ANNUAL FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION
ASSETS
In thousands of euros

	Note	31/12/2018	31/12/2017
A. Non-current assets			
Financial assets			
1. Shares in affiliated companies		253,289	252,504
2. Loans to affiliated companies		3,048	0
		256,337	**252,504**
B. Current assets			
I. Receivables and other assets	2		
1. Receivables from shareholders		0	29,527
2. Receivables from affiliated companies		136	4
3. Other assets		2,832	5,295
		2,968	**34,826**
II. Cash and cash equivalents	3	**27,267**	**4,440**
		286,572	**291,770**

STATEMENT OF FINANCIAL POSITION (CONTINUED)

STATEMENT OF FINANCIAL POSITION
LIABILITIES
In thousands of euros

	Note	31/12/2018	31/12/2017
A. Equity	4		
I. Subscribed capital		36,988	8
II. Capital reserves		198,874	85,354
III. Profit carried forward		10	– 11,939
IV. Net loss		– 24,414	– 377
		211,458	**73,046**
B. Provisions			
1. Provisions for pensions and similar obligations	5	472	496
2. Tax provisions	6	3,098	2,758
3. Other provisions	6	4,480	28,663
		8,050	**31,917**
C. Liabilities			
1. Trade payables, of which with a remaining term of up to one year: €1,771 thousand (previous year: €3,919 thousand)	7	1,771	3,919
2. Liabilities to shareholders of which with a remaining term of up to one year: €0 thousand (previous year: €55,200 thousand)	8	0	55,200
3. Liabilities to affiliated companies of which with a remaining term of up to one year: €29 thousand (previous year: €97,554 thousand) of which with a remaining term of more than one year: €63,525 thousand (previous year: €13,824 thousand)	9	63,554	111,377
4. Other liabilities of which with a remaining term of up to one year: €1,739 thousand (previous year: €340 thousand) of which with a remaining term of more than one year: €0 (previous year: €653 thousand) of which for taxes: €989 thousand (previous year: €340 thousand)	10	1,739	993
		67,064	**171,489**
D. Deferred tax liabilities	11	**0**	**15,318**
		286,572	**291,770**

INCOME STATEMENT

INCOME STATEMENT

In thousands of euros

	Note	2018	2017
Revenue	12	1,406	155
Other operating income	13	6,016	22
Staff costs	14		
Wages and salaries		– 4,407	– 8,686
Social security contributions and expenses for pensions and other employee benefits of which for pensions: €398 thousand (previous year: €9 thousand)		– 428	– 14
		– 4,835	**– 8,700**
Other operating expenses	15	– 22,973	– 12,012
Income from equity investments		0	22,582
of which from affiliated companies: €0 thousand (previous year: €22,508 thousand)			
Income from other securities and loans of the financial assets	16	52	0
of which from affiliated companies: €52 thousand (previous year: €0 thousand)			
Other interest and similar income	16	140	0
of which from affiliated companies: €0 thousand (previous year: €0 thousand)			
Interest and similar expenses	16	– 4,639	– 17,342
of which from affiliated companies: €–3,997 thousand (previous year: €–10,473 thousand)			
of which from the compounding of provisions: €–200 thousand (previous year: €5 thousand)			
Taxes on income and earnings	17	419	– 3,433
Earnings after tax		**– 24,414**	**– 18,728**
Net loss		**– 24,414**	**– 18,728**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

BASIS OF THE ANNUAL FINANCIAL STATEMENTS

General principles

At the shareholders' 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 as a German branch at the Essen District Court under HRB 26426 on 14 May 2018.

The first annual general meeting on 29 June 2018 in Amsterdam, the Netherlands, resolved to undertake a cross-border transfer to Essen, Germany, while preserving its legal identity. The transfer of the office was registered at the Essen District Court under HRB 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" or "Instone Real Estate"). It is the top level domestic parent company of the Instone Group.

The Company holds interests in subsidiaries whose principal activity is the acquisition, development, construction, leasing, management and sale or other use of land and buildings, as well as equity investment in other companies active in the sector.

The annual financial statements of Instone Real Estate Group AG have been prepared according to the accounting standards currently applicable to corporations as per the German Commercial Code (Sections 242 et seqq. and 264 et seqq. HGB), taking into account the specific legal form statutory provisions of the German Stock Corporation Act (AktG). As a listed company, the Company is a large corporation within the meaning of Section 267 (3) HGB and Section 264d HGB.

The previous year's annual financial statements of the Company were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as this was permitted for a company under Dutch law. Therefore, the previous year's figures are based on the IFRSs.

As a result of the cross-border conversion of legal form in August 2018, the first-time application of the commercial law provisions took place on 1 January 2018. As a rule, the book values were carried over.

In contrast to the previous year, the provisions for pensions and similar obligations as at the reporting date were valued according to the German commercial law regulations, and not according to IFRS. Under Section 253 (1) HGB, pension provisions are to be recognised in the necessary settlement value according to a reasonable commercial assessment. The binding rate for discounting is regularly set by the Deutsche Bundesbank on the basis of a 10-year average. According to IFRS standard IAS 19, however, an expense-based approach is used. With an expense-based approach, expenses are determined right at the beginning of the year, the pension provisions are calculated, among other things, by adding the expenses to the previous year's value. The discount factors in the IFRS 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 expenses incurred up to 31 December 2017 in connection with the going public were treated according to IFRS and were not recognised in the income statement under other assets. Based on the German commercial law provisions, all costs incurred in the financial year in connection with the going public were recognised in the income statement.

In comparison to financial year 2017, no deferred taxes were recognised as there are no taxable temporary differences on the balance sheet date.

As a result of the changeover to the German commercial law provisions, as of 1 January 2018, €12,327 thousand were directly recognised in equity. This effect relates to the deferred taxes, costs in connection with the going public and valuation differences for the liabilities.

The income statement has been prepared according to the nature of expense method pursuant to Section 275 (2) HGB. In order to improve the clarity of the presentation, individual items in the statement of financial position and income statement have been grouped together. These items are shown and explained separately in the notes.

In the interests of clarity, some items in the balance sheet and income statement have been grouped together and shown separately in the notes.

All amounts are stated in thousands of euros (€ thousand) unless otherwise stated. Commercial rounding may lead to immaterial rounding differences in the totals.

Accounting and valuation principles

Financial assets include interests in affiliated companies and are valued at acquisition cost. Unscheduled depreciation and amortisation takes place in the case of permanent impairment. If impairment losses were recognised in previous years and the reasons for the impairment have been partially or completely eliminated in the meantime, the impairment is reversed up to a maximum of the acquisition cost.

Non-interest bearing and low interest-bearing **loans** are recognised at their present value; otherwise, the loans are recognised at nominal value.

As at 31 December 2017, the Company recognised receivables/liabilities to/from the shareholder(s). As a result of the going public, a large portion of the receivables/liabilities to/from the shareholder(s) was netted out.

As at 31 December 2018, there are still receivables from the former majority shareholder and these are reported in other assets.

Receivables and other assets are recognised at acquisition cost. For the valuation of receivables and other assets, the foreseeable risks are taken into account through appropriate value adjustments (impairment). The amount of the impairment is based on the probable default risk. The other receivables have a residual maturity of up to one year.

Deferred taxes arise due to temporary differences between the balance sheet prepared according to the German Commercial Code (HGB) and the tax balance sheet.

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. 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.

Cash and cash equivalents are in the form of bank deposits.

Provisions for pensions and similar obligations include obligations by the Company with respect to current and future benefits for eligible current 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 ("Richttafeln 2018 G" (guideline tables) of Professor Dr Klaus Heubeck). Direct pension obligations are valued in accordance with the provisions of Section 253 (1) and (2) HGB.

In the determination of the actuarial interest rate, the option under Section 253 (2) sentence 2 HGB was used. Provisions for pension obligations or comparable long-term obligations may therefore be discounted as a lump sum with the average market interest rate resulting for an assumed residual term of 15 years. The underlying actuarial interest rate for discounting pension obligations amounted to 3.21% (previous year: 1.90%).

In accordance with Section 253 (6) sentence 3 HGB, the difference between the recognition of provisions in accordance with the corresponding average market interest rate from the past ten years and the recognition of the provisions in accordance with the corresponding average market interest rate from the past seven financial years is to be determined in each financial year.

The difference arising from the change of the annual average interest rate due to the extension of the period from seven to ten years is determined as follows:

PENSION PROVISIONS

Provision derived	in Euro
using the 10-year average interest rate	1,368,783.00
using the 7-year average interest rate	1,675,414.00
Difference according to Section 253 (6) HGB	306,631.00
Of which, subject to a distribution block in accordance with Section 253 (6) sentence 1 HGB	306,631.00

The previous year's value is not stated, because a valuation according to IFRS was carried out on 31 December 2017.

The liabilities from pension obligations are primarily covered by assets which are used exclusively for meeting pension obligations and cannot be accessed by other creditors (cover fund). These include assets which are invested in trust as part of a Contractual Trust Arrangement (CTA), reinsurances pledged to employees and fund units acquired from deferred compensation. They are measured at fair value. This value is derived, depending on the nature of the cover fund, from market prices, bank statements and insurance information. If the fair value is greater than the acquisition cost, a dividend block is observed. According to Section 246 (2) sentence 2 HGB, the fair value of the cover fund is to be offset against the covered pension obligations, as are the associated income and expenses.

The **tax provisions** and the **other provisions** are made according to a reasonable commercial assessment, taking the legal assessment as a basis, where applicable. In the determination of the settlement value of the other provisions, price and cost increases expected in future (of 2.0% to 3.0%) are taken into account. Provisions with a residual maturity of over one year are each discounted with the average market interest rate of the past seven years with matching maturities calculated and announced by the Bundesbank.

The **liabilities** are recognised at the settlement value.

Estimates and assumptions

The preparation of the financial statements requires estimates and assumptions that may affect the application of the Company's accounting principles, 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 in particular required for the valuation of inventories and trade receivables for contract work, the allocation of purchase prices, the recognition and measurement of deferred tax assets and the recognition of provisions for pensions and other provisions.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

1 Investment assets

The development of the non-current assets is shown in the following overview.

ASSETS SCHEDULE

In thousands of euros

	2018	2017
Acquisition costs		
As at 1 January	**252,504**	**252,504**
Additions	1,272	0
Disposals	– 487	0
As of 31 December	**253,289**	**252,504**
Cumulative depreciation and amortisation		
As at 1 January	0	0
Additions	0	0
Disposals	0	0
As of 31 December	**0**	**0**
Book values 31 December	**253,289**	**252,504**

The shares in affiliated companies relate mainly to Instone Real Estate Development GmbH in the amount of €181,821 thousand (previous year: €181,796 thousand) And Instone Real Estate Leipzig GmbH in the amount of €71,190 thousand (previous year: €70,387 thousand).

INTERESTS IN AFFILIATED COMPANIES

In thousands of euros

	31/12/2018	31/12/2017
Shares in affiliated companies included in the consolidated financial statements		
Instone Real Estate Development GmbH	181,821	181,796
Instone Real Estate Leipzig GmbH	71,190	70,387
GRK REVION Hamburg GmbH	0	156
OPUS Wohnbau GmbH	115	115
Instone Real Estate Landmark GmbH	25	25
	253,151	**252,479**
Shares in affiliated companies		
Instone Real Estate Assets GmbH	0	25
Westville 1 GmbH	138	0
	138	**25**
	253,289	**252,504**

Loans to affiliated companies relate to Instone Real Estate Landmark GmbH in the amount of €3,048 thousand (previous year: €0 thousand).

LOANS TO AFFILIATED COMPANIES

In thousands of euros

	31/12/2018	31/12/2017
Loans to affiliated companies		
Instone Real Estate Landmark GmbH	3,048	0
	3,048	**0**

CURRENT ASSETS

2 Receivables and other assets

There are no more receivables from shareholders (previous year: €29,527 thousand).

RECEIVABLES FROM SHAREHOLDERS

In thousands of euros

	31/12/2018	31/12/2017
Receivables from shareholders		
Coöperatieve Activum SG Fund III Investments U.A.	0	17,605
Coöperatieve Activum SG Fund V Investments U.A.	0	2,081
Coöperatieve Formart Investments U.A.	0	9,841
	0	**29,527**

Receivables from affiliated companies primarily result from levies for services.

RECEIVABLES FROM AFFILIATED COMPANIES

In thousands of euros

	31/12/2018	31/12/2017
Receivables from affiliated companies		
Instone Real Estate Development GmbH	80	0
Instone Real Estate Leipzig GmbH	56	0
Gartenhöfe GmbH		4
	136	**4**

Other receivables and other assets include receivables from former minority shareholder Hochtief Solutions AG, Essen originating from an agreement on the reimbursement of real estate transfer tax liabilities in the amount of €2,758 thousand (previous year: €2,758 thousand). Furthermore, they contain claims from tax refunds in the amount of €32 thousand (previous year: €0 thousand) as well as from former shareholders in the amount of €42 thousand (previous year: €0 thousand).

OTHER ASSETS

In thousands of euros

	31/12/2018	31/12/2017
Other receivables and other assets		
Receivable tax exemption Hochtief Solutions AG	2,758	2,758
Receivables from tax authorities from offsettable taxes	32	0
Coöperatieve Activum SG Fund III Investments U.A.	25	0
Coöperatieve Formart Investments U.A.	14	0
Coöperatieve Activum SG Fund V Investments U.A.	3	0
Receivables from transaction costs passed on	0	2,533
Input tax surplus	0	4
	2,832	**5,295**

3 Cash and cash equivalents

These primarily relate to balances at credit institutions; as in the previous year, they are not subject to drawing restrictions.

CASH AND CASH EQUIVALENTS

In thousands of euros

	31/12/2018	31/12/2017
Bank balances		
152000 DZ Bank Düsseldorf	27,267	4,361
150200 ABN AMRO 0457192313	0	1
150300 ABN AMRO 0404689264	0	78
	27,267	**4,440**

4 Equity

The share capital of the Company as at 31 December 2018 was €36,988 thousand (previous year: €8 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 new 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 18,450,000 newshares. 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.

The increase in the capital reserves by €113,520 thousand to €198,874 thousand (previous year: €85,354 thousand) is mainly due to the going public on 15 February 2018 and the associated issue of new shares in connection with the listing of the Company on the Frankfurt Stock Exchange for the first time.

5 Provisions for pensions and similar obligations

The liabilities from defined benefit plans of Instone Real Estate are listed in the following table:

PENSION PROVISIONS
In thousands of euros

	31/12/2018	31/12/2017
Provisions for pensions and similar obligations		
Settlement value of the pensions and similar obligations	1,369	1,203
Fair value of the cover fund	– 897	– 707
Net value of the provision for pensions and similar obligations	**472**	**496**
Acquisition costs of the plan assets	946	709

The fair value of the cover fund is broken down as follows:

SECURITIES
In thousands of euros

	31/12/2018	31/12/2017
Listing in an active market:		
CTA assets		
DE000A0ER3J5 HI-Absolute-Return-Fonds	443	341
DE0005111025 Hi-Corporate-Bonds 1-Fonds	236	184
DE000A0DNV33 HI-DividendenPlus-Europa-Fonds	61	73
DE000A1W2UC7 HI-EM-Credits-Short-Term-Fonds	67	71
DE0002544483 HI-DividendenPlus-Fonds	27	0
DE000A14UTY4 HI-Aktien Low Risk Euroland	27	0
	861	**669**
DC assets		
LU1480268660 AGIF-All.Gl.Multi-Asset Credit	36	38
	36	**38**
	897	**707**

6 Tax provisions and other provisions

Provisions include provisions for taxes in the amount of €3,098 thousand (previous year: €2,758 thousand). Other provisions relate primarily to provisions for stock options in the amount of €1,322 thousand (previous year: €28,663 thousand), premiums in the amount of €1,103 thousand (previous year: €0 thousand) and indirect personnel expenses in the amount of €1,792 thousand (previous year: €0 thousand).

PROVISIONS
In thousands of euros

	31/12/2018	31/12/2017
Tax provisions	**3,098**	**2,758**
Provision for outstanding leave	120	0
Provision for share-based remuneration/stock options	1,322	28,663
Provision for premiums	1,103	0
Provision for external costs for the annual financial statements	143	0
Provision for indirect personnel costs	1,792	0
	4,480	**28,663**
	7,578	**31,421**

7 Trade payables

On the balance sheet date, there are liabilities of €1,771 thousand (previous year: €3,919 thousand).

TRADE PAYABLES

In thousands of euros

	31/12/2018	31/12/2017
Trade payables		
Outstanding invoices	1,510	490
Accounts payable to creditors	261	3,429
	1,771	**3,919**

8 Liabilities to shareholders

There are no more liabilities to shareholders (previous year: €55,200 thousand).

LIABILITIES TO SHAREHOLDERS

In thousands of euros

	31/12/2018	31/12/2017
Liabilities to shareholders		
Coöperatieve Activum SG F und III Investments U.A.	0	36,882
Coöperatieve Formart Investments U.A.	0	18,318
	0	**55,200**

9 Liabilities to affiliated companies

Liabilities to affiliated companies amount to €63,554 thousand (previous year: €111,377 thousand) result mainly from liabilities from loans.

LIABILITIES TO AFFILIATED COMPANIES

In thousands of euros

	31/12/2018	31/12/2017
Liabilities to affiliated companies		
Instone Real Estate Leipzig GmbH	48,556	32,895
Instone Real Estate Development GmbH	14,998	78,482
	63,554	**111,377**

10 Other liabilities

Other liabilities consist of liabilities from taxes in the amount of €988 thousand (previous year: €0 thousand) and from Supervisory Board bonuses in the amount of €751 thousand (previous year: €0 thousand).

OTHER LIABILITIES

In thousands of euros

	31/12/2018	31/12/2017
Other liabilities		
Liabilities from taxes (excluding income taxes)	988	0
Liabilities from Supervisory Board bonuses	751	0
Liabilities to employees	0	653
Income tax liabilities	0	340
	1,739	**993**

11 Deferred tax liability

There are no deferred tax liabilities as of the balance sheet date (previous year: €15,318 thousand).

DEFERRED TAX LIABILITY

In thousands of euros

	31/12/2018	31/12/2017
Deferred tax liability		
Deferred tax liability	0	15,318
	0	**15,318**

NOTES TO THE INCOME STATEMENT

12 Revenues

Revenues in the amount of €1,406 thousand (previous year: €155 thousand) relate primarily to revenues from affiliated companies. Of this, €964 thousand is attributable to Instone Real Estate Development GmbH, €440 thousand to Instone Real Estate Leipzig GmbH and €2 thousand to other revenues.

REVENUES

In thousands of euros

	31/12/2018	31/12/2017
Sales revenue		
Proceeds from other receivables – Germany	1,404	0
Proceeds from other receivables	2	155
	1,406	**155**

13 Other operating income

Other operating income of €6,016 thousand (previous year: €22 thousand) consists primarily of charges passed on to the former shareholder in the amount of €5,584 thousand (previous year: €0 thousand). In addition, income was generated from the reversal of provisions in the amount of €430 thousand (previous year: €0 thousand).

OTHER OPERATING INCOME

In thousands of euros

	31/12/2018	31/12/2017
Other operating income		
Other operating income	5,584	0
Income from the reversal of other provisions	430	0
Income from retrospective capitalisation – financial assets	1	0
Other income	1	22
	6,016	**22**

14 Staff costs

Staff costs are due to salary payments in the amount of €4,407 thousand (previous year: €8,686 thousand) and social security benefits in the amount of €30 thousand (previous year: €5 thousand) as well as revised pension provisions in the amount of €398 thousand (previous year: €9 thousand).

As in the previous year, apart from Management Board members, the Company employed no other members of staff.

STAFF COSTS

In thousands of euros

	31/12/2018	31/12/2017
Staff costs		
Salaries	– 4,407	– 8,686
	– 4,407	**– 8,686**
Social security contributions/ expenses for pensions		
Social security contributions	– 30	– 5
Changes in pension provisions	– 398	– 9
	– 428	**– 14**
	– 4,835	**– 8,700**

15 Other operating expenses

Other operating expenses primarily include consulting costs, non-deductible input tax, utilisation of provisions, costs for the commercial management, severance pay and individual value adjustments.

Sundry other operating expenses not recognised elsewhere primarily include administration expenses.

OTHER OPERATING EXPENSES

In thousands of euros

	31/12/2018	31/12/2017
Other operating expenses		
Organisational consulting expenses	– 11,155	– 3,854
Charges passed on from an exemption agreement	0	– 9,116
Non-deductible input tax	– 1,948	0
Addition to the LTIP provision	– 1,845	0
Commercial management	– 1,806	– 60
Severance payments	– 1,500	0
Devaluation of receivables	– 1,062	0
Court costs, attorneys' and notaries' fees	– 925	– 627
Costs of insurance premiums	– 845	– 84
Supervisory Board bonuses	– 414	0
Travel costs	– 162	0
Reduction in proceeds from disposals of affiliated companies not included in the consolidated financial statements	– 155	0
Rents, leases, usage fees	– 136	– 2
Other expenses	– 1,020	1,730
	– 22,973	**– 12,012**

16 Financial result

No income from equity investments was generated in 2018 (previous year: €22,582 thousand).

The income from loans of financial assets amounts to €52 thousand (previous year: €0 thousand).

Financial income is mainly comprised of interest income for loans to affiliated companies in the amount of €48 thousand (previous year: €0 thousand). And the discounting of other provisions made for the first time in this financial year in the amount of €92 thousand (previous year: €0 thousand).

Financial expenditure consists mainly of interest expenses for loans from affiliated companies in the amount of €3,997 thousand (previous year: €10,473 thousand)as well as from interest and similar expenses in the amount of €641 thousand (previous year: €6,572 thousand).

FINANCIAL RESULT

In thousands of euros

	31/12/2018	31/12/2017
Income from equity investments		
of which, from affiliated companies		
Instone Real Estate Development GmbH	0	22,582
	0	**22,582**
Income from other securities and loans of financial assets	**52**	**0**
Other interest and similar income		
Interest income from affiliated companies	48	0
Interest income from other provisions	92	0
	140	**0**
Interest and similar expenses		
Interest paid to affiliated companies	– 3,997	– 10,473
Interest and similar expenses	– 641	– 6,572
Interest expenses from other provisions	0	– 297
	– 4,639	**– 17,342**
Financial result	**– 4,447**	**5,240**

17 Taxes on income

This item contains the following taxes:

TAXES ON INCOME AND EARNINGS

In thousands of euros

	31/12/2018	31/12/2017
Taxes on income and earnings		
Corporation tax	– 629	– 52
Solidarity surcharge	– 35	– 3
Trade income tax	– 47	0
Deferred tax	1,130	– 3,378
	419	**– 3,433**

The calculation of deferred taxes continues to be carried out – as in the previous year – on the basis of a combined income tax rate of 32.63%.

OTHER DISCLOSURES

18 Members of the Management Board

The Management Board consists of the following four 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

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

Former members of the Management Board as at 31 December 2018:

Oliver Schmitt

- Member of the Management Board
- CFO of Instone Real Estate Group AG
- CFO of Instone Real Estate Development GmbH until 31 December 2018

19 Members of the Supervisory Board

The Supervisory Board consisted of five members from 13 February 2018 to 31 December 2018. With effect from 31 December 2018, two members have left the Supervisory Board meaning that the Supervisory Board now consists of the following three members.

Stefan Brendgen, born in 1964 in Mönchengladbach, acts as Chairman of the Supervisory Board and is Chairman of the nomination committee.

In addition to his role as a member of the Supervisory Board of the Company, Mr Brendgen is a member of executive, management or supervisory bodies and/or a partner in the following companies which do not belong to Instone Real Estate:

- 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, born in 1959 in Werdohl, Germany, is Deputy Chairman of the Supervisory Board and is Chairman of the audit committee.

In addition to his function as a member of the Supervisory Board of the Company, Dr Scharpe is a member of management or supervisory bodies and/or partner in the following companies which do not belong to Instone Real Estate:

- AMCi GmbH (Managing Director)
- FFIRE AG (Deputy Chairman of the Supervisory Board)
- LEG Immobilien AG (member of the Supervisory Board)
- ReTurn Immobilien GmbH (Managing Director)

Marija Korsch, born in 1948 in Zadar, Croatia, is a member of the Supervisory Board and Chairperson of the remuneration committee.

In addition to her role as a member of the Supervisory Board of the Company, Ms Korsch is a member of executive, management or supervisory bodies and/or a partner in the following companies which do not belong to Instone Real Estate:

→ Aareal Bank AG (Chairperson of the Supervisory Board)

→ FAZIT Stiftung Gemeinnützige Verlagsgesellschaft mbH (member of the Board of Trustees)

→ Just Software AG (member of the Supervisory Board)

Former members of the Supervisory Board as at 31 December 2018:

Stefan Mohr, born in 1967 in Frankfurt am Main, Germany, was Deputy Chairman of the Supervisory Board (left on 31 December 2018).

→ Head of Corporate Real Estate at Activum SG Advisory GmbH

Richard Wartenberg, born in 1968 in Stuttgart, Germany, acted as a member of the Supervisory Board and was Chairman of the remuneration committee (left on 31 December 2018).

→ Managing Director at Activum SG Advisory GmbH

20 Remuneration of the Management Board

The remuneration of the members of the Management Board in 2018 consisted of

a 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.

A component under a long-term incentive plan consisting of two components:

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.

Multiple year variable compensation (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.

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

The total remuneration granted to the members of the Management Board totalled €5.1 million for the 2018 financial year (min.: €3.8 million, max.: €6.7 million) (previous year: €10.8 million). Of which, €1.2 million (previous year: €1.1 million) was attributable to fixed, non-performance-related components, €1.3 million (min: €0 million, max.: €2.9 million) (previous year: €9.9 million) was attributable to variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) to severance payments and €0.4 million (previous year: €–0.4 million) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The total remuneration received/earned by the members of the Management Board totalled €25.1 million for the 2018 financial year (previous year: €1.3 million). Of which, €1.2 million (previous year: €1.1 million) for fixed, performance–related components, €21.3 million (previous year: €0.4 million) for variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) to severance payments and €0.4 million (previous year: €–0.4 million) to pension expenses in accordance with 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.

21 Remuneration of the Supervisory Board

The total remuneration of the Supervisory Board in the 2018 financial year was €406 thousand. Of which €343 thousand was remuneration for work on the General Committee. Remuneration for work on committees amounted to €63 thousand.

In the 2018 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.

For a detailed description of the remuneration of the Management Board and Supervisory Board, we refer to the statements in the compensation report of the combined management report as at 31 December 2018.

22 Auditor’s fees

The full fee invoiced by Deloitte GmbH, Munich, Germany, Dusseldorf branch for the services it provided was charged as follows:

AUDIT FEES

In thousands of euros

	31/12/2018	31/12/2017
Annual audit	105	489
Other auditing services	105	270
Other confirmation services	0	0
	210	**759**

The auditor performed other certification services for the Company, such as audits for the formation of companies on the basis of benefits-in-kind, audits pursuant to Section 16 German law MaBV, investigative actions pursuant to ISRS 4400 and audits pursuant to IDW PS 981.

23 Events after the end of the financial year

There were no events of particular significance to report after the balance sheet date on 31 December 2018.

24 Affiliates and equity investment companies

The Management Board and Supervisory Board of Instone Real Estate Group AG issued a declaration of compliance in line with the recommendations of the German Government Commission on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) for the 2018 financial year in December 2018.

The declaration of compliance was made permanently available to the shareholders by a link on the Company’s website at ↗ Instone Website.

SUBSIDIARIES, ASSOCIATES AND OTHER EQUITY INVESTMENTS AS AT 31 DECEMBER 2018

	Share of capital in %	Equity In thousands of euros	Annual result In thousands of euros
I. Affiliated companies consolidated in the separate financial statements			
Instone Real Estate Development GmbH, Essen, Germany	100.0	178,571	7,909
Durst-Bau GmbH, Vienna, Austria	100.0	845	284
formart Immobilien GmbH, Essen, Germany	100.0	701	23
formart Luxembourg S. à r. l., Luxembourg, Luxembourg	100.0	1,976	1,262
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
Instone Real Estate Leipzig GmbH, Leipzig, Germany	94.0	26,328	– 2,129
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	513	640
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			
Westville 1 GmbH, Frankfurt am Main, Germany	100.0	25	0

25 Other financial obligations

Minimum lease payments due in the future are comprised as follows:

OTHER FINANCIAL OBLIGATIONS

In thousands of euros

	31/12/2018	31/12/2017
Due in up to one year	46	22
Due in one to five years	88	41
Due in over five years	0	0
	135	**63**

Instone Real Estate Group AG has concluded long-term contracts for company vehicles as the lessee.

26 Declaration of Compliance with the German Corporate Governance Code

The Management Board and Supervisory Board of Instone Real Estate Group AG issued a declaration of compliance in line with the recommendations of the German Government Commission on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) for the 2018 financial year in December 2018.

The declaration of compliance was made permanently available to the shareholders by a link on the Company's at ↗ Instone Declaration of Compliance .

Essen, 22 March 2019

The Management Board

Kruno Crepulja Dr. Foruhar Madjlessi

Andreas Gräf Torsten Kracht

INDEPENDENT AUDITOR'S REPORT

TO INSTONE REAL ESTATE GROUP AG, ESSEN/GERMANY

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

Audit Opinions

We have audited the annual financial statements of Instone Real Estate Group AG, Essen/Germany, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the combined management report on the Group and the Company of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) included in section "Corporate Governance Statement and Corporate Governance Report" of the combined management report.

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

→ the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

→ the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter we have determined in respect of the accounting for interests in affiliated companies.

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

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

b. auditor's response.

Accounting for Interests in affiliated Companies

a. In the annual financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2018, interests in affiliated companies of kEUR 253,289 (88.4% of the balance sheet total) are reported. These are measured at acquisition cost or – where impairment is expected to be of permanent nature – at the lower of fair value.

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

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

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

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

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

Other Information

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

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

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

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

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

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

→ otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholders' general meeting on 29 June 2018. We were engaged by the supervisory board on 20 December 2018. We have been the auditor of Instone Real Estate Group AG, Essen/Germany, since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is André Mathew.

Düsseldorf/Germany, 22 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Rolf Künemann

Wirtschaftsprüfer

[German Public Auditor]

Signed: André Mathew

Wirtschaftsprüfer

[German Public Auditor]

RESPONSIBILITY STATEMENT OF THE LEGAL REPRESENTATIVES

To the best of our knowledge and in accordance with the applicable accounting principles, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company. Furthermore, the management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Essen, 22 March 2019

The Management Board

Kruno Crepulja Dr. Foruhar Madjlessi

Andreas Gräf Torsten Kracht

ABOUT US

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Management Board

Kruno Crepulja (Chairman/CEO),
Dr Foruhar Madjlessi,
Andreas Gräf,
Torsten Kracht

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, Düsseldorf
mpm.de

Instone Real Estate Group AG

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