

MULTI-YEAR OVERVIEW

		2010*	2011	2012**	2013	2014	Change 2014 to 2013	
							absolute	relative
Revenue	€ million	444.8	476.6	506.1	528.6	535.3	6.7	1.3%
Material expenses	€ million	-210.4	-231.0	-238.2	-234.9	-243.2	-8.3	3.5%
Gross profit	€ million	234.4	245.6	267.9	293.7	292.1	-1.6	-0.5%
Gross profit margin	%	52.7%	51.5%	52.9%	55.6%	54.6%	-1.1%	-2.0%
EBITDA	€ million	37.8	31.2	35.5	42.9	41.5	-1.4	-3.3%
EBITDA margin	%	8.5%	6.5%	7.0%	8.1%	7.8%	-0.3%	-3.2%
Depreciation	€ million	-13.6	-13.9	-15.0	-14.0	-15.4	-1.4	10.0%
Impairment	€ million	0.0	-0.9	0.0	0.0	0.0	0.0	0.0%
EBIT	€ million	24.3	16.4	20.5	28.9	26.2	-2.7	-9.3%
EBIT margin	%	5.5%	3.4%	4.1%	5.5%	4.9%	-0.6%	-10.5%
Net income from operations	€ million	23.7	12.9	16.2	24.6	21.2	-3.4	-13.8%
Income taxes	€ million	4.8	-4.4	-6.1	-6.0	-7.1	-1.1	18.3%
Consolidated profit for the year	€ million	28.5	8.5	10.1	18.6	14.1	-4.5	-24.2%
Earnings per share*	€	1.62	0.48	0.56	1.05	0.77	-0.28	-26.7%
Net cash flows from operating activities	€ million	25.8	8.8	30.7	40.9	36.4	-4.5	-11.0%
Net cash flows from investing activities	€ million	-16.8	-13.2	-9.7	-9.2	-11.4	-2.2	23.9%
Free cash flow	€ million	9.0	-4.4	21.0	31.8	25.0	-6.8	-21.4%
TOTAL ASSETS	€ million	162.7	187.4	213.2	228.4	244.3	15.9	7.0%
Non-current assets	€ million	67.5	66.4	80.8	89.1	93.1	4.0	4.5%
Current assets	€ million	95.2	121.0	132.4	139.4	151.2	11.8	8.5%
Inventories	€ million	56.7	73.5	81.1	77.5	75.6	-1.9	-2.5%
Cash and cash equivalents	€ million	33.0	40.0	42.1	54.5	69.7	15.2	27.9%
EQUITY	€ million	41.2	74.8	80.3	92.0	105.6	13.6	14.8%
Equity ratio	%	25.3%	39.9%	37.7%	40.3%	43.3%		
Non-current liabilities	€ million	47.2	38.2	54.1	62.1	63.5	1.4	2.3%
Current liabilities	€ million	74.4	74.4	78.8	74.3	75.1	0.8	1.1%
Debt equity ratio		2.95	1.50	1.66	1.48	1.31		
Number of employees as of December 31	number	4,174	4,404	4,390	4,301	4,154	-147.0	-3.4%
Personnel expenses	€ million	-75.0	-77.9	-85.3	-92.0	-95.2	-3.2	3.5%
TOTAL NUMBER OF STORES		134	162	169	171	170		
of which in Germany		106	132	139	143	145		
of which in Austria		26	28	27	25	22		
of which in Luxembourg		2	2	2	2	2		
of which in Switzerland		-	-	1	1	1		

* In the consolidated financial statement 2010 there was a GmbH (limited liability company) share

** Adjusted





LOTHAR SCHÄFER
Chairman of the Executive Board

LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Dear Sir or Madam,

ADLER can once again look back on a highly successful year. As shareholders you can see that our share price performance speaks for itself: of the 22 stocks listed on the Mode-Aktien-Index, Germany's fashion stock index, ADLER shares posted the best performance in 2014, increasing by 31%. And this was the second year in a row: ADLER shares also posted the best performance in 2013, jumping 101%.

This development was neither foreseeable nor a matter of fact. The past year was a dramatic year for fashion retail industry, and one that ended in disappointment after revenues declined in the final four months. Since three of the first eight months of the year also ended well in the red, the German textile industry recorded an average decline in revenue of 3% in 2014.

Adler Modemärkte AG bucked this negative trend. In 2014, ADLER once again systematically built on its positive performance. Our Company successfully bucked the general trend and continued to grow at a rate of 2% (adjusted for effects in 2013 from the customer loyalty card programme, or 3% like-for-like), almost the same rate at which the industry lost ground.

That is no coincidence. We worked hard across all areas of the Company, as you no doubt already noticed from our quarterly results. In most months we successfully countered the weak sales trend and increased ADLER's revenue. At the same time, we also continuously improved the profitability of the Company.

ADLER ended 2014 on a successful note because it pursued a corporate policy that was consistent from the overall strategy down to the various individual measures. The basis for this certainly was and still is our clear strategic focus on our mature and loyal target customer group aged 45 and up. Our decision to focus on this target group is also bolstered by demographic change and creates the potential for additional, sustainable growth.

At the same time, we proactively implemented numerous measures to make the ADLER umbrella brand even more attractive for our customers. In 2013, we began to modernise certain older existing stores. The new, vibrant store designs offer our customers a significantly improved shopping experience. We stepped up these measures during the past financial year and completely renovated 15 additional stores.

However, we also worked to provide a more attractive range of products to our initial target group. Today, our MyOwn, Viventy and Via Cortesa own brands have a significantly more modern and fashionable look. We now also offer the new Steilmann Edition collection, a contemporary brand designed by our cooperation partner and majority shareholder, Steilmann.

By increasing the attractiveness of our stores and outfits we also hope to make the ADLER umbrella brand more attractive. For this reason, we consulted one of the world's largest advertising agencies to help us launch a modern image campaign. It purposefully breaks with certain traditional fashion constraints and propagates a casual, self-confident style of dress. The campaign was first broadcast on TV last March and has since been instrumental in freshening up our public image.

We are also working to improve our cross-channel offering. We are continuously working to improve the functionality of the ADLER online shop which launched a few years ago so as to make it an increasingly attractive sales channel for our customers. By further dovetailing our bricks-and-mortar business with our online sales channel, we offer customers the option of conveniently making purchases with the click of a mouse and allowing them to pick-up, exchange or add additional items to their online purchases at our stores. In addition, we gain an even better understanding of their preferences and needs.

The 2014 financial year would not have been as successful had we not continued to improve on our internal processes. Our partnership with the Steilmann Group allowed us to make additional progress in the areas of purchasing and procurement. Even more significant was the comprehensive introduction of RFID technology at all ADLER stores. This technology has the potential to further increase revenue by optimising the supply of merchandise from the warehouse to sales floors, while significantly improving electronic article surveillance, providing accurate stock control and inventory on an ongoing basis, and generally improving the efficiency and accuracy of our processes.

Furthermore, RFID technology provides an excellent basis for additional technological innovations. It makes the introduction of new automated processes in warehouses/stockrooms and on sales floors possible in the near future. ADLER has the most sophisticated and complex system in Germany to date. ADLER is intent on defending its role as a pioneer in this area as well as on continuing to introduce useful technological innovations in the future if the benefits of doing so outweigh the costs.

2014 was also a year marked by consolidation and efforts to sustainably increase the Company's profitability. That is why ADLER closed unprofitable stores during this financial year as well, including the Düsseldorf-Bilk store and the Austrian stores in Graz, Innsbruck and Fürstenfeld. The lease agreement for the profitable store in Hürth near Cologne was not extended. However, we also opened new stores in Lüdenscheid, Solingen, Hamburg-Rahlstedt and Henstedt-Ulzburg.

ADLER plans to grow even further in financial year 2015. But we are not rushing headlong into expansion. We plan our growth step-by-step using sound judgment. Acquisitions and new store openings alike must dovetail seamlessly with our structures and development. We set the course for this in 2014. In September we concluded an agreement to acquire a large store from the „hefa Modem“ chain in Mömlingen, which will open in spring following its renovation.

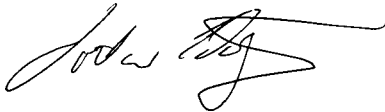
In the fourth quarter, ADLER announced that it would be acquiring Kressner and its nine stores from the REWE Group and the Sanktjohanser family. The acquisition has since been approved and completed. Seven of the stores will be re-branded and operated as ADLER stores. They are excellent additions to our portfolio of stores on account of their locations and sizes, and they also close existing gaps. Furthermore, this acquisition fits perfectly with our long-standing mom-and-pop shop

strategy, i.e., to acquire established speciality stores with loyal customer bases. Much like their ADLER counterparts, customers of the Mömlingen and Kressner stores are already members of customer loyalty card programmes.

In the past year we demonstrated in impressive style that it is possible to overcome difficult years in the fashion retail industry through hard work. With the help of our employees and our other stakeholders, we are confident that we will be able to successfully continue down this path in the new financial year. In any event, we will give nothing less than 100%. Because one thing is certain: 2015 is not likely to be any easier than this past year.

I would like to express my utmost gratitude to all ADLER employees for the tireless commitment they show in their work every day. I would also like to take this opportunity to thank our shareholders. Our success would not be possible without your loyalty and the belief you have placed in this Company and the course we have taken.

Best regards,

A handwritten signature in black ink, appearing to read 'Lothar Schäfer', with a stylized flourish at the end.

Lothar Schäfer
Chairman of the Executive Board

Haibach, 19 March 2015

AT ADLER, THE FUTURE IS NOW

CUSTOMERS ALSO PROFIT FROM NEW RETAIL TECHNOLOGIES

By introducing radio frequency identification (RFID) technology across all of its stores, Adler Modemärkte AG has taken an important step forward. This technology allows data to be read and stored without the need for physical contact or line of sight. This increases customer satisfaction, improves electronic article surveillance, provides ongoing stock control and verifiably increases revenue by ensuring that the most popular merchandise is always available in stores.

If you ask ADLER store managers about customer reactions to RFID, the answers you get are mostly very brief. That is because the technology elicits hardly any questions or reactions. If customers see an employee walking through the store with a handheld electronic scanning device to scan entire clothing racks or shelves of merchandise, the employee may sometimes be asked what he or she is doing. However, the most frequent and often only reaction to the introduction of RFID technology at ADLER stores is indirect: customers at the cash register are amazed that so many items can be identified with lightning speed as if by magic using the wireless RFID tags. „Are you already done scanning everything?“ or „Is that already the total amount?“ are the two questions customers most frequently pose.



The potential of this technology – which, aside from the time it saves them at the cash register, customers hardly see or notice – is multi-faceted, especially in retail. It is therefore rather surprising that it has taken relatively long for RFID technology to become established in this area. This inconspicuous and helpful technology has been used in many different sectors of the economy and society for quite some time now. For example, in car manufacturing, wireless chips signal which components must be built into the next body shell. In animal husbandry, wireless chips help track the origin of meat back to the individual animal at the livestock breeder. They can be used in ski passes and admission tickets, and can be used for registration, monitoring or time-keeping purposes at large public gatherings such as major marathons. RFID chips in residential waste containers register each time the container is emptied and then send this data to the waste management company for billing purposes.

RFID means identifying objects with the aid of electromagnetic waves. ADLER uses hang tags, which are tags that are printed and embedded with chips and a tiny antenna. The chips are so small and thin that customers cannot feel the antenna or the chip, and they can only see them when holding the hang tag up to the light. These specially prepared tags act as tiny storage devices; in this case, they store the encoded multi-digit European Article Number (EAN). The chip will transmit the data it holds when scanned by a handheld device or identified at the cash register. An item is removed from the stock management system once a customer pays for that item at the cash register. If the item remains in the store it will be duly recorded during every inventory.



ONGOING STOCK CONTROL AND INVENTORY AT THE PRESS OF A BUTTON

What at first glance may seem to be a mere technical gimmick is actually a revolution in the retail industry. The range of possible applications for this tiny storage medium is enormous. Whereas in the past a store had to be closed once a year for up to two days to conduct an inventory, that process can now be completed any time virtually at the press of a button. This is nothing less than ongoing stock control – the best basis for demand-based sales promotions at the point of sale (POS). Whereas in the past bulky plastic security tags were used to protect merchandise from theft, electronic article surveillance is now integrated into the RFID tags. Employees also used to have to remove the delivered merchandise from the boxes, check whether the delivery matched the order, and then individually scan each item. Now, entire boxes or textiles delivered on hangers can be scanned using a handheld device at goods receiving at the stockroom and instantly be captured by the store's stock management system. And this is not an exhaustive list of the advantages by any means.



Today, each RFID solution in retail is a custom solution because the production and goods procurement, logistics processes, the relationship in sales between the wholesale, verticalisation or pure retail business, the existing IT systems and the size and fixtures and fittings of stores are different at each vendor. ADLER recently introduced the most sophisticated RFID solution on the German market to date. This distinction is due on the one hand to the approximately 27 million articles that are tagged per year and sold at more than 170 stores in four countries. On the other hand, it is due to the diversity of the integrated processes. No wonder that retail experts at Cologne's renowned EHI Retail Institute honoured Adler Modemärkte AG with the award for „Best Enterprise Solution“ in early 2014.

The following is an overview of the project objectives that ADLER successfully implemented in 170 stores with the help of RFID-supported processes:

RFID-SUPPORTED STOCK MANAGEMENT:

- Differentiating between inventory in stockrooms and on sales floors
- Inventory corrections and replenishment
- Replenishment suggestions from stockrooms to sales floors

BRICKS-AND-MORTAR RFID PROCESSES:

- Antennas for identifying items at junction between stockrooms and sales floors
- Identifying merchandise at cash register
- Electronic article surveillance at customer entrances

MOBILE RFID PROCESSES USING HANDHELD DEVICES:

- Scanning new deliveries at goods receiving
- Stocktaking in stockrooms and on sales floors
- Search function for available but misplaced items
- All aforementioned processes

ADLER had considered the introduction of RFID for many years. However, at the beginning of the 21st century, the technology had not yet been established in the German fashion retail industry, even though, for example, the retail giant Walmart in the US and the department store chain Marks & Spencer in the UK had already introduced RFID systems, with encouraging results and bona fide revenue increases.

Adler Modemärkte AG revisited the issue in 2009. This was due in no small part to personnel changes in the Company's management, which recognised the enormous opportunities and potential that RFID presented: ongoing stock management and inventory, highly transparent logistics processes, improved replenishment with NOS (Never Out of Stock) articles, more effective electronic article surveillance and increased efficiency across the entire process chain.

One of the challenges associated with the realisation of this project was also the fact that inventories conducted at ADLER stores did not distinguish between items in the stockrooms and those on the sales floor, despite the approximately 70,000 items per store. This meant that there was always the risk that high-volume articles in popular sizes and colours were in fact not available on shelves despite still being listed as in stock. However, if the articles were in fact still in stock, they were in the stockroom and it just had not been possible to restock them on shelves as needed. It was apparent that additional revenue was lost.

ELECTRONIC ARTICLE SURVEILLANCE NOW FULLY INTEGRATED

Furthermore, ADLER's previous electronic article surveillance system was incomplete and the attachment of anti-theft devices was still highly expensive. The use of bulky plastic security tags was widespread, including in ADLER stores. They pierce fabric and material, take time to put on and remove and can even damage fabric if applied hastily or handled carelessly. However, these plastic tags were used to secure only approximately 20% of the articles of clothing in the stores. Moreover, the electronic equipment in the background does not always detect these tags reliably, leading to embarrassing false alarms or actual alarms not going off.

In 2010, ADLER began planning the project and searching for suitable solutions. This was necessary because a properly functioning, customised RFID system is extremely complex and requires numerous software and hardware components as well as qualified system integration experts to assist with project management. The Company and a consulting firm jointly analysed the premises and the customer-specific requirements. This also included an analysis of the existing ERP system used to budget and manage the Company's resources and the associated IT architecture.



The project team selected potential suppliers on the basis of the definition for ADLER's optimal solution and the requisite tools and processes. In 2011, the Weiterstadt store near Darmstadt was selected as a suitable „lab“ for ADLER's initial test phase. In a first step various software tools and hardware components were tested to ascertain how they interacted with one another. After several months, the Company had a list of the most suitable components and, by extension, the participating systems partners for ADLER's solution.

This paved the way for the actual pilot project to commence in Weiterstadt in the spring of 2012. All of the necessary systems, mobile handheld devices and RFID printers were introduced at the store and all textiles received wireless tags. This marked the beginning of the practical application phase to demonstrate whether the components functioned properly, whether the theoretical assumptions were correct and whether the stated project objectives could be realised. Even a pilot project as manageable as this one needs months of testing because the newly designed processes run up against established processes and the employees had to undergo the requisite training.



NEW GENERATION OF HANDHELD DEVICES SCANS MERCHANDISE

In order to verify the positive results delivered by the pilot project, the test phase was first expanded to five stores in Germany and shortly thereafter to the two stores in Luxembourg. This provided a sufficiently broad dataset. The practical results from the seven stores, each with different architectural layouts, painted a consistent picture. This picture clearly showed that RFID not only functioned seamlessly, but also that by introducing the technology, ADLER had moved closer to attaining the objectives it had set.

In August 2013, ADLER began equipping its approximately 170 stores with the requisite hardware and software components. This included a new generation of handheld devices for scanning the merchandise delivered to stockrooms, antennas for the junction between stockrooms and sales floors as well as exits, wireless tags for individual articles, RFID printers and software. Each week, five to six stores were equipped and linked up to the joint network. With the exception of a final software release, which takes into account the practical experience gleaned from ongoing operations, the entire project was concluded at the end of April 2014, approximately five months ahead of schedule.

THE NEW SYSTEM HAS MANY ADVANTAGES WHICH ARE CLOSELY LINKED.

RFID ALLOWS

- precise inventories to be conducted at stores at any time
- articles or sizes to be restocked immediately from the store's stockroom as soon as those articles or sizes have sold out in the store
- stockrooms to be replenished by the central warehouse as soon as the inventory in the stockrooms decreases
- revenue to be increased since the technology ensures that popular articles are never out of stock and restocked early on
- customer wait times to be reduced by accelerating the checkout process
- for significantly improved electronic article surveillance by integrating this function into the RFID tags
- all relevant supply chain and stock management processes to be improved



Adler Modemärkte AG has already made significant investments in this project. But the sum of the many advantages this concept offers and the short amount of time in which it will pay for itself have won us over and justify the solution we selected, especially since not only the Company but also our customers will benefit from the improvement to ADLER's processes. The forecast increases in revenue are realistically calculated by comparing sales of normal merchandise with NOS merchandise that is restocked quickly using RFID. The approximately €8 million investment will begin to pay for itself in 2015 through increased revenue, process efficiency and customer satisfaction. However, due to the staggered introduction of the project, the Company will not feel the full effect until the end of 2016.

After rolling out the technology to all stores, ADLER's project team began the optimisation phase. In addition to improving the availability of articles for customers, the advantages of the system include more effective electronic article surveillance and ongoing inventory management. The need for bulky plastic security tags will be eliminated and project managers believe that previous inventory differences of approximately 1.3% will decrease by 25%.

A mere six months after all stores were linked up to the RFID network, the preliminary balance sheet already broadly confirms the project assumptions. The accuracy rate of store inventories exceeds 99% (inventory can be taken using handheld devices any time before a store opens or after it closes). The replenishment of stock from ADLER's central warehouse by MOTEX, Hörselgau (near Eisenach), works well. At the central warehouse, a conveyor belt passes packaged and hanger-mounted merchandise through a special RFID tunnel. The data is captured seamlessly.



In-store replenishment, i.e., replenishing the sales floor with merchandise from the store's stockroom, could be improved on slightly by further standardising the stockroom organisation. The individual local stockrooms sometimes differ greatly due to the fact that ADLER leases third-party real estate and is unable to implement a standardised construction concept for its stores. On a regular basis, every store manager receives a list with suggestions about which products to replenish based on previous sales. This way, customers always find what they are looking for, in their size and desired colour, and ADLER does not miss out on easily generated revenue.

SHORTER CHECKOUT WAIT TIMES

Prior to the introduction of RFID technology, only approximately 20% of textiles were outfitted with anti-theft devices. Now, the electronic article surveillance system monitors 100% of the textiles. The only exceptions are the smallest of articles such as socks and accessories. Since this system did not go online at all stores until May 2014, it will be some time before ADLER can make any reliable statements about the extent to which RFID-integrated electronic article surveillance has reduced shrinkage.

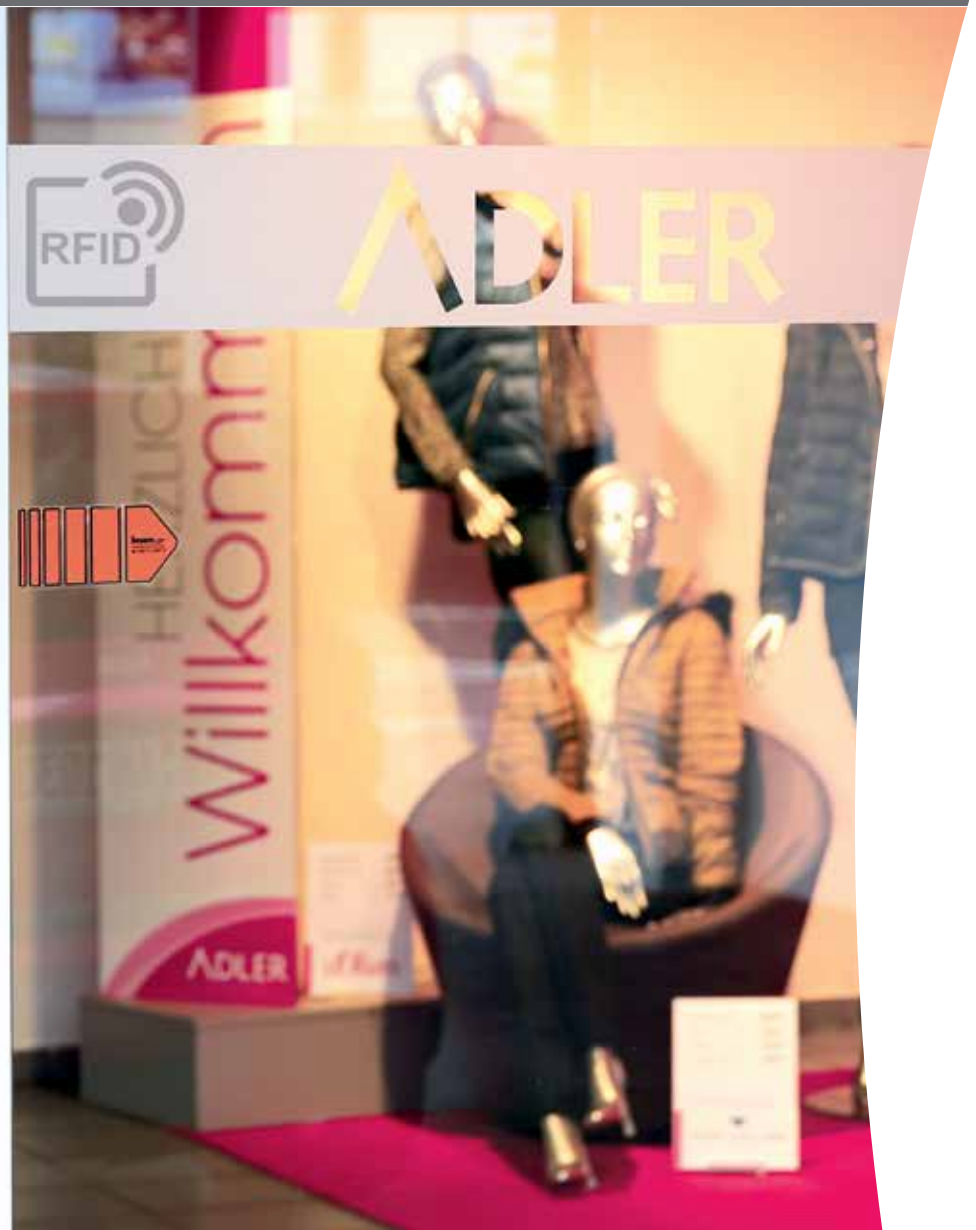


While differences on account of the individual characteristics of the various stores will necessitate further training here and there to make the process more efficient, the checkout process has already been accelerated significantly. This means shorter wait times for customers and, depending on the number of articles being purchased, accelerated payment processes for individual customers. The signs at store entrances and the stand-up displays at cash registers are well visible, informing the customers that RFID technology is now employed at all ADLER stores. But to date, ADLER customers have not raised any questions or concerns regarding the collection of data in connection with the use of RFID.

These would also be completely unfounded. At ADLER, customer data and RFID information are processed by two completely separate systems. And ADLER neither intends to couple these systems, nor would that be possible. Furthermore, it would make absolutely no sense to do so, because ADLER already generates more than 90% of its revenue through its customer loyalty card programme, an excellent source of information about its customers' preferences. It is also in the interest of ADLER's customers to provide the Company this information because they receive a wide array of discounts and customer benefits in return.



However, the use of RFID is also very forward-looking. One advantage of RFID technology is its viability going forward, particularly in combination with existing and new peripheral technologies. Further automation steps intended to improve the replenishment process can be added on to the newly implemented system at relatively little additional cost. Presently, this is not yet at a stage which warrants an expansion of the business case, but ADLER is already in talks with renowned research institutes in this regard. As a pioneer in the extensive use of RFID technology, ADLER intends to leverage technological advances and creativity to increase its competitive edge. When it comes to technology in the retail fashion world, the imagination knows no bounds.



ADLER SHARES

ADLER shares have been traded on the regulated market of the Frankfurt Stock Exchange since 22 June 2011. The share capital of Adler Modemärkte AG is divided into 18,510,000 no-par value 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.

SHAREHOLDER STRUCTURE

Shareholder structure *



■ S&E Kapital GmbH	52,81 %
■ Gerhard Wöhrl	5,03 %
■ Free float	42,16 %
including Taaleritehdas	3,05 %

* reportable shareholdings, as of 15 October 2014

ADLER'S SHARE PRICE PERFORMANCE

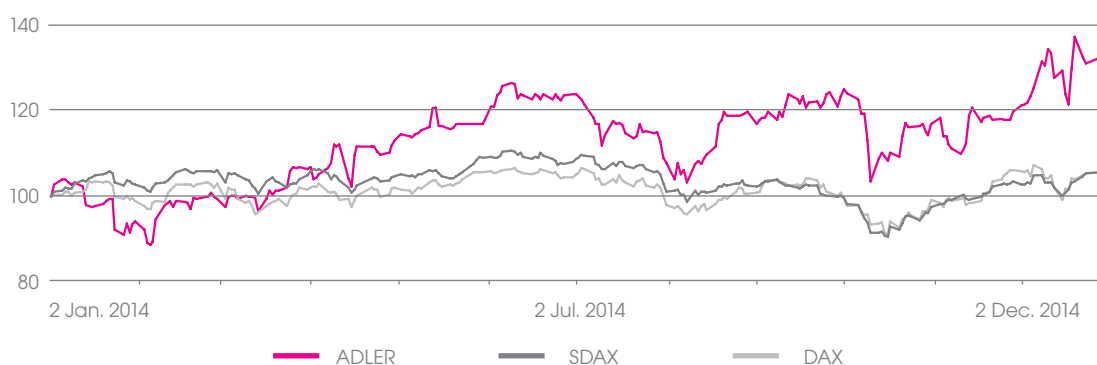
After ADLER shares skyrocketed 101% in 2013 to become the most successful stock in the entire textile and fashion industry, no one expected 2014 to end on a similar note. But that is exactly what happened. The ADLER Group's performance trend continued to be a true success story during the year under review. While shares in German and European fashion retail companies were not favoured by stock exchanges during 2014, ADLER shares again increased significantly by 31%. Thus, ADLER shares led the Mode-Aktien-Index (MAI), Germany's fashion stock index, for the second year running. The TextilWirtschaft trade magazine maintains the MAI, which lists and monitors the stock of 22 fashion companies.

And that despite the fact that Adler Modemärkte AG's year began on a muted and rather negative note. On the first trading day of the year, ADLER shares were listed at €10.25 and initially fell and reached their nadir of the year on 5 February, closing at €9.086. However, after this initial lull, the shares increased again and four months later peaked for the first time at €12.99 on 9 June. Following a general temporary lull on the stock market, the shares again peaked, albeit slightly lower at €12.85 on 1 October. After another course correction, the ADLER shares then jumped to their high for the year of €14.10 on 19 December following the announcement of the Kressner acquisition. ADLER shares closed out the year on 30 December at €13.45

ADLER SHARE PRICE VERSUS DAX

The strength of the ADLER shares was also demonstrated by a direct comparison of the shares against the DAX. While the DAX and SDAX outperformed ADLER shares for a solid ten weeks between 14 January and 25 March, the ADLER shares then began to significantly pull clear of the DAX. The only time the ADLER share price was pulled down slightly by the negative DAX performance was during the two general temporary market lulls in the first half of August and in October; otherwise, there was a significant buffer between the two. The same was true for the SDAX, since the performance of both indices was largely parallel during the course of the year. The distance between the ADLER shares and the DAX grew significantly as the ADLER shares climbed towards their high for the year while the DAX lost a bit of steam towards the end of the year. By the end of the year, ADLER shares had increased 31%, while the leading German stock index had increased by only 4% during the same period.

ADLER SHARE VERSUS SDAX AND DAX (INDEX AT 2 JANUARY 2014 = 100)



DIVIDEND DISTRIBUTION

After the Executive Board and the Supervisory Board of Adler Modemärkte AG had already resolved to distribute a dividend of €0.40 for the 2012 financial year, there was no reason to assume that such a generous dividend policy would be discontinued in 2013. In order to further strengthen Adler Modemärkte AG's performance and profitability, the Executive Board in March 2014 proposed to the Supervisory Board a dividend distribution of €0.45 per bearer share for the previous financial year. In 2013, earnings per share amounted to €1.05 gross. This proposal was approved by the Supervisory Board and subsequently also the Annual General Meeting of the ADLER shareholders. The Company enabled the shareholders to participate commensurately in the success of the Company by thus distributing a total of approximately €8.3 million from its net profit.

INVESTOR RELATIONS

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

The Company's investor relations work (IR) is one of the key 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 and the Investor Relations department. IR activities serve to increase public awareness of ADLER and to advance ADLER's share price. 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.

In order to achieve this objective, the Executive Board not only strengthened the IR department but also continued its communications activities and held a host of informational and advertising events in the past year. In 2014, roadshows and investor conferences were held in Germany, the United Kingdom, Scandinavia, France, Switzerland, Austria and the US. In addition, a large number of one-on-one meetings were held with investors and analysts.

DESIGNATED SPONSORS

In addition to M.M. Warburg, Close Brothers Seydler (now Oddo Seydler) and DZ Bank (until June 2014) were the designated sponsors of ADLER's shares in financial year 2014. Since 2013, the number of investment firms that follow ADLER's shares and prepare and publish reports has increased. Sphene Capital and Bankhaus Lampe also now follow the stock. The analysts from the respective firms came to the near unanimous conclusion that the ADLER share had earned a fair value above the current price and thus issued „buy“ recommendations.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

During the past 2014 financial year, the Executive Board and the Supervisory Board worked hand in hand to further strengthen Adler Modemärkte AG's market position and boost its profitable growth. The close, trusting and constructive cooperation between the Supervisory Board and the Executive Board contributed to making the 2014 financial year a success, despite the partially difficult market conditions.

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

In preparation for the meetings of the full Supervisory Board, the shareholder and employee representatives addressed the agenda items in separate preliminary meetings. Overall, four regular meetings and one extraordinary meeting were held, with an average attendance rate in excess of 93%. With the exception of one meeting, attendance at the meetings of the committees was 100%.

CHANGES TO COMPOSITION OF THE SUPERVISORY BOARD

Effective 31 October 2014, Angelika Zinner went into retirement and stepped down from the Supervisory Board and, by extension, its committees as well. For the remaining term of office of the departing member, Beate Wimmer joined the Supervisory Board with immediate effect as a substitute member elected in 2013. The Supervisory Board thanked Angelika Zinner for her many years of good collaboration.

On 10 December 2014, Majed Abu-Zarur stepped down as a member of the Audit Committee and of the Personnel Committee with immediate effect. By-elections were held on the same day; from 10 December 2014 onward, Martina Zimlich was a member of the Personnel Committee, the Audit Committee and the Conciliation Committee, and Peter König was a member of the Personnel Committee and the Audit Committee.

EFFECTIVE WORK IN THE COMMITTEES

In order to effectively perform its duties, the Supervisory Board formed four committees. The committees prepare issues and resolutions to be addressed by the full Supervisory Board. In appropriate individual cases, the full Supervisory Board has, 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 Supervisory Board section of the Corporate Governance chapter of this Annual Report.

The Personnel Committee met twice in the year under review. It addressed in detail the structure of the Executive Board remuneration system, and reviewed and set the remuneration for existing members of the Executive Board as well as those members set to be reappointed. For further details, we refer to the remuneration report in the management report. Key issues included long-term succession planning and the expiring service agreements with the Executive Board; it was in this context that the Committee resolved in December 2014 to recommend that Lothar Schäfer be reappointed CEO. Pursuant to its Rules of Procedure, the Committee also discussed authorising sideline activities for members of the Executive Board, particularly as it pertained to positions on supervisory boards.

The Audit Committee held four meetings in the year under review. In the presence of the auditor, the Chairman of the Executive Board, and the CFO, it discussed the annual and consolidated financial statements and management reports for Adler Modemärkte AG and the Group, and issued its recommendation to the full Supervisory Board regarding the Supervisory Board's nomination for the election of the auditor for financial year 2014 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 2014 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.

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

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

MEETINGS AND RESOLUTIONS OF THE FULL SUPERVISORY BOARD

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

By way of written procedure in mid-January 2014, the Supervisory Board granted the Executive Board approval to exercise the authorisation granted by the Annual General Meeting on 13 June 2013 to use treasury shares and to sell up to 888,803 treasury shares at short notice.

The meeting on 18 March 2014 to discuss the annual accounts was centred around the annual and consolidated financial statements as at 31 December 2013, the management report, the Group management report and the dependent company report. In addition, the Supervisory Board discussed the agenda for the 2014 Annual General Meeting, including resolution proposals and the 2013 Annual Report and the corporate governance report contained therein. The full Supervisory Board also discussed the Company's planned store expansion.

The key topics discussed at the Supervisory Board's meeting on 13 May 2014 were corporate planning, strategic developments and the implementation of the German Corporate Governance Code. Following a review of the implementation of the recommendations of the Code, the full Supervisory Board resolved to issue a new Declaration of Compliance by the Executive Board and the Supervisory Board in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, „AktG“).

Another meeting of the Supervisory Board was held on 5 August 2014. 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. Moreover, the Executive Board reported in detail on the business performance during the current financial year.

In its extraordinary meeting on 10 December 2014, the Supervisory Board discussed the election of the new Deputy Chairman, Martina Zimlich, and the by-elections for the Supervisory Board's Personnel Committee and Audit Committee.

The full Supervisory Board's meeting on 10 December 2014 dealt with the audit and approval of the budget prepared by the Executive Board for financial year 2015 and the presentation of a multi-year budget by the Executive Board. In addition, the full Supervisory Board resolved to reappoint Lothar Schäfer to the Executive Board and to appoint him as Chairman of the Executive Board for a further five years. Further subjects of discussion at that meeting were possible transactions in connection with the store expansion and the analysis of the annual efficiency evaluation of the Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board discussed in detail the contents of the German Corporate Governance Code. Although the Executive Board and the Supervisory Board had issued a Declaration of Conformity on 17 July 2013, the Executive Board and the Supervisory Board resolved at their meetings on 12 May and 13 May 2014 to issue an updated Declaration of Conformity pursuant to § 161 AktG. This was made permanently available on the Company's website. According to that declaration, the Company has been in conformity with the Code's recommendations since 13 May 2014, with four exceptions, and will continue to be in future.

As previously reported, the work of the Supervisory Board during the year under review stood out by virtue of its high attendance rate in excess of 93% for Committee meetings and the meetings of the full Supervisory Board. 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 members Dr Michele Puller and Paola Viscardi-Giazzi have contractual and professional ties to companies that are affiliates of S&E Kapital GmbH, Bergkamen. Therefore they also have obligations towards the interests of these companies. The interests of these companies cannot be identical to the interests of Adler Modernmärkte AG, meaning that there is potential for conflicts to arise. Apart from this, there was no basis for conflicts of interest on the part of Supervisory Board and Executive Board members in terms of their obligations towards Adler Modernmärkte AG.

Apart from this report, the corporate governance of the company is also presented in the Annual Report under the chapter entitled Corporate Governance Report. That report was submitted jointly by the Executive Board and Supervisory Board and also contains the full text of the Declaration of Conformity dated 13 May 2014, including the notes on the four deviations from the recommendations of the German Corporate Governance Code.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Adler Modemärkte AG as at 31 December 2014 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 (IFRSs) as adopted by the European Union (EU) and the supplemental commercial law provisions pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch, „HGB“).

The dependent company report submitted by the Executive Board for financial year 2014, concerning relationships with affiliated companies, was also audited by the auditor. The dependent company report of the Executive Board was issued the following unqualified auditors' report: „After our due audit and assessment, we confirm that 1. the factual statements of the report are correct, 2. the consideration paid by the Company was not unreasonably high for the legal transactions set forth in the report.“


The aforementioned documents and the Executive Board's recommendation for the appropriation of net retained profits have been provided to the Supervisory Board in good time. At its meeting on 9 March 2015 the Audit Committee first addressed the aforementioned documents in detail. At the meeting on 17 March 2015, the full Supervisory Board then discussed in detail and audited the aforementioned submissions by the Executive Board after the Committee Chairman had reported on the meeting of the Audit Committee. Both meetings were attended by representatives of the auditor, who reported on the key findings of the audit. It was also found that there are no material weaknesses in the internal control system and the risk early warning system. In addition, the representatives of the auditor answered questions by the members of the Supervisory Board and confirmed that the risk early warning system established by the Executive Board is suitable for detecting at an early stage developments that may jeopardise the Company as a going concern. The auditor also examined the scope, costs and the focal points of the audit stipulated by the Audit Committee. There are no objections to be raised after audit and discussion of the annual financial statements, the consolidated financial statements, the management report, the Group management report as well as the Executive Board's dependent company report in the Audit Committee and our own audit in the Supervisory Board. The Supervisory Board has approved the findings of the audit by the auditor and unanimously approved the annual financial statements and consolidated financial statements. The annual financial statements are therefore adopted. After reviewing and considering all arguments, we have approved the Executive Board's profit appropriation proposal to use net retained profits to pay a dividend of €0.50 per no-par value share carrying dividend rights.

CHANGES TO COMPOSITION AND ORGANISATION OF THE EXECUTIVE BOARD

In its meeting on 10 December 2014, the Supervisory Board unanimously appointed Lothar Schäfer to the Executive Board of the Company for another five years and appointed him Chairman of the Executive Board.

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

For the Supervisory Board



Dr. Michele Puller
Chairman

Haibach, 17 March 2015

EXECUTIVE BOARD



LOTHAR SCHÄFER
Villmar

CHAIRMAN OF THE EXECUTIVE BOARD

Executive Board member for Strategy,
Mergers & Acquisitions, Purchasing, Marketing,
Sales, Store Expansion and Public Relations

KARSTEN ODEMANN
Bad Tölz

CHIEF FINANCIAL OFFICER AND LABOUR DIRECTOR

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

SUPERVISORY BOARD



DR. MICHELE PULLER ^{1*, 3*, 4*}
Bergkamen

CHAIRMAN OF THE SUPERVISORY BOARD
Chairman of the Executive Board of Steilmann
Holding AG

MARTINA ZIMLICH ^{1, 2, 4}
Hausen

DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD
Assistant Purchasing, Chairwoman of the Joint Works Council of
Adler Modemärkte AG

MAJED ABU-ZARUR
Viernheim

Consultant on info, cash and sales Adler Modemärkte AG

WOLFGANG BURGARD ^{1, 2*, 3}
Dortmund

Managing director Bund Getränkeverpackungen der Zukunft GbRR

COSIMO CARBONELLI ^{1, 4}
D'ANGELO
Sorengo, Switzerland

Managing Director of G.&C. Holding S.r.l.,

CORINNA GROSS
Neuss

District managing director ver.di

PETER KÖNIG ^{1, 2}
Rottendorf

Secretary of the national executive board of the ver.di union

GEORG LINDER ^{1, 2, 4}
Hösbach

Divisional head of purchasing planning and merchandise
management Adler Modemärkte AG

GIORGIO MERCOGLIANO
Montagnola – Lugano, Switzerland

Partner Equinox S.A.

MASSIMILIANO MONTI ^{2, 3}
Lugano, Switzerland

Partner Equinox S.A.

PAOLA VISCARDI-GIAZZI ²
Dortmund

Executive Board member of Steilmann Holding AG

BEATE WIMMER
Nettetal

Consultant on info, cash and sales Adler Modemärkte AG

Memberships in: ¹⁾ Personnel Committee, ²⁾ Audit Committee, ³⁾ Nomination Committee, ⁴⁾ Conciliation Committee.
*Chairman of the Committee (As at 31 Dec. 2014)

CORPORATE GOVERNANCE REPORT

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

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a German stock corporation listed on the Prime Standard sub-segment of the regulated market (regulierter Markt) of the Frankfurt Stock Exchange, ADLER mainly bases its corporate governance on the laws applicable in Germany and the recommendations and suggestions of the German Corporate Governance Code. In financial year 2014, the Executive Board and the Supervisory Board discussed in detail the stipulations of the Code in the version adopted on 13 May 2013 and published on 10 June 2013. In 2014, the Supervisory Board focussed in particular on the recommendations concerning Executive Board remuneration during its in-depth deliberations. After the Executive Board and the Supervisory Board issued a declaration of conformity on 17 July 2013, the declaration of conformity was updated on 13 May 2014; it is published on ADLER's website and included at the end of this report. Since 13 May 2014, Adler Modemärkte AG complies with all but four recommendations of the Code (see Declaration of Conformity).

EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

The Executive Board of Adler Modemärkte AG currently has two members, both male. In its decisions to date, the Supervisory Board has always taken into account the recommendations of the German Corporate Governance Code. This pertains in particular to the Supervisory Board's personnel decision in the year under review. Taking into account the Company's best interests and circumstances, 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. Personnel decisions in financial year 2014 were also made on the basis of this fundamental approach. Because diversity means opportunities, ADLER's Executive Board will continue to pay attention to this principle in future.

The Supervisory Board has a total of twelve members and, pursuant to the German Co-determination Act, has an equal number of shareholder and employee representatives. According to its own estimation, the Supervisory Board has a reasonable number of independent members. Its members should have complementary professional experience and skills in order to duly perform their duties. In addition, it is intended that women, who currently make up more than 30% of the members, should also continue to be reasonably represented on the Supervisory Board. However, the Supervisory Board continues to not specify any targets in terms of its constitution since this would too greatly limit its flexibility in searching for candidates with the necessary expertise and experience. For the same reason, the Company has also opted not to set an age limit for members of the Supervisory Board and, when making nominations, will not take into account specific targets, but rather stated intentions.

AVOIDANCE OF CONFLICTS OF INTEREST

In performing their board work, members of both the Executive Board and the Supervisory Board have an obligation towards ADLER's corporate interest. On this basis, personal interests may not be pursued nor may benefits be granted to third parties when decisions are taken. In financial year 2014 there were no conflicts of interest requiring disclosure to the Supervisory Board without undue delay. Transactions involving the Company, its executive bodies and related parties were always executed at arm's length received the approval of the Supervisory Board if they exceeded the materiality threshold. No member of the Supervisory Board performed special consultancy or other services for the Company in financial year 2014.

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

D&O INSURANCE DEDUCTIBLE

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

REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS

Members of the Executive Board and Supervisory Board, executive employees with 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. Two such transactions were reported to the Company in financial year 2014. Detailed information in this regard is published on the ADLER website.

The total shareholding of all Executive Board and Supervisory Board members in Adler Modemärkte AG as at 31 December 2014 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

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

CONTROL AND RISK MANAGEMENT

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

CORPORATE COMPLIANCE AS A MANAGEMENT DUTY OF THE EXECUTIVE BOARD

ADLER considers corporate compliance – a measure aimed at ensuring adherence to statutory and official provisions, as well as to internal company guidelines – to be a management and supervisory duty. In 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 its code of conduct. This code of conduct, which has been implemented Group-wide, can be accessed on the ADLER website. However, these principles for avoiding violations of corruption, competition and antitrust law also address how to deal with employees, clients, suppliers and company property properly and respectfully. Using the existing principles as a foundation, the objective is to continue to promote the understanding of corporate compliance within the Company through training measures, to contribute to implementation over the long term, and to use issues identified during the course of audits to further improve corporate compliance.

ACCOUNTING AND AUDITING

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

TRANSPARENT CORPORATE GOVERNANCE

ADLER is committed to ensuring the greatest possible transparency by providing prompt, detailed and regular information on the Company's position and key business changes. Only in this way can the trust investors, capital providers, the media, and the interested public placed in ADLER be ensured long-term. The investor relations work was once again intensified in financial year 2014, so that ADLER is in even closer contact with the capital market. Moreover, there is an in-depth dialogue at analyst and investor conferences and during teleconferences and roadshows. These are presented regularly to discuss the annual financial statements, the publication of interim reports and current affairs. In addition, the Company publishes the accompanying presentations on ADLER's website.

Information on current developments for the ADLER Group and all publications are available to the shareholders and potential investors online at www.adlermode-unternehmen.com. All press releases and ad hoc disclosures by Adler Modemärkte AG are published in German and English under the heading „Investor Relations“, under „News & Releases“. Apart from ad hoc disclosures pursuant to § 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 and up to date information on recurring dates and the date of the Annual General Meeting and publication dates for the financial reports under the heading „Financial Calendar“.

DECLARATION OF CONFORMITY

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

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

The Executive Board and Supervisory Board of Adler Modemärkte AG declare that the recommendations of the German Corporate Governance Code („Code“) as amended on 13 May 2013, published by the Federal Ministry of Justice on 10 June 2013 in the official section of the Federal Gazette, were complied with during the time period since the most recent Declaration of Conformity dated 17 July 2013 and will be complied with in the future with the following exceptions:

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

The recommendation in Section 4.2.3 para. 2 sent. 6 of the Code which stipulates that the remuneration shall provide for a fixed amount as cap with regard to the overall remuneration and the variable remuneration components, only applies since the last amendment of the Code. The current employment contracts of the Executive Board, which have been concluded before the aforementioned recommendation became effective, include caps for the variable remuneration components, but not for the overall amount of remuneration. The Supervisory Board, however, intends to take into account the recommendation implemented by the last amendment of the Code in the future in case of amendments or new conclusion of employment contracts of the Executive Board.

Disclosure of Executive Board remuneration (Section 4.2.5 para. 3 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. Therefore, the Company will also not implement the recommendations in Section 4.2.5 para. 3 of the Code which relate to the disclosure of the remuneration of each member of the Executive Board and the use of according model tables.

Re-appointment of Members of the Executive Board (Section 5.1.2 para. 2 sent. 2 of the Code)

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

Composition of Supervisory Board (Section 5.4.1 para. 2 and 3 of the Code)

The Company's Supervisory Board has not named any specific targets relating to the composition of the Board; for that reason, there is also no publication of the target and status of implementation in the Corporate Governance report. It is true that the Supervisory Board aims to have members with different and complementary professional experience and skills, and it is planned that women, who now constitute more than 30% 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. With regard to nominations of the Supervisory Board, therefore, no specific targets are taken into consideration, but rather the intentions mentioned above.

Haibach, 13 May 2014

Adler Modemärkte Aktiengesellschaft

The Executive Board

The Supervisory Board“

CORPORATE GOVERNANCE STATEMENT

Further information on the Company's Corporate Governance, particularly the working method of the Executive Board and 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) under the heading Investor Relations/Corporate Governance.

REMUNERATION REPORT

The remuneration report begins on page 55. It was included in the audited Group management report.



GROUP MANAGEMENT
REPORT

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In January 2014, ADLER's Executive Board exercised the authorisation to use treasury shares, and sold 888,803 treasury shares (representing up to approximately 4.8% of the share capital at the time) at short notice. The shares were offered for sale to qualified investors in Germany and other countries in Europe via M.M. Warburg & Co. in an accelerated bookbuilding process. Due to high demand, all shares were subscribed within very little time. The price per share was €10.00. This enabled ADLER to take advantage of the opportunity to strengthen its equity base for the long term. Gross proceeds from the sale of shares amounted to approximately €8.9 million.

In early March, ADLER kicked off the new spring/summer season with a completely revamped image and marketing campaign broadcast widely on German television channels. The campaign highlights the main virtues of ADLER fashions and gives the Company and brand a likeable, modern image. This bold and unusual campaign's core message – „Fashion is there for people“ – is ADLER's argument for an approachable brand of fashion that not only looks and feels good but also adapts to fit the wearer, rather than the other way around. The image campaign has generated quite a buzz and has been well received on the market.

The Group-wide introduction of RFID technology at the end of April marked the conclusion of the largest and most ambitious investment project carried out by Adler Modemärkte AG in recent years. Following an intensive pilot phase, the Company installed the necessary hardware and software components in order to transition its stock management system and 170 stores in four countries to wireless RFID tags. The primary advantages offered by the system include ongoing stock control and inventory, automatic replenishment suggestions for high-volume articles, leading to additional revenue potential, and the integral merchandise surveillance function in the tags for every item of clothing. The investment of approximately €8 million will pay for itself in as soon as two years.

As part of its ongoing efforts to consolidate its position and strengthen its earnings, ADLER once again closed unprofitable stores in 2014. Düsseldorf-Bilk was closed, as well as the Austrian stores in Graz-Liebenau (28 February), Innsbruck DEZ (31 March) and Fürstenfeld (30 June). The Hürth store had to be closed because negotiations with the owner to renew the lease had failed. These store closings were offset by grand openings in Hamburg-Rahlstedt, Lüdenscheid, Henstedt-Ulzburg and Solingen.

In addition, the Company's programme to modernise older existing stores continued at full speed in 2014, with 15 stores completely renovated in the past year. Under this programme, stores in Adendorf, Bremen, Eching (near Munich), Esslingen, Greifswald, Kolbermoor, Landsberg-Peißen, Leverkusen, Magdeburg, Neubrandenburg, Oberhausen, Passau, Salzgitter, Sievershagen and Wels in Austria received a whole new look. ADLER's store in Vienna-Simmering moved into a new, attractively laid out location.

ADLER has once again sharpened its focus on expansion since the end of 2014. For instance, in September ADLER made an agreement to acquire one store of the „hefa Moden“ chain in Mömlingen (grand opening in spring 2015) and announced in December the acquisition of Kressner from the REWE Group and the Sanktjohanser family. The transaction has since been approved and completed, and ADLER will re-brand and operate seven of the nine Kressner stores. One store will be sold and another will be closed at the end of 2015. The remaining stores are a perfect fit with ADLER's portfolio, both in terms of size – each store having approximately 2,000 square metres of selling space – and location. Furthermore, both acquired companies bring additional value to ADLER thanks to the established customer loyalty card.

At the end of December, the Supervisory Board of Adler Modemärkte AG opted to renew Chief Executive Officer Lothar Schäfer's service agreement early by an additional five years until 2019.

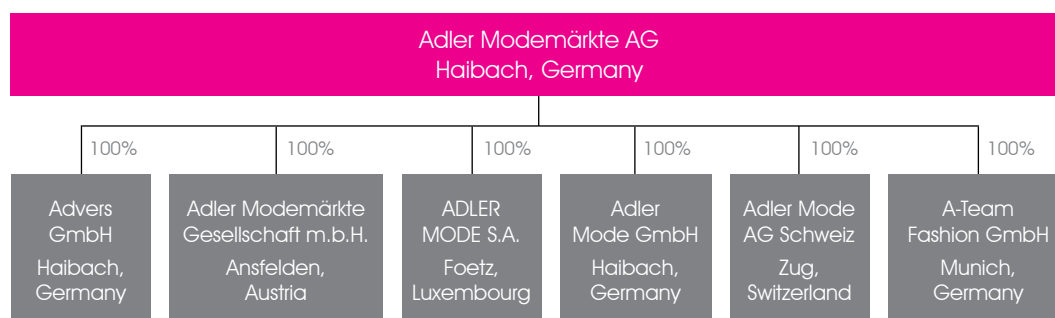
BUSINESS & GENERAL CONDITIONS

GROUP STRUCTURE AND CORPORATE ORGANISATION

Adler Modemärkte AG, having its registered office in Haibach near Aschaffenburg, is the strategic and operating holding company of the ADLER Group. In Germany, ADLER operates its own stores itself and via its wholly owned subsidiary Adler Mode GmbH, Haibach. In Luxembourg, Austria and Switzerland, ADLER operates its stores via the wholly owned subsidiaries ADLER MODE S.A., Foetz, Luxembourg, Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria and Adler Mode AG Schweiz, Zug, Switzerland, respectively. There is also A-Team Fashion GmbH, Munich, a shelf company for future strategies and activities.

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

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



GENERAL DESCRIPTION OF BUSINESS ACTIVITIES

Adler Modemärkte AG is one of the leading and largest textile retail chains in Germany. The industry trade journal TextilWirtschaft ranks the Company 20th in its Top 100 Ranking. At the end of 2014, the Group operated a total of 170 stores (previous year: 171), 145 of which (previous year: 143) in Germany, 22 (previous year: 25) in Austria, 2 (previous year: 2) in Luxembourg and 1 in Switzerland. ADLER's focus is on large-space retail concepts, i.e., the space occupied by the stores it operates is usually more than 1,400 m². Large sales floors with wide aisles, spacious fitting rooms and rest areas exemplify the Company's customer-oriented approach. The Company is also experiencing growing success with its online shop at www.adlermode.com.

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

The Group's own brands are ADLER's main revenue drivers. These represent just over 85% 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 several external brands popular in Germany and elsewhere, ADLER has partnered exclusively with Tom Tailor, Hamburg, to offer kidswear since 2012. The Tom Tailor Kids range has seen broad acceptance in all leading ADLER stores offering kidswear.

The external brands that the Company carries – often showcased in shop-in-shop concepts – are frequently positioned near the entrances of ADLER stores. This helps contribute to an attractive storefront design, a highlight found especially in new and modernised stores. ADLER specifically combines the external brands with the younger and fashionable brands such as MyOwn, Viventy by Bernd Berger, Via Cortesa and Eagle No.7. ADLER hopes to win over new customers in this manner, i.e. customers who previously did not shop at the Company or who are only now entering the 45-plus age group. At the same time, this also introduces new customers to ADLER's own brands and the Company's customer loyalty instruments.

CORPORATE GOVERNANCE

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

REVENUE AND EBITDA AS KEY PERFORMANCE INDICATORS

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

CORE ELEMENTS OF THE INTERNAL CONTROL SYSTEM

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

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

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

REGULAR UPDATES OF GROUP FINANCIAL PLANNING AND PROJECTIONS

The Group financial planning is developed for a three-year period and uses regular projections for the current financial year. The three-year budget is prepared annually as part of the Group-wide

budget process and takes the current business situation into account. During the planning process, the Executive Board sets planning and business objectives for the operating units on the basis of Group targets. The units prepare an earnings forecast and determine the necessary investment levels on the basis of these objectives.

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

GENERAL ECONOMIC ENVIRONMENT

2014 was a year marked by crisis and conflict in many places, and segments of the economy clearly felt the impact of this unrest. Particularly the Ukraine conflict and the resulting sanctions imposed on Russia have been cause for concern in many industries. This affected the German economy in particular, given that Germany is one of Russia's most important trade partners. The crisis in the Middle East, which saw the escalation of hostilities in Syria and Iraq, also left its mark.

Overall, global economic growth amounted to 1.8 percent and was far lower than the original expectations at the beginning of the year. Forecasts at the time ranged between 2.8 percent and 3.5 percent depending on the institution. Experts at the Organisation for Economic Cooperation and Development (OECD) laid the majority of the blame for this development on the weak euro area. With growth at just around 0.8 percent, the eurozone showed significant weakness, particularly when compared to China (+7.3%) and the United States (+2.2%). OECD experts even warned that such a weak European economy could jeopardise global economic growth.

The European Commission also confirmed that economic growth in 2014 would be weaker both in the EU and in the euro area. It also assumed that gross domestic product (GDP) would only grow by 0.8 percent in the eurozone and 1.3 percent in the European Union (EU). Spring forecasts had still called for eurozone and EU GDP to grow by 1.2 percent and 1.7 percent, respectively. The pace of growth varied highly across the individual EU countries in 2014. It ranged from -0.7 percent in Croatia to +4.6 percent in Ireland, according to European Commission estimates. Forecasts for 2015 once again only expect growth to increase slowly. Due to increasing foreign and domestic demand, GDP growth is expected to climb to 1.5 percent (EU) and 1.1 percent (eurozone).

EUROPEAN COMMISSION PROMOTES FURTHER GROWTH IN EUROPE

By the European Commission's own admission, growth in the EU is not sufficient. Jyrki Katainen, Commission Vice President responsible for Jobs, Growth, Investment and Competitiveness, has stated that improvements in the economic and employment situation have not come fast enough. Because the European Commission considers public investment financing to be a fundamental requirement for economic recovery, it intends to establish a €300 billion investment package. Pierre Moscovici, European Commissioner responsible for Economic and Financial Affairs, Taxation and Customs, has been quoted as saying that the three primary objectives of achieving a credible budget policy – ambitious structural reforms and public and private investment – must continue to be pursued systematically. Otherwise, the euro crisis risked flaring up again.

Not only France and Italy bear responsibility for the significantly weaker economic situation in Europe, but also Germany. Although it had enjoyed a reputation for years as Europe's most stable economy, Germany suffered a significant loss in momentum in 2014. According to European Commission estimates, it even skirted along the edge of recession after third-quarter growth was zero per cent following a negative spring quarter. If economic output drops two quarters in a row, economists speak of recession.

However, in hindsight, the European Commission's estimate proved to be overly pessimistic. The Wiesbaden-based German Federal Statistical Office (Destatis) announced on 13 February 2015 that a preliminary evaluation of actual figures had shown that the German economy had made unexpectedly strong gains during the fourth quarter of 2014. During this phase, GDP growth climbed 0.7% year on year. The strong rally to close out the year also increased GDP growth for the year by 0.1% to a total of 1.6%. According to analysts, consumers – who once more significantly increased their spending habits – were again the key driving force behind growth.

RETAIL AND TEXTILES

While, according to preliminary statistics, the retail sector as a whole is likely to have realised a real 1.4 percent increase in revenue across all industries and forms of commerce thanks to the solid German domestic economy and high purchasing power, the picture is highly heterogeneous within the textiles retail sector. In particular, bricks-and-mortar retailers can look back on a difficult financial year. This development was not caused by online retailers in 2014. According to preliminary results, distance trading as a whole stagnated.

Although the first quarter of 2014 saw growth in revenue, the rest of the season was by and large disappointing. Of the subsequent months, only May (+2%) and August (+7%) experienced positive growth. Seven whole months ended deep in the red, with declines in revenue amounting to 4% (December) and 5% (April) to 7% (July), 8% (June), 9% (September and November) and up to 10% in October, the worst month of the year. Even the last hope – holiday business – was not able to brighten the disappointing picture. This is evident in the surveys conducted by the weekly reports of the Testclub in the *TextilWirtschaft* trade magazine, the German textile retailers' most popular test panel. The surveys primarily cover bricks-and-mortar retail.

According to them, one out of every two fashion retailers (51%) made significant losses in revenue. A majority of retailers saw their earnings dwindle along with their revenue. However, according to the survey, costs rose at the same time. The cost situation in 2014 was worse for 58 percent of retailers than in the previous year. Two-thirds of them also complained of more fierce competition in the fashion market. Extrapolated to the overall financial year 2014, bricks-and-mortar shops lost an average of 3.0 percent in revenue, thus falling behind their own expectations. Only specialists in womenswear and upscale retailers were able to book gains, albeit only by 2 percent and 1 percent, respectively. Chain retailers who operate more than 50 stores realised the greatest losses. This was the third year in a row that bricks-and-mortar retailers closed with declining revenues. The decline amounted to 2 percent in each of the two previous years. However, there were also exceptions to this. Adler Modernmärkte AG was largely successful in bucking the negative industry trend.

DEVELOPMENT & ANALYSIS OF REVENUE

SEASONAL, QUARTERLY PERFORMANCE

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

REVENUE TREND FOR EACH QUARTER

ADLER again increased revenue during the year under review. In contrast to the German textile retail sector as a whole, ADLER generated revenue and earnings growth quarter on quarter. However, there were also weaker months. Still, in contrast to the overall sector, which posted revenue declines in seven months, ADLER revenue was always in the plus, even in the weaker months. With €113.2 million and 8.4% growth (8.3% like-for-like), the first quarter was far and away the strongest period for revenue. In the second quarter, revenue amounted to €142.7 million, falling just 0.5% short of the sizeable prior-year figure, and in Q3, revenue grew by 2.4% (2.6% like-for-like) to €122.0 million. In the fourth quarter, ADLER was not quite able to buck the severely negative industry trend despite excellent holiday business performance, although it did post like-for-like growth of 3.0% for the year overall.

OVERALL REVENUE CONTINUES TO RISE

In financial year 2014, ADLER increased consolidated revenue by 1.3% from €528.6 million to €535.3 million. In financial year 2013, revenue and earnings were each lifted by €3.8 million as a result of a non-recurring effect. Since 2013, ADLER has been using an improved IT system to analyse and include redemptions of customer credits during the course of the year when recognising provisions (reported under financial liabilities). This non-recurring effect was entirely absent in the year under review. Comparisons between 2014 and the previous year are therefore only meaningful if this is factored in when examining revenue and earnings indicators from 2013. Accordingly, if the €3.8 million effect from the customer loyalty card is deducted from prior-year revenue figures, this results in a comparable revenue growth rate of 2.0%. In a like-for-like comparison – i.e., a comparison of sales on existing floor space – this growth rate even amounted to 3.0%. A further 1.7% increase in average receipt amounts helped boost this effect. The Company attributes this positive development to its focus on the target group of customers aged 45 and up – unique in the industry – as well as to the previously mentioned increase in image and marketing activities.

ANALYSIS OF REVENUE BY COUNTRY

During the year under review, ADLER generated 82.2% of its revenue in its traditional core market, Germany. Thus, revenue here grew to €439.9 million (previous year: €432.1 million). In Austria, the Company generated €76.3 million in revenue, corresponding to 14.3% of ADLER's overall revenue. This amount was €2.3 million lower than in the previous year (€78.6 million) due to the closing of additional unprofitable stores, although profitability was significantly greater. Following the modernisation measures at the Foetz store, revenue at the two Luxembourg stores increased from €16.3 million in 2013 to €17.3 million in the year under review. This corresponds to a 6.6% growth rate and

a 3.4% share of overall revenue. The first store in Switzerland (opened at the end of 2012) increased its revenue again in 2014 by 12.5%, generating €1.8 million in 2014 as compared to €1.6 million in 2013.

LIKE-FOR-LIKE REVENUE OUTPACES INDUSTRY

Stores which opened prior to 2013 and were not closed in 2013 or 2014 are considered „existing stores“. In 2014, ADLER had 160 existing stores. Since the financial year was largely marked by consolidation, and only four new stores were added, the majority of the growth in revenue was generated at existing stores. Adjusted to reflect new store openings, ADLER's like-for-like revenue growth (+3.0%) thus outpaced – by six percentage points – the German textile retail industry, which shrank by 3% in 2014.

FINANCIAL PERFORMANCE

GROSS PROFIT MARGIN REMAINS HIGH

Thanks to the positive development in consolidated revenue, ADLER again succeeded in maintaining an extremely high gross profit margin in financial year 2014. After jumping from 10% to a record-high of 55.6% in the previous year (excluding the non-recurring effect related to the customer loyalty card: 55.1%), the gross profit margin amounted to 54.6% in 2014, significantly higher than the average value of the past few years.

Overall, in the same period, cost of materials increased only slightly to €243.2 million (previous year: €234.9 million), while gross profit (€292.0 million) remained high and practically unchanged against the previous year (€293.7 million).

ADLER has not and will not make any significant changes to its policy of continuing to optimise its inventory management system, to avoid excessive price markdowns and to continuously increase the share of merchandise in its product range that is directly sourced.

Other operating income increased from €7.7 million in the previous year to €9.8 million in the period under review. This was due primarily to the reversal of provisions, to construction subsidies, income from special projects and income from the hanger recycling project.

INCREASE IN PERSONNEL EXPENSES

Personnel expenses increased in 2014 by 3.5% to €95.2 million. Expenses amounted to €92.0 million. The increase in personnel expenses was due almost entirely to the increase of wages, salaries and benefits negotiated with the union ver.di. The personnel expenses ratio thus increased slightly from 17.4% in the previous year to 17.8% in the year under review.

OTHER OPERATING EXPENSES REDUCED

By contrast, other operating expenses fell slightly during the period under review. They fell from €166.5 million to €165.1 million. They correspond to roughly 30% of revenue and consist primarily of building management expenditures, marketing and advertising outlays, freight and transport and costs for technical facilities, such as those incurred in store modernisations. Not only did the overall amount of other operating expenses remain virtually constant, but the amount of the individual line items did as well.

EBITDA AGAIN SURPASSES €40 MILLION

Thanks not least to the previously mentioned €3.8 million effect relating to customer loyalty cards in 2013, EBITDA had surged above the €40 million mark in the previous year to reach €42.9 million – a new record for recent years. Nevertheless, during the year under review, ADLER came in just below this record at €41.5 million, even in the face of increases in cost of materials and personnel expenses. Adjusting for the previous year's non-recurring effect, EBITDA would have even beaten the previous year's figure by €2.4 million, or 6.2%. As a result of this, the EBITDA margin fell from 8.1% in 2013 to a still-respectable 7.8% for the year under review.

INCREASE IN DEPRECIATION AND AMORTISATION DUE TO RFID

The non-recurring effect from the customer loyalty card had also increased earnings before interest and taxes (EBIT) by the same amount in 2013. This additional €3.8 million effect was absent in 2014. Furthermore, depreciation and amortisation amounted to €15.4 million during the year under review, which was approximately €1.4 million greater than the previous year's figure of €14.0 million. This increase was due primarily to changes in intangible assets, which were subject to increased amortisation since the introduction of RFID technology. EBIT therefore amounted to €26.2 million

(previous year: €28.9 million). Adjusted for non-recurring items, this would have corresponded to an increase of €1.1 million, or 3.8%. The EBIT margin fell slightly to 4.9% as a result. That figure had been 5.5% in the previous year.

NET FINANCE COSTS REDUCE EBT

Since net finance costs increased from €4.3 million to €5.0 million, earnings before taxes (EBT) was therefore lower year on year, amounting to €21.2 million. The previous year's non-recurring effect of €3.8 million meant that this figure amounted to €24.6 million.

INCREASED TAXES REDUCE NET PROFIT FOR THE YEAR.

Since income taxes were higher in the year under review, the income from continuing operations was also reduced.

Despite the decline in earnings before taxes, the tax burden increased by a total of €1 million. While loss carryforwards of approximately €1.7 million had a beneficial effect in the previous year, prior-period taxes of approximately €750 thousand (factoring in deferred taxes), attributable primarily to a provision for risks from the pending external tax audit, led to a higher tax expense during this year. The consolidated net profit for the year fell from €18.6 million in the previous year to €14.1 million in the year under review.

This net profit for the year was equal to the net income attributable to the shareholders of Adler Modemärkte AG.

EARNINGS PER SHARE

The net earnings per share amounted to €0.77 (based on 18,478,344 no-par value shares). Earnings per share had amounted to €1.05 in the previous year (based on 17,621,197 no-par value shares). This above-average decrease was due in part to the fact that ADLER had sold another 888,803 treasury shares at the beginning of the year under review. In contrast to the previous year, these shares carried dividend rights for 2014, thus reducing earnings per share. Furthermore, the lack of the €3.8 million non-recurring effect in this year is of course also making itself felt in earnings per share and renders any comparison to the previous year more difficult.

FINANCIAL POSITION & CASH FLOWS

FINANCIAL POSITION STRENGTHENED

Adler Modemärkte AG's total assets as at 31 December 2014 increased year-on-year by €15.8 million to €244.3 million (previous year: €228.4 million).

Property, plant and equipment amounted to €72.5 million and was thus virtually constant as compared to the previous year (€72.2 million). The increase in property, plant and equipment resulting from the renewal of finance leases was offset by the reduction in office and operating equipment due to store closures.

Inventories fell during the year under review by €1.9 million from €77.5 million in 2013 to €75.6 million. Although shareholders participated in the Company's success through a dividend of approximately €8.3 million (previous year: €7.0 million), cash and cash equivalents increased by €15.2 million to €69.7 million.

EQUITY RATIO INCREASED TO 43.3%

The Company's positive trend is also reflected in its equity ratio. Equity increased by €13.7 million from €92.0 million in the previous year to €105.7 million as at the end of the financial year. The primary reason for this was the proceeds from the sale of treasury shares amounting to €8.9 million at the beginning of the year under review. €7.9 million of that amount was transferred to capital reserves and a dividend was distributed which was €1.3 million greater year on year. The equity ratio thus increased from 40.3% in the previous year to 43.3% as at 31 December 2014.

REDUCTION IN DEBT/EQUITY RATIO

As in the previous year, ADLER had no liabilities to banks as at 31 December 2014. Liabilities related in particular to finance lease obligations (€54.0 million; previous year: €54.0 million) and unclaimed rebates offered to participants in the customer loyalty card programme (€9.9 million; previous year: €10.0 million). The lease agreements relate to leased store buildings, whereby the Group is deemed the beneficial owner for the purpose of the underlying lease agreements. Obligations in this regard fell slightly after a sharp increase in the previous year, which was caused by lease renewals. Liabilities as at the end of the 2014 reporting period increased by €2.2 million to €138.6 million (previous year: €136.4 million). This increase was attributable primarily to the €2.3 million increase in non-current and current other liabilities to €24.3 million (previous year: €22.0 million), deferred building cost subsidies and value added tax, the €1.2 million increase in provisions for pensions and similar obligations to €7.1 million, and the €1.1 million increase in income tax liabilities. By contrast, trade payables declined by € 2.5 million to €31.7 million in the year under review. Provisions increased to €12.8 million in 2014 (previous year: €11.0 million), due primarily to the increase in provisions for pensions and similar obligations. Leverage (debt/equity ratio) thus fell during the reporting period from 1.48 (2013) to 1.31.

WORKING CAPITAL VIRTUALLY UNCHANGED

Working capital (inventories plus trade receivables, less trade payables) increased by €0.6 million to €44.0 million as at the end of the reporting period. The working capital ratio remained constant at 8.2%, the same level as in 2013.

CASH FLOW MANAGEMENT

Cash flows from operating activities are one key indicator of ADLER's operating earnings power. Net cash flow fell during the year under review by €4.5 million from €40.9 million to €36.4 million. Cash flows from investing activities increased by €2.2 million as a result of lower proceeds from the sale of fixed assets to €11.4 million (previous year: €9.2 million). Free cash flow fell by €6.9 million from €31.8 million in 2013 to €24.9 million in 2014. This decrease is attributable primarily to the slight decline in operating profit and the increase in taxes.

Cash flows from financing activities amounted to €-9.8 million despite the €8.3 million dividend payment (previous year: €7.0 million); this was significantly lower than the previous year's figure of €-19.4 million. The primary reason for this was the cash inflow from the sale of treasury shares as an offsetting effect.

Cash and cash equivalents increased by €2.7 million in the reporting period to €15.1 million (previous year: €12.4 million).

INVESTMENT

The ADLER Group's investments during financial year 2014 totalled €17.1 million (previous year: €23.5 million). Of that amount, €14.7 million (previous year: €21.5 million) was invested in property, plant and equipment (operating and office equipment), €5.5 million of which was attributable to the renewal of finance lease agreements alone. Investments in intangible assets amounted to €2.4 million (previous year: €2.0 million). The majority of this amount was invested in the introduction of RFID merchandise labelling technology, which was rolled out across the entire store network.

Investments during the year under review included new store openings in Lüdenscheid, Hamburg-Rahlstedt, Solingen and Henstedt-Ulzburg, as well as the modernisation of existing stores.

PROCUREMENT

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

DIRECT PURCHASING ENSURES PROFITABILITY

ADLER has longstanding experience in the procurement of textiles from Asia. From 1976 to 1989, the Company operated its own factories in South Korea and Sri Lanka. Today, textile production is outsourced to strategic partners in Asia and most orders are processed by Metro Group Buying HK Ltd., Hong Kong (MGB). MGB 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 MGB's most important customers for textiles. A further share of sourcing activities has been carried out by Hong Kong-based NTS Holding Limited since 2014. In this way, ADLER uses the Steilmann Group's procurement arm in Asia as an additional sourcing asset within the People's Republic of China.

In financial year 2014, ADLER purchased 46% of its purchasing volume from direct imports, of which about 91% was manufactured in east and south-east Asia and on the Indian subcontinent before being delivered to Europe by sea freight. Import purchase volumes amounted to €107 million in the previous financial year. ADLER primarily purchases merchandise from Asia through Metro Group Buying and NTS Holding Limited. Due to lower purchasing prices and high order volumes, this is more economical than purchasing from Europe. This helps generate economies of scale. ADLER intends to further optimise its procurement sources over the medium term since increasing gross profit is one of the Company's strategic objectives.

SPREADING PROCUREMENT RISKS

ADLER makes sure that it distributes its purchase volumes evenly across a worldwide network of suppliers in order to spread the risk and to minimise its dependency on any one procurement market or manufacturing site. ADLER has therefore entered into a large number of agreements with importers, each of which accounted for considerably less than 5% of the total volume delivered to ADLER in financial year 2014. Some importers also guarantee rapid responses to changes in demand since their production facilities are close to Europe. Some of the agreements with importers pertain to NOS items („Never-Out-of-Stock“), which are automatically replenished when they sell out. ADLER maintains additional supplier relationships with the manufacturers of the external brands it offers in its stores.

DISTRIBUTION, SALES & MARKETING

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 to cautiously yet steadily further expand its network of stores in its core markets of Germany and Austria. Growth is also conceivable in Luxembourg if the opportunity presents itself; by contrast, Switzerland remains a test market. In addition, ADLER has been offering more and more articles for sale via its online shop.

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 five to ten new stores each year. It seeks to leverage opportunities created by the decline in small mom-and-pop shops. Furthermore, ADLER wants to generate additional cost benefits and optimise internal processes by employing innovative technology. For instance, once ADLER has successfully implemented the RFID technology, it intends to use the fundamental advantages of this system to examine further automation options and to implement them if they prove to be suitable.

IDEAL LOCATIONS FOR STORES

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 city shopping centres. The search will target 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, which benefits ADLER stores, speciality stores are well suited for the Company. Retail parks generally have an abundance of parking and are easy to reach, further accommodating the needs of ADLER's customers.

ADLER ONLINE SHOP

In 2012, ADLER thoroughly reworked the functionality of the online shop that went live in 2010 based on its initial experiences in online trading. These measures focussed primarily on making purchase transactions even easier for customers. In addition to a new, clearly arranged and customer-friendly layout and additional payment options, in-store features allow customers to check the availability of items in stores, enable customer loyalty cardholders to pay for and return items purchased online in stores, and allow customers to search for specific articles based on colour, style and price using new filter options. In the financial year under review, the ADLER online shop was placed under new management and further optimised. The objective is to establish new offerings, such as in the area of large sizes.

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. Our customers appear to agree: in a 2013 TW Study, Top Shops 2014, ADLER took an outstanding third place among all online shops reviewed by customers.

MARKETING

ADLER has positioned itself as the clear market leader for men's and women's clothing for the target group aged 45 and up in the German fashion market. Since 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 large and 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 as much customer footfall at its stores as possible.

MARKET AND CUSTOMER ANALYSES

ADLER continually performs market and customer analyses. In particular, the vertical integration of the Company as well as the ADLER customer loyalty card make it possible to specifically analyse customer demand. This helps management to identify any changes in the industry early and to swiftly tailor the relevant product ranges 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

To date, ADLER has focused its advertising efforts primarily on two traditional mediums for addressing customers: advertising mailers addressed directly to approximately six million customer loyalty cardholders, and colour advertising inserts for newspapers and magazines. These advertising tools continually give regular and new customers an incentive to visit ADLER stores. In 2014, ADLER sent a total of 56 million advertising mailers to customers. During the same period the total number of all newspaper and magazine inserts was approximately 165 million. In order to counteract the drop in customer footfall experienced by the entire industry, ADLER has been pioneering new marketing and advertising methods since 2013. In 2014, the Company launched a completely revamped, large-scale TV image campaign to better publicise ADLER's specific strengths while giving the Company a new modern look. Furthermore, the Company also increasingly collaborated with popular print media in order to tout ADLER's achievements to old and new customers. In this way, ADLER successfully maintained or increased visitor frequency at its stores, despite the general trend.

EMPLOYEES

ADLER's success stems from the work of the Company's employees. Every day, they bring their skills and abilities to bear and are an invaluable resource in helping ADLER to achieve its strategic and operational objectives. In addition to the key tasks at the Company headquarters, ADLER places great importance on direct contact with its customers through the sales staff. Having a keen eye for the more mature customers is especially important. Therefore, the objective of human resources at ADLER is to sharpen its employees' sensitivity to this age group as well as to foster team spirit and employees' potential. Through these efforts, ADLER creates a work environment that enables employees to develop their skills. This work environment forms a good basis for continually improving customer focus and service quality.

CORPORATE CULTURE

ADLER is a company with more than 60 years of tradition and, accordingly, it has a well-established corporate culture focussed on service orientation, team spirit, creativity, openness and transparency. Particularly in the textile retail industry, where employees have 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

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

LOW EMPLOYEE TURNOVER

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. Just under 80% of ADLER's employees have remained with the Company for more than two years. Nearly 60% of the employees have even worked for the Company for more than five years. On average, employees remain with the Group for nearly eleven years. With an average age of 46.4, many of the employees are in a similar age bracket as the target group aged 45 and up that the Company courts. As they have worked for the Company for many years, many ADLER employees have also built up solid relationships with customers which has contributed to the high proportion of regular customers. The employee turnover rate at Adler Modernmärkte AG was approximately 10.5% in the year under review.

DIVERSITY AT ADLER

ADLER is an employer that does not take nationality, gender, background, religion, age, disabilities or sexual preferences into account when considering and evaluating employees and applicants. Given current demographic changes, ADLER wants to 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 employees with skills and talents that complement one another to successfully work together in the Company.

Women have made up an extremely high share of ADLER's workforce since the Company's founding. Of the 213 employees in the first and second levels of management, 114 are women, meaning that about 53% of ADLER's executives are women. A solid one-third of the Supervisory Board seats are currently held by women. Overall, roughly 90% of ADLER's workforce are women. Recognising that many mothers carry the dual burden of balancing both their professional and family lives, ADLER will continue to make their professional and family lives more compatible by accommodating work conditions. ADLER is also committed to affording people with severe disabilities the opportunity to participate in the workforce with the same rights as other employees.

EMPLOYEE DIVERSITY

	31 Dec. 2014	In %
Total employees	4,154	100%
Men	409	9.9%
Women	3,745	90.1%
Average age in years	46.4	

GROUP EMPLOYEES

The number of people employed by the ADLER Group declined slightly during the period under review, both in terms of headcount and FTEs. During that same period, the net number of ADLER stores was approximately the same as in the prior year, as the moderate increase in stores was offset by the closure of certain unprofitable stores. The number of FTEs, (including inactive employment relationships) was 2,750 at the end of financial year 2014 (previous year: 2,798). During the financial year, the ADLER Group had an average of 2,699.7 full-time employees (including trainees). The number (headcount) of employees as at 31 December 2014 totalled 4,154. In some respects, ADLER was thus successfully reined in the trend towards rising personnel expenses by exploiting internal efficiency gains.

NUMBER OF EMPLOYEES AT THE END OF EACH YEAR (HEADCOUNT)

	31 Dec. 2014	31 Dec. 2013
Managers	213	209
Full-time employees	781	781
Part-time employees (incl. marginal employment positions)	2,852	3,011
Trainees/interns	308	300
Total employees	4,154	4,301

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 on which positions it needs to fill. Currently, vocational training positions are being offered for the following positions in the commercial division: office management assistants, wholesale and export merchants, software engineer and visual marketing designer. As at 31 December 2014, of the 308 trainees and interns, the Company had exactly 212 trainees it employed directly, 55 trainees from joint vocational programmes (überbetriebliche Ausbildung), 5 trainees with entry-level qualifications, 34 interns and 2 students from the dual education programme with LDT Nagold.

VOCATIONAL TRAINING AND CONTINUING EDUCATION

ADLER's Human Resources department focuses on the needs of the Company and the potential of each of the Company's employees. Targeted support in developing their abilities 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), as well as through promotions to managerial positions or by broadening their areas of responsibility.

In addition, the Group offers various resources to provide individual employees with continuing education. 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 provide sales staff with targeted training and encouragement.

SUSTAINABILITY & THE ENVIRONMENT

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

RESPONSIBILITY VIA BSCI

The objective of ADLER's sustainability management function is to ensure success by offering customers ecologically and socially sound products while at the same time treating employees, suppliers and other stakeholders in a socially responsible and sustainable manner.

ADLER views sustainability management as both an active and a passive process. Active efforts include high-priority strategic issues which are implemented by the sustainability management function under the Executive Board's direction. These include in particular procurement transparency, the use of sustainable cotton and recycling of old garments. Passive efforts are being made in centralised divisions, including environmentally-conscious logistics and energy-efficient distribution. These efforts are currently implemented in line with the departments' strategic targets and are managed using economic incentives for business partners. Going forward, passive sustainability efforts will be integrated into a sustainability management monitoring system.

The following presents the status and strategy behind ADLER's active sustainability efforts.

SUSTAINABILITY AND TRANSPARENCY IN PROCUREMENT

The products ADLER sources include both external-brand merchandise as well as ADLER-brand articles. ADLER is directly responsible for its own-brand products. It is important to know and document not only which raw materials are used to make the products, but also the social and ecological conditions under which they are made. ADLER's procurement policy forbids the sourcing of products made under conditions which are exploitative, harmful to health or which otherwise violate human dignity, such as child slavery or forced labour.

ADLER works indirectly with European suppliers and directly with Asian manufacturers (including in Turkey) to produce its own-brand products.

European suppliers which have products made in countries deemed risky by the Business Social Compliance Initiative (BSCI) have been obligated since last year to demonstrate that the relevant producer has passed a BSCI audit. In addition to BSCI audits, certifications of compliance with SA 8000, WRAP, GOTS and other equivalent social sustainability standards which are based on the relevant standards set by the United Nations and the International Labour Organisation (ILO) are also acceptable. By the end of 2014, 75% of active suppliers were able to submit proof of such an audit or certification. ADLER's medium-term objective is to implement its own supplier management system which automatically links the issue of orders to the validity of certifications of compliance with recognised social standards at production facilities.

All suppliers who supply ADLER via Metro Group Buying and NTS Holding Limited are audited in accordance with the Business Social Compliance Initiative (BSCI) standard. Audits are carried out at the production facilities. At the end of 2014, half of the 232 producers had received a rating of „good“ from the auditors. Room for improvement was identified at 44% of the producers. Six percent did not pass the BSCI audit and were ordered to remedy the deficiencies identified in the audit and

to provide proof that improvement measures have been implemented within no more than 18 months. If no such proof is submitted, no further orders may be sent to the production facilities. As part of process improvement efforts, suppliers and producers receive support from the purchasers in planning improvement measures.

In addition to compliance with social standards, ADLER aims to ensure long-term relationships with suppliers to enable it to continue to develop in partnership with its suppliers. For instance, ADLER works mainly with a core group of suppliers with whom it has enjoyed a trusting relationship over several years. When selecting new suppliers to work with, compliance with social sustainability standards is an absolute must. ADLER views continued collaboration with suppliers as a process of development in partnership with the aim of helping the suppliers continue to refine not only qualitative aspects but also their social and environmental responsibility.

ADLER also considers supply chain transparency to be a permanent responsibility. The ability to trace the production of own-brand orders through every single stage of production involves knowledge and documentation of subcontracting suppliers and upstream production processes. ADLER considers one of the central challenges inherent in sustainability management and procurement to be ensuring that subcontracting suppliers and upstream production activities are in verifiable compliance with all social and environmental standards. It is only possible to tackle this challenge together with ADLER's procurement partners with the help of multi-stakeholder initiatives.

ADLER COMMITTED TO FAIR TRADE

Going forward, ADLER intends to ensure that a significant share of the cotton it uses is grown through sustainable farming and has a transparent origin and supply chain. In order to achieve this ambitious objective, ADLER is actively working with Fairtrade and the Better Cotton Initiative (BCI). In addition, ADLER offers articles made of GOTS-certified organic cotton (Global Organic Textile Standard).

In 2010, ADLER became the first textile retailer to offer Fairtrade collections. Fairtrade sows the seeds for social progress for small-scale farmers and workers in countries that are usually designated as non-industrialised countries. In 2014, ADLER nearly doubled its sales of Fairtrade articles as compared to 2013. This was due in particular to the expansion of the Fairtrade product range in the area of women's trousers and underwear as well as the introduction of new men's Fairtrade jeans. In addition, one primary supplier of shirts from Bangladesh was successfully Fairtrade certified at the end of 2013. These activities will enable ADLER to expand and grow its range of Fairtrade products.

SUSTAINABLE COTTON IS THE OBJECTIVE

At the end of 2014, ADLER became a member of the BCI, a multi-stakeholder initiative. The BCI's stated objective is to counteract the effects of conventional cotton farming and all of its negative social and environmental impacts such as the excessive use of pesticides and water. The BCI's approach is to improve on conventional cotton farming so as to reshape the cotton industry in such a manner as to provide a long-term benefit for the environment, cotton farmers and other stakeholders whose livelihoods depend on cotton. ADLER would like to be a part of this process and has undertaken to significantly increase its offering of sustainably grown and processed cotton.

RECYCLING WITH I:CO

ADLER's vision of sustainability also includes supporting sustainable consumption. In collaboration with the recycling company I:Collect AG (I:CO), ADLER has made it possible to recycle used clothing. By recycling and maintaining a closed product cycle, ADLER makes an active contribution to the sparing use of natural resources. For every kilo of used clothing brought in for recycling, ADLER customers receive a €1 coupon which they can use immediately to purchase items. The textiles which are brought in are recycled to become insulation material for the construction industry,

stuffing and fillers, stuffed animals, insoles and pockets; shoes become flooring material, key chains, protective packaging, granulate material or hard shells.

A total of 2.7 million kilogrammes of used clothing have been collected since ADLER became the first clothing company to enter into a partnership with I:CO in 2009. In 2014 alone, 436,000 kilogrammes of used clothing were recycled. By recycling used merchandise, ADLER has made a significant contribution to reducing CO₂ emissions and to conserving water.

OPPORTUNITIES & RISK REPORT

REPORT ON OPPORTUNITIES

The ADLER Group is the only major vendor in the fashion industry consistently focused on the fashion needs of the 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 solid foundation will be further bolstered through the judicious expansion of the product range. ADLER will leverage its product range to appeal to potential new customers, who will flow into the primary target group, thus lending additional momentum to the business.

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 roll-out of additional brand shop concepts and the modernisation of existing stores. Aside from generating organic growth, ADLER will also make smart acquisitions, provided 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 conveniently.

ADLER also leverages growth and expansion to create synergies and economies of scale while maintaining the option of leveraging 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.

In addition, ADLER anticipates improvements in inventory monitoring thanks to the introduction of RFID technology. This improvement will have a positive effect not only on revenue but also on earnings, as it will improve the gross profit margin. In addition, the new technology will enable the Company to replace its previous mechanical system of article surveillance with the built-in electronic article surveillance integrated into the RFID system.

RISK MANAGEMENT SYSTEM

SECURING THE COMPANY'S CONTINUED EXISTENCE

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

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

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

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

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

RISK REPORTING

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

MARKET RISKS

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

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

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

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

that potential acts of terrorism or environmental disasters could jeopardise the financial position, cash flows and financial performance of the Company.

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

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

MACROECONOMIC RISKS

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

FINANCIAL AND LIQUIDITY RISKS

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

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

CURRENCY RISKS

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

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

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

RISKS ASSOCIATED WITH THE PROCUREMENT OF MERCHANDISE

Aside from general geographical and political risks, rising wages in emerging regions and increasing prices for raw materials mean that there is always a risk of increasing production costs and hence lower margins. The ADLER Group counteracts this risk through margin-based collection planning in

order to ensure an early response to rising production costs. Negative effects on the gross profit margin are reduced through the expansion and continued professionalisation of the operating business, Group-wide efficiency enhancement measures, improved material use and the consistent implementation of pricing policy.

ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

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

INTERNAL CONTROL 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, ADLER's ICS ensures compliance with mandatory statutory norms, accounting requirements and internal accounting instructions. Changes are continually analysed with regard to their relevancy and impact on the consolidated financial statements and, where necessary, are integrated into the intra-Group guidelines and systems.

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

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

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

REMUNERATION REPORT

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

PERFORMANCE-BASED REMUNERATION SCHEME FOR THE EXECUTIVE BOARD

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

Based on applicable law, specifically the German Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, „VorstAG“) as well as a corresponding provision in the rules of procedure for the Supervisory Board, the full Supervisory Board is responsible for setting and periodically reviewing the remuneration of the individual Executive Board members. The remuneration scheme for the Executive Board – the underlying principles of which remained unchanged in 2014 – 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.

BASE REMUNERATION

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

SHORT-TERM INCENTIVE BONUS (STI)

The STI is the first remuneration component, and continues to be based on the Company's performance for the past financial year. In financial year 2014, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and in part also based on targets and further financial ratios to be defined at the beginning

of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. In accordance with resolutions passed by the Supervisory Board at the end of 2014, this linkage to targets which are to be defined by no later than the beginning of the year, has applied to all Executive Board members since financial year 2015. The limit on the individual STI was increased from €0.5 million to up to €1.0 million per year, beginning in financial year 2015.

The Supervisory Board may reasonably reduce the STI if it is based on circumstances which are not adequately attributable to the performance of Executive Board members; or are attributable to extraordinary developments. The bonus (STI) for the financial year ended currently becomes payable two months following the conclusion of the Annual General Meeting; beginning in financial year 2015, it becomes payable no earlier than two weeks and no later than two months after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the STI will be paid on a pro rata temporis basis.

LONG-TERM INCENTIVE BONUS (LTI)

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 prior to the exercise date and the price of the share upon acquisition by the respective Executive Board member. Upon expiry of the Exercise Period, those SARs which have not been exercised will expire. The LTI currently agreed with all members of the Executive Board in relation to the SARs granted comprises a total of 50,000 SARs and is limited in each case to a maximum for each charge and Executive Board member and to a total amount of currently €1.3 million. If any of the eligible members of the Executive Board steps down before the expiration of their service agreement, the payout with respect to the SARs is also limited to the maximum payment amount defined under the severance scheme set forth in the respective service agreement. Beginning in financial year 2015, members of the Executive Board receive the existing SAR-based LTI bonus described above as well as an additional LTI bonus which is based on EBITDA as reported in the audited IFRS consolidated financial statements for the year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The additional LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of €0.5 million and is not paid out if ADLER shares do not perform accordingly. The additional LTI bonus for each financial year ended is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the additional LTI bonus will be paid on a pro rata temporis basis.

COMMITMENTS IN CONNECTION WITH THE TERMINATION OF EXECUTIVE BOARD MEMBERSHIP

In the event an Executive Board membership is terminated early, the service agreements provide for the payment of severance benefits. The payments, including ancillary benefits, may not exceed the equivalent of an individually determined value („Severance Cap“) and may not amount to more than the remaining term of the service agreement. The Severance Cap is limited to the amount of two annual salaries and is calculated based on the total remuneration for the past financial year and the expected total remuneration for the current financial year. No commitments have been

made to pay benefits to members of the Executive Board for early termination of the Executive Board membership as a result of a change of control.

PENSIONS

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

TOTAL REMUNERATION FOR FINANCIAL YEAR 2014

The Company's Annual General Meeting on 30 May 2011 resolved that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2014, remuneration for the Executive Board totalled €1,501 thousand (previous year: €1,714 thousand). The breakdown of the remuneration is as follows:

MANAGEMENT BOARD REMUNERATION

in €000	2014	2013
Fixed remuneration	624	654
Non-cash benefits	19	24
Bonuses	415	367
Short-term employee benefits payable to Executive Board members	1,058	1,045
Long-term incentive bonus (LTI)	443	-
Benefits payable to Executive Board members from long-term bonus (LTI)	443	-
Severance payments	-	669
Benefits due to termination of the Executive Board position	-	669
Total	1,501	1,714

SUPERVISORY BOARD REMUNERATION

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

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

resolution on other methods of remuneration for the members of the Supervisory Board and benefits of a remunerative nature.

In financial year 2014, the total remuneration for members of the Supervisory Board was €315 thousand (previous year: €246 thousand). The breakdown of the remuneration is as follows:

SUPERVISORY BOARD REMUNERATION 2014

in €'000

Supervisory Board members in office as at 31 December 2014	Fixed remuneration	Committee membership	Meeting attendance	Total remuneration
Dr. Michele Puller, Chairman ^{1), 3)}	40.0	4.0	3.0	47.0
Martina Zimlich, Deputy Chairwoman ^{1), 3)}	20.6	0.4	1.8	22.8
Majed Abu-Zarur ¹⁾	20.0	3.8	1.5	25.3
Wolfgang Burgard ^{1), 3)}	20.0	4.0	1.5	25.5
Cosimo Carbonelli D'Angelo ^{1), 3)}	20.0	2.0	1.5	23.5
Corinna Groß	20.0	-	1.2	21.2
Peter König ^{1), 4)}	20.0	0.2	1.5	21.7
Georg Linder ¹⁾	20.0	4.0	1.5	25.5
Gorgio Mercogliano ³⁾	20.0	-	1.2	21.2
Massimiliano Monti ^{1), 3)}	20.0	2.0	1.5	23.5
Paola Viscardi-Giazzi ^{1), 3)}	20.0	2.0	0.9	22.9
Beate Wimmer ⁵⁾	3.3	-	0.6	3.9
Former members of the Supervisory Board				
Holger Kowarsch, Chairman ^{1), 2)}	-	-	-	-
Angelika Zinner, Deputy Chairwoman ^{1), 5)}	25.0	5.0	1.4	31.3
Mona Abu-Nusseira ^{1), 2)}	-	-	-	-
Eduard Regele ^{1), 2)}	-	-	-	-
Rita Richter ²⁾	-	-	-	-
Erika Ritter ⁴⁾	-	-	-	-
Markus Roschel ²⁾	-	-	-	-
Markus Stillger ^{1), 2)}	-	-	-	-
Jörg Ulmschneider ²⁾	-	-	-	-
Total	268.9	27.4	19.1	315.3

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

2) These Supervisory Board members left the Supervisory Board upon the conclusion of the Annual General Meeting on 13 May 2013.

3) These Supervisory Board members joined the Supervisory Board upon the conclusion of the Annual General Meeting on 13 May 2013.

4) Peter König was appointed by the court to replace Erika Ritter, who left the Supervisory Board at the conclusion of 30 July 2013; the appointment entered into effect on 9 September 2013.

5) Beate Wimmer was elected to replace Angelika Zinner, who left the Supervisory Board at the conclusion of 31 October 2014; her term of office commenced on 1 November 2014.

SUPERVISORY BOARD REMUNERATION 2013

in €'000

Supervisory Board members in office as at 31 December 2014	Fixed remuneration	Committee membership	Meeting attendance	Total remuneration
Dr. Michele Puller, Chairman ^{1), 3)}	20.3	4.1	2.4	26.8
Martina Zimlich, Deputy Chairwoman ^{1), 3)}	10.1	-	1.2	11.3
Majed Abu-Zarur ¹⁾	14.6	2.0	1.8	18.5
Wolfgang Burgard ^{1), 3)}	10.1	3.0	1.2	14.4
Cosimo Carbonelli D'Angelo ^{1), 3)}	10.1	1.0	1.2	12.4
Corinna Groß	14.6	-	2.1	16.7
Peter König ^{1), 4)}	6.2	-	0.3	6.5
Georg Linder ¹⁾	14.6	2.9	2.1	19.7
Gorgio Mercogliano ³⁾	10.1	-	0.9	11.0
Massimiliano Monti ^{1), 3)}	10.1	2.0	1.2	13.4
Paola Viscardi-Giazzì ^{1), 3)}	10.1	1.0	1.2	12.4
Beate Wimmer ⁵⁾	-	-	-	-
Former members of the Supervisory Board				
Holger Kowarsch, Chairman ^{1), 2)}	9.0	1.8	1.8	12.6
Angelika Zinner, Deputy Chairwoman ^{1), 5)}	21.9	4.4	2.7	29.0
Mona Abu-Nusseira ^{1), 2)}	4.5	-	0.9	5.4
Eduard Regele ^{1), 2)}	4.5	1.3	0.9	6.7
Rita Richter ²⁾	4.5	-	0.9	5.4
Erika Ritter ⁴⁾	6.2	-	0.9	7.1
Markus Roschel ²⁾	4.5	-	0.9	5.4
Markus Stillger ^{1), 2)}	4.5	0.9	0.9	6.3
Jörg Ulmschneider ²⁾	4.5	-	0.9	5.4
Total	195.3	24.5	26.4	246.3

MISCELLANEOUS

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

LEGAL DISCLOSURES

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

CORPORATE GOVERNANCE STATEMENT

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

REPORT ON RELATIONSHIPS WITH AFFILIATES

S&E Kapital GmbH, Bergkamen, has held a majority interest in the Company since 25 April 2013. STB Fashion Holding GmbH, Herne, holds a majority interest in S&E Kapital GmbH. Steilmann-Boecker Fashion Point GmbH & Co. KG, Herne, holds a majority interest in STB Fashion Holding GmbH. Miro Radici Hometextile GmbH, Bergkamen, holds a majority interest in Steilmann-Boecker Fashion Point GmbH & Co. KG. Steilmann Holding AG, Bergkamen, holds a majority interest in Miro Radici Hometextile GmbH. No control or profit and loss transfer agreement exists between Adler Modemärkte AG and S&E Kapital GmbH.

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

DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO § 289 (4) AND § 315 (4) HGB AS AT 31 DECEMBER 2014 AND EXPLANATORY REPORT

COMPOSITION OF SUBSCRIBED CAPITAL

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

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

In their service agreements, the members of the Executive Board 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 2014, direct and indirect equity interests held in the Company in excess of 10% of the voting rights exist as follows: On 26 April 2013, S&E Kapital GmbH, Bergkamen, filed notice pursuant to § 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz, „WpHG“) that its voting interest in Adler Modemärkte AG had exceeded the 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% thresholds on 25 April 2013 and was 54.76% (equivalent to 10,136,250 voting rights) on that date. Under § 22 (1) sentence 1 no. 1 WpHG, 4.80% of the voting interest (equivalent to 888,803 voting rights) is attributable to Adler Modemärkte AG. These voting rights are attributable to the controlling companies (beginning with the least senior company): Adler Modemärkte AG, Hailbach; Steilmann-Boecker Fashion Point GmbH & Co. KG, Herne; Steilmann-Boecker Verwaltungs- und Geschäftsführungs GmbH, Bergkamen; Miro Radici Hometextile GmbH, Bergkamen; Steilmann Holding AG, Bergkamen, pursuant to § 22 (1) sentence 1 no. 1 WpHG and simultaneously pursuant to § 22 (2) WpHG to Excalibur I S.à r.l., Luxembourg; Equinox Two S.C.A., Luxembourg, and Equinox S.A., Luxembourg. The voting rights pursuant to § 22 (2) WpHG are attributable to S&E Kapital GmbH. STB Fashion Holding GmbH, Herne, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 11 September 2014 and amounted to 52.81% (equivalent to 9,774,493 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 52.81% of the voting interest (equivalent to 9,774,493 voting rights) is attributable to S&E Kapital GmbH. The complete notifications are contained in the notes („Voting rights notifications“).

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 (Mittbestimmungsgesetz, „MittbestG“) 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) MittbestG, 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 General Meeting held on 30 May 2011, the Executive Board was authorised, subject to the Supervisory Board's consent, to issue, on one more occasions on or before 30 April 2016, warrant-linked and/or convertible bonds with a total nominal amount of up to €250,000,000 with a maximum term to maturity of 20 years and, subject to the specific stipulations of the respective terms and conditions of the warrant-linked and/or convertible bonds, to grant option rights to the holders of warrant-linked bonds and conversion rights to the holders of convertible bonds in respect of up to €7,930,000 no-par value ordinary bearer shares of the Company. The bonds may be issued both in euros and in the national currency of an OECD country, provided the corresponding euro equivalent limits are adhered to. They may also be issued by a domestic or foreign company in which the Company directly or indirectly holds the majority of votes and capital (hereinafter „Majority-held Affiliated Company“) In this case the Executive Board will be authorised to assume the guarantee on behalf of the issuing company regarding the redemption of the bonds and to grant shares of the Company to the holders of such bonds to satisfy the option or conversion rights attached to such bonds.

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

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

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

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

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

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

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

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

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

Notwithstanding § 9 (1) AktG, the option or conversion price may be reduced under an anti-dilution clause in accordance with the terms and conditions by payment of a corresponding amount in cash upon exercise of the conversion right or by reduction of the supplementary payment if, during the option or conversion period, the Company increases the share capital while granting its shareholders pre-emptive rights, or if the Company and/or its Majority-held Affiliated Company issue

additional warrant-linked or convertible bonds or grant any other option rights and do not grant the holders of (existing) option or conversion rights pre-emptive rights to the extent to which they would have been entitled after exercising the option or conversion rights. Instead of a cash payment or a reduction of the supplementary payment the conversion ratio may also – to the extent possible – be adjusted by dividing it with the reduced conversion price. In addition, the terms and conditions may provide for an adjustment of the option or conversion rights in the case of a capital reduction or measures resulting in a dilution of the value of the issued shares of the Company.

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

The Executive Board 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 General 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 Annual General Meeting held on 30 May 2011, satisfy such obligation, and to the extent that no cash compensation is made or already existing shares are used to satisfy these rights. The new shares will be issued at the respective option or conversion price to be determined in accordance with the authorisation resolution of the Annual General Meeting of 30 May 2011. The new shares will carry dividend rights as from the commencement of the financial year in which they are created as a result of the exercise of option or conversion rights or the satisfaction of conversion obligations.

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 Annual General Meeting on 13 June 2013, authorised the Company pursuant to § 71 (1) no. 8 AktG to acquire treasury shares representing a total of up to 10% of the share capital existing at the time the resolution is adopted until 12 June 2018. At no time may the shares acquired under this authorisation together with other shares of the Company which the Company had acquired at the time of acquisition and still holds or which are attributable to it pursuant to § 71 d or § 71 e AktG represent more than 10% of the share capital. The Company may not exercise the authorisation for the purpose of trading in treasury shares. The authorisation may be exercised in whole or in partial amounts on one or more occasions by the Company, or by dependent companies or entities in which the Company has a majority shareholding, or by third parties acting for the account of the Company or that of dependent companies or entities in which the Company has a majority shareholding. At the Executive Board's option, treasury shares may be acquired over the stock exchange or by way of a public purchase offer directed to all shareholders. If the shares are acquired over the stock exchange, the consideration paid per share (excluding ancillary acquisition costs) may not be more than 10% above or below the price determined for the share on the relevant 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 shall be authorised to use shares of the Company, which have been acquired pursuant to this authorisation or any prior issued authorisation, for any purpose permitted by law. Specifically, the Executive Board's authorisation shall cover the following: (i) The Executive Board shall be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, over the stock exchange or by tender offer to all the shareholders. Shares sold over the stock exchange shall not carry any shareholders' pre-emptive subscription rights. In the event shares are sold by way of a public tender, the Executive Board shall be authorised, subject to the Supervisory Board's consent, to exclude shareholders' pre-emptive subscription rights on fractional shares. (ii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, in a manner other than over the stock exchange or by tender offer to all the shareholders, provided the treasury shares acquired are sold at a price that is not substantially lower than the stock exchange price of the Company's shares with the same features at the time of any such sale. Shareholders' pre-emptive subscription rights shall be excluded in this context. This authorisation shall be limited to a total of 10% of the share capital existing at the time the resolution is adopted by the Annual General Meeting or to the Company's share capital existing at the time this authorisation is exercised, whichever is lower. The proportionate amount of the share capital represented by the shares which pursuant to this authorisation may be sold in a manner other than over the stock exchange or by tender offer to all the shareholders shall be reduced by the proportionate amount of the share capital represented by those shares which were issued since the grant of this authorisation based on the authorisation under § 5 (5) of the Articles of Association (Authorised Capital), and by those shares for which the holders or creditors of warrant-linked and/or convertible bonds issued since the grant of this authorisation are or were eligible to subscribe, in each case to the extent that, when shares were issued from authorised capital or when warrant-linked and/or convertible bonds were issued, pre-emptive subscription rights under § 186 (3) sentence 4 AktG were excluded. (iii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to use treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, as (partial) consideration in the context of corporate mergers or to acquire companies, parts of companies, equity investments in companies or other assets. (iv) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to employees of the Company or its Group companies. The Supervisory Board shall be authorised to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to members of the Company's Executive Board. (v) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to third parties who, as business partners of the Company or its Group companies, play a significant role in assisting the Company in achieving its corporate goals. (vi) The Executive Board shall furthermore be authorised to use treasury shares, which were acquired pursuant to this or any prior issued authorisation, to satisfy conversion or subscription rights arising under convertible or warrant-linked bonds granted by the Company or its Group companies. (vii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to cancel treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, without the need for a separate resolution by the Annual General Meeting. The authorisation to cancel shares may be exercised in whole or in part. The cancellation of shares would result in a capital reduction. Alternatively, the

Executive Board may determine that the share capital will not be reduced and that the cancellation will instead result in the proportionate interest in the share capital held by the other shareholders being increased pursuant to § 8 (3) AktG. In this case, the Supervisory Board is authorised to amend the number of shares set out in the Articles of Association. (viii) Shareholders' pre-emptive subscription rights shall be excluded in effecting the measures under ii. to vi.

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

In January 2014, the Company sold 888,803 treasury shares acquired prior to the period under review.

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

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

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

On 18 December 2014, Adler Modemärkte AG announced that it would be acquiring Kressner and its nine stores from the REWE Group and the Sanktjohanser family. The acquisition, approved by the anti-trust authorities in January, has since been completed. Seven stores will be re-branded and will continue operations under the new ADLER Orange brand. The nine stores are excellent additions to ADLER's portfolio of stores on account of their locations and sizes, and they also close existing gaps. Furthermore, this acquisition fits perfectly with our long-standing mom-and-pop shop strategy, i.e., to acquire established speciality stores with loyal customer bases. Of the two remaining Kressner stores, one will be closed and the other sold.

There were no further reportable events between the close of the reporting period and the printing of this report (early March 2015).

REPORT ON EXPECTED DEVELOPMENTS

MIXED GLOBAL ECONOMIC GROWTH IN 2015

Forecasts for the current year by economic experts are not particularly optimistic. The OECD anticipates 2.3% growth in the global economy and 3.1% growth in the USA. In Japan, the economic growth will accelerate from 0.4% to 0.8% and in China growth will slow slightly from 7.3% to 7.1%. In Germany, growth will not be higher than 1.1%, which is also not higher than the eurozone overall. The economic experts advising the German government are similarly sceptical: Germany's economy will only grow by 1.0% in 2015, according to their annual report. The government also lowered its forecast significantly from the end of 2014, to 1.3%. Nonetheless, it raised its forecast again at the end of January by 0.2% due to the updated annual economic report.

THE GERMAN ECONOMY SLIDING BACKWARDS

This is all the more disappointing in light of the fact that lower materials prices and the weak euro are providing a tailwind. These two effects combined work like a free economic stimulus programme. However, economists at the German Institute for Economic Research (DIW) still foresee large risks facing the economy. DIW head Marcel Fratzscher commented at the end of 2014 that Europe was still not out of the woods yet. The likelihood that Europe would slip back into recession was enormous. The DIW expects economic growth in Germany to weaken and unemployment to increase to approximately three million.

However, the DIW was not concerned by the introduction of a statutory minimum wage in Germany at the beginning of the year since millions of employees would have higher incomes due to the minimum wage. This would strengthen the domestic economy and private consumption would continue to be the lead pillar of the German economy.

The growth rates of European and global economies are only of limited significance to ADLER's own economic outlook. After all, the Company's primary focus is on German-speaking central European countries, with approximately 80 per cent of its revenue being generated on the German market alone. To that extent, it would take unexpectedly severe downturns in Europe and the global economy to trigger a sea change in sentiment in an area of Europe which has been the most economically stable for years now.

Instead, all key indicators point to a climate of positive consumer sentiment in Germany. Low unemployment, extremely low inflation and rising incomes are in principle fuelling Germans' propensity to spend. Moreover, extremely low interest rates have reduced any desire to set aside savings. As a consequence, the consumer climate index which is regularly compiled by the GfK was lifted to 9.3 in February 2015. This is the highest it has been since 2001.

OUTLOOK FOR THE TEXTILE RETAIL INDUSTRY

Experts expect to see strong retail business in the current financial year thanks to favourable general conditions in Germany. Continued positive employment figures, historically low interest rates, hardly noticeable inflation and real growth in wages and salaries continue to leave plenty of leeway for private consumption. In addition, the prices for petrol and diesel fuel at the beginning of the new financial year were the lowest they have been in five years. This is expected to provide additional momentum to consumer spending.

However, this development will not be automatic. ADLER believes that only those retailers with a clear focus on their customers and the right product range policies, combined with strict cost controls and a focus on earnings, will continue to experience success in 2015. This is because the competition is growing ever fiercer. A significant majority – over 72 per cent – of participants in the TW-Testclub survey expect competition to become even more ferocious in 2015. TextilWirtschaft even assumes that the current and future development of the industry will depend even less on external influences and more on a latent structural change affecting the fashion industry which will bring about further consolidation (TW No. 02/2015).

GENERAL CONDITIONS FOR PRIVATE CONSUMPTION REMAIN STABLE

The Executive Board of Adler Modemärkte AG expects the Company to continue to benefit in 2015 from a stable economic environment and a clear focus on the best-ager (45 and up) target customer group. The Company's activities are essentially limited to Germany and Austria, its two core markets, with minor activities in Luxembourg and Switzerland. These countries have recently demonstrated a high degree of economic stability. However, ADLER expects the competition between brick-and-mortar shops and online retailers, between multi-label retailers and vertical retailers to grow more intense. Nevertheless, the Executive Board is confident that ADLER's business model remains promising.

FORECAST AND OVERALL ASSERTION

In recent years ADLER has formulated realistic forecasts. For the year under review, the Company had forecast that revenue and EBITDA would increase in the low single-digit percentage range (taking into account the non-recurring effect related to the customer loyalty card in the amount of €3.8 million in 2013). This target was achieved. As competition increases and a wider array of retail platforms develop, forward-looking statements tend to be more difficult to make. At any rate, ADLER expects revenue to continue to increase in the 2015 financial year. The Executive Board is confident that the Company's return to a more expansionist strategy and the acquisition of the Kressner stores will make it possible to generate a mid-single-digit percentage increase in revenue. Since the re-branding, renovation, product range transition and adjustment in staffing levels required to integrate the Kressner stores into ADLER's sales network will initially result in significant costs, the Executive Board expects EBITDA to stagnate at best at a high level, and possible decline slightly in 2015. In subsequent years, EBITDA is expected to increase in correlation to revenue.

The outlook that the Company will achieve its revenue targets rests on the assumption of continued stability in the consumer environment, which is in line with economic forecasts, and of weather patterns corresponding to the seasons. The usual acceptance of the seasonal collections is also the basis for this assumption. The prices paid to procure cotton could slightly decrease this year. On the other hand the direct procurement of merchandise in Asia, paid for in dollars, is expected to be negatively influenced. ADLER also expects personnel expenses to increase slightly in financial year 2015. In addition, transport and logistics costs will likely increase in the current financial year.

FORWARD-LOOKING STATEMENTS

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



3

CONSOLIDATED
FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2014

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR
FROM 1 JANUARY TO 31 DECEMBER 2014

in €'000	Note	2014	2013
Revenue	1	535,251	528,616
Other operating income	2	9,759	7,651
Cost of materials	3	-243,240	-234,912
Personnel expenses	4	-95,153	-91,980
Other operating expenses	5	-165,079	-166,495
EBITDA		41,538	42,880
Depreciation and amortisation	6	-15,353	-13,981
EBIT		26,185	28,899
Other interest and similar income	7	114	87
Interest and similar expenses	7	-5,080	-4,384
Net finance costs	7	-4,966	-4,297
Net income from operations		21,219	24,602
Income taxes	8	-7,072	-6,030
Consolidated net profit for the year		14,147	18,572
of which attributable to shareholders of Adler Modemärkte AG		14,147	18,572
Earnings per share (continuing operations)			
Basic in €	34	0.77	1.05
Diluted in €		0.77	1.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR
 FROM 1 JANUARY TO 31 DECEMBER 2014

in €'000	Note	2014	2013
Consolidated net profit for the year		14,147	18,572
Currency translation gains from foreign subsidiaries		-19	3
Remeasurement of defined benefit pension entitlements and similar obligations	19	-1,524	225
Deferred taxes		423	-67
Items that will not be recycled to the income statement going forward		-1,120	161
Change in fair value of available-for-sale financial instruments		19	7
Deferred taxes		0	0
Items subsequently recycled to the income statement		19	7
Other comprehensive income		-1,101	168
Consolidated total comprehensive income		13,046	18,740
Thereof attributable to shareholders of Adler Modemärkte AG		13,046	18,740

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

ASSETS in €'000	Note	31 Dec. 2014	31 Dec. 2013
Non-current assets			
Intangible assets	9	6,760	6,227
Property, plant and equipment	10	72,483	72,205
Investment property	11	1,525	1,525
Other current receivables and assets	12	462	489
Deferred tax assets	14	11,842	8,606
Total non-current assets		93,072	89,052
Current assets			
Inventories	15	75,550	77,536
Trade receivables	16	157	52
Other current receivables and assets	12	5,536	7,016
Available-for-sale financial assets	13	283	264
Cash and cash equivalents	17	69,656	54,526
Total current assets		151,182	139,394
Total ASSETS		244,254	228,446

EQUITY AND LIABILITIES in €'000	Note	31 Dec. 2014	31 Dec. 2013
EQUITY			
Capital and reserves			
Subscribed capital	18	18,510	17,621
Capital reserves	18	127,408	119,409
Accumulated other comprehensive income	18	-2,729	-1,628
Net accumulated losses	18	-37,559	-43,376
Total equity	18	105,630	92,026
LIABILITIES			
Non-current liabilities			
Provisions for pensions and similar obligations	19	7,147	5,935
Other non-current provisions	20	1,466	1,460
Non-current financial liabilities	21	3,217	3,520
Non-current finance lease obligations	22	47,720	48,554
Other non-current liabilities	24	3,963	2,522
Deferred tax liabilities	14	20	120
Total non-current liabilities		63,533	62,111
Current liabilities			
Other current provisions	20	4,153	3,596
Current financial liabilities	21	10,171	10,344
Current finance lease obligations	22	6,310	5,446
Trade payables	23	31,681	34,150
Other current liabilities	24	20,356	19,488
Income tax liabilities	25	2,420	1,285
Total current liabilities		75,091	74,309
Total liabilities		138,624	136,420
Total EQUITY and LIABILITIES		244,254	228,446

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM 1 JANUARY TO 31 DECEMBER 2014

in €'000	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Net accumulated losses	Total equity
			Securities	Currency translation	Other changes*		
As at 1 Jan. 2013	17,621	119,409	-6	2	-1,792	-54,900	80,335
Dividend payment	0	0	0	0	0	-7,048	-7,048
Total transactions with shareholders	0	0	0	0	0	-7,048	-7,048
Consolidated net profit for the year	0	0	0	0	0	18,572	18,572
Other comprehensive income	0	0	7	3	158	0	168
Consolidated total comprehensive income	0	0	7	3	158	18,572	18,740
As at 31 Dec. 2013	17,621	119,409	1	5	-1,634	-43,376	92,026
As at 1 Jan. 2014	17,621	119,409	1	5	-1,634	-43,376	92,026
Sale of treasury shares	889	7,999	0	0	0	0	8,888
Dividend payment	0	0	0	0	0	-8,330	-8,330
Total transactions with shareholders	889	7,999	0	0	0	-8,330	558
Consolidated net profit for the year	0	0	0	0	0	14,147	14,147
Other comprehensive income	0	0	19	-19	-1,101	0	-1,101
Consolidated total comprehensive income	0	0	19	-19	-1,101	14,147	13,046
As at 31 Dec. 2014	18,510	127,408	20	-14	-2,735	-37,559	105,630

*Other changes relate to actuarial gains and losses for pension provisions.

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR
FROM 1 JANUARY TO 31 DECEMBER 2014

in €'000	Note	2014	2013
Consolidated net profit for the year before tax		21,219	24,602
Depreciation (+) of property, plant and equipment and amortisation of intangible assets		15,353	13,981
Decrease (-) in pension provisions		-312	-290
Losses (+) from the sale of non-current assets		96	1,019
Gains (-)/losses (+) from currency translation		-4	-6
Other non-cash expenses (+)/income (-)		103	-509
Net interest income		4,967	4,297
Interest income		108	48
Interest expense		-261	-256
Income taxes paid		-7,332	-4,055
Increase (-)/decrease (+) in inventories		2,784	4,774
Increase (-)/decrease (-) of trade receivables and other receivables		1,322	2,140
Increase (+)/decrease (-) of trade payables, other liabilities and other provisions		1,358	-909
Increase (+)/decrease (-) in other items of the statement of financial position		-3,040	-3,913
Cash from (+)/used (-) in operating activities (net cash flow)	26	36,361	40,923
Proceeds from disposals of non-current assets		242	1,945
Payments for investments in non-current assets		-11,654	-11,103
Cash from (+)/used (-) in investing activities	26	-11,412	-9,158
Free cash flow	26	24,948	31,765
Payments in connection with the repayment of loan liabilities		-298	-287
Proceeds from sale of treasury shares		8,888	0
Dividend payment		-8,330	-7,048
Payments in connection with finance lease liabilities		-10,078	-12,016
Cash from (+)/ used (-) in financing activities	26	-9,818	-19,351
Net decrease (-)/increase (+) in cash and cash equivalents	26	15,130	12,414
Cash and cash equivalents at beginning of period		54,526	42,111
Cash and cash equivalents at end of period		69,656	54,526
Net decrease (-)/ increase (+) in cash	26	15,130	12,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014

I. PRELIMINARY REMARKS

Adler Modemärkte AG is a corporation (Kapitalgesellschaft) in accordance with German law and its registered office is at Industriestraße Ost 1-7, Halbach, 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 4 March 2015 and authorised for publication.

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

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

Prior to 25 April 2013, the ultimate controlling company was bluO SICAV-SIF, Luxembourg. As of 25 April 2013, the ultimate controlling company is Steilmann Holding AG, Bergkamen. It indirectly holds the majority of the shares in the holding company, which it controls together with Excalibur I S.à r.l., Luxembourg, and ADLER's principal shareholder, S&E Kapital GmbH, Munich.

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

ACCOUNTING POLICIES

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

presented here comply with the provisions of § 315a HGB; those provisions constitute the legal basis for the preparation of consolidated accounts in accordance with international accounting standards in Germany in conjunction with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 December 2014. There was no early adoption of standards whose application had not yet become mandatory as at 31 December 2014.

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 2014:

Standards

IAS 27	Separate Financial Statements, Investment Entities (rev. May 2011)
IAS 28	Investments in Associates and Joint Ventures (rev. May 2011)
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Impairment of Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities (June 2012)
IFRIC 21	Levies

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 structured 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, 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 does not apply to Adler Modemärkte AG's accounting.

The amendments to IAS 32 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 2014.

The amendments to IAS 36 and IAS 39 as well as the interpretations under IFRIC 21 do not affect Adler Modemärkte AG's accounting.

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

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

Standards		Mandatory from*	Adopted by EU Commission
Amendments to IAS 1	Disclosure initiative	1 Jan. 2016	No
Amendments to IAS 16 / IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 Jan. 2016	No
Amendments to IAS 16 / IAS 41	Agriculture: Bearer plants	1 Jan. 2016	No
Amendments to IAS 19	Employee Contributions	1 Feb. 2015	Yes
Amendments to IAS 27	Separate Financial Statements, Investment Entities – Equity Method	1 Jan. 2016	No
IFRS 9	Financial Instruments: Classification and Measurement	1 Jan. 2018	No
Amendments to IFRS 10 / IAS 28	Sales or contributions of assets between an investor and its associate	1 Jan. 2016	No
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations	1 Jan. 2016	No
IFRS 14	Regulatory Deferral Accounts	1 Jan. 2016	No
IFRS 15	Revenue from Contracts with Customers	1 Jan. 2017	No
IFRIC 21	Levies	17 Jun. 2014	Yes
Various	IFRS Improvements Project <ul style="list-style-type: none"> ■ 2012 – 2014 cycle ■ 2011 – 2013 cycle ■ 2010 – 2012 cycle 	1 Jan. 2016	No Yes 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.

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

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

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

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

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

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

On 6 May 2014, the IASB published the amendments to IFRS 11 „Joint Arrangements“. These amendments include guidance clarifying that the acquisition of an interest in a joint operation must be accounted for pursuant to IFRS 3 „Business Combinations“ and other relevant standards. As opposed to ED/2012/7, the amendments clarify that existing interests do not have to be remeasured if additional interests are purchased in a joint operation.

IFRS 14 „Regulatory Deferral Accounts“ was published on 30 January 2014 as a short-term solution. This standard permits a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with the national accounting standards it previously applied. Regulatory deferral account balances, and movements in them, must be presented separately in the statement of financial position and statement of profit or loss and other comprehensive income.

On 28 May 2014, the IASB together with the FASB adopted the new IFRS 15 „Revenue from Contracts with Customers“. This standard combines all previous standards and interpretations that contained guidance on revenue recognition. The scope applies to all contracts with customers, unless these fall under the scope of IAS 17, IFRS 9, IFRS 10, IFRS 11, IAS 27 or IAS 28. A five-step model will govern revenue transactions going forward: Step 1: Identify the contract with the customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contracts. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Furthermore, IFRS 15 contains explicit guidance on multi-component transactions. Going forward, revenue will be recognised once control in goods or services has been transferred. The transfer of opportunities and risks will serve only as an indicator. Moreover, the standard provides new guidance on deciding when revenue must be recognised either over time or at a point in time. New thresholds were introduced for variable revenue. IFRS 15 replaces IAS 11 „Construction Contracts“, IAS 18 „Revenue“, IFRIC 13 „Customer Loyalty Programmes“, IFRIC 15 „Agreements for the Construction of Real Estate“, IFRIC 18 „Transfers of Assets from Customers“ and SIC-31 „Revenue - Barter Transactions Involving Advertising Services“.

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

These consolidated financial statements are based on the historical cost principle. Available-for-sale financial assets and investment property are accounted for at fair value. The income statement was prepared using the nature of expense method. Items in the consolidated statement of financial

position are classified according to their maturities. Assets and liabilities falling due within one year are reported as current. Assets and liabilities are classified as non-current if they remain within the Group for longer than one year. Trade receivables and payables and also inventories are of an exclusively short-term nature and are therefore reported under the current items.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

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

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	100	€	25
Adler Mode GmbH, Haibach	100	€	25
Adler Mode AG Schweiz, Zug, Switzerland	100	CHF	100
A-Team Fashion GmbH, Munich	100	€	25

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

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

CONSOLIDATION PRINCIPLES

Subsidiaries are all companies (including structured entities) in which the Group has the power to govern the financial and operating policies and generally holds more than 50% of the voting rights. 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).

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

CONSOLIDATION OF SUBSIDIARIES

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

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

COMPANY ACQUISITIONS

The ADLER Group uses the purchase method for the purpose of accounting for business combinations. The consideration paid is equal to the fair value at the date of the acquisition of the assets given, the liabilities assumed and the equity instruments issued. Incidental costs of the acquisition are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction. The excess of the consideration paid, the amount of all non-controlling interests and the fair value of the share of the acquiree's equity held prior to the acquisition over the fair value of the net assets at the date of acquisition is recognised as goodwill. If the consideration paid is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as income, once the identification and measurement of the net assets and the measurement of the cost of the acquisition have been reassessed. For further details, please see Note 29 Company acquisitions.

In the current financial year, prepayments were made for the purchase of a store which will be transferred to Adler Mode GmbH as at 31 January 2015 by way of an asset deal.

CURRENCY TRANSLATION

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

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

The exchange rates used in currency translation were as follows:

Currency	Spot rates*		Average rates*	
	31 Dec. 2014	31 Dec. 2013	2014	2013
Swiss franc (CHF)	1.2024	1.2276	1.2145	1.2309

* equivalent in EUR

ACCOUNTING POLICIES

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

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

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

GOODWILL

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

OTHER INTANGIBLE ASSETS

Purchased and internally generated intangible assets are recognised at cost.

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

benefits will flow to the Group as a result and if the costs can be reliably determined. All other repair and maintenance expenses are recognised as expenses in the income statement in the financial year in which they are incurred.

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

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

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

INVESTMENT PROPERTY

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

LEASING

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

the impairment test, assets are combined at the lowest level for which cash flows can be separately identified (cash-generating units).

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

GOVERNMENT GRANTS

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

The Group received government grants, that are recorded as income, as compensation for costs arising in connection with partial retirement agreements. As a result of the conditions attached to 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.

As an industry partner of the EU's SERAMIS (Sensor Enabled Real-World Awareness for Management Information Systems) project, the Group received EU grant money for the RFID pilot project in the year under review.

BUILDING COST SUBSIDIES

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

CURRENT INCOME TAXES

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

DEFERRED TAXES

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

IAS 12.39 provides that deferred taxes on temporary differences in connection with investments

in subsidiaries („outside basis differences“) should be recognised in the consolidated financial statements only when the following criteria are not met:

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

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

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

INVENTORIES

Merchandise accounted for as inventories is generally carried at the lower of cost and net realisable value. Net realisable value is the amount of the estimated sale proceeds achievable in the normal course of business less the necessary variable costs of sale. The cost of production includes all directly attributable costs and appropriate portions of necessary overheads and depreciation in addition to direct materials and production costs. Cost is determined using the weighted average method. Other expenses incurred to relocate inventories to their current location in a condition ready for sale were reallocated in the previous year.

RECEIVABLES AND OTHER ASSETS

TRADE RECEIVABLES

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

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 receivables - less any impairment losses. Appropriate valuation allowances are recognised in respect of any risks existing. At the end of each reporting period the carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective indications of impairment (such as significant financial difficulties on the part of the debtor, a high probability of

insolvency proceedings against the debtor, a significant change in the technological, economic or legal environment, or in the market environment of the issuer or a permanent decline in the fair value of the financial asset to below amortised cost). Any impairment charge, based on a lower fair value in comparison with the carrying amount, is reported in the income statement. If it becomes clear at subsequent measurement dates that the fair value has risen objectively as a result of events that occurred after the date when the impairment charge was recognised, the impairment charge is reversed through profit or loss in the relevant amount. The fair value determined for the purpose of reviewing possible impairment losses in respect of loans and receivables measured at amortised cost is equal to the present value of the estimated future cash flows, discounted at the original effective rate of interest.

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

Financial assets are generally recorded at the trade date.

CASH AND CASH EQUIVALENTS

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

EQUITY

Equity consists of subscribed capital, capital reserves, accumulated other comprehensive income and net accumulated losses. Subscribed capital represents the nominal capital of the parent, reduced 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.

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 and actuarial gains and losses from pension obligations as well as the associated deferred taxes.

On 13 January 2014, the Executive Board of Adler Modernmärkte AG resolved, with the advance consent of the Supervisory Board, to sell 888,803 treasury shares and placed all treasury shares at €10 per share on 14 January 2014. The gross proceeds of the issue amounted to €8,888,030 and were recognised in the relevant equity items. €888,803 was recognised under subscribed capital and €7,999,227 was recognised under capital reserves. The subscribed capital thus amounts to €18,510 thousand.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be reliably estimated. Where there 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 and any past service cost not yet recognised.

The actuarial calculation of the pension provisions for the Company's old-age pension benefits is based on the projected unit credit method prescribed by IAS 19 (Employee Benefits). An actuarial valuation is carried out by independent actuarial experts for this purpose at the end of each reporting period. The projected unit credit method takes account of the known pensions and vested benefits at the end of the reporting period and includes increases in salaries and pensions expected in the future. The valuations are based on the legal, economic and tax environment of the individual country, as well as that country's specific demographic trends. The obligations, which exist solely in the European economic area, were measured using an actuarial rate of interest of 1.3% (previous year: 3.0%), 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. The expected return on the plan assets in accordance with the amendment to IAS 19 was adjusted in the previous year in line with the actuarial rate of interest.

The accumulated actuarial gains and losses were attributable to the differences arising over the years between the projected pension obligations and plan assets and the actual amounts at the year-end. The amendments to IAS 19 „Employee Benefits“ were applied for the first time in the previous year. Under this standard, actuarial gains and losses are now recognised directly in other comprehensive income and no longer only if they lie outside a range of 10% of the higher of the pension obligations and the plan assets. Furthermore, the return on plan assets may no longer be estimated according to the expected return based on the asset allocation; instead only a gain based on the expected return on plan assets in the amount of the discount rate may be recognised.

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

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

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

OBLIGATIONS FOR SEVERANCE PAYMENTS

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

TERMINATION BENEFITS

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

SHARE-BASED REMUNERATION

In connection with the Executive Board service agreements, the members of Adler Modemärkte AG's Executive Board have been granted a long-term incentive bonus. Based on the level of personal investment, the active members were granted 50,000 SARs (stock appreciation rights) as at the end of the reporting period (previous year: 375,000 SARs). The SARs granted were classified and measured as cash-settled share-based payment transactions in accordance with IFRS 2.30 et seq. In accordance with IFRS 2, the fair value of the work performed by the members of the Executive Board as consideration for the granting of the options is recognised as an expense allocated over the vesting period. The fair value of the options is recalculated at the end of each reporting period using Monte Carlo simulation. (Reference to Note 32)

LIABILITIES

FINANCIAL LIABILITIES

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

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

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

LIABILITIES FROM FINANCE LEASES

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

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

TRADE PAYABLES AND OTHER LIABILITIES

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

CONTINGENT LIABILITIES

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

RECOGNITION OF INCOME AND EXPENSES

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

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

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

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

NET FINANCE COSTS

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

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

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

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

OTHER COMPREHENSIVE INCOME

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

SEGMENT REPORTING

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

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

As in the previous year, there was only one reportable segment in financial year 2014: „Stores (Modemärkte)“.

EARNINGS PER SHARE

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

LITIGATION AND CLAIMS FOR DAMAGES

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

USE OF ESTIMATES AND ASSUMPTIONS

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

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.

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

PROVISIONS

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

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

IMPAIRMENT

Goodwill is tested annually for impairment in accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets). If events or changes in circumstances give rise to indications of possible impairment, impairment testing must also be carried out more frequently. The amortisation of goodwill is not permitted. For the purpose of testing goodwill for impairment, the carrying amount of the individual cash-generating unit to which the goodwill has been allocated is compared with the respective recoverable amount, i.e. the higher of the net selling price and the value in use. In those cases where the carrying amount of the cash-generating unit is higher than its recoverable

amount, the difference represents an impairment loss. Impairment losses calculated in this manner are deducted initially from the carrying amount of the goodwill allocated to the strategic business unit in question. Any remaining amount is allocated to the other assets in the respective strategic business unit pro rata on the basis of their carrying amounts, to the extent that IAS 36 applies. The calculation of the recoverable amount is based on the future cash flows expected to be derived from the continuing use of the cash-generating unit. The cash flow projections were based on the Company's current business plans. The cost of capital is calculated as the weighted average of the cost of equity and the cost of debt, taking into account the proportions of total capital represented by equity and debt respectively. The cost of equity represents the expected return from the cash-generating unit and is derived from a suitable peer group. The cost of debt is based on the average cost of debt derived from bonds with an average remaining maturity of 20 years.

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

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

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

III. NOTES TO THE INCOME STATEMENT

1. REVENUE

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

in €'000	2014	2013
Germany	439,852	432,109
Austria	76,308	78,593
Luxembourg	17,340	16,264
Switzerland	1,751	1,650
	535,251	528,616

2. OTHER OPERATING INCOME

in €'000	2014	2013
Rent	2,189	2,295
Passthrough expenses / reimbursement of expenses	1,535	983
Income from the reversal of other liabilities	1,316	794
Income from the reversal of provisions	961	882
Income from the hanger recycling project	595	0
Subsidies for advertising expenses	465	482
Royalties	459	563
Income from the derecognition of expired liabilities	291	129
Income from damages claims	296	141
Credits from suppliers	290	99
Personnel-related government grants	252	163
Income from the reversal of bad debt allowances	230	303
Commissions	76	93
Cafeteria	71	75
Miscellaneous	733	649
	9,759	7,651

The rental income was generated from subletting to store concessionaires. Rental income from investment property amounted to €91 thousand (previous year: €125 thousand).

Income from the reversal of other liabilities related to personnel expenses and bonuses in 2013.

Income from the derecognition of liabilities includes primarily the derecognition of expired gift cards.

3. COST OF MATERIALS

The cost of materials amounting to €243,240 thousand (previous year: €234,912 thousand) consists entirely of purchased merchandise.

4. PERSONNEL EXPENSES

in €'000	2014	2013
Wages and salaries	78,095	75,663
Other social security contributions	8,532	8,181
Employer's contribution towards the statutory pension scheme	7,478	7,173
Expenditures for partial retirement/death benefits/anniversaries	612	460
Expenditures for old-age pensions	436	503
	95,153	91,980

The increase in personnel expenses during the financial year was attributable primarily to the collective bargaining agreement concluded in 2014.

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

Employees	2014	2013
Managers	215	208
Full-time employees	768	759
Part-time employees	2,910	3,028
Trainees	270	269
	4,163	4,264

5. OTHER OPERATING EXPENSES

in €'000	2014	2013
Lease payments and building expenditures	66,765	67,976
Advertising expenses	45,577	45,111
Freight and transport costs	17,700	17,199
Technical equipment	12,397	10,376
Administrative expenses	4,855	4,892
External cleaning fees	4,036	3,687
Consumables	3,833	4,373
Consultancy fees	2,048	2,934
Incidental costs of monetary transactions	1,529	1,518
Office expenses	1,392	1,548
Low-value assets	983	543
Losses from disposals of assets	748	438
Miscellaneous	3,216	5,900
	165,079	166,495

The increase in expenses for technical facilities was attributable primarily to modernisation measures conducted at 15 stores in 2014; this was offset by income from construction subsidies in the amount of €737 thousand.

The increase in freight and transport costs was attributable mainly to higher volumes and price increases.

Improved lease conditions led to the decrease in rental expenses.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

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

No impairment charges were recognised in respect of non-current assets during the financial year.

7. NET FINANCE COSTS

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

in €'000	2014	2013
Interest income		
Receivables from banks	101	48
Miscellaneous	13	39
	114	87
Interest expense		
Finance leases	-4,619	-3,918
Interest effect on pension obligations and provisions for anniversaries	-200	-210
Liabilities to banks	-6	-7
Miscellaneous	-255	-249
	-5,080	-4,384
Net finance costs	-4,966	-4,297

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:

in €'000	2014	2013
Actual tax expense (-)/income (+)	-9,985	-7,052
Deferred tax expense (-)/income (+)	2,913	1,022
	-7,072	-6,030

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

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

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

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

in €'000	2014	2013
Consolidated net profit before income taxes	21,219	24,602
Applicable income tax rate	29.10%	29.10%
Expected income tax expense	6,175	7,159
Effects of different foreign tax rates	-36	-56
Effects of different domestic tax rates	-3	-5
Effects of changes in tax rates	0	-294
Tax effects		
Addition/reduction of trade tax	809	810
Non-deductible expenses for tax purposes	76	71
Prior-period tax income/expense	739	-7
Tax-exempt income	-19	-22
Recognition of previously unused tax loss carryforwards	-719	-2,039
Utilisation of unrecognised taxable losses	0	-318
Derecognition of tax loss carryforwards	0	26
Valuation allowances for tax loss carryforwards	0	677
Non-recognition of current tax losses	50	89
Other deviations	1	-61
Total tax effects	936	-774
Actual tax expense (+)/income (-)	7,072	6,030
Actual tax rate	33.33%	24.51%

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.

In accordance with § 8c of the German Corporation Tax Act (Körperschaftsteuergesetz, „KStG“), the change in the shareholder structure as at 25 April 2013 lowered the existing tax loss carryforwards and the corresponding deferred tax assets (€26 thousand) of Advers GmbH, Haibach, in the previous year. Under the „hidden reserve clause“, the loss carryforwards and corresponding deferred taxes of Adler Mode GmbH, Haibach, are retained. Deferred taxes recognised for Adler Mode GmbH's loss carryforwards were reduced from €1,533 thousand in the previous year to €855 thousand due to a change in how they were expected to be utilised in the medium term. Due to the positive performance and budgeted medium-term earnings, deferred taxes recognised for Adler Mode GmbH's loss carryforwards were increased to €1,557 thousand in the reporting period.

IV. NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. INTANGIBLE ASSETS

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

The development of intangible assets in financial year 2014 was as follows:

in €'000	Software, rights, licences	Goodwill	Licences Finance leases	Internally- generated assets	Prepay- ments	Total
Cost as at 1 Jan. 2014	27,473	868	828	2,257	3,324	34,750
Additions	2,174	0	284	0	0	2,458
Disposals	-124	-868	0	0	0	-992
Reclassifications	4,152	0	-828	0	-3,324	0
As at 31 Dec. 2014	33,675	0	284	2,257	0	36,216
Depreciation, amortisation and write downs as at 1 Jan. 2014	-24,570	0	-380	-890	0	-25,841
Additions	-1,905	0	-21	0	0	-1,926
Disposals	124	0	0	0	0	124
Reclassifications	-380	0	380	0	0	0
As at 31 Dec. 2014	-26,731	0	-21	-890	0	-27,643
Impairments as at 1 Jan. 2014	0	-868	-448	-1,367	0	-2,683
Additions	0	0	0	0	0	0
Disposals	0	868	0	0	0	868
Reclassifications	-448	0	448	0	0	0
As at 31 Dec. 2014	-448	0	0	-1,367	0	-1,815
Net carrying amount as at 31 Dec. 2013	2,903	0	0	0	3,324	6,227
Net carrying amount as at 31 Dec. 2014	6,496	0	263	0	0	6,760

The derecognition of goodwill in the amount of €868 thousand was due to the merger of Adler Modemärkte Gesellschaft m.b.H., Ansfelden, and Adler Asset GmbH, Ansfelden. The reclassification under licences and leases in the amount of €828 thousand related to a trademark that was transferred from a finance lease. The addition to licences finance leases was attributable to a new agreement to purchase a trademark in the amount of €284 thousand.

The development of intangible assets in financial year 2013 was as follows:

in €'000	Software, rights, licences	Goodwill	Licences Finance leases	Internally- generated assets	Prepay- ments	Total
Cost as at 1 Jan. 2013	25,941	868	828	2,257	3,506	33,400
Additions	863	0	0	0	1,207	2,070
Disposals	-1	0	0	0	-719	-720
Reclassifications	670	0	0	0	-670	0
As at 31 Dec. 2013	27,473	868	828	2,257	3,324	34,750
Depreciation, amortisation and write downs as at 1 Jan. 2013	-23,572	0	-380	-869	0	-24,822
Additions	-999	0	0	-21	0	-1,020
Disposals	1	0	0	0	0	1
As at 31 Dec. 2013	-24,570	0	-380	-890	0	-25,841
Impairments as at 1 Jan. 2013	0	-868	-448	-1,367	0	-2,683
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
As at 31 Dec. 2013	0	-868	-448	-1,367	0	-2,683
Net carrying amount as at 31 Dec. 2012	2,369	0	0	21	3,506	5,896
Net carrying amount as at 31 Dec. 2013	2,903	0	0	0	3,324	6,227

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.

The development of property, plant and equipment in financial year 2014 was as follows:

in €'000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties)	Finance lease buildings	Other operating and office equipment	Prepay- ments / construc- tion in progress	Total
Cost as at 1 Jan. 2014	582	64,791	140,028	70,730	350	276,482
Additions	0	4,721	5,488	4,373	102	14,684
Disposals	0	-4,148	-3,198	-11,414	-7	-18,767
Reclassifications	0	158	0	185	-343	0
Foreign exchange differences	0	4	0	4	0	8
As at 31 Dec. 2014	582	65,526	142,318	63,878	102	272,407
Depreciation, amortisation and write downs as at 1 Jan. 2014	0	-48,435	-96,928	-57,930	0	-203,293
Additions	0	-2,914	-5,865	-4,649	0	-13,428
Disposals	0	3,493	3,198	11,091	0	17,782
Reclassifications	0	0	0	0	0	0
Foreign exchange differences	0	-1	0	-1	0	-2
As at 31 Dec. 2014	0	-47,857	-99,595	-51,489	0	-198,941
Impairments as at 1 Jan. 2014	-205	-584	0	-194	0	-983
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Foreign exchange differences	0	0	0	0	0	0
As at 31 Dec. 2014	-205	-584	0	-194	0	-983
Net carrying amount as at 31 Dec. 2013	377	15,772	43,100	12,606	350	72,205
Net carrying amount as at 31 Dec. 2014	377	17,086	42,723	12,195	102	72,483

The development of property, plant and equipment in financial year 2013 was as follows:

in €'000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties)	Finance lease buildings	Other operating and office equipment	Prepay- ments / construc- tion in progress	Total
Cost as at 1 Jan. 2013	490	61,028	134,361	70,027	14	265,920
Additions	0	4,187	13,396	3,546	350	21,479
Disposals	0	-1,048	-7,729	-2,929	0	-11,706
Reclassifications	92	627	0	91	-14	796
Foreign exchange differences	0	-3	0	-3	0	-6
As at 31 Dec. 2013	582	64,791	140,028	70,730	350	276,482
Depreciation, amortisation and write downs as at 1 Jan. 2013	0	-46,374	-98,025	-56,034	0	-200,433
Additions	0	-2,890	-5,607	-4,463	0	-12,960
Disposals	0	843	6,704	2,651	0	10,198
Reclassifications	0	-14	0	-84	0	-98
Foreign exchange differences	0	0	0	0	0	0
As at 31 Dec. 2013	0	-48,435	-96,928	-57,930	0	-203,293
Impairments as at 1 Jan. 2013	-166	-403	0	-194	0	-763
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Reclassifications	-39	-181	0	0	0	-220
Foreign exchange differences	0	0	0	0	0	0
As at 31 Dec. 2013	-205	-584	0	-194	0	-983
Net carrying amount as at 31 Dec. 2012	324	14,251	36,336	13,799	14	64,724
Net carrying amount as at 31 Dec. 2013	377	15,772	43,100	12,606	350	72,205

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 €983 thousand (previous year: €543 thousand).

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 2014, the contingent rental payments under finance lease agreements amounted to €1,288 thousand (previous year: €1,360 thousand), while those under operating lease agreements were €1,924 thousand (previous year: €2,948 thousand). The year-on-year decrease in contingent rental payments was due primarily to lease amendments.

As in the previous year, no impairment losses were recognised in respect of assets from finance leases in financial year 2014.

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 €63,299 thousand during the financial year (previous year: €62,630 thousand). The operating lease agreements contain similar renewal options.

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

in €'000	2014	2013
Operating lease agreements		
Minimum lease payments payable		
up to 1 year	45,709	43,336
1 to 5 years	140,433	130,658
more than 5 years	137,376	118,749
	323,518	292,743

Property, plant and equipment amounting to €2,237 thousand (previous year: €2,323 thousand) serves as collateral for financial liabilities.

11. INVESTMENT PROPERTY

The investment property reported in the financial statements consists of land and a building held by the structured entity ALASKA GmbH & Co. KG included in the consolidation. The building is not used in its entirety by the ADLER Group, 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 2014 €91 thousand in rental income was generated (previous year: €125 thousand).

in €'000	2014	2013
Carrying amount as at 1 Jan.	1,525	2,002
Reclassification to property, plant and equipment	0	-477
As at 31 Dec.	1,525	1,525

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

An increase in the Group's own use of investment property led to a reclassification under property, plant and equipment in the amount of €477 thousand in the previous year.

Expenses for maintenance and repairs amounting to €16 thousand (previous year: €8 thousand) were incurred during the financial year.

12. OTHER RECEIVABLES AND OTHER ASSETS

in €'000	31 Dec. 2014	31 Dec. 2013
Non-current receivables and other assets		
Prepaid expenses	221	292
Payments towards a money market fund to hedge partial retirement commitments	83	39
Deposits	158	158
	462	489
Current receivables and other assets		
Credit card receivables	2,245	2,737
Prepaid expenses	1,143	1,185
Tax assets	388	920
Miscellaneous	1,760	2,174
	5,536	7,016

Other receivables and other assets include financial assets amounting to €2,485 thousand (previous year: €2,934 thousand).

Tax assets 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 and maintenance contracts.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets amounting to €283 thousand (previous year: €264 thousand) include securities that could not be allocated to any of the other measurement categories set out in IAS 39. The item consists entirely of fund units. They were initially recognised and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

14. DEFERRED TAX ASSETS

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:

in €'000	31 Dec. 2014	31 Dec. 2013
Deferred tax assets		
Intangible assets	0	0
Property, plant and equipment	113	127
Inventories	2,813	1,791
Receivables and other current assets	536	564
Provisions	1,327	1,131
Liabilities	18,738	16,126
Tax loss carryforwards	3,803	3,394
Total deferred tax assets	27,591	23,134
of which current	8,808	7,705
of which non-current	18,783	15,429
Deferred tax liabilities		
Intangible assets	166	220
Property, plant and equipment	12,381	12,501
Inventories	135	182
Receivables and other current assets	72	87
Provisions	2,743	1,656
Liabilities	12	2
Total deferred tax liabilities	15,769	14,648
of which current	1,592	3,246
of which non-current	14,176	11,402
Offsetting of deferred tax assets and deferred tax liabilities	-15,749	-14,528
Carrying amount of deferred tax assets	11,842	8,606
Carrying amount of deferred tax liabilities	20	120

The change in deferred taxes was attributable to the remeasurement of pension entitlements in the amount of €423 thousand (previous year: €-67 thousand) and was therefore recognised directly in equity.

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

The corporation and trade tax loss carryforwards shown here relate to Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, and Adler Mode GmbH, Hailbach. Due to the positive performance and the updated budgeted medium-term earnings, deferred taxes for Adler Mode GmbH's corporation and trade tax loss carryforwards were again recognised in full at €1,557 thousand (previous year: €855 thousand). No deferred tax assets were recognised in respect of additional existing corporation tax loss carryforwards amounting to €1,034 thousand (previous year: €4,463 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 €2,262 thousand (previous year: €1,604 thousand).

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

15. INVENTORIES

in €'000	31 Dec. 2014	31 Dec. 2013
Domestic	66,061	66,847
International	9,489	10,689
	75,550	77,536

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 2014, impairment allowances on inventories were €8,157 thousand, €798 thousand lower compared with the previous year (€8,955 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 €65,356 thousand (previous year: €67,320 thousand).

Inventories consist primarily of merchandise.

16. TRADE RECEIVABLES

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

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

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

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were made up as follows:

in €'000	31 Dec. 2014	31 Dec. 2013
Balances with banks	60,110	50,149
Cash-in-hand	9,546	4,377
	69,656	54,526

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 sale of treasury shares led to an increase in the reported subscribed capital from €17,621 thousand to €18,510 thousand. The share capital of Adler Modemärkte AG, Haibach, at end of the reporting period is €18,510 thousand.

The shares of the shareholders are fully paid in.

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

DIVIDEND RESTRICTIONS

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

SALE OF TREASURY SHARES

On 13 January 2014, the Executive Board of Adler Modemärkte AG resolved, with the advance consent of the Supervisory Board, to sell 888,803 treasury shares and placed all treasury shares at €10 per share on 14 January 2014. The gross proceeds of the issue amounted to €8,888,030 and were offset from the relevant equity items. €888,803 was recognised under subscribed capital and €7,999,227 was recognised under capital reserves. The subscribed capital thus amounts to €18,510 thousand.

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.

in €'000	31 Dec. 2014	31 Dec. 2013
Equity	105,630	92,026
Debt	138,624	136,420
Debt/equity ratio	1.31	1.48

19. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

in €'000	31 Dec. 2014	31 Dec. 2013
Defined benefit obligations (unfunded)	6,442	5,401
Defined benefit obligations (wholly or partially funded)	2,321	2,015
Subtotal	8,763	7,416
Less fair value of plan assets	-1,615	-1,481
Provision for old-age pension benefits as at 31 Dec.	7,147	5,935

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

in €'000	31 Dec. 2014	31 Dec. 2013
As at 1 Jan.	7,416	7,999
Current service cost	112	125
Interest expense	215	194
Pensions paid	-512	-596
Actuarial gains (-)/losses (+)		
from changes to financial assumptions	1,500	-414
from experience adjustments	32	108
As at 31 Dec.	8,763	7,416

The associated plan assets developed as follows:

in €'000	31 Dec. 2014	31 Dec. 2013
As at 1 Jan.	1,481	1,549
Contributions (employer)	191	107
Expected interest income	44	39
Pension payments (severance payments)	-104	-128
Administrative expenses for insurance	-5	-4
Experience adjustments (gains (+)/losses (-))	8	-82
Fair value of plan assets as at 31 Dec.	1,615	1,481

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 calculated on the basis of the actuarial rate of interest in accordance with IAS (rev. 2011). The actual loss on plan assets in the financial year amounted to €52 thousand (previous year: €43 thousand loss).

Future cash flows in €'000	31 Dec. 2014
Expected pension and severance payments in subsequent year	430
Total expected payments in subsequent years 2 to 5	2,083
Total expected payments in subsequent years 6 to 10	2,684
Expected contributions to plan assets in subsequent year	-191

The weighted average maturity of the obligation is 12.38 years (previous year: 12.1 years).

Sensitivity analysis regarding the defined benefit obligation for pensions and severance payments:

Measurement parameters	Starting value	Sensitivity	Effect on DBO
Actuarial interest rate	1.30%	+ 1.00 percentage point	-941
Actuarial interest rate	1.30%	- 1.00 percentage point	1,145
Projected annual pension increase/decrease	2.50%	+ 0.25 percentage points	171
Projected annual pension increase/decrease	2.50%	- 0.25 percentage points	-163
Projected annual wage and salary increase/decrease	2.50%	+ 0.50 percentage points	99
Projected annual wage and salary increase/decrease	2.50%	- 0.50 percentage points	-97

The expected funding for post-employment benefits plans for the financial year ending 31 December 2015 amounts to €191 thousand (previous year: €107 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 €7,478 thousand (previous year: €7,173 thousand) for the Group as a whole in the financial year.

20. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

in €'000	Restructuring / severance payments	Rent and incidental rental expenses	Other provisions for personnel expenses	Other Provisions	Total
As at 1 Jan. 2013	543	1,440	1,164	629	3,776
Utilisations	-1,006	-845	-233	-800	-2,884
Additions	2,277	1,211	400	1,182	5,070
Reversals	-450	-421	0	-11	-882
Accrued interest	0	0	14	0	14
As at 31 Dec. 2013	1,364	1,385	1,345	962	5,056
Non-current	0	0	1,290	170	1,460
Current	1,364	1,385	55	792	3,596
As at 1 Jan. 2014	1,364	1,385	1,345	962	5,056
Utilisations	-1,358	-782	-389	-443	-2,972
Additions	1,255	1,396	514	1,261	4,426
Reversals	-312	-292	-149	-155	-908
Reclassifications	0	0	0	0	0
Accrued interest	0	0	17	0	17
As at 31 Dec. 2014	949	1,707	1,338	1,625	5,619
Non-current	0	0	1,296	170	1,466
Current	949	1,707	42	1,455	4,153

The obligations from restructuring activities comprise expenses associated with the closing of stores in 2014 in addition to provisions for termination costs.

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

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

Other provisions include provisions for the costs of retaining documents with a non-current portion amounting to €170 thousand (previous year: €170 thousand).

21. FINANCIAL LIABILITIES

in €'000		31 Dec. 2014	31 Dec. 2013
Liabilities to METRO Finance B.V.	< 1 year	303	298
Liabilities to METRO Finance B.V.	> 1 year	3,217	3,520
		3,520	3,818
Liabilities arising from the Adler customer loyalty card	< 1 year	9,868	10,046
		9,868	10,046
		13,388	13,864

The liability to METRO Finance B.V. comprises a loan at a current fixed rate of interest since 1 April 2013 of 1.321% p.a. (until 31 March 2013: 3.25% p.a.). The interest rate is fixed from 1 April 2013 until 31 March 2015. 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, including interest, are as follows:

in €'000		31 Dec. 2014	31 Dec. 2013
		10,266	10,044
Thereof falling due within the following time bands:			
Less than 30 days		9,868	10,046
30 - 90 days		100	99
90 - 180 days		100	99
180 days - 1 year		198	200

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

As at 31 December 2014, the financial liabilities were secured by items of property, plant and equipment with a carrying amount of €2,237 thousand (previous year: €2,323 thousand) and by investment property with a carrying amount of €1,525 thousand (previous year: €1,525 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:

in €'000	31 Dec. 2014	31 Dec. 2013
Finance lease agreements		
Minimum finance lease payments payable		
up to 1 year	10,622	9,769
1 to 5 years	31,988	32,583
more than 5 years	40,525	42,680
	83,135	85,032
Discounts		
up to 1 year	-4,312	-4,323
1 to 5 years	-12,116	-12,666
more than 5 years	-12,677	-14,043
	-29,105	-31,032
Present value		
up to 1 year	6,310	5,446
1 to 5 years	19,872	19,917
more than 5 years	27,848	28,637
	54,030	54,000

The finance lease agreements relate primarily to leased buildings for stores. An additional finance lease agreement for trademarks was concluded in the year under review.

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.

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:

in €'000	31 Dec. 2014	31 Dec. 2013
Carrying amount	31,681	34,150
Thereof falling due within the following time bands:		
Less than 30 days	18,582	21,205
30 - 90 days	12,916	12,209
90 - 180 days	138	497
180 days - 1 year	45	239

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

in €'000	31 Dec. 2014	31 Dec. 2013
Liabilities from value added tax	6,435	5,526
Wage and salary commitments	4,372	5,136
Liabilities to customers for gift vouchers sold	3,897	2,551
Liabilities from customs duties	1,324	868
Liabilities from wage tax	1,030	832
Deferred building cost subsidies	579	2,190
Workmen's compensation	471	482
Social security contributions	383	397
Deferred lease payments	118	90
Other	1,747	1,416
Other current liabilities	20,356	19,488
Deferred building cost subsidies	2,897	1,538
Deferred lease payments	1,066	984
Other non-current liabilities	3,963	2,522

Other current liabilities include financial liabilities amounting to €4,394 thousand (previous year: €3,059 thousand).

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

25. INCOME TAX LIABILITIES

Income tax liabilities of €2,420 thousand (previous year: €1,285 thousand) relate to corporation tax and trade tax liabilities.

26. STATEMENT OF CASH FLOWS

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

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

in €'000	2014	2013
Cash from (+)/used (-) in operating activities (net cash flow)	36,361	40,923
Cash from (+)/used (-) in investing activities	-11,412	-9,158
Free cash flow	24,948	31,765
Cash from (+)/used (-) in financing activities	-9,818	-19,351
Net increase in cash and cash equivalents	15,130	12,414

Cash and cash equivalents as at 31 December 2014 amounted to €69,656 thousand (previous year: €54,526 thousand) and include demand deposits with banks, current time deposits with terms of less than three months, cheques and cash-in-hand. Just as in the previous year, there was no cash subject to restrictions on disposal during the reporting period.

The following material non-cash transactions took place in financial year 2014:

Other non-cash income and expenses amounting to €103 thousand (previous year: €-509 thousand) include in particular the change in inventories and trade receivables.

Non-current assets and liabilities from finance leases both rose by €5,487 thousand (previous year: €13,396 thousand) with no effect on cash as a result of the addition of new finance leases or the renewal of existing leases.

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

in €'000	2014	2013
Interest paid from finance leases	4,619	3,918
Interest paid from operating activities	261	256
Total	4,880	4,174

27. SEGMENT REPORTING

2014 in €'000	Stores segment	Reconciliati-on with IFRS	ADLER Group
Total revenue (net)	535,362	-113	535,251
Other operating income	12,641	-2,882	9,759
Revenue from trading	270,893	-579	270,202
Total cost	-247,966	9,544	-238,423
EBITDA	35,568	5,970	41,538

2013 in €'000	Stores segment	Reconciliati-on with IFRS	ADLER Group
Total revenue (net)	523,099	5,517	528,616
Revenue from trading	6,762	889	7,651
Other operating income	268,848	-1,901	272,464
Total cost	-247,416	10,181	-237,235
EBITDA	28,194	14,686	42,880

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

The revenue from trading 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:

in €'000	2014			2013		
	Germany	International	Group	Germany	International	Group
Non-current assets	72,399	8,368	80,767	69,313	10,644	79,957

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. 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 €47,452 thousand at the end of the reporting period (previous year: €48,554 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 €3,520 thousand at the end of the reporting period (previous year: €3,818 thousand). Current loan liabilities at the end of the reporting period amounted to €303 thousand (previous year: €298 thousand). The remaining current financial liabilities at the end of the reporting period amounted to €9,868 thousand (previous year: €10,046 thousand).

MATURITY ANALYSIS OF FINANCIAL LIABILITIES

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

2014 in €'000	up to 1 year	more than 1 year
Trade payables	31,681	0
Financial liabilities	10,266	3,866
Liabilities from finance leases	10,672	72,463
Other financial liabilities	4,394	0

2013 in €'000	up to 1 year	more than 1 year
Trade payables	34,150	0
Financial liabilities	10,444	4,265
Liabilities from finance leases	9,769	75,263
Other financial liabilities	3,059	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:

in €'000	31 Dec. 2014	31 Dec. 2013
Total falling due within one year	10,672	9,769
Thereof falling due within the following time bands:		
Less than 30 days	758	683
30 - 90 days	1,910	1,759
90 - 180 days	2,668	2,442
180 days - 1 year	5,336	4,885

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

in €'000	31 Dec. 2014	31 Dec. 2013
Total falling due within one year	4,394	3,059
Thereof falling due within the following time bands:		
Less than 30 days	3,923	2,577
30 - 90 days	0	0
90 - 180 days	471	482
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 €2,642 thousand (previous year: €2,986 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 2012, the interest expense for financial year 2014 would have been €11 thousand higher (previous year: €6 thousand higher). If the level of interest rates had been 100 basis points lower at the date when the new rate of interest was determined for this liability in financial year 2012, the interest expense for financial year 2014 would have been €11 thousand lower (previous year: €20 thousand lower). Since the period for which the interest rate was fixed included the whole of financial year 2014, there was no sensitivity to interest rates in this period.

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

The sensitivity analysis of the available-for-sale financial assets resulted in the following potential changes as at 31 December 2014: In the event of an increase of 5% in the market price, equity would have risen by €11 thousand (previous year: €10 thousand). In the event of a decrease of 5% in the market price, equity would have fallen by €11 thousand (previous year: €10 thousand).

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	At amortised cost		At fair value (no effect on profit/loss)	Carrying amount pursuant to IAS 17	Total	
	Other liabilities	Loans and receivables	Available-for-sale financial assets		Carrying amount	Fair Value
2014 in €'000	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Available-for-sale financial assets	—	—	283	—	283	283
Cash and cash equivalents	—	69,656	—	—	69,656	69,656
Trade receivables	—	157	—	—	157	157
Other financial assets	—	2,485	—	—	2,485	2,485
Total financial assets	—	72,298	283	—	72,581	72,581
Trade payables	31,681	—	—	—	31,681	31,681
Financial liabilities	13,388	—	—	—	13,388	14,008
Liabilities from finance leases	—	—	—	53,762	53,762	60,321
Other financial liabilities	4,394	—	—	—	4,394	4,394
Total financial liabilities	49,463	—	—	53,762	103,225	110,404

2013 in €'000	At amortised cost		At fair value (no effect on profit/loss)	Carrying amount pursuant to IAS 17	Total	Fair Value
	Other liabilities	Loans and receivables	Available-for-sale financial assets			
	Carrying amount	Carrying amount	Carrying amount			
Item				Carrying amount	Carrying amount	
Available-for-sale financial assets	—	—	264	—	264	264
Cash and cash equivalents	—	54,526	—	—	54,526	54,526
Trade receivables	—	52	—	—	52	52
Other financial assets	—	2,934	—	—	2,934	2,934
Total financial assets	—	57,512	264	—	57,776	57,776
Trade payables	34,150	—	—	—	34,150	34,150
Financial liabilities	13,864	—	—	—	13,864	14,186
Liabilities from finance leases	—	—	—	54,000	54,000	59,594
Other financial liabilities	3,059	—	—	—	3,059	3,059
Total financial liabilities	51,073	—	—	54,000	105,073	110,989

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.

2014 in €'000	Loans and receivables	Other liabilities	Total
From interest	101	-261	-160
Total	101	-261	-160

2013 in €'000	Loans and receivables	Other liabilities	Total
From interest	48	-256	-208
Total	48	-256	-208

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

Pursuant to a purchase agreement dated 17 December 2014, Adler Modemärkte AG, Hailbach, acquired the shares in Bekleidungshaus Kressner GmbH, Dillenburg, and the limited partner's interests in Bekleidungshaus Kressner GmbH & Co. KG, Wissen, by way of a share deal. Following the approval of the anti-trust authorities, the shares in Bekleidungshaus Kressner GmbH were transferred on 12 January 2015; the limited partner's interests in Bekleidungshaus Kressner GmbH & Co. KG were transferred on 14 January 2015. The provisions on business combinations under IFRS 3 apply to the transaction.

Bekleidungshaus Kressner GmbH & Co. KG is a textile retail chain which currently has nine stores. The stores (average size: 2,400 m²) are located in Hesse, North-Rhine Westphalia, Saxony and Thuringia. All stores are leased and the companies do not own any real property. The lease agreement with one store was terminated as at 31 December 2015. Under an asset deal, another store was sold to Steilmann-Boecker Fashion Point GmbH & Co. KG as at 1 March 2015. In terms of fashion and the age structure of its customers, Bekleidungshaus Kressner GmbH & Co. KG occupies a position similar to ADLER and like ADLER also has a customer loyalty card programme („KRESSNER Friends“) with some 120,000 members. In terms of the locations, size and existing customer structure of the KRESSNER stores, the acquisition fits excellently with ADLER's expansion strategy.

Bekleidungshaus Kressner GmbH is the general partner of Bekleidungshaus Kressner GmbH & Co. KG. The purchase price for 100% of the interests in Bekleidungshaus Kressner GmbH & Co. KG and the shares in Bekleidungshaus Kressner GmbH amounted to €4,000 thousand. The purchase price is final since the terms and conditions of the purchase agreement were met.

The measurement of the transaction is provisional. The fair value of the assets and liabilities acquired has not yet been determined in full. Hence, adjustments to the assets and liabilities recognised in the consolidated financial statements and, consequently, to the calculated goodwill may still be made within the one-year measurement period stipulated in IFRS 3.45.

The acquired assets and liabilities are as follows:

in €'000	Cost
Non-current assets	
Intangible assets	32
Property, plant and equipment	2,251
Investments	9
Current assets	
Inventories	4,661
Receivables and other assets	2,249
Cash-in-hand	597
Liabilities	
Provisions	1,172
Liabilities to banks	3,083
Trade payables	910
Other liabilities	892
Deferred tax liabilities	23

Other assets include the purchase price claim in the amount of €2,060 thousand from the disposal of real property in Ahlen (paid into an escrow account).

The customer data (holders of the KRESSNER customer loyalty card) received as a result of the KRESSNER acquisition represents an intangible asset, which was measured on the basis of comparable values for customer data available on the market. Accordingly, the customer data for the approximately 120,000 cardholders was valued at €95 thousand (after taxes). No other intangible assets were identified.

The carrying amount of the long-term licence of the KRESSNER company logo (€20 thousand) recognised under non-current assets was written down to zero due to the remeasurement of the brand. The carrying amount of other non-current assets is the fair value of those assets.

The value of inventories less selling costs is the carrying amount.

A provision in the amount of €92 thousand was recognised for the acquired lease agreements. Deferred tax assets of €5 thousand (net) were recognised as an adjustment item for the remeasured non-current assets and the identified intangible assets.

in €'000

Purchase price	4,000
Net assets (carrying amount of equity)	3,719
of which attributable to GmbH & Co. KG	3,004
of which attributable to GmbH	715
Amount to be allocated	281
Customer data	95
Write-off of long-term logo licence	-20
Increase in provision (due to Waldbröl store rent)	-92
Impairment of assets and liabilities	-112
Subtotal (PPA result)	-17
Deferred taxes (net)	5
Goodwill	293

Given a purchase price of €4,000 thousand, goodwill thus amounts to €293 thousand.

Prepayments in the amount of €100 thousand were made in the financial year for the acquisition of a fashion retail store in Mömlingen from Hefa Moden Heinrich Faust GmbH & Co., Mömlingen; the store will transfer by way of an asset deal to Adler Mode GmbH on 31 January 2015. Purchase price for assets and goodwill is at €455 thousands.

VI. OTHER NOTES

30. OTHER FINANCIAL OBLIGATIONS

As at the end of the reporting period on 31 December 2014, 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:

2014 in k€	up to 1 year	1-5 years	more than 5 years	Total
Rental and lease obligations	45,709	140,433	137,376	323,518
Other obligations	21,586	0	0	21,586
Total	67,295	140,433	137,376	345,104

2013 in k€	up to 1 year	1-5 years	more than 5 years	Total
Rental and lease obligations	43,188	127,865	117,623	288,676
Other obligations	21,168	0	0	21,168
Total	64,356	127,865	117,623	309,844

The total rental and lease obligations amounting to €323,518 thousand (previous year: €288,676 thousand) relate to rental and lease agreements for land and buildings in an amount of €316,369 thousand (previous year: €280,702 thousand) and to operating lease agreements for other facilities and operating and office equipment in an amount of €7,149 thousand (previous year: €7,974 thousand).

Furthermore, there were capital expenditure commitments of €21,586 thousand (previous year: €21,168 thousand) at the end of the reporting period on 31 December 2014.

The total future minimum lease payments arising from subleases amounted to €7,821 thousand (previous year: €6,944 thousand) at 31 December 2014.

2014 in €'000	up to 1 year	1-5 years	more than 5 years	Total
Minimum lease payments arising from subleases	1,192	2,538	4,091	7,821
Total	1,192	2,538	4,091	7,821

2013 in €'000	up to 1 year	1-5 years	more than 5 years	Total
Minimum lease payments arising from subleases	1,334	1,770	3,840	6,944
Total	1,334	1,770	3,840	6,944

31. CONTINGENT LIABILITIES

The Group has a guarantee facility in an amount of €7,000 thousand (previous year: €7,000 thousand) with various banks. As at 31 December 2014 the guarantee facility was being utilised in an amount of €3,409 thousand (previous year: €1,736 thousand). Partial amounts of the facility utilised were secured by a pledge on current accounts A rental guarantee for €0 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 individual Executive Board members' remuneration would not be disclosed separately. The total remuneration paid to members of the Executive Board during financial year 2014 was €1,501 thousand (previous year: €1,714 thousand). The breakdown of the remuneration is as follows:

in €'000	2014	2013
Fixed remuneration	624	654
Non-cash benefits	19	24
Bonuses	415	367
Total short-term benefits payable to Executive Board members	1,058	1,045
LTI bonus	443	0
Total benefits payable to Executive Board members from long-term bonus (LTI)	443	0
Severance payments	0	669
Total benefits due to termination of the Executive Board position	0	669
Total	1,501	1,714

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 50,000 SARs (previous year: 375,000 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 exceeds 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 trading 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 €1,300 thousand (previous year: €4,600 thousand). If any of the receiving members of the Executive Board step down prior to the contractual 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. 325,000 SARs expired in the period under review.

The number of SARs granted and outstanding as at 31 December 2014 amounted to 50,000 (previous year: 375,000).

	Number of shares	Weighted average exercise price in Euro
SARs as at 1 Jan. 2014	375.00	9.21
SARs exercised in 2014	75,000	7.59
SARs expired in 2014	-250,000	10.00
SARs as at 31 Dec. 2014	50,000	7.69

The SARs granted were classified and measured as cash-settled share-based payment transactions. The fair value of the provision to be recognised in relation to the SARs was calculated on the basis of a Monte Carlo model. A provision was recognised under other provisions in the amount of €134 thousand (previous year: €287 thousand) as at 31 December 2014. The current loss for the period amounts to €427 thousand (gain in the prior-year period: €285 thousand). The SARs were measured based on the following parameters:

Measurement date	31 December 2014	31 December 2013
Remaining term (in years)	3.1 – 3.9 years	2.5 – 4.9 years
Expected volatility	37.59% – 39.05%	39.36%
Risk-free interest rate	-0.101% – -0.067%	0.22% – 0.96%
Dividend yield	0.00% – 2.37%	0.00% – 2.37%
Strike price	€ 6.22 - € 9.15	€ 6.22 - € 10.00
Share price at the valuation date	€ 13.45	€ 9.93

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

The total payments to former members of the executive bodies and their surviving dependants amounted to €164 thousand (previous year: €831 thousand). This includes remuneration to former members of the Executive Board of €0 thousand (previous year: €669 thousand) and former managing directors of €164 thousand (previous year: €162 thousand). Pension provisions in the amount of €2,090 thousand (previous year: €2,415 thousand adjusted) have been recognised for former members of management and their surviving dependants.

The members of the Supervisory Board are also key management personnel of the ADLER Group in accordance with IAS 24. The total remuneration for members of the Supervisory Board during the financial year was €315 thousand (previous year: €246 thousand).

In financial year 2014 as well as in the previous year, no member of the Supervisory Board or an enterprise in which such member holds a key position provided the Company with any consultancy services.

33. RELATED PARTY DISCLOSURES

Prior to 25 April 2013, only companies controlled by the former principal shareholder bluO SICAV-SIF and its shareholders or legal representatives qualified as related parties. Prior to 25 April 2013, Adler Modemärkte AG was an associated company of bluO SICAV-SIF, Luxembourg.

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

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

The following transactions were entered into with related parties:

in €'000	2014	2013
Services purchased from related parties:		
Steilmann Group	16,211	7,418
Total	16,211	7,418

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

in €'000	31.12.2014	31.12.2013
Trade receivables/services from related parties		
- Steilmann Group	13	36
Trade payables/services to related parties		
- Steilmann Group	2,013	589

Family members of key management personnel provided services to the ADLER Group in the amount of €6 thousand (previous year: €36 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.

A member of the Executive Board was billed rent in the amount of €2 thousand per year.

Remuneration for members of the Supervisory Board in their function as employees amounted to €294 thousand (previous year: €264 thousand) during the year under review.

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

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 13 January 2014, the Executive Board of Adler Modemärkte AG resolved, with the advance consent of the Supervisory Board, to sell 888,803 treasury shares and placed all treasury shares at €10.00 per share on 14 January 2014. The gross proceeds of the issue amounted to €8,888,030 and were offset from the relevant equity items. €888,803 was recognised under subscribed capital and €7,999,227 was recognised under capital reserves. The subscribed capital thus amounts to €18,510 thousand.

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

in €'000		2014	2013
Outstanding shares	as at 1 January	17,621,197	17,621,197
Shares sold during the year		888,803	0
Outstanding shares	as at 31 December	18,510,000	17,621,197
Consolidated net profit for the year (€000)		14,147	18,572
Weighted average of outstanding shares	as at 31 December	18,478,344	17,621,197
Basic earnings per share	€	0.77	1.05
Diluted earnings per share	€	0.77	1.05

There were no dilutive effects in the reporting periods shown.

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

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 €532 thousand) were incurred in financial year 2014 for services provided by the auditors within the meaning of § 318 HGB:

in €'000		2014	2013
Audit services		217	313
Other certification services		59	59
Tax advisory services		76	129
Other services		0	31
Total		352	532

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

Adler Modemärkte AG, Haibach, acquired the shares in Bekleidungshaus Kressner GmbH, Dillenburg, and the limited partner's interests in Bekleidungshaus Kressner GmbH & Co. KG, Wissen, by way of a share deal. The shares were transferred on 12 January 2015. See Note 29 „Company acquisitions“ for more detailed information.

Apart from that, 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 2014.

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 16 January 2012, Mr Gerhard Wöhl, 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 573811 voting rights) on that day.

Correction of our notification dated 16 January 2012:

On 16 January 2012, Mr Gerhard Wöhl, 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 573811 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 3.100% of the voting interest (equivalent to 573811 voting rights) is attributable to Mr Wöhl.

Correction of our publication dated 16 January 2012:

To correct his notification from 16 January 2012, Mr Gerhard Wöhl, 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 573811 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 1.003% of the voting interest (equivalent to 185600 voting rights) is attributable to Mr Wöhl.

On 27 March 2013, Mr Gerhard Wöhl, Germany, filed notice pursuant to § 21 (1) WpHG that his voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 5% on 26 March 2013 and amounted to 5.033% (equivalent to 931611 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 2.999% of the voting interest (equivalent to 555200 voting rights) is attributable to Mr Wöhl.

On 26 April 2013, S&E Kapital GmbH, Bergkamen, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG, 4.80% of the voting interest (equivalent to 888803 voting rights) is attributable to the company via Adler Modemärkte AG.

On 26 April 2013, Stellmann-Boecker Fashion Point GmbH & Co. KG, Herne, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company. The chain of controlled entities is as follows: S&E Kapital GmbH and Adler Modemärkte AG. The voting rights pursuant to § 22 (2) WpHG are attributable to S&E Kapital GmbH.

On 26 April 2013, Steilmann-Boecker Verwaltungs- und Geschäftsführungs GmbH, Bergkamen, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company. The chain of controlled entities is as follows: Steilmann-Boecker Fashion Point GmbH & Co. KG, S&E Kapital GmbH and Adler Modemärkte AG. The voting rights pursuant to § 22 (2) WpHG are attributable to S&E Kapital GmbH.

On 26 April 2013, Miro Radici Hometextile GmbH, Bergkamen, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company. The chain of controlled entities is as follows: Steilmann-Boecker Verwaltungs- und Geschäftsführungs GmbH, Steilmann-Boecker Fashion Point GmbH & Co. KG, S&E Kapital GmbH and Adler Modemärkte AG. The voting rights pursuant to § 22 (2) WpHG are attributable to S&E Kapital GmbH.

On 26 April 2013, Steilmann Holding AG, Bergkamen, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company. The chain of controlled entities is as follows: Miro Radici Hometextile GmbH, Steilmann-Boecker Verwaltungs- und Geschäftsführungs GmbH, Steilmann-Boecker Fashion Point GmbH & Co. KG, S&E Kapital GmbH and Adler Modemärkte AG. The voting rights pursuant to § 22 (2) WpHG are attributable to S&E Kapital GmbH.

On 26 April 2013, Excalibur I S.à r.l., Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company via S&E Kapital GmbH.

On 26 April 2013, Equinox Two S.C.A., Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company via S&E Kapital GmbH.

On 26 April 2013, Equinox S.A., Luxembourg, Luxembourg, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 25 April 2013 and amounted to 54.76% (equivalent to 10136250 voting rights) on that day. Under § 22 (2) WpHG, 54.76% of the voting interest (equivalent to 10136250 voting rights) is attributable to the company via S&E Kapital GmbH.

On 29 October 2013, Taaleritehdas ArvoRein Equity Fund, Helsinki, Finland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 28 October 2013 and amounted to 3.052% (equivalent to 565000 voting rights) on that day.

On 29 October 2013, Taaleritehdas Fund Management Ltd., Helsinki, Finland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 28 October 2013 and amounted to 3.052% (equivalent to 565000 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG, 3.052% of the voting interest (equivalent to 565000 voting rights) is attributable to the company via the Taaleritehdas ArvoRein Equity Fund.

On 29 October 2013, Taaleritehdas Wealth Management Ltd., Helsinki, Finland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 28 October 2013 and amounted to 3.052% (equivalent to 565000 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG, 3.052% of the voting interest (equivalent to 565000 voting rights) is attributable to the company via the Taaleritehdas ArvoRein Equity Fund.

On 29 October 2013, Taaleritehdas Plc, Helsinki, Finland, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the threshold of 3% on 28 October 2013 and amounted to 3.052% (equivalent to 565000 voting rights) on that day. Under § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG, 3.052% of the voting interest (equivalent to 565000 voting rights) is attributable to the company via the Taaleritehdas ArvoRein Equity Fund.

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:

Adler Modemärkte AG, Haibach, Germany, filed notice pursuant to § 26 (1) sentence 2 WpHG that its interest in treasury shares fell below the threshold of 3% on 16 January 2014 and amounted to 0% (equivalent to 0 voting rights) on that day.

STB Fashion Holding GmbH, Herne, Germany, filed notice pursuant to § 21 (1) WpHG that its voting interest in Adler Modemärkte AG, Haibach, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 11 September 2014 and amounted to 52.81% (equivalent to 9774493 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 WpHG and simultaneously also pursuant to § 22 (2) WpHG, 52.81% of the voting interest (equivalent to 9774493 voting rights) is attributable to the company via S&E Kapital GmbH.

On 1 October 2014, STB Fashion Holding GmbH, Herne, Germany, filed the following notice pursuant to § 27a (1) WpHG in connection with its voting interest exceeding the 50% threshold on 11 September 2014: „We hereby advise you that our voting interest in Adler Modemärkte AG, Industriestraße Ost 1-7, 63808 Haibach, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on 11 September 2014 and amounted to 52.81% (9,774,493 voting rights) on that day. Under § 22 (1) sentence 1 no. 1 and § 22 (2) WpHG, the voting interest is attributable via S&E Kapital GmbH, Bergkamen. There are no direct voting rights. The voting interest was acquired as part of an internal group restructuring measure, under which Steilmann-Boecker Fashion Point GmbH & Co. KG spun off its equity investment in S&E Kapital GmbH, Bergkamen, which holds the voting interest in Adler Modemärkte AG, to the wholly-owned subsidiary STB Fashion Holding GmbH. In light of this, STB Fashion Holding GmbH declares pursuant to § 27a (1) WpHG that: (1) the investment serves the implementation of strategic objectives; insofar reference is made to section 7.2 of S&E Kapital GmbH's public takeover offer for the shares in Adler Modemärkte AG dated 10 April 2013 regarding the bidder's intention, which will continue to apply to STB Fashion Holding GmbH; (2) it currently does not intend to obtain any additional voting interests, either by way of a purchase or in another manner, within the next twelve months; (3) by exercising its shareholder rights it influences the composition of Adler Modemärkte AG's executive bodies; (4) it currently does not intend to significantly change the company's capital structure; and (5) it acquired the voting interests in the course of the spin-off without granting shares and therefore had to neither use borrowed nor own funds to acquire the voting interests.“

The Company did not receive any further notifications in financial year 2014 that shareholders' voting interests had reached, exceeded or fallen below statutory thresholds.

After financial year 2014, the Company received no further notifications of changes in voting interests pursuant to §§ 21 (1), 21 (1a) WpHG.

39. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

On 13 May 2014, 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 13 May 2013 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

The following persons exercised an executive board function in financial year 2014 and up to the date of preparation of the financial statements:

- Lothar Schäfer, Villmar, Germany, Chairman of the Executive Board, Executive Board member for Strategy, Mergers & Acquisitions, Purchasing, Marketing, Sales, Store Expansion and Public Relations
- Karsten Odemann, Bad Tölz, Germany, Executive Board member and Labour Director, Executive Board member for Finance, Controlling, Audits, Human Resources, Legal, IT, Logistics, Technical Purchasing, and Investor Relations

The members of the Supervisory Board of Adler Modemärkte AG in financial year 2014 were as follows:

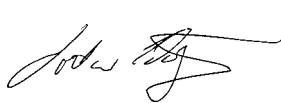
- Dr Michele Puller ^{1*, 3*, 4*}, Bergkamen, Germany, Chairman of the Supervisory Board, Chairman of the Executive Board of Steilmann Holding AG, other supervisory board positions: Chairman of the Advisory Board of S&E Kapital GmbH, Member of the Advisory Board of Borussia Dortmund Geschäftsführungs-GmbH, Member of the Council of Economic Affairs of BV. Borussia 09 e.V. Dortmund
- Martina Zimlich ^{1, 2, 4}, Hausen, Germany, Assistant Purchasing, Deputy Chairwoman of the Supervisory Board, Chairwoman of the Joint Works Council at Adler Modemärkte AG
- Angelika Zinner ^{1, 2, 4}, Kettenis, Belgium, Former Deputy Chairwoman of the Supervisory Board, Chairwoman of the Joint Works Council at Adler Modemärkte AG, (member of the Supervisory Board until 31 October 2014)
- Majed Abu-Zarur, Viernheim, Germany, Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG
- Wolfgang Burgard ^{1, 2*, 3}, Dortmund, Germany, Managing Director of Bund Getränkeverpackungen der Zukunft GbR
- Cosimo Carbonelli D'Angelo ^{1, 4}, Sorengo, Switzerland, Chairman of the Managing Board of G.&C. Holding S.r.l., other supervisory board positions: Member of Advisory Board of S&E Kapital GmbH
- Corinna Groß, Neuss, Germany, District Managing Director at ver.di
- Peter König ^{1, 2}, Rottendorf, Germany, secretary of the national executive board of the ver.di union, other supervisory board positions: BayWa AG
- Georg Linder ^{1, 2, 4}, Hösbach, Germany, Divisional Head of Procurement Planning and Merchandise Management at Adler Modemärkte AG

- Giorgio Mercogliano, Montagnola - Lugano, Switzerland, partner of Equinox S.A., other supervisory board positions: Advisory Board of S&E Kapital GmbH
- Massimiliano Monti ^{2, 3}, Lugano, Switzerland, partner of Equinox S.A., other supervisory board positions: Advisory Board of S&E Kapital GmbH
- Paola Viscardi-Giazzi ², Dortmund, Germany, Executive Board member of Steilmann Holding AG, other supervisory board positions: Advisory Board of S&E Kapital GmbH
- Beate Wimmer, Nettetel, Germany, Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG, (member of the Supervisory Board since 1 November 2014)

Memberships in: ¹⁾ Personnel Committee, ²⁾ Audit Committee, ³⁾ Nomination Committee, ⁴⁾ Conciliation Committee,

*Chairman of the Committee (Last amended: 31 Dec. 2014)

Haibach, 4 March 2015



Lothar Schäfer
Chairman of the Executive Board



Karsten Odemann
Member of the Executive Board

RESPONSIBILITY STATEMENT

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

Haibach, 4 March 2015

Lothar Schäfer
Chairman of the Executive Board

Karsten Odemann
Member of the Executive Board

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Adler Modemärkte AG, Haibach, Germany – consisting of the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements –, and the Group management report for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as adopted in the EU and the supplementary provisions of German commercial law required to be applied under § 315a (1) of the German Commercial Code (Handelsgesetzbuch, „HGB“) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements 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, 4 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jürgen Schwehr
Wirtschaftsprüfer
[German Public Auditor]

ppa. Axel Ost
Wirtschaftsprüfer
[German Public Auditor]

FURTHER INFORMATION

CONTACT

Investor Relations
Adler Modernärkte AG
Industriestrasse Ost 1 – 7
63808 Haibach
Telephone: +49 (0) 6021 633-1828
Fax: +49 (0) 6021 633-1417
E-mail: InvestorRelations@adler.de

FINANCIAL CALENDAR

19 March 2015	2014 Annual Report
12 May 2015	Report on the first quarter of 2015
13 May 2015	Annual General Meeting
6 August 2015	Report on the first half of 2015
12 November 2015	Report on the third quarter of 2015

PUBLISHER

Adler Modernärkte AG
Industriestrasse Ost 1 – 7
63808 Haibach
Telephone: +49 (0) 6021 633-1828
E-mail: InvestorRelations@adler.de

EDITORIAL

Bruno Seifert
Adler Modernärkte AG
Industriestrasse Ost 1 – 7
63808 Haibach

CONCEPT & DESIGN

Adler Modernärkte AG
Monika Kaniewski
Industriestrasse Ost 1 – 7
63808 Haibach
Telephone: +49 (0) 6021 633-1410
E-mail: monika.kaniewski@adler.de

PRODUCTION/PRINT

Druckerei und Verlag Markus Reichert
General Manager Markus Reichert
Ostring 9a
63762 Großostheim
Telephone: +49 (0) 6026 6041
E-mail: info@druckerei-reichert.de

