



# Conference Questions- Pretext

Will you love me on the pink sheets? Will you love me off the SDAX?

**PLEASE READ IMPORTANT DISCLAIMER – PAGE 7**

**May 3, 2022** – In anticipation of Adler Group’s investor call today Viceroy have prepared some questions regarding their annual report.

“Audited Financials” - LIE

Adler Group has continuously represented to stakeholders that it’s 2021 report has been audited. **This is a complete fabrication.** An audit report is not an audit.

A disclaimer of opinion, within the framework of IFRS and ISA, is specifically **NOT AN AUDIT**. The auditor is required specifically to **remove from their report that the company has been audited**, and state only that they were engaged for an audit. ISA 705 states **a disclaimer of opinion is equivalent to an auditor resignation**, and provided only where a resignation is not practicable:

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- (a) State that the auditor does not express an opinion on the accompanying financial statements;
- (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) Amend the statement required by paragraph 24(b) of ISA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
  - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
  - (ii) If withdrawal from the audit before issuing the auditor’s report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)

Figure 1 ISA 705

KPMG’s disclaimer extends to the 2020 financials of Adler group, noting that they can not determine if adjustments are necessary for previous years.

Due to these matters, we were unable to determine whether any adjustments might have been found necessary on the financial position of the Group as at 31 December 2020 and 31 December 2021, or on its financial performance and its cash flows for the years then ended.

Figure 2 - Adler Q4 2021 Unaudited Financial Statements



Given the discrepancies, KPMG have limited their scope to exclude reporting on whether the management report attached to 2021 unaudited financials are consistent with the consolidated financial statements. Adler have taken this opportunity to throw as much shit on the wall as possible and sell to shareholders whatever sticks.

Kirsten insists that Adler is trying to rapidly patch up KPMG's disclaimer of opinion. However, KPMG states that it has been refused access to correspondence between Adler, related parties and other correspondence required to audit account balances. There is absolutely no reason why a clean Chairman, allegedly uninvolved in Adler's impropriety, would withhold this data from KPMG to receive a clean audit unless the data was, for lack of a better term, **apocalyptic**.

Kirsten concludes: "It goes without saying that such a disclaimer of opinion is no good news. Such a note reflects a high level of distrust between the company and the auditors; but once again: we are about to make a new start, because in my opinion Adler has sufficient substance. Our existing portfolio is rock solid. The disclaimer is the confirmation of an audit that was carried out without an opinion. We have to accept that, but we will try to eliminate the reasons for the disclaimer as soon as possible. We are and remain, as I said to the special investigation, ailing but vital."

Because management denied us access to certain information, including correspondence between related parties, in performing our audit procedures, there are exceptional circumstances which prevent us from obtaining sufficient appropriate evidence about the identification and disclosure of related parties and significant related party transactions and account balances. This also pre-

Figures 3 & 4 Adler press release dated April 30, 2022 & Adler Annual Report 2021

Viceroy also note that, per ISA 705, KPMG was not required to disclaim the opinion of the entire annual report. Auditors could have limited their disclaimer to specific accounts. This reaffirms our opinion that the **impropriety at Adler remains PERVASIVE**.

As a final slap to the face of shareholders, Adler have retained Thilo Schmidt, the audit committee and promoted him to chair.

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*Can management provide written confirmation from Adler's auditors that 2021 financial statements were audited? (the answer is: no)*

*Is Adler making available withheld documents, including emails with Cevdet Caner, to KPMG to remedy its audit opinion?*

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## Debt Covenant – Timely Reports

Adler are required to lodge audited financial reports, **in accordance with IFRS**, within 120 days of the financial year end. As reported above, Adler have not issued audited financial statements for 2021, and we are in May.

Adler has triggered a default event in its issued bonds, and likely in its secured debt.

<p>(2) <i>Berichte.</i> Solange Schuldverschreibungen ausstehen, veröffentlicht die Emittentin die folgenden Angaben auf ihrer Internetseite:</p> <p>(a) Innerhalb von 120 Tagen nach dem Ende jedes Geschäftsjahrs der Emittentin einen Geschäftsbericht mit einem geprüften Konzernabschluss in Übereinstimmung mit den in der Europäischen Union anwendbaren International Financial Reporting Standards (IFRS) und einem Lagebericht in Übereinstimmung mit Artikel 68 des luxemburgischen Gesetzes vom 19. Dezember 2002 über das Handels- und Gesellschaftsregister und die Rechnungslegung und Jahresabschlüsse von Gesellschaften (in der jeweils geltenden Fassung); und</p>	<p>(2) <i>Reports.</i> For so long as any Notes are outstanding, the Issuer shall post on its website,</p> <p>(a) <b>within 120 days</b> after the end of each of the Issuer's fiscal years, annual reports containing the audited consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the management report in accordance with Article 68 of the Luxembourg law of 19 December 2002 on the register of commerce and companies and the accounting and annual accounts of undertakings, as amended; and</p>
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Figure 5 Extract from Adler bond prospectuses (any)

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*Which bondholders, if any, have indicated that unaudited financial statements are in line with debt covenants?*

*What conditions/covenants are in place with Adler's secured lenders in relation to reporting requirements?*

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## Construction Stop

Management have claimed that COVID is responsible for the delays in Consus developments. **This is a complete fabrication.**

Consus developments have been delayed since before COVID. **In fact, many projects were due to be completed before COVID.**

We have provided a full update on developments in our previous report. You can find it in the below link:

<https://viceroyresearch.org/2022/04/29/review-of-kpmg-investigation/>



## LTV

Adler's LTV calculation is inconsistent with prospectus requirements. This was also highlighted by KPMG. The amount of creative massaging that has gone into Adler's LTV this year is mind-boggling.

<p>(a) the ratio of (i) the sum of (x) the Consolidated Net Financial Indebtedness of the Group as of the immediately preceding Reporting Date for which Consolidated Financial Statements of the Issuer have been published and (y) the New Financial Indebtedness incurred since the immediately preceding</p>	<p>The <b>LTV ratio was adjusted</b> to align with the methodology of ADLER Real Estate AG. The net financial liabilities are adjusted for selected financial assets like purchase price receivables and financial assets, among others. The fair value of the properties includes advances paid in respect of investment properties and is adjusted for property, plant and equipment used for energy management and property management services and for investments in real estate companies.</p>
<p>Reporting Date for which Consolidated Financial Statements of the Issuer have been published to (ii) the sum of (without duplication) (x) the Total Assets as of the immediately preceding Reporting Date for which Consolidated Financial Statements of the Issuer have been published, (y) the purchase prices of any Real Estate Property (without any deductions for assumed Financial Indebtedness) acquired or contracted for acquisition since the immediately preceding Reporting Date for which Consolidated Financial Statements of the Issuer have been published and (z) the proceeds of any Financial Indebtedness incurred since the immediately preceding Reporting Date for which Consolidated Financial Statements of the Issuer have been published (but only to the extent such proceeds were not used to acquire Real Estate Property or to reduce Financial Indebtedness) (such ratio, with respect to any date, the "Loan-to-Value Ratio" as of that date) would exceed 60%; or</p>	<p><b>Calculation of LTV</b></p> <hr/> <p>Bonds, other loans and borrowings</p> <hr/> <p>(+) Convertible bonds          (-) Cash and cash equivalents          (-) Selected financial assets<sup>20)</sup>          (-) Contract assets          (-) Assets and liabilities classified as held for sale          = <b>Net financial liabilities</b>          (+) Fair value of properties<sup>21)</sup>          (+) Investment in real estate companies<sup>22)</sup>          = <b>GAV (Gross Asset Value)</b></p> <hr/> <p>= <b>Loan-to-value ratio (LTV ratio)</b></p>

Figures 6 & 7 Bond Prospectus LTV calculations vs Adler newly adjusted LTV methodology (inconsistent with KPMG)

In fact, the only way to get an LTV below 60%, is to count properties held for sale under cash. Adler has solved the mystery of unlimited borrowing by reclassifying assets as "for sale" on a rolling basis so that it can creatively massage its LTV below threshold. An example is on the following page.

Despite its diversion to EPRA LTV reporting guidelines, Adler selectively incorporates various EPRA reporting standards into its management accounts.



Back Envelope LTV - Align with EPRA		Back Envelope LTV - Align with Adler	
Corporate Bonds	4,211,305	Corporate Bonds	4,211,305
Convertible Bonds	99,025	Convertible Bonds	99,025
Other loans and borrowings	2,056,810	Other loans and borrowings	2,056,810
Other financial liabilities	25,253	Other financial liabilities	25,253
Derivatives	2,412	Derivatives	2,412
Lease liabilities	10,186	Lease liabilities	10,186
Other payables	11,905	Other payables	11,905
Corporate bonds	399,047	Corporate bonds	399,047
Convertible bonds	117,916	Convertible bonds	117,916
Other loans and borrowings	119,326	Other loans and borrowings	119,326
Other financial liabilities	1,915	Other financial liabilities	1,915
Trade payables	76,383	Trade payables	76,383
Other payables	357,065	Other payables	357,065
Provisions	73,865	Provisions	73,865
Lease liabilities	6,815	Lease liabilities	6,815
Prepayments received	92,132	Prepayments received	92,132
Derivatives	38,227	Derivatives	38,227
<b>Held for sale liabilities</b>	<b>849,050</b>	<b>Held for sale liabilities</b>	<b>849,050</b>
Cash	555,700	Cash	555,700
Restricted Cash	29,400	Restricted Cash	29,400
Receivables	379,118	Receivables	379,118
Other receivables	423,412	Other receivables	423,412
Financial instruments	20,228	Financial instruments	20,228
Derivatives	10,433	Derivatives	10,433
		<b>Assets held for sale</b>	<b>3,017,588</b>
<b>Net Financial liabilities</b>	<b>7,130,346</b>	<b>Net Financial liabilities</b>	<b>4,112,758</b>
Property Value**	8,210,313	Property Value**	8,210,313
** Incl. Inventory, €1.09b		** Incl. Inventory, €1.09b	
<b>Assets held for sale</b>	<b>3,017,588</b>	-	
Investments	32,395	Investments	32,395
<b>LTV</b>	<b>63.32%</b>	<b>LTV</b>	<b>49.90%</b>

Figure 8 LTV comparison - Viceroy Analysis

F. EPRA LTV Metric	Group € M as reported	Share of Joint Ventures € M	Share of Material Associates € M	Non-controlling Interests € M	Combined € M
<b>Include:</b>					
Borrowings from Financial Institutions	X	X	X	X	X
Commercial paper	X	X	X	X	X
Hybrids (including convertibles, preference shares, debt, options, perpetuals)	X	X	X	X	X
Bond loans	X	X	X	X	X
Foreign currency derivatives (futures, swaps, options and forwards)	X	X	X	X	X
Net payables	X	X	X	X	X
Owner-occupied property (debt)	X	X	X	X	X
Current accounts (equity characteristic)	X	X	X	X	X
<b>Exclude:</b>					
Cash and cash equivalents	X	X	X	X	X
<b>Net Debt (a)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Include:</b>					
Owner-occupied property	X	X	X	X	X
Investment properties at fair value	X	X	X	X	X
Properties held for sale	X	X	X	X	X
Properties under development	X	X	X	X	X
Intangibles	X	X	X	X	X
Net receivables	X	X	X	X	X
Financial assets	X	X	X	X	X
<b>Total Property Value (b)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>

Figure 9 EPRA LTV calculation guidelines<sup>1</sup>

<sup>1</sup> See EPRA guidelines for illustration. [https://www.epra.com/application/files/2016/4742/8965/EPRA\\_BPR\\_Guidelines\\_140322\\_v5.0.pdf](https://www.epra.com/application/files/2016/4742/8965/EPRA_BPR_Guidelines_140322_v5.0.pdf)



## Questions for conference call

We find it unlikely that Adler management will take any of Viceroy's questions in this conference call. We have many, any if anyone is brave enough to ask, we would appreciate it.

### The Audit Lie

1. Why did Adler claim that they are not in breach of their bond covenants when IFRS specifically states that a disclaimer of opinion does not constitute an audit?
2. Why does Adler calculate its LTV different from established EPRA guidelines?
3. How does Adler reconcile arrive at the EUR1,193m figure presented as Assets and Liabilities classified as held for sale?

### Contents of the report

4. How can Consus extend their detailed planning period to 10 years because "management can forecast cash flows with sufficient precision", when there are no forecasts of construction costs according to KPMG's report?
5. How was the transfer of control for the Ajos transaction misstated by more than a full year?
6. Why has the value of the Gerresheim property not been written down despite a clear assessment from KPMG that the current valuation is based on an overpayment that never materialized?
7. What is the split in the remaining EUR83.7m due from the Ajos and Grexit transactions?
8. Will the company be restating its 2020 financial statements considering KPMG was unable to determine whether any adjustments might be necessary?

### The KPMG Report

9. Why were emails addressed to and sent from Cevdet Caner originally considered attorney-client privilege considering Caner is not Adler's lawyer, or vice versa?
10. Why did Adler not consider alternatives to Aggregate bonds in its attempt to avoid negative rates?
11. What is the status of Adler's security over Accentro Real Estate shares?
12. Who was the unnamed BVI company that paid part of the purchase price for the Groner disposal?
13. Do they have any relationship with current or former Adler personnel or Caner's cabal?
14. Who is the counterparty to Adler's sale of the remaining Caesar JV stake?
15. What is the status of construction stops in Adler's development portfolio?



### **Attention: Whistleblowers**

Viceroy encourage any parties with information pertaining to misconduct within Adler Group, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on [viceroy@viceroyresearch.com](mailto:viceroy@viceroyresearch.com).

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