INSTONE REAL ESTATE

ANNUAL REPORT 2019

ACHIEVING MORE TOGETHER

KEY INDICATORS GRI 102-7

AS OF: 31/12/2019

in millions of euros

		2019	2018
Performance indicators			
Volume of sales contracts		1,403.1	460.8
Volume of new permits		1,284.2	1,298.0
Project portfolio		5,845.7	4,763.2
Revenues adjusted		736.7	372.8
Key earnings figures			
Gross profit adjusted		187.8	106.4
Gross profit margin adjusted	in %	25.5	28.5
EBIT adjusted		128.9	49.6
EBIT margin adjusted	in %	17.5	13.7
EBT adjusted		107.8	41.5
EBT margin adjusted	in %	14.6	11.5
Consolidated earnings adjusted		105.6	19.1
Key liquidity figures			
Cash flow from operations		– 205.1	– 40.4
Free cash flow		– 237.5	– 39.9
Cash and cash equivalents		117.1	88.0

KEY INDICATORS GRI 102-7

AS OF: 31/12/2019

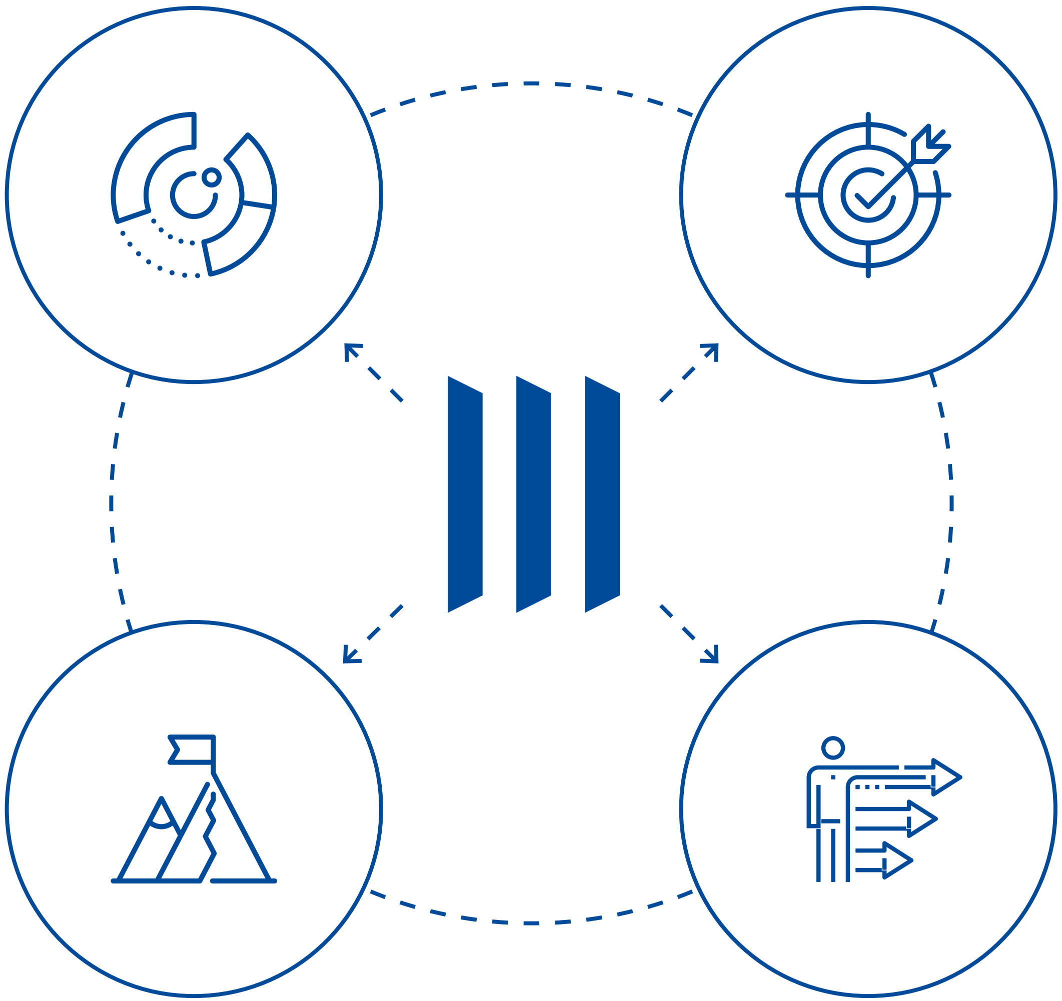
in millions of euros

		2019	2018
Key balance sheet figures			
Total assets		1,123.4	686.6
Equity		310.2	246.9
Net financial debt		478.4	177.5
Debt-to-equity ratio		3.6	3.5
ROCE[1] adjusted	in %	12.9	11.9
Employees			
Number		375	311
FTE[2]		307.7	258.7

[1] Return on capital employed = EBIT/(two-year average equity + net debt).

[2] Full-time equivalent employees.

MISSION STATEMENT



OUR VISION

Developing real estate with passion

Now and going forward, we are one of the largest developers of residential projects in Germany, delivering impressive properties of high quality and sustainable value. The foundation for our long-term success is our experience going back more than 29 years and our comprehensive expertise in the development of residential real estate at attractive locations.

OUR MISSION

Gain experience

Instone Real Estate is a first mover in building a nationwide residential development platform in Germany. We are building on this basis and intend to continue our growth trajectory with the aim of creating housing in lively districts that is liveable over the long term.

OUR AIM

Successful player in the housing market

Together with its team that has now grown to 375 employees, our competent management team is creating new residential housing in excellent locations throughout Germany while at the same time building suitable new product in attractive B and C locations . We are confident that our strategy and positioning will enable us to continue operating successfully on the residential market and to take advantage of suitable market opportunities in the long term.

OUR VALUES

Impressive factors in success

With our consistent focus on residential real estate, we have an efficient and coherent business model with clear structures. It is only because of this that we are well positioned to meet the challenges of modern residential construction and able to make the right decisions. As a result, in every project we aim to be seen as a competent partner who wins over stakeholders through local presence, trust and reliability.

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PHILIPP PELLIO, PROJECT DEVELOPER
AT INSTONE REAL ESTATE

"Impress with consistently good concepts."

Urban development and social aspects are top priorities, particularly in large-scale projects.

Instone Real Estate is in demand as a partner for construction projects in Germany's urban centres. We build entire districts with a real sense of purpose and a keen awareness of the bigger picture. This would not be possible without our highly motivated, expertly trained employees. Philipp Pellio, head of project development in Hamburg, is one of them.

Mr Pellio, what are your responsibilities as head of project development in Hamburg?

PHILIPP PELLIO (PP) My role essentially covers four areas. These include strategic development of the individual projects as well as overall responsibility for customer management and handling of special requests. I also have overall project management responsibility for the projects in Rothenburgsort with around 700 units in total; planning permission, design, marketing and implementation are key areas of activity here. This allows me to stay close to the projects despite my central tasks. In addition, I act as a catalyst for the individual project managers and help with training of junior project managers and student trainees. Site acquisition and assistance of the branch management are also part of my remit.

A project developer works not only on the construction site…

How does Instone Real Estate find suitable sites for development?

PP We use a whole host of options for site acquisition: we take part in conventional competitive tendering processes, examine quotes from brokers and sometimes enter into joint ventures with other project partners. In addition, we have a highly developed network that also enables access to suitable sites. But we also invest a lot of time in our own strategic search for unused space and potential residential buildings. This is based on defined parameters and search criteria.

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Philipp Pellio
Head of project development Hamburg

"Instone Real Estate has many years of market experience, and has thus built up a highly integrated network that is constantly being expanded with many new colleagues."

Lots of partners are often involved in large-scale construction projects – how does collaboration come about?

PP Instone Real Estate is a known quantity just a few years after its rebranding, and is synonymous with successful, reliable delivery of projects at city council level as well as among investors, private buyers and all other market players. Instone Real Estate doesn't just manage projects, it also provides turnkey construction. This is clear from the many glowing references all over our towns and cities. Instone Real Estate has many years of market experience, and has thus built up a highly integrated network that is constantly being expanded with many new colleagues.

…but also spends a lot of time at the PC or in meetings

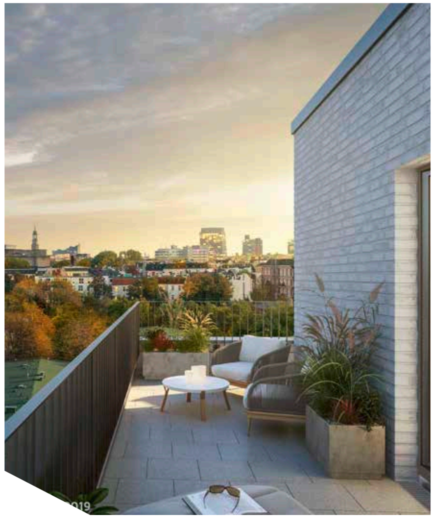
What does Instone Real Estate bear in mind when developing utilisation concepts?

PP Our utilisation concepts feature many different parameters, and stem from the right blend of facts and extensive experience. We apply our experience, market research and the location factors within the framework of planning and construction legislation. The fine-tuning is then carried in coordination with the urban planning team.

„What I particularly like is the variety of tasks in cooperation with my team.“

PHILIPP PELLIO

The “Amanda” project sandwiched between the lively Schanzenviertel and the calm of the western part of Eimsbüttels.



Best view onto Hamburg.

It is particularly urban planning factors which we incorporate in the overall concept, as the best overall concepts are often subject to rigorous discussion with the city council and neighbours in intensive development plan proceedings. It is essential here to act persuasively, to impress with consistently good concepts and to deal openly with politicians.

Could you briefly describe what you particularly appreciate about your work at Instone Real Estate?

PP I really appreciate the variety of the tasks I perform in tandem with our team. Another hugely important aspect is fostering a sense of corporate responsibility in everyone. As an employer, Instone Real Estate is as reliable to its employees as to its customers. I also like Instone Real Estate’s modern structures and corporate philosophy. Both are crucial to gaining and retaining strong employees in the current labour market.

I really enjoy working with our creative, motivated and effective team. In the next few years, our main aim is to meet our forecasts for our planned projects and continue to expand the branch. On a personal note, I obviously intend to put myself forward for the next level of responsibility and achieve this.

TOBIAS CLAREN, PROJECT MANAGER
AT INSTONE REAL ESTATE

“Always expect everything.”

No two projects are the same – our project managers work with this in mind.

“We’re a great team, everyone helps each other and always finds a listening ear for their concerns.”

TOBIAS CLAREN

Anyone who works as a project manager at Instone Real Estate has to be flexible. They are involved right from the first deliberations of the acquiring agent on feasibility matters and the examination of sites through to handover of the last residential unit to the customer and express their concerns regarding planning capability and feasibility.

Tobias Claren, project manager at the Cologne branch, is involved in these processes, partly in his managerial role and partly as an interface figure and provider of input. When asked about the typical progression of a project, he smiles: “I have a well-worn saying about this: always expect everything so you’re not surprised. There’s no such thing as the ideal progression of a project. Even so, it’s important to estimate timescales for the various phases on the basis of experience, and to keep on firming them up.”

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Tobias Claren
PROJECT MANAGER AT THE COLOGNE LOCATION

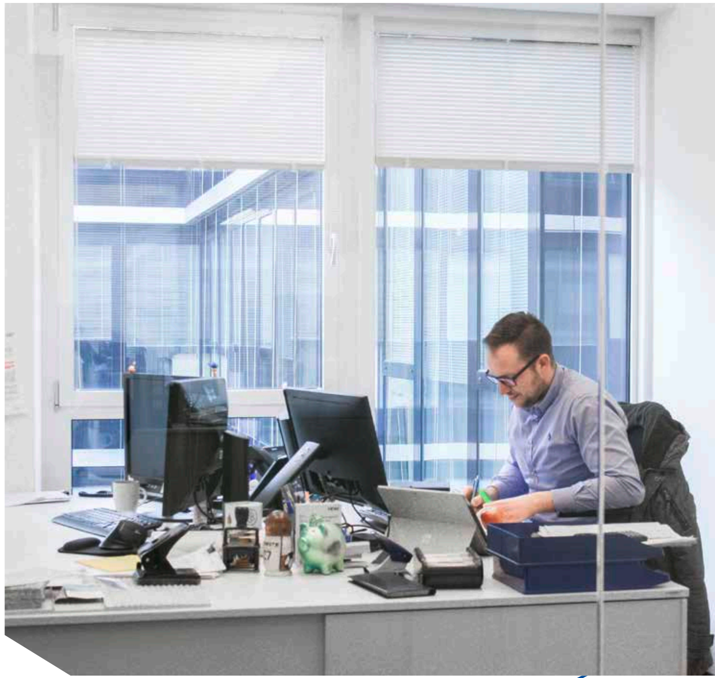
“Always expect everything so you’re not surprised. There’s no such thing as the ideal progression of a project. Even so, it’s important to estimate timescales for the various phases on the basis of experience, and to keep on firming them up.”

Project manager Tobias Claren converts models into reality.

Complex processes, many contacts

In his eight years at Instone Real Estate, Tobias Claren has supported four projects as project manager. It all started with the “Marienhof” project in Cologne. The next project took him to Berlin, where he assisted his colleagues with the “Chausseestrasse” project. This was followed by the “Graffring” construction project in Bochum, where 42 residential units were built. He is currently supporting the “Wohnen im Hochfeld” project in Dusseldorf-Unterbach. 360 residential units with various types of housing – rented apartments, freehold apartments and detached houses – and complex development issues are being built here. “Each project

All preparations for the next project phase are made in the Cologne office.



has involved new issues and experiences," explains Tobias Claren, "but "Wohnen im Hochfeld" clearly stands out because of its size and complexity."

As a site manager, he has to deal with lots of contacts. This is a major challenge, as he has to find the right approach for each group – customers, subcontractors, planners, authorities etc. Openness and courtesy are essential requirements here.

A listening ear for concerns

Tobias Claren sees precisely these qualities throughout Instone Real Estate: "Our customers notice how thoroughly we plan the overall project and every single apartment. They appreciate us at Instone Real Estate. We have an understanding, solution-oriented approach and respond to the customer."

The customers also notice that teams such as the Cologne branch work closely together and trust each other. "We're a great team, there's a good atmosphere in the branch, and everyone gets on well, helps each other and always finds a listening ear for their concerns", explains Tobias Claren. Where does he gain motivation for his day-to-day work? "My tasks are very wide-ranging: I can always learn something new. Also, there are the flat hierarchies and good development opportunities. All this allows me to keep on evolving in my role."

Model of the Dusseldorf "Wohnen im Hochfeld" project.

"My tasks are very wide-ranging: I can always learn something new."

INSTONE REAL ESTATE

Project profile "Wohnen im Hochfeld"

__Location
Gerresheimer Landstrasse 75
D-40627 Dusseldorf-Unterbach

__Residential units
360 freehold apartments, rented apartments, subsidised apartments and detached houses

__Special features
Combining the benefits of the state capital with living in the countryside.

__Construction period
2020 – 2023

PROCESS STAGES IN PROJECT DEVELOPMENT

A — Acquisitions
A well developed and trustworthy network offers the best access to new land acquisitions.

B — Procuring planning permission
The complexity of procuring planning permission requires excellent expertise and must be considered on an individual basis due to the different legal situation of every location.

C — Planning
Many years of experience in combination with targeted location and market analyses ensure optimum planning.

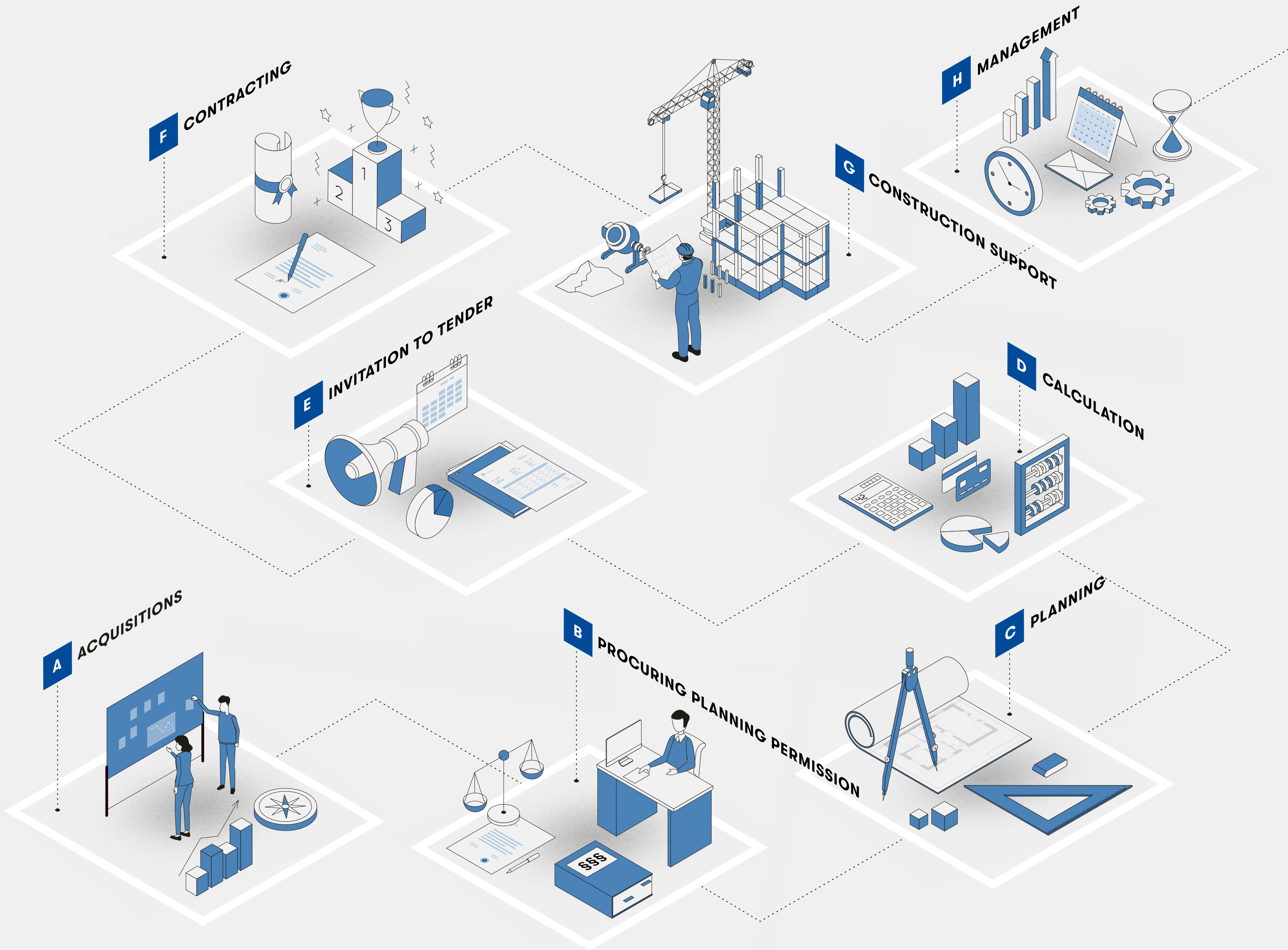
D — Calculation
Precise and realistic calculations from our experts are the foundation for the future success of the project.

E — Invitation to tender
Various trade areas are tendered in order to find skilled partners who provide the appropriate price-performance ratio.

F — Contracting
When contracting building works, all compliance guidelines are adhered to.

G — Construction support
On-site building management ensures seamless and true-to-plan progress on our construction sites.

H — Management
Thanks to internal management, projects can be executed on time and within budget.



SARAH KOWALEWSKI, CUSTOMER MANAGER AT INSTONE REAL ESTATE

“Providing opportunities and leading the way.”

Customer management is the communications link between the buyer and Instone Real Estate.

Satisfied customers cannot be taken for granted – they are result of the work of people like Sarah Kowalewski. The customer manager ensures that everything runs smoothly from purchase to handover of the keys, even in large-scale projects.

Even in the digital age, personal contact is very in.

Anyone who works in customer management at Instone Real Estate needs empathy as well as expert knowledge. "Communication skills are the most important thing," explains Sarah Kowalewski, "as our work is primarily that of a communications link between the buyers and those who plan and build our projects." What else matters? Empathy and sympathy are hugely important. So are management skills and an eye for detail.

"I already possessed most of these qualities when I first came to Instone Real Estate," says Sarah Kowalewski. She joined the Berlin team as a lateral entrant, first as a temporary stand-in, then on a permanent basis as an administrative assistant in customer management. Ambitious, motivated and keen to embrace challenges, she quickly settled in her new field and was promoted to customer manager after just a few years. When Sarah Kowalewski holds a customer meeting with her colleagues, tiny gestures are often enough to gauge the situation. "As a team, we are perfectly in tune with each other. I really appreciate this about my colleagues." Trust in the team is essential given her heavy workload – she looks after 414 freehold apartments in the "Luisenpark" project alone – and the wide range of requests from the buyers.

A bridge between both sides

What Sarah Kowalewski particularly enjoys about her job is the variety and responsibility. She has to be able to adopt the perspective of the buyers as well as the planners and operators, and liaise between the two positions in the interest of Instone Real Estate. The customer manager explains the usual process: "It can take two to three years from completion of the transaction before a customer gets the keys to their apartment. During this time, there are phases when many decisions are made, phases when the main focus is initially on sales and then on construction progress, but also phases when you just need to get stuck in.

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Sarah Kowalewski
CUSTOMER MANAGER

"Communication skills are the most important thing, as our work is primarily that of a communications link between the buyers and those who plan and build our projects."

Motivated and with a lot of positive anticipation, Sarah Kowalewski is looking forward to the next client meeting.

It's hugely important to gain and, ideally, build up customers' trust in these phases. We do this through professional, authoritative, transparent and friendly communication."

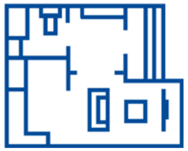
And this doesn't just apply to customers: "Of course, we are also in dialogue with our project developers, the project managers and the manufacturers. Ultimately, we must be able to keep our customers and colleagues reliably informed at all times." Along with face-to-face meetings and e-mail correspondence with the buyers, there is a newsletter that provides regular updates on the current progress of construction. Communication is carried out in English and German, as many customers are foreign investors.

Because she knows exactly what the various buyer groups want and need in her role as customer manager, Sarah Kowalewski is also involved in planning the fixtures and equipment in the projects. "The reason why we think about the fixtures and equipment in detail in advance is simply that we want to attract as many buyers as possible. Although we follow trends, our decisions are particularly based on what we think will satisfy most customers in the long term."

There are always buyers who are keen to individually adapt their new apartment. "We do this by special request," she explains. "In this process, it is important to find out where the customer is actually coming from and whether this change is best avoided." A face-to-face meeting helps to get the measure of everything, as the customer advisors often have to explain the timescale as well as the technical and budget framework to the buyers first of all. Many people do not realise that every change to the plan is a potential source of faults in the building. One key purpose of the advisory meeting is therefore to ensure process reliability throughout construction.

"To me, Instone provides opportunities and paves the way, and always will."

SARAH KOWALEWSKI



414

freehold apartments in the "Luisenpark" project

A strong unit

The customer management team in Berlin meets once a week for internal training. This covers technical topics such as architecture, structural engineering and understanding of planning as well as the interpersonal side of the job, such as the question of what level of communication employees are at and how they respond to it. This joint effort to keep on improving helps the team to be able to speak with one voice at all times.

Sarah Kowalewski is happy that she feels so at home at Instone Real Estate: "There are so many wonderful things about working at Instone Real Estate – the great trust in the team, the responsibility I have. The fact that I'm both supported and challenged. And that Instone Real Estate gave me the opportunity to prove myself in this field as a newcomer to the industry. To me, Instone Real Estate provides opportunities and paves the way, and always will."

INSTONE REAL ESTATE

Project profile "Luisenpark"

__Location
Stallschreiberstraße 15 – 23, 25 – 28, 30 – 32a/
Alexandrinenstrasse 55 – 56/
D-10179 Berlin-Mitte

__Residential units
414 freehold apartments
139 publicly subsidised apartments

__Special features
At the heart of it all – more central than the TV tower. A blend of peace and city life, greenery and vibrancy, park and the city centre.

__Construction period
2017 – 2020

DÖRTE HENNHÖFER,COMMERCIAL MANAGER FOR RHINE-MAIN
INSTONE REAL ESTATE

“The numbers must be right.”

Major investors and private customers alike: everyone can count on Instone Real Estate's great expertise.

The Frankfurt Showroom is a great place to talk about figures.

Complex construction projects, lots of stakeholders, large sums, listing on the stock exchange: at a company like Instone Real Estate, the commercial side really matters. It's good to be able to rely on the expertise of long-serving employees here. Dörte Hennhöfer, commercial manager for Rhine-Main, is one of them.

Ms Hennhöfer, please give us a brief description of your responsibilities!

DÖRTE HENNHÖFER (DH) In commercial terms, our projects have many different structures – this makes my activities as commercial director very interesting and varied. In my day-to-day work, I cover a wide range of topics – from project controlling and financing to social issues relating to the projects.

What do you make of the collaboration with your colleagues in the other parts of the company, such as customer management, construction management and project development?

DH Our collaboration is very straightforward, and we work well together as a team. We can get in touch with each other quickly and settle unresolved questions in a solution-oriented way via our short chain of command. In addition, we have close ties with the central departments and the branches throughout Germany. Furthermore, collaboration mainly from regular internal exchange at events such as the Instone summer conference, the businesspeople's conference and our management meetings.

What are your main responsibilities?

DH I am responsible for the figures behind the projects. The latest figures need to be reported to head office regularly and transparently. New projects have to be planned and planning statuses must constantly be realistically worked through with the project team and corrected if necessary.

Has the commercial field become more important since the IPO?

DH A certain degree of monitoring and transparency of the figures is particularly essential for a joint stock corporation. A good commercial service ensures that the key figures are sufficiently clear, and is therefore essential for a well-functioning listed company

Every model is based on an extensive calculation.

"Our experience and wide-ranging expertise are our biggest asset."

DÖRTE HENNHÖFER

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Dörte Hennhöfer
COMMERCIAL DIRECTOR FOR RHINE-MAIN

"A good commercial service ensures that the key figures are sufficiently clear, and is therefore essential for a well-functioning listed company." börsennotiertes Unternehmen."

Short communication paths for discussing any open questions.

Where do you see the added value of Instone Real Estate for its customers?

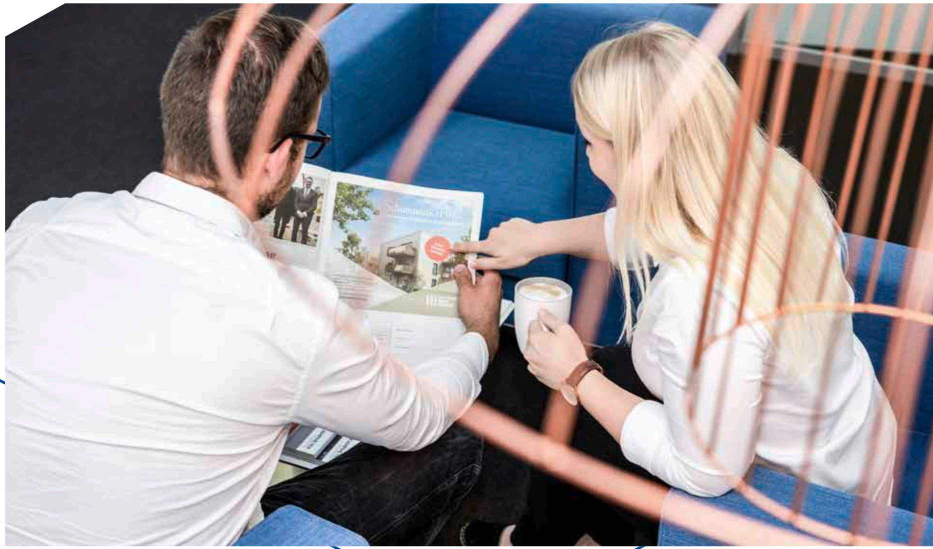
DH Our experience and wide-ranging expertise are our biggest asset. The early involvement of our project management team in the planning process and its customer-oriented presence on the construction sites also sets Instone Real Estate apart from other market players.

You have notched up several years' service at Instone Real Estate and its predecessors. What stands out about working at Instone Real Estate?

DH I particularly appreciate the openness among the team here in Frankfurt am Main. My job covers a broad spectrum, and our projects all have individual commercial structures, so there's no danger of getting bored. I also really appreciate the flexibility of working hours that is essential in order to maintain a balance between work and family. What's more, I have the option of working from home whenever I need to, and can also carry out my managerial role on a part-time basis. That isn't always the case at every company. To me, Instone Real Estate is a company with prospects.

Could you give us a quick glimpse of the future? What are your career plans?

DH I can consider myself lucky, and I'm happy with the way things are at the moment. So my goals mainly relate to the company: new staff must be developed and our commitment to quality must be maintained and passed on accordingly. I'm happy to support this.



Project advertisements are also part of the budget process.

TO OUR SHAREHOLDERS

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
Dear Readers,

2019 was an extremely successful and exciting year for our Company. I am very happy that you are accompanying us on our journey and finding out about the activities of Instone Real Estate. With this second annual report since our initial public offering (IPO) as the first listed German residential developer, we would again like to provide you with a transparent overview of our business development, the underlying business model and the future strategy. For the first time, we are also pursuing a more detailed approach to sustainability reporting. We are guided by the standards of the Global Reporting Initiative (GRI) in this respect.

The operating business development in the year under review 2019 was very positive and we were able to meet all our targets and even surpass them in some cases. The Instone project portfolio has also grown significantly once again and forms the basis for our further growth. Fundamentally, the German housing market continues to offer considerable potential, which we will continue to benefit from in the long term both with our existing product and with the development of a new product area that we started last year. With a high degree of standardisation and digitalisation, this new product will be significantly more price-effective than our current core product and serve an additional attractive and sustainable growth market, particularly in class B and C real estate areas in Germany.

Positive operating business development in 2019

We can look back on our performance in the last financial year and our most important key figures with great satisfaction. The forecast of adjusted sales and earnings for 2019, which was increased on 16 September 2019 due to the sale of the Frankfurt project "Westville", concluded as part of "forward sales", was clearly met, and in some cases even exceeded.

Accordingly, adjusted revenues rose by around 98% to €736.7 million, while adjusted earnings before interest and taxes (EBIT) increased by approximately 160% to €128.9 million. We had forecasted revenues of between €700 and €750 million and an EBIT of €110 to €125 million. Adjusted gross profit margin, at 25.5%, exceeded our guidance of around 24% significantly.

Volume of sales contracts is a further key indicator for our business that we were also able to significantly increase to €1,403.1 million, which was in line with our guidance of more than €1,100 million. In addition to the consistently high demand from our private customers, the increased demand from institutional customers also contributed to this development.

Major neighbourhood projects highlight the expertise and strength of Instone Real Estate

One of the highlight projects that is particularly illustrative of the high level of development expertise of Instone Real Estate 2019 is certainly the "Westville/Kleyerquartier" project in Frankfurt am Main as previously mentioned. Over the next four years, we will be developing one of the largest neighbourhoods in Germany with more than 1,200 new apartments, including around 400 state-subsidised units. A special real estate fund of Bayerische Versorgungskammer (BVK) is the sole buyer of this project where the expected volume of sales contracts is around €600 million. We are already working together successfully with this customer on other projects in Frankfurt am Main, Bonn and Stuttgart. In 2019, we were able to both expand our collaboration with established institutional partners and acquire new institutional clients.

Politics shaped the world of real estate in 2019

Anyone who dealt with residential real estate in Germany in 2019 will have an opinion on the resolutions of the Berlin Senate to introduce a "rent cap". This led to significant uncertainties and also negatively impacted the share price of some residential real estate companies on the stock exchange in 2019, especially portfolio holders. In our opinion, the debate has shown one thing above all: housing is THE social issue not only in Berlin, but in all of Germany. We are convinced, however, that the housing issue will not be solved by more regulation, but only by building more new housing. This is where Instone Real Estate has something to offer.

In this annual report, we dedicate a whole chapter to the subject of the "political and regulatory framework" page 34 in order to facilitate a better understanding of the facts. At this point, we will only say that: we do not foresee any direct effects on our business or on our current Berlin strategy from the "Berlin rent cap", as the construction of new housing is not included in the draft law. However, our customers may notice shifts in demand to other German metropolitan areas. Here, Instone Real Estate is very well positioned due to its broad geographical distribution throughout Germany.

Project portfolio continues to grow

Our project portfolio again increased significantly in the year under review 2019. As at 31 December 2019, it encompassed 55 development projects with an expected volume of sales contracts totalling €5.8 billion. Of these projects, around 90% are located in major conurbations areas in Germany, thus emphasising our very good position in the market in these regions. The volume of new permits also increased significantly in 2019 to around €1,284 million.

Solid basis for successful business development

Our sizeable project portfolio, our excellent position in all German core cities and metropolitan regions as well as our strong balance sheet and liquidity position provide a solid basis for continued successful business development. However, considering the Corona virus pandemic visibility for the current financial year is now very limited. On 13 March 2020 and based on the expectation of a moderately negative impact of the Coronavirus pandemic the Management Board expected adjusted revenues of €600 million to €650 million, an adjusted gross profit margin of 26% to 27% and an adjusted EBIT of €95 million to €120 million. This forecast was based on a minimum volume of new customer sales contracts of €600 million.

The development of the pandemic in Germany and Europe as well as the measures recently initiated by authorities globally reflect increasing risks to economic activity including the possibility of temporary shut downs of major parts of the German economy. The Management Board believes that Instone will not be unaffected if a more adverse scenario materialises. While a significant €2.2 billion of project volume is already sold underpinning a substantial share of future revenues and despite the fact that the latest internal Instone project data does not imply any concrete indications of a significant decline in customer sales or a substantial slowdown in construction progress yet, the risks to Instone's future business development have considerably increased in recent days. The Management Board is closely monitoring developments and has introduced a package of clearly defined measures to prepare the company for a more difficult business environment. These include the decision for the time being to pursue new project acquisitions on a very selective basis only. However, considering our consistent acquisition successes over the last two years and the scale of our portfolio the entire planned and communicated adjusted revenues and earnings targets for the next few years are already fully covered. Further details can be found on pages page 63 f..

Key strategic measures taken

In 2019, we also succeeded in expanding our activities to the strongly growing region of northern Bavaria through the first strategic acquisition by Instone Real Estate after the IPO. The acquisition of the business activities of S&P Stadtbau GmbH – a leading property developer in the greater Nuremberg region – not only added projects encompassing around 1,000 planned residential units to our portfolio; Instone Real Estate also acquired an excellent team of 20 employees, including the former S&P Stadtbau management. We have prepared detailed information on this acquisition for you on page 118. In 2020, we will continue to manage the project portfolio with our experienced team and acquire new properties in our target regions. In addition to the established Instone product, we also want to introduce a second product line that offers apartments in a lower price segment. In this way, we intend to tap into further target groups and respond to the urgent demand for housing in German metropolitan regions with a wider range of services.

Positive share price development in 2019

Finally, I would like to mention the development of Instone shares. We started 2019 with strong price development and were able to reach our highest price for the year at €22.40 on 10 May 2019. From June 2019, at a time when the entire real estate sector in Germany – not least due to the political regulatory announcements mentioned earlier – was in decline, Instone shares also followed the negative trend. As autumn progressed, however, it recovered before ultimately rising strongly in December to close at €22.05 on 30 December 2019. We feel that the attention paid to Instone shares is growing steadily. This is also due to the very pleasing development that we were included on an index in the summer. As of 29 August 2019, Instone Real Estate was included in the SDAX and is therefore the only residential developer to be included in a DAX selection index. The positive share price development continued in the first weeks of the current year and the Instone share marked its annual high so far at EUR 27.70. Unfortunately, our share price has not been spared the significant effects of the corona pandemic on the capital markets in recent days and has lost significantly.

I would like to thank all the employees and partners who have made the successes of Instone Real Estate up to now possible and I would like to thank you, dear shareholders, for your interest and trust in our Company. GRI 102-14

I look forward to speaking with you again soon!

Kruno Crepulja
Chairman of the Management Board
Instone Real Estate Group AG

THE MANAGEMENT BOARD

From left to right:

Dr Foruhar Madjlessi
Chief Financial Officer

Andreas Gräf
Chief Operating Officer

Kruno Crepulja
Chairman of the Management Board/CEO

MANAGEMENT BOARD

MANAGEMENT BOARD

Kruno Crepulja

**Chairman of the Management Board/
CEO of Instone Real Estate Group AG**

Kruno Crepulja is Chairman of the Management Board/CEO of Instone Real Estate Group AG. He is also CEO of Instone Real Estate Development GmbH. He has comprehensive experience as an engineer, site manager and project developer as well as a 17-year career on the management boards of large development companies, such as Wilma Wohnen Süd GmbH. Mr Crepulja has been CEO of Instone Real Estate Development GmbH's predecessor, formart GmbH & Co. KG, since 2008. Furthermore, he was responsible for Hochtief AG's project development in Europe between 2011 and 2013.

Member of the Management Board since 13 February 2017; appointed until 31 December 2021

Andreas Gräf

**Member of the Management Board/
COO of Instone Real Estate Group AG**

Andreas Gräf is a member of the Management Board/COO of Instone Real Estate Group AG. He is also COO of Instone Real Estate Development GmbH for the Baden-Württemberg, Bavaria North and Bavaria South branches. A trained construction administration manager, he has been working in the construction and real estate sector for 30 years. Andreas Gräf established residential development as a standalone business model at Hochtief AG, and was appointed Managing Director of Instone Real Estate Development GmbH's predecessor, formart GmbH und Co. KG, in 2008. As the former manager of various branches, he developed numerous projects in both the residential and commercial segments.

Member of the Management Board since 13 February 2017; appointed until 31 December 2021

Dr. Foruhar Madjlessi

**Member of the Management Board/
CFO of Instone Real Estate Group AG**

Dr Foruhar Madjlessi was appointed member of the Management Board/CFO of Instone Real Estate Group AG with effect of 1 January 2019. As a recognised capital market expert, he has extensive expertise in the field of corporate finance and an excellent personal network in the world of international investment. He has been with Deutsche Bank AG for the past 12 years, most recently as Managing Director of the Equity Capital Markets (ECM) division for Germany, Austria and Switzerland (DACH). Prior to that, he was responsible for various functions for Merrill Lynch in Frankfurt am Main, London and New York.

Member of the Management Board since 01 January 2019; appointed until 31 December 2022

SUPERVISORY BOARD REPORT

Dear Shareholders,
Dear Readers,

Before you read about the work of the Supervisory Board and its committees in financial year 2019 below, please allow me to make a few comments on the past financial year.

We can once again look back on an extremely eventful and successful financial year, in which Instone Real Estate has consistently pursued its growth path. As such, the Company succeeded in significantly increasing its adjusted revenues and profit – beyond the forecast originally issued for financial year 2019. This was made possible by the employees, to whom I would like to express my gratitude for their outstanding commitment at this point.

Of the many projects of Instone Real Estate that contributed to this business success, I would like to highlight the major “Westville/ Kleyerquartier” project in Frankfurt am Main, which, in addition to a total sales volume of around €600 million, also stands out for another reason: With its more than 1,200 projected apartments, including around 400 publicly subsidised units, it impressively demonstrates the important contribution Instone Real Estate is able to make towards creating the additional residences that are particularly urgently needed in metropolitan areas and conurbations.

Also, on a personal note, I am very pleased about an important step in relation to the Supervisory Board: We have succeeded in recruiting high-calibre successors to the Supervisory Board after Stefan Mohr and Richard Wartenberg stepped down at the end of financial year 2018. In Thomas Hegel and Dietmar P. Binkowska, we have been able to add two new members to the Supervisory Board of Instone Real Estate Group AG in the form of two experienced specialists with many years of experience on Supervisory Boards, who, with their expertise in the German residential real estate sector and their reputation in the international capital markets, represent ideal additions. Finally, on behalf of the entire Supervisory Board, I would like to thank you for the trust that you have placed in our Company as our shareholders in the past financial year.

We would now like to inform you about the work of the Supervisory Board and its committees in the 2019 financial year.

In financial year 2019, the Supervisory Board exercised the tasks incumbent upon it in accordance with the law and the Articles of Incorporation. It supervised the management of the Company and provided advice to the Management Board on matters in relation to the management of the Company.

In the last financial year, the Supervisory Board held a total of 13 meetings, with the Supervisory Board meeting on a regular basis, even without the Management Board having met, for example to discuss issues relating to the Management Board remuneration. A total of 11 resolutions were passed by way of circular resolution.

In its first meeting on 24 January 2019, it dealt in particular with filling the seats on the Supervisory Board that had become vacant after Stefan Mohr and Richard Wartenberg resigned from office, as well as with potential candidates. The departure of Mr Mohr and Mr Wartenberg also meant that changes had to be made to the compositions of the committees. In the meeting, the Supervisory Board also amended the organisational chart for the Management Board, received the Management Board’s report on business development and discussed a potential strategic acquisition of a company together with the Management Board.

In its meeting on 6 February 2019, the Supervisory Board worked intensively on the corporate planning presented by the Management Board for the financial year 2019, discussed this together with the Management Board and approved it.

On 14 March 2019, the Supervisory Board dealt with the reorganisation of corporate financing initiated by the Management Board, in particular the planned conclusion of a large-scale corporate loan by Instone Real Estate Group AG.

In its meeting on 27 March 2019, the Supervisory Board first discussed in detail the audited dependency report prepared by the Management Board. The Supervisory Board also discussed the audited annual financial statements and consolidated financial statements including combined management report for financial year 2019 and approved the same. The Supervisory Board also dealt with its report to be presented to the Annual General Meeting.

In its meeting on 26 April 2019, the Supervisory Board focused on the agenda for the 2019 Annual General Meeting and the management's resolutions to be presented at the meeting. Among other things, based on the recommendation of the Audit Committee, the Supervisory Board decided to propose Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Dusseldorf, to the Annual General Meeting as auditor of the annual financial statements and consolidated financial statements for financial year 2019, as well as for any audit review of annual financial reports during the year. In addition, on the basis of the recommendation of the Nomination Committee, the Supervisory Board worked intensively on the proposals for the forthcoming Supervisory Board elections. In the meeting, the Supervisory Board also discussed, together with the Management Board, the conclusion of the loan agreement within the framework of the restructuring of corporate financing being pursued by the Board of Management, which the Supervisory Board had already dealt with in its meeting in March, and agreed to it. Finally, in the meeting, the Supervisory Board received the regular report of the Management Board on the course of business.

From 31 May 2019 to 1 June 2019, the Supervisory Board held a strategy meeting together with the Management Board, in which both bodies dealt with corporate strategic issues in particular. Other items for discussion were the status and further development of investor relations activities and selected aspects of corporate governance. In this context, in view of the appointment of Mr Hegel and Mr Binkowska, the Supervisory Board also made personnel changes to the compositions of the committees.

On 11 June 2019, the Supervisory Board dealt with the variable remuneration of the Management Board for financial year 2018 and determined this in detail on the basis of the recommendations of the Remuneration Committee.

In its meeting on 12 August 2019, the Supervisory Board, together with the Management Board, discussed in detail the planned strategic acquisition of residential real estate activities from the Sontowski & Partner Group, and agreed to this.

On 26 August 2019, the Management Board first reported in detail on the semi-annual results. On this basis, a detailed discussion of the Company's semi-annual financial report for 2019 was carried out with the Management Board.

In its meeting on 2 October 2019, the Supervisory Board accepted the Management Board's report on the course of business. The Management Board also issued a detailed status update on the implementation status of the "Westville-Gallus" project in Frankfurt am Main. During the meeting, the Management Board additionally reported on completed and upcoming investor relations activities. The Supervisory Board also dealt intensively with the status of the implementation of the internal audit in the meeting, on which the Chairman of the Audit Committee reported in addition to the Management Board. The Rules of Procedure for the Management Board were also discussed, which the Supervisory Board amended on the basis of the preparatory procedure by the Audit Committee, in particular in the area of the catalogue of legal transactions and measures that require approval.

On 25 November 2019, the Supervisory Board discussed the results for the third quarter of 2019 and the corresponding quarterly statement with the Management Board before it was published.

In its meeting on 26 November 2019, the Supervisory Board focused on the further development of the Management Board and general management structures in the Instone Group and Mr Kracht's change of role. The meeting also included the results of a study on remuneration in the Instone Group commissioned by the Management Board.

In its last meeting of the financial year on 10 December 2019, the Management Board issued its regular report on the course of business and presented to the Supervisory Board the preliminary corporate planning for financial year 2020, which the Supervisory Board discussed with the Management Board in detail. In addition, the Supervisory Board dealt with various governance issues during this meeting and passed a resolution on the Declaration of Compliance with the German Corporate Governance Code (GCGC). The Supervisory Board also examined a new project submitted by the Management Board for its approval.

The 11 resolutions of the Supervisory Board, which were passed in writing in the previous financial year, in addition to the new projects submitted by the Management Board for approval, concerned, among other things, the corporate planning for financial year 2019, project and corporate financing measures, the personal objectives of the members of the Management Board and the conclusion of an intra-Group control and profit and loss transfer agreement.

Trusting cooperation between the Management Board and the Supervisory Board

In the context of the topics outlined above, the Supervisory Board also carefully and regularly monitored the management of the Company by the Management Board and supported it on the strategic development of the Company and key decisions. The same applies to the committees of the Supervisory Board within the scope of their respective areas of responsibility.

The Management Board informed the Supervisory Board regularly, promptly and comprehensively about any and all aspects that were material to the Company, and fulfilled its reporting duties as specified by law, the Articles of Association and the Rules of Procedure. Above all, these included the business development of Instone Group, key investment plans, risk management and internal auditing progress, and fundamental matters concerning corporate planning, strategy and organisation. Even outside meetings, the Chairman of the Management Board in particular had intensive and regular exchanges, especially with the Chairman of the Supervisory Board.

Business requiring the consent of the Supervisory Board pursuant to the Articles of Incorporation and Rules of Procedure of the Management Board have been submitted to the Supervisory Board for resolution by the Supervisory Board and discussed in detail with the Supervisory Board prior to the resolution. This was particularly the case for new projects acquired by the Management Board, financing measures in connection with the reorganisation of corporate financing and the strategic acquisition of the development platform for residential real estate from the Erlangen-based Sontowski & Partner Group.

Supervisory Board composition and meetings

The Company's Supervisory Board consists of five members in accordance with the Articles of Incorporation. All members are elected as shareholder representatives by the Annual General Meeting of the Company and are, in the opinion of the Supervisory Board, independent within the meaning of Section 5.4.2 of the GCGC. The Supervisory Board is not subject to employee co-determination.

Members of the Supervisory Board during the period under review

→ Stefan Brendgen
Chairman of the Supervisory Board
(member since 13 February 2018)

→ Dr Jochen Scharpe
Deputy Chairman of the Supervisory Board
(member since 13 February 2018)

→ Marija Korsch
(member since 13 February 2018)

→ Dietmar P. Binkowska
(member since 12 April 2019)

→ Thomas Hegel
(member since 12 April 2019)

SUPERVISORY BOARD 2019/OVERVIEW OF MEETING PARTICIPATION

	Stefan Brendgen	Dr Jochen Scharpe	Marija Korsch	Dietmar P. Binkowska	Thomas Hegel	Written SB resolutions
Supervisory Board meeting						
24/01	Yes	Yes	Yes			
06/02	Yes	Yes	No			
14/03	Yes	Yes	Yes			
27/03	Yes	No	Yes			
26/04	Yes	Yes	Yes	Yes	Yes	
31/05	Yes	Yes	Yes	Yes	Yes	
11/06	Yes	Yes	Yes	Yes	Yes	
12/08	Yes	Yes	Yes	Yes	Yes	
26/08	Yes	Yes	Yes	Yes	Yes	
02/10	Yes	Yes	Yes	Yes	Yes	
25/11	Yes	No	Yes	No	Yes	
26/11	Yes	Yes	No	Yes	Yes	
10/12	No	Yes	Yes	Yes	Yes	
total	**12/13**	**11/13**	**11/13**	**8/9**	**9/9**	**11**
Audit committee						
11/03	Yes	Yes	Yes			
26/04	Yes	Yes	Yes			
27/05	Yes	Yes	Yes			
02/09	Yes	Yes			No	
02/10	Yes	Yes			Yes	
09/12	Yes	Yes			Yes	
total	**6/6**	**6/6**	**3/3**		**2/3**	**1**

SUPERVISORY BOARD 2019/OVERVIEW OF MEETING PARTICIPATION

	Stefan Brendgen	Dr Jochen Scharpe	Marija Korsch	Dietmar P. Binkowska	Thomas Hegel	Written SB resolutions
Remuneration committee						
12/07	Yes		Yes	Yes		
11/06	Yes		Yes	Yes		
10/12	No		Yes	Yes		
total	**2/3**		**3/3**	**3/3**		**0**
Nomination Committee						
26/04	Yes	Yes	Yes			
total	**1/1**	**1/1**	**1/1**			**0**

The detailed CVs of the current members of the Supervisory Board can be found on the ↗ Company's website under **Instone CVs of the Supervisory Board members**.

None of the members of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board or a committee of which they are a member during the period under review.

The list of individual attendance at meetings of the Supervisory Board and Supervisory Board committees is shown below and can also be found on the ↗ Company's website.

Supervisory Board committees

In order to streamline the work of the Supervisory Board, the Supervisory Board had three standing committees with various responsibilities in the 2019 financial year, each of which has three members in accordance with the Rules of Procedure of the Supervisory Board: the Nomination Committee, the Audit Committee and the Remuneration Committee. Other committees may be set up by the Supervisory Board as required. The committees prepare the deliberations and resolutions of the plenum. In addition, they make decisions in the context of various tasks defined in the Rules of Procedure of the Supervisory Board, insofar as the Supervisory Board has transferred these tasks to the relevant committee in the Rules of Procedure.

Audit committee

The Audit Committee is responsible, in particular, for monitoring the accounting process, effectiveness of the internal control system and internal auditing system, the audit, in particular the independence of the auditor, additional services provided by the auditor, the appointment of the auditor, granting the audit assignment to the auditor, the determination of audit priorities and the fee agreement as well as compliance.

The Audit Committee prepares the resolutions of the Supervisory Board relating to the annual financial statements and the consolidated financial statements. It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of the statement or its approval and the profit appropriation proposal of the Management Board. Furthermore, the Audit Committee prepares the agreements with the auditor, in particular the appointment of the auditor, the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the Annual General Meeting. This also includes consideration of the necessary independence, whereby the Audit Committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee decides on the approval of contracts with external auditors with regard to additional advisory services, insofar as these agreements require approval of the Supervisory Board. The Audit Committee discusses the principles of compliance, risk assessment, risk management and the appropriateness and functionality of the internal control system with the Management Board.

The following members were members of the Audit Committee in the 2019 financial year:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Brendgen

→ Thomas Hegel (since 1 June 2019)

→ Marija Korsch (24 January to 31 May 2019)

The Chairman of the Audit Committee is independent, has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and thus fulfils the requirements of Section 100 (5) of the German Stock Corporation Act (AktG). In addition, the Chairman of the committee is also familiar with the principles and specifications and the procedure of the audit.

In the 2019 financial year, the Audit Committee held a total of six meetings and passed one written resolution. Among the topics that the Audit Committee dealt with during the period under review were the preparation of the resolutions of the Supervisory Board on the annual financial statements and consolidated financial statements for the financial year 2018 together with the combined management report, on the dependency report prepared by the Management Board, as well as on the proposal for the appointment of the auditor made to the Annual General Meeting. In addition, the Audit Committee's deliberations included the discussion of the annual financial reporting, the discussion and approval of non-audit services by the auditor and the auditor's audit priorities for the financial year 2019, as well as the definition of the one-off events and effects to be taken into account during the audit. In addition, the Audit Committee dealt intensively with the risk management system and the structure and implementation of the Company's internal audit, which were continuously further developed in the past financial year. In addition to designing the risk management system, the Audit Committee was also briefed on the implementation of the initiated steps in several meetings and provided advice to the Management Board on issues relating to content once again during the past financial year. The preliminary planning for 2020 was also discussed by the audit committee during preparatory meetings prior to its presentation to the plenum.

Nomination Committee

The Nomination Committee advises on key topics and prepares resolutions of the Supervisory Board by proposing suitable candidates to the Supervisory Board for its nominations to the Annual General Meeting.

Members of the Nomination Committee in the 2019 financial year were:

→ Dietmar P. Binkowska (since 1 June 2019: Chairman)

→ Stefan Brendgen

→ Dr Jochen Scharpe (since 24 January 2019)

→ Marija Korsch (1 January to 31 May 2019)

The Nomination Committee held one meeting in the past financial year. In the meeting, the committee discussed in detail the proposals to the Annual General Meeting for the elections to the Supervisory Board, taking into account the recommendations of the GCGC and the objectives of the Supervisory Board in terms of its composition, the skills profile and the diversity concept. On this basis, the committee recommended that the Supervisory Board make a proposal to the Annual General Meeting for Mr Binkowska and Mr Hegel to be elected to the Supervisory Board and thus to confirm their positions in office.

Remuneration committee

The Remuneration Committee advises on the employment contracts of the members of the Management Board and prepares, among other things, the resolutions of the Supervisory Board on determining the personal objectives of the individual members of the Management Board and, after the end of the relevant financial year, the degree to which targets were achieved.

Members of the Remuneration Committee in financial year 2019 were:

→ Marija Korsch (since 24 January 2019,
from 1 June 2019: Chairwoman)

→ Stefan Brendgen

→ Dietmar P. Binkowska (since 1 June 2019)

→ Dr Jochen Scharpe (24 January to 31 May 2019)

The Remuneration Committee met three times in the 2019 financial year. In particular, the committee dealt with the preparation of the Supervisory Board resolution on determining the variable remuneration of members of the Management Board for the financial year 2018 and the personal objectives of the members of the Management Board. The Chair of the Remuneration Committee is independent.

Corporate Governance and Declaration of Conformity

Both the Management Board and the Supervisory Board are committed to the principles of good corporate governance in accordance with the recommendations of the German Government Commission on the German Corporate Governance Code. In the past financial year, the Supervisory Board therefore extensively and repeatedly dealt with corporate governance matters.

This concerns, for example, the review and amendment of the Rules of Procedure of the Management Board with regard to the catalogue of legal transactions requiring approval, as well as the procedural specifications for the work of the Management Board as a whole.

In December 2019, the Management Board and Supervisory Board of Instone Real Estate Group AG issued a joint Declaration of Conformity with the recommendations of the German Corporate Governance code in accordance with the provisions of Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). It is included in the Annual Report 2019 on ☰ page 97 f. and can also be found on the ↗ Instone Real Estate Group AG website in the Investor Relations section under Instone Declaration of Conformity.

The Management Board and Supervisory Board also reported in detail on the corporate governance of Instone Real Estate Group AG in the Corporate Governance Report. This is combined with the declaration on corporate governance pursuant to Sections 289 et seq. and 315d HGB and can be found on ☰ page 97 – 104 of this Annual Report. The declaration on corporate governance can also be found on the ↗ website of Instone Real Estate Group AG, together with the Corporate Governance Report in the Investor Relations section.

In accordance with the guidelines of the German Corporate Governance Code (GCGC), the Supervisory Board also informs the Annual General Meeting of conflicts of interest among members of the Supervisory Board. No such conflicts of interest were disclosed to or identified by the Supervisory Board during the entire period under review.

Personnel changes within the Supervisory Board

In the 2019 financial year, two new high-calibre members were elected to the Supervisory Board in the form of Mr Dietmar P. Binkowska and Mr Thomas Hegel. They were appointed members of the Supervisory Board in consultation with the Supervisory Board at the request of the Management Board by resolution of the Essen District Court of 3 April 2019 and, on the basis of the election proposals submitted by the Supervisory Board, were confirmed in their offices by the Annual General Meeting on 13 June 2019. Mr Binkowska and Mr Hegel replace Stefan Mohr and Richard Wartenberg, who had resigned their Supervisory Board mandates with effect from the end of 31 December 2018.

Personnel changes within the Management Board

Since 1 January 2019, Dr Foruhar Madjlessi has been a member of the Management Board of Instone Real Estate Group AG as Chief Financial Officer (CFO). He is a recognised capital market expert and has many years of comprehensive expertise in the area of corporate finance. Dr Madjlessi is an industrial engineer and comes from Deutsche Bank, where he recently managed the Equity Capital Markets Division for the region of Germany, Austria and Switzerland as Managing Director. This first-class reinforcement of our management team is an important component for the continued successful and future-oriented growth of Instone Real Estate.

After the merger of the operational activities of Instone Real Estate Leipzig GmbH under the umbrella of Instone Real Estate Development GmbH, Mr Torsten Kracht resigned from the Management Board of Instone Real Estate Group AG at the end of financial year 2019 as planned.

Audit of annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Dusseldorf, was chosen as auditor of the annual financial statements and consolidated financial statements for the 2019 financial year by the Annual General Meeting of the Company and commissioned by the Supervisory Board. The focal points of the audit were discussed in detail with the auditor at the Audit Committee meeting on 02 September 2019 and established accordingly.

The consolidated financial statements for the 2019 financial year were prepared on the basis of the International Financial Reporting Standards (IFRS) as adopted in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB).

The auditor provided its report and the documentation relating to the financial statements for the financial year 2019 to the members of the Audit Committee and Supervisory Board on 16 March 2020.

The report was discussed in detail at the Audit Committee meeting and the financial statements review meeting held by the plenary Supervisory Board on 16 March 2020. The auditor was present at both meetings. The auditor provided detailed reports on the main findings of the audit at the meetings and answered all of the questions posed by members of the Audit Committee and the plenum. In addition, the auditor provided information about services provided by it in addition to the auditing services. There was no evidence of bias on the part of the auditor.

The auditor issued an unqualified opinion on the annual and consolidated financial statements for 2019 and the combined management report on 16 March 2020. Following a detailed review of the annual financial statements, the consolidated financial statements and the combined management report as of 31 December 2019 by the Audit Committee, the latter recommended its approval to the plenum. Per the final result of its own audit, no objections were raised by the Supervisory Board. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements have therefore been adopted. The Supervisory Board examined in detail the proposal of the Management Board to the 2020 Annual General Meeting on the appropriation of the annual net profit and agreed, having considered the interests to be taken into account.

The Supervisory Board would like to thank the members of the Management Board and all employees of the Instone Group for their outstanding commitment and excellent performance in the past financial year.

Essen, 16 March 2020

For the Supervisory Board

Stefan Brendgen
Chairman of the Supervisory Board

SHARE

Instone share posts positive performance

The weak global economy and uncertainty due to various political developments and tensions burdened both the international and German equity markets time and again over the last year. Nevertheless, the DAX, with an increase of 25.5% and the SDAX, with a rise of 31.6%, developed positively in 2019.

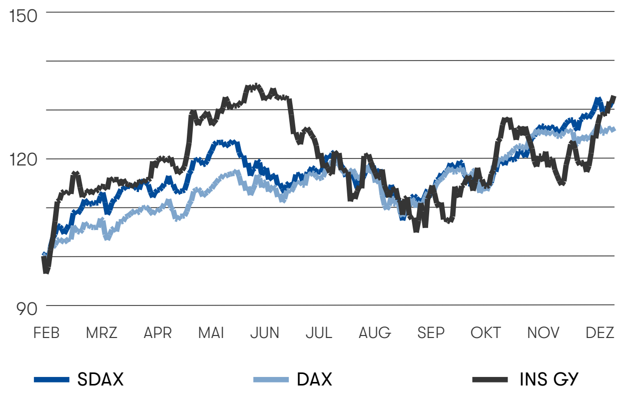
In the first few months of 2019, the price of Instone shares performed significantly better than the aforementioned indices. At the same time, the closing price of €16.00 on 2 January 2019 also marked the annual low. The annual high price was €22.40 on 10 May 2019. The Berlin Senate's plan, announced in June, to introduce a rent cap then placed a great burden on the real estate market as a whole. And although Berlin's share in our project portfolio is very low and new builds – and therefore our business – are excluded from the planned rent cap, our share price trend was also influenced by this uncertainty in the long term. At the end of the year, however, the share price was able to recover significantly, mainly due to the good business performance and the positive outlook. Instone shares closed out 2019 at €22.05, up 32.8%.

The market capitalisation of Instone thus increased to €816 million as of 31 December 2019. With the inclusion in the SDAX in August, we also achieved another important milestone in our still young stock market history.

DEVELOPMENT OF THE SHARE FROM 01/01/2019 TO 31/12/2019

As of 31/12/2019

Percentage in %



(Source: FACTSET)
Composite comparison values of Instone Real Estate Group AG, AEDAS Homes S. A. U., Neinor Homes S. A., Metrovacesa S. A., Glenveagh Properties PLC

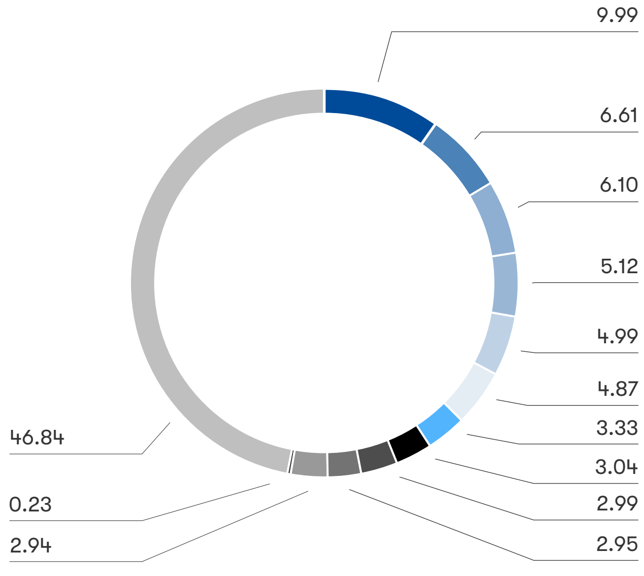
Stable shareholding structure GRI 102-25

Our largest institutional investors continue to include numerous well-known asset managers and pension funds from Germany and abroad with a long-term investment horizon. Many of them have been Instone shareholders since our IPO and some of them further increased their stake in Instone last year. We view this as a very positive development as their investment philosophy fits very well with our long-term success-oriented business model. In addition, major investors specialising in the real estate sector have been added as shareholders. 100% of our shares remain in free float as defined by Deutsche Börse.

MAJOR SHAREHOLDERS

As of 31/12/2019

Percentage in %



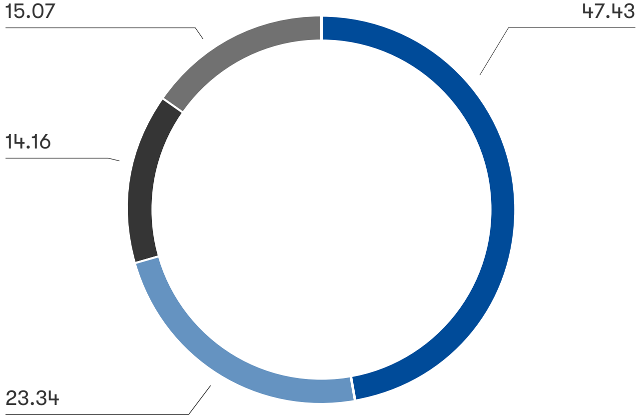
(Source: Voting rights announcements according to the German Securities Trading Act (Wertpapierhandelsgesetz))
Fidelity, Janus Henderson Group plc, TT. Rowe Price Group, Morgan Stanley, The Goldman Sachs Group, Inc., The Capital Group Companies, Cohen & Steers, Amundi AM S.A., AFFM S.A., DWS Investment GmbH, Moore Capital Management, LP, Bank of America Corporation, Others

As of 31 December 2019, institutional shareholders accounted for 81% of the total number of shares. Of these institutional investors, the holdings attributable to Anglo-Saxon shareholders decreased slightly year on year from 73% to 71%, while the ratio of shares held by German investors increased steadily from 11% to 14%. In addition, with a share of 14%, a larger group of institutional shareholders still comes from France. GRI 102-5

INSTITUTIONAL INVESTORS

Percentage in %

As of 31/12/2019



(Source: IHS Markit)
■ Great Britain & Ireland ■ North America
■ Germany ■ Other

Annual General Meeting confirmed agenda items

The Annual General Meeting of Instone Real Estate Group AG took place on 13 June 2019 in Essen, Germany. The shareholders present at the meeting represented 67.30% of the share capital. All agenda items were accepted with a large majority. Among other things, Thomas Hegel and Dietmar P. Binkowska were elected to the Supervisory Board. They replace the two representatives of our former shareholder ActivumSG, which ceased being a shareholder in September 2018. With their extensive experience, the two new members of the Supervisory Board will make a significant contribution to the continued successful development of our Company.

Significant expansion of investor relations activities

In the past year, we have further expanded our communication with our shareholders, financial analysts and all other interested capital market participants. In total, our Management Board conducted 13 roadshows in Europe and North America and participated in seven investor conferences. We also met numerous private investors and presented our Company at investor forums. As part of regular financial reporting, conference calls were also held regularly with our Management Board, financial analysts and investors. We also organised numerous tours for investors and presented the projects of our regional branches.

Last year, we also successfully held our first Capital Markets Day in London. In doing so, we were able to explain our operational business development and strategy to the more than 30 participants and also provide an overview of our projects in the Berlin and Rhine-Main regions.

In 2020, we will continue our investor relations activities with a high degree of intensity and provide the capital market with regular and transparent information about the business development and the strategic orientation of our Company. Among other things, we will be hosting another Capital Markets Day.

The latest corporate information, such as presentations, financial reports, and press and ad-hoc announcements is also available on our ↗ Instone Website under Investor Relations.

Appropriation of profits

Management Board and Supervisory Board propose to the Annual General Meeting on 9 June 2020 that payment of a dividend be waived and the net profit of Instone Real Estate Group AG of €17,642,170.58 for financial year 2019 be carried forward in full.

We would also be happy to speak with you personally. Contact us:

Thomas Eisenlohr
Head of Investor Relations
Telephone: +49 201 45355-365
Fax: +49 201 45355-904
Email: investorrelations@instone.de

Basic information about the shares

Initial listing	15/02/2018
Issue price	€21.50
Closing price at the end of 2018 (Xetra)	€16.60
Closing price at the end of 2019 (Xetra)	€22.05
Total number of shares	36,988,336
Registered capital	€36,988,336
Free float	100%
ISIN	DE000A2NBX80
WKN	A2NBX8
Ticker symbol	INS
Share type	No-par value bearer shares
Stock market	Frankfurt Stock Exchange
Market segment	Regulated market (Prime Standard)
Indices	S DAX

COMBINED MANAGEMENT REPORT

BUSINESS MODEL AND ORGANISATIONAL STRUCTURE

GRI 102-4

Instone Real Estate is one of Germany's leading residential developers and is listed on the Prime Standard of the Frankfurt Stock Exchange. Instone Real Estate AG has been listed on the SDAX since 29 August 2019. The Company develops attractive residential and apartment buildings and publicly subsidised residential construction, plus designs modern city districts and refurbishes listed buildings. These are marketed to owner-occupiers, private investors with the intention of leasing and institutional investors. Over the course of 29 years, we have consequently realised more than one million square meters. We have 375 employees at nine locations across Germany. As at 31 December 2019, the project portfolio of Instone Real Estate included 55 development projects with an anticipated overall sales volume of approximately €5.8 billion and more than 13,715 units.

As of 31 December 2019, approximately 87% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich and Stuttgart) and approximately 13% in other prosperous medium-sized cities. B and C locations in metropolitan regions are becoming more and more significant in covering the general demand for living space.

COVERAGE OF THE ENTIRE VALUE CHAIN

Instone Real Estate is one of the few stock-market listed residential real estate developers in Germany covering the entire value chain see Figure and is therefore involved in more than pure construction activities. The Company offers a fully integrated platform across Germany which covers land acquisition, land development, concept planning and construction management through to marketing and sales.

Each Instone location has on-site teams responsible for acquisition, planning, building, marketing and sales management while strategic decisions are coordinated and implemented jointly with headquarters.

THE INSTONE VALUE CHAIN

Instone Real Estate has integrated risk management and uses reporting and planning tools to minimise development risks. The German Real Estate Agency (MaBV) gives Instone Real Estate the option of contractually agreeing instalment payments on the basis of construction progress for residential units sold to owner-occupiers or private investors planning to lease the units which significantly reduces the financing risk for Instone Real Estate.

The number of newly acquired and ongoing projects shows the continuous investing activities which have taken place in the past financial year, including the acquisition of land and real estate with an anticipated total sales volume of €1,284 million after completion of development.

Instone Real Estate's activities are supported by the continued high demand for housing.

Instone Real Estate Group AG acts as a strategic management holding company; the major subsidiary Instone Real Estate Development GmbH is responsible for the operational project business.

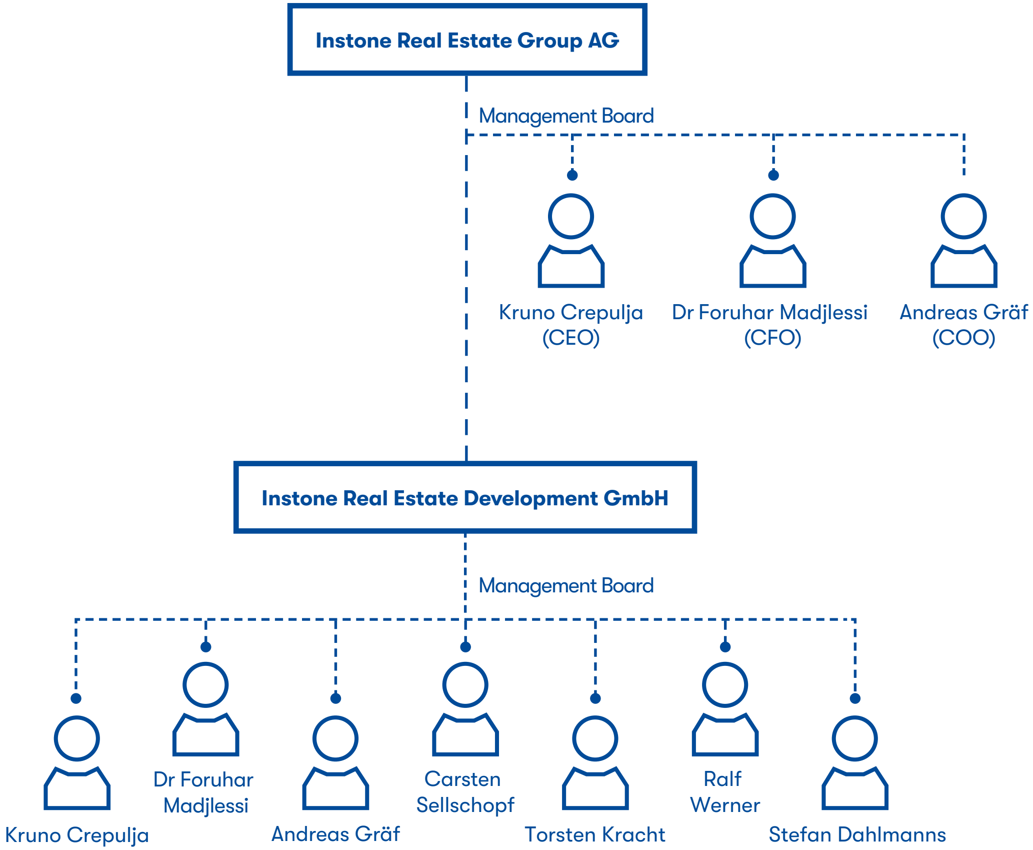
NUMBER OF EMPLOYEES

Including the employees of foreign subsidiaries, 375 people were employed in the Instone Group as of 31 December 2019 (previous year: 311 employees).

At the end of 2019, one employee was working for us at each of our international locations in Luxembourg and Austria. GRI 102-8

Further information on the subject of employees can be found in the "Sustainability" chapter from page 41 onwards.

ORGANISATIONAL STRUCTURE OF INSTONE REAL ESTATE (AS OF: 1/1/2020) GRI 102-18



MARKET ENVIRONMENT AND REGULATORY CONDITIONS

POLITICAL AND REGULATORY ENVIRONMENT

Real estate development is also dependent on the political environment, the regulatory framework and public approval. In recent years, the housing market has been more involved in the current political and public debate. This is mainly due to the continued high demand for housing and demographic development, as well as migration into Germany, but also in particular within Germany, which both lead to a long-term shortage of housing in the metropolitan regions. Together with the policy-makers and administration, Instone Real Estate sees itself as responsible for developing solutions. We see our greatest contribution as the creation of housing. Instone Real Estate continuously monitors the constantly changing legal situation and aligns its corporate activities with new legislation.

We maintain an intensive dialogue with local authorities and those at national level. In this way, Instone Real Estate contributes suitable measures to maintain or improve the political environment for the development of housing. For example, our CEO, Kruno Crepulja, is Deputy Chairman of the Central Real Estate Committee (ZIA).

Instone Real Estate takes its corporate responsibility seriously with the creation of long-term living space which is both liveable and affordable. Thanks to active and transparent communication and credibility, our project developments are supported by the public in most cases. Instone Real Estate communicates very openly in construction plan processes and involves all relevant stakeholders at an early stage. For example, *Bürgercafés*, an event where local citizens, councillors and mayors come together over coffee and cake, were organised at the start of the "Schumanns Höhe" project development planning procedure in Bonn. This helped ascertain the expectations of future neighbours so that they could be incorporated into the process. This led to there being no opposition to the subsequent procedures under public law. GRI 102-15

The obligations of urban development contracts with communities are met through Instone Real Estate's value chain itself; as such, in its current projects, Instone Real Estate is creating 1,555 nursery places. Critical considerations of our projects are, of course, taken seriously. In such cases, we actively seek dialogue with the stakeholders and examine the points of criticism.

"Berlin rent cap"

The planned new law on the capping of rent for non-price-linked flats for rent in apartment buildings (excluding new housing construction) entered into force on 1 March 2020. The key content of the current draft bill includes the introduction of rent caps, a prohibition on raising rent for five years and limiting modernisation fees. The legal tenability of the law introduced by the Senate of Berlin and its compliance with the German constitution is disputed amongst experts.

Instone Real Estate only sees the "Berlin rent cap" having a very minor influence on its own business model. As a residential developer, Instone Real Estate does not have its own rental portfolio. In the current draft bill, housing construction is exempt from the rent cap. For this reason, the "Berlin rent cap" cannot have any direct effect on our business activities at all, but will have an indirect effect, for example due to uncertainty concerning any further tightening of tenancy law which could lead to restrictions in second lettings.

However, these indirect effects on Instone Real Estate would also be extremely low. The current Berlin share in the highly differentiated regional project portfolio is only 5.0%. If the projects which have not yet been sold are included, the Berlin share in the entire portfolio is only 1.9%.

Instone Real Estate sells its new builds to three groups of purchasers: owner-occupiers, private investors and institutional investors. It is expected that the owner-occupier group, who will live in the property themselves, will not experience any changes as a result of the rent cap and other regulations but may experience a shortage of supply due to higher demand. For institutional buyers who continue to want to invest in property in Berlin, Instone Real Estate furthermore sees the possibility that this will lead to a reallocation of investment volume away from existing property and into new builds. For residential developers such as Instone Real Estate, this can lead to increased demand in Berlin from the institutional side as well.

Intensification of rent controls

Since 2015, the federal states have been having to introduce the Mietbremse or rent control for areas with an overstretched housing market for a period of five years. In October 2019, the German Federal government decided that the Mietbremse should be extended to the end of 2025 and intensified in terms of what it can do. The current law on "extending and improving regulations regarding permitted rental increases at the start of a rental" ensures that rent in cities with strained housing markets (currently 336 municipalities) may only be increased by 10% over the usual local comparative rent even beyond 2020.

What the current law newly stipulates is that tenants should also be able to claim overpaid rent retroactively. In addition, the requirement to give notice of defects is being simplified. In the future, an email will also be sufficient.

Further planned changes to the tenancy law relate to a draft approved by the Cabinet in September for a longer period of consideration for the local benchmark rent. In future, a consideration period of six years is to be considered when determining the local benchmark rent. Under the current scheme, the rents which have been agreed in the last four years are included in the calculation of the local benchmark rent.

Instone Real Estate also sees the intensification of rent control having only a very minor impact on its own residential developer business. The Mietbremse still excludes new flats (built after 2014), extensive renovations or higher rent already paid by the previous tenant. As Instone Real Estate does not hold any housing stock and housing construction is generally excluded from the law, the announced intensification will not have any direct impact on our own activities. Indirectly, the tightening of the law may lead to increased uncertainty among institutional and private investors. However, we estimate that, unlike letting agents, we will instead benefit from the intensification of the law. Institutional investors are expected to more strongly promote capital expenditures in new builds compared with existing housing.

Opportunities for intervention by the municipalities in the course of the planning process

Due to the political sensitivity of the subject of housing, cities and municipalities are now increasingly intervening in the development planning process. In the context of urban development planning, urban development contracts are a commonly used instrument in many municipalities. Urban development contracts can be used across various federal states and are used to carry out and prepare urban planning measures in accordance with the German Building Code (BauGB). The most important case groups for urban development contracts are listed in section 11 of the Building Code. This list is however not exhaustive, meaning that the permissibility of further urban development contracts is left open. It is important that urban development contracts are only concluded in connection with urban development planning measures. The Baulandbeschluss (German building land resolution) is another example of the increased intervention of municipalities in the development planning process. The regulations of the Baulandbeschluss take effect whenever a private property developer is instructed to prepare or modify development plans.

Through our nationwide branches and local contacts, we monitor and take into account possible changes in the development planning process at an early stage.

STRATEGY

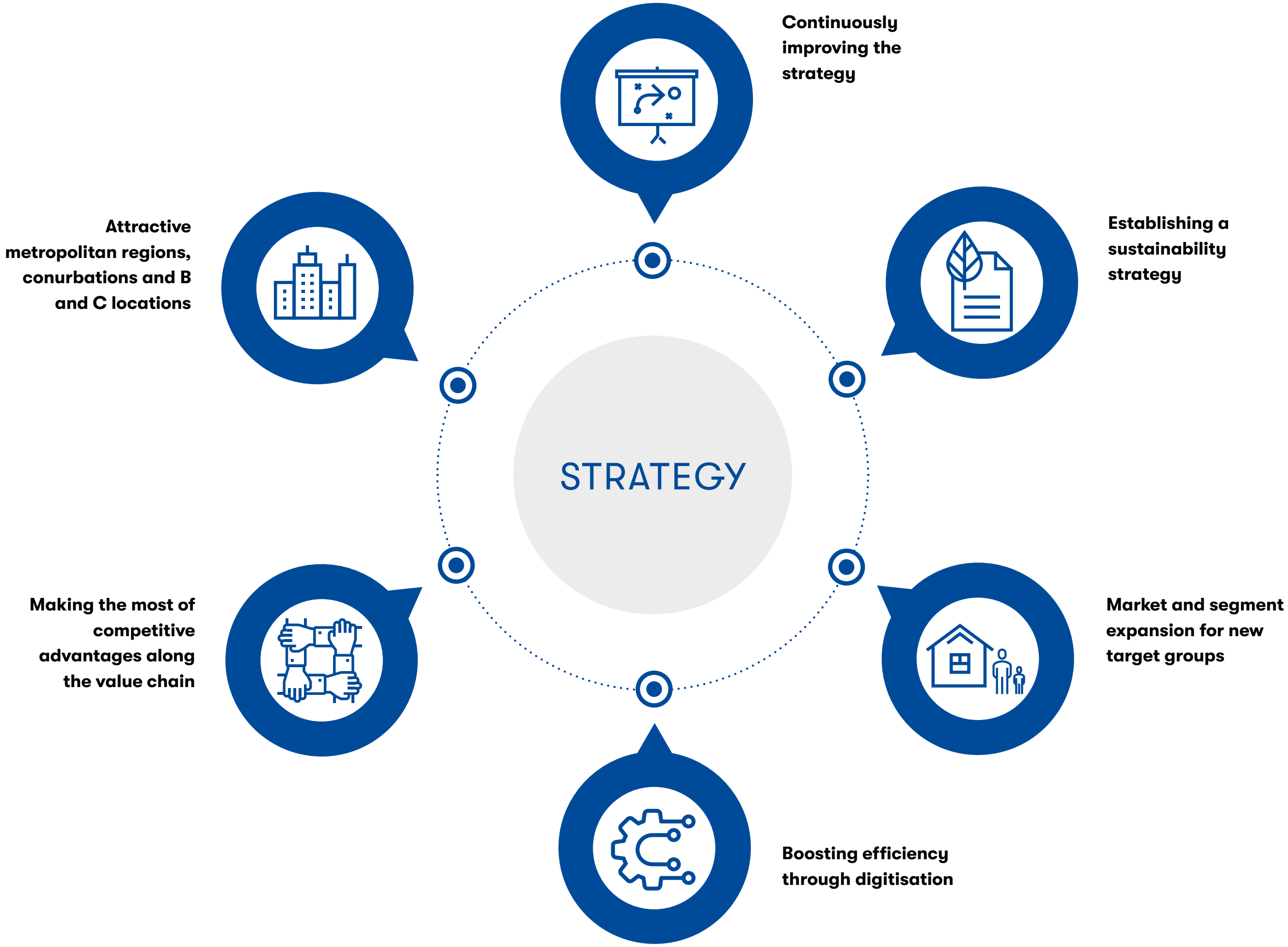
As one of the leading project developers for large housing projects, Instone Real Estate is implementing a clear strategy for profitable growth that exploits the highly attractive opportunities offered by the German market and at the same time serves all our stakeholders, such as shareholders, customers, employees and the social environment in which we operate. Our strategy comprises the following key elements GRI 103; GRI 103-1; GRI 103-2:

Continued focus on the most attractive metropolitan regions and conurbations in Germany

For our "traditional product", the individual development of flats for rent and owner-occupied flats, we focus on inner-city locations in attractive metropolitan regions with a structural surplus of demand. In our projects, we always also focus on sustainable neighbourhood development. With regard to the project sizes, we concentrate on large projects with an average volume of €100 million.

Taking advantage of competitive advantages based on differentiated expertise at all stages of the value-added chain

- When acquiring land, we prioritise "off-market transactions", i.e. on acquisitions outwith the usual bidding process. To do this, we must continuously maintain or expand our network.
- When realising projects, we are able to use our high degree of expertise in implementing the most economically attractive development rights.
- We support municipalities in procuring planning permission, in particular by developing urban planning strategies and proposals for action and in land use plan and development plan processes.



- → Contracts are predominantly awarded on an individual basis.
- → Direct access to our subcontractors and the network we maintain on this basis create competitive advantages, especially in times of high workload for developers.
- → For example, we secure construction capacity at an early stage. At the same time, we are creating a high level of cost transparency and security for our projects.
- → With regard to sales, we use our access to all relevant exit channels such as owner-occupiers, capital investors and institutional investors.
- → Thanks to this ability to sell, and depending on the market environment, we can quickly react to the current demand from the different buyer groups.
- → Boosting planning and building efficiency by continuously digitising processes.

Through the continuous digitisation and analysis of all processes, we can regularly identify potential for improvement and thus increase planning and building efficiency on a sustainable basis. For example, Instone Real Estate has developed a customer portal including a configurator and offers the customer many of the process steps in digital form.

Expanding the existing successful range of products with a new product for a target group not yet specifically tapped by Instone Real Estate.

Instone Real Estate benefits from increasingly attractive opportunities in B and C locations in and around the conurbations that are covered by our eight branches. To expand the market that we can reach as a whole, we are building on market study data. By combining modular planning, lean management and lean construction, product simplification, reduced underground work and the use of digital distribution channels, we can reduce construction costs and the duration of the project. In this way, we are addressing the high demand for flats for rent and owner-occupied flats for low to medium-sized income groups.

Establishing a sustainability strategy and sustainability management

Fair and responsible action with regard to economic, ecological and social sustainability is a matter of course for Instone Real Estate when optimising our processes. In the short-term, we want to anchor sustainability aspects even more strongly in our corporate strategy and consider the holistic performance of the Group by giving greater consideration to non-financial concerns. For this purpose, we are currently building up a sustainability management system and developing a sustainability strategy for the Company. In financial year 2020, corresponding targets and measures should be generated from this. The sustainability reporting should be based on the GRI standards "Core" option and also take into account ESG criteria. For this purpose, we are currently setting up the relevant reporting systems and will expand them gradually in future.

Accessible design

The integration of social aspects in our planning is of great importance to our Company. One of our main focuses is on a high market share of apartments with an accessible design. A current example of this is the project "Schumanns Höhe", which we are currently carrying out in Bonn.

CORPORATE MANAGEMENT

INSTONE GROUP'S CORPORATE MANAGEMENT SYSTEM

The goals of achieving sustainable growth while maintaining attractive project margins and ensuring successful corporate management are supported by Instone Real Estate's internal corporate management system.

System-based planning, reporting and controlling processes consistently form the foundations for the transparent derivation of growth opportunities and the necessary need for action. This is an important success component for further strengthening Instone Real Estate's competitive position.

Its internal corporate management is, in particular, based on the following elements:

→ Integrated management information system

→ Database-supported project management

→ Structured meeting system

→ Financial and real estate key performance indicators

→ Group-wide risk management

Integrated management information system

The integrated management information system (MIS) supports all management levels during planning and decision-making processes. An essential element is our "bottom-up" business planning which views the specific factors influencing property from a financial perspective.

The reporting system for the presentation of key developments relating to the real estate and financial key performance indicators is compiled on a monthly basis, supplemented by a consideration of the key project milestones and the development of liquidity.

Database-supported project management

Within the scope of its project management, Instone Real Estate relies on a database-supported planning and reporting system that is integrated into the wider system landscape. This supports the individual process steps for the monthly preparation of project forecasts and updates. It also serves as a central database for both operational level and higher-level corporate controlling. This makes it possible to identify potential and the need for action resulting from the updated project forecasts at an early stage with the support of tools.

Structured meeting system

The targeted exchange of information from the project teams up to Management Board level is an integral part of the Instone Real Estate corporate governance system. These include, among other things, the monthly project team and results meetings in the branches as well as the discussions with the Management Board regarding the status of the projects.

CORPORATE GOVERNANCE KEY PERFORMANCE INDICATORS

FINANCIAL AND REAL ESTATE KEY PERFORMANCE INDICATORS

Important corporate governance key performance indicators

In order to manage our sustainable economic success, we use profit-based key performance indicators (KPIs), adjusted revenue, adjusted gross profit margin and adjusted earnings before interest and tax (EBIT) as a financial performance indicator and the key volume of sales contracts figure in the real estate industry as a non-financial performance indicator.

Adjusted revenue

The key indicator for the performance of the Instone Group is adjusted revenue. Thanks to the application of period-based revenue recognition in almost all project developments in the Instone Group, adjusted revenues represent a key indicator for assessing the performance of the Company which is sufficient in our view. The adjusted revenue recognition similarly includes share deals and asset deals in analogous application of IFRS 15 in the determination, regardless of the decision of IFRS IC to exclude share deals from the revenue recognition relating to the period according to IFRS 15. In addition, adjusted revenue recognition is calculated without the effects of purchase price allocations.

Adjusted gross profit margin

Adjusted gross profit is determined from the adjusted revenue less material expenditure, changes in inventories, indirect sales costs and capitalised interest, but without considering the effects from purchase price allocations and share deals. The adjusted gross profit margin as a ratio of adjusted gross profit to adjusted revenues reflects the operating result after deducting all external costs that can be directly attributed to the project and places the focus on the projects' profitability.

Adjusted EBIT

The adjusted EBIT is determined from adjusted gross profit less platform expenses consisting of personnel expenses, other operating income and expenses and amortisations, but also adjusted by effects from purchase price allocations and share deals in addition to any one-off and extraordinary effects. In particular, significant expenses are adjusted for disposal losses from sales of tangible or financial assets or securities, unscheduled depreciation of tangible and financial assets, costs for acquisitions, merger losses, contractual penalties, demands for additional taxes from previous years based on audits, severance payments to the Management Board, and personnel reductions and restructuring to a greater extent, if these do not meet the strict criteria set out in IAS 37. The adjustment of significant income includes, in particular, income from capital gains from sales of fixed assets, compensation for damages, write-downs on fixed assets, reimbursements of taxes from previous years based on audits, reversals of provisions for extraordinary events and merger gains.

Volume of sales contracts

The volume of sales contracts includes all sales-related transactions, such as notarised real estate purchase agreements, individual orders from customers and rental income.

Other important key performance indicators

The management of Instone Real Estate also uses the following KPIs for analysis and reporting:

Current offer for sale

The current offer for sale is calculated on the basis of the unsold residential units in projects where sales have already started.

Project portfolio

The project portfolio value as of the reporting date is the anticipated overall volume of revenue from all projects listed in the portfolio. Instone Real Estate divides its project portfolio into three different groups depending on the stage of development: In the case of projects with a "pre-sale" status, the respective property is either purchased or secured, but there is still no sales release and thus no initiation of marketing. Following sales release and the initiation of marketing, projects are transferred to a "pre-construction" status. Projects with a completed start of construction have an "under construction" status until complete handover. When structural obligations are fulfilled and the entire sale[1] and the full transfer are completed, projects are removed from the project portfolio.

[1] Unit sale projects in which the share of units still to be sold is less than 2% are an exception.

Volume of new permits

The volume of new permits reflects the Company's success in acquiring new land and development projects. The internal approvals associated with the volume of new permits are based on secured property access.

Project gross profit or loss and project gross profit margin

The project gross profit margin consists of the project proceeds included in the adjusted revenue in the income statement over the project term, reduced by the relevant external project cost.

The relationship between the project gross profit and the total revenue proceeds of the project is used to calculate the project gross profit margin.

SUSTAINABILITY REPORT (UNAUDITED)

FAIR AND RESPONSIBLE TREATMENT IN TERMS OF ECONOMIC, ENVIRONMENTAL AND SOCIAL ASPECTS

As one of the leading residential developers in Germany, we at Instone Real Estate are aware of our corporate and social responsibility. The increasing trend towards urbanisation, growing cities and the creation of new living space for all social strata are among the key topics of our time. Compliance with environmental standards in housing is a must for us – as is taking into account social sustainability aspects when planning and implementing our neighbourhood developments and in our treatment of our employees. Instone Real Estate considers sustainability holistically and in the direction of all relevant stakeholder groups of the Company. In the case of corporate decisions, we comply with social and environmental criteria as well as economic criteria. Meeting deadlines along with financially secured and solidly planned projects create trust among customers, business partners and in society and form the basis for long-term company success. Instone Real Estate considers sustainable corporate behaviour as an integrated approach that affects all of the Group's business units and must be continuously evaluated and developed.

The aim of Instone Real Estate is to develop a sustainability strategy in financial year 2020 and to establish a sustainability management system with the corresponding reporting systems. In future, we intend to expand this continuously.

SUSTAINABILITY REPORTING AND RECORDING AT INSTONE REAL ESTATE

In recent years, Instone Real Estate has reported on the company's sustainability activities and non-financial performance indicators, such as recently in the Annual Report 2018, both in the image section and in the management report, however this is not yet based on the guidelines of the Global Reporting Initiative GRI.

Following the international trend, Instone Real Estate is basing its sustainability reporting on the currently applicable GRI standards for the first time in its Annual Report 2019. The main objective is to achieve greater transparency in the presentation of the key performance indicators, the Company's objectives and the strategy of Instone Real Estate in the area of sustainability, as well as better comparability with other listed and non-listed companies from the housing industry preparing reports according to the GRI standards. An overview of the GRI standard information used can be found on pages 160 f. in the "GRI contents index" and the individual GRI information can be found directly alongside the relevant text passages. GRI 102-51; 102-54

The topics and data presented in this annual report are based on an inventory of existing data at Instone Real Estate. The sequence of the topics presented below does not reflect any prioritisation based on materiality.

KEY FIGURES II GRI 417-2

	2019	2018
Confirmed corruption incidents and actions taken[1]	0	0
Legal proceedings for anticompetitive behaviour or price-fixing and monopoly practices[2]	0	0
Reported potential data protection breaches	1[3]	0

[1] Compliance disclosures, Instone Real Estate.
[2] Risk management disclosures, Instone Real Estate.
[3] Procedure suspended by the competent data protection authority.

Neither a substantive review nor an examination of the correct positioning of the GRI data was carried out by the Global Reporting Initiative. Instone Real Estate is aware that this list is not exhaustive. The company set itself the goal of further expanding the Group's sustainability reporting over the next few years and making it auditable. GRI 102-56

EMPLOYEES

Responsible treatment of our employees

Instone Real Estate's employees are critical to ensuring the Company's long-term success. Acting sustainably therefore means that our primary focus is the fair and responsible treatment of employees and the creation of an attractive working environment. Ongoing education and training, diversity, equal opportunities and the promotion of ideas and innovation are important building blocks, therefore, for the future viability Instone Real Estate. Employees who feel comfortable at Instone Real Estate and identify with their tasks are also the best ambassadors for customers. Employee and customer satisfaction are therefore closely related.

KEY PERFORMANCE INDICATORS I

	2019	2018
Total number of employees [1]	**375**	**311**
Total number of locations	**9**	**8**
Diversity of employees [1]		
Gender		
Women	161	131
Men	214	180
Age groups		
< 30 years	87	59
30 – 50 years	196	163
> 50 years	92	89

[1] Personnel disclosures, Instone Real Estate.

As of 31 December 2019, a total of 375 employees were employed in the entire Instone Group. We hired 70 new employees in the 2019 financial year. GRI 102-8

At the end of 2019, one employee was working for Instone Real Estate at each of our international locations in Luxembourg and Austria.

Statements on the total number of new employees and staff turnover in the reporting period can be found in the table below. GRI 401-1

LEFT VS JOINED

(employees)

	2019	2018
Joined	70	43
Left	29	27
Fluctuation rate (%)	10.22	10.71
FTE Ø	283.9	252.1

EMPLOYEES' REASONS FOR LEAVING

	2019	2018
Severance agreement	11	5
Termination by the employer	3	3
Termination by the employee	15	7
Termination of contract	0	1
Other reasons	0	11

Promotion of young talent

The promotion of young talent is of great importance at Instone Real Estate. For this reason, internal options are considered for vacant positions as a rule. This also applies to our executives. For example, at the end of the 2019 financial year, an organisational structural adjustment at management level was announced which is already being implemented at the start of the 2020 financial year. After the successful integration of Instone Real Estate Leipzig GmbH and in order to further optimise the organisational structure and prepare for further growth, new Managing Directors were appointed to Instone Real Estate Development GmbH, who were all appointed internally. GRI 202-2

It is also important for Instone Real Estate to boost the local community and to recruit new employees from all hierarchical levels – therefore also vacant positions for senior executives – from the respective region and/or federal state. At Instone Real Estate, this idea is also strongly linked to the topic of market knowledge and is therefore one of the success factors of the Company. As a housing developer, Instone Real Estate depends on its team knowing the local property markets in great detail. In the 2019 financial year, 33% (based on appointing three people overall) from the third management level were recruited from local markets (according to the GRI definition) or existing Instone employees. GRI 202-2

In order to attract talented young employees, Instone Real Estate is involved at universities and technical colleges – for example, Instone executives act as guest lecturers. In this way, we want to get students excited about courses that are important to our Company, such as construction engineering, architecture and real estate, at an early stage and offer practical, first-hand knowledge. The Instone Real Estate recruitment dinner was held again in June 2019, where Instone Real Estate invited 30 young students for them to get to know each other. In the 2019 financial year, Instone Real Estate supported eight Bachelor and Master theses, both financially and in terms of providing expert information (2018: seven Bachelor and Master theses). 24 of the 70 employees hired in 2019 were under 30-years-old. In the 2019 financial year, Instone Real Estate hired 37 interns and student trainees and nine apprentices.

Employee offers

We offer our employees a wide range of skilled employment relationships with full-time and part-time models, employee representation rights and remuneration models and salary structures in line with the market. Our employees also receive a range of additional offers and services, such as:

→ Healthcare measures

→ Professional development and promotion – internal and external further education,

→ Flexible working hours

→ Employee benefits

→ Bonus rules

→ Modern, digital infrastructure

→ Staff events

As Instone Real Estate is tariff-bound in the form of an in-house wage agreement, the entry-level salary for new employees is always above the statutory minimum wage in Germany. No significant proportion of employees at the Instone Group are remunerated based on the statutory minimum wage GRI 202-1. Of the 375 employees, 49.6% are bound by the in-house wage agreement. GRI 102-41

The balance between work and family is a central theme at Instone Real Estate. For this reason, employees are able to choose different part-time models or work from a home office. The modern, digitised work infrastructure at Instone Real Estate makes this option easier.

In the financial year 2019, 23 employees (2018: 22 employees) were on paternity leave, 15 of which were women and eight of which were men. We would also like to encourage men further to avail themselves of the paternity leave to which they are entitled. GRI 401-3

DAYS OFF IN LIEU

	2019	2018
Days off in lieu for educational leave	2	1
Days off in lieu for birth of a child	4	2
Days off in lieu for marriage	7	9
Days off in lieu due to death	4	12
Day off in lieu for house move	21	33
Individual days off in lieu	2	0
	40	**57**

Full-time employees at Instone Real Estate are granted three days of time off in lieu in addition to their statutory holiday entitlement, irrespective of their employment relationship (excluding the Management Board, Managing Directors and AG employees).

Additional leave of absence is granted in the following cases:

→ Marriage or registration of a civil partnership

→ Birth of a child with a registered civil partner or wife

→ Death of parents, spouses, registered civil partners or children

→ Severe illness of a family member living in the household

→ When moving home

In the 2019 financial year, 40 days off in lieu were used at Instone Real Estate (2018: 57 days off in lieu). GRI 401-2

Occupational health and safety

Instone Real Estate sets high standards on the health of employees and safety at work – be it in the office or on the construction site. MPLUS Management GmbH, a specialist for optimising a healthy and safe working environment, has been commissioned to supervise these areas. This service provider with many years of experience in consulting with companies on construction activities supports Instone Real Estate inter alia with regard to its annual workplace instructions and safety instructions on the subject of occupational safety. Operational instructions on safely handling safety hazards (for example ladders and electrical devices) can also be found on the company's intranet GRI 403-1; GRI 403-2. Instone employees have the opportunity to take part in various further education sessions in the field of occupational safety at the premises of the professional association for construction and other external suppliers responsible for Instone Real Estate GRI 403-5. The professional association for construction which appoints the company doctor, can be described as a occupational medical service according to the GRI definition, which contributes to identifying and eliminating dangers and minimising risks within the Instone Group. In addition to workplace inspections at all locations, G37 workstation inspections were conducted on a voluntary basis. G37 is an occupational medical check-up for workstations in order to prevent or detect injuries (vision problems, motor system complaints etc.) at an early stage. GRI 403-3

THOUSAND-PERSON QUOTA

	2019	2018
Number of occupational accidents subject to reporting	2	0
Thousand-person quota	8.54	0

Once per quarter, the Instone Occupational Health and Safety Committee meets with representatives of MPLUS, the Management Board, human resources, the works council and company doctor. The safety officer of the respective location will optionally take part in discussions on relevant topics and will take part in the working committee once a year. In addition, workplace inspections and risk assessments are carried out at regular intervals. Where appropriate, this will result in changes to the conditions at the workplace. New measures or changes in employees are communicated by the management of the relevant branch. GRI 403-4

We ensure through access controls on our construction sites that the only persons present are personnel of the commissioned companies and that the minimum wage laws are being observed.

In the reporting period, there were two occupational accidents that were subject to reporting in the entire Instone Group. In order to compare the frequency of accidents in companies and between different industries, the 1,000 person quota (TMQ) is used in operational accident statistics in Germany. This is comprised of the number of operational accidents that must be reported x 1,000 employees/number of full-time employees. For the reporting period, the 2019 financial year, Instone Real Estate therefore has a 1,000-person quota of around 8.5 – a very good value in comparison with the industry (comparison value: 2018: 53.07).

↗ www.dguv.de/de/zahlen-fakten/au-wu-geschehen/au-1000-vollarbeiter/index.jsp

There were no fatal accidents of Instone employees or on Instone Real Estate construction sites in 2018 or 2019. GRI 403-9

Instone Real Estate also offers a number of voluntary measures to promote the health of employees. These include individual, location-related health measures, such as free fresh fruit, fitness training or participation in sports events, such as company runs. In addition, non-tariff employees are able to take part in the “Bodyguard” health check from the age of 40 onwards. GRI 403-6

TRAINING AND FURTHER EDUCATION

Average number of hours for training and further education per year and per employee

	2019	2018
Employees	375	311
Further education in hours	2,102	2,445
Personal development per employee	5.6	7.9

The commitment of our employees, of course, also requires a good work-life balance. This is ensured by providing a flexible working hours’ honour system which leaves each individual a lot of freedom.

Training and further education

Instone Real Estate highly values the training and personal development of its employees. Among other things, we offer a range of opportunities for personal development. We ensure that managers develop an eye for their employees’ individual skills and actively promote these – by providing internal and external further education and training or even, if desired, by moving them into other areas of the Company.

In the 2019 financial year, Instone employees completed a total of 2,102 hours of further education (2018: 2,445); this is an average of 5.6 hours of further education per employee (2018: 7.9) GRI 404-1. Every year, executives conduct interviews with their employees to agree goals and to discuss their potential. Individual training measures are also decided together in these interviews. GRI 102-8

Further training opens up new perspectives. This is an integral part of Instone Real Estate’s human resources development. In addition to compulsory training in data protection and compliance, every employee receives €1,800 per year for tailored professional training.

DIVERSITY RATIO (MANAGEMENT LEVEL)

	Management Board		1st management level (Management Board)		2nd management level (authorised representative)		3rd management level (executives)	
	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage
Men	4	100%	3	100%	18	(78%)	2	(67%)
Women	0	0 %	0	0 %	5	(22%)	1	(33%)
Total	4	100%	3	100%	23	(100%)	3	(100%)

Diversity and equal opportunities

The Instone Real Estate Management Board set out core values of lawful and ethical conduct in a Group-wide Code of Conduct. This specifies existing duties and responsibilities and derives various codes of conduct on the basis of the law or existing official instructions. The code of conduct offers the employees orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. It also sets out values to which Instone Real Estate is emphatically committed. GRI 405; 406

This discusses the issues "Equal opportunities and banning of discrimination":

"Great potential lies in the diversity of employees. For this reason, Instone Real Estate believes in employing employees with different backgrounds and experience. All employees are called upon to create an atmosphere of respectful co-existence and to combat discrimination for reasons of racial or ethnic origin, gender, religion or belief, disability, age or sexual identity." GRI 405; 406

Pursuant to the German Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*), no incidents of discrimination were reported at Instone Real Estate during the reporting period GRI 406-1. Further information can be found in the "Compliance" chapter on page 77.

As of 31 December 2019, 20% of the members of the Supervisory Board of Instone Real Estate Group AG were female; there are currently no women on the Management Board. There are no women on the first management level (managing directors). As at 31 December 2019, on the second management level (authorised representatives) the proportion of women was 22% and on the third management level (executives) the proportion of women was 33%, with a total proportion of women in the workforce of 43%. GRI 405-1

More detailed information on the topic of diversity on governance bodies GRI 405-1 can be found in the Corporate Governance section on page 97 – 104.

The ratio of the basic salary and remuneration of women to men is as follows GRI 405-2:

BASIC SALARY RATIO

As a percentage of the average basic salary

	1st management level (Management Board)	2nd management level (authorised representative)	3rd management level (executives)	Employee
Men	100	102	111	113
Women	0	92	79	84

The freedom of association of employees and the formation of works councils are regulated by law in Germany. In the case of Instone Real Estate, there are three works councils and one general works council. Instone Real Estate is not aware of the right to freedom of association or collective bargaining being breached or under threat at any of the company's suppliers during the reporting period. GRI 407; 407-1

SOCIAL RESPONSIBILITY

Active cooperation

As one of the largest German residential developers, Instone Real Estate also assumes responsibility in numerous public and private organisations and associations.

The Management Board, executives and employees intend to actively participate in shaping and supporting social, political and building law developments. We also want to protect the interests of customers and the real estate industry. The memberships, cooperations or partnerships listed below represent part of our well-developed network. GRI 102-12; 102-13

Instone Real Estate takes its corporate responsibility seriously with the creation of long-term living space which is both liveable and affordable. GRI 102-15

Compliance with human rights

We also demand compliance with our high requirements and standards from our business partners and suppliers. We intend to ensure this with the code of conduct for contractual partners and the code of conduct for Instone employees already mentioned. These important documents, for example, explicitly refer to the prohibition of child labour. Instone Real Estate does not tolerate child labour or any exploitation of children and adolescents. The minimum age for admission to employment must not be below the age at which mandatory schooling ends and may in no case be below 15 years of age. GRI 408; 408-1

Instone Real Estate Stakeholder Management

The stakeholder management at Instone Real Estate takes into account the varied influences of internal and external stakeholder groups. In order to systematically identify their requirements and to incorporate them strategically, the stakeholder approach is heterogeneous. The stakeholder groups see Figure are identified for each project or superordinate business topic in order to plan a targeted approach. Target group-specific activities and formats for the involvement of stakeholders are carried out by the operating sites or central departments on a regular basis or in response to certain events. These include:

→ Construction site communication (continuous)

→ Communication with authorities, municipalities, the State (continuous)

→ Communication with shareholders and analysts (continuous)

→ Employee feedback (every two to four years)

→ Management Board executive events (on a regular basis)

→ Press relations (continuous)

→ Capital market communication (continuous)

→ Specialist trade fairs, conventions and events (continuous/ad hoc)

→ Market studies (on a regular basis)

→ Image and media resonance analyses (continuous)

INSTONE REAL ESTATE STAKEHOLDER GROUPS

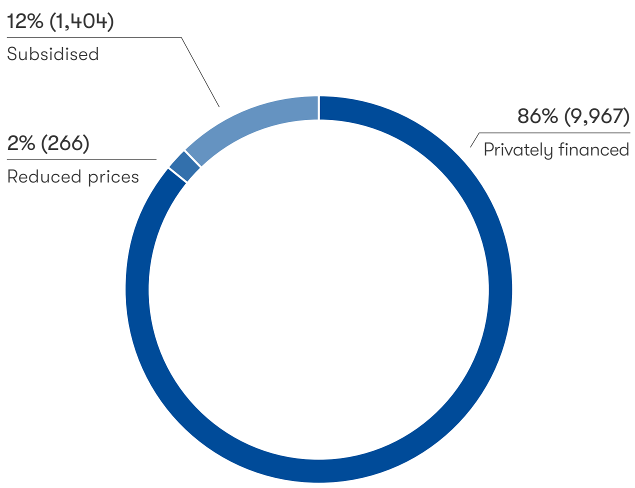
Instone Real Estate collects internal feedback in particular through employee surveys. In this way, we receive important information on employees' satisfaction and commitment, and information on desired improvements. An Instone Real Estate employee survey was conducted throughout the company in the reporting year in which approximately 70% of employees took part. Measures were assessed and established in the new reporting year. GRI 102-40

Social factors of Instone housing projects

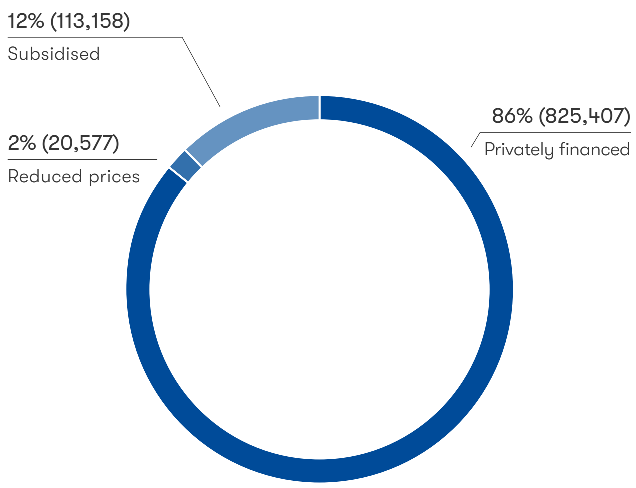
The construction of new flats and entire city neighbourhoods is accompanied by a wide range of impacts on the environment and society. In addition to the development of residential units, Instone Real Estate also makes a major contribution to the development of subsidised urban district developments within the context of neighbourhood developments. As at 31 December 2019, approximately 1,700 of the 13,700 units of Instone's project portfolio (sold and unsold housing units of the 2019 project portfolio) were designed as flats bound by social benefit prices see adjacent figures. We think it is important to create mixed new neighbourhoods that are attractive to different population groups. This applies not only to different income groups, but also to different generations, such as in our Schumanns Höhe project in Bonn where we have integrated multi-generational housing and nursing homes. When developing a neighbourhood, it is important to Instone Real Estate to ensure that the needs of future residents and the surrounding neighbourhoods are identified and considered as well as possible. As a result, Instone Real Estate endeavours to also consider the need for green relaxation spaces, playgrounds, nurseries, schools or even a single provider in the neighbourhoods. GRI 203; 203-1

An increasingly important topic in the development of large neighbourhoods is the provision of social infrastructure, such as the construction of child day-care centres, participation in the costs of new school buildings, accessibility by road and the promotion of alternative mobility services.

HOUSING GRI 203-2
in units



HOUSING AREA GRI 203-2
in m²



Instone Real Estate – a reliable partner

Our many years of experience make us a reliable partner for the public sector, private apartment purchasers and long-term institutional housing investors, such as pension insurance companies and pension funds. One of our core competencies is obtaining planning permission. In the case of Instone projects, our experienced experts support the municipalities closely with obtaining planning permission. In this context, planners and architects discuss with the local authorities the form which construction law should take. Municipalities are responsible for the public procedures and are obliged to inform the general public. This usually takes place at public meetings and presentations to the public. Instone Real Estate has a presence here, speaking and responding about the topics raised and encouraging dialogue. Instone Real Estate proactively informs customers and neighbouring residents about the status of the relevant construction project; customers receive detailed information about the project in the context of broker and developer regulations and neighbouring residents are informed about the possible impact on them. This partly occurs, especially in large construction projects, via physical events on site, such as a citizens' information event for neighbouring residents and interested parties, and also via the Group's own websites, where status reports and important information relating to the construction are published. Instone Real Estate also informs the general public via press releases that we issue both to regional and national media and specialist media on a regular basis. GRI 102-43

Construction activities may lead to restrictions (such as traffic restrictions), emissions or noise pollution for local communities and neighbours. In addition to the information provided to neighbouring residents, as already discussed, we coordinate with municipalities on topics relating to construction site logistics and try to the best of our ability to respect neighbourhood concerns, such as arrival and departure times of commuter traffic. Restricted working hours are regulated by law for noisy work. We try to protect local residents from dust emissions to the best of our ability, e.g. by using dust-binding agents, such as water or protective screening. In doing so, we are not just obliged as the building developer to protect third parties pursuant to the German Federal Emissions Protection Act (*Bundesimmissionsschutzgesetz*) but also of course to protect persons employed on construction sites. GRI 413-1

Security

In addition to securing the land with fencing and using security services to secure the construction site, Instone construction sites are also fitted with protective nets on scaffolds, covered footpaths and sign postage to minimise safety risks. GRI 416-1

ENVIRONMENT

When it comes to the environment, Instone Real Estate is aware that there is a great need to create a sustainability management system, including appropriate reporting structures. These are gradually being expanded with the forthcoming business reports in line with the strategy.

Materials

In our construction projects, we only use materials that have corresponding approvals in Germany and that comply with the legal requirements. In all aspects affecting the construction site, it must always be noted that Instone Real Estate acts as a building developer and not as a construction company. GRI 416-1

Waste and recycling

In terms of waste reductions in construction work and the recycling of building materials, we work together with specialists. For every individual building project, we commission special companies to be responsible for rubbish management and to ensure that rubbish is sorted and not mixed and that it is recycled. GRI 306

Brownfield developments and biodiversity

One of the major current debates in all construction projects, not just in housing, relates to the new natural surface sealing. Surface sealing or soil sealing means covering the natural soil floor revealed during construction work. The majority of Instone projects are not carried out on greenfield sites, but instead on former industrial sites and areas earmarked for redevelopment that are reassigned to residential use. Examples of this include the major "Kleyerquartier" project in Frankfurt am Main with over 1,200 residential units which is being built on the former Avaya offices, or the "FRANKLIN-Quartier" project in Mannheim, which is being carried out on a former US Armed Forces military site. With regard to the restoration of historical monuments, we use the existing building material and convert the listed building into housing. An example of this is the "Theaterfabrik" project in Leipzig. GRI 304

BROWNFIELD DEVELOPMENTS*

Projects	Site area	Living space
31	782,178 m²	690,157 m²

*In relation to current projects.

As at 31 December 2019, approximately 31 projects from the current development portfolio are planned on already sealed areas, meaning only few new areas are sealed. In each project, Instone Real Estate provides ecological compensation areas that have at least the same biodiversity, but generally have significantly greater biodiversity. In general, Instone Real Estate builds urban areas in which there is no or very little wildlife. Measures are coordinated with the nature conservation authorities responsible when there is evidence that wild animals are present. Although it is not the general rule, there are projects that occur on an area where there are indigenous animal or plant species that are on the Red List of the International Union for Conservation of Nature (IUCN) or on national lists of protected species. This commonly relates to bat species. One example is the "Wohnen am Safranberg" project in Ulm where pipistrelle bats were found. In consultation with nature protection authorities, compensation areas are agreed in unused subcellars, access created for animals through available light shafts and artificial habitats, known as bat bricks, created GRI 304-2; 304-3; 304-4

Close cooperation with nature conservation authorities, landscape planners and, where appropriate, nature protection associations, as well as the setting a sustainable catalogue of measures formed a basis for including biodiversity aspects in the planning of construction projects. Measures here are varied and range from considering bird breeding seasons and bat activities to planning the construction schedule and revising, mounting nesting boxes for certain species or promoting bee settlements to the building of green roofs for rainwater retention (for sewer relief).

Energy consumption of properties used by Instone

An energy audit in accordance with DIN EN 16247-1:2012 was carried out in 2016 by TÜV Rheinland for Instone Real Estate (at that time still operating under the name of formart). The new audit has already been discussed with TÜV Rheinland for 2020. GRI 302-5

Vehicle fleet

The Instone vehicle fleet consists of 125 vehicles (vehicles from the Leipzig site have not been recorded). Average CO_2 emissions were 122 g/km and average fuel consumption was 4.9L/100 km as of 31 December 2019. There is no comparison value for 2018. In future, this value will be included in the reporting system. The breakdown according to CO_2 emissions and type of fuel can be seen from the following figures. GRI 302-1; 305

FUEL ALLOCATION OF THE FLEET

Fuel	2019
Diesel	69.6% (87)
Petrol	28.0% (35)
Hybrid	2.4% (3)

CO_2 VALUE OF THE FLEET

CO_2 emissions	Number of vehicles in 2019
<101 g/km	7
101 – 120 g/km	45
121 – 140 g/km	55
141 – 160 g/km	15
161 – 200 g/km	3

GOVERNANCE

Combining Corporate Governance, compliance and sustainability is of great importance to Instone Real Estate. In addition to the content reported in the “Sustainability” chapter, Instone Real Estate makes detailed and comprehensive statements for this purpose, in addition to the “Taxes” subchapter below, in particular on the following areas:

→ Risk management page 71 ff.

→ Corporate Governance page 97 – 104

→ Compliance page 77 f.

→ Corruption page 77 f.; page 104

Tax

The Internal Tax department is in regular contact with the tax authorities. It is very important to us to always be cooperative and transparent when working with the tax authorities. The financial years of the key companies of Instone Real Estate were fully audited by the financial authorities of the tax administration department. This guarantees a continuous dialogue with the competent tax authorities. The tax return is always completed taking into account the applicable laws of the respective jurisdiction. If there are tax-related options, an attempt is always made to utilise these options in accordance with the statutory provisions and taking into account the economic and business consequences for the Company, and taking the opinion of the competent authority into account.

As with all other risks, tax risks are documented, managed and monitored within the risk management system. In order to counter possible wrongdoing, our employees have the opportunity to report possible unethical or illegal conduct anonymously, including in relation to taxes, via the whistle-blower system. Within the Management Board, responsibility for tax lies with the CFO.

Instone Real Estate is located in the tax jurisdictions of Germany, Austria and Luxembourg, although no active operations are carried out in Austria and Luxembourg, but the post-completion issues relating to our former foreign branches are simply looked after there. One employee was employed at each location. GRI 207-1 to 207-4

ECONOMIC CONDITIONS

SOCIO-DEMOGRAPHIC DEVELOPMENT

According to the German Federal Statistical Office, around 83 million people were living in Germany at the end of 2018; this is the seventh consecutive year that the population has grown. Since 2011, growth of around 3.4% or just under 2.7 million people has been recorded.[1] This is primarily due to a migration surplus, that means more people move to Germany than from Germany to other countries.

The population growth in the Core Cities (A cities and Leipzig) is even more pronounced. The average growth here over the past seven years (including the forecast value) was 7.8%, more than twice as strong as in the Federal Republic as a whole. The highest growth rates were recorded in Leipzig at 13.6% and Frankfurt am Main at 13.4%. At 4.6%, the city of Hamburg has the lowest increase of the core cities, but it is still above the nationwide average.[2]

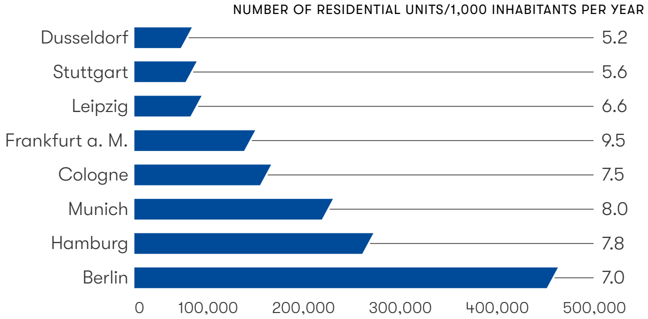
This trend is set to continue in the coming years – albeit no longer quite as pronounced. According to the current average forecast, Germany is expected to grow by a further 1.2 million inhabitants by 2030, i.e. by around 1.5%.[3] By contrast, the Core Cities, with a plus of 6.7% by 2030, have significantly higher growth forecasts than the national average.[3a]

The attractiveness of the core cities can be explained by the continuing megatrend of urbanisation. Around 77% of Germans already live in cities today. A forecast by the United Nations predicts that this proportion will rise to over 84% by 2050.[4] The 10.7 million inhabitants who lived in the A cities at the end of 2018 alone account for around 13% of the total German population.[3]

Population figures and number of households continue to increase

In addition to the population figures, the trend in the number of households constitutes a relevant key factor for the housing market in particular. Numerous social trends ensure that this figure is also increasing steadily. This is clear when looking at Germany overall: While the population grew by only 1.2% between 2008 and 2018[1], the number of households increased by 3.2% over the same period.[5]

HOUSING DEMAND FORECAST UNTIL 2035 IN THE EIGHT A CITIES



Housing demand forecast A cities (source: bulwiengesa AG)

The reasons for this are, among other things, the increasing trend towards single apartments and increasing life expectancy. The Federal Statistical Office anticipates a further increase in the proportion of single person households to at least 44% by 2035.[6] In most major cities, this figure is already over 50% today.[7]

The life expectancy at birth for girls was around 83 years and around 78 years for boys in 2018 – an average of five years above 1993 figures.[8]

As a result of these factors, there will also be an increase in demand for housing in German cities in the coming years and, to a greater extent, in the core cities.

SOCIO-ECONOMIC DEVELOPMENT

The German economy was on a clear growth course for ten full years. Starting in 2018 and continuing in 2019, growth has slowed significantly, but a broad and profound recession is still not expected. The fundamentals of the German economy are developing positively overall. According to the German Council of Economic Experts, real gross domestic product is expected to grow by 0.5% in 2019. An increase of 0.9% is projected for 2020.[9] While the growth in services and construction, which is primarily based on the domestic economy, continues, the industry continues to suffer from the weak global investment climate caused, among other things, by global trade disputes.[10]

At the end of October 2019, the number of employees subject to social insurance contributions was around 34 million, almost 500,000 more than in the previous year.[11] The A cities were able to show an even clearer growth in employment: In the first half of 2019, the number of employees here increased by 0.6% compared to 2018, whereas the number of employees in Germany as a whole increased by only 0.4% in the same period.[12]

Structural data 2019	Inhabitants in thousands[1]	Inhabitants 2009 – 2019 in %[1]	GDP in millions of euros[2]	GDP per capita in euros[2]	Available income per capita in euros annually 2019[1]	Unemployment rate in % (as of 12/19)[3]
Berlin	3,672	8.98	118	32,976	22,180	7.7
Dusseldorf	624	6.28	46	74,963	28,448	6.5
Frankfurt a. M.	763	17.75	63	85,861	27,449	5.0
Hamburg	1,849	6.73	105	57,803	26,583	6.0
Cologne	1,097	7.54	59	54,581	25,356	7.6
Leipzig	594	17.5	20	35,123	20,775	5.9
Munich	1,497	9.77	102	69,428	32,594	3.4
Nuremberg	536	n/a[4]	27[5]	70.722[5]	n/a[4]	4.2
Stuttgart	640	7.86	49	77,817	27,372	4.2
Top locations	**10,142**	**10.3**	**543**	**54,618**	**27,140**	**5.6**

[1] Ref. to forecast value 2019.
Source: Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019.
[2] Version 2017 Source: See footnote 2, page 54.
[3] Source: See footnote 32, page 54.
[4] Data is not collected or, in the case of residents, only the last 4 years are given.
[5] Most recent data collected in 2015.

Unemployment remains at a low level

At the same time as the increase in employment, the unemployment rate in Germany is declining. At the end of 2019, the unemployment rate was 4.9%, as in the previous year, one of the lowest levels in recent years.[13] Ten years earlier, it was at 7.8%.[14] The Core Cities and Nuremberg had an average unemployment rate of around 5.6% in December 2019, which was slightly above the national average. Munich, with 3.2%, has the lowest rate, while Berlin and Cologne have the highest figures with 7.6% each.[15]

The inflation rate was 1.5% in Germany in December 2019 and is therefore still below the target of just under 2.0%, which the European Central Bank (ECB) uses as a benchmark for good economic development. [16] The inflation rate is also continually declining in the Eurozone. In October 2019, it had reached a three-year low at 0.7%. One year earlier, it had still been 2.3%.[17]

DEVELOPMENT OF THE HOUSING MARKET

From January to November 2019, around 319,000 flats in residential buildings were approved in Germany. According to the Federal Statistical office, there were 1.3% more building permits than in the first eleven months of 2018. Of the building permits granted, around 275,000 and thus about 86% are attributable to the New Build sector. This value is constant with the same period in the previous year.[18]

The number of completions in Germany (new buildings and construction work on existing buildings) continues to increase. In 2018, a new record was reached with just under 286,000 completed flats, which is around 1,000 units and thus slightly above the previous year's figure. Compared with 2011, the figure increased by a whopping 56.0% or more than 100,000 units.[19] In the core cities too, construction activity has been expanded significantly in the last few years. Whereas the total number of construction completions in 2011 was still less than 20,000 residential units, in 2018, around 45,000 units were completed, representing an increase of around 125.0%. In Berlin and Dusseldorf, the number of completions in the same period was even by a factor of four or five.[20]

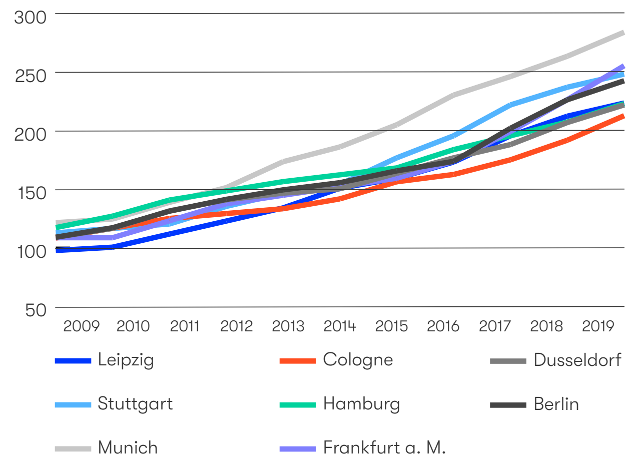
Since 2008, there has been an increase in the number of approved although not yet completed housing units in Germany. This so-called "construction overhang" increased between 2011 and 2018 from 10,300 to 123,000 units in the Core Cities alone, this was a rise of more than twelve times.[20a]

Construction lagged behind demand

Despite the fact that construction has been steadily increasing for years, completions are not sufficient to meet the demand for housing. According to the Cologne Institute of Economic Research's housing demand model in Germany, the annual completions (2016-2018) cover only 83.0% of annual demand (2016-2020). In the Core Cities, only 71.0% of the flats needed to balance out the market were built in the same period. According to the study, around 342,000 new flats will be needed throughout Germany in 2020, 63,000 of them in the Core Cities.[21] Due to high capacity utilisation in the construction industry, the shortage of skilled workers in the construction sector and lengthy planning and approval processes, a sudden reversal of the trend is not expected in the coming years.[21]

The fact that demand for housing continues to increase despite rising building completion figures is also underlined by the data of the current CBRE empirica Vacancy Index: For the past 12 years, the vacancy rate has been declining in Germany and reached a new record low in 2018 at 2.8%. In metropolitan areas, the active market vacancy rate is still significantly lower. The lowest rates were in Munich with 0.2% and Frankfurt am Main with 0.4%.[22]

AVERAGE SALES PRICES IN THE EIGHT CORE CITIES 2009 – 20191 (FIRST OCCUPATION)
In %



[1] Forecast figure for 2019.
Sales price development in the Core Cities (source: bulwiengesa AG).

Housing prices continue to increase

Continued strong demand also has an impact on housing prices and rent. According to the index of the Association of German Pfandbrief Banks, the price for owner-occupied residential property increased by approx. 48.0% between the third quarter of 2011 and the third quarter of 2019. On average, the annual growth rate since 2016 has been at a very high level of around 6.6%.[23] In the A cities, growth has been almost twice as strong since the third quarter of 2011, at a total of around 79.0%. However, since the end of 2018, a flattening dynamic of price increases in the A cities can be observed. While the growth rates in 2017 were still 11.5% on average, only 4.1% was achieved in the first three quarters of 2019. Berlin achieved the largest price increase compared with the same quarter of the previous year at 4.3%; Munich recorded the lowest growth at 2.5%.[24]

Another picture becomes apparent if just the New-build, Privately-owned Flats segment is considered. Here, too, there has been very strong growth in the core cities at 87.5% since 2011; in comparison with the overall market, however, this growth continues unabated. As a result, prices in 2019 increased to an average of around 6,200 euros per square metre, which was an increase of around 8% compared with the previous year. One year earlier, the growth rate was around 9%.[25]

More moderate growth in rent

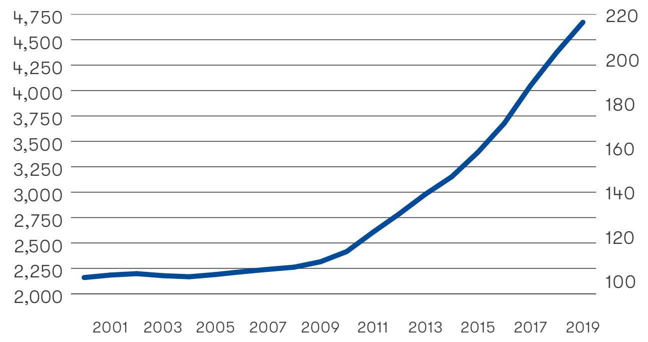
Rent prices, on the other hand, are developing in line with the prices of owner-occupied properties. Since 2012, the rent for first-time rental units in Germany has risen by 2.9% per annum; in the A cities the increase was 3.3%. However, rental growth is showing signs of slowing down in the A cities. In Berlin, for example, rent for flats in the New-build segment fell to €13.50 between 2018 and the first half of 2019 and therefore by more than 3%. This is the first decline since 2014.[26]

BULWIENGESA REAL ESTATE INDEX NEW BUILD RESIDENTIAL UNITS

AS OF: 4ST QUARTER 2019

Average figures in euros per m²

In %



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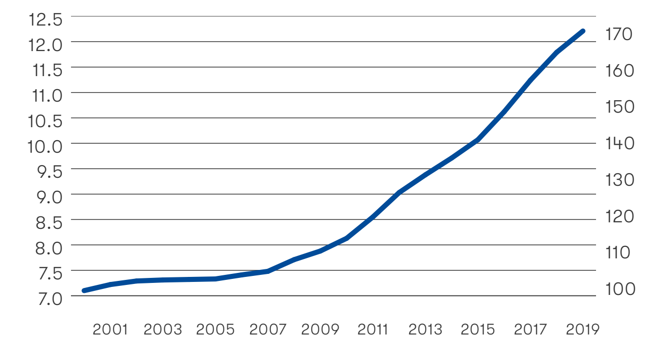
BULWIENGESA REAL ESTATE INDEX NEW BUILD APARTMENT RENTS

AS OF: 4ST QUARTER 2019

Average figures in euros per m²

In %



© bulwiengesa AG

With the trend towards increasingly high prices, this increasingly raises the question of the affordability of residential real estate for German households. According to the IVD Affordability Index from October 2019, the affordability of residential property in Germany remained stable in the first half of 2019 compared with the previous year. The index value is at a high level of 219.7 and corresponds to a relatively low budgetary burden of 11.4%.a This means that residential property in Germany is still affordable. Overall, however, the affordability of residential property has been decreasing slightly since 2015. This is due to the higher prices, especially in metropolitan areas, whereas interest rates have remained at the same level and there is still little room for a further reduction.[27] In October 2019, the interest rate for housing loans to private households with an initial interest rate for more than ten years was at a figure of 1.22%, reaching a historic low.[28]

The income of German households is rising steadily, but cannot keep up with the real estate prices. Compared with the described growth in prices for owner-occupied residential property of around 6.6% per year since 2016, wages in Germany have increased by only 2.7% since then.[29]

In the core cities, too, there is a similar picture. In Leipzig, monthly net household income increased by almost 30% from 2011 to 2018.[30]

Residential properties remain in demand

Interest rate developments are mainly influenced by the European Central Bank (ECB). At present, the ECB's key interest rate is 0%, and this means that the average interest for mortgage loans is at its lowest.[31]

Despite this development, low interest rates, rising rents and a lack of alternative, profitable forms of investment ensure that investments in residential real estate will continue to be attractive in the coming months.

Footnotes:

[a] Declaration on the IVD Affordability Index: The basic index assumption is that a budgetary burden of 25% is affordable as a result of the acquisition of real estate. This figure was intended to ensure that the burden on housing, i.e. including ancillary housing costs and reserves, is under 35-40% of household income. A value of 100 is exactly a budgetary burden of 25% as a result of financing costs. The current index value of 219.7 corresponds to a relatively low budgetary burden of 11.4%. The calculation of the affordability index is based on a number of assumptions that define an average property, an average buyer and average financing. This ensures that the affordability figures are comparable across space and time and that the affordability figures represent real transaction conditions. For example, a ratio of 25% is assumed based on the purchase price including incidental purchase costs. For more information, see: Source No. 27, p. 8 et seq. (Methodology).

Source:

[1] Federal Statistical Office (Destatis), Weekly Statistical Reports, Population and Labour – Monthly figures, published in the 2nd calendar week of 2020 (tab BEV1) www.destatis.de/DE/Themen/Querschnitt/Statistische-Wochenberichte/wochenberichte-bevoelkerung-xlsx.xlsx?__blob=publicationFile and Destatis: Population extrapolation based on the 2011 census – Technical series 1 Series 1.3 – 2017.

[2] Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019 (Key figures_forecasts_bulwiengesa AG IRE_GB 2019), population development and state statistical offices.

[3] bulwiengesa, Datei Einwohnerentwicklung in den letzten 10 Jahren für Deutschland (file population development in the last 10 years for Germany).

[3a] Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019 (Key figures_forecasts_bulwiengesa AG IRE_GB 2019).

[4] www.dsw.org/projektionen-urbanisierung/

[5] Federal Statistical Office www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Tabellen/lrbev05.html

[6] Federal Statistical Office, Development of private households until 2035 www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Publikationen/Downloads-Haushalte/entwicklung-privathaushalte-5124001179004.pdf?__blob=publicationFile (PDF, p. 10, trend variant).

[7] For example: City of Leipzig https://statistik.leipzig.de/statdist/table.aspx?cat=2&rub=9&item=220
City of Berlin: www.statistik-berlin-brandenburg.de/BasisZeitreiheGrafik/Bas-Mikrozensus.asp?Ptyp=300ageb=12011reg=BBBnzwer=5

[8] Federal Statistical Office www.destatis.de/DE/Presse/Pressemitteilungen/2019/11/PD19_427_12621.html

[9] German Council of Economic Experts (press release) www.sachverstaendigenrat-wirtschaft.de/pressemitteilung-jg-2019.html?returnUrl=%2FHash=97ca27842ed87a45a7ddef16479339fc

[10] Federal Ministry of Economics and Energy (press release) www.bmwi.de/Redaktion/DE/Pressemitteilungen/Wirtschaftliche-Lage/2019/20191216-wirtschaftliche-lage-in-deutschland-im-dezember-2019.html

[11] Federal Employment Agency: https://statistik.arbeitsagentur.de/Navigation/Statistik/Statistik-nach-Themen/Beschaeftigung/Beschaeftigung-Nav.html

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OVERALL STATEMENT ON THE FINANCIAL YEAR

Successful 2019 financial year

2019 was yet another successful financial year for Instone Real Estate. The targets set for the key management performance indicators for the 2019 financial year were raised in September 2019 based on the very positive development in the project business and were also met fully at Group level. The successful completion of the acquisition of the major "Westville" project in Frankfurt am Main and the sale of the entire project to an investor, which has already been successfully implemented, should be emphasised in this context. Even with other projects being implemented, the rather weaker revenue development in the first few months was more than offset by a strong final spurt. Instone Real Estate was thus able to take full advantage of the favourable market environment.

The increase in the project portfolio to €5,845.7 million (previous year: €4,763.2 million) results from additions of new project developments in the amount of €1,284.2 million, disposals in the amount of €228.8 million and revaluations in the amount of €27.1 million. Adjusted Group revenues improved by 98% to €736.7 million (previous year: €372.8 million). With an increase of 160%, adjusted earnings before interest and taxes (EBIT) rose to €128.9 million (previous year: €49.6 million). Adjusted Group earnings also fell due to positive tax effects in the financial year amounting to €105.6 million (previous year: €19.1 million).

Operating cash flow excluding payments for land acquisitions increased due to the positive net working capital development to €115.0 million (previous year: €32.1 million). Additionally, Instone Real Estate has financially secured its growth strategy for the next three years with newly concluded credit agreements to the amount of approximately €330 million in FY 2019.

Comparison of actual and forecasted development

COMPARISON OF ACTUAL AND FORECASTED DEVELOPMENT IN 2019

In millions of euros

		ACTUAL 2019	Adjusted forecast[1]	Initial forecast[2]
Revenues (adjusted)		736.7	700 to 750	500 to 550
Earnings before interest and tax (EBIT) (adjusted)		128.9	110 to 125	85 to 100
Volume of marketing		1,403.1	more than 1,100	450 to 550
Gross profit margin (adjusted)	in %	25.5	around 24	around 28

[1] See Q3 2019 quarterly statement, page 16.
[2] See 2018 annual report, page 77.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

CUMULATIVE KEY FINANCIAL PERFORMANCE INDICATORS

In millions of euros

	2019	2018
Revenues adjusted [1]	736.7	372.8
Gross profit adjusted	187.8	106.4
Gross profit margin adjusted [1]	25.5%	28.5%
EBIT adjusted [1]	128.9	49.6
EBT adjusted	107.8	41.5

[1] Financial performance indicators.

Expansion of the Instone Group

Last year, the Instone Group acquired the residential property development activities pooled in S&P Stadtbau from the Sontowski & Partner Group. As a result of this acquisition, seven project companies were consolidated for the first time on 1 September 2019.

Effects from company mergers

This takeover and the first consolidations of Instone Real Estate Development GmbH on 1 October 2014 and Instone Real Estate Leipzig GmbH on 31 December 2015 led to extraordinary effects from purchase price allocations in the consolidated financial statements of Instone Real Estate Group AG for 2019.

First-time application of IFRS 16 “Leases”

In the 2019 financial year, the Instone Group applied International Financial Reporting Standard 16 (IFRS 16) “Leases” for the first time. The effects of the first-time application arise for Instone real estate as a lessee in lease agreements.

In accordance with the principles of IFRS 16, a lessee must recognise an asset from the right of use in the amount of the lease obligation upon conclusion of a lease agreement. As a counter-position, the lessee records a lease liability equal to the cash value of the lease obligation. In the course of the first-time application, the lessee must value and record all existing lease agreements with the residual value of the lease obligation as an asset and as a lease liability. Prior to the first-time application of IFRS 16, these lease obligations were managed outside of the lessee’s balance sheet.

Consequently, the subsequent evaluations of the lease agreements also result in a change in the income statement. The lessee’s income statement shows the depreciation of the right of use of the leased asset and the expenses arising from the compounding of the lease obligation. Prior to the first-time application of IFRS 16, these ongoing payments of the lease obligations were recognised as other operating expenses.

As of 31 December 2019, on the basis of the first-time application of IFRS 16, lease assets in the amount of €9.7 million and lease liabilities in the amount of €9.8 million were included in the consolidated balance sheet. In the consolidated income statement, depreciation of €3.2 million and interest expenses of €0.3 million were incurred in the 2019 financial year, which were offset by a reduction of €2.9 million in expenses from lease payments. Adjusted EBIT fell accordingly by €0.3 million.

RESULTS OF OPERATIONS

The presentation of the results of operations in the consolidated financial statements of Instone Real Estate Group AG for the 2019 financial year reflects this business which is largely impacted by the project developments of the Instone Group. For this reason, the following adjustments have been made to the income statement.

As part of the adjusted earnings situation of the Instone Group, revenue recognition will continue to reflect share deals and asset deals in the same way and similarly in accordance with IFRS 15, irrespective of an expected decision by the IFRS IC to exempt share deals from period-based revenue recognition under IFRS 15.

Adjusted earnings before interest and taxes are intended to reflect the sustained operating profitability and are thus adjusted for one-off and extraordinary effects relating to other periods. In particular, the following significant expenses are adjusted for disposal losses from sales of tangible or financial assets or securities, unscheduled depreciation of tangible and financial assets, costs for acquisitions, merger losses, contractual penalties, demands for additional taxes from previous years based on audits, severance payments to the Management Board, and personnel reductions and restructuring to a greater extent, if these do not meet the strict criteria set out in IAS 37. The adjustment of significant income includes, in particular, income from capital gains arising from sales of fixed assets, compensation for damages, write-downs on fixed assets, refunds of taxes from previous years based on audits, reversals of provisions for extraordinary events and merger gains.

The ongoing amortisation of purchase price allocations due to the expansion of the scope of consolidation in the past year and in previous years are also adjusted in the income figures.

The calculation of the individual adjusted items results from the following items in the income statement:

→ Adjusted revenues are revenues adjusted for the effects of purchase price allocations and including effects from share deal agreements.

→ Project costs include the cost of materials less changes in inventories, indirect selling expenses and capitalised interest. It thus reflects the external costs allocated to the project developments.

→ Adjusted gross profit is the result of adjusted revenues less project costs.

→ Adjusted platform costs are the total of staff costs, other operating income, as well as other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project costs, adjusted for one-off and extraordinary effects.

→ Adjusted earnings before interest and taxes is adjusted gross profit reduced by the adjusted platform costs.

→ Adjusted investment and financial result is the total of the earnings from associated affiliates, other income from investments, financial income, financial expenditure and write-downs on securities classified as financial assets less capitalised interest.

→ Adjusted earnings before tax results from adjusted earnings before interest and tax less the adjusted investment and financial result.

→ Adjusted income taxes correspond to income taxes adjusted for the tax effects of purchase price allocations and one-off and extraordinary effects.

→ Adjusted earnings after taxes are the adjusted earnings before tax less the adjusted income taxes.

ADJUSTED RESULTS OF OPERATIONS

In millions of euros

	2019	2018	Change
Revenues adjusted	736.7	372.8	97.6%
Project expenses adjusted	– 548.8	– 266.3	106.1%
Gross profit adjusted	**187.8**	**106.4**	**76.5%**
Gross profit margin adjusted	**25.5%**	**28.5%**	
Platform costs adjusted	– 59.0	– 56.9	3.7%
Earnings before interest and tax (EBIT) adjusted	**128.9**	**49.6**	**159.9%**
EBIT margin adjusted	**17.5 %**	**13.7%**	
Investment and other results adjusted	– 5.0	– 0.4	n/a
Financial result adjusted	– 16.1	– 7.7	– 109.1%
Earnings before tax (EBT) adjusted	**107.8**	**41.5**	**159.8%**
EBT margin adjusted	**14.6%**	**11.5%**	
Income taxes adjusted	– 2.2	– 22.4	– 90.2%
Earnings after tax (EAT) adjusted	**105.6**	**19.1**	**452.9%**
EAT margin adjusted	**14.3%**	**5.1%**	

In the future, the Instone Group will report adjusted earnings before interest and taxes (EBIT) including the results of companies consolidated at equity, insofar as these are material for the adjusted earnings situation.

Revenue

In 2019 financial year, the Instone Group almost doubled its adjusted revenues by around 98% compared with the same period in the previous year. As of 31 December 2019, adjusted revenues amounted to €736.7 million (previous year: €372.8 million). Significant increases in marketing, in particular, the marketing of the major "Westville" project, boosted revenues in the fourth quarter of 2019 to €434.3 million (previous year: €150.3 million). Revenues in the fourth quarter attributable to ongoing projects with revenue recognition already begun in the first nine months of 2019 amounted to €151.6 million. Of the projects with first-time revenue recognition beginning in the fourth quarter of 2019, 10.7 million euros was attributable to projects with individual sales and 271.9 million euros to projects with global sales. The amortisation of the effects from purchase price allocations placed a burden of €6.4 million (previous year: 12.0 million) were incurred as a burden on the reported revenues.

REVENUE

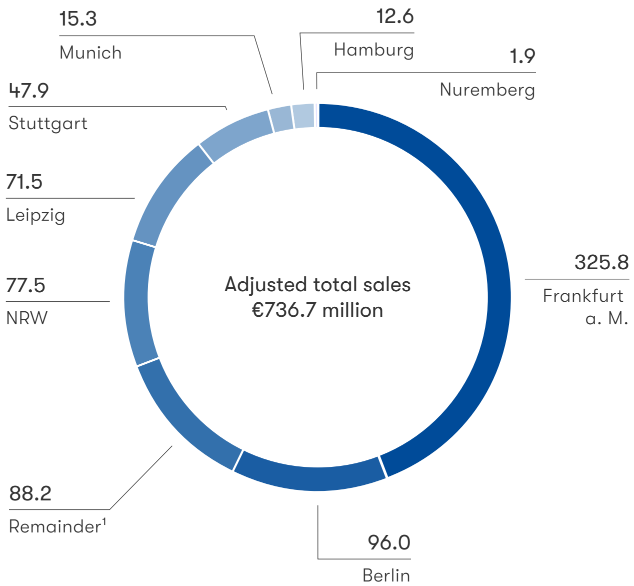
In millions of euros

	2019	2018	Change
Revenue	**509.5**	**360.8**	**41.2%**
+ Effects from purchase price allocations	6.4	12.0	– 46.4%
+ Effects from share deals	220.8	–	–
Revenues adjusted	**736.7**	**372.8**	**97.6%**

The adjusted revenues of the Instone Group are mainly generated in Germany and are spread across the following regions:

ADJUSTED TURNOVER BY REGIONS

In millions of euros



[1] Includes Wiesbaden (€55,3 million), Ulm (€3,9 million), Mannheim (€24,5 million), Hanover (€2,6 million) and Wolfratshausen (€1,7 million).

Project costs

At the end of the financial year, the adjusted project expenses also significantly increased to €548.8 million (previous year: €266.3 million). The two main influencing factors are the increase in the cost of materials and, conversely, the changes in inventories.

The increase in the cost of materials to €634.0 million (previous year: 320.4 million Euro) is based on the increase in construction activities for project developments and the purchase of land, which are neutralised by the changes in inventories in project expenses.

As of 31 December 2019, the changes in inventories were €277.3 million (previous year: €57.0 million) and thus significantly higher than in the previous year.

Indirect sales expenses allocated to the project expenses amounted to €3.1 million as of 31 December 2019 (previous year: €1.9 million). The adjustment of the capitalised interest in the changes in inventories of €3.2 million (previous year: €1.1 million) burdened the project effort.

PROJECT COSTS

In millions of euros

	2019	2018	Change
Project costs	**356.7**	**263.3**	**35.5%**
+ Effects from purchase price allocations	– 7.9	0.0	0.0%
+ One-off and extraordinary effects	6.3	3.0	110.0%
+ Effects from share deal agreements	193.7	0.0	0.0%
Project expenses adjusted	**548.8**	**266.3**	**106.1%**

Gross profit

Due to the increase in construction activities and the increase in revenues, the adjusted gross profit also rose significantly to 187.8 million (previous year: €106.4 million).

GROSS PROFIT

In millions of euros

	2019	2018	Change
Gross profit	**152.8**	**97.5**	**56.7%**
+ Effects from purchase price allocations	14.2	11.9	19.3%
+ One-off and extraordinary effects	– 6.3	– 3.0	110.0%
+ Effects from share deal agreements	**27.1**		
Gross profit adjusted	**187.8**	**106.4**	**76.5%**
Gross profit margin adjusted	**25.5%**	**28.5%**	

The adjusted gross profit margin – calculated from the adjusted gross profit or loss for the adjusted revenues – amounts to 25.5% (previous year: 28.5%). The moderate decline is due to the high share of earnings from the major "Westville" project with a low gross project earnings margin. The gross profit margin would have been 31.1% without the inclusion of the "Westville" share deal.

Platform costs

The adjusted platform expenses increased to €59.0 million (previous year: €56.9 million). In the financial year, one-off effects in the amount of 4.7 million euros were adjusted and removed from the platform costs. Of these effects, €2.5 million relate to expenses for the acquisition of S&P Stadtbau in the third quarter and subsequent effects of €2.2 million in connection with an acquisition in 2015. Furthermore, indirect costs of €3.1 million were reclassified in project expenses.

PLATFORM COSTS

In millions of euros

	2019	2018	Change
Platform costs	**66.8**	**59.4**	**12.4%**
+ One-off and extraordinary effects	– 7.8	– 2.5	211.6%
Platform costs adjusted	**59.0**	**56.9**	**3.7%**

At €37.3 million, personnel expenses rose slightly at the end of the 2019 financial year compared with the previous year's level (previous year: €33.6 million). This was mainly due to the higher number of employees of 375 (previous year: 311) and the corresponding increase in the FTE figure of 346.5 (previous year: 258.7). Other operating income increased to €9.0 million (previous year: €2.7 million) GRI 102-8. Other operating expenses rose in the same period to €33.0 million (previous year: €27.9 million). Depreciation increased to €4.1 million (previous year: €0.6 million). The first-time application of IFRS 16 "Leases" essentially resulted in a change in the recognition for ongoing lease payments from other operating expenses to the depreciation of assets from rights of use. The effect in the financial year from this depreciation amounted to €3.2 million.

Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax rose significantly to €128.9 million due to the positive business performance (previous year: €49.6 million).

EBIT

In millions of euros

	2019	2018	Change
EBIT	**86.1**	**38.1**	**126.0%**
+ Effects from purchase price allocations	14.3	11.9	20.2%
+ One-off and extraordinary effects	1.4	– 0.4	n/a
+ Effects from share deals	27.1	0.0	0.0%
EBIT adjusted	**128.9**	**49.6**	**159.9%**
EBIT margin adjusted	**17.5%**	**13.7%**	

Investment and financial income

In the financial year, expenses in the investment result from the change in minority interests of €5.8 million were incurred. These expenses relate to the subsidiary "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG". The Instone Group holds a 70% interest in this company, with a 30% stake being held by minorities.

The financial result decreased in the financial year to €–17.8 million (previous year: €–8.8 million). The increase in interest expenses is mainly attributable to the increase in debt in the financial year.

The financial result adjusted for the interest from project financing capitalised in the changes in inventories before the start of sales in the amount of €3.2 million (previous year: €1.1 million) and financial result adjusted for opposing one-off interest income on tax refunds of €1.5 million decreased to €–16.1 million (previous year: €–7.7 million).

Earnings before tax (EBT)

Due to the positive business performance and the improvement in the financing structure, adjusted earnings before tax increased significantly to €107.8 million (previous year: €41.5 million).

EBT

In millions of euros

	2019	2018	Change
EBT	**63.2**	**29.6**	**113.5%**
+ Effects from purchase price allocations	14.3	11.9	20.2%
+ One-off and extraordinary effects	3.2	0.0	0.0%
+ Effects from share deals	27.1	0.0	0.0%
EBT adjusted	**107.8**	**41.5**	**159.8%**
EBT margin adjusted	**14.6%**	**11.5%**	

Income taxes

The tax rate in the adjusted earnings situation in financial year 2019 was approximately 2% (previous year: > 50 %). The positive development was due on the one hand to the one-off tax effects from the previous year ceasing to apply, and on the other hand, to the approach to tax loss carryforwards from the parent company from previous years, which on the basis of the positive decision made by the Annual General Meeting in June 2019 could be used to conclude a control and profit transfer agreement with a subsidiary. This control and profit and loss transfer agreement was concluded on 11 September 2019 with retroactive effect on 1 January 2019 following its registration on 13 September 2019.

Income taxes in the reported result, due to the effects mentioned above, amounted to income of €6.5 million (previous year: expenditure €20.5 million).

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €105.6 million (previous year: €19.1 million). Before adjustment for effects from purchase price allocations, effects from share deal agreements and extraordinary effects, the profit after tax of €69.8 million (previous year: €9.0 million).

EAT

In millions of euros

	2019	2018	Change
EAT	**69.8**	**9.0**	**675.6%**
+ Effects from purchase price allocations	9.8	10.1	–3.0%
+ One-off and extraordinary effects	3.2	0.0	0.0%
+ Effects from share deal agreements	22.8	0.0	0.0%
EAT adjusted	**105.6**	**19.1**	**452.9%**
EAT margin adjusted	**14.3%**	**5.1%**	

Minority interests

In the financial year, the adjusted share of non-controlling interests amounted to €0.0 million (previous year: €2.9 million).

MINORITY INTERESTS

In millions of euros

	2019	2018	Change
EAT	**69.8**	**9.0**	**675.6%**
Group interests	69.8	6.5	n/a
Non-controlling interests	0.0	2.5	–100.0%
EAT adjusted	**105.6**	**19.1**	**452.9%**
Group shares adjusted	105.6	16.1	n/a
Non-controlling interests adjusted	0.0	2.9	–100.0%

Earnings per share

Adjusted earnings per share improved significantly in the 2019 financial year to €2.85 (previous year: €0.44). In the previous year, earnings per share were still weighed down by high negative one-off tax effects.

EARNINGS PER SHARE

In millions of euros

	2019	2018	Change
Shares (in thousand units)	36,988.3	36,988.3	0.0%
Group interests	**69.8**	**6.5**	**n/a**
Earnings per share (in €)	1.89	0.18	n/a
Group interests adjusted	105.6	16.1	n/a
Earnings per share adjusted (in Euro)	2.85	0.44	n/a

NET ASSETS

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	31/12/2019	31/12/2018	Change
Non-current assets	20.4	2.8	628.6%
Inventories	732.1	404.4	81.0%
Contract assets	219.0	158.5	38.2%
Other receivables and assets	34.7	32.9	5.5%
Cash and cash equivalents	117.1	88.0	33.1%
Assets	**1,123.4**	**686.6**	**63.6%**
Equity	310.2	246.9	25.6%
Liabilities from corporate finance	180.8	66.1	173.6%
Liabilities from project-related financing	414.7	199.5	107.9%
Provisions and other liabilities	217.8	174.1	25.1%
Equity and liabilities	**1,123.4**	**686.6**	**63.6%**

As of 31 December 2019, the Instone Group's total assets rose to €1,123.4 million (previous year: €686.6 million). This was mainly attributable to the increase in inventories. The main effects of this increase resulted from the successfully implemented purchase of land for the "Westville" project with inventories of €195.8 million and the acquisition of S&P Stadtbau GmbH, which was completed in the third quarter and increased inventories and contract assets by €76.4 million. In addition, goodwill of 6.1 million euros has arisen, which results in showing deferred taxes of 5.7 million euros. The increase also resulted from the first-time application of IFRS 16 as of 1 January 2019, on the basis of which leases are accounted for as "Assets from rights of use granted". On the basis of the first-time application of IFRS 16 on 1 January 2019, assets from granted rights of use were recognised on the balance sheet for the first time as of 31 December 2019 and amounted to €9.7 million (previous year: €0 million). In future, these assets will be depreciated over the useful life anticipated from the lease agreement.

As of 31 December 2019, inventories rose to €732.1 million (previous year: €404.4 million). This increase in inventories is mainly the result of the purchase of new land for future residential project developments.

CONTRACT ASSETS

In millions of euros

	31/12/2019	31/12/2018	Change
Contract assets	479.4	466.9	2.7%
Payments received	– 266.9	– 318.1	– 16.1%
	212.5	**148.8**	**42.8%**
Receivables from contract start-up costs	6.5	9.7	– 33.0%
	219.0	**158.5**	**38.2%**

Receivables from customers for work-in-progress (contract assets) already sold and valued at the current completion level of development rose to €479.4 million as of 31 December 2019 (previous year: 466.9 million) due to the increased completions. As of 31 December 2019, advance payments from customers amounted to €266.9 million (previous year: €318.1 million). The capitalised direct distribution costs decreased to €6.5 million (previous year: €9.7 million). The balance of these items results in an increase in the contractual assets to €219.0 million (previous year: €158.5 million). The total increase is due to the higher volume of global sales with prepayments not increasing proportionately.

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, inventories and contract assets as at 31 December 2019 still included write-ups of €46.0 million (previous year: €39.4 million) from purchase price allocations. Based on current estimates, the Instone Group expects these effects to expire in 2024.

Trade receivables in the financial year decreased to €8.3 million (previous year: €13.1 million). The portfolio of receivables is the result of transfers of housing to investors with only a few remaining services to be carried out.

The shares accounted for using the equity method, which also include participations in project companies, rose in the 2019 financial year from €0.2 million to €0.7 million.

Other current receivables and other assets decreased from €18.8 million to €12.5 million in 2019. As of 31 December 2019, other receivables are recognised that relate to a tax exemption of €2.3 million by Hochtief Solutions AG, Essen, and capitalised tax receivables of €1.1 million. Prepayments on real estate for which the transfer of benefits and encumbrances takes place after the respective balance sheet date decreased from €10.6 million to €6.0 million. In addition, processing fees already paid for loans in the amount of €1.9 million (previous year: €0.9 million) distributed over the entire term are recognised in "Other receivables and other assets".

Cash and cash equivalents of €117.1 million (previous year: €88.0 million) increased mainly required as a result of the inflow of financing in the second and third quarters. This increase is balanced by cash outflows for investments in new land for project development. For more information, please refer to the Group's consolidated statement of cash flows. page 111 f.

Non-current provisions for pensions and similar obligations fell slightly by €0.1 million to €3.9 million in 2019. The defined benefit obligation for pension obligations amounting to €12.6 million (previous year: €11.3 million) was offset by plan assets of €8.7 million (previous year: €7.3 million). Plan assets of €8.2 million (previous year: €6.8 million) were invested in a trust account with Helaba Pension Trust e.V., Frankfurt am Main, while €0.5 million (previous year: €0.5 million) was invested in a trust account at European Bank for Financial Services GmbH (ebase®), Aschheim, Germany. At €1.0 million, the increase in plan assets on the trust account at Helaba Pension Trust results from a contribution made in the financial year. This contrasts with the decrease in value of the plan assets caused by the current financial market situation. GRI 201-3

The remaining other non-current provisions for the financial year rose from €4.5 million to €6.3 million in 2019. For the most part, provisions for long-term incentive plans amounting to €5.2 million and other non-current personnel provisions amounting to €0.6 million are included in this item.

The other short-term provisions for the financial year increased by €5.3 million in 2019, from €17.7 million (as at 31 December 2018) to €23.0 million. The main reason for this increase was the increase in project risks. Project-related provisions for work still to be carried out, impending losses and warranty and litigation risks increased in the financial year by €19.2 million (previous year: €12.7 million).

As of 31 December 2019, non-current financial liabilities rose to €451.6 million (previous year: €177.7 million). In the same period, current financial liabilities also increased to €143.9 million (previous year: €87.8 million). The increase in financial liabilities by a total of €329.9 million resulted from the utilisation of corporate financing in the third quarter and the financing of the increased completion of project developments.

Liabilities from net assets allocated to minority shareholders of €9,504 million (previous year: €0 million) relate to minority interests of "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG".

Leasing liabilities of €9.8 million (previous year: €0 million) arose in the period from January 1 to 31 December 2019 under the first-time application of IFRS 16.

Trade payables increased slightly in the financial year to €87.6 million (previous year: €78.3 million) and essentially comprise the services provided by contractors.

Deferred tax liabilities as at 31 December 2019 amounted to €12.0 million (previous year: €32.2 million). This figure also included deferred tax liabilities of €14.9 million (previous year: €13.7 million) which were formed on the basis of the write-downs from the first-time consolidation of Group companies in 2014, 2015 and 2019.

Income tax liabilities increased from €18.1 million as of 31 December 2018 to €29.1 million as of 31 December 2019. This was the result of income taxes for the increased profits of the German Group companies.

The equity ratio as of 31 December 2019 was 27.6% (previous year: 36.0%).

NET FINANCIAL DEBT AND DEBT-TO-EQUITY RATIO

In millions of euros

	31/12/2019	31/12/2018	Change
Non-current financial liabilities	451.6	177.7	154.1%
Current financial liabilities	143.9	87.8	63.9%
Financial liabilities	**595.5**	**265.5**	**124.3%**
– Cash and cash equivalents	– 117.1	– 88.0	33.1%
Net financial debt (NFD)	**478.4**	**177.5**	**169.5%**
EBIT adjusted (LTM[1])	128.9	49.6	159.9%
Depreciation and amortisation (LTM[1])	4.1	0.6	583.3%
EBITDA adjusted (LTM[1])	**132.9**	**50.2**	**164.7%**
Debt-to-equity ratio (NFS/EBITDA)	3.6	3.5	–

[1] LTM = Last twelve months

As of the end of the 2019 financial year, the Instone Group was able to improve its debt-to-equity ratio compared with 31 December 2018. Despite the higher net debt, the degree of debt was only 3.6 times the EBITDA due to the increased profit and therefore represents solid debt sustainability for the Instone Group.

FINANCIAL POSITION

As a result of the expansion of the project volume, the liabilities from project financing increased to €414.7 million in the 2019 financial year (previous year: €199.2 million). The overall financing framework of €994.7 million now (previous year: €582.0 million) was increased during 2019, not only due to the conclusion of classic project financing, but also by further corporate financing. As of 31 December 2019, credit lines in the amount of €667.2 million from project financing and €327.5 million from corporate financing were available. Instone Real Estate strives to continuously optimise its financing structure. With new credit agreements in the amount of around €330 million, the Instone Group was able to secure financial support for its growth strategy for the next three years. In the second quarter of 2019, a large company financing of €200.0 million was concluded (since reduced to a €125.0 million credit facility). Furthermore, in the course of a rescheduling of the existing promissory note loan from Instone Real Estate Development GmbH to Instone Real Estate Group AG in the third quarter of 2019, additional investors were acquired and existing business relationships were expanded to a volume of €106.0 million. The third pillar is a syndicated three-year credit line of €84.0 million concluded in the fourth quarter of 2019. The agreements of these corporate financing arrangements contain financial covenants which are described on page 143.

The liabilities resulting from these financing arrangements as at 31 December 2019 increased to €594.9 million (previous year: €265.2 million).

The individual project-related financing of Instone Real Estate was negotiated with various financial institutions and is subject to different conditions. In general, the loans are subject to variable interest rates. Different amounts and frequencies have been agreed for the use of funds from loans with fixed interest or fixed term. The interest rates for 2019 were at the previous year's level.

Short-term funds needed for project-related payments can be obtained by means of overdraft facilities agreed with individual banks. To compensate for interest payments, all payments already received which the buyers of our properties pay into separately managed collective accounts for the purchase price payment are credited to these current account facilities. If necessary, these overdrafts can be converted into fixed-interest or fixed-term loans.

The maturities of the non-discounted repayment amounts are as follows:

FINANCIAL LIABILITIES

In millions of euros

	Due by	Credit line	Utilisation as of 31 December 2019	Interest rate conditions
Corporate finance				
Promissory note loan	31/08/2022	78.0	78.0	2.50% to 3.10%
Promissory note loan	31/08/2024	28.0	28.0	3.00%
Term loans	31/05/2021	125.0	75.0	5.00%
Syndicated loan	31/12/2022	84.0	0.0	2.85%
Current account loans <1 year	31/12/2020	12.5	0.0	1.75% to 3.47%
		327.5	**181.0**	
Project financing				
Term <1 year	31/12/2020	187.0	142.8	1.45% to 3.90%
Term >1 and <2 years	31/12/2021	364.3	222.2	1.75% to 4.50%
Term >2 and <3 years	31/12/2022	115.9	51.8	1.75% to 5.75%
Term >3 years	>31/12/2022	0.0	0.0	
		667.2	**416.9**	

CONDENSED STATEMENT OF CASH FLOWS

In millions of euros

	31/12/2019	31/12/2018	Change
Cash flow from operations	– 205.1	– 40.4	– 407.7%
Cash flow from investing activities	– 32.4	0.5	n/a
Free cash flow	**– 237.5**	**– 39.9**	**– 495.2%**
Cash flow from financing activities	266.2	54.3	390.2%
Cash change in cash and cash equivalents	**28.7**	**14.4**	**99.3%**
Cash and cash equivalents at the beginning of the period	88.0	73.6	19.6%
Other changes in cash and cash equivalents	0.4	0.0	0.0%
Cash and cash equivalents at the end of the period	**117.1**	**88.0**	**33.1%**

266.2 million as at 31 December 2019, cash flow from financing activities was well above the figure for the same period of the previous year (previous year: €54.3 million). This includes payments received from new loans taken out in the amount of €559.5 million and repayments for terminated loans in the amount of €283.1 million.

The cash flow from investing activities in the 2019 financial year was negative at €–32.4 million (previous year: €0.5 million) was mainly influenced by the payment of €31.8 million made in the acquisition of the company. 0.9 million was invested in property, plant and equipment in the financial year (previous year: €1.1 million). The investments mainly related to technical equipment and other office equipment. This was offset by interest received of €1.6 million.

The Instone Group's cash flow from operating activities of €–205.1 million in the financial year (previous year: –40.4 million) was mainly characterised by the increase in cash outflows. This is due to purchase price payments for land partially secured in previous years – mainly for the "City Prag", Stuttgart, "Rote Kaserne", Potsdam, "Gartenstadt", Dortmund, and the "Wiesbaden-Delkenheim" project in the first quarter, for the "Friedberger Landstrasse" and "Idsteiner Strasse" projects, both in Frankfurt am Main, in the second quarter and in the third quarter for the projects "Kösliner Weg", Hamburg, "Rothenburgsort", Hamburg, "Schäferlinde", Herrenberg, and for the projects "Westville", Frankfurt am Main, "S'Lederer", Schorndorf, and "Rothenburgsort", Hamburg, in the fourth quarter – with a total value of €320.1 million (previous year: €72.5 million).

The operating cash flow adjusted for the payments for land in the financial year, at €115.0 million (previous year: €32.1 million) and thus demonstrates the sustained positive liquidity development of the Instone Group from ongoing residential project developments.

The depreciation of fixed assets amounting to €0.8 million (previous year: €0.6 million), the decline in deferred tax liabilities by €25.9 million (previous year: €24.5 million), the increased revaluation of shares accounted for using the equity method by €0.4 million (previous year: €0.2 million reduction), expenses from the investment result of minorities of €5.8 million (previous year: €0 million), interest expenses of €18.0 million (previous year: €8.4 million) and income tax expenses of €20.3 million (previous year: €17.4 million) in the financial year did not affect cash.

CASH FLOW FROM OPERATIONS

In millions of euros

	31/12/2019	31/12/2018	Change
EBITDA adjusted	132.9	50.2	164.7%
Other non-cash items	– 38.0	– 33.2	– 14.5%
Taxes paid	– 22.2	– 6.5	– 241.5%
Working Capital Change	– 277.8	– 50.9	– 445.8%
Cash flow from operations	**– 205.1**	**– 40.4**	**– 407.7%**
Payments for land	320.1	72.5	341.3%
Cash flow from operations without new investments	**115.0**	**32.1**	**257.9%**

The increase in provisions by €6.9 million (previous year: reduction of €28.4 million) was also a non-cash item. In the previous year, the reduction of provisions in the amount of €29.5 million was accounted for in the cash flow from operating activities. In the previous year, there were inflows from the repayment of loans to the former shareholders in the same amount in the financing cash flow.

Non-cash expenses and income reduced the cash flow from operating activities in financial year 2019 by €0.3 million (previous year: €14.2 million).

As of 31 December 2019, financial resources amounted to €117.1 million (previous year: €88.0 million). This includes released funds amounting to €109.0 million (previous year: €81.7 million) which were not used to secure existing project-related financing.

In addition to cash loans from banks, as at 31 December 2019 the guarantee facilities of the credit insurers were also reduced to €275.5 million (previous year: 185.2 million euros).

PROJECT BUSINESS AT A GLANCE

VOLUME OF SALES CONTRACTS

The marketing success in the 2019 financial year was significantly above the medium-term target level with 2,733 residential units and a volume of sales contracts of €1,403.1 million. The previous year's figure of €460.8 million was thus increased by a factor of three.

In the fourth quarter of 2019, the volume of sales contracts increased significantly by over €1 billion compared with the first nine months, exceeding the already successful development of the first nine months of the financial year and the expected value from the forecast for 2019, which was already adjusted in September 2019.

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS

In millions of euros

		2019	2018
Volume of sales contracts		1,403.1	460.8
Volume of sales contracts	In units	2,733	1,033
Project portfolio (existing projects)		5,845.7	4,763.2
of which already sold		2,174.0	998.2
Project portfolio (existing projects)	In units	13,715	11,041
of which already sold	In units	4,814	2,395

Unless otherwise stated, the key performance indicators are the cumulative figures for the reporting year as of the respective reporting date.

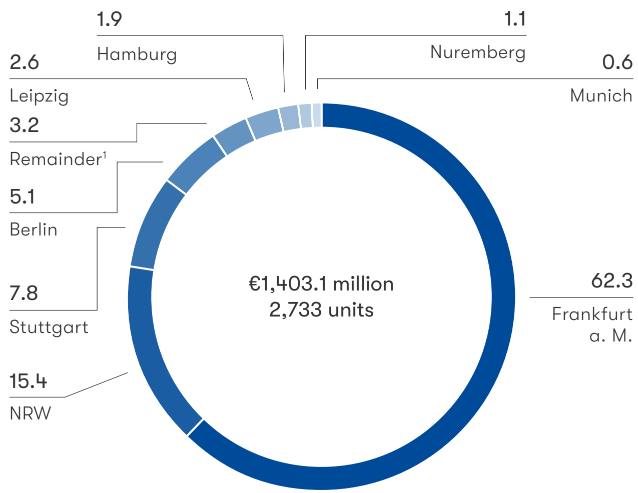
This was due in particular to the successful completion of the institutional sales announced. In the third quarter the global sale with Wohnbau GmbH for the project "Niederkasseler Lohweg" in Dusseldorf with 221 residential units was already completed. In addition, in the last quarter of 2019 further sales for individual plots of the overall measures in the "Schönhof-Viertel" in Frankfurt am Main, "Wohnen im Hochfeld" in Dusseldorf-Unterbach and "west.side" in Bonn with a total of around 650 residential units and a volume of around €300 million were concluded. In addition, we were able to sell the "S'Lederer" quarter development in Schorndorf with a total of around 224 rental flats and four townhouses to R+V Lebensversicherung AG. The transaction for one of the largest German residential projects with more than 1,200 new apartments in the Gallus district in Frankfurt am Main has also been successfully concluded. In addition, continuous sales in individual sales are developing very positively due to the uninterrupted high demand and led to the sale of 526 residential units with a marketing volume of approximately €300 million in the 2019 financial year.

In the fourth quarter of 2019, there were two cancelled transactions. One flat has already been resold and we also expect a timely resale on the same terms for the other flat.

The marketing volume realised as of 31 December 2019 is concentrated almost exclusively in the most important metropolitan regions in Germany, accounting for approximately 97% of the total. Around 3% is accounted for by the other prospering medium-sized cities. graphic

SALES IN 2019 BY REGION

In %



[1]Includes Wiesbaden, Mannheim and Hanover.

IThe following projects essentially contributed to successful marketing in the 2019 period under review:

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS – VOLUME OF REVENUE CONTRACTS

In millions of euros

		Volume	Units
Westville	Frankfurt a. M.	n/a[1]	> 1,200
Siemens-Areal	Frankfurt a. M.	n/a[1]	404
S'Lederer	Schorndorf	n/a[1]	229
Niederkasseler Lohweg	Dusseldorf	n/a[1]	221
Quartier Stallschreiberstraße – Luisenpark	Berlin	70.1	121
St. Marienkrankenhaus	Frankfurt a. M.	66.6	65
west.side	Bonn	n/a[1]	141
Unterbach	Dusseldorf	n/a[1]	111
Property Bonn, Schumanns Höhe	Bonn	37.8	97
Wiesbaden – Wohnen am Kurpark	Wiesbaden	35.4	47

[1] The two contracting parties agreed to keep the purchase price of the project confidential.

In the 2019 financial year, the "Schwarzwaldstraße" project in Herrenberg, "Schulterblatt Amanda" in Hamburg and "Beethoven West" in Augsburg were sold with a total of around 540 units and a sales volume of €240 million in individual sales and replenished the sales portfolio on the market over the course of the year. In addition, the good sales in the projects had a negative impact on the supply. In total, as of 31 December 2019, this results in a sales offer of 618 residential units comparable to the previous year (€369.4 million, 557 units) with an expected revenue volume of approximately €340 million.

At the end of the financial year, the project portfolio of Instone Real Estate in 2019 comprised 55 projects with a total sales volume currently expected to be €5,845.7 million. Again, there was a significant increase compared with the end of 2018 (€4,763.2 million). This was largely achieved thanks to the successful acquisition activities with a total volume of around €1,284 million in 2019. On the one hand, we acquired the residential real estate development platform of S&P Stadtbau GmbH from the Sontowski & Partner Group. In the course of the purchase, we were able to take over six existing project developments in addition to our current business activities, thereby expanding our portfolio by around €300 million and approximately 1,000 residential units. On the other hand, the following projects were acquired:

NEW PERMITS IN 2019

In millions of euros

		Volume	Units
S&P (6 projects)		302.2	994
Rothenburgsort	Hamburg	181.6	716
Aukamm	Wiesbaden	147.8	289
Rosa Luxemburg	Leipzig	115.5	358
REME Mönchengladbach	Mönchengladbach	105.2	303
Büntekamp	Hanover	93.1	258
Bamberg, Lagarde	Bamberg	72.9	227
Literaturquartier	Essen	67.5	212
Herrenberg III	Herrenberg	55.5	141
Römerhügel, Augsburg	Augsburg	51.2	102
Eslarner Straße	Nuremberg	48.8	101
Düsseldorfer Landstraße	Duisburg	26.4	81
Nathusiusstraße	Leipzig	16.5	75
Total		**1,284.2**	**3,857**

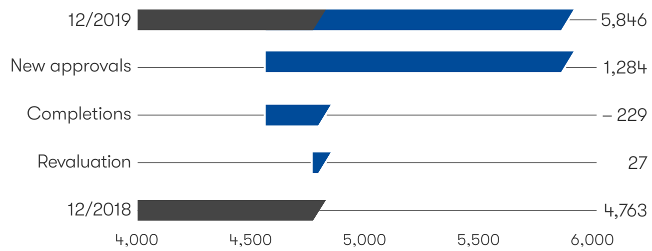
As in the 2018 financial year, it was thus possible to exceed the new approval volume of €900 to €1,000 million targeted in the medium term. Based on the existing project portfolio, Instone Real Estate is in a good position to achieve the targets aimed at and has created a solid basis for sustainable growth in the coming years. For this reason, we assume that the medium-term revenue target of €900 to €1,000 million for the 2022 financial year will be exceeded, with adjusted revenue expected to exceed €1 billion. The increase in existing project forecasts of around €27 million in 2019 as a result of plans that materialised and market prices that were adjusted also highlights the revenue potential in the overall project portfolio.

In the course of the 2019 reporting year, eight projects were removed from the portfolio (€-228.8 million) due to completion or handover of the properties sold in the Leipzig region (see "Development of the project portfolio in the course of 2019").

DEVELOPMENT OF THE PROJECT PORTFOLIO DURING 2019

AS OF: DECEMBER 2019

In millions of euros

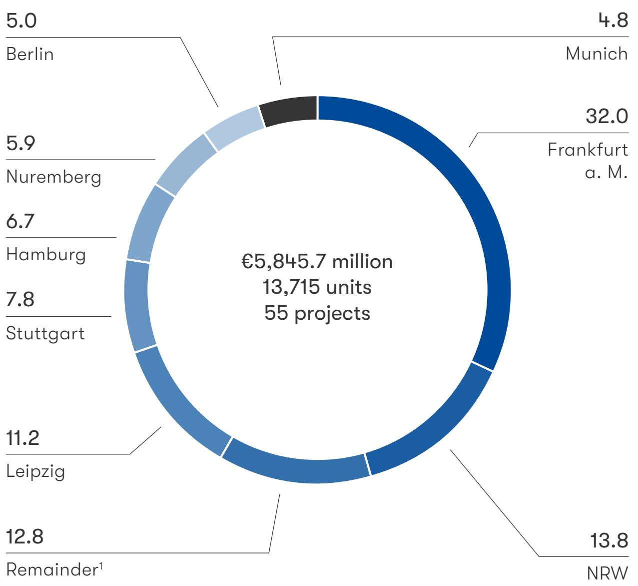


Taking into account an assumed price development for projects not yet in distribution – of 1.5% per annum on the revenue side and 3.5% per annum on the construction cost side – this results in an anticipated project gross profit margin on the profit portfolio of about 25% as at the reporting date.

The majority – approximately 87% – of anticipated overall volume of revenue from the project portfolio as at 31 December 2019 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg. Around 13% is located in other prosperous medium-class cities (see "Project portfolio by region").

PROJECT PORTFOLIO BY REGION

In %

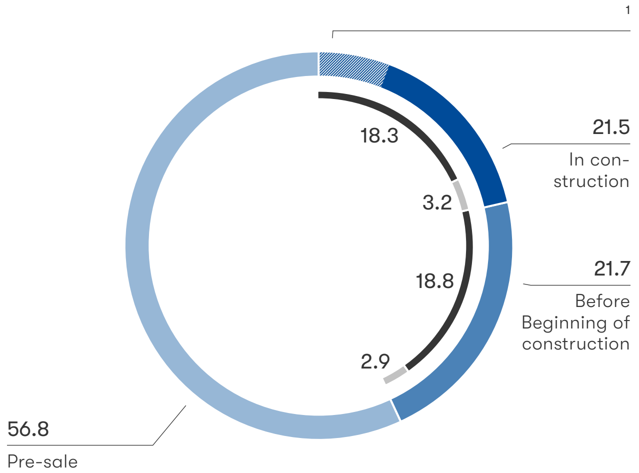


[1] Includes Wiesbaden, Mannheim, Hanover, Potsdam, Bamberg.

Based on the continuous growth of our project portfolio in recent years, the majority of our ongoing projects are in the "pre-sale" development stage. The comparison to the 2018 financial year in the categories "pre-sale" (previous year: 70.7%) and "pre-construction" (previous year: 5.4%) confirms the progressing concretisation in the individual project phases of the overall portfolio and clarifies the planning basis for the targets set out in the medium-term sales forecast.

PROJECT PORTFOLIO BY GROUPS; BASIS: SALES REVENUES

In %



Internal sector:
■ Sold
■ Unsold
[1] 6.2% of the project portfolio has already been transferred.

In addition, the preceding chart shows that we have already sold around 37% of the expected total revenue volume of the project portfolio as of 31 December 2019. In terms of the expected revenue volume, 86% of the "under construction" and "pre-construction" projects were sold as at 31 December 2019.

Adjusted revenues

In addition to the positive sales development, the economically successful development in the 2019 financial year is also reflected in the adjusted revenues achieved. As of 31 December 2019, adjusted revenues amounted to €736.7 million and are therefore at the upper end of the forecast target range of €700–750 million. The following projects carried out contributed in particular to the adjusted revenues in the period under review:

KEY PROJECTS REVENUE REALISATION (ADJUSTED) 2019

In millions of euros

		Revenue volume (adjusted)
Westville	Frankfurt a. M.	220.8
Quartier Stallschreiber Straße – Luisenpark	Berlin	95.0
St. Marienkrankenhaus	Frankfurt a. M.	58.3
Wiesbaden – Wohnen am Kurpark	Wiesbaden	55.3
Heeresbäckerei	Leipzig	38.7
City-Prague – Wohnen im Theaterviertel	Stuttgart	31.9
Siemens-Areal	Frankfurt a. M.	26.3
Grundstück Bonn, Schumanns Höhe	Bonn	25.8
west.side	Bonn	25.0
MA Franklin	Mannheim	24.5

The sustainable growth of Instone Real Estate is not only significant in the growing project portfolio, but the projects already in the portfolio are also developing successfully. Several projects entered the construction phase during the period under review:

START OF CONSTRUCTION

City-Prague – Wohnen im Theaterviertel	Stuttgart	around 260 residential units
Land in Bonn, Schumanns Höhe (all construction)	Bonn	around 185 residential units
west.side (2nd construction)	Bonn	around 120 residential units
Herrenberg, Schwarzwaldstraße	Herrenberg	around 115 residential units
Theaterfabrik	Leipzig	around 75 residential units
Schwesternwohnheim Marie (final construction)	Frankfurt a. M.	around 55 residential units
MarinaBricks	Regensburg	around 50 residential units
Friedrich-Ebert-Straße	Leipzig	around 15 residential units
Fregestraße	Leipzig	around 5 residential units

Construction in projects already under construction is also progressing as expected. In 2019, Instone Real Estate celebrated topping-out ceremonies for a total of five projects, which represent around 640 new residential units.

TOPPING-OUT CEREMONIES

Wiesbaden – Wohnen am Kurpark	Wiesbaden	around 150 residential units
MA Franklin	Mannheim	around 95 residential units
Rebstock BF 1.2	Frankfurt a. M.	around 120 residential units
Quartier Stallschreiberstraße – Luisenpark	Berlin	around 235 residential units
Property Bonn, Schumanns Höhe	Bonn	around 35 residential units

At completion, Instone Real Estate projects have reported a 100% sales ratio in almost all cases. In the case of fully completed projects, our portfolio does not contain any more than 1% of unsold units without a sales agreement.

INSTONE REAL ESTATE GROUP AG

OPERATIONS

Instone Real Estate Group AG is the Instone Group's strategic management holding. Instone Real Estate Group AG owns all shares in Instone Real Estate Development GmbH as well as 100% (previous year: 94%) of the interests in Instone Real Estate Leipzig GmbH and almost all shares in the other subsidiaries of the Instone Group.

The annual financial statements of Instone Real Estate Group AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report is summarised in the Group Management Report. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) in accordance with Section 315e (1) HGB. Differences between the accounting and valuation methods according to the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS) mainly arise in accounting for inventories, receivables, provisions and deferred taxes in the balance sheet.

CONTROL SYSTEM, FUTURE DEVELOPMENT AND RISK SITUATION

As a holding company, Instone Real Estate Group AG acts directly with control functions and services for the operating activities of the subsidiaries and depends indirectly on the results and the economic performance of its subsidiaries. The management system, expected development and opportunities and risks of the Instone Group are reported in detail in the "Strategy" page 36, "Corporate Management" page 38, "Risk and opportunities report" page 71 and "Outlook" page 83 Sections of this Combined Management Report.

BUSINESS PERFORMANCE 2019

The business performance and situation of Instone Real Estate Group AG is largely determined by the business development and success of the Instone Group. This is described in detail in the Sections "Overview of Business Performance" page 65 and "Results of Operations, Net Assets and Financial Position" page 56 of this Combined Management Report.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT

In millions of euros

	2019	2018	Change
Revenue	1.6	1.4	12.4%
Other operating income	3.5	6.0	–42.6%
Staff costs	–5.2	–4.8	8.3%
Other operating expenses	–10.3	–23.0	–55.2%
Financial result	26.3	–4.5	n/a
Taxes on earnings	26.2	0.4	n/a
Earnings after tax	**42.0**	**–24.4**	**n/a**

The reported revenues of Instone Real Estate Group AG in the amount of €1.6 million (previous year: €1.4 million) result mainly from the provision of services to affiliated companies.

Other operating income increased to €3.5 million (previous year: €6.0 million) and includes, in particular, revenues from the intra-Group sale of shares in a subsidiary company.

Staff costs rose to €5.2 million (previous year: €4.8 million) due to a greater allocation to the provisions for long-term and short-term incentive plans in the amount of €3.1 million (previous year: €2.4 million) and higher salaries due to the increase in the number of employees.

At €10.3 million, other operating expenses were far below the previous year's level of €23.0 million and mainly comprise expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.5 million. They also include additions to provisions for long-term incentive plans for employees of Group companies in the amount of €1.0 million as well as consulting expenses in connection with the conclusion of corporate financing in the amount of €3.3 million.

The changes in the financial result by €30.8 million to €26.3 million (previous year: –4.5 million) are essentially composed as follows:

→ In the financial year under review, income from investments amounted to €41.9 million (previous year: €0 million).

→ Income from profit and loss transfer agreements amounted to €21.2 million (previous year: €0 million).

→ On the other hand, write-downs on financial assets amounting to €29.6 million (previous year: 0 million) due to the equity-reducing distribution of the subsidiary Instone Real Estate Leipzig GmbH.

→ Interest and similar expenses increased to €9.6 million (previous year: €4.6 million). This was due to the utilisation of corporate financing in the financial year.

26.2 million (previous year: –0.4 million) due to the one-off effect of capitalisation of deferred taxes on losses carried forward.

In the period under review, the total annual profit amounted to €42.0 million (previous year: net loss of €24.4 million).

NET ASSETS

As at year-end, the total assets of Instone Real Estate Group AG was €495.3 million (previous year: €286.6 million). This was in part mainly attributable to the utilisation of corporate financing in the amount of €182.7 million, but also to the increase in loans to subsidiaries.

Financial assets mainly included the investment book values of Instone Real Estate Development GmbH, Essen amounting to €181.8 million and Instone Real Estate Leipzig GmbH, Leipzig amounting to €48.6 million (previous year: €71.2 million). The carrying amount of Instone Real Estate Leipzig GmbH was written down in the financial year due to the equity-reducing distribution.

The loans, receivables and other assets amounting to €231.6 million (previous year: €6.0 million) included loans to affiliated companies amounting to €190.5 million (previous year: €3.2 million) and ongoing receivables from affiliated companies based on profit and loss transfer agreements. In the other assets amounting to €14.1 million (previous year: €2.8 million), in particular, include receivables from tax refund claims and receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement results from the exemption from property transfer tax expenses in connection with the acquisition of the Company, for which a corresponding provision exists.

Due to the first-time recognition for the assertion of loss carryforwards, deferred tax assets amounting to €27.7 million (previous year: €0 million).

The equity ratio on the balance sheet date was 51.2% (previous year: 73.8%).

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2019	2018	Change
Financial assets	230.9	253.3	– 8.8%
Loans and receivables from affiliated companies and shareholders	217.4	3.2	n/a
Other receivables and other assets	14.2	2.8	402.0%
Bank balances	5.1	27.3	– 81.2%
Assets	27.7	0.0	0.0%
	495.4	**286.6**	**72.9%**
Equity	253.5	211.5	19.9%
Provisions	9.5	8.1	18.6%
Liabilities to banks	182.7	0.0	0.0%
Liabilities to affiliated companies and shareholders	48.4	63.5	– 23.7%
Other liabilities	1.2	3.5	– 66.0%
Equity and Liabilities	**495.4**	**286.6**	**72.9%**

Provisions rose to €9.5 million in the financial year (previous year: €8.1 million) and in particular relate to tax provisions and personnel provisions for premium commitments to the Company's own employees and Group company employees.

The financial liabilities essentially consist of loan liabilities to credit institutions amounting to €182.7 million (previous year: €0 million) and affiliated companies in the amount of €48.4 million (previous year: €63.5 million). The liabilities to credit institutions result from the strategic realignment of financial management, which includes corporate financing taken by the Group's parent company and its use in the Group companies.

FINANCIAL POSITION

By appropriate financial management, the Instone Group, through Instone Real Estate Group AG, provides sufficient liquid funds to meet the operational and strategic financial needs of the Group companies at all times. As a listed company, Instone Real Estate Group AG considers the interests of shareholders and banks in its financial management. Instone Real Estate Group AG ensures an appropriate ratio between equity and debt financing in the interests of these stakeholders.

During the financial year, there was no material cash flow from investing activities.

EMPLOYEES

At the end of the year, around five people were employed at Instone Real Estate Group AG (previous year: around one). GRI 102-8

RISK AND OPPORTUNITIES REPORT

The risk management of Instone Real Estate is geared towards securing the successful, continued development and profitability of the Group in the long term. The key instrument for achieving this goal is our risk management system. This identifies, evaluates and manages risks whereas opportunities are considered separately.

The further development of the risk management system was supported in 2019 by the newly created Internal Audit department, which superseded the previous external audit. Its purpose was to continuously improve the business processes with the aim of minimising risk and creating added value for the organisation. The audit department supports the Management Board and Supervisory Board with their control, management and steering functions by carrying out independent, internal audit mandates.

RISK MANAGEMENT SYSTEM

Instone Real Estate refers to the entirety of all organisational regulations and measures as a risk management system intended to identify business risks at an early stage and to counteract them with appropriate measures in good time. This is intended to secure the defined business goals and future success of Instone Real Estate. Unrecognised and therefore uncontrolled and unmanaged risks represent a high risk potential for Instone Real Estate. Systematic risk management reduces the risk potential and ensures the continued existence of the Company, the preservation of jobs and the successful further development of Instone Real Estate.

Key elements of the risk management system include the use of risk management software, quarterly risk identification measures, periodic reviews, internal approval processes for any far-reaching decisions, ICS and the four-eyes principle. The powers for individual decision-making levels are clearly regulated in the internal guidelines.

We are continuously working to optimise the risk management system together with our independent partners. Instone Real Estate is subject to the appropriate regulatory framework conditions as a stock corporation listed on the Frankfurt Stock Exchange and has also voluntarily committed to comply with the German Corporate Governance Code (GCGC). All applicable internal guidelines, Rules of Procedure and measures designed to ensure a Group-wide standardised and structured approach to risk management are reviewed internally on a regular basis. For example, we will also continue to evaluate all applicable internal regulations in 2019. This review and evaluation process is a continuous, ongoing process. In 2019, we completely revised some of the Company's guidelines in this context. The decision-making procedures which are valid for the entire Group have been further developed for the Management Board of Instone Real Estate Group AG on the basis of the Rules of Procedure and taking into consideration the applicable legislation and relevant case law. These regulate essential procedures and decision-making processes throughout the Group which require approval.

Responsibilities

In organisational terms, risk management is allocated directly to the Management Board, which has overall responsibility for the risk management system. It makes decisions regarding the structural and procedural organisation of risk management and the provision of resources. The Board also adopts the documented risk management results and takes them into consideration in its corporate management. The Supervisory Board's audit committee monitors the findings of the risk management system. The Management Board and Supervisory Board have jointly decided to have the adequacy of the risk management system reviewed by an independent third party. In the interest of major stakeholders such as shareholders, customers, employees, suppliers, investors and corporations, the Management Board pursues a conservative, safety-focused risk strategy which also takes the sustainability of our trading activities into account.

The top-level executives below the Management Board are designated as risk officers and assume responsibility for identifying, evaluating, documenting, managing and communicating all material risks within their area of responsibility. Every Instone Real Estate employee is required to behave in a risk-aware manner, i.e. to be clear about the risk situation within his or her area of responsibility and to deal responsibly with identified risks. Inappropriately high risks are to be avoided.

Risk management process

Within the scope of the risk management process, the risk manager coordinates the recording, evaluating, documentation and communication of risks. They consolidate the risk reports of the risk officers and prepare the report for the Management Board and Supervisory Board. This enables the Management Board to systematically identify and assess material risks within the Company or in the Company's environment in a timely manner and initiate appropriate countermeasures.

Instone Real Estate's risk management system ensures the early identification, evaluation, management and monitoring of all material risks beyond the short-term financial risks that are processed in the Controlling department, not only with regard to the net assets and financial position, but also the intangible assets, such as those which may jeopardise the reputation of the Company. Potential dangers that may affect the Company's value or development are thereby recognised early. This takes environmental and company-specific early warning indicators into account and also includes the regional knowledge and perceptions of our employees around the country.

Risk assessment

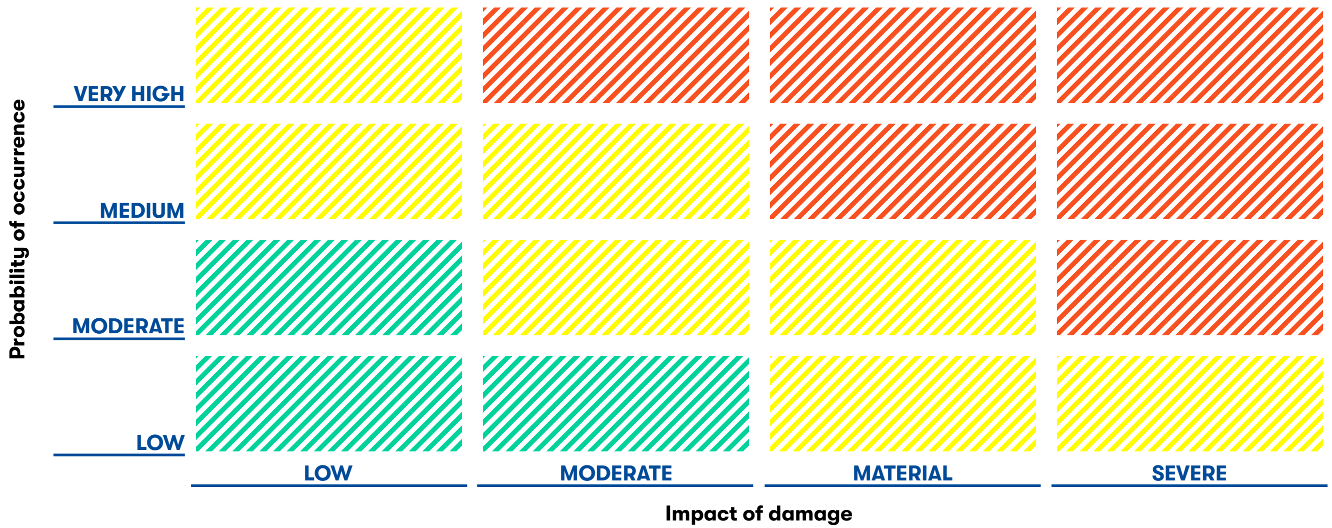
Risk managers regularly identify or update all risks within their area of responsibility with their employees as part of a systematic process. These are subdivided into the six risk categories "general business risks", "compliance risks", "financial risks", "IT and communication risks", "project business risks" and "legal risks" and their subcategories. The possible levels of damage and probabilities of occurrence are classified within specified bandwidths for each risk and documented in a Group-wide risk overview. An assessment is made with regard to the EBT and liquidity.

Risks are documented as net risks, and the damage impact is thereby already reduced by the impact of the effective measures implemented. The goal is to control every risk with the help of measures. Countermeasures serve to avoid, reduce or transfer risks. Risks are assessed as material individual risks if they have a serious effect and have at least a moderate probability that they will occur.

Probability of occurrence	In %	Damage impact	EBT in thousands of euros	Liquidity in thousands of euros
Low	< 10	Low	< 4,000	< 3,000
Medium	> = 10 < 25	Moderate	> = 4,000 < 10,000	> = 3,000 < 9,000
High	> = 25 < 50	Material	> = 10,000 < 20,000	> = 9,000 < 15,000
Very high	> = 50 < 100	Severe	> = 20,000 < 40,000	> = 15,000 < 30,000

This scheme creates an assessment matrix that categorises the individual risk notifications into a traffic light system (green, yellow and red).

RISK ASSESSMENT MATRIX



Due to the size of the company, the increased liquidity (among other things due to new corporate financing volumes) and the good economic situation of Instone Real Estate, the risk-bearing capacity was increased in the 2019 financial year in terms of liquidity.

Monitoring the risk management system

The risk management system is subject to regular updates and further development, and in particular, to adaptation to changes in the Company too. The risk policy describes the core elements of the risk management system and defines the various responsibilities. This is amended continuously as necessary.

Fundamental and coordinating activities related to the risk management system are delegated to the Risk Management Committee. The responsibilities of the risk management committee include:

→ Documentation and communication of rules for the risk management process at Instone Real Estate

→ Further development of existing risk management regulations

→ A point of contact for all base risk management issues at Instone Real Estate

→ Critical scrutiny of the reported risk situation as well as discussion and critical reflection in the event of uncertainties regarding reported or unreported risks

→ Discussion, coordination and follow-up of countermeasures

→ Reporting to the Management Board about material risks and their development

The Risk Management Committee meets at least once every quarter. Extraordinary meetings are convened when needed.

Reporting

Risk management documentation is provided quarterly in a risk report which is made available to the Management Board. The Supervisory Board's audit committee is also informed about the risk situation four times a year. This reporting system ensures that both management and supervisory bodies are fully informed and that relevant operational early warning indicators are in place. In this way, undesirable developments can be detected in good time and countermeasures initiated at an early stage. If material risks occur suddenly, they are reported to the Management Board without delay.

Internal Control System (ICS)

The Internal Control System (ICS) is linked to risk management system as a sub-element. The ICS regulates the avoidance or limitation of risks by means of control measures. These ensure the accuracy and reliability of accounting and compliance with legal requirements which are relevant to the Company. In addition, it ensures the effectiveness and profitability of the business activities. The focus is on the prevention and detection asset misappropriation and the protection of the Company's own assets.

The ICS is the responsibility of the Management Board. The Management Board is responsible for set up, monitoring, effectiveness testing and development.

The objective of the accounting-related ICS for the purposes of the relevant regulations is to guarantee legally compliant and correct financial reporting. To this end, the ICS is embedded in the finance and accounting departments as well as in the process and risk management departments. The finance and accounting department is responsible for the guidelines for the adoption of accounting regulations and for the content and timing of the financial reporting process.

From an organisational viewpoint, work on financial statements for all companies included in the consolidated financial statements is carried out by the parent company. All companies and branches included in the consolidated financial statements are located in an SAP environment. The entire Group is subject to uniform accounting/valuation requirements, accounting principles, allocations, processes and process controls. The central control elements are the internal approval processes, the four-eyes principle and the requirement for functional separation. Instone Real Estate has an authorisation concept that is adapted to the relevant job profile of the employees.

Internal Audit

The Internal Audit Department, newly created in the 2019 financial year, prepares a risk-oriented audit plan annually based on an analysis of all material business processes. After approval by the Management Board or the Audit Committee of the Supervisory Board, the Internal Audit Department independently and autonomously checks whether the legal requirements and Group-wide guidelines for the control system are being complied with. This evaluates the functionality and effectiveness of the internal control and risk management system and identifies possible optimisation potential for minimising risks in process execution and the control environment. Individual audit reports are provided to the Management Board and the audited business unit. This allows the Management Board to make timely adjustments to processes and to further develop the ICS that is already in place. The implementation of the jointly agreed measures will be the subject of follow-up audits. The Management Board and the Audit Committee will receive an annual report from the Internal Audit Department. The Internal Audit Department is involved in all major projects and adjustments to internal processes and structures.

The management of the Internal Audit Department is shared with the management of the Process and Risk Management unit. In order to counteract any appearance of impaired organisational independence or personal objectivity, extensive measures have been taken, also to comply with the conservative risk policy, with the introduction of internal auditing. In addition to the close exchange with the Management Board, there is a direct communication channel to the Audit Committee. Furthermore, in the case of audits on processes which are located in the Process and Risk Management unit, the audit opinion of the Internal Audit Department is to be verified and plausibility checked by means of externally conducted audits. It is the task of the internal audit to maintain an independent state of mind for each matter to be examined and also in the case of audit opinions to be subordinate to the enterprise unit process and risk management regarding not other influences. In order to avoid possible conflicts of interest for the management of the Internal Audit Department, the main responsibility for audits on business processes in the Process and Risk Management unit lies with the operational Internal Audit Department, which is not involved in any other business processes.

CURRENT RISK ASSESSMENT

Risks are divided into red, amber and green areas according to their expected values using a traffic light system (see illustration of the risk matrix on page 72. The expected value is calculated using the probability of occurrence multiplied by the extent of the damage.

The main risk categories and their sub-categories at Instone Real Estate are described below in a compressed risk assessment. The description is based on the risk inventory as of 31 December 2019. The greatest risks in the risk sub-categories are explicitly mentioned in the descriptions. Risk sub-categories are divided into "relevant" and "not relevant". Risk subcategories are assessed as relevant if they have a share of more than 5% in the assessed overall risk situation or if at least one risk is in the area "significant" or "serious".

Instone Real Estate did not identify any material individual risks in the 2019 financial year. Risks are assessed as material individual risks if they have a serious effect and have at least a moderate probability that they will occur.

The risk situation is virtually unchanged from the previous year, with one exception. The risk sub-category "Sales" is assessed as relevant compared to the previous year.

A risk atlas was developed compared to the previous year. The risk subcategories "Reputation" and "Capital market" as well as "Selection of business partners and contractor loyalty" and "Awarding" were combined. The summary was based on the subject-related overlaps and dependencies.

General business risks

Global/national economy

Instone Real Estate is heavily dependent on the German residential real estate market which is influenced by various macroeconomic and general factors, such as economic, demographic and political developments. Britain's imminent exit from the EU and a potential trade war with the United States have created political and economic uncertainty in Europe. Disadvantageous global and European developments in politics and the economy could have negative effects on the export-oriented German economy as a whole and may in particular lead to a higher unemployment rate, lower per capita purchasing power and increasing economic uncertainty. Such factors could significantly reduce or delay the demand for residential real estate. In addition, demographic and socioeconomic trends in the key Instone Real Estate markets could have a significant impact on residential property demand. Although the population in the most important conurbations in Germany increased between 2008 and 2019 as a result of increasing urbanisation and a generally growing population in Germany, this trend could reverse or at least slow down.

Without taking immigration into account, a shrinking and ageing population is to be expected in Germany. Lower levels of immigration and an ageing population, which would slow down the urbanisation trend, could in turn reduce demand, especially in Instone Real Estate's key markets. However, based on the sales figures, Instone Real Estate was unable to register a change in the continued demand for housing in the 2019 financial year.

Instone Real Estate has a broad base in order to better respond to possible changes in the market. Instone Real Estate is represented in the Core Cities of Germany as well as Nuremberg and Erlangen where it provides real estate in various price segments, from publicly funded to high-end residential constructions as well as in prosperous medium-sized cities. The project portfolio includes new construction projects as well as the renovation of listed buildings. The projects were subdivided into different phases so that the requirements of the market could be met in each Section. Sales also serve various customer groups such as owner-occupiers, investors and institutional investors. Despite this diversification and other measures, the impact of the remaining risk arising from the global and national economies is considered to be relevant.

Regulatory risks

The real estate sector is subject to various legal framework conditions page 34 f. Changes to these conditions may lead to disadvantages for the real estate industry and thus for Instone Real Estate. These may include, but are not limited to, legislative changes or amendments to construction regulations (such as the German Energy Saving Ordinance), as well as regulatory intervention in the real estate market, for example through rent brakes or subsidised housing quotas.

Due to the political explosiveness of the topic housing cities and municipalities meanwhile increasingly intervene in the development plan procedure. In the context of urban land-use planning the urban development contracts belong in many municipalities to a frequently used instrument. Instone Real Estate may encounter inconsistencies with local authorities and/or regulators in connection with its activities, resulting in administrative proceedings and unfavourable decrees, directives or enactments that could lead to financial losses and delays in the completion of development projects as well as have negative effect on the Instone Real Estate brand.

Instone Real Estate is committed to real estate interest groups such as the German Central Real Estate Committee (ZIA) in order to contribute its many years of experience from a wide variety of projects. Furthermore, we examine possible regulatory adjustment risks when acquiring land and take this into account in the contract or when determining the purchase price.

Due to the potentially serious impact of regulatory risks, Instone Real Estate considers them to be relevant as they cannot be fully ruled out during the duration of the project.

Market developments

Instone Real Estate's project portfolio is mainly located in Germany's most important urban and metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg). Here, about 87% of the properties are located (measured by the expected total revenue volume).

Positive population and household development are key factors in the currently attractive real estate market. In recent years, increased demand for housing in conurbations and large cities has been observed. If growth in the conurbations changes, this would be a risk for the core markets. Instone Real Estate is also looking into project opportunities outside the seven A cities plus Leipzig and Nuremberg/Erlangen to counteract such a development.

Instone Real Estate relies on numerous internal and external data sources such as Bulwiengesa, IZ Research and Thomas Daily Premium to evaluate future market developments.

The positive development of the entire housing market continued once again in the 2019 financial year. Instone Real Estate continues to see demand for residential neighbourhoods at a stable high level. Since Instone Real Estate would be directly affected by a change in the market, the effects of market development risks are not considered relevant in the short term and relevant in the medium to long term.

Staff

A further aggravation of the shortage of skilled labour is foreseeable and is already noticeable. Demographic change and a shift in values among the younger generation are risks faced by Instone Real Estate. Due to the increasing average age of society and the current high demand for labour in the economy (low unemployment), it is possible that vacant positions will remain unfilled and there may be a lack of skilled workers in the company.

Instone Real Estate relies on the values of responsibility, trust, perspectives and freedom to set itself up in a good position for the future as part of life phase-oriented personnel development. Instone Real Estate has a recruiting portal on its website that is specifically adapted to the new media world and the needs of applicants. Social media is also used as a platform for recruiting.

Our employees are the flagship of the entire Group and represent our link to our customers and business partners. By deliberately keeping an eye on and developing qualified personnel, we can place highly skilled employees in the positions that best fit their profile. We believe this will enable us to effectively promote the image of the Instone Real Estate brand and retain sufficient qualified personnel.

Due to its streamlined business structure, Instone Real Estate cannot rule out vacancies in positions requiring highly specialised and individual expertise due to absences (such as sick leave, termination of contract or holidays). This may lead to a risk in certain situations. Instone Real Estate attempts to counteract this risk by appointing new staff and issuing substitution regulations, in some cases also with the support of external partners. The Company encourages discussions among colleagues in order to share this expertise and factual knowledge between several colleagues.

Instone Real Estate was able to increase its workforce in 2019 and has thus positioned itself well for further corporate growth and any potential employee turnover.

Overall, we consider the impact of personnel risks to be relevant despite the measures implemented.

Customer satisfaction/demand

The residential real estate market served by Instone Real Estate is subject to changing trends, demands and customer preferences. These parameters may vary during the several years of project development and to a large extent these are beyond the influence of Instone Real Estate. For example, targeted buyers may develop preferences for other micro-sites, neighbourhoods, specific property designs (such as apartment buildings, micro single-family homes or detached houses), or may otherwise be influenced by macroeconomic, socio-economic or employment trends, resulting in a concentration of demand in particular areas.

Instone Real Estate sees itself as being able to identify and analyse such developments in good time and to adapt its existing or planned development projects in a timely manner to take advantage of the respective customer preferences. We use our network to various market players (including brokers, research institutes) to identify customer preferences and also carry out a customer survey with our customers after handover of the property. We also use the pre-marketing quota as an instrument to offer projects in the market and analyse customer feedback in order to be able to implement any adjustments to the design prior to the start of construction. We try to counteract the risk with our years of experience and by several key people being involved in every decision-making process. We consider the impact of this risk to be relevant despite the measures we have put in place.

Reputation

To some extent, Instone Real Estate's business and growth strategy partly depends on preserving the integrity of the brand and reputation of Instone Real Estate as a reliable partner and a quality provider.

Instone Real Estate's reputation can be damaged by a number of factors and events that Instone Real Estate may have no influence over. These include unethical or illegal behaviour by employees or business associates, working conditions, incidents on construction sites, extensive or significant construction defects and associated claims for damages, the inability to provide the services requested by customers, negative reports in the (social) media, as well as threatened or actual litigation. In addition, the discussion about regulatory issues, such as the affordability of housing, the rent cap and sustainability issues, may all impact the reputation of Instone Real Estate.

Instone Real Estate may also encounter inconsistencies with local authorities and/or regulators in connection with its activities, resulting in administrative proceedings and unfavourable decrees, directives or enactments that could lead to financial losses and delays in the completion of development projects.

With the involvement of external partners, Instone Real Estate has coordinated and developed a communication strategy and steps to take for various potential events. Reports in the (social) media are monitored constantly in order to be able to respond in the short term to relevant reports.

Incorrect or poor communication with the capital market (analysts and investors) means that Instone Real Estate may risk failing to meet the expectations of the capital market. This could lead to a lasting loss of reputation that could have an impact on the valuation of the Company.

The Company's aim is to be informed at all times about the current business and market developments within the Group through regular coordination of the specialist departments. This information policy forms the basis for external communication. There is a regular exchange with the capital market (investors and analysts).

Despite the established risk communication, Instone Real Estate considers the impact of potential reputational risk to be relevant.

Competition

The German residential real estate market is highly competitive. This competition covers the entire value chain of Instone Real Estate's development activities. Competitors mainly consist of local real estate developers who have very good networking and specialist knowledge in these markets. There are also other major competitors throughout Germany who operate in the same regions and cities where Instone Real Estate is represented. Instone Real Estate also competes with these residential real estate developers to acquire attractive development properties which are typically limited in availability and in high demand.

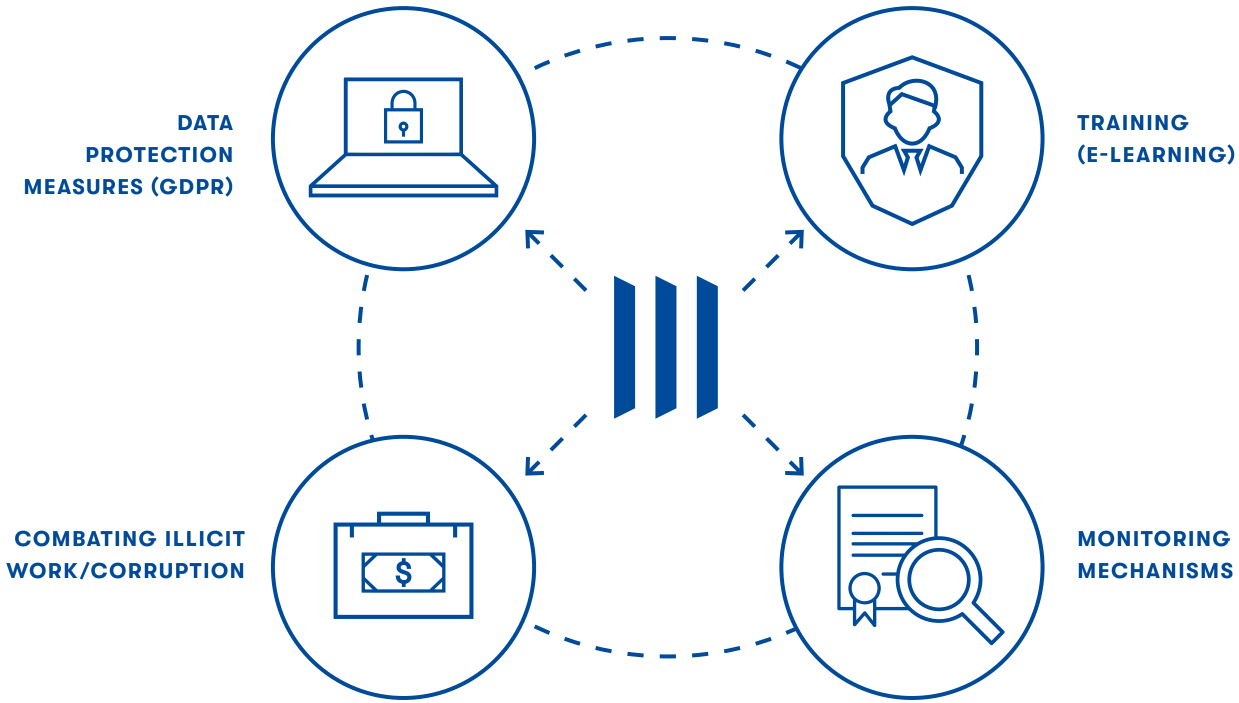
Nevertheless, Instone Real Estate is one of the leading project developers with expertise in urban district development and complex building law. With its established branch structure which focuses on the eight Core Cities as well as Nuremberg and Erlangen, Instone Real Estate has continued its strategy of intensive and regionally adapted market development. Instone Real Estate achieves very good networking in the markets thanks to its regional structure. This enables us to achieve our targeted acquisition volume and gives Instone Real Estate access to interesting projects. This regional structure was expanded to include the Erlangen site in 2019.

The impact of the risk of increasing competitive pressure is considered to be relevant despite the successfully implemented strategy.

Compliance and data protection

The real estate and construction sectors are subject to various laws and regulations, which relate to compliance with price-fixing and data protection law and the paying the minimum wage and measures to combat illegal work, bribery and corruption as well as anti-money laundering, among other things. Instone Real Estate depends on all its employees complying with the applicable laws and compliance guidelines issued by Instone Real Estate. In the 2019 financial year, Instone Real Estate revised a series of guidelines regarding Group-wide compliance policies and processes to further increase compliance. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

COMPLIANCE RESPONSIBILITIES



With regard to our compliance and risk management procedures and monitoring mechanisms, we seek to detect and prevent any law violations and unethical behaviour (including corruption). Instone Real Estate is constantly working on improving the compliance management system and providing supportive information to all employees.

In the 2019 financial year, there were no legal proceedings due to anti-competitive behaviour, price-fixing or monopoly practices. Furthermore, Instone Real Estate is not aware of any allegations of corruption, so no risks have arisen in this area. GRI 206-1; 205-3

New rules on data protection must be observed in accordance with the General Data Protection Regulation (DSGVO) which came into force on 24 May 2016 and has been applicable since 25 May 2018. The sanctions for non-compliance are considerable. Instone Real Estate has appointed an external Data Protection Officer who is available as a contact person for all employees. Instone Real Estate provides its employees with annual training and information material from the external Data Protection Officer. The IT landscape of Instone Real Estate has been adapted to current legislation. The technical and organisational measures taken to protect data are regularly reviewed to ensure they are up-to-date and offer little scope for cyber attacks. A possible data breach or non-compliance would have significant consequences. GRI 418-1; 417-2; 417-3

Despite the measures implemented, there remains a residual risk. We consider the impact of these risks arising from compliance to be relevant.

Financial risks

Banking partners

Assets not covered by deposit insurance may be at risk and existing financing may not be continued due to the potential illiquidity of one of our banking partners. This would result in a possible liquidity shortage which would prevent new acquisitions and may even stop liabilities from being serviced.

Instone Real Estate has a Financial Risk Policy that specifies the concept and structure of banking selection. Financial transactions may only be concluded with the prior approval of the Management Board and only with approved banking partners. In order to assess creditworthiness, Instone Real Estate follows the general market observations of the individual credit institutions and reviews potential default risks in given cases. We consider the potential impact of the risk to be relevant.

Financing structure

Financial covenants have been established in various financing agreements. Failure to comply with the financial covenants may involve the risks arising from more stringent financing conditions and extraordinary terminations of financing which trigger the repayment of the financing provided. In addition, lenders may also require the liquidation of pre-existing collateral. In the event of terminations and the associated premature repayment of the financing, refinancing would only be possible under less favourable conditions. The covenant requirements are continuously monitored and forecast at Instone Real Estate and there is comfortable leeway in this regard.

The probability that this risk will occur is very low due to this continuous monitoring. Based on corporate planning, there are also no indications that the financial covenants cannot be complied with in the future. page 143

However, we consider this to be relevant as the occurrence of the risk of failure to comply with the financial covenants would have serious consequences.

Accounting

Failure to comply with legal and internal regulations may result in incorrect quarterly, consolidated or annual financial statements. The German Corporate Governance Code (GCGC) could lead, inter alia, to other requirements that may need to be met.

With regard to the accounting process, Instone Real Estate has an internal control system (ICS) which was mentioned at the beginning of the risk report. The ICS aims to reduce potential risks to a minimum.

Instone Real Estate does not consider the potential impact of these accounting risks to be relevant due to the system that is in place.

Liquidity

The solvency of the Company is monitored on an ongoing basis by continuously updating the liquidity forecast. The liquidity forecast structures anticipated cash flows in monthly time windows according to their origin so that the level of risk and probability can be identified in a targeted way and quantified. The respective specialist departments provide planned figures for higher-level cash flows. The resilience and feasibility of investment projects or strategic management decisions can be analysed with the help of scenario analyses in the overall context of the company-wide liquidity forecast.

Each company must maintain a minimum level of liquidity to ensure stable liquidity. As far as economically reasonable, debt financing is generally concluded for projects.

Sufficient cash and cash equivalents were available throughout the financial year.

There are no discernible circumstances that indicate a liquidity shortage. Instone Real Estate considers the potential impact of liquidity risk to be relevant, despite the implemented measures due to the serious effects.

Tax

Regular tax audits may reveal tax risks that might reach a relevant level when they occur. The audit procedures of Instone Real Estate have been completed for 2011 to 2013.

The current tax audit for Instone Real Estate for 2014 to 2016 is expected to be completed in December 2020. The basis for the conservative tax declaration is provided by accounting which uses the described ICS. The ICS aims to ensure the accuracy of the disclosures.

The Bundestag and the Bundesrat have passed a land tax reform. This has an uncertain impact on the entire real estate sector and could lead to an additional tax burden or a decline in demand. Although the land tax reform does not enter into force for several years, we must think in advance about what we will change.

Tax regulations relating to ‘interest barriers’ apply to Instone Real Estate. According to this, up to 30% net interest expenses (i.e. after deduction of interest income) of the taxable EBITDA are in principle tax deductible.

The possible impact of tax risks is considered to be relevant despite the conservative tax declaration.

Interest

The projects are financed by bank loans and equity. The current low interest rate levels allow Instone Real Estate to finance project costs efficiently. At present, a noticeable rise in interest rates is not foreseeable in the short term. For new projects which usually run over several years, we are using the precautionary principle and factoring in higher interest rates for the future. To achieve the best possible interest rate security for the projects, banks are promptly requested to state the financing conditions in the form of term sheets. The resulting financing conditions, in particular, the equity capital to be invested, the processing commission, and also the interest margin to be secured for the term of the financing, are then included in the economic analysis for the projects. Given the current market environment and the inclusion of an interest rate buffer, Instone Real Estate does not consider the potential impact of this risk to be relevant in the short term.

Instone Real Estate assumes that the ECB will slowly increase the key interest rate from the end of 2020 and has taken this into account in its planning.

Project business risks

Project risks are recorded, evaluated and summarised in reports. Based on this information, meetings are held monthly in the project team and in forecast and result discussions with the Management Board. The risks associated with approved projects or upcoming acquisitions and their respective mitigations are discussed and determined during these meetings.

The various levels of management are granted clearly-defined decision-making powers, including those relating to project management. For example, each new project (this also applies to the approval of the initiation of sales) is approved by the Management Board and, in the case of larger projects, also by the Supervisory Board. If projects run the risk of deviating from key approved parameters, this must be explained and discussed with the Management Board within the scope of the monthly forecast and result meetings.

Selecting business partners, engaging contractors and awarding contracts

Instone Real Estate relies on the provision of construction and other services by external suppliers and contractors for the realisation of its development projects. Such outsourced services in particular include architectural and engineering services as well as all construction services. There is strong demand and a shortage of spare capacity throughout the entire value chain due to the increased volume of construction throughout Germany.

Should Instone Real Estate be unable to find qualified and reliable contractors for its development projects, this could hamper its ability to complete projects on time within the stipulated limit and in the due quality.

As part of its corporate strategy, Instone Real Estate relies on its regional and partially cross-regional networks to engage qualified and reliable contractors, most of whom have long-standing relationships with Instone Real Estate, with a correspondingly long-term lead. In addition to maintaining a consistently high quality, these measures also serve to ensure the sustainable safeguarding of resources on the market.

Instone Real Estate has also defined guidelines indicating the evidence to be provided by contractual partners in order to prove their qualifications and reliability.

Furthermore, a lack of cost certainty in projects due to late subcontracting to subcontractors may lead to projects or individual Sections of projects being implemented inefficiently. Cost increases due to short-term contracts and the resulting insufficient market penetration may have a negative impact on project results.

The implementation standards of our projects are subject to continuous development in order to adapt them to current state-of-the-art technology and the requirements of our customers. In order to achieve a high degree of cost certainty for the individual projects, the Project Services department carries out cost calculations for all branches on basis of the direct costs on partial services at the latest at the start of sales of our projects and can draw on the cost parameters and experience from the entire Instone Real Estate projects. For the continuous verification of our cost approach, we regularly create post-calculations based on the actual costs incurred per project and transfer the knowledge gained from this to the ongoing calculation process.

Furthermore, we also reduce cost risks by agreeing long-term partnerships with our contractors and by awarding contracts to contractors as early as possible for the most important contract work (structural work, building envelope, technical building equipment).

Instone Real Estate assesses the potential impact of the risks to be relevant and protects against this in each individual case at the earliest possible opportunity.

Approval process

Instone Real Estate relies on a strong regional network and expertise to reduce the risk of delayed project implementation due to delays in obtaining construction rights. Any challenges during the procurement of construction rights are analysed in detail. Outstanding issues are clarified in dialogue with local authorities and community representatives. However, due to the increased number of building applications, there may be delays in the process which could have a negative impact on the planned implementation schedule. In exceptional cases, the acquired land will need to be resold if construction rights are not granted. Due to the large project portfolio, such delays can often be addressed by re-prioritising the project implementation so that the impact is absorbed at enterprise level. The potential impact of this risk is considered to be relevant by Instone Real Estate.

Project implementation/construction

A variety of risks can occur during project implementation, causing a delay to the start of construction or the late completion of the development project. Such delays can also lead to an increase in construction costs that Instone Real Estate may not be able to compensate for. As a result, under some circumstances Instone Real Estate may not be able to sell some or all its development properties on profitable terms.

The refurbishment of listed buildings involves special risks associated with the essence of the building. This may lead to risks in terms of costs and time delays. These specific cost and deadline risks are part of our project planning and costing. Our branch office in Leipzig, which has many years of experience in the renovation of listed buildings, can transfer the experience of already successfully developed projects to the new projects, thus reducing or eliminating unexpected risks.

Instone Real Estate makes every effort to identify and evaluate all potential project risks at an early stage. The purpose of the regular meetings at project, branch and group level is, among other things, to closely support the project and discuss potential risks at an early stage in order to consider the further course of action together. Instone Real Estate encourages communication between employees to support knowledge transfer. In this way, specialist expertise can be passed on by a few people to other colleagues. All projects are conservatively forecasted in the controlling system and brought up to date with the current state of knowledge.

Instone Real Estate considers the potential impact of these risks to be relevant.

Sales

Before sales begin, it may be possible to apply market prices that can no longer be implemented at the time of the sale, so that the marketing and sales process of Instone Real Estate is slower, not at all or more cost-intensive.

Our risk management ensures that the planned revenues and schedules for each project are analysed and scrutinised critically by the Management Board during the approval and sales release processes. We use our pre-sale quota to test the project development concept and planned sales prices for market acceptance. If the concept is not accepted or, for example, if sales expectations are not achievable, the project will be re-adjusted and rechecked. At the same time, this approach enables us to identify and implement opportunities in sales.

Instone Real Estate considers the potential impact of the risk to be relevant.

Other project risks

Other risks affecting our projects, for example, as a result of vandalism or fire, are insured accordingly (in particular, with liability insurance, construction insurance and fire protection insurance during the construction phase). We have also taken out additional group-wide insurance to reduce potential losses for Instone Real Estate.

Instone Real Estate estimates the potential impact of the risk not to be relevant.

IT and communication risks

Instone Real Estate relies on dependable, efficient IT systems for its operations, and uses complex, customised IT systems to manage all phases of its development activities along the value chain. Instone Real Estate IT systems may fail or be disrupted by events that are entirely or partially beyond the control of Instone Real Estate. The systems may be vulnerable to unauthorised access and data loss (inside or outside the Group), computer viruses, malware, cyber security attacks and the interception or misuse of information transmitted or received by Instone Real Estate.

Instone Real Estate has implemented extensive data security measures and is constantly working to keep pace with developments and meet the needs of the IT industry. To ensure this, Instone Real Estate relies on specialist service providers and renowned manufacturers. In addition, the legal requirements, for example, from the European General Data Protection Regulation are taken into account when designing IT systems.

Instone Real Estate's server infrastructure also has complete server redundancy and is protected against viruses and malware using multi-level and continuously updated defence systems. Multi-level data storage systems allow the complete recovery of all data. Furthermore, as part of its digitisation strategy, Instone Real Estate is increasingly mirroring or relocating applications and data to Microsoft cloud data centres in the EU in order to further optimise the data security/redundancy and functionality of its IT systems. The measures taken ensure a minimum risk of failure and a high level of data security. Instone Real Estate does not consider the potential impact of IT and communication risks to be relevant due to the IT concepts that it has implemented.

Legal risks

Litigation

Instone Real Estate was exposed to several legal disputes during the 2019 financial year. The individual branches are responsible for the legal disputes and appoint local law firms in advance to defend against potential claims by third parties or to enforce claims. The majority of these claims relate to defects and the warranty rights of Instone Real Estate customers. Instone Real Estate has largely set aside provisions for litigation. The remaining potential impact of the risk is not considered to be relevant.

Liability and insurance

As the warranty period extends over several years, the risk of warranty claims continues long after completion of the projects. This could lead to costs which were not factored in. Instone Real Estate, working together with its contractors, aims to hand over real estate of a very high defect-free quality and therefore to prevent any potential claims. Instone Real Estate is also entitled to assert acquirers' claims against the executing contractor.

Although Instone Real Estate is insured against fire, natural disasters, business interruption and liability, Instone Real Estate's insurance contracts are subject to exclusions (such as terrorist attacks) and liability limits for claims and insured events. With the help of an insurance concept, we assume that we are adequately insured against the most common types of damage.

For these reasons, we do not consider the potential impact of the risk to be relevant.

OPPORTUNITIES REPORT

Aside from the risks mentioned, the current prevailing market conditions and forecasts regarding the development of the market also offer major opportunities for Instone Real Estate. These include:

→ Persistently high demand for housing

→ Rising population in conurbations

→ Expansion of demand to the outskirts of the conurbations

→ Low financing costs for Instone Real Estate and purchasers of real estate

→ Only a few investment alternatives in the low interest rate environment

Instone Real Estate is one of the largest German project developers in residential real estate and is represented nationwide in the most in-demand conurbations in Germany. The majority of other German residential developers only have a local presence. They have very good networks in the market environment, but their potential project volume is generally smaller than the size of our projects. The project volume of Instone Real Estate rose from €4.8 billion to €5.8 billion during the past year.

Local housing project developers are direct competitors for Instone Real Estate due to their local networking. Project developers represented nationwide are further competitors. A marked intensification of competition is notable here as more and more players are pushing into the high-yield residential construction market, especially in the metropolitan areas. Nevertheless we see advantages for Instone Real Estate due to its supra-regional presence with competence in urban district development and complex building law creation as well as the good networking in the target regions.

With its established branch structure which focuses on the seven A cities plus Leipzig and Nuremberg/Erlangen, Instone Real Estate has continued its strategy of intensive and regionally adapted market development. Instone Real Estate achieves very good networking in the markets thanks to its regional structure. This enables us to realise our targeted acquisition volume and gives Instone Real Estate access to interesting projects.

In the case of acquired and newly acquired properties, we see opportunities for Instone Real Estate, on the basis of our many years of experience in terms of gross floor area (GFA), site occupancy ratio (SOR) and floor area ratio (FAR).

Instone Real Estate pursues a sustainable value-oriented business model focussed on growth and customer orientation which unites the interests of shareholders and buyers. Instone Real Estate's growth strategy is geared towards the sustainable growth of its existing project portfolio and attractive acquisitions which will add value. There are further opportunities to act in accordance with our growth strategy through active dialogue with the capital market and a high level of transparency towards investors and analysts.

Instone Real Estate considers itself to be very well positioned and has continued to grow at a higher rate than the market average. The branches have established themselves in the market at their respective locations and are perceived to be competent partners. This trend reflects the quality of our real estate, our sales skills and our resistance to cyclical fluctuations.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITIES SITUATION BY THE MANAGEMENT BOARD

In the overall assessment of the risk situation for Instone Real Estate in the 2019 financial year, there were no material changes compared to the previous year. From today's perspective, the Management Board of Instone Real Estate does not consider there to be any risks that the Company will be unable to adequately counteract or which risk jeopardising the continued existence of the Group's income from operations, net assets and/or financial position. Both our business model and our diversified financing instruments provide the most extensive independence from economic fluctuations.

Overall, this results in a risk profile that is normal for the business segment. An early analysis of the risks and a pro-active approach allow us to react in good time and mitigate the corresponding potential impact. The remaining risks have no material impact on the continued existence of Instone Real Estate. The risk situation was taken into account in the forecast.

None of the aforementioned risks had a material impact on Instone Real Estate in the 2019 financial year.

OUTLOOK

General economic and industry economic conditions

The Federal Ministry for Economic Affairs and Energy released the economic forecast for 2020 in autumn 2019. According to the forecast for the year 2020 the gross domestic product (adjusted for price) will increase by 1.1%[1] The German economy continues to grow. However, the momentum is dampened by difficult foreign trade issues (Brexit, uncertain political situation in the USA and the Middle East) and by additional special effects (climate discussion, regulatory adjustments in Germany and other countries in the real estate sector). The labour market continues to develop positively. Business demand for workers remains very high in many sectors, such as the real estate industry. The average unemployment rate for 2019 was still very low at 5.0%. According to forecasts, the average unemployment rate for 2020 will only increase slightly to 5.1%.[2] In the meantime, however, the coronavirus pandemic described on the following page has created considerable uncertainty regarding previous expectations. The Board of Management therefore expects a significant slowdown in overall economic development going forward.

Housing development is developing moderately, but is still not meeting the demand for housing. Persistent high demand coupled with limited supply at the same time allow sale prices and rents to rise further, albeit at a more moderate pace than in previous years.

Vacancy rates are permanently low in the housing markets in the top locations. Due to the steadily growing population in conurbations, the new construction is lagging behind the demand for housing despite rising completion figures. At the same time, building is becoming more difficult as the number of designated construction areas is decreasing and civil participation in protests and countermeasures continue to increase. The capacity utilisation of the construction industry remains high and can only be compensated by long-term commissions and by highlighting the prospects for subcontractors. Nonetheless, these conditions do increase building prices. The gap between approved and actually finished apartments is steadily increasing. We are working hard to close this gap with the projects we have acquired and those we are planning to initiate.

There are no signs of a slowdown in the housing markets, so the continued buoyancy of flat purchase prices and rents in the forecast period is expected to continue until the end of 2020.

In the past ten years (incl. forecast value for 2019) the population of the Alocations of Instone Real Estate grew between about 6.3% (in Dusseldorf) and 17.8% (in Frankfurt am Main)[3] Therefore, almost 1 million more people live there today than in 2009. In fact, only 182,700 flats have been completed at Instone Real Estate's Core-Cities in the past five years. The gap between supply and demand is also continuing to grow.

The resources in the construction industry are still subject to an extremely high rate of utilisation and are thus a key factor in successful development. A major difference is the lack of "manpower" and the much higher capacity utilisation of the construction industry. This is demonstrated by the capacity utilisation determined by the Federal Institute for Building, Urban Affairs and Spatial Research, which was around 77% in the fourth quarter of 2019, which is about 3% below the previous year's figure. However, this does not lead to a more relaxed situation.[4]

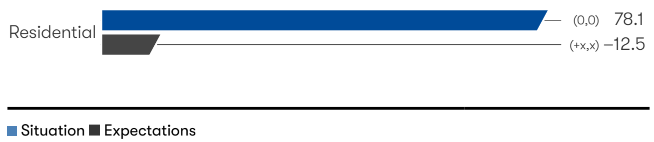
The housing construction sector still has room to grow, which is also evidenced by the persistently growing surplus of building permits in comparison with construction completions. At the top eight locations of Instone Real Estate, the gap was around 78,700 residential units in the last five years. Cumulatively since 2014, around 261,400 flats have been approved, but only about 182,700 units have been built.[3]

The prices for residential real estate are expected to increase more slowly in future, but the upward trend should continue over the next few years. Between 2018 and 2019, the purchase prices for residential real estate increased by around 6.8% (and by around 8% between 2017 and 2018) with rent increases of around 3.6% (around 5% between 2017 and 2018).[3]

The German real estate market remains interesting for investors – especially at a time of constant inflation[5] and continuing low interest rates.

IW REAL ESTATE INDEX FOR HOUSING AS OF: 4TH QUARTER 2019

In %



The IW Real Estate Index tracks the financial position of large real estate companies and project developers on a quarterly basis. The figures are based on the proportion of the net positive versus negative responses.[6]

The index shows that Germany will remain a more attractive housing market than its European neighbours, even if the real estate industry is looking forward to 2020 with mixed feelings. The indices, which are clearly worse than in the previous year (situation –19% and negative expectations), are above all due to topics of regulation that are discussed in many ways.[6]

↗

1 www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html
2 www.spiegel.de/wirtschaft/soziales/arbeitslosigkeit-forscher-rechnen-2020-mit-leichtem-anstieg-a-1302079.html
3 Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019
4 www.bbr.bund.de/BBSR/DE/Bauwesen/BauwirtschaftBauqualitaet/Bauwirtschaft/kapazitaetsauslastung/ergebnisse.html;jsessionid=7AC5C0B47BF48EC729D2EB2B63F-BE064.live21304?nn=1949516
5 Inflation rate in Germany up to 2019 _ Statista
6 IW brief report 2019 on the real estate industry

Coronavirus pandemic

In December 2019, diseases caused by the novel and previously unknown coronavirus SARS-CoV-2 appeared for the first time in China. Further spread is also expected to have negative consequences for global supply chains, particularly the availability of certain raw materials and precursors.

Economists expect that the spread of the disease will dampen growth prospects worldwide. The extent to which this will occur cannot be conclusively assessed at present. Furthermore, a spreading infection cannot be ruled out for Germany either.

Instone Real Estate is dependent on a small number of global supply chains, as the vast majority of precursors come from local and regional production. Nevertheless, the absence of employees at Instone Real Estate or its subcontractors due to illness could result in a slowdown in construction activity or the shutdown of individual construction sites. In addition, as the virus becomes more widespread in Germany, interest on the part of both private and institutional buyers could temporarily decline. Overall, the Management Board believes that this could have a moderate impact on the net assets, financial position and results of operations of Instone Real Estate in financial year 2020, despite the structurally unbroken demand for residential space.

Outlook for the Instone Group

The forecast macroeconomic and industry economic conditions as well as assumptions about construction cost trends and selling price trends on the real estate market have a significant influence on the forecasts presented below. An important prerequisite is also to achieve significant milestones in our projects. A particular focus is on the planned start of sales, the achievement of the planned sale deadlines and the expected start and scheduled progress of our construction projects.

Any change in the economic and political factors or the opportunities and risks already described in the Section “Risk and Opportunities Report” page 71 – 82 of this Combined Management Report or any changes to the project schedule may cause the actual business development to deviate from the forecasts.

Against the backdrop of the macroeconomic outlook described above and on the basis of our well-filled project portfolio of around €5.8 billion as of 31 December 2019, Instone Real Estate expects business to develop positively overall in the 2020 financial year. The risks from the described coronavirus pandemic have been taken into account by the Management Board in its assessment and currently assume a moderate negative impact on the business development.

Assuming that the effects of the coronavirus pandemic on the overall economic environment normalise as the year progresses, we expect a volume of sales contracts in 2020 of more than €600 million. This forecast is based on the current market offer of €340 million and further projects to be sold in 2020. In the average of the years 2019 and 2020 Instone Real Estate will thus reach or exceed the medium-term goal of a marketing volume of about €1 billion.

We also expect adjusted sales of €600 million to €650 million for the 2020 financial year.

FORECAST OF THE MANAGEMENT KEY PERFORMANCE INDICATORS FOR 2020

In millions of euros

		2020 outlook
Revenues (adjusted)		600 to 650
Earnings before interest and tax (EBIT) (adjusted)		95 to 120
Volume of sales contracts		greater 600
Gross profit margin (adjusted)	In %	approximately 26 – 27

Based on the projected profitability of our projects, we expect an adjusted gross profit margin of around 26–27%. The resulting adjusted consolidated earnings before interest and tax will range between €95 million and €120 million.

Overall statement by the Management Board on future trends

Overall, the Management Board of the Instone Group expects a consolidation of the business volume for the 2020 financial year. In view of the considerable contributions to the adjusted sales revenues in 2019 from the “Westville” project, which will not be repeated in this amount. The risks from the described coronavirus epidemic have been taken into account by the Management Board in its assessment and currently assume a moderate negative impact on the business development.

REMUNERATION REPORT

This remuneration report is part of the Combined Management Report of Instone Real Estate Group AG. In accordance with the legal requirements and the recommendations of the German Corporate Governance Code (GCGC) in the version dated February 2017, it explains the principles and structure of the compensation system for the Management Board and Supervisory Board of Instone Real Estate Group AG and also discloses the remuneration of individual Management Board and Supervisory Board members for the performance of their duties in the Company and its subsidiaries in the 2019 financial year. It also takes into account the requirements of German Accounting Standard No. 17 (Deutscher Rechnungslegungsstandard, GAS) and the HGB.

Transparency and traceability of the remuneration system and the individual remuneration of the Management Board and Supervisory Board members are key components of good corporate governance at Instone Real Estate Group AG.

REMUNERATION OF THE MANAGEMENT BOARD

Remuneration system

Responsibility for determining the total remuneration of the individual members of the Management Board and the regular review of the remuneration system lies with the Supervisory Board of Instone Real Estate Group AG. The Supervisory Board has also set up a Remuneration Committee which, in accordance with the Supervisory Board's rules of procedure, is responsible for providing advice regarding the employment contracts of Management Board members and preparing the relevant decisions of the Supervisory Board.

The remuneration system described below for the members of the Management Board of Instone Real Estate Group AG was already in force at the time of the Company's conversion into a stock corporation under German law. It has been in existence in this form since 13 February 2018, the date of the Company's change of legal form from a limited liability company under Dutch law to a Dutch stock corporation, which took place immediately prior to the successful initial public offering and first listing on the Frankfurt Stock Exchange on 15 February 2018.

The existing remuneration system had already been discussed by the annual general meeting of former Instone Real Estate Group N.V. on 29 June 2018 prior to the change of legal form to a German stock corporation. The Supervisory Board will continue to address the topic of the appropriate remuneration of the Management Board in line with its responsibility in this regard.

Basic features of the remuneration system for the Management Board

The remuneration of Instone Real Estate Group AG's Management Board is determined in accordance with the requirements of the German Stock Corporation Act (AktG) and in consideration of the GCGC and is geared towards sustainable corporate development. The calculation is mainly based on the size and complexity of the Instone Group, its economic situation and financial position, and its success and future prospects. Further criteria for determining the remuneration are the respective tasks and the personal performance of the individual members of the Management Board. The structure and appropriateness of the Management Board's remuneration is subject to the Supervisory Board's regular review in accordance with its supervisory responsibilities.

The total remuneration of the individual members of the Management Board consists of various components. In terms of structure, the remuneration components are regulated in the same way for all members of the Management Board and have the following essential content. Two members of the Management Board have a pension commitment in deviation from this.

The remuneration of the Management Board consists of non-performance-related salary and benefits in kind, performance-related (variable) emoluments and pension commitments. Variable remuneration is based on a multi-year assessment basis in order to create incentives for sustainable and long-term corporate development. The system explicitly stipulates that both positive and negative developments are taken into account.

The regular cash remuneration for one year, consisting of a non-performance related fixed annual salary and a performance-based (variable) salary, is largely based on performance due to the high proportion of variable remuneration.

Non-performance related emoluments

The members of Instone Real Estate Group AG's Management Board receive non-performance-related emoluments in the form of a fixed base annual salary (base remuneration) and fringe benefits. The fixed annual base salary is paid in twelve equal instalments at the end of a month, and for the last time for the full month in which the Management Board employment contract ends.

The members of the Management Board also receive non-performance-related fringe benefits. These mainly include the use of a company car and the payment of premiums for accident insurance with standard services and the reimbursement of expenses and travel costs.

Performance-based emoluments

The performance-based remuneration components consist of a variable remuneration element with a (one-year) short-term incentive (STI) and a variable remuneration element with a multi-year long-term incentive (LTI).

One-year variable compensation (Short-term incentive, STI)

The one-year variable compensation in the form of an 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. The total amount of this variable remuneration component is determined according to the achievement of the objectives for the individual components described below and the following weighting:

Adjusted earnings before tax (EBT) with a weighting of	52.8%
Adjusted ROCE[1] with a weighting of	27.2%
Personal targets with a weighting of	20.0%

[1] Adjusted return on capital employed (ROCE) = adjusted EBIT in relation to a two-year average of equity plus net debt.

If the targets derived from the business plan prepared by the Management Board for the financial year and approved by the Supervisory Board are fully achieved, the target achievement is 100%. The achievements of the weighted targets (adjusted EBT, adjusted ROCE and personal targets) are added together to give the overall target achievement.

The target figures are derived from the annual budget and are determined by the Supervisory Board. At the end of the respective bonus year, the Supervisory Board determines the achievement of the objectives in relation to the personal and company-related targets. The amount is paid in the month following the audited annual financial statements. If the target achievement is less than 80%, the targets are considered to have been missed and there is no entitlement to the variable remuneration component (target lower limit).

The one-year variable remuneration is limited in its total amount to the amount corresponding to a target achievement of 150% (target upper limit).

If the Management Board member is not entitled to remuneration for the entire financial year underlying the calculation, a corresponding pro rata reduction of this variable remuneration component will be made.

Multiple year variable remuneration (LTI)

As a further component of variable remuneration, the members of the Management Board are also promised multiple year variable compensation in the form of an LTI bonus.

Any LTI bonus depends on the achievement of corporate goals during the bonus year. The assessment bases used are the projected and actual values specified for adjusted earnings before tax (EBT). To determine the goals achieved, the projected EBT figure is set in relation to the actual EBT figure. The projected figure is derived from the business plan for the financial year.

The contractually agreed base amount – an individually determined starting amount for each member of the Board of Management which is used as the basis for the calculation – is multiplied by the target achievement calculated. If the target achievement is less than 80% in the bonus year, the targets are considered to have been missed and there is no entitlement to an LTI bonus.

Any LTI bonus is limited to the amount corresponding to a target achievement of 150% in the bonus year (Cap 1).

The multiplied base amount gives the value which is then divided by the average closing prices of Instone shares for the specified last 20 trading days before the end of the relevant bonus year. This is then used to calculate the number of virtual shares which are relevant to the bonus year.

The virtual shares calculated annually for the bonus year have a term of three years and are only paid out at the end of the respective term at the share price determined at that time plus any dividend that may have been distributed.

The payout amount at the end of the three-year term is capped per virtual share to the amount corresponding to 200% of the value determined for the respective bonus year (Cap 2).

If the employment contract of a member of the Management Board is terminated extraordinarily for good cause before the end of the term of the LTI bonus (so-called “bad leaver case”), this will result in the expiry of all rights arising from the LTI bonus which is attributable to a period before the expiry of the respective term of three years.

If the employment contract of a member of the Management Board is terminated before the end of the term of the LTI bonus and no other prerequisites for a “bad leaver case” exist, the entitlement to the LTI bonus exists on a pro rata basis (so-called “good leaver case”).

The plan is a cash-settled, long-term incentive plan that does not include the right to receive actual shares. In accordance with the requirements of GAS 17, IFRS 2 and HGB, the total expense from share-based payment and the fair value of the performance share plan must be disclosed when the payment is granted.

Pension commitments

Two 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 pension amount is determined using a percentage of the fixed remuneration which increases depending on the length of the term of office. A member of the Management Board receives a maximum of 65% of his last fixed remuneration. Survivors receive 60% of the pension. GRI 201-3

The following overview shows the contributions (allocations) to the pension plan attributed to the individual Management Board members and the corresponding itemised cash values under the IFRSs and HGB.

PENSION COMMITMENTS

In thousands of euros

		2019	Allocation	2018
Kruno Crepulja (CEO)	HGB	219.5	61.3	158.3
	IFRS	298.5	76.5	222.0
Andreas Gräf (COO)	HGB	215.2	33.2	182.0
	IFRS	279.9	35.0	244.9
	HGB	**434.7**	**94.5**	**340.2**
	IFRS	**578.4**	**111.5**	**467.0**

The pension obligations and the corresponding cash values in individualised form according to IFRS and HGB to former members of the Management Board are shown in the following overview.

PENSION COMMITMENTS OF FORMER MEMBERS OF THE MANAGEMENT BOARD

In thousands of euros

		2019	Allocation	2018
Pension commitments of former members of the Management Board	HGB	1,099.2	70.6	1,028.6
	IFRS	1,378.7	47.9	1,330.8

Remuneration of Management Board members in the 2019 financial year

In accordance with the recommendations of the GCGC in the version of 7 February 2017, the remuneration of Management Board members is presented in two separate tables. The benefits granted for the financial year including fringe benefits and for variable remuneration components, the minimum and maximum achievable remuneration are reported in one table.

The inflow/total remuneration earned, consisting of fixed remuneration, short-term variable remuneration and long-term variable remuneration, is differentiated according to the respective reference years in the other table.

Benefits granted in accordance with GCGC

BENEFITS GRANTED IN THE FINANCIAL YEAR

In thousands of euros

	Kruno Crepulja				Dr Foruhar Madjlessi			
	CEO				CFO			
	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)	2018
Non-performance related emoluments								
Fixed remuneration	450	450	450	421	360	360	360	0
Benefits-in-kind and other additional remuneration	26	26	26	24	16	16	16	0
Severance payments	0	0	0	0	0	0	0	0
	476	**476**	**476**	**445**	**376**	**376**	**376**	**0**
Performance-based emoluments								
Short-term Incentive	250	0	375	250	300	0	450	0
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2018 – 31.12.2021)	0	0	0	300	0	0	0	0
Performance share plan (01.01.2019 – 31.12.2022)	300	0	900	0	250	0	750	0
	550	**0**	**1,275**	**550**	**550**	**0**	**1,200**	**0**
Remuneration for old-age provision								
Pension expenses	68	68	68	26	0	0	0	0
Total emoluments	**1,094**	**544**	**1,819**	**1,021**	**926**	**376**	**1,576**	**0**
Reconciliation to total remuneration within the meaning of Sections 285 no. 9a and 314 (1) no. 6a HGB in conjunction with GAS 17								
Less pension expenses	– 68			-26	0			0
Plus obligation figure retirement	61			48	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**1,087**			**1,043**	**926**			**0**

BENEFITS GRANTED IN THE FINANCIAL YEAR

In thousands of euros

	Andreas Gräf				Torsten Kracht			
	COO				CSO			
					Resigned: 31/12/2019			
	2019	**2019 (min.)**	**2019 (max.)**	**2018**	**2019**	**2019 (min.)**	**2019 (max.)**	**2018**
Non-performance related emoluments								
Fixed remuneration	300	300	300	285	200	200	200	191
Benefits-in-kind and other additional remuneration	16	16	16	15	22	22	22	23
Severance payments	0	0	0	0	0	0	0	0
	316	**316**	**316**	**300**	**222**	**222**	**222**	**215**
Performance-based emoluments								
Short-term Incentive	260	0	390	260	225	0	338	225
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2018 – 31.12.2021)	0	0	0	180	0	0	0	125
Performance share plan (01.01.2019 – 31.12.2022)	180	0	540	0	125	0	375	0
	440	**0**	**930**	**440**	**350**	**0**	**712**	**350**
Remuneration for old-age provision								
Pension expenses	27	27	27	34	0	0	0	0
Total emoluments	**783**	**343**	**1,273**	**774**	**572**	**222**	**934**	**565**
Reconciliation to total remuneration within the meaning of Sections 285 no. 9a and 314 (1) no. 6a HGB in conjunction with GAS 17								
Less pension expenses	–27			–34	0			0
Plus obligation figure retirement	33			55	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**789**			**796**	**572**			**565**

The total compensation granted to the members of the Management Board totalled €3.4 million for the 2019 financial year (min. €1.5 million, max.: €5.6 million) (previous year: €5.1 million). Of which, €1.3 million (previous year: 1.2 million Euro) to fixed, non-performance-related, 1.9 million €(min: €0 million, max.: €4.1 million) (previous year: €1.3 million) to variable, one-year and multiple year performance-related compensation components, €0.1 million (previous year: €0.7 million) to non-performance-related, non-cash benefits and other benefits, €0 million (previous year: €1.5 million) to severance payments and €0.1 million (previous year: €0.4 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

Inflow according to the GCGC

GRANTS RECEIVED/EARNED IN THE FINANCIAL YEAR

In thousands of euros

	Kruno Crepulja		Dr Foruhar Madjlessi		Andreas Gräf		Torsten Kracht	
	CEO		CFO		COO		CSO	
			Joined: 01/01/2019				Resigned: 31/12/2019	
	2019	2018	2019	2018	2019	2018	2019	2018
Non-performance related emoluments								
Fixed remuneration	450	421	360	0	300	285	200	191
Benefits-in-kind and other additional remuneration	26	24	16	0	16	15	22	23
Severance payments	0	0	0	0	0	0	0	0
	476	**445**	**376**	**0**	**316**	**300**	**222**	**215**
Performance-based emoluments								
Short-term Incentive	359	175	0	0	374	140	323	140
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2015 – 31.12.2018)	0	8,349	0	0	0	5,379	0	1,912
	359	**8,524**	**0**	**0**	**374**	**5,519**	**323**	**2,052**
Remuneration for old-age provision								
Pension expenses	68	26	0	0	27	34	0	0
Total emoluments	**903**	**8,995**	**376**	**0**	**717**	**5,854**	**545**	**2,266**

The total remuneration received/earned by the members of the Management Board totalled €2.5 million for the 2019 financial year (previous year: €25.1 million). Of which, €1.3 million (previous year: €1.2 million) was allocated to fixed, non-performance-related compensation components, €1.1 million (previous year: €21.3 million) to variable, one-year and multiple year performance-related compensation components, €0.1 million (previous year: €0.7 million) to non-performance-related, non-cash benefits and other benefits, €0 million (previous year: €1.5 million) to severance payments and €0.1 million (previous year: €0.4 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

In the year under review, no advances were paid to members of the Management Board and no loans were made.

REMUNERATION OF THE SUPERVISORY BOARD

Remuneration system

The remuneration of the Supervisory Board is set out in Section 13 of Instone Real Estate Group AG's Articles of Assostiation and is designed as a purely fixed remuneration.

Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of €60,000.00 The Chairman of the Supervisory Board receives twice the remuneration and the Deputy Chair one and a half times this amount. Members of the audit committee receive an additional lump-sum remuneration of €15,000.00 while members of the remuneration and nominations committee each receive an additional €1,500.00 for each financial year in return for their work on these committees. The respective committee chair receives twice the remuneration. Reasonable out-of-pocket expenses are also reimbursed to the members of the Supervisory Board by the Company. The Company has also included the members of the Supervisory Board in D&O group insurance for corporate bodies. No performance-related remuneration is paid for Supervisory Board members.

If a member of the Supervisory Board does not belong to the Supervisory Board or to a committee for the entire financial year, their remuneration is reduced pro rata temporis. The Company reimburses each member for the VAT due on their remuneration.

Remuneration of the members of the Supervisory Board during the 2019 financial year

The total remuneration of the Supervisory Board during the 2019 financial year was €425,700.00 (previous year: €406,300.00). Of which, €354,900.00 (previous year: €343,000.00) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €70,800.00 (previous year: €63,300.00). The following table shows the individual emoluments of the members of the Supervisory Board for the 2019 financial year.

SUPERVISORY BOARD REMUNERATION

In thousands of euros

	Remuneration in 2019		
	Role	Role	
	General Committee	Committees	Total
Stephan Brendgen	120.0	18.6	138.6
Dr Jochen Scharpe	88.1	31.9	120.0
Marija Korsch	60.0	8.8	68.8
Dietmar P. Binkowska	43.4	2.6	46.0
Thomas Hegel	43.4	8.8	52.2
Total remuneration	**354.9**	**70.8**	**425.7**

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 and agency services. Nor were members of the Supervisory Board granted any advances or loans.

TAKEOVER LAW DISCLOSURES

The legal acquisition disclosures are shown below in accordance with Sections 315a and 289a HGB:

1 COMPOSITION OF THE SUBSCRIBED CAPITAL

As at 31 December 2019, the subscribed capital (share capital) of Instone Real Estate Group AG amounted to €36,988,336.00. It is divided into 36,988,336 no-par-value bearer shares. The share capital is fully paid up. All shares in the Company have the same rights and obligations. Each share carries one vote and an entitlement to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As of 31 December 2019, the Company did not hold any of its own shares.

2 RESTRICTIONS AFFECTING VOTING RIGHTS AND THE TRANSFER OF SHARES

To the knowledge of the Management Board, members of the Management Board and members of the extended management have acquired shares from former direct sole shareholders in connection with the restructuring of a management remuneration programme even before the IPO and in connection with the IPO itself. According to this restriction, these shares may not be sold or otherwise transferred, inter alia, without the consent of the former direct sole shareholders. The transfer and voting restrictions will end 12, 24 or 36 months after the date on which the respective share acquisition was concluded with the former direct sole shareholders for one third of the shares acquired during the acquisition of shares. As far as the Management Board is aware, the aforementioned transfer restriction affects a total of 435,531 shares of the Company.

Furthermore, the Company is not aware of any other agreements entered into by shareholders of Instone Real Estate Group AG concerning the restriction of voting rights or the transfer of shares.

3 DIRECT OR INDIRECT INTERESTS IN THE CAPITAL AMOUNTING TO MORE THAN 10% OF THE VOTING RIGHTS

To the knowledge of the Management Board, there are no direct or indirect shareholdings in the capital amounting to more than 10% of the voting rights. GRI 102-25

4 SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL POWERS

There are no shares with special rights which confer control powers.

5 TYPE OF VOTING RIGHTS CONTROL WHEN EMPLOYEES HAVE SHAREHOLDINGS IN THE CAPITAL AND DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS

There are no employee shareholdings in the Company’s capital in which the employees do not directly exercise their own control rights.

6 APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD; AMENDMENTS TO THE RULES OF PROCEDURE

The appointment and dismissal of members of the Management Board of the Company are in accordance with the provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG). According to Section 8.1 of the Company's Articles of Association, the Management Board consists of at least two people. The Supervisory Board determines the number of Management Board members. It may appoint a chair and a deputy chair of the Management Board in accordance with Section 84 AktG and Section 8.2 of the Company's Articles of Association.

Pursuant to Section 179 (1) 1 AktG, the amendment of the Company's Articles of Association is made by resolution of the Annual General Meeting. Resolutions of the Annual General Meeting are passed in accordance with Section 20.4 of the Company's Articles of Association by a simple majority of the votes cast, unless statutory legislation or the Articles of Association require a larger majority. If the statutory legislation requires a capital majority in addition to the majority of votes, the simple majority of the share capital represented when passing the resolution is sufficient, unless the statutory legislation or Company’s Articles of Association stipulate otherwise. According to Section 20.5 of the Company’s Articles of Association, resolutions that can be passed with a simple majority of votes and capital pursuant to Section 20.4 of the Articles of Association, in particular, include, but not exclusively, all resolutions of the Annual General Meeting regarding capital increases with shareholders’ subscription rights against contributions (Section 182 (1) AktG), capital increases from Company funds (Section 207 (2) AktG in conjunction with Section 182 (1) AktG) and the issue of convertible bonds, participating bonds and other instruments to which shareholders have a subscription right (Section 221 AktG). According to Section 20.6 of the Articles of Association, the dismissal of members of the Supervisory Board who have been elected without being bound by an election proposal requires a majority of at least three quarters of the votes cast. According to this provision of the Articles of Association, this also applies to the amendment of Section 20.6 of the Articles of Association themselves. Finally, pursuant to Section 17.3 of the Articles of Association, the Supervisory Board is entitled to make amendments and additions to the Articles of Association which only affect the wording.

7 POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES

7.1

In accordance with Section 6.1 of the Articles of Association, the Management Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital until 28 June 2023 by up to a total of €18,450.00 by issuing up to a total of 18,450,000 new no-par-value shares against cash and/or non-cash contributions (Authorised Capital 2018) and, in accordance with Section 6.2 of the Articles of Association with the consent of the Supervisory Board, to exclude the subscription rights of shareholders under certain conditions and within predefined limits. The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen (HRB 29362) during the cross-border conversion on 28 August 2018.

7.2

The Management Board was authorised by the Annual General Meeting with effect from 28 June 2019, with the consent of the Supervisory Board, to issue bearer or registered bonds with warrants or convertible bonds with a total nominal value of up to €250 million with or without a limited term (hereinafter jointly referred to as **"Bonds"**) on one or more occasions up to 12 June 2024 and to grant the holders or creditors of the bonds option or conversion rights for up to 3.698,833 new shares of the Company with a proportionate total amount of the share capital of up to €3,698,833.00 in accordance with the respective option or convertible bond conditions to be determined by the Management Board (hereinafter jointly referred to as **"Conditions"**).

In addition to Euro, the Bonds may also be issued in a foreign legal currency, limited to the corresponding €-equivalent. Furthermore, they may also be issued by companies dependent on the Company or majority-owned by the Company; in this case, the Management Board is authorised, with the approval of the Supervisory Board, to assume the guarantee for the Bonds on behalf of the Company and to grant the holders of such Bonds option or conversion rights to shares of the Company and to make further declarations required for a successful issue and to take actions. Issues of bonds can be divided into sub-bonds with equal rights.

The Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to bonds (i) in order to exclude fractional amounts resulting from the subscription ratio from shareholders' subscription rights to the bonds, (ii) in order to issue bonds against cash payment, provided that this is done at an issue price that is in line with the recognised issue price, however, this authorisation to exclude subscription rights only applies to the extent that the shares issued or to be issued to service the option or conversion rights or to fulfil the conversion obligation do not account for more than 10% of the share capital. The capital stock figure on the effective date of this authorisation is decisive when calculating this limit. If the capital stock is lower at the time the authorisation pursuant to number (ii) is exercised, this lower figure shall be used. This amount shall include the pro rata amount of the share capital, (x) which is attributable to shares that have been or will be issued during the term of this authorisation until its utilisation from authorised capital under exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act, (y) which is attributable to treasury shares of the Company that have been or will be issued on the basis of authorisations pursuant to Section 71 (1) no. 8 of the German Stock Corporation Act during the term of this authorisation until its utilisation under exclusion of the subscription right of shareholders pursuant to Section 186 (3) sentence 4 AktG, and (z) which is attributable to shares that are or will be issued to service warrant or convertible bonds issued or to be issued during the term of this authorisation until its utilisation on the basis of another authorisation in analogous application of Section 186 (3) sentence 4 AktG under exclusion of the subscription right. Finally, the Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to bonds (iii) to the extent necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds (or combinations of these instruments) issued by the Company or by dependent companies or companies in which the Company holds a majority interest to the extent to which they would be entitled after exercising their rights or fulfilling their obligations. Under the authorisation referred to in (iii), bonds may only be issued with the exclusion of subscription rights if the total of the new shares to be issued on the basis of such bonds, together with new shares from authorised capital or treasury shares of the Company, which are issued or sold by the Company during the term of this authorisation until it is exercised by utilising another authorisation with the exclusion of shareholders' subscription rights, and, together with rights issued during the term of this authorisation until it is exercised by exercising another authorisation under exclusion of subscription rights and which enable or oblige the conversion into or subscription to shares of the Company, no more than 10% of the share capital is arithmetically allotted. The basis for calculating the limit of 10% of the share capital is the capital stock at the time of effective date of this authorisation. If the capital stock figure is lower at the time the authorisation is exercised, this lower figure shall be used.

In the case of convertible bonds, the holders shall have the right to exchange their bonds for new shares in the Company in accordance with the specific conditions. The conversion ratio is calculated by dividing the nominal value of a bond by the fixed conversion price for a new share in the Company. The conversion ratio may also be calculated by dividing the issue amount of a bond below the nominal amount by the fixed conversion price for a new share in the Company. The conversion ratio can be rounded up or down to a whole number; in addition, an amount to be paid in cash can be set. Finally, it can be stipulated that fractions can be combined and/or compensated for in cash. The proportionate amount of the share capital represented by the shares of the Company to be issued per bond may not exceed the nominal amount of the bond or an issue price of the bond that is lower than the nominal amount.

The conditions may provide for the right of the Company to pay the holders of the conversion right the equivalent value in cash instead of the shares in the Company in the event of conversion; the value in cash is to be calculated in accordance with the specific conditions and shall correspond to the arithmetic mean of the closing prices of the share in the Company on the Frankfurt Stock Exchange in Xetra (or a comparable successor system) during the last ten trading days before the conversion was declared. The conditions may also provide for the right of the Company to grant the holders of the conversion right treasury shares in the Company or new shares from an authorised capital in the event of conversion. The conditions may also provide for a conversion obligation at the end of the term or at another time.

The conditions may provide for the right of the Company to grant the creditors of the bonds in whole or in part, in lieu of the payment of a due amount of money, new shares or treasury shares in the Company. The shares are credited with a value which, in accordance with the specific conditions, is based on the arithmetic mean of the closing prices of the shares in the Company on the Frankfurt Stock Exchange in Xetra (or a comparable follow-up system) during the last ten exchange trading days before the sum is due.

When issuing warrant bonds, one or more warrants shall be attached to each partial bond, entitling the holder to purchase shares in the Company in accordance with the conditions. The conditions may stipulate that the those entitled to exercise the warrant bonds are granted treasury shares in the Company or to new shares from authorised capital. The proportional amount of the share capital in the shares of the Company to be acquired per warrant bond may not exceed the exercise price of the warrant bond.

The warrant or conversion price for a share must be at least 80% of the arithmetic mean of the stock exchange prices of the Company's shares in the Xetra closing auction on the Frankfurt Stock Exchange (or a comparable successor system), and indeed, (i) if the subscription right is excluded or subscription rights trading does not take place for another reason during the ten exchange trading days before the day that the resolution is passed by the Management Board on the issue of the bonds or otherwise, (ii) during the exchange trading days on which subscription rights to bonds are traded on the Frankfurt Stock Exchange, with the exception of the last two exchange trading days of the subscription right trading.

The option and conversion price will then be reduced, without prejudice to Section 9 (1) AktG, on the basis of an antidilution clause in accordance with more detailed provisions of the terms and conditions by payment of a corresponding amount in cash when the conversion right is exercised or by reduction of the additional payment, if, during the option or conversion period, the Company increases the share capital or issues further bonds or grants or guarantees option or conversion rights while granting subscription rights to its shareholders, and the holders of existing option or conversion rights are not granted subscription rights to the extent to which they would be entitled after exercising their option or conversion rights.

Instead of a payment in cash or a reduction of the additional payment, the exchange ratio may also be adjusted, as far as possible, by dividing by the reduced conversion price. The terms and conditions may also provide for a value-preserving adjustment of the option or conversion price for other measures of the Company that may lead to a dilution of the value of the option or conversion rights, as well as in the event of a capital reduction, a stock split or a special dividend.

Subject to compliance with the above provisions, the Management Board is authorised to determine the further details of the issue and terms of the Bonds and their conditions or to determine them in agreement with the corporate bodies of the Group Company issuing the Bonds, in particular the interest rate, issue price, term and denomination, subscription or exchange ratio, creation of a conversion obligation, determination of an additional cash payment, compensation for or combination of fractional amounts, cash payment instead of delivery of shares, option or conversion price and the option or conversion period.

Until now, the Management Board has not made use of its authorisation to issue warrants or convertible bonds.

7.3

By resolution of the Annual General Meeting on 13 June 2019, the Management Board was authorised, with the consent of the Supervisory Board, to acquire own shares from the end of this Annual General Meeting until 12 June 2024 up to a total of 10% of the share capital of €36,988,336 or the lower share capital figure at the time the authorisation is exercised, whereby the authorisation may be exercised in full or in partial amounts, once or several times. However, the shares acquired on the basis of the authorisation, together with other shares in the Company that the Company has already acquired and still owns, may not account for more than 10% of the existing share capital at any time. The authorisation may also be exercised by dependent companies or companies in which the Company holds a majority stake or by third parties for the account of the Company or by its dependent companies or companies in which the Company holds a majority stake. On the basis of the authorisation, the Company may also agree with one or more banks or other companies meeting the requirements of Section 186 (5) sentence 1 AktG that they will deliver to the Company a predetermined number of shares or a predetermined euro equivalent of shares in the Company within a predefined period, whereby the price at which the Company acquires these shares must in each case show a discount to the arithmetic mean of the volume-weighted average prices of the Company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange over a previously determined number of trading days. The banks or other companies meeting the requirements of Section 186 (5) sentence 1 AktG must undertake to purchase the shares to be delivered on the stock exchange at prices that are within the range that would apply if the shares were purchased directly on the stock exchange by the Company itself under this authorisation.

The purchase must be made via the stock exchange or by means of a public offer directed at all shareholders in the Company. If the purchase of the shares is made on the stock exchange, the purchase price (excluding incidental acquisition costs) must be no more than 10% above or below the arithmetic mean value of the share prices (final auction prices of the Instone Real Estate Group AG shares in Xetra or a comparable follow-up system) on the stock exchange in Frankfurt am Main on the last three exchange trading days before the acquisition or the undertaking of an obligation to purchase. In the case of a purchase via a public offer, the Company may either publish a formal offer or publicly request the submission of offers for sale. The purchase price offered (excluding incidental acquisition costs) or the limit values of the purchase price range per share set by the Company (excluding incidental acquisition costs) must be no more than 10% above or below the arithmetic mean value of the share prices (final auction prices of the Instone Real Estate Group AG share in Xetra or a comparable successor system) on the stock exchange in Frankfurt am Main on the last three exchange trading days before the publication of the purchase offer or the invitation to tender. In the event of an amendment of an offer, the date of publication of the offer adjustment shall replace the date of publication of the purchase offer. If the Company publicly solicits the submission of offers to sell, the day of acceptance of the offers to sell shall take the place of the day of publication of the offer to buy or adjustment of the offer to buy. The repurchase volume may be limited. If the shares tendered or offered for purchase by the shareholders exceed the total amount of the Company's purchase offer, acceptance shall be in proportion to the respective shares tendered or offered. However, it may be stipulated that small quantities of up to 100 offered shares per shareholder are accepted preferentially and that rounding according to commercial principles will be carried out to avoid fractional amounts. The purchase offer or the invitation to tender may stipulate further conditions. Any further rights of shareholders to tender shares are excluded.

The Management Board may exercise the authorisation for any legally permissible purpose, in particular to pursue one or more of the objectives listed below, although trading in treasury shares is prohibited.

The Management Board is hereby authorised, with the consent of the Supervisory Board, to redeem the treasury shares acquired on the basis of the authorisation pursuant to Section 71 (1) no. 8 AktG without a further resolution by the Annual General Meeting, whereby the authorisation may be exercised several times and the redemption may be limited to a portion of the acquired shares.

The Management Board is also authorised, with the consent of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation in a way other than by sale on the stock exchange or by an offer to all shareholders, with the full or partial exclusion of shareholders' subscription rights, (i) to exclude fractional amounts resulting from the subscription ratio from shareholders' subscription rights, (ii) to sell them for non-cash consideration, in particular – but without limitation –to acquire companies, parts of companies or equity interests in companies, (iii) to sell them for cash, insofar as this is carried out at a price that is not significantly lower than the stock market value of the Company's shares at the time of the sale (simplified exclusion of subscription rights in accordance with Sections 186 (3) Sentence 4, 71 (1) No. 8 Sentence 5 Half-Sentence 2 of the German Stock Corporation Act), whereby this authorisation, including other shares and option or convertible bonds that were issued or sold during the term of this authorisation up to the time of its utilisation under exclusion of the shareholders' subscription rights in direct or analogous application of Section 186 (3) Sentence 4 of the German Stock Corporation Act, is limited to a total of no more than 10% of the Company's share capital. The basis for calculating the limit of 10% is the capital stock figure at the time of effective date of this authorisation. If the capital stock is lower at the time the authorisation is exercised in accordance with number (iii), this lower value shall be used. Furthermore, the Management Board is authorised to use the treasury shares acquired on the basis of this authorisation under the conditions described above, (iv) to fulfil obligations of the Company arising from conversion and option rights or conversion obligations from convertible bonds or bonds with warrants (or combinations of these instruments) issued by the Company or by dependent or majority-owned companies of the Company, and (v) to grant subscription rights to holders of convertible bonds or bonds with warrants (or combinations of these instruments) issued by the Company or by dependent or majority-owned companies of the Company to the extent to which they would be entitled after exercising the rights or obligations arising from the aforementioned instruments.

The authorisations pursuant to numbers (i) to (v) may also be exercised by dependent companies or companies in which the Company holds a majority stake or by third parties for the account of the Company or its dependent companies or companies in which the Company holds a majority stake.

Until now, the Management Board has not made use of its authorisation to purchase treasury shares.

8 KEY AGREEMENTS REACHED BY THE COMPANY IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID, AND THE CONSEQUENT EFFECTS

Individual contracts of corporate financing of the Company provide for a special termination right of the other party in the event of a change of control (partly defined as the acquisition of a majority interest by voting rights or equity interest, partly defined as holding more than 30% of the voting rights in the Company). In addition, as of the balance sheet date, there were no other key agreements by Instone Real Estate Group AG with third parties or Group companies that would take effect, change or terminate in the event of a takeover bid.

9 COMPENSATION AGREEMENTS OF THE COMPANY THAT HAVE BEEN ENTERED INTO WITH THE MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Dr Foruhar Madjlessi, member of the Management Board since 1 January 2019, is entitled to a special contract termination right in the event of a change of control. According to this agreement, a change of control occurs if a majority participation within the meaning of Section 16 AktG occurs. When exercising the special right of termination, Dr Madjlessi will be paid compensation of three gross annual salaries in compliance with the recommendation in Section 4.2.3 (5) of the GCGC as amended on 7 February 2017. After two years, the severance payment will be reduced to two gross annual salaries, whereby the severance payment will be proportionately reduced in the case of a residual term of the employment contract of less than two years.

CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT (UNAUDITED)

In this report, Instone Real Estate Group AG (hereinafter also: the Company) provides information about the Company's corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) on the principles of corporate governance, Section 161 of the German Stock Corporation Act (AktG) and Section 3.10 of the German Corporate Governance Code (GCGC). In addition to the Declaration of Conformity with the GCGC, the report also contains information about corporate governance and the composition and working methods of the Management Board and Supervisory Board, as well as the Supervisory Board committees.

IMPLEMENTATION OF THE GCGC

Corporate governance involves the responsible management and control of companies, geared towards long-term value creation. The corporate governance and corporate culture of Instone Real Estate Group AG comply with the legal requirements and – with a few exceptions – the additional recommendations of the GCGC. The Management Board and Supervisory Board feel very committed to good corporate governance and all divisions are guided by this objective. The Company focusses on values such as competence, transparency and sustainability.

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the Code as amended on 7 February 2017 and, in December 2019, in accordance with Section 161 AktG for the second time after the cross-border change of legal form to a German stock corporation, submitted their Declaration of Conformity with the recommendations of the Code and commented on the few exceptions.

The declaration is published on the Company's website under ↗ Instone Declaration of Conformity.

DECLARATION OF CONFORMITY

Pursuant to Section 161(1) AktG, the Management Board and Supervisory Board of a listed stock corporation must annually declare that the recommendations of the Code have been and will be complied with and which recommendations have or will not be complied withand why not. In December 2019, the Management Board and the Supervisory Board of the Company issued the following joint Declaration of Conformity according to 161 AktG:

Declaration of Conformity according to Section 161 AktG

The Management Board and Supervisory Board of Instone Real Estate Group AG (the "Company") are required pursuant to Section 161 (1) of the German Stock Corporation Act (AktG) to issue an annual declaration of conformity stating that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official Section of the Federal Gazette have been and are being complied with or which recommendations have not been or are not being complied with and why not. The Management Board and Supervisory board issued a Declaration of Conformity for the first time in December 2018.

The Management Board and Supervisory Board declare that since submitting the Declaration of Conformity in December 2018, the Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version last published in the official part of the Federal Gazette dated 7 February 2017 (the "Code") and will do so in future, with the following exceptions:

Section 4.2.3 paragraph 2 sentence 6 of the Code recommends that the compensation of the members of the Management Board as a whole and with regard to their variable compensation components is subject to a maximum limit. The current remuneration system of the Management Board, which was already set before the first listing on the stock exchange and therefore before the recommendations of the Code applied, limits all significant remuneration elements individually to an amount, i.e. the fixed remuneration, the variable remuneration components assessed on a one-year and multi-year basis, and the pension commitments. However, there is no maximum limit set for fringe benefits that are part of the remuneration (essentially the use of a company car and the payment of premiums for accident insurance with standard services and the reimbursement of expenses and travel costs). As a result, no total maximum limit has been defined. The Management Board and the Supervisory Board do not believe that the lack of a limited amount of fringe benefits and the resulting lack of a total maximum limit against the backdrop of setting maximum limits for all relatively significant remuneration components constitutes a material deviation from the recommendation of the Code. As a precautionary measure, the Management Board and Supervisory Board nevertheless declare a deviation from Section 4.2.3 paragraph 2 sentence 6 of the Code.

→ Section 7.1.2 of the Code recommends making mandatory interim financial information publicly available within 45 days of the end of the reporting period. The Company complies with the publication of interim reports in accordance with legal requirements (making half-yearly financial reports available within three months of the end of the reporting period) and with the requirements of the Exchange Rules of the Frankfurt Stock Exchange for the Prime Standard (making half-yearly financial reports available within three months and making quarterly financial reports or communications available within two months of the end of the period under review). The Management Board and Supervisory Board consider these to be appropriate. Publication within the shorter deadline recommended by the Code would currently require the use of significant additional financial and human resources that, in the opinion of the Management Board and Supervisory Board, are disproportionate to the shareholders' need for information.

Essen, December 2019
The Management Board
The Supervisory Board

CORPORATE GOVERNANCE PRACTICES

The management of Instone Real Estate Group AG is largely determined by the provisions of the German Stock Corporation Act (AktG) and is also geared towards the requirements of the German Corporate Governance Code. In addition, the Management Board has laid down basic values for lawful and ethical conduct in a Group-wide Code of Conduct. This specifies existing duties and responsibilities and derives various codes of conduct on the basis of the law or existing official instructions. The Code of Conduct offers Instone Group employees orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. Instone Real Estate Group AG is expressly committed to the values reflected in the Code of Conduct.

WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Instone Real Estate Group AG, as a stock corporation in accordance with the German Stock Corporation Act (Aktiengesetz), with headquarters in Essen, Germany, has a dual management system consisting of the Management Board and Supervisory Board. These work together closely and trustingly for the benefit of the Company. The Management Board manages the Company whereas the Supervisory Board provides advice and supervision.

The shareholders of Instone Real Estate Group AG exercise their rights at the Annual General Meeting.

Both the Management Board and the Supervisory Board have rules of procedure which, among other things, contain detailed regulations for the respective committee activities and internal organisation as well as for the cooperation between the Executive Board and the Supervisory Board that go beyond the requirements of stock corporation law. GRI 102-18

MANAGEMENT BOARD

The Management Board manages the Company on its own responsibility in accordance with the statutory provisions, the Articles of Association and the Rules of Procedure for the Management Board. It is committed to acting in the Company's best interests. The Management Board develops the strategic direction of the Company, coordinates this with the Supervisory Board and ensures its implementation. It also bears responsibility for appropriate risk management and controlling as well as regular, timely and comprehensive reporting to the Supervisory Board.

The Management Board performs the management function as a collegial body. Irrespective of the overall responsibility for the management, the individual members of the Management Board are responsible for the departments assigned to them in accordance with the legislation, the Articles of Association, the Rules of Procedure for the Management Board, and are personally responsible in the context of Board of Management resolutions. The work of the Management Board, including the allocation of responsibilities, is governed by the Rules of Procedure for the Management Board, which were adopted by the Supervisory Board and last amended in the 2019 financial year on 2 October 2019.
GRI 102-18

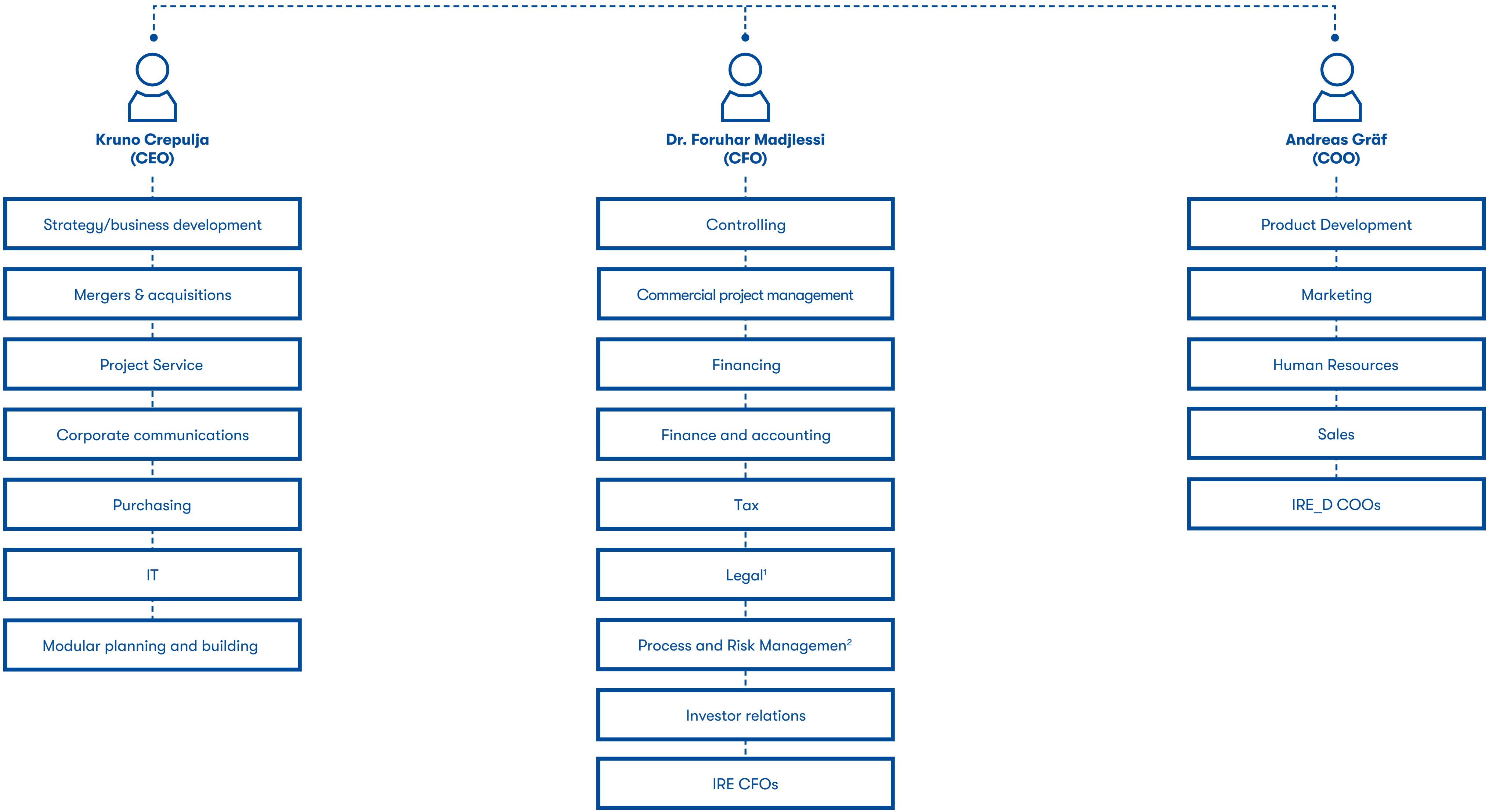
The defined allocation of responsibilities of the Management Board is shown on page 99 of this report.

The Rules of Procedure for the Board of Management also specify when a resolution is required to be passed by the entire Management Board and for which matters a Management Board resolution always requires the participation of the Chair of the Management Board and/or the Chief Financial Officer. Management Board meetings are held biweekly when possible, but at least once a month, under the direction of the Chairman of the Management Board. Occasionally, individual board members also attend by phone or video conference. The Rules of Procedure for the Management Board also allow resolutions to be passed outside of meetings. Resolutions are passed by a simple majority of the votes cast unless the law provides otherwise.

In accordance with the general representation rules of the Articles of Association, the Company is represented by two members of the Management Board or by one member of the Management Board together with an authorised representative.

In addition to certain approval reservations contained in the Articles of Association, the Supervisory Board has set out certain other transactions and measures of fundamental importance in the Rules of Procedure for the Management Board which require its prior approval. These include, for example, the adoption of the annual plan, larger land acquisitions and the conclusion and amendment of certain financing agreements, as well as the implementation of certain corporate law measures. Accordingly, transactions between the Company or one of its subsidiaries and members of the Management Board or related parties require the approval of the Supervisory Board and must comply with the usual market conditions.

Instone Real Estate Group AG – organisational chart



[1] Including corporate and capital markets as well as support for the Supervisory Board.
[2] Including auditing, compliance, data protection.

The Management Board informs the Supervisory Board regularly, promptly, comprehensively and when appropriate, and in accordance with the legislation, the Articles of Association and the principles of information defined in the Rules of Procedure for the Management Board, in particular with regard to all issues relevant to strategy, planning and business development, the risk situation, risk management and compliance relevant to the Company as well as the ongoing projects and the financing situation of the Company. The Chair of the Management Board and the Chair of the Supervisory Board are also in regular communication.

SUPERVISORY BOARD

The Supervisory Board advises and monitors the Management Board. It works closely with the Management Board for the benefit of the Company and is involved in all decisions of fundamental importance.

Its rights and duties are determined by the statutory provisions, the Articles of Association, the Rules of Procedure for the Supervisory Board of 10 August 2018 and the Rules of Procedure for the Management Board. It appoints and dismisses the members of the Management Board, represents the Company when dealing with them and, together with the Management Board, ensures long-term succession planning.

The work of the Supervisory Board takes place both in plenary sessions and in committees. The work of the committees aims to further increase the efficiency of the Supervisory Board's work. The committee chairs regularly report to the Supervisory Board on the work of their respective committees. According to its Rules of Procedure, the Supervisory Board must hold at least two meetings in six calendar months. In addition, it holds meetings where these are in the interests of the Company, and assesses the efficiency of its activities at regular intervals, most recently in financial year 2018.

Members of the Supervisory Board are selected in light of their respective knowledge, abilities and professional aptitude as well as their skills profile. According to the targets for the skills profile of members of the Supervisory Board, this in particular includes the following knowledge, skills and professional experience required for the members of the Supervisory Board as a whole:

→ Experience in managing or supervising medium-sized or large companies or complex organisations

→ Members as a whole must be familiar with the real estate sector and the project development industry

→ In-depth knowledge about finance, accounting treatments, accounting, law and compliance in the Board as a whole

→ At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing (Section 100 (5) AktG)

→ Experience with capital market instruments and bank financing

Only persons who have not yet reached the age of 70 at the time of appointment are to be proposed for election as a member of the Company's Supervisory Board. The standard limit for the period of membership of the Supervisory Board is twelve years.

The Company has complied with the individual recommendations in Section 5.4.1 (2) and (3) GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the Corporate Governance Report. In the 2019 financial year, the members of the Supervisory Board fulfilled the overall competence profile. GRI 102-22; 102-24

TARGET FIGURES FOR THE PROPORTION OF WOMEN

The "German law for the equal participation of women and men in management positions in the private sector and in the public sector" obliges Instone Real Estate Group AG to set target figures for the proportion of women on the Supervisory Board, the Management Board and the first two management levels below the Management Board.

Following the Company's change of form into a stock corporation (Aktiengesellschaft) under German law, the Supervisory Board therefore set a target for the proportion of women in the Supervisory Board of 20% for the first time in financial year 2018. The proportion of women on the Supervisory Board is currently 20%, so that the target is met.

For the Management Board of Instone Real Estate Group AG, the target proportion of women, as defined by the Supervisory Board, remains at 0%.

This is due not least to the fact that the Supervisory Board, taking into account the existing circumstances, in particular the current term of appointment of the members of the Management Board, was not able to set a higher quota when it determined the number of women in the 2018 financial year. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will continue to respect diversity. Nevertheless, the Supervisory Board is convinced that a position is to be filled primarily on the basis of qualification and competence – irrespective of gender. The Company has met the targets during the period under review. The target applies for the period up to 30 November 2020, based on the specifications of the Supervisory Board. At the end of this period, it will reassess the target.

For the proportion of women at the first management level below the Management Board, i.e. at the management level of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board also set the target rate at 0% as a minimum figure following the change in legal form to a German stock corporation on 18 December 2018. This still complies with the actual quota, meaning that the minimum proportion was met during the period under review. At the second Management level below the Board of Directors, i.e. at the level of the authorised representatives of the Company, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board set the minimum proportion of women at 25%. At this time, the proportion of women at this management level was 17%. In the past financial year, the Management Board has succeeded in further increasing this proportion to around 22% and is significantly closer to achieving its self-imposed target. The share of women in the second management level is therefore currently only slightly below the self-imposed target of 25%. The Management Board had set a period of two years as a deadline for achieving the targets at the time, which will expire on 18 December 2020.

The Management Board facilitates the achievement of goals through long-term planning. This includes, for example, the targeted support of female staff through training and further education measures as well as separate work time models to promote equal opportunities in order to increase the number of women in management positions. In line with the practice adopted since the IPO, the Management Board has also determined, with regard to Section 4.1.5 of the GCGC, that diversity should also be respected and promoted for management appointments within the Company. The Management Board believes that diversity includes – but is not limited to – age, gender, international background, education and professional experience. Notwithstanding, the appointment and promotion of senior management positions in the Company and the underlying selection decisions will continue to be substantially based on specific qualifications. The Management Board will therefore continue to select managers based on their professional ability and aptitude for the specific roles in this management role, regardless of their background, gender, or other non-performance characteristics.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

According to the Company's Articles of Association, the Management Board consists of at least two persons. The number of members is determined by the Supervisory Board. In the 2018 financial year, the Management Board consisted of four members with equal rights, each responsible for the departments assigned to them. Dr Foruhar Madjlessi joined the Management Board on 1 January 2019. As of 31 December 2019, Mr Torsten Kracht left the Management Board.

According to the Articles of Association, the Supervisory Board consists of five members. It is not subject to employee co-determination. All members are elected as shareholder representatives by the Company's Annual General Meeting. After the Supervisory Board members Stefan Mohr and Richard Wartenberg left office as of 31 December 2018, at the request of the Management Board the Essen District Court appointed Mr Dietmar P. Binkowska and Mr Thomas Hegel as members of the Supervisory Board by a resolution dated 3 April 2019 and who were confirmed by the Annual General Meeting of the Company on 13 June 2019.

Details of the members of the Management Board and the Supervisory Board can be found in the notes to the consolidated financial statements of Instone Real Estate Group AG in accordance with Section 285 No. 10 HGB. page 141 f.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and Supervisory Board work together closely for the benefit of the Company. The intensive and constant dialogue between the Boards forms the basis for efficient and targeted company management. The Management Board develops the strategic direction of Instone Real Estate Group AG, coordinates this with the Supervisory Board and ensures its implementation. GRI 102-26

The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Chair of the Supervisory Board regularly liaises with the Management Board between meetings and discusses questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The Chair of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessing the financial position and development as well as for managing the Company and its Group companies. The Chair of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary. In addition, the Management Board reports to the Supervisory Board regularly and as required by law, the Articles of Association and the Management Board's Rules of Procedure, which contain comprehensive provisions for the reports and information to be submitted. GRI 102-30; 102-31

The Articles of Association and the Rules of Procedure for the Management Board also stipulate that fundamentally significant measures and legal transactions must be subject to approval by the Supervisory Board.

Transactions with the Company by members of the Management Board and related parties also require the approval of the Supervisory Board, as does assumption of ancillary activities outside the Company – in particular taking on supervisory board mandates and mandates on comparable supervisory bodies of commercial enterprises.

A D&O group insurance policy has been concluded for the members of the Management Board and the Supervisory Board. It provides for a deductible that complies with the requirements of Section 93 (2) 3 AktG and Section 3.8 GCGC.

SUPERVISORY BOARD COMMITTEES

In the 2018 financial year, the Supervisory Board had established three committees: the nomination committee, the audit committee and the remuneration committee. Further committees can be formed as required. GRI 102-18; 102-22

Due to the departure of Mr Mohr and Mr Wartenberg from the Supervisory Board at the end of the 2018 financial year and the appointment of Mr Hegel and Mr Binkowska as members of the Supervisory Board during the year, various changes have been made to the individual committees in terms of their personnel composition in the 2019 financial year, and these are presented below.

Nomination committee

The nomination committee advises on key topics and prepares resolutions of the Supervisory Board by proposing suitable candidates to the Supervisory Board for its nominations to the Annual General Meeting.

Members of the nomination committee in the 2019 financial year were:

→ Dietmar P. Binkowska (since 1 June 2019: Chair)

→ Stefan Brendgen

→ Dr Jochen Scharpe (since 24 January 2019)

→ Marija Korsch (1 January to 31 May 2019)

Audit committee

The audit committee is responsible, in particular, for monitoring the accounting process, effectiveness of the internal control system and internal auditing system, the audit, in particular, the independence of the auditor, additional services provided by the auditor, the appointment of the auditor, granting the audit assignment to the auditor, the determination of audit priorities and the fee agreement as well as compliance.

The audit committee prepares the resolutions of the Supervisory Board relating to the annual financial statements and the consolidated financial statements. It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of the statement or its approval and the profit appropriation proposal of the Management Board. Furthermore, the audit committee prepares the agreements with the auditor, in particular the appointment of the auditor, the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the Annual General Meeting. This also includes consideration of the necessary independence, whereby the audit committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the audit committee decides on the approval of contracts with external auditors with regard to additional advisory services, insofar as these agreements require the approval of the Supervisory Board. The audit committee discusses the principles of compliance, risk assessment, risk management and the appropriateness and functionality of the internal control system with the Management Board. GRI 102-29; 102-30; 102-33

The following members were members of the audit committee in the 2019 financial year:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Brendgen

→ Thomas Hegel (since 1 June 2019)

→ Marija Korsch (24 January to 31 May 2019)

The Chair of the audit committee is independent, has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and thus fulfils the requirements of Section 100 (5) AktG. In addition, the Chair of the committee is also familiar with the principles and specifications of audits and their procedures. The members of the audit committee have accounting and auditing expertise and the composition of the committee complies with all independence requirements within the meaning of the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors or members of the supervisory boards of listed companies and management/supervisory board committees (2005/162/EC) as well as within the meaning of the recommendations of the GCGC.

Remuneration committee

The remuneration committee advises on the employment contracts of the members of the Management Board and prepares resolutions of the Supervisory Board.

In the 2019 financial year, the remuneration committee consisted of the following members:

→ Marija Korsch (since 24 January 2019 – Chairwoman)

→ Stefan Brendgen

→ Dietmar P. Binkowska (since 1 June 2019)

→ Dr Jochen Scharpe (24 January to 31 May 2019)

The Chair of the remuneration committee is independent within the meaning of the recommendations of the Code.

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual departments allocated to individual members of the Management Board.

ANNUAL GENERAL MEETING AND SHAREHOLDERS

The shareholders of Instone Real Estate Group AG assert their rights at the Annual General Meeting and exercise their voting rights. Each share in the Company grants one vote.

The Annual General Meeting takes place annually within the first eight months of the financial year. The agenda for the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the Company's website under ↗ Instone AGM.

Fundamental decisions are made at the Annual General Meeting. These include resolutions on the appropriation of any profits, the discharge of the Management and Supervisory Boards, the election of Supervisory Board members and the selection of the auditor, amendments to the Articles of Association as well as capital measures. The Annual General Meeting offers the Management Board and the Supervisory Board the opportunity to liaise directly with the shareholders and exchange views on the further development of the Company.

Instone Real Estate Group AG provides its shareholders with a proxy who is bound to follow shareholders' instructions and who can also be contacted during the Annual General Meeting in order to allow shareholders to personally exercise their rights. The invitation to the Annual General Meeting explains how instructions can be issued prior to the Annual General Meeting. Shareholders also remain free to be represented at the Annual General Meeting by a proxy of their choice.

FURTHER ASPECTS OF CORPORATE GOVERNANCE

Diversity GRI 405-1

Instone Real Estate Group AG places great value on diversity, both with regard to its administrative bodies and its employees as a whole, and sees diversity as one of the company's strengths. Diversity is therefore an important element for Instone Real Estate Group AG for sustainable corporate success.

Given this, the Supervisory Board determined in 2018 that attention will continue to be paid to diversity with regard to the composition of the Management Board in the future. The Supervisory Board has also set a target for the proportion of women on the Management Board and a standard retirement age for Management Board members at the age of 65. In the interests of complementary cooperation within the Supervisory Board, the selection of candidates for the Supervisory Board should also be based on sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience. The target for the proportion of women on the Supervisory Board is currently at 20%.

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as of 31 December 2019 complies with the described diversity concepts. The members of the Management Board have a range of different professional qualifications and, inter alia, many years of experience in international corporations. Dr Foruhar Madjlessi has been a member of the Management Board since 1 January 2019 and brings with him many years of international experience and specialist expertise in capital markets and corporate finance. Furthermore, none of the members of the Management Board has reached the age of 65, and one of the Management Board members has not yet reached the age of 50. The Supervisory Board continues to remain diverse as of 31 December 2019.

Above all, the Chair of the audit committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. Several members have experience in managing or supervising medium-sized or large companies. In addition, two new Supervisory Board members, Mr. Thomas Hegel and Mr. Dietmar P. Binkowska, were recruited in financial year 2019. Their respective knowledge, skills and many years of experience – particularly in the areas of capital markets, real estate and the management and supervision of large companies – complement the competence profile of the Supervisory Board and further contribute to the diverse composition of the Supervisory Board. In addition, the Supervisory Board has one female member, so that the self-imposed target figure of 20% for the proportion of women as of 31 December 2019 was also achieved. None of the Supervisory Board members – all of whom are over 50 years of age – had reached the age of 70 when they were elected.

Reportable securities and share ownership by the Management Board and Supervisory Board

The members of the Management Board and Supervisory Board of Instone Real Estate Group AG, as well as persons closely related to them, are, in accordance with Article 19 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) required to report transactions in Instone Real Estate Group AG shares or related financial instruments to the Company without delay and no later than three business days after the date of the transaction. The Company publishes the notifications pursuant to Article 19 (2) of the Market Abuse Regulation without delay and no later than three business days after the transaction. The reports can be found on the Company's website at ↗ Instone Managers Transactions.

Compliance management system

Compliance at Instone Real Estate is an integral part of successful and responsible corporate governance.

We are committed to ethical principles and valid legal norms. We have enshrined this in our compliance management system policy and employee code of conduct, which is available on our website at ↗ Instone Code of Conduct. Furthermore, there are various guidelines, such as the Grant Policy, which sets out the legal framework and our internal guidelines for our employees. Our goal is to focus on compliance and find a positive as well as motivational approach to our employees. The Code of Conduct is applicable throughout the Group and was introduced in all affiliated companies where we have direct or indirect controlling influence.

A controlling influence is normally to be assumed if there is a participation in more than 50% of the voting rights.

Our central compliance organisation sees itself as a key contributor to an integrity-led corporate governance and culture. It promotes a compliance culture in our Company and ensures that this is internalised among managers and employees.

The ultimate goal of the Group-wide compliance management system is to prevent breaches of applicable laws and internal policies and to protect the Instone Group and its employees from inappropriate and unlawful conduct. We have therefore implemented a compliance management system that identifies risks, reduces them and ensures compliance within the Company. All activities are in accordance with the legal requirements and our guidelines and internal regulations. The Compliance Officer at Group level is responsible for Group-wide structuring, further development and implementation of the compliance management system and the implementation of the training courses. All compliance officers are responsible for conducting the quarterly meetings of the relevant compliance committee and overseeing the compliance management system in their company. All Compliance Officers are available to employees as contact persons for compliance issues. The effectiveness and appropriateness of the compliance system are reviewed at regular meetings of the compliance committee, and any follow-up needs are identified and carried out.

We regularly conduct compliance and data protection training that provides our employees with information about laws and codes of conduct. Participation in the training events is mandatory and is reviewed and documented. In the year under review, the topics related primarily to anti-corruption, data protection, and competition and price-fixing law. In 2019, a compliance Section was added to the Instrone intranet site so that employees have direct, compact access to all key compliance information (including contact details for compliance, links and guidelines). Regular information on all current compliance topics will be posted here. GRI 205-2

Despite the best, wide-ranging prevention measures, companies may still experience infringements and breaches of duty. Our employees have their supervisors, compliance officers, a whistleblower hotline and a digital whistle-blower portal at their disposal to report violations and suspicions of violations of rights, legislation and internal policies and regulations. Calls to the whistleblower hotline are received by an external law firm and, like the reports in the digital whistleblower portal, are passed on anonymously to the company. GRI 102-33

We consistently follow all instructions within the scope of the legal options, pursue their clarification without compromise and impose sanctions appropriate to the offence and degree of blame. Within the scope of the ongoing development of the compliance management system and when dealing with legal issues, the Management Board and compliance officer at the Group level can be given legal advice if required.

We also demand compliance with our high standards from our business partners and suppliers. In our Code of Conduct for contractors, they commit to refrain from any kind of corruption or acts that could be construed as such. We also expect and work to ensure that our business partners and suppliers respect these obligations, principles and values, and take all of the measures necessary to prevent and punish active and passive corruption.

No significant fines were imposed on Instone Real Estate in the 2019 reporting year for non-compliance with laws and regulations in the social and economic sphere. GRI 419-1

PREPARATION

In this document, the terms “we”, “us”, “our”, “Instone Real Estate”, “Instone Group” and the “Company” refer to Instone Real Estate Group AG (formerly: Instone Real Estate Group N.V.) and correspondingly to its subsidiaries.

On 13 February 2018 we were converted into a Dutch "stock corporation (naamloze vennootschap) and changed our name to Instone Real Estate Group N.V. This took place in connection with the private placement of our shares (the “Placement”) and admission for listing and trading on the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the corresponding market with additional admission requirements (Prime Standard) (the “Listing”). On 28 August 2018, we were transformed into a stock corporation under German law through an identity-preserving, cross-border conversion of legal form and have since then been trading as Instone Real Estate Group AG.

This report concerns the financial year ending 31 December 2019. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2019.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These are statements that are not historical facts or events, and are not facts or events that exist at the time this report is published. This applies, in particular, to statements in this report that include information about future financial viability, plans and expectations for growth and profitability, and the business environment to which Instone Real Estate is exposed. Words such as “forecast,” “predict,” “plan,” “intend,” “seek,” “expect,” or “target” indicate that this is a forward-looking statement.

The forward-looking statements in this report are subject to risks and uncertainties as they relate to future events. They are based on the best judgement of the Company’s current estimates and assumptions. These forward-looking statements are based on assumptions and other factors and are subject to uncertainties, the occurrence or non-occurrence of which may cause the actual results, including the net assets, financial position and results of operations of Instone Real Estate, to be materially different or more negative than those expressly or implicitly assumed or described in these statements. These statements can be found in various parts of this report, in particular in the Section “Outlook”, as well as in places where statements regarding intentions, opinions or current expectations of the Company regarding its future financial position or operating results, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment in which Instone Real Estate operates.

In view of these uncertainties and assumptions, the future events mentioned in this report may not occur. Furthermore, the forward-looking statements and forecasts in this report, which are based on reports prepared by third parties, may prove to be incorrect. Actual results and events may differ substantially from those expressed in these statements, including but not limited to the following: Changes in the general economic situation in Germany, including changes to the unemployment rate, consumer prices, wages and salaries, etc.; demographic change, especially in Germany; changes affecting interest rates; changes to the competitive environment, for example changes to residential construction activity, accidents, terrorist attacks, natural disasters, fires or environmental damage; the impossibility of finding and retaining qualified personnel; political changes; changes in corporate taxation, in particular, land transfer tax; changes in laws and regulations, in particular in the field of construction planning law or in broker and developer regulations and in environmental law.

Furthermore, it should be noted that all forward-looking statements are made only as of the date of this report and that the Company accepts no obligation to update such statements or adapt them to current events or trends, except as required by law. Details of certain factors that could affect the actual development of the matters described in the forward-looking statements of the Company are included in the “Outlook” Section of this report.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT GRI 201-1

CONSOLIDATED INCOME STATEMENT

In thousands of euros

	Note	2019	2018
Sales revenue	1	509,494	360,836
Changes in inventories		277,270	57,026
		786,765	**417,862**
Other operating income	2	7,717	2,675
Cost of materials	3	–633,954	–320,353
Staff costs	4	–37,336	–33,563
Other operating expenses	5	–33,048	–27,926
Depreciation and amortisation	6	–4,065	–587
Consolidated earnings from operating activities		**86,079**	**38,108**
Share of results of joint ventures	7	744	302
Other results from investments	7	–5,734	–14
Finance income	8	1,085	516
Finance costs	8	–19,121	–8,946
Other financial result	8	189	–386
Consolidated earnings before tax (EBT)		**63,241**	**29,580**
Income taxes	9	6,535	–20,547
Consolidated earnings after tax (EAT)		**69,776**	**9,033**
Attributable to:			
Owners of the Company		69,764	6,500
Non-controlling interests		12	2,533

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME GRI 201-1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros

	2019	2018
Consolidated earnings after tax	**69,776**	**9,033**
Items which are not reclassified into the consolidated earnings in future periods		
Actuarial profits and losses	–465	–1,042
Income tax effects	152	340
Income and expenses after tax recognised directly in equity	**–313**	**–702**
Total comprehensive income for the financial year after tax	**69,463**	**8,331**
Attributable to:		
Owners of the Company	69,451	5,798
Non-controlling interests	12	2,533
	69,463	**8,331**
Basic and diluted earnings per share (in €)	**1.89**	**0.18**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Goodwill	11	6,056	0
Intangible assets	12	115	155
Right of Use assets	13	9,675	0
Property, plant and equipment	14	2,126	1,995
Interests in joint ventures	15	678	237
Other investments	16	1,145	421
Financial receivables	18	450	0
Deferred tax	28	161	0
		20,406	**2,808**
Current assets			
Inventories	17	732,127	404,400
Financial receivables	18	5	65
Contract assets	19	219,019	158,489
Trade receivables	20	8,278	13,127
Other receivables and other assets	21	12,473	18,766
Income tax assets	22	13,956	997
Cash and cash equivalents	23	117,090	87,965
		1,102,948	**683,809**
TOTAL ASSETS		**1,123,354**	**686,617**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

	Note	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
Equity	24		
Share capital		36,988	36,988
Capital reserves		198,899	198,899
Group retained earnings/loss carryforwards		74,713	6,825
Statement of changes in equity recognised in other comprehensive income		–1,364	–1,050
Equity attributable to shareholders		309,236	241,662
Non-controlling interests		924	5,206
		310,161	**246,868**
Non-current liabilities			
Provisions for pensions and similar obligations	25	3,940	3,967
Other provisions	26	6,329	4,548
Financial liabilities	27	451,586	177,744
Liabilities from net assets attributable to minority shareholders	29	9,504	0
Leasing liabilities	30	6,836	0
Deferred tax	28	11,965	32,184
		490,161	**218,443**
Current liabilities			
Other provisions	26	22,967	17,726
Financial liabilities	27	143,927	87,822
Leasing liabilities	29	3,004	0
Contract liabilities	31	23,292	6,633
Trade payables	32	87,592	78,342
Other liabilities	33	13,127	12,689
Income tax liabilities	34	29,123	18,094
		323,033	**221,306**
TOTAL EQUITY AND LIABILITIES		**1,123,354**	**686,617**

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

	2019	2018
Consolidated earnings after tax	**69,776**	**9,033**
(+) Depreciation and amortisation/(–) reversal of impairments of property, plant and equipment	842	587
(+) Loss/(–) Profit from the disposal of intangible assets	8	0
(+) Profit/(–) Loss on disposals of property, plant and equipment	0	– 576
(+) Increase/(–) Decrease in provisions	6,939	– 28,430
(+) Increase/(–) Decrease in deferred tax	– 25,877	24,515
(+) Decrease/(–) Increase in equity carrying amounts	– 442	160
(+) Loss/(–) Profit of shares in joint ventures	5,751	0
(+) Interest expenses/(–) Interest income	17,970	8,417
(+) Income tax expense/(–) Income tax income	20,310	17,408
(+) Other non-cash income/(–) Expenses	– 313	– 14,155
(+/–) Change in net working capital [1]	– 277,809	– 50,898
(+) Income tax payments/(–) Income tax reimbursements GRI 201-1	– 22,240	– 6,458
= Cash flow from operations	**– 205,085**	**– 40,396**
(+) Proceeds from disposals of intangible assets	0	182
(–) Outflows for investments in intangible assets	– 3	0
(–) Outflows for investments in property, plant and equipment	– 938	– 1,114
(+) Proceeds from disposals of investments	0	661
(–) Outflows for investments in financial assets	– 1,155	0
(–) Payments for acquisitions less cash and cash equivalents acquired	– 31,848	0
(+) Interest received GRI 201-1	1,556	758
= Cash flow from investing activities	**– 32,389**	**487**

[1] Net working capital is composed of inventories, contractual assets and trade receivables less contractual liabilities and trade payables.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

	2019	2018
(+) Proceeds from additions to issued capital	0	150,500
(–) Payments to minority shareholders	–3,255	0
(–) Payments for transaction costs of the equity increase	0	–9,252
(–) Payments from repaying shareholder loans	0	–28,297
(+) Proceeds from loans and borrowings	559,465	83,870
(–) Repayments of loans and borrowings	–283,117	–135,468
(–) Interest paid	–6,942	–7,102
= Cash flow from financing activities	**266,151**	**54,251**
Cash and cash equivalents at the beginning of the period	87,965	73,624
(+/–) Change in cash and cash equivalents	28,676	14,341
(+/–) Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents	448	0
= Cash and cash equivalents at the end of the period	**117,090**	**87,965**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros

	Note	Total	Share capital	Capital reserves	Group retained earnings/loss carryforwards	Statement of changes in equity recognised in other comprehensive income	Equity attributable to shareholders	Non-controlling interests
As at: 01 January 2018		**97,266**	**8**	**85,379**	**9,554**	**– 348**	**94,593**	**2,673**
Consolidated earnings after tax		9,032	0	0	6,499	0	6,499	2,533
Changes in actuarial profits and losses		– 702	0	0	0	– 702	– 702	0
Total comprehensive income		**8,330**	**0**	**0**	**6,499**	**– 702**	**5,797**	**2,533**
Issue of shares		150,500	36,980	113,520	0	0	150,500	0
Changes to the scope of consolidation		24	0	0	24	0	24	0
Other neutral changes		– 9,252	0	0	– 9,252	0	– 9,252	0
		141,272	**36,980**	**113,520**	**– 9,228**	**0**	**141,272**	**0**
As at: 31 December 2018	**24**	**246,868**	**36,988**	**198,899**	**6,825**	**– 1,050**	**241,662**	**5,206**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros

	Note	Total	Share capital	Capital reserves	Group retained earnings/loss carryforwards	Statement of changes in equity recognised in other comprehensive income	Equity attributable to shareholders	Non-controlling interests
As at: 31 December 2018		**246,868**	**36,988**	**198,899**	**6,825**	**–1,050**	**241,662**	**5,206**
Effect of the first-time application of IFRS 16		–74	0	0	–74	0	–74	0
As at: 01 January 2019		**246,794**	**36,988**	**198,899**	**6,751**	**–1,050**	**241,588**	**5,206**
Consolidated earnings after tax		69,776	0	0	69,764	0	69,764	12
Changes in actuarial profits and losses		–313	0	0	0	–313	–313	0
Total comprehensive income		**69,463**	**0**	**0**	**69,764**	**–313**	**69,451**	**12**
Changes to the scope of consolidation		912	0	0	0	0	0	912
Other neutral changes[1]		–7,008	0	0	–1,802	0	–1,802	–5,206
		–6,096	**0**	**0**	**–1,802**	**0**	**–1,802**	**–4,294**
As at: 31 December 2019	**24**	**310,161**	**36,988**	**198,899**	**74,713**	**–1,363**	**309,236**	**924**

[1] thereof € 3,255 thousand from the acquisition of company shares

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

General information about the Company

At the general meeting of 13 February 2018, it was decided that Instone Real Estate Group B.V., with its registered office in Amsterdam, the Netherlands and administrative headquarters at Baumstraße 25, 45128 Essen, Germany, would be converted into a stock corporation under Dutch law (naamloze vennootschap: N.V.), the company Instone Real Estate Group N.V.

The conversion became legally effective upon registration of Instone Real Estate Group N.V. under number 60490861 on 13 February 2018 at the Dutch Chamber of Commerce and Industry, registered ex officio at the Essen District Court under HRB 26426 on 14 May 2018.

The first Annual General Meeting held on 29 June 2018 resolved to convert the Company into a stock corporation under the laws of Germany. The cross border conversion was registered at the Essen District Court under HR B 29362 on 28 August 2018.

Since then, the Company has been trading under the name Instone Real Estate Group AG (hereinafter also referred to as the "Company") at the address Grugaplatz 2-4, 45131 Essen, Germany. It is the top domestic parent company of the Instone Real Estate Group (hereinafter also referred to as "Instone Real Estate" or the "Instone Group").

The Company holds interests in subsidiaries whose principal activities are the acquisition, development, construction, leasing, management and sale or other use of land and buildings, as well as participation in other companies active in the sector.

The consolidated financial statements and the combined management report were approved by the Management Board of Instone Real Estate Group AG on 13 March 2020.

Basis of the consolidated financial statements

GRI 102-46; 102-47

The consolidated financial statements for Instone Real Estate as of 31 December 2019 were prepared on the balance sheet date on the basis of Section 315e(1) HGB in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they apply in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union.

Various items of the consolidated statement of financial position and the consolidated income statement are combined into one item for a better overview. These items are shown and explained separately in the Notes. The consolidated income statement is prepared according to the nature of expense method.

The consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are stated in thousands of euros (€ thousand) unless otherwise stated. Commercial rounding may lead to immaterial rounding differences in the totals.

The subsidiary financial statements included were prepared on the reporting date of the financial statements of Instone Real Estate Group AG.

First-time application of accounting standards in the current financial year GRI 102-48; 102-49

In recent years, the International Accounting Standards Board (IASB) has made various changes to existing IFRSs and published new IFRSs as well as Interpretations of the IFRS Interpretations Committee (IFRS IC). In addition, the IASB has published amendments to existing standards as part of the Annual Improvement Project (AIP). The primary aim of the collective standards is to clarify inconsistencies and formulations.

The following is an explanation of the accounting rules to be applied from the 2019 financial year onwards which are significant for Instone Real Estate as these had a material impact on these consolidated financial statements.

IFRS 16 "Leases"

The first-time application of IFRS 16 was carried out in accordance with the transitional provisions of IFRS 16 using the modified retrospective approach. The comparative figures for the financial year 2018 were therefore not adjusted.

Since 1 January 2019, payment obligations from contracts that were previously qualified as operating leases have been discounted at the corresponding incremental borrowing rate of interest and recognised as a leasing liability. Discounting is generally calculated using term and currency-specific incremental borrowing rates of interest, unless the interest rate underlying the lease payments is available. Each lease payment is divided into repayments and interest expenses. Interest expenses are recognised in profit or loss over the term of the lease. The right of use is amortised on a straight-line basis over the shorter of the term of the lease and the economic useful life of the leased item. At the time of the first application, the right of use asset of the leased item is equal to a retrospective valuation of the amount initially recognised taking into account the current interest rate. Initial direct costs are not included in the valuation of the right of use of the leased item at the time of first application. When exercising discretionary decision-making powers, the current state of knowledge is taken into account at the time of the first application. Instone Real Estate Group AG has made use of the option to exempt intangible assets from the scope of IFRS 16 and to separate individual leases that end in 2019 in accordance with the exemption regulations for short-term leases. Payments arising from leases with a term of no more than twelve months, starting after 31 December 2018, and leases in which the underlying asset of the lease agreement is of low value have been recognised as expenses in profit or loss at the time of payment in accordance with the option. In contracts that include lease components and non-lease components, these are separated, except in the case of insignificant asset classes. As part of the conversion to IFRS 16, as at 1 January 2019, right of use assets for the leased items in the amount of €8,652 thousand and leasing liabilities in the amount of €8,726 thousand were recognised. The following reconciles the operating leasing obligations as at 31 December 2018 to the opening balance sheet value of the leasing liabilities as at 1 January 2019:

RECONCILIATION OF LEASES

In thousands of euros

	01/01/2019
Operating leases	**9,551**
Application simplification from short-term leases	63
Application simplification from low-value assets	183
Effects from discounting	579
Leasing liabilities	**8,726**

The weighted average incremental borrowing interest rate, which was used to determine the leasing liabilities as at 1 January 2019, was 2.7%.

The right of use on the relevant leased item is recognised under a separate item. The right of use assets recognised relate to real estate, construction site equipment, passenger cars and construction site containers.

In the area of real estate, the Instone Group mainly leases offices and other office buildings. In addition, vehicles and other plant, property and office equipment are leased in the Instone Group. The additional right of use assets from IFRS 16 led to an increase in depreciation and amortisation in the amount of €3,220 thousand and an increase in interest expenses of €263 thousand due to the compounding of leasing liabilities for leases categorised as operating leases up to 2018. Other operating expenses, on the other hand, decreased by €2,878 thousand due to the elimination of leasing expenses as a result of the first-time application of IFRS 16.

The Instone Group also generates a small amount of income from leases through the acquisition of leased existing real estate that is intended for demolition or redevelopment. No long-term income is expected from these leases, as the aim of the Instone Group is to terminate the leases.

Accounting standards to be applied in the financial year

The following standards that were to be newly applied from the 2019 financial year onwards had no impact on these consolidated financial statements, except for any additional disclosures in the Notes:

- → Amendments to IFRS 9 “Financial Instruments”
- → Amendments to IAS 19 “Employee Benefits”
- → Amendments to IAS 28 “Investments in Associates and Joint Ventures”
- → IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”
- → Annual improvements to IFRS, cycle 2015-2017

Accounting standards and interpretations already published but not yet implemented

In addition to the above-mentioned mandatory IFRSs, the IASB has published further amended IASs and IFRSs, but these only need to be applied at a later date. Several of these standards have already been transposed into EU law (“endorsement”). Voluntary early application of these standards is expressly permitted or recommended. Instone Real Estate does not make use of this option. These standards will be implemented in the consolidated financial statements at the time of mandatory adoption.

Not yet incorporated into EU law (first-time adoption date in brackets):

→ Amendments to IAS 1, IAS 8 (1 January 2020)

→ Amendments to IFRS 3 (1 January 2020)

→ Amendments to IFRS 7, IFRS 9, IAS 39 (1 January 2020)

→ IFRS 17 (1 January 2021)

With the exception of new or modified notes, the new and amended standards are not expected to have a significant impact on the consolidated financial statements.

Scope of consolidation GRI 102-48

The equity investments of Instone Real Estate Group AG include subsidiaries, joint ventures and financial interests.

In addition to Instone Real Estate Group AG, the consolidated financial statements of Instone Real Estate include all subsidiaries controlled by Instone Real Estate Group AG according to the acquisition method. A control relationship exists if Instone Real Estate as an investor has the continuing opportunity to determine the relevant activities of the subsidiary. Relevant activities are activities that significantly affect returns. Furthermore, Instone Real Estate AG must have an interest in the form of fluctuating returns and be able to influence them with the options and rights available to the Company for its own benefit. As a rule, a controlling relationship exists if the majority of the voting rights are held directly or indirectly. In group companies, a controlling relationship can also arise through contractual agreements.

Shares in joint ventures are recognised using the equity method. A company is classed as a joint venture if Instone Real Estate has a material influence of at least 20% and not more than 50% on the basis of voting rights or if there is a corresponding contractual agreement.

As at 31 December 2019, a total of 25 (previous year: 10) domestic and two (previous year: two) European foreign subsidiaries in addition to Instone Real Estate Group AG, have been included and fully consolidated in the current interim consolidated financial statements.

On 31 December 2019, as in the previous year, joint ventures were assessed using the equity method. The measurement using the equity method was based on the latest available annual financial statements.

In total, six investments (previous year: four) had a low business volume or no business operation and were not consolidated for reasons of materiality. They are reported under other financial assets.

Due to their overall minor importance, three companies (previous year: three) were not included in the consolidated financial statements using the equity method. These companies are of minor importance both individually and as a whole for the presentation of the results of operations, net assets and financial position of Instone Real Estate.

A detailed overview of all shares directly or indirectly held by Instone Real Estate Group AG is provided in the list of shareholdings. page 150 f.

Business combinations GRI 102-48

Business combinations are accounted for at acquisition cost as soon as control is transferred to the Instone Group.

The consideration paid for the acquisition is measured at fair value. The same applies to the acquired identifiable net assets and debts. Goodwill is tested annually for impairment. All profits from acquisitions at prices below the market value are posted directly to income. Transaction costs are recognised when they arise, except when issuing bonds or equity securities.

The consideration paid does not include the amounts required to settle past relationship receivables. These amounts are always recognised in the income statement. Contingent considerations are recognised at their fair value at the acquisition date. If an obligation to make a contingent consideration that meets the requirements of the definition of a financial instrument is classified as equity, and it will not be revalued and recognised in equity. In other respects, a contingent consideration is valued at the fair value as of the respective balance sheet date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisition of business activities of S&P Stadtbau GmbH

With the purchase and assignment agreement of 15 August 2019, Instone Real Estate Development GmbH has taken on selected business activities of the Sontowski & Partner Stadtbau Group. In S&P Stadtbau GmbH, Instone Real Estate has acquired a real estate developer active in the fast-growing metropolitan region of Nuremberg, which establishes complex residential properties along the entire value-added chain, and thus complements Instone's previous activities in the major areas of Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich and Stuttgart.

As a result of the acquisition, 24 employees, including the previous management of the S&P Stadtbau GmbH, became part of Instone Real Estate, and six existing project developments in addition to the ongoing business activities, two of which were mixed-use neighbourhood developments, were added to the project portfolio. There, Instone Real Estate will undertake the development of the residential parts, while the S&P Group will continue to be responsible for the commercial components. A total of around 1,000 residential units with an expected total sales volume of €300,000 thousand are planned, which will be completed in the coming years.

On 31 August 2019, the Instone Group acquired control of the company through the successful activation of suspended purchase agreements and has included the company in the consolidated financial statements.

The fair value applicable at the time of acquisition was €31,944 thousand.

The amounts recognised in the acquired assets and liabilities transferred at the time of acquisition are summarised below:

ACQUISITION STATEMENT FOR S&P STADTBAU TRANSACTION

In thousands of euros

	31/08/2019
Acquired assets and liabilities	
Goodwill	6,056
Financial assets	19
Inventories	71,103
Contract assets	5,160
Financial receivables	45
Other assets	99
Liquid funds	96
Deferred tax asset	242
Other provisions	– 57
Financial liabilities	– 41,578
Liabilities	– 3,474
Other liabilities	– 27
Deferred tax liability	– 5,740
Net assets	**31,944**
Cash and cash equivalents acquired	– 96
Net outflow from acquisitions	**31,848**

The allocation of the purchase price to the acquired projects as the identifiable assets at the time of acquisition fully absorbed the purchase price surplus. After distribution between the acquired projects, a positive difference remained. This positive difference is recorded as goodwill as an independent asset in the consolidated statement of financial position. Goodwill of €5,726 thousand is allocated to deferred taxes to be recognised.

The receivables acquired have been recognised at their gross amount. The fair value corresponds to the gross amount. It is not assumed that parts of the receivables are expected to be uncollectible.

Due to the initial consolidation of S&P Stadtbau GmbH, in the period from 31 August 2019 to 31 December 2019, sales revenue of €1,853 thousand and earnings of €961 thousand were included in the consolidated statement of comprehensive income. If the company had already been acquired at the beginning of the financial year, sales revenues of €6,454 thousand and earnings before taxes of €-26 thousand would have been recognised in the consolidated statement of comprehensive income for the Instone Group.

Acquisition of non-controlling interests

Non-controlling interests are measured on the basis of their share, which at the time of acquisition is equal to the identifiable net assets of the acquirer. Changes in Group holdings in a subsidiary that do not result in a loss of control are treated as equity transactions.

On 10 October 2019, Instone Real Estate Group AG acquired the remaining 6% of the shares in Instone Real Estate Leipzig GmbH for €3,255 thousand as part of a put option and now owns 100% of the company. As a result, minority interests in equity decreased by €1,453 thousand.

Consolidation principles GRI 102-46

The financial statements of the companies included in the scope of consolidation are prepared using standardised accounting principles. Inter-company balances, business transactions, income and expenses as well as profits and losses from intra-Group transactions are eliminated in full. Deferred taxes are deferred for temporary differences from consolidation measures. Consolidation adjustments are performed on impairment losses recorded for Group companies in their separate financial statements.

The same consolidation principles apply to shares in equity-accounted investees. These include both affiliated companies and joint ventures of the Instone Group.

The financial statements of all equity-accounted affiliated companies are prepared in accordance with standardised Group accounting principles.

Foreign currency translation

All fully consolidated companies and equity-accounted affiliated companies prepare their separate financial statements in accordance with standardised Group accounting principles.

Accounting principles GRI 102-46

Assets and liabilities are recognised according to the historical cost principle. This excludes derivative financial instruments, securities and shares in associates which are recognised at fair value.

Goodwill from the acquisition of subsidiaries is recognised at cost and is not subject to scheduled depreciation, but is instead subject to an impairment test in accordance with IAS 36 once a year and, in addition, a further test if there exist indicators that point to a potential impairment. The goodwill accounted for in the Bavaria North branch is classified as an intangible asset with an indefinite useful life, as it has neither a product life cycle nor is it subject to technical, technological or commercial wear or other restrictions.

Intangible assets are measured at acquisition cost. These include software for commercial and technical applications only. Intangible assets are generally amortised on a straight-line basis over a period of three to five years. The useful life and depreciation methods are reviewed every year.

Property, plant and equipment are recognised at acquisition cost. These costs only include costs directly attributable to an item in property, plant and equipment. Property, plant and equipment is generally depreciated on a straight-line basis over a period of three to eight years. The useful life and depreciation methods are reviewed every year.

Impairment losses are recognised for tangible and intangible assets if their recoverable amount falls below their book value. If the reason for an earlier loss in value no longer exists, the asset is reversed at amortised cost.

Shares accounted for using the **equity method** are valued at acquisition cost and are recognised pro rata to the net assets in subsequent periods. The full book value is tested annually for impairment whereas withdrawals and other changes in equity are increased or decreased. Interests accounted for using the equity method are then impaired if their recoverable amount falls below their book value.

Other financial assets include investments and securities that fall exclusively in the valuation category “Affecting profit and loss at the fair value”. They are measured at their fair value.

Other financial assets include financial receivables, trade receivables and other receivables and are measured at amortised cost using the effective interest method (taking into account factors such as surcharges and rebates). Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

Long-term loans which are recognised in financial liabilities are carried at amortised cost. Interest-bearing loans at normal market rates are recognised at their face value.

Receivables and liabilities from individually negotiated customer contracts are listed under **contract assets** and **contract liabilities**. These receivables and liabilities are accounted for and measured in accordance with IFRS 15 “Revenue from Contracts with Customers”.

The Company’s customer contracts meet the criteria for identifying a contract under IFRS 15. For measurement purposes, the respective potentially separable performance obligations in the respective contracts are combined into a performance obligation as there is no individual benefit for the customer from separate performance obligations and the contracts do not provide for the transfer of separate benefit obligations. Subsequently agreed special requests of the customer are also added to the single performance obligation.

The contracts are generally regarded as fixed price contracts. Subsequent special requests are added to the fixed price. If the sale of several residential units in a contract is combined in multi-level marketing, a separate fixed price is agreed in the contract for each residential unit. In the case of investor distribution, contracts are always concluded with fixed prices listed separately if the performance obligation of the contract involves several buildings with separate construction phases. In addition to the generally agreed fixed price, the contracts involving investor distribution contain, in some cases, an adjustment clause at a fixed price on the basis of the constructed living space after final completion. The contracts for the sale of residential real estate are generally valued according to revenue recognition over time. In the case of contracts in individual sales, there is usually a right of withdrawal up to a marketing quota of 30% of the residential units of a construction phase so that revenue recognition of the revenue at a period in time only begins after this quota has been reached. Otherwise, in the case of contracts in the area of structured sales or investor distribution, the revenue recognition over time begins directly upon effectiveness of the contract. The agreed fixed price is generally accepted as a basis for the expected revenues for all contracts, as the adjustment to the constructed living space is not clearly identifiable before completion in the case of investor contracts. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the compliance costs. For the calculation of the costs, a separate project account is kept for each phase of construction in which the costs are recorded and compared with the planned costs. In the case of contracts in individual sales and structure sales, the marketing quota of the construction section is included in the measurement in addition to the performance progress. The unsold portion of the construction stage is valued as inventories in accordance with IAS 2.

Contracts with individual and structured sales are generally concluded with a instalment payment plan in accordance with the Broker and Developer Regulations (Makler- und Bauträgerverordnung; MaBV). For contracts involving investor distribution, as a rule, instalment payment plans are also agreed based on the MaBV regulations.

In receivables and liabilities from contract assets, the advance payments received from customers against the contracts concluded are netted with the receivables from the performance of the contract. In principle, the settlement receivables exceed the advance payments received for the contract and the net value is recognised as a contract asset. In individual cases, advance payments received may exceed the settlement receivables so that the netted value is shown as a contract liability.

The additional contract costs incurred are also capitalised in the “Contract assets” item in the balance sheet. From the beginning of revenue recognition, the sales commissions incurred and capitalised so far are amortised in the income statement under cost of materials. Depreciation is measured at the fulfilment level so that contract costs remain capitalised on the part not yet fulfilled.

Receivables and liabilities arising from customer contracts are realised in one single business cycle of Instone Real Estate. Consequently, they are classified as current assets or liabilities, even if the realisation of the entire construction contract takes more than one year.

In principle, the contracts with customers in the Instone Group do not provide for redemption obligations and guarantees beyond the statutory framework.

Deferred tax liabilities arise due to temporary differences between the IFRS and tax statements of financial position of the various companies and as a result of the consolidation.

Deferred tax assets are also recognised for tax refund claims arising from the anticipated utilisation of existing tax loss carryforwards in subsequent years. Deferred tax liabilities must be capitalised if it can be assumed with sufficient certainty that the affiliated economic benefits can be claimed. Their amount is calculated on the basis of the tax rates which apply or are expected to apply at the time of adoption in the different countries. The German trade tax rates applicable to the various companies are taken as a basis within the Group. For all other purposes, deferred tax liabilities are measured on the basis of the tax regulations in force or enacted at the time of reporting. Deferred tax assets and liabilities are offset against each other for each company or group of companies.

Inventories are assets that are in production (work-in-progress) and for which no sales contract has yet been concluded. They are valued at acquisition costs. The acquisition costs include the full production-related costs. Borrowing costs for inventories that are part of the qualifying assets are capitalised as cost components. If the recoverable amount is lower than the capitalised costs on a specific balance sheet date, the lower recoverable amount is used. If the recoverable amount from inventories increases as a result, the resulting gain must be recognised. This is done by increasing the inventory changes. For the purpose of commercial presentation, the inventories from the individual larger project development measures are split into several sub-project development measures. This split has no impact on the measurement. Within the Group, the respective overall project is recognised as a special measure in the current assets. The risks arising from individual sub-project units can be compensated by opportunities from other sub-projects. An impairment requirement beyond the carrying amount is taken into account by recognising a provision for contingent losses.

Liquid funds (cash and cash equivalents) are in the form of cash and bank balances recognised at nominal value.

Provisions are made for all legal and constructive liabilities to third parties existing on the closing date from transactions concluded in the past that are likely to result in the disposal of resources which can be reliably estimated.

Provisions are recognised at their anticipated settlement value and are not offset against reimbursement claims. All non-current provisions are recognised at their anticipated settlement value and discounted to the reporting date of the annual financial statements. Furthermore, all cost increases that count towards the settlement date are taken into account when calculating this amount.

In principle, provisions are released against the expense item for which they were made.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These include obligations of the Company with respect to current and future benefits to eligible active and former employees and their survivors. These obligations largely relate to pension benefits. The individual commitments are determined on the basis of the length of service and the salaries of the employees. The measurement of provisions for defined benefit plans is based on the actuarial value of the respective obligation. This is determined using the projected unit credit method. This projected unit credit method not only includes pensions and accrued benefits known as of the reporting date but also wage increases and pension increases expected in the future. The calculation is based on actuarial reports using biometric calculation methods (primarily “Richttafeln 2018 G” (guideline tables) of Klaus Heubeck).

The provision is calculated on the basis of the actuarial present value of the obligation and the fair value of the plan assets required to settle the pension obligation. The service cost is included in staff costs. The net interest income is part of the financial income. Gains and losses from the revaluation of net liabilities or net assets are recognised in full in the period in which they arise. They are reported in equity, are not recognised in profit or loss and are not reported in the consolidated income statement. In subsequent years they are also not shown in the profits and losses.

Instone Real Estate makes no further commitments for defined contribution plans that would exceed the contributions paid to Special Funds. The contributions are recorded as staff costs.

All **other provisions** take into account all identifiable risks. They are recognised at the amount required on the basis of prudent business judgement to meet future payment obligations of the Group. In this context, the amount that appears most likely is used, taking into account the individual case.

Non-derivative financial liabilities (including trade payables) are carried at amortised cost using the effective interest rate method in accordance with IFRS 9. Initial measurement is at fair value including transaction costs. In the subsequent valuation, the surcharges are added or the discounts are deducted when the residual value remaining until maturity is calculated. The surcharge and/or discount is recognised in the net financial income over the term.

Liabilities from net assets allocated to minority shareholders relate to the limited partner share of minority shareholders. On addition to the Group, they are carried as liability at the present value of the repayment amount through other comprehensive income. Subsequent measurement is through profit and loss.

Contingent liabilities are potential obligations to third parties arising from events that have already taken place and that cannot be fully controlled by the Company, or existing obligations to third parties that are highly unlikely to lead to an outflow of resources or whose amount cannot be estimated with sufficient reliability. Contingent liabilities are not generally shown in the balance sheet.

Income tax liabilities include obligations to pay actual income taxes. Income tax liabilities are offset against the corresponding tax refund claims if they exist in the same jurisdiction and are identical in terms of their type and due date.

Estimates and assumptions

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of the Group's accounting policies, recognition and measurement. Estimates are based on past experience and other knowledge of the transactions to be posted. Actual amounts may differ from these estimates.

Estimates are particularly required for the measurement of and contract assets, the allocation of sales prices, the recognition and measurement of deferred tax assets, the allocation of trade payables and contract liabilities, the recognition of provisions for pensions and other provisions.

SEGMENT REPORTING

Segment reporting in accordance with IFRS 8 is based on the management approach and thus corresponds to the management and reporting system that Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates its revenue and holds its assets mainly in Germany. In the 2019 financial year, the Instone Group achieved no more than 10% of total revenues reported from the revenues of one customer.

However, the internal reporting for the one business segment differs from the figures in IFRS accounting. In the internal reporting, Instone Real Estate focuses in particular on the development of housing projects. The presentation of the adjusted results of operations largely reflects the business affected by the project developments of the Instone Group. For this reason, Instone Real Estate conducts this segment reporting for this one business segment.

The internal corporate governance is, in particular, based on the internal reporting system for the presentation of key developments relating to the real estate and financial key performance indicators, supplemented by a consideration of the key project milestones and the development of liquidity.

Instone Real Estate manages its segment through the adjusted results of operations using the key performance indicators adjusted sales revenue, adjusted gross profit and adjusted earnings before interest and taxes.

Adjusted revenue

The performance of the business segment is reported via adjusted revenue on the basis of period-related revenue recognition. Adjusted revenue is calculated by adding the revenue recognition from share deals in the same way as from asset deals, without the effects of purchase price allocations.

Adjusted gross profit

The adjusted gross profit is used to analyse the project-based company performance and is determined on the basis of the adjusted revenue less the cost of materials, changes in inventories, indirect distribution costs and capitalised interest, but excluding effects from purchase price allocations and share deals.

Adjusted earnings before interest and tax (EBIT)

Adjusted EBIT is calculated on the basis of the adjusted gross profit less the platform expenses, consisting of staff costs, other operating income and expenses and depreciation and amortisation, but also adjusted for the effects of purchase price allocations and share deals, as well as any one-off events and effects, if applicable.

The effects of the adjusted results of operations are derived from the following facts:

Share deal effects

The project companies Westville 2 GmbH, Westville 3 GmbH, Westville 4 GmbH and Westville 5 GmbH are commercially conceived as asset management companies and represent a major project in Frankfurt am Main. Instone Real Estate has already sold these project companies in the form of a share deal with the obligation to build a residential complex. In the adjusted results of operations, the overall “Westville” project, is managed in the same way as the other projects in the Instone Group, with period-related revenue recognition in accordance with IFRS 15. These companies are valued and included in the consolidated financial statements in accordance with IAS 2. The effects from this different valuation can be found in the sales revenue of €220,801 thousand (previous year: €0 thousand), the changes in inventories of €-193,702 thousand (previous year: €0 thousand) and income taxes of €-4,289 thousand (previous year: €0 thousand).

Effects from sale price allocations

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as of 31 December 2019 inventories and contract assets still included write-ups of €46,127 thousand (previous year: €39,409 thousand) from purchase price allocations. The ongoing amortisation of these purchase price allocations on the basis of the progressing implementation of the projects included in these initial consolidations is adjusted for the internal reporting. The adjustment for the amortisation of purchase price allocations was attributable as follows: €6,390 thousand (previous year: €11,936 thousand) to sales revenues, €20,984 thousand (previous year: €0 thousand) to the cost of materials, €-13,108 thousand (previous year: €0 thousand) to changes in inventories and €-4,471 thousand (previous year: €-1,889 thousand) to income taxes. Based on current estimates, the Instone Group expects these effects to expire in 2024.

Reclassifications and one-off events and effects

Indirect sales expenses allocated to the project expenses amounted to €3,084 thousand as at 31 December 2019 (previous year: €1,870 thousand). The adjustment of the capitalised interest in the changes in inventories of €3,248 thousand (previous year: €1,133 thousand) burdened the project costs. In the financial year, one-off effects in the amount of €4,669 thousand from the platform expenses were adjusted. These effects are attributable to expenses for the acquisition of the S&P Stadtbau GmbH in the third quarter of €2,517 thousand and subsequent costs of €2,152 thousand from a company acquisition in 2015.

In the following table, the differences arising from the valuation of the individual facts are reconciled from the adjusted results of operations to the consolidated reporting:

RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS

In thousands of euros

	2019 (adjusted) internal reporting	Adjustment	2019 (reported) IFRS reporting	2018 (adjusted) internal reporting	Adjustment	2018 (reported) IFRS reporting
Sales revenue	**736,685**	**–227,191**	**509,494**	**372,773**	**–11,936**	**360,836**
Project costs	**–548,840**	**192,157**	**–356,684**	**–266,330**	**3,003**	**–263,327**
Cost of materials	–616,054	–17,900	–633,954	–322,223	1,870	–320,353
Changes in inventories	67,214	210,057	277,270	55,893	1,133	57,026
Gross profit	**187,845**	**–35,034**	**152,811**	**106,443**	**–8,934**	**97,509**
Platform costs	**–58,978**	**–7,753**	**–66,732**	**–56,870**	**–2,530**	**–59,401**
Staff costs	–37,336	0	–37,336	–33,563	0	–33,563
Other operating income	7,717	0	7,717	2,675	0	2,675
Other operating expenses	–25,294	–7,753	–33,048	–25,396	–2,530	–27,926
Depreciation and amortisation	–4,065	0	–4,065	–587	0	–587
EBIT	**128,867**	**–42,788**	**86,079**	**49,572**	**–11,464**	**38,108**
Investment and other income	–4,991	0	–4,991	–373	661	288
Financial result	–16,083	–1,764	–17,847	–7,683	–1,133	–8,816
EBT	**107,793**	**–44,552**	**63,241**	**41,516**	**–11,936**	**29,580**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1 Revenues

Revenues are spread across the following regions:

SALES REVENUES BY REGION GRI 201-1

In thousands of euros

	2019	2018
Germany	509,414	358,379
Rest of Europe	81	2,457
	509,494	**360,836**

The composition of revenues by type of revenue is shown in the following table:

SALES REVENUES BY REVENUE TYPE

In thousands of euros

	2019	2018
Revenue from building contracts		
period-based revenue recognition	482,916	321,918
period-based revenue recognition	20,280	25,932
	503,196	**347,850**
Income from leases	6,065	6,435
Other services	233	6,551
	509,494	**360,836**

Due to the significant increase in market prices in the financial year, sales revenues from construction contracts rose significantly to €503,196 thousand and therefore made a significant contribution to the increase in total revenues.

The total amount of unfulfilled or partly unfulfilled performance obligations as at the balance sheet date is €1,071,275 thousand.

The cycle of contract assets and contract liabilities is – analogous to the project term – an average of three years.

2 Other operating income

Other operating income is broken down as follows:

OTHER OPERATING INCOME

In thousands of euros

	2019	2018
Income from the reversal of provisions	1,813	0
Income from released liabilities	1,838	18
Income from the settlement of legal disputes	1,356	0
Income from claims for compensation/insurance benefits	46	139
Income from disposals of fixed assets	1	20
Income from the write-up of receivables	0	59
Income from rent and leases	0	17
Remaining other operating income	2,663	2,422
	7,717	**2,675**

Other remaining other income mainly includes cost allocations to subcontractors and items that are not included elsewhere.

3 Cost of materials

COST OF MATERIALS GRI 201-1

In thousands of euros

	2019	2018
Cost of raw materials, consumables and supplies	– 371,461	– 94,437
Expenses for purchased services	– 262,493	– 225,916
	– 633,954	**– 320,353**

4 Staff costs

STAFF COSTS GRI 201-1

In thousands of euros

	2019	2018
Wages and salaries	– 33,007	– 29,740
Social security contributions and expenses for pensions	– 4,329	– 3,823
	– 37,336	**– 33,563**

The contributions paid by the employer to the state-administered pension fund in the financial year amounted to €1,824 thousand (previous year: €1,709 thousand).

The pension expenses amount to €417 thousand (previous year: €411 thousand). They relate to pension entitlements earned in the financial year from defined benefit plans and payments to defined contribution plans. GRI 201-3

The average number of employees can be broken down as follows:

EMPLOYEES

Number (average)

	2019	2018
Germany		
Berlin	35	29
Erlangen	10	0
Essen	83	65
Frankfurt a. M.	47	41
Hamburg	31	27
Cologne	44	42
Leipzig	45	52
Munich	21	18
Stuttgart	29	27
	345	**301**
Rest of Europe	**2**	**2**
	347	**303**

5 Other operating expenses

Other operating expenses are divided as follows:

OTHER OPERATING EXPENSES GRI 201-1

In thousands of euros

	2019	2018
Other taxes	–4,049	0
Court costs, attorneys' and notaries' fees	–3,851	–2,387
Subsequent purchase price payments from company acquisitions	–3,603	–661
Consulting/analysis expenses	–3,152	–5,734
Commissions	–3,084	–1,870
Costs for EDP and IT	–1,782	–1,436
Change in warranty provisions	–1,359	–457
Travel costs	–1,205	–1,418
Insurances	–1,027	–511
Changes in other provisions	–958	–1,845
Leasing expenses including ancillary costs	–921	–3,042
Auditing expenses	–766	–323
Severance payments during the construction period	–655	–599
General advertising costs	–478	–444
Sundry other operating expenses	–6,158	–7,200
	–33,048	**–27,926**

Other operating expenses include, among other things, Supervisory Board performance bonuses, legal costs, costs of postal/payment transactions, further education expenses and other expenses that are not recognised elsewhere.

6 Depreciation and impairment

As in the previous year, there was no impairment on intangible assets or property, plant and equipment.

The depreciation of the leasing assets is divided into the following classes: Real estate €1,917 thousand, passenger cars €753 thousand and others €550 thousand euros

DEPRECIATION AND AMORTISATION

In thousands of euros

	2019	2018
Leased assets	–3,220	0
Property, plant and equipment	–801	–560
Intangible assets	–43	–27
	–4,065	**–587**

7 Results from investments

The income from at-equity consolidated investments and other investment income result as follows:

RESULTS FROM INVESTMENTS

In thousands of euros

	2019	2018
Results from investments recognised at equity		
Wohnpark Gießener Straße GmbH & Co. KG	378	123
Projektentwicklungs-gesellschaft Holbeinviertel mbH & Co. KG	64	– 283
	442	**– 160**
Commercial law profit withdrawals from investments recognised at equity		
Projektentwicklungs-gesellschaft Holbeinviertel mbH & Co. KG	179	462
Wohnpark Gießener Straße GmbH & Co. KG	123	0
	302	**462**
	744	**302**
Other income from investments		
Change in net assets attributable to minority interests	– 5.751	0
Other income from investments	17	– 14
	– 5.734	**– 14**

8 Financial result

FINANCIAL RESULT

In thousands of euros

	2019	2018
Financial income		
Interest and similar income	1,085	516
	1,085	**516**
Financial expenditure		
Interest and similar expenses	– 19,055	– 8,933
of which interest expenses from leases	– 263	0
Interest shares in allocations to provisions	– 66	– 13
of which, net interest expenses from pension obligations	– 69	– 83
	– 19,121	**– 8,946**
Other financial result		
Income from long-term securities (previous year: expenses)	189	– 386
	189	**– 386**

The financial income consists mainly of interest income for cash investments and loans. Financial expenses consist mainly of interest expenses for cash investments, interest-bearing securities and other loans.

In this financial year, interest income of €1,085 thousand (previous year: €516 thousand) for financial instruments that were not recognised at fair value in profit or loss was recognised; interest expenses for these financial instruments amounted to €– 19,055 thousand (previous year: €– 8,933 thousand).

The net interest expense from pension obligations of €-69 thousand (previous year: €-83 thousand) includes the interest payable annually on the net present value of the pension obligations of €-227 thousand (previous year: €-188 thousand). These amounts are recognised in interest income from plan assets amounting to €157 thousand (previous year: €104 thousand). GRI 201-3

9 Income taxes

INCOME TAXES

In thousands of euros

	2019	2018
Current income tax liabilities		
German trade tax	– 12,009	– 8,732
Corporation tax	– 8,302	– 8,676
	– 20,310	**– 17,408**
Deferred tax		
Deferred tax	26,845	– 3,139
	6,535	**– 20,547**

The change in deferred tax assets recognised in other comprehensive income was €4,277 thousand.

For temporary differences in the amount of €4,504 thousand between the net assets of Group companies recognised in the consolidated financial statements and the tax basis of the interests in these Group companies ("Outside Basis Differences") no deferred tax liability was recorded as no sale of affected investments is intended for an indefinite period.

The reconciliation of notional income tax liabilities to recognised income taxes is as follows:

TAX RECONCILIATION

In thousands of euros

	2019	2018
Earnings before tax	63,241	29,580
Theoretical tax expenses	20,632	9,650
Deviation from the expected Group tax rate	– 1,082	– 598
Initial recognition of deferred tax assets not previously applied to loss carryforwards and interest carryforwards	– 24,872	0
Use of loss and interest carryforwards, for which no deferred taxes have previously been capitalised	– 523	0
Taxes relating to other periods	– 2,138	– 2,375
Non-tax-deductible expenses and permanent differences	5,788	299
Tax-free income	– 798	339
Trade tax additions and reductions	– 3,973	0
Changes in value and non-recognition of deferred taxes	231	12,444
Effects from partnerships	886	340
Other	– 687	448
Effective tax expenses	– 6,535	20,547
Effective tax rate	– 10.33%	69.46%

The reconciliation is calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the different countries. A tax rate for the Group of 32.625% (previous year: 32.625%) has been used as the expected tax rate.

The first-time capitalisation from the recognition of tax loss carryforwards and interest carryforwards from the parent company from previous years was performed on the basis of the positive decision of the Annual General Meeting in June 2019 to conclude a domination and profit and loss transfer agreement with a subsidiary. This domination and profit and loss transfer agreement was concluded on 11 September 2019 with retroactive effect on 1 January 2019 following its registration in the commercial register on 13 September 2019.

10 Earnings per share

EARNINGS PER SHARE

	2019	2018
Net result for the shareholders of Instone Real Estate Group AG (in thousands of euros)	69,764	6,500
Number of shares outstanding (in units)	36,988	36,988
Basic and diluted earnings per share (in €)	1.89	0.18

Basic and diluted earnings per share are calculated by dividing the proportion of net consolidated profit attributable to Instone shareholders by the weighted average number of outstanding shares. Treasury shares are not included in this calculation.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 Goodwill

Goodwill in the amount of €6,056 thousand (previous year: €0 thousand) is attributable in full to the Bavaria North branch of Instone Real Estate Development GmbH. Goodwill is not depreciated on schedule, but is subjected to an impairment test in accordance with IAS 36 once a year, and whenever certain indicators point to a potential impairment loss. Goodwill is fully non-tax-deductible.

The goodwill of fully consolidated companies, which was capitalised as part of the initial consolidation, has been allocated to cash-generating units at the branch level in order to carry out the impairment tests described below.

GOODWILL

In thousands of euros

	2019	2018
Acquisition costs as at 1 January	**0**	**0**
Changes to the scope of consolidation	6,056	0
As of 31 December	**6,056**	**0**

The annual impairment test of goodwill at the branch level is carried out at the Instone Group on 31 December of the financial year. As part of the impairment tests, the recoverable amount of a branch is compared with its carrying amount. The recoverable amount of the cash-generating unit Bavaria North is determined on the basis of the individual value in use of the associated project developments. This corresponds to the present value of future cash flows that are expected to be achieved from the group of cash-generating units. The value in use is calculated on the basis of a project valuation model (discounted cash flow method). The determination is based on project-based cash flow plans for the next four years, which are generally based on the project planning approved by the Management Board and valid at the time the impairment test is carried out over the development period. There was no assumption of cash flows beyond the planning period of the projects. Experience and expectations regarding future market development are included in this planning. The cost of capital rates are based on the concept of weighted average cost of capital (WACC). A post-tax calculation of the value in use is initially carried out by discounting the cash flows at a cost of capital rate calculated separately for each cash-generating unit after taxes. A perpetual annuity is not recognised.

The discount rates for the cash-generating unit Bavaria North, which are used as part of the impairment tests, are 5.4% after taxes and 8.0% before taxes.

A comparison of the recoverable amounts of the branch with their carrying amount resulted in a surplus of €8,492 thousand and there is therefore no need for devaluation for goodwill. The surplus would drop by around €2,599 thousand if WACC were one percentage point higher and decrease by €3,803 thousand in the case of one percent lower expected revenues.

12 Intangible assets

As in the previous year, intangible assets are not subject to any limitations on disposal.

INTANGIBLE ASSETS

In thousands of euros

	2019	2018
Acquisition costs as at 1 January	**200**	**18**
Additions	3	182
As of 31 December	**203**	**200**
Accumulated depreciation as at 1 January	**45**	**18**
Additions	43	27
As of 31 December	**88**	**45**
	115	**155**

13 Right of use assets

RIGHT OF USE ASSETS

In thousands of euros

	2019	2018
Acquisition costs as at 1 January (after conversion)	**8,652**	**0**
Additions	4,243	0
Disposals	– 224	0
As of 31 December	**12,671**	**0**
Accumulated depreciation as at 1 January	**0**	**0**
Additions	3,220	0
Disposals	– 224	0
As of 31 December	**2,996**	**0**
	9,675	**0**

Leasing payments in the amount of €63 thousandfrom short-term leases and €183 thousand from leases based on low-value contracts are not included in leasing assets, for which the option was utilised in accordance with IFRS 16.5 to recognise these contracts in profit or loss. The leased assets are divided into the following classes as follows: Real estate €6,952 thousand, passenger cars €2.078 thousand and others €645 thousand thousand.

14 Property, plant and equipment

The development of property, plant and equipment is as follows:

PROPERTY, PLANT AND EQUIPMENT

In thousands of euros

	2019	2018
Acquisition costs as at 1 January	**2,614**	**2,342**
Additions	938	1,114
Disposals	–14	–842
As of 31 December	**3,538**	**2,614**
Accumulated depreciation as at 1 January	**619**	**744**
Additions	799	560
Disposals	–7	–685
As of 31 December	**1,411**	**619**
	2,126	**1,995**

15 Interests in joint ventures

The summarised financial information about joint ventures is presented below.

JOINT VENTURES – NET ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Assets	2,658	2,215
Liabilities	–1,717	–1,561
	941	**654**

JOINT VENTURES – RESULT

in thousands of euros

	2019	2018
Sales revenue	0	6
Profit for the year	884	604

16 Other investments

Other financial assets are broken down as shown below:

OTHER INVESTMENTS

In thousands of euros

	31/12/2019	31/12/2018
Interests in affiliated companies not included in the consolidated financial statements		
Immobiliengesellschaft C.S.C. S.à r.l.	31	31
Instone Real Estate Projektverwaltungs GmbH	25	0
Instone Real Estate Erste Projekt GmbH	25	0
Uferpalais Verwaltungsgesellschaft mbH	22	22
Projekt Wilhelmstraße Wiesbaden Verwaltungsgesellschaft mbH	18	18
Westville 1 GmbH	0	137
	121	**208**
Investments		
Sportplatz RKP GmbH	700	0
Parkhausfonds Objekt Flensburg GmbH & Co. KG	149	149
Kleyer Beteiligungsgesellschaft mbH	112	0
CONTUR Wohnbauentwicklung GmbH	26	26
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH	25	25
formart Wilma Verwaltungsgesellschaft mbH	13	13
	1,025	**213**
	1,145	**421**

17 Inventories

INVENTORIES

In thousands of euros

	31/12/2019	31/12/2018
Work-in-progress	732,051	392,074
Finished goods	77	12,326
	732,127	**404,400**

In accordance with IAS 2, inventories include assets that are intended for sale in the normal course of business (finished goods) or that are in the process of being produced for sale (work-in-progress).

Work-in-progress is subject to disposal restrictions due to project financing by banks amounting to €366,025 thousand (previous year: €339,462 thousand).

Borrowing costs of €13,160 thousand (previous year: €3,494 thousand) were capitalised as part of production costs recognised for inventories attributable to project-related financing based on individual agreements with external lenders.

It is expected that inventories of €565,027 thousand (previous year: €317,733 thousand) can only be realised after more than twelve months.

The inventories were subject to impairment of €1,138 thousand (previous year: €0 thousand). There was no reversal of impairment losses in the financial year as in the previous year.

18 Financial receivables

The financial receivables are as follows:

FINANCIAL RECEIVABLES

In thousands of euros

	31/12/2019	31/12/2018
non-current		
Other loans	450	0
	450	**0**
current		
Financial receivables from associated companies/other investments	5	65
	5	**65**
	455	**65**

19 Contract assets

The structure of contract assets is composed as follows:

CONTRACT ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Contract assets	479,401	466,858
Payments received	– 266,923	– 318,081
	212,478	**148,777**
Receivables from contract start-up costs	6,541	9,712
	219,019	**158,489**

The change in contract assets is due to the increase in fulfilment of the underlying contracts with customers, with a simultaneous temporary drop in advance payments received from customers.

The cycle of contract assets is – analogous to the project term – an average of three years.

The amortisation of the costs to obtain a contract in the amount of €3,171 thousand (previous year: €6,990 thousand) runs contrary to the fulfilment of the underlying contracts with customers.

20 Trade receivables

Trade receivables are comprised as shown below:

TRADE RECEIVABLES

In thousands of euros

	31/12/2019	31/12/2018
Trade receivables	8,278	13,127
	8,278	**13,127**

21 Other receivables and other assets

The following table shows other current and non-current receivables and other assets.

OTHER RECEIVABLES AND OTHER ASSETS

In thousands of euros

	31.12.2019	31.12.2018
Upfront payments on land	6,000	10,582
Receivable tax exemption Hochtief Solutions AG	2,267	2,758
Loans and receivables	1,872	905
Other tax assets	1,066	3,213
Other current assets	1,270	1,304
Receivables from employees	0	4
	12,473	**18,766**

It is expected that, other than deposits, no other receivables or other assets can be realised after more than twelve months.

22 Income tax assets

INCOME TAX ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Receivables from domestic and foreign tax authorities during the ordinary course of business	13,956	997
	13,956	**997**

23 Cash and cash equivalents

CASH AND CASH EQUIVALENTS

In thousands of euros

	31/12/2019	31/12/2018
Bank balances	117,076	87,958
Cash	13	7
	117,090	**87,965**
of which, restricted	8,042	6,320

The restrictions on the disposal of cash and cash equivalents result from project financing not yet completed by banks.

24 Equity

As of 31 December 2019, the Company's share capital amounts to €36,988 thousand (previous year: €36,988 thousand) and is fully paid up. It is divided into 36,988,336 no-par value shares.

The Annual General Meeting decided on 29 June 2018 to create an authorised capital. The Management Board is authorised to increase the share capital of the Company by up to €18,450 thousand in the period until 28 June 2023 through the issue of up to 18,450 thousand new shares.

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 of legal form on 28 August 2018. With regard to contingent capital, reference is made to the statements in the takeover law disclosures section of the combined management report.

As of 31 December 2019, the capital reserve remained unchanged at €198,899 thousand. (previous year: €198,899 thousand).

Retained earnings/loss carryforwards which were formed as part of Group equity, consist of the income generated by the companies flowing into the consolidated financial statements.

The accumulated other total comprehensive income from the Company's equity reflects the changes in equity of the actuarial gains and losses from defined benefit plans amounting to €-313 thousand (previous year: €-702 thousand).

The income tax effects recognised directly in equity can be broken down as follows:

INCOME TAX IMPACT IN EQUITY

In thousands of euros

	31/12/2019	31/12/2018
Amount before income taxes	–465	–1,042
Income taxes	152	340
	–313	**–702**

Non-controlling interests

The non-controlling interests of €912 thousand (previous year: €5,206 thousand) relate to KORE GmbH. In the previous year, there were also non-controlling interests in the companies Instone Real Estate Leipzig GmbH and GRK Beteiligung GmbH.

In the financial year no dividend (previous year: €0 euro) was distributed to non-controlling interests. The earnings after tax attributable to non-controlling interests amounts to €12 thousand (previous year: €2,496 thousand).

25 Provisions for pensions and similar obligations

The existing pension plans of Instone Real Estate consist of both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company makes payments to a state or private pension scheme, either on a statutory, contractual or voluntary basis. The Company is not legally obliged to make any further payments. Under the defined benefit plans, the Company is required to pay the promised benefits to existing and former employees. A distinction is made between plans financed by provisions or by external financing.

The old-age provision at Instone Real Estate consists of a basic pension financed by the Group companies in the form of a modular defined contribution plan and an additional pension component linked to the economic success of the Company. In accordance with IAS 19, the corresponding commitments are recognised as liabilities from defined benefit plans. GRI 201-3

The liabilities from defined benefit plans of Instone Real Estate are as follows:

LIABILITIES FROM DEFINED BENEFIT PLANS

In thousands of euros

	31/12/2019	31/12/2018
Active employees, dependent on remuneration	0	0
Active employees, not dependent on remuneration	6,713	5,966
	6,713	**5,966**
Vested claims	4,936	4,473
Ongoing pensions	950	819
	12,600	**11,258**

The average remaining time in service of the eligible active employees was 15.6 years as at the balance sheet date (previous year: 12.4 years).

The pension obligations within the scope of employee stock option programs are financed by the purchase of interests in mutual funds. The obligations financed by Helaba Pension Trust e.V. account for approx. 64.6% (previous year: approx. 60.0%) of the entire insurance coverage; overall, the coverage is 68.7% (previous year: 64.8%). The hedging of defined benefit obligations by plan assets is shown in the following table:

COVERAGE OF THE DEFINED BENEFIT OBLIGATION BY PLAN ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Pension obligations covered by funds	11,726	10,434
Deferred Compensation covered by funds	873	824
	12,600	**11,258**
Fair value of the fund assets	– 8,659	– 7,291
	3,940	**3,967**

The amount of the pension provisions depends on the actuarial assumptions, which also include estimates. The actuarial assumptions underlying the calculation are shown below.

DEFINED BENEFIT OBLIGATION CASH VALUE

In thousands of euros

	2.019	2.018
Defined benefit obligation cash value on 1 January	**11,258**	**9,758**
Change in the scope of consolidation	0	0
Current service cost	455	435
Interest expense	227	188
Actuarial gains (–)/actuarial losses (+) due to changes in demographic assumptions	0	54
Actuarial gains (–)/actuarial losses (+) due to changes in financial assumptions	744	536
Actuarial gains (–)/actuarial losses (+) due to changes in other assumptions	– 46	322
Transfer effects	0	0
Pension payments	– 38	– 35
Defined benefit obligation cash value as of 31 December	**12,600**	**11,258**

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes into account the duration of the pension obligations for the Company. The underlying mortality data was taken from the statistics and experience published for each country. The 2018 G mortality tables of Klaus Heubeck were used for this purpose.

The cash value of the defined benefit obligation and the fair value of the plan assets have the following changes:

PLAN ASSETS

In thousands of euros

	2019	2018
Plan assets 1 January	**7,291**	**5,577**
Additions	953	2,008
Interest income from plan assets (previous year: interest expense)	415	– 293
Income from plan assets not included in net interest income	0	– 1
Plan assets as at 31 December	**8,659**	**7,291**

COMPOSITION OF PLAN ASSETS

In thousands of euros

	31/12/2019	31/12/2018
Listing in an active market		
CTA[1] assets	8,144	6,753
DC[2] assets	515	538
Current euro balances	1	0
	8,659	**7,291**

[1] CTA = Contractual Trust Arrangement
[2] DC = Deferred Compensation

FACTORS

In %

	31/12/2019	31/12/2018
Discount factor	1.62	2.02
Salary growth rates	2.65	2.70
Pension adjustment: Commitments with adjustment guarantee	1.00	2.00
Pension adjustment: Other commitments	1.50	2.00

Sensitivity analysis

The pension obligations of Instone Real Estate are subject to various risks. The main risks are due to general changes in interest rates and inflation rates. There are no unusual risks associated with the pension obligations.

Interest rate risk: The (mathematical) contributions are converted into benefits within the scope of a defined contribution pension plan using a table of fixed interest rates that are not dependent on actual market interest rates. Instone Real Estate therefore bears the risk arising from the general capital market interest rates with regard to determining benefits. Pension obligations have increased significantly in recent years due to the generally low interest rates on the capital market. The comparatively strong effect results from the relatively long duration of the obligations.

Inflation risk: According to legislation, the benefits of occupational pensions in Germany must be adjusted to inflation trends every three years. The 2000+ pension plan obligations in Germany under occupational pension schemes increase by 1 % each year so there is little inflation risk during the retirement phase with regard to long-term pension commitments.

Longevity risk: As a retirement provision is granted for a lifetime, there is a risk that beneficiaries will live longer than originally anticipated, with Instone Real Estate bearing the corresponding risk. In general, this risk balances out across all beneficiaries and only has an impact if the overall lifetime is longer than originally thought.

The following sensitivity analysis shows the possible impact of the stated risks when changing the actuarial assumptions to the obligations under a defined benefit pension plan:

SENSITIVITY ANALYSIS

In thousands of euros

	31/12/2019		31/12/2018	
	Increase	**Decrease**	Increase	Decrease
Discount factor +0.50%/–0.50%	–1,434	1,693	–1,278	1,506
Salary increases +0.50%/–0.50%	0	0	0	0
Pension growth rate +0.25%/–0.25%	229	–218	220	–209
Life expectancy +1.00 year	421		372	

Expenses related to defined benefit pension plan obligations are as follows:

- → The current service cost for the following financial year is €499 thousand (previous year: €455 thousand).
- → The contributions to defined contribution plans are expected to rise in financial year 2020 by the same proportion as in financial year 2019.

26 Other provisions

The other provisions are divided as follows:

OTHER PROVISIONS

In thousands of euros

	31/12/2019	31/12/2018
Non-current		
Personnel provisions	5,794	3,986
Provisions for impending losses	356	0
Remaining other provisions	179	562
	6,329	**4,548**
Current		
Personnel provisions	52	32
Warranty obligations	7,892	6,818
Provisions for impending losses	7,223	0
Tax provisions	2,212	2,758
Litigation risks	4,073	3,573
Provisions for work still to be carried out	0	2,258
Remaining other provisions	1,516	2,287
	22,967	**17,726**
	29,297	**22,274**

The short-term and long-term provisions relating to staff primarily relate to provisions for special payments on the basis of a long-term incentive system, early retirement and anniversary commitments.

Other short-term provisions include, but are not limited to investment risks, compensation for damages and other contingent liabilities.

The provisions for impending losses were made for impending losses arising from construction services obligations to third parties.

The development of other provisions can be seen in the following table:

DEVELOPMENT OF OTHER PROVISIONS

In thousands of euros

	31/12/2019	01/01/2019	Allocation	Liquidation	Rebooking	Consumption
Personnel provisions	5,847	4,018	2,343	–395	0	–120
Warranty obligations	7,892	6,818	1,865	–210	0	–581
Provisions for impending losses	7,579	0	8,213	0	–634	0
Tax provisions	2,212	2,758	130	–600	733	–809
Litigation risks	4,073	3,573	1,234	–319	0	–416
Provisions for work still to be carried out	0	2,258	0	0	–1,843	–415
Other provisions	1,695	2,849	1,392	–1,925	–348	–273
	29,297	**22,274**	**15,177**	**–3,449**	**–2,092**	**–2,614**

The personnel provisions include commitments to the employees in connection with long-term incentive plans. Provisions of €5,225 thousand (previous year: €3,114 thousand) have been recognised for these long-term incentive plans.

27 Financial liabilities

Current and non-current liabilities to banks consisted of fixed and variable interest rate loans extended by various banks. Liabilities to banks have a term of between one and four years (previous year: between one and five years). The interest rates are between 1.45% and 5.75% (previous year: 1.50% and 4.24%). The increase was largely from taking up company financing of €180,204 thousand and project financing for ongoing projects of €434,289 thousand, which was countervailed by repayments of €284,851 thousand.

As a rule, the liabilities of the Instone Group to banks are not the subject of contractual assurances and are instead secured by land charges.

FINANCIAL LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Non-current		
Liabilities to banks	451,586	177,744
	451,586	**177,744**
Current		
Liabilities to banks	143,294	87,495
Liabilities to third parties	633	327
	143,927	**87,822**
	595,513	**265,566**

FINANCIAL LIABILITIES 2019

In thousands of euros

				Non-cash changes		
	31/12/2019	01/01/2019	Cash flow from financing activities	Changes to the scope of consolidation	Deferred interest	Amortisation from the valuation using the effective interest method
Liabilities to banks	594,881	265,239	276,042	41,578	13,756	–1,734
Liabilities to third parties	633	327	305	0	0	0
	595,513	**265,566**	**276,348**	**41,578**	**13,756**	**–1,734**

FINANCIAL LIABILITIES 2018

In thousands of euros

				Non-cash changes		
	31/12/2018	01/01/2019	Cash flow from financing activities	Changes to the scope of consolidation	Deferred interest	Amortisation from the valuation using the effective interest method
Liabilities to banks	265,239	317,407	–51,477	0	–1,489	798
Liabilities to third parties	327	448	–121	0	0	0
Liabilities to shareholders	0	57,824	–57,824	0	0	0
	265,566	**375,679**	**–109,422**	**0**	**–1,489**	**798**

28 Deferred tax

Deferred tax liabilities are calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the various countries and for the different countries. Deferred tax assets and liabilities are offset against each other for each company or group of companies. In other respects, deferred tax liabilities are calculated on the basis of the tax regulations in force or applying on the date of preparation of these financial statements.

Deferred tax assets that are recognised in tax refund claims arising from the expected utilisation of existing tax loss carryforwards in subsequent years and whose realisation appears sufficiently certain amount to €17,005 thousand (previous year: €4,898 thousand).

Deferred taxes were also applied to interest carryforwards in the amount of €6,659 thousand (previous year: €0 thousand).

There are tax loss carryforwards from our companies, for which no deferred taxes have been recognised: in Germany in the amount of €0 thousand (previous year: €55,339 thousand), while in Luxembourg, they amount to €19,245 thousand (previous year: €20,469 thousand) and in Austria €31,306 thousand (previous year: €30,802 thousand).

In principle, these losses and taxes carried forward within the individual countries can be offset against profits in subsequent years. According to our current assessment, we do not expect these loss carryforwards to be used.

Deferred tax assets and liabilities changed as follows:

DEFERRED TAX

In thousands of euros

	31/12/2019		31/12/2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Non-current assets	1,952	4,717	149	964
Current assets	111,991	150,769	97,235	132,676
Non-current debts				
Pension provisions	2,336	0	1,700	0
Other provisions	1,846	0	232	0
Other non-current debts	0	1,112	0	914
	4,182	**1,112**	**1,932**	**914**
Current debts				
Other provisions	2,513	6,033	532	2,516
Other current debts	20,299	13,774	4,615	967
	22,812	**19,808**	**5,147**	**3,483**
	140,937	**176,405**	**104,464**	**138,037**
Loss carryforwards	23,664	0	1,389	0
Gross amount	164,601	176,405	105,853	138,037
Offset	–164,440	–164,440	–105,853	–105,853
	161	**11,965**	**0**	**32,184**

29 Liabilities from net assets allocated to minority shareholders

Liabilities from net assets allocated to minority shareholders of EUR 9,504 thousand (previous year: EUR 0 thousand) relate to minority interests of Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG.

30 Leasing liabilities

The future minimum lease payments are as follows:

LEASING LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Due in up to one year	3,273	0
Due in one to five years	5,785	0
Due in over five years	1,559	0
	10,617	**0**

Instone Real Estate has concluded long-term contracts for commercial real estate and company vehicles as a tenant/lessee. The carrying amounts of the leasing liabilities as at 31 December 2019 amounted to €3,004 thousand of current liabilities and €6,836 thousand of non-current liabilities.

31 Contract liabilities

CONTRACT LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Payments received	52,099	19,900
Contract assets	– 28,807	– 13,267
	23,292	**6,633**

The liabilities from contract assets rose in the financial year from €6,633 thousand on 1 January 2019 to €23,292 thousand as of 31 December 2019. This increase is attributable to the significant increase in advance payments received.

The cycle of contract liabilities is – analogous to the project term – an average of three years.

In contrast to the liabilities arising from contract assets in the amount of €6,633 thousand as at 1 January 2019, in the financial year €4,923 thousand in revenues were generated through contract fulfilment.

32 Trade payables

TRADE PAYABLES

In thousands of euros

	31/12/2019	31/12/2018
Trade payables	87,592	78,342
	87,592	**78,342**

33 Other liabilities

OTHER LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Liabilities from bonuses	9,604	7,485
Liabilities to employees	1,327	290
Liabilities from taxes	592	2,352
Liabilities from the annual audit	214	544
Liabilities from social security contributions	6	7
Sundry other liabilities	1,383	2,011
	13,127	**12,689**

34 Income tax liabilities

INCOME TAX LIABILITIES

In thousands of euros

	31/12/2019	31/12/2018
Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business	29,123	18,094
	29,123	**18,094**

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Group's consolidated statement of cash flows distinguishes between cash flows from operating, investing and financing activities. All non-cash income and expenses and all income from the disposal of assets are eliminated as part of the cash flow from operations.

As of 31 December 2019, liquid funds consisted entirely of cash and cash equivalents of €117,090 thousand (previous year: €87,965 thousand), of which €8,042 thousand (previous year:€6,320 thousand) were subject to restrictions on disposal.

The total cash outflow for leases amounted to €3,442 thousand, of which with a repayment share of €3,176 thousand and interest share of €266 thousand.

OTHER DISCLOSURES

Disclosures about related persons and companies

Key related persons and companies include the material at-equity consolidated entities and shareholders. There were no material transactions with key related persons and companies which impacted the following items:

Relationships with joint ventures GRI 102-25

RELATIONSHIPS WITH JOINT VENTURES/OTHER INVESTMENTS

In thousands of euros

	31/12/2019	31/12/2018
Financial receivables		
Instone Real Estate Projektverwaltungs GmbH	5	0
Uferpalais Verwaltungs-gesellschaft mbH	0	65
	5	**65**
Liabilities		
Wohnpark Gießener Straße GmbH & Co. KG	485	150
Projektentwicklungs-gesellschaft Holbeinviertel mbH & Co. KG	148	178
	633	**328**

The financial liabilities to Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG and Wohnpark Gießener Straße GmbH & Co. KG consist of interest-free loans and have a residual term of up to one year.

Relationships with related persons

There were no material transactions between Instone Real Estate Group AG, Essen, Germany or a Group company and persons from the Management Board or related persons or companies during the reporting period. There are no conflicts of interest in terms of the participating members of the Management Board and the Supervisory Board. GRI 102-25

Remuneration of the Management Board

The remuneration of the Management Board members in 2019 was comprised of the following components:

Fixed remuneration

→ The fixed remuneration is paid in equal monthly instalments.

Fringe benefits

→ Fringe benefits consist of taxable monetary benefits, such as the private use of company cars or other benefits-in-kind.

Components under a long-term incentive plan consisting of two components:

One-year variable remuneration (short term incentive (STI))

→ The one-year variable remuneration in the form of an STI plan 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. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

Multi-year variable remuneration (long-term incentive (LTI))

→ As a further component of variable remuneration, the members of the Management Board are also promised multiple year variable compensation in the form of an LTI bonus. Any LTI bonus depends on the achievement of corporate goals during the bonus year. The contractually agreed base amount – an individually determined starting amount for each member of the Board of Management which is used as the basis for the calculation – is multiplied by the target achievement calculated. The multiplied base amount gives the value which is then divided by the average closing prices of Instone shares for the specified last 20 trading days before the end of the relevant bonus year. This is then used to calculate the number of virtual shares which are relevant to the bonus year. The virtual interests calculated annually for the bonus year have a term of three years and are only paid out at the end of the respective term at the share price determined at that time. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

Pension plan

→ 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. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

The following amounts were expensed for the members of the Management Board in the financial year:

REMUNERATION OF THE MANAGEMENT BOARD

In thousands of euros

	31/12/2019	31/12/2018
Benefits due in the short term		
Fixed remuneration	1,389	1,871
Variable remuneration	1,397	1,103
Benefits after the end of the employment relationship		
Pension expenses	95	401
Benefits due in the long term		
Variable remuneration	1,154	1,162
Benefits on termination of the employment relationship		
Severance payments	0	1,500
Total emoluments	**4,037**	**6,036**
Expense for long-term cash-settled performance-based remuneration components recognised in the financial year	**1,154**	**1,362**
Liability for long-term cash-settled performance-based remuneration components recognised as at 31 December	**2,516**	**1,362**

In the year under review, no advances were paid to members of the Management Board and no loans were made.

Supervisory Board remuneration

The total remuneration of the Supervisory Board in financial year 2019 was €426 thousand (previous year: €406 thousand). Of which, €355 thousand (previous year: €343 thousand) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €71 thousand (previous 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 and agency services. Nor were members of the Supervisory Board granted any advances or credits.

Transactions with members of the Supervisory Board

No reportable transactions took place with members of the Supervisory Board in the 2019 financial year.

Members of the Management Board

The Management Board is comprised 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 the North Rhine-Westphalia and Rhine-Main branches

Former members of the Management Board as at 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

Members of the Supervisory Board GRI 102-22; 102-23; 102-25

Stefan Brendgen, independent management consultant

In addition to his function as Chairman of the Supervisory Board of the Company, Mr Brendgen is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

- → 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 Director of AMCi and ReTurn Immobilien GmbH

In addition to his function as Deputy Chairman of the Supervisory Board of the Company, Dr Scharpe is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

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

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

In addition to her function as a member of the Supervisory Board of the Company, Ms Korsch is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

- → Aareal Bank AG (Chairperson 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

Mr Binkowska is not a member of any other statutory supervisory boards or comparable domestic and foreign supervisory bodies of commercial enterprises in addition to his function as a member of the Supervisory Board of the Company.

Thomas Hegel, lawyer and independent consultant

Mr Hegel is not a member of any other statutory supervisory boards of comparable domestic or foreign supervisory bodies of commercial enterprises in addition to his function as a member of the Supervisory Board of the Company.

Auditor’s fee

In the financial year the following total fees were expensed for the services of the auditor, “Deloitte GmbH Wirtschaftsprüfungsgesellschaft”, Munich, Dusseldorf Office:

AUDITOR’S FEE

In thousands of euros

	31/12/2019	31/12/2018
Annual audit	701	505
of which relating to previous years	135	0
Other confirmation services	111	145
Other services	0	7
	811	**657**

In addition to the audit of the annual and consolidated financial statements, the auditors conducted an audit review pursuant to IDW PS 900 and an audit pursuant to IDW PS 850, which are reported within the audit services. In addition, the auditor provided other assurance services; these are audits pursuant to Section 16 MaBV, investigative actions pursuant to ISRS 4400 and audits pursuant to IDW PS 980 and IDW PS 981.

Waiver of the disclosure of information and the preparation of the management report in accordance with Section 264(3) HGB

Instone Real Estate Development GmbH, headquartered in Essen, Germany and registered in the Commercial Register of the Essen District Court under HRB 28401, complies with the requirements set out in Section 264(3) HGB and is therefore exempt from disclosure of information in its annual financial statements and the preparation of a management report.

Reporting on financial instruments

Financial instruments include financial assets and liabilities as well as contractual rights and obligations relating to the exchange and transfer of financial assets. There are no derivative financial instruments.

Financial assets mainly comprise cash and cash equivalents, receivables and other financial assets. Most of the financial liabilities are current liabilities which are measured at amortised cost.

The available financial instruments are shown in the balance sheet. The maximum loss or default risk equals the sum of the financial assets. Any risk identified for financial assets is recognised at its impairment charge.

Risk management

All of Instone Real Estate's financial activities are conducted on the basis of a Group-wide financial policy. There are also function-specific operational work instructions on topics such as the handling of collateral.

These guidelines contain the principles used to address the different types of financial risks.

Trading, controlling and billing are handled separately by the front and back office. This ensures effective risk management. The monitoring and billing of the external trading activities of the Front Office is carried out by a separate and independent back office. Furthermore, the dual control principle must be maintained at least for all external trading activities. Internal powers to issue instructions are limited in number and amount, reviewed regularly (at least once a year) and adjusted if necessary.

The Instone Group considers the interests of shareholders, promissory note investors and the issuing banks in its financial management. Financial and non-financial covenants arise from the contractual conditions of the promissory note loan, the fixed term loan and the syndicated loan. The covenants include compliance with the debt ratio, the interest rate, equity and loan to value. The potential financial risks resulting from the contractual conditions were not considered to be significant as at the balance sheet date 31 December 2019. The loans are not secured and the Instone Group complied with all obligations in this regard in the financial year as well as in the previous year. For the subsequent periods, the Instone Group monitors the future development as part of Group-wide financial risk management and also continues to anticipate compliance with the contractual terms.

Management of liquidity risk

Instone Real Estate uses largely centralised structures for pooling cash and cash equivalents at Group level to avoid, among other things, bottlenecks in cash flow at individual Group company level. The central liquidity position is calculated monthly and using a bottom-up method over a rolling twelve-month period. The liquidity planning is supplemented by monthly stress tests.

The following tables show the contractually agreed residual maturity of non-derivative financial liabilities with agreed repayment periods that apply to the Group. The tables are recorded on the basis of the non-discounted cash flows of the financial liabilities with the date which the Group can be asked to repay. The tables contain the cash flow from interest and principal receivable.

Interest payments for items with variable rates are uniformly translated using the last interest rate in effect before the key date.

The consolidated statement of financial position as at 31 December 2019 includes a promissory note loan issued in the financial year with a nominal value of €106,000 thousand and a fixed term loan concluded in the financial year of €75,000 thousand. These financial liabilities are accounted for at amortised cost using the effective interest rate method. Interest income and interest expenses as well as directly attributable transaction costs are allocated over the relevant subsequent periods through amortisation recognised in profit or loss.

The maximum payments listed in the following tables are compensated by contractually determined revenues in the same period, which are not shown here (e.g. trade receivables) which cover a significant part of the cash flows recognised.

Maturity analysis of financial liabilities

The following table provides an overview of the contractual payments in terms of financial liabilities:

MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2019

In thousands of euros

	Carrying amount 31/12/2019	Cash outflows 2020	2021–2023	>2023
Financial liabilities	595,513	143,105	423,085	28,000
Trade payables	87,592	87,592	0	0
Liabilities from net assets attributable to minority shareholders	9,504	0	0	9,504
Leasing liabilities	10,617	3,273	5,785	1,559
	703,226	**233,970**	**428,870**	**39,063**

MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2018

In thousands of euros

	Carrying amounts	Cash outflows 2019	2020–2022	>2022
Financial liabilities	265,566	87,822	177,744	0
Trade payables	78,342	78,342	0	0
	343,908	**166,164**	**177,744**	**0**

The liquidity of the Group is also secured on the basis of available cash, bank balances and unused credit lines.

The following table shows the most important liquidity instruments:

LIQUIDITY INSTRUMENTS

In thousands of euros

	31/12/2019	31/12/2018
Cash and cash equivalents	117,090	87,965
of which cash	13	7
of which, restricted	8,042	6,320
Credit line - unused amount	334,236	345,344
	451,326	**433,309**

Control of default risks

Instone Real Estate is subject to certain default risks due to its operating activities and specific financing activities.

At Instone Real Estate, operational risks are managed through the continuous tracking of trade receivables at branch level. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

The maximum default risk from financial assets corresponds to their respective carrying amounts stated in the balance sheet. However, the de facto default risk is lower, as collateral has been provided in favour of Instone Real Estate. The maximum risk from financial guarantees is equal to the maximum amount that Instone Real Estate would have to pay. The maximum default risk from loan commitments is equal to the amount of the commitment. It is very unlikely that these financial guarantees and loan commitments will be used at the time of reporting.

Instone Real Estate accepts collateral to secure the fulfilment of the contract by subcontractors, the warranty obligations of the subcontractors and fee claims. These securities include, but are not limited to, warranty guarantees, contract performance guarantees, advance payments and payment guarantees. Instone Real Estate has corresponding guidelines for the acceptance of collateral. This includes, among other things, rules on contract structure, contract implementation and contract management for all contracts. The exact specifications vary and depend, for example, on the country, jurisdiction and current case law. With regard to default risks, Instone Real Estate checks the creditworthiness of the guaranteeing party for all accepted collateral. Instone Real Estate commissions external professionals (such as rating agencies) to assess their creditworthiness as far as possible. The fair value of accepted collateral is not disclosed, as it cannot usually be determined reliably.

The age structure of overdue financial assets is typical for the sector. The receipt of a payment depends on the order acceptance and invoice verification, which often take a relatively long time.The majority of these overdue non-impaired financial assets relate to receivables from public-sector clients with outstanding credit ratings. Contract assets are not subject to impairment.

The following table shows the overdue and non-overdue, impaired financial assets:

IMPAIRMENTS PURSUANT TO IFRS 9 IN 2019

In thousands of euros

	Carrying amount	Non-overdue	Up to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue
Trade receivables (gross book value)	10,530	4,310	3,376	165	121	2,558
Impairment provisions	–2,253	–43	–34	–2	–1	–2,173
Trade receivables (net book value)	**8,278**	**4,267**	**3,342**	**163**	**120**	**385**

IMPAIRMENTS PURSUANT TO IFRS 9 IN 2018

In thousands of euros

	Carrying amount	Non-overdue	Up to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue
Trade receivables (gross book value)	14,987	8,227	4,154	24	69	2,513
Impairment provisions	–1,860	–82	–42	0	–1	–1,735
Trade receivables (net book value)	**13,127**	**8,145**	**4,112**	**24**	**68**	**778**

The ongoing changes in the 2019 financial year are based on allocations, dissolutions and utilisations and amount to €-393 thousand (previous year: €1,758 thousand) meaning that, as at 31 December 2019, there is an impairment loss on trade receivables of €2,253 thousand.

Control of interest rate risks

The interest rate risk of Instone Real Estate is mainly related to current and non-current interest bearing financial assets and liabilities due to fluctuations in market interest rates. Depending on the situation on the market, this risk is countered by a mix of fixed income and variable interest rate financial instruments. The risk is not managed separately, as borrowed funds are usually repaid promptly using the payments made by the acquirers.

Changes in market interest rates for non-derivative financial instruments with a fixed interest rate are only recognised in profit or loss if they are shown at their fair value. For this reason, all financial instruments recognised at amortised cost are not subject to interest rate risks as defined by IFRS 9.

As part of a sensitivity analysis, we examined the effects of changes in market interest rates on Group earnings after tax over a range of 100 basis points. In the financial year, a hypothetical increase or decrease in market interest rates by 100 basis points (if the other variables remain constant) would result in higher or lower consolidated earnings after taxes of €-3,260 thousand or €2,708 thousand (previous year: €-1,408 thousand or €0 thousand).

Control of the capital risk

Instone Real Estate manages its capital with the aim of ensuring that all Group companies continue to operate on a going concern basis. The Group keeps the cost of capital as low as possible. It achieves this by optimising the ratio of equity to debt on an as-needed basis.

The capital structure of the Group consists of current and non-current liabilities less the cash and cash equivalents reported in the balance sheet and in equity. The capital structure of the Group is reviewed regularly. The risk-adjusted capital costs are also taken into account.

The overall strategy for controlling the capital risk did not change in the financial year compared to the previous year.

Further disclosures on financial instruments

The book values and fair values for individual classes of financial instruments and carrying amounts for each category are shown below in accordance with IFRS 7:

With the financial instruments accounted for at amortised costs, the book value largely corresponds to the fair value, due to the short remaining maturity.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS IN 2019

In thousands of euros

	Book value 31/12/2019	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9	Fair value 31/12/2019
ASSETS					
Financial assets					
Financial receivables					
non-current	450	0	450	0	450
current	5	0	5	0	5
	455	**0**	**455**	**0**	**455**
Other investments	1,145	1,145	0	0	1,145
Contract assets	219,019	0	0	219,019	219,019
Trade receivables	8,278	0	8,278	0	8,278
Other receivables	12,473	0	12,473	0	12,473
Cash and cash equivalents	117,090	0	117,090	0	117,090
	358,460	**1,145**	**138,296**	**219,019**	**358,460**
EQUITY AND LIABILITIES					
Financial liabilities					
Financial liabilities					
non-current	451,586	0	451,586	0	451,586
current	143,927	0	143,927	0	143,927
	595,513	**0**	**595,513**	**0**	**595,513**
Contract liabilities	23,292	0	0	23,292	23,292
Liabilities from net assets attributable to minority shareholders	9,504	9,504	0	0	9,504
Trade payables	87,592	0	87,592	0	87,592
Other liabilities	13,127	0	13,127	0	13,127
	729,028	**9,504**	**696,232**	**23,292**	**729,028**

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS IN 2018

In thousands of euros

	Book value 31/12/2018	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9	Fair value 31/12/2018
ASSETS					
Financial assets					
Financial receivables					
non-current	0	0	0	0	0
current	65	0	65	0	65
	65	**0**	**65**	**0**	**65**
Other investments	421	421	0	0	421
Contract assets	158,489	0	0	158,489	158,489
Trade receivables	13,127	0	13,127	0	13,127
Other receivables	7,488	0	7,488	0	7,488
Cash and cash equivalents	87,965	0	87,965	0	87,965
	267,555	**421**	**108,645**	**158,489**	**267,555**
EQUITY AND LIABILITIES					
Financial liabilities					
Financial liabilities					
non-current	177,744	0	177,744	0	177,744
current	87,822	0	87,822	0	87,822
	265,566	**0**	**265,566**	**0**	**265,566**
Contract liabilities	6,633	0	0	6,633	6,633
Trade payables	78,342	0	78,342	0	78,342
Other liabilities	12,689	0	12,689	0	12,689
	363,230	**0**	**356,597**	**6,633**	**363,230**

Net results from financial instruments

The following table shows the net results from financial instruments according to the categories in IFRS 9:

NET RESULTS FROM FINANCIAL INSTRUMENTS

In thousands of euros

	31/12/2019	31/12/2018
Affecting profit and loss at the fair value	– 135	228
At amortised costs	– 65	– 429
Liabilities at amortised cost	– 19,054	– 9,332
	– 19,254	**– 9,533**

The calculation of net results from financial instruments includes interest income and expense, impairments and reversals, income and expenses from currency translation, dividend income, capital gains and losses and other changes in the fair value of financial instruments recognised through profit or loss.

The changes due to impairment of trade receivables amounted to €– 368 thousand in the financial year (previous year: €– 1,768 thousand).

Declaration of Conformity with the German Corporate Governance Code

In December 2019, the Management Board and Supervisory Board of Instone Real Estate Group AG issued the declaration of conformity for the financial year in accordance with Section 161 AktG.

The declaration of compliance was made permanently publicly available to the shareholders by a link on the Company's website at ↗ Instone Declaration of Compliance.

Other financial obligations

As at 31 December 2019, there are no other financial obligations (previous year: €8,209 thousand). The obligations arising from rentals and leases are reported separately in the balance sheet in accordance with IFRS 16.

Events after the balance sheet date

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

Information on the preparation and approval

The Management Board of Instone Real Estate Group AG has prepared the consolidated financial statements on 13 March 2019 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of reviewing the consolidated financial statements and deciding on their approval.

Essen, Germany, 13 March 2020

The Management Board

Kruno Crepulja   Dr Foruhar Madjlessi   Andreas Gräf

LIST OF SHAREHOLDINGS

LIST OF SHAREHOLDINGS AS AT 31/12/2019 GRI 102-45

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
I. Affiliated companies included in the consolidated financial statements			
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., Luxemburg, Luxemburg	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 Erste Projektbeteiligung GmbH & Co. KG, Essen, Germany	100.0	5	0
Instone Real Estate Development GmbH, Essen, Germany[2]	100.0	153,986	0
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	– 853	– 853
Instone Real Estate Leipzig GmbH, Leipzig, Germany	100.0	31,069	29,939
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 Schopenhauerstraße GmbH & Co. KG, Erlangen, Germany	100.0	120	4
Instone Real Estate Projekt Seetor GmbH, Erlangen, Germany	100.0	602	449

[1] Profit and loss transfer agreement with Instone Real Estate Development GmbH
[2] Profit and loss transfer agreement with Instone Real Estate Group AG

LIST OF SHAREHOLDINGS AS AT 31/12/2019 GRI 102-45

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
Instone Real Estate Projekt Stephanstraße GmbH & Co. KG, Erlangen, Germany	100.0	– 38	– 52
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany	100.0	29	– 7
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany	100.0	– 13	– 16
Instone Real Estate Property GmbH, Essen, Germany	100.0	25	0
KORE GmbH, Dortmund, 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

LIST OF SHAREHOLDINGS AS AT 31/12/2019 GRI 102-45

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
II. Investments recognised at equity			
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 participations			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	34	–12
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	44	2
Real Estate Company CSC Kirchberg S.à rl, 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	100.0	25	29
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany	6.0	2,998	95
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	9	–8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.0	38	–10
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	1	32

LIST OF SHAREHOLDINGS AS AT 31/12/2018

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
I. Affiliated companies included in the consolidated financial statements			
Durst-Bau GmbH, Vienna, Austria	100.0	845	284
formart Immobilien GmbH, Essen, Germany[1]	100.0	701	23
formart Luxemburg S.à r.l., Luxembourg, Luxembourg[1]	100.0	1,976	1,262
Gartenhöfe GmbH, Leipzig, Germany	100.0	5,848	363
GRK Beteiligung GmbH, Leipzig, Germany	98.0	– 468	– 148
Instone Real Estate Development GmbH, Essen, Germany	100.0	178,571	7,909
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	513	640
Instone Real Estate Leipzig GmbH, Leipzig, Germany	94.0	26,328	– 2,129
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	– 24	– 12
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.0	11,549	2,887
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany	70.0	13,935	9,192
west.side GmbH, Cologne, Germany	100.0	8,009	7,509

LIST OF SHAREHOLDINGS AS AT 31/12/2018

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
II. Investments recognised at equity			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany	50.0	383	358
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany	50.0	271	246
III. Other participations			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany[2]	50.0	46	– 72
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	42	2
Real Estate Company CSC Kirchberg S.à rl, Luxembourg, Luxembourg	100.0	32	– 6
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany[2]	6.0	3,459	140
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	16	– 8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany[2]	50.0	48	– 7
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	– 31	– 2
Westville 1 GmbH, Frankfurt am Main, Germany	100.0	25	0

[1] Profit and loss transfer agreement
[2] As at: 31 December 2017.

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT GRI 102-56

To Instone Real Estate Group AG, Essen/Germany

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

Audit Opinions

We have audited the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report on the parent and the Group of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of 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 consolidated financial statements comply, in all material respects, with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

→ the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated 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 consolidated financial statements and of the combined management report.

Basis of the Audit Opinions

We conducted our audit of the consolidated 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 Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities 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 (2) point (f) 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 consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated 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 consolidated 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 concerning revenue recognition over time as well as the measurement of contract assets and of inventories.

Our presentation of this key audit matter has been structured as follows:

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

b. auditor's response.

Revenue Recognition Over Time Including Measurement of Contract Assets and Inventories

a. In the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2019, contract assets of kEUR 219,019, inventories amounting to kEUR 732,127, and revenue totalling kEUR 503,196 from the development of residential and multi-family buildings, the design of urban districts, the restoration of historic objects as well as publicly funded construction (development activities) in Germany are reported. Applying the provisions under IFRS 15 on revenue recognition, revenue for units under development is recognised over time. In doing so, the service provided including the pro rata result is reported according to the degree of completion under revenue. Except for restoration objects, revenue for these matters is principally reported if a marketing progress of 30% has been reached for the relevant project. As of this point, the contractual right to withdraw granted to both parties ceases to exist. In the case of restoration objects, the revenue is reported with the start of the construction activity.

The amount of the revenue recognised from a given construction project and the valuation of contract assets or inventories depend on the following parameters:

→ the marketing progress,

→ the degree of completion and actual costs incurred as at the balance sheet date, and

→ the estimate of total revenue and total costs.

While the marketed part of the construction projects is reported under the item contract asset after netting with prepayments received or under contract liabilities, the non-marketed part of the construction projects is reported under inventories.

Revenue recognition and the measurement of contract assets and inventories is based to a substantial extent on estimates and assumptions made by the executive directors with respect to the total amount of costs, the accrual of costs as at the balance sheet date as well as the estimates of total revenue attributable to the respective project. The discretionary estimates made by the executive directors have a direct and, for the most part, significant effect on the amount of revenue recognised in the consolidated statement of profit and loss and the amount of the contract assets or inventories in the consolidated statement of financial position.

Against this background, we have determined this matter as a key audit matter.

Information on revenue recognition and on the measurement of contract assets and inventories is provided by the executive directors in section "Basis for the Consolidated Financial Statements" of the notes to the consolidated financial statements.

b. In auditing revenue, contract assets and inventories, we examined the accounting principles applied in accordance with the provisions under IFRS 15, involving internal IFRS Advisory specialists. Within the scope of our audit, we included the material processes from the acceptance of projects (acquisition of the property) through to project management (construction activity and sale of individual dwelling) as well as the monthly cost accrual procedure, and examined the appropriateness and effectiveness of relevant internal control procedures. Applying the risk-based sampling method, we performed on-site visits to projects and, on the basis of the latter, we assessed the estimates and assumptions made by the executive directors as at the balance sheet date. We assessed the accrual of costs using appropriate evidence based on random sampling. In addition, we examined the accrual postings as at the balance sheet date for plausibility. We assessed the anticipated total revenue and total costs by involving internal Real Estate Consulting specialists as well as their specialist and industry knowledge. We evaluated the relevant disclosures in the notes to the consolidated financial statements as to their completeness and accuracy.

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,

→ the corporate governance report pursuant to Number 3.10 of the German Corporate Governance Code,

→ the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and

→ all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated 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 consolidated 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 Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's reliability 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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Group's position and, in all material respects, is consistent with the consolidated 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 consolidated 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 consolidated 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 consolidated 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 control.

→ obtain an understanding of internal control relevant to the audit of the consolidated 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.

→ evaluate the appropriateness of the 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 consolidated 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 Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group'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 consolidated 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 group 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 group 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.

Dusseldorf/Germany, 16 March 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Rolf Künemann
Wirtschaftsprüfer
[German Public Auditor]

Signed: Michael Pfeiffer
Wirtschaftsprüfer
[German Public Auditor]

RESPONSIBILITY STATEMENT OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, we declare that the consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of Instone Group in accordance with the applicable accounting principles and that the management report of the Group, which is combined with the Company's management report, includes a true and fair view of the development, performance and results of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of Instone Group.

Essen, 13 March 2020

The Management Board

Kruno Crepulja Dr. Foruhar Madjlessi Andreas Gräf

CONTACT

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GRI 102-53

ABOUT US

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GRI 102-1; 102-3

Management Board

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

Chairman of the Supervisory Board

Stefan Brendgen

Commercial Register

Registered in the Commercial Register
of the Essen Local Court under HRB 29362

Sales tax ID number
DE 300512686

Concept, design and implementation

MPM Corporate Communication Solutions,
Mainz, Dusseldorf
mpm.de

FINANCIAL CALENDAR

19/03/2020	Publication of financial report for year ended 31 December 2019
28/05/2020	Publication of quarterly statement as at 31 March 2020
09/06/2020	Annual General Meeting
27/08/2020	Publication of half-year report as at 30 June 2020
26/11/2020	Publication of quarterly statement as at 30 September 2020

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GRI 102-55

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GLOSSARY

A / Core cities:

A cities: Refers to the metropolitan cities of Berlin, Hamburg, Munich, Cologne, Stuttgart, Frankfurt am Main and Dusseldorf which are considered in the real estate industry to be the seven most desirable locations in Germany.

Core cities: Instone Real Estate also ranks Leipzig as an A city; all these A cities together are referred to as the core cities. In light of its size and proximity to Nuremberg, Erlangen – the new Instone location – will also be ranked as a core city in future, although this is not yet reflected throughout this year‘s Annual Report due to the lack of availability of some data. Wherever it has been possible to include Erlangen/Nuremberg, explicit mention is made in this Report.

Anticipated items:

Deferred items in the balance sheet that reflect that expenses or income incurred during the year under review do not result in income or expenditure until the following year.

Realignment of boundaries (boundary areas):

When realigning boundaries, scattered plots are grouped into a larger plot and surrounding plots are assigned to a central plot to increase the usability of the land.

Asset deal:

In an asset deal, the assets held in a company or just a single asset are purchased, and the individual assets are transferred.

Brownfield developments:

Project developments on former industrial sites and conversion areas that have been reclassified for residential utilisation and therefore do not require additional sealed surfaces. On the contrary, existing areas are upgraded or improved.

Contractual Trust Arrangement (CTA):

Pension trust company

Deferred compensation:

Deferred compensation; pension commitment within the company pension scheme - financed by a waiver of remuneration of the employee

Divestment:

Release of restricted capital in longer-term assets by selling them

Duration:

Term of commitment of the capital invested in fixed income securities

EBIT:

Earnings before interest and tax

EBITDA:

Earnings before interest, tax, depreciation and amortisation

Equity-method:

Accounting method for long-term investments in a company that participates in the voting capital of another company (the participation book value is constantly adjusted to the development of the equity of the company in which the investment has been made)

Euribor:

Abbreviation for the reference interest rate Euro Interbank Offered Rate

Family offices:

Companies or departments of banks managing large private assets.

Subsidised residential space:

Rental flats that have been created or modernised with the provision of subsidies from state budgets or development banks and whose occupancy and rent levels have been regulated for a certain period of time (social commitment)

Investor development:

Project developments for own stock or developments at the risk, and on behalf, of third parties

Purchasing Power Index:

Regional purchasing power level per inhabitant or household compared to the national average (with a standard value of 100)

Conversion (conversion areas):

Conversion or change of use

Mezzanine financing:

Financing with hybrid capital, which includes both equity and debt financing

Prosperous medium-sized cities:

These cities include the following for Instone Real Estate: Darmstadt, Dresden, Freiburg im Breisgau, Hanover, Heidelberg, Heilbronn, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm, Wiesbaden.

POC method:

Percentage of completion method

Share deal:

In a share deal, purchasers acquire a company by buying all or almost all of the shares of a partnership or corporation.

Thousand-man rate:

Reportable accidents at work per 1,000 full-time workers

Trading development:

The project development process takes place at the own expense of the project developer. The marketing risk is borne by the project developer itself.

Target areas:

In addition to the core cities, Nuremberg/Erlangen and prosperous medium-sized cities, Instone Real Estate's target areas also include, for example: Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, Regensburg and the Rhine-Main region.

Affordable living

Concentration on B and C locations in and around the conurbations covered by the eight Instone Real Estate offices. With the combination of modular planning, lean management and lean construction, product simplification, reduced civil engineering and the deployment of digital sales channels, costs and project lengths are reduced. This is the way Instone Real Estate addresses the strong demand for apartments for low and medium income groups - whether for rental or for ownership.

Zoning and development planning processes

According to Section 1 (2) of the German Building Code [Baugesetzbuch, BauGB], a zoning plan is a preparatory urban land-use plan for part of a city, and is governed by Sections 5 et seqq. BauGB. It regulates the available and probable space requirements for the individual utilisation options, such as housing, work, leisure and traffic.

A development plan is a binding urban land-use plan. A development plan regulates how and what may be built on plots of land and the resulting utilisation of the areas to be left free of buildings.

GRI

GRI standards constitute global best practice for public disclosures about various economic, environmental and social impacts. The modular, interlinked GRI standards are supposed to be primarily used as a template for compiling a sustainability report focusing on significant topics. The three universal standards are used by any organisation that publishes a sustainability report.

IFRS 15

International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers"

IFRS regulates when and in what amount a company reporting in accordance with IFRS must recognise revenue. Companies preparing the financial statements are also required to provide users of financial statements with more informative, relevant disclosures. The standard offers a single, principle-based, five-step model that can be applied to all contracts with customers.

IFRS 16

International Financial Reporting Standard (IFRS) 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation and disclosure requirements for leases in financial statements for companies reporting in line with IFRS. The lessee uses a single accounting model according to which all assets and liabilities arising from leases (with a few exceptions) are reported in the statement of financial position. The lessor continues to distinguish between finance and operating leases for accounting purposes.

FTE

Full-time equivalent (FTE) is a key figure used in staff planning. One FTE is equivalent to the time worked by a full-time employee. The average number of working hours per workday are the standard used to convert an FTE into working hours.

ICS

The Internal Control System (IKS), a system of technical and organisational rules for the methodological management and controls in the company in respect to compliance with regulations and preventing losses.

ROCE

Return on Capital Employed (ROCE) is a figure which measures how efficiently and profitably a company deals with the capital it uses. The Instone Group calculates ROCE as follows:

ROCE = EBIT / (two-year average equity + net debt).

B- und C-Städte/Add-Städte

B cities: Major cities of national and regional importance

C cities: Key German cities of regional and, to a limited extent, national importance that significantly impact the surrounding regions

Instone Real Estate use the generic term Add cities for these attractive cities.

MaBV

The Makler- und Bauträgerverordnung (MaBV) is a legal regulation derived from the Gewerbeordnung (German Trade Regulation Act), which in German trade law primarily provides specifications for the protection of the real estate purchaser when drafting and concluding a property development contract.

Individual sale

In an individual sale, an owner-occupied apartment only changes owners once after completion, when it is sold by Instone Real Estate directly to the customer. Individual sales are managed either by commissioned sales agents or by Instone Real Estate.

Capital market sale

Form of selling characterised by a multi-level agency organisation. The agent sells Instone Real Estate developments to capital investors.

Investorenvertrieb

Projects are sold to investors via key account contacts of Instone Real Estate.

WACC

Weighted average cost of capital. The average is calculated from the cost of equity and the cost of debt and weighted with their share of total capital.

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