The Group recognises termination benefits immediately when it is demonstrably and inevitably obligated to terminate the employment of current employees according to a detailed irrevocable formal plan or if the redundancy payment must be effected following the voluntary termination of employment on behalf of the employee. Benefits that are due after more than twelve months after the balance sheet date are discounted to their present value. The claims for post-employment benefits are recognised under personnel provisions. This item also covers parts of the claims of the German model for the regulation of semi-retirement.

### SHARE-RELATED COMPENSATION

In conjunction with the contracts made with the members of the Executive Board of Adler Modemärkte AG in 2011, a so-called Long-Term Incentive Bonus was granted in the event of a successful public offering. Since June 22, 2011 the Adler Modemärkte AG share is being traded at the Prime Standard of the Frankfurt Stock Exchange. The offer price per ADLER share was € 10.00. As of the balance sheet date, the active members of the Executive Board subscribed to ADLER shares at a total volume of € 813,871 which corresponds to a total number of shares in the amount of 85,000 shares. On the basis of the amount of their personal investment the active members of the Executive Board were granted 425,000 SARs accordingly. The stock appreciation rights granted were classified and measured under IFRS 2.30 et seq. as a share-based cash-settled compensation. The fair value applied to the services provided by the Executive Board members in return for being granted the options is recognised under IFRS 2 as an expense spread across the vesting period served. The fair value applied to the options will be remeasured at every balance sheet date using Monte Carlo simulations.

## LIABILITIES

### FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value and thereafter measured at amortised cost. For long-term liabilities differences between the historical cost and the repayment amount are taken into account using the effective interest rate method. The initial recognition of the financial liabilities measured at amortised cost is recorded at fair value taking into account the transaction costs.

Loan obligations are classified as short-term insofar as their repayment is due within the following twelve months.

Short-term financial liabilities equally cover rebate entitlements not yet used by customers. These are extended to customers when effecting their purchases using the ADLER customer loyalty card. Within a specified period of time the customer may have these rebates offset against follow-up purchases or have the amount paid out in cash. The amount classified as a financial liability corresponds to such rebates to which customers are entitled but have not referred to by the balance sheet date.

### LIABILITIES UNDER A FINANCE LEASE

Liabilities from lease agreements are reported as a liability insofar as the beneficial ownership in regard to the leased or rented asset is to be allocated to the ADLER Group and are capitalised as tangible assets (finance leases). During the initial recognition of the lease obligations the fair value of the leased asset respect. the lower present value of the leasing instalments was applied.

The cost of financing is distributed as such over the term of the lease that over time this results in a constant rate of interest on the remaining finance lease liability.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised at amortised cost. Trade payables and other short-term liabilities are allocated to "Other Liabilities".

## CONTINGENT LIABILITIES

Contingent liabilities are possible or present obligations which arise from past events but where it is not probable that an outflow of resources will be required to settle the obligation. According to IAS 37, such liabilities should not be recognised in the statement of financial position but disclosed in the notes.

## REVENUE AND OTHER INCOME

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services within ordinary activities. Revenue is reported excluding value added tax less rebates and price reductions. Merchandise compensation claims are recognised as income or expense following verification of the relevant invoices. Schemes entitling customers to obtain loyalty points were not on offer during the period under review.

If customers acquire a specific entitlement to a rebate when effecting a purchase using the ADLER customer loyalty card, such a rebate is recognised as a decrease in revenue. Deferral is effected under Financial Liabilities and is reversed following utilisation. If customers allow their discounts to expire such amount not utilised is shown in the revenue.

Revenue and other operating income are only recognised once the respective services have been performed or when the respective merchandise or products have been supplied and the relevant risks have passed to the customer. Retail sales are processed by EC or credit card. Charges for the card are recognised under Other Operating Expenses. The Group's business policy stipulates that end consumers purchase their products inclusive of a right to return. This right to return is estimated on the basis of experience and deducted from revenue.

Expenditures are recorded under expenses on the date of performance or expensed as incurred. This applies equally to advertising costs which under IAS 38 are recognised when the performance – in this case, the provision of promotional services – has been extended to the ADLER Group and not only when the respective promotional campaigns are carried out by the ADLER Group.

Rental income and rental expenses are recognised as income or expense on an accrual basis.

## FINANCIAL RESULT

Interest income and interest expenditure are accrued as earned taking into account the outstanding loan principal and the applicable rate of interest using the effective interest rate method. The interest rate that is applied corresponds to the interest rate that discounts the estimated future inflows of funds over the term of the financial asset to the net carrying amount of the asset.

In the presence of a finance lease, payments received are divided by actuarial methods into interest and redemption payments.

Borrowing costs are recognised as an expense in the period in which they are incurred provided that these borrowing costs need not be capitalised for qualified assets.

## COSTS OF ISSUING EQUITY

The Company increased its capital during the 2011 financial year by issuing new shares. The costs directly allocated to the issue of the equity instruments were accounted for as a deduction from equity at the moment of the issue.

## SEGMENT REPORTING

Under IFRS 8 segment reporting is carried out subject to operating segments according to the internal organisational and reporting structure. An operating segment is defined as a "component of an entity" generating income and expenses from its business activities, whose financial situation is regularly analysed by the entity's chief operating decision maker in the context of resource allocation and performance assessment and for which independent financial data are available. The Company's responsible chief operating decision maker is the Executive Board of Adler Modemärkte AG.

Within segment reporting, the segments are structured according to the respective chief operations.

During the 2011 financial year, there is only one reportable segment, the "Fashion Stores" ("Modemärkte") segment. The "Textile Logistics" segment, still reportable during the previous financial year, was discontinued during the 2010 financial year.

## EARNINGS PER SHARE

Calculating the earnings per share is based on the requirements of IAS 33 (Earnings per Share) by dividing net income by the weighted average number of shares issued during the financial year. Diluted earnings per share apply if equity instruments are issued from the share capital in addition to ordinary and preference shares which in future could lead to an increase in the number of shares. The present consolidated financial statements are not affected by a dilution effect.

## RECOGNITION OF NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES AND DISCONTINUED OPERATIONS

In accordance with IFRS 5, non-current assets are classified as "held for sale" if the corresponding carrying amount is to be realised mainly through a sale and not through continued use. Plans for a sale must be in place for such sale to take place within the following 12 months. The asset is recognised at the lower of the carrying amount and the fair value less costs to sell and presented separately in the statement of financial position. IFRS 5 defines a component of an entity as a discontinued operation if it is held to be sold or already sold. The discontinued operation is recognised at the lower of the carrying amount and the fair value less costs to sell.

## LITIGATION AND CLAIMS FOR DAMAGES

The companies of the ADLER Group are involved in various litigations and administrative proceedings within the context of general business operations or such could be initiated or enforced in future. Although the outcome of the individual proceedings in view of the unpredictability associated with the legal disputes cannot be foreseen with certitude, there will be no substantial adverse effect on the Group's financial performance according to current assessments beyond the risks taken into account in the financial statements as liabilities or provisions.

## USE OF ASSUMPTIONS AND ESTIMATES

In preparing the consolidated financial statements, assumptions and estimates have been applied which affected the disclosure and measurement of the assets, liabilities, earnings, expenditures and contingent liabilities reported. These assumptions and estimates are related primarily to the determination of the commercial useful life used as a standard throughout the Group, the valuation of provisions, the assessment of provisions, pensions or store-related risks as well as the realisability of future tax relief, in particular from losses carried forward. In some cases, actual values can deviate from the assumptions and estimates made. Changes are recognised at the time they become known.

Our estimates are based on historical experience and other assumptions that are considered applicable under the given circumstances. The actual values can deviate from these estimates. The estimates and assumptions made are subject to constant review. The principle of true and fair view applies also to such estimates.

### USEFUL LIVES OF NON-CURRENT ASSETS

The identification and definition of Group-wide useful lives is based on historical values in regard to the actually expected useful life of non-current assets. An ordinary use of the assets was assumed.

### INVENTORY ALLOWANCES

Inventory allowances are determined taking into account the conditions in the market and are based to a certain degree on historical values.

### INCOME TAXES

The Group has the duty to pay income taxes in various countries on the grounds of individual assessment bases. The global provision for taxes is formed on the basis of determining income subject to local tax laws and applicable local tax rates.

The amount of income tax provisions and liabilities is based on estimates as to whether and if so, to which amount income taxes are due. Potential risks resulting from a different tax treatment, if necessary, are provided for accordingly.

Estimates are to be carried out in order to assess the recoverability of deferred tax assets. In assessing the recoverability of deferred tax assets it has to be considered to which extent it is probable that future taxable profits (taxable income) will be available or not.

For the rest there are uncertainties regarding the interpretation of complex tax regulations and the amount and the time of future taxable income. Especially against the background of international integration, differences between the actual results and our assumptions or future changes in these assumptions may result in changes to the tax income/expense in future periods.

### PROVISIONS

In identifying the approach applied to making provisions, assumptions have to be made with regard to the probability of any outflow of resources. These assumptions are the best estimates of the actual situation, however, as they are based on the necessary application of assumptions, with a certain degree of uncertainty. In measuring provisions, assumptions equally have to be made about the amount of any possible outflow of resources. Any change in the assumptions can thus lead to a different amount in the provisions. Accordingly, the application of assumptions leads here also to a certain degree of uncertainty.

The determination of the present value of pension obligations is critically dependent on the chosen discount rate and other actuarial assumptions which are redetermined at the end of each financial year. The underlying discount rate is the interest rate on high quality corporate bonds, denominated in the currency in which the benefits are paid and that have terms to maturity approximating to the terms of the related pension liability. Changes to these interest rates can lead to material changes in the amount of pension obligations.

IMPAIRMENT

Under IAS 36 Impairment of Assets, and IAS 38 Intangible Assets the goodwill is tested for possible impairment each year. If events or changed circumstances indicating a possible impairment occur, the impairment test has to be performed more frequently. Any scheduled amortisation of goodwill is prohibited. In the course of the impairment test of goodwill the residual carrying amount of the individual cash-generating unit allocated to the goodwill is compared with the recoverable amount of the unit, i.e. the higher of its net selling price and its value in use. In cases in which the carrying amount of the cash-generating unit is higher than the recoverable amount, an impairment loss applies on the scale of the difference. In a first step, goodwill of the affected strategic business entity thus determined is amortised in the amount of the impairment loss recognised through profit and loss. Any remaining residual amount is allocated amongst the other assets of the strategic business entity in proportion to their carrying amounts insofar as they fall under IAS 36. The recoverable amount is determined by using the present value of the future cash flows expected to arise from the continued use of the cash-generating unit. The cash flow forecasts were derived from the Company's current planning. Capital costs are calculated as the weighted average of the equity and borrowing costs, their respective shares in total capital being the decisive factor. The cost of equity complies with the return expected for the cash-generating unit and is computed from the appropriate peer group. The underlying borrowing costs are such average costs of debt resulting from borrowings with an average residual term of 20 years.

When considering risks related to the stores (chiefly assessment of impending losses from operating lease agreements or impairment for finance leases related to the rent for stores), for stores with sustained losses an adjusted EBIT for a defined planning horizon is applied and compared to an objectified rent in order to identify possible insufficient rental coverage in the future, or the carrying amounts are compared with the recoverable amount determined under the assumptions of either a continuation of the existing use or a change of use.

As a rule, the fair value of land and buildings subject to impairment testing is tested by an independent expert. Expert opinions on the fair value of PPE, due to the application of necessary assumptions, are subject to a degree of uncertainty.

At the time of the preparation of the consolidated financial statements all foreseeable risks were taken into account as part of the underlying assumptions and estimates.

## IV. EXPLANATORY NOTES TO THE INCOME STATEMENT

### 1. REVENUE

Revenue (net) is almost exclusively derived from merchandise sales. The geographical distribution presents itself as follows:

| k€ | 2011 | 2010 |
|---|---|---|
| Germany | 382,135 | 356,195 |
| Austria | 79,115 | 74,599 |
| Luxembourg | 15,340 | 14,015 |
| | **476,590** | **444,809** |

### 2. OTHER OPERATING INCOME

| k€ | 2011 | 2010 |
|---|---|---|
| Rents | 2,408 | 3,387 |
| Reimbursement of IPO costs | 1,300 | 0 |
| Negative net amount resulting from business acquisitions | 1,129 | 0 |
| Royalties | 914 | 859 |
| Passthrough costs / reimbursement of costs | 855 | 667 |
| Income from the reversal of provisions | 701 | 412 |
| Income from the reversal of other liabilities | 683 | 789 |
| Personnel-related government grants | 207 | 252 |
| Income from prior periods | 90 | 484 |
| Commissions | 89 | 185 |
| Income from damages claims | 73 | 431 |
| Income from disposals of fixed assets | 29 | 22 |
| Miscellaneous | 1,671 | 684 |
| | **10,149** | **8,172** |

Rental income was generated from sub-letting to shop license holders.

The former sole shareholder participated in the cost of the public offering during the financial year with a total amount of k€ 1,300 (previous year k€ 0). The share of the selling shareholder was recognised as a reimbursement of IPO costs under Other Operating Income.

The negative net amount resulting from business acquisitions in the amount of k€ 1,129 is the result of the acquisition of Wehmeyer Modemärkte, which under IFRS 3 is to be reported under Other Operating Income.

The income from prior periods relates to suppliers credits from goods supplied that relate to prior years.

The remaining Other Operating Income includes subsidies for advertising costs in the amount of k€ 644 (previous year k€ 72). The increase of contributions received from suppliers is due to an increase of the purchase volumes.

### 3. MATERIAL EXPENSES

The material expenses in the amount of k€ 230,967 (previous year k€ 210.360) is completely based on goods purchased.

### 4. PERSONNEL EXPENSES

| k€ | 2011 | 2010 |
|---|---|---|
| Wages and salaries | 63,934 | 62,062 |
| Other social security expenditure | 7,103 | 6,191 |
| Employer's contribution towards the statutory pension scheme | 6,500 | 5,926 |
| Expenditures for retirement pensions | 525 | 774 |
| Expenditures for semi-retirement/death benefits/anniversaries | 52 | 43 |
| | **78,114** | **74,996** |

The increase in personnel expenses is due to an increase in the number of personnel resulting from the opening of new fashion stores.

The following average number of people were employed with the Group during the period under review:

| k€ | 2011 | 2010 |
|---|---|---|
| Executives | 184 | 161 |
| Employees | 801 | 706 |
| Part-time employees | 3,109 | 3,098 |
| Trainees | 253 | 209 |
| | **4,347** | **4,174** |

The number of last year's employees refers merely to continuing operations. Discontinued operations recorded an average 383 employees during the previous year.

## 5. OTHER OPERATING EXPENSES

| k€ | 2011 | 2010 |
|---|---|---|
| Lease payments and building expenditure | 59,981 | 54,176 |
| Advertising costs | 43,413 | 37,960 |
| Freight and transport costs | 13,186 | 12,295 |
| Technical equipment | 10,618 | 8,371 |
| Consultancy fees | 3,940 | 2,383 |
| Administrative expenditure | 3,721 | 2,919 |
| External cleaning costs | 3,044 | 2,744 |
| Consumables | 2,331 | 2,489 |
| Office expenditure | 1,467 | 1,398 |
| Incidental costs of monetary transactions | 1,270 | 1,122 |
| Losses from assets disposals | 171 | 645 |
| Miscellaneous | 3,771 | 3,274 |
| | **146,913** | **129,776** |

Lease payments and building expenditure rose as a result of the increased number of fashion stores.

The rise in advertising costs is largely the result of the increased volume of inserts, television and radio advertising.

## 6. DEPRECIATION AND AMORTISATION AS WELL AS IMPAIRMENT

Scheduled depreciation and amortisation has been specified in the consolidated assets analysis.

During the financial year an unscheduled amortisation on the goodwill from the acquisition of F.W. Woolworth Co. Ges.m.b.H. in the amount of k€ 868 (previous year k€ 0) was performed. For more details please refer to Item 10 "Intangible Assets".

In the previous year the assets and liabilities of discontinued operations were amortised at fair value less costs to sell under IFRS 5. This led to a recognition of an impairment in the amount of k€ 2.665 which was fully recognised under discontinued operations. For more details please refer to Item 9.

## 7. FINANCIAL RESULT

The financial result is comprised of the following items, classified according to their origin:

| k€ | 2011 | 2010 |
|---|---|---|
| **Interest income** | | |
| Amounts owed from credit insitutions | 168 | 136 |
| Amounts owed from affiliates | 0 | 3,402 |
| | **168** | **3,538** |
| **Interest expense** | | |
| Finance lease | -3,209 | -3,865 |
| Amounts owed to credit institutions | -44 | -167 |
| Tax arrears | -4 | 0 |
| Amounts owed to affiliates | 0 | -88 |
| Miscellaneous | -159 | -1 |
| | **-3,416** | **-4,121** |
| **Financial result** | **-3,248** | **-583** |

Interest income from the previous year is due to amounts owed from affiliates for loans extended to Adler Treasury GmbH. These loans were cleared on December 31, 2010. Consequently, there was no income from interest during the financial year under review. Moreover, there was interest income during the previous year from MOTEX (former affiliate) in the amount of k€ 89. The interest income from banks results from current account balances. Also, there were interest expenses during the previous year in connection with MOTEX (former affiliate) in the amount of k€ 88. The items are classified under Loans and Receivables.

All interest income and interest expenses resulting from financial assets and financial liabilities were calculated according to the effective interest rate method.

The interest contained in the net result corresponds to the total income and expenses from interests, calculated according to the effective interest rate method.

## 8. INCOME TAXES

Income tax expenses are comprised as follows:

| k€ | 2011 | 2010 |
|---|---|---|
| Actual tax expense (-) / income (+) | -4,341 | -301 |
| Deferred tax expense (-)/ income (+) | -94 | 5,079 |
| | **-4,435** | **4,778** |

Income taxes are disclosed as the individual income taxes paid or owed in the individual countries as well as deferred taxes.

A profit and loss transfer agreement and single-entity relationship for income tax purposes was in place between Adler Modemärkte AG and AMODA GmbH up until December 31, 2010 so that Adler Modemärkte AG, as the controlled company, until termination of the profit and loss transfer agreement during the 2010 financial year did not incur any income taxes.

The income tax rate of 27.000% recognised for the German company is comprised of corporation tax in the amount of 15.825% (inclusive of a solidarity surcharge of 5.500%) and trade tax in the amount of 11.150%. Foreign income taxes are calculated on the basis of the laws and regulations that apply in the individual countries. The ADLER Group is subject to an overall applicable rate of income tax in the amount of 27.000%. The tax rates have not changed compared to the previous year.

Deferred taxes are calculated using the national tax rates of the individual countries expected to apply upon realisation; they are based on the statutory regulations that have been enacted or passed at the balance sheet date.

The following reconciliation account presents the differences between the income tax expense actually recognised and the income tax expense expected. The expected income tax expense arises from the consolidated earnings before income taxes multiplied by the applicable income tax rate.

| k€ | 2011 | 2010 |
|---|---|---|
| Consolidated earnings before income taxes | 12,693 | 23,701 |
| Applicable income tax rate | 27,00% | 27,00% |
| **Expected income tax expense** | **3,427** | **6,399** |
| **Effects of different foreign tax rates** | **51** | **39** |
| **Effects of different domestic tax rates** | **-13** | **-13** |
| **Tax effects** | | |
| Non-recognition of deferred and actual tax due to single-entity relationship* | 0 | -4,960 |
| For tax purposes non-deductible expenses | 111 | 0 |
| Tax expenses from prior periods | 31 | 35 |
| Non-recognition of current taxable losses | 704 | 181 |
| Addition/deduction of trade tax | 721 | 0 |
| Tax-exempt income | -75 | 0 |
| Effect from income resulting from acquisition | -305 | 0 |
| Impairment goodwill | 234 | 0 |
| Utilisation of uncapitalised taxable losses | -39 | 0 |
| Taxes recognised directly in equity | -359 | 0 |
| Effects from initial recognition of deferred taxes | 0 | -6,495 |
| Other deviations | -53 | 36 |
| **Total tax effects** | **970** | **-11,203** |
| **Actual tax expense (+)/ income (-)** | **4,435** | **-4,778** |
| Actual tax rate | 34,94% | -20,16% |

* In 2010 this only includes effects from actual taxes.

## 9. INCOME FROM DISCONTINUED OPERATIONS

No discontinued operations were reported during the current financial year.

During the 2010 financial year the Company resolved to sell MOTEX Mode-Textil-Service Logistik und Management GmbH. MOTEX was sold to bluO beta equity. Based on the decision to sell the entity, the assets and liabilities of MOTEX Mode-Textil-Service Logistik und Management GmbH scheduled to be sold were treated as discontinued operations under IFRS 5. By contract of sale of September 28, 2010 MOTEX Mode-Textil-Service Logistik und Management GmbH was sold on September 30, 2010. Current earnings of MOTEX Mode-Textil-Service Logistik und Management GmbH were reported until September 30, 2010 as income from discontinued operations in the consolidated income statement. Within the context of the reclassification of the assets and liabilities of the discontinued operations as a disposal group during the financial year 2010, an impairment in the amount of k€ 2,665 was recorded which is fully recognised under discontinued operations. In identifying the impairment the entire disposal group (inclusive of inventories) was taken into account.

The purchase price for MOTEX Mode-Textil-Service Logistik und Management GmbH totalled k€ 135. At the time of sale the carrying amount of the assets held for sale amounted to k€ 12,397 and the carrying amount of the liabilities held for sale amounted to k€ 12,262. The income from discontinued operations is comprised of the following elements:

| Discontinued operations in k€ | 2011 | 2010 |
|---|---|---|
| Revenue | 0 | 18,831 |
| Expenditure | 0 | -16,931 |
| **Current income / loss before taxes** | **0** | **1,900** |
| Income tax on current income / loss | 0 | -292 |
| **Current income / loss after taxes** | **0** | **1,608** |
| Income / loss resulting from the measurement / sale | 0 | -2,665 |
| **Income from measurement / sale after taxes** | **0** | **-2,665** |
| **Income / loss from discontinued operations** | **0** | **-1,057** |

At the time of sale the assets held for sale included k€ 4 in intangible assets; k€ 219 in property, plant and equipment; k€ 40 in inventories; k€ 11,612 in receivables and other assets; k€ 511 in cash and cash equivalents as well as deferred tax assets in the amount of k€ 11. The liabilities held for sale contain k€ 132 in provisions; k€ 12,119 in liabilities and k€ 11 in deferred tax liabilities.

## V. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 10. INTANGIBLE ASSETS

Intangible assets cover internally-generated software as well as acquired software, rights and licences as well as goodwill. The internally-generated intangible assets include capitalised development costs for logistics software as well as for an IT-based bonus system. The advance payments made mainly record advance payments towards the introduction of an electronic merchandise management and merchandise retail security system.

The development of intangible assets during the 2011 financial year presents itself as follows:

| k€ | Software, Rights, Licences | Goodwill | Licences Finance Lease | Internally-generated Assets | Advance payments made | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs Jan. 1, 2011** | **23,929** | **868** | **828** | **2,257** | **0** | **27,882** |
| Additions | 558 | 0 | 0 | 0 | 1,581 | 2,139 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in consolidated group | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **24,487** | **868** | **828** | **2,257** | **1,581** | **30,021** |
| **Amortisation Jan. 1, 2011** | **-21,926** | **0** | **-380** | **-767** | **0** | **-23,073** |
| Additions | -710 | 0 | 0 | -52 | 0 | -762 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **-22,636** | **0** | **-380** | **-819** | **0** | **-23,835** |
| **Impairment Jan. 1, 2011** | **0** | **0** | **-448** | **-1,367** | **0** | **-1,815** |
| Additions | 0 | -868 | 0 | 0 | 0 | -868 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **0** | **-868** | **-448** | **-1,367** | **0** | **-2,683** |
| **Net carrying amount Dec. 31, 2010** | **2,003** | **868** | **0** | **123** | **0** | **2,994** |
| **Net carrying amount Dec. 31, 2011** | **1,851** | **0** | **0** | **71** | **1,581** | **3,503** |

The development of intangible assets during the 2010 financial year presents itself as follows:

| k€ | Software, Rights, Licences | Goodwill | Licences Finance Lease | Internally-generated Assets | Advance payments made | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs Jan. 1, 2010** | **24,692** | **0** | **828** | **2,913** | **0** | **28,433** |
| Additions | 420 | 0 | 0 | 0 | 0 | 420 |
| Disposals | -78 | 0 | 0 | 0 | 0 | -78 |
| Transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | -1,106 | 0 | 0 | -656 | 0 | -1,762 |
| Change in consolidated group | 1 | 868 | 0 | 0 | 0 | 869 |
| **at Dec. 31, 2010** | **23,929** | **868** | **828** | **2,257** | **0** | **27,882** |
| **Amortisation Jan. 1, 2010** | **-22,256** | **0** | **-380** | **-1,100** | **0** | **-23,736** |
| Additions | -776 | 0 | 0 | -52 | 0 | -828 |
| Disposals | 78 | 0 | 0 | 0 | 0 | 78 |
| Transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 1,028 | 0 | 0 | 385 | 0 | 1,413 |
| **at Dec. 31, 2010** | **-21,926** | **0** | **-380** | **-767** | **0** | **-23,073** |
| **Impairment Jan. 1, 2010** | **-52** | **0** | **-448** | **-1,637** | **0** | **-2,137** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 52 | 0 | 0 | 270 | 0 | 322 |
| **at Dec. 31, 2010** | **0** | **0** | **-448** | **-1,367** | **0** | **-1,815** |
| **Net carrying amount Dec. 31, 2009** | **2,384** | **0** | **0** | **176** | **0** | **2,560** |
| **Net carrying amount Dec. 31, 2010** | **2,003** | **868** | **0** | **123** | **0** | **2,994** |

During the previous year amortisation was recognised under Income from Discontinued Operations. Amortisation additions during the 2010 financial year in the amount of k€ 828 are reported as follows in the income statement:

| k€ | 2010 |
|---|---|
| Amortisation | 817 |
| Income from discontinued operations | 11 |

An unscheduled amortisation of goodwill in the amount of k€ 868 from the initial consolidation of F.W. Woolworth Co. Ges.m.b.H. as per December 31, 2010 was fully recognised during the 2011 financial year. In the context of the initial consolidation the goodwill was allocated to various cash-generating units. Cash-generating units are defined as fashion stores that were acquired. On the basis of the valid plan in place at the time of the acquisition the goodwill was allocated to the fashion stores with the highest earnings potential. Towards the end of the financial year there was taken a strategic decision to close two of the stores at the end of the 2012 financial year. As a result, the goodwill allocated to these stores was fully amortised. With regard to a further store the Company is seeking a new tenant so as to be able to exit the lease prematurely. The planning for this store is currently only laid out for a period of twelve months. Identifying the recoverable amount led to an impairment requirement in the amount of the entire goodwill which was allocated to this fashion store. The recoverable amount was determined by applying the value in use on the basis of a 1-year plan for cash flow. The applied discount rate after tax amounted to 6.9%. As there is only one reportable segment within the ADLER Group, the unscheduled impairment of goodwill is allocated exclusively to the Fashion Stores segment.

The advance payments made recognise down payments in the amount of k€ 1,139 for an electronic merchandise management and merchandise retail security system. As the asset is not yet available for use it underwent an impairment test. Since the system is to be introduced to the entire group, the ADLER Group was identified as the cash-generating unit. The recoverable amount was determined by using the fair value less estimated cost to sell on the basis of a 3-year plan for cash flow. As for the additional planning phase a 1% growth discount was applied. The applied discount rate after tax totalled 6.9%. It was determined that there was no impairment requirement.

Advance payments made equally recognise down payments in the amount of k€ 413 for the development of the new web shop. As the asset is not yet available for use at the balance sheet date, it was subject to an impairment test. The web shop was identified as the cash-generating unit. The recoverable amount was recognised using the fair value less estimated cost to sell on the basis of a 5-year plan for cash flow. The applied discount rate after tax totalled 6.9%. It was determined that there was no impairment requirement.

The finance leases refer to a licence in the "VIVENTY by Bernd Berger" brand. The lease includes sales-based rental components. The residual term at the balance sheet date is less than 1 year with a following purchase obligation.

The licences acquired from a finance lease recorded contingent rents in the amount of k€ 7 (previous year k€ 34) through profit and loss.

## 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) recognises leased land and buildings which, due to the structure of their underlying leases recognise the Group as the beneficial owner. For the purpose of an appropriate evaluation, the leases capitalised as "finance leases" were tested for the requirement of a possible impairment. Testing of the individual fashion stores did not produce any events indicating impairment.

Other PPE refer mainly to the interior at the fashion stores.

The development of property, plant and equipment for the 2011 financial year presents itself as follows:

| k€ | Land and rights equivalent to real property | Buildings (incl. buildings on land owned by third parties) | Finance Lease buildings | Technical equipment and machinery | Other operational and office equipment | Advance payments made / Property under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition costs Jan. 1, 2011** | **228** | **55,702** | **130,165** | **0** | **63,064** | **73** | **249,232** |
| Additions | 0 | 3,150 | 778 | 0 | 8,043 | 91 | 12,062 |
| Disposals | 0 | -1,003 | -47 | 0 | -1,819 | 0 | -2,869 |
| Reclassifications | 0 | 44 | 0 | 0 | 28 | -73 | -1 |
| Reclassifications of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in consolidated group | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **228** | **57,893** | **130,896** | **0** | **69,316** | **91** | **258,424** |
| **Depreciation Jan. 01, 2011** | **0** | **-42,770** | **-102,188** | **0** | **-51,692** | **0** | **-196,650** |
| Additions | 0 | -2,803 | -6,206 | 0 | -4,165 | 0 | -13,174 |
| Disposals | 0 | 965 | 0 | 0 | 1,456 | 0 | 2,421 |
| Reclassification | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **0** | **-44,608** | **-108,394** | **0** | **-54,401** | **0** | **-207,403** |
| **Impairment Jan. 1, 2011** | **-53** | **-120** | **0** | **0** | **-194** | **0** | **-367** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification of discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **-53** | **-120** | **0** | **0** | **-194** | **0** | **-367** |
| **Net carrying amount Dec. 31, 2010** | **175** | **12,812** | **27,977** | **0** | **11,178** | **73** | **52,215** |
| **Net carrying amount Dec. 31, 2011** | **175** | **13,165** | **22,502** | **0** | **14,721** | **91** | **50,654** |

The development of property, plant and equipment for the 2010 financial year presents itself as follows:

| k€ | Land and rights equivalent to real property | Buildings (incl. buildings on land owned by third parties) | Finance Lease buildings | Technical equipment and machinery | Other operational and office equipment | Advance payments made / Property under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition costs Jan. 1, 2010** | **228** | **55,417** | **129,285** | **10,967** | **69,552** | **39** | **265,488** |
| Additions | 0 | 1,687 | 940 | 0 | 2,238 | 73 | 4,938 |
| Disposals | 0 | -1,293 | -60 | -116 | -2,737 | 0 | -4,206 |
| Reclassifications | 0 | 32 | 0 | 0 | 7 | -39 | 0 |
| Reclassifications of discontinued operations | 0 | -200 | 0 | -10,851 | -6,352 | 0 | -17,403 |
| Change in consolidated group | 0 | 59 | 0 | 0 | 356 | 0 | 415 |
| **at Dec. 31, 2010** | **228** | **55,702** | **130,165** | **0** | **63,064** | **73** | **249,232** |
| **Depreciation Jan. 01, 2010** | **0** | **-40,956** | **-95,341** | **-4,279** | **-53,942** | **0** | **-194,518** |
| Additions | 0 | -2,865 | -6,300 | -338 | -3,793 | 0 | -13,296 |
| Disposals | 0 | 1,012 | 0 | 119 | 1,911 | 0 | 3,042 |
| Reclassification | 0 | 0 | -547 | 0 | 0 | 0 | -547 |
| Reclassification of discontinued operations | 0 | 39 | 0 | 4,498 | 4,132 | 0 | 8,669 |
| **at Dec. 31, 2010** | **0** | **-42,770** | **-102,188** | **0** | **-51,692** | **0** | **-196,650** |
| **Impairment Jan. 1, 2010** | **-53** | **-231** | **-547** | **-4,602** | **-1,777** | **0** | **-7,210** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassification | 0 | 0 | 547 | 0 | 0 | 0 | 547 |
| Reclassification of discontinued operations | 0 | 111 | 0 | 4,602 | 1,583 | 0 | 6,296 |
| **at Dec. 31, 2010** | **-53** | **-120** | **0** | **0** | **-194** | **0** | **-367** |
| **Net carrying amount Dec. 31, 2009** | **175** | **14,230** | **33,397** | **2,086** | **13,833** | **39** | **63,760** |
| **Net carrying amount Dec. 31, 2010** | **175** | **12,812** | **27,977** | **0** | **11,178** | **73** | **52,215** |

During the previous year depreciation was recognised under Income from Discontinued Operations. Depreciation additions during the 2010 financial year in the amount of k€ 13,296 are reported as follows in the income statement:

| k€ | 2010 |
|---|---|
| Depreciation | 12,749 |
| Income from discontinued operations | 547 |

In terms of the identified impairment losses and impairment reversals, reference is made to Item 6 "Depreciation and Amortisation as well as Impairment".

Assets with a cost per item of less than € 150 are recognised as described above. The acquisition costs of all assets affected hereunder total during the financial year k€ 457, compared to a depreciable amount of k€ 56 during the financial year.

The finance and operating leases are chiefly for rented buildings for fashion stores. The leases tend to include extension options and price adjustment clauses in relation to changes to the rental price index. Additionally, the sales generated at the individual fashion stores condition variable rental components. During the 2011 financial year the contingent rents from finance leases totalled k€ 1,434 (previous year k€ 1,254); from operating leases k€ 2,178 (previous year k€ 1,170).

During the 2011 financial year, as for the previous year, no impairment of assets under finance leases was made.

The terms of the leases tend to be between 5 to 20 years with the option to extend the lease. The lease extension options are to be exercised by the Company in accordance with the lease at a certain time prior to the expiry of the lease. This time varies between three and twelve months before expiry of the lease. The terms of the lease extensions range between one and five years.

Expenses for operating leases during the financial year totalled k€ 55,574 (previous year k€ 49,413). During the previous year, expenses for operating leases for discontinued operations totalled k€ 1,990. The various operating leases include comparable rental extension options.

The obligations from operating leases during the following periods are due as follows:

| k€ | 2011 | 2010 |
|---|---|---|
| **Operating Leases** | | |
| Minimum lease payments payable in future | | |
| up to 1 year | 40,257 | 33,656 |
| 1 to 5 years | 109,830 | 91,889 |
| more than 5 years | 66,446 | 47,356 |
| | **216,533** | **172,901** |

PPE in the amount of k€ 598 (previous year k€ 618) is used as collateral for financial liabilities.

## 12. INVESTMENT PROPERTY

Investment property is identified as a plot of land and a building of the consolidated special purpose entity, ALASKA GmbH & Co. KG. The ADLER Group no longer uses the building in its entirety and a large part of the premises are to be let. The part now freely available for rent is classified as an investment property and recognised accordingly. It is recognised at fair value determined by a property expert on the basis of market data. During the 2011 financial year rental income in the amount of k€ 91 (previous year k€ 3) was generated.

| k€ | 2011 | 2010 |
|---|---|---|
| **Acquisition cost January 1** | **3,374** | **3,374** |
| Reclassification from PPE | 0 | 0 |
| Impairment | 0 | 0 |
| **at December 31** | **3,374** | **3,374** |

As for the previous year, investment property is used in full as collateral for financial liabilities.

Expenses for maintenance and repairs totalled k€ 16 (previous year k€ 26) for the financial year.

## 13. OTHER NON-CURRENT RECEIVABLES AND ASSETS

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Non-current receivables and other assets** | | |
| Prepaid expenses | 395 | 110 |
| Payments towards a money market fund to hedge partial retirement commitments | 381 | 381 |
| Deposits | 158 | 158 |
| | **934** | **649** |
| **Current receivables and other assets** | | |
| Credit card receivables | 1,685 | 1,284 |
| Prepaid expenses | 1,194 | 686 |
| Tax receivables | 849 | 466 |
| Miscellaneous | 2,058 | 1,472 |
| | **5,786** | **3,908** |

The remaining other non-current receivables and assets include financial assets in the amount of k€ 2,223 (previous year k€ 1,823).

During the previous year the current prepaid expenses included k€ 158 in prepaid expenses related to the upcoming capital increase. Following the successful capital increase during the financial year the prepaid expenses were deducted from the capital reserve.

Tax receivables include advance income tax payments of domestic and foreign entities.

Prepaid expenses have been created for advance rental payments, rental payments accrued in connection with operating leases, construction cost grants and maintenance contracts.

## 14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets in the amount of k€ 246 (previous year k€ 263) recognise securities which under IAS 39 are not allocable to any alternative measurement category. The item comprises exclusively of fund shares. The ADLER Group received such fund shares on December 31, 2010 following the acquisition of Adler Asset GmbH (formerly F. W. Woolworth Co. Ges.m.b.H.). The initial recognition and subsequent measurement are carried out at fair value. Changes to the fair value are recognised under Other Comprehensive Income.

## 15. DEFERRED TAX ASSETS

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

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

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Deferred tax assets** | | |
| Intangible assets | 399 | 538 |
| PPE | 152 | 19 |
| Investment property | 574 | 878 |
| Inventories | 1,405 | 334 |
| Receivables and other current assets | 580 | 689 |
| Capitalisation of costs relating to equity raising | 492 | 0 |
| Provisions | 317 | 723 |
| Liabilities | 13,958 | 16,236 |
| Tax losses carried forward | 380 | 19 |
| **Total deferred tax assets** | **18,257** | **19,436** |
| of which current | 3,888 | 3,099 |
| of which non-current | 14,369 | 16,337 |
| **Deferred tax liabilities** | | |
| Intangible assets | 42 | 34 |
| PPE | 6,307 | 7,529 |
| Investment property | 573 | 726 |
| Inventories | 27 | 0 |
| Receivables and other current assets | 116 | 0 |
| Provisions | 3,499 | 3,375 |
| Liabilities | 72 | 131 |
| **Total deferred liabilities** | **10,636** | **11,795** |
| of which current | 1,631 | 2,025 |
| of which non-current | 9,005 | 9,770 |
| Offsetting deferred tax assets and deferred tax liabilities | -10,325 | -11,167 |
| **Carrying amount of deferred tax assets shown in the statement of financial position** | **7,932** | **8,269** |
| **Carrying amount of deferred tax liabilities shown in the statement of financial position** | **311** | **628** |

The changes in deferred taxes to the previous year were recognised in profit and loss unless caused by changes to the scope of consolidated financial statements.

The corporation tax and trade tax loss carry-forwards are largely attributable to domestic entities. For existing foreign tax loss carry-forwards in the amount of k€ 27,063 (previous year k€ 24,739) no deferred taxes were taken into account.

The calculation of deferred taxes resulted in a surplus of deferred tax assets. When there were uncertainties with regard to the realisation of the deferred tax assets due to insufficient input from local tax planning, such deferred tax assets were only recognised up to the amount of the deferred tax liabilities.

No deferred tax liabilities were recognised for temporary differences associated with investments in subsidiaries in the amount of k€ 1,604 (previous year k€ 1,604).

In other respects reference is made to the explanations in the Accounting Policies and Measurement Principles and to the explanations under Item 8.

## 16. INVENTORIES

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Domestic | 61,344 | 46,274 |
| Foreign | 12,184 | 10,475 |
| | **73,528** | **56,749** |

Inventories have been measured at the lower of their attributable cost of acquisition or manufacture on the one hand and of their net selling price at the balance sheet date, less expenses still to be incurred, on the other. During the 2011 financial year impairment losses on inventories exceeded the previous year's impairment by k€ 1,538 (previous year less by k€ 1,567). Impairment was chiefly recognised for excess inventory and reduced marketability in the amount of k€ 905 (previous year k€ 1,744).
Inventories include merchandise exclusively.

## 17. TRADE RECEIVABLES

All trade receivables have a residual term of up to one year. Impairment of trade receivables was not required. There are no overdue trade receivables. All receivables are in euro.

For the 2011 and 2010 financial years the ADLER Group did not receive any collaterals and other credit enhancements to secure the trade receivables nor did the Group accept any to secure outstanding invoices.

There are no indications as per the balance sheet date that with respect to receivables which are neither impaired nor overdue the payment obligations will not be met.

As per December 31, 2011 a total of k€ 1 (previous year k€ 1,258) is recognised as trade receivables from a subsidiary of bluO beta equity Limited (affiliate company).

## 18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Cash at banks | 35,270 | 29,370 |
| Cash on hand | 4,754 | 3,586 |
| | **40,024** | **32,956** |

There is no restricted cash as per balance sheet dates.

The balances at banks, as for the previous year, are fully hedged by specific deposit protections of the individual financial institutes.

## 19. EQUITY

Following the resolution of March 1, 2011 to transform the Company into a joint stock company, the subscribed capital (share capital) is composed of 15,860,000 shares with a notional amount in the share capital of € 1.00 each. The subscribed capital presented up until then (share capital) amounted to a [GmbH] share with a notional value of € 15.86 million. Reference is made in this context also to the preliminary notes.

On June 22, 2011 Adler Modemärkte AG successfully completed its public offering with the listing on the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. Under the Offer, 2.65 million shares at a nominal value of € 1.00 each were placed as a result of the capital increase resolved on May 30, 2011 and entered in the Commercial Register on June 21, 2011. At an issue price of € 10.00 per share, the Company generated gross proceeds of € 26.5 million.

As a result of the capital increase, the subscribed capital rose by € 2,650,000 to € 18,510,000 and the capital reserve by € 22,519,993 to € 123,521,101. In determining the capital reserve the cost of the capital increase (less the associated tax advantage) was deducted. Costs in the amount of k€ 1,822 have been incurred in connection with the capital increase.

### SUBSCRIBED CAPITAL

The subscribed capital of Adler Modemärkte AG, Haibach, increased during the period of presentation from k€ 15,860 to k€ 18,510. The shareholders' capital shares have been paid in full.

### CAPITAL RESERVE

The Company's capital reserve increased as a result of the public offering described above from k€ 101,001 to k€ 123.521. During the 2010 financial year the capital reserve decreased by k€ 37,156 from k€ 138,157. The decrease is on the one hand the result of a withdrawal in the amount of k€ 39,228 from the capital reserve, and on the other hand of an increase of the capital reserve in the amount of k€ 1,572 and a profit contribution made by the shareholders in the amount of k€ 500 which under IFRS is not to be recognised as revenue but is to be taken directly to the capital reserve.

The withdrawal from the capital reserve in the amount of k€ 39,228 was effected by way of assigning a partial amount of a claim against Adler Treasury GmbH to AMODA GmbH of the same amount. See also Item 34. The increase of the capital reserve in the amount of k€ 1,572 was effected by way of a pro rata offsetting against the liability resulting from the transfer of profits and losses from the previous year.

### OTHER CUMULATIVE EQUITY

With regard to the change of the other cumulative equity reference is made to the presentations in the consolidated statement of changes in equity.

### DISTRIBUTION RESTRICTIONS

The Articles of Association of Adler Modemärkte AG do not set forth any distribution restrictions beyond those stipulated as the statutory minimum.

### CAPITAL MANAGEMENT

The objectives of the ADLER Group with regard to capital management are on the one hand to ensure the continuation of the Company and to produce adequate returns for the shareholders and on the other to maintain an optimal capital structure in order to reduce the cost of capital.

The capital structure is controlled insofar as that it takes into account changes in the overall economic situation as well as risks from the underlying assets. As a result of the strong operating cash flow for the entire year, the Company is able to optimally use its own financial resources. Investments are regularly audited as to whether the internally available financial resources can be replaced by (leased) financing to improve the price of merchandise bought (e.g. discounts) and by exploiting positive sales opportunities arising at short notice. Within this context the procurement of liabilities is controlled on the basis of a target debt-ratio. In selecting financial instruments, the Group attaches importance to matching-maturities financing, which is achieved by managing the terms of these financial instruments.

The capital is monitored based on the debt ratio which corresponds to the net debt to equity ratio.

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Equity | 74,580 | 41,167 |
| Liabilities | 112,554 | 121,548 |
| **Debt equity ratio** | **1,51** | **2,95** |

## 20. PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The provisions for pensions refer on the one hand to capital commitments to employees who took up service with Adler Modemärkte AG prior to 1980, and on the other hand to individual commitments to the Company's founders and some former executives. The amount of the provision entered in the statement of financial position can be divided as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Provisions for pensions (direct benefit commitments) | 3,908 | 3,990 |
| Provisions for redundancy payments | 368 | 617 |
| **Provisions for corporate pension plans** | **4,276** | **4,607** |

The projected benefit obligation of the pension obligations with the companies of the ADLER Group based on Defined Benefit Plans evolved as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Balance at Jan. 1** | **6,787** | **4,821** |
| Current service cost | 127 | 107 |
| Interest expenses | 303 | 241 |
| Pensions paid | -830 | -403 |
| Actuarial losses | 621 | 537 |
| Change of consolidation scope | 0 | 1,495 |
| Reclassification of liabilities classified as held for sale | 0 | -11 |
| **Balance at Dec. 31** | **7,008** | **6,787** |

Development of affiliated plan assets:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Balance at Jan. 1** | **1,578** | **1,490** |
| Contributions (employer) | 160 | 165 |
| Expected income from interest | 53 | 61 |
| Pension payments (redundancy payments) | -236 | -95 |
| Actuarial gains (+)/losses (-) of the year | -138 | -43 |
| **Fair value of plan assets at Dec. 31** | **1,417** | **1,578** |

The plan assets are comprised of a direct insurance taken out to cover the obligations arising from severance payments. The claim resulting from this against the insurance company is offset under IAS 19 as plan assets against the severance payment provisions. Insurance premiums are paid in the respective calendar year.

The expected return on the plan assets is determined on a standardised basis which takes into account long-term historical returns, asset allocations and estimates of future long-term returns on investments. The actual loss on plan assets for the financial year totalled € 85 (previous year income in the amount of k€ 18).

Reconciliation of obligations with the value of provision:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Defined Benefit Obligation unfunded | 5,246 | 5,062 |
| Defined Benefit Obligation wholly or partially funded | 1,762 | 1,725 |
| Subtotal | 7,008 | 6,787 |
| less fair value of plan assets | -1,417 | -1,578 |
| **Financing at Dec. 31** | **5,591** | **5,209** |
| Not yet recognised actuarial gains (+)/losses (-) | -1,315 | -606 |
| Reclassification of available-for-sale liabilities | 0 | 4 |
| **Provisions for corporate pension scheme at Dec. 31** | **4,276** | **4,607** |

The experience-based adjustments of the recognised values are divided as follows:

| k€ | 2011 | 2010 | 2009 |
|---|---|---|---|
| Experience-based adjustments of plan liabilities | 621 | 537 | 40 |
| Experience-based adjustments of plan assets | 138 | 43 | -63 |

The amounts recorded in the income statement for the period under review are:

| k€ | 2011 | 2010 |
|---|---|---|
| Interest income Defined Benefit Obligation | 303 | 240 |
| Expected interest income on plan assets | -53 | -61 |
| Service cost | 127 | 107 |
| Realised actuarial losses (+)/ gains (-) | 46 | -10 |
| | **423** | **276** |

The expected allocations from post-employment benefit plans for the financial year ending December 31, 2012 amount to k€ 160 (previous year k€ 165).

The current employer’s contributions paid towards the statutory pension scheme are recognised as expense of the individual year in the operating result and totalled for the Group during the financial year k€ 6,500 (previous year k€ 5,926).

Financing for the pension provisions of previous years has evolved as follows:

| k€ | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Defined Benefit Obligation unfunded | 3,300 | 3,344 |
| Defined Benefit Obligation wholly or partially funded | 1,521 | 1,482 |
| Subtotal | 4,821 | 4,826 |
| less fair value of plan assets | -1,490 | -1,397 |
| **Financing at Dec. 31** | **3,331** | **3,429** |

## 21. OTHER PROVISIONS (CURRENT AND NON-CURRENT)

| k€ | Restruc-turing / severance payments | Rents and incidental rental costs | Other personnel-related provisions | Other provi-sions | Total |
|---|---|---|---|---|---|
| **at Jan. 1, 2010** | **1,843** | **2,060** | **1,133** | **529** | **5,565** |
| Drawdown | -1,533 | -1,919 | -691 | -260 | -4,403 |
| Allocation | 508 | 1,640 | 451 | 250 | 2,849 |
| Dissolution | -264 | -141 | 0 | -5 | -410 |
| Interest added | 0 | 0 | 56 | 0 | 56 |
| Addition to group of companies | 136 | 0 | 107 | 54 | 297 |
| Reclassification discontinued operations | -47 | 0 | -71 | 0 | -118 |
| **at Dec. 31, 2010** | **643** | **1,640** | **985** | **568** | **3,836** |
| Non-current | 0 | 0 | 889 | 155 | 1,044 |
| Current | 643 | 1,640 | 96 | 413 | 2,792 |
| **at Jan. 1, 2011** | **643** | **1,640** | **985** | **568** | **3,836** |
| Drawdown | -355 | -1,046 | -467 | -259 | -2,127 |
| Allocation | 492 | 1,239 | 491 | 256 | 2,478 |
| Dissolution | -289 | -378 | -4 | -30 | -701 |
| Interest added | 0 | 0 | 50 | 0 | 50 |
| Addition to group of companies | 0 | 0 | 0 | 0 | 0 |
| Reclassificiation discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Currency effects | 0 | 0 | 0 | 0 | 0 |
| **at Dec. 31, 2011** | **491** | **1,455** | **1,055** | **535** | **3,536** |
| Non-current | 0 | 0 | 959 | 156 | 1,115 |
| Current | 491 | 1,455 | 96 | 379 | 2,421 |
| **at Dec. 31, 2011** | **491** | **1,455** | **1,055** | **535** | **3,536** |

The obligations resulting from restructuring programmes include in addition to provisions for severance payments also expenses in connection with the closing of fashion stores in 2009 and 2010.

The provision for rents and incidental rental costs refers to subsequent claims based on rental indexation plus possible supplemental charges from operating cost accounting.

Other personnel-related provisions refer to semi-retirement commitments as well as provisions for anniversary and death benefits taking into account actuarial assumptions and maturity-linked discounting.

The other provisions include provisions for archiving with a non-current portion of provisions in the amount of k€ 155 (previous year k€ 155).

## 22. FINANCIAL LIABILITIES

| k€ | | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| Liabilities to METRO Finance B.V. | < 1 year | 258 | 248 |
| Liabilities to METRO Finance B.V. | > 1 year | 4,103 | 4,360 |
| | | 4,361 | 4,608 |
| Liabilities to Treasury GmbH (former affiliated company) | < 1 year | 0 | 50 |
| | | 0 | 50 |
| Liabilities to banks | < 1 year | 5 | 57 |
| | | 5 | 57 |
| Liabilities from Adler customer loyalty card | < 1 year | 14,748 | 13,858 |
| | | 14,748 | 13,858 |
| | | **19,114** | **18,573** |

The liabilities to METRO Finance B.V. (affiliated company until March 6, 2009) refer to a loan subject to a current fixed rate of interest of 3.25% p.a. (fixed interest rate from April 1, 2011 until March 31, 2013). Until March 31, 2011 the loan was subject to a fixed 3.26% p.a. rate of interest. The term of the loan expires on July 31, 2024 and it is paid off quarterly.

The liabilities from the ADLER customer loyalty card are the result of rebates which customers buying with their ADLER customer loyalty card are entitled to but have not as yet drawn on. The customers may have the rebate extended to them for next purchase or have the amount paid out in cash. Under IAS 39 the amount not yet utilised at the balance sheet date is to be fully recognised as a financial liability. Since the entitlements are forfeited by December 31 of the following year, the item is recognised under current financial liabilities. The customers' credit is not subject to any interest.

Based on the customary payment terms with banks and other business partners the maturities and hence outflow of funds from current financial liabilities present themselves as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| | **15,148** | **14,358** |
| of which due within the following time bands: | | |
| < 30 days | 14,753 | 13,913 |
| 30 - 90 days | 99 | 149 |
| 90 - 180 days | 99 | 99 |
| 180 days - 1 year | 197 | 197 |

Liabilities from the ADLER customer loyalty card are presented in the "< 30 days" time band as customers may redeem their credit at any time within a period of twelve months. Under IFRS 7 liabilities such as these that are payable any time are to be allocated to the shortest time band.

Financial liabilities are hedged as of December 31, 2011 by property, plant and equipment with a carrying amount of k€ 598 and by investment property with a carrying amount of k€ 3,374. As of December 31, 2010 financial liabilities were hedged by property, plant and equipment with a carrying amount of k€ 618 and by investment property with a carrying amount of k€ 3,374.

All financial liabilities are due in euro.

## 23. FINANCE LEASE OBLIGATIONS

The items Licences as well as Land and Buildings contained in the Group's property, plant and equipment include assets which classify the Group as the economic beneficiary based on the structure of the underlying lease agreements. The Group's obligations from such finance leases are presented in the following table:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Finance leases** | | |
| Minimum lease payments to be effected in future | | |
| up to 1 year | 12,093 | 12,941 |
| 1 to 5 years | 29,867 | 36,532 |
| over 5 years | 2,588 | 6,135 |
| | **44,547** | **55,608** |
| Discounting | | |
| up to 1 year | -2,679 | -3,179 |
| 1 to 5 years | -4,575 | -5,913 |
| over 5 years | -193 | -477 |
| | **-7,447** | **-9,569** |
| Present value | | |
| up to 1 year | 9,413 | 9,762 |
| 1 to 5 years | 25,292 | 30,619 |
| over 5 years | 2,395 | 5,658 |
| | **37,100** | **46,039** |

Finance leases refer chiefly to buildings rented for fashion stores. The decrease in liabilities corresponds to the reduction of rental payment obligations.

The terms range usually between 5 and 20 years with an option to extend the lease. All finance lease liabilities are due in euro.

## 24. TRADE PAYABLES

As in the previous year, all trade payables at the balance sheet date are towards non-Group third parties. Also as in the previous year, all trade payables are due within one year.

Based on the customary terms of payments with suppliers and other business partners, the maturity and hence the outflow of cash from current trade payables presents itself as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Carrying amount** | **30,613** | **27,829** |
| of which due within the following time bands: | | |
| < 30 days | 19,679 | 19,426 |
| 30 - 90 days | 10,934 | 8,403 |
| 90 - 180 days | 0 | 0 |
| 180 days - 1 year | 0 | 0 |

All trade payables are due in euro, as in previous years.

The ADLER Group did not deposit any guarantees for the reported trade payables. The suppliers deliver the merchandise subject to the country-specific retention of title.

## 25. OTHER LIABILITIES

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Liabilities for value-added tax | 6,318 | 5,093 |
| Liabilities for wages and salaries | 3,786 | 4,861 |
| Liabilities to customers for gift vouchers sold | 2,871 | 2,600 |
| Liabilities from customs | 1,280 | 842 |
| Liabilities from wage tax | 640 | 622 |
| Deferred lease payments | 454 | 363 |
| Trade association | 398 | 331 |
| Social security contributions | 383 | 380 |
| Deferred construction cost grants | 46 | 217 |
| Liabilities to Amoda GmbH (former parent) | 0 | 3,968 |
| Other | 768 | 225 |
| **Other current liabilities** | **16,944** | **19,502** |
| Deferred construction cost grants | 410 | 0 |
| Deferred lease payments | 250 | 0 |
| Liabilities from lease agreement | 0 | 249 |
| **Other non-current liabilities** | **660** | **249** |

Other current liabilities include financial liabilities in the amount of k€ 3,295 (previous year k€ 6,925).

The liabilities reported in the previous year to AMODA GmbH are mainly the result of the residual liability under the transfer of profit by Adler Modemärkte AG from the 2010 financial year. Towards the end of the 2010 financial year Adler Modemärkte AG had extended a loan to Adler Treasury GmbH in the amount of k€ 7,300. The loan was extended subject to a 0.8% p.a. rate of interest. By debt purchase and assignment agreement of December 23, 2010 Adler Modemärkte AG assigned this loan, the residual amount of the other loans of k€ 772 as well as the accrued interest in the amount of k€ 4,720 at December 31, 2010 to AMODA GmbH. Interest in the amount of k€ 4,720 is the result of extending the loan to Adler Treasury GmbH for a nominal amount of in total k€ 47,300, paid out in 2009 and 2010. By netting agreement of December 23, 2010 Adler Modemärkte AG and AMODA GmbH had agreed that the amounts due to Adler Modemärkte AG from the debt purchase and assignment agreement of December 23, 2010 in the amount of k€ 12,792 and the trade tax payments of AMODA GmbH disbursed by Adler Modemärkte AG in the amount of k€ 1,535 be offset against the amounts due to AMODA GmbH under the transfer of profit and loss agreement in the amount of k€ 18,373 for the 2010 financial year at December 31, 2010.

For the remaining current liabilities the compensation claim of the limited partners of Alaska GmbH & Co. KG in the amount of k€ 26 (previous year k€ 26) is reported, limited to this amount.

## 26. CURRENT INCOME TAX LIABILITIES

In the previous year current income tax liabilities referred to foreign income tax liabilities.

## 27. STATEMENT OF CASH FLOWS

The statement of cash flows demonstrates how the financial resources of the ADLER Group have changed during the year under review and the previous year. The financial resources comprise of cash and cash equivalents less cash of restricted availability.

Under IAS 7 cash flows are classified by cash inflow and cash outflow from operating activities, investing activities and financing activities.

| k€ | 2011 | 2010 |
|---|---|---|
| Cash inflow (+)/outflow (-) from operating activities (net cash flow) | 8,830 | 25,800 |
| Cash inflow (+)/outflow (-) from investing activities | -13,211 | -16,759 |
| **Free cash flow** | **-4,381** | **9,041** |
| Cash inflow (+)/outflow (-) from financing activities | 11,449 | -13,076 |
| **Net increase of cash and cash equivalents** | **7,068** | **-4,035** |

The statement of cash flows is prepared according to the indirect method. The impairments are shown independently under operating cash flow.

Financial resources at December 31, 2011 totalled k€ 40,024 (previous year k€ 32,956) and comprise of available cash in banks, cheques as well as cash on hand. As in the previous year, there was no cash of restricted availability during the year under review.

The other non-cash income and expenses in the amount of k€ 11,247 (previous year k€ 10,311) include impairment for inventories, additions to other provisions and current financial liabilities from the ADLER customer loyalty card and for the financial year the income from the acquisition of the Wehmeyer stores.

During the financial year the Company performed a capital increase which is recognised under cash flow from financing activities. As a result of the capital increase, the Company received k€ 26,500. Within the context of the capital increase k€ 1,822 were incurred in costs which reduce the cash flow from financing activities.

During the 2011 financial year the following material non-cash transactions were performed:

Liabilities in the amount of k€ 1,300 towards the former sole shareholder were offset in the financial year against a claim resulting from the reimbursement of pro rata IPO costs.

During the 2010 financial year the following material non-cash transactions were performed:

Part of the liabilities to AMODA GmbH resulting from the profit and loss transfer agreement from the previous year in the amount of k€ 2,094, namely the amount of k€ 1,572, were allocated to the capital reserve and in the amount of k€ 500 granted to the Company as a profit contribution which under IFRS was equally to be recognised as an addition to the capital reserve.

The shareholder withdrew the amount of k€ 39,228 from the capital reserve which, however, was offset against the Company's receivables from the shareholder and whose full amount constituted a non-cash transaction. The effect from recognising the liability resulting from the profit transfer for the 2010 financial year in the amount of k€ 18,373 is shown as a non-cash effect. A part in the amount of k€ 14,327 was offset against amounts owed by AMODA GmbH. The remaining amount totalling k€ 4,046 was not yet paid in the financial year 2010. With regard to offsetting as well as the remaining liability, reference is made to Items 25 and 34.

Non-current assets increased as a non-cash item in the amount of k€ 778 (previous year k€ 940), as did in the same amount finance lease liabilities following the addition of a finance lease agreement.

During the financial year the cash flow from investing activities recorded an outflow of cash in the amount of k€ 2,195 for the acquisition of the Wehmeyer stores. The acquisition did not produce any inflow of cash for the ADLER Group. In the previous year the cash flow from investing activities included negative cash flows from the sale of MOTEX Mode-Textil-Service Logistik und Management GmbH in the amount of k€ 376. The purchase price for the entity totalled k€ 135. As a result of the sale, cash and cash equivalents in the amount of k€ 511 flowed out.

Also, the cash flow from investing activities in the previous year included negative cash flow from the purchase of F.W. Woolworth Co. Ges.m.b.H. in the amount of k€ 237. The purchase price for the entity totalled k€ 1,761. As a result of the acquisition of the entity the Group received cash and cash equivalents in the amount of k€ 1,524.

The interest paid during the financial years is composed as follows:

| k€ | 2011 | 2010 |
|---|---|---|
| Interest paid from finance leases | 3,209 | 3,865 |
| Interest paid from operating activities | 207 | 168 |
| **Total** | **3,416** | **4,033** |

The following cash flows of discontinued operations are included in the consolidated statement of cash flows:

| k€ | 2011 | 2010 |
|---|---|---|
| Cash inflow (+)/outflow (-) from operating activities (net cash flow) | 0 | 563 |
| Cash inflow (+)/outflow (-) from investing activities | 0 | -131 |
| **Free cash flow** | **0** | **432** |
| Cash inflow (+)/outflow (-) from financing activities | 0 | 0 |
| **Net increase of cash and cash equivalents** | **0** | **432** |

## 28. SEGMENT REPORTING

| Dec, 31, 2011 in k€ | Fashion Stores segment | Disconti-nued opera-tions | Segment Total | Recon-ciliation with IFRS | ADLER Group |
|---|---|---|---|---|---|
| External revenue (net) | 475,818 | 0 | 475,818 | 772 | 476,590 |
| Revenue from other segments (net) | 0 | 0 | 0 | 0 | 0 |
| Total revenue (net) | 475,818 | 0 | 475,818 | 772 | 476,590 |
| Revenue from trading | 229,485 | 0 | 229,485 | | |
| Total cost | -223,713 | 0 | -223,713 | | |
| EBITDA | 14,140 | 0 | 14,140 | 16,605 | 30,745 |

| **Reconciliation of revenue from ordinary activities** | |
|---|---|
| EBITDA | 30,745 |
| Depreciation and amortisation | -13,936 |
| Impairment | -868 |
| EBIT | 15,941 |
| Financial result | -3,248 |
| **Revenue from ordinary activities** | **12,693** |

| Dec. 31, 2010 in k€ | Fashion Stores segment | Disconti-nued opera-tions | Segment Total | Recon-ciliation with IFRS | ADLER Group |
|---|---|---|---|---|---|
| External revenue (net) | 441,943 | 3,776 | 445,719 | -910 | 444,809 |
| Revenue from other segments (net) | 0 | 13,833 | 13,833 | -13,833 | 0 |
| Total revenue (net) | 441,943 | 17,609 | 459,552 | -14,743 | 444,809 |
| Revenue from trading | 217,871 | 13,967 | 231,838 | | |
| Total cost | -203,833 | -12,557 | -216,390 | | |
| EBITDA | 22,703 | 2,356 | 25,059 | 12,790 | 37,849 |

| **Reconciliation of revenue from ordinary activities** | |
|---|---|
| EBITDA | 37,849 |
| Depreciation and amortisation | -13,565 |
| Impairment | 0 |
| EBIT | 24,284 |
| Financial result | -583 |
| **Revenue from ordinary activities** | **23,701** |

The revenue from trading based on the internal reporting structure comprises of the gross trading profit and supplier reimbursements.

Segment reporting is structured in accordance with IFRS 8 (Operating Segments). Segmenting follows the Group's internal control and reporting structure. At the reporting date there is only the "Fashion Stores" segment. The Fashion Stores segment includes all activities of the Company with regard to the fashion stores run by the ADLER Group. At the reporting date of the previous year internal reporting was divided into the following reportable segments:

+ Fashion Stores

+ Textile Logistics (discontinued during the financial year 2010).

The Textile Logistics segment included the activities of the ADLER Group for the treatment and distribution of textiles. The entire Textile Logistics segment was sold during the 2010 financial year at September 30 and is therefore only included under "Profit/Loss from Discontinued Operations" of the consolidated income statement for the comparative period. A reconciliation of the information shown in segment reporting is therefore only shown in connection with continuing operations as reported in the consolidated income statement. The information related to the discontinued Textile Logistics segment is shown separately. There is no reconciliation with the "Profit/Loss from Discontinued Operations" item as internal reporting does not cover this item.

Since internal reporting is based on the accounting and measurement regulations of the German Commercial Code (HGB), the information contained in segment reporting has been prepared according to the German Commercial Code. According to the requirements set forth under IFRS 8.28 there is a reconciliation with the accounting methods applied to the consolidated financial statements and thus to the values contained in the consolidated income statement.

The central control parameter of the decision-makers at the ADLER Group is the internally reported EBITDA, which is deemed to be Earnings before Interest, Tax, Depreciation and Amortisation before impairment.

Non-current assets, defined as intangible assets, property, plant and equipment as well as investment property, are spread as following across the individual regions:

| | Dec. 31, 2011 | | | Dec. 31, 2010 | | |
|---|---|---|---|---|---|---|
| k€ | Germany | Other countries | Group | Germany | Other countries | Group |
| Non-current assets | 40,891 | 16,640 | 57,531 | 39,944 | 18,639 | 58,583 |

## 29. RISK MANAGEMENT AND USE OF DERIVATIVES

The Finance division of Adler Modemärkte AG monitors and controls the financial risks of the entire ADLER Group. These are in particular

+ liquidity risks
+ market risks (interest and currency-based risks)
+ credit risks.

Due to the nature of its operations, the ADLER Group is exposed to a multitude of financial risks. We define risks as unexpected events and possible developments which negatively affect the achievement of set targets and expectations. Of relevance are such risks that materially influence the financial position and performance of the Group. The Group's risk management system analyses various risks and attempts to minimise the negative effects on the Company's financial situation. Risk management is performed by the Finance division taking into account existing and applicable regulations.

To measure and control crucial individual risks the Group distinguishes between liquidity, credit and market risks.

### LIQUIDITY RISKS

We take the liquidity risk in the narrower sense to mean the risk of being unable to meet current or future payment commitments or only being able to meet them on unfavourable terms. The Company generates financial resources mainly through its operating activities.

Adler Modemärkte AG acts as financial co-ordinator for the ADLER Group companies to ensure that they are provided with the necessary financing to fund their operating and investment activities at all times and in the most cost-efficient manner possible. The required information is provided and continually analysed through consolidated financial planning utilising liquidity planning that covers rolling plan periods of 14 days.

Long-term financing of the ADLER Group is secured by the ongoing cash flow from operating activities and long-term rental agreements.

Intra-group financial transaction settlements draw on current liquidity surpluses of individual Group companies to finance internal cash requirements of their Group affiliates. This contributes towards a reduction of external borrowing and an optimisation of money and capital investments, with a positive effect on the Group's net interest income.

At the level of the ADLER Group a consolidated and integrated liquidity planning is prepared as per respectively last available corporate planning / projection plus additional special effects recognisable in the immediate future.

The ADLER Group's financing is mainly effected through cash flows generated from operating activities of the Group. The 2011 financial year also recorded a capital increase whereby the Company, following the deduction of transaction costs, activated in total k€ 24,678. Moreover, there is only one loan towards a company of METRO AG which was utilised to finance a property. At the balance sheet date the outstanding loan amount totalled k€ 4,361 (previous year k€ 4.608). The current loan liabilities at the balance sheet date amount to k€ 258 (previous year k€ 248). Other current financial liabilities at the balance sheet date total k€ 14,753 (previous year k€ 13,965).

During the 2010 financial year the shareholder granted a profit contribution in the amount of k€ 500. Moreover, a capital increase in the amount of k€ 1,572 was also carried out during the previous year. On the other hand, a withdrawal from the capital reserve in the amount of k€ 39,228 was effected which, just like the capital increase, was a non-cash item.

## ANALYSIS OF MATURITY OF FINANCIAL LIABILITIES

The following table itemises the maturity structure of the contractual, undiscounted cash flows from financial liabilities:

| Dec. 31, 2011 in k€ | up to 1 year | more than 1 year |
|---|---|---|
| Trade payables | 30,613 | 0 |
| Financial liabilities | 15,148 | 4,989 |
| Finance lease obligations | 12,093 | 32,455 |
| Other financial liabilities | 3,295 | 0 |

| Dec, 31, 2010 in k€ | up to 1 year | more than 1 year |
|---|---|---|
| Trade payables | 27,829 | 0 |
| Financial liabilities | 14,358 | 5,384 |
| Finance lease obligations | 12,941 | 42,666 |
| Other financial liabilities | 6,925 | 0 |

The undiscounted outflows of cash are subject to the condition that the settlement of the liability is related to the earliest possible due date.

A detailed presentation of the "up to 1 year" time band is given for trade payables under Item 24, "Trade Payables" as well as for financial liabilities under Item 22, "Financial Liabilities".

The due dates and thus the outflow of cash for liabilities from finance lease of "up to 1 year" are as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Total due within one year** | **12,093** | **12,941** |
| of which due within the following time bands: | | |
| < 30 days | 803 | 864 |
| 30 - 90 days | 2,303 | 2,371 |
| 90 - 180 days | 2,996 | 3,235 |
| 180 days - 1 year | 5,991 | 6,471 |

The due dates and thus the outflow of cash for other financial liabilities of "up to 1 year" are as follows:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Total due within one year** | **3,295** | **6,925** |
| of which due within the following time bands: | | |
| < 30 days | 2,897 | 2,626 |
| 30 - 90 days | 0 | 3,968 |
| 90 - 180 days | 398 | 331 |
| 180 days - 1 year | 0 | 0 |

## CREDIT RISKS

Credit risks may arise from the total or partial loss of a counterparty, for example through bankruptcy and in connection with monetary investments. The default risk is in the maximum amount of the carrying amounts of the financial assets; default risks that differ from the carrying amount are recognised at the corresponding position. Allowances for trade receivables as well as for other receivables and assets are formed in accordance with intra-group regulations and cover all identifiable credit risks.

As part of the risk management, minimum requirements for creditworthiness and, beyond this, individual credit limits have been established for all business partners of the ADLER Group. The level of a credit limit reflects the creditworthiness of a contractual party and the typical transaction volume handled with such contractual party. The basis is a system of limits laid down in the treasury guidelines which are based on the one hand on the ratings of international rating agencies and internal credit ratings, and on the other on internally acquired historical experience with the individual contractual parties. The ADLER Group is therefore exposed to credit risks to a very low degree only.

The loans and receivables shown in the consolidated financial statements in the amount of k€ 3,376 (previous year k€ 3,161) are not secured. Thus the maximum default risk corresponds with the carrying amount of the recognised loans and receivables.

Identifiable default risks of receivables are, as a rule, taken into account by forming adequate allowances.

Of the loans and receivables shown at the balance sheet date, no items were overdue or impaired.

### MARKET RISKS (INTEREST OR CURRENCY-BASED RISKS)

We take the market risk to mean the risk of a loss that may arise as a result of a change in market parameters that have a bearing on measurement (currency, interest rate, price).

Interest and currency risks are substantially reduced and limited by the principles laid down in the internal treasury guidelines. The guidelines regulate uniformly for the Group that every security measure must be effected within the context of previously defined limits and must not increase the risk any further. The ADLER Group is aware that this severely limits the opportunities to exploit current or expected interest rate and exchange rate movements to optimise results.

The ADLER Group is barely exposed to currency risks since during the period under review 100% of the Group's turnover is carried out in euro and the merchandise is equally purchased in euro currency. Receivables and loans and financial liabilities are materially due in euro.

Interest rate risks can be the result of value fluctuations of an interest rate-sensitive financial instrument due to changes to the market interest rates, leading to changes in the expected cash flows. To minimise risks due to changes in the interest rate within the ADLER Group, only long-term loans are taken out and rental agreements are only signed subject to fixed rates of interest. Except for a liability to METRO Finance B.V. (see Item 22), the ADLER Group did not enter into financial instruments subject to a variable rate of interest. If the level of interest for this liability had been 100 basis points higher when fixing the new interest for the liability for the 2011 financial year, interest expenses for the 2011 financial year would have been higher by k€ 12. If the level of interest for this liability had been 100 basis points lower when fixing the new interest for the liability for the 2011 financial year, interest expenses for the 2011 financial year would have been k€ 13 lower. Since the interest rate is fixed for the entire 2010 financial year, no interest rate sensitivity was recorded for this period of time.

The ADLER Group is not exposed to any other major risks that affect the prices of financial instruments. At the balance sheet date no investments in listed companies were recorded.

Determining the sensitivities of the financial assets held for sale at December 31, 2011 entails the following changes: An increase of market prices by 5% would have increased equity by k€ 9 (previous year k€ 10). A decrease of market prices by 5% would have reduced equity by k€ 9 (previous year k€ 10).

## CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table indicates the carrying amounts and fair values of the financial assets and liabilities per measurement category under IAS 39. The fair value of a financial instrument is the amount for which an asset is exchanged, sold or purchased, or a liability settled, between competent, mutually independent business partners willing to enter into a contract.

| | At amortised cost | | At fair value (no effect on profit/loss) | | | |
|---|---|---|---|---|---|---|
| **Dec. 31, 2011 in k€** | **Other liabilities** | **Loans and receiva-bles** | **Available-for-sale financial assets** | **Amount according to IAS 17** | **Total** | |
| **Item** | **Carrying amount** | **Carrying amount** | **Carrying amount** | **Carrying amount** | **Carrying amount** | **Fair Value** |
| Available-for-sale financial assets | - | - | 246 | - | 246 | 246 |
| Cash and cash equivalents | - | 40,024 | - | - | 40,024 | 40,024 |
| Trade receivables | - | 1,153 | - | - | 1,153 | 1,153 |
| Other financial assets | - | 2,223 | - | - | 2,223 | 2,223 |
| **Total financial assets** | **0** | **43,400** | **246** | **0** | **43,646** | **43,646** |
| Trade payables | 30,613 | - | - | - | 30,613 | 30,613 |
| Financial liabilities | 19,114 | - | - | - | 19,114 | 19,169 |
| Liabilities from finance leases | - | - | - | 37,100 | 37,100 | 38,714 |
| Other financial liabilities | 3,295 | - | - | - | 3,295 | 3,295 |
| **Total financial liabilities** | **53,022** | **0** | | **37,100** | **90,122** | **91,791** |

| Dec. 31, 2010 in k€ | At amortised cost | | At fair value (no effect on profit/loss) | | | |
|---|---|---|---|---|---|---|
| | Other liabilities | Loans and receivables | Available-for-sale financial assets | Amount according to IAS 17 | Total | |
| Item | Carrying amount | Carrying amount | Carrying amount | Carrying amount | Carrying amount | Fair Value |
| Available-for-sale financial assets | - | - | 263 | - | 263 | 263 |
| Cash and cash equivalents | - | 32,956 | - | - | 32,956 | 32,956 |
| Trade receivables | - | 1,338 | - | - | 1,338 | 1,338 |
| Other financial assets | - | 1,823 | - | - | 1,823 | 1,823 |
| **Total financial assets** | **0** | **36,117** | **263** | **0** | **36,380** | **36,380** |
| Trade payables | 27,829 | - | - | - | 27,829 | 27,829 |
| Financial liabilities | 18,573 | - | - | - | 18,573 | 18,817 |
| Liabilities from finance leases | - | - | - | 46,039 | 46,039 | 47,188 |
| Other financial liabilities | 6,925 | - | - | - | 6,925 | 6,925 |
| **Total financial liabilities** | **53,327** | **0** | | **46,039** | **99,366** | **100,759** |

The fair value of available-for-sale financial assets is determined on the basis of the market price existing on the active market. According to IFRS 7, the measurement of the fair value is to be allocated to hierarchy level 1 (Level 1) for fair value measurements.

The fair value of the other financial instruments was measured on the basis of the market information available at the balance sheet date and on the basis of the methods and premises shown in the following.

Due to the short maturities of trade receivables and of cash and cash equivalents, their fair value is assumed to be equivalent to their carrying amount.

"Trade Payables" contain all liabilities with regularly short maturities so that it is to be assumed that their fair value is equivalent to the recognised carrying amount.

"Other Financial Assets", "Financial Liabilities", "Liabilities from Finance Leases" as well as "Other Financial Liabilities" include current and non-current financial assets and liabilities. The fair value to be applied to the assets and liabilities whose residual terms are longer than 1 year is determined by discounting the cash flows associated with the receivables and liabilities, taking into account the current interest parameters. ADLER's individual credit standing is taken into account in the form of creditworthiness and solvency spreads customary in the market for determining the present value.

### NET RESULT FROM FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table identifies the net gains and losses of financial instruments by measurement category as shown in the income statement. In determining the net results interest only had to be taken into account.

| 2011 in k€ | Loans and receivables | Other liabilities | Total |
|---|---|---|---|
| from interest | 168 | -203 | -35 |
| **Total** | **168** | **-203** | **-35** |

| 2010 in k€ | Loans and receivables | Other liabilities | Total |
|---|---|---|---|
| from interest | 3,538 | -256 | 3,282 |
| **Total** | **3,538** | **-256** | **3,282** |

During the period under review, there was no interest income from impaired trade receivables.

With regard to the net income from available-for-sale financial assets, reference is made to Item 14.

### OTHER INFORMATION

At the balance sheet date no financial assets and financial liabilities were designated at fair value through profit or loss. Derivative financial instruments did not exist.

## 30. CORPORATE ACQUISITIONS

Through a purchase contract dated September 23, 2011, Adler Mode GmbH, Haibach, acquired by way of an asset deal the assets, liabilities, employment contracts and utilisation rights of the insolvent entity Wehmeyer Lifestyle GmbH. Together, the latter represent a business pursuant to the regulations of IFRS 3, so the regulations of IFRS 3 on business combinations apply to the transaction. The assets were transferred as of September 30, 2011, the date on which the Company also took over control of the assets. Thus they were incorporated into the consolidated financial statements as of this date. There was transfer of certain intangible assets, the movable tangible assets located in a total of 18 branches and the inventories existing on the key transfer date. The employment contracts of the staff employed in the 18 fashion stores also passed to Adler Mode GmbH. In addition, utilisation rights to the 18 fashion stores were transferred. By acquisition of the 18 Wehmeyer stores, ADLER aims to advance its location expansion and thus achieve the scheduled number of openings of new stores. Since Adler Mode GmbH is not the legal successor to Wehmeyer Lifestyle GmbH, the rental agreements at the store locations are to be renegotiated with the lessors and transferred to the Company.

At a total of 18 branches, Wehmeyer Lifestyle GmbH operated fashion stores for ladies' and men's clothing in North-Rhine Westphalia, Rhineland-Palatinate and Lower Saxony.

The purchase price for the assets was k€ 2,195. The purchase price is still provisional, since its final specification depends on the results of the stock-keeping on the key date of transfer which had not yet been finally submitted. From these cash flows and the acquired assets and liabilities, there resulted a negative difference of k€ 1,129 which was recognised in the income statement and entered under other operating income. The income created by the transaction is allocable to the purchase price below market value, in particular for inventories and PPE.

The recognition of this transaction is still provisional. Some parts of ascertainment of the fair value of the acquired assets and liabilities have not been fully completed. To this extent, there may still be adjustments to the assets and liabilities included in the consolidated financial statements and, as a result, also to the calculated negative difference within the measurement period of one year provided under IFRS 3.45.

The acquired assets and liabilities are as follows:

| k€ | Acquisition costs | Fair value |
|---|---|---|
| **Non-current assets** | | |
| PPE | 1,096 | 2,146 |
| **Current assets** | | |
| Inventories | 1,195 | 1,692 |
| **Liabilities** | | |
| Other current liabilities | -96 | -96 |
| Deferred tax liabilities | 0 | -418 |
| **Net assets** | | **3,324** |

The fair value of the acquired assets and liabilities was established on the basis of the observable market prices. If no market prices were available, income-oriented approaches or cost-oriented procedures were used for measurement of the acquired assets and liabilities.

Group sales and the current earnings of the period rose by k€ 8,304 and, respectively, k€ 31 (this includes the negative difference of k€ 1,129 resulting from acquisition) as a result of acquisition of the assets as of September 30, 2011.

The ADLER Group is currently studying possible strategies for integration of the acquired branches into the ADLER business model. The data required under IFRS 3 on revenue and earnings contribution of the acquired business from the start of the reporting period until the key date of acquisition cannot currently be provided, since the necessary documents were not yet available at the time of preparation of the statement of financial position because of the ongoing insolvency proceedings.

No other acquisitions were made during the reporting period.

## VI. OTHER EXPLANATORY NOTES

### 31. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date of December 31, 2011, there are other financial obligations resulting from rental, tenancy, leasing and service agreements which cannot be terminated before they expire and into which the Group has entered in the ordinary course of business. The sum of future payment based on agreements in continuing operations can be broken down by due dates as follows:

| 2011 in k€ | up to 1 year | 1-5 years | over 5 years | Total |
|---|---|---|---|---|
| Rental and leasing obligations | 40,257 | 109,830 | 66,446 | 216,533 |
| Other obligations | 23,713 | 0 | 0 | 23,713 |
| **Total** | **63,970** | **109,830** | **66,446** | **240,246** |

| 2010 in k€ | up to 1 year | 1-5 years | over 5 years | Total |
|---|---|---|---|---|
| Rental and leasing obligations | 33,656 | 91,889 | 47,356 | 172,901 |
| Other obligations | 27,417 | 0 | 0 | 27,417 |
| **Total** | **61,073** | **91,889** | **47,356** | **200,318** |

The total of k€ 216,533 (k€ 172,901 in previous year) for rental and leasing obligations is assignable to rental and leasing agreements for properties and buildings to the amount of k€ 212,147 (k€ 170,010 in previous year) and operating lease agreements for other installations, furniture and fixtures to the amount of k€ 4,386 (k€ 2,891 in the previous year).

As of the balance sheet date of December 31, 2011, there is also an expenditure commitment of k€ 23,713 (previous year k€ 27,417).

The sum of future minimum sublease payments is k€ 8,427 (previous year k€ 2,471) as of December 31, 2011.

| 2011 in k€ | up to 1 year | 1-5 years | over 5 years | Total |
|---|---|---|---|---|
| Minimum sublease payments | 1,491 | 2,877 | 4,059 | 8,427 |
| **Total** | **1,491** | **2,877** | **4,059** | **8,427** |

| 2010 in k€ | up to 1 year | 1-5 years | over 5 years | Total |
|---|---|---|---|---|
| Minimum sublease payments | 948 | 1,493 | 30 | 2,471 |
| **Total** | **948** | **1,493** | **30** | **2,471** |

## 32. CONTINGENT LIABILITIES

There is a guarantee facility line to the amount of k€ 10,000 (previous year k€ 2,000) with various banks. On December 31, 2011, the line had been utilised to the amount of k€ 1,464 (previous year k€ 1,177). This utilisation had partly been secured by a lien on current accounts. In addition, there is a rent guarantee for k€ 86 (previous year k€ 86) and a customs guarantee for k€ 1,500 (previous year k€ 1,000), which is utilised in full. There are also pledges of bank assets as customary in the sector for trade credit insurance, amounting to k€ 100.

## 33. REMUNERATION

The managing directors are key personnel of the ADLER Group as per IAS 24. On May 30, 2011, the Annual General Meeting adopted a resolution waiving individualised disclosure of Executive Board remuneration. In the 2011 financial year, remuneration for Company management amounted to a total of k€ 1,434 (previous year k€ 576). The remuneration can be broken down as follows:

| in k€ | 2011 | 2010 |
|---|---|---|
| Fixed remuneration | 573 | 494 |
| Non-monetary remuneration | 25 | 9 |
| Short-term incentives | 409 | 73 |
| **Payments to Executive Board members due in short term*** | **1,007** | **576** |
| **Payments due to termination of membership in Executive Board*** | **427** | **0** |
| | **1,434** | **576** |

*) Remuneration in 2010 includes the salaries paid to the managing directors of the then Adler Modemärkte GmbH (after conversion: Adler Modemärkte AG); the relevant salaries are included proportionately in the remuneration for 2011.

The outstanding balances as of December 31, 2011 amount to k€ 824 (previous year k€ 73) and are recognised in other liabilities.

In 2011, the Supervisory Board decided on a Long-Term Incentive (hereinafter called "LTI") for the members of the Adler Modemärkte AG Executive Board. This Long-Term Incentive with a term of a total of five years is designed to reward the Executive Board's contribution to the increase in the value of the Company and consists of a variable bonus in the form of Stock Appreciation Rights (hereinafter called "SARs"). These are virtual stock options, each based on the total value of one share in Adler Modemärkte AG. A virtual stock option grants the holder the right to an equivalent cash payment to the amount of the difference between the average closing price of the share in Adler Modemärkte AG over a period of five trading days before the right is exercised and the price of the share when bought by the relevant member of the Executive Board. The SARs were granted subject to the IPO of Adler Modemärkte AG being successful and to purchase of shares in Adler Modemärkte AG by the beneficiary members of the Executive Board themselves. For the LTI, each beneficiary received five SARs per underwritten share in Adler Modemärkte AG. On the basis of the number of shares they purchased themselves, the active members of the Executive Board were thus granted 425,000 SARs. The exercising of SARs is subject to the beneficiaries holding their own shares in the Company for a minimum term of one year as of the time of purchase of the same. In addition, a waiting period of three years as of the respective date of granting the SARs was set for exercising the SARs. The SARs cannot be exercised until the three-year waiting period has expired and provided that the then applicable price of the ADLER share is at least 30% above the respective purchase price. After expiry of the waiting period and subject to the provision relating to the respective target price, the SARs can be exercised within a period of two years. The amount paid out when each SAR is exercised is calculated as the difference between the average closing price of the share in Adler Modemärkte AG over a period of five trading days before the right is exercised and the relevant purchase price of the share. SARs will be forfeited without substitution if they have not been exercised by the end of the two-year exercising period. In relation to the SARs granted, payments are limited to a total amount of k€ 4,900. If one of the beneficiary members of the Executive Board resigns before the end of his contract as a member of the Executive Board, payment of the SARs is also restricted to the maximum payments specified in the settlement rulings.

The number of SARs remaining as of December 31, 2011 is 425,000. The SARs granted were classified and measured as a cash-settled share-based payment transaction. The fair value of the provision to be created for the SARs was established on the basis of Monte Carlo simulations. As of December 31, 2011, a provision of k€ 18 (of which k€ 18 was created in the long term) was created under the heading of other provisions. The current cost for the period is k€ 18 (€ 0 in period in previous year). Measurement was based on the following parameters:

| | |
|---|---|
| Measurement date | December 31, 2011 |
| Residual term (in years) | 4.5 – 4.9 years |
| Anticipated volatility | 44.85% - 47.21% |
| Risk-free interest rate | 0.23% – 0.81% |
| Dividend return | 0.00% – 3.81% |
| Exercise price | € 7.59 - € 10.00 |
| Share price on measurement date | € 4.47 |

Members of the families of key personnel render services.

The total remuneration of the former managing directors and their surviving dependents amounted to k€ 585 (previous year k€ 156). Pension provisions of k€ 2,188 (previous year k€ 1,663) were created for former members of management and their surviving dependents.

The members of the Supervisory Board are also key management personnel of the ADLER Group as per IAS 24. The total remuneration of members of the Supervisory Board for session fees totalled k€ 141 (previous year k€ 40) in the financial year. One member of the Supervisory Board is the managing director of a company which billed a total of k€ 4 (previous year k€ 0) for consultancy services in the field of procurement in the 2011 financial year.

## 34. RELATED PARTY RELATIONSHIPS

Related parties include the key management personnel of Adler Modemärkte AG. They are named under Item 43 "Corporate Bodies" and their remuneration is listed under Item 33 "Remuneration". In the reporting period, only the entities controlled by the main shareholder bluO SICAV-SIF and its shareholders or legal representatives are deemed to be related parties. In the reporting period, Adler Modemärkte AG is an associate of bluO SICAV-SIF, Luxembourg. On the key reporting date of the previous year, AMODA GmbH, Haibach, and bluO beta equity Limited, Birmingham, United Kingdom, with administrative seat of business in Vienna, Austria, were considered parent entities.

MOTEX Mode-Textil-Service Logistik und Management GmbH Logistikleistungen, Hörselgau, was deconsolidated as of September 30, 2010. Since then, this entity has been an affiliated company.

Business relationships with related parties are contractually agreed and services are rendered at the same prices as those agreed with third parties.

All the entities under the control of bluO SICAV-SIF, Luxembourg, are considered to be affiliated companies. In the previous year, all the entities under the control of the top parent company of the ADLER Group were considered to be affiliated companies.

The following transactions were performed with related parties:

| k€ | 2011 | 2010 |
|---|---|---|
| Procurement of services from affiliated companies | 20,357 | 4,917 |
| Profit transfer to parent company | 0 | 18,373 |
| Interest paid to affiliated companies | 0 | 88 |
| | **20,357** | **23,378** |
| Reimbursement of IPO costs by former sole shareholder | 1,300 | 0 |
| Sale of services to affiliated companies | 32 | 89 |
| Interest paid by affiliated companies | 0 | 3,402 |
| Sale of goods to affiliated companies | 0 | 1,000 |
| | **1,332** | **4,491** |

The rise in the procurement of services primarily resulted from MOTEX Mode-Textil-Service Logistik und Management GmbH only being considered an affiliated company for a period of three months in the previous year and being deemed a related party for the whole of the reporting year.

The following outstanding balances with related parties apply on the balance sheet dates:

| k€ | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Accounts receivable from affiliated company | 1 | 1,258 |
| | **1** | **1,258** |
| Accounts payable to affiliated company | 1,521 | 0 |
| Accounts payable to parent company | 0 | 3,968 |
| Loan liabilities to affiliated company | 0 | 50 |
| | **1,521** | **4,018** |

In the 2010 financial year, a loan to an affiliated company was assigned to the parent company with the exception of k€ 772 and offset by withdrawal from the capital reserve (see Item 19). In addition, two other short-term loans for a total of k€ 12,300 were made to the affiliated company, also in the 2010 financial year. Interest on the loan was 8% for a nominal value of k€ 5,000 and 0.8% for a nominal value of k€ 7,300. The outstanding amounts were fully offset against liabilities to the parent company before the balance sheet date of December 31, 2010. The other loan of k€ 772 and the accrued interest of k€ 4,720 was also assigned to AMODA GmbH as of December 31, 2010.

The loan commitment to an affiliated company entered in the previous year was a short-term loan on which 1.1% interest was paid. The loan was repaid during the reporting period.

Members of the families of key personnel render services to the ADLER Group to the amount of k€ 47 (previous year k€ 40). The services were remunerated on customary market terms. In addition, property, plant and equipment was sold to companies controlled by members of the families of key personnel to the amount of k€ 10 (previous year k€ 255). The assets were sold on customary market terms. One member of the Supervisory Board is a managing director of a company which billed a total of k€ 4 (previous year k€ 0) for consultancy services in the field of procurement in the 2011 financial year. The amount of the outstanding balances from these transactions is k€ 4 (previous year k€ 0).

The remuneration of the members of the Supervisory Board in their function as employees amounted to k€ 265 (previous year k€ 251) in the reporting year.

There are no liabilities to related parties based on finance and operating lease agreements.

In the 2010 financial year, F.W. Woolworth Co. Ges.m.b.H. was acquired by Adler Treasury GmbH (see Item 30) and MOTEX Mode-Textil-Service Logistik und Management GmbH was sold to bluO beta equity Limited (see Item 9).

The financial relationships with related parties shown in the table are explained in greater detail in the following sections:

+ other operating income (see Item 2)
+ financial result (see Item 7)
+ other liabilities (see Item 25)
+ loans (see Item 22 Financial liabilities)
+ contributions (see Item 29 Liquidity risks and 19 Equity)
+ profit and loss transfer agreement (see Item 19 Equity, Item 27 Statement of cash flows)
+ trade receivables (see Item 17)

## 35. EARNINGS PER SHARE

Earnings per share are calculated on the basis of the weighted average number of existing shares, namely 17,629,723, during the period from March 17 (time of conversion) to December 31, 2011. As presented in the consolidated financial statements as of December 31, 2010, there was a GmbH share (limited liability company share) in the comparable period. There are no possible dilutive effects at present. Calculation was by division of the consolidated total income, broken down into continuing and discontinued operations, by the above weighted average number of existing shares.

The 2011 profit for the year of Adler Modemärkte AG according to the German Commercial Code was allocated to the revenue reserves of Adler Modemärkte AG by the Executive Board and the Supervisory Board pursuant to Section 26 of the Articles of Association. The net accumulated losses shown in the IFRS consolidated financial statements are to be carried forward to the new accounting period.

## 36. LEGAL DISPUTES AND DAMAGES CLAIMS

The ADLER Group is not involved in any court or arbitration proceedings having a significant impact on the position of the Group. The ongoing proceedings have not yet come to an end, or, respectively, the amount of liability or claims cannot be reliably stated in view of the very uncertain factors involved.

## 37. FEES FOR THE STATUTORY AUDITOR

For the services of the statutory auditor as defined in Section 318 of the German Commercial Code (Handelsgesetzbuch, "HGB), fees totalling k€ 1.221 (previous year k€ 322) have been incurred in the 2011 financial year:

| k€ | 2011 | 2010 |
|---|---|---|
| Auditing services | 347 | 285 |
| Other certification services | 647 | 0 |
| Tax consultancy services | 76 | 37 |
| Other services | 151 | 0 |
| **Total** | **1,221** | **322** |

## 38. EVENTS AFTER THE BALANCE SHEET DATE

The Extraordinary General Meeting on May 30, 2011 authorised the Executive Board to buy own shares of the Company until March 31, 2016, subject to the consent of the Supervisory Board, this being in a volume of up to 10% of the share capital existing at the time at which the resolution was passed. Subject to the consent of the Supervisory Board, the Executive Board is authorised to use Company shares purchased on the basis of this authorisation as follows: (i) The shares can be retired and such retirement or its implementation does not require a further resolution by the Annual General Meeting. The retirement authorisation can be applied as a whole or in parts. Retirement leads to a reduction in capital. In deviation from this ruling, the Executive Board can stipulate that share capital will not be reduced but the proportion held in share capital by the remaining shareholders increased as per Section 8 para. 3 of the German Stock Corporation Act (Aktiengesetz, "AktG"). In such a case, the Executive Board is authorised to amend the information given in the Articles of Association relating to the number of shares. (ii) The shares can be offered and assigned to third parties in the course of business combinations or in the event of acquisition of companies or holdings in the same. (iii) The shares can be offered for sale to members of the Executive Board or employees of the Company or of its affiliates and assigned to the same. (iv) The shares can be offered for sale or assigned to third parties who, as strategic partners of the Company or of its affiliates, have made a significant contribution to achievement of the entrepreneurial objects of the Company. (v) The shares can be used to meet the Company's obligations resulting from conversion bonds it has issued or warranted. For further details, please see the Management Report.

In addition to the above, no further circumstances with major impact on the Company's financial position and financial performance in the 2011 financial year have resulted between the end of the financial year and the time of preparation of the annual financial statements.

## 39. VOTING RIGHTS NOTICE

During the reporting year, the Company has received notices of changes in shares in voting rights pursuant to Sections 21 para. 1, 21 para. 1a of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG"). They have been published with the following matter in accordance with Section 26 para. 1 WpHG:

In accordance with Section 21 para. 1a WpHG, Cheverny Investments Limited, Gzira, Malta, notified us on June 28, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG.

In accordance with Section 21 para. 1 WpHG, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt am Main, Germany, notified us on June 29, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, exceeded the 3% threshold of voting rights on June 24, 2011 and amounted to 3.11% (corresponding to 575,000 voting rights) on said date. 0.14% of voting rights (corresponding to 25,000 voting rights) are attributable to the company pursuant to Section 22 para. 1, sentence 1, no. 6 WpHG.

In accordance with Section 21 para. 1a WpHG, Crédit Agricole Corporate and Investment Bank, Paris, France, notified us on June 29, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 62.83% (corresponding to 11,629,950 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG.

In accordance with Section 21 para. 1a WpHG, Crédit Agricole S.A., Paris, France, notified us on June 29, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 62.83% (corresponding to 11,629,950 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to Crédit Agricole S.A., Paris, France, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows: Crédit Agricole Corporate and Investment Bank, Paris, France.

In accordance with Section 21 para. 1a WpHG, SAS Rue la Boétie, Paris, France, notified us on June 29, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 62.83% (corresponding to 11,629,950 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to SAS Rue la Boétie, Paris, France, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows (beginning with the bottom company): Crédit Agricole Corporate and Investment Bank, Paris, France; Crédit Agricole S.A., Paris, France.

In accordance with Section 21 para. 1 WpHG, Crédit Agricole Corporate and Investment Bank, Paris, France, notified us on June 30, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, had fallen below the thresholds of 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on June 24, 2011 and amounted to 0% (zero voting rights) on this date.

In accordance with Section 21 para. 1a WpHG, Crédit Agricole S.A., Paris, France, notified us on June 30, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, had fallen below the thresholds of 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on June 24, 2011 and amounted to 0% (zero voting rights) on this date. The above voting rights are attributable to Crédit Agricole S.A., Paris, France, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows: Crédit Agricole Corporate and Investment Bank, Paris, France.

In accordance with Section 21 para. 1a WpHG, SAS Rue la Boétie, Paris, France, notified us on June 30, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, had fallen below the thresholds of 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on June 24, 2011 and amounted to 0% (zero voting rights) on this date. The above voting rights are attributable to SAS Rue la Boétie, Paris, France, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG.

In accordance with Section 21 para. 1a WpHG, blu Finance Ltd., St. Julians, Malta, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to blu Finance Ltd., St. Julians, Malta, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows: Cheverny Investments Limited, Gzira, Malta.

In accordance with Section 21 para. 1a WpHG, bluO Malta Holding Ltd., St. Julians, Malta, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to bluO Malta Holding Ltd., St. Julians, Malta, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows (beginning with the bottom company): Cheverny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta,

In accordance with Section 21 para. 1a WpHG, bluO SICAV-SIF, Luxembourg, notified us on July 1, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (corresponding to 6,880,050 voting rights) on June 21, 2011, the date of the first admission to listing of the shares in Adler Modemärkte AG. The above voting rights are attributable to bluO SICAV-SIF, Luxembourg, pursuant to Section 22 para. 1, sentence 1, no. 1 WpHG. The chain of controlled companies is as follows (beginning with the bottom company): Cheverny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta; bluO Malta Holding Ltd., St. Julians, Malta.

In accordance with Sections 21 para. 1a, 24 WpHG in conjunction with Section 32 para. 2 of the German Investment Act (Investmentsgesetz, "InvG"), Deutsche Bank AG London, London, England, notified us on June 29, 2011 that the share in voting rights of its subsidiary DWS Investment GmbH, Frankfurt am Main, Germany, in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, exceeded the 3% and 5% thresholds on June 24, 2011 and amounted to 7.563% (1,400,000 voting rights) on said date.

Correction of our notice of July 1, 2011:

In accordance with Sections 21 para. 1, 24 WpHG in conjunction with Section 32 para. 2 InvG, Deutsche Bank AG London, London, England notified us on July 15, 2011, in correction of its notice of June 30, 2011, that the share in voting rights of its subsidiary DWS Investment GmbH, Frankfurt am Main, Germany, in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, had exceeded the 3% and 5% thresholds on June 24, 2011 and amounted to 7.563% (1,400,000 voting rights) on said date.

In accordance with Section 21 para. 1 WpHG, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt am Main, Germany, notified us on November 30, 2011 that its share in voting rights in Adler Modemärkte AG, Haibach, Germany, had fallen below the 3% threshold of voting rights on November 29, 2011 and amounted to 2.97% (corresponding to 549,298 voting rights) on said date.

No further notices of changes in shares in voting rights, according to which one of the legally prescribed thresholds had been reached, exceeded or fallen short of, were received by the Company in the 2011 financial year.

After the end of the 2011 financial year, the Company received notices of changes in shares in voting rights pursuant to Sections 21 para. 1, 21 para. 1a WpHG. They have been published with the following wording in accordance with Section 26 para. 1 WpHG:

In accordance with Section 21 para. 1 WpHG, Mr. Gerhard Wöhrl, Germany, notified us on January 16, 2012 that his share in voting rights in Adler Modemärkte AG, Haibach, Germany, had exceeded the 3% threshold of voting rights on January 11, 2012 and amounted to 3.100% (corresponding to 573,811 voting rights) on said date.

Correction of our notice of January 16, 2012:

In accordance with Section 21 para. 1 WpHG, Mr. Gerhard Wöhrl, Germany, notified us on January 16, 2012 that his share in voting rights in Adler Modemärkte AG, Haibach, Germany, exceeded the 3% threshold of voting rights on January 11, 2012 and amounted to 3.100% (corresponding to 573,811 voting rights) on said date. 3.100% of the voting rights (corresponding to 573,811 voting rights) are attributable to Mr. Wöhrl in accordance with Section 22 para. 1, sentence 1, no. 1 WpHG.

Correction of our announcement of January 16, 2012:

In accordance with Section 21 para. 1 WpHG, Mr. Gerhard Wöhrl, Germany, notified us on January 17, 2012, in correction of his notice of January 16, 2012, that his share in voting rights in Adler Modemärkte AG, Haibach, Germany, had exceeded the 3% threshold of voting rights on January 11, 2012 and amounted to 3.100% (corresponding to 573,811 voting rights) on said date. 1.003% of the voting rights (corresponding to 185,600 voting rights) are attributable to Mr. Wöhrl in accordance with Section 22 para. 1, sentence 1, no. 1 WpHG.

## 40. DECLARATION OF CONFORMITY IN CONNECTION WITH THE GERMAN CORPORATE GOVERNANCE CODE

On June 30, 2011, the Executive Board and Supervisory Board of Adler Modemärkte AG jointly made the Declaration of Conformity as per Section 161 AktG relating to the recommendations of the German Corporate Governance Code as amended on May 26, 2010. In terms of both form and content, the Declaration of Conformity is permanently accessible to shareholders on the Company's website: (http://www.adlermode-unternehmen.com/uploads/media/Adler_Entsprechenserklaerung_2011_09.pdf)

## 41. CORPORATE BODIES

In the 2011 financial year and until the time at which the statement of financial position (balance sheet) was drawn up, the following persons held a position on the Executive Board:

+ Lothar Schäfer*, Villmar, Chairman of the Executive Board, responsible for the sectors Strategy, Procurement, Logistics, Supply Chain Management, Quality Management, Public Relations and Investor Relations
+ Karsten Odemann, Bad Tölz, responsible for the sectors Finances, Controlling, Auditing, Human Resources, Law, IT and Labour Director (member of the Executive Board since December 1, 2011)
+ Thomas Wanke*, Braunschweig, responsible for the sectors Marketing, Sales, Visual Merchandising and Location Expansion
+ Jochen Strack*, Lohra-Kirchvers, responsible for the sectors Finances, Controlling, Auditing, Human Resources, Law, IT and Labour Director (member of the Executive Board until December 1, 2011)

* Until conversion, Messrs. Schäfer, Wanke and Strack were managing directors of Adler Modemärkte GmbH and were appointed to the Executive Board of Adler Modemärkte AG in the course of conversion.

In the 2011 financial year, the Supervisory Board of Adler Modemärkte AG was composed of the following:

+ Holger Kowarsch[1*, 3*, 4*], Hochstadt, Chairman of the Supervisory Board (chair since March 4, 2011), Merchant, other Supervisory Board posts: AlzChem AG (previously AlzChem Trostberg GmbH), ZIP Warenhandel AG (deputy chairman until February 6, 2012)
+ Angelika Zinner[1, 2, 4], Kettenis, Belgium, Deputy Chairwoman of the Supervisory Board, Chairwoman of the Joint Works Council of Adler Modemärkte AG
+ Oliver Apelt, Düsseldorf, (until February 28, 2011), Managing Director
+ Mona Abu-Nusseira[2], Munich, Principal M&A of bluO International Affiliates Ltd., other Supervisory Board posts: AlzChem AG (previously AlzChem Trostberg GmbH)
+ Majed Abu-Zarur, Mannheim, Specialist Consultant Information Desk, Cash Desk and Sales of Adler Modemärkte AG
+ Ingrid Düsmann-Schulz, Bessenbach, Training Officer of Adler Modemärkte AG

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- Corinna Gross, Neuss, Regional Managing Director of the United Services Union ver.di

- Georg Linder[1, 2, 4], Haibach, Divisional Director Procurement Planning and Product Management of Adler Modemärkte AG

- Eduard Regele[1, 2*, 3, 4], Eurasburg, (since March 1, 2011), graduate in business administration (VWA), bluO International Affiliates Ltd.

- Erika Ritter, Berlin, Area Director Commerce of the United Services Union ver.di; other Supervisory Board posts: Otto Reichelt GmbH

- Markus Roschel, Sasbachwalden, Investment Manager, bluO International Affiliates Ltd., member of Executive Board of ZIP Warenhandel AG (until February 6, 2012)

- Markus Stillger[3], Brechen, (since March 18, 2011), Managing Partner of Stillger & Stahl Vermögensverwaltung GbR, authorised officer ("Prokurist") (CFO) of ABID Senioren Immobilien GmbH, Managing Shareholder (CEO) of MB Fund Advisory GmbH and Managing Shareholder (CEO) of Stikma GmbH; other Supervisory Board posts; Agrarius AG, Ex Oriente Lux AG, Keyreus AG (chairman until April 30, 2011)

- Jörg Ulmschneider, Schmelz, Business Consultant, Managing Partner of new connections

- Markus Zöllner, Bichl, (until March 17, 2011), former Chairman of the Supervisory Board (until March 4, 2011), Merchant, other Supervisory Board posts: AlzChem AG (previously AlzChem Trostberg GmbH, Chairman), dapd media holding AG, ZIP Warenhandel AG (chairman until February 6, 2012)

Member of

[1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Mediation Committee, * Chairman of the Committee

Haibach, February 28, 2012

| Lothar Schäfer | Karsten Odemann | Thomas Wanke |
|---|---|---|
| Chairman of the Executive Board | Member of the Executive Board | Member of the Executive Board |

# CERTIFICATION BY LEGAL REPRESENTATIVES

To the best of our knowledge, we give assurance, firstly, that, in accordance with the applicable accounting principles, the consolidated financial statements present a picture of the financial position and performance of the Company which conforms with the actual situation and, secondly, that the course of business, including business results, and the position of the Group are portrayed in the consolidated management report in a way reflecting the actual situation and that the major opportunities and risks of the anticipated development of the Group have been described.

Haibach, February 28, 2012

| Lothar Schäfer | Karsten Odemann | Thomas Wanke |
|---|---|---|
| Chairman of the Executive Board | Member of the Executive Board | Member of the Executive Board |

# AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Adler Modemärkte AG (previous: Adler Modemärkte GmbH), Haibach, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, state-ment of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 German Commercial Code (Handelsgesetzbuch, "HGB") is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presen-tation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group man-agement report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal 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 assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consoli-dation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the con-solidated financial statements and the group management report. We believe that our audit pro-vides 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 the IFRSs as adopted by the EU and the additional requirements of German commercial law pursu-ant to Section 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future develop-ment.

Stuttgart, February 28, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Jürgen Schwehr | ppa. Axel Ost |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# FUTHER
# INFORMATION

# MULTI-YEAR OVERVIEW

| Income statement | | 2008 | 2009 | 2010 | 2011 | Change 2010 to 2011 absolute | Change 2010 to 2011 relative |
|---|---|---|---|---|---|---|---|
| **Revenue** | **€ mn.** | **474.6** | **405.8** | **444.8** | **476.6** | **31.8** | **7.1%** |
| Material expenses | € mn. | -239.6 | -205.3 | -210.4 | -231.0 | -20.6 | 9.8% |
| **Gross profit** | **€ mn.** | **235.0** | **200.5** | **234.4** | **245.6** | **11.2** | **4.8%** |
| Gross profit margin | % | 49.5% | 49.4% | 52.7% | 51.5% | -1.2% | -2.2% |
| **EBITDA** | **€ mn.** | **-27.2** | **12.5** | **37.8** | **30.7** | **-7.1** | **-18.8%** |
| EBITDA margin | % | -5.7% | 3.1% | 8.5% | 6.5% | -2.1% | -24.2% |
| Depreciation | € mn. | -20.4 | -15.5 | -13.6 | -13.9 | -0.3 | 2.2% |
| Impairment | € mn. | -7.9 | -2.3 | 0.0 | -0.9 | -0.9 | |
| **EBIT** | **€ mn.** | **-55.4** | **-5.4** | **24.3** | **15.9** | **-8.4** | **-34.6%** |
| EBIT margin | % | -11.7% | -1.3% | 5.5% | 3.3% | -2.1% | -38.9% |
| **Net income from operations** | **€ mn.** | **-61.6** | **-8.5** | **23.7** | **12.7** | **-11.0** | **-46.4%** |
| Income taxes | € mn. | 2.4 | -0.1 | 4.8 | -4.4 | -9.2 | -191.7% |
| Net income from continuing operations | € mn. | -59.2 | -8.6 | 28.5 | 8.3 | -20.2 | -70.9% |
| Net income from discontinued operations | € mn. | 0.0 | 1.3 | -1.1 | 0.0 | 1.1 | |
| **Consolidated profit for the year** | **€ mn.** | **-59.2** | **-7.3** | **27.4** | **8.3** | **-19.2** | **-69.7%** |

| Net assets | | 2008 | 2009 | 2010 | 2011 | Change 2010 to 2011 absolute | Change 2010 to 2011 relative |
|---|---|---|---|---|---|---|---|
| Total assets | € mn. | 189.9 | 205.0 | 162.7 | 187.1 | 24.4 | 15.0% |
| Non-current assets | € mn. | 89.9 | 72.6 | 67.5 | 66.4 | -1.1 | -1.6% |
| Current assets (without cash and cash equivalents) | € mn. | 75.8 | 95.3 | 62.3 | 80.8 | 18.6 | 29.9% |
| Inventories | € mn. | 62.5 | 53.6 | 56.7 | 73.5 | 16.8 | 29.6% |
| Cash and cash equivalents | € mn. | 25.2 | 37.0 | 33.0 | 40.0 | 7.0 | 21.2% |
| Equity | € mn. | 25.5 | 69.3 | 41.2 | 74.6 | 33.4 | 81.1% |
| Equity ratio | % | 13.4% | 33.8% | 25.3% | 39.9% | | |
| Non-current liabilities | € mn. | 63.9 | 54.5 | 47.2 | 38.2 | -9.0 | -19.1% |
| Current liabilities | € mn. | 100.5 | 81.2 | 74.4 | 74.4 | 0.0 | 0.0% |
| Debt equity ratio | | 6.45 | 1.96 | 2.95 | 1.51 | | |

| Financial position | | 2008 | 2009 | 2010 | 2011 | Change 2010 to 2011 absolute | Change 2010 to 2011 relative |
|---|---|---|---|---|---|---|---|
| Net cash flows from operating activities | € mn. | -22.5 | 7.2 | 25.8 | 8.8 | -17.0 | -65.9% |
| Net cash flows from investing activities | € mn. | 4.0 | -37.8 | -16.8 | -13.2 | 3.5 | -21.4% |
| Free cash flow | € mn. | -18.5 | -30.7 | 9.0 | -4.4 | -13.4 | -148.9% |

| Employees | | 2008 | 2009 | 2010 | 2011 | Change 2010 to 2011 absolute | Change 2010 to 2011 relative |
|---|---|---|---|---|---|---|---|
| Number of employees as of December 31 | number | 4,826 | 4,821 | 4,174 | 4,404 | 230 | 5.5% |
| Personnel expenses | € mn. | -128.2 | -80.6 | -75.0 | -78.1 | -3.1 | 4.1% |

# CONTACT & FINANCIAL CALENDAR

## CONTACT

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## FINANCIAL CALENDAR:

| | |
|---|---|
| March 16, 2012 | Annual financial statements |
| May 14, 2012 | Report for the first quarter 2012 |
| May 23, 2012 | Annual shareholders' meeting |
| August 10, 2012 | Report for the first half of 2012 |
| November 12, 2012 | Report for the third quarter 2012 |

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# IMPRINT


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ALLES PASST

ANNUAL REPORT 2011

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