INSTONE REAL ESTATE

2018

ANNUAL REPORT

OVERVIEW OF KEY FIGURES

AS OF: 31/12/2018

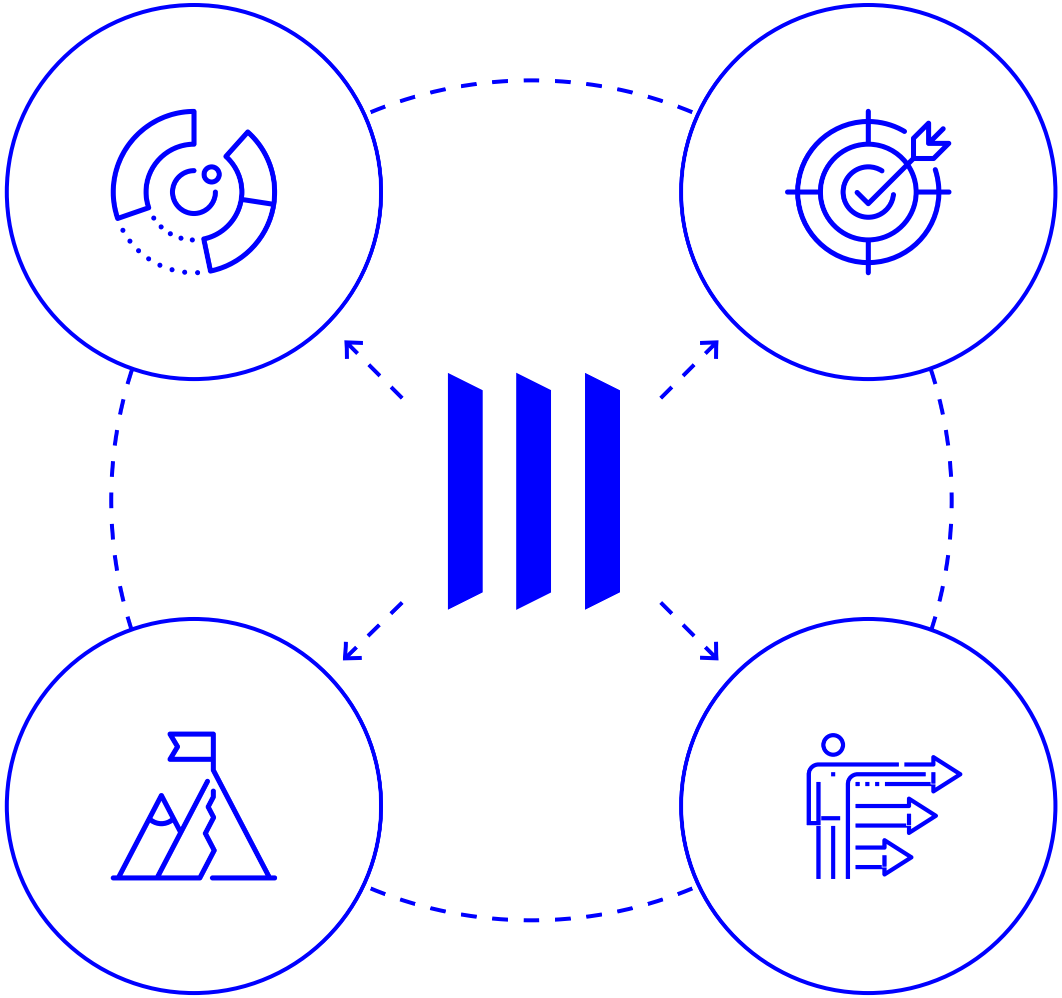
in millions of euros

		2018	2017
Performance indicators			
Volume of sales contracts		460.8	358.1
Volume of new permits		1,298.0	506.1
Project portfolio		4,763.2	3,410.0
Revenue		360.8	199.7
Revenues adjusted		372.8	201.4
Key earnings figures			
Gross profit		94.4	59.1
Gross profit adjusted		106.4	82.2
Gross profit margin adjusted	in %	28.5	40.8
EBIT		37.6	– 10.7
EBIT adjusted		49.6	12.4
EBIT margin adjusted	in %	13.7	6.2
EBT		29.5	– 31.2
EBT adjusted		41.5	– 8.1
EBT margin adjusted	in %	11.5	– 4.1
Consolidated earnings		9.0	– 31.0
Consolidated earnings adjusted		19.1	– 14.8

		2018	2017
Key balance sheet figures			
Total assets		686.6	789.1
Equity		246.9	52.2
Net financial debt		177.5	302.1
Debt-equity ratio		3.5	23.6
ROCE[1] adjusted	in %	11.9	–
LTV	in %	51.0	–
Key liquidity figures			
Cash flow from operations		– 40.4	– 34.5
Free cash flow		– 39.9	– 57.2
Cash and cash equivalents		88.0	73.6
Employees			
Number (as at 31/12/2018)		311	299
FTE (as at 31/12/2018)		258.7	249.1

[1] Return on capital employed

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 28 years and our comprehensive expertise in the development of residential real estate at attractive locations.

OUR AIM

Successful player in the housing market

Now numbering 311 employees headed by a high-calibre management team, we realise new housing at excellent locations throughout Germany. 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 MISSION

Gain experience

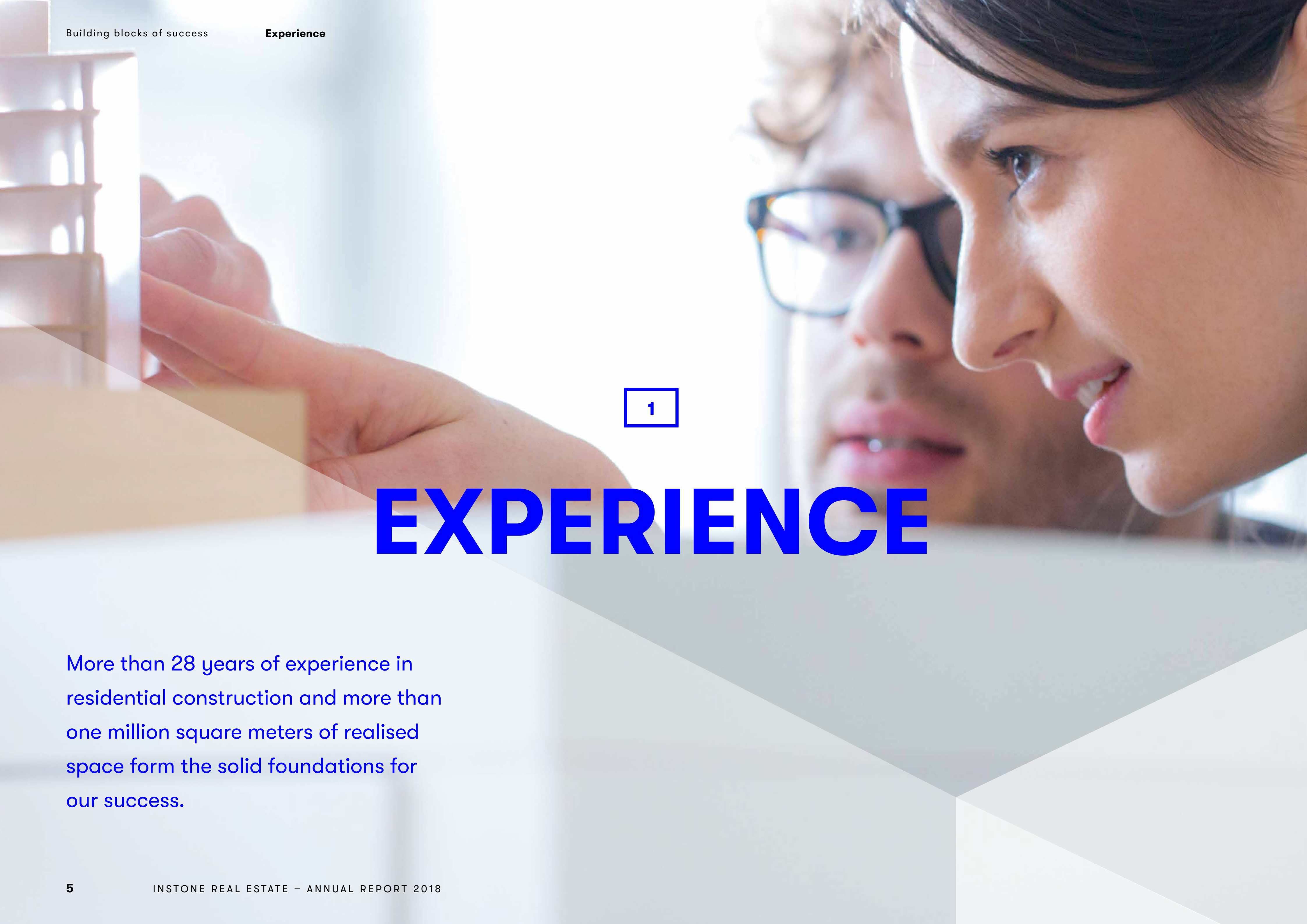
Instone Real Estate is a first mover in building a nationwide residential development platform in Germany. We are building on this basis and intend to continue our growth trajectory with the aim of creating housing that is liveable over the long term and in vibrant districts.

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.

TABLE OF CONTENTS



1

EXPERIENCE

More than 28 years of experience in residential construction and more than one million square meters of realised space form the solid foundations for our success.

THE RIGHT DECISIONS

With a workforce of 311 and a superb management team, we are ready to face the challenges of modern residential construction, solving even the most difficult of tasks and making the right decisions. With a current portfolio of 45 development projects, we are therefore realising new living spaces in excellent locations throughout Germany.

__The experience we have gained over the course of 28 years is what makes our projects so successful.

W

When competing for the most attractive properties and locations, we benefit from the structures and relationships that have grown over the years with authorities and political decision-makers – and the trust that we have built up in the marketplace. Our going public has provided us with access to the capital market and broader financing options, further strengthening our market advantage. We operate exclusively as a residential developer, which sets us apart from the majority of listed residential real estate companies in Germany, who are mainly active in the management of property. Some of our competitors are now slowly starting to integrate housing construction into their business model. Instone Real Estate is a first mover in building a nationwide residential development platform in Germany. We have nearly three decades of expertise and a reference →

"The going public of a company is one of the most impressive events in the life of a manager. In the interests of our shareholders, we are continuing our sustainable course of growth and intensifying our transparent dialogue with our shareholders."

KRUNO CREPULJA, CEO, INSTONE REAL ESTATE GROUP AG

1

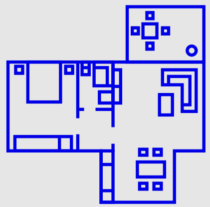
1 __ **The stock market bell** officially announces our launch on the Frankfurt Stock Exchange.

2 __ **Our management** after the successful going public on the first trading day.

↘ of one million square meters of constructed space throughout the history of the company. We specialise in residential real estate development and tackle the most challenging topics with great passion.

Green light for the going public

The predecessor companies making up today's Instone Real Estate are the acclaimed residential developers formart and GRK. A merger occurred in June 2017 under the new name of Instone Real Estate, shortly followed by the initiation of concrete preparations for going public the group of companies. An inter-departmental Instone Real Estate team worked under high pressure with outside experts from July 2017 to the first trading day on the stock exchange in mid-February 2018 to prepare for the company's going public. The listing event in Frankfurt on 15 February 2018 – the green light for the story of Instone Real Estate as a listed company – was followed by the development of the equity story, preparation of the prospectus, intensive analyst talks and road shows.



WE CREATE ATTRACTIVE FLOOR PLANS

The going public was followed by another milestone for the company, our conversion from a Dutch N.V. (stock corporation under Dutch law) into a German stock corporation. This landmark change of legal form was unanimously approved at the Annual General Meeting on 29 June 2018 – and at the same time forms the basis for our activities as one of the largest residential developers in Germany. We have already realised more than one million square meters of new living space and more tham 16,000 new housing units at our current eight locations in Baden-Württemberg, Bavaria, Berlin, Hamburg, North Rhine-Westphalia, the Rhine-Main region and Saxony.→

2

1

1 __ **A symbiosis** of new buildings and historic flair in the Frankfurt Nordend: the Marie project.

2 __ **The expertise** of our 311 employees is poured into each of our projects.

3 __ **Our CEO** and Chairman of the Board, Kruno Crepulja, is committed to sustainable growth.

↘ In addition to classic new residential constructions in empty areas, we also specialise in transforming listed and historic properties into new living spaces. The potential here is enormous in German cities, however this type of project requires a high degree of specialist knowledge. Our experts have many years of experience in succeeding on regional and zoning plans being passed and in designing urban development contracts which is why Instone Real Estate is also considered a competent partner for municipalities. We attach great importance to diversity, not least when putting together our teams. When employees of different specialisations and levels of experience work together on projects and in teams, sharing knowledge and constantly learning from each other and across the generations is a reality they live at Instone Real Estate.

"We want to contribute to easing in the German housing market and offer attractive long-term, liveable housing."

KRUNO CREPULJA, CEO,
INSTONE REAL ESTATE GROUP AG

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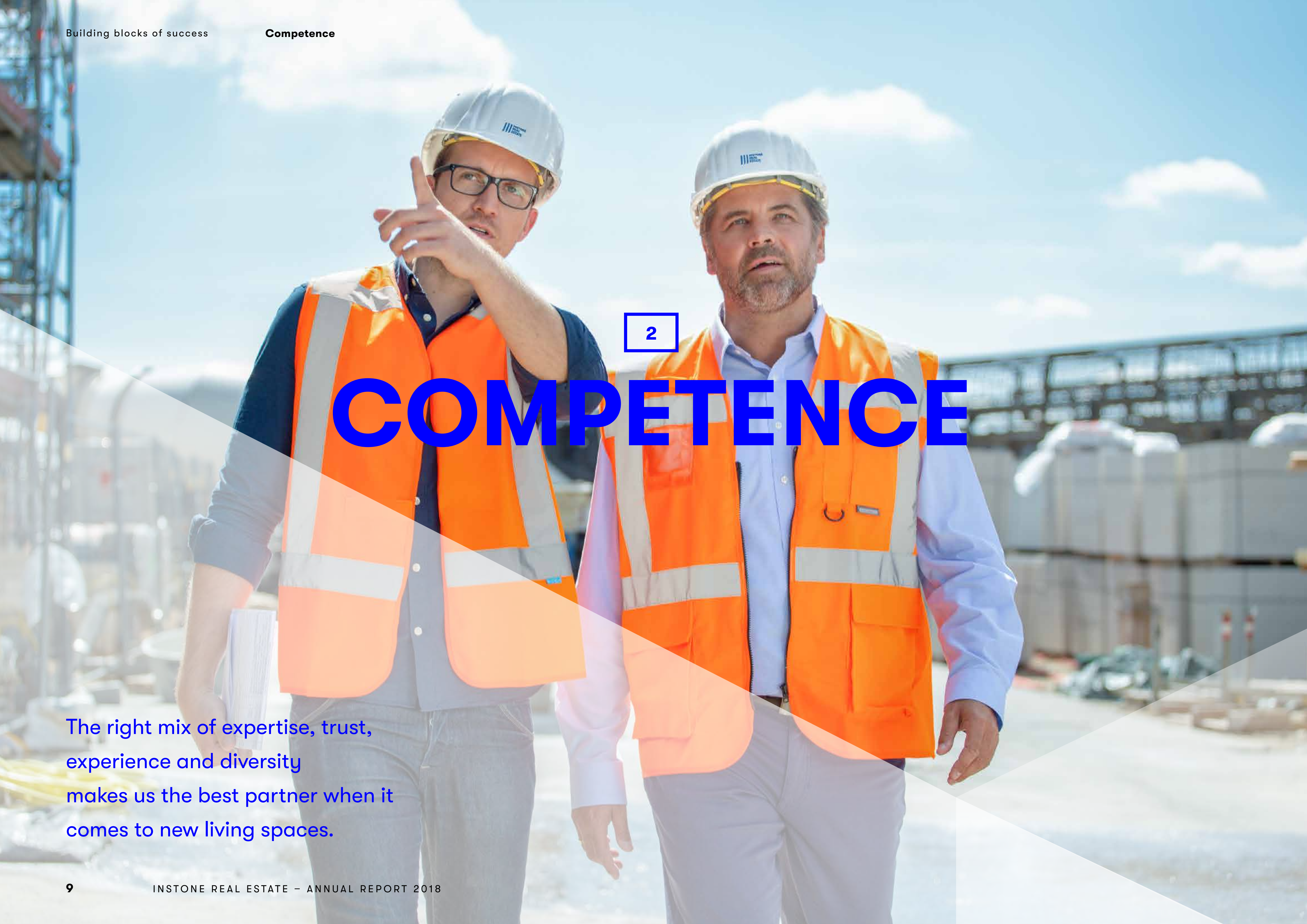


2

COMPETENCE

The right mix of expertise, trust, experience and diversity makes us the best partner when it comes to new living spaces.

PRESENT THROUGHOUT GERMANY, NETWORKED LOCALLY

We create living spaces in attractive locations throughout Germany. How do we succeed? Through being near and winning trust.

__Our professionals__ are present in every phase of a project.

F

For us, being near means on the one hand, being available to talk to our customers and local partners. On the other hand, for us near means regional networking. This allows us to participate in the project at an early stage as a reliable partner for municipalities and other business partners – combined with the competence of our team of 311 employees. Each one of these is focussed on the smooth development of projects and a quality of execution down to the last detail. We set ourselves high standards: reliability, quality consciousness and intelligent solutions are a matter of course for us. This is why each of our projects starts with efficient and thorough planning. This is the basis and guarantor of the flawless completion of each individual project and its timely handover.

"Our nationwide experience is of benefit to our customers, partners and shareholders alike."

ANDREAS GRÄF, COO,
INSTONE REAL ESTATE GROUP AG

3

BUSINESS MODEL

An efficient and coherent business model is an essential basis for our success. We place great importance on clear structures and efficient processes.

HIGH LEVELS OF EFFICIENCY

We are one of the few developers in Germany focussing purely on residential real estate and covering the entire development value chain, with the exception of pure construction activity. Our long-standing and consistent focus on residential real estate and our extensive experience ensure high levels of efficiency.

The key elements of our business model include:

Clear focus on housing project development

Right from the start, we have specialised in the construction of residential units. This has given us a wealth of experience in this area, and it feeds into all of our projects. Our expertise includes the development of residential unit buildings and inner-city residential areas as well as the redesign and renovation of listed buildings.

Focus on locations with growth potential

When acquiring land for our residential construction projects, we focus on cities and regions with potential for growth, both in terms of population and economic development. We are particularly interested in attractive metropolitan regions – these locations can expect sustainable housing demand, which reduces project development risks. Big development projects are always welcome as an opportunity to put our range of ideas into practice.

Strong risk management

The economic success of project development is to a large extent based on professional risk management. Instone Real Estate's risk management system is based on extensive experience in housing project development. It is regularly reviewed and adapted to new developments and situations if necessary.

Fully integrated nationwide platform

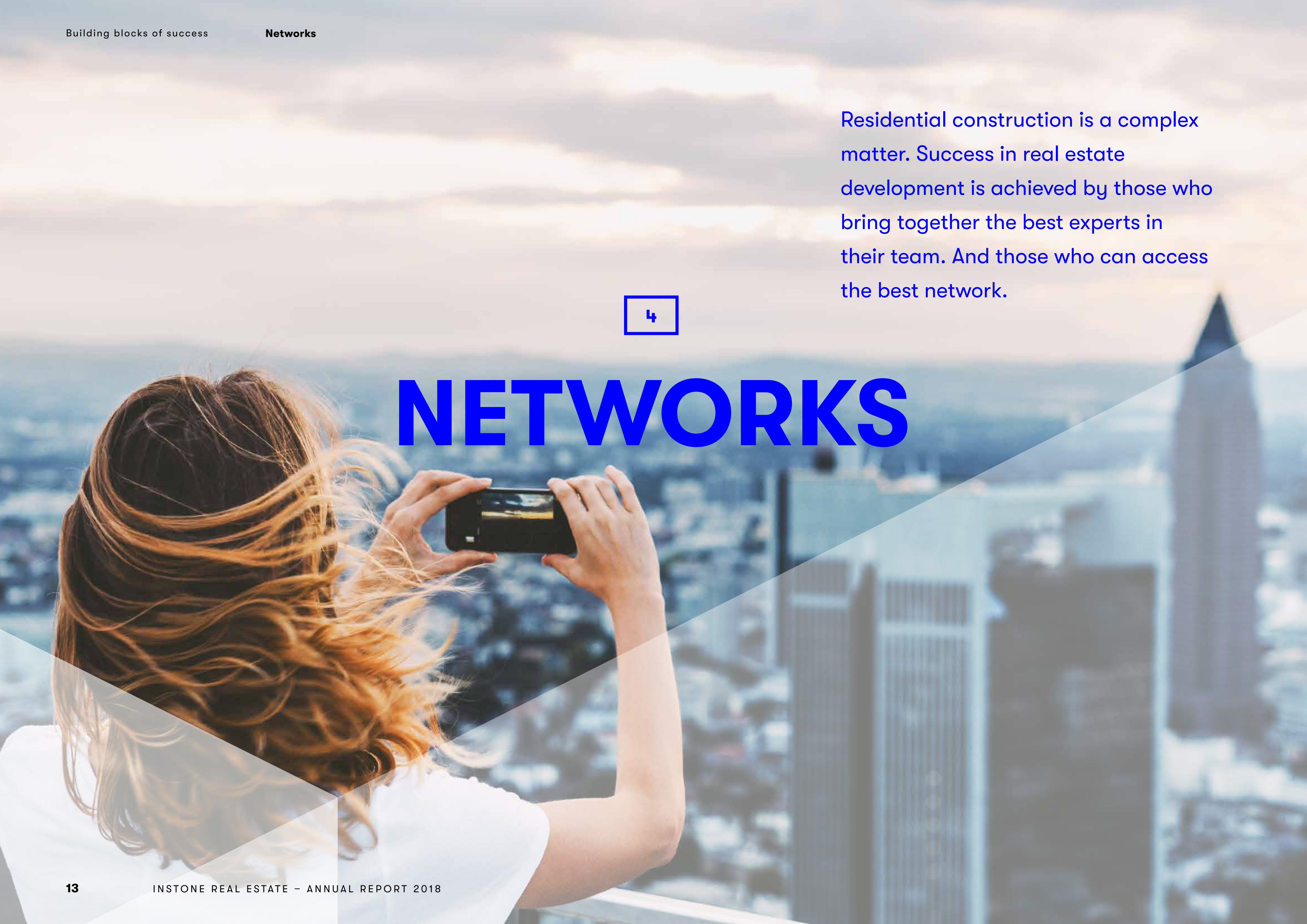
We have a fully integrated nationwide platform. This enables us to operate at different locations nationwide, each working according to our uniform quality standards and using economies of scale.

Covering the entire development value chain, with the exception of pure construction activity

By covering the entire value chain of housing project development, with the exception of pure construction, we can ensure high levels of efficiency and process quality.

Regional presence and a strong nationwide network of experts

Our regional presence and extensive network of experts provide us with good access to the relevant local markets. This is of benefit to us both in the acquisition of new projects and during their marketing.



Residential construction is a complex matter. Success in real estate development is achieved by those who bring together the best experts in their team. And those who can access the best network.

4

NETWORKS

WE RELY ON STRONG PARTNERSHIPS

We have an extensive network of architects, planners, construction contractors and distribution partners for the realisation of sophisticated residential projects. Our association activities and cooperation with educational institutions also support the future viability of Instone Real Estate.

G

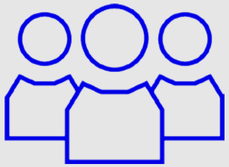
Germany needs more residential property! This is an important political goal and an urgent social issue. By working together with other major market participants in associations, we can swap experience, jointly position topics and enter into dialogue with political decision-makers.

The Instone Real Estate CEO Kruno Crepulja is Deputy Chairman of the Central Real Estate Committee (ZIA), the umbrella organisation of the German real estate industry with more than 25 associations and around 37,000 companies in the industry. We are a member of the respective national associations in the German Federal Association of Free Real Estate and Housing Companies (BFW), with approximately 1,600 companies.

We are also sponsors of the Society for Real Estate Research (gif) and a member of the international Urban Land Institute (ULI), a non-profit research and education organisation and think tank for sustainable urban development issues. We support IMMOEBS, the real estate industry's largest alumni network in Germany, and connected. Real, a student-founded association that brings companies and students together on an equal footing. Furthermore, Instone Real Estate colleagues regularly lecture at RWTH Aachen University, TU Dortmund University, Stuttgart University of Applied Sciences, Potsdam University of Applied Sciences and Anhalt University of Applied Sciences.

__ **Our projects** benefit from our strong network of experts right from the start.

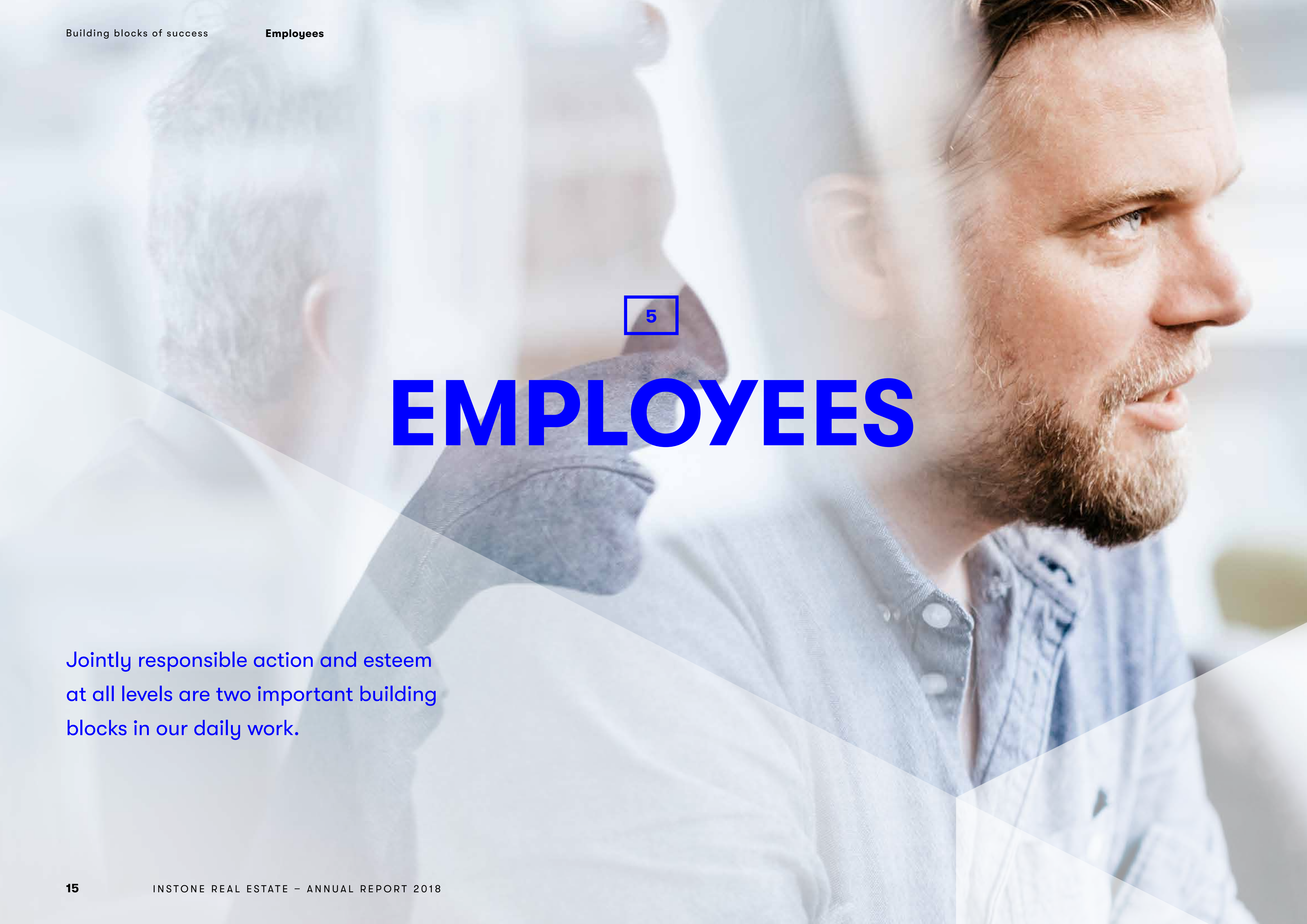
12



REAL ESTATE ASSOCIATIONS

"Our teams in each location extensively nurture regional networks with key local stakeholders, and this is a key to our success."

ANDREAS GRÄF, COO,
INSTONE REAL ESTATE GROUP AG



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EMPLOYEES

Jointly responsible action and esteem at all levels are two important building blocks in our daily work.

__ **Our teams** work together at a professional and personal level to ensure smooth project development.

VALUES THAT NOT ONLY SOUND IMPRESSIVE

Why do our employees like to work for Instone Real Estate? Because they are given responsibility, their work is appreciated, there is targeted promotion of their individual skills and prospects within the company.

W

We extensively researched the redesign of our career website and came to the conclusion that the values represented by Instone Real Estate not only sound impressive – we actually put them into practice. In addition to the social responsibility of residential construction at the political level, every single employee bears a great degree of personal responsibility. It is very important to us that every employee is aware of their strengths as well as their weaknesses to ensure that our projects can be implemented safely and smoothly. We support our teams in recognising when they need to take responsibility or pass the responsibility on to others. We encourage our employees to make their own decisions. This requires a large degree of trust at all levels and mutual appreciation. When selecting our employees, we therefore not only pay attention to their technical prerequisites, but above all, their interpersonal integrity.

We offer many opportunities for personal development. It is very important to us to ensure that our managers develop an eye for their employees' individual skills and actively promote →

> **"We have managed to build up an excellent team that is not only excellent to work with, but can also have a lot of fun."**
>
> **KRUNO CREPULJA, CEO, INSTONE REAL ESTATE GROUP AG**

"Employees are a major factor in our success and the most important ambassadors of a company."

JESSICA BORCHARDT, HEAD OF HUMAN RESOURCES, INSTONE REAL ESTATE

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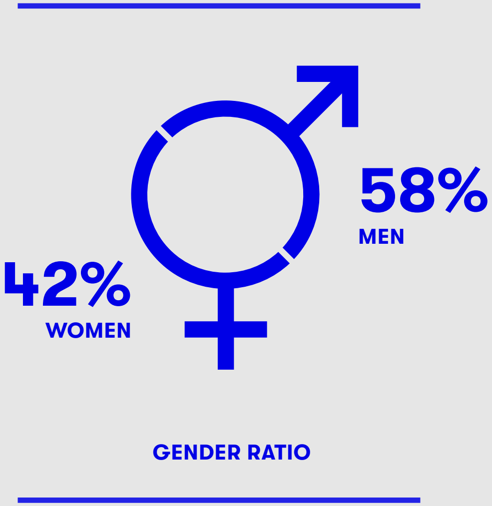
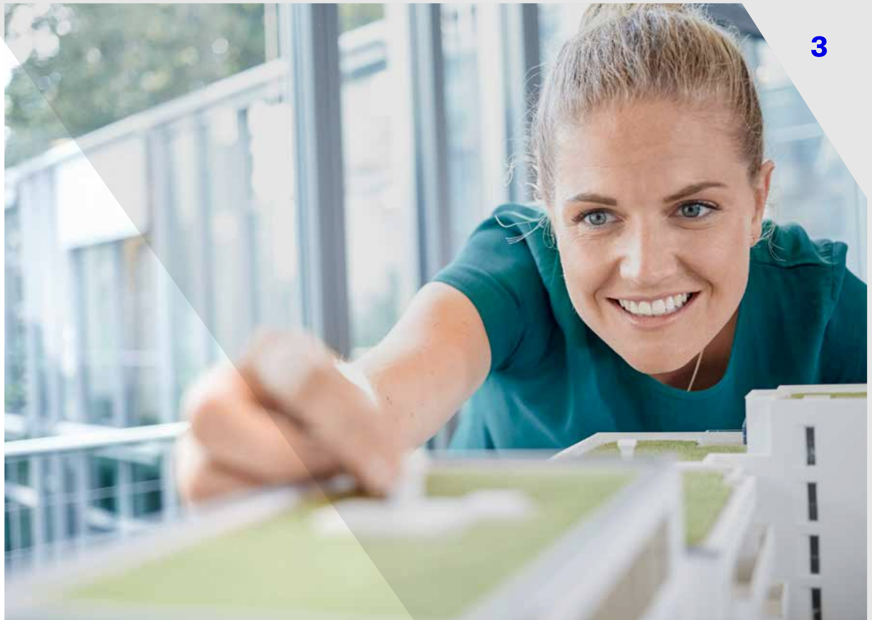
them – by providing internal and external further education and training or by moving them into other areas of the company. As we have eight offices across Germany, employees are able to consider a temporary or permanent change of location. Regular expert group meetings at the various locations promote the transfer of knowledge and strengthen the internal networking of colleagues. We also provide a flexible framework so that every employee has the opportunity to make their job fit in with their own private life situations. Working hours are therefore based on trust and are flexible in most areas, while individual part-time models allow employees to reconcile their work and family life.

1 __ Our employees appreciate the transfer of knowledge and our strong internal network.

2 __ The compatibility between family life and work is supported by the company by offering individual part-time models.

3 __ Our best advertisement is our satisfied employees, whom we actively support.





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SUSTAINABILITY

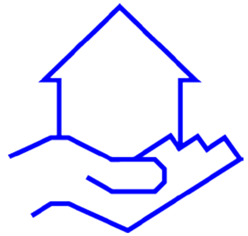
Fair and responsible action with regard to economic, ecological and social sustainability is a matter of course for us when optimising our processes.

WE HAVE A MAJOR RESPONSIBILITY

Because living is an important social issue. Compliance with environmental standards is a must for us – just like social sustainability.

__ **The Heeresbäckerei** in Leipzig is green, charming and close to the city.

In addition to the development of residential units, we also make a major contribution to the development of subsidised urban district developments within the context of district development. For instance, in the residential quarter Luisenpark we realise 414 condominiums next to 139 mainly subsidised rental units in cooperation with HOWOGE Wohnungsbaugesellschaft mbH. The responsible use of materials and the topic of energy efficiency have now become indispensable in residential construction. Our goal is to develop housing projects that are not only designed to be as environmentally friendly as possible, but also help their residents save energy for many generations to come. Instone Real Estate properties comply with the requirements of the German Energy Saving Ordinance (Energieeinsparverordnung). When contracting other companies, for example in construction, we make sure that our partner companies meet our high environmental standards throughout the entire supply chain. →



"We provide strong support for the subsidised residential construction."

ANDREAS GRÄF, COO, INSTONE REAL ESTAE

1 __ Optimisation
We are also driving ahead with the digitalisation of our processes.

2 __ Our innovation power
is demonstrated by our active and satisfied employees.

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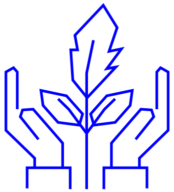


Sustainable business management

Acting sustainably as a company means that our primary focus is the fair and responsible treatment of our 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 our future viability. Employees who feel at home in our company and can fully identify with their tasks are also the best ambassadors for our customers. High levels of customer satisfaction are not only essential for our economic success, they also reduce the costs of project and customer management. All business processes at Instone Real Estate are therefore interlinked and influence one another. We want to keep the turnover of our employees low and ensure consistent contact people for our customers, along with a high degree of expertise in consulting and security by creating integrated processes. For this purpose it is also important to be economically sustainable. Respected time-lines and financially secured projects with solid planning create trust among customers and business partners.

2

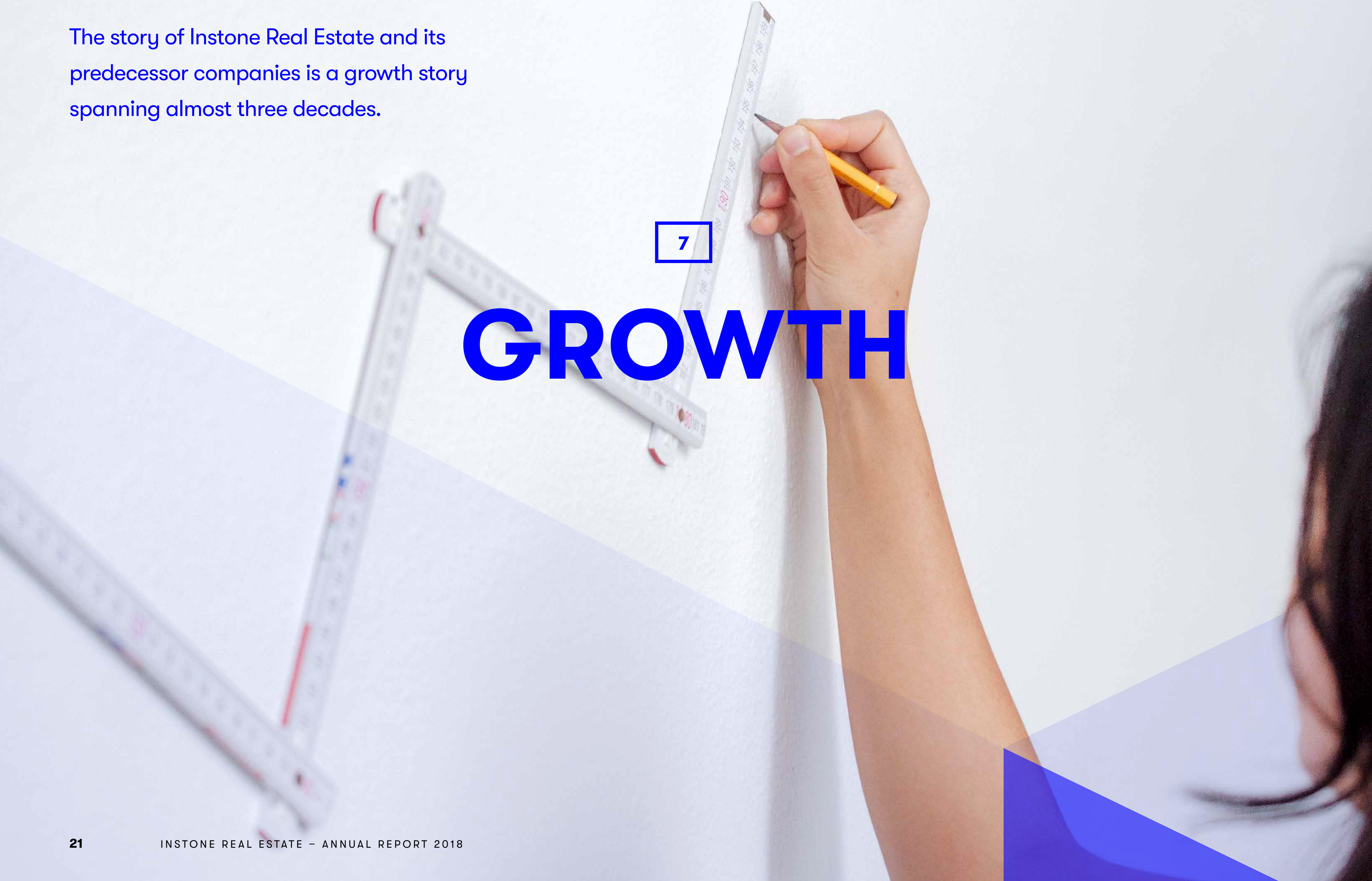
"Positive company development is always associated with a balanced and well-thought-out sustainability strategy."

TORSTEN KRACHT, CSO,
INSTONE REAL ESTATE

Holistically conceived sustainability

The going public increased the legal requirements for the entire Instone Real Estate team – in keeping with our understanding of holistically conceived sustainability. These include the introduction and establishment of compliance processes, training all employees in this area, the implementation of an internal whistle-blower system and transparency in the business processes and various control bodies, such as internal group audits and professional risk management. We have implemented these processes into our corporate culture and act in the interests of our shareholders with a high degree of diligence as well as responsibly and sustainably.

The story of Instone Real Estate and its predecessor companies is a growth story spanning almost three decades.



7

GROWTH

ON COURSE FOR GROWTH

Our focus on the residential real estate markets of major cities, metropolitan areas and other prosperous cities also offers attractive growth potential for the coming years. As of 31 December 2018, Instone Real Estate's project portfolio contained a total of 45 devlopment projects, consisting of 11,000 residential units and a total turnover of around 4,800 million euros.
Instone Real Estate expects further successful business development in the 2019 financial year.

TO OUR SHAREHOLDERS

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
Dear Readers,

We can look back on a successful and exciting 2018 with great satisfaction. Our first annual report as a German stock corporation not only comments on our positive business development in the past year, it also describes the successful development of our Company over the past three decades or so. As a former division of Hochtief AG and following the merger with Leipzig-based GRK Holding GmbH in 2015, we are now one of the leading German residential developers and are active in all German metropolitan regions. We are therefore ideally positioned strategically and able to take advantage of the attractive growth opportunities offered by the German residential property market in the long term.

Right at the beginning of last year, we achieved another important milestone with our going public. This was very important for our Company. Since 15 February 2018, we have been listed as the first German residential real estate developer in the Prime Standard of the Frankfurt Stock Exchange. We completed our going public with great success despite a very volatile capital market environment and notwithstanding the associated uncertainties in the global capital markets. Being going public offers many advantages for Instone Real Estate. At this point I will only mention as an example the greater financial flexibility for further growth and increased public awareness among customers, potential employees and business partners. I would like to take this opportunity to express my thanks again today – both personally and on behalf of my colleagues on the Management Board – to all those who, through their tireless efforts, have supported the Company on its journey to the stock exchange and made it all possible.

I would also like to express my special thanks for the interest and trust of our many investors. We were able to impress many of them with our many years of experience and clear strategy for sustainable and profitable growth, and gain the support of well-known investors from Germany and abroad as our shareholders. The full withdrawal of our former shareholder ActivumSG Capital Management Limited last September has not changed this situation. On the contrary, many investors used the opportunity to become first-time shareholders of Instone Real Estate or have further increased their share in the Company. The free float of our share is currently 100% and is largely held by long-term institutional investors. We rate this very positively as these investors express their confidence in the promising, long-term growth opportunities and value of our Company. Over the past year, I together with my colleagues have held numerous discussions with our shareholders and interested investors. This was very important to us and we plan to further expand our investor relation activities this year.

Interest in our Company and a positive business development have also been reflected in the performance of our share price. The price has held up well in a difficult market for a long time and reached its annual high of €25.05 in September. This was also well above the issue price of €21.50. In the final quarter of the last year, our share was unfortunately no longer able to escape the general downward trend of the capital markets, and suffered a decline in share price along with the general market trend at the end of the year.

Now to our business development in 2018. Overall, we can be very satisfied. We have kept our promises to the capital market. Adjusted revenues of €372.8 million and adjusted consolidated earnings before interest and tax (EBIT) of €49.6 million - adjusted for the effects of purchase price allocations - do fully meet our forecast. The adjusted gross profit margin was significantly better than expected and amounted to 28.5% for the financial year. We assumed about 25% in our forecast.

Our project portfolio also developed very successfully last year. Through an acquired sales volume of about €1.4 billion and a positive sales revenue performance in our existing projects, the expected sales value of our projects increased significantly from €3.4 billion to €4.8 billion. With this positive trend, we have not only significantly exceeded our anticipated target for 2018 of acquiring projects with an expected sales volume of €900 million to €1 billion. The project portfolio also represents a secure foundation for successful business development in the coming years. For example, our current sales forecast is fully secured by existing projects until 2020. All of our branches contributed to this positive business development. The result is a regionally balanced project portfolio. I would therefore also like to extend my thanks to all of our employees and business partners for their dedicated work and excellent cooperation.

We now look to the 2019 financial year with great confidence and anticipate significant growth. For example, we expect a significant increase in adjusted sales to between €500 million and €550 million. At the same time, we anticipate a sales volume – i.e. the volume of newly concluded sales contracts with our customers – in a range of €450 million to €550 million. We also expect a significant increase in adjusted Group earnings before interest and tax (EBT) of €85 million to €100 million. We expect another high value of around 28% for the adjusted gross profit margin.

Even if we are in a comfortable starting position with the current project portfolio, we will also explore our markets in the metropolitan regions of Germany this year and are aiming to acquire further lucrative projects. We have already agreed exclusivity with sellers for several projects with a cumulative sales volume of around €600 million and are currently in the detailed analysis and evaluation phase of this and other projects.

Both we and independent specialists continue to predict the positive development of the housing market in the coming years. The continuing significant under-supply of residential space in all German metropolitan regions, combined with a continuing trend of urbanisation and demographic change, will not lead to any relief in the housing market over the coming years. On one hand, this housing bottleneck is the foundation of our long-term business development. On the other however, we also gladly accept social responsibility and play our part in developing much-needed living space.

With our intended growth trajectory in mind, we have further strengthened our Management Board team. My colleagues and I are very pleased to welcome Dr Foruhar Madjlessi to our Company – a highly accomplished and widely recognised capital expert – to be our new Chief Financial Officer. His many years of experience and his extensive expertise in the field of corporate finance and excellent personal network in the world of international investment will be important building blocks for the successful and future-oriented expansion of Instone Real Estate.

I would like to close by thanking you for your trust in our Company. We all look forward to a successful 2019 and a promising future. I am equally looking forward to continuing our collaboration with you on a regular basis too. This is very important to me personally. Feel free to talk to me and my colleagues at any time.

Yours,

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

THE MANAGEMENT BOARD

From right to left:

DR FORUHAR MADJLESSI
Chief Financial Officer

KRUNO CREPULJA
Chairman of the Management Board/CEO

TORSTEN KRACHT
Chief Sales Officer

ANDREAS GRÄF
Chief Operating Officer

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 14-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.

Dr Foruhar Madjlessi

Member of the Management Board/
CFO of Instone Real Estate Group AG
(since 1 January 2019)

Dr Foruhar Madjlessi was appointed member of the Management Board/CFO of Instone Real Estate Group AG on 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.

Andreas Gräf

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

Andreas Gräf is member of the Management Board/COO of Instone Real Estate Group AG. He is also COO of Instone Real Estate Development GmbH for both the North Rhine-Westphalia and Rhine-Main 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.

Torsten Kracht

Member of the Management Board/
CSO of Instone Real Estate Group AG

Torsten Kracht is a Member of the Management Board/CSO of Instone Real Estate Group AG. At the same time, he is Managing Director of Instone Real Estate Leipzig GmbH and Instone Real Estate Development GmbH. More than 14 years of comprehensive practical experience has made Torsten Kracht an industry expert in the construction and real estate segment. As a member of the Management Board of Instone Real Estate Leipzig GmbH's predecessor company, GRK Holding AG, he has been responsible for sales and project development since 2006 and took over as CEO of GRK Holding GmbH in 2016.

SUPERVISORY BOARD REPORT

Dear Shareholders,
Dear Readers,

2018 was an extremely eventful and successful business year for Instone Real Estate Group AG.

At the beginning of the year, the Company took a special – and for it – important step in February with its going public in the regulated market (Prime Standard) of the Frankfurt Stock Exchange. As a result of the going public and the placement of new shares, the Company received net proceeds of around €141 million. The total issue volume at the start of trading on 15 February 2018 was around €390 million and the market capitalisation – based on the issue price of €21.50 per share – was around €795 million.

In this context, it should not go unmentioned that all Instone shares are already in free float after our former sole shareholders, funds launched by ActivumSG Capital Management Limited, sold their remaining interest in mid-September 2018 after the going public. Many of our shareholders who had already succeeded in gaining from the placement used the opportunity to further increase their stake. As a result, Instone Real Estate Group AG has a strong international shareholder structure which is home to many well-known investors – the Supervisory Board considers this to be a sign of quality.

From the point of view of the Supervisory Board, the 2018 financial year was also characterised by a very positive operating business performance. The Company was able to achieve this progress through simultaneous – resource-intensive – preparation and implementation of the going public and, a few months later, through the cross-border conversion from a Dutch to a German stock corporation. This was no easy task. It was made possible by our employees, their untiring commitment and their high levels of motivation.

We would now like to inform you about the work of the Supervisory Board and its committees in the 2018 financial year.

The Supervisory Board commenced its work on 13 February 2018, following the conversion of the Company into Instone Real Estate Group N.V., a stock corporation under Dutch law, in preparation for the subsequent. The 2018 financial year was therefore the first financial year in which the Supervisory Board performed the tasks assigned to it by law, the Articles of Association and the Rules of procedure.

Besides the going public and the structuring of cooperation with the Management Board, another important topic the committee dealt with on multiple occasions at the very beginning of its activities was the internal organisation of the Supervisory Board. Among other things, it elected the Chairman and his Deputy, set up and filled the existing committees, and issued corresponding rules of procedure for itself and its committees. The Supervisory Board also approved the rules of procedure for the Management Board and amended them several times during the course of the financial year. Within the scope of these activities, the Board also drafted and approved a catalogue of transactions and measures requiring the approval of the Supervisory Board as well as further substantiating the content of the Management Board‘s reporting obligations.

Another focal point of the Supervisory Board‘s activities was the cross-border conversion of the Company from a stock corporation under Dutch law into a German stock corporation which was passed by a resolution at the Annual General Meeting on 29 June 2018 and completed on 28 August 2018. The Supervisory Board worked intensively on this structural measure. In particular, it heard reports about the status of the preparatory and implementation activities of the Management Board on several occasions, reviewed the facts and the Management Board’s proposals and approved the implementation of the cross-border conversion on this basis. In this context, the Supervisory Board also appointed the former members of the Management Board of Instone Real Estate Group N.V. as members of the Management Board of Instone Real Estate Group AG and issued new rules of procedure for the Management Board. Mr Stefan Brendgen was re-elected as Chairman and Mr. Stefan Mohr as Deputy Chairman of the Supervisory Board of Instone Real Estate Group AG.

Furthermore, in the second half of the financial year, the Supervisory Board also busied itself especially with finding a successor to the Chief Financial Officer (CFO), who left the Management Board at the end of 31 December 2018.

The Management Board also reported on the potential strategic acquisition of a company in several Supervisory Board meetings. In this context, the Supervisory Board worked very closely with the Management Board and provided it with advice.

Trusting cooperation between the Management Board and the Supervisory Board

In addition to the key 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 Management Board informed the Supervisory Board regularly, promptly and comprehensively about any aspects that were material to the Company. Above all, these included the business development of the Group, key investment plans, risk management 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 rules of procedure 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 especially concerned new projects acquired by the Management Board.

Two members of the Supervisory Board did not take part in the deliberations of the Supervisory Board in one business matter due to a potential conflict of interest. In another matter, the Supervisory Board dealt with a Supervisory Board member's legal transaction with the Company. As a precaution, the Supervisory Board member submitted this legal transaction to the full Supervisory Board for prior approval in view of a potential conflict of interest. The approval was granted after the business conditions were found to be in line with the market.

None of the members of the Supervisory Board attended fewer than half of the meetings during the period under review.

Supervisory Board composition and meetings

The Company's Supervisory Board consists of five members in accordance with the rules of procedure. All members are elected as shareholder representatives by the Company's Annual General Meeting. 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

→ Stefan Mohr
Deputy Chairman of the Supervisory Board
(member until 31 December 2018)

→ Marija Korsch

→ Dr Jochen Scharpe

→ Richard Wartenberg
(member until 31 December 2018)

The detailed CVs of the current members of the Supervisory Board can be viewed on the Company's website at ↗Instone Supervisory Board CVs.

In the past financial year, the Supervisory Board held a total of 16 meetings. A total of eight resolutions were passed by way of circular resolution.

Supervisory Board committees

In order to streamline the work of the Supervisory Board, the Supervisory Board established three standing committees with various responsibilities in the 2018 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 can be formed as needed. 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 the Section 100 (5) German Stock Corporation Act (AktG).

The Audit Committee held a total of eight meetings in the 2018 financial year. Topics dealt with during the period under review included, inter alia, the preparation of the full Supervisory Board's resolutions regarding the 2017 consolidated financial statements and management report, the proposal of an auditor to the annual general meeting, the discussion and approval of non-audit services by the auditor, the review of the auditor's audit focus for the 2018 financial year and the discussion of interim financial information with the Management Board. In addition, the Audit Committee dealt intensively with the risk management system of the Company which was continuously developed during 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.

The remuneration committee held one meeting during the 2018 financial year, while the nomination committee did not meet at all during the period under review.

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.

In addition to the definition of targets for the proportion of women in the Management Board and the Supervisory Board, this also concerns, for example, the development of targets for the Supervisory Board's composition.

In the context of reporting for the 2018 financial year, the Supervisory Board and Management Board also issued a declaration of conformity for Instone Real Estate Group AG for the first time pursuant to Section 161 German Stock Corporation Act (AktG). This is included in the Annual Report 2018 on page 140 and can also be found on the Instone Real Estate Group AG website under Investor Relations at ↗ 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 pages 81 to 88 of this annual report.

Personnel changes within the Supervisory Board

The members of the Supervisory Board Mr Stefan Mohr and Mr Richard Wartenberg resigned from the Supervisory Board with effect from 31 December 2018 after the sale of the remaining participation still held by our former sole shareholders following the going public. The Supervisory Board thanks both gentlemen for their constructive cooperation.

Personnel changes within the Management Board

Mr Oliver Schmitt left the company as Chief Financial Officer (CFO) on 31 December 2018. The Supervisory Board thanks Mr Oliver Schmitt for his successful work and wishes him all the best for his private and professional future.

The Supervisory Board is pleased to welcome Dr Foruhar Madjlessi in the role of Chief Financial Officer (CFO) of Instone Real Estate Group AG, who the Supervisory Board appointed as a member of the Management Board effective 1 January 2019. The 51-year-old industrial engineer most recently acted as Managing Director of Deutsche Bank AG's Equity Capital Markets division for Germany, Austria and Switzerland (DACH). The Supervisory Board hereby once again welcomes Dr Madjlessi to the Company.

Dependency report

The Supervisory Board also examined the dependency report on relationships with affiliated companies (dependency report) which was drawn up by the Company's Management Board in accordance with Section 312 of the German Stock Corporation Act for the pro rata financial year. The dependency report was also audited by the auditor and was issued with the following auditor's opinion:

After our dutiful examination and assessment, we confirm that

a. the actual disclosures in the report are correct,

b. that there are no circumstances in the measures listed in the report to make any judgement other than that expressed by the Management Board.

The dependency report and the auditor's report prepared by the auditor were available to all members of the Supervisory Board and were discussed in detail in the presence of the auditor at the meeting of the Supervisory Board on 27 March 2019. The auditors reported on the key findings of their audit and answered the Supervisory Board's questions. The Supervisory Board approves the auditor's findings and, following the final result of its own audits raises no objections to the Management Board's statement at the end of the Dependency Report.

Audit of annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, was chosen as auditor for the 2018 financial year by the Annual General Meeting of the legal predecessor of the Company and appointed by the Supervisory Board. The focal points of the audit were discussed in detail with the auditor at the audit committee meeting on 29 October 2018 and established accordingly.

The consolidated financial statements for the 2018 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 it's report and the financial statements for the financial year 2018 to the members of the Audit Committee and Supervisory Board on 11 March 2019 and 22 March 2019.

The report was discussed intensively by the audit committee on 11 March 2019 in the presence of the auditor. 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.

The auditor issued an unqualified opinion on the annual and consolidated financial statements for 2018 and the combined management report on 22 March 2019. Following a detailed review of the annual financial statements, the consolidated financial statements and the combined management report as of 31 December 2018 by the audit committee, the latter recommended its approval to the plenum. Based on the definitive result of its examination, the Supervisory Board had no objections to raise and the approval of the Supervisory Board was then given on 27 March 2019. The annual financial statements have therefore been adopted.

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, 27 March 2019

For the Supervisory Board

Stefan Brendgen
Chairman of the Supervisory Board

SHARE

Difficult capital market environment has also influenced our price development

Various political developments and tensions have severely impacted global equity markets in 2018 so that they have not been able to continue the upward trend of recent years. The DAX recorded a significant decline of 18.3% and closed the year at 10,559 points. The SDAX also recorded a significant loss of 20.0%, ending the year at 9,509 points.

Despite this difficult market environment, we successfully completed our going public and have been listed on the Prime Standard of the Frankfurt Stock Exchange since 15 February 2018. We have thus reached another important milestone for our Company which offers us many advantages in the long term. Among other things, it will improve the public perception of Instone Real Estate among customers, potential employees and business partners, and in particular gives us greater financial scope to make even better use of the attractive growth opportunities offered by the German residential real estate market.

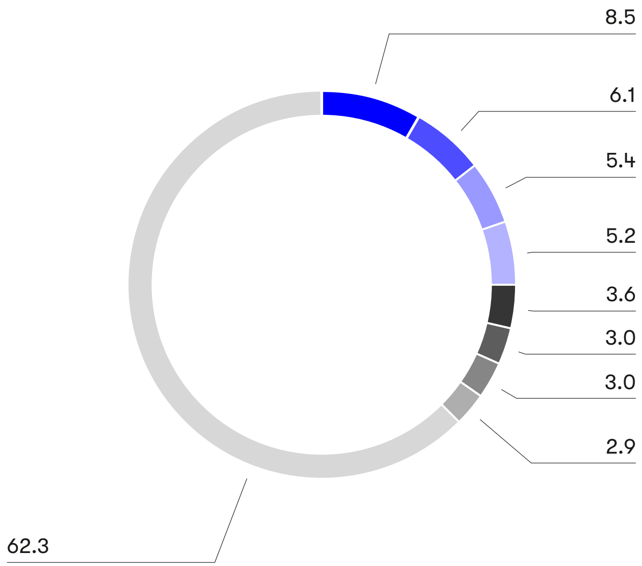
Not least due to our positive business development, our share was able to hold its own in a difficult market environment for a long time and reached its high for the year of €25.05 on 24 September 2018. This price was also well above the issue price of €21.50. In the final months of the year, however, our share was hit hard by the negative market environment and we ended the year with a share price of €16.60 and a loss equal to the general market trend.

Balanced shareholder structure

We have been able to attract many noteworthy investors from Germany and abroad with a long-term investment horizon as shareholders with our many years of experience, a long-term and profitable growth-oriented strategy and against the background of the attractive German residential property market. We view this as a very positive development as this investment philosophy fits very well with our long-term success-oriented business model.

MAJOR SHAREHOLDERS AS OF 31/12/2018

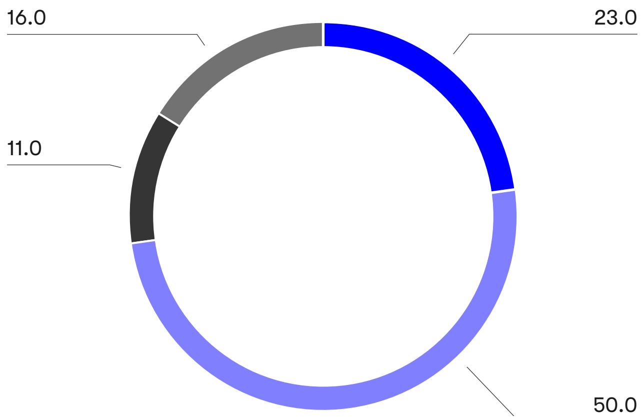
Percentage in %



(Source: Voting rights announcements according to the German Securities Trading Act (Wertpapierhandelsgesetz))
■ Fidelity ■ T. Rowe Price ■ The Capital Group Companies
■ Janus Henderson Group plc ■ AFFM S.A. ■ Amudi Asset Management
■ Moore Capital Management, LP ■ DWS Investment GmbH ■ Other

GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL SHAREHOLDERS AS OF 31/12/2018

Percentage in %



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

Following the complete withdrawal of our former shareholder ActivumSG Capital Management Limited in September 2018, 100% of Instone shares are in free float according to the definition of Deutsche Börse AG. The majority of our shareholders are located in the Anglo-Saxon regions and have a stake of approximately 73%. Around 11% of the shareholders are from Germany. Our institutional shareholders include pension funds in addition to national and international asset managers.

Annual General Meeting approves change of legal form into a German stock corporation

The first Annual General Meeting of the Company – at that time still a stock corporation under Dutch law and trading under Instone Real Estate Group N.V. – took place on 29 June 2018 in Schiphol, the Netherlands. The Annual General Meeting decided, among other things, to convert the Company into a German stock corporation by unanimous vote. The conversion resolution was drafted as planned and defined as a component of the corporate strategy as part of the going public. In view of our background in Germany, the change of legal form was a logical step, not least because our business activities focus on Germany.

On the basis of the binding tax information provided by the German tax authorities, the Management Board and the Supervisory Board then decided to implement the cross-border change of legal form. This became effective upon entry in the commercial register on 28 August 2018. Since then, we have been operating as Instone Real Estate Group AG and our registered office is in Essen.

Investor relations activities are very important to us

For us, a regular, transparent and consistent exchange of information with our shareholders and analysts in addition to all other interested capital market participants is very important. Following our going public in February last year, our Management Board held a total of twelve road shows in Europe and the US and participated in four investor conferences. Telephone conferences with financial analysts and investors also took place as part of our regular financial reporting. We have also organised numerous tours for investors and presented the projects of our various branches.

We will further intensify our investor relations activities in 2019 and continue our regular and transparent communication with the capital market. Once again, we will focus on numerous road shows and our participation in investor conferences in Europe and North America. When publishing our quarterly results, we will inform the capital market at regular intervals about the current business development and prospects as part of telephone conferences. A second focus will be our first Capital Markets Day. This event aims to offer participants the opportunity to gain an even deeper insight into our operating business. Our goal is to also develop contact with private investors. For this purpose, we will be strengthening the presentation of our company in 2019 within the context of investor forums.

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

We would 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

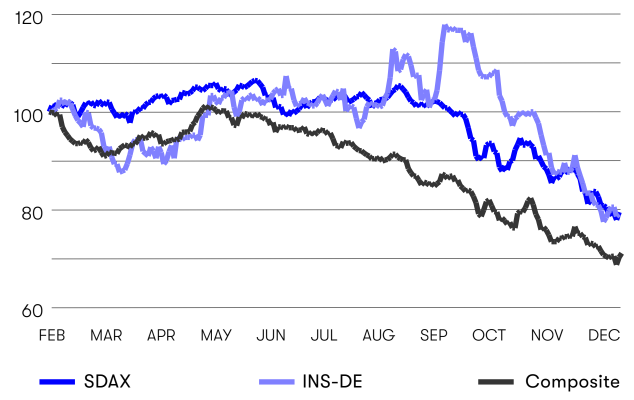
Basic information about the share

Initial listing	15/02/2018
Issue price	€21.50
Year high	€25.05
Closing price at the end of 2018	€16.60
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)

DEVELOPMENT OF THE SHARE FROM 15/02/2018 TO 31/12/2018

AS OF 31/12/2018

Percentage in %



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

COMBINED MANAGEMENT REPORT

PREPARATION

In this document, the terms “we”, “us”, “our”, “Instone Real Estate”, “Instone Group” and “Company” refer to Instone Real Estate Group AG (formerly: formart Holding B.V., then: Instone Real Estate Group B.V., then: Instone Real Estate Group N.V., now: Instone Real Estate Group AG) and correspondingly to its subsidiaries.

In the financial year ending 31 December 2017, we were a limited liability company under Dutch law (besloten vennootschap met beperkte aansprakelijkheid), Instone Real Estate Group B.V. On 13 January 2018, we were converted into a Dutch stock corporation (naamloze vennootschap) and renamed 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 2018. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2018.

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 judgment 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 as 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 “Forecast report, outlook for the Instone Group”, 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 at 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 “Forecast report, macroeconomic and sector-specific environment” section of this report.

BUSINESS MODEL AND ORGANISATIONAL STRUCTURE

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 develops attractive residential and apartment buildings and publicly subsidised residential construction, designs modern city districts and refurbishes listed buildings. These are mainly marketed to owner-occupiers, private investors with the intention to lease and institutional investors. Over the course of 28 years, we have consequently realised more than one million square meters. We have 311 employees at eight locations across Germany. As of 31 December 2018, the project portfolio of Instone Real Estate included 45 development projects with an anticipated overall sales volume of approximately €4.8 billion and more than 11,000 units.

As of 31 December 2018, approximately 90% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations in Germany (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Halle, Leipzig, Munich and Stuttgart) and 10% in other prosperous medium-sized cities.

COVERAGE OF THE ENTIRE VALUE CHAIN

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

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

Instone Real Estate has integrated risk management and uses sophisticated reporting and planning tools to minimise development risks. The German Real Estate Agency ("MaBV") gives Instone Real Estate the option of contractually agreeing substantial 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 development risk for Instone Real Estate.

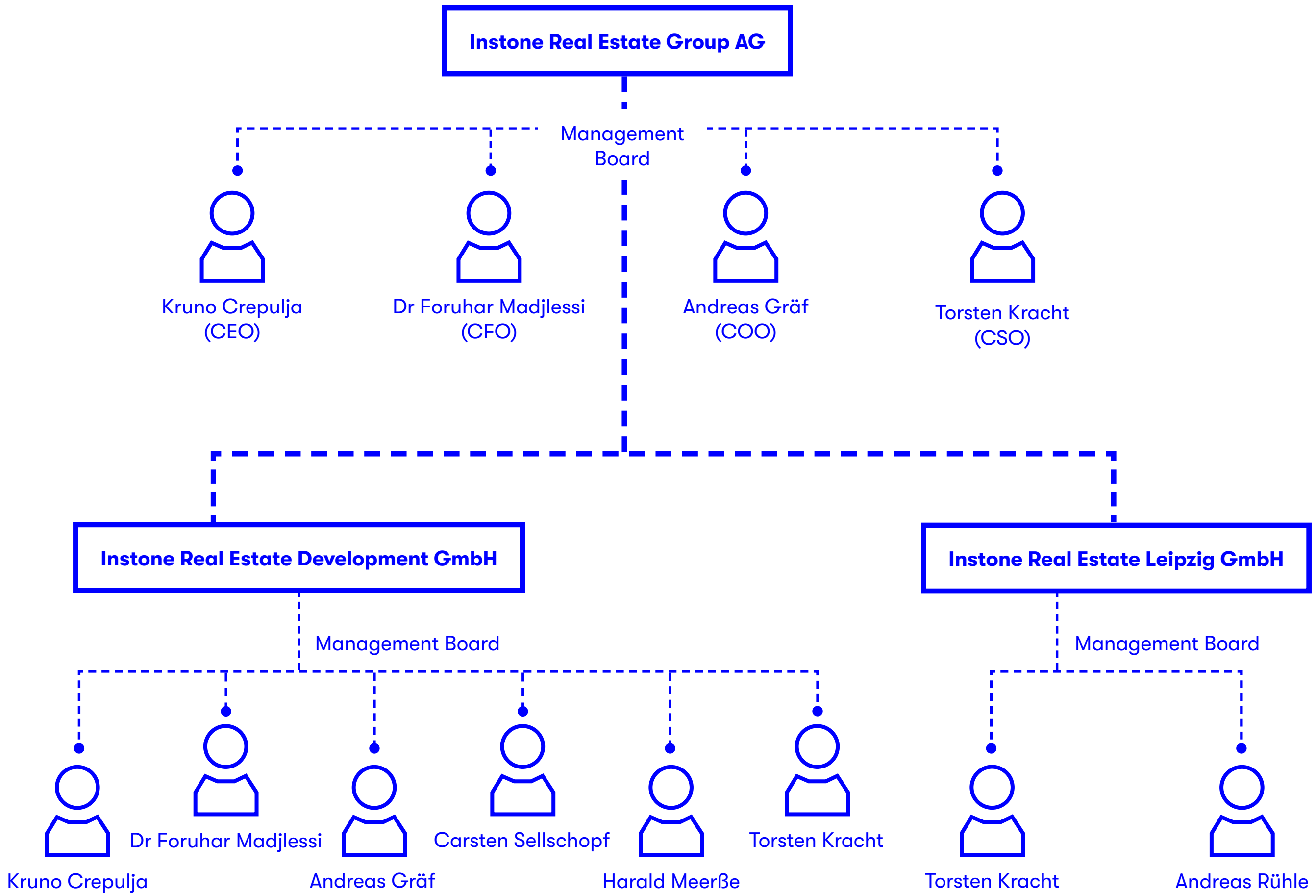
The number of newly acquired and ongoing projects shows the continuous investing activities which have taken place in the past financial year, including the acquisition of land and real estate with an anticipated total sales volume of €1,300 million after completion of development.

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

THE INSTONE VALUE CHAIN

Instone Real Estate has been listed as a Dutch stock corporation (Instone Real Estate Group N.V.) on the Prime Standard of the German Stock Exchange since 15 February 2018. In August 2018, the company successfully completed its transformation into a stock corporation under German law, as resolved by the Annual General Meeting at the end of June. The change of legal form became effective upon entry in the commercial register on 28 August 2018. Instone Real Estate Group AG acts as a strategic management holding while the two subsidiaries, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, are responsible for the operating project business.

ORGANISATIONAL STRUCTURE OF INSTONE REAL ESTATE



CORPORATE STRATEGY AND MANAGEMENT

INSTONE GROUP STRATEGY

Instone Real Estate's strategy is the development and sale of profitable residential property projects in regions with sustainable population growth and an associated high demand for housing. The company has an attractive project portfolio and plans to expand it in the future. At the same time, Instone Real Estate is well positioned regionally and nationwide to exploit the growth potential in the most important German metropolitan regions. Due to its high value-added depth and extensive experience in the development of areas and the conversion of areas with previously different uses, Instone Real Estate is in a position to become involved in projects at an early stage of development and successfully develop projects as an ideal partner for real estate sellers. The high value-added depth also enables the Company to manage important cost and time factors efficiently. Moreover, Instone Real Estate has an excellent network of service providers and contractors, thus ensuring access to the necessary resources. All of these factors are key competitive advantages for the Company.

Maintaining and expanding the competitive position in the German residential real estate development sector with a continuous focus on the most important conurbations in Germany

The exclusive focus of Instone Real Estate on modern mid-level and high-end urban residential real estate and its location in major metropolitan areas and other prosperous medium-sized cities in Germany has historically been an important factor in the Company's success. In regional terms, Instone Real Estate has targeted the attractive growth markets in Germany (North Rhine-Westphalia and the Rhine-Main region, Baden-Wurttemberg and Bavaria, Saxony, and Northern Germany), which are managed by four regional managers and seven branches.

Instone Real Estate plans to focus on the urban growth regions of Germany (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart) as well as other prosperous medium-sized cities (Aachen, Augsburg, Dresden, Freiburg, Hanover, Heidelberg, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm and Wiesbaden) and to further strengthen its presence at these locations. These metropolitan areas and prosperous, medium-sized cities are showing strong demographic growth which is being further intensified by the urbanisation trend, the sustainable composition of households and the regionally diversified economic structure.

In addition to the above-mentioned core markets, Instone Real Estate is exploring the following attractive high-demand areas and plans to invest if profitable opportunities arise: Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, the Rhine-Main area around Frankfurt, Regensburg, the western Ruhr area and Wurzburg.

When marketing residential properties, Instone Real Estate relies on a diversified asset management strategy, including all relevant investor classes. Sales to private owner-occupiers in individual sales forms the core of our marketing strategy. Instone Real Estate also uses its marketing strategy to market to private investors and institutional investors. The Instone Group uses different sales organisations (brokers, structure sales and direct contact), depending on the project.

Focus on land and real estate without approved land use or development plans at the time of acquisition for development as residential real estate

Instone Real Estate's acquisition strategy is to generate attractive margins from project developments without taking disproportionate risks. To this end, Instone Real Estate focuses primarily on the acquisition of land or real estate without land-use plans or planning permission for residential development purposes. Instone Real Estate believes that such land or real estate typically offers more added value and is less competitive than land or property with a fully-approved land-use plan and approved planning. To manage its regulatory risk, Instone Real Estate relies on its know-how and experience to ensure that all open planning issues are investigated in detail, and only acquires land or real estate if Instone Real Estate deems it likely that the required planning permission can be granted in a timely manner – usually after preliminary discussions with the local building authority. Instone Real Estate will therefore not invest in a property unless Instone Real Estate believes that the development plan and planning permission will be granted within the appropriate time frame (no property speculation). In the past, Instone Real Estate has been able to look back on great success in the development of land and real estate with no development plans or planning permission for residential development at the time of acquisition.

Instone Real Estate plans to continuously identify opportunities for the acquisition of land or real estate in key German metropolitan areas in accordance with its acquisition criteria and will remain close to local markets through its eight locations established for this purpose. The focus is on real estate markets in the major German cities, including other major and liquid markets that may be of interest to retail and institutional investors.

In addition to using the gross profit margin as a financial criterion and the certainty of obtaining construction rights in a timely manner, the acquisition criteria may differ depending on the region and the individual project. The strategies may differ correspondingly. In general, Instone Real Estate focuses on more complex projects where the Company can leverage its network of regional offices, combined with the industry expertise of its employees, and its deep value chain.

MANAGEMENT SYSTEM OF THE INSTONE GROUP

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

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 completely 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 management 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.

FINANCIAL AND REAL ESTATE KEY PERFORMANCE INDICATORS

Important management 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, 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.

By adopting IFRS 15[1] and the associated revenue recognition overtime, the adjusted revenue represents a sufficient indicator for the measurement of the company performance so an additional consideration of the operating performance is not required.

[1] IFRS (International Financial Reporting Standards) "Income from Contracts with Customers".

The addition of the KPI adjusted gross profit margin puts a stronger focus on the earnings potential of projects.

As the EBT is heavily influenced by fluctuations in the financial result, it is being replaced by adjusted EBIT as a key performance indicator to focus on earnings before tax, depreciation and amortisation.

In the future, the volume of new permits as a key real estate figure will no longer represent a key performance indicator for the Instone Group as it is not possible to forecast new approvals due to the strong dependence on external influences.

Adjusted revenue, adjusted gross profit margin and adjusted EBIT

The key figure for the performance of the Instone Group is revenue adjusted for the effects of purchase price allocations.

The adjusted gross profit margin is used to manage and analyse the project-based company performance and is determined on the basis of the revenues less the cost of materials, changes in inventories, indirect distribution costs and capitalised interest, but excluding effects from purchase price allocations. The adjusted gross profit margin reflects the operating result after deducting all external costs directly attributed to the projects.

The adjusted EBIT is derived from the adjusted gross profit or loss and corresponds to the operating earnings before interest and tax, but additionally adjusted for the effects of pruchase price allocations and, if necessary, one-off events and extraordinary effects.

Volume of sales contracts

The volume of sales contracts covers all sales-related transactions such as notarised sales contracts and individual orders from customers and rental income.

Other important key figures

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.

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 revenue in the income statement, 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.

The calculation of the project gross profit margin for a period corresponds to the adjusted gross profit derived from the income statement.

SUSTAINABILITY

FAIR AND RESPONSIBLE BEHAVIOUR

For Instone Real Estate, fair and responsible behaviour towards employees, customers, investors, business partners and the public forms the basis for a sustainably successful company.

Our principles and values as summarised in the Code of Conduct underpin the entrepreneurial behaviour of Instone Real Estate. We value a trusting and sustained cooperation with our partners and our mutual adherence to contracts and obligations.

In the financial year, Instone Real Estate further built on its compliance to comply with national and international laws and regulations. This includes the introduction and establishment of a compliance process tailored to the purpose of the Company, in accordance with the regulations. Among other things, this includes annual training for all employees in compliance and a compliance management system for documentation. Whistle-blowers can report potential violations internally or anonymously externally. The reported incident is then verified independently. The strategic goal is to avoid compliance cases, corruption, bribery and anti-competitive behaviour.

The transparency of our business processes is also reviewed as part of an audit. In the 2018 financial year, this was carried out with the support of an external service provider. The existing risk management system has also been further developed to enable the timely detection of risks, the assessment of risks and the fastest possible response to the emergence of risks.

During the course of the introduction of the new regulations on data protection (General Data Protection Regulation, GDPR) in May 2018, the main processes and tools have been reviewed with our data protection officer and adjusted for compliance with the General Data Protection Regulation. The protection of our employee, customer and business partner data is therefore guaranteed by Instone Real Estate Group AG.

ENSURING THE SATISFACTION AND SECURITY OF OUR INVESTORS AND CUSTOMERS

Instone Real Estate's main goal is satisfied customers who can live well and safely in attractive neighbourhoods. The high level of customer satisfaction achieved by Instone Real Estate reduces long-term costs in the areas of customer and project management and after-sales.

Customer satisfaction also guarantees income, promoting the reputation of the Company and ensuring that investors and the public gain access to new investment and acquisition opportunities.

Instone Real Estate achieves this customer satisfaction through a variety of measures such as:

- → Good and structured preliminary planning,
- → Targeted sales,
- → Approaching customer groups in the correct way,
- → Good customer support,
- → Excellent standard facilities in the purchased property,
- → Very good construction quality combined with the ability to customise the property to be purchased using a special request catalogue for the property,
- → Point of contact at Instone Real Estate, along with the use of a project-specific customer portal and configurator in the future.

Sustainable security for the investors and customers of Instone Real Estate is ensured through consistent processes, adherence to the promised timetables and a financially solid company and therefore a financially secure project and project portfolio.

RESPONSIBLE TREATMENT OF OUR EMPLOYEES

Instone Real Estate's employees are critical to ensuring the Company's long-term success. They are highly motivated and committed and create a bridge between the Company, customers and the public within projects. Instone Real Estate helps to create an attractive work environment in order to support and sustain this commitment.

Issues such as employment, education and training, diversity and equal opportunities are essential. Trust and fair treatment encourage productivity and innovation.

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:

- Health measures,
- Professional development and promotion – internal and external further education,
- Flexible organisation of working hours,
- Employee benefits,
- Bonus rules,
- Modern and digital infrastructure,
- Staff events.

Instone Real Estate increased its workforce by approximately 4% in 2018 and has thus positioned itself well for further corporate growth and any potential employee turnover. According to the report of the Federal Employment Agency (July 2018), the staff turnover rate across all sectors was 32.8% in 2017 within Germany and, according to German Economic Institute (iwd), the rate was 29.3% for the "real estate, freelance scientific and technical services" industry group.[1]

[1] www.iwd.de/artikel/fluktuation-starke-wirtschaft-fuehrt-zu-mehr-jobwechseln-401583/

Instone Real Estate is tackling the proven shortage of skilled workers by increasing its recruitment activities. During the financial year, a career website ↗ Instone Career was newly developed for this purpose. The search for jobs is becoming increasingly digital and Instone Real Estate needs to be able to fully present its business and employees to potential candidates. On the new career website, our corporate and employee values are described in both company and job profiles along with direct feedback from existing employees in the form of short films.

Instone Real Estate is committed to the sustainable responsibility of helping young people get started with their careers. Instone Real Estate has therefore also become active in university marketing and presented the Company and its career-entry opportunities at career fairs in 2018. Lectures and other accompanying measures implemented by executives and employees have helped graduates to learn more about challenges in the world of work.

Recruitment will be sustainably expanded, not only through the Company website, but also via social media channels such as XING, Twitter and LinkedIn. Additional recruiting measures were initiated in this area during the second half of the financial year.

Talent management and competence development round off the recruiting measures.

For more information, see the "Employees" section on page 44.

ENERGY-EFFICIENT LIVING AND RESPONSIBLE USE OF MATERIALS

In residential construction, the responsible use of materials and the topic of energy efficiency are essential long-term factors for our Company, our partners and customers. Instone Real Estate's aim is to develop housing projects that are not only designed to be as environmentally friendly as possible, but will also help their residents to save energy for many generations to come. We often use areas that have already been developed in the past. This enables us to use resources carefully.

Instone Real Estate properties comply with the stringent requirements of the German Energy Saving Ordinance (Energieeinsparverordnung) as standard.

When contracting other companies, for example in construction, we also make sure that our partner companies along the supply chain meet our high technical and environmental standards in addition to standards relating to employment – such as paying the minimum wage and adhering to safety regulations.

DEMONSTRATING SOCIAL COMMITMENT

In addition to the main business, the development of residential units, Instone Real Estate's projects also contribute to the operation of socially funded or reduced-price residential construction within the context of urban district development. In these projects, we coordinate closely with public sector partners and are familiar with the differently weighted programmes in the project markets we work in. This also leads to diverse cooperation with social housing investors for residential construction.

Due to the many different programmes in the municipalities, Instone Real Estate also has ideal lines of communication with its partners in terms of the respective interests of the municipality in the socially funded area.

We are also involved in interest groups in the real estate industry (such as Zentraler Immobilienausschuss e. V. and Bundesverband freier Immobilien- und Wohnungsunternehmen e. V.), which discuss the necessary legal issues with the state and federal authorities.

Instone Real Estate's services meet the challenges of society as a whole, such as the creation and provision of housing in metropolitan areas.

We support sustainable and liveable urban district development, boost the quality of life, promote historical buildings and preserve historical monuments while also tackling the issues of the future.

DIVERSITY AND EQUAL OPPORTUNITIES

The proportion of male employees was 58% at the end of 2018 (previous year: 56%), while women made up 42% (previous year: 44%) of our workforce. The proportion of women is 16.67% in the second management tier. The average age was 41.29 years – a balanced mix where our apprentices and working students can benefit from the experience of our long-standing employees. The average length of service in the financial year was 7.57 years, which once again confirms that Instone Real Estate offers long-term prospects as an employer.

We gave one dual student and three working students permanent employment during 2018.

KEY FIGURES

	2018	2017
Total number of employees[1]	311	299
Total number of locations	8	8
Diversity of employees[1]		
Gender		
women	131	133
men	180	166
Age groups		
< 30 years	59	65
30 - 50 years	163	157
> 50 years	89	77
Confirmed corruption incidents and actions taken[2]	0	0
Legal proceedings for anti-competitive behaviour or anti-trust and monopoly practices[3]	0	0

[1] Personnel disclosures, Instone Real Estate.
[2] Compliance disclosures, Instone Real Estate.
[3] Risk management disclosures, Instone Real Estate.

EMPLOYEES

EMPLOYEES

Including the employees of foreign subsidiaries, 311 people were employed in the Instone Group as of 31 December 2018 (previous year: 299 employees).

At the end of 2018, one employee was working for us at each of our international locations in Luxembourg and Austria.

PERSPECTIVES AND FREEDOM

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 €1,600 per year for tailored professional training.

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

COOPERATIONS WITH UNIVERSITIES

Promoting young talent is a special interest of ours. In addition to the employment of working students, trainees and apprentices, we are therefore increasingly working with colleges and universities. We supported seven master theses both financially and with our expertise in 2018. This cooperation will be stepped up further next year and will develop into a university concept especially created for this purpose.

Employees and management are also involved as lecturers at various universities.

For more information about our employees, see the Sustainability section on page 41.

ECONOMIC CONDITIONS

GOOD GENERAL CONDITIONS FOR OUR BUSINESS GROWTH

bulwiengesa's Frühjahrsgutachten der Immobilienweisen (real estate spring report) and Projektentwicklerstudie 2018 (project developer study) still assume high demand in the conurbations with level price increase dynamics. Instone Real Estate expects cost and revenue increases to compensate

SOCIO-ECONOMIC DEVELOPMENTS IN INSTONE TARGET CITIES

Due to moderate inflation and ongoing economic growth, but above all, low interest rates, conditions for real estate investments were positive in the past financial year – and will remain so in the coming years. Although the consumer prices index in Germany rose slightly during the financial year, it was still only just above 2%.[1]

↗ [1] www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Preise/Verbraucherpreisindizes/Verbraucherpreisindizes.html

From 2008 to 2018, the average number of people employed at Instone Real Estate offices increased by 9.7%, with Frankfurt am Main at around 18%.[2]In comparison to other European countries, the decline in growth was only moderate. A further increase in population of around 5% is forecast for Instone Real Estate locations by 2035.[2]

The German labour market has developed very positively in recent years. For example, the number of people liable to pay social security contributions in the Instone Real Estate locations increased by an average of 25% between 2008 and 2018.[2] This is above average compared to other EU states (~ 2.7%)[3]. This trend is likely to continue in light of the economic situation.[3]

↗ [2] Key Figures_Forecasts_2023, bulwiengesa AG.
↗ [3] Eurostat Data Explorer Employees 2008–2018.

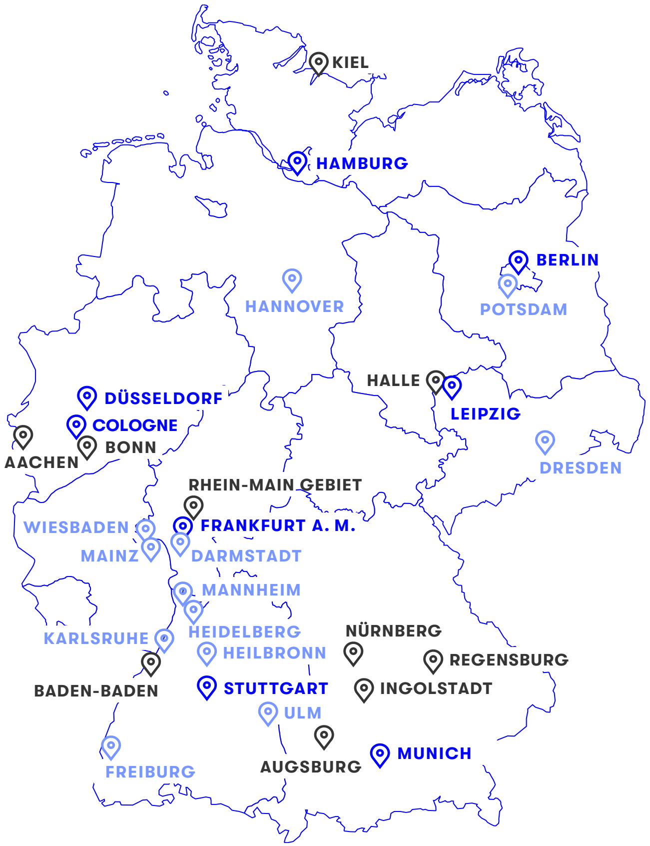
The unemployment rate in Germany has also fallen by 4.3%[4] since 2008. In December 2018, the unemployment rate of around 4.9%[4] was well below the EU average (6.7%).[5] A further increase in the number of persons in employment and a decrease in unemployment in Germany are expected by 2019.

↗ [4] www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Arbeitsmarkt/Arbeitsmarkt.html
↗ [5] www.de.statista.com/statistik/daten/studie/160142/umfrage/arbeitslosenquote-in-den-eu-laendern/

In summary, Germany continues to be a strong, growing and future-proof business location with good general conditions for housing investments. The purchasing power per capita in Instone Real Estate locations has increased on average by around 16% over the past decade.[6] According to initial calculations by the Federal Statistical Office (Destatis), the price-adjusted gross domestic product (GDP) in 2018 was 1.5% higher than in the previous year. The German economy has therefore grown for the ninth consecutive year.[7]

↗ [6] KPIs for core cities, bulwiengesa AG.
↗ [7] www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2019/01/PD19_018_811.html

INSTONE REAL ESTATE TARGET CITIES



■ A cities:
■ Prosperous medium-sized cities:
■ attractive target areas:

Structural data 2017	Inhabitants in thousands	Inhabitants 2007-2017 in %	GDP in millions of euros	GDP per capita in euros	Available income per capita in euros annually	Unemployment rate in % (July 2018)
Berlin	3,591	11.2	118	32,976	20,195	8.1
Düsseldorf	614	6.8	46	74,963	26,292	6.7
Frankfurt a. M.	739	15.4	63	85,861	22,799	5.4
Hamburg	1,817	8.1	105	57,803	25,012	6.3
Cologne	1,085	9.9	59	54,581	22,328	7.8
Munich	1,465	13.6	102	69,428	28,995	3.6
Stuttgart	633	10.4	49	77,817	25,784	4.1
Top locations	**9,944**	**10.8**	**543**	**54,618**	**23,530**	**6.5**

Source: Feri, Bulwiengesa, DZ BANK Research Forecast

POSITIVE SOCIO-DEMOGRAPHIC DEVELOPMENT IN OUR TARGET CITIES

The Instone Real Estate target cities (see table above) have seen a significant increase in employment over the last decade. The A cities, in particular, have a wide range of job opportunities so a further increase in employment figures can be expected in the future.

Besides the employment figures, population growth in the cities has also developed positively. While the A cities will continue to grow in the future, slight falls in population figures are also expected in some of Instone Real Estate's smaller target cities.

The growth in the attractive A cities is on the one hand due to high immigration rates and on the other hand by a steadily increasing birth rate. Although demographic change has led to an aging population in recent years, the number of children has increased due to the rising birth rate in the cities.

Despite the high birth rates, single and couple households dominate the household structure. This trend will continue.[8]

[8] Project Developer Study 2018, bulwiengesa AG.

Incomes, and consequently, the purchasing power of households are rising significantly due to the prosperity of the German economy.[9]

[9] www.gfk.com/de/insights/press-release/deutsche-haben-2019-rund-763-euro-mehr-zur-verfuegung/

INCREASED CONSTRUCTION ACTIVITY IN RECENT YEARS NOT REDUCING LACK OF AVAILABILITY

In our target cities, an average of around 3.4% of apartments were vacant in 2011.[10] If we pick out individual Instone Real Estate project locations, such as Munich, for example, the vacancy rate is virtually zero at present. Nevertheless, this has not led to a significant improvement in the supply situation in recent years.

[10] KPIs for core cities, bulwiengesa AG.

In 2018 (up to and including November 2018), building permits at Instone Real Estate locations increased by 41% year-on-year, and construction completions were up 15%.[11]

[11] KPIs for core cities, bulwiengesa AG.

Our housing stock in the target cities is characterised by a high proportion of three and four-room apartments. Small units with only one room are the least common type of housing. Growth has been recorded in all housing categories since 2011, with one-bedroom apartments having the highest percentage growth with a continued trend towards micro apartments. The number of building permits has risen sharply since 2011. The proportion of permits alone increased by 41% on average between 2017 and 2018 for residential units in the apartment segment in A cities.[12]

[12] KPIs for core cities, buliwengesa AG.

On the other hand, the number of building completions has not developed quite as dynamically, resulting in a significant excess of approvals over the past ten years. It can therefore be assumed that completion figures will increase further in the future. In both urban categories, the focus has predominantly been on the construction of residential units in apartment buildings over the past few years. These have increased by 15% on average in the A cities from 2017 to 2018.[13]

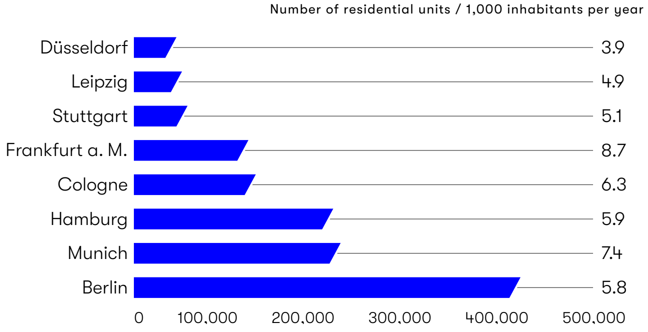
[13] KPIs for core cities, buliwengesa AG.

By 2035, bulwiengesa AG forecasts annual housing demand of approximately 65,000 apartments for the A cities and 19,400 apartments for the other target cities.[14] Further projections also confirm this and go so far as to assume a gap of approximately 67,500 apartments per annum. The annual demand for new constructions clearly exceeds the current completion figures so no excess supply can be assumed in the medium term.[15]

[14] Page 29, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

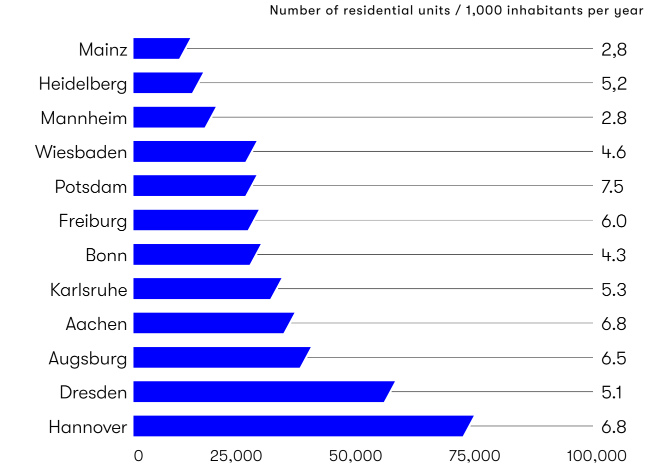
[15] KPIs for core cities, buliwengesa AG.

HOUSING DEMAND FORECAST UNTIL 2035 IN THE 8 A CITIES



Housing demand forecast A cities (source: bulwiengesa AG)

HOUSING DEMAND FORECAST UNTIL 2035 IN THE 12 TARGET CITIES



Housing demand forecast further target cities considered (source: bulwiengesa AG)

The supply structure of the A cities is currently dictated by rental housing. This is due to political regulations and support programmes. Residential units make up approximately 45% of the supply while houses only representing slightly less than 4% of the supply. The picture is similar in the other cities. The house segment is small in both of the urban categories. The construction of new housing units dominates in the area of residential project developments. Approximately 10% of the market involves conversions.[16]

[16] Page 30, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

The development volume of residential projects under construction and planning in the A cities is about 11.3 million m² (Trading / Investor Developments).[17] Proportionally more residential units tend to be built in the smaller target cities.[18]

[17] Table on page 11 of the Project Developer Study (Projektentwicklerstudie) 2018, bulwiengesa AG.

[18] page 31/32, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

Rising purchase and rental prices in the target cities

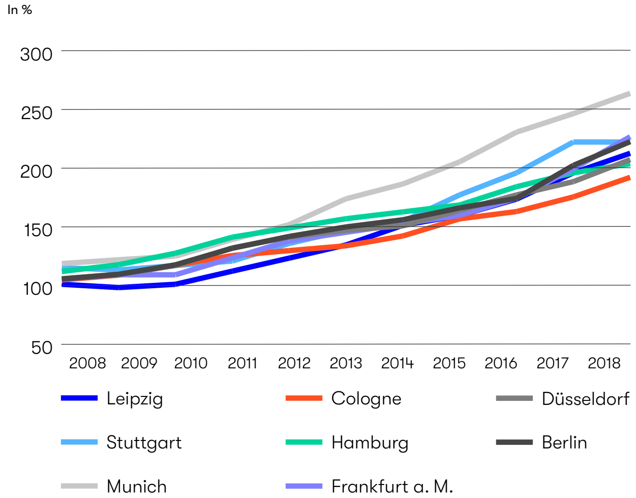
Rents in the A cities and in the other target cities have been rising steadily since 2008. At 50.5%, the rent increase is higher in the A cities compared to other cities. The current average rent in Germany is €11.60 per m².[19]

[19] Real Estate Index, bulwiengesa AG.

The average sale prices for new residential units in Germany have risen continuously since 2008 and have developed more dynamically than rents with an increase of around 90%. bulwiengesa AG forecasts the continued positive development of sales and rental prices for the target cities, both on average and in the prime locations.[20]

[20] Real Estate Index, bulwiengesa AG.

AVERAGE SALES PRICES IN THE 8 A CITIES 2008 – 2017[1] (FIRST OCCUPATION)



[1] Forecast figure for 2017.
Sales price development in the A cities (source: bulwiengesa AG)

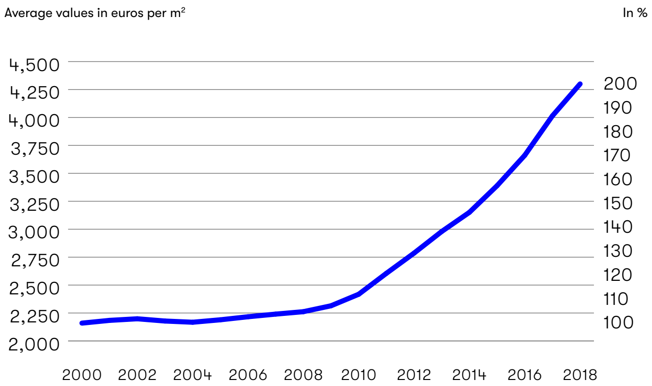
STRONG INTEREST IN NEW BUILDING INVESTMENTS, INCLUDING FROM INSTITUTIONAL INVESTORS

There has been sustained interest in new construction investments from institutional investors for a number of years. Traditional rental apartments continue to have the highest share of transaction activity. The main buyers are institutional investors. Pension funds and insurance companies in particular acquire residential real estate, although indirect acquisition via special funds has also increased the investments of institutional investors. The character of the residential real estate which offers low-fluctuation returns, but also only a low likelihood of short-term increases in value therefore, suggests that there will be sustained demand. Investors value stable, non-cyclical income.[21]

[21] Analysis of Outlook for Real Estate Market, Savills, December 2018

BULWIENGESA REAL ESTATE INDEX NEW BUILD RESIDENTIAL UNITS

AS OF: 1ST QUARTER 2018



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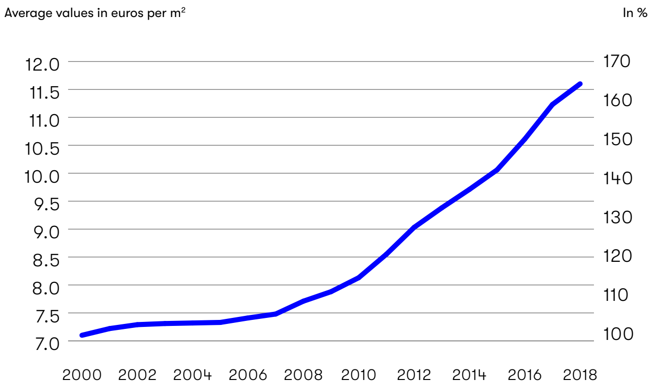
BULWIENGESA REAL ESTATE INDEX NEW BUILD APARTMENT RENTS

AS OF: 1ST QUARTER 2018



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OVERVIEW OF BUSINESS PERFORMANCE

Volume of sales contracts

We had forecast a positive marketing trend for the fourth quarter in the quarterly statement of September 2018. This was in particular confirmed by the successful sale of the "Stuttgart, Prague city – Living in the Theater District" project. In the 2018 period under review, we sold 1,033 residential units with a volume of revenue contracts of €460.8 million. This puts us below the forecast value for 2018 (~ €500 million). Targeted adjustments of sale prices according to the positive market development resulted in the generation of higher total revenues for projects in distribution. These price approaches led to a minor impact on the speed of sales in 2018.

Meanwhile, the projected total sales volume of projects until completion has been maintained at the same level. Year-on-year, however, the sales volume in 2018 has risen significantly by over €100 million. No customer sales contracts were cancelled during the period under review.

At 87%, the marketing volume realised in 2018 is mainly focused on the most important metropolitan regions in Germany. Of this, 13% is located in other prosperous medium-sized cities (see "2018 marketing by region").

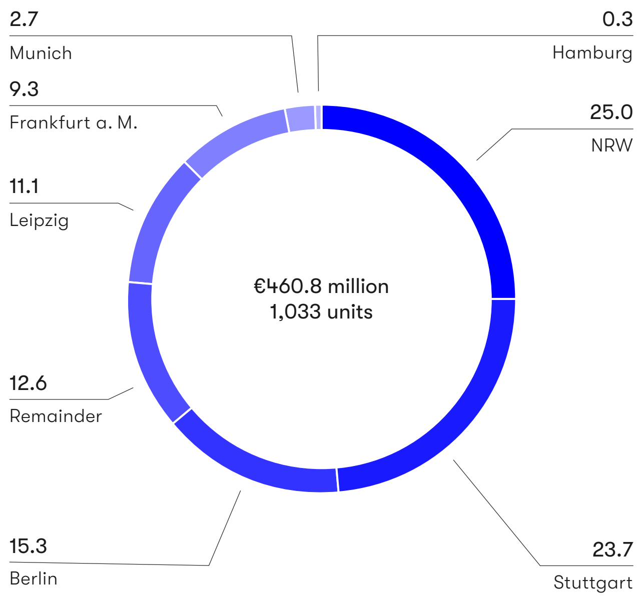
REAL ESTATE KEY FIGURES

In millions of euros

		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Volume of sales contracts		460.8	254.2	150.0	30.0	358.1	299.7	211.2	90.8
Volume of sales contracts	In units	1,033	574	329	56	826	716	527	193
Project portfolio (existing projects)		4,763.2	3,620.3	3,589.1	3,408.5	3,410.0	3,374.8	3,039.8	unchanged
Project portfolio (existing projects)	In units	11,041	8,924	8,863	8,355	8,390	8,042	7,675	unchanged

MARKETING IN 2018 BY REGION

In %



FORECAST / ACTUAL COMPARISON OF CONTROL KPIS

In millions of euros

	2018 ACTUAL (December 2018)	2018 Outlook (June 2018)	2018 Outlook (December 2017)
Volume of sales contracts	460.8	~ 500	> 500
Sales (adjusted)	372.8	370 – 400	unchanged
Operating performance (adjusted)	429.8	> 500	> 500
EBT (adjusted)	41.5	32 – 37	25 – 30

The following projects essentially contributed to successful marketing in the financial year:

TOP 10 PROJECTS 2018 MARKETING VOLUME

In millions of euros

		Volume in 2018	Units in 2018
Prague city – Living in the Theater District	Stuttgart	109.3	251 units
west.side	Bonn	102.2	276 units
Quartier Stallschreiber Straße – Luisenpark	Berlin	69.6	139 units
St. Marienkrankenhaus	Frankfurt a. M.	41.6	48 units
Wiesbaden – Wohnen am Kurpark	Wiesbaden	29.9	43 units
MA Franklin	Mannheim	27.3	77 units
T.Kontor	Leipzig	25.4	96 units
Property Bonn, Schumanns Höhe	Bonn	12.3	38 units
Theresienstraße	Munich	10.1	2 units
Heeresbäckerei	Leipzig	7.3	21 units

As of 31 December 2018, there are currently 557 units offered for sale on the market with an anticipated revenue volume of €369.4 million. The following are our five projects with the largest number of properties currently on the market:

TOP 5 PROJECTS CURRENTLY ON THE MARKET

In millions of euros

		Volume in 2018	Units in 2018
St. Marienkrankenhaus	Frankfurt a. M.	149.9	134 units
Quartier Stallschreiber Straße – Luisenpark	Berlin	85.6	140 units
Property Bonn, Schumanns Höhe	Bonn	54.8	146 units
Wiesbaden – Wohnen am Kurpark	Wiesbaden	35.0	50 units
Theaterfabrik	Leipzig	14.5	51 units

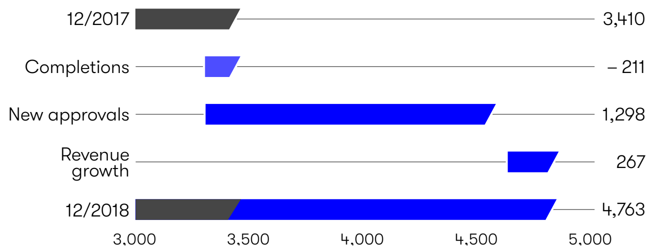
The increase in the number of properties for sale in 2018 was partly influenced by the sales launch of the “St. Marienkrankenhaus” project in Frankfurt am Main, with the sale of around 180 units and an anticipated revenue volume of approximately €190 million. The urban residential project “Schumann’s Höhe” in Bonn was also launched at the end of 2018 with the sale of the approximately 180 residential units. The two Leipzig projects “Theaterfabrik” and “T.Kontor” also initiated the sale of approximately 75 and 95 units respectively.

At the end of 2018, the project portfolio of Instone Real Estate included 45 projects and forms a solid foundation for our mid-term sales planning with a currently anticipated overall sales volume of €4,763.2 million. The significant increase of €1,353.2 million

DEVELOPMENT OF PROJECT PORTFOLIO DURING THE COURSE OF 2018

AS OF: DECEMBER 2018

In millions of euros



compared to the end of 2017 (€3,410.0 million) allowed us to make significant progress, building on two pillars of our success. Since the beginning of 2018, we have acquired several projects – including a large-scale project which has already been announced and is still subject to a condition precedent – with a combined volume of around €1,300 million and expected housing units of 3,300. The medium-term target volume for new permits of €900 to 1,000 million has therefore been exceeded. Furthermore, the revenue forecasts of existing projects have been increased by €267 million on the basis of planning confirmations and implemented and anticipated market price adjustments. This underpins Instone Real Estate’s growth strategy and underlines the revenue potential within the project portfolio. As shown in the diagram (“Development of project portfolio during the course of 2018”), the project portfolio was reduced by €211.4 million as a result of the successful completion of projects in 2018.

On the basis of 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 – results in an anticipated project gross profit margin on the profit portfolio of more than 25% as at the reporting date.

The following acquisitions resulted in the above-mentioned volume of new permits in 2018:

NEW APPROVALS 2018

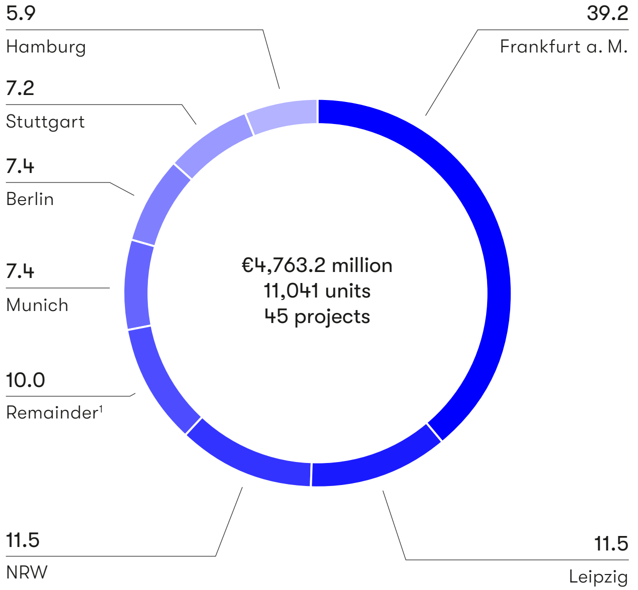
In millions of euros

		Revenue volume	Units
Semmelweisstraße 9	Leipzig	66.0	210 units
Sportplatz Bult	Hanover	115.8	281 units
Rottenburg, Neckartalterrassen	Rottenburg	105.2	364 units
Augsburg, Beethoven	Augsburg	134.8	396 units
Kösliner Weg	Norderstedt-Garstedt	101.9	286 units
Rote Kaserne West	Potsdam	46.9	114 units
Gallus	Frankfurt a. M.	38.7	69 units
Gartenstadtquartier Dortmund	Dortmund	97.2	247 units
Major project		> 500[1]	1,347 units

[1] Based on investment volume.

PROJECT PORTFOLIO BY REGION

In %



[1] Includes Wiesbaden, Ulm, Mannheim, Hanover and Potsdam

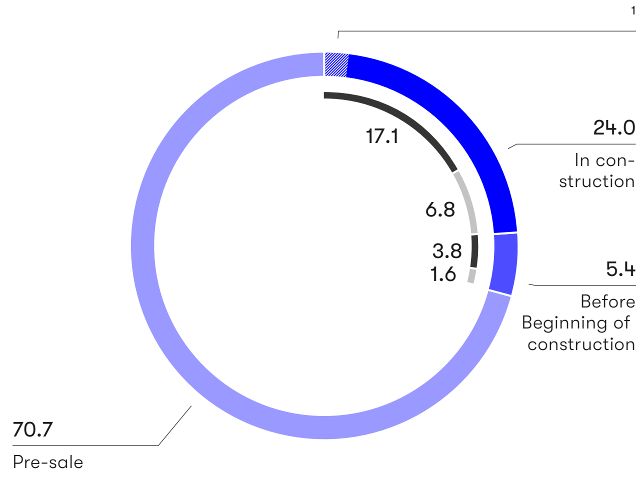
The majority – approximately 90% – of anticipated overall volume of revenue from the project portfolio as at 31 December 2018 is located in the most important metropolitan regions of Germany: Berlin, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart (including Herrenberg and Rottenburg). 10% is located in other prosperous medium-sized cities (see "Project portfolio by region").

Based on the continuous growth of our project portfolio in recent years, the majority of our ongoing projects are in the "pre-sale" stage of development.

The diagram shows that at the end of 2018, we have already sold approximately 21% of the anticipated overall revenue volume in the project portfolio.

PROJECT PORTFOLIO BY GROUPS; BASIS: REVENUE VOLUME

In %



Inner circle:
■ Sold
■ Unsold
[1] 2.1% of the project portfolio has already been handed over.

Revenue

Adjusted full-year revenue of €372.8 million in 2018 are within the forecast target range of €370 to €400 million. The slower speed of sales described in the marketing development explains the shortfall in the mean revenue forecast for 2018 of €385 million.

The following projects in particular contributed to the adjusted revenue in 2018:

TOP 10 PROJECTS REVENUE RECOGNITION (ADJUSTED) 2018

In millions of euros

		Revenue (adjusted) in 2018
Quartier Stallschreiber Straße – Luisenpark	Berlin	74.7
Heeresbäckerei	Leipzig	61.5
Theresienstraße	Munich	29.5
Wiesbaden – Wohnen am Kurpark	Wiesbaden	28.5
St. Marienkrankenhaus	Frankfurt a. M.	25.0
west.side	Bonn	22.9
MA Franklin	Mannheim	21.8
New Center Altona (NMA)	Hamburg	20.7
Wohnen am Safranberg	Ulm	13.8
T.Kontor	Leipzig	10.5

Instone Real Estate is continuing on its growth trajectory and the projects in its portfolio are developing successfully. Several projects entered the construction phase during the period under review.

MA Franklin	Mannheim	around 200 residential units
Heeresbäckerei, last construction	Leipzig	around 30 residential units
Quartier Stallschreiber Straße – Luisenpark	Berlin	around 235 residential units
St. Marienkrankenhaus	Frankfurt a. M.	around 235 residential units
T.Kontor	Leipzig	96 residential units
west.side, MW/rental apartments 2	Bonn	158 rental apartments

Alongside the continued successful marketing development and the start of construction work in the financial year under review, the realisation of projects under construction is also progressing. A total of seven topping-out ceremonies were held in 2018, representing around 1,200 new residential units:

Neue Mitte Altona (NMA), 3rd construction	Hamburg	111 residential units
Theresienstraße	Munich	117 residential units
Safranberg Ensemble	Ulm	120 residential units
Heeresbäckerei	Leipzig	347 residential units
Quartier Stallschreiberstraße, Luisenpark	Berlin	319 residential units
MA Franklin	Mannheim	201 residential units

At completion, Instone Real Estate projects have reported 100% sales ratio in almost all cases. Our portfolio does not contain any more than 1% of unsold units in the case of fully completed projects.

Operating performance

The adjusted consolidated operating performance for 2018 is around €430 million. Undershooting the forecast value by more than €500 million can mainly be explained by the time lag of capitalisable land values (later transfer of ownership, benefits and burdens).

Earnings before tax

At €41.5 million, the forecast of €32 to 37 million for adjusted consolidated earnings before tax was clearly exceeded in 2018. This is mainly attributable to the improvement in the project gross profit margin and the significantly improved financial result due to the optimisation of the financing structure in the Instone Group.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

As in previous years, the consolidated financial statements of Instone Real Estate Group AG for 2018 include one-off effects from purchase price allocations due to an extension of the scope of consolidation in previous years. The Group company formart GmbH & Co. KG, Essen which operates today as Instone Real Estate Development GmbH, was consolidated for the first time on 1 October 2014. This merger led to the group constitution of the Instone Real Estate Group AG. GRK-Holding GmbH, Leipzig, equally a Group company and operating today as Instone Real Estate Leipzig GmbH, was consolidated for the first time on 31 December 2015.

The first-time adoption of International Financial Reporting Standard 15 (IFRS 15) "Revenue from Contracts with Customers" also had a material impact on the net assets and results of operations of the Instone Group in the financial year.

The first-time application of IFRS 15 was implemented by the Instone Group using the modified retrospective method in such a way that the accumulated differences between the measurement of not yet fully completed contracts according to the current and the new standard were recognised directly in equity against retained earnings as at 1 January 2018. The previous year's figures in this annual report were not adjusted during the adoption of this method and are therefore not comparable with the current figures for the financial year.

From 1 January 2018, in the Instone Group contracts with customers are to be valued on the basis of revenue recognition over time, taking the settlement status into account, according to the definitions of IFRS 15 Revenue from Contracts with Customers. In contrast to this, prior to 1 January 2018 these contracts with customers were accounted for at the point in time of the full completion of the service with revenue recognition at a point in time.

Based on the first-time application of IFRS 15 using the modified retrospective method and the associated measurement of ongoing contracts after period-related revenue recognition, neutral changes amounting to €45.0 million were added to equity.

FINANCIAL KEY FIGURES

In millions of euros

	2018	2017	Change
Revenues	360.8	199.7	80.7%
Revenues adjusted	372.8	201.4	85.1%
Operating performance	417.9	319.9	30.6%
Operating performance adjusted	429.8	343.0	25.3%
Gross profit	94.4	59.1	59.7%
Gross profit adjusted	106.4	82.2	29.4%
EBIT	37.6	– 10.7	> 100%
EBIT adjusted	49.6	12.4	> 100%
EBT	29.5	– 31.2	> 100%
EBT adjusted	41.5	– 8.1	> 100%
Gross profit margin adjusted	28.5%	40.8%	–
EBIT margin adjusted	13.7%	6.2%	–
EBT margin adjusted	11.5%	– 4.1%	–

RESULTS OF OPERATIONS

The results of operations of the Instone Group were greatly impacted by the first-time application of IFRS 15 in the financial year. On the basis of this first-time application, the overall picture of the results of operations has changed considerably and the results of operations for the financial year cannot be compared with the results of operations of the previous year.

In order to take account of the changed overall results of operations, the Instone Group has chosen the following presentation of its results of operations.

ADJUSTED RESULTS OF OPERATIONS

In millions of euros

	2018	2017	Change
Revenue	372.8	201.4	85.1%
Project costs	– 266.3	– 119.2	> 100%
Gross profit	**106.4**	**82.2**	**29.4%**
Platform costs	– 56.9	– 69.8	– 18.5%
Earnings before interest and tax (EBIT)	**49.6**	**12.4**	**> 100%**
Investment and other results	– 0.4	0.2	<– 100%
Financial result	– 7.7	– 20.6	– 62.6%
Earnings before tax (EBT)	**41.5**	**– 8.1**	**> 100%**
Income taxes	– 22.4	– 6.8	> 100%
Earnings after tax (EAT)	**19.1**	**– 14.8**	**> 100%**

This statement of the results of operations reflects the significant business impacted by Instone Group project developments.

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

→ The project expenses item includes the cost of materials reduced by changes in inventories, indirect sales expenses and capitalised interest and thus reflects the external costs allocated to the project developments,

→ Adjusted gross profit is the result of adjusted revenues less project expenses,

→ Adjusted platform cost is the total of staff costs, other operating income, other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project expenses,

→ Adjusted earnings before interest and tax 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 the income taxes adjusted by tax effects from purchase price allocations,

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

Revenue

The change in adjusted revenues of €171.4 million to €372.8 million (previous year: €201.4 million) includes €128.7 million from the revenue recognition over time for apartments that have already been sold, but are not yet fully completed in accordance with IFRS 15. Without the establishment of the new standard, these sales revenues would have been recognised as changes in inventories amounting to only €115.3 million. The increase in construction activity for these apartments will no longer lead to an increase in inventory, but will be recognised directly in revenue.

REVENUES

In millions of euros

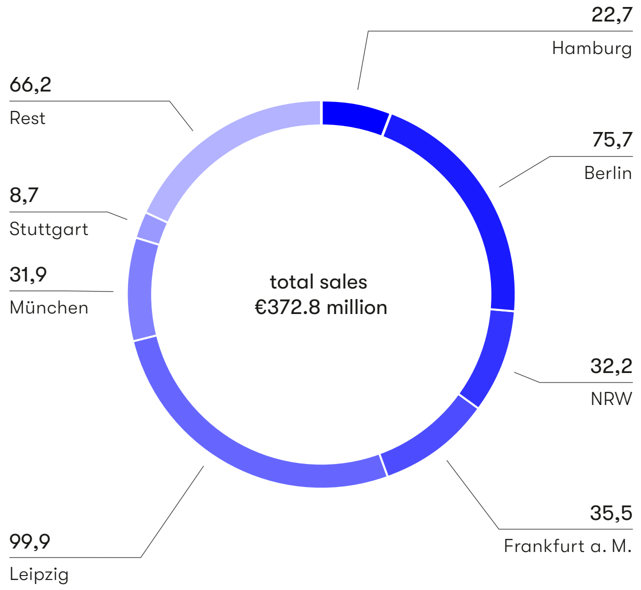
	2018	2017	Change
Revenues	360.8	199.7	80.7%
+ Effects from purchase price allocations	12.0	1.7	> 100%
Revenues adjusted	**372.8**	**201.4**	**85.1%**

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015, inventories and contract assets as at 31 December 2018 still included write-ups of €39.4 million (previous year: €56.5 million) from purchase price allocations. The change year-on-year had a negative effect on revenues.

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

REVENUE BY REGION

In millions of euros



Project costs

Project expenses increased to €266.3 million compared to the previous year's €119.2 million due to the following factors.

The increase in construction activities for project developments and the purchase of land for new project developments led to an increase in the cost of materials to €320.4 million (adjusted previous year: €242.6 million). In the financial year, the direct selling expenses were allocated to the cost of materials in line with the fulfilment status of the underlying sales contract on the basis of the first-time application of IFRS 15. The allocation of project-related costs from other operating expenses to cost of materials was also adjusted to improve traceability. The previous year's figures have been adjusted accordingly.

The changes in inventories of €57.0 million in the financial year were significantly lower than the changes in inventories adjusted for the effects of purchase price allocations of €21.4 million in the previous year at €141.6 million.

Indirect selling expenses of €1.9 million (previous year: €18.4 million) were allocated to project expenses in the financial year. Capitalised interest on changes in inventories of €1.1 million (previous year: €- 0.3 million) was charged to project expenses.

PROJECT COSTS

In millions of euros

	2018	2017	Change
Project costs	**266.3**	140.6	89.4%
+ Effects from purchase price allocations	0.0	– 21.4	– 100.0%
Project expenses adjusted	**266.3**	**119.2**	**> 100.0%**

Gross profit

Adjusted gross profit or loss also increased significantly to €106.4 million as a result of the increase in construction activities and the increase in revenues (previous year: €82.2 million).

GROSS PROFIT

In millions of euros

	2018	2017	Change
Gross profit	94.4	59.1	59.7%
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
Gross profit adjusted	**106.4**	**82.2**	**29.4%**

The adjusted gross profit margin – calculated from the adjusted gross profit for the adjusted revenues – amounts to 28.5% (previous year: 40.8%).

Platform costs

Staff costs fell by €15.9 million in 2018 to €33.6 million (previous year: €49.5 million). This reduction was primarily due to liabilities for special payments related to a long-term incentive plan in the previous year, which did not accrue during the 2018 financial year.

Other operating income of €2.7 million (previous year: €5.4 million) mainly comprised income from the reduction of flat-rated individual value adjustments, insurance reimbursements and litigation settlements.

Other operating expenses of €27.9 million (adjusted previous year: €43.6 million) fell by €15.7 million. On the basis of the first-time application of IFRS 15, direct selling expenses were no longer allocated to other operating expenses in the financial year. Instead, they were recognised as cost of materials in the financial year or capitalised as a separate asset after measurement of the settlement status. In the previous year, €15.6 million of direct selling expenses was included in other operating expenses. During the financial year, the allocation of project-related costs from other operating expenses to the cost of materials was also adjusted. The previous year's figures have been adjusted accordingly. The fundamental increase in other operating expenses year-on-year is mainly attributable to the increase in fees for management consultancy by €3.5 million to €5.7 million as well as warranty and litigation costs by €0.6 million to €2.5 million, and expenses for severance payments by €1.1 million to €1.8 million. In total, other operating expenses include special expenses of €5.1 million from expenses indirectly connected to the going public of €2.0 million, expenses in connection with the audit of a company transaction of €1.6 million and expenses for the severance of a member of the Management Board of €1.5 million.

Depreciation and amortisation increased insignificantly to €0.6 million (previous year: €0.4 million).

Earnings before interest and tax (EBIT)

Adjusted consolidated earnings before interest and tax rose sharply to €49.6 million during the financial year due to the positive business performance and the change in the valuation method according to IFRS 15 (previous year: €12.4 million).

EBIT

In millions of euros

	2018	2017	Change
EBIT	37.6	– 10.7	> 100%
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
EBIT adjusted	**49.6**	**12.4**	**> 100%**

Adjusted earnings before interest and tax would have increased by €5.1 million to €54.7 million, in addition to the one-off expenses described above.

Investment and financial result

In 2018, the result from investments measured at equity amounting to €0.3 million (previous year: €0.2 million) mainly included the profit share of proceeds from the project development company Holbeinviertel mbH & Co KG, Frankfurt am Main.

Other income includes subsequent expenses for the acquisition of Instone Real Estate Leipzig GmbH in 2015 amounting to €0.7 million.

The financial result in 2018 improved to €- 8.8 million (previous year: €- 20.4 million). A key factor here was the decline in interest expense by €11.7 million due to the significant improvement in the Instone Group's financing structure. In the previous year, interest expenses for shareholder loans amounting to €6.6 million were included. These shareholder loans were able to be repaid in February 2018.

The financial result adjusted by the capitalised interest on changes in inventories of €1.1 million (previous year: €–0.3 million) improved to €–7.7 million (previous year: €–20.7 million).

Earnings before tax (EBT)

As of 31 December 2018, the adjusted earnings before tax increased to €41.5 million (previous year: €–8.1 million) due to positive business development, improvement in the financing structure and the effects of the first-time application of IFRS 15.

EBT

In millions of euros

	2018	2017	Change
EBT	**29.5**	**– 31.2**	**> 100%**
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
EBT adjusted	**41.5**	**– 8.1**	**> 100%**

Income taxes

In the 2018 financial year, an adjusted income tax expense of €22.4 million (previous year: €6.8 million) was charged to consolidated income. Excluding the adjustment of the tax effects from purchase price allocations, income tax expense was only €20.5 million (previous year: €0.2 million).

Deferred tax assets in the amount of €9.8 million were reversed in the financial year, which led to an increase in the tax rate in the Instone Group, as no income was offset by the deferred tax expense in the Group company concerned.

Further explanations regarding the income tax expenses can be found in the notes to the consolidated income statement.

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €19.1 million (previous year: €–14.8 million). Before adjustment for the effects of purchase price allocations, earnings after taxes totalled €9.0 million (previous year: €–31.0 million).

OTHER KEY FINANCIAL FIGURES

In 2018, the volume of sales contracts increased to €460.8 million (previous year: €359.1 million), while the number of sales agreements for residential units rose correspondingly to 1,033 (previous year: 826).

The number of internal new approvals reached a volume of €1,298 million in 2018 (previous year: €506.1 million). In total, the project portfolio as of 31 December 2018 increased to €4,763.2 million, based on an anticipated total sales volume (previous year: €3,410.0 million).

Further explanations about the development of the key performance indicators (KPIs) are provided in the section "Overview of Business Performance" (page 49).

NET ASSETS

The total assets of Instone Real Estate amounted to €686.6 million at the end of 2018 (previous year: €789.1 million). This was mainly due to the first-time application of IFRS 15 as of 1 January 2018, as a result of which liabilities from advance payments received are reported netted against the corresponding contract assets. As of 31 December 2018, advance payments received in the amount of €318.1 million were offset on the assets side. In the previous year, advance payments received amounting to €230.4 million were shown as a liability on the liabilities side.

Inventories mainly comprise the unsold, work-in-progress from ongoing project developments which are valued at production cost and whose proportion fell to €392.1 million in 2018 (previous year: €659.4 million). This decline is attributable to the change in the reporting of sold, unpaid work-in-progress as contract assets in accordance with IFRS 15. The finished products were valued at €12.3 million (previous year: €0.1 million).

As a result of the first-time application of IFRS 15, the item contract assets has been added to the balance sheet as of 31 December 2018. The contract assets of €158.5 million (previous year: €0.0 million) include receivables from customers for work-in-progress already sold valued at the current fulfilment of development, amounting to €466.9 million (previous year: €0.0 million), offset against advance payments already received from customers amounting to €318.1 million (previous year: €0.0 million). Likewise, the contract assets item shows not yet realised direct selling expenses amounting to €9.7 million, taking the fulfilment into account.

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015, inventories and contract assets as at 31 December 2018 still included write-ups of €39.4 million (previous year: €56.5 million) from purchase price allocations. Based on current estimates, the Instone Group expects these effects to expire in 2022.

Trade receivables rose in the financial year to €13.1 million (previous year: €4.2 million) by handing over apartments to investors with residual payments still owed and by asserting a debtor warrant from the sale of land in Luxembourg.

The interests accounted for using the equity method, which also include investments in project companies, decreased in the 2018 financial year from €0.4 million to €0.2 million.

In the previous year, non-current financial receivables included a loan from the Group Company west.side GmbH, Bonn to the co-shareholder Dresdner Handel und Beratungsgesellschaft mbH, Dresden, with a value of €0.7 million. The Group company Instone Real Estate Development GmbH acquired the shares of the co-shareholder in west.side GmbH in the 2018 financial year. The loan was taken over as a corporate loan during the course of this acquisition.

Current financial receivables amounting to €0.1 million (previous year: €32.4 million) include receivables from joint ventures. In the previous year, these mainly related to receivables from former shareholders, which were fully repaid during the financial year.

Other current receivables and other assets increased from €15.5 million to €18.8 million in 2018. As of 31 December 2018, other receivables are included relating to a tax exemption of €2.8 million through Hochtief Solutions AG, Essen and capitalised tax receivables amounting to €3.2 million. Advance payments on land for which the transfer of benefits and encumbrances took place after the balance sheet date rose from €2.3 million to €10.6 million. In addition, processing fees for loans already paid amounting to €0.9 million (previous year: €2.5 million), which were distributed over the entire term, are recognised under other receivables and other assets.

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2018	2017	Change
Non-current assets	2.8	4.0	– 30.0%
Current assets	683.8	785.1	– 12.9%
Assets	**686.6**	**789.1**	**– 13.0%**
Equity	246.9	52.2	> 100%
Non-current liabilities	218.4	254.2	– 14.1%
Current liabilities	221.3	482.7	– 54.2%
Equity and liabilities	**686.6**	**789.1**	**– 13.0%**

Cash and cash equivalents increased from €73.6 million in 2017 to €88.0 million in the 2018 financial year. In connection with the successful going public 2018, the capital increase led to an increase in cash-on-hand. The increase was offset by cash outflows for the repayment of liabilities to former shareholders of Instone Real Estate Group AG amounting to €57.8 million. Further cash outflows were used for investments in new land for project development. For more information, please refer to the Group's consolidated statement of cash flows.

Non-current provisions for pensions and similar obligations fell slightly in 2018 by €0.2 million to €4.0 million. The defined benefit obligation for pension obligations amounting to €11.3 million (previous year: €9.8 million) were offset by plan assets of €7.3 million (previous year: €5.6 million). Plan assets amounting to €6.8 million (previous year: €5.0 million) were placed in a trust account with Helaba Pension Trust e. V., Frankfurt am Main while €0.5 million (previous year: €0.6 million) was invested in a trust account with European Bank for Financial Services GmbH (ebase®), Aschheim, Germany. The increase in the plan assets in the trust account at Helaba Pension Trust at €2.0 million results from a contribution made during the financial year. This contrasts with the decrease in value of the plan assets caused by the current financial market situation.

The remaining other non-current provisions for the financial year rose from €1.3 million to €4.5 million in 2018. For the most part, provisions for long-term incentive plans amounting to €3.1 million and other non-current personnel provisions amounting to €0.8 million are included in this item.

Other current provisions for the financial year decreased by €31.5 million in 2018 from €49.2 million (as of 31 December 2017) to €17.7 million. The main reason for this reduction was the use of special payments in connection with a long-term incentive plan, which was disbursed in the amount of €29.5 million in the financial year. Other current provisions amounting to €17.7 million mainly comprised project-related provisions for work still to be carried out as well as warranty and litigation risks.

Non-current financial liabilities for the financial year fell by €177.7 million (previous year: €241.0 million). In connection with the successful going public in 2018, €57.8 million in liabilities to former shareholders of Instone Real Estate Group AG was repaid. Non-current financial liabilities to banks for project-related financing declined moderately during the financial year.

Current financial liabilities fell to €87.8 million (previous year: €134.7 million). The decrease of €46.9 million in current financial liabilities in 2018 was mainly due to the utilisation of the option to repay short-term bank loans.

Trade payables decreased to €78.3 million in 2018 (previous year: €275.7 million). This was primarily due to the reclassification of prepayments received for work-in-progress sold, taking into account the regulations of IFRS 15. As of 31 December 2018, these amounted to €318.1 million (previous year: €230.4 million).

The first-time application of IFRS 15 and the associated revenue recognition over time of sales contracts to customers has resulted in a deferred valuation difference in work-in-progress sold. This was the main reason for the increase in deferred tax liabilities as at 31 December 2018 to €32.2 million (previous year: €7.7 million). This figure also included deferred tax liabilities of €13.7 million (previous year: €17.2 million), which were formed on the basis of the write-ups from the first-time consolidation of Group companies in 2014 and 2015.

Income tax liabilities increased from €13.8 million as of 31 December 2017 to €18.1 million as of 31 December 2018. This was the result of income taxes for the increased profits of the German Group companies.

The equity ratio as of 31 December 2018 was 36.0% (previous year: 6.6%). The significant increase in 2018 was primarily due to the issue of new shares in connection with the initial listing of the Company on the Frankfurt Stock Exchange amounting to €150.5 million which took place on 15 February 2018. In addition, neutral changes amounting to €45.0 million were added to equity on the basis of the first-time application of IFRS 15. In contrast to these positive effects, equity was burdened by the neutral offsetting of costs amounting to €9.3 million in connection with the conversion of the Company into a stock corporation (Aktiengesellschaft) and the listing of the Company on the Frankfurt Stock Exchange in February 2018. The positive total comprehensive income of €9.0 million in the financial year was transferred to equity. Non-controlling interests included in the total comprehensive income increased by €2.5 million compared to the previous year.

NET FINANCIAL DEBT AND DEBT RATIO

In millions of euros

	2018	2017	Change
Non-current financial liabilities	177.7	241.0	– 26.3%
Current financial liabilities	87.8	134.7	34.8%
Financial liabilities	**265.5**	**375.7**	**– 29.3%**
– Cash and cash equivalents	– 88.0	– 73.6	19.6%
Net financial debt (NFD)	**177.5**	**302.1**	**– 41.2%**
EBIT adjusted	49.6	12.4	> 100%
Depreciation and amortization	0.6	0.4	50.0%
EBITDA adjusted	**50.2**	**12.8**	**> 100%**
Leverage ratio (NFD / EBITDA)	3.5	23.6	–

FINANCIAL POSITION

CONDENSED STATEMENT OF CASH FLOWS

In millions of euros

	2018	2017	Change
Cash flow from operations	– 40.4	– 34.5	– 17.1%
Cash flow from investing activities	0.5	– 22.7	> 100%
Free cash flow	**– 39.9**	**– 57.2**	**30.2%**
Cash flow from inancing activities	54.3	18.2	> 100%
Cash change in cash and cash equivalents	**14.4**	**– 39.0**	**> 100%**
Cash and cash equivalents at the beginning of the period	73.6	112.5	– 34.5%
Cash and cash equivalents at the end of the period	**88.0**	**73.6**	**19.6%**

In 2018, Instone Real Estate continued to expand its project development business and invested further in land. The utilisation of options for the repayment of bank loans reduced the liabilities from financing to €199.2 million (previous year: €250.5 million). As a result, the financing framework fell to €582.0 million (previous year: €664.6 million).

During the placement of the promissory note in 2017 by Instone Real Estate Development GmbH, we were also able to raise additional credit lines with banks. The maturities of the individual credit lines are as follows:

MATURITY PROFILE PROMISSORY NOTE

In millions of euros

	2018
Due on 31/12/2020	47.0
Due on 31/12/2022	19.9

Total financial liabilities to banks fell to €265.2 million (previous year: €317.4 million). The cash inflows from our project developments led to a constant reduction in this item and provided sufficient flexibility to raise additional debt – to acquire new land, for example.

The capitalisation of the Instone Group as of 31 December 2018 was characterised by an equity ratio of 36.0% (previous year: 6.6%).

Cash flow from financing activities increased in 2018 from €18.2 million to €54.3 million, mainly due to the inflow of €150.5 million from the issue of the new shares as well as incoming payments from newly acquired loans of €83.9 million. Loans from former shareholders amounting to €57.8 million were repaid in the financial year while at the same time loans granted to former shareholders amounting to €29.5 million were repaid by the former shareholders. Repayments for project-related loans amounting to €135.5 million were also made.

Payments due for project-related financing are shown in the following table:

MATURITY PROFILE OF PROJECT-RELATED FINANCING

In millions of euros

	2018	2017
Due on 31/12/2019	86.7	134.2
(2017: due on 31/12/2018)		
Due on 31/12/2020	36.4	61.7
(2017: due on 31/12/2019)		
Due on 31/12/2021	64.3	10.3
(2017: due on 31/12/2020)		

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 2018 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 sales price payment are credited to these current account facilities. If necessary, these overdrafts can be converted into fixed-interest or fixed-term loans.

The cash flow from investing activities was not significant in the financial year. The cash inflow in the financial year amounted to €0.5 million (previous year: cash outflow of €22.7 million).

In the financial year, €1.1 million was invested in property, plant and equipment (previous year: €0.5 million). The investments mainly related to technical equipment and other office equipment. This was offset by received interest amounting to €0.8 million and proceeds from the disposal of fixed assets amounting to €0.8 million.

The cash flow from Instone Group operations of €– 40.4 million in the financial year (previous year: €– 34.5 million), resulted from the increase in cash outflows due to new investments in land for project developments.

The decline in inventories for work-in-progress and the increase in receivables resulted in a total cash inflow of €132.2 million in the financial year. Adjusted for the netting of advance payments received in the financial year, the total cash outflow was €98.2 million. Cash inflows from advance payments totalling €87.7 million had a positive effect on the cash flow from operations in the financial year.

The decline in liabilities by €183.1 million resulted primarily from offsetting advance payments received against assets. Adjusted by the offsetting of advance payments received in the financial year, this resulted in an increase of €47.3 million.

The following overview shows the effect of the reclassification on 1 January 2018 of liabilities from advance payments received in an aggregated form for clarity.

CONDENSED STATEMENT OF CASH FLOWS FROM OPERATIONS
In millions of euros

	Adjusted in 2018	Reclassification according to IFRS 15	Reported in 2018
Consolidated earnings and other non-cash income/expenses	17.0		17.0
Decrease/increase of inventories, trade receivables and other assets not attributable to investment or financing activities	– 98.2	– 230.4	132.2
Increase/decrease of trade payables and other liabilities not attributable to investing or financing activities	47.3	230.4	– 183.1
Income tax payments	– 6.5		– 6.5
Cash flow from operations	**– 40.4**	**0.0**	**– 40.4**

Depreciation on fixed assets of €0.6 million (previous year: €0.4 million), the increase in deferred tax liabilities by €24.5 million compared to €– 15.7 million in 2017, the lower revaluation of investments valued at equity by €0.2 million (previous year: + €1.0 million), expenses for interest of €8.4 million (previous year: €20.1 million) as well as expenses for income taxes amounting to €17.4 million (previous year: €15.1 million) in the financial year did not affect cash.

The decrease in provisions by €28.4 million compared to the increase of €12.5 million in 2017 affected cash in the cash flow from operations in the amount of €29.5 million. The remaining increase in provisions in the amount of €1.1 million did not affect cash. The cash outflow from the provision of €29.5 million was offset by inflows from the repayment of loans to former shareholders in the same amount in the financing cash flow.

Non-cash expenses and income in connection with the consolidation of the subsidiaries and the formation of valuation reserves reduced the cash flow from operations by €– 14.2 million in the 2018 financial year (previous year: €– 3.9 million).

As of 31 December 2018, cash and cash equivalents had risen from €73.6 million (previous year) to €88.0 million. This includes free funds amounting to €81.7 million which do not serve to secure project-related financing, and amounted to €58.7 million in the previous year.

Following the successful extension of the guarantee facilities by renowned credit insurance companies, financing for the Instone Group was further secured and diversified. As at 31 December 2018, credit guarantee facilities amounting to €185.2 million were available (previous year: €185.2 million). Of this, an amount of €105.8 million was used (previous year: €99.4 million). This will provide the Instone Group with the flexibility to make further investments in the 2019 financial year. Guarantee ceilings from project-related financing agreements were completely cancelled (previous year: €15.0 million). Bank guarantees from other banks amounted to €0.5 million as of 31 December 2018 (previous year: €1.4 million) from a guarantee facility amounting to €0.5 million (previous year: €1.7 million).

FINANCIAL POSITION OF THE 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 interests in Instone Real Estate Development GmbH as well as 94% of the interests in Instone Real Estate Leipzig GmbH and therefore almost all interests in the subsidiaries of the Instone Group as a whole.

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.

CONTROL SYSTEM, FUTURE DEVELOPMENT AND RISK SITUATION

As a non-operating holding company, Instone Real Estate Group AG is indirectly dependent on the results and financial performance of its subsidiaries. The management system, expected development and opportunities and risks of the Instone Group are reported in detail in the "Corporate strategy and management" (page 38), "Risk and opportunities report" (page 65) and "Forecast report" (page 75) sections of this Combined Management Report.

BUSINESS PERFORMANCE 2018

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 49) and "Results of Operations, Net Assets and Financial Position" (page 53) of this Combined Management Report.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT

In millions of euros

	2018	2017	Change
Sales revenue	1.4	0.2	> 100%
Other operating income	6.0	0.0	> 100%
Staff costs	– 4.8	– 8.7	44.8%
Other operating expenses	– 23.0	– 12.0	91.7%
Income from investments	0.0	22.6	– 100%
Income from other securities and loans of the financial assets	0.0	0.0	–
Other interest and similar income	0.1	0.0	–
Depreciation on financial assets	0.0	0.0	–
Interest and similar expenses	– 4.6	– 17.3	73.4%
Taxes on earnings	0.4	– 3.5	<– 100%
Earnings after taxes	**– 24.4**	**– 18.7**	**30.5%**

Instone Real Estate Group AG itself does not carry out operating activities. The reported sales revenues of €1.4 million (previous year: €0.2 million) result mainly from the provision of services to affiliated companies.

Other operating income rose to €6.0 million (previous year: €0.0 million) and mainly includes the passing on of costs to former shareholders in connection with the Company's change of legal form into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange.

Staff costs fell to €4.8 million (previous year: €8.7 million) due to a lower allocation to provisions for long-term and short-term incentive plans amounting to €2.4 million (previous year: €8.0 million). In contrast, payments made in the financial year for special payments amounting to €0.6 million and the increase in the number of employees had an impact on salaries.

At €23.0 million, other operating expenses far exceeded the previous year's level of €11.0 million and mainly include consultancy fees in connection with the Company's change of legal form into a German stock corporation amounting to €0.9 million and listing of the Company on the Frankfurt Stock Exchange amounting to €9.3 million as well as advice on possible acquisition transactions amounting to €1.5 million. Expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.8 million as well as severance payments of €1.5 million paid to severed employees are also included in other operating expenses.

The changes in the financial result by €– 9.8 million to €– 4.5 million are essentially made up as follows:

- No income from participations was generated in the financial year (previous year: €22.6 million).
- Interest and similar expenses fell to €4.6 million (previous year: €17.3 million). This results from the repayment of the shareholder loan and part of the loans from affiliated companies using the cash inflow by issuing new shares in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange.

Taxes on income and earnings were €– 0.4 million, well below the previous year's figure of €– 3.4 million. This is the result of the tax determination according to the IFRS standards in the previous year.

In the period under review, there was a total net loss of €24.4 million (previous year: totalnet loss of €18.7 million).

NET ASSETS

At the end of the year, the balance sheet total of Instone Real Estate Group AG declined by approximately 2% to €286.6 million. This is in particular due to the repayment of shareholder loans on the one hand and the receipt of claims against the shareholders on the other.

Financial assets mainly include 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 €71.2 million.

Loans, receivables and other assets amounting to €6.0 million (previous year: €34.8 million) include loans to affiliated companies amounting to €3.2 million (previous year: €29.5 million). Other assets amounting to €2.8 million (previous year: €5.3 million), in particular the receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement results from the exemption of property transfer tax expenses in connection with the acquisition of the Company.

Due to the issue of new shares in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange in February 2018, equity capital amounted to €211.5 million (previous year: €73.0 million) increased. The equity ratio on the balance sheet date was 73.8% (previous year: 25.0%).

Provisions totalled €8.1 million in the financial year (previous year: €31.9 million) and in particular relate to tax provisions and personnel provisions for premium commitments to the Company's own employees and employees of Group companies.

The liabilities essentially consist of loan liabilities to affiliated companies amounting to €63.6 million (previous year: €166.6 million).

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2018	2017	Change
Financial assets	253.3	252.5	0.3%
Loans and receivables from affiliated companies and shareholders	3.2	29.5	– 89.2%
Remaining receivables and other assets	2.8	5.3	– 47.2%
Bank balances	27.3	4.4	> 100%
Assets	**286.6**	**291.7**	**– 1.7%**
Equity	211.5	73.0	> 100%
Provisions	8.1	31.9	– 74.6%
Liabilities to affiliated companies and shareholders	63.5	166.6	– 61.9%
Other liabilities	3.5	20.2	– 82.7%
Equity and Liabilities	**286.6**	**291.7**	**– 1.7%**

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.

On 13 February 2018, Instone Real Estate Group AG placed a total of 19,900,000 shares with institutional investors. Of which, 7,000,000 new shares were placed from a capital increase and 12,900,000 existing shares from the ownership of former shareholders, including additional shares from a surplus allocation option.

The net proceeds (proceeds from the issue less costs) for Instone Real Estate Group AG from the placement of these new shares amount to €141.2 million. The company used €55.2 million of the net proceeds to fully repay an existing shareholder loan. The remaining net proceeds, amounting to €86.0 million, were made available to the Group companies by Instone Real Estate Group AG in the form of intercompany loans for the acquisition and development of new residential projects.

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

Instone Real Estate Group AG paid special premiums to Group employees during the financial year in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange. At the same time, the Company was reimbursed by the former sole shareholder for these payments, resulting in a balanced payment balance.

EMPLOYEES

At the end of the year, six members of staff were employed at Instone Real Estate Group AG (previous year: 4).

REPORT PURSUANT TO SECTION 312 AKTG ON RELATIONS WITH AFFILIATED ENTERPRISES

The Company was indirectly dependent on Mr Saul Goldstein within the meaning of Section 17 (1) of the German Stock Corporation Act (AktG) from the time of its change of legal form into a German stock corporation on 28 August 2018 until the sale of the investment still held in Instone Real Estate by its shareholders Coöperatieve Formart Investments U.A., Coöperatieve Activum SG Fund III Investments U.A. and Coöperatieve Activum SG Fund V Investments U.A. on 13 September 2018, and a control agreement did not exist. The Management Board of Instone Real Estate Group AG was therefore required to prepare a report for this period on relationships with affiliated companies in accordance with Section 312 AktG. The reportable relationships with the controlling company as well as with its affiliated companies have been recorded in this report.

The final statement of the report reads as follows:

We declare that the Company has not been adversely affected as a result of the measure being taken as listed in the report on the relationships with affiliated companies during the period under review from 28 August 2018 to 13 September 2018 according to the circumstances which were known to us at the time when the measure was taken. Furthermore, we declare that in the period under review, no further reportable legal transactions were concluded or measures taken or omitted within the meaning of Section 312 AktG on the basis of the circumstances known to us.

EVENTS AFTER THE BALANCE SHEET DATE

The significant reportable events after the balance sheet date of 31 December 2018 affecting the Instone Group's financial prospects are disclosed in the notes to the consolidated financial statements.

RISK AND OPPORTUNITIES REPORT

The risk management of Instone Real Estate is geared towards securing the long-term success and profitability of the Group. The key instrument for achieving this goal is our risk management system. The risk management system only identifies, evaluates and manages risks while opportunities are considered separately.

The further development of the risk management system was supported in 2018 by an externally commissioned audit. Its purpose is the continuous improvement of 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

As a risk management system, Instone Real Estate refers to the entirety of all organisational regulations and measures in order to identify business risks at an early stage and 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 and the four-eyes principle. The powers for individual decision-making levels are clearly regulated in the decision-making guidelines.

Together with independent partners, we are continuously working to optimise the system. Instone Real Estate is subject to the appropriate regulatory framework as a stock corporation listed on the Frankfurt Stock Exchange and also voluntarily complies 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 2018. This review and evaluation process is a continuous, ongoing process. We also completely overhauled several company policies in 2018. 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 Audit Committee of the Supervisory Board 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 that 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 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, evaluating, 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 intangible assets such as those which 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

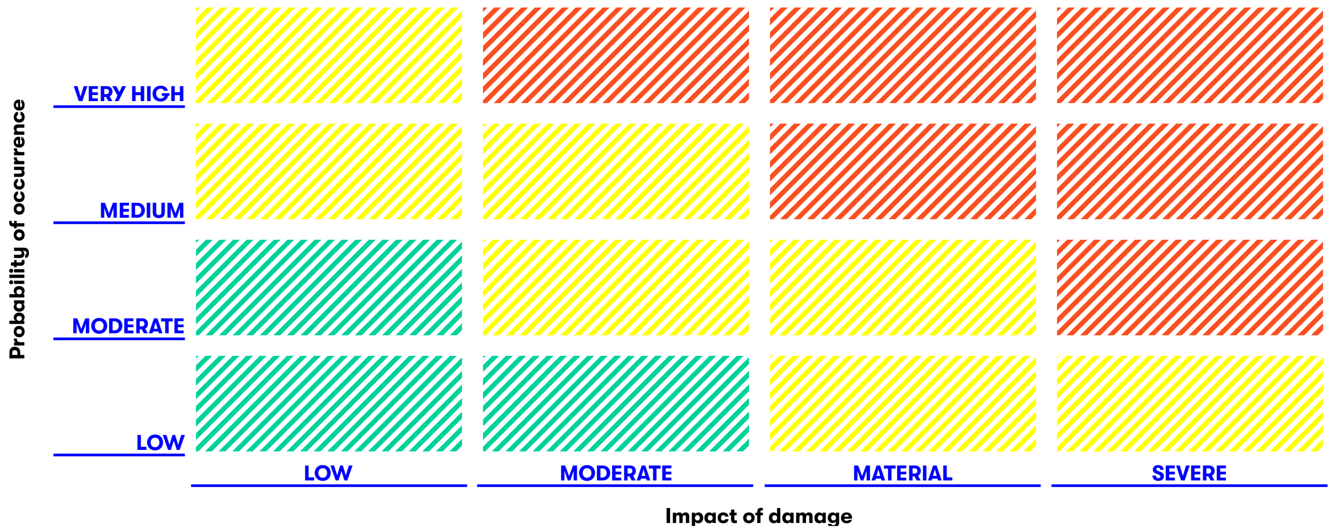
Risk managers regularly identify or update all risks within their area of responsibility with their employees as part of a systematic process. These are subdivided into the six risk categories “general business risks”, “compliance risks”, “financial risks”, “IT and communication risks”, “project business 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.

Probability of occurrence	In %	Impact of damage	EBT In thousands of euros	Liquidity In thousands of euros
Low	< 10	Low	< 4,000	< 1,000
Medium	>= 10 < 25	Moderate	>= 4,000 < 10,000	>= 1,000 < 3,000
High	>= 25 < 50	Material	>= 10,000 < 20,000	>= 3,000 < 5,000
Very high	>= 50 < 100	Severe	>= 20,000 < 40,000	>= 5,000 < 10,000

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

RISK ASSESSMENT MATRIX



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. This ensures the correctness and reliability of accounting and compliance with legal requirements relevant to the Company. This also ensures that the effectiveness and efficiency of the operations are safeguarded. 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 setting it up, monitoring it, 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 the process and risk management departments. The finance and accounting department is responsible for the guidelines for the adoption of accounting regulations and 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, procedures 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.

The external auditing department prepares a risk-oriented audit plan in cooperation with the Process and Risk Management department and checks whether the legal framework and Group-wide guidelines are being applied to the entire control and risk management system. This ensures that the functionality and effectiveness of the defined controls are monitored. The audit report is made available to the Management Board. This allows the Board to eliminate any errors and further improve the development of the ICS.

CURRENT RISK ASSESSMENT

The following section outlines the risks that are of particular relevance from the Group's point of view and their countermeasures. A risk is considered relevant if it is in the yellow or red area of the risk matrix (see Figure on page 66). The following risk assessment provides a condensed assessment of the risk categories and their sub-risk categories. Several individual risks are discussed in more detail.

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 2018 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, Instone Real Estate was unable to record a change in the continued demand for housing in the 2018 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 A cities of Germany 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 are subdivided into different phases so that the requirements of the market can 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 industry is subject to various legal framework conditions. 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 Energy Saving Ordinance), as well as regulatory intervention in the real estate market, for example through rent brakes or subsidised housing quotas.

Instone Real Estate is involved in 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 sales price.

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

Market risks

The project portfolio of Instone Real Estate is mainly based in the most important conurbations in Germany (Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart), where over 90% of real estate (measured by anticipated overall revenue volume) is located.

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 eight A cities 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 2018 financial year. Instone Real Estate continues to see demand for residential neighbourhoods at a stable high level. The impact of the market risks is not considered to be relevant in the medium term.

Personnel risks

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 represent risks faced by Instone Real Estate.

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. In 2018, a new recruiting portal was published on our website, 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 targeting and developing qualified personnel, we can place highly skilled employees in the positions that best fit their profile. This enables us to effectively promote the image of the Instone Real Estate brand and retain sufficient qualified personnel.

Due to our streamlined business structure, we cannot rule out vacancies in positions requiring highly specialised and individual expertise due to absences (such as sick leave, termination 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. Instone Real Estate 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 2018 and has thus positioned itself well for further corporate growth and any potential employee turnover.

Overall, we do not consider the impact of personnel risks resulting from the implemented measures to be of any relevance.

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 years of experience and several key people 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 depends on preserving the integrity of the brand and reputation of Instone Real Estate as a quality provider.

Instone Real Estate's reputation could be harmed by a number of factors and events that Instone Real Estate may have no influence over, such as unethical or illegal behaviour by employees or business associates, working conditions, construction site accidents, 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 imminent or actual litigation. 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 a communication strategy for various possible events. Reports in the (social) media are constantly monitored in order to be able to respond in the short term to relevant reports. 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 other 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 A cities, 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.

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

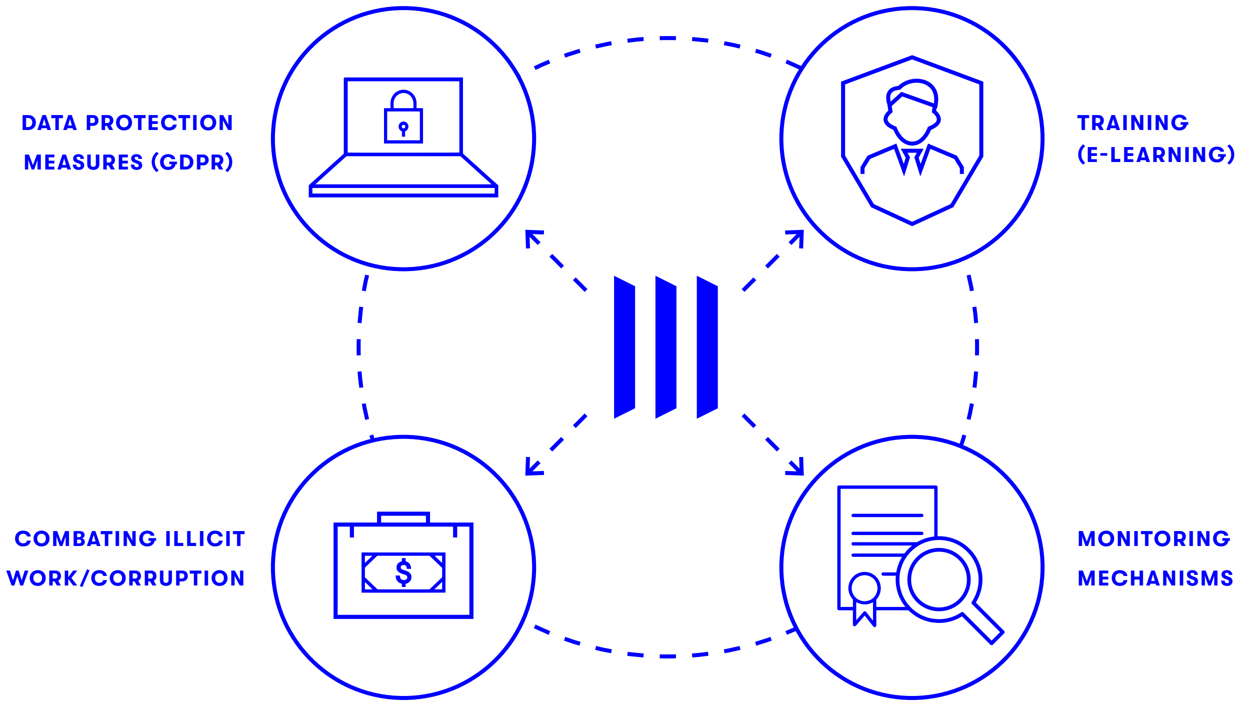
Compliance

The real estate and construction sectors are subject to various laws and regulations, which relate, among other things, to compliance with antitrust and data protection law and the payment of the minimum wage and measures to combat illegal work, bribery and corruption and anti-money laundering. Instone Real Estate depends on all its employees complying with the applicable laws and compliance guidelines issued by Instone Real Estate. In the 2018 financial year, Instone Real Estate revised a series of guidelines regarding Group-wide compliance policies and procedures to further increase compliance. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

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.

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 in accordance with current legislation. The technical organisational measures taken to protect data are regularly reviewed to ensure they are up-to-date and offer little scope for attacks. A potential data breach or non-compliance would have significant consequences. Despite the measures implemented, there remains a residual risk. We consider the impact of these risks arising from compliance to be relevant.

COMPLIANCE TASKS



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 may entail the risk of extraordinary termination. In addition to compulsory redemptions, lenders may also require the liquidation of pre-existing collateral. Refinancing would be feasible if conditions deteriorated. The covenant requirements are continuously monitored and forecast and have comfortable leeway. There are no insights to suggest that the financial covenants cannot be met in the future.

The probability of occurrence of this risk is very low due to the implemented measures. However, we consider these to be relevant as the occurrence of the risk would have serious consequences.

Capital market

Incorrect or poor communication with the capital market (analysts and investors) means that Instone Real Estate risks failing to meet the expectations of the capital market. This could lead to a lasting loss of reputation. This may affect 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).

Instone Real Estate considers the impact of capital market risks to be relevant.

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 a strong 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 values 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. External 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 risks

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 fiscal tax audit of Instone Real Estate for 2014 to 2016 is expected to begin in March 2019. 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.

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 proportional equity. The current low level of interest rates allows us to effectively finance the project costs. 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 calculating higher interest rates for the future. In order to achieve the highest possible interest rate security for our projects, we ask the banks to provide us at an early stage with their financing terms – in the form of a term sheet – or the fully prepared financing contracts for the specific project. The resulting financing conditions, in particular, the interest rate, is then included in the profitability analyses for the projects. Given the current market environment and internal processes, Instone Real Estate does not consider the potential impact of this risk to be relevant in the short to medium term.

Project 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.

Business partner selection and contractor engagement

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 construction services. There is strong demand and a shortage of spare capacity due to the increased volume of construction.

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 with the required quality.

As part of its corporate strategy, Instone Real Estate relies on its regional networks to engage qualified and reliable contractors, most of whom have long-standing relationships with Instone Real Estate.

Instone Real Estate has also defined guidelines indicating the evidence to be provided by contractual partners in order to prove their qualifications and reliability. Despite the measures taken, the potential impact of this risk is considered to be relevant.

Risks from approval procedures

Instone Real Estate relies on a strong regional network and expertise to reduce the risk of late 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 the 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 fabric of the building. This can 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

Our risk management ensures that the planned sales 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 if sales expectations are not achievable, the project will be readjusted and rechecked. At the same time, this approach enables us to identify and implement opportunities in sales.

Instone Real Estate does not consider the potential impact of the risk to be relevant as long as relevant risks from the global and national economy do not come into play.

Contract awarding risks

The execution standards of our projects are subject to continuous further development in order to bring them up-to-date technically and so they meet customer requirements. In order to achieve a high level of cost certainty for the individual projects, the Project Service department performs cost calculations for all branches and can draw on the experience gained from all Instone Real Estate projects. We also regularly create post-calculations based on our collective project experience in order to continuously verify our cost approach.

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.

Instone Real Estate considers the potential impact of the risks in the area of contract awarding to be relevant.

Other project risks

Other risks affecting our projects, such as 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. The server infrastructure is also completely redundant 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. 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 2018 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.

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 2018 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 is unable to adequately counteract or which could jeopardise 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 extensive independence from economic fluctuations.

Overall, this results in a risk profile 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.

None of the aforementioned risks had a material impact on Instone Real Estate in the 2018 financial year.

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 in the commuter belts of 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. 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 has risen from €3.4 billion to €4.8 billion since the going public.

Local housing project developers are direct competitors for Instone Real Estate due to the 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, Instone Real Estate has advantages due to its nationwide presence with expertise in urban district development and the complex process of obtaining of planning permission, as well as good networking in the target regions.

With its established branch structure which focuses on the eight A cities, 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.

Due to the Company's many years of experience, acquired and newly acquired real estate offers opportunities for the extended utilisation of land 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 is 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 ECONOMIC AND SECTOR-SPECIFIC FRAMEWORK CONDITIONS

The Federal Ministry for Economic Affairs and Energy released the economic forecast for 2019 in autumn 2018. The gross domestic product (price-adjusted) has increased by 1.8% in the forecast for 2019.[1] The German economy is continuing to grow, but this growth is being dampened by a difficult external environment (including Brexit) and additional one-off effects (such as the diesel discussion in the automotive industry). The labour market continues to develop positively. Business demand for workers remains very high in many sectors, such as the real estate industry. Furthermore, the average unemployment rate of 4.8% will again fall by up to 1% by the end of 2018.[2]

[1] www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html
[2] https://www.bmwi.de/Redaktion/DE/Schlaglichter-der-Wirtschaftspolitik/2019/01/onlinemagazin-schlaglichter-01-19.html

Housing construction is increasing, but will not continue to meet the demand for housing even if studies such as the Spring Report are warning real estate companies of a stagnation or downturn. The residential sub-market continues to grow. High demand coupled with limited supply at the same time allow sale prices and rents to rise further.

Vacancy rates are permanently low in the housing markets of 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 apartment rents in the forecast period until 2019 is expected to continue. However, we assume that there will be a decline in the growth momentum of the first-occupation rents in our field of operation as the higher number of completions will improve the supply of more expensive new-build apartments.

Over the past decade, the population of Instone Real Estate's top locations has grown between approx. 5% (in Düsseldorf) and 18% (in Frankfurt am Main). This is the reason why around one million more people live there today than in 2008. In fact, only 146,500 apartments have been completed at Instone Real Estate's top locations in the past five years. The gap between demand and supply also continues to grow.

The resources in the construction industry are already highly utilised 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 clear from the capacity utilisation calculated by the ifo Institute, which is currently at almost 80%, 15% higher than 20 years ago.

The fact that residential construction still has room to grow is also indicated by the growing surplus of building permits compared to construction completions. At the top eight locations of Instone Real Estate, the gap is around 67,500 residential units in the last five years. (Cumulatively since 2014, around 214,000 apartments have been approved, but only about 146,500 units have been built).[3]

[3] KPIs for core cities, bulwiengesa AG.

While prices may rise more slowly in the future, the uptrend is not expected to end in the coming years. The German real estate market remains interesting for investors – especially at a time of rising inflation and continuing low interest rates.[4]

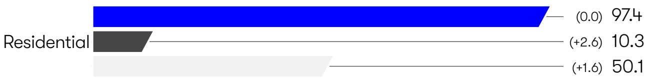
[4] www.deutsche-bank.de/pk/lp/jahresausblick-2019/immobilien-deutschland-boomt-weiter.html

THE REAL ESTATE INDUSTRY AND INSTONE REAL ESTATE ARE LOOKING FORWARD TO 2019 WITH CONFIDENCE

The IW ImmobilienScout24 Index tracks the business situation of large real estate companies and project developers on a quarterly basis. The values are based on the proportion of the net positive versus negative responses.

IW-IMMOBILIENSCOUT24-INDEX AS OF: 4TH QUARTER 2018

In %

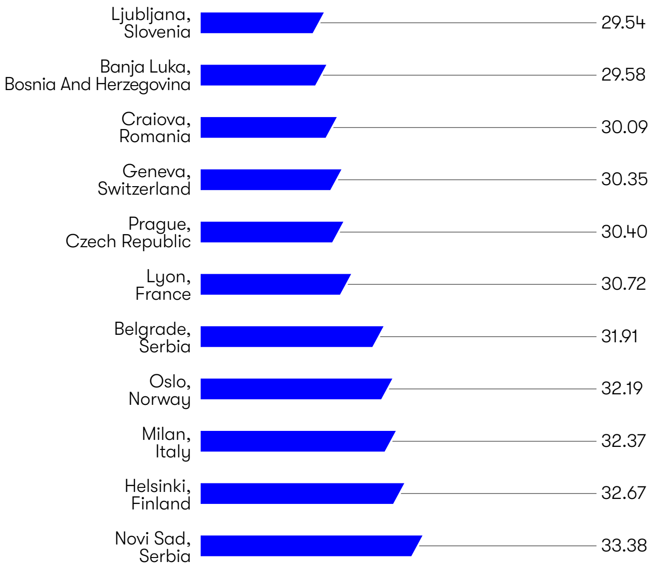


The IW ImmobilienScout24 index was developed jointly by ImmobilienScout24 commercial properties and the IW.

The index shows that Germany continues to be an attractive housing market compared to its European neighbours. This is also shown in the following Figure, which shows how high the percentage of rent is in each city.

RENT RATIO IN THE CITY CENTRE AS OF: JANUARY 2019

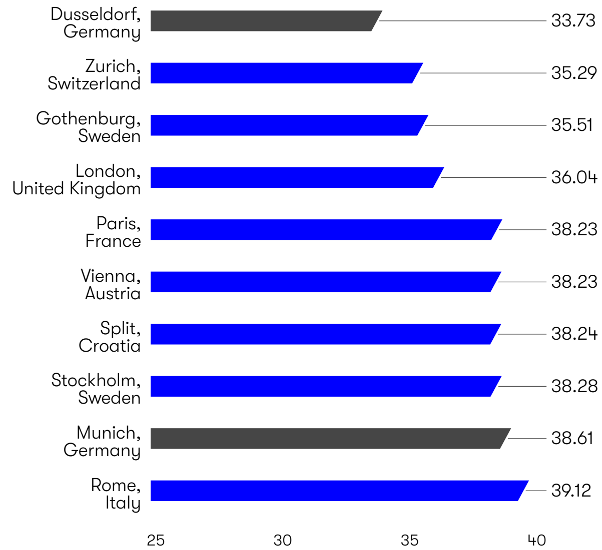
In %



Source: numbeo

RENT RATIO IN THE CITY CENTRE AS OF: JANUARY 2019

In %



Source: numbeo

OUTLOOK FOR THE INSTONE GROUP

For 2019, the economic research institutes expect strong economic growth to continue and forecast a further increase of 1.8% in the above gross domestic product (price adjusted). In spite of increasing construction activity, this will not come close to meeting the demand for housing. As a result, a general upward trend in sales prices and rents can be expected in the next few years due to the scarce supply. Overall, the outlook for the market factors relevant to our business, as described in detail in the chapter “General economic and industry-specific conditions” (page 75), thus anticipates a highly positive trend.

The forecast macroeconomic and industry-specific environment as well as assumptions regarding the development of construction costs and selling prices on the real estate market have a significant influence on the forecasts presented below. The achievement of significant milestones in our projects is also an important prerequisite. The announced initiation of planned sales, the achievement of the planned sale deadlines and the expected commencement and progress of our construction projects are particularly in focus.

Any change in the economic and political factors, the opportunities and risks already described in the chapter “Risk and Opportunities Report” (page 65) of this Combined Management Report and changes to the project schedule may cause the actual business development to deviate from the forecasts.

Against the backdrop of the positive macroeconomic outlook we have described and on the basis of our well-filled project portfolio of around €4.8 billion as of 31 December 2018, Instone expects business to continue to develop successfully during the 2019 financial year.

Our outlook for the volume of sales contracts in 2019 is €450 million to €550 million. This forecast is based on the current market offer of €369 million and further projects to be sold in 2019.

We also anticipate a significant adjusted increase in revenue to between €500 million and €550 million for the 2019 financial year.

Based on the projected profitability of our projects, we expect an adjusted gross profit margin of around 28%. The resulting adjusted consolidated earnings before interest and tax will range between €85 million and €100 million.

OVERALL STATEMENT BY THE MANAGEMENT BOARD ON FUTURE TRENDS

In general, the Management Board of the Instone Group expects revenue and earnings-based growth to continue in the 2019 financial year and is aiming to further improve its position in the German housing development market.

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 of 31 December 2018, 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 entitles to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As of 31 December 2018, the Company did not hold any of its own shares.

2 RESTRICTIONS AFFECTING VOTING RIGHTS AND THE TRANSFER OF SHARES

A total of 435,531 shares in the Company are subject to a standard contractual transfer restriction. These are shares which members of the Management Board and members of the extended management acquired from former direct sole shareholders in connection with the restructuring of a management remuneration programme even before the going public. 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 restrictions on transfer and voting rights end for one third of the shares acquired as part of the acquisition after the expiry of 12 months, respectively 24 months and 36 months after the date on which the respective share purchase was agreed with the former direct sole shareholders.

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.

4 SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL POWERS

There are no shares with special rights conferring 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 occur in accordance with the provisions of Sections 84 and 85 of the 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 chairman and a deputy chairman 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 rules of procedure 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, so long as statutory legislation or the Articles of Association do not 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 provisions or Company's rules of procedure require otherwise. According to Section 20.5 of the Company's rules of procedure, resolutions that can be passed with a simple majority of votes and capital pursuant to Section 20.4 of the rules of procedure, in particular, but not exclusively, include 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 rules of procedure, 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 rules of procedure itself. Finally, pursuant to Section 17.3 of the rules of procedure, the Supervisory Board is entitled to make amendments and additions to the rules of procedure that only affect the wording.

7 POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES

The Management Board is not authorised to buy back shares in the Company.

According to Section 6.1 of the rules of procedure, the Management Board is authorised to increase the Company's share capital, with the approval of the Supervisory Board, in the period up to 28 June 2023 by up to a total of €18,450 thousand by issuing up to a total of 18,450,000 new no-par value bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2018) and, according to Section 6.2 of the rules of procedure and with the approval of the Supervisory Board, to exclude shareholders' subscription rights 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.

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

As of the balance sheet date, there were no 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 again. When exercising the special right of termination, Dr Madjlessi will be paid compensation of three gross annual salaries in compliance with the recommendation in Item 4.2.3 (5) of the GCGC. 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

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 for the first time submitted their Declaration of Conformity with the recommendations of the Code in December 2018 in accordance with Section 161 AktG 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 with, providing reasons. This requirement is applicable to the Management Board and Supervisory Board for the first time on 28 August 2018 as this was when the Company's cross-border change of legal form into a German stock corporation was registered in the commercial register of the Company. In December 2018, the Management Board and the Supervisory Board of the Company issued the following joint declaration of conformity pursuant to Section 161 AktG:

Declaration of Conformity according to Section 161 AktG

On 28 August 2018, Instone Real Estate Group AG changed its legal form from a Dutch stock corporation (naamloze vennootschap (N.V.)) to a stock corporation under German law ("change of legal form"). Since 28 August 2018, the Company (as a stock corporation listed at this point on the regulated market of the Frankfurt Stock Exchange) has been subject to the obligation under Section 161 (1) AktG to submit an annual Declaration of Conformity that the recommendations made by the "Government Commission on the German Corporate Governance Code", as announced by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and will be complied with and which recommendations have not or will not be complied with, providing reasons.

The Management Board and Supervisory Board declare that since 28 August 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"), with the following exceptions:

1. Adherence to the recommendation in Section 4.2.2 of the Code to set the total remuneration of Management Board members in relation to the remuneration of senior management and the relevant workforce. Within the context of the appointment of the Management Board position in November 2018, the Supervisory Board did not consider this aspect to be relevant in this case.

2. The recommendations

   a. in Section 5.1.2 (2) 3 of the Code to establish an age limit for members of the Management Board,

   b. in Section 5.4.1 (2) 2 of the Code to establish an age limit for Supervisory Board members,

   c. in Section 5.4.1 (2) 2 of the Code to set a regular limit for the duration of membership of the Supervisory Board,

   d. in Section 5.4.1 (2) 1 of the Code to establish a competence profile for the Supervisory Board overall,

were not applicable until the change of legal form and were implemented through appropriate resolutions passed on 18 December 2018. The Company has therefore complied with the Code recommendations listed in Section 2 above since this date.

3. 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.

With the exception of the aforementioned deviation, explained in Section 3, from Section 7.1.2 of the Code (i.e. mandatory interim financial information publicly available within 45 days of the end of the reporting period), the Company will follow the recommendations of the Code in the future.

Essen, Germany, in December 2018

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 base 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 the employees of the Instone Group 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

As a stock corporation in accordance with the German Stock Corporation Act (Aktiengesetz) with headquarters in Essen, Germany, Instone Real Estate Group AG 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, while the Supervisory Board provides advice and supervision.

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

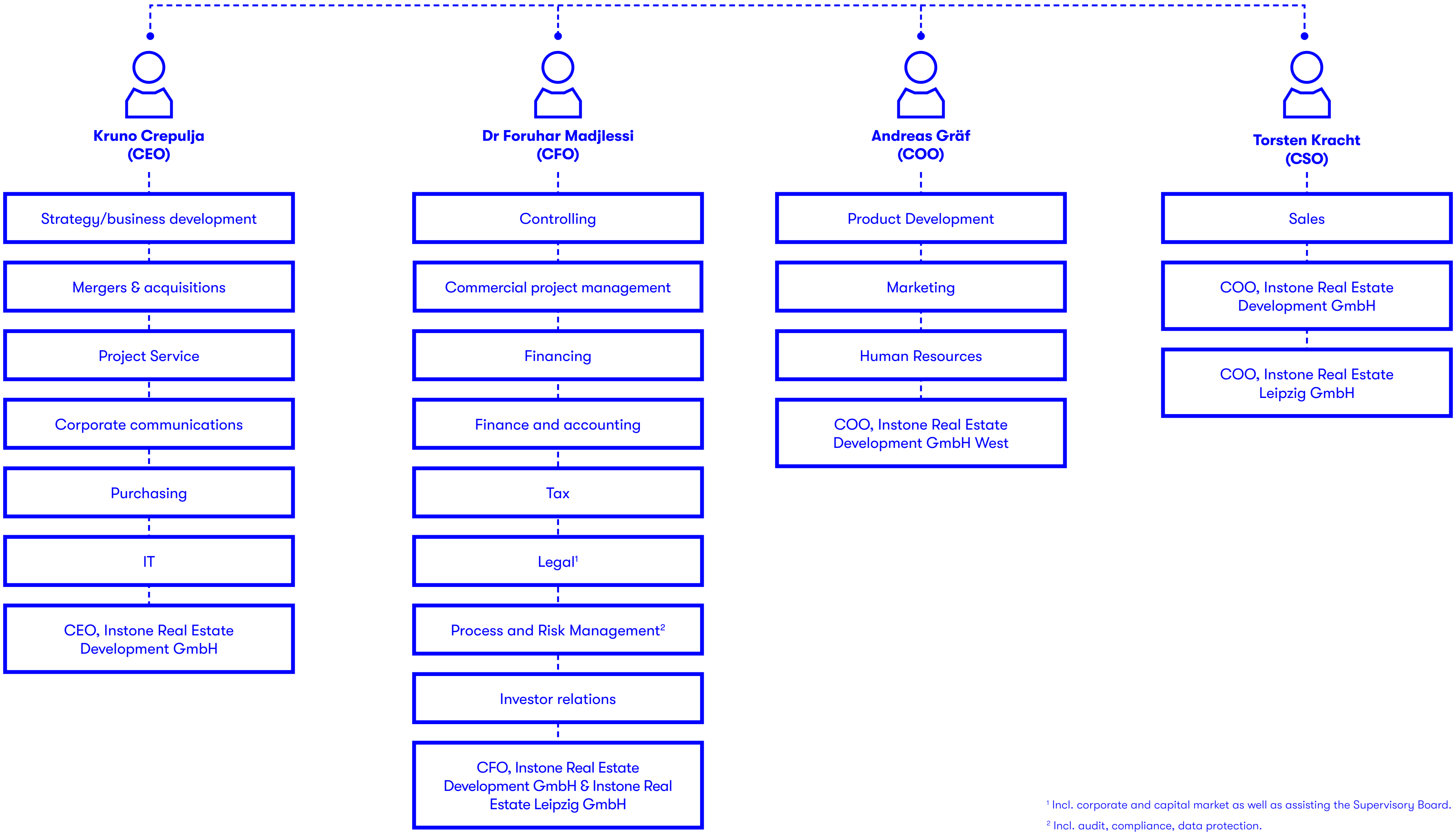
MANAGEMENT BOARD

The Management Board manages the Company on its own responsibility in accordance with the statutory provisions, the rules of procedure 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 law, the Articles of Association and the Rules of Procedure for the Management Board, and are personally responsible in the context of the 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 2018 financial year on 10 August 2018.

Accordingly, the distribution of business was as follows:

INSTONE REAL ESTATE GROUP AG – ORGANISATIONAL CHART



[1] Incl. corporate and capital market as well as assisting the Supervisory Board.

[2] Incl. audit, compliance, data protection.

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 Chairman 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 Chief Executive Officer or the Chief Financial Officer. 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 rules of procedure, the Company is represented by two members of the Management Board or one member of the Management Board together with an authorised representative.

In addition to certain approval reservations contained in the rules of procedure, the Supervisory Board has defined 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 customary market conditions.

The Management Board informs the Supervisory Board regularly, promptly and comprehensively, in accordance with the law, the rules of procedure and 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 Chairman of the Management Board and the Chairman 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 rules of procedure, 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 chairmen 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 within six calendar months. Otherwise, it holds meetings as required in the interests of the Company.

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 skills profile, this in particular includes the following knowledge, skills and professional experience as required for the members of the Supervisory Board as a whole:

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

→ The 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 2018 financial year, the members of the Supervisory Board fulfilled the overall competence profile.

PROPORTION OF WOMEN

At its meeting on 18 December 2018, the Supervisory Board set the target for the proportion of women on the Supervisory Board at its current level of 20%. For the Management Board of Instone Real Estate Group AG, the Supervisory Board has set the target for the proportion of women to 0% by 30 November 2020. This decision was guided by the Supervisory Board's conviction that a position should mainly be filled on the basis of qualifications and competence – regardless of gender.

Notwithstanding, the Supervisory Board was not able to set a higher quota for the period up to 30 November 2020 due to existing circumstances. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will continue to respect diversity. The Company has met the targets during the period under review.

At its meeting on 18 December 2018, the Management Board set the target quota to 0% as the minimum proportion of women at the first management level below the Management Board, i.e. at the level of the board of directors of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH. This matches the actual quota so that the minimum size was met during the period under review. At the second board of directors 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% and the target has therefore not yet been reached. The Management Board has set a deadline of two years as the implementation deadline for achieving the target values. The 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 working 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 going public, the Management Board has also determined, with regard to section 4.1.5 of the Code, that diversity should also be respected and promoted for appointment of Management Functions 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 materially 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 lineage, gender, or other non-performance characteristics.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

According to the rules of procedure, 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. Supervisory Board members Stefan Mohr and Richard Wartenberg resigned from office as of 31 December 2018.

Details of the members of the Management Board and the Supervisory Board can be found on page 133 in the notes to the consolidated financial statements of Instone Real Estate Group AG in accordance with Section 285 No. 10 HGB.

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.

The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Chairman 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 Chairman of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessment of the situation and development as well as for the management of the Company and its Group companies. The Chairman of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary.

According to the rules of procedure and Rules of Procedure for the Management Board, are subject to prior approval of the Supervisory Board in certain transactions of fundamental importance.

The members of the Management Board must promptly disclose any conflicts of interest to the Supervisory Board and their Management Board colleagues. 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.

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. Other committees can be formed as needed.

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 2018 financial year were:

→ Stefan Brendgen (Chairman)

→ Richard Wartenberg (Deputy Chairman)

→ Marija Korsch

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, if appropriate, 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.

As of 31 December 2018, the audit committee consisted of the following members:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Mohr (Deputy Chairman)

→ Stefan Brendgen

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) AktG. 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.

As of 31 December 2018, the remuneration committee consisted of the following members:

→ Richard Wartenberg (Chairman)

→ Stefan Brendgen (Deputy Chairman)

→ Marija Korsch

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual department allocation to the 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 ↗ Instone AGM.

Fundamental decisions are made at the annual general meeting. These include resolutions on any appropriation of profits, the discharge of the Management and Supervisory Boards, the election of Supervisory Board members and selection of the auditor, amendments to the rules of procedure and capital measures. The annual general meeting offers the Management Board and 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 facilitate the personal exercise of 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

The Supervisory Board has determined 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 2018 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 also 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. The Supervisory Board also had many members as of 31 December 2018. Above all, the Chairman 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. The Supervisory Board also has a female member, which means that the self-imposed target for the proportion of women of 20% as of 31 December 2018 has also been reached and was even exceeded following the departure of Mr Mohr and Mr Wartenberg. No member of the Supervisory Board had reached the age of 70 at the time of election.

Reportable securities and shares of 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 at least 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 violations 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 the 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 reliable information about laws and codes of conduct. Participation in the training events is mandatory and is reviewed and documented. In the financial year, the topics related primarily to anti-corruption, data protection and competition and antitrust law.

Despite the best prevention measures, companies may still be subject to infringements and breaches of duty. Our employees have their supervisors, compliance officers and a whistle-blower hotline at their disposal to report violations and suspicions of violations of rights, legislation and internal policies and regulations. Calls to the whistle-blower hotline connect to an external law firm and are shared anonymously with the Company.

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 necessary measures to prevent and punish active and passive corruption.

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 the German Corporate Governance Code (GCGC) in the version dated of 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 2018 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 Compensation Committee which, in accordance with the Supervisory Board's rules of procedure, is mainly 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. In this form, it has been in existence 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 going public and first listing on the Frankfurt Stock Exchange on 15 February 2018.

This 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 in line with its responsibility regarding the appropriate remuneration of the Management Board.

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 compliance with 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, 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. However, in deviation thereof, three Management Board members have a pension commitment.

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 remuneration

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 remuneration (STI)

The short-term variable remuneration in the form of the STI is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board. 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 2-year average of equity plus net debt

If the targets derived from the annual budget are fully achieved, the target achievement is 100%. The target achievements of the weighted targets (adjusted EBT, adjusted ROCE and personal targets) are added together to give the overall target achievement.

The target values 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 (STI)

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

Any LTI bonus depends on the achievement of business-related 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 value is set in relation to the actual EBT value. The projected value is determined by the Supervisory Board in the business plan and can be found in this plan.

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 the Instone share 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 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 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

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 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.

The following overview shows the contributions (allocations) to the pension plan attributed to the individual Management Board members and the corresponding cash values in individualised form according to IFRS and HGB.

PENSION COMMITMENTS

In thousands of euros

		2018	Allocation	2017
Kruno Crepulja (CEO)	HGB	158	48	110
	IFRS	222	39	183
Oliver Schmitt (CFO, resigned: 31/12/2018)	HGB	1,029	457	571
	IFRS	1,331	505	826
Andreas Gräf (COO)	HGB	182	55	127
	IFRS	245	51	194
	HGB	**1,369**	**561**	**808**
	IFRS	**1,798**	**595**	**1,203**

Remuneration of Management Board members in the 2018 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

GRANTS AWARDED IN THE FINANCIAL YEAR (PART 1)

In thousands of euros

	Kruno Crepulja				Oliver Schmitt			
	CEO				CFO			
					Resigned: 31/12/2018			
	2018	**2018 (min.)**	**2018 (max.)**	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**	**2017**
Non-performance related remuneration								
Fixed remuneration	421	421	421	353	261	261	261	305
Benefits-in-kind and other additional remuneration	24	24	24	64	650	650	650	61
Severance	0	0	0	0	1,500	1,500	1,500	0
	445	**445**	**445**	**417**	**2,411**	**2,411**	**2,411**	**366**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	250	0	375	137	0	0	0	103
Multi-year assessment basis (Long-term Incentive)								
Performance share plan (01/01/2018 - 31/12/2021)	300	0	900	3,804	0	0	0	2,160
	550	**0**	**1,275**	**3,940**	**0**	**0**	**0**	**2,262**
Remuneration for old-age provision								
Pension expenses	26	26	26	– 40	341	341	341	– 277
Total emoluments	**1,021**	**471**	**1,746**	**4,317**	**2,752**	**2,752**	**2,752**	**2,351**
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	– 26			40	– 341			277
Plus obligation value retirement	48			22	457			59
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**1,043**			**4,380**	**2,869**			**2,687**

GRANTS AWARDED IN THE FINANCIAL YEAR (PART 2)

In thousands of euros

	Andreas Gräf				Torsten Kracht			
	COO				CSO			
	2018	2018 (Min.)	2018 (Max.)	2017	2018	2018 (Min.)	2018 (Max.)	2017
Non-performance related remuneration								
Fixed remuneration	285	285	285	292	191	191	191	148
Benefits-in-kind and other additional remuneration	15	15	15	48	23	23	23	11
Severance	0	0	0	0	0	0	0	0
	300	**300**	**300**	**340**	**215**	**215**	**215**	**159**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	260	0	390	118	225	0	338	140
Multi-year assessment basis (Long-term Incentive)								
Performance share plan (01/01/2018 - 31/12/2021)	180	0	540	2,139	125	0	375	1,306
	440	**0**	**930**	**2,257**	**350**	**0**	**712**	**1,446**
Remuneration for old-age provision								
Pension expenses	34	34	34	– 53	0	0	0	0
Total emoluments	**774**	**334**	**1,264**	**2,544**	**565**	**215**	**927**	**1,606**
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	– 34			53	0			0
Plus obligation value retirement	55			19	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**796**			**2,617**	**565**			**1,606**

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 this, €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) for severance payments and €0.4 million (previous year: €– 0.4 million) on the pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

Inflow according to the GCGC

INFLOW OF GRANTS IN THE FINANCIAL YEAR

in thousands of euros

	Kruno Crepulja		Oliver Schmitt		Andreas Gräf		Torsten Kracht	
	CEO		CFO		COO		CSO	
			Resigned: 31/12/2018					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-performance related remuneration								
Fixed remuneration	421	353	261	305	285	292	191	148
Benefits-in-kind and other additional remuneration	24	64	650	61	15	48	23	11
Severance	0	0	1,500	0	0	0	0	0
	445	**417**	**2,411**	**366**	**300**	**340**	**215**	**159**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	175	153	140	122	140	141	140	0
Multi-year assessment basis (long-term Incentive)								
Performance share plan (01/01/2015 - 31/12/2018)	8,349	0	5,102	0	5,379	0	1,912	0
	8,524	**153**	**5,242**	**122**	**5,519**	**141**	**2,052**	**0**
Remuneration for old-age provision								
Pension expenses	26	– 40	341	– 277	34	– 53	0	0
Total emoluments	**8,995**	**529**	**7,994**	**211**	**5,854**	**427**	**2,266**	**159**

The total remuneration received/earned by the members of the Management Board totalled €25.1 million for the financial year 2018 (previous year: €1.3 million). Of this amount, €1.2 million (previous year: €1.1 million) was allocated to fixed, non-performance related remuneration components, €21.3 million (previous year: €0.4 million) 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) for 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 members of the Management Board have reinvested 70% of the inflow of the variable, multi-year, performance-related remuneration component in the form of share purchases.

In the financial year, 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 rules of procedure 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 Chairman 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 chairman 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 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 2018 financial year

The total remuneration of the Supervisory Board in financial year 2018 was €406.3 thousand. Of this amount, €343.0 thousand was remuneration for the work of the full Supervisory Board. Remuneration for work in committees amounted to €63.3 thousand. thousand. The following table shows the individual emoluments of the members of the Supervisory Board for the 2018 financial year.

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.

SUPERVISORY BOARD REMUNERATION

In thousands of euros

	Remuneration pro rata from 13/02/2018 to 31/12/2018			Remuneration entitlement 2018		
	Role General Committee Remuneration	Role Committees Remuneration	Total Remuneration	Role General Committee Remuneration	Role Committees Remuneration	Total Remuneration
Stephan Brendgen	105.5	17.1	122.7	120.0	19.5	139.5
Stefan Mohr	79.2	13.2	92.3	90.0	15.0	105.0
Marija Korsch	52.8	2.6	55.4	60.0	3.0	63.0
Dr Jochen Scharpe	52.8	26.4	79.2	60.0	30.0	90.0
Richard Wartenberg	52.8	4.0	56.7	60.0	4.5	64.5

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

In thousands of euros

	Note	2018	2017
Revenue	1	360,836	199,700
Changes in inventories		57,026	120,207
		417,862	**319,907**
Other operating income	2	2,675	5,381
Cost of materials	3	– 320,353	– 242,647
Staff costs	4	– 33,563	– 49,531
Other operating expenses	5	– 27,926	– 43,644
Depreciation and amortisation	6	– 587	– 437
Consolidated earnings from operating activities		**38,108**	**– 10,971**
Income from investments recognised at equity	7	302	235
Other income from investments		– 14	– 61
Financial income	8	516	595
Financial expenditure		– 8,946	– 20,966
Write-down securities classified as financial assets		– 386	18
Consolidated earnings before tax (EBT)		**29,580**	**– 31,150**
Income taxes	9	– 20,547	190
Consolidated earnings after tax (EAT)		**9,033**	**– 30,960**
Attributable to:			
Group interests	10	6,500	– 31,088
Non-controlling interests		2,533	128
		9,033	**– 30,960**
Earnings per share (In euros)			
Undiluted		0.18	– 0.84
Diluted		0.18	– 0.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros

	2018	2017
Consolidated earnings after tax	**9,033**	**– 30,960**
Items, which are not reclassified into the consolidated earnings in future periods		
Actuarial profits and losses	– 1,042	1,318
Income tax effect	340	– 414
Income and expenses after tax recognised directly in equity	**– 702**	**904**
Total comprehensive income for the financial year after tax	**8,331**	**– 30,056**
Attributable to:		
Group interests	5,798	– 30,184
Non-controlling interests	2,533	129
	8,331	**– 30,056**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
ASSETS

In thousands of euros

	Note	31/12/2018	31/12/2017
Non-current assets			
Intangible assets	11	155	–
Property, plant and equipment	12	1,995	1,598
Investments recognised at equity	13	237	396
Other investments	14	421	333
Financial receivables		–	683
Other receivables		–	1,022
		2,808	**4,032**
Current assets			
Inventories	15	404,400	659,444
Financial receivables	16	65	32,360
Contract assets	17	158,489	–
Trade receivables	18	13,127	4,217
Other receivables and other assets	19	18,766	15,452
Income tax assets	20	997	–
Cash and cash equivalents	21	87,965	73,624
		683,809	**785,097**
Total assets		**686,617**	**789,129**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
LIABILITIES
In thousands of euros

	Note	31/12/2018	31/12/2017
Equity	22		
Share capital		36,988	8
Capital reserves		198,899	85,379
Group retained earnings/loss carryforwards		6,825	– 34,329
Statement of changes in equity recognised in other comprehensive income		– 1,050	– 348
Equity attributable to shareholders		**241,662**	**50,710**
Non-controlling interests		5,206	1,510
Total equity		**246,868**	**52,220**
Non-current debts			
Provisions for pensions and similar obligations	23	3,967	4,181
Other provisions	24	4,548	1,330
Financial liabilities	25	177,744	241,007
Deferred tax	26	32,184	7,669
		218,443	**254,187**
Current debts			
Other provisions	24	17,726	49,159
Financial liabilities	25	87,822	134,672
Contract liabilities	27	6,633	–
Trade payables	28	78,342	275,692
Other liabilities	29	12,689	9,406
Income tax liabilities	30	18,094	13,793
		221,306	**482,722**
Total equity and liabilities		**686,617**	**789,129**

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

		2018	2017
	Consolidated earnings after tax	**9,033**	**– 30,960**
±	Depreciation and amortisation / write-ups on fixed assets	587	438
±	Increase/decrease in provisions	– 28,430	12,539
±	Increase/decrease in deferred tax	24,515	– 15,745
±	Expense/income equity carrying amounts	160	1,018
±	Increase/decrease in other financial assets	–	250
±	Interest expense/income	8,417	20,050
±	Income tax expense/income	17,408	15,065
±	Other non-cash expenses/income	– 14,155	– 3,913
±	Profit/loss on disposals of property, plant and equipment	– 576	–
±	Decrease/increase in inventories, contract assets, trade receivables and other assets not attributable to investment or financing activities	132,235	– 112,345
±	Increase/decrease of contract liabilities, trade payables and other liabilities not attributable to investment or financing activities	– 183,133	83,365
±	Income tax payments	– 6,458	– 4,236
=	**Operative cash flow**	**– 40,397**	**– 34,474**
–	Outflows for investments in property, plant and equipment	– 1,114	– 492
+	Proceeds from disposals of intangible assets	182	0
+	Proceeds from disposals of investments	661	–
–	Outflows for investing in financial assets	–	– 22,839
+	Proceeds from the disposal of unconsolidated companies and other business units	–	122
–	Outflows from investments by unconsolidated companies and other business units	–	– 25
+	Interest received	758	572
=	**Cash flow from investing activities (investive cash flow)**	**487**	**– 22,662**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

		2018	2017
+	Proceeds from additions to issued capital	150,500	–
+	Increase/decrease from non-cash equity injections and other neutral changes in equity	– 9,252	–
–	Withdrawals by shareholders	–	– 650
±	Proceeds from the taking out of shareholder loans / outflows from the repayment of shareholder loans	– 28,297	–
+	Inflows from the issuing of bonds and the taking out of (financial) loans	83,870	33,572
–	Outflows from the repayment of bonds and the repayment of (financial) loans	– 135,468	–
–	Interest paid	– 7,102	– 14,735
=	**Cash flow from financing activities (finance cash flow)**	**54,251**	**18,187**
	Cash change in cash and cash equivalents	14,341	– 38,949
±	Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents	–	25
+	Cash and cash equivalents at the beginning of the period	73,624	112,548
=	**Cash and cash equivalents at the end of the period**	**87,965**	**73,624**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros

	Note	Subscribed capital	Capital reserves	Accumulated profit / loss carried forward	Other components of equity	Group interests	Non-controlling interests	Total
As of: 01 January 2017		**8**	**37,395**	**– 35,499**	**– 1,252**	**652**	**2,032**	**2,684**
Consolidated earnings after tax		–	–	– 31,088	–	– 31,088	128	**– 30,959**
Changes in actuarial profits and losses		–	–	–	904	904	–	**904**
Total comprehensive income		**–**	**–**	**– 31,088**	**904**	**– 30,184**	**128**	**– 30,055**
Payment into the capital reserves		–	47,959	–	–	47,959	–	**47,959**
Changes to the scope of consolidation		–	25	–	–	25	–	**25**
Distributions to shareholders		–	–	–	–	–	– 650	**– 650**
Other neutral changes		–	–	32,257	–	32,257	–	**32,257**
		–	**47,984**	**32,257**	**–**	**80,241**	**– 650**	**79,591**
As of: 31 December 2017	22	**8**	**85,379**	**– 34,329**	**– 348**	**50,710**	**1,510**	**52,220**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros

	Note	Subscribed capital	Capital reserves	Accumulated profit / loss carried forward	Other components of equity	Group interests	Non-controlling interests	Total
As of: 31 December 2017	22	**8**	**85,379**	**– 34,329**	**– 348**	**50,710**	**1,510**	**52,220**
Effect of first-time application of IFRS 15 as of 01/01/2018		–	–	43,884	–	43,884	1,162	**45,046**
As of: 01 January 2018		**8**	**85,379**	**9,554**	**– 348**	**94,593**	**2,673**	**97,266**
Consolidated earnings after tax		–	–	6,499	–	6,499	2,533	**9,032**
Changes in actuarial profits and losses		–	–	–	– 702	– 702	–	**– 702**
Total comprehensive income		**–**	**–**	**6,499**	**– 702**	**5,797**	**2,533**	**8,330**
Issue of shares		36,980	113,520	–	–	150,500	–	**150,500**
Changes to the scope of consolidation		–	–	24	–	24	–	**24**
Other neutral changes		–	–	– 9,252	–	– 9,252	–	**– 9,252**
		36,980	**113,520**	**– 9,228**	**–**	**141,272**	**–**	**141,272**
As of: 31 December 2018	22	**36,988**	**198,899**	**6,825**	**– 1,050**	**241,662**	**5,206**	**246,868**

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, Netherlands and administrative headquarters at Baumstraße 25, 45128 Essen, Germany, would be converted into a stock corporation under Dutch law (naamloze vennootschap: N.V. [limited liability corporation]), 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 HR B 26426 on 14 May 2018.

The first annual general meeting on 29 June 2018 in Amsterdam, the Netherlands, resolved to undertake a cross-border conversion to Essen, Germany, while preserving its legal identity. The transfer of the office 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"). 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 22 March 2019.

Basis of the consolidated financial statements

The consolidated financial statements for Instone Real Estate as of 31 December 2018 were prepared on the balance sheet date on the basis of Section 315e (1) HGB in compliance with the International Financial Reporting Standards (IFRSs) 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 (€ thousands) 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 adoption of accounting standards in the current financial year

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 2018 financial year onwards which are significant for Instone Real Estate as these had a material impact on these consolidated financial statements.

IFRS 9 Financial instruments

In the 2018 financial year, Instone Real Estate used IFRS 9 for the first time. The new regulations specifically include fundamental changes in relation to the classification and valuation of financial assets. Furthermore, additional disclosure duties are involved in the introduction of IFRS 9. The first-time application must occur retroactively.

All of the reported financial assets, which fall within the scope of IFRS 9, must be valued in subsequent periods at amortised costs or the fair value on the basis of the company’s business model to manage financial assets and the characteristics of the contractual payment flows of financial assets. The changed classification is as follows:

- Debt instruments, which are held as part of the business model, whose aim is the collection of the contractual payment flows and whose contractual payment flows are exclusively comprised of the payment of principal and interest on the outstanding principal amount, are valued during the subsequent periods at amortised costs;

- Debt instruments, which are held as part of the business model, whose aim is the collection of the contractual payment flows, as well as the sale of debt instruments and whose contractual payment flows are exclusively comprised of the payment of principal and interest on the outstanding principal amount, are valued during the subsequent periods not affecting income at the fair value in other earnings; and

- all other bonds and equity capital instruments will be valued in subsequent periods, recognised in profit or loss at the fair value.

Irrespective of the aforementioned statements, Instone Real Estate can perform the following permanent classification with the first-time recognition of a financial asset:

- the Group can irrevocably decide to record the following changes to the fair value of an equity capital instrument, which is neither held for trading purposes nor constitutes conditional consideration as part of a company merger, in equity capital without affecting income; and

- the Group can irrevocably classify a bond, which fulfils the criteria for amortised costs or the fair value in other earnings, as recognised in profit and loss at the fair value, if this significantly reduces or eliminates valuation or recognition incongruence.

The application of IFRS 9 resulted in the following implications on the classification of the asset items of the consolidated balance sheet as of 1 January 2018:

CHANGES TO IFRS 9/IAS 39 CLASSIFICATIONS

In thousands of euros

	Book value IFRS 9 as at 01/01/2018	Valuation category IFRS 9	Book value IAS 39 as at 31/12/2017	Valuation category IAS 39
Financial assets	**111,217**		**111,217**	
Other financial assets	333	Valued affecting profit and loss at the fair value	333	Available for sale
Financial receivables	**33,043**		**33,043**	
Non-current	683	Valued at amortised costs	683	Loans and receivables
Current	32,360	Valued at amortised costs	32,360	Loans and receivables
Trade receivables	4,217	Valued at amortised costs	4,217	Loans and receivables
Other receivables	**11,103**		**11,103**	
Non-current	1,022	Valued at amortised costs	1,022	Loans and receivables
Current	10,081	Valued at amortised costs	10,081	Loans and receivables
Cash and cash equivalents	73,624	Valued at amortised costs	73,624	Loans and receivables

According to IFRS 9, a classification as “available for sale” is no longer permitted. The other financial assets of Instone Real Estate in this category were reclassified during the transfer as at 1 January 2018 to the “affecting profit and loss at the fair value” category. These are exclusively equity capital instruments and had no implications for the book value. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. The book value of the financial receivables and trade receivables were not adjusted by expected credit losses at the time of transfer, as the effect as of 1 January 2018 is not significant overall. For the financial liabilities, there were no implications from the first-time application of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB published IFRS 15 "Revenue from Contracts with Customers". The standard introduces an industry-independent and principle-based five-level accounting model for recognising revenue from contracts with customers. However, the standard has no impact on the collection of income arising in connection with financial instruments in the regulatory area covered by IAS 39/IFRS 9. It also excludes the collection of income from leases falling within the scope of application of IAS 17/IFRS 16. According to IFRS 15, revenue is recognised at the amount of consideration that a company can expect in return for the transfer of goods or services to a customer (transaction price). Revenues are realised when the customer control over the goods or services is passed. IFRS 15 also contains presentation requirements. The new standard also requires the disclosure of a range of quantitative and qualitative information to enable potential users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The new revenue standard will replace all current revenue recognition requirements and related interpretations under IFRS. Either full retrospective adoption or modified retrospective adoption is required for financial years beginning on or after 1 January 2018.

The Instone Group has used the new IFRS 15 standard "Revenue from Contracts with Customers" since 1 January 2018.

IFRS 15 was implemented by applying a modified retrospective adoption as at 1 January 2018. Presentation of the comparative periods remains unchanged and the conversion effects have been recorded in the Group's equity. Therefore, certain balance sheet items only allow for a restricted comparability in relation to last year. Please refer to the table titled "Effects on the consolidated statement of financial position" (Page 107). The measurement of the effects of IFRS 15 is tied to exercising considerable judgements and estimations.

The adoption of the standard has resulted in the following fundamental effects:

The legal formulation of contracts with clients is primarily based on projects with a single performance obligation only. The contractually agreed revenue is recorded over a specific period of time at the Instone Group on the basis of performance progress, according to this standard. The first-time application of the regulations of IFRS 15 for the revenue recognition, period-related revenue recognition occurs with all sold units. The payment made, including the proportional result is reported in the sales revenues according to the degree of completion. With the exception of refurbishment properties, sales revenues for these situations are basically reported, if a marketing status for the respective project of at least 30% is reached and/or a building permit is available. From this point in time, the contractual right of withdrawal granted to both parties shall lapse. With refurbishment properties, the sales revenues are reported at the beginning of the building activity. In contrast, during the previous year, the revenue recognition occurred at the respective transfer time as the contract subject matter. In addition, IFRS 15 contains new requirements for variable consideration and for recognising addenda and contractual amendments as contractual modifications. According to IFRS 15, however, revenue is to be recognised if it is highly likely that these contractual modifications do not result in a significant cancellation of cumulative revenues that have already been recorded.

As a rule, the contracts with customers in the Instone group provide for payments during construction. This contract structure leads to rising liquid funds in parallel with the increase in sales.

The contracts with customers in Instone Group also do not generally provide for redemption obligations and guarantees.

When realising revenue for fully-consolidated companies, the implementation of IFRS 15 as at 1 January 2018 resulted in an increase of equity by €45,046 thousand.

Overall effect from first-time adoption of IFRS 15:

Tax effects

The adjustment of the book value based on the new standard requires deferred tax to be taken into account. Accordingly, the above adjustment equally impacts on the net position for deferred tax. In line with the above-mentioned status, the net increase of deferred tax liabilities as at 1 January 2018 totalled €21.206 thousand.

Impact on cash flow and net financial assets

The first-time application of IFRS 15 does not impact the cash flow and the net financial assets of the Instone Group.

Impact on the consolidated statement of financial position

Impact of the first-time adoption of IFRS 15 on the assets and liabilities in the Instone Group consolidated statement of financial position as at 1 January 2018:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
ASSETS

In thousands of euros

	Adjustment to IFRS 15	01/01/2018	31/12/2017
Non-current assets			
Property, plant and equipment	–	1,598	1,598
Investments recognised at equity	–	396	396
Other investments	–	333	333
Financial receivables	–	683	683
Other receivables	–	1,022	1,022
	–	**4,032**	**4,032**
Current assets			
Inventories	– 308,466	350,978	659,444
Financial receivables	–	32,360	32,360
Contract assets	167,494	167,494	–
Trade receivables	–	4,217	4,217
Other receivables and other assets	–	15,452	15,452
Cash and cash equivalents	–	73,624	73,624
	– 140,972	**644,125**	**785,097**
Total assets	**– 140,972**	**648,157**	**789,129**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) LIABILITIES

In thousands of euros

	Adjustment to IFRS 15	01/01/2018	31/12/2017
Equity			
Share capital	–	8	8
Capital reserves	–	85,379	85,379
Group retained earnings/loss carryforwards	43,884	9,555	– 34,329
Statement of changes in equity recognised in other comprehensive income	–	– 348	– 348
Equity attributable to shareholders	**43,884**	**94,594**	**50,710**
Non-controlling interests	1,162	2,672	1,510
Total equity	**45,046**	**97,266**	**52,220**
Non-current debts			
Provisions for pensions and similar obligations	–	4,181	4,181
Other provisions	–	1,330	1,330
Financial liabilities	–	241,007	241,007
Deferred tax	21,207	28,876	7,669
	21,207	**275,394**	**254,187**
Current debts			
Other provisions	–	49,159	49,159
Financial liabilities	–	134,672	134,672
Contract liabilities	18,645	18,645	–
Trade payables	– 225,870	49,822	275,692
Other liabilities	–	9,406	9,406
Income tax liabilities	–	13,793	13,793
	– 207,225	**275,497**	**482,722**
Total equity and liabilities	**– 140,972**	**648,157**	**789,129**

Effects on the consolidated statement of financial position and the consolidated income statement

The following items were affected by the first-time application of IFRS 15 in the financial year. The effects in comparison to the provisions in IAS 11 and IAS 18 applicable before the change and the associated interpretations are described below:

ITEMS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

	Adjustment to IFRS 15	31/12/2018 adjusted	31/12/2018
Deferred tax assets	8,498	8,498	–
Inventories	361,887	766,287	404,400
Contract assets	– 158,489	–	158,489
Equity	– 87,269	159,599	246,868
Deferred tax liabilities	– 32,184	–	32,184
Contract liabilities	– 6,633	–	6,633
Trade payables	337,981	416,322	78,342
Total assets	**211,896**	**898,513**	**686,617**

ITEMS IN THE CONSOLIDATED INCOME STATEMENT

In thousands of euros

	Adjustment to IFRS 15	2018 adjusted	2018
Revenue	– 115,829	245,008	360,836
Changes in inventories	116,037	173,063	57,026
Cost of materials	14,605	– 305,748	– 320,353
Other operating expenses	– 8,731	– 36,658	– 27,926
Income taxes	19,475	– 1,072	– 20,547
Consolidated earnings before tax (EBT)	**6,082**	**35,662**	**29,580**
Consolidated earnings after tax (EAT)	**25,557**	**34,591**	**9,033**

The following standards that were to be newly applied from the 2018 financial year onwards had no impact on these consolidated financial statements, except for any additional disclosures in the Notes:

→ Amendments to IAS 40 "Investment Property"

→ Amendments to IFRS 2 "Share-based Payment"

→ Amendments to IFRS 4 "Insurance Contracts"

→ IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

→ Annual improvements of the IFRS. 2014-2016 cycle:

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.

Already incorporated in EU law (mandatory first-time adoption date in brackets):

→ Amendments to IFRS 9 (1 January 2019) "Financial instruments"

→ IFRS 16 (1 January 2019) "Leases"

→ IFRIC 23 (1 January 2019) "Uncertainties over Income Tax Treatments"

→ Amendments to IAS 28 (1 January 2019) "Long-term Interests in Associates and Joint Ventures"

Not yet incorporated into EU law (first-time adoption date in brackets):

→ IAS 1/IAS 8 (1 January 2020)

→ Amendments to IAS 19 (1 January 2019) "Employee Benefits"

→ IFRS 3 (1 January 2020)

→ IFRS 17 (01 January 2021)

→ Annual improvements of the IFRS. 2015-2017 cycle (1 January 2019):
Amendments to IAS 12 "Income Taxes"
Amendments to IAS 23 "Borrowing Costs"
Amendments to IFRS 3 "Business Combinations"
Amendments to IFRS 11 "Joint Arrangements"

The following is an explanation of the accounting rules which are significant for Instone Real Estate. With the exception of new or modified notes, the other new and amended standards are not expected to have a significant impact on the consolidated financial statements.

IFRS 16 "Leases"

The IASB published the new IFRS 16 "Leases" standard in January 2016. IFRS 16 replaces the previous IAS 17 standard for lease accounting as well as the IFRIC 4, SIC 15 and SIC 27 interpretations. The application of the standard is mandatory from 1 January 2019. Voluntary early application is permitted, but only if IFRS 15 "Revenue from Contracts with Customers" is applied at that time. The main changes introduced by IFRS 16 relate to accounting for lessees.

The differentiation between an operating lease and a finance lease is no longer applicable to the lessee. For example, the lessee is required to recognise the balance sheet approach for assets acquired for the rights of use (right-of-use approach) and for liabilities for the payment obligations entered into in the case of all leases.

Ease of use is granted for leased assets of low value (low value leases) and short-term leases with a term of up to one year. For low value leased assets, this simplification applies even if they are to be generally classified as significant. The adoption simplifications include the option to apply the recognition and presentation requirements of IFRS 16.

The accounting rules for lessors have only been changed slightly and largely correspond to the previous regulations of IAS 17. The accounting changes for leases where the Instone Group is the lessee will affect the consolidated financial statements. In particular, rights of use will be capitalised for rented vehicles or real estate. In addition, the nature of expenses associated with these leases will change as IFRS 16 replaces the straight line operating lease expenses with right of use assets and interest expenses for debts from leases.

The Instone Group has assessed the potential impact on its consolidated financial statements, assessing its dependency on the interest rate used as of 1 January 2019, the composition of the leasing portfolio or estimations regarding the exercising of extension options. Based on the first-time application on 1 January 2019, the Instone Group is expecting an impact on the Group's equity of under €0.1 million. The impact on the statement of financial position, income statement and key performance indicators is not expected to be significant.

Scope of consolidation

The equity investments of Instone Real Estate Group AG include subsidiaries, affiliated companies and financial interests.

In addition to Instone Real Estate Group AG, the consolidated financial statements of Instone Real Estate include all significant 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. Significant activities are activities that significantly affect returns. Furthermore, Instone Real Estate AG must have an interest in these returns 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.

Significant interests in associates are accounted for using the equity method. A Company is an associate 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 of 31 December 2018, in addition to the Instone Real Estate Group AG, a total of ten (previous year: 15) 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 consolidated financial statements.

As of 31 December 2018, associates were measured at equity, unchanged from the previous year. The measurement using the equity method was based on the latest available annual financial statements.

In total, four investments (previous year: four) have a low business volume or no business operation and are not consolidated for reasons of materiality. They are reported under other financial assets.

Due to their overall minor importance, three (previous year: three) companies 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 142).

Mergers

Mergers are accounted for at acquisition cost as soon as control is transferred to the Group.

The consideration paid for the acquisition is generally measured at fair value. The same applies to the acquired identifiable net assets. Goodwill is tested annually for impairment. All profits from acquisitions at prices below the market value are charged 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 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.

Segment reporting

The segment reporting according to IFRS 8 is based on the management approach and therefore complies with the management and reporting system, which Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates its revenues and holds its assets mainly in Germany. For this reason, Instone Real Estate does not conduct any segment reporting. Internal reporting is also based on the figures taken from IFRS accounting.

Principles of consolidation

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. Impairment losses recorded for Group companies in their separate financial statements are reversed.

The same consolidation principles apply to interests in investments measured at equity. These include both associates and joint ventures of the 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.

Translation differences during the year are recognised in profit or loss in other income or expenses or in the financial result.

Accounting principles

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 less accumulated impairment losses.

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 accorded for using to the **equity method** are valued at acquisition or production 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 are comprised of investments and securities, which exclusively fall under the “affecting profit and loss at the fair value” evaluation category. They are valued at their fair value if this value can be reliably determined. Due to the lack of observable market transactions, the fair value is determined on the basis of the discounted cash flow (DCF) method.

Other financial assets are comprised of financial receivables, trade receivables and other receivables and are valued at amortised costs using the effective interest method (in consideration of factors, such as surcharges and discounts). 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.

Impairment losses are recognised if there is an expected loss on the basis of the credit risk.

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**. In principle, these receivables and liabilities are accounted for and measured in accordance with IFRS 15 "Revenue from Contracts with Customers".

The Company's customer contracts typically 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. 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. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the fulfilment 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.

In contract assets and contract liabilities, 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.

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 reducing the cost of materials. 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 over and above the book value is taken into account by recognising a provision for impending losses.

Liquid funds (cash and cash equivalents) are in the form of cash and bank balances.

Provisions are made for all legal and constructive liabilities to third parties existing on the closing date of 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 present value of the respective obligation. This is determined using the projected unit credit method. This method of recurring single premiums not only includes pensions and accrued benefits known at 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.

Long-term provisions are recognised at their settlement value and discounted to the key date of the annual financial statements unless they are only of secondary importance. The settlement value also includes cost increases that must be recognised at the date of preparation of the financial statements.

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 premium or discount is recognised in the financial result over the term.

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.

Estimations 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 booked. The 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.

Change of classification of items in the consolidated income statement

In the reporting year, the Instone Group changed the classification of expense items in the consolidated income statement in comparison to the previous year. The aim of this change was to make the consolidated income statement clearer and less ambiguous so that the external expenses for the project business of the Instone Group can be summarised in the cost of materials. Thanks to this clear and unique illustration of the cost of materials, it is easier to derive the results from the project business from the consolidated income statement.

The change of classification of items in the consolidated income statement means that it is now possible for the expense items which are assigned to the cost of materials to relate solely to the external expenses for the project developments of the Instone Group and expense items of the other operating expenses now include only expenses that are not attributable to the project business of Instone Real Estate.

The reclassifications of external expenses for the project developments to the cost of materials related to the following items in detail:

RECLASSIFICATION TO THE COST OF MATERIALS
In thousands of euros

	2017
Rent and maintenance expenses for project developments	1,132
Insurance expenses for project developments	385
Expenses for building permits and other government fees for project developments	1,922
Other expenses for project developments	2,596
Land tax expenses for project developments	586
	6,621

The reclassifications of non-project-related expenses to other operating expenses relate in detail to the following items:

RECLASSIFICATION TO OTHER OPERATING EXPENSES
In thousands of euros

	2017
Expenses for office equipment	28
Expenses for IT systems including software and hardware costs	1,467
Warranty expenses not eligible for capitalisation	1,894
Non-deductible input tax	2,557
Other expenses not eligible for capitalisation for invoiced project developments	2,846
	8,792

The impact on the consolidated income statement of the previous year is shown below:

CONSOLIDATED INCOME STATEMENT

In thousands of euros

	Adjusted in 2017	Adjustment	Reported in 2017
Revenue	199,700		199,700
Changes in inventories	120,207		120,207
	319,907		**319,907**
Other operating income	5,381		5,381
Cost of materials	– 242,647	2,171	– 244,819
Staff costs	– 49,531		– 49,531
Other operating expenses	– 43,644	– 2,171	– 41,473
Depreciation and amortisation	– 437		– 437
Consolidated earnings from operating activities	**– 10,971**		**– 10,971**
Income from investments recognised at equity	235		235
Other income from investments	– 61		– 61
Financial income	595		595
Financial expenditure	– 20,966		– 20,966
Write-down securities classified as financial assets	18		18
Consolidated earnings before tax (EBT)	**– 31,150**		**– 31,150**
Income taxes	190		190
Consolidated earnings after tax (EAT)	**– 30,960**		**– 30,960**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1 Revenues

Revenues are spread across the following regions:

REVENUES BY REGION

In thousands of euros

	2018	2017
Germany	358,379	196,723
Rest of Europe	2,457	2,977
	360,836	**199,700**

The breakdown of revenues by type of revenue is shown in the following table:

REVENUES BY REVENUE TYPE

In thousands of euros

	2018	2017
Revenue from building contracts		
Revenue recognition at a point in time	25,932	196,778
Revenue recognition over time	328,167	
	354,099	**196,778**
Other services	6,737	2,922
	360,836	**199,700**

During the course of applying IFRS 15, revenues, which were previously reported in “Revenues from building contracts with revenue recognition at a point in time” are now reported under “Revenues from building contracts with revenue recognition over time“.

The total amount of unfulfilled performance obligations as of the balance sheet date is €417,063 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

	2018	2017
Income from the reduction of flat-rate allowances for losses on individual value adjustments	672	894
Insurance refunds	519	–
Income from the settlement of legal disputes	216	–
Reimbursements	152	–
Income from released liabilities	112	–
Income from disposals of property, plant and equipment	20	–
Rental income	17	–
Receivables from the sale of voting rights in TG Potsdam	–	1,700
Bonus payment Hofgut Obermühle	–	1,045
Other income	967	1,742
	2,675	**5,381**

Other income mainly includes cost allocations and items that are not included elsewhere.

3 Cost of materials

COST OF MATERIALS

In thousands of euros

	2018	2017
Cost of raw materials, consumables and supplies	– 94,437	– 116,607
Expenses for purchased services	– 225,916	– 126,040
	– 320,353	**– 242,647**

4 Staff costs

STAFF COSTS

In thousands of euros

	2018	2017
Wages and salaries	– 29,740	– 23,683
Long-term incentives	–	– 22,414
Social security contributions and expenses for pensions	– 3,823	– 3,434
	– 33,563	**– 49,531**

The contributions paid by the employer to the state-administered pension fund in the reporting year amounted to €1,709 thousand (previous year: €1,399 thousand) .

The pension expenses amount to €411 thousand (previous year: €425 thousand) . They relate to pension entitlements earned in the financial year from defined benefit plans and payments to defined contribution plans.

The average number of employees can be broken down as follows:

EMPLOYEES

Employees (average)	2018	2017
Berlin	29	23
Essen	65	62
Frankfurt a. M.	41	38
Hamburg	27	25
Cologne	42	39
Leipzig	52	56
Munich	18	16
Stuttgart	27	25
Germany	**301**	**284**
Rest of Europe	2	3
	303	**287**

5 Other operating expenses

OTHER OPERATING EXPENSES

In thousands of euros

	2018	2017
Technical and business consulting	– 5,734	– 2,219
Non-deductible input tax	– 3,284	– 2,574
Rentals and lease rentals	– 3,033	– 3,483
Change in provisions warranty and litigation risks	– 2,481	– 1,900
Court costs, attorneys' and notaries' fees	– 2,387	– 2,062
Commission fees and other distribution costs	– 1,870	– 18,410
Restructuring and adjustment costs	– 1,787	– 690
Operating costs	– 1,503	– 1,467
Subsequent acquisition/manufacturing costs on purchase price of corporate shares	– 661	–
Vehicle costs	– 583	– 561
Travel expenses, transportation costs	– 529	– 410
Advertising measures	– 512	– 484
Insurances	– 511	– 401
Annual financial statement costs	– 323	– 1,635
Mail and funds transfer expenses	–	– 883
Sundry other operating expenses	– 2,728	– 6,465
	– 27,926	**– 43,644**

Other operating expenses primarily include costs for technical and business consulting, non-deductible input tax, costs for rent, leases and leased assets as well as provisions for warranty and litigation risks.

Sundry other operating expenses not recognised elsewhere primarily include administration costs and imputed costs.

6 Depreciation and impairment

DEPRECIATION AND AMORTISATION

In thousands of euros

	2018	2017
Property, plant and equipment	– 560	– 437
Intangible assets	– 27	–
	– 587	**– 437**

As in the previous year, there was no impairment on intangible assets or property, plant and equipment.

7 Income from investments

Income from investments recognised at equity can be broken down as follows:

INCOME FROM INVESTMENTS

In thousands of euros

	2018	2017
Income from investments recognised at equity		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	– 283	– 991
Wohnpark Giessener Strasse GmbH & Co. KG	123	– 2
TG Potsdam Projektentwicklungsgesellschaft mbH	–	– 250
Wohnentwicklung Theresienstraße GmbH & Co. KG	–	0
	– 160	**– 1,243**
Commercial law profit withdrawals from investments recognised at equity		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	462	1,478
	462	**1,478**
	302	**235**

The other income from investments can be broken down as follows:

OTHER INCOME FROM INVESTMENTS

In thousands of euros

	2018	2017
Income from the disposal of investments		
formart Immobilien GmbH	24	15
ArtOffice GmbH	–	7
formart Beteiligungsverwaltungsgesellschaft mbH	–	– 1
Wohnentwicklung Theresienstraße GmbH & Co. KG	–	– 10
Warenhaus Flensburg Verwaltungsgesellschaft mbH	–	– 165
Uferpalais Projektgesellschaft mbH & Co. KG	– 38	–
	– 14	**– 154**
Income from non-consolidated subsidiaries and other investments		
Domaine Etoile S.C.I.	–	93
	–	**93**
	– 14	**– 61**

8 Financial result

FINANCIAL RESULT

In thousands of euros

	2018	2017
Interest and similar income	516	595
Financial income	**516**	**595**
Interest and similar expenses	– 8,933	– 20,487
Interest on put options	–	– 129
Interest components of the increase in provisions	– 13	– 321
of which, net interest expenses on pension obligations	– 106	– 29
Financial expenses	**– 8,946**	**– 20,966**
	– 8,430	**– 20,371**
Expense from long-term securities (previous year: income)	– 386	18
Financial result	**– 8,816**	**– 20,353**

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 €516 thousand was shown in the balance sheet for financial instruments not carried at fair value through profit or loss (previous year: €595 thousand); The interest expense for these financial instruments amounted to €– 8,933 thousand (previous year: €– 20,616 thousand) .

The net interest expense from pension obligations of €– 106 thousand (previous year: €– 29 thousand) includes the interest payable annually on the net cash value of the pension obligations of €– 188 thousand (previous year: €– 165 thousand). These amounts are recognised in interest income from plan assets amounting to €294 (previous year: €– 136 thousand).

9 Income taxes

INCOME TAXES

In thousands of euros

	2018	2017
Income taxes		
Corporate tax (domestic and foreign)	– 8,676	– 7,411
German trade tax	– 8,732	– 7,654
Current income tax liabilities	**– 17,408**	**– 15,065**
Deferred tax	– 3,139	15,255
	– 20,547	**190**

No deferred taxes were created for temporary differences in the amount of €4,688 thousand between the net assets of Group companies and the tax basis of the interests in these Group companies ("Outside Basis Differences") as no sale of investments is intended for an indefinite period.

The reconciliation of notional income tax liabilities to recognised income taxes is as follows:

INCOME TAXES

In thousands of euros

	2018	2017
Earnings before tax	**29,580**	**– 31,150**
Theoretical tax expense (previous year: income)	9,650	– 7,787
Differences to foreign tax rates	– 18	–
Differences to domestic tax rates	– 580	– 1,752
Current and deferred taxes for previous years	– 2,375	– 9,754
Non-tax-deductible expenses	93	7,555
Non-taxable expenses as per Section 8b KStG (German Corporate Tax Act)	338	6,130
At equity valuation of associates	–	2,067
subsequent valuation of deferred taxes and non-capitalised deferred taxes on losses carried forward	12,444	3,659
Different tax treatment of revenue attributions (KG investment)	340	– 1,031
Transaction-related special effect	206	940
Other	448	– 217
Current income tax liabilities	**20,547**	**– 190**

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 Instone Group of 32.625% (previous year: 25.0%) has been used as the expected tax rate.

10 Earnings per share

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.

EARNINGS PER SHARE

	2018	2017
Net result for the shareholders of Instone Real Estate Group AG (in thousands of euros).	6,500	– 31,088
Number of shares outstanding (in thousands of euros)	36,988	36,988
Basic and diluted earnings per share (In euros)	0.18	– 0.84

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-controlling interests

The non-controlling interests in the amount of €5,206 thousand (previous year: €1,510 thousand) refer to the Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Instone Real Estate Leipzig GmbH and GRK Beteiligung GmbH. In the previous year, non-controlling interests were also held in the companies west.side GmbH and GRK REVION Hamburg GmbH.

In the financial year no dividend (previous year: €650 thousand) was distributed to non-controlling interests. The profit after tax attributable to non-controlling interests amounts to €2,496 thousand (previous year: €– 129 thousand) .

11 Intangible assets

INTANGIBLE ASSETS

In thousands of euros

	2018	2017
Acquisition costs		
As of 1 January	18	18
Additions	182	–
As of 31 December	**200**	**18**
Cumulative depreciation and amortisation		
As of 1 January	18	18
Additions	27	–
As of 31 December	**45**	**18**
Book values 31 December	**155**	**–**

12 Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT

In thousands of euros

	2018	2017
Acquisition costs		
As of 1 January	2,342	1,851
Additions	1,114	492
Disposals	– 842	– 1
As of 31 December	**2,614**	**2,342**
Cumulative depreciation and amortisation		
As of 1 January	744	307
Additions	560	438
Disposals	– 685	– 1
As of 31 December	**619**	**744**
Book values 31 December	**1,995**	**1,598**

13 Investments recognised at equity

As of 31 December 2018, investments measured at equity were held with a book value of €237 (previous year: €396 thousand). The summarised financial information about joint ventures is presented below.

ASSOCIATES

In thousands of euros

	31/12/2018	31/12/2017
Assets	2,215	3,805
Liabilities	– 1,561	– 2,759
Net assets	**654**	**1,046**
Sales revenue	6	1,088
Profit for the year	604	918

14 Other investments

Other investments of €421 thousand are broken down as shown below:

OTHER INVESTMENTS

In thousands of euros

	31/12/2018	31/12/2017
Interests in affiliated companies not included in the consolidated financial statements		
Westville 1 GmbH	137	–
Immobiliengesellschaft C. S. C. S. à r. l.	31	31
Uferpalais Verwaltungsgesellschaft mbH	22	22
Wiesbaden Verwaltungs GmbH	18	18
GRK Golf Masters GmbH	–	25
Instone Real Estate Assets GmbH	–	25
	208	**121**
Investments		
Parkhausfonds Objekt Flensburg GmbH & Co. KG	149	149
CONTUR Wohnbauentwicklung GmbH	26	26
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH	25	25
formart Wilma Verwaltungsgesellschaft mbH	13	12
	213	**212**
	421	**333**

15 Inventories

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).

INVENTORIES

In thousands of euros

	31/12/2018	31/12/2017
Work-in-progress	392,074	659,388
Finished goods	12,326	56
	404,400	**659,444**

Work-in-progress is subject to disposal restrictions due to project financing by banks amounting to €339,462 thousand (previous year: €358,923 thousand).

Borrowing costs in the amount of €3,494 thousand (previous year: €6,959 thousand) were capitalised as part of inventories attributable to project-related financing based on individual agreements with external lenders.

It is expected that inventories of €317,733 thousand (previous year: €419,297 thousand) can only be realised after more than twelve months.

The inventories are not subject to impairment as in the previous year. There was no reversal of impairment losses in the financial year as in the previous year.

16. Financial receivables

FINANCIAL RECEIVABLES

in thousands of euros

	31/12/2018	31/12/2017
Other loans	–	683
non-current	**–**	**683**
Financial receivables from affiliated companies/ Other participations	65	–
Other financial receivables	–	32,360
current	**65**	**32,360**
	65	**33,043**

17 Contract assets

The structure of contract assets is composed as follows:

CONTRACT ASSETS
In thousands of euros

	31/12/2018	31/12/2017
Contract assets	466,858	–
Payments received	– 318,081	–
	148,777	–
Receivables from contract start-up costs	9,712	–
	158,489	–

The change in contract assets is due to the increase in fulfilment in the underlying contracts with customers and the parallel increase in advance payments.

The cycle of contract assets is – analogous to the project term – an average of three years.

The amortisation of the contract costs in the amount of €6,990 thousand. (previous year: €0 thousand) occurs in the opposite direction to the fulfilment of the underlying contracts with customers.

18 Trade receivables

TRADE RECEIVABLES
In thousands of euros

	31/12/2018	31/12/2017
Trade receivables	13,127	4,217
	13,127	**4,217**

19 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

	31/12/2018	31/12/2017
Upfront payments on land	10,582	2,251
Tax receivables without income taxes	3,213	3,155
Receivables tax exemption Hochtief Solutions AG	2,758	2,758
Loans and receivables	905	2,468
Deferred income	696	587
Deposits given	497	–
Social security receivables	111	–
Capitalised transaction costs	–	2,533
Sale of voting rights in TG Potsdam	–	1,700
Other	4	1,022
	18,766	**16,474**

It is expected that, apart from the deposits of €497 thousand, no other receivables or other assets can be realised after more than twelve months.

20 Income tax assets

INCOME TAX ASSETS
In thousands of euros

	31/12/2018	31/12/2017
Receivables from domestic and foreign tax authorities during the ordinary course of business	997	–
	997	–

21 Cash and cash equivalents

CASH AND CASH EQUIVALENTS
In thousands of euros

	31/12/2018	31/12/2017
Cash and cash equivalents	87,965	73,624
of which, restricted	6,320	14,903
Credit line – unused amount	345,344	457,453
	433,309	**531,077**

22 Equity

The share capital of the Company as of 31 December 2018 is €36,988 thousand (previous year: €8 thousand) and is fully paid up. It is divided into 36,988,336 no-par value shares without any nominal value.

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 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 change of legal form on 28 August 2018.

The increase in the capital reserves by €113,520 thousand to €198,899 thousand (previous year: €85,379 thousand) was mainly due to the going public on 15 February 2018.

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.

In contrast to these positive effects, equity was offset by the neutral netting of costs in the amount of €9,252 thousand in relation to the initial public offering.

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 €– 702 thousand (previous year: €904 thousand).

The income tax effects recognised directly in equity can be broken down as follows:

EQUITY

In thousands of euros

	31/12/2018	31/12/2017
Amount before income taxes	– 1,042	1,318
Income taxes	340	– 414
Amount after income taxes	**– 702**	**904**

23 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.

The liabilities from defined benefit plans of Instone Real Estate are as follows:

LIABILITIES FROM DEFINED BENEFIT PLANS

In thousands of euros

	31/12/2018	31/12/2017
Active staff	5,966	6,277
of which, not dependent on remuneration	5,966	6,277
Vested claims	4,473	2,871
Ongoing pensions	819	610
	11,258	**9,758**

The remaining time in service of the eligible active employees was 12.4 years as at the balance sheet date (previous year: 12.3 years).

COMPOSITION OF PLAN ASSETS

In thousands of euros

	31/12/2018	31/12/2017
Listing in an active market:		
CTA assets[1]	6,753	5,013
DC assets[2]	538	564
Current euro balances	0	0
	7,291	**5,577**

[1] CTA = Contractual Trust Arrangement
[2] DC = Deferred Compensation

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 approximately 60.0% (previous year: 51.3%) of total insurance cover. Total cover is 64.8% (previous year: 57.1%). 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

	31/12/2018	31/12/2017
Pension obligations covered by funds	10,434	8,943
Deferred Compensation covered by funds	824	815
	11,258	**9,758**
Fair value of the fund assets	– 7,291	– 5,577
	3,967	**4,181**

The amount of the pension provisions depends on the actuarial assumptions, which also include estimates. The actuarial assumptions underlying the calculation are shown below.

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes the duration of the pension obligations relevant to the Company into account. 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.

ACTUARIAL ASSUMPTIONS

In %

	31/12/2018	31/12/2017
Discount factor	2.02	1.93
Salary growth rates	2.70	2.50
Pension growth rates	2.00	1.30

The cash value of the defined benefit obligation and the fair value of the plan assets have the following changes:

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

In thousands of euros

	2018	2017
Defined benefit obligation cash value on 1 January	9,758	9,589
Current service cost	435	434
Interest expense	188	165
Actuarial gains (-)/losses (+) due to changes in demographic assumptions	536	– 529
Actuarial gains (-)/losses (+) due to changes in financial assumptions	376	114
Pension payments	– 35	– 15
Defined benefit obligation cash value as of 31 December	**11,258**	**9,758**

CHANGE IN PLAN ASSETS

In thousands of euros

	2018	2017
Plan assets on 1 January	5,577	5,441
Allocations	2,008	0
Interest income from plan assets	– 293	136
Income from plan assets not included in net interest income	– 1	0
Plan assets on 31 December	**7,291**	**5,577**

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

	31/12/2018		31/12/2017	
	Increase	Decrease	Increase	Decrease
Discount factor +0.50%/– 0.50%	– 1,278	1,506	– 1,121	1,324
Salary growth rates +0.50%/– 0.50%	–	–	30	– 29
Pension growth rates +0.25%/– 0.25%	220	– 209	168	– 160
Life expectancy + 1.00 year	372	–	286	–

Expenses related to defined benefit pension plan obligations are as follows:

OBLIGATIONS RELATED TO DEFINED BENEFIT PENSION PLAN

In thousands of euros

	31/12/2018	31/12/2017
Current service cost	435	434
Interest expense for pension entitlement already accrued	– 188	165
Interest income from plan assets	294	– 136
Net interest expense/income	**106**	**29**
Total amounts recognised in profit or loss	**541**	**463**

The current service cost for the following financial year is €455 thousand (previous year: €435 thousand).

The contributions to defined contribution plans are expected to rise in the financial year 2019 by the same proportion as in financial year 2018.

24. Other provisions

OTHER PROVISIONS

In thousands of euros

	31/12/2018	31/12/2017
Non-current		
personnel provisions	3,986	727
Other provisions	562	603
	4,548	**1,330**
Current		
personnel provisions	32	34,115
Warranty obligations	6,818	6,765
Tax provision	2,758	2,758
Litigation risks	3,573	3,181
Provisions for work still to be carried out	2,258	–
Other provisions	2,287	2,340
	17,726	**49,159**
	22,274	**50,489**

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, cases of compensation for damages and other contingent liabilities.

The development of other provisions can be seen in the following table:

DEVELOPMENT OF OTHER PROVISIONS

In thousands of euros

	31/12/2018	01/01/2018	Allocation	Liquidation	Rebooking	Consumption
personnel provisions	4,018	34,842	3,338	– 563	–	– 33,600
Warranty obligations	6,818	6,765	671	– 552	–	– 66
Tax provisions	2,758	2,758	–	–	–	–
Litigation risks	3,573	3,181	1,164	– 329	–	– 444
Provisions for work still to be carried out	2,258	–	13,958	– 11,700	–	–
Other provisions	2,849	2,943	850	– 143	– 110	– 690
	22,274	**50,489**	**19,981**	**– 13,287**	**– 110**	**– 34,800**

The personnel provisions include commitments to the employees in connection with long-term incentive plans. Provisions of €3,114 thousand (previous year: €34,092 thousand) have been recognised for these long-term incentive plans.

25. Financial liabilities

FINANCIAL LIABILITIES

In thousands of euros

	31/12/2018	31/12/2017
Non-current		
Liabilities to banks	177,744	183,203
Liabilities to shareholders	–	57,804
	177,744	**241,007**
Current		
Liabilities to banks	87,495	134,205
Liabilities to third parties	327	447
Liabilities to shareholders	–	20
	87,822	**134,672**
	265,566	**375,679**

FINANCIAL LIABILITIES 2018

In thousands of euros

	31/12/2018	01/01/2018	Cash flows from financial activities	Net changes in	
				capitalised interest	Amortisation measurement using the effective interest method
Liabilities to banks	265,239	317,407	– 51,477	– 1,489	798
Liabilities to shareholders	–	57,824	– 57,824	–	–
Liabilities to third parties	327	448	– 121	–	–
	265,566	**375,679**	**– 109,422**	**– 1,489**	**798**

FINANCIAL LIABILITIES 2017

In thousands of euros

	31/12/2017	01/01/2017	Cash flows from financial activities	Shareholder contribution	Net changes in	
					capitalised interest	Amortisation measurement using the effective interest method
Liabilities to banks	317,407	197,162	121,877	–	867	– 2,499
Liabilities to shareholders	57,824	96,591	–	– 47,959	9,192	–
Liabilities to third parties	448	88,752	– 88,304	–	–	–
	375,679	**382,505**	**33,573**	**– 47,959**	**10,059**	**– 2,499**

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 1.50% and 4.24% (previous year: 0.87% and 4.24%).

As a rule, the liabilities of the Group to banks are not the subject of contractual assurances and are instead secured by land charges.

26 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, which are recognised for tax refund claims arising from the anticipated utilisation of existing tax loss carryforwards in subsequent years and whose realisation appears to be sufficiently certain, amount to €4,898 thousand. (previous year: €8,660 thousand).

Our companies have tax loss carryforwards which do not relate to deferred tax assets. In Germany, these amount to €55,339 thousand (previous year: €8,298 thousand), while in Luxembourg, they amount to €20,469 thousand (previous year: €21,802 thousand) and in Austria €30,802 thousand (previous year: €31,087 thousand).

In principle, these losses 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

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Non-current assets	149	964	77	1,042
Current assets	97,235	132,676	5,199	22,985
Non-current debts	**1,932**	**914**	**1,689**	**4,462**
Financial liabilities	–	–	–	3,508
Pension provisions	1,700	–	1,496	–
Other provisions	232	–	193	21
Other non-current debts	–	914	–	933
Current debts	**5,147**	**3,483**	**14,322**	**2,831**
Other provisions	532	2,516	11,336	2,629
Other current debts	4,615	967	2,986	202
	104,464	**138,037**	**21,287**	**31,320**
Loss carryforwards	1,389	–	2,364	–
Gross amount	105,853	138,037	23,651	31,320
Offset	– 105,853	– 105,853	– 23,651	– 23,651
Balance sheet disclosure	–	**32,184**	–	**7,669**

27 Contract liabilities

CONTRACT LIABILITIES

In thousands of euros

	31/12/2018	31/12/2017
Contract assets	– 13,267	–
Payments received	19,900	–
Contract liabilities	**6,633**	**–**

The contract liabilities fell in the financial year from €18,645 thousand on 1 January 2018 to €6,633 thousand as of 31 December 2018. This reduction is due to the increased contract fulfilment in the financial year.

The cycle of contract liabilities is – analogous to the project term – an average of three years.

On contract liabilities in the amount of €18,645 thousand as at 1 January 2018, in the financial year €19,337 thousand in revenues were generated through contract fulfilment.

28. Trade payables

TRADE PAYABLES

In thousands of euros

	31/12/2018	31/12/2017
Trade payables	78,342	45,340
Payments received	–	230,352
	78,342	**275,692**

29. Other liabilities

OTHER LIABILITIES

In thousands of euros

	31/12/2018	31/12/2017
Current		
Liabilities from taxes (excluding income taxes)	2,352	1,032
Liabilities to employees	290	7,977
Liabilities under social security	7	11
Sundry other liabilities	10,040	386
	12,689	**9,406**

30. Income tax liabilities

INCOME TAX LIABILITIES

In thousands of euros

	31/12/2018	31/12/2017
Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business	18,094	13,793
	18,094	**13,793**

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 at 31 December 2018, cash and cash equivalents consisted entirely of cash and cash equivalents of €87,965 thousand (previous year: €73,624 thousand), of which €6,320 thousand (previous year: €14,903 thousand) were subject to restrictions on disposal.

OTHER DISCLOSURES

Disclosures about related persons and companies

Key related persons and companies do not include any material entities and shareholders mainly measured at equity. There were material transactions with key related parties and companies which impacted the following items:

Relationships with partners

RELATIONSHIPS WITH PARTNERS

In thousands of euros

	31/12/2018	31/12/2017
Financial receivables		
Coöperatieve Activum SG Fund III Investments U.A.	–	19,233
Coöperatieve Activum SG Fund V Investments U.A.	–	2,273
Coöperatieve Formart Investments U.A.	–	10,751
	–	**32,257**
Financial liabilities		
Coöperatieve Activum SG Fund III Investments U.A.	–	38,631
Coöperatieve Formart Investments U.A.	–	19,193
	–	**57,824**
Other operating expenses		
Coöperatieve Activum SG Fund III Investments U.A.	–	697
	–	**697**
Interest		
Coöperatieve Activum SG Fund III Investments U.A.	–	3,788
Coöperatieve Activum SG Fund V Investments U.A.	–	674
Coöperatieve Formart Investments U.A.	–	1,885
Stefan Göpel	–	222
	–	**6,569**

Of the transaction costs incurred as a result of the going public in the amount of €14,314 thousand, €5,062 thousand was reimbursed by the former shareholders in the financial year.

Relationships with associates

RECEIVABLES FROM ASSOCIATES

in thousands of euros

	31/12/2018	31/12/2017
Uferpalais Verwaltungsgesellschaft mbH	65	65
Projektverwaltungsgesellschaft Mönchengladbach – Area of Sports mbH	–	38
	65	**103**

LIABILITIES TO ASSOCIATES

In thousands of euros

	31/12/2018	31/12/2017
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	178	450
Wohnpark Gießener Straße GmbH & Co. KG	150	–
	328	**450**

The financial receivables have a remaining term of less than one year.

The financial liabilities towards the Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG include an interest-free loan of €150 thousand and have a remaining term of less than one year.

These transactions are concluded under normal market conditions.

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 Supervisory Board.

Remuneration of the Management Board

The remuneration of the Management Board members in 2018 was comprised of the following components:

Fixed remuneration

- → The fixed remuneration is paid in equal monthly instalments.

Fringe benefits

- → The 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 details in the remuneration report on page 89.

Multi-year variable remuneration (long-term incentive (LTI))

- → As a further component of the variable remuneration, the members of the Management Board are also promised a multiple year variable compensation in the form of an LTI bonus. For a detailed description, please refer to the details in the Compensation Report on page 89.

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 details in the Compensation Report on page 89.

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 this, €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 financial year 2018 (previous year: €1.3 million). Of this, €1.2 million (previous year: €1.1 million) attributable to fixed, non-performance-related remuneration components, €21.3 million (previous year: €0.4 million) 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.

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 2018 was €406 thousand. Of which €343 thousand was remuneration for the work of the General Committee. Remuneration for work in 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.

Transactions with members of the Supervisory Board

On 24 October 2018, Instone Real Estate and Mr Stefan Mohr (member of the Supervisory Board from 13 February 2018 to 31 December 2018) concluded a developer purchase contract for the construction and sale of flats and jointly owned areas in a residential unit in Instone Real Estate project “Marie” in Frankfurt am Main in the amount of €860 thousand. This contract was concluded under standard market terms and conditions.

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 of 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

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 function as a member of the Supervisory Board of the Company, Mr Brendgen is a member of management or supervisory bodies and/or 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 Management, management or supervisory bodies and/or 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 of 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

Fee payable to the auditor

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

AUDITOR'S FEES

In thousands of euros

	31/12/2018	31/12/2017
Audit services	505	758
Other confirmation services	145	362
Other services	7	52
	657	**1,172**

The auditor performed other certification services for the Instone group, such as audits of the formation of companies on the basis of contributions in kind, audits pursuant to Section 16 MaBV, investigative actions pursuant to ISRS 4400 and audits pursuant to IDW PS 981. Other services essentially include audit-related consulting services.

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 for at least 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 are based on the contractual terms of the promissory notes. The financial ratios include compliance with the interest coverage ratio, the adjusted equity, the equity ratio and the loan-to-value. The potential financial risks resulting from the promissory notes were not considered to be significant as at the balance sheet date, 31 December 2018. The loan is not secured and the Group company Instone Real Estate Development GmbH has met all relevant obligations in the financial year 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 2018 included promissory notes issued by the Group company Instone Real Estate Development GmbH in the financial year 2017 for a nominal value of €66,900 thousand. The financial liability is accounted for at its 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:

2018 CARRYING AMOUNTS

In thousands of euros

	Carrying amounts	Cash outflows		
	31/12/2018	2019	2020–2022	> 2022
Non-derivative financial liabilities				
Financial liabilities	265,566	87,822	177,744	–
Trade payables	78,342	78,342	–	–
	343,908	**166,164**	**177,744**	**–**

2017 CARRYING AMOUNTS

In thousands of euros

	Carrying amounts	Cash outflows		
	31/12/2017	2018	2019-2021	> 2021
Non-derivative financial liabilities				
Financial liabilities	375,679	201,049	170,641	20,159
Trade payables	275,692	275,692	–	–
	651,371	**476,741**	**170,641**	**20,159**

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

	31/12/2018	31/12/2017
Cash and cash equivalents	87,965	73,624
of which, restricted	6,320	14,903
Credit line – unused amount	345,344	457,453
	433,309	**531,076**

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. 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 book values 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.

The following table shows the overdue and non-overdue, impaired financial assets:

IMPAIRED FINANCIAL ASSETS

In thousands of euros

		Impairment provision matrix				
	Gross book value	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	–	– 1	– 1,735
Trade receivables (net book value)	**13,127**	**8,145**	**4,112**	**24**	**68**	**778**

The current changes in the 2018 financial year are calculated from additions, releases and utilisations and amount to €1,758 thousand, (previous year: €2,712 thousand) so that as at 31 December 2018, an impairment provision volume on trade receivables exists of €1,860 thousand .

The following table shows the overdue non-impaired financial assets at at 31 December 2017:

OVERDUE NON-IMPAIRED FINANCIAL ASSETS

In thousands of euros

	31/12/2017			
	Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days
Trade receivables	3,588	42	22	459
	3,588	**42**	**22**	**459**

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/ decrease in market interest rates by 100 basis points (if the other variables remain constant) would result in higher/lower earnings after taxes of €– 1,408 thousand or €0 thousand (previous year: €– 1,812 thousand or €+ 1,812 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.

2018 CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

In thousands of euros

		Categories according to IFRS 9				
	Book value 31/12/2018	Affecting profit and loss at the fair value	At amortised costs	At amortised costs	not within the scope of IFRS 9	Fair value 31/12/2018
Assets						
Financial assets	**267,555**	**421**	**108,645**	**–**	**158,489**	**267,555**
Other investments	421	421	–	–	–	421
Financial receivables	**65**	**–**	**65**	**–**	**–**	**65**
Non-current	–	–	–	–	–	–
Current	65	–	65	–	–	65
Contract assets	158,489	–	–	–	158,489	158,489
Trade receivables	13,127	–	13,127	–	–	13,127
Other receivables	7,488	–	7,488	–	–	7,488
Cash and cash equivalents	87,965	–	87,965	–	–	87,965
Equity and Liabilities						
Financial liabilities	**363,230**	**–**	**–**	**356,597**	**6,633**	**363,230**
Financial liabilities	**265,566**	**–**	**–**	**265,566**	**–**	**265,566**
Non-current	177,744	–	–	177,744	–	177,744
Current	87,822	–	–	87,822	–	87,822
Contract liabilities	6,633	–	–	–	6,633	6,633
Trade payables	78,342	–	–	78,342	–	78,342
Other liabilities	12,689	–	–	12,689	–	12,689

2017 CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

In thousands of euros

		Categories according to IAS 39			
	Book value 31/12/2017	**Available for sale**	**Loans and receivables**	**At amortised cost**	**Fair value 31/12/2017**
Assets					
Financial assets	**122,320**	**333**	**121,987**	**–**	**122,320**
Other investments	333	333	–	–	333
Financial receivables	**33,043**	**–**	**33,043**	**–**	**33,043**
Non-current	683	–	683	–	683
Current	32,360	–	32,360	–	32,360
Trade receivables	4,217	–	4,217	–	4,217
Other receivables	11,103	–	11,103	–	11,103
Non-current	1,022	–	1,022	–	1,022
Current	10,081	–	10,081	–	10,081
Cash and cash equivalents	73,624	–	73,624	–	73,624
Equity and Liabilities					
Financial liabilities	**651,371**	**–**	**–**	**651,371**	**651,371**
Financial liabilities	**375,679**	**–**	**–**	**375,679**	**375,679**
non-current	241,007	–	–	241,007	241,007
current	134,672	–	–	134,672	134,672
Trade payables	275,692	–	–	275,692	275,692

Net income from financial instruments

The following table shows the net income from financial instruments according to the categories in IFRS 9:

NET INCOME GENERATED FROM FINANCIAL INSTRUMENTS

In thousands of euros

	31/12/2018	31/12/2017
Affecting profit and loss at the fair value (previous year: Available for sale)	228	400
At amortised costs (previous year: Loans and receivables)	– 429	571
Liabilities at amortised cost	– 9,332	– 20,408
	– 9,533	**– 19,437**

The calculation of net income 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 €– 1,768 thousand in the financial year (previous year: €– 2,712 thousand).

Other financial obligations

The future minimum lease payments are as follows:

OTHER FINANCIAL OBLIGATIONS

In thousands of euros

	31/12/2018	31/12/2017
Due in up to one year	2,647	2,749
Due in one to five years	4,726	5,323
Due in over five years	836	1,406
	8,209	**9,478**

Instone Real Estate has concluded long-term contracts for commercial real estate and company vehicles as a tenant/lessee.

Declaration of Conformity with the German Corporate Governance Code

In December 2018, 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 is published on the Company's website under ↗ Instone Declaration of Compliance.

Information on the preparation and approval

The Management Board of Instone Real Estate Group AG has prepared the consolidated financial statements on 22 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, 22 March 2019

Management Board

Kruno Crepulja | Dr. Foruhar Madjlessi

Andreas Gräf | Torsten Kracht

EVENTS AFTER THE BALANCE SHEET DATE

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

LIST OF SHAREHOLDINGS

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS AS AT 31/12/2018

	Shareholding in %	Equity In thousands of euros	Annual result In thousands of euros
I. Affiliated companies included in the consolidated 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[1]	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 a. M., 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
GRK Beteiligung GmbH, Leipzig, Germany	98.0	– 468	– 148
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.0	11,549	2,887
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	– 24	– 12
Gartenhöfe GmbH, Leipzig, Germany	100.0	5,848	363
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	513	640

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS AS AT 31/12/2018

	Shareholding 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	383	358
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt a. M., 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
Immobiliengesellschaft CSC Kirchberg S.à r.l., Luxemburg, Luxemburg	100.0	32	– 6
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany[2]	6.0	3,459	140
Projekt 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 a. M., Germany	100.0	25	–

[1] Profit and loss transfer agreement
[2] As at: 31 December 2017

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS AS AT 31/12/2017

	Shareholding in %	Equity In thousands of euros	Annual result In thousands of euros
I. Affiliated companies included in the consolidated financial statements			
Instone Real Estate Development GmbH, Essen, Germany	100.0	142,260	18,556
Durst-Bau GmbH, Vienna, Austria	100.0	561	– 895
formart Immobilien GmbH, Essen, Germany[1]	100.0	701	0
formart Luxembourg S.à r.l., Luxembourg, Luxembourg	100.0	2,866	2,161
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt a. M., Germany	70.0	875	– 282
west.side GmbH, Cologne, Germany	94.9	501	138
Instone Real Estate Leipzig GmbH, Leipzig, Germany	94.0	24,971	2,098
GRK Elsterloft GmbH & Co. KG, Leipzig, Germany	100.0	63	76
GRK Beteiligung GmbH, Leipzig, Germany	98.0	499	– 100
GRK Revion Hamburg GmbH, Leipzig, Germany	98.0	60	428
Instone Real Estate Capital GmbH & CO. KG, Leipzig, Germany	100.0	13,102	5,905
Instone Real Estate Verwaltungs GmbH, Leipzig, Germany	100.0	45	– 0
Instone Real Estate Housing GmbH, Leipzig, Germany	100.0	2,833	1,920
OPUS Wohnbau GmbH, Leipzig, Germany	94.0	566	– 61
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.0	8,750	– 92
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	– 11	– 9
Gartenhöfe GmbH, Leipzig, Germany	100.0	4,631	4,500
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	– 1,620	– 192
II. Investments recognised at equity			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt a. M., Germany	50.0	948	922
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt a. M., Germany	50.0	33	– 4
III. Other participations			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	46	– 72
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	40	2
Real Estate Company CSC Kirchberg S.à rl, Luxembourg, Luxembourg	99.9	39	– 7
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany	6.0	3,459	140
Projekt Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	24	0
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.0	48	– 7
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	– 39	– 9
Instone Real Estate Assets GmbH, Essen, Germany	100.0	25	1
GRK Golf Masters, Leipzig, Germany	100.0	34	– 22

[1] Profit and loss transfer agreement

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

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 2018, 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 2018 to 31 December 2018, 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 2018 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 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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 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 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 2018. 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 2018, contract assets of kEUR 158,489, inventories amounting to kEUR 404,400, and revenue totalling kEUR 354,099 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 for the first time, revenue for all units sold is recognised over time. In doing so, the service provided including the pro rata result is reported according to the stage 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 and/or a building permit has been granted. 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 depends on the following parameters:

   → the volume of concluded sales contracts,

   → 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 contractual obligations, 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 contractual 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 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 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,

→ 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 29 June 2018. We were engaged by the supervisory board on 20 December 2018. 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 André Mathew.

Düsseldorf/Germany, 22 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Rolf Künemann)	(André Mathew)
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

INSURANCE OF LEGAL REPRESENTATIVES

To the best of our knowledge, we give an assurance that the consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of the Instone Group in accordance with the applicable accounting principles and that the Company's management report together with the combined management report reflect the business performance, including the business results and financial position of the Instone Group, in such a way as to give a true and fair view as well as describes the material opportunities and risks of the probable development of the Instone Group.

Essen, 22 March 2019

The Management Board

Kruno Crepulja Dr. Foruhar Madjlessi

Andreas Gräf Torsten Kracht

CONTACT

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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

FINANCIAL CALENDAR

28/03/2019	Publication of Annual Financial Report 2018
28/05/2019	Quarterly report for publication on 31 March 2019
13/06/2019	Annual General Meeting
27/08/2019	Publication of Quarterly Report as of 30 June 2019
26/11/2019	Quarterly report for publication on 30 September 2019

GLOSSARY

A cities:

Refers to the metropolis cities of Berlin, Hamburg, Munich, Cologne, Stuttgart, Frankfurt am Main and Düsseldorf which are considered in the real estate industry to be the seven most desirable locations in Germany. Instone Real Estate also considers Leipzig to be an A city.

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.

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 and 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 A cities and prosperous medium-sized cities, Instone Real Estate's target areas include: Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, Regensburg and the Rhine-Main region.

Instone Real Estate Group AG

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