

# 2012

ANNUAL REPORT



**ADLER**  
ALLES PASST

# MULTI-YEAR OVERVIEW

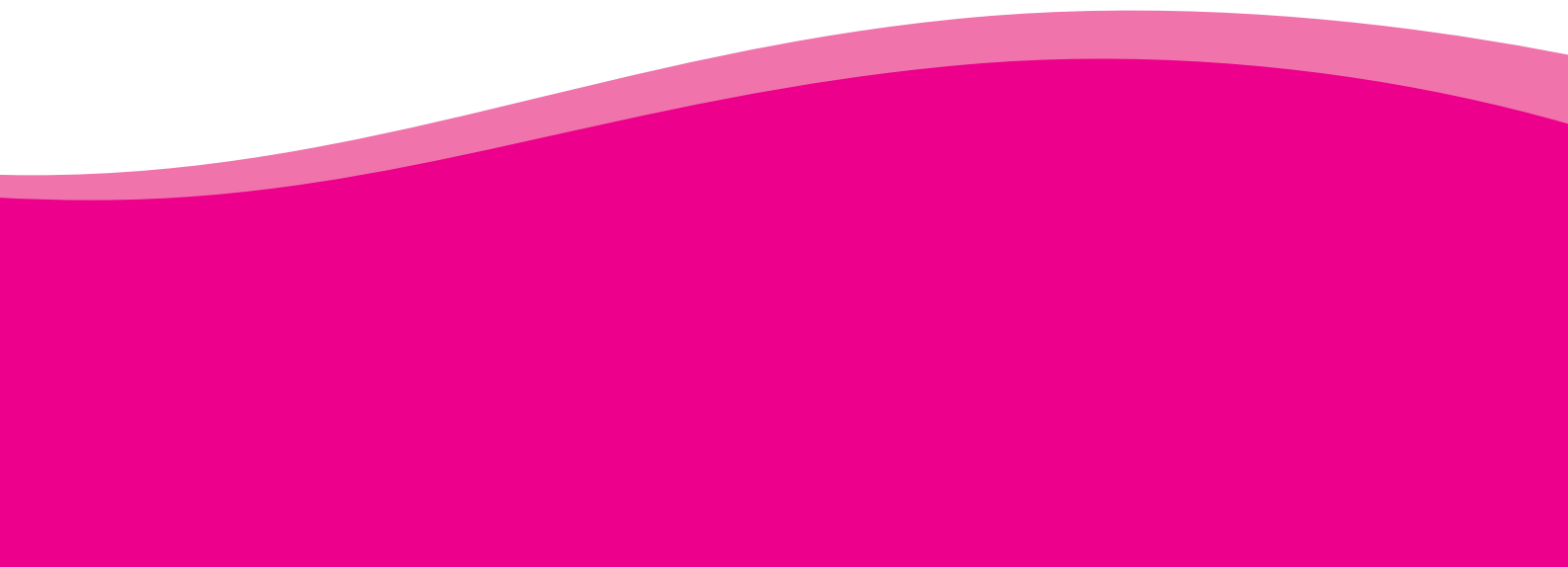
		2008	2009	2010	2011	2012	Change 2012 to 2011	
							absolute	relative
<b>REVENUE</b>	€ million	<b>474.6</b>	<b>405.8</b>	<b>444.8</b>	<b>476.6</b>	<b>506.1</b>	<b>29.5</b>	<b>6.2%</b>
Material expenses	€ million	-239.6	-205.3	-210.4	-231.0	-238.2	-7.2	3.1%
Gross profit	€ million	235.0	200.5	234.4	245.6	267.9	22.3	9.1%
Gross profit margin	%	49.5%	49.4%	52.7%	51.5%	52.9%	1.4%	2.7%
<b>EBITDA</b>	€ million	<b>-27.2</b>	<b>12.5</b>	<b>37.8</b>	<b>31.2</b>	<b>35.5</b>	<b>4.3</b>	<b>13.8%</b>
EBITDA margin	%	-5.7%	3.1%	8.5%	6.5%	7.0%	0.5%	7.1%
Depreciation	€ million	-20.4	-15.5	-13.6	-13.9	-15.0	-1.1	7.9%
Impairment	€ million	-7.9	-2.3	0.0	-0.9	0.0	0.9	-100.0%
<b>EBIT</b>	€ million	<b>-55.4</b>	<b>-5.4</b>	<b>24.3</b>	<b>16.4</b>	<b>20.5</b>	<b>4.1</b>	<b>25.0%</b>
EBIT margin	%	-11.7%	-1.3%	5.5%	3.4%	4.1%	0.6%	17.7%
<b>NET INCOME FROM OPERATIONS</b>	€ million	<b>-61.6</b>	<b>-8.5</b>	<b>23.7</b>	<b>12.9</b>	<b>16.2</b>	<b>3.3</b>	<b>25.6%</b>
Income taxes	€ million	2.4	-0.1	4.8	-4.4	-6.1	-1.7	38.6%
<b>CONSOLIDATED PROFIT FOR THE YEAR</b>	€ million	<b>-59.2</b>	<b>-8.6</b>	<b>28.5</b>	<b>8.5</b>	<b>10.1</b>	<b>1.6</b>	<b>18.8%</b>
Earnings per share*	€	-3.36	-0.49	1.62	0.48	0.56	0.08	16.7%
Net cash flows from operating activities	€ million	-22.5	7.2	25.8	8.8	30.7	21.9	248.9%
Net cash flows from investing activities	€ million	4.0	-37.8	-16.8	-13.2	-9.7	3.5	-26.5%
Free cash flow	€ million	-18.5	-30.7	9.0	-4.4	21.0	25.4	577.3%
<b>TOTAL ASSETS</b>	€ million	<b>189.9</b>	<b>205.0</b>	<b>162.7</b>	<b>187.4</b>	<b>210.4</b>	<b>23.0</b>	<b>12.3%</b>
Non-current assets	€ million	89.9	72.6	67.5	66.4	80.9	14.5	21.8%
Current assets	€ million	101.0	132.3	95.2	121.0	129.5	8.5	7.0%
Inventories	€ million	62.5	53.6	56.7	73.5	78.2	4.7	6.4%
Cash and cash equivalents	€ million	25.2	37.0	33.0	40.0	42.1	2.1	5.3%
<b>EQUITY</b>	€ million	<b>25.5</b>	<b>69.3</b>	<b>41.2</b>	<b>74.8</b>	<b>79.9</b>	<b>5.1</b>	<b>6.8%</b>
Equity ratio	%	13.4%	33.8%	25.3%	39.9%	38.0%		
Non-current liabilities	€ million	63.9	54.5	47.2	38.2	51.7	13.5	35.3%
Current liabilities	€ million	100.5	81.2	74.4	74.4	78.8	4.4	5.9%
Debt equity ratio		6.45	1.96	2.95	1.50	1.63		
Number of employees as of December 31	number	4,826	4,821	4,174	4,404	4,390	-14.0	-0.3%
Personnel expenses	€ million	-128.2	-80.6	-75.0	-77.9	-85.4	-7.5	9.6%
<b>TOTAL NUMBER OF STORES</b>		<b>121</b>	<b>123</b>	<b>134</b>	<b>162</b>	<b>169</b>		
of which in Germany		103	104	106	132	139		
of which in Austria		16	17	26	28	27		
of which in Luxembourg		2	2	2	2	2		
of which in Switzerland		-	-	-	-	1		

\* In the consolidated financial statements from 2008 to 2010 there was a GmbH (limited liability company) share

# COMPANY

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LETTER TO THE SHAREHOLDERS • ADLER 2012 • ADLER SHARE • REPORT OF THE SUPERVISORY BOARD • EXECUTIVE BOARD • SUPERVISORY BOARD • CORPORATE GOVERNANCE REPORT • REMUNERATION REPORT



# LETTER TO THE SHAREHOLDERS

Dear Shareholders,  
Dear Sir or Madam,

In many respects, the 2012 financial year was a challenging and eventful year for Adler Mode-märkte AG. On the one hand, there were the Group's continued expansion efforts in Germany and abroad, and the challenging economic climate and its persistent fierce competition on the other.

The first year after successfully placing our shares on the Frankfurt Stock Exchange also marked the third consecutive year of strong growth for ADLER. The addition of 29 new ADLER stores by themselves tested our start-up and systematic integration capabilities since almost half of the new stores stemmed from the acquisition of the Wehmeyer stores.

At the same time, ADLER also maintained its rate of expansion during the first six months of 2012. ADLER opened eight additional stores between March and June 2012. The second half of the year saw the addition of eight further stores in Germany and abroad. Accordingly, 2012 was another growth year for the Group. Our first store in Switzerland also marked our first steps into a new foreign market. Including Germany, Austria and Luxembourg, ADLER now has a presence in four countries.

From an economic standpoint, the previous year did not proceed smoothly for the German textile retail industry. At times the industry recorded sharp declines in customer frequency levels on sales floors which were accompanied by decreasing revenue. That is why we are even more pleased to report that the Company closed out the financial year with revenue growth of +6.2% in line with its forecast.

Key performance indicators such as the cost of materials, personnel expenses ratio and gross profit margin were increased. Consequently, income also rose during the financial year. Earnings under EBITDA, our most important performance indicator, increased from € 31.2 million to € 35.5 million. ADLER also recorded encouraging improvements in EBIT and the net profit for the year after taxes.

We also expect the formation of the department for procurement, supply chain management and logistics to lead to additional improvements. Manuela Baier, who was appointed to the Executive Board for the first time in May, will especially drive up the ratio of merchandise purchased directly for ADLER from producing countries, thus increasing the gross profit margin, an important performance indicator for earnings. At the same time, this will allow us to more effectively monitor the international supply chain.

In the middle of the year the Executive Board decided to purposefully rein in the Company's rate of expansion somewhat following solid growth over the past three years. Since the second half of the year, economic researchers, forecast institutes and analysts had predicted that Germany would face increasing macroeconomic and recessionary risks. The Executive Board countered these uncertainties brought about by the sovereign debt and euro crises with a targeted policy of consolidation and earnings preservation. Despite the difficult conditions, the results show that this policy proved successful. We will maintain this focus during the current financial year as well.

An advantage for the Company continues to be that it still does not have any bank debts and that it finances its investments from the current cash flows. In 2012, we purposefully invested primarily in new technologies. Investments to optimise and standardise the reporting system of the ADLER ma-

nagement information system, investments in an SAP release change and the SAP system landscape, and investments in updating Microsoft products to safeguard administrative operations in the future were all part of projects completed during the year.

The RFID technology pilot project that ADLER launched in select stores is also an important IT project. By adding the RFID tags to our most important product ranges we can monitor our stock inventory on an ongoing basis. This will allow us to keep the most popular articles in stock at all times and generate additional revenue potentials. ADLER plans to roll this technology out to all stores during the course of the current financial year.

We also improved the functionality of our online shop, which was launched in March 2010, by investing in a relaunch for 2012. This was so successful that ADLER is now one of the most innovative vendors on the market. What sets the online shop apart is that it is linked with central logistics and the brick-and-mortar retail stores. This allows customers to physically pick up or return items they ordered online. Customers can also check online to see if the items they want are available in the store. This allows for cross-selling options without losing the important direct contact that ADLER has to its customers.

One-on-one customer contact, spacious sales floors and fitting rooms, understanding the needs of our customers, and a thriving, loyal customer base – these are the basic principles of merchandising in our eyes. ADLER counts these principles and the targeted focus on the „best agers“ amongst our primary competitive advantages. In our customer loyalty card, which was launched in 1974 and with which a solid 90% of all revenue transactions are made, the Company has the perfect instrument to best attend to the needs of our loyal customer base.

Dear shareholders, customers, suppliers, landlords and service providers, we would like to thank you for continually placing your trust and loyalty in ADLER. The Executive Board will continue to do everything in its power to earn this trust every day. Our explicit goal is increasing the Company's value for the benefit of each and every stakeholder. We can best shape the successful future of the Company together.

It comes as no surprise that our loyal and committed employees stand at the forefront of the Company. I would like to express a special thank you for their services in the previous financial year. It was only with their valuable contributions that we could generate the operating business that we have today.

Best regards,



Lothar Schäfer  
Chairman of the Executive Board

Haibach, 21 March 2013





BEXLEYS®  
WOMAN

# ADLER 2012

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## THE COMPANY

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The Adler Modemärkte AG, headquartered in Haibach near Aschaffenburg, Germany, is one of Germany's largest and most important textile retailers. In the most recent survey conducted by „TextilWirtschaft“, the industry's trade journal, ADLER ranked 20th amongst the 100 largest German vendors in the market. Adler Modemärkte AG currently operates approximately 169 stores in four countries, 139 of which in Germany, 27 in Austria, two in Luxembourg and, since October 2012, one in Switzerland. The Company focuses on large-space concepts offering between approximately 1,000 m<sup>2</sup> and 3,500 m<sup>2</sup> of retail space. With its many own brands and select external brands, ADLER offers a highly diverse product range. It also offers its customers the ease of shopping in its online shop from their PC or smartphone. ADLER has approximately a total of 4,400 employees.

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## HIGH LEVEL OF BRAND AWARENESS

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The ADLER umbrella brand belongs to the most well-known brands for the target group of over 45 year-olds. In surveys, awareness of the brand across all age groups was 70%; among women over 40, it was as high as 84%. ADLER is known for its affordable and high-quality products. The brand symbolises trust and reliability. Clarity of arrangement and easy customer navigation are the hallmarks of the Company's stores. In addition to the brand's high level of awareness, ADLER's purchasing concept is underpinned particularly by customer loyalty. Ninety per cent of all revenue transactions are made with the customer loyalty card. Available since 1974, independent studies confirm that the card is one of the most effective customer loyalty instruments in its class.

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## THE PHILOSOPHY

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ADLER's corporate philosophy espouses a democratic understanding of fashion. Our product range can be fashionable, trendy, playful and contemporary. However, clothing represents a valuable consumer good for ADLER and an integral part of the self-image of most customers. ADLER fashions are never rash or superficial. The ADLER umbrella brand's outstanding priorities are therefore also defined by high-quality, durable, highly comfortable clothes with the perfect cut and best fit. ADLER guarantees these qualities not only for common sizes but also for complex figures and plus sizes.

Furthermore, fashion has to remain affordable. The apparel that ADLER offers is affordable for a broad range of income levels and represents an extremely fair value. The hallmark of ADLER fashions are their excellent value for money, something that our customers often reward with decades of loyalty to the brand. This value for money does not just hold true for ADLER's own brands, but also for its offering of external brands.

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## THE BRANDS

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ADLER pursues a multi-brand strategy tailored to various target groups. Approximately 90% of the revenue generated by ADLER stores is attributable to textiles that are offered under the Company's own brands. The ADLER headquarters in Haibach is responsible for branding, designing collections and creating the fits and cuts. The Company's own fashion experts and designers, tailors and engineers work closely together with ADLER's purchasing department to create new collections, fabrics and components. Select contractors in southeastern Europe, north Africa and primarily Asia are charged with manufacturing.

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**BEXLEYS<sup>®</sup>**  
MAN



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**THEA<sup>42</sup>**  
plus

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my OWN®





Big fashion



## STRONG OWN BRANDS IN PORTFOLIO

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Bexley is by far the most successful ADLER brand. It is tailored to the „best agers“ target group and appeals to both men and women who like to dress in modern yet classic, elegant styles in their everyday lives. BEXLEY garments combine a high standard of quality with modern materials and timeless elegance. With its own brands Malva (women) and Senator (men), ADLER serves a core customer base of usually more mature customers, which has grown over a number of decades.

Furthermore, ADLER is known for its extremely successful plus-size brands and product ranges. Part of ADLER's stellar reputation comes from helping people with special sizes and complex figures dress well and stylishly. The Thea 42+ (women) and Big Fashion (men) brands fulfil the needs of these customers. These customer groups, too, can purchase clothes that are highly comfortable to wear with an excellent fit and a modern, stylish look.

## BRAND DIVERSITY AND SHOP-IN-SHOP CONCEPTS

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The womenswear brands MyOwn and Viventy by Bernd Berger offer younger and more mature female customers fashionably eye-catching looks. The combinations of these feminine, casual collections are endless. The fashions are trendy but never over the top. Many ADLER brands are offered in attractive shop-in-shop concepts.

The success of ADLER's men's and women's traditional dress lines is also growing. The spreading popularity of Oktoberfest far beyond Munich and Bavaria is making traditional dress popular among modern urbanites. The Alphorn brand is successfully riding this trend. The ADLER brand eibsee offers functional sportswear, outerwear and trekking apparel. Numerous other own brands round out the comprehensive product range that offers suitable apparel for almost every occasion and clothing style.

## ATTRACTIVE EXTERNAL BRANDS COMPLEMENT PRODUCT OFFERING

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In many of its stores ADLER also offers well-known external brands such as Tom Tailor, Cecil, Street One, s.Oliver, Gin Tonic, Steilmann, Mexx, Triumph and Schiesser. Other brands offered also include jeans brands like Wrangler, Levi's, Paddock's, and Pioneer. The attractive Spanish brand Punt Roma is the newest addition to the womenswear line-up and is currently being offered exclusively at select stores in Germany. ADLER entered into an exclusive cooperation agreement with Tom Tailor at the beginning of the 2012/13 autumn/winter collection in order to cater to its youngest customers. Since then, every store with a children's fashion section offers the exclusive Tom Tailor Kids product range.

The Company wants to use young brands to attract new customers who will then grow into the main target group. Currently, external brands make up approximately ten per cent of revenue.

ADLER generates just under half (48%) of its revenue from womenswear, about 27% from menswear, 10% with underwear and socks, and almost 15% from accessories, footwear and smaller supplementary ranges. Brand ambassadors Birgit Schrowange and Rainer Calmund are ADLER's most high-profile advertising personalities. The slogan, „ADLER – A perfect fit“ describes not only ADLER's well-fitting garments but also its all-around compelling product offering.

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## SUSTAINABILITY AND THE ENVIRONMENT

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Corporate responsibility, sustainability objectives and environmental awareness are important pre-conditions for the long-term success of ADLER. Sustainability concerns are taken into account when making any strategic or operating decisions and also when working together with suppliers and manufacturers. Acting in an environmentally responsible manner and conserving resources is a top priority for ADLER.

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## ADLER INSISTS ON STANDARDS FOR GLOBAL SUPPLY CHAIN

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ADLER is a member of the Business Social Compliance Initiative (BSCI), a cooperation platform uniting hundreds of companies. BSCI is committed to improving working conditions along the global supply chain. A code of conduct stipulates standards that ban discrimination, child labour and forced labour, and governs working hours, wages and working conditions. Compliance with all standards is reviewed through regular audits and training courses. Suppliers and their manufacturing facilities are regularly monitored, assessed, and advised by independent audit companies. ADLER is working to ensure that every supplier complies with the BSCI Code of Conduct going forward.

## ADLER PROMOTES FAIR TRADE

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In 2010, ADLER was the first German textile retailer to manufacture a portion of its collections under the Fairtrade seal. The fair trade of cotton contributes directly to defeating poverty in production countries. It sows the seeds for social progress for peasant farmers and workers of these countries. ADLER, for example, offers men's and women's shirts made from Fairtrade cotton. The share of Fairtrade merchandise will grow as this product range is gradually expanded. Furthermore, ADLER has furnished its Fairtrade merchandise with the Fairtrade code since the second half of 2012. This makes the ADLER supply chain more transparent and the story behind the products can be more easily traced.

## RECYCLING AS THE FINAL STAGE OF THE UTILISATION CYCLE

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Sustainability and conserving resources start with the ADLER's assortment policy which focuses on durability and quality. This not only meets the needs of ADLER's customers but also reduces the demand for raw materials, thus helping to protect the environment. ADLER also actively helps conserve natural resources through its I:CO collection initiative. ADLER was the first textile company to support I:Collect AG, which employs innovative utilisation concepts to professionally recycle used clothing, after the initiative was launched in February 2009. Garments and footwear collected by ADLER are reused and thus help to protect the environment. Participating customers receive discount vouchers from ADLER and for each kilogramme of used clothing collected, ADLER makes a donation to help the social projects of CharityStar. In 2012 ADLER collected exactly 497 tonnes of used clothing at its stores and donated them to I:CO.

Going forward, ADLER will also continue to use all available options to improve the management, procurement and sales processes in its area of responsibility while adhering to sustainability, socially-compatible production and supply chain, and recycling standards.



# ADLER SHARE

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

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

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## INVESTOR RELATIONS

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In the course of its initial public offering, ADLER significantly expanded its corporate communications. It communicates with all of the relevant target groups – the markets, investors, the media, its employees and the public – via conventional communications channels. The Company thus ensures that all stakeholders benefit from the transparency required with respect to its business policies.

The Company's investor relations work (IR) is one of the most crucial activities in this area. It is aimed primarily at the financial markets, institutional investors and retail investors. This communication is the direct responsibility of the Executive Board. IR activities serve to increase public awareness of ADLER and its shares. By fostering an open, constant and targeted dialogue with capital market players, the Executive Board aims to achieve an appropriate valuation for the shares and to ensure sufficient market liquidity.

During the past year, the Executive Board conducted a host of informational and advertising events aimed at achieving this objective. These roadshows were held in Germany, England, Scotland, Switzerland, Spain, the Netherlands, Hong Kong and the United States of America in 2012. In addition, a large number of one-on-one investor meetings were held.

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## RESEARCH AND DESIGNATED SPONSORS

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In 2012, ADLER also successfully persuaded a variety of investment firms to prepare and publish research reports on ADLER shares. Such commented studies were prepared by the investment firms M.M. Warburg, DZ Bank, Viscardi AG, Montega AG and underwriters Crédit Agricole Chevreux in 2012. The authors of these studies consistently concluded that ADLER's business model is plausible, its strategy is compelling and the implementation of that strategy shows great promise. An increased share price potential on the market is thus well founded and achievable, according to the studies.

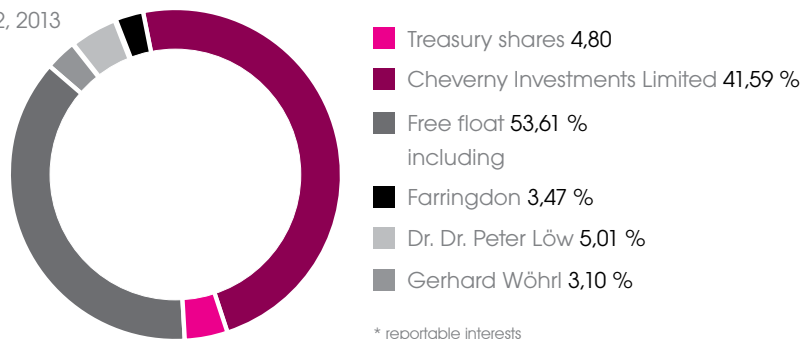
In addition to Crédit Agricole Chevreux, which has been designated sponsor since the IPO in 2011, the investment firms DZ Bank and Viscardi also remain among the designated sponsors of ADLER shares.



## SHAREHOLDER STRUCTURE

### Shareholder structure\*

Update: March 2, 2013



In the notification dated 10 January 2013, we were informed that the voting interest of Dr. Peter Löw, Germany, exceeded the threshold of 5% on 9 January 2013 and amounted to 5.01% on that day.

In the notification dated 17 January 2013, we were informed that of the voting interest of DWS Investment GmbH, Frankfurt am Main, Germany, fell below the threshold of 5% on 16 January 2013 and amounted to 4.95% on that day.

In the notification dated 18 January 2013, we were informed that the voting interest of Farringdon Capital Management SA, Luxembourg, Luxembourg, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% on that day.

In the notification dated 6 February 2013, we were informed that the voting interest of DWS Investment GmbH, Frankfurt am Main, Germany, fell below the threshold of 3% on 1 February 2013 and amounted to 1.62% on that day.

## ADLER SHARE PRICE PERFORMANCE

The ADLER Group's shares closed at € 4.92 on 28 December 2012. They had closed out the first trading day of 2012 at € 4.40. During the intervening period, the daily closing share price fluctuated between € 4.07 and € 6.80. The average share price for 2012 was € 5.25. Although ADLER's share price is still significantly above the historical low of € 3.88 as at the initial listing date, the Executive Board nonetheless believes that this sceptical investor sentiment neither reflects the positive recommendations of many analysts nor the consumer-friendly climate in Germany prevalent throughout the entire year in 2012. The Executive Board is of the opinion that ADLER's current share price adequately reflects neither the value nor the potential of the Company.

The Executive Board has taken advantage of what it considers to be an excessively low valuation to buy back a portion of ADLER's shares on the open market. An initial buyback programme was resolved by the Executive Board on 12 January 2012 and implemented between 17 January and 30 June 2012. As part of the initial share buyback programme, 762,161 shares were bought back at an average price of € 5.80, which corresponds to a voting interest in share capital of 4.12%. The share buyback programme was resumed on 14 August. Between that date and 28 December 2012, the Company acquired exactly 126,642 own shares on the open market under the buyback programme, at an average share price of € 4.65. This corresponds to an additional voting interest in share capital of 0.68%. In total, Adler Modemärkte AG has a 4.8% voting interest in own shares. No decisions about how to use the shares have yet been made.

## DIVIDEND DISTRIBUTION

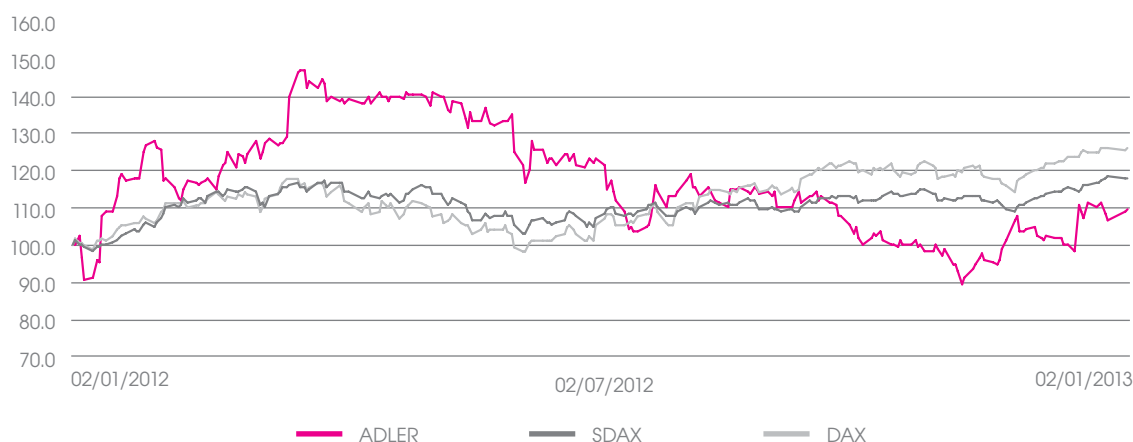
In advance of Adler Modemärkte AG's initial public offering in mid-2011, the Executive Board and the Supervisory Board had already announced their intention to reinvest the operating cash flows generated in 2011 in order to finance the Company's growth targets using own funds. For this reason, the Executive Board of the Company did not propose a dividend to the Annual General Meeting on 23 May 2012. However, the medium-term objective was to achieve a distribution ratio that is comparable to that of similar exchange-listed textiles companies.

The general view of the Executive Board is that investor confidence in the performance and profitability of Adler Modemärkte AG should be reflected in an appropriate dividend policy. Based on the Company's generally positive performance in financial year 2012 and its solid earnings situation, the Executive Board proposes that the Annual General Meeting on 22 May 2013 resolve to distribute a dividend in the amount of € 0.40 per share. This will enable shareholders to participate commensurately in the success of the Company.

## ADLER SHARE PRICE COMPARED TO SDAX & DAX

With the exception of a very brief period at the beginning of 2012, ADLER's share price was consistently above the SDAX and DAX 30 stock indices during the first half of the year. At its peak, the share price was approximately 30 index points above the two indices. This was towards the end of March when ADLER's index value reached its high of 146.7. ADLER's share price maintained this margin for almost three months. It did not slide back down to the level of either index until the end of the first half of the year, after which it remained approximately on par with the indices for two months. After the results for the first half of the year were published – whereby the Company had apparently been expected to report higher earnings in particular – the share price began to intersect the DAX and SDAX curves consecutively before falling below the two indices for the remainder of the year. ADLER's share price reached its lowest point of the year on 1 November at 89.2 points. However, following two rallies it has since once again narrowed the gap to finish off the year with an index of 109.3 (8.6-point difference to SDAX and 8.1-point difference to DAX) on the last day of trading. Due to the fact that ADLER shares only have a brief history on the exchange thus far (since mid-2011) and that the Group has only begun to expand its investor communications, many market participants may not yet be sufficiently aware of the pronounced seasonality of ADLER's financial year and its strong emphasis on the fourth quarter.

### ADLER share compared to SDAX and DAX (Index: 2 January 2012 = 100)



# REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Financial year 2012 was a year of challenges for Adler Modemärkte AG. While the IPO was the outstanding event one year earlier, this past year was strongly marked by the government debt and euro crisis and their impact on sales markets. Not least the close, trusting and constructive cooperation between the Supervisory Board and the Executive Board contributed to a good overall result being able to be achieved in 2012.

In the year under review, the Supervisory Board performed the duties incumbent upon it by operation of law, the Articles of Association and the rules of procedure. We regularly advised the Executive Board in managing the Company and assisted it in coordinating the Company's strategic alignment. The Executive Board fulfilled its duties with regard to the provision of information, notifying us regularly, promptly and in detail, both in writing and orally, on the events and measures relevant for the Company. Based on these reports and during joint discussions with the members of the Executive Board, we carefully and continually monitored the management. We submitted our vote where necessary by operation of law or pursuant to the Articles of Association. In justified cases, resolutions were adopted outside of meetings by way of written procedure. Above and beyond Supervisory Board meetings, the Chairman of the Supervisory Board and the Chairman of the Audit Committee maintained regular contact with the Executive Board and informed themselves on the current development of the business situation.

In preparation of the meetings of the full Supervisory Board, the shareholder and employee representatives addressed the agenda items in separate preliminary discussions. Overall, four regular meetings and one extraordinary meeting were held, with an average attendance rate of 96%. With the exception of one meeting, attendance at the meetings of the committees was 100%.

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## EFFICIENT WORK IN THE COMMITTEES

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

The Personnel Committee met three times in the year under review. It addressed in detail the structure of the Executive Board remuneration system as well as reviewing and determining the remuneration for new and existing members of the Executive Board. For further details, we refer to the remuneration report in the management report. Key issues also included the appointment of Ms Manuela Baier as a member of Adler Modemärkte AG's Executive Board and changes to the allocation of responsibilities within the Executive Board. The Committee also discussed expiring Executive Board appointments in the context of long-term succession planning. In addition, in accordance with the rules of procedure, it approved the transactions submitted by the Executive Board between the Company and Executive Board-related parties, as well as consenting to a request to perform sideline work.

The Audit Committee met four times during the year under review and adopted a resolution by way of written procedure. In the presence of the auditor, the Chairman of the Executive Board, and the CFO, it discussed the annual and consolidated financial statements and management reports for Adler Modemärkte AG and the Group, and issued its recommendation to the full Supervisory Board regarding the Supervisory Board's nomination for the election of the auditor for financial year 2012 by the Annual General Meeting. The interim reports were discussed in detail prior to their publication.

The auditor reported on all events material to the duties of the Supervisory Board that had arisen during the conduct of the audit and the auditor's review of the semi-annual financial report. The independence and qualifications of the auditor and additional services rendered by it were the subject of extensive discussions. On the basis of these discussions and the statement of independence by the auditor, it engaged it as auditor for financial year 2012 and specified the focal points of the audit, taking into account the recommendations of the full Supervisory Board. Moreover, the Audit Committee addressed the Company's accounting process and risk management system, as well as the effectiveness of internal audits and the internal control system. In line with its supervisory duties, the Audit Committee obtained reports from the Risk Management Officer and the head of the Internal Audit department regarding the focal points and findings of the audits conducted and the organisation and audit requirements. In addition, the Compliance Officer reported on the Company's compliance regime and the status of group-wide implementation of the compliance programme.

The Nomination Committee, which has the task of finding suitable candidates for election to the Supervisory Board and recommending them to the Supervisory Board for its nominations to the Annual General Meeting, did not convene this year.

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

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## MEETINGS AND RESOLUTIONS OF THE FULL SUPERVISORY BOARD

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

The meeting on 7 March 2012 to discuss the annual accounts was centred around the annual and consolidated financial statements as at 31 December 2011, the management report, the Group management report and the dependent company report. In addition, we discussed the agenda for the 2012 Annual General Meeting, including resolution proposals and the 2011 Annual Report and the corporate governance report contained therein. Furthermore, the full Supervisory Board addressed resolutions on D&O insurance and the allocation of responsibilities within the Executive Board.

The subject matter of the Supervisory Board meeting on 9 May 2012 was, above all, the expansion of the Executive Board with the appointment of Ms Manuela Baier as member of the Company's Executive Board effective 21 May 2012. In this context, the full Supervisory Board reviewed the appropriateness of the remuneration system and the Executive Board remuneration, as well as provisions of the Executive Board's service agreements. In addition, we granted our consent in the Annual General Meeting's authorising resolution dated 30 May 2011 to the purchase of additional own shares for a maximum purchase price of €10 per share prior to 31 December 2012.

At the Supervisory Board's extraordinary meeting on 23 May 2012 we resolved to amend the Articles of Association in accordance with § 16 of the Articles of Association based on the name change to the Federal Gazette (Bundesanzeiger).

Another meeting of the Supervisory Board was held on 7 August 2012. In addition to the report by the Chairman of the Audit Committee on the semi-annual financial report and the audit review findings in this regard, the full Supervisory Board addressed the audit findings and results of the Committee concerning the effectiveness of the internal control system and internal audits. The meeting also focused on potential consequences of the revised German Corporate Governance Code regarding the constitution of supervisory boards and committees and the declaration of conformity. After a thorough discussion, we concluded that, in our own view, an appropriate number of independent members belonged to the full Supervisory Board. This meeting also addressed the rules of procedure of the Executive Board and Supervisory Board and the results of the Supervisory Board's efficiency review.

The full Supervisory Board's meeting on 6 December 2012 dealt with the audit and approval of the budget prepared by the Executive Board for financial year 2013 and the presentation of a multi-year budget by the Executive Board.

By way of written procedure, we granted our consent on 14 November 2012 to the declaration



of conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz, „AktG“) and elected Mr Markus Stillger as a new member of the Audit Committee effective 15 November 2012.

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## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

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The Supervisory Board discussed in detail the contents of and amendments to the German Corporate Governance Code in its new version dated 15 May 2012. At their meetings on 29 October and by way of written procedure dated 14 November 2012, the Executive Board and the Supervisory Board resolved to issue a declaration of conformity pursuant to § 161 of the German Stock Corporation Act. Following financial year 2012 the declaration of conformity was updated in accordance with the resolutions passed by the Executive Board and the Supervisory Board on 29 January and 5 February 2013, respectively. This was made permanently available on the company's website. According to that declaration, the Company conforms with the Code's recommendations, with four exceptions, and will continue to do so in future.

As previously reported, the work of the Supervisory Board during the year under review stood out by virtue of the fact that the attendance rate at Committee meetings and meetings of the full Supervisory Board was over 96%. Apart from their role as board members and the transactions and legal relationships with related parties referred to in the notes to the annual and consolidated financial statements, the Supervisory Board members have no other legal relationships with the Company. The Supervisory Board member Eduard Regele notified us of his board position with a company that had a supply relationship with Adler Modemärkte AG until 31 December 2012. The Supervisory Board members Holger Kowarsch, Mona Abu-Nusseira, Eduard Regele and Markus Roschel have contractual and professional ties to companies that are affiliates of Cheverny Investments Limited, Malta. Therefore they also have obligations towards the interests of these companies. The interests of these companies cannot be identical to the interests of Adler Modemärkte AG, meaning that there is potential for conflicts to arise. Apart from this, there was no basis for conflicts of interests on the part of Supervisory Board and Executive Board members in terms of their obligations towards Adler Modemärkte AG.

Apart from this report, the corporate governance of the Company is also presented in the Annual Report under the chapter entitled Corporate Governance Report. This report was submitted jointly by the Executive Board and Supervisory Board and also contains the full text of the declaration of conformity dated 5 February 2013, including the notes on deviations from the recommendations of the German Corporate Governance Code.

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## AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Adler Modemärkte AG as at 31 December 2012 prepared by the Executive Board in accordance with German commercial law provisions and the Group management report combined with the management report and issued them all an unqualified auditors' report. The consolidated financial statements were issued in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplemental commercial law provisions pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch, „HGB“).

The dependent company report submitted by the Executive Board for financial year 2012, concerning relationships with affiliated companies, was also audited by the auditor. The dependent company report of the Executive Board was issued the following unqualified auditors' report: „After our due audit and assessment, we confirm that 1. the factual statements of the report are correct, 2. the consideration paid by the Company was not unreasonably high for the legal transactions set forth in the report.“

The aforementioned documents and the Executive Board's recommendation for the appropriation of net retained profits have been provided to us in good time. At its meeting on 26 February 2013 the Audit Committee first addressed the aforementioned documents in detail. At the meeting on 5 March 2013 we then discussed in detail and audited the aforementioned submissions by the Executive Board after the Committee Chairman had reported on the meeting of the Audit Committee. Both meetings were attended by representatives of the auditor, who reported on the key findings of

the audit. It was also found that there are no material weaknesses in the internal control system and the risk early warning system. In addition, the representatives of the auditor answered questions by the members of the Supervisory Board and confirmed that the risk early warning system established by the Executive Board is suitable for detecting at an early stage developments that may jeopardise the Company as a going concern. The auditor also examined the scope, costs and the focal points of the audit stipulated by the Audit Committee. There are no objections to be raised after audit and discussion of the annual financial statements, the consolidated financial statements, the management report, the Group management report as well as the Executive Board's dependent company report in the Audit Committee and our own audit in the Supervisory Board. We have approved the findings of the audit by the auditor and unanimously approved the annual financial statements and consolidated financial statements. The annual financial statements are therefore adopted. After reviewing and considering all arguments, we have approved the Executive Board's profit appropriation proposal to particularly use net retained profits to pay a dividend of € 0.40 per no-par value share carrying dividend rights.

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## CHANGES TO COMPOSITION OF THE SUPERVISORY BOARD

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On 12 March 2012 Ms Ingrid Düsmann-Schulz resigned her position on the Supervisory Board with immediate effect. For the remaining term of office of the departing member, Ms Rita Richter joined the Supervisory Board with immediate effect as a substitute member elected in 2008. The Supervisory Board thanked Ms Düsmann-Schulz for her many years of good collaboration.

On 7 November 2012 Ms Mona Abu-Nusseira resigned her office as member of the Audit Committee with effect upon expiry of 14 November 2012. Effective 15 November, Mr Markus Stillger was appointed a new member of the Audit Committee. The Supervisory Board thanked Ms Abu-Nusseira for her good work and trusting collaboration on the Audit Committee.

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## CHANGES TO COMPOSITION AND ORGANISATION OF THE EXECUTIVE BOARD

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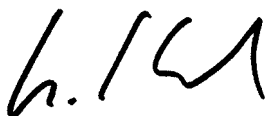
In its meeting on 9 May 2012, the Supervisory Board unanimously appointed Ms Manuela Baier effective 21 May 2012 as a new member of the Executive Board. At the meeting, the Supervisory Board also had to resolve upon an amendment to the allocation of responsibilities within the Executive Board.

In its extraordinary meeting on 5 February 2013, the Supervisory Board unanimously appointed Lothar Schäfer to the Executive Board of the Company for another three years and appointed him Chairman of the Executive Board. In line with the wish to scale down the Executive Board to three members going forward, the full Supervisory Board resolved to not appoint Mr Thomas Wanke for another term in office.

By way of written procedure, on 21 February 2013 the Supervisory Board unanimously approved the early, mutually agreed upon departure of Mr Thomas Wanke, the current Chief Sales Officer, with effect from 22 February 2013. On behalf of the Supervisory Board, I would like to thank Mr Wanke for his hard work and trusting cooperation.

The Supervisory Board would like to thank the members of the Executive Board, all employees and the employee representatives of Adler Modemärkte AG for their work. They have contributed to ADLER being able to successfully conclude a challenging year.

For the Supervisory Board



Holger Kowarsch  
Chairman

Haibach, 5 March 2013

# EXECUTIVE BOARD



from left to right: Karsten Odemann, Manuela Baier, Lothar Schäfer.

## **LOTHAR SCHÄFER**

Villmar

### **Chairman of the Executive Board**

Executive Board member for Strategy, Mergers & Acquisitions and Public Relations

## **MANUELA BAIER**

Neuss

### **Chief Purchasing Officer**

Executive Board member for Purchasing, Logistics, Supply Chain Management and Quality Control (Executive Board member since May 21, 2012)

## **KARSTEN ODEMANN**

Bad Tölz

### **Chief Financial Officer and Labour Director**

Executive Board member for Finance, Controlling, Audits, Human Resources, Legal, IT and Investor Relations

## **THOMAS WANKE**

Braunschweig

### **Chief Sales Officer**

Executive Board member for Sales, Marketing, Visual Merchandising and Site Expansion (Executive Board member till February 22, 2013)

# SUPERVISORY BOARD

## HOLGER KOWARSCH <sup>1\*, 3\*, 4\*</sup>

Hochstadt

### Chairman of the Supervisory Board

Supervisory Board AlzChem AG



## ANGELIKA ZINNER <sup>1, 2, 4</sup>

Kettenis, Belgium

### Deputy chairman of the Supervisory Board

Chairman of the general works council of  
Adler Modemärkte AG

## MONA ABU-NUSSEIRA

Munich

Principal M&A bluO International Affiliates Ltd.

## MAJED ABU-ZARUR

Viernheim

Consultant on info, cash and sales  
Adler Modemärkte AG

## CORINNA GROSS

Neuss

District managing director ver.di

## GEORG LINDER <sup>1, 2, 4</sup>

Hailbach

Divisional head of purchasing planning and  
merchandise management Adler Modemärkte AG

## EDUARD REGELE <sup>1, 2\*, 3, 4</sup>

Eurasburg

Business manager (VWA), director bluO  
International Affiliates Ltd.

## RITA RICHTER

Aschaffenburg (since 12 March 2012)

Team leader payment accounts Adler Modemärkte AG

## ERIKA RITTER

Berlin

State specialist department head trade, ver.di

## MARKUS ROSCHEL

Sasbachwalden

Equity interest manager bluO International Affiliates Ltd.

## MARKUS STILLGER <sup>2, 3</sup>

Brechen

Managing partner Stillger & Stahl Vermögensverwaltung  
GbR, commercial attorney in fact (CFO) ABID Senioren  
Immobilien GmbH, managing shareholder (CEO) MB  
Fund Advisory GmbH and managing shareholder (CEO)  
Stikma GmbH

## JÖRG ULMSCHNEIDER

Schmelz

Management consultant, managing shareholder  
new connections

#### Memberships in

1) Personnel Committee 2) Audit Committee 3) Nomination Committee 4) Conciliation Committee

\* Chairman of the Committee (Last amended: 31 December 2012)



# CORPORATE GOVERNANCE REPORT

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

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## IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

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As a German listed stock corporation, ADLER mainly bases its corporate governance on the laws applicable in Germany and the recommendations and suggestions of the German Corporate Governance Code. In financial year 2012, the Executive Board and the Supervisory Board discussed in detail the existing and new stipulations of the Code in the version adopted on 15 May 2012 and published on 15 June 2012. After the Executive Board and the Supervisory Board issued a declaration of conformity on 14 November 2012, the declaration of conformity was updated on 5 February 2013; it is published on ADLER's website and included at the end of this report. Adler Modemärkte AG complies with all except for four recommendations of the Code (see Declaration of Conformity).

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## EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

The Executive Board of Adler Modemärkte AG currently has one female and two male members. In making its decisions to date, particularly in appointing a new Executive Board member as at 21 May 2012, the Supervisory Board has taken into account the recommendations of the German Corporate Governance Code. It will also continue to pay attention to the greatest possible diversity and reasonable inclusion of women in the work of the Personnel Committee.

When filling management positions in the Company, it has always been the ADLER Executive Board's fundamental approach to not only factor in professional qualifications but also to strive for the greatest possible level of diversity and reasonable inclusion of women. Because diversity means opportunities, ADLER's Executive Board will continue to pay attention to this principle in future.

According to its own estimation, the Supervisory Board has a reasonable number of independent members. Its members should have complementary professional experience and skills in order to duly perform their duties. In addition it is intended that women, who currently make up more than 40% of the members, should be reasonably represented on the Supervisory Board. However, the Supervisory Board has specified no specific targets in terms of its constitution since this would too greatly limit its flexibility in searching for candidates with the necessary expertise and experience. For the same reason, the Company has also opted not to set an age limit for members of the Supervisory Board and, when making nominations, will not take into account specific targets, but rather stated intentions.

## **AVOIDANCE OF CONFLICTS OF INTEREST**

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In performing their board work, members of both the Executive Board and the Supervisory Board have an obligation towards ADLER's corporate interest. On this basis, personal interests may not be pursued nor may benefits be granted to third parties when decisions are taken. In financial year 2012 there were no conflicts of interest requiring disclosure to the Supervisory Board without undue delay. In the year under review, there was a consulting and service agreement only between the Company and the Supervisory Board member Jörg Ulmschneider. He is also a trade and industry consultant. His work in purchasing, which terminated as at 31 May 2012, had been approved by the Personnel Committee beforehand. Remuneration paid to Mr Ulmschneider in the year under review may be seen in the remuneration report.

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

## **D&O INSURANCE DEDUCTIBLE**

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

## **REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS**

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Members of the Executive Board and Supervisory Board, executive employees within the meaning of the German Securities Trading Act (Wertpapierhandelsgesetz, „WpHG“) or their related parties are required under § 15a WpHG to disclose reportable transactions involving Adler Modemärkte AG shares or related financial instruments if the total value of the transaction reaches or exceeds € 5,000 in a calendar year. One such transaction was reported to the Company in financial year 2012, with another being reported until February 2013. Information in this regard is published on the ADLER website. The total shareholding of all Executive Board and Supervisory Board members in Adler Modemärkte AG as at 31 December 2012 was less than 1% of the shares issued by the Company.

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

## **SHAREHOLDERS AND ANNUAL GENERAL MEETING**

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The shareholders of Adler Modemärkte AG exercise their rights at the Company's Annual General Meeting, at which each share is granted one vote. The Annual General Meeting is held once annually for purposes of providing the shareholders with detailed information. The shareholders may exercise their voting right at the Annual General Meeting either themselves or through a proxy of their choice or a Company proxy subject to instruction. In addition, the shareholders may vote in writing

through a postal ballot without appointing a proxy. Moreover, all key information and documents relating to the Annual General Meeting shall be made available on ADLER's website in good time.

## **CONTROL AND RISK MANAGEMENT**

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

## **CORPORATE COMPLIANCE AS A MANAGEMENT DUTY OF THE EXECUTIVE BOARD**

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ADLER considers corporate compliance – a measure aimed at ensuring adherence to statutory and official provisions, as well as to internal company guidelines – to be a management and supervisory duty. In addition to the commitment towards social and ecological sustainability, this includes compliance with capital market, corruption and antitrust law. ADLER has consolidated the understanding of corporate compliance in the revised code of conduct, which applies throughout the Group. However, these principles for avoiding violations of corruption, competition and antitrust law also address how to deal with employees, clients, suppliers and company property properly and respectfully. It was implemented throughout the entire ADLER Group in 2012 with the support of the Compliance Officer. Employee training sessions and compliance audits will promote the understanding of corporate compliance in the Company and contribute to implementation over the long term.

## **ACCOUNTING AND AUDITING**

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

## **TRANSPARENT CORPORATE GOVERNANCE**

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ADLER seeks to ensure the greatest possible transparency by providing prompt, detailed and regular information on the Company's position and key business changes. Only in this way can the trust of investors, capital providers, the media, and the interested public in ADLER be ensured long-term. Through its investor relations work, ADLER maintains close contact with the capital market. Moreover, there is an in-depth dialogue at analyst and investor conferences and during teleconferences and roadshows. These are presented regularly to discuss the annual financial statements, the publication of interim reports and current affairs. In addition, the Company publishes the accompanying presentations on ADLER's website.

Information on current developments for the ADLER Group and all publications are available to the shareholders and potential investors online at [www.adlermode-unternehmen.com](http://www.adlermode-unternehmen.com). All press releases and ad hoc disclosures by Adler Modemärkte AG are published in German and English under the heading „Investor Relations“, under „News & Releases“. Apart from ad hoc disclosures pursuant to § 15 WpHG, ADLER has a policy of providing transparent and prompt information through press releases, notices on voting rights changes and reportable securities transactions. The Company's Articles of Association and information on implementation of the recommendations of the German Corporate Governance Code may be found in the „Corporate Governance“ section, and the consolidated financial statements, interim reports and presentations may be found under „Reports & Publications“.

In addition, the ADLER website offers extensive information on recurring dates and the date of the Annual General Meeting and publication dates for the interim reports under the heading „Financial Calendar“.

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## DECLARATION OF CONFORMITY

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

„Declaration of the Executive Board and Supervisory Board of Adler Modemärkte Aktiengesellschaft relating to the recommendations of the „German Corporate Governance Code Government Committee“ as per § 161 AktG:

The Executive Board and Supervisory Board of Adler Modemärkte AG confirm – since issuing the previous Declaration of Conformity – compliance from 14 November 2012 to 4 February 2013 with the recommendations of the German Corporate Governance Code („Code“) as amended on 15 May 2012, published by the Federal Ministry of Justice on 15 June 2012 in the official section of the Federal Gazette, with the exception of Section 4.2.4 (no individualised disclosure of Executive Board remuneration), Section 5.3.2 sent. 3 (Audit Committee), Section 5.4.1 para. 2 and 3 (composition of the Supervisory Board), and will be 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 30 May 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.

Re-appointments (Section 5.1.2 para. 2 sent. 2 of the Code)

In its decision dated 17 July 2012 (Az. II ZR 55/11), the Federal Court of Justice (Bundesgerichtshof, „BGH“) permitted the early re-appointment of members of the Executive Board prior to one year before the end of their original appointment period. In the opinion of the BGH, this also applies if there are no special circumstances for this course of action. Based on this decision and the fact that a re-appointment in principle requires a resolution by the Supervisory Board, which must contain an objective justification in the interest of the company, we do not consider additional preconditions („special circumstances“) to be justified and we are taking the precaution of disclosing this exception to Section 5.1.2 para. 2 sent. 2 of the Code.

Audit Committee (Section 5.3.2 sent. 3 of the Code)

Given the definition of the independence of a Supervisory Board member under section 5.4.2 sentence 2 of the Code, which, if applicable, is also to be applied to this recommendation, the Chairman of the Audit Committee does not – based on his professional and contractual ties to companies that are affiliates of Chevrny Investments Limited, Malta (controlling shareholder) – appear to be independent. Therefore, we are taking the precaution of disclosing this exception to section 5.3.2 sentence 3 of the Code. With that in mind, the Supervisory Board places less importance on

the independence of the main shareholder than it does on the independence of the Company or its governing bodies in terms of actually exercising the duties of the chairmanship in the Audit Committee.

Objectives for the composition of the Supervisory Board (Section 5.4.1 (2) and (3) 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, and it does not take into consideration specific targets for nominations, but rather the intentions mentioned above.

Hailbach, 5 February 2013  
Adler Modemärkte Aktiengesellschaft

The Executive Board

The Supervisory Board"

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## CORPORATE GOVERNANCE STATEMENT

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Further information on the Company's Corporate Governance, particularly the working method of the Executive Board and Supervisory Board and on key corporate governance practices is contained in the Corporate Governance Statement under § 289a HGB, which is published on ADLER's website ([www.adlermode-unternehmen.com](http://www.adlermode-unternehmen.com)) under the heading Investor Relations/Corporate Governance.

# REMUNERATION REPORT

The remuneration report is part of the consolidated management report. For details see page 51.



# CONSOLIDATED MANAGEMENT REPORT

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SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR • BUSINESS & GENERAL CONDITIONS • GENERAL ECONOMIC ENVIRONMENT • DEVELOPMENT AND ANALYSIS OF REVENUE • FINANCIAL PERFORMANCE • FINANCIAL POSITION AND CASH FLOWS • PROCUREMENT • DISTRIBUTION, SALES & MARKETING • HUMAN RESOURCES • SUSTAINABILITY AND THE ENVIRONMENT • REPORT ON RISKS AND OPPORTUNITIES • REMUNERATION REPORT • LEGAL DISCLOSURES • EVENTS AFTER THE END OF THE REPORTING PERIOD • REPORT ON EXPECTED DEVELOPMENTS



# SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In 2012, ADLER opened 16 new stores in Germany. The new stores in Peine, Kerpen, Lünen, Kaufbeuren, Waghäusel, Rastatt and Gmunden (Austria) were opened in the first quarter, while the store in Schwäbisch Gmünd was opened during the second quarter. Additional stores were added in Bad Kreuznach, Eisenach and Papenburg in the third quarter, with the fourth quarter seeing openings in Remscheid, Laatzten, Herdecke, Wörgl (Austria) and Wilen in Switzerland. During the same period ADLER also closed stores where the local conditions and the economic situations were unsatisfactory. This relates primarily to six former Wehmeyer stores in Aachen, Düren, Siegburg, Hagen, Mühlheim-Kärlich and Nordhorn. Three stores were also closed in Austria. These pertained to two former Woolworth stores in Vienna-Favoriten and Spittal/Drau as well as one store in Wels. By doing this, the Company is systematically pursuing its objective of generating growth exclusively with stores that are profitable after a start-up phase of two to three years.

ADLER opened its first store in Switzerland in October 2012. The store is located in a retail park it shares with a pharmacy and supermarket in Wilen near Zurich. ADLER is using the experiences it gained in Austria and Luxembourg to tap this new foreign market and is tailoring its product ranges exclusively to the market's regional needs. The Wilen store has 1,320 m<sup>2</sup> of gross retail space. On the same day, ADLER opened another store in Wörgl, Austria, located in the small city's established but expanded and modernised city centre. Ten local employees offer the ADLER product ranges in the store's 1,600 m<sup>2</sup> of gross retail space.

The Group's Executive Board was expanded during the reporting period. The Supervisory Board appointed Manuela Baier, as the new Executive Board member responsible for purchasing, supply chain management and logistics with effect from 21 May 2012. By virtue of this appointment, her primary objective is to expand the Company's direct procurement of goods in Asia and thus increasing the gross profit margin. The Executive Board of Adler Modemärkte AG now comprises four members.

## BUSINESS & GENERAL CONDITIONS

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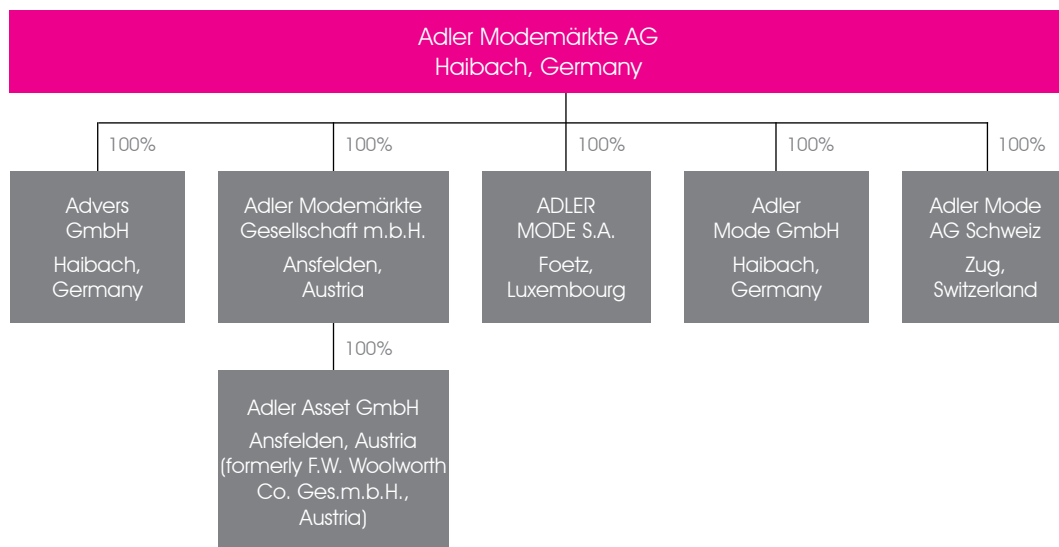
### GROUP STRUCTURE AND CORPORATE ORGANISATION

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Adler Modemärkte AG, having its registered office in Haibach, is the strategic and operating holding company of the ADLER Group. Adler Modemärkte AG and Adler Mode GmbH, both having their registered offices in Haibach, operate the Adler stores in Germany. Each international store is operated by a wholly owned subsidiary. ADLER MODE S.A., having its registered office in Foetz, operates the stores in Luxembourg, whereas Adler Modemärkte Ges.m.b.H. and Adler Asset GmbH, both having their registered offices in Ansfelden, operate the stores in Austria. Since October 2012, the Swiss subsidiary Adler Mode AG Schweiz, having its registered office in Zug, has operated one store in Wilen.

In its role as the Group's holding company, ADLER assumes Group-wide responsibilities for the Group companies, including purchasing merchandise, marketing, securing and maintaining the IT infrastructure, financial accounting, audits, financial control, as well as handling and settling legal issues.

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



## GENERAL DESCRIPTION OF BUSINESS OPERATIONS

Adler Modemärkte AG is one of the leading and largest textile retail chains in Germany. The industry's trade journal, *TextilWirtschaft*, ranks the Company 20th in its Top 100 Ranking. As at the end of 2012 the Group operated a total of 169 stores (previous year: 162), 139 of which (previous year: 132) in Germany, 27 (previous year: 28) in Austria, two (previous year: 2) in Luxembourg and one in Switzerland. ADLER is focussing on large-space retail concepts, i.e., the space occupied by the stores it operates is usually considerably more than 1,000 m<sup>2</sup>. Spacious sales floors with wide aisles as well as spacious fitting rooms and rest areas highlight the Company's customer-oriented approach. The Company also operates its own online shop at [www.adlermode.com](http://www.adlermode.com).

In terms of fit, fashionability, functionality and quality, ADLER's product range is primarily tailored to the age group of over 45 year-olds, whose share of the population will steadily grow. ADLER offers high-quality products that represent attractive value for money in the lower mid-range price segment. ADLER offers a broad and extensive product range of womenswear, menswear and underwear. With a supplementary range consisting of accessories, footwear, kidswear and babywear, traditional dress and durable goods, ADLER offers a well-rounded product portfolio, thus harnessing the cross-selling potential in its stores.

The Group's stores are the main revenue drivers of ADLER. The stores generate about 90% of the Company's revenue and the vast majority of its earnings. Furthermore, many of ADLER's stores also carry external brands of womenswear, menswear and kidswear. While it already offers a number of different external brands popular in Germany and elsewhere, in 2012 ADLER entered into an exclusive cooperation agreement for kidswear with Tom Tailor AG, Hamburg. Since September 2012, every ADLER store with a children's fashion section exclusively carries the Tom Tailor Kids brand.

The external brands that the Company carries – often showcased in shop-in-shop concepts – are often positioned near the entrances of ADLER stores. This helps contribute to an attractive storefront design, a highlight found especially in new and modernised stores. ADLER specifically displays combinations of the external brands with its own younger and fashionable brands like Viventy by Bernd Berger, Via Cortesa and Eagle No.7. In this way ADLER wants to attract new customers that will grow into the age group of over 45 year-olds. This simultaneously also introduces new customers to ADLER's own brands and the Company's customer loyalty instruments. The Executive Board considers the current share of revenue attributable to external brands (approximately 10%) is appropriate.

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## MANAGEMENT OF THE COMPANY

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The ADLER Group is managed by the Executive Board which in particular establishes the strategic direction of the Group. Group strategy is implemented on an operational level in close cooperation with the sales managers and the department heads at Group units. The organisational and managerial structure clearly assigns authorities and responsibilities internally within the Company and defines the reporting lines. It aligns all Company resources with the goal of sustainably increasing the enterprise value.

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## REVENUE AND EBITDA AS KEY PERFORMANCE INDICATORS

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

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## CORE ELEMENTS OF THE INTERNAL CONTROL SYSTEM

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

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

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

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## REGULAR UPDATES OF GROUP FINANCIAL PLANNING AND PROJECTIONS

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The Group financial planning is developed for a three-year period and uses monthly projections for the current financial year. The three-year budget is prepared annually as part of the Group-wide budget process and takes the current business situation into account.

As part of the planning process, the Group's Executive Board sets budget and business targets for the operating units on the basis of Group objectives. The units prepare an earnings forecast and determine the necessary investment levels on the basis of these objectives.

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

# GENERAL ECONOMIC ENVIRONMENT

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## GLOBAL ECONOMY AND EUROPE

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In calendar year 2012 the global economy developed differently from region to region. According to the Organisation for Economic Co-operation and Development (OECD), the greatest threats to the global economy in 2012 stemmed from, of all places, Europe. According to the OECD economic outlook, this development – which is blamed on the euro and sovereign debt crises – is expected to have a sharp, negative impact on the economic climate in Europe in 2013 as well.

Attempts by governments to manage the euro crisis had already led to extremely heterogeneous economic developments in Europe in 2012. Crisis-stricken countries with particularly high levels of public debt and the associated refinancing problems slid into a deep recession early on in the year. As a result, certain markets for high-quality consumer goods in particular saw sharp declines. This primarily impacted countries in southern Europe. In contrast, the more stable euro countries north of the Alps to a great extent dodged the looming recession.

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## GERMAN ECONOMY BOLSTERED BY PRIVATE CONSUMPTION

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Germany demonstrated the strongest economic performance within Europe. German economic development in 2012 was thoroughly positive. This was not just attributable to Germany's robust industry which, in order to make investments and sell its high-quality consumer goods, found replacements for weakening euro countries in growth markets such as China and North America. In Germany, private consumption in particular remained encouragingly stable, thus becoming a tangible cornerstone of the domestic economy.

German consumers largely confirmed the optimistic results of the quarterly surveys conducted by the Society for Consumer Research (Gesellschaft für Konsumforschung, „GfK“). According to the German Federal Statistical Office (Statistisches Bundesamt), the Germany's real economy grew by 0.7% compared to 2012 preliminary annual result despite all of the risks. Nevertheless, forecasts made in the second half of the year increasingly predicted that by no later than 2013 the recessions prevalent in the vital home countries of its southern European trading partners would affect Germany more and more.

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## CUSTOMER FREQUENCY – AN ISSUE IN GERMAN TEXTILE RETAIL INDUSTRY

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A phenomenon was noticed early on in financial year 2012 on a scale which had not been seen in the German textile retail industry in previous years. Across certain parts of the industry, customer frequency at fashion stores was adversely affected on multiple occasions during the year, declining considerably in each instance. The „FootFall index“ recorded an average decrease of -2.0% in foot traffic for the entire year. The waning customer frequency numbers were often accompanied by declining revenue. According to estimates by „TextilWirtschaft“, the industry's trade journal, revenue in the German textile retail industry decreased by a total of -2.0%. Industry experts do not yet entirely agree as to the reasons behind this decline. In addition to multiple periods of inclement weather, observers attribute this to the penetration of online retail sales which increased sharply by +21.0% in 2012. Younger, tech-savvy consumers in particular are increasingly purchasing clothes, footwear and accessories online.



# DEVELOPMENT AND ANALYSIS OF REVENUE

## SEASONAL, QUARTERLY PERFORMANCE

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

Accordingly, the first quarter tends to start off with lukewarm revenue and a loss due to the sale of winter merchandise at a discount. And so it was in 2012: ADLER began the financial year with revenue of € 106.5 million and EBITDA of € -7.7 million. ADLER underscored the cyclicity of the fashion business in a more upbeat second quarter, generating significantly higher revenue of € 126.1 million and EBITDA of € 8.4 million. However, EBITDA was down year-on-year due to a weak April, which weighed down results throughout the entire industry. The negative impact of weather during that month was reflected most clearly in revenue, which slumped below the previous year's figure by 17%.

In the third quarter, the transition from the summer season to the new fall/winter collection left its mark on revenue and earnings. Revenue of € 111.0 million and EBITDA of only € 0.2 million again highlighted the fact in 2012 that the summer sales put downward pressure on earnings and that the third quarter was the weakest after the first quarter. By contrast, ADLER managed to largely avoid early discount promotions in the fourth quarter and thus significantly increased profitability year-on-year. In Q4, ADLER generated markedly higher revenue of € 162.4 million and EBITDA of € 34.6 million, corresponding to a 21.3% EBITDA margin for this quarter alone.

## REVENUE UP 6.2%

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Consolidated revenue in accordance with IFRSs amounted to € 506.1 million in 2012 (previous year: € 476.6 million). That corresponds to 6.2% growth as compared to the same period of the previous year.

## REVENUE ANALYSIS – INCREASE IN SALES VOLUME AND PRICES

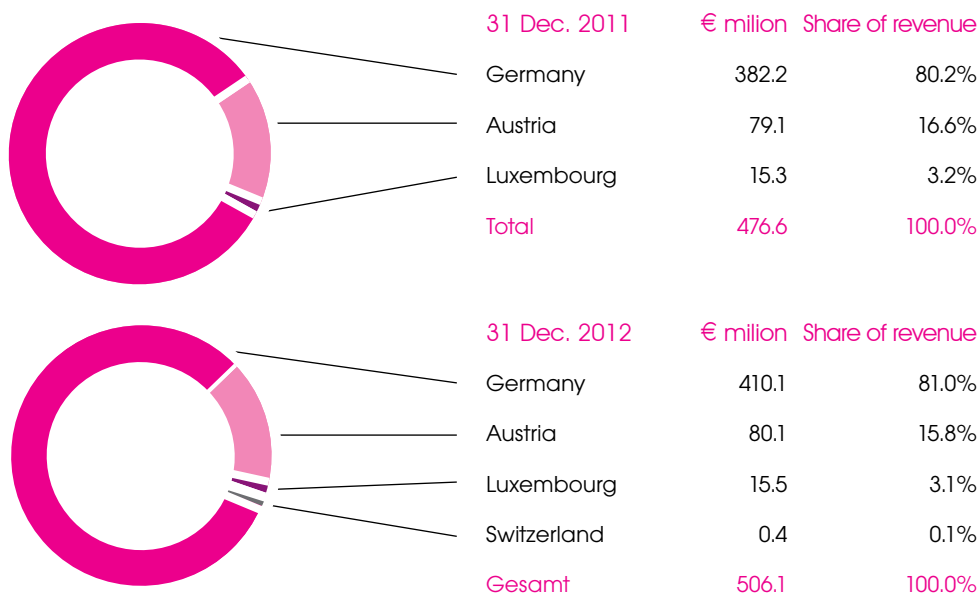
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Both the sales volume and the average gross sale price were increased in 2012. Sales volume grew from 27.4 million articles to a total of 29.6 million in 2012. The average gross sale price realised rose from € 19.8 in the previous year to € 20.7 in 2012. While the higher sales volume is attributable to the increase in the number of stores, the positive development of the sale price was the result of a targeted analysis and modification of the pricing structure for certain product groups and more restrictive discount promotions for the winter and holiday business.

**ANALYSIS OF REVENUE BY COUNTRY**

In 2012 ADLER generated 81.0% of its revenue in its traditional core market, Germany. Revenue thus grew by € 28.0 million to € 410.1 million (previous year: € 382.2 million), outstripping the prior-year business volume by 7.3%. In Austria, the Company generated € 80.1 million in revenue, corresponding to 1.3% growth over the previous year (€ 79.1 million). The two stores in Luxembourg increased their revenue by 0.8% to € 15.5 million (previous year: € 15.3 million). The Group's first store in Switzerland, which opened in October, generated € 0.4 million in revenue.

**Revenue development by region**



**LIKE-FOR-LIKE REVENUE DECLINES IN LINE WITH INDUSTRY TREND**

When analysing organic growth, ADLER considers the stores opened in 2010 and before and those stores having existed for a full calendar year as existing stores. In 2012, ADLER had 131 existing stores. Revenue at these existing stores fell by 2.5% during the year under review and virtually matched the 2.0% average decline in revenue throughout the entire German textile retail industry. By the same token, this means that the entirety of ADLER's 2012 revenue growth of 6.2% resulted from the newly opened stores.

# FINANCIAL PERFORMANCE

## GROSS PROFIT INCREASES BY 9.1%

During the year under review, the cost of materials amounted to € 238.2 million, and increased by 3.1% as compared to the previous year (€ 231.0 million), or by roughly only half as much as revenue. Accordingly, ADLER was able to increase its gross profit on goods sold (consolidated revenue less the cost of materials) by € 22.3 million (or 9.1%) from € 245.6 million to € 267.9 million. This increase was due largely to the strategy implemented early on in financial year 2012 to increase gross profit and to offering more moderate discounting promotions for the winter and holiday business than in the previous year. These measures are also reflected in the 1.4% increase in the gross profit margin from 51.5% to 52.9%.

## PERSONNEL EXPENSES INCREASE IN LINE WITH STORE OPENINGS

Personnel expenses increased in 2012 by 9.6% to € 85.4 million (previous year: € 77.9 million). The primary reason for this increase is the new store openings in 2011 and 2012.

## OTHER OPERATING EXPENSES UP SLIGHTLY

During the reporting period, the 5.4% increase in other operating expenses from € 146.9 million in the previous year to € 154.8 million virtually matched the growth rate. Although marketing expenses were reduced during the reporting period, this effect was mollified at the Group level by higher building management expenses due to the increased number of stores. In addition, freight and transport costs increased as a result of higher purchasing volumes and a larger number of stores.

## EBITDA €35.5 MILLION, UP 13.8%

The strategies initiated in mid-2012 to consolidate store expansion and to increase gross profit have already made a sustainable mark on earnings before interest, taxes, depreciation and amortisation (EBITDA). EBITDA grew significantly by 13.8% to € 35.5 million, or € 4.3 million higher than in the previous year (€ 31.2 million). The EBIT margin growth from 6.5 % previous year up to 7.0 % 2012. Targeted price modifications within certain product groups also helped to boost profitability. These modifications were based on a dedicated analysis of the Group's own pricing structure as compared to that of its key competitors.

## WRITE-DOWNS, IMPAIRMENT LOSSES AND EBIT UP 25.0%

Write-downs were higher than in the previous year (€ 13.9) and amounted to € 15.0 million. This was due in particular to new store openings and the renewal of four finance lease agreements during the year under review. Earnings before interest and taxes (EBIT) amounted to € 20.5 million (previous year: € 16.4 million). This represents a considerable increase of 25.0%.

## FINANCIAL RESULT AND EBT

The financial result fell from € 3.5 million in the previous year to € 4.3 million in the financial year. Earnings before taxes (EBT) grew analogously to EBIT and was thus € 16.2 million (previous year: € 12.9 million).

## NET PROFIT FOR THE YEAR

After a tax expense of € 6.1 million, the consolidated net profit for the year amounted to € 10.1 million (previous year: € 8.5 million). This net profit for the year was equal to the net income attributable to the shareholders of Adler Modemärkte AG. Net profit thus grew by nearly 18.8%.

## EARNINGS PER SHARE

The adjusted earnings per share amounted to € 0.56 (based on 17,900,337 no-par value shares). Earnings per share amounted to € 0.48 in the previous year.

# FINANCIAL POSITION AND CASH FLOWS

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## GROUP'S FINANCIAL POSITION IMPROVED

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Adler Modemärkte AG's total assets as at 31 December 2012 increased year-on-year by € 23.0 million to € 210.4 million (previous year: € 187.4 million).

Non-current assets increased by € 14.0 million from € 50.7 million in the previous year to € 64.7 million on the basis of extended finance lease agreements. Inventories increased by € 4.7 million from € 73.5 million in the previous year to € 78.2 million as a result of the increase in the number of stores and the more moderate sales promotions for the winter and holiday business. Cash and cash equivalents grew to € 42.1 million.

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## EQUITY RATIO SOLID AT 38.0%

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Equity increased by € 5.1 million from € 74.8 million in the previous year to € 79.9 million. In contrast to the net profit generated for the year, the share buyback programme conducted in 2012 reduced the Company's equity by € 5.0 million. The equity ratio amounted to a solid 38.0% (previous year: 39.9%).

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## ADLER REMAINS FREE OF LIABILITIES TO BANKS

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As in the previous year, ADLER had no liabilities to banks as at 31 December 2012. Liabilities as at the end of the 2012 reporting period had increased by € 17.9 million to € 130.5 million (previous year: € 112.6 million). They generally represent as-of-yet unclaimed discount entitlements due to customers having purchased merchandise using their ADLER customer loyalty card. Other liabilities generally relate to VAT and customs liabilities, wage and salary liabilities and liabilities due to customers for gift cards sold.

Obligations in relation to finance lease agreements increased from € 37.1 million to € 48.7 million as at 31 December 2012 due to the renewal of leases at four locations. The finance lease agreements relate to leased store buildings, whereby the Group is deemed the beneficial owner for the purpose of the underlying lease agreements. Further items classified as liabilities include trade payables of € 33.8 million (previous year: € 30.6 million), financial liabilities of € 19.7 million (previous year: € 19.1 million) and other liabilities of € 18.8 million (previous year: € 17.6 million).

Leverage (debt/equity ratio) increased slightly to 1.63 as at the end of the 2012 financial year (previous year: 1.50), due primarily to the renewal of finance lease agreements.

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## WORKING CAPITAL REMAINS CONSTANT DESPITE GROWTH

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At € 44.5 million as at the end of the 2012 reporting period, working capital (inventories plus trade receivables and less trade payables) remained at virtually the same level as at the end of the previous year (€ 44.1 million). Working capital intensity (working capital/revenue) fell from 9.2% to 8.7%.

## Overview of current and non-current liabilities

€	Dec. 31, 2012	Dec. 31, 2011
Liabilities to banks	0	0
Provisions	7,907	7,812
Financial liabilities	19,687	19,114
Finance lease obligations	48,701	37,100
Trade payables	33,771	30,613
Other liabilities	18,814	17,603
Deferred tax liabilities and income tax liabilities	1,664	327
<b>Total liabilities</b>	<b>130,544</b>	<b>112,570</b>

In 2012, ADLER did not carry any financial instruments affected by the sovereign debt crisis in accordance with IAS 39, IFRS 7 or § 315 (1) HGB on its statement of financial position.

## CASH FLOW – CASH FLOW MANAGEMENT

The significance of cash flows from operating activities is crucial given the message it transmits as to ADLER's operating profitability. In particular, a smaller increase in inventories than in the same period of the previous year had a positive impact on cash flows. At € 30.7 million, cash flows from operating activities resulted in a € 21.9 million increase in net cash inflows as compared to the previous year (1 January 2011 to 31 December 2011: € 8.8 million).

Cash outflows from investing activities amounted to € 9.7 million (previous year: € 13.2 million outflow). Thus, free cash flow amounted to € 21.0 million (previous year: € -4.4). This positive figure represents a significant increase of € 25.4 million.

Cash outflows from financing activities amounted to € 18.9 million in 2012 and related mainly to finance lease obligations (€ 13.6 million) and the share buyback programme (€ 5.0 million). In the previous year, cash flows from financing activities were increased by the cash inflows from the capital increase, and thus amounted to € 11.4 million.

Cash and cash equivalents in the reporting period increased by € 2.1 million (previous year: € 7.1 million).

## INVESTMENT

The ADLER Group's investments during financial year 2012 totalled € 32.8 million (previous year: € 14.2 million). Of that amount, € 29.5 million was invested in property, plant and equipment (operating and office equipment), € 21.3 million of which alone was attributable to the renewal of finance lease agreements. Investments in intangible assets amounted to € 3.4 million (previous year: € 2.1 million), which were mainly attributable to the RFID project.

The new store openings in Peine, Kerpen, Lünen, Kaufbeuren, Waghäusel, Rastatt, Schwäbisch Gmünd, Bad Kreuznach, Eisenach, Papenburg, Remscheid, Laatzen, Herdecke, Wörgl, Gmunden and Wilen are included in the investments made in the reporting year.



# PROCUREMENT

ADLER does not have its own manufacture facilities. The Company has a lean organisation and focuses on its core competencies, which is why its product ranges are imported directly from Asia, Turkey and north Africa as well as indirectly through importers and brand manufactures at cost-effective prices. Purchasing high-quality products at low prices, securing delivery of the merchandise and optimally showcasing the articles to the customers is the top criterion in terms of procurement and logistics.

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## DIRECT PURCHASING SECURES PROFITABILITY

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ADLER has longstanding experience in purchasing textiles in Asia. From 1976 to 1989, the Company operated its own plants in South Korea and Sri Lanka. Today, the production of textiles is outsourced to strategic partners in Asia and orders are processed for the most part by Metro Group Buying HK Ltd., Hong Kong. Metro Group Buying HK Ltd. bundles the procurement activities of the METRO Group in Asia and accordingly has a great deal of market power there, much to the benefit of ADLER. At the same time, ADLER is one of Metro Group Buying HK Ltd.'s biggest customers for textiles. In financial year 2012, ADLER purchased 42% of its purchasing volume from direct imports, of which about 90% was manufactured in east Asia, southeast Asia and on the Indian subcontinent and delivered to Europe by sea freight.

In the medium-term, ADLER will expand its share of direct purchasing to up to 60%. As a result, the purchasing conditions will continue to improve. Direct purchase volumes amounted to € 99.2 million in the previous financial year. Using Metro Group Buying HK Ltd., ADLER primarily purchases merchandise from Asia which, due to lower purchasing prices and high order volumes, are more economical than purchases from Europe. This helps generate positive economies of scale.

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## SPREADING PROCUREMENT RISKS

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ADLER makes sure that it evenly distributes its purchase volumes across a worldwide network of suppliers in order to spread the risk and to minimise its dependency on any one procurement market or manufacturing site. ADLER therefore concluded a large number of agreements with importers, each of which accounted for considerably less than five per cent of the total volume delivered to ADLER in financial year 2012. Some importers also ensure quick responses to changes in demand since their production facilities are close to Europe. Some of the agreements with importers pertain to NOS items („never-out-of-stock“), which are automatically replenished when they sell out. ADLER maintains additional supplier relationships with the manufacturers of the external brands it offers in its stores.

# DISTRIBUTION, SALES & MARKETING

ADLER pursues a multi-channel sales strategy. In terms of its most important sales channel, its stores, ADLER focuses on large-space retail concepts. In order to improve its market penetration, ADLER plans on steadily further expanding its network of stores in its core markets of Germany and Austria. In addition, ADLER has offered more and more articles for sale via its online shop since 2010.

In order to generate economies of scale and to broaden its market position, ADLER intends to expand its network of stores organically as well as through acquisitions. The Company aims to open ten to twenty new stores per year. Specifically, the goal is to seize opportunities created by the decline of small medium-sized companies also known as „mom and pop stores“. Furthermore, ADLER wants to generate additional cost benefits and optimise internal processes by employing innovative technology. For example, one project ADLER is working on is the introduction of RFID technology in order to institute an electronic merchandise tracking and tagging system.

## IDEAL LOCATIONS FOR STORES

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The expansion of ADLER's network of stores in Germany will focus primarily on peripheral areas in urban centres and rural areas near retail parks and shopping centres. The search will focus on locations in the vicinity of hardware stores, hypermarkets, chemist's shops and supermarkets. City locations in small and medium-sized towns with catchment areas exceeding 50,000 inhabitants will also be considered. Due to their high base customer frequency, from which ADLER's store could benefit, retail parks are well suited for ADLER stores. Retail parks generally have an abundance of parking and are easy to reach, further accommodating the needs of ADLER's customers.

## ADLER ONLINE SHOP

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After gaining initial experiences in e-commerce with the launch of its online shop in 2010, ADLER thoroughly revamped the functionality of the online shop and relaunched it in early 2012. These measures focussed primarily on making purchase transactions even easier for customers. In addition to a new, clearly arranged and customer-friendly layout, customers can now also pay using secure payment services such as PayPal and Sofortüberweisung.

Other added benefits include features that allow customers to check the in-store availability of items, customer loyalty cardholders to pay for and return items purchased online in stores, and customers to search for specific articles based on colour, style and price by using new filter options. For instance, customers looking for the right trousers can find the best ADLER brand and fit that meets what they are looking for by entering their size, waist and leg measurements. The improved online shop helps ADLER link its online retail activities with its brick-and-mortar retail stores, thus giving the Company one of the most innovative retail platforms in the market.

## MARKETING

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ADLER has positioned itself as the clear market leader for men's and women's clothing for the +45 age group in the German fashion market. Since this target group is growing from a demographic standpoint, the Company wants to further expand this position. The entire product and brand policy in terms of fit, quality requirements and the offering of affordable, fashionable clothing, even in the plus-size category, is tailored primarily to this target group. ADLER uses various media platforms to promote its image and products. As an operator of large-space retail concepts, the Company uses extensive marketing measures to generate customer frequency at its stores.

## MARKET AND CUSTOMER ANALYSES

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ADLER continually performs market and customer analyses. In particular, the vertical integration of the Company as well as the ADLER customer loyalty card make specifically analysing customer demand possible. This helps management to identify any changes in the industry early and to swiftly tailor the product ranges concerned to the new demands of the customers. ADLER's Marketing department keeps the Company's regular customers up to date about new products and the advantages of its product offering primarily through advertising mailers tailored specifically to those customers.

## ADVERTISING

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ADLER focusses its advertising efforts primarily on two traditional mediums for addressing customers: 1) advertising mailers addressed directly to approximately six million active customer loyalty cardholders, and 2) colour advertising inserts for newspapers and magazines. These advertising tools continually give regular and new customers an incentive to visit ADLER stores. Furthermore, smaller, additional advertising events meant to attract customers are held intermittently throughout the year. These range from vouchers to giveaways and sweepstakes to discount promotions. In 2012, ADLER mailed a total of 52 million advertising mailers to customers. During the same period the total number of all newspaper and magazine inserts was approximately 141 million. These were distributed in the vicinity of the ADLER stores using numerous different media outlets and served primarily to attract new customers.

Sometimes the Company also commissions local advertisements and distributes leaflets on special occasions at its individual stores. ADLER uses radio and television advertisements to increase consumer awareness of the ADLER brand in order to promote seasonal sales. The Company uses the appeal of its advertising ambassadors for all of its advertising promotions.

# HUMAN RESOURCES

The foundation of the Company's success is based on the work of ADLER's almost 4,400 employees. Every day the employees contribute their skills and help set the Company apart. In addition to the key tasks at the Company headquarters, ADLER places great importance on its direct contact with its customers. Having a keen eye for the more mature customers is especially important. Therefore, one objective of the human resources work at ADLER is to train and sensitise the employees to this age group and to foster their team spirit and abilities. In doing so, ADLER creates a work environment that allows customer service and service quality to develop freely.

## CORPORATE CULTURE

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ADLER is a company with more than 60 years of tradition and accordingly has a mature corporate culture focussed on service orientation, team spirit, creativity, openness and transparency. It creates an atmosphere that brings out the potential in every employee. Particularly in the textile retail industry, where employees are in direct contact with customers on the sales floors on a daily basis, it is a priority for ADLER to ensure that its employees are motivated, competent and customer-oriented and that they continue to develop these skills.

## EXPERIENCED LOCAL MANAGEMENT TEAMS

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ADLER management makes the organisational and personnel decisions necessary to ensure that ADLER's individual stores are led by local, experienced, hands-on management teams. These teams are present on the sales floors and are given the freedom to make their own decisions. The store managers are familiar with the local conditions and the characteristic features of the region. This also helped ADLER to continually attract qualified and experienced employees from within the Company as well as from its competitors when expanding its number of stores.

## LOW EMPLOYEE TURNOVER

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Compared to other companies in the retail industry, employee turnover at the Company headquarters and at ADLER's stores is extremely low. This low turnover rate is a good indication that ADLER adheres to high social standards and that the employees hold the Company in high regard. More than 70% of ADLER's employees have remained with the Company for more than two years. More than 60% of the employees have even worked for the Company for more than five years. On average, employees remain with the Group for more than ten years. With an average age of 46, many of the employees are in a similar age group as the target group of over 45 year-olds that the Company courts. As they have worked for the Company for many years, many ADLER employees have built up solid relationships with customers, which has contributed to the high proportion of regular customers. As previously in 2011, the employee turnover rate at Adler Modemärkte AG was only about 11% in the year under review.

## DIVERSITY AT ADLER

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ADLER is an employer that does not take nationality, gender, background, religion, age, disabilities or sexual preferences into account when considering and evaluating employees and applicants. Given current demographic changes, ADLER wants to tap the full potential of every applicant. The professional qualifications and personal integrity of the applicants are the only attributes given priority during the Company's selection process. ADLER considers a diverse staff worthwhile as this allows skills and talents that complement one another to successfully work together in the Company.

The proportion of women working at ADLER has been extremely high since the Company's founding. Of the 205 employees in the first and second levels of management, 109 are women, meaning that about 50% of ADLER's executives are women. A solid 40% of the Supervisory Board seats are held by



women. Recognising that many mothers carry the dual burden of balancing both their professional and family lives, ADLER will continue to make their professional and family lives more compatible by accommodating work conditions. ADLER is also committed to affording people with severe disabilities the opportunity to participate in the workforce with the same rights as other employees.

**Employee diversity**

	Dec. 31, 2012	In %
Total employees	4,390	100%
Proportion of men	409	9.2%
Proportion of women	3,986	90.8%
Average age in years	46.3	

**GROUP EMPLOYEES**

Despite the higher number of stores, the number of employees has declined year-on-year. Including inactive employment relationships, the number of employees, in full-time equivalents, at the end of financial year 2012 was 2,798 (previous year: 2,830). During the financial year, the ADLER Group (including Adler Mode GmbH) had an average of 2,790 full-time employees (including trainees). The number (headcount) of employees as at 31 December 2012 totalled 4,390.

**Number of employees at the end of each year (headcount)**

	Dec. 31, 2012	Dec. 31, 2011
Managers	205	189
Full-time employees	773	828
Part-time employees (incl. marginal employment positions)	3,111	3,110
Trainees/interns	301	277
<b>Total employees</b>	<b>4,390</b>	<b>4,404</b>

**TRAINEES**

ADLER will continue to rely on qualified and service-oriented employees going forward. Therefore, the Company is promoting young talent from within its own ranks. In principle, ADLER offers vocational training positions based which positions it needs to fill. Currently, vocational training positions are being offered for the following positions in the commercial division: office management assistant, office management assistant in retail sales, visual marketing designer. As at 31 December 2012, of the 301 trainees and interns, the Company had 219 trainees, 46 trainees from joint vocational programmes (überbetriebliche Ausbildung), three trainees with entry-level qualifications and 33 interns.

**VOCATIONAL TRAINING AND FURTHER TRAINING**

ADLER's Human Resources department focuses on the needs of the Company and the particular potentials of the Company's employees. Targeted support helps employees boost their daily work performance and expand their knowledge beyond what their positions currently require. For example, employees are afforded the opportunity to develop their skill sets by transferring to other departments or positions (cross-functional assignments), through promotions to managerial positions or by broadening their areas of responsibility. In addition, the Group provides various resources for individual employees to receive further training. For example, ADLER bolsters the customer orientation and service motivation of its employees by offering regular training sessions. An established monitoring system based on regular sales analyses allows management to accurately instruct the sales staff where it needs to improve its customer orientation and quality of service.

# SUSTAINABILITY AND THE ENVIRONMENT

Corporate social responsibility, sustainability objectives and environmental awareness are important preconditions for the long-term success of ADLER. Sustainability concerns are taken into account when making any strategic or operating decisions and also when working together with suppliers and manufacturers. Acting in an environmentally responsible manner and conserving resources is a priority for ADLER.

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## RESPONSIBILITY VIA BSCI

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ADLER is an active member of the Business Social Compliance Initiative (BSCI), a cooperation platform that unites hundreds of companies and is committed to improving working conditions along the global supply chain. The BSCI database provides its members with the ratings of all BSCI suppliers based on a centralised certification system. The BSCI set about to enshrine ethical and moral principles and trade practices in the textile supply chain. To this end, suppliers are furnished with the BSCI Code of Conduct and regular audits monitor their compliance with these guidelines. This work is complemented by training courses. The BSCI Code of Conduct is based on the most important international labour standards protecting the workers' rights in particular the International Labour Organization (ILO) Conventions and other important international declarations such as the UN Universal Declaration of Human Rights.

The contractual regulations with suppliers and contractors ban discrimination, child labour and forced labour, and govern working hours, wages, working conditions, housing and the freedom of association. The first step of the process is providing all suppliers with a uniform questionnaire based on the SA8000 international standard from Social Accountability International (SAI). Regular audits of the manufacturing facilities and rankings of the suppliers form the second step of the process. Independent, external audit companies accredited by Social Accountability Accreditation Services (SAAS) are tasked with performing these audits.

The fact that the majority of ADLER's long-term suppliers are BSCI certified is a clear indication for the responsible manner in which the ADLER purchasing department selects its suppliers. ADLER is taking great efforts to ensure that every supplier complies with the BSCI Code of Conduct. For example, in Asia ADLER engages the purchasing agent Metro Group Buying (MGB) in Hong Kong to conduct certification measures at suppliers in order to actively help them to meet and comply with the BSCI Code of Conduct.

Additional information on the BSCI can be found online at: [www.bsci-eu.org](http://www.bsci-eu.org)

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## ADLER PROMOTES FAIR TRADE

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In 2010, ADLER was the first German textile retailer to manufacture a portion of its collections under the Fairtrade seal. The fair trade of cotton contributes directly to defeating poverty in production countries. It sows the seeds for social progress for peasant farmers and workers in countries that are usually designated as non-industrialised countries. As a pioneer of fair trade in the clothing industry, ADLER offers, for example, men's and women's shirts made from Fairtrade cotton. Since this initiative was launched, ADLER has been working to consistently enhance these products and aims to increase their share in the product range. ADLER has developed a corresponding shop-in-shop concept to increase customer awareness of the „Fairtrade“ collection.

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## SUSTAINABILITY AND TRANSPARENCY

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Furthermore, ADLER has furnished its merchandise made from Fairtrade cotton with the Fairtrade code since the second half of 2012. In this way ADLER is making the supply chain for these products more transparent and the story behind the products can be more easily traced. Customers can enter the code found on Fairtrade clothing into the Fairtrade website and trace the article from ADLER back to the manufacturer in the producing countries. In this way ADLER informs its customers that its supply chain is based on fair principles and sensitises them to consciously purchase sustainable merchandise.

Fair trade makes it so that cotton producers can rely on a fixed, minimum price for their product. Furthermore, a fair trade bonus earmarked for community projects is paid to the co-operatives. This allows people to sustainably improve their living and working conditions and to plan for the future by making investments.

Going forward, ADLER hopes to use the Fairtrade standards as an example of how companies can work together with suppliers and manufacturers in a sustainable and responsible manner. The objective is to convey the Fairtrade principles to the ADLER supply chain and, once achieved, work exclusively with BSCI certified suppliers.

Additional information can be found online at: [www.fairtrade.de](http://www.fairtrade.de)

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## RECYCLING WITH I:CO

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Even high-quality clothing becomes used and unfashionable at some point. ADLER was the first textile company to support I:Collect AG, which employs innovative utilisation concepts to recycle used clothing, with the I:CO collection initiative after it was launched in 2009. ADLER makes an active contribution to conserving natural resources by participating in this initiative. The I:CO initiative sorts, analyses and processes clothes and footwear in accordance with the latest guidelines, thus helping to protect the environment. In 2012 ADLER collected exactly 497 tonnes of used clothing at its stores and donated them to I:CO.

# REPORT ON RISKS AND OPPORTUNITIES

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## REPORT ON OPPORTUNITIES

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

The Group's growth strategy also promises to yield opportunities. It calls for new store openings in regions which have previously not been highly developed, the rollout of additional brand shop concepts and the modernisation of existing stores. Aside from generating organic growth, ADLER will also make use of sensible acquisitions, provided that they have the potential to sustainably increase the Company's overall profitability. To complement its key sales channel – its stores – ADLER has successfully launched its online shop, which targets the growing number of consumers who use their PCs or smartphones to shop online.

ADLER also leverages growth and expansion to create synergies and economies of scale while maintaining the option of using increased profitability to enhance efficiency within the Company. Furthermore, ADLER has greater opportunities to increase its earnings by optimising its procurement processes and expanding its direct purchasing.

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## RISK MANAGEMENT SYSTEM

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### SECURING THE COMPANY'S CONTINUED EXISTENCE

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

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

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



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

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

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## RISK REPORTING

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

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## MARKET RISKS

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The ADLER Group's business performance and growth depend on general demand trends in the retail clothing industry and ADLER's target customer group in particular. Demand trends are of key significance not only in the ADLER Group's home market of Germany, where the Company generates the predominant share of its revenue, but also in its other sales markets: Austria, Luxembourg and Switzerland. Demand depends on the economic climate and consumer behaviour.

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

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

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

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

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

The applies to the Company's pricing and product development.

### MACROECONOMIC RISKS

Although a rapid economic upturn was recorded, in Germany in particular, in the wake of the financial and economic crisis, the economic climate may deteriorate at any time. Both in theory and in practice there are numerous causes and triggers that would lead consumers to spend less or to maintain lower spending levels. The consequences of the sovereign debt and euro crises pose a risk for global economic development and thus also for Germany's domestic economy. As an export nation, Germany is particularly dependent on global economic growth. The same also holds true for ADLER's other sales markets. A renewed deterioration of the global economic climate would negatively impact the European Union and the situation in ADLER's sales markets. The occurrence of one or more of the aforementioned risks could have an adverse effect on the ADLER Group's financial position, cash flows and financial performance.

### FINANCIAL AND LIQUIDITY RISKS

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

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

### CURRENCY RISKS

ADLER is only marginally exposed to currency risks since it realises revenue and procures merchandise primarily in euros. Indirect currency risks stem from importers passing on exchange rate fluctuations to ADLER through the sales price of the merchandise. However, ADLER normally purchases the delivered merchandise at fixed prices that are agreed upon in advance on which it can base its sales price calculation.

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

### RISKS ASSOCIATED WITH THE PROCUREMENT OF MERCHANDISE

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

## ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

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

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

ADLER's Group Finance department is responsible not only for actively supporting all business divisions and Group companies but also for developing and updating standard guidelines and work instructions for accounting-related processes. Aside from established control mechanisms, the principles of the ICS consist of technical system-based and manual reconciliation processes, the separation of management and control functions and the adherence to guidelines and work instructions. The financial statements of the Group companies outside of Germany are drawn up by Group Accounting. The Group companies are responsible for adhering to Group-wide guidelines and procedures and the proper and timely operation of their accounting-related processes and systems. Local companies are supported by points of contact at the Group level throughout the entire accounting process.

Appropriate measures are implemented as part of the accounting process to ensure that the consolidated financial statements are in compliance with the regulations. The measures serve in particular to identify and evaluate risks and to mitigate and monitor known risks.

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

# REMUNERATION REPORT

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

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## PERFORMANCE-BASED REMUNERATION SCHEME FOR THE EXECUTIVE BOARD

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

Based on applicable law, specifically the German Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, „VorstAG“) as well as a corresponding provision in the rules of procedure for the Supervisory Board, the full Supervisory Board is responsible for setting and periodically reviewing the remuneration of the individual Executive Board members. The remuneration scheme for the Executive Board was approved by the first Annual General Meeting held on 23 May 2012 in accordance with § 120 (4) of the German Stock Corporation Act (Aktiengesetz, „AktG“).

The Executive Board members' remuneration consists of a base salary plus performance-based components. The performance-based components are the „short-term incentive“ (STI) and the „long-term incentive“ (LTI) bonuses.

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## BASE REMUNERATION

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

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## SHORT-TERM INCENTIVE BONUS (STI)

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The STI is the first remuneration component based on the Company's performance for the past financial year. The Supervisory Board decides on the amount of the STI based on earnings from ordinary operations (EBT) in accordance with the certified IFRS income statement in the Company's consolidated financial statements plus provisions for Executive Board bonuses. Accordingly, the Executive Board members each receive an STI of up to 1% of earnings from ordinary operations (EBT) in excess of € 10,000,000, not to exceed € 500,000 per annum.

The Supervisory Board may reasonably reduce the STI if it is based on circumstances not completely due to the Executive Board member's performance but rather due to extraordinary developments. The STI for the past financial year is due and payable two months after the close of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the STI will be paid on a pro rata temporis basis.



## LONG-TERM INCENTIVE BONUS (LTI)

With a term of five years in total, the LTI is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value and is determined as follows: the members of the Executive Board undertake to acquire shares of the Company and to hold these for at least one year from the date of acquisition. For each share of the Company subscribed, the Executive Board members receive five stock appreciation rights ("SAR"). One SAR grants a claim to payment contingent upon the performance of the stock exchange price of the shares; it does not however grant an option to acquire a share in the Company. The waiting period for the exercise of SARs is three years from the date of acquisition. SARs may only be exercised if the closing price of the Company's stock at the end of the waiting period is at least 30% higher than the acquisition price. SARs may be exercised after the waiting period expires either in whole or in part within a two-year period ("Exercise Period"). The payout amount for each SAR at the exercise date is calculated as the difference between the average closing price of Adler Modemärkte AG shares over a period of five trading days before the exercise date and the price of the share upon acquisition by the respective Executive Board member. Upon expiry of the Exercise Period, those SARs which have not been exercised will expire. The LTI currently agreed with all members of the Executive Board in relation to the SARs granted is limited to a maximum for each individual Executive Board member and to a total amount of currently € 5,800 thousand. If any of the eligible members of the Executive Board step down before the expiration of their management contract, the payout with respect to the SARs is also limited to the maximum payment amount defined under the severance scheme.

## COMMITMENTS IN CONNECTION WITH THE TERMINATION OF THE EXECUTIVE BOARD POSITION

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

## PENSIONS

No active members of the Executive Board have any contractual pension claims.

## TOTAL REMUNERATION FOR FINANCIAL YEAR 2012

The Company's Annual General Meeting on 30 May 2011 passed a resolution that there would be no disclosure of individual Executive Board members' remuneration. For financial year 2012, remuneration for the Executive Board totalled € 1,007 thousand (previous year: € 1,259 thousand). The breakdown of the remuneration is as follows:

in k€	2012	2011
Fixed remuneration	756	597
Non-cash benefits	21	25
Bonuses*	230	210
<b>Short-term employee benefits payable to Executive Board members</b>	<b>1,007</b>	<b>832</b>
Redundancy Payments	0	427
<b>Benefits due to termination of the Executive Board position</b>	<b>0</b>	<b>427</b>
<b>Total</b>	<b>1,007</b>	<b>1,259</b>

\* To date, the variable remuneration components of the Executive Board members have been recorded on a received basis. Beginning in the year under review, bonuses are recorded as a component of remuneration for the financial year in which they are earned. The previous year's amount was adjusted accordingly.

## SUPERVISORY BOARD REMUNERATION

The current remuneration scheme for the Supervisory Board was passed by the shareholders' meeting of Adler Modemärkte GmbH pursuant to the resolution to reorganise the Company on 1 March 2011 and was memorialised in § 14 of the articles of association of Adler Modemärkte AG. At ADLER, the remuneration of the Supervisory Board is structured in the form of fixed remuneration only. As with the remuneration for the Executive Board, the remuneration for the Supervisory Board is contingent on the size of the organisation and should reflect the level of activity and responsibility assumed.

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

In financial year 2012, the total remuneration for members of the Supervisory Board was € 161 thousand (previous year € 144 thousand). The breakdown of the remuneration is as follows:

### Supervisory Board remuneration in 2012

k€	Fixed remuneration <sup>1)</sup>	Committee work	Session fee <sup>1)</sup>	Total remuneration
Holger Kowarsch, Vorsitzender <sup>2), 3)</sup>	20.0	2.0	2.4	24.4
Angelika Zinner, stellv. Vorsitzende <sup>2)</sup>	15.0	3.0	1.8	19.8
Mona Abu-Nusseira <sup>2), 3)</sup>	10.0	0.9	1.2	12.1
Majed Abu-Zarur	10.0	-	1.2	11.2
Ingrid Düsman-Schulz (bis 12.03.2012)	2.0	-	0.3	2.3
Corinna Groß	10.0	-	0.9	10.9
Georg Linder <sup>2)</sup>	10.0	2.0	1.2	13.2
Eduard Regele <sup>2), 3)</sup>	10.0	2.0	1.2	13.2
Rita Richter (seit 12.03.2012)	8.0	-	0.9	8.9
Erika Ritter	10.0	-	1.2	11.2
Markus Roschel <sup>3)</sup>	10.0	-	1.2	11.2
Markus Stillger	10.0	0.1	0.9	11.0
Jörg Ulmschneider <sup>4)</sup>	10.0	-	1.2	11.2
<b>Total</b>	<b>135.0</b>	<b>10.0</b>	<b>15.6</b>	<b>160.6</b>

## Supervisory Board remuneration in 2011

k€	Fixed remuneration <sup>1)</sup>	Committee work	Session fee <sup>1)</sup>	Total remuneration
Holger Kowarsch, Vorsitzender <sup>2), 3)</sup>	15.8	1.6	1.8	19.2
Angelika Zinner, stellv. Vorsitzende <sup>2)</sup>	13.0	2.4	2.6	17.9
Mona Abu-Nusseira <sup>2), 3)</sup>	7.9	0.8	0.9	9.6
Majed Abu-Zarur	8.7	-	2.1	10.8
Ingrid Düsmann-Schulz (bis 12.03.2012)	8.7	-	2.1	10.8
Corinna Groß	8.7	-	2.1	10.8
Georg Linder <sup>2)</sup>	8.7	1.6	2.1	12.4
Eduard Regele <sup>2), 3)</sup>	7.9	1.6	0.9	10.4
Rita Richter (seit 12.03.2012)	-	-	-	-
Erika Ritter	8.7	-	2.1	10.8
Markus Roschel <sup>3)</sup>	7.9	-	0.9	8.8
Markus Stillger	7.9	-	0.9	8.8
Jörg Ulmschneider <sup>4)</sup>	11.7	-	2.1	13.8
<b>Total</b>	<b>115.5</b>	<b>8.0</b>	<b>20.6</b>	<b>144.0</b>

1) Remuneration for 2011 includes remuneration on a pro rata basis for Supervisory Board members due to them in accordance with the provisions of the remuneration system of Adler Modemärkte GmbH (post reorganisation: Adler Modemärkte AG).

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

3) The shareholder representatives waived their right to the pro-rated 2011 remuneration due to them in accordance with the remuneration provisions of the Articles of Association of Adler Modemärkte GmbH.

4) The fixed 2011 remuneration includes a base remuneration for financial year 2010 in the amount of € 3,000. In addition to his remuneration as a member of the Supervisory Board, Mr Jörg Ulmschneider received € 5,004.43 (including value added tax) in financial year 2011 and € 5,462.14 (including value added tax) in financial year 2012 for consultancy services authorised in advance by the Supervisory Board.

## MISCELLANEOUS

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

# LEGAL DISCLOSURES

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

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## CORPORATE GOVERNANCE STATEMENT

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The corporate governance statement under § 289a HGB constitutes a component of the management report. Pursuant to § 317 (2) sentence 3 HGB, the disclosures provided under § 289a HGB are not to be included in the audit. The declaration published on the ADLER website ([www.adlermode-unternehmen.com](http://www.adlermode-unternehmen.com)) under „Investor Relations / Corporate Governance“ contains the declaration of conformity, information on corporate governance practices as well as a description of the procedures applied by the Executive Board and the Supervisory Board.

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## REPORT ON RELATIONSHIPS WITH AFFILIATES

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Cheverny Investments Limited, Gzira, Malta, was the sole shareholder of Modemärkte GmbH. From the time it was reorganised as Adler Modemärkte AG (effective upon entry in the commercial register on 17 March 2011) until 21 June 2011, Cheverny Investments Limited held a 100% voting interest in the Company and from 21 June 2011 held a minority interest in the Company, which because of an expected attendance at the Annual General Meeting could represent a majority at the Annual General Meeting. blu Finance Ltd., St. Julians, Malta, holds a majority interest in Cheverny Investments Limited. bluO Malta Holding Ltd., St. Julians, Malta, holds a majority interest in blu Finance Ltd., St. Julians, Malta. bluO SICAV-SIF, Luxembourg, holds a majority interest in bluO Malta Holding Ltd., St. Julians, Malta. No control or profit and loss transfer agreement exists between Adler Modemärkte AG and Cheverny Investments Limited.

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

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## DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO § 289 (4) AND § 315 (4) HGB AS AT 31 DECEMBER 2012 AND EXPLANATORY REPORT

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### COMPOSITION OF SUBSCRIBED CAPITAL

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

### RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFERABILITY OF SHARES, EVEN IF THESE COULD ARISE FROM AGREEMENTS BETWEEN SHAREHOLDERS, TO THE EXTENT THESE ARE KNOWN TO THE EXECUTIVE BOARD OF THE PARENT COMPANY

In their service agreements, the members of the Executive Board have undertaken vis-à-vis the Company to hold those shares of the Company which they acquired pursuant to the performance-based component of their remuneration for a period of at least one year from the date of

acquisition. For further details on the remuneration scheme for the Executive Board, please refer to the remuneration report.

#### EQUITY INTERESTS IN EXCESS OF 10% OF THE VOTING RIGHTS

As at 31 December 2012, direct and indirect equity interests held in the Company in excess of 10% of the voting rights exist as follows: On 28 June 2011, Cheverny Investments Limited, Gzira, Malta, filed notice pursuant to § 21 (1a) of the German Securities Trading Act (Wertpapierhandelsgesetz, „WpHG“) that its voting interest in Adler Modemärkte AG was 37.17% (equivalent to 6,880,050 voting rights) on 21 June 2011, the date on which the shares were first admitted to trading. Under § 22 (1) sentence 1, no. 1 WpHG these voting rights are attributable to the controlling entity (beginning with the bottom-most company): blu Finance Ltd., St. Julians, Malta; bluO Malta Holding Ltd., St. Julians, Malta; bluO SICAV-SIF, Luxembourg.

#### SHARES WITH SPECIAL RIGHTS GRANTING CONTROL POWERS

No shares with special rights granting control powers exist.

#### TYPE OF VOTING RIGHTS CONTROL WHERE EMPLOYEES HOLD EQUITY INTERESTS AND DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS

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

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

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

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

#### EXECUTIVE BOARD'S AUTHORITY TO ISSUE SHARES

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



banking syndicate selected by the Executive Board subject to the obligation to offer them to the Company's shareholders for subscription.

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

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

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

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

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

For convertible bonds, the conversion ratio is determined by dividing the nominal amount of one bond by the fixed conversion price for one new share of the Company. The conversion ratio may also be determined by dividing the issue price of one bond that is less than the nominal amount by the fixed conversion price for obtaining one new share of the Company. The terms and conditions may also provide that the conversion ratio shall be variable and may be rounded up or down to

an even figure; in addition, a supplementary cash payment may be stipulated. Furthermore, the terms and conditions may provide for fractional amounts to be combined or compensated for in cash. The proportionate amount of the share capital represented by the shares to be issued upon conversion, or to be subscribed for upon exercise of the option, may on no account exceed the nominal amount and issue price of the convertible or warrant-linked bonds.

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

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

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

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

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

Notwithstanding § 9 (1) AktG, the option or conversion price may be reduced under an anti-dilution

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

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

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

By resolution of the extraordinary shareholders' meeting held on 30 May 2011 and pursuant to § 5 (6) of the Company's current articles of association, the Company's share capital has been increased on a contingent basis by € 7,930,000 through the issue of up to 7,930,000 new no-par value ordinary bearer shares (Contingent Capital 2011). The contingent capital increase will be implemented only to the extent that

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

Subject to the Supervisory Board's consent, the Executive Board will be authorised to determine the further details of the implementation of the contingent capital increase

#### EXECUTIVE BOARD'S AUTHORITY TO BUY BACK SHARES

The extraordinary shareholders' meeting of 30 May 2011 authorised the Company, subject to the consent of the Supervisory Board, to acquire treasury shares representing a total of up to 10% of the share capital existing at the time of the adoption of the resolution. Such authorisation is valid until 31 March 2016. Any acquisition for the purpose of trading in treasury shares shall be precluded. The shares acquired under this authorisation together with other shares of the Company which the Company has acquired, but does not yet own at the time of acquisition may not represent more than 10% of the share capital. The authorisation may be exercised in whole or in partial amounts once on one or more occasions by the Company, or by dependent companies or entities in which the

Company has a majority shareholding, or by third parties acting for the account of the Company or dependent companies or entities in which the Company has a majority shareholding. Treasury shares may be acquired over the stock exchange or by way of a public purchase offer directed to all shareholders. If the shares are acquired over the stock exchange, the consideration paid per share (excluding ancillary acquisition costs) may not be more than 10% above or below the price determined for the share on the relevant stock exchange trading day in the opening auction of the XETRA trading system (or a comparable successor system). If the shares are acquired by way of a public purchase offer, the purchase price offered or the minimum and maximum amounts of the purchase price range per share (excluding ancillary acquisition costs) may not be more than 10% above or below the closing price in the XETRA trading system (or a comparable successor system) on the third stock exchange trading day preceding the day of the public announcement of the purchase offer. If, following publication of a public purchase offer, there are significant deviations from the relevant price, the purchase offer may be adjusted. In this case, the price on the third stock exchange trading day preceding the public announcement of any such adjustment shall be relevant. The volume of the offer may be restricted. If the offer is over-subscribed, acceptance of the offer must take place on a pro rata basis. A preferential acceptance of smaller units of up to 100 tendered shares per shareholder may be stipulated.

The Executive Board will be authorised, subject to the consent of the Supervisory Board, to use treasury shares of the Company that are acquired pursuant to this authorisation for the following purposes: (i) the shares may be cancelled without the need for a separate resolution herefor by the Annual General Meeting. The authorisation for cancellation may be exercised in whole or in partial amounts and will result in a reduction of the share capital. Alternatively, the Executive Board may determine that the share capital will not be reduced and that the cancellation will instead result in the proportionate interest in the share capital held by the other shareholders being increased pursuant to § 8 (3) AktG, in which case, the Executive Board will be authorised to update the articles of association with respect to the number of shares set forth therein; (ii) the shares may be offered and transferred to third parties in connection with company mergers or the acquisition of companies or equity investments in companies; (iii) the shares may be offered for purchase and transferred to Executive Board members, employees of the Company or its Group companies; (iv) the shares may be offered for purchase and transferred to third parties who, as strategic partners of the Company or its Group companies, play a significant role in assisting the Company to achieve its corporate goals; (v) the shares may be used to satisfy the obligations of the Company arising out of convertible bonds issued or guaranteed by it.

As at 31 December 2012, the Company holds 888,803 shares in treasury.

#### MATERIAL AGREEMENTS OF THE PARENT COMPANY WHICH ARE CONTINGENT UPON A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER OFFER

Adler Modernmärkte AG has three credit facility agreements for a total of € 15 million and two guarantee facilities for € 7 million which provide for a right of termination for good cause in the event of a change of control. Two of the agreements give the lender a right of termination in those cases where the lender has reason to believe that its legitimate concerns will be impaired by the acquisition of direct or indirect control over the Company by one or several legal entities. The other credit facility permits the lender to terminate where a change of control occurs and the parties are unable to agree on continuing the agreement on new terms where applicable, e.g., with respect to the interest rate, collateral or other arrangements, in due time before the change of control occurs. The purchasing commission agency agreement between MGB Metro Group Buying HK Ltd., Hong Kong, and the Company provides that, in the event the Company is sold, the agreement will expire automatically within three months from the date of sale.

#### COMPENSATION AGREEMENTS ENTERED INTO BY THE COMPANY WITH MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER OFFER

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

# EVENTS AFTER THE END OF THE REPORTING PERIOD

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## EXECUTIVE BOARD

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In its extraordinary meeting on 5 February 2013, the Supervisory Board of Adler Modemärkte AG unanimously confirmed Lothar Schäfer to head the Company as its CEO for another three years until February 2016. In connection with his reappointment, Mr Schäfer purchased additional shares in the Company (Directors' Dealings notification of the Company dated 13 February 2013) as the basis for the share-based, variable remuneration (long-term incentive bonus) on 7 February 2013.

The Supervisory Board of Adler Modemärkte AG approved the early, mutually agreed upon departure of Mr Thomas Wanke, the current Chief Sales Officer, with effect from 22 February 2013.



# REPORT ON EXPECTED DEVELOPMENTS

In its global economic outlook at the end of the previous year, the United Nations lowered its 2013 growth forecast by 0.7% to now only +2.4%. However, the majority of this growth will take place outside of Europe. According to the report, year-on-year growth in economic performance in the European Union will only be 0.6%, and just 0.3% in the euro area. During the 2012 recession, global economic performance grew by 2.2%. In light of the only marginal growth which was forecast for 2013, UN economists expect many national economies to remain unable to make up the jobs lost during the recession given their current economic climates and the poor outlooks.

Germany more than held its ground by increasing its economic performance by 0.75% in a difficult environment. Germany thus not only avoided the deep recession afflicting the euro countries to the south, but also withstood the uncertainties surrounding the sovereign debt crisis and the stalling growth in several emerging countries. However, growth rates in Germany weakened from quarter to quarter, with economic output even decreasing slightly during the fourth quarter. This demonstrates that Germany is susceptible to the developments of its neighbouring countries in western Europe, which continue to purchase an extremely large share (approximately 40%) of Germany's exports.

According to estimates by the Bundesbank, the German economy will grow only marginally in 2013. At the end of 2012 the Bundesbank decreased its summer forecast considerably from +1.6% to +0.4%. As per the Bundesbank's half-yearly economic forecast: „In view of the difficult economic situation in parts of the euro area and widespread uncertainty, economic growth is likely to be slower.“ Accordingly, the 2013 forecast is considerably more pessimistic than the expectations of Germany's Federal government, which still anticipates growth of +1.0%.

By contrast, medium-term prospects are more positive. According to the Bundesbank, „there are sound reasons to believe that the phase of weak economic momentum will not last very long and that Germany will soon return to a growth path“. It expects the German economy to once again grow by 1.9% in as early as 2014.

The Bundesbank is also giving the all-clear on the price front and even expects consumer prices to decline slightly despite the large amounts of cash being injected into the economy by the ECB. Inflation could decrease from 2.1% in the previous year to just 1.5% in 2013 and 1.6% in 2014. Based on the definition of the monetary authorities, this would mean that prices would practically stabilise, thus having a stimulating effect on private consumption. Germany's leading economic research institutes also offer similar forecasts.

If the expected scenarios take were to materialise, this would establish additional positive framework conditions for private consumers. Particularly since all observers expect that the European Central Bank will maintain low interest rates in the medium term. Low interest rates discourage saving and instead provide consumers with incentives for drawing private lines of credit.

By 2011 and 2012, private consumer spending had already become a veritable driver of growth in Germany. According to Deutsche Bank, private consumption might even be the most important growth engine during this year. The bank expects real consumer spending in 2013 – bolstered by strong developments in wages, low pension contribution rates, and a relatively stable job market – to grow by a solid 0.5%. This would correspond to same growth rate as in the previous year. An increase of approximately 2.25% in nominal disposable income, an average inflation rate of 1.75% and a stable savings rate of 10.4% represent the starting conditions for this scenario. Labour market developments are also not expected to prevent this. On average for the year, experts expect the unemployment rate to increase only slightly from 6.9% to 7.1%, a best mark compared to the rest of Europe.

## **OUTLOOK FOR THE TEXTILE INDUSTRY**

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It cannot be predicted with certainty to what extent private consumption will boost the German textile industry in 2013. The results of the most recent survey on the consumer climate conducted by the German Society for Consumer Research (Gesellschaft für Konsumforschung, „GfK“) showed that German consumers were slightly uncertain about their private spending capabilities. While many are apparently expecting purchasing power to decrease slightly, consumers' willingness to buy in general is not expected to diminish.

Adler Modemärkte AG's Executive Board expects that consumers' willingness to buy fashion textiles in 2013 will be approximately on par with the previous year's level. In this respect, the Company assumes that the economic framework conditions on the whole will be stable. Since ADLER has vigorously expanded its sales network in the past three years and also closed several unprofitable stores, the Company has created a solid foundation for further growth.

ADLER's focus on a target customer group with high purchasing power overall and a broad product offering tailored to the target group with outstanding value for money are also indicative of the Company's excellent opportunities on the market. Furthermore, ADLER also plans to pursue its expansion policy judiciously in 2013 as well. In the current year, the Company will likely open another ten stores at new locations, thereby consolidating its network of stores.

## **FORECAST AND OVERALL ASSERTION**

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Provided that there are no unforeseen negative consequences for the procurement or sales side of ADLER's business, the Company believes that it can generate revenue growth in the low single-digit percentage range in financial year 2013. However, this is contingent on also introducing proportionately higher selling prices in stores if prices for procuring merchandise increase. Since the previous existing supplemental collective bargaining agreement expired on 31 December 2012, the Company will continue strengthen its internal cost structures. Thus, ADLER also expects the growth potential for earnings before interest, taxes, depreciation and amortisation (EBITDA) to correspond to the revenue growth potential.

The Executive Board also expects positive earnings and revenue performance overall in 2014 as compared to 2013. To achieve this, the Company will systematically pursue the consolidation policy it began at the middle of the previous year and focus in particular on measures designed to boost earnings.

## **FORWARD-LOOKING STATEMENTS**

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

# CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2012

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CONSOLIDATED INCOME STATEMENT • CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME • CONSOLIDATED STATEMENT OF FINANCIAL POSITION • CONSOLIDATED STATEMENT OF CHANGES IN EQUITY • CONSOLIDATED STATEMENT OF CASH FLOWS • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 • CERTIFICATION BY LEGAL REPRESENTATIVES • AUDITORS' REPORT • FURTHER INFORMATION



# CONSOLIDATED INCOME STATEMENT

## Consolidated income statement for the financial year from 1 January to 31 December 2012

k€	Note	2012	2011
<b>Revenue</b>	1	<b>506,083</b>	<b>476,590</b>
Other operating income	2	7,790	10,339
Material expenses	3	-238,205	-230,967
Personnel expenses	4	-85,399	-77,864
Other operating expenses	5	-154,786	-146,913
<b>EBITDA</b>		<b>35,483</b>	<b>31,185</b>
Depreciation and amortisation	6	-15,003	-13,936
Impairment	6	0	-868
<b>EBIT</b>		<b>20,480</b>	<b>16,382</b>
Other interest and similar income		135	221
Interest and similar expenses		-4,465	-3,719
<b>Financial result</b>	7	<b>-4,330</b>	<b>-3,498</b>
<b>Net income from operations</b>		<b>16,150</b>	<b>12,883</b>
Income taxes	8	-6,078	-4,381
<b>Net income from continuing operations</b>		<b>10,072</b>	<b>8,502</b>
<b>Consolidated profit for the year</b>		<b>10,072</b>	<b>8,502</b>
of which attributable to shareholders of Adler Modemärkte AG		10,072	8,502
<b>Earnings per share (from continuing operations)</b>	34		
Basic in €		0.56	0.48
Diluted in €		0.56	0.48

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## Consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2012

k€	Note	2012	2011
<b>Consolidated profit for the year</b>		<b>10,072</b>	<b>8,502</b>
Exchange differences on translation of foreign operations		0	1
Change in Fair Value of available-for-sale financial instruments		11	-16
Deferred tax assets/liabilities		0	0
<b>Other comprehensive income</b>		<b>11</b>	<b>-15</b>
<b>Consolidated total comprehensive income</b>		<b>10,083</b>	<b>8,487</b>
of which attributable to shareholders of Adler Modemärkte AG		10,083	8,487

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## Consolidated statement of financial position as at 31 December 2012

ASSETS in k€	Note	Dec. 31, 2012	Dec. 31, 2011
<b>Non-current assets</b>			
Intangible assets	9	5,896	3,503
Property, plant and equipment	10	64,724	50,654
Investment property	11	2,002	3,374
Other non-current receivables and assets	12	483	934
Deferred tax assets	14	7,829	7,932
<b>Total non-current assets</b>		<b>80,934</b>	<b>66,397</b>
<b>Current assets</b>			
Inventories	15	78,168	73,528
Trade receivables	16	75	1,153
Other current receivables and assets	12	8,905	6,046
Available-for-sale financial assets	13	257	246
Cash and cash equivalents	17	42,111	40,024
<b>Total current assets</b>		<b>129,516</b>	<b>120,997</b>
<b>Total ASSETS</b>		<b>210,450</b>	<b>187,394</b>



## CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT • CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME • **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** • CONSOLIDATED STATEMENT OF CHANGES IN EQUITY • CONSOLIDATED STATEMENT OF CASH FLOWS • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 • CERTIFICATION BY LEGAL REPRESENTATIVES • AUDITORS' REPORT • FURTHER INFORMATION

### Consolidated statement of financial position as at 31 December 2012

<b>EQUITY and LIABILITIES in k€</b>	<b>Note</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Subscribed capital		17,621	18,510
Capital reserves		119,409	123,521
Accumulated other comprehensive income		-4	-15
Net accumulated losses		-57,120	-67,192
<b>Total equity</b>	18	<b>79,906</b>	<b>74,824</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	19	4,131	4,276
Other non-current provisions	20	1,240	1,115
Non-current financial liabilities	21	3,838	4,103
Non-current finance lease obligations	22	41,092	27,687
Other non-current liabilities	24	1,316	660
Deferred tax liabilities	14	139	327
<b>Total non-current liabilities</b>		<b>51,758</b>	<b>38,169</b>
<b>Current liabilities</b>			
Other current provisions	20	2,536	2,421
Current financial liabilities	21	15,849	15,011
Current finance lease obligations	22	7,609	9,413
Trade payables	23	33,771	30,613
Other current liabilities	24	17,498	16,944
Current income tax liabilities	25	1,525	0
<b>Total current liabilities</b>		<b>78,788</b>	<b>74,402</b>
<b>Total liabilities</b>		<b>130,544</b>	<b>112,570</b>
<b>Total EQUITY and LIABILITIES</b>		<b>210,450</b>	<b>187,394</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Consolidated statement of changes in equity for the financial year from 1 January to 31 December 2012

k€	Note	Subscribed Capital	Capital reserves	Other accumulated equity	Net accumulated losses	Total equity
<b>Balance at January 1, 2011</b>		15,860	101,001	0	-75,694	41,167
Capital increase (net of transaction costs and tax)		2,650	22,520	0	0	25,170
<b>Total transactions with shareholders</b>		<b>2,650</b>	<b>22,520</b>	<b>0</b>	<b>0</b>	<b>25,170</b>
Consolidated profit for the year		0	0	0	8,502	8,502
Changes in translation of foreign operations		0	0	1	0	1
Changes in available-for-sale securities		0	0	-16	0	-16
<b>Consolidated total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>-15</b>	<b>8,502</b>	<b>8,487</b>
<b>Balance at December 31, 2011</b>		<b>18,510</b>	<b>123,521</b>	<b>-15</b>	<b>-67,192</b>	<b>74,824</b>
<b>Balance at January 1, 2012</b>		<b>18,510</b>	<b>123,521</b>	<b>-15</b>	<b>-67,192</b>	<b>74,824</b>
shares buyback		-889	-4,112	0	0	-5,001
<b>Total transactions with shareholders</b>		<b>-889</b>	<b>-4,112</b>	<b>0</b>	<b>0</b>	<b>-5,001</b>
Consolidated profit for the year		0	0	0	10,072	10,072
Changes in translation of foreign operations		0	0	0	0	0
Changes in available-for-sale securities		0	0	11	0	11
<b>Consolidated total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>11</b>	<b>10,072</b>	<b>10,083</b>
<b>Balance at December 31, 2012</b>	18	<b>17,621</b>	<b>119,409</b>	<b>-4</b>	<b>-57,120</b>	<b>79,906</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

## Consolidated statement of cash flows for the financial year from 1 January to 31 December 2012

k€	Note	2012	2011
<b>Consolidated net profit for the year before tax</b>		<b>16,150</b>	<b>12,883</b>
(+) Depreciation of PPE and amortisation of intangible assets		15,003	13,936
(+) Impairment		0	868
Decrease (-) of provisions for pensions		-145	-331
Loss (+) resulting from sale of non-current assets		1,224	142
Profit (-)/Loss (+) from translation of foreign operations		0	0
Other non-cash expenses (+)		520	11,307
Net interest income		4,330	3,498
Interest income		85	167
Interest expense		-282	-207
Income taxes paid		-4,272	-5,009
Increase (-) of inventories		-4,640	-17,483
Increase (-) of trade receivables and other receivables		-1,958	-974
Decrease (-) of trade payables, other payables and other provisions		+4,608	-10,477
Increase (+)/Decrease (-) of other items contained in the statement of financial position		49	1,009
<b>Net cash flows from operating activities</b>	<b>26</b>	<b>30,672</b>	<b>8,830</b>
Proceeds from disposal of non-current assets		1,513	259
Payments for investments in non-current assets		-11,487	-11,275
Proceeds from the disposal of businesses (net of cash disposed)		0	0
Refund (+) / Payments for business acquisitions (net of cash acquired)		260	-2,195
Payments for short-term deposits		0	0
<b>Net cash flows from investing activities</b>	<b>26</b>	<b>-9,714</b>	<b>-13,211</b>
<b>Free cash flow</b>	<b>26</b>	<b>20,958</b>	<b>-4,381</b>

## CONSOLIDATED FINANCIAL STATEMENTS

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k€	Note	2012	2011
Payments resulting from the repayment (-)/borrowing (+) of current financial liabilities		-5	-52
Capital increase		0	26,500
Capital increase-related expense		0	-1,822
Payments in connection with the repayment of loan liabilities		-257	-298
Payments for share buyback programme		-5,001	0
Payments in connection with finance lease liabilities		-13,608	-12,879
<b>Net cash flows from financing activities</b>	<b>26</b>	<b>-18,871</b>	<b>11,449</b>
<b>Net change in cash and cash equivalents</b>	<b>26</b>	<b>2,087</b>	<b>7,068</b>
Cash and cash equivalents at beginning of period		40,024	32,956
Cash and cash equivalents at end of period		42,111	40,024
<b>Net change in cash</b>	<b>26</b>	<b>2,087</b>	<b>7,068</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

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## I. PRELIMINARY REMARKS

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

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

The consolidated financial statements were prepared by the Executive Board on 26 February 2013 and authorised for publication.

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

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

Prior to 28 February 2011, the sole shareholder in Adler Modemärkte AG was AMODA GmbH, Haibach. The ultimate controlling company was bluO beta equity Limited, Birmingham, United Kingdom, whose place of management is Vienna, Austria. On 28 February 2011, the hitherto existing shareholder was merged into Cheverny Investments Ltd., St. Julians, Malta. The ultimate controlling company is bluO SICAV-SIF, Luxembourg.

As a result of a resolution of the Annual General Meeting held on 30 May 2011, the Company's share capital was increased to € 2,650,000, divided into 2.65 million no-par value bearer shares with a notional value € 1.00. The capital increase was recorded in the commercial register on 21 June 2011. The share capital thus amounts to € 18,510,000. Pursuant to § 5 (5) of the Articles of Association currently in force, the Executive Board is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital against cash and/or in-kind contributions, on one or several occasions in the period until 10 February 2016, by a total of up to € 7,930,000 by issuing new no-par value bearer shares (authorised Capital). In addition, the share capital was increased contingently by € 7,930,000 as a result of the resolution of the Annual General Meeting held on 30 May 2011 and serves to grant shares to the holders of options and/or convertible bonds, which can be issued until 30 April 2016.



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

### ACCOUNTING POLICIES

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

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 December 2012. There was no early adoption of standards whose application had not yet become mandatory as at 31 December 2012.

### STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME

The application of the following standards and interpretations revised or newly issued by the IASB was mandatory for the first time from the start of financial year 2012:

#### Standards

IFRS 7	Disclosures – Transfers of financial assets
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The amendments to IFRS 7 extend the disclosure requirements with respect to the transfer of financial assets in the form of either the amount of rights or obligations retained or created in a transaction or the continuing involvement, maximum exposure to loss and maturity analysis of the undiscounted future cash flows. These amendments do not affect the recognition or measurement of financial instruments, but rather expand the scope of information provided in relation to transactions in financial instruments. The amendment does not affect the ADLER Group.

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

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

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Standards		Mandatory from*	Adopted by EU Commission
IFRS 1	Government Loans	1 January 2013	No
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 January 2013	Yes
IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities	1 January 2013	Yes
IFRS 9	Financial Instruments: Classification and Impairment of Financial Assets	1 January 2015	No
IFRS 9 / IFRS 7	Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	No
IFRS 10	Consolidated Financial Statements	1 January 2014	Yes
IFRS 11	Joint Arrangements	1 January 2014	Yes
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Yes
IFRS 13	Fair Value Measurement	1 January 2013	Yes
IAS 1	Presentation of Financial Statements	1 July 2012	Yes
IAS 12	Income Taxes	1 January 2013	Yes
IAS 19	Employee Benefits	1 January 2013	Yes
IAS 27	Separate Financial Statements	1 January 2014	Yes
IAS 28	Investments in Associates and Joint Ventures	1 January 2014	Yes
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Yes
Various	IFRS Improvements Project (2011)	1 January 2013	No
<b>Interpretations</b>			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Yes

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

IFRS 9 „Financial Instruments: Categorization and Measurement“ was published in November 2009 (IFRS 9 2009). The standard deals with the classification and measurement of financial assets. As a result of IFRS 9, the existing measurement categories loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets at fair value through profit or loss are replaced by two categories: assets measured at amortised cost and those measured at fair value. The determination whether a financial instrument can be classified as measured at amortised cost depends both on the entity's business model, i.e. how the entity manages its financial instruments, and on the product characteristics of the particular instrument. Financial instruments that do not meet the criteria for inclusion in the amortised cost category must be measured at fair value through profit or loss. Measurement at fair value directly in equity is permitted for selected equity instruments. The characteristics of this new category are not the same as those of the existing category „available-for-sale financial assets“. IFRS 9 (2009) contains no provisions relating to the measurement of financial liabilities. IFRS 9 (2010) was published as a supplement to IFRS 9 (2009) in October 2010. IFRS 9 (2010) contains additional provisions to those of IFRS 9 (2009) relating to the categorization and measurement of financial liabilities and to the derecognition of financial assets and liabilities. IFRS 9 (2010) contains no significant changes for financial liabilities, with the exception of the fair value option. Under the fair value option, changes in fair value as a result of the entity's own credit risk are recorded in other comprehensive income, while all other changes in fair value are reported in profit or loss (one-step approach). With respect to derecognition, IFRS 9 (2010) incorporates the provisions of IAS 39 currently in force. Subsequent to an amendment dated 16 December 2011, IFRS 9 is effective for financial years beginning on or after 1 January 2015. Earlier application is permit-

ted. However, the application of these amendments within the EU still requires endorsement by the prescribed EU process. The effects of the new standard are still being analysed.

The IASB published the final versions of IFRS 10, IFRS 11 and IFRS 12 and amendments to IAS 27 and IAS 28 on 12 May 2011; these were transposed into EU law on 11 December 2012. Under IFRS 10, a uniform definition for the concept of control was established, which results in a uniform basis for the existence of a parent-subsidiary relationship and the associated determination of the companies to be fully consolidated in the consolidated group. IFRS 11 governs the accounting treatment of items related to a company's joint management of a joint venture or joint activity. The amendment contained therein relates mainly to the elimination of proportionate consolidation, replaced by the mandatory recognition of the corresponding items based on equity method accounting. IFRS 12 contains disclosure requirements in the notes related to corporate relationships in the consolidated financial statements that fall under the application scope of IFRS 10 and IFRS 11. These disclosures are to include information regarding the type, risk and financial effects associated with the investment in subsidiaries, associates, joint arrangements and special purpose entities. In the management's current view, neither the group of consolidated companies nor the Group's consolidation processes are affected by these provisions, and the regulations for first-time adopters not yet adopted by the EU will not have any material impact on Adler Modemärkte AG.

In accordance with an amendment of IFRS 10 and the corresponding modification of IFRS 12 and IAS 27 on 31 October 2012, which have yet to be transposed into EU law, so-called „investment entities“ are exempted from the requirement to consolidate subsidiaries under certain conditions. Such investment entities must recognise their equity investments at fair value in accordance with IAS 39 and IFRS 9. This exemption will be analyzed.

Under IFRS 13, published on 12 May 2011, the IASB aggregates the fair value measurement provisions contained in several different standards into a single financial reporting standard. This aggregation is not expected to have any material effect on fair values, which are of lesser importance within the ADLER Group as it currently stands.

On 16 June 2011, the IASB published an amendment to IAS 1. This amendment relates to the separate disclosure of items reported in other comprehensive income. Separate subtotals are required for those elements which may be „recycled“ to the income statement in the future. The tax amounts associated with items presented before tax are also required to be presented separately. The ADLER Group will apply this provision beginning in the next financial year.

In December 2010 the International Accounting Standards Board (IASB) published amendments to IAS 12 Income Taxes. These amendments also entail changes to the scope of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. The amendment partially clarifies the treatment of temporary taxable differences in connection with the use of the fair value model prescribed by IAS 40. The amendment provides that it will normally be assumed that taxable differences will reverse as a result of a sale of the underlying asset. The amendment is applicable retrospectively for financial years beginning on or after 1 January 2013. First-time application of the amendment will not have any effects on the financial position, cash flows or financial performance of the ADLER Group.

The IASB published the final version of revisions to IAS 19 on 16 June 2011. The most important change relates to the elimination of the previous option to recognise actuarial gains and losses. The amendments applicable starting on 1 January 2013 specify that they are to be recognised directly in other comprehensive income. In addition, the second major change is that management may no longer estimate the return on plan assets according to the expected return based on the asset allocation, but instead may only recognise a gain based on the expected return on plan assets in the amount of the discount rate. In addition, the amendments include expanded disclosure requirements in the notes. The ADLER Group will apply the changes starting on the mandatory date. Had the amendment to IAS 19 already been applied in financial year 2012, the expense for pension commitments, severance payments, anniversary bonuses, death benefits and partial retirement obligations for the year would have decreased by € 15 thousand (previous year: € 581 thousand) to € 390 thousand (previous year: € 516 thousand). The expenses to be recognised in other comprehensive income would amount to € 1,126 thousand (previous year: € 778 thousand).

The amendments published by the IASB on 16 December 2011 specified that in order to offset financial assets and financial liabilities, an entity must intend not only to settle on a net basis, but also has a current and legally enforceable right to set off the recognised amounts. The amendments are applicable for financial years beginning on or after 1 January 2014. The expansion of disclosures on offsetting financial assets and financial liabilities in accordance with IFRS 7 already applies to financial years beginning on or after 1 January 2013.

On 19 October 2011, the IASB published IFRIC 20 concerning accounting for stripping costs in the production phase of a surface mine. This interpretation does not apply to the ADLER Group, as this is not relevant to its accounting.

The various editorial amendments and clarifications contained in the improvements to IFRS published by the IASB on 17 May 2012 are not expected to have any material effect of the ADLER Group's accounting. The simplifications for first-time adopters of IFRS in accordance with IFRS 1 with respect to government loans or severe hyperinflation will also have little to no impact, since Adler Modemärkte AG has already adopted IFRS.

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

## GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

In addition to Adler Modemärkte AG, two German subsidiary and four foreign subsidiaries in which Adler Modemärkte AG directly or indirectly holds the majority of the voting rights have been included in the consolidated financial statements:

Name, registered office	Shareholding in %	Currency	Subscribed capital in local currency in thousands
Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria	100	€	1,500
ADLER Mode S.A., Foetz, Luxembourg	100	€	31
Advers GmbH, Haibach (formerly ADVERS Versicherungsmakler GmbH, Haibach)	100	€	25
Adler Asset GmbH, Ansfelden, Austria (formerly F. W. Woolworth Co. Ges.m.b.H., Ansfelden, Austria)	100	€	912
Adler Mode GmbH, Haibach	100	€	25
Adler Mode AG Schweiz, Zug, Switzerland	100	CHF	100

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

ALASKA GmbH & Co. KG, Munich, in which the Group has no shareholding, has also been included in the consolidated financial statements as a special purpose entity in accordance with SIC-12 on the basis of a rental agreement with Adler Modemärkte AG (relating to an administration building in Haibach).

The formation of Adler Mode GmbH, Haibach, became effective in the previous year on publication of the notice dated 20 September 2011 and entry in the commercial register on 14 September 2011.

The formation of Adler Mode AG Schweiz, with its registered office in Zug, Switzerland, became effective in the previous year on entry in the commercial register on 25 October 2011.

A € 1,463 thousand capital increase for Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, to € 1,500 thousand, with retroactive effect from 1 January 2012, was entered into the commercial register on 3 November 2012.

A simplified capital reduction by € 4,175 thousand to € 912 thousand, which remains to be resolved by the Annual General Meeting along with the adoption of the annual financial statements as at 31 December 2012, was implemented with retroactive effect to 1 January 2012 for Adler Asset GmbH, Ansfelden, Austria.

The group of consolidated companies has not changed since the previous year.

## CONSOLIDATION PRINCIPLES

Subsidiaries are all companies (including special purpose entities) in which the Group has the power to govern the financial and operating policies and generally holds more than 50% of the voting rights. In assessing whether control exists, the existence and effect of potential voting rights that are currently exercisable or convertible are taken into account where relevant. Subsidiaries are included in the consolidated financial statements from the date on which control is obtained by the Group (full consolidation). They are no longer consolidated from the date on which control is lost.

The financial statements of the German and foreign subsidiaries included in the consolidated financial statements are prepared using uniform accounting policies in accordance with IAS 27.

Intra-Group profits and losses, revenue and income and expenses are eliminated, together with receivables and liabilities existing between subsidiaries consolidated. Receivables and liabilities to



the same third-party company are offset where the relevant conditions are met. Intercompany profits are eliminated. Deferred tax assets and liabilities are recognised in respect of temporary differences arising from consolidation adjustments in accordance with IAS 12 (Income Taxes).

Special purpose entities are set up to achieve a particular purpose and must be consolidated if the Group is able to exercise control over the special purpose entity. This is assessed on the basis of the following criteria:

- Are the activities of the special purpose entity being conducted according to the Group's specific needs so that the Group obtains benefits from the activities of the special purpose entity
- Does the Group have the decision-making powers to obtain the majority of the benefits of the special purpose entity's activities
- Does the Group have the right to obtain the majority of the benefits of the special purpose entity's activities and is it therefore potentially exposed to risks incident to the special purpose entity's activities
- Does the Group retain the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities.

If the existence of control is established in this way, the special purpose entity is included in the consolidated financial statements.

## **CONSOLIDATION OF SUBSIDIARIES**

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

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

## **COMPANY ACQUISITIONS**

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The ADLER Group uses the purchase method for the purpose of accounting for business combinations. The consideration paid is equal to the fair value at the date of the acquisition of the assets given, the liabilities assumed and the equity instruments issued. Incidental costs of the acquisition are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction. The excess of the consideration paid, the amount of all non-controlling interests and the fair value of the share of the acquiree's equity held prior to the acquisition over the fair value of the net assets at the date of acquisition is recognised as goodwill. If the consideration paid is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as income, once the identification and measurement of the net assets and the measurement of the cost of the acquisition have been reassessed. For further details, please see Note 30 Company acquisitions.

No company acquisitions have taken place during the financial year under review since certain assets and liabilities, employees and licenses were acquired from Wehmeyer Lifestyle GmbH as at 30 September of the previous year in the course of an asset deal.

## **CURRENCY TRANSLATION**

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Business transactions in foreign currencies in the separate financial statements of subsidiaries prepared in euros are measured at the rate of exchange at the date when the transaction is initially

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

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

The exchange rates used in currency translation were as follows:

Currency	Spot rates*		Average rates*	
	31/12/2012	31/12/2011	2012	2011
Swiss franc (CHF)	1.2072	1.2156	1.2053	1.2293

\*) equivalent in EUR

## ADJUSTMENTS TO COMPARATIVE FIGURES

In the previous year, Adler Modemärkte AG acquired control over the assets, liabilities, employment relationships and licences of the insolvent Wehmeyer Lifestyle GmbH as at 30 September 2011. The required purchase price allocation had not been completed as at 31 December 2011, particularly as a result of the provisional nature of the purchase price. The final purchase price has now been determined; the provisional purchase price was reduced by € 260 thousand to € 1,935 thousand. In accordance with IFRS 3.49, such adjustments within the twelve-month measurement period must be recognised as if the final information had already been available as at the acquisition date. Consequently, the prior-year figures reported in the consolidated financial statements as at 31 December 2011 were adjusted. The completion of the purchase price allocation in financial year 2012 did not result in any adjustments to the carrying amounts determined for the acquired assets and liabilities in the course of the provisional purchase price allocation.

Had this information been available as at the acquisition date, the negative difference from the first-time consolidation at the time control was assumed, and thus other operating income, reported as at 31 December 2011 would have been greater by € 190 thousand. The income from the first-time consolidation recognised under other operating income would have amounted to € 1,319 thousand as at 31 December 2011. Moreover, the deferred tax benefit from the utilisation of deferred tax liabilities arising from the purchase price allocation would have been € 54 thousand higher. As a consequence, the carrying amounts of certain items in the prior-year statement of financial position as at 31 December 2011 would have required adjustment. Deferred tax liabilities would have been € 16 thousand higher as at 31 December 2011. Furthermore, other current receivables and assets would have increased by € 260 thousand. Net retained profits as at 31 December 2011 would have been € 244 thousand higher as a result of the change in income from the first-time consolidation and the change in deferred tax liabilities from the adjustment.

Furthermore, in the view of the management, it would be more appropriate for the impact of the general interest rate level on the measurement of pension obligations and plan assets over time to be presented in net finance costs as incurred rather than continuing to be recognised under pension expense. To that end, the compounding of pension obligations (interest expense of € 303 thousand) and interest accrual on plan assets (interest income of € 53 thousand) for the comparative period from 1 January to 31 December 2011 was thus reclassified as a € 250 thousand interest expense. This reclassification has no impact on the recognition or measurement of the pension obligation as at 31 December 2011.

## CONSOLIDATED FINANCIAL STATEMENTS

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The comparative figures in the consolidated income statement for the period from 1 January to 31 December 2011 have changed as follows due to the adjustments made to the comparative figures as a result of the final purchase price allocation and the change in how the interest effect impacts pension obligations in net finance costs:

k€	Jan. 1, - Dec. 31, 2011 Published	Adjustment	Jan. 1, - Dec. 31, 2011 Adjusted
Revenue	476,590	0	476,590
Other operating income	10,149	190	10,339
Material expenses	-230,967	0	-230,967
Personnel expenses	-78,114	250	-77,864
Other operating expenses	-146,913	0	-146,913
<b>EBITDA</b>	<b>30,745</b>	<b>440</b>	<b>31,185</b>
Depreciation and amortisation	-13,936	0	-13,936
Impairment	-868	0	-868
<b>EBIT</b>	<b>15,941</b>	<b>440</b>	<b>16,381</b>
Other interest and similar income	168	53	221
Interest and similar expenses	-3,416	-303	-3,719
<b>Financial result</b>	<b>-3,248</b>	<b>-250</b>	<b>-3,498</b>
<b>Net income from operations</b>	<b>12,693</b>	<b>190</b>	<b>12,883</b>
Income taxes	-4,435	54	-4,381
<b>Consolidated profit for the year</b>	<b>8,258</b>	<b>244</b>	<b>8,502</b>

Accordingly, basic and diluted earnings per share increased to € 0.48.

Overview of the impacts of the adjustments to comparative figures in the consolidated statement of comprehensive income for the period from 1 January to 31 December 2011 resulting from the final purchase price allocation:

k€	Jan. 1, - Dec. 31, 2011 Published	Adjustment	Jan. 1, - Dec. 31, 2011 Adjusted
Consolidated profit for the year	8,258	244	8,502
Other comprehensive income	-15	0	-15
<b>Consolidated total comprehensive income</b>	<b>8,243</b>	<b>244</b>	<b>8,487</b>

**CONSOLIDATED FINANCIAL STATEMENTS**

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Overview of the impacts of the adjustments to comparative figures in the consolidated statement of financial position as at 31 December 2011 resulting from the final purchase price allocation:

k€	Dec. 31, 2011 Published	Adjustment	Dec. 31, 2011 Adjusted
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3,503		3,503
Property, plant and equipment	50,654		50,654
Investment property	3,374		3,374
Other non-current receivables and assets	934		934
Deferred tax assets	7,932		7,932
<b>Total non-current assets</b>	<b>66,397</b>		<b>66,397</b>
<b>Current assets</b>			
Inventories	73,528		73,528
Trade receivables	1,153		1,153
Other current receivables and assets	5,786	260	6,046
Available-for-sale financial assets	246		246
Cash and cash equivalents	40,024		40,024
<b>Total current assets</b>	<b>120,737</b>	<b>260</b>	<b>120,997</b>
<b>Total ASSETS</b>	<b>187,134</b>	<b>260</b>	<b>187,394</b>

## CONSOLIDATED FINANCIAL STATEMENTS

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k€	Dec. 31, 2011 Published	Adjustment	Dec. 31, 2011 Adjusted
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Capital and reserves			
Subscribed capital	18,510		18,510
Capital reserves	123,521		123,521
Accumulated other comprehensive income	-15		-15
Net accumulated losses	67,436	244	67,192
<b>Total equity</b>	<b>74,580</b>	<b>244</b>	<b>74,824</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	4,276		4,276
Other non-current provisions	1,115		1,115
Non-current financial liabilities	4,103		4,103
Non-current finance lease obligations	27,687		27,687
Other non-current liabilities	660		660
<b>Current liabilities</b>			
Other current provisions	2,421		2,421
Current financial liabilities	15,011		15,011
Current finance lease obligations	9,413		9,413
Trade payables	30,613		30,613
Other current liabilities	16,944		16,944
<b>Total current liabilities</b>	<b>74,402</b>		<b>74,402</b>
<b>Total liabilities</b>	<b>112,554</b>	<b>16</b>	<b>112,570</b>
<b>Total EQUITY and LIABILITIES</b>	<b>187,134</b>	<b>260</b>	<b>187,394</b>

The adjustment to consolidated net profit for the year following the finalisation of the purchase price allocation resulted in adjustments in the consolidated statement of changes in equity. The table below shows the adjusted figures as at 31 December 2011:

k€	sub- scribed capital	capital reserves	Other accumula- ted equity	Net accu- mulated loss	total equity
<b>published on December 31, 2011</b>	18,510	123,521	-15	-67,436	74,580
Adjustment				244	244
<b>Status on December 31, 2011 adjusted</b>	18,510	123,521	-15	-67,192	74,824

The finalisation of the purchase price allocation and the change in the presentation of the net interest expense from the compounding of pension obligations and accrued interest in plan assets is reflected in the consolidated statement of cash flows, under net cash flows from operating activities. The cash flows from the finalisation of the purchase price allocation amounting to € 190 thousand and the reporting of € 250 thousand in interest expenses from pension obligations under net interest

income had a net effect of € 60 thousand in other non-cash expenses. For reasons of materiality, only those items in the consolidated statement of cash flows are listed here which have changed as a result of the adjustments:

k€	2011 Published	Adjustment	2011 Adjusted
<b>Consolidated net profit for the year before tax</b>	<b>12,693</b>	<b>190</b>	<b>12,883</b>
Other non-cash expenses	11,247	60	11,307
Net interest income	3,249	-250	2,999
<b>Net cash flow from operating activities</b>	<b>8,830</b>	<b>0</b>	<b>8,830</b>

## ACCOUNTING POLICIES

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

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

## NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

### GOODWILL

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

### OTHER INTANGIBLE ASSETS

Purchased intangible assets are recognised at cost.

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

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

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

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

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



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

## PROPERTY, PLANT AND EQUIPMENT

Individual items of property, plant and equipment whose cost is less than € 150 are generally expensed directly. To the extent that non-current assets (e.g., mannequins and store fixtures and fittings) acquired during the year under review are material to the ADLER Group's operations and are used for a period exceeding one year, they are recognised and reported under property, plant and equipment regardless of their cost, and in particular regardless of the aforementioned cost threshold, and are depreciated over their economic useful lives. Significant components of an item of property, plant and equipment are recognised and depreciated separately. Subsequent costs are recognised as a component of the cost of the asset only if it is probable that future economic benefits will flow to the Group as a result and if the costs can be reliably determined. All other repair and maintenance expenses are recognised as expenses in the income statement in the financial year in which they are incurred.

Depreciation is not charged on land. For all other assets depreciation is charged on a straight-line basis over the following expected useful lives of the assets:

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

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

## INVESTMENT PROPERTY

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

## LEASING

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

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

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

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

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

## **IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

## **GOVERNMENT GRANTS**

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

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

## **BUILDING COST SUBSIDIES**

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

## **CURRENT INCOME TAXES**

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The applicable rate of income tax is calculated on the basis of the tax laws in force as at the end of the reporting period for the countries in which the Company's subsidiaries operate. The applicable rates of income tax for the particular countries are between 17.8% and 31.0%, (previous year: between 17.8% and 30.0%). Adequate and appropriate provisions are recognised for expected tax payments on the basis of these tax laws.

## **DEFERRED TAXES**

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

possible to utilise the future tax benefit resulting from loss carryforwards in future periods, a deferred tax asset is recognised.

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

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

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

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

## **INVENTORIES**

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Merchandise accounted for as inventories is generally carried at the lower of cost and net realisable value. Net realisable value is the amount of the estimated sale proceeds achievable in the normal course of business less the necessary variable costs of sale. The cost of production includes all directly attributable costs and appropriate portions of necessary overheads and depreciation in addition to direct materials and production costs. Cost is determined using the weighted average method. In financial year 2012, the percentage mark-downs for obsolescence for current seasonal merchandise were reviewed and adjusted based on current experience as compared to in previous years.

## **RECEIVABLES AND OTHER ASSETS**

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### **TRADE RECEIVABLES**

Trade receivables are recorded initially at fair value and measured in subsequent periods at amortised cost less any impairment losses. An impairment charge is recorded in respect of trade receivables if there are objective indications that the amounts of receivables due are not collectible in full. The amount of the impairment charge is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from that receivable, determined using the effective interest rate method. The impairment charge is reported in profit or loss. Trade receivables are classified under the loans and receivables category.

### **AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Available-for-sale financial assets are non-derivative financial assets that have either been allocated to this category or have not been allocated to any of the other measurement categories set out in IAS 39. They are measured at fair value. Unrealised gains and losses resulting from changes in fair value are recorded outside profit or loss in other comprehensive income. When securities within the available-for-sale financial assets category are disposed of or become impaired, the adjustments to fair value accumulated directly in equity are recorded in the income statement as gains or losses from financial assets. For example, Adler classifies securities with a longer-term investment horizon under this category.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

The ADLER Group did not make use of any derivative financial instruments in the period under review.

### **OTHER RECEIVABLES AND OTHER ASSETS AND LOANS**

Other receivables and other assets and loans are recorded initially at fair value and measured in subsequent periods at amortised cost using the effective interest method - in the case of non-current loans - less any impairment losses. Appropriate valuation allowances are recognised in respect

of any risks existing. At the end of each reporting period the carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective indications of impairment (such as significant financial difficulties on the part of the debtor, a high probability of insolvency proceedings against the debtor, a significant change in the technological, economic or legal environment, or in the market environment of the issuer or a permanent decline in the fair value of the financial asset to below amortised cost). Any impairment charge, based on a lower fair value in comparison with the carrying amount, is reported in the income statement. If it becomes clear at subsequent measurement dates that the fair value has risen objectively as a result of events that occurred after the date when the impairment charge was recognised, the impairment charge is reversed through profit or loss in the relevant amount. The fair value determined for the purpose of reviewing possible impairment losses in respect of loans and receivables measured at amortised cost is equal to the present value of the estimated future cash flows, discounted at the original effective rate of interest.

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

Financial assets are generally recorded at the trade date.

## **CASH AND CASH EQUIVALENTS**

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

## **EQUITY**

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

As a result of the capital increase implemented in 2011, subscribed capital increased by € 2,650,000 to € 18,510,000 and the capital reserves increased by € 22,519,993 to € 123,521,101. The costs of the capital increase, less the associated tax benefit, were deducted when calculating the capital reserves. € 1,822 thousand in costs were incurred in connection with the capital increase.

As a result of the share buyback programme in the year under review, subscribed capital was reduced by the share of own shares repurchased, by € 888,803 to € 17,621,197 and capital reserves were reduced by € 4,112,465 to € 119,408,636.

Accumulated other comprehensive income includes minor exchange rate effects arising from the consolidation of subsidiaries with other functional currencies, as well as changes in the value of available-for-sale financial assets.

## **PROVISIONS**

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

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

## EMPLOYEE BENEFITS

### PENSION OBLIGATIONS

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

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

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

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

The actuarial calculation of the pension provisions for the Company's old-age part time benefits is based on the projected unit credit method prescribed by IAS 19 (Employee Benefits). An actuarial valuation is carried out by independent actuarial experts for this purpose at the end of each reporting period. The projected unit credit method takes account of the known pensions and vested benefits at the end of the reporting period and includes increases in salaries and pensions expected in the future. The valuations are based on the legal, economic and tax environment of the individual country, as well as that country's specific demographic trends. The obligations, which exist solely in the European economic area, were measured using an actuarial rate of interest of 2.5% (previous year: 4.2%), projected annual wage and salary increases of 2.5%-3.0% (previous year: 2.5%-3.0%) and projected annual pension increases of 2.5% (previous year: 2.5%). Employee turnover is determined for each specific company and taken into account on the basis of age and length of service. The actuarial valuations are mostly based on specific mortality tables for each country. The provision is made up of the present value of the expected benefits less the fair value of the plan assets plus or minus any actuarial gains and losses not yet recognised. The expected return on the plan assets was assumed to be 3.5% (previous year: 3.5%).

The accumulated actuarial gains and losses resulting from the differences arising over the years between the projected pension obligations and plan assets and the actual amounts at the year-end are only recognised if they lie outside a range of 10% of the higher of the pension obligations and the plan assets. In this event, the excess is divided by the average remaining working lives of the active employees participating in the plan and recorded as an additional expense or item of income. Past service cost for benefits that have not yet vested is allocated over the remaining working life until the entitlement vests. The cost relating to benefits that have already vested is recognised as an expense immediately.

The interest component of the addition to provisions (interest cost for pension obligations and expected income from plan assets) is now reported as interest expense within net finance costs. Prior-year figures have been adjusted accordingly.

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

### OBLIGATIONS FOR SEVERANCE PAYMENTS

Employees who began their service in Austria on or after 1 January 2003 participate in a defined contribution benefits plan. Obligations arising from severance payments for employees whose service began prior to 1 January 2003 are covered by defined benefit plans. When service is ended

by the company or pensionable age is reached, or in the case of invalidity or death, participating employees receive a severance payment which amounts to a multiple of their basic monthly salary - depending on their length of service - subject to a maximum of twelve months' salary. A maximum of three months' salary is paid immediately on cessation of service, while the payment of any further amounts is distributed over a period of several months. In the event of death, the heirs of participating employees are entitled to 50% of the severance payment.

#### TERMINATION BENEFITS

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

#### SHARE-BASED REMUNERATION

In connection with the Executive Board service agreements for the years 2011 and 2012, the members of Adler Modemärkte AG's Executive Board have been granted a long-term incentive bonus. Adler Modemärkte AG's shares have been traded on the Prime Standard of the Frankfurt Stock Exchange since 22 June 2011. The offer price in this connection was € 10.00 per ADLER share. The active members of the Executive Board have subscribed a total volume of € 823,871 as at the end of the reporting period, corresponding to a total of 86,500 shares. Based on the level of personal investment, the active members of the Executive Board were granted 432,500 SARs (stock appreciation rights). The SARs granted were classified and measured as cash-settled share-based payment transactions in accordance with IFRS 2.30 et seq. In accordance with IFRS 2, the fair value of the work performed by the members of the Executive Board as consideration for the granting of the options is recognised as an expense allocated over the vesting period. The fair value of the options is recalculated at the end of each reporting period using Monte Carlo simulation.

### LIABILITIES

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#### FINANCIAL LIABILITIES

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

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

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

#### LIABILITIES FROM FINANCE LEASES

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

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



## TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are carried at amortised cost. Trade payables and other current liabilities are reported under other liabilities.

## CONTINGENT LIABILITIES

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

## RECOGNITION OF INCOME AND EXPENSES

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Revenue represents the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is reported net of VAT and after deducting rebates and discounts. Customers' entitlements to refunds relating to goods delivered are recorded in the income statement once the relevant invoices have been examined. No programmes entitling customers to acquire loyalty points were offered during the period under review.

Where customers making purchases with the ADLER customer loyalty card acquire an entitlement to a particular discount, the discount is recorded as a reduction in revenue. The liability is reported within financial liabilities. The liability is reversed when the discount is utilised. If customers allow their discount entitlements to expire, the amount not utilised is reported within revenue.

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

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

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

## NET FINANCE COSTS

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

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

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

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

## COSTS OF EQUITY ISSUANCE

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Costs directly attributable to the issuance of equity instruments are accounted for as a deduction from equity, factoring in any tax effect at the moment of the issuance. In financial year 2011, the Company implemented a capital increase by issuing new shares.

## SEGMENT REPORTING

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

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

As in the previous year, there was only one reportable segment in financial year 2012: „Stores (Modemärkte)“.

## EARNINGS PER SHARE

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

## LITIGATION AND CLAIMS FOR DAMAGES

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

## USE OF ESTIMATES AND ASSUMPTIONS

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

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

## USEFUL LIVES OF NON-CURRENT ASSETS

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

## VALUATION ALLOWANCES ON INVENTORIES

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

## INCOME TAXES

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

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

In addition, it is necessary to make estimates in order to assess the recoverability of deferred tax assets. The key factor in assessing the recoverability of deferred tax assets is the estimation of the likelihood that future profits for tax purposes (taxable income) will be available.

Uncertainties relating to the interpretation of complex tax regulations and the amount and timing of future taxable income must also be taken into account. Especially in view of the international structure of the Group, differences between actual events and our assumptions, or future changes in those assumptions, may result in revised amounts for the tax charge or benefit in future periods.

## PROVISIONS

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

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

## IMPAIRMENT

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

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

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

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

### III. NOTES TO THE INCOME STATEMENT

#### 1. REVENUE

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

k€	2012	2011
Germany	410,131	382,135
Austria	80,115	79,115
Luxembourg	15,461	15,340
Switzerland	376	0
	<b>506,083</b>	<b>476,590</b>

#### 2. OTHER OPERATING INCOME

k€	2012	2011*
Rents	2,317	2,408
Passthrough costs / reimbursement of costs	981	855
Income from the reversal of provisions	780	701
Income from the reversal of other liabilities	691	683
subsidies for advertising costs	647	644
Royalties	637	914
Income from release of bad debts provisions	459	11
Personnel-related government grants	187	207
Income from damages claims	91	73
Income from prior periods	59	90
Commissions	70	89
Income from disposals of fixed assets	33	29
Reimbursement of IPO costs	0	1,300
Negative net amount resulting from business acquisitions	0	1,319
Miscellaneous	838	1,016
	<b>7,790</b>	<b>10,339</b>

\*After adjustment of purchase price

The rental income was generated from subletting to store concessionaires. Rental income from investment property amounted to € 115 thousand (previous year: € 91 thousand).

The prior-period income consists of credits from suppliers in respect of deliveries of goods relating to prior years.

In the previous year, the former sole shareholder assumed a total of € 1,300 thousand of the costs of the IPO. The share of the selling shareholder was recognised in other operating income as a reimbursement of IPO costs.

The negative goodwill from the business acquisition in the previous year amounting to € 1,319 thousand resulted from the acquisition of the Wehmeyer stores in 2011, which was presented within other operating income in accordance with IFRS 3.

### 3. COST OF MATERIALS

The cost of materials amounting to € 238,205 thousand (previous year: € 230,967 thousand) consists entirely of purchased merchandise.

### 4. PERSONNEL EXPENSES

k€	2012	2011*
Wages and salaries	69,852	63,934
Other social security expenditure	7,555	7,103
Employer's contribution towards the statutory pension scheme	6,942	6,500
Expenditures for retirement pensions	533	275
Expenditures for semi-retirement/death benefits/anniversaries	516	52
	<b>85,399</b>	<b>77,864</b>

\* Expenses for old-age part time benefits decreased year-on-year by the € 250 thousand in net interest expense, which is now reported under net finance costs.

The increase in personnel expenses is attributable to higher number of employees as a result of the opening of additional stores.

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

k€	2012	2011
Executives	198	180
Employees	784	748
Part-time employees	3,074	2,981
Trainees	278	238
	<b>4,334</b>	<b>4,148</b>

## 5. OTHER OPERATING EXPENSES

k€	2012	2011
Lease payments and building expenditure	67,479	59,981
Advertising costs	39,006	43,413
Freight and transport costs	14,424	13,186
Technical equipment	10,250	10,618
Consultancy fees	4,020	3,940
Administrative expenditure	4,482	3,721
External cleaning costs	3,533	3,044
Consumables	3,029	2,331
Office expenditure	1,642	1,467
Incidental costs of monetary transactions	1,442	1,270
Losses from assets disposals	1,257	171
Miscellaneous	4,222	3,771
	<b>154,786</b>	<b>146,913</b>

Lease payments and building management expenses increased as a result of the increase in stores.

The reduction in advertising expenses was due primarily to the lower volume of newspaper and magazine inserts and television and radio advertisements.

## 6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

The amounts of depreciation and amortisation are presented in the consolidated statement of changes in non-current assets.

No impairment charges were recognised in respect of non-current assets during the financial year. In the previous year, a € 868 thousand impairment was recognised on the goodwill arising from the acquisition of F.W. Woolworth Co. Ges.m.b.H.



## 7. NET FINANCE COSTS

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

k€	2012	2011*
<b>Interest income</b>		
Amounts owed from credit institutions	85	168
Expected return on plan assets and anniversary bonuses*	50	53
	<b>135</b>	<b>221</b>
<b>Interest expense</b>		
Finance lease	-3,868	-3,209
Interest effect of pension obligation*	-315	-303
Amounts owed to credit institutions	-110	-44
Tax arrears	0	-4
Miscellaneous	-172	-159
	<b>-4,465</b>	<b>-3,719</b>
<b>Financial result</b>	<b>-4,330</b>	<b>-3,498</b>

\* The presentation of the components for the comparative period was expanded to include effects from the accounting for pension obligations.

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

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

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

## 8. INCOME TAXES

The income tax expense was made up as follows:

k€	2012	2011
Actual tax expense (-) / income (+)	-6,165	-4,341
Deferred tax expense (-) / income (+)	87	-40
	<b>-6,078</b>	<b>-4,381</b>

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

The tax rate of 27.000% applied for the German company is made up of corporation tax amounting to 15.825% (including the solidarity surcharge of 5.500%) and the trade tax rate of 11.150%. Foreign income taxes are calculated on the basis of the laws and regulations in force in the particular countries. The overall tax rate applicable for the ADLER Group amounts to 27.000%. The tax rates are unchanged from the previous year.

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

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

k€	2012	2011
Consolidated earnings before income taxes	16,150	12,883
Applicable income tax rate	27,00%	27,00%
<b>Expected income tax expense</b>	<b>4,361</b>	<b>3,478</b>
<b>Effects of different foreign tax rates</b>	<b>75</b>	<b>51</b>
<b>Effects of different domestic tax rates</b>	<b>337</b>	<b>-13</b>
<b>Tax effects</b>		
Addition/deduction of trade tax	803	721
Non-recognition of current taxable losses	422	704
For tax purposes non-deductible expenses	66	111
Tax expenses from prior periods	19	31
Tax-exempt income	-23	-75
deferred tax on loss carry-forwards	-272	0
Impairment goodwill	0	234
Utilisation of uncapitalised taxable losses	0	-39
Effect from acquisition profit	0	-356
Taxes recognised directly in equity	0	-359
Other deviations	290	-107
<b>Total tax effects</b>	<b>1,305</b>	<b>865</b>
<b>Actual tax expense (+) / income (-)</b>	<b>6,078</b>	<b>4,381</b>
Actual tax rate	37,63%	34,94%

There are presently no deferred taxes recognised outside profit or loss in other comprehensive income. Available-for-sale financial assets are measured at fair value in accordance with both local tax law and IFRSs; accordingly, no temporary differences arise in other comprehensive income. To that extent, no tax effect is reported in other comprehensive income.

## IV. NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 9. INTANGIBLE ASSETS

The intangible assets comprise internally generated software as well as purchased software, rights and licences and goodwill. The internally generated intangible assets represent capitalised development costs for logistics software. Prepayments primarily consist of prepayments made for the introduction of an electronic merchandise tracking and tagging system, as well as for a system designed to optimise information flows. During the financial year, € 410 thousand (previous year: € 82 thousand) in development costs were incurred for these systems in the form of internal expenses. Research costs were not recognised.

The development of intangible assets in financial year 2012 was as follows:

k€	Software, Rights, Licences	Goodwill	Licences Finance Lease	Internally- generated Assets	Advance payments made	Total
Acquisition costs January 1, 2012	24,487	868	828	2,257	1,581	30,021
Additions	1,042	0	0	0	2,338	3,380
Disposals	-1	0	0	0	0	-1
Transfer	413	0	0	0	-413	0
<b>at December 31, 2012</b>	<b>25,941</b>	<b>868</b>	<b>828</b>	<b>2,257</b>	<b>3,506</b>	<b>33,400</b>
Amortisation January 1, 2012	-22,636	0	-380	-819	0	-23,835
Additions	-937	0	0	-50	0	-987
Disposals	1	0	0	0	0	1
<b>at December 31, 2012</b>	<b>-23,572</b>	<b>0</b>	<b>-380</b>	<b>-869</b>	<b>0</b>	<b>-24,822</b>
Impairment January 1, 2012	0	-868	-448	-1,367	0	-2,683
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
<b>at December 31, 2012</b>	<b>0</b>	<b>-868</b>	<b>-448</b>	<b>-1,367</b>	<b>0</b>	<b>-2,683</b>
<b>Net carrying amount December 31, 2011</b>	<b>1,851</b>	<b>0</b>	<b>0</b>	<b>71</b>	<b>1,581</b>	<b>3,503</b>
<b>Net carrying amount December 31, 2012</b>	<b>2,369</b>	<b>0</b>	<b>0</b>	<b>21</b>	<b>3,506</b>	<b>5,896</b>

The development of intangible assets in financial year 2011 was as follows:

k€	Software, Rights, Licences	Goodwill	Licences Finance Lease	Internally- generated Assets	Advance payments made	Total
Acquisition costs January 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
<b>at December 31, 2011</b>	<b>24,487</b>	<b>868</b>	<b>828</b>	<b>2,257</b>	<b>1,581</b>	<b>30,021</b>
Amortisation January 1, 2011	-21,926	0	-380	-767	0	-23,073
Additions	-710	0	0	-52	0	-762
Disposals	0	0	0	0	0	0
<b>at December 31, 2011</b>	<b>-22,636</b>	<b>0</b>	<b>-380</b>	<b>-819</b>	<b>0</b>	<b>-23,835</b>
Impairment January 1, 2011	0	0	-448	-1,367	0	-1,815
Additions	0	-868	0	0	0	-868
Disposals	0	0	0	0	0	0
<b>at December 31, 2011</b>	<b>0</b>	<b>-868</b>	<b>-448</b>	<b>-1,367</b>	<b>0</b>	<b>-2,683</b>
<b>Net carrying amount December 31, 2010</b>	<b>2,003</b>	<b>868</b>	<b>0</b>	<b>123</b>	<b>0</b>	<b>2,994</b>
<b>Net carrying amount December 31, 2011</b>	<b>1,851</b>	<b>0</b>	<b>0</b>	<b>71</b>	<b>1,581</b>	<b>3,503</b>

Prepayments amounting to € 3,477 thousand (previous year: € 1,139 thousand) in relation to the introduction of the electronic merchandise tracking and tagging system and the system designed to optimise information flows are reported under prepayments. Since these intangible assets are not yet available for use, they have each been impairment tested. Since these systems are planned to be introduced throughout the entire ADLER Group, the ADLER Group as a whole has been identified as a cash-generating unit. The recoverable amount for each system was determined using the fair value less expected costs to sell on the basis of 3-year cash flow projections. A 1% growth discount was applied for the further planning phase. A post-tax discount rate of 6.25% was applied. No indication of an impairment was found.

The previous year's write-downs of € 868 thousand related to the impairment of the goodwill upon initial consolidation of F.W. Woolworth Co. Ges.m.b.H as at 31 December 2010. It was necessary to recognise this impairment loss because the earnings potential of the stores for which the goodwill was attributed was determined to be negative.

## 10. PROPERTY, PLANT AND EQUIPMENT

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

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

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The development of property, plant and equipment in financial year 2012 was as follows:

k€	Land and rights equivalent to real property	Buildings (incl. buildings on land owned by third parties)	Finance Lease buildings	Other operational and office equipment	Advance payments made / Property under construction	Total
<b>Acquisition costs</b>						
January 1, 2012	228	57,893	130,896	69,316	91	258,424
Additions	0	3,094	21,341	4,999	14	29,448
Disposals	0	-1,700	-17,876	-4,379	0	-23,955
Reclassification	262	1,741	0	0	-91	2,003
<b>at December 31, 2012</b>	<b>490</b>	<b>61,028</b>	<b>134,361</b>	<b>70,027</b>	<b>14</b>	<b>265,920</b>
<b>Amortisation</b>						
January 1, 2012	0	-44,608	-108,394	-54,401	0	-207,403
Additions	0	-2,879	-6,137	-4,997	0	-14,013
Disposals	0	1,348	16,506	3,364	0	21,218
Reclassification	0	-235	0	0	0	-235
<b>at December 31, 2012</b>	<b>0</b>	<b>-46,374</b>	<b>-98,025</b>	<b>-56,034</b>	<b>0</b>	<b>-200,433</b>
<b>Impairment</b>						
January 1, 2012	-53	-120	0	-194	0	-367
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	-113	-283	0	0	0	-396
<b>at December 31, 2012</b>	<b>-166</b>	<b>-403</b>	<b>0</b>	<b>-194</b>	<b>0</b>	<b>-763</b>
<b>Net carrying amount</b>						
December 31, 2011	175	13,165	22,502	14,721	91	50,654
<b>Net carrying amount</b>						
December 31, 2012	<b>324</b>	<b>14,251</b>	<b>36,336</b>	<b>13,799</b>	<b>14</b>	<b>64,724</b>

The development of property, plant and equipment in financial year 2011 was as follows:

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

For information relating to the impairment losses and reversals recognised, please refer to Note 6 Depreciation, amortisation and impairment.

Individual assets whose cost is less than € 150 are recognised as described above. The total costs of the relevant assets in the financial year amounted to € 815 thousand, offset by € 457 thousand in write-downs during the financial year.

The finance and operating lease agreements relate principally to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2012, the contingent rental payments under finance lease agreements amounted to € 1,858 thousand (previous year: € 1,434 thousand), while those under operating lease agreements were € 3,665 thousand (previous year: € 2,178 thousand). The year-on-year increase in contingent rental payments was due primarily to new leases and lease amendments.

As in the previous year, no impairment losses were recognised in respect of assets from finance leases in financial year 2012.

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



Expenses for operating leases amounted to € 62,419 thousand during the financial year (previous year: € 55,574 thousand). The operating lease agreements contain similar renewal options.

The obligations from operating leases are due in subsequent periods as follows:

k€	2012	2011
<b>Operating Leases</b>		
Minimum lease payments payable in future		
up to 1 year	39,698	40,257
1 to 5 years	115,453	109,830
more than 5 years	77,390	66,446
	<b>232,541</b>	<b>216,533</b>

Property, plant and equipment amounting to € 1,915 thousand (previous year: € 598 thousand) serves as collateral for financial liabilities.

## 11. INVESTMENT PROPERTY

The investment property reported in the financial statements consists of land and a building held by the special purpose entity ALASKA GmbH & Co. KG included in the consolidation. The building is not used in its entirety by the ADLER Group, and portions are sublet. The sub-let portion is classified as an investment property and reported as such. The investment property is carried at fair value, which was determined by an expert valuer on the basis of market data. In financial year 2012 € 115 thousand in rental income was generated (previous year: € 91 thousand).

k€	2012	2011
carrying-value January 01	3,374	3,374
Reclassification from PPE	-1,372	0
at December 31	<b>2,002</b>	<b>3,374</b>

During the financial year, an additional portion of the building was reclassified for use by the Group; the corresponding value of the own space used was reclassified to property, plant and equipment.

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

Expenses for maintenance and repairs amounting to € 30 thousand (previous year: € 16 thousand) were incurred during the financial year.

## 12. OTHER RECEIVABLES AND OTHER ASSETS

k€	Dec. 31, 2012	Dec. 31, 2011
<b>Non-current receivables and other assets</b>		
Prepaid expenses	286	395
Payments towards a money market fund to hedge partial retirement commitments	39	381
Deposits	158	158
	<b>483</b>	<b>934</b>
<b>Current receivables and other assets</b>		
Credit card receivables	3,218	1,685
Prepaid expenses	1,745	1,194
Tax receivables	481	849
Miscellaneous	3,461	2,318
	<b>8,905</b>	<b>6,046</b>

Other receivables and other assets include financial assets amounting to € 3,415 thousand (previous year: € 2,223 thousand).

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

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

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets amounting to € 257 thousand (previous year: € 246 thousand) include securities that could not be allocated to any of the other measurement categories set out in IAS 39. The item consists entirely of fund units. They were initially recognised and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

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### 14. DEFERRED TAX ASSETS

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

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

k€	Dec. 31, 2012	Dec. 31, 2011
<b>Deferred tax assets</b>		
Intangible assets	0	399
PPE	136	152
Investment property	0	574
Inventories	1,283	1,405
Receivables and other current assets	683	580
Capitalisation of costs relating to equity raising	0	492
Provisions	310	317
Liabilities	13,790	13,958
Tax losses carried forward	2,137	380
<b>Total deferred tax assets</b>	<b>18,339</b>	<b>18,257</b>
of which current	5,026	3,888
of which non-current	13,313	14,369
<b>Deferred tax liabilities</b>		
Intangible assets	145	42
PPE	9,881	6,307
Investment property	0	573
Inventories	105	27
Receivables and other current assets	72	132
Provisions	445	3,499
Liabilities	1	72
<b>Total deferred liabilities</b>	<b>10,649</b>	<b>10,652</b>
of which current	622	1,631
of which non-current	10,027	9,005
Offsetting deferred tax assets and deferred tax liabilities	-10,510	-10,325
<b>Carrying amount of deferred tax assets</b>	<b>7,829</b>	<b>7,932</b>
<b>Carrying amount of deferred tax liabilities</b>	<b>139</b>	<b>327</b>

Changes in deferred taxes as compared to the previous year were recognised in profit or loss.

The loss carryforwards for corporation tax and trade tax purposes shown here relate primarily to German companies. No deferred tax assets were recognised in respect of additional existing foreign loss carryforwards for corporation tax purposes amounting to € 27,663 thousand (previous year: € 27,063 thousand).

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

No deferred tax liabilities were recognised in respect of temporary differences in connection with investments in subsidiaries amounting to € 1,604 thousand (previous year: € 1,604 thousand).

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

## 15. INVENTORIES

k€	Dec. 31, 2012	Dec. 31, 2011
Domestic	65,942	61,344
Foreign	12,226	12,184
	<b>78,168</b>	<b>73,528</b>

Inventories are measured respectively at the lower of cost and the net realisable selling price as at the end of the reporting period. In accordance with IAS 2.36 (f), any possible reversals of impairment allowances are recognised, although impairment allowances were greater overall during the financial year.

In financial year 2012, impairment allowances on inventories were € 10,193 thousand, or € 449 thousand lower compared with the previous year (previous year: € 10,642 thousand). Impairment allowances are recognised primarily for merchandise from prior seasons and for slow-selling articles. The carrying amount of the inventories measured at the net selling price amounts to € 68,475 thousand (previous year: € 70,166 thousand).

In financial year 2012, the percentage mark-downs for obsolescence for current seasonal merchandise were reviewed and adjusted based on current experience as compared to in previous years. During the current financial year, this resulted in a lower impairment allowance (€ 1,688 thousand) than the previous approach had done; the difference was reflected in a higher net profit in 2012. This policy is not expected to impact earnings in subsequent years.

Inventories consist primarily of merchandise.

## 16. TRADE RECEIVABLES

All trade receivables have a remaining maturity of up to one year. Valuation allowances in respect of trade receivables were not necessary. None of the trade receivables are overdue. Nearly all of the receivables are denominated in euros.

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

For those receivables that were neither impaired nor overdue, there were no indications at the end of the reporting period that the associated payments will not be made when they fall due.

As at 31 December 2012, no trade receivables due from subsidiaries of bluO beta equity Limited (affiliated company) were reported (previous year: € 1 thousand).

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were made up as follows:

k€	Dec. 31, 2012	Dec. 31, 2011
Cash at banks	37,800	35,270
Cash on hand	4,311	4,754
	<b>42,111</b>	<b>40,024</b>

None of the cash was subject to restrictions on disposal at end of the respective reporting periods.

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

## 18. EQUITY

### SUBSCRIBED CAPITAL

The share capital of Adler Modemärkte AG, Haibach, remains unchanged at € 18,510 thousand. The reported subscribed capital relates to this share capital, less the shares acquired (€ 889 thousand) in the course of the share buyback programme, discussed in the following.

The shares of the shareholders are fully paid in.

### CAPITAL RESERVES

As a result of the share buyback programme, capital reserves declined in financial year 2012 to € 119,409 thousand since the excess amount paid to acquire the shares over the share in the subscribed capital was netted against the capital reserves.

### ACCUMULATED OTHER COMPREHENSIVE INCOME

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

### DIVIDEND RESTRICTIONS

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

### SHARE BUYBACK PROGRAMME

The extraordinary General Meeting of 30 May 2011 authorised the Company, subject to the consent of the Supervisory Board, to acquire own shares representing a total of up to 10% of the share capital existing at the time of the adoption of the resolution. Such authorisation is valid until 31 March 2016. The Executive Board will be authorised, subject to the consent of the Supervisory Board, to use own (treasury) shares of the Company that are acquired pursuant to this authorisation for the following purposes: (i) the shares may be cancelled without the need for a separate resolution herefor by the Annual General Meeting; The authorisation to cancel the shares may be authorised in whole or in part. The cancellation of shares would result in a capital reduction. Alternatively, the Executive Board may determine that the share capital will not be reduced and that the cancellation will instead result in the proportionate interest in the share capital held by the other shareholders being increased pursuant to § 8 (3) AktG, in which case, the Executive Board will be authorised to update the articles of association with respect to the number of shares set forth therein. (ii) the shares may be offered and transferred to third parties in connection with company mergers or the acquisition of companies or equity investments in companies; (iii) the shares may be offered for purchase and transferred to Executive Board members, employees of the Company or its Group companies; (iv) the shares may be offered for purchase and transferred to third parties who, as strategic partners of

the Company or its Group companies, play a significant role in assisting the Company to achieve its corporate goals; (v) the shares may be used to satisfy the obligations of the Company arising out of convertible bonds issued or guaranteed by it. Please refer to the Management Report for further discussion.

On 12 January 2012, the Executive Board of Adler Modemärkte AG (with the prior approval of the Supervisory Board) resolved to partially exercise the authorisation granted by the extraordinary General Meeting on 30 May 2011 to acquire own shares and resolved to acquire over the stock exchange up to 1,000,000 own shares by 30 June 2012 at a maximum price of € 10.00 per share (excluding ancillary acquisition costs).

On 14 August 2012, the Executive Board of Adler Modemärkte AG (with the prior approval of the Supervisory Board) then resolved to again partially exercise the authorisation granted by the extraordinary General Meeting on 30 May 2011 to acquire own shares and resolved to acquire over the stock exchange up to 823,839 own shares by 31 December 2012 at a maximum price of € 10.00 per share (excluding ancillary acquisition costs).

The 888,803 own shares acquired were netted against the corresponding items in equity. Accordingly, € 889 thousand in subscribed capital and € 4,112 thousand in capital reserves were deducted directly.

#### CAPITAL MANAGEMENT

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

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

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

k€	Dec. 31, 2012	Dec. 31, 2011
Equity	79,906	74,824
Liabilities	130,544	112,570
<b>Debt equity ratio</b>	<b>1.63</b>	<b>1.50</b>



## 19. PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

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

k€	Dec. 31, 2012	Dec. 31, 2011
Provisions for pensions (direct benefit commitments)	3,861	3,908
Provisions for redundancy payments	270	368
<b>Provisions for corporate pension plans</b>	<b>4,131</b>	<b>4,276</b>

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

k€	Dec. 31, 2012	Dec. 31, 2011
<b>Balance at Jan. 1</b>	<b>7,008</b>	<b>6,787</b>
Current service cost	124	127
Interest expenses	281	303
Pensions paid	-780	-830
Actuarial losses	1,313	621
Effect asset limitation IAS 19.58	52	0
Reclassification of liabilities classified as held for sale	0	0
<b>Balance at Dec. 31</b>	<b>7,999</b>	<b>7,008</b>

The associated plan assets developed as follows:

k€	Dec. 31, 2012	Dec. 31, 2011
<b>Balance at Jan. 1</b>	<b>1,417</b>	<b>1,578</b>
Contributions (employer)	136	160
Expected income from interest	50	53
Pension payments (redundancy payments)	-259	-236
Actuarial gains (+)/losses (-) of the year	205	-138
<b>Fair value of plan assets at Dec. 31</b>	<b>1,549</b>	<b>1,417</b>

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

The expected return on plan assets is determined on a uniform basis, taking into account long-term historical yields, the allocation of assets and estimates of the long-term yield on investments in the future. The actual return on plan assets in the financial year amounted to € 255 thousand (previous year: € 85 thousand loss).

The € 52 thousand effect from asset limitation in accordance with IAS 19.58 affects Adler Asset GmbH.

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The reconciliation of the obligations with the amount of the provision is as follows:

k€	Dec. 31, 2012	Dec. 31, 2011
Defined Benefit Obligation unfunded	6,131	5,246
Defined Benefit Obligation wholly or partially funded	1,868	1,762
Subtotal	7,999	7,008
less fair value of plan assets	-1,549	-1,417
<b>Financing at Dec. 31</b>	<b>6,450</b>	<b>5,591</b>
Not yet recognised actuarial gains (+)/losses (-)	-2,319	-1,315
Reclassification of available-for-sale liabilities	0	0
<b>Provisions for corporate pension scheme at Dec. 31</b>	<b>4,131</b>	<b>4,276</b>

The experience adjustments to the amounts recognised in the statement of financial position were as follows:

k€	2012	2011	2010	2009
Experience-based adjustments of plan liabilities	1,313	621	537	40
Experience-based adjustments of plan assets	-205	138	43	-63

The amounts recognised in the income statement in the period under review were made up as follows:

k€	2012	2011
Interest income Defined Benefit Obligation	281	303
Expected interest income on plan assets	-50	-53
Service cost	124	127
Realised actuarial losses (+)/ gains (-)	104	46
Effect asset limitation IAS 19.58	52	0
	<b>512</b>	<b>423</b>

The expected funding for post-employment benefits plans for the financial year ending 31 December 2013 amounts to € 136 thousand (previous year: € 160 thousand).

The current employers' contributions to the statutory pension scheme are included as an expense in the operating profit or loss for the relevant year and amounted to € 6,942 thousand (previous year: € 6,500 thousand) for the Group as a whole in the financial year.

The funded status of the pension provisions in prior years developed as follows:

k€	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Defined Benefit Obligation unfunded	5,246	5,062	3,300	3,344
Defined Benefit Obligation wholly or partially funded	1,762	1,725	1,521	1,482
Subtotal	7,008	6,787	4,821	4,826
less fair value of plan assets	-1,417	-1,578	-1,490	-1,397
<b>Financing at Dec. 31</b>	<b>5,591</b>	<b>5,209</b>	<b>3,331</b>	<b>3,429</b>

The underlying actuarial assumptions can be found in the note on the bases of accounting for pension obligations in the section entitled Employee Benefits.

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

k€	Restructuring / severance payments	Rents and incidental rental costs	Other person- nelrelated provisions	Other provi- sions	Total
<b>at Jan. 1, 2011</b>	<b>643</b>	<b>1,640</b>	<b>985</b>	<b>568</b>	<b>3,836</b>
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
<b>at Dec. 31, 2011</b>	<b>491</b>	<b>1,455</b>	<b>1,055</b>	<b>535</b>	<b>3,536</b>
Non-current	0	0	959	156	1,115
Current	491	1,455	96	378	2,421
<b>at Jan. 1, 2012</b>	<b>491</b>	<b>1,455</b>	<b>1,055</b>	<b>535</b>	<b>3,536</b>
Drawdown	-407	-601	-498	-32	-1,538
Allocation	543	1,159	608	201	2,512
Dissolution	-84	-573	-48	-75	-780
Interest added	0	0	47	0	47
<b>at Dec. 31, 2012</b>	<b>543</b>	<b>1,440</b>	<b>1,164</b>	<b>629</b>	<b>3,776</b>
Non-current	0	0	1,086	155	1,241
Current	543	1,440	78	474	2,535
<b>at Dec. 31, 2012</b>	<b>543</b>	<b>1,440</b>	<b>1,164</b>	<b>629</b>	<b>3,776</b>

The obligations from restructuring activities comprise expenses associated with the closing of stores in 2012 in addition to provisions for termination costs.

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

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

Other provisions include provisions for the costs of retaining documents with a non-current portion amounting to € 155 thousand (previous year: € 155 thousand).

## 21. FINANCIAL LIABILITIES

k€		Dec. 31, 2012	Dec. 31, 2011
Liabilities to METRO Finance B.V.	< 1 year	266	258
Liabilities to METRO Finance B.V.	> 1 year	3,838	4,103
		4,104	4,361
Liabilities to banks	< 1 year	0	5
		0	5
Liabilities from Adler customer loyalty card	< 1 year	15,583	14,748
		15,583	14,748
		<b>19,687</b>	<b>19,114</b>

The liability to METRO Finance B.V. (affiliated company until 6 March 2009) comprises a loan at a current fixed rate of interest of 3.25% p.a. (interest rate fixed from 1 April 2011 to 31 March 2013). The loan paid a fixed rate of interest of 3.26% p.a. until 31 March 2011. The loan has a maturity date of 31 July 2024 and is repaid in quarterly instalments.

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

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

k€	Dec. 31, 2012	Dec. 31, 2011
	<b>15,978</b>	<b>15,148</b>
of which due within the following time bands:		
< 30 days	15,583	14,753
30 - 90 days	99	99
90 - 180 days	99	99
180 days - 1 year	197	197

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

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As at 31 December 2012, the financial liabilities were secured by items of property, plant and equipment with a carrying amount of € 1,915 thousand (previous year: € 598 thousand) and by investment property with a carrying amount of € 2,002 thousand (previous year: € 3,374 thousand).

All of the financial liabilities are repayable in euros.

### 22. FINANCE LEASE OBLIGATIONS

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

k€	Dec. 31, 2012	Dec. 31, 2011
Finance leases		
Minimum lease payments to be effected in future		
up to 1 year	11,305	12,093
1 to 5 years	30,081	29,867
over 5 years	32,560	2,588
	<b>73,946</b>	<b>44,547</b>
Discounting		
up to 1 year	-3,696	-2,679
1 to 5 years	-9,861	-4,575
over 5 years	-11,688	-193
	<b>-25,245</b>	<b>-7,447</b>
Present value		
up to 1 year	7,609	9,413
1 to 5 years	20,220	25,292
over 5 years	20,872	2,395
	<b>48,701</b>	<b>37,100</b>

The finance lease agreements relate to leased buildings for stores. The increase in the liabilities reflects the higher amount of the obligations for rental payments.

The terms of the leases generally amount to between 5 and 20 years with renewal options. All of the liabilities from finance leases are repayable in euros.

### 23. TRADE PAYABLES

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

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

k€	Dec. 31, 2012	Dec. 31, 2011
<b>Carrying amount</b>	<b>33,771</b>	<b>30,613</b>
of which due within the following time bands:		
< 30 days	22,381	19,679
30 - 90 days	11,226	10,934
90 - 180 days	53	0
180 days - 1 year	111	0

All of the trade payables are due in euros, as in previous years.

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

## 24. OTHER LIABILITIES

k€	Dec. 31, 2012	Dec. 31, 2011
Liabilities for value-added tax	5,434	6,318
Liabilities for wages and salaries	4,136	3,786
Liabilities to customers for gift vouchers sold	2,448	2,871
Liabilities from customs	783	1,280
Liabilities from wage tax	732	640
Deferred lease payments	105	454
Trade association	460	398
Social security contributions	432	383
Deferred construction cost grants	334	46
Other	2,634	768
<b>Other current liabilities</b>	<b>17,498</b>	<b>16,944</b>
Deferred construction cost grants	476	410
Deferred lease payments	840	250
<b>Other non-current liabilities</b>	<b>1,316</b>	<b>660</b>

Other current liabilities include financial liabilities amounting to € 2,934 thousand (previous year: € 3,295 thousand).

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



## 25. INCOME TAX LIABILITIES

Income tax liabilities (€ 1,525 thousand) relate to German corporation and trade tax liabilities.

## 26. STATEMENT OF CASH FLOWS

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

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

k€	2012	2011
Cash inflow (+)/outflow (-) from operating activities (net cash flow)	30,672	8,830
Cash inflow (+)/outflow (-) from investing activities	-9,714	-13,211
<b>Free cash flow</b>	<b>20,958</b>	<b>-4,381</b>
Cash inflow (+)/outflow (-) from financing activities	-18,871	11,449
<b>Net increase of cash and cash equivalents</b>	<b>2,087</b>	<b>7,068</b>

In the statement of cash flows, cash from or used in operating activities is determined in accordance with the indirect method. This operating cash flow also presents impairment and write-downs separately.

Cash and cash equivalents as at 31 December 2012 amounted to € 42,111 thousand (previous year: € 40,024 thousand) and include demand deposits with banks, cheques and cash-in-hand. Just as in the previous year, there was no cash subject to restrictions on disposal during the reporting period.

Other non-cash income and expenses amounting to € 520 thousand (previous year: € 11,307 thousand) include in particular the compounding of interest on pension provisions and additions to current financial liabilities from the ADLER customer loyalty card. The income from the acquisition of the Wehmeyer stores is included in the previous year.

The following material non-cash transactions took place in financial year 2012:

Non-current assets and liabilities from finance leases both rose by € 21,341 thousand (previous year: € 778 thousand) with no effect on cash as a result of the addition of new finance leases or the renewal of existing leases.

The following material non-cash transactions took place in the previous year: The Company implemented a capital increase, which was reported under cash flows from financing activities. € 26,500 thousand accrued to the Company as a result of the capital increase. € 1,822 thousand in expenses were incurred in the course of the capital increase; these reduced cash flows from financing activities. € 1,300 thousand in liabilities due to the former sole shareholder were netted against a receivable from the reimbursement of pro rata IPO costs.

Moreover, the prior-year cash flow from investing activities contained a € 2,195 thousand outflow relating to the acquisition of the Wehmeyer stores. No cash inflows accrued to the ADLER Group as a result of the acquisition.

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

k€	2012	2011
Interest paid from finance leases	3,868	3,209
Interest paid from operating activities	282	207
<b>Total</b>	<b>4,150</b>	<b>3,416</b>

## 27. SEGMENT REPORTING

Dec, 31, 2012 in k€	Fashion Stores segment	Segment Total	Reconciliation with IFRS	ADLER Group
External revenue (net)	504,358	504,358	1,725	506,083
Revenue from other segments (net)	0	0	0	0
<b>Total revenue (net)</b>	<b>504,358</b>	<b>504,358</b>	<b>1,725</b>	<b>506,083</b>
Revenue from trading	247,517	247,517		
Total cost	-233,178	-233,178		
<b>EBITDA</b>	<b>22,703</b>	<b>22,703</b>	<b>12,780</b>	<b>35,483</b>

### Reconciliation of revenue from ordinary activities

<b>EBITDA</b>	35,483
Depreciation and amortisation	-15,003
Impairment	0
<b>EBIT</b>	<b>20,480</b>
<b>Financial result</b>	<b>-4,330</b>
<b>Revenue from ordinary activities</b>	<b>16,150</b>

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<b>Dec. 31, 2011 in k€</b>	<b>Fashion Stores segment</b>	<b>Segment Total</b>	<b>Recon- ciliation with IFRS</b>	<b>ADLER Group</b>
External revenue (net)	475,818	475,818	772	476,590
Revenue from other segments (net)	0	0	0	0
<b>Total revenue (net)</b>	<b>475,818</b>	<b>475,818</b>	<b>772</b>	<b>476,590</b>
Revenue from trading	229,485	229,485		
Total cost	-223,713	-223,713		
<b>EBITDA</b>	<b>14,140</b>	<b>14,140</b>	<b>17,045</b>	<b>31,185</b>
<b>Reconciliation of revenue from ordinary activities</b>				
EBITDA				31,185
Depreciation and amortisation				-13,936
Impairment				-868
<b>EBIT</b>				<b>16,381</b>
<b>Financial result</b>				<b>-3,498</b>
<b>Revenue from ordinary activities</b>				<b>12,883</b>

The profit or loss on goods sold generated by the internal reporting system comprises the gross profit on goods sold and reimbursements from suppliers.

The segment report was prepared in accordance with IFRS 8 (Operating segments). The segments were defined in accordance with the Group's internal management and reporting procedures. „Stores (Modemärkte)“ was the only segment at the end of the reporting period. The Stores segment comprises the Company's entire activities relating to the stores operated by the ADLER Group.

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

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

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

<b>k€</b>	<b>Dec. 31, 2012</b>			<b>Dec. 31, 2011</b>		
	<b>Germany</b>	<b>Other</b>	<b>Group</b>	<b>Germany</b>	<b>Other</b>	<b>Group</b>
Non-current assets	59,572	13,050	72,622	40,891	16,640	57,531

## 28. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

### LIQUIDITY RISKS

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

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

The long-term corporate financing requirements of the ADLER Group are secured by the ongoing cash flows from operating activities and from leases entered into on a long-term basis. The intra-Group cash management system enables short-term liquidity surpluses in individual Group companies to be used as internal financing to meet the cash requirements of other Group companies. This contributes to a reduction in the volume of external debt financing and to the best possible use of cash deposits and capital investments, and therefore has a positive effect on the net interest income and expenses of the Group.

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

The ADLER Group is mainly financed by its own liquid resources generated from its operating activities. In addition, the Group implemented a capital increase in financial year 2011, as a result of which € 24,678 thousand accrued to the Company, after deduction of transaction costs. The long-term leases of certain stores are reported as finance leases in accordance with IFRSs. The recognised long-term finance lease obligation amounted to € 41,092 thousand at the end of the reporting period (previous year: € 27,687 thousand). In addition, the Group has only one loan outstanding, to a company within the METRO AG group, which was used for a property financing transaction. The outstanding amount of the loan amounted to € 4,104 thousand at the end of the reporting period (previous year: € 4,361 thousand). Current loan liabilities at the end of the reporting period amounted to € 266 thousand (previous year: € 258 thousand). The remaining current financial liabilities at the end of the reporting period amounted to € 15,583 thousand (previous year: € 14,753 thousand).

## MATURITY ANALYSIS OF FINANCIAL LIABILITIES

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

<b>Dec. 31, 2012 in k€</b>	<b>up to 1 year</b>	<b>more than 1 year</b>
Trade payables	33,771	0
Financial liabilities	15,978	4,595
Finance lease obligations	11,305	62,641
Other financial liabilities	2,934	0

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

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

A detailed analysis of the maturity band „up to 1 year“ is provided in Note 24 „Trade payables“ for the trade payables and in Note 22 „Financial liabilities“ for the financial liabilities.

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

<b>k€</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
<b>Total due within one year</b>	<b>11,305</b>	<b>12,093</b>
of which due within the following time bands:		
< 30 days	753	803
30 - 90 days	2,073	2,303
90 - 180 days	2,826	2,996
180 days - 1 year	5,653	5,991

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

<b>k€</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
<b>Total due within one year</b>	<b>2,934</b>	<b>3,295</b>
of which due within the following time bands:		
< 30 days	2,474	2,897
30 - 90 days	0	0
90 - 180 days	460	398
180 days - 1 year	0	0

## CREDIT RISKS

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

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

The loans and receivables reported in the consolidated financial statements amounting to € 3,490 thousand (previous year: € 3,376 thousand) are not secured. The maximum risk of default is therefore equal to the carrying amount of the loans and receivables reported.

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

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

## MARKET RISKS (INTEREST RATE AND CURRENCY RISKS)

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

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

The ADLER Group is essentially not exposed to currency risks since the consolidated revenue was generated almost exclusively in euros and all purchases of goods were also made in euros during the period under review. Receivables, loans and financial liabilities are primarily denominated in euros. Risks due to changes in interest rates can arise mainly as a result of potential changes in the value of a financial instrument which is sensitive to interest rates, in response to changes in market rates of interest which lead to changes in the expected cash flows. In order to minimise the risk of changes in interest rates within the ADLER Group, where necessary, loans are taken out only on a long-term basis and leases are entered into at fixed rates of interest. With the exception of the liability to METRO Finance B.V. (see Note 21), the ADLER Group is not a party to any financial instruments bearing a variable rate of interest. If the level of interest rates had been 100 basis points higher at the date when the new rate of interest was determined for this liability in financial year 2011, the interest expense for financial year 2012 would have been € 15 thousand higher (previous year: € 12 thousand higher). If the level of interest rates had been 100 basis points higher at the date when the new rate of interest was determined for this liability in financial year 2011, the interest expense for financial year 2012 would have been € 15 thousand lower (previous year: € 13 thousand lower). Since the period for which the interest rate was fixed included the whole of financial year 2012, there was no sensitivity to interest rates in this period.

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

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The sensitivity analysis of the available-for-sale financial assets resulted in the following potential changes as at 31 December 2012: In the event of an increase of 5% in the market price, equity would have risen by € 10 thousand (previous year: € 9 thousand). In the event of a decrease of 5% in the market price, equity would have fallen by € 10 thousand (previous year: € 9 thousand).

### CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Dec. 31, 2012 in k€	At amortised cost		At fair value (no effect on profit/loss)	Amount according to IAS 17	Total	
	Other liabilities	Loans and receivables	Available-for-sale financial assets		Carrying amount	Carrying amount
Item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Available-for-sale financial assets	-	-	257	-	257	257
Cash and cash equivalents	-	42,111	-	-	42,111	42,111
Trade receivables	-	75	-	-	75	75
Other financial assets	-	3,415	-	-	3,415	3,415
<b>Total financial assets</b>	<b>0</b>	<b>45,601</b>	<b>257</b>	<b>0</b>	<b>45,858</b>	<b>45,858</b>
Trade payables	33,771	-	-	-	33,771	33,771
Financial liabilities	19,687	-	-	-	19,687	19,687
Liabilities from finance leases	-	-	-	48,701	48,701	53,266
Other financial liabilities	2,934	-	-	-	2,934	2,934
<b>Total financial liabilities</b>	<b>56,392</b>	<b>0</b>		<b>48,701</b>	<b>105,093</b>	<b>109,658</b>



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	At amortised cost		At fair value (no effect on profit/loss)	Amount according to IAS 17	Total	
	Other liabilities	Loans and receivables	Available-for-sale financial assets		Carrying amount	Carrying amount
Dec. 31, 2011 in k€	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount
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
<b>Total financial assets</b>	<b>0</b>	<b>43,400</b>	<b>246</b>	<b>0</b>	<b>43,646</b>	<b>43,646</b>
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
<b>Total financial liabilities</b>	<b>53,022</b>	<b>0</b>		<b>37,100</b>	<b>90,122</b>	<b>91,791</b>

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

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

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

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

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

## NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

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

2012 in k€	Loans and receivables	Other liabilities	Total
from interest	85	-282	-197
<b>Total</b>	<b>85</b>	<b>-282</b>	<b>-197</b>

2011 in k€	Loans and receivables	Other liabilities	Total
from interest	168	-203	-35
<b>Total</b>	<b>168</b>	<b>-203</b>	<b>-35</b>

No interest income was received from impaired trade receivables during the period under review. For information relating to the net gain or loss from available-for-sale financial assets, please see Note 13.

## OTHER DISCLOSURES

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

## 29. COMPANY ACQUISITIONS

The acquisition of Wehmeyer Lifestyle GmbH, which had been recognised on a provisional basis in the consolidated financial statements in the previous year, was finalised during the year under review, as discussed under II. There were no other company acquisitions during the period under review.

## VI. OTHER NOTES

### 30. OTHER FINANCIAL OBLIGATIONS

As at the end of the reporting period on 31 December 2012, there were other financial obligations arising from rental, lease and service agreements entered into by the Group in the ordinary course of business that cannot be terminated prior to maturity. The maturity analysis of the future payments arising from those agreements attributable to continuing operations is as follows:

2012 in k€	up to 1 year	1-5 years	over 5 years	Total
Rental and leasing obligations	39,698	115,453	77,390	232,541
Other obligations	21,437	0	0	21,437
<b>Total</b>	<b>61,135</b>	<b>115,453</b>	<b>77,390</b>	<b>253,978</b>

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
<b>Total</b>	<b>63,970</b>	<b>109,830</b>	<b>66,446</b>	<b>240,246</b>

The total rental and lease obligations amounting to € 232,541 thousand (previous year: € 216,533 thousand) relate to rental and lease agreements for land and buildings in an amount of € 227,410 thousand (previous year: € 212,147 thousand) and to operating lease agreements for other facilities and operating and office equipment in an amount of € 5,131 thousand (previous year: € 4,386 thousand).

Furthermore, there were capital expenditure commitments of € 21,437 thousand (previous year: € 23,713 thousand) at the end of the reporting period on 31 December 2012.

The total future minimum lease payments arising from subleases amounted to € 7,262 thousand (previous year: € 8,427 thousand) at 31 December 2012.

2012 in k€	up to 1 year	1-5 years	over 5 years	Total
Minimum sublease payments	1,227	1,976	4,059	7,262
<b>Total</b>	<b>1,227</b>	<b>1,976</b>	<b>4,059</b>	<b>7,262</b>

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
<b>Total</b>	<b>1,491</b>	<b>2,877</b>	<b>4,059</b>	<b>8,427</b>

### 31. CONTINGENT LIABILITIES

The Group has a guarantee facility in an amount of € 7,000 thousand (previous year: € 10,000 thousand) with various banks. As at 31 December 2012 the guarantee facility was being utilised in an amount of € 1,996 thousand (previous year: € 1,464 thousand). Partial amounts of the facility utilised were secured by a pledge on current accounts A rental guarantee for € 86 thousand (previous year: € 86 thousand) and a customs guarantee in an amount of € 1,500 thousand (previous year: € 1,500 thousand) were also outstanding; these were utilised in full. In addition, € 100 thousand in bank balances were pledged in line with industry practice for trade credit insurance policies.

### 32. REMUNERATION

The members of the Executive Board are the key management personnel of the ADLER Group in accordance with IAS 24. The Company's Annual General Meeting on 30 May 2011 resolved that there would be no individualised disclosure of Executive Board members' remuneration. The total remuneration paid to members of the Executive Board during financial year 2012 was € 1,007 thousand (previous year: € 1,259 thousand). To date, the variable remuneration components of the Executive Board members were recorded on a received basis. Beginning in the year under review, bonuses are recorded as a component of remuneration for the financial year in which they are earned. The previous year's amount was adjusted accordingly. The breakdown of the remuneration is as follows:

in k€	2012	2011
Fixed remuneration	755	597
Non-monetary remuneration	21	25
Short-term incentives	230	210
<b>Payments to Executive Board members due in short term</b>	<b>1,007</b>	<b>832</b>
Redundancy Payment	0	427
<b>Payments due to termination of membership in Executive Board</b>	<b>0</b>	<b>427</b>
	<b>1,007</b>	<b>1,259</b>

The balances outstanding as at 31 December 2012 amounted to € 209 thousand (prior year € 824 thousand) and were reported under other liabilities. The Supervisory Board has adopted a long-term incentive bonus (hereinafter „LTI Bonus“) for the members of the Executive Board of Adler Modemärkte AG. With a term of five years in total, this bonus is intended as remuneration paid to the members of the Executive Board for their contribution to increasing the Company's value. The bonus includes a variable component in the form of stock appreciation rights (hereinafter SARs), which represent virtual stock options, each based on a total value of one share of Adler Modemärkte AG. A virtual stock option grants the holder the right to cash compensation equal to the difference between the average closing rate of Adler Modemärkte AG shares over a period of five trading days prior to the exercise date and the price of the shares upon acquisition by the respective Executive Board member. The granting of SARs was subject to the success of Adler Modemärkte AG's initial public offering as well as a personal investment in the form of shares of Adler Modemärkte AG on the part of the receiving members of the Executive Board. During the LTI Bonus period, each recipient received five SARs for each subscribed share of Adler Modemärkte AG. Based on the level of personal investment, the active members of the Executive Board were granted 432,500 SARs. The exercise of SARs is tied to a minimum personal investment period of one year on the part of the recipients starting at the date of acquisition of the shares. In addition, a waiting period of three years was defined starting at the grant date of the SARs with respect to the exercise of the SARs. The SARs may only be exercised after the expiration of the three-year waiting period if the currently prevailing price of ADLER shares exceed the respective purchase price by at least 30%. Taking the waiting period and the respective target price into account, the SARs may be exercised over a period of two years. The payout amount for each SAR at the exercise date is calculated as the difference between the average closing rate of Adler Modemärkte AG shares over a period of five days prior to the exercise date and the respective purchase price of the shares. Any SARs outstanding after the expiration of the two-year exercise period expire without substitution. In addition, the payout amount with respect to the granted SARs is limited to a total amount of € 5,800 thousand (previous year: € 4,900 thousand). If any of the eligible members of the Executive Board step down before the expiration of their management contract, the payout with respect to the SARs is also limited to the maximum payment amount defined under the severance scheme. An additional 7,500 SARs were granted under the same conditions during the reporting period.

The number of SARs granted and outstanding as at 31 December 2012 amounted to 432,500 (previous year: 425,000). The SARs granted were classified and measured as cash-settled share-based payment transactions. The fair value of the provision to be recognised in relation to the SARs was calculated on the basis of a Monte Carlo model. A full, non-current provision was recognised under other provisions in the amount of € 2 thousand (previous year: € 18 non-current) as at 31 December 2012. The current gain for the period amount to € 16 thousand (loss in the prior-year period: € 18 thousand). The SARs were measured based on the following parameters:

Measurement date	31 Dec. 2012	31 Dec. 2011
Remaining term (in years)	4.5 – 4.9 years	4.5 – 4.9 years
Expected volatility	44.85% - 47.63%	44.85% - 47.21%
Risk-free interest rate	0.02% – 0.18%	0.23% – 0.81%
Dividend yield	0.00% – 3.18%	0.00% – 3.81%
Strike price	€ 6.32 - € 10.00	€ 7.59 - € 10.00
Share price at the valuation date	€ 4.92	€ 4.47

Family members of key management personnel provide services to the Company.

The total payments to former managing directors/Executive Board members and their surviving dependants amounted to € 159 thousand (previous year: € 585 thousand). Pension provisions in the amount of € 2,692 thousand (previous year: € 2,188 thousand) have been recognised for former members of management and their surviving dependants.

The members of the Supervisory Board are also key management personnel of the ADLER Group in accordance with IAS 24. The total remuneration for members of the Supervisory Board for attending meetings during the financial year was € 161 thousand (previous year: € 141 thousand).

One member of the Supervisory Board is the managing director of a company which charged the Company a total of € 5 thousand in financial year 2012 (previous year: € 4 thousand) for consultancy services in connection with the purchasing department. The amount outstanding in respect of these transactions is € 0 thousand (prior year € 4 thousand).

### 33. RELATED PARTY DISCLOSURES

The related parties include the key management personnel of Adler Modemärkte AG. These are listed by name in Note 40 Executive bodies of the Company together with their remuneration in Note 33 Remuneration. In the reporting period, only companies controlled by the principal shareholder bluO SICAV-SIF and its shareholders or legal representatives qualify as related parties.

Transactions with related parties are contractually agreed and carried out at prices that have also been agreed with third parties.

MOTEX Mode-Textil-Service Logistik und Management GmbH, Hörselgau, Germany, listed as a related party based on its relationship with bluO SICAV-SIF, lost its status as an affiliated company at the end of the first half of 2012. Therefore, outstanding balances shown below will no longer be taken into account on a pro rata basis.

The following transactions were entered into with related parties:

k€	2012	2011
Procurement of services from affiliated companies	8,097	20,357
	<b>8,097</b>	<b>20,357</b>
Reimbursement of IPO costs by former sole shareholder	0	1,300
Sale of services to affiliated companies	8	32
	<b>8</b>	<b>1,332</b>

The decrease in purchased services was primarily attributable to the fact MOTEX Mode-Textil-Service Logistik und Management GmbH was considered an affiliated company for a period of only six months during the current financial year and as a related party for the entire period of the previous year. The following balances with related parties were outstanding at the end of the reporting periods. MOTEX Mode-Textil-Service Logistik und Management GmbH, listed as a related party based on its relationship with bluO SICAV-SIF, lost its status as an affiliated company at the end of the first half of 2012. Therefore, outstanding balances shown below will no longer be taken into account as at 31 December 2012.

k€	Dec. 31, 2012	Dec. 31, 2011
Accounts receivable from affiliated company	0	1
	<b>0</b>	<b>1</b>
Accounts payable to affiliated company	24	1,521
	<b>24</b>	<b>1,521</b>

Family members of key management personnel provided services to the ADLER Group in the amount of € 66 thousand (previous year: € 47 thousand). The services were remunerated at arm's length conditions. In the period under review, no property, plant or equipment was sold to or acquired from family members in key positions of controlled companies (previous year: € 10 thousand).

Remuneration for members of the Supervisory Board in their function as employees amounted to € 259 thousand (previous year: € 265 thousand) during the year under review.

One member of the Supervisory Board is the managing director of a company which charged the Company a total of € 5 thousand in financial year 2012 (previous year: € 4 thousand) for consultancy services in connection with the purchasing department. The amount outstanding in respect of these transactions is € 0 thousand (prior year € 4 thousand).

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

The overviews of financial relationships with related parties are explained in further detail in the following sections:

- Other operating income (see Note 2)
- Net finance costs (see Note 7)
- Other liabilities (see Note 24)
- Loans (see Note 21, Financial liabilities)
- Subsidiaries (see Liquidity risks under Note 29, and Note 18 Equity)
- Profit and loss transfer agreement (see Note 18 Equity and Note 67 Statement of cash flows)
- Trade receivables (see Note 16)

### 34. EARNINGS PER SHARE

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

On 12 January 2012, the Executive Board of Adler Modemärkte AG resolved to partially exercise the authorisation granted by the extraordinary General Meeting on 30 May 2011 to acquire own shares. In the period under review, 888,803 shares were purchased for a total value of € 5,001,268.

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

k€		2012	2011*
Shares outstanding (until March 17, 2011)	as of January 01	18,510,000	15,860,000
issued shares (March 17, 2011)		0	2,650,000
repurchased shares during the year		-888,803	0
Shares outstanding	as of December 31	17,621,197	18,510,000
Consolidated profit during the year (in thousands)		10,072	8,502
Weighted average shares outstanding	as of December 31	17,900,337	17,629,723
<b>Basic earning per share</b>	<b>€</b>	<b>0.56</b>	<b>0.48</b>
<b>Diluted earning per share</b>	<b>€</b>	<b>0.56</b>	<b>0.48</b>

\* These prior-year comparative figures were adjusted for accounting effects stemming from adjustment of the Wehmeyer purchase price.

There were no dilutive effects in the reporting periods shown.

In the period between 31 December 2012 and the date on which these consolidated financial statements as at the end of this reporting period were adopted, there were no measures that changed the number of shares outstanding or that had had a dilutive effect on earnings per share.

The net profit for 2012 of Adler Modemärkte AG under German commercial law was transferred to net retained assets by the Executive Board and the Supervisory Board of Adler Modemärkte AG in accordance with § 26 of the Articles of Association. The net accumulated losses reported in the consolidated financial statements in accordance with IFRSs will be carried forward to new account.

### 35. LITIGATION AND CLAIMS FOR DAMAGES

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

### 36. AUDITORS' FEES

Fees amounting in total to € 352 thousand (prior year € 1,221 thousand) were incurred in financial year 2012 for services provided by the auditor within the meaning of § 318 HGB:

k€	2012	2011
Auditing services	195	347
Other certification services	55	647
Tax consultancy services	89	76
Other services	13	151
<b>Total</b>	<b>352</b>	<b>1,221</b>

### 37. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no further matters arising after the end of the financial year up to the date of preparation of the consolidated financial statements that have a material effect on the financial position, cash flows and financial performance of the Company for financial year 2012.

### 38. VOTING RIGHTS NOTIFICATIONS

Before the reporting year, the Company received notifications of changes in voting rights pursuant to §§ 21 (1), 21 (1a) of the German Securities Trading Act (Wertpapierhandelsgesetz, „WpHG“), which in each instance were published with the following content in accordance with § 26 (1) WpHG:

On 28 June 2011, Chevrny Investments Limited, Gzira, Malta, filed notice pursuant to § 21 (1a) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, German Securities Identification Number (WKN): A1H8MU, was 37.17% (equivalent to 6,880,050 voting rights) on 21 June 2011, the date on which the shares were first admitted to trading.

On 1 July 2011, blu Finance Ltd., St. Julians, Malta, filed notice pursuant to § 21 (1a) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (equivalent to 6,880,050 voting rights) on 21 June 2011, the date on which the shares were first admitted to trading. Under § 22 (1) sentence 1 no. 1 WpHG, the aforementioned voting interest is attributable to blu Finance Ltd., St. Julians, Malta. The chain of controlled entities is as follows: Chevrny Investments Limited, Gzira, Malta.

On 1 July 2011, bluO Malta Holding Ltd., St. Julians, Malta, filed notice pursuant to § 21 (1a) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (equivalent to 6,880,050 voting rights) on 21 June 2011, the date on which the shares were first admitted to trading. Under § 22 (1) sentence 1 no. 1 WpHG, the aforementioned voting interest is attributable to bluO Malta Holding Ltd., St. Julians, Malta. The chain of controlled entities (beginning with the ultimate subsidiary) is as follows: Chevrny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta.

On 1 July 2011, bluO SICAV-SIF, Luxembourg, filed notice pursuant to § 21 (1a) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, was 37.17% (equivalent to 6,880,050 voting rights) on 21 June 2011, the date on which the shares were first admitted to trading. Under § 22 (1) sentence 1 no. 1 WpHG, the aforementioned voting interest is attributable to bluO SICAV-SIF, Luxembourg. The chain of controlled entities (beginning with the



ultimate subsidiary) is as follows: Cheverny Investments Limited, Gzira, Malta; blu Finance Ltd., St. Julians, Malta; bluO Malta Holding Ltd., St. Julians, Malta.

On 30 June 2011, Deutsche Bank AG London, London, England, filed notice pursuant to §§ 21 (1a), 24 WpHG in conjunction with § 32 (2) of the German Investment Act (Investmentgesetz, „InvG“) that the voting interest of its subsidiary DWS Investment GmbH, Frankfurt am Main, Germany, in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, exceeded the thresholds of 3% and 5% on 24 June 2011 and amounted to 7.563% (equivalent to 1,400,000 voting rights) on that day.

Correction of our notification dated 1 July 2011:

To correct its notification from 30 June 2011, Deutsche Bank AG London, London, England, filed notice pursuant to §§ 21 (1), 24 WpHG in conjunction with § 32 (2) InvG on 15 July 2011 that the voting interest of its subsidiary DWS Investment GmbH, Frankfurt am Main, Germany, in Adler Modemärkte AG, Haibach, Germany, ISIN: DE000A1H8MU2, WKN: A1H8MU, exceeded the thresholds of 3% and 5% on 24 June 2011 and amounted to 7.563% (equivalent to 1,400,000 voting rights) on that day.

In the reporting year, the Company received notifications of changes in voting interests pursuant to §§ 21 (1), 21 (1a) WpHG, which in each instance were published with the following content in accordance with § 26 (1) WpHG:

On 16 January 2012, Mr Gerhard Wöhr, Germany, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 11 January 2012 and amounted to 3.100% (equivalent to 573,811 voting rights) on that day.

Correction of our notification dated 16 January 2012:

On 16 January 2012, Mr Gerhard Wöhr, Germany, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 11 January 2012 and amounted to 3.100% (equivalent to 573,811 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 3.100% of the voting interest (equivalent to 573,811 voting rights) is attributable to Mr Wöhr.

Correction of our publication dated 16 January 2012:

To correct his notification from 16 January 2012, Mr Gerhard Wöhr, Germany, filed notice pursuant to § 21 (1) WpHG on 17 January 2012 that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 11 January 2012 and amounted to 3.100% (equivalent to 573,811 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 1.003% of the voting interest (equivalent to 185,600 voting rights) is attributable to Mr Wöhr.

On 13 March 2012, Farringdon I (FFI), Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 14 December 2011 and amounted to 3.16% (equivalent to 585,205 voting rights) on that day.

On 13 March 2012, Farringdon Capital Management Switzerland SA (FCMS), Geneva, Switzerland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 14 December 2011 and amounted to 3.16% (equivalent to 585,205 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.16% of the voting interest (equivalent to 585,205 voting rights) is attributable to the company. The voting rights of the following shareholders, whose voting interest in Adler Modemärkte AG in each case amounts to 3% or more, are attributable to the company: Farringdon I (FFI).

On 13 March 2012, Farringdon Capital Management SA (FCML), Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 14 December 2011 and amounted to 3.16% (equivalent

to 585,205 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.16% of the voting interest (equivalent to 585,205 voting rights) is attributable to the company. The voting rights of the following shareholders, whose voting interest in Adler Modemärkte AG in each case amounts to 3% or more, are attributable to the company: Farringdon I (FFI).

On 13 March 2012, Farringdon I (FFI), Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, fell below the threshold of 3% on 26 January 2012 and amounted to 2.60% (equivalent to 481,910 voting rights) on that day.

On 13 March 2012, Farringdon Capital Management Switzerland SA (FCMS), Geneva, Switzerland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, fell below the threshold of 3% on 26 January 2012 and amounted to 2.60% (equivalent to 481,910 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 2.60% of the voting interest (equivalent to 481,910 voting rights) is attributable to the company.

On 13 March 2012, Farringdon Capital Management SA (FCML), Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, fell below the threshold of 3% on 26 January 2012 and amounted to 2.60% (equivalent to 481,910 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 2.60% of the voting interest (equivalent to 481,910 voting rights) is attributable to the company.

Adler Modemärkte AG, Haibach, Germany, filed notice pursuant to § 26 (1) sentence 2 WpHG that its interest in own shares in exceeded the threshold of 3% on 3 May 2012 and amounted to 3.02% (equivalent to 558,193 voting rights) on that day.

On 14 November 2012, Dr. Peter Löw, Germany, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 14 November 2012 and amounted to 3.00% (equivalent to 554,479 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 1.30% of the voting interest (equivalent to 240,825 voting rights) is attributable to Dr. Löw.

Correction of our publication dated 14 November 2012:

To correct his notification from 14 November 2012, Dr. Peter Löw, Germany, filed notice pursuant to § 21 (1) WpHG on 16 November 2012 that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 13 November 2012 and amounted to 3.00097% (equivalent to 555,479 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 1.30% of the voting interest (equivalent to 240,825 voting rights) is attributable to Dr. Löw.

The Company did not receive any further notifications in financial year 2012 that shareholders' voting interests had reached, exceeded or fallen below statutory thresholds.

After financial year 2012, the Company received notifications of changes in voting interests pursuant to §§ 21 (1), 21 (1a) WpHG, which in each instance were published with the following content in accordance with § 26 (1) WpHG:

On 10 January 2013, Dr. Peter Löw, Germany, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 5% on 9 January 2013 and amounted to 5.01% (equivalent to 927,351 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 3.29% of the voting interest (equivalent to 609,825 voting rights) is attributable to Dr. Löw.

On 17 January 2013, DWS Investment GmbH, Frankfurt am Main, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, fell below the threshold of 5% on 16 January 2013 and amounted to 4.95% (equivalent to 915,839 voting rights) on that day.

On 18 January 2013, Farringdon Capital Management SA, Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% (equivalent to 641,418 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.47% of the voting interest (equivalent to 641,418 voting rights) is attributable to the company.

On 18 January 2013, Farringdon Netherlands BV, Amsterdam, The Netherlands, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% (equivalent to 641,418 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.47% of the voting interest (equivalent to 641,418 voting rights) is attributable to the company.

On 18 January 2013, Farringdon Denmark Aps, Copenhagen, Denmark, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% (equivalent to 641,418 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.47% of the voting interest (equivalent to 641,418 voting rights) is attributable to the company.

On 18 January 2013, Mr Bram Cornelisse, The Netherlands, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% (equivalent to 641,418 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG, 3.47% of the voting interest (equivalent to 641,418 voting rights) is attributable to Mr Cornelisse.

On 18 January 2013, Mr Andreas Tholstrup, Denmark, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 6 December 2012 and amounted to 3.47% (equivalent to 641,418 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG, 3.47% of the voting interest (equivalent to 641,418 voting rights) is attributable to Mr Tholstrup.

On 6 February 2013, DWS Investment GmbH, Frankfurt am Main, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, fell below the threshold of 3% on 1 February 2013 and amounted to 1.62% (equivalent to 300,000 voting rights) on that day.

### **39. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE**

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On 5 February 2013, the Executive Board and the Supervisory Board of Adler Modemärkte AG jointly issued the Declaration of Conformity with the recommendations of the German Corporate Governance Code as amended on 15 May 2012 in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, „AktG“). The form and content of the Declaration of Conformity is permanently available to shareholders on the Company's website at <http://www.adlermode-unternehmen.com/investor-relations/corporate-governance/entsprechenserklaerung>.

### **40. EXECUTIVE BODIES OF THE COMPANY**

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The following persons exercised an executive board function in financial year 2012 and up to the date of preparation of the financial statements:

- Lothar Schäfer, Villmar, Germany, CEO, Executive Board member for Strategy, Public Relations and Mergers & Acquisitions
- Manuela Baier, Neuss, Germany, Executive Board member for Purchasing, Logistics, Supply Chain Management and Quality Control (Executive Board member since 21 May 2012)
- Karsten Odemann, Bad Tölz, Germany, Executive Board member for Finance, Controlling, Audits, Human Resources, Legal, IT, Labour Director and Investor Relations

- Thomas Wanke, Braunschweig, Germany, Executive Board member for Marketing, Sales, Visual Merchandising and Site Expansion

The members of the Supervisory Board of Adler Modemärkte AG in financial year 2012 were as follows:

- Holger Kowarsch<sup>1\*</sup>, <sup>3\*</sup>, <sup>4\*</sup>, Hochstadt, Germany, Chairman of the Supervisory Board, businessman, other supervisory board positions: AlzChem AG, ZIP Warenhandel AG (until 6 February 2012, deputy chairman).
- Angelika Zinner<sup>1</sup>, <sup>2</sup>, <sup>4</sup>, Kettensis, Belgium, Deputy Chairman of the Supervisory Board, Chairman of the Joint Works Council at Adler Modemärkte AG
- Mona Abu-Nusseira, Munich, Germany, Principal M&A bluO International Affiliates Ltd., other supervisory board positions: AlzChem AG
- Majed Abu-Zarur, Mannheim, Germany, Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG
- Ingrid Düsmann-Schulz, Bessenbach, Germany Head of Training at Adler Modemärkte AG (until 12 March 2012)
- Corinna Groß, Neuss, Germany, District Managing Director at ver.di
- Georg Linder<sup>1</sup>, <sup>2</sup>, <sup>4</sup>, Haibach, Germany, Divisional Head of Procurement Planning and Merchandise Management at Adler Modemärkte AG
- Eduard Regele<sup>1</sup>, <sup>2\*</sup>, <sup>3</sup>, <sup>4</sup>, Eurasburg, Germany, degree in business administration, Member of the Board of Directors of bluO International Affiliates Ltd.
- Rita Richter, Aschaffenburg, Germany, Team Leader of Payroll Accounting at Adler Modemärkte AG (since 12 March 2012)
- Erika Ritter, Berlin, Germany, State specialist department head trade, other supervisory board positions: Otto Reichelt GmbH
- Markus Roschel, Sasbachwalden, Germany, Investment Manager at bluO International Affiliates Ltd., Member of the Executive Board of ZIP Warenhandel AG (until 6 February 2012)
- Markus Stillger<sup>2</sup>, <sup>3</sup>, Brechen, Germany, Managing Partner of Stillger & Stahl Vermögensverwaltung GbR, commercial attorney-in-fact (Prokurist) (CFO) of ABID Senioren Immobilien GmbH, Managing Director (CEO) of MB Fund Advisory GmbH, and Managing Director (CEO) of Stikma GmbH; other supervisory board positions: Agrarius AG, Ex Oriente Lux AG
- Jörg Ulmschneider, Schmelz, Germany, Management Consultant, Managing Director of new connections

Memberships in

<sup>1)</sup> Personnel Committee, <sup>2)</sup> Audit Committee, <sup>3)</sup> Nomination Committee, <sup>4)</sup> Conciliation Committee, \*Chairman of the Committee

Haibach, February 26, 2013



Lothar Schäfer  
Chairman of the Executive Board



Manuela Baier  
Member of the Executive Board




Karsten Odemann  
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 26, 2013



Lothar Schäfer  
Chairman of the Executive Board



Manuela Baier  
Member of the Executive Board



Karsten Odemann  
Member of the Executive Board

# AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Adler Modemärkte AG, Haibach, Germany, – consisting of the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements – and the Group management report for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as adopted in the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the German Commercial Code (Handelsgesetzbuch, „HGB“) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position, cash flows and financial performance in the consolidated financial statements in accordance with the relevant financial reporting standards and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the group of consolidated companies, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as the evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under § 315a (1) HGB and give a true and fair view of the financial position, cash flows and financial performance of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 28, 2013

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Jürgen Schwehr  
Wirtschaftsprüfer

ppa. Axel Ost  
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# FURTHER INFORMATION

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## FINANCIAL CALENDER

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May 15, 2013	Report for the first quarter 2013
May 22, 2013	Annual shareholders' meeting
August 08, 2013	Report for the first half of 2013
November 07, 2013	Report for the third quarter 2013

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## PUBLISHER

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## EDITORIAL

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Annual Report 2012

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