ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION
ASSETS

In thousands of euros

	Note	31/12/2019	31/12/2018
A. Non-current assets			
Financial assets	1		
1. Shares in affiliated companies		230,916	253,289
2. Loans to affiliated companies		190,465	3,048
		421,381	**256,337**
B. Current assets			
I. Receivables and other assets	2		
1. Trade receivables		4	0
2. Receivables from affiliated companies		26,949	136
3. Other assets		14,195	2,832
		41,148	**2,968**
II. Cash and cash equivalents	3	**5,120**	**27,267**
C. Deferred income		**18**	**0**
D. Deferred tax assets	4	**27,685**	**0**
		495,352	**286,572**

STATEMENT OF FINANCIAL POSITION (CONTINUED)

STATEMENT OF FINANCIAL POSITION
EQUITY AND LIABILITIES

In thousands of euros

	Note	31/12/2019	31/12/2018
A. Equity	5		
I. Subscribed capital		36,988	36,988
Contingent capital: €3,698 thousand (prior year: €0 thousand)			
II. Capital reserves		198,874	198,874
III. Net retained profits (prior year: net accumulated losses)		17,642	– 24,404
		253,504	**211,458**
B. Provisions			
1. Provisions for pensions and similar obligations	6	577	472
2. Tax provisions	7	2,067	3,098
3. Other provisions	7	6,903	4,480
		9,547	**8,050**
C. Liabilities			
1. Liabilities to banks of which with a remaining term of one year or less: €1,668 thousand (prior year: €0 thousand) of which with a remaining term of more than one year: €181,000 thousand (prior year: €0 thousand)	8	182,668	0
2. Trade payables of which with a remaining term of one year or less: €611 thousand (prior year: €1,771 thousand)	9	611	1,771
3. Liabilities to affiliated companies of which with a remaining term of one year or less: €48,441 thousand (prior year: €29 thousand) of which with a remaining term of more than one year: €0 thousand (prior year: €63,525 thousand)	10	48,441	63,554
4. Other liabilities of which with a remaining term of one year or less: €581 thousand (prior year: €1,739 thousand) of which taxes: €75 thousand (prior year: €989 thousand)	11	581	1,739
		232,301	**67,064**
		495,352	**286,572**

INCOME STATEMENT

INCOME STATEMENT

In thousands of euros

	Note	2019	2018
1. Revenue	12	1,581	1,406
2. Other operating income	13	3,453	6,016
3. Staff costs			
3a. Wages and salaries	14	– 5,106	– 4,407
3b. Social security, post-employment and other employee benefit costs of which for old age pensions: €44 thousand (prior year: €398 thousand)	14	– 132	– 428
4. Other operating expenses	15	– 10,289	– 22,973
5. Income from investments of which from affiliated companies: €41,905 thousand (prior year: €0 thousand)	16	41,905	0
6. Income from profit transfer agreements	16	21,214	0
7. Income from other securities and loans held as financial assets of which from affiliated companies: €2,221 thousand (prior year: €52 thousand)	16	2,221	52
8. Other interest and similar income of which from affiliated companies: €70 thousand (prior year: €0 thousand)	16	116	140
9. Write-downs of financial assets of which from affiliated companies: €– 29,582 thousand (prior year: €0 thousand)	16	– 29,582	0
10. Interest and similar expenses of which from affiliated companies: €– 4,740 thousand (prior year: €– 3,997 thousand) of which from interest on pension provisions: €80 thousand (prior year: €200 thousand)	16	– 9,568	– 4,639
11. Income taxes	17	26,233	419
12. Net income after taxes/net income for the year (prior year: net loss for the year)		**42,046**	**– 24,414**
13. Accumulated losses brought forward (prior year: retained profits brought forward)		– 24,404	10
14. Net retained profits (prior year: net accumulated losses)		**17,642**	**– 24,404**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

BASIC PRINCIPLES OF THE ANNUAL FINANCIAL STATEMENTS

General principles

Instone Real Estate Group AG (also referred to hereinafter as “the company”), Grugaplatz 2 – 4, 45131 Essen, Germany, is entered in the commercial register of the Local Court of Essen under the reference number HRB 29362. Instone Real Estate Group AG has been listed on the regulated market of the Frankfurt Stock Exchange since 15 February 2018 and has been included in the SDAX since 29 August 2019.

The company is the primary parent company of the Instone Group and serves as its management holding company. In this function, it is responsible for defining and pursuing the overall strategy and for implementing the company’s goals.

The company holds equity investments in subsidiaries whose primary activities lie in the acquisition, development, construction, leasing, management and sale or other use of land and buildings as well as in investment in other companies that are active in this sector.

Instone Real Estate Group AG is the fiscal entity parent for the corporation tax and trade tax purposes of Instone Real Estate Development GmbH as well as for income tax purposes for nearly all domestic companies.

The annual financial statements of Instone Real Estate Group AG are prepared in accordance with the currently applicable accounting rules for stock corporations under the German Commercial Code (Sections 242 et seq., 264 et seq. HGB) in consideration of the provisions specific to the legal form under the German Stock Corporation Act (AktG). As an exchange-listed company, the company constitutes a large stock company within the meaning of Section 264d HGB in conjunction with Section 267 (3) sentence 2 HGB.

The income statement is prepared using the nature of expense method set out in section 275 (2) HGB.

In order improve clarity, certain items in the balance sheet and the income statement have been combined. These items are reported and explained separately in the Notes.

All amounts are specified in thousands of euros/“In EUR thousands” unless otherwise specified. For this reason, minor deviations may occur between figures in tables and their respective analysis in the text portion of the Notes as well as between totals in individual amounts in tables and the overall figures specified in the text portion.

As the parent company of the Instone Group, the company prepares consolidated financial statements in accordance with the International Financial Reporting Standards as adopted in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) HGB. The annual and consolidated financial statements are published in the German Federal Gazette. The consolidated financial statements are also accessible on the company’s website.

The management report has been combined with the management report of the consolidated financial statements for the Instone Group in application of Sections 315 (5) HGB in conjunction with Section 298 (2) HGB and is published together with it.

Accounting policies

Financial assets comprise of investments in affiliated companies and are measured at acquisition cost. Write-downs are made in the event of permanent impairment. Where the reasons for write-downs made in previous years no longer apply or only partially apply, the respective items are written back accordingly, provided that the write-back does not cause the carrying amount to exceed the cost of acquisition.

Non-interest-bearing and low-interest **loans** are carried at nominal value, and in the event of expected permanent impairment are carried at the lower of cost and market value.

Receivables and other assets are carried at acquisition cost. When measuring receivables and other assets, discernible risks are taken into account through appropriate write-downs. The amounts of such write-downs reflect the probability of default. As in the previous year, the receivables have a remaining duration of one year or less.

Cash and cash equivalents are reported at nominal value.

Expenses prior to the balance sheet date that represent spending for a specific period thereafter are carried on the assets side as **prepaid expenses**.

Deferred taxes result from temporary differences between the amounts recognised in the financial accounts and the tax accounts. In this context, the differences included for the company consist not only of those from the company’s own balance sheet items, but also those which exist for fiscal entity subsidiaries in which Instone Real Estate Group AG has shareholdings as the fiscal entity parent.

Deferred tax claims are also carried for claims for tax refunds which arise from the expected utilisation of existing tax loss carryforwards in subsequent years. Deferred taxes are capitalised when it can be assumed with reasonable assurance that it will be possible to make use of the associated economic benefits. Deferred tax assets and liabilities are reported net. Their amount is determined based on the tax rates which apply at the time of realisation or which are expected to apply. For all other purposes, deferred taxes are measured on the basis of the tax provisions which are in effect or have been enacted as of the time of reporting.

Equity is carried at nominal amount.

Provisions for pensions and similar obligations comprise of obligations of the company in regard to current and future benefits for entitled active and former employees and their surviving dependants. These obligations mainly relate to pension benefits. The individual commitments are determined based on the length of service and the salaries of employees. The actuarial present value of the respective obligation is used to measure provisions for performance-based plans. This is determined using the projected unit credit procedure. This projected unit credit procedure includes not only pensions and accrued benefits that were known as of the reporting date, but also wage increases (2.65%; prior year: 2.70%), pension increases for commitments with an adjustment guarantee (1.00%; prior year: 2.00%), pension increases for other commitments (1.50%; prior year: 2.00%) and fluctuation probabilities (2.94%; prior year: 2.50%) which are expected in the future. The calculation is based on actuarial reports prepared on the basis of the biometric calculation methods from the 2018 G mortality tables by Professor Dr. Klaus Heubeck. The measurement of direct pension obligations takes place in accordance with the provisions of Section 253 (1) and (2) HGB.

The option pursuant to Section 253 (2) sentence 2 HGB has been exercised for the determination of the actuarial interest rate. Under this, pension provisions and comparable long-term liabilities may be discounted at a flat rate using the average market interest rate that would apply for an assumed remaining term of 15 years. The interest rate used to discount pension obligations is 2.71% (prior year: 3.21%). In accordance with Section 253 (6) sentence 3 HGB, the difference between the carrying amount of provisions for pension obligations based on the corresponding average market interest rate for the past ten financial years and the carrying amount based on the corresponding average market interest rate for the past seven years is to be determined each financial year.

The difference that results from the change of the annual average interest rate by extending the period from seven to ten years is determined as follows:

PROVISIONS FOR PENSIONS

In euros

Provision according to derivation on the basis of	2019	2018
Use of the ten-year average interest rate	1,636,227.00	1,368,783.00
Use of the seven-year average interest rate	1,927,189.00	1,675,414.00
Difference in accordance with Section 253 (6) HGB	290,962.00	306,631.00
Of which barred from distribution in accordance with Section 253 (6) sentence 1 HGB	290,962.00	306,631.00

The obligations from pension commitments are primarily covered by assets that exclusively serve the purpose of fulfilling pension obligations and are inaccessible to other creditors. These include assets that have been deposited in a fiduciary account under the framework of a contractual trust arrangement, insurance policies pledged to employees and fund units acquired from deferred compensation. Measurement takes place at fair value. Depending on the type of assets used for coverage this is derived from stock exchange prices, bank statements and insurance notifications. If the fair value is more than the acquisition cost, there is a restriction on distribution. Under Section 246 (2) sentence 2 HGB, the fair value of the assets used for coverage must be offset against the covered pension obligations; the same applies for associated income and expenses.

Tax provisions and other provisions are recognised in accordance with prudent business judgement, using legal estimates as required. In this context, expected future price and cost increases are taken into consideration in the calculation of the settlement amounts of the other provisions. Provisions with a remaining duration of more than one year are discounted using the average market interest rate for the past seven years matching the maturity as determined and promulgated by the Bundesbank.

Liabilities are carried at settlement amount.

Estimates and assumptions

The preparation of the financial statements requires estimates and assessments that can have an effect on the application of the company's accounting principles, on recognition and on measurement. Estimates are based on past experience and other knowledge in regard to the transactions to be booked. The actual amounts may deviate from these estimates.

NOTES ON THE STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

1 Financial assets

The changes in financial assets are shown in the following overview.

STATEMENT OF CHANGES IN FINANCIAL ASSETS

In thousands of euros

	2019	2018
Acquisition costs		
As of 1 January	**253,289**	**252,504**
Additions	7,333	1,272
Disposals	– 124	– 487
As of 31 December	**260,498**	**253,289**
Cumulative depreciation and amortisation		
As of 1 January	**0**	**0**
Additions	– 29,582	0
Disposals	0	0
As of 31 December	**– 29,582**	**0**
Carrying amounts as of 31 December	**230,916**	**253,289**

Investments in affiliated companies are shown in the following table. The impairment test of significant investments during the financial year resulted in the requirement for a write-down on Instone Real Estate Leipzig GmbH by €29,582 thousand to €48,581 thousand.

SHARES IN AFFILIATED COMPANIES

In thousands of euros

	31/12/2019	31/12/2018
Investments in affiliated companies, included in the consolidated financial statements		
Instone Real Estate Development GmbH	181,821	181,821
Instone Real Estate Leipzig GmbH	48,581	71,190
Investments in other affiliated companies	514	140
	230,916	**253,151**
Investments in affiliated companies, not included in the consolidated financial statements	**0**	**138**
	230,916	**253,289**

Changes in loans to affiliated companies are shown in the following:

STATEMENT OF CHANGES IN LOANS TO AFFILIATED COMPANIES

In thousands of euros

	2019	2018
Acquisition costs		
As of 1 January	3,048	0
Additions	190,465	3,048
Reclassifications	– 3,048	0
As of 31 December	**190,465**	**3,048**

Loans to affiliated companies are shown in the following overview.

LOANS TO AFFILIATED COMPANIES

In thousands of euros

	31/12/2019	31/12/2018
Instone Real Estate Development GmbH	168,000	0
Westville 1 GmbH	22,465	0
Instone Real Estate Landmark GmbH	0	3,048
	190,465	**3,048**

CURRENT ASSETS

2 Receivables and other assets

Receivables from affiliated companies are primarily attributable to a profit transfer agreement.

RECEIVABLES FROM AFFILIATED COMPANIES

In thousands of euros

	31/12/2019	31/12/2018
Instone Real Estate Development GmbH	23,780	80
Instone Real Estate Landmark GmbH	3,111	0
Instone Real Estate Leipzig GmbH	57	56
Westville 1 GmbH	1	0
	26,949	**136**

Other assets contain the following items:

OTHER ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Other assets		
Receivables from tax authorities from creditable taxes	11,533	32
Receivable from Hochtief Solutions AG tax exemption	2,267	2,758
Input tax surplus	385	0
Coöperatieve Activum SG Fund III Investments U.A.	0	25
Coöperatieve Formart Investments U.A.	0	14
Coöperatieve Activum SG Fund V Investments U.A.	0	3
Miscellaneous	10	0
	14,195	**2,832**

The company has recognised a corresponding provision for the items relating to Hochtief Solutions AG.

3 Bank balances

Bank balances amounted to €5,120 thousand (prior year: €27,267 thousand). As in the previous year, these were not subject to any restrictions on disposal.

4 Deferred tax assets

AKTIVE LATENTE STEUERN

In thousands of euros

	31/12/2019	31/12/2018
Deferred tax assets	27,685	0
	27,685	**0**

5 Equity

The subscribed capital of the company remained unchanged at €36,988,336.00 as of 31 December 2019 and is fully paid up. It is divided into 36,988,336 no-par-value shares.

The Annual General Meeting passed a resolution on 29 June 2018 to create authorised capital. The Management Board is authorised to increase the share capital of the company by up to €18,450,000.00 by issuing up to 18,450,000 shares during the period until 28 June 2023. The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen during the cross-border conversion on 28 August 2018.

With effect from 28 June 2019, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer or registered warrant or convertible bonds with a total nominal value of up to €250 million with or without maturity restrictions on one or more occasions by 12 June 2024 and to grant the bearers or creditors of the bonds option or conversion rights to up to 3,698,833 new shares in the company with a proportional amount of the share capital of up to €3,698,833.00 (Contingent Capital).

Capital reserves remained unchanged at an amount of €198,873,822.19 as of 31 December 2019.

Disclosures on amounts subject to restriction on distribution

The recognised provisions for pension obligations (before the deduction of corresponding coverage assets) were determined based on the corresponding average market interest rate for the past ten years. In the case of an average calculated based on seven financial years, the resulting obligations would have been €290,962.00 higher. This difference is subject to a restriction on distribution in accordance with Section 253 (6) HGB.

The recognised deferred tax assets of €27,684,549.29 are barred from distribution in accordance with Section 268 (8) HGB.

As such, a restriction on distribution applies for a total of €27,975,511.29.

6 Provisions for pensions and similar obligations

Liabilities from performance-based plans of Instone Real Estate are shown in the following table.

PROVISIONS FOR PENSIONS

In thousands of euros

	31/12/2019	31/12/2018
Settlement amount of pensions and similar obligations	1,636	1,369
Fair value of assets used for coverage	–1,059	–897
Net amount of the provision for pensions and similar obligations	**577**	**472**
Acquisition costs of assets used for coverage	1,089	946

The fair value of the assets used for coverage is allocated as follows:

SECURITIES

In thousands of euros

	31/12/2019	31/12/2018
Listing on an active market		
CTA[1] assets	1,021	861
DC[2] assets	38	36
	1,059	**897**

[1] CTA = Contractual trust arrangement
[2] DC = Deferred compensation

7 Tax provisions and other provisions

PROVISIONS

In thousands of euros

	31/12/2019	31/12/2018
Tax provisions	**2,067**	**3,098**
Provision for indirect personnel expenses	2,456	1,792
Provision for stock option plans	2,463	1,322
Provision for bonuses	1,728	1,103
Provision for external costs of the annual financial statements	191	143
Provision for outstanding holiday pay	65	120
Other provisions	**6,903**	**4,480**

8 Liabilities to banks

Liabilities to banks amount to €182,668 thousand (prior year: €0 thousand). The increase is due to a promissory note loan issued during the reporting year of €106,000 thousand with terms of three and five years as well as a fixed loan of €75,000 thousand with a term of two years.

9 Trade payables

As of the balance sheet date, there are liabilities of €611 thousand (prior year: €1,771 thousand).

TRADE PAYABLES

In thousands of euros

	31/12/2019	31/12/2018
Outstanding invoices	0	1,510
Accounts payable	611	261
	611	**1,771**

10 Liabilities to affiliated companies

LIABILITIES TO AFFILIATED COMPANIES

In thousands of euros

	31/12/2019	31/12/2018
Instone Real Estate Leipzig GmbH	46,643	48,556
Instone Real Estate Development GmbH	1,798	14,998
	48,441	**63,554**

11 Other liabilities

Other liabilities of €581 thousand (prior year: €1,739 thousand) comprise tax liabilities (not including income tax) of €75 thousand (prior year: €988 thousand) and liabilities for Supervisory Board bonuses of €506 thousand (prior year: €751 thousand).

OTHER LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Tax liabilities (not including income tax)	75	988
Liabilities from Supervisory Board bonuses	506	751
	581	**1,739**

NOTES ON THE INCOME STATEMENT

12 Revenues

The reported revenues of €1.581 thousand (prior year: €1.406 thousand) mainly concern revenues to affiliated companies. Of these amounts, €1,064 thousand was attributable to Instone Real Estate Development GmbH, €460 thousand to Instone Real Estate Leipzig GmbH, €50 thousand to Gartenhöfe GmbH and €7 thousand to other affiliated companies.

REVENUES

In thousands of euros

	2019	2018
Income from other deliveries and services – Germany	1,581	1,404
Income from other deliveries and services – other countries	0	2
	1,581	**1,406**

13 Other operating income

Other operating income of €3,453 thousand (prior year: €6,016 thousand) comprises a book profit (€2,573 thousand) from the sale of investments in an affiliated company that was not included in the consolidated financial statements. In addition, €853 thousand income from reversal of provisions was also recognised.

OTHER OPERATING INCOME

In thousands of euros

	2019	2018
Income from disposal of affiliated companies, not included in the consolidated financial statements	2,573	0
Income from reversal of provisions	853	430
Reimbursement of transaction costs	0	5,584
Miscellaneous other income	27	2
	3,453	**6,016**

14 Staff costs

Staff costs increased due to salary payments and additions to provisions of €5,106 thousand (prior year: €4,407 thousand) as well as social security benefits of €88 thousand and changed pension provisions of €44 thousand.

Approximately five employees were employed at the company on average over the year (prior year: approximately one employee).

STAFF COSTS

In thousands of euros

	2019	2018
Personnel expenses		
Salaries	– 5,106	– 4,407
	– 5,106	**– 4,407**
Social security/ post-employment costs		
Social security costs	– 88	– 30
Change in provisions for pensions	– 44	– 398
	– 132	**– 428**
	– 5,238	**– 4,835**

15 Other operating expenses

Other operating expenses of €10,289 thousand (prior year: €22,973 thousand) comprise costs for consulting services (€4,687 thousand), commercial management (€1,533 thousand), additions to the provision for stock option plans for employees of other group companies (€958 thousand), insurance contributions (€788 thousand) and non-deductible input tax (€596 thousand). The remaining other operating expenses that are not recognised elsewhere primarily include expenses related to administration.

OTHER OPERATING EXPENSES

In thousands of euros

	2019	2018
Consulting expenses	– 4,687	– 11,155
Commercial management	– 1,533	– 1,806
Additions to provision for stock option plans	– 958	– 1,845
Insurance contributions	– 788	– 845
Non-deductible input tax	– 596	– 1,949
Write-down on receivables	0	– 1,062
Severance	0	– 1,500
Miscellaneous other operating expenses	– 1,727	– 2,811
	– 10,289	**– 22,973**

16 Financial result

Income from investments consists of the dividend payment from Instone Real Estate Leipzig GmbH of €41,905 thousand (prior year: €0 thousand).

The income from profit transfer agreements of €21,214 thousand (prior year: €0 thousand) relates to the profit transfer from Instone Real Estate Development GmbH.

Of the income from other investments and long-term loans, €2,221 thousand (prior year: €0 thousand) relates to affiliated companies.

€70 thousand (prior year: €48 thousand) of other interest and similar income relates to affiliated companies. Income from discounting provisions for long-term incentive plans amounts to €43 thousand (prior year: €92 thousand).

Write-downs of financial assets relate to Instone Real Estate Leipzig GmbH in an amount of €29,582 thousand. There were no write-downs of financial assets in the prior year.

Of the interest and similar expenses, €4,740 thousand (prior year: €3,997 thousand) relates to affiliated companies and €31 thousand (prior year: €0 thousand) relates to discounting provisions for long-term incentive plans.

Net interest expenses from pension obligations of €– 80 thousand (prior year: €– 200 thousand) relate to the interest on the net present value of pension obligations to be paid annually of €– 131 thousand (prior year: €– 163 thousand). These amounts are offset against the interest income from plan assets of €51 thousand (prior year: expenses of €– 37 thousand).

17 Income taxes

This item includes the following taxes:

INCOME TAXES

In thousands of euros

	2019	2018
Corporation tax	– 1,264	– 629
Solidarity surcharge	– 70	– 35
Trade income tax	– 118	– 47
Deferred taxes	27,685	1,130
	26,233	**419**

Deferred taxes are mainly recognised for tax-related losses and interest carried forward.

As in the prior year, deferred taxes are based on the combined income tax rate of currently 32.63%.

OTHER DISCLOSURES

18 Members of the Management Board

The Management Board consists of the following three members:

Kruno Crepulja

- → Chairman of the Management Board
- → CEO of Instone Real Estate Group AG
- → CEO of Instone Real Estate Development GmbH

Dr Foruhar Madjlessi

- → Member of the Management Board
- → CFO of Instone Real Estate Group AG since 1 January 2019
- → CFO of Instone Real Estate Development GmbH

Andreas Gräf

- → Member of the Management Board
- → COO of Instone Real Estate Group AG
- → COO of Instone Real Estate Development GmbH for both the North Rhine-Westphalia and Rhine-Main branches

Member of the Management Board who retired 31 December 2019:

Torsten Kracht

- → Member of the Management Board
- → CSO of Instone Real Estate Group AG
- → Managing Director of Instone Real Estate Leipzig GmbH
- → COO of Instone Real Estate Development GmbH for Saxony

19 Members of the Supervisory Board

Stefan Brendgen, independent management consultant

In addition to his role as the Chairman of the Supervisory Board of the company, Mr Brendgen is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- → aamundo asset Management GmbH & Co. KGaA (Chairman of the Supervisory Board)
- → Climeon AB (member of the Supervisory Board)
- → HAHN-Immobilien-Beteiligungs AG (member of the Supervisory Board)

Dr. Jochen Scharpe, Managing Partner of AMCi and ReTurn Immobilien GmbH

In addition to his role as the Deputy Chairman of the Supervisory Board of the company, Dr Scharpe is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- → FFIRE AG (Deputy Chairman of the Supervisory Board)
- → LEG Immobilien AG (Member of the Supervisory Board)

Marija Korsch, Chairwoman of the Supervisory Board of Aareal Bank AG

In addition to her role as a member of the Supervisory Board of the company, Ms Korsch is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- → Aareal Bank AG (Chairwoman of the Supervisory Board)
- → Just Software AG (member of the Supervisory Board)
- → Nomura Financial Products GmbH (member of the Supervisory Board)

Dietmar P. Binkowska, independent management consultant

In addition to his role as a member of the Supervisory Board of the company, Mr Binkowska is not a member of any other statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad.

Thomas Hegel, attorney and independent consultant

In addition to his role as a member of the Supervisory Board of the company, Mr Binkowska is not a member of any other statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad.

20 Remuneration of the Management Board

The remuneration of the members of the Management Board in 2019 consisted of

A fixed remuneration

→ The fixed remuneration is paid out in equal monthly instalments

Additional benefits

→ The additional benefits consist of taxable non-cash benefits such as the private use of company cars or other benefits in kind.

One component under the framework of a long-term incentive plan that consists of two elements:

One-year variable remuneration (STI)

→ The short-term variable remuneration in the form of the STI is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board.

Long-term variable remuneration (LTI)

→ As a further component of the variable remuneration, there is a commitment to members of the Management Board in respect to multiple-year variable compensation in the form of an LTI bonus.

→ Some members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years.

The total remuneration granted to the members of the Management Board totalled €3,375.0 (min.: €1,485 thousand, max.: €5,602 thousand) for the 2019 financial year (prior year: €5,111 thousand). Of this, €1,310 thousand (prior year: €1,158 thousand) was attributable to fixed, non-performance-related components, €1,890 thousand (min: €0 thousand, max.: €4,117 thousand) (prior year: €1,340 thousand) was attributable to variable, one-year and multi-year performance-related remuneration components, €79 thousand (prior year: €713 thousand) to performance-related benefits-in-kind and other services, €0 thousand (prior year: €1,500 thousand) for severance payments and €95 thousand (prior year: €401 thousand) on the pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The total remuneration received/earned by the members of the Management Board totalled €2,541 thousand for the financial year 2019 (prior year: €25,109 thousand). Of this amount, €1,310 thousand (prior year: €1,158 thousand) was allocated to fixed, non-performance related remuneration components, €1,056 thousand (prior year: €21,337 thousand) to variable, one-year and multi-year performance-related remuneration components, €79 thousand (prior year: €713 thousand) to non-performance related benefits-in-kind and other benefits, €0 thousand (prior year: €1,500 thousand) for severance payments and €95 thousand (prior year: €401 thousand) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The present value of pension commitments to active and former Management Board members amounts is €1,534 thousand (prior year: €1,369 thousand). Pension obligations to former Management Board members amount to €1,099 thousand (prior year: €1,029 thousand).

During the reporting year, no advances were paid to members of the Management Board and no loans were made.

21 Remuneration of the Supervisory Board

The total remuneration of the Supervisory Board in financial year 2019 was €426 thousand (prior year: €406 thousand). Of this amount, €355 thousand (prior year: €343 thousand) was remuneration for the work of the full Supervisory Board. Remuneration for work in committees amounted to €71 thousand (prior year: €63 thousand).

In the 2019 financial year, the Companies of the Instone Group did not pay or grant any remuneration or other benefits to members of the Supervisory Board for services rendered in a personal capacity, in particular advisory or agency services. Nor were members of the Supervisory Board granted any advances or credits.

For a detailed description of the remuneration of the Management Board and the Supervisory Board, please refer to the information in the remuneration report of the combined management report as of 31 December 2019.

22 Auditor's fees

In total, the following overall fees were recognised as expenses for the services of the auditor Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Düsseldorf Branch, for the financial year:

AUDIT FEES

In thousands of euros

	31/12/2019	31/12/2018
Audits of financial statements	338	105
Of which relating to previous years	79	0
Other assurance or valuation services	76	105
	414	**210**

The auditor performed other consulting services for the company such as investigative activities as per ISRS 4400, a review as per IDW PS 900 and audits as per IDW PS 980 and IDW PS 981. In addition, audit services, an audit as per IDW PS 850 and reviews as per Section 16 MaBV were performed for subsidiaries.

23 Significant events after the end of the financial year

There were no reportable events of particular significance after the balance sheet date on 31 December 2019.

24 Affiliated companies and investees

SUBSIDIARIES, JOINT VENTURES AND OTHER EQUITY INVESTMENTS AS OF 31/12/2019

	Share of capital in %	Equity in thousands of euros	Net income for the year in thousands of euros
I. Consolidated affiliated companies			
Durst-Bau GmbH, Vienna, Austria	100.0	743	– 102
formart Immobilien GmbH, Essen, Germany[1]	100.0	701	0
formart Luxemburg S.à r.l., Luxembourg, Luxembourg	100.0	1,966	1,222
Gartenhöfe GmbH, Leipzig, Germany	100.0	5,839	– 9
GRK Beteiligung GmbH, Leipzig, Germany	100.0	– 146	– 146
Instone Real Estate Development GmbH, Essen, Germany[1]	100.0	153,986	0
Instone Real Estate Erste Projektbeteiligungs GmbH & Co. KG, Essen, Germany	100.0	5	0
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	– 2,715	– 853
Instone Real Estate Leipzig GmbH, Leipzig, Germany	100.0	31,069	29,939
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany	100.0	29	– 7
Instone Real Estate Projekt Erlangen GmbH & Co. KG, Erlangen, Germany	100.0	7	– 1
Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany	100.0	– 91	– 521
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany	100.0	– 13	– 16
Instone Real Estate Projekt Schopenhauerstrasse GmbH, Erlangen, Germany	100.0	120	4
Instone Real Estate Projekt Seetor GmbH, Erlangen, Germany	100.0	602	449
Instone Real Estate Projekt Stephanstrasse GmbH & Co. KG, Erlangen, Germany	100.0	– 38	– 52
Instone Real Estate Property GmbH, Essen, Germany	100.0	25	0
KORE GmbH, Frankfurt a. M., Germany	85.0	6,156	75
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	– 10	– 10
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.0	11,691	142
Projekt Wilhelmstrasse Wiesbaden GmbH & Co. KG, Frankfurt a. M, Germany	70.0	25,750	26,468
west.side gmbH, Cologne, Germany	100.0	812	337
Westville 1 GmbH, Frankfurt a. M, Germany	100.0	121	– 4
Westville 2 GmbH, Frankfurt a. M, Germany	99.9	1	– 24
Westville 3 GmbH, Frankfurt a. M, Germany	99.9	0	– 25
Westville 4 GmbH, Frankfurt a. M, Germany	99.9	1	– 24
Westville 5 GmbH, Frankfurt a. M, Germany	99.9	2	– 23

SUBSIDIARIES, JOINT VENTURES AND OTHER EQUITY INVESTMENTS AS OF 31/12/2019

	Share of capital in %	Equity in thousands of euros	Net income for the year in thousands of euros
II. Joint ventures			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt a. M., Germany	50.0	160	127
Wohnpark Giessener Strasse GmbH & Co. KG, Frankfurt a. M., Germany	50.0	782	756
III. Other equity investments			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany[2]	50.0	34	– 12
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	44	2
Immobiliengesellschaft CSC Kirchberg S.à r.l., Luxembourg, Luxembourg	100.0	42	10
Instone Real Estate Erste Projekt GmbH, Essen, Germany	100.0	25	0
Instone Real Estate Projektverwaltungs GmbH, Essen, Germany	100.0	25	– 6
Kleyer Beteiligungsgesellschaft mbH, Frankfurt a. M., Germany[2]	100.0	54	29
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany[3]	6.0	2,998	95
Projekt Wilhelmstrasse Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	9	– 8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany[2]	50.0	38	– 10
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	1	32

[1] Profit transfer agreement

[2] Annual financial statements, 31 December 2018

[3] Annual financial statements, 30 June 2019

25 Contingent liabilities

Obligations arising from guarantees and sureties amounted to €288,517 thousand (prior year: €2,000 thousand). These were issued to subsidiaries. To our knowledge, the respective economic circumstances of the companies in question can fulfil the underlying obligations in all cases; utilisation is not anticipated.

26 Other financial commitments

The minimum lease payments due in the future are as follows:

OTHER FINANCIAL COMMITMENTS

In thousands of euros

	31/12/2019	31/12/2018
Due within one year	72	46
Due within one to five years	107	88
	179	**134**

27 Declaration of conformity with the German Corporate Governance Code

The Management Board and Supervisory Board of Instone Real Estate Group AG issued the declaration of conformity with the recommendations of the "Government Commission on the German Corporate Governance Code" for financial year 2019 in accordance with Section 161 AktG in December 2019.

The declaration of conformity has been made permanently publicly accessible to shareholders on the company website under ↗ Instone Declaration of Conformity.

The annual financial statements of Instone Real Estate Group AG report total net income for the year of €42,045,882.26. After deduction of the loss carried forward of €24,403,711.68, the Management Board and Supervisory Board propose carrying the remaining net retained profits of 17,642,170.58 forward.

Essen, 13 March 2020

The Management Board

Kruno Crepulja   Dr Foruhar Madjlessi   Andreas Gräf

INDEPENDENT AUDITOR'S REPORT

To Instone Real Estate Group AG, Essen/Germany

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Instone Real Estate Group AG, Essen/Germany, which comprise the balance sheet as at 31 December 2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the combined management report on the Group and the Company of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" pursuant to Sections 289f and 315d German Commercial Code (HGB) of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- → the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and
- → the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter we have determined in respect of the accounting for investments in associates.

Our presentation of these key audit matters has been structured as follows:

a. description (including reference to corresponding information in the annual financial statements), and

b. auditor's response.

Accounting for Investments in Associates

a. In the annual financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2019, investments in associates of kEUR 230,916 (46.5% of the balance sheet total) are reported. These are measured at acquisition cost or – where impairment is expected to be of permanent nature – at the lower of fair value.

The material construction projects of the Instone Group are accounted for on the part of the two associates Instone Real Estate Development GmbH, Essen/Germany, and Instone Real Estate Leipzig GmbH, Leipzig/Germany. As at the balance sheet date, the executive directors of Instone Real Estate Group AG, Essen/Germany, have examined the recoverability of these investments by performing internal business valuations. The fair value of the investments in these associates was established as the present value of the future cash flows using the discounted cash flow method. The underlying cash flows are based on the corporate planning, which includes the expectations of the executive directors of the two subsidiaries with regard to the future development of the projects. The cash flows are discounted on the basis of the weighted average costs of capital.

As regards the sundry investments in associates, the book value of the respective investment as at the balance sheet date is assessed by the executive directors as to indications of required write-downs. Should the analysis indicate that related write-downs might be required, a detailed business valuation will be performed on the basis of the corporate planning using the discounted cash flow method.

We classified the accounting for the investments in associates as a key audit matter since these are highly contingent on discretionary estimates and assumptions made by the executive directors.

The disclosures of the executive directors on the investments in associates are included in the "Accounting and Measurement Principles" section of the notes to the financial statements.

b. In auditing the fair values of the investments in associates, we verified the business valuations performed using the discounted cash flow method as to their methodological approach and accuracy of the figures, involving our valuation specialists. In addition, we examined the determination of the costs of capital. We examined the underlying corporate planning with professional scepticism, cross-checking the parameters used with, inter alia, industry-specific market expectations, and conducted surveys among the executive directors on value drivers underlying the corporate planning.

Other Information

The executive directors are responsible for the other information. The other information comprises:

→ the section "Statement on Corporate Governance and Corporate Governance Report" of the combined management report, which also includes the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB),

→ the section "Sustainability report" of the combined management report and

→ the executive directors' confirmation regarding the annual financial statements and the combined management report pursuant to Section 264 (2) Sentence 3 and Section 289 (1) Sentence 5 German Commercial Code (HGB), respectively.

Our audit opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

→ is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or

→ otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

→ identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

→ obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

→ evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

→ conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

→ evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

→ evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

→ perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholders' general meeting on 13 June 2019. We were engaged by the supervisory board on 10 October/25 November 2019. We have been the auditor of Instone Real Estate Group AG, Essen/Germany, since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Rolf Künemann.

Düsseldorf/Germany, 16 March 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: (Rolf Künemann)	Signed: (Michael Pfeiffer)
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development for the remaining months of the financial year.

Essen, 13 March 2020

The Management Board

Kruno Crepulja   Dr Foruhar Madjlessi   Andreas Gräf

ABOUT US

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Management Board

Kruno Crepulja (Chairman),
Dr Foruhar Madjlessi,
Andreas Gräf

Chairman of the Supervisory Board

Stefan Brendgen

Commercial register

Entered in the commercial register of the Local Court of Essen under HRB 29362

VAT ID number
DE 300512686

Concept, design and implementation

MPM Corporate Communication Solutions,
Mainz, Düsseldorf
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