INSTONE REAL ESTATE

20 Q3

Q3 quarterly report

Instone Real Estate Group AG

30 September 2020

KEY INDICATORS

In millions of euros

TABLE 001

		9M 2020	9M 2019	Q3 2020	Q3 2019
Performance indicators					
Volume of sales contracts		218.4	314.9	94.9	183.1
Volume of new approvals		296.2	654.9	109.3	384.3
Revenues adjusted		291.3	302.4	111.7	128.2
Key earnings figures					
Gross profit adjusted		94.1	98.9	36.3	40.4
Gross profit margin adjusted	In %	32.3	32.7	32.5	31.5
EBIT adjusted		50.0	56.7	21.8	24.8
EBIT margin adjusted	In %	17.1	18.8	19.5	19.3
EBT adjusted		34.4	46.1	15.7	17.7
EBT margin adjusted	In %	11.8	15.3	14.1	13.8
EAT adjusted		24.9	43.4	11.2	16.4
EAT margin adjusted	In %	8.5	14.4	10.0	12.8
Key liquidity figures					
Cash flow from operations		26.4	–32.0		
Cash flow from operations without new investments		98.6	68.8		
Free cash flow		26.5	–65.7		
Cash and cash equivalents and term deposits[1]		241.5	162.8		

[1] The term deposits are comprised of cash investments of more than three months.

KEY INDICATORS

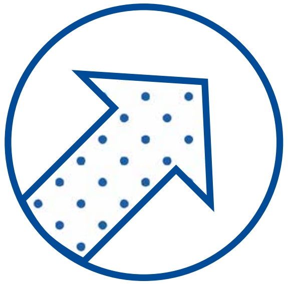
In millions of euros

TABLE 001

		30/09/2020	31/12/2019
Performance indicators			
Project portfolio		5,937.5	5,845.7
Key balance sheet figures			
Total assets		1,255.1	1,123.4
Equity		508.4	310.2
Net financial debt[1]		306.6	478.4
Leverage		2.4	3.6
Loan-to-Cost[2]	In %	32.2	50.3
ROCE[3] adjusted	In %	15.2	22.8
Employees			
Quantity		408	375
FTE[4]		333.7	307.7

[1] Net financial debt = Financial liabilities less cash and cash equivalents and term deposits.
[2] Loan-to-Cost = Net financial debt / (Inventories + Contract assets).
[3] Return on capital employed = LTM EBIT adjusted/(four-quarter average equity + net financial debt).
[4] Full-time employees.

OVERVIEW
Q3 2020



Sales recover again
to pre-Corona level

ADJUSTED REVENUE (9M)
of

€ 291.3 MILLION

Previous year: €302.4 million

PROJECT PORTFOLIO
of

€ 5.9 BILLION

ADJUSTED EBIT (9M)
is

€ 50.0 MILLION

Previous year: € 56.7 million

**ADJUSTED
GROSS PROFIT MARGIN (9M)**
of

32.3%

Previous year: 32.7%

LEVERAGE
is at

2.4

Previous year: 3.6

BUSINESS MODEL AND ORGANISATIONAL STRUCTURE

Instone Real Estate is one of the leading residential property developers in Germany. The share is listed on the SDAX of the Frankfurt Stock Exchange. The company develops attractive residential buildings and apartment complexes and also operates in the publicly subsidised residential construction sector. It also works on contemporary urban planning and the refurbishment of listed buildings. These are marketed to owner-occupiers, private investors with the intention of leasing and institutional investors. Over the past 29 years, we have thus realised more than one million square metres. The company employs 408 employees across nine locations in Germany. As at 30 September 2020, the project portfolio of Instone Real Estate included 53 development projects with an anticipated overall sales volume of approximately €5.9 billion and more than 13,374 units.

As at 30 September 2020, approximately 88% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart) and approximately 12% in other prosperous medium-sized cities. Well-connected suburbs and medium-sized cities in the metropolitan regions are becoming increasingly attractive and can thus help to meet the generally high demand for residential space.

LEVERAGING THE ENTIRE VALUE CHAIN

Instone Real Estate is the only listed property developer in Germany that exclusively develops residential real estate and also covers the entire value chain. The Company offers a fully integrated platform across Germany which covers land acquisition, land development, concept planning and construction management through to marketing and sales.

CORPORATE GOVERNANCE KEY PERFORMANCE INDICATORS

FINANCIAL AND REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS

Important corporate governance key performance indicators

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

Compared with 31 December 2019, the corporate governance key indicator, adjusted earnings before interest and tax, was replaced by the adjusted earnings after tax. This change was made due to a change in the management perspective of the Management Board, as its intention is to pay dividends in the future. Furthermore, by harmonising the income tax effects through the formation of an income tax group[1] in 2019, the tax rate can more reliably be taken into account, at around 30%. Against this background, adjusted earnings after tax is regarded as a more appropriate key performance indicator.

[1] Tax group = Two or more legally independent companies are combined into one unit for tax purposes.

Other important key indicators

The management of Instone Real Estate also uses the following key figures for analysis and reporting: current offers for sale, project portfolio, volume of new approvals, project gross profit and gross project profit margin.

Further information on corporate governance key indicators, in particular regarding their calculation, can be found on pages 39 – 40 in the Annual Report 2019.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

CUMULATIVE KEY FINANCIAL PERFORMANCE INDICATORS TABLE 002

In millions of euros

	9M 2020	9M 2019	Change	Q3 2020	Q3 2019	Change
Revenue adjusted[1]	291.3	302.4	–3.7%	111.7	128.2	–12.9%
Gross profit adjusted	94.1	98.9	–4.9%	36.3	40.4	–10.1%
Gross profit margin adjusted[1]	32.3%	32.7%	0.0%	32.5%	31.5%	0.0%
EBIT adjusted	50.0	56.7	–11.8%	21.8	24.8	–12.1%
EBT adjusted	34.4	46.1	–25.4%	15.7	19.6	–19.9%
EAT adjusted[1]	24.9	43.4	–42.6%	11.2	18.3	–38.8%

[1] Financial performance indicators.

CORONAVIRUS PANDEMIC

General economic situation

Since the end of February 2020, the coronavirus pandemic has spread rapidly throughout Germany. At the end of March 2020, the German Federal Government and the "Länder" finally agreed to a comprehensive restriction of social contact and a restriction of business activities in many industries, including the closure of shops. This caused a strong slump in economic performance in the first quarter and particularly in the second quarter of 2020, although an economic recovery started gaining when the restrictions were loosened during the course of the second quarter.

In the third quarter, the German economy recovered significantly again, and the gross domestic product grew by 8.2% in comparison to the second quarter. However, it remained 4.3% behind the previous-year period. https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/10/PD20_432_811.html The overall economic development for Germany will be burdened with a decline for 2020, in comparison with the previous year. However, the decline will presumably be less in Germany than in other countries in the European Union. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/summer-2020-economic-forecast-deeper-recession-wider-divergences_de In its autumn forecast, the Institut für Weltwirtschaft (IfW) assumes that Germany's gross domestic product in 2020 will decline by slightly more than 5%. The German economy has recovered more quickly than expected. https://www.ifw-kiel.de/de/media-pages/news-ext-links/2020/wirtschaftsleistung-noch-gut-4-prozent-unter-vorkrisenniveau/

Effects on the Instone Group's situation

After the considerable negative influences on the situation of the Instone Group due to the coronavirus pandemic in the second quarter, an improvement of the business performance also emerged for our Company in the third quarter. The sales of apartments to owner-occupiers and private investors were increased again in comparison to the previous quarter; the initiation of sales of new projects was performed successfully again in the third quarter. The sales activities with institutional investors were resumed again after the partly interrupted ongoing negotiations. The positive developments in relation to all of the sales areas in the third quarter led to a significant increase of revenue compared to the second quarter, however, the sale level of the previous-year quarter could not be reached. This declining trend essentially results from delays in sales starts and institutional sales negotiations, as well as downturns in individual sales in the first half-year, which could no longer be made up for in the third quarter. As in the first quarter, the construction activity for running projects was also essentially continued uninfluenced in the third quarter. In this respect, planned milestones relating to project progress and completion of these projects can be expected to be met within the scheduled time frame.

In spite of the significant implications of coronavirus pandemic for the global financial markets, Instone Real Estate was able to improve its financing structure considerably in the third quarter. With the first-time conclusion of a promissory note loan with pension funds, it succeeded in replacing an expensive term loan that was maturing in the short term. Furthermore, with a successful capital increase, we have again secured the financing of raised, ambitious growth targets, particularly on the basis of accelerated implementation of our new valuehome product.

RESULTS OF OPERATIONS

The presentation of the results of operations in the consolidated financial statements of Instone Real Estate Group AG for the first nine months of 2020 reflects this business which is largely impacted by the project developments of the Instone Group. The calculation of the individual adjusted items results from the following items in the income statement:

- → Adjusted revenue is revenues adjusted for the effects from purchase price allocations and including effects from share deal agreements.
- → Adjusted project costs include the cost of materials less changes in inventories, indirect selling expenses and capitalised interest. It thus reflects the external costs allocated to the project developments, not including project financing costs.
- → Adjusted gross profit is the result of adjusted revenues less adjusted project costs.
- → Adjusted platform costs are the total of staff costs, other operating income, other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project costs, adjusted for non-recurring effects.

ADJUSTED RESULTS OF OPERATIONS TABLE 003

In millions of euros

	9M 2020	9M 2019	Change	Q3 2020	Q3 2019	Change
Revenues adjusted	291.3	302.4	–3.7%	111.7	128.2	–12.9%
Project expenses adjusted	–197.2	–203.5	–3.1%	–75.4	–87.8	–14.1%
Gross profit adjusted	**94.1**	**98.9**	**–4.9%**	**36.3**	**40.4**	**–10.1%**
Gross profit margin adjusted	**32.3%**	**32.7%**		**32.5%**	**31.5%**	
Platform costs adjusted	–44.8	–42.2	6.2%	–14.9	–16.0	–6.9%
Share of results of joint ventures adjusted	0.7	0.0		0.4	0.4	–0.0
Earnings before interest and tax (EBIT) adjusted	**50.0**	**56.7**	**–11.8%**	**21.8**	**24.8**	**–12.1%**
EBIT margin adjusted	**17.2%**	**18.8%**		**19.5%**	**19.3%**	
Adjusted results from investments	–1.2	–3.3	63.6%	–0.6	–0.9	33.3%
Financial result adjusted	–14.3	–7.3	–95.9%	–5.4	–4.2	–28.6%
Earnings before tax (EBT) adjusted	**34.4**	**46.1**	**–25.4%**	**15.7**	**19.6**	**–19.9%**
EBT margin adjusted	**11.8%**	**15.2%**		**14.1%**	**15.3%**	
Income taxes adjusted	–9.6	–2.7	n/a	–4.7	–1.3	n/a
Earnings after tax (EAT) adjusted	**24.9**	**43.4**	**–42.6%**	**11.2**	**18.3**	**–38.8%**
EAT margin adjusted	**8.5%**	**14.4%**		**10.0%**	**14.3%**	

- → Earnings of associate companies are the pro rata earnings contributions of subsidiaries included in the consolidated financial statements using the equity method.
- → Adjusted earnings before interest and tax are the adjusted gross profit reduced by the adjusted platform costs, plus the earnings of associates.
- → Adjusted investment and financial result is the total of other results from investments, finance income, finance costs and depreciation and amortisation on securities classified as financial assets less capitalised interest.
- → Adjusted earnings before tax results from adjusted earnings before interest and tax less the adjusted investment and financial result.
- → Adjusted income taxes correspond to income taxes adjusted for the tax effects of purchase price allocations as well as non-recurring effects.
- → Adjusted earnings after tax are the adjusted earnings before tax less the adjusted income taxes.

Revenue

The business performance of the Instone Group improved again in the third quarter of 2020 due to the easing of coronavirus measures in comparison to the previous quarter. Adjusted revenue grew in the third quarter to €111.7 million (3rd quarter 2019: €128.2 million) in comparison to the second quarter, but remained below the level of the previous-year period. In total, the adjusted revenue in the first nine months of 2020 fell slightly by 3.7% to €291.3 million (previous-year period: €302.4 million). The decline in sales is mainly due to the lower sales in the second quarter, particularly also due to delayed marketing starts, which will not be made up for and therefore cannot make any contribution to further significant increases in revenue.

The amortisation of the effects from purchase price allocations resulted in a charge of €0.7 million (previous-year period: €6.0 million) on the reported revenue. The separate valuation of share deals (project Westville) reduced the adjusted revenue by €14.8 million (previous-year period: €0.0 million).

REVENUE — TABLE 004

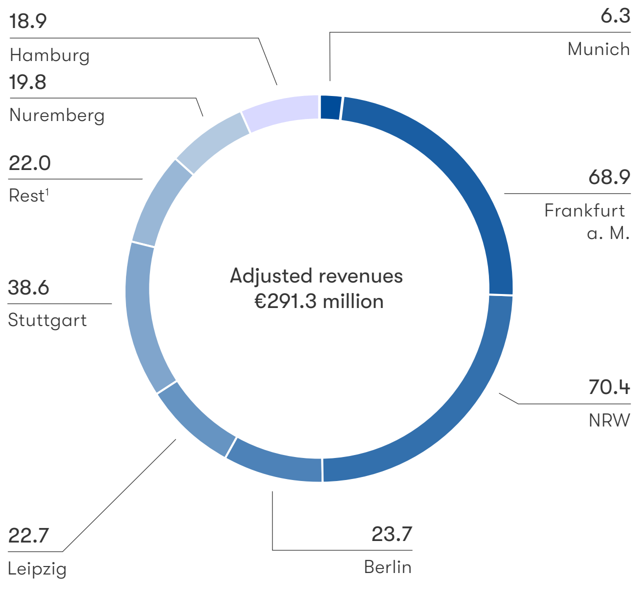
In millions of euros

	9M 2020	9M 2019	Change
Revenue	**275.9**	**296.4**	**–6.9%**
+ Effects from purchase price allocations	0.7	6.0	–88.3%
+ Effects from share deals	14.8	0.0	0.0%
Revenues adjusted	**291.3**	**302.4**	**–3.7%**

The adjusted revenue of the Instone Group is almost exclusively generated in Germany and spread across the following regions:

ADJUSTED REVENUE BY REGIONS

In millions of euros



[1] Includes Wiesbaden (€9.4 million), Mannheim (€12.3 million), among others.

Project costs

The adjusted project costs, significantly influenced by cost of materials and the changes in inventories, also fell slightly in the nine-month period to €197.2 million (previous-year period: €203.5 million). In the third quarter, the adjusted project costs were also below the previous-year quarter, at €75.4 million (3rd quarter 2019: €87.8 million).

The reduced purchases of land plots and only equal continuation of construction activities led to a reduction of the cost of materials to €251.4 million (previous-year period: €286.1 million). The changes in inventories essentially fell for the same reasons to €73.3 million (previous-year period: €86.8 million).

Indirect sales expenses allocated to the project costs amounted to €1.8 million as at 30 September 2020 (previous-year period: €1.8 million). The adjustment of the capitalised interest in the changes in inventories of €3.8 million (previous-year period: €2.8 million) also added to the project costs. Effects from the amortisation of purchase price allocations reduced adjusted project costs by €0.3 million (previous-year period: €0.4 million). Due to the separate valuation of the share deals, project costs were again increased by €13.9 million (previous-year period: €0.0 million).

PROJECT COSTS TABLE 005

In millions of euros

	9M 2020	9M 2019	Change
Project costs	**178.1**	**199.3**	**–10.6%**
+ Effects from purchase price allocations	–0.3	–0.5	–40.0%
+ Effects from reclassifications	5.6	4.6	21.7%
+ Effects from share deals	13.9	0.0	0.0%
Project expenses adjusted	**197.2**	**203.5**	**–3.1%**

Gross profit

The adjusted gross profit fell due to the decline in revenue in the third quarter to €36.3 million (3rd quarter 2019: €40.4 million) and also remained behind the previous year in the in the nine-month period at €94.1 million (previous-year period: €98.9 million).

GROSS PROFIT TABLE 006

In millions of euros

	9M 2020	9M 2019	Change
Gross profit	**97.8**	**97.1**	**0.7%**
+ Effects from purchase price allocations	1.0	6.4	–84.4%
+ Effects from reclassifications	–5.6	–4.6	21.7%
+ Effects from share deals	0.9	0.0	0.0%
Gross profit adjusted	**94.1**	**98.9**	**–4.9%**
Gross profit margin adjusted	**32.3%**	**32.7%**	

The adjusted gross profit margin – calculated from the adjusted gross profit relating to the adjusted revenue – amounted to 32.3% (previous-year period: 32.7%).

Platform costs

Adjusted platform costs increased to €44.8 million in the first nine months of 2020 (previous-year period: €42.2 million). This includes gains from the reclassification of indirect distribution costs of €1.8 million to project costs.

PLATFORM COSTS TABLE 007

In millions of euros

	9M 2020	9M 2019	Change
Platform costs	**46.6**	**47.9**	**–2.7%**
+ Effects from reclassifications	–1.8	–1.8	0.0%
+ Non recurring effects	0.0	–4.0	–100.0%
Platform costs adjusted	**44.8**	**42.2**	**6.2%**

At €30.8 million as at 30 September 2020 (previous-year period: €25.4 million), staff costs rose compared with the previous year's level. This is mainly due to the higher number of employees, which currently stands at 408 (previous-year period: 362) and the corresponding increase in the FTE figure of 333.7 (previous-year period: 293.0). This increase in staff represents an investment in the anticipated future growth of the company. Other operating income rose to €5.6 million due to the increase in the reversal of provisions (previous-year period: €2.4 million). Other operating expenses fell in the period under review to €18.4 million (previous-year period: €22.0 million) due to expenses from subsequent acquisition costs for company acquisitions recorded in the previous year. This effect has not been repeated in the period under review. Depreciation and amortisation was €3.0 million (previous-year period: €3.0 million), the same as last year.

Share of results of joint ventures

The adjusted shares of results of joint ventures of €0.7 million (previous-year period: €0.0 million) are attributable to subsidiaries with projects completed in previous years.

Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax fell to €50.0 million in the first nine months of 2020 (previous-year period: €56.7 million) due to the lack of revenue resulting from the coronavirus and to investments already made in the further scheduled development of the platform. A decline to €21.8 million (3rd quarter 2019: €24.8 million) was also shown in the third quarter.

EBIT TABLE 008

In millions of euros

	9M 2020	9M 2019	Change
EBIT	**51.8**	**49.1**	**5.5%**
+ Effects from purchase price allocations	1.0	6.4	–84.4%
+ Effects from reclassifications	–3.8	–2.8	35.7%
+ Non-recurring effects	0.0	4.0	–100.0%
+ Effects from share deals	0.9	0.0	0.0%
EBIT adjusted	**50.0**	**56.7**	**–11.8%**
EBIT margin adjusted	**17.2%**	**18.8%**	

Investment and financial result

The negative adjusted result from investments in the nine-month period of €1.2 million (previous-year period: €3.3 million) results from a change to the minority interests with project limited partnerships.

The financial result decreased in the period under review to €–18.1 million (previous-year period: €–10.1 million). The expected increase in interest expenses is essentially attributable to the increase in debt to finance investments in land since the second half of the previous year.

The financial result, adjusted for the interest from project financing capitalised in the changes in inventories before the start of sales in the amount of €3.8 million (previous-year period: €2.8 million), decreased to €–14.3 million (previous-year period: €–7.3 million).

Earnings before tax (EBT)

At €34.4 million (previous-year period: €46.1 million), adjusted earnings before tax were significantly down compared to the same period of the previous year, due to a decline in demand resulting from the coronavirus and to the increase in financing expenses for new investments. The adjusted earnings before tax were also below the value of the comparative period at €15.7 million (3rd quarter 2019: €19.6 million).

EBT TABLE 009

In millions of euros

	9M 2020	9M 2019	Change
EBT	**32.5**	**35.7**	**–9.0%**
+ Effects from purchase price allocations	1.0	6.4	–84.4%
+ Non-recurring effects	0.0	4.0	–100.0%
+ Effects from share deals	0.9	0.0	0.0%
EBT adjusted	**34.4**	**46.1**	**–25.4%**
EBT margin adjusted	**11.8%**	**15.2%**	

Income taxes

The tax rate in the adjusted results of operations in the first nine months of 2020 was approximately 28% (previous-year period: approximately 6%). Tax expenses could be harmonised to a tax rate of around 30%, compared with strong fluctuations in previous years, as a result of the conclusion of the control and profit transfer agreement in the second half of 2019. Non-recurring tax effects from previous periods led to a reduction in the period under review. In the previous-year period, the tax rate was positively influenced by a non-recurring effect from the first-time use of loss carryforwards.

Income taxes in the reported result, due to the effects mentioned above, amounted to €9.6 million (previous-year period: €0.6 million).

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €24.9 million (previous-year period: €43.4 million). Before adjustment for effects from purchase price allocations as well as effects from share deal agreements, reported earnings after tax were €23.3 million (previous-year period: €35.2 million). In the third quarter, the adjusted earnings after tax amounted to €11.2 million (3rd quarter 2019: €18.3 million).

EAT TABLE 010

In millions of euros

	9M 2020	9M 2019	Change
EAT	**23.3**	**35.2**	**–33.8%**
+ Effects from purchase price allocations	0.7	4.5	–84.4%
+ Non-recurring effects	0.0	3.9	–100.0%
+ Effects from share deals	0.9	0.0	0.0%
EAT adjusted	**24.9**	**43.4**	**–42.6%**
EAT margin adjusted	**8.5%**	**14.4%**	

Earnings after tax and after minority interests

Non-controlling interests in the earnings after tax amount to €0 million (previous-year period: €-0.7 million). Non-controlling interests in the adjusted earnings after tax amount to €0 million (previous-year period: €-0.5 million).

EARNINGS AFTER TAX AND AFTER MINORITY INTERESTS TABLE 011

In millions of euros

	9M 2020	9M 2019	Change
EAT after minority interests	**23.3**	**35.9**	**–35.1%**
+ Effects from purchase price allocations	0.7	4.1	–82.9%
+ Effects from reclassifications	0.0	0.0	0.0%
+ Non-recurring effects	0.0	3.9	–100%
+ Effects from share deals	0.9	0.0	0.0%
EAT adjusted after minority interests	**24.9**	**43.9**	**–43.3%**

Earnings per share

At €0.63 (previous-year period: €1.12), adjusted earnings per share in the first half of 2020 remained significantly lower than in the previous-year period.

EARNINGS PER SHARE TABLE 012

millions of euros

	9M 2020	9M 2019	Change
Shares (in thousand units)[1]	39,727	39,300	1.1 %
Owners of the Company	**23.3**	**35.9**	**n/a**
Earnings per share (in €)	0.59	0.91	n/a
Owners of the Company adjusted	**24.9**	**43.9**	**n/a**
Earnings per share adjusted (in euros)	0.63	1.12	n/a

[1] Average weighted number of shares as at 30 September 2020, previous year adjusted.

NET ASSETS

CONDENSED STATEMENT OF FINANCIAL POSITION TABLE 013

In millions of euros

	30/09/2020	31/12/2019	Change
Non-current assets	18.9	20.4	–7.4%
Inventories	805.4	732.1	10.0%
Contract assets	145.8	219.0	–33.4%
Other receivables and assets	43.5	34.7	25.4%
Cash and cash equivalents	241.5	117.1	106.2%
Assets	**1,255.1**	**1,123.4**	**11.7%**
Equity	508.4	310.2	63.9%
Liabilities from corporate finance	215.3	180.8	19.1%
Liabilities from project-related financing	332.8	414.7	–19.7%
Provisions and other liabilities	198.6	217.8	–8.8%
Equity and liabilities	**1,255.1**	**1,123.4**	**11.7%**

At €1,255.1 million as at 30 September 2020, the total assets of the Instone Group were virtually unchanged compared to the end of the previous year (31 December 2019: €1,123.4 million).

As at 30 September 2020, inventories rose to €805.4 million (31 December 2019: €732.1 million). This increase in inventories is mainly due to the purchase of already secured land plots.

CONTRACT ASSETS TABLE 014

millions of euros

	30/09/2020	31/12/2019	Change
Contract assets (gross)	488.6	479.4	1.9%
Payments received	–346.8	–266.9	29.9%
	141.8	**212.5**	**–33.3%**
Capitalised costs to obtain a contract	4.0	6.5	–38.5%
Contract assets (net)	**145.8**	**219.0**	**–33.4%**

Financial receivables from customers for work-in-progress already sold (contract assets), valued at the current completion level of development, rose to €488.6 million as at 30 September 2020 (31 December 2019: €479.4 million). This is due to the progressing construction of the sold residential units. Payments received from customers amounted to €346.8 million as at 30 September 2020 (31 December 2019: €266.9 million). The capitalised direct distribution costs decreased to €4.0 million (31 December 2019: €6.5 million). The balance of these items results in a decrease in the contract assets to €145.8 million (31 December 2019: €219.0 million). This is due to the fact that payments received rose more sharply in relation to construction progress.

Cash and cash equivalents and term deposits of €241.5 million (31 December 2019: €117.1 million) increased mainly as a result of the inflow from the capital increase. Financing arrangements were also repaid in the period under review and a loan was extended to a minority shareholder of a Group company. For more information, please refer to the Group's condensed consolidated statement of cash flows. Page 25 f.

As at the reporting date, the term deposits amounted to a total of €100 million (31 December 2019: €0 million) and have a term of more than three months.

Non-current financial liabilities decreased to €297.7 million as at 30 September 2020 (31 December 2019: €451.6 million). In the same period, current financial liabilities rose to €250.4 million (31 December 2019: €143.9 million). As at 30 September 2020, we have repaid short-term corporate financing of €75.0 million and acquired new long-term corporate financing of €100 million at improved conditions. Furthermore, project financing in the amount of €150.0 million, reported as non-current as at 31 December 2019, was reclassified as at 30 September 2020 as current financial liabilities, as these will be repaid within one year with the scheduled completion of the projects.

Trade payables fell during the first nine months of 2020 to €79.0 million (31 December 2019: €87.6 million) and essentially comprise the services provided by contractors.

The equity ratio as of 30 September 2020 was 40.5% (31 December 2019: 27.6%).

Leverage has decreased compared with 31 December 2019. The proportionally stronger decline in net debt due to income from the capital increase and the lower result have reduced the leverage to 2.4 times the EBITDA.

NET FINANCIAL DEBT AND DEBT-TO-EQUITY RATIO

TABLE 015

In millions of euros

	30/09/2020	31/12/2019	Change
Non-current financial liabilities	297.7	451.6	– 34.1%
Current financial liabilities	250.4	143.9	74.0%
Financial liabilities	**548.1**	**595.5**	**– 8.0%**
– Cash and cash equivalents	– 241.5	– 117.1	106.2%
Net financial debt (NFD)	**306.6**	**478.4**	**– 35.9%**
Inventories and contract assets	951.2	951.1	0.0%
Loan-to-Cost[1]	**32.2**	**50.3**	
EBIT adjusted (LTM[2])	122.9	129.6	– 5.2%
Depreciation and amortisation (LTM[2])	4.1	4.1	0.0%
EBITDA adjusted (LTM[2])	**127.0**	**133.7**	**– 5.0%**
Leverage (NFS / EBITDA adjusted (LTM[2]))	2.4	3.6	–

[1] Loan-to-Cost = Net financial debt / (Inventories + Contract assets).
[2] LTM = Last twelve months.

FINANCIAL POSITION

In the first nine months of 2020, liabilities from corporate finance increased to €215.3 million (31 December 2019: €180.8 million). Project financing decreased to €332.8 million (31 December 2019: €414.7 million). The total available financing framework now amounts to €900.9 million (31 December 2019: €994.7 million) and was increased during the nine-month period through the conclusion of classic project financing and through additional corporate finance. As at 30 September 2020, there were credit lines available amounting to €575.9 million (31 December 2019: €667.2 million) from project financing and €325.0 million (31 December 2019: €327.5 million) from corporate finance. The agreements of these corporate finance arrangements contain financial covenants that are described on page 143 of the Annual Report 2019.

The balance sheet liabilities resulting from these financing arrangements thus increased as at the reporting date to €547.9 million (previous-year period: €594.9 million). As at 30 September 2020, €250.4 million is reported as current financial liabilities with a residual term of less than one year. The current project financing included in this are comprised of option agreements for extension.

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

FINANCIAL LIABILITIES TABLE 016

In millions of euros

	Due by	Credit line	Utilisation 30 September 2020	Interest rate conditions
Corporate finance				
Promissory note loan	31/08/2022	78.0	78.0	2.50% to 3.10%
Promissory note loan	31/08/2024	28.0	28.0	3.00%
Term loans	31/08/2025	100.0	100.0	4.00%
Syndicated loan	31/12/2022	94.0	10.0	2.85%
Current account loans <1 year	30/09/2021	5.0	0.0	2.00% to 2.00%
Current account loans >2 and <3 years	31/03/2023	20.0	0.0	2.85%
		325.0	**216.0**	
Project financing				
Term <1 year	30/09/2021	301.8	250.9	1.45% to 3.00%
Term >1 and <2 years	30/09/2022	147.1	61.2	1.75% to 2.25%
Term >2 and <3 years	30/09/2023	127.0	22.6	1.90% to 4.40%
Term >3 years	30/09/2023	0.0	0.0	
		575.9	**334.6**	

CONDENSED STATEMENT OF CASH FLOWS

TABLE 017

In millions of euros

	9M 2020	9M 2019	Change
Cash flow from operations	26.4	–32.0	n/a
Cash flow from investing activities	–111.0	–33.7	229.4%
Free Cash flow	**–84.6**	**–65.7**	**–28.8%**
Cash flow from financing activities	109.0	140.5	–22.5%
Cash change in cash and cash equivalents	**24.4**	**74.8**	**–67.4%**
Cash and cash equivalents at the beginning of the period	117.1	88.0	33.1%
Other changes in cash and cash equivalents	0.0	0.0	0.0%
Cash and cash equivalents at the end of the period	**141.5**	**162.8**	**–13.1%**

Cash flow from operations of the Instone Group in the amount of €26.4 million in the first nine months of 2020 (previous-year period: €–32.0 million) was essentially due to the increased payment flows from customer payments for current projects with simultaneous purchase price payments and land acquisition taxes for land plots in a total value of €72.2 million (previous-year period: €100.8 million). This mainly related to the “Eslarner Straße”, Nuremberg, “Philipp-Reis-Straße”, Heusenstamm, “Aukamm”, Wiesbaden, “Büntekamp”, Hanover, “Neckar.Au Viertel”, Rottenburg, and “Westville”, Frankfurt am Main projects.

The operating cash flow, adjusted for payments for land in the period under review was distinctly positive at €98.6 million (previous-year period: €68.8 million). This underlines the sustainably positive return flows of liquidity to the Instone Group from the current residential property developments, in spite of the restrictions due to the coronavirus crisis in the second and third quarter of 2020.

CASHFLOW FROM OPERATIONS

TABLE 018

millions of euros

	9M 2020	9M 2019	Change
EBITDA adjusted	53.0	59.7	–11.2%
Other non-cash items	–5.5	–14.0	60.7%
Taxes paid	–13.3	–10.2	–30.4%
Change in working capital	–7.8	–67.5	88.4%
Cash flow from operations	**26.4**	**–32.0**	**n/a**
Payments for land	72.2	100.8	–28.4%
Cash flow from operations without new investments	**98.6**	**68.8**	**43.3%**

At €–111.0 million (previous-year period: €33.7 million), cash flow from investing activities in the period under review was mainly influenced by the short-term financial assets free liquidity in the amount of €100.0 million, extension of a loan to the minority shareholder of a Group company in the amount of €9.9 million and by the scheduled purchase of additional shares in an investment company in the amount of €1.1 million.

The cash flow from financing activities as at 30 September 2020 was at €109.0 million (comparative period: €140.5 million). It was essentially influenced by the net inflow from the capital increase of €174.7 million and the repayment of loans in the amount of €60.0 million. This includes payments received from new loans taken out in the amount of €686.2 million and repayments for terminated loans in the amount of €746.3 million.

As at 30 September 2020, financial resources increased to €141.5 million (31 December 2019: €117.1 million). This includes free funds amounting to €132.8 million (31 December 2019: €109.0 million) which were not used to secure existing project financing.

In addition to cash loans from banks, as at 30 September 2020, the Instone Group also had access to guarantee facilities from credit insurers of €254.6 million (31 December 2019: €275.5 million) to secure its business activities.

PROJECT BUSINESS AT A GLANCE

VOLUME OF SALES CONTRACTS

In the third quarter of 2020, marketing received a push due to very good individual sales and two envisaged property sales within the urban district developments. In total, volume of sales contracts of €94.9 million and 128 residential units was generated. The expected complete recovery of speed of sales in the second half of the year of the project that is in unit sales, took place in the third quarter of 2020. With the nine projects that are in individual sales, around 125 units are sold with a volume of about €74 million. In spite of the positive development, the volume of sales contracts for the first nine months is below the previous-year value (previous year: €314.9 million) at €218.4 million. This is particularly due to the development of the sales activities in the first half of the year. The uncertainty due to the pandemic and the restrictions of the first lockdown temporarily slowed down the speed of sales Furthermore, there were delays to sales starts and investor sales due to the restricted opportunities to access the market.

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS

TABLE 019

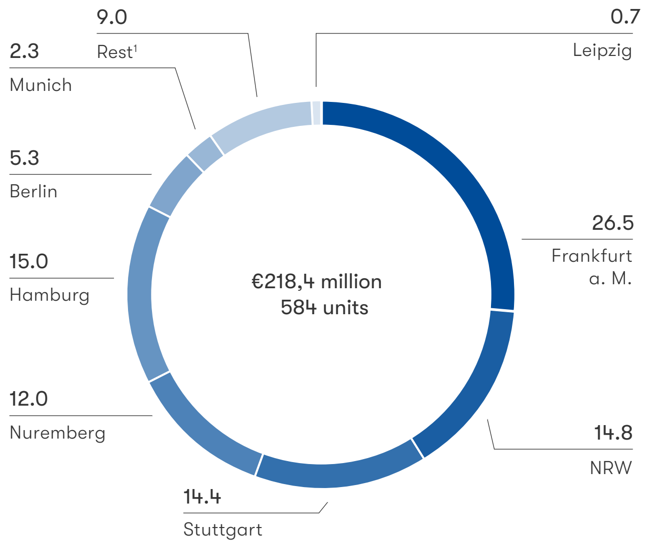
In millions of euros

		9M 2020	9M 2019	Q3 2020	Q3 2019
Volume of sales contracts		218.4	314.9	94.9	183.1
Volume of sales contracts	In units	584	670	128	380
Project portfolio (existing projects)		5,937.5	5,384.1	5,937.5	5,384.1
of which already sold		2,108.6	1,261.1	2,108.6	1,261.1
Project portfolio (existing projects)	In units	13,374	12,233	13,374	12,233
of which already sold	In units	4,770	2,944	4,770	2,944

The volume of sales contracts realised as at 30 September 2020 is concentrated almost exclusively in the most important metropolitan regions in Germany, accounting for approximately 91% of the total. Around 9% is located in other prosperous medium-class cities. Graphic

MARKETING IN 9M 2020 BY REGION

In %



[1] Mainly includes Wiesbaden.

The following projects essentially contributed to successful marketing in the 2020 period under review:

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS – VOLUME OF SALES CONTRACTS

TABLE 020

In millions of euros

		Volume	Units
St. Marienkrankenhaus	Frankfurt a. M.	32.5	28
Schulterblatt "Amanda"	Hamburg	29.1	41
Westville[1]	Frankfurt a. M.	24.3	303
Schumanns Höhe	Bonn	19.3	50
"Carlina Park", Schopenhauerstraße	Nuremberg	19.2	39
Schwarzwaldstraße	Herrenberg	16.7	37
Wiesbaden-Delkenheim, Lange Seegewann	Wiesbaden	15.9	2
Neckar.Au Viertel	Rottenburg	14.6	40
"Wohnen im Hochfeld" Unterbach	Dusseldorf	12.5	18
Quartier Stallschreiber-straße – Luisenpark	Berlin	10.6	12

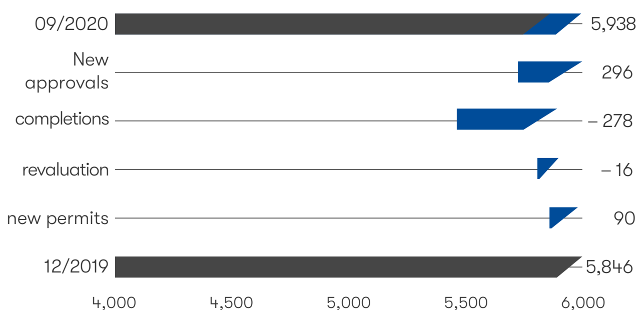
[1] Contractually agreed extra revenues from the additional spaces during the course of planning substantiation.

The offer currently on the sales market as at 30 September 2020 totalled 259 units with an anticipated revenue volume of around €202 million. This means that the offer on the market has increased overall compared with 30 June 2020 (€279 million and 385 units). This is due to the constant sales at a high level with the projects in unit sales. At that same time, no project started unit sales in the third quarter, as expected.

As at 30 September 2020, Instone Real Estate's project portfolio comprised 53 projects, from which we currently anticipate total revenue volume of €5,937.5 million, slightly above the figure as at 30 June 2020 (€5,701.3 million). The increase is due to two successful acquisitions in the third quarter with an expected revenue volume of about €109 million. At the same time, prospective revenue increases of about €130 million result from planning substantiations and changes to sales concepts. The successful completion and removal of the "Fregestraße" project in Leipzig led to a minor reduction of about €3 million. See "Development of the project portfolio as at 9M 2020"

DEVELOPMENT OF THE PROJECT PORTFOLIO FOR 9M 2020

In millions of euros



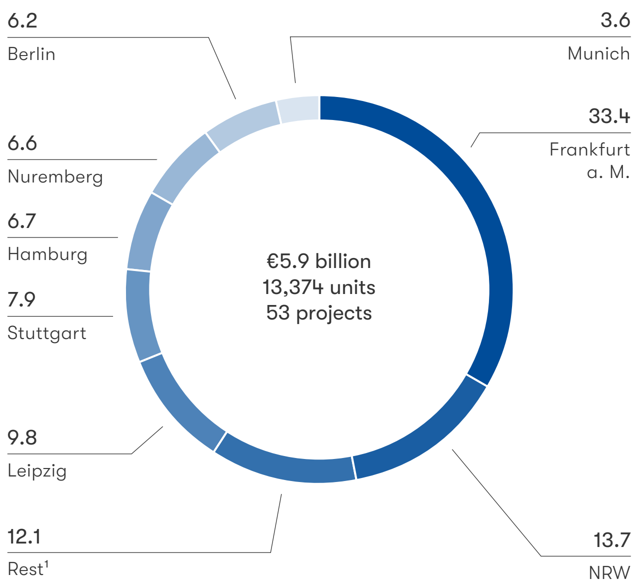
Taking into account an assumed price development for projects not yet in distribution – of 1.5% per annum on the revenue side and 3.5% per annum on the construction cost side – this results in an anticipated project gross profit margin on the project portfolio of about 25%[1] as at the reporting date, exclusive of the large "Westville" project in Frankfurt.

[1] If the large "Westville" project is taken into consideration, the expected project gross profit margin for the project portfolio is about 24%.

The majority – approximately 88% – of anticipated overall volume of revenue from the project portfolio as at 30 September 2020 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart. Around 12% is attributable to other prosperous medium-class cities. Graphic

PROJECT PORTFOLIO BY GROUPS; BASIS: EXPECTED SALES REVENUE

in %

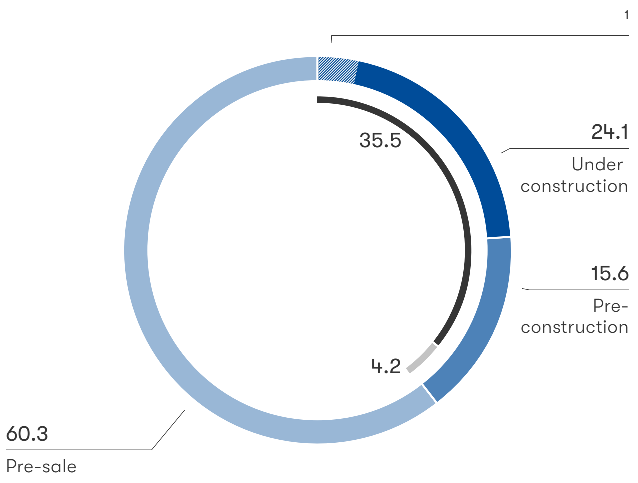


[1] Includes Wiesbaden, Mannheim, Hanover, Potsdam, Bamberg.

Based on the continuous growth of our project portfolio in recent years, the majority of our ongoing projects are in the "pre-sale" stage of development. In comparison to 30 June 2020, the "pre-construction" 15.6% (20.2%) and "under construction" 24.1% (20.6%) categories reflect the successful start of construction realisation with four projects. The "pre-sale" category is at a comparable level with 60.3% (59.2%).

PROJECT PORTFOLIO BY GROUPS; BASIS: EXPECTED SALES REVENUE

In %



Internal sector:
■ Sold
■ Unsold
[1] 4.8% of the project portfolio has already been transferred.

In addition, the preceding diagram shows that, as at 30 September 2020, we have already sold approximately 36% of the anticipated overall revenue volume of the project portfolio. In terms of the anticipated revenue volume, approximately 89% of the "under construction" and "pre-construction" projects were sold as at 30 September 2020.

Adjusted revenue

Adjusted revenue was at €291.3 million as at 30 September 2020 (previous-year period: €302.4 million). The following projects carried out contributed in particular to the adjusted revenue in the period under review:

KEY PROJECTS REVENUE REALISATION (ADJUSTED) 9M 2020 TABLE 021

In millions of euros

		Revenue volume (adjusted)
St. Marienkrankenhaus	Frankfurt a. M.	43.9
Grundstück Bonn, Schumanns Höhe	Bonn	30.5
west.side	Bonn	28.2
Quartier Stallschreiberstraße – Luisenpark	Berlin	22.8
Schulterblatt "Amanda"	Hamburg	18.7
Westville	Frankfurt a. M.	14.8
City-Prag – Wohnen im Theaterviertel	Stuttgart	13.7
Schwarzwaldstraße	Herrenberg	12.8
Franklin	Mannheim	12.3
S'LEDERER	Schorndorf	9.6

Two projects entered the construction phase during the period under review: In Dusseldorf, the start of construction for the "Niederkasseler Lohweg" project already sold in 2019 took place on schedule. In the residential district, 221 units are being built for diverse user groups. A children's day-care centre, approx. 150 underground parking spaces and green plaza round off the offer for the future residents of the rental apartments. With the "Neckar. Au Viertel" project in Rottenburg, the first construction phase with 66 apartments also started realisation. Since the start of sales, more than 50% of the apartments have already been sold here. In total, a diverse mixture of apartments is being created in the urban district with 400 units for owner-occupiers and capital investors. The further construction progress is also becoming clear in the "west.side Areal" in Bonn. The structural work was already completed by the middle of the year on a building site with 118 residential units. In August, the excavation works were started in a further construction phase with 139 privately financed rental apartments. As a fourth project, "Carlina Park" started construction in Nuremberg. For the inner-city urban district development, four residential buildings are planned with about 100 apartments and 100 underground parking spaces, as well as an office building.

The projects already in the construction phase are developing on schedule. Due to sufficient staffing on the construction sites, the continuous production process was able to be ensured. The handover processes for the projects already completed also ran according to plan.

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

RISK AND OPPORTUNITIES REPORT

ASSESSMENTS OF OPPORTUNITIES AND RISKS CHANGED BY THE CORONAVIRUS PANDEMIC

At Instone Real Estate, risk and opportunities management is an integral part of the group-wide system of corporate governance. For a detailed overview of our risk and opportunities management processes and the risk and opportunities situation, please refer to the Annual Report 2019, pages 71 – 82, "Risk and opportunities report".

As previously explained in the Q1 2020 consolidated quarterly report and in the 2020 half-year report, due to the coronavirus pandemic, the risk and opportunities situation has changed significantly compared with our presentation in the Annual Report 2019.

However, from today's perspective, the changed opportunity and risk position resulting from the coronavirus pandemic does not pose a threat to the continued existence of the Instone Group.

The main changes in risks are discussed below. All other risks have not changed significantly compared with the presentation in the 2019 Annual Report.

General business risks

Market development

The coronavirus pandemic has had a significant impact on the market environment of Instone Real Estate starting with the second quarter of 2020 at the latest. Although the situation at this time seems to be stabilising generally, it cannot be ruled out that the environment for residential real estate will deteriorate once again. Instone Real Estate is currently working on the assumption that the dynamic sales price increases of recent years will not continue over the next 15 months. We are closely monitoring market developments so we can react to any changes that may occur.

Project risks

Marketing/sales

Due to the coronavirus pandemic, there has been a noticeable decline in the number of prospective customers and sales since the end of March 2020. Following recent political decisions to ease pandemic-related restrictions, the demand situation has improved significantly since the end of the second quarter and is now around pre-pandemic levels. Nevertheless, we cannot rule out the possibility that the tendency by private and institutional investors to refrain from buying could become even more pronounced if the pandemic persists. For example, some of our potentially interested parties may refrain from making major investments in real estate due to the uncertainties of the economic situation, including on the labour market (lack of income for the self-employed, short-time work and lay-offs). On the sales side, we have responded to the decline in the number of interested parties and the restrictions related to contact by intensifying our digital communications with potential buyers.

Project implementation/construction

As at 30 September 2020, there were no significant restrictions on our construction sites. However, there is a risk that new decrees issued by the German Federal Government or by the individual state governments could tighten restrictions again. This would restrict Instone Real Estate's ability to complete construction and thus to receive payments linked to construction activity. To protect the employees and contractors, we have again reinforced appropriate hygiene ad protective measures on our construction sites. At the same time, these measures allow us to react to possible infections on our construction sites.

Another possible risk is that our contractors could get into difficulties. For Instone Real Estate, this would mean delays at our construction sites. So far, this is not foreseeable. For this, we are staying in close contact with our contractors, who we principally subject to a creditworthiness check prior to commissioning.

Approval process

Due to reduced capacity at government agencies due to the pandemic and changes in local government committee meetings, there is a risk that processes such as obtaining building rights and building permits may not be completed on time. This can lead to delays in construction starts for our projects. For major projects, we stay in close contact with the authorities. So far, our experience has been that the authorities are trying hard to avoid time delays. Instone Real Estate has not shown any significant negative consequences so far from the delay to approval processes from the pandemic. However, depending on the development of the pandemic, this cannot be ruled out for the future.

Opportunities

The coronavirus pandemic has also resulted in changes compared to the discussion of opportunities in the 2019 Annual Report. We do still basically see the opportunities described in the 2019 Annual Report.

There is also a window of opportunity in the trend in construction costs. A recession-related decline in construction demand and a reduction in capacity utilisation for our contractors could result in a drop in project costs for individual projects.

Furthermore, we see an opportunity in the area of land acquisitions due to the effects of the coronavirus pandemic. There is a chance that new plots of land will come onto the market at attractive prices. This could be the case, for example, if the previously planned usage of the land (e.g. commercial) is no longer attractive and the land then becomes available for residential construction development. This situation may also result in lower competition for plots of land. Through the successfully implemented capital increase in the third quarter of 2020, Instone Real Estate has additional financial resources available, in order to take advantage of these opportunities to an even greater extent.

EVENTS AFTER THE BALANCE SHEET DATE

The Management Board intends to convert Instone Real Estate Group AG into a European stock corporation (Societas Europea – SE). In light of the above, the Management Board decided in October 2020, with the consent of the Supervisory Board, that the shareholders' consent should be obtained regarding the implementation of the change of form at the ordinary Annual General Meeting in 2021 and the prescribed employee involvement procedure is already initiated.

There were no other material reportable events after the quarterly reporting date.

OUTLOOK

We presented our estimates of the expected performance of the Company in the current 2020 financial year in detail in the outlook report on page 22 of the half-year financial report.

The statements that we made there about our expectations have not changed overall during the period under review. In spite of the current intensification of the coronavirus pandemic, the targets for the 2020 financial year can be confirmed unchanged. For the 2020 financial year, we therefore continue to expect the following performance:

FORECAST TABLE 022

In millions of euros

	2020
Revenues (adjusted)	470 to 500
Gross profit margin (adjusted)	greater 28%
Earnings after tax (adjusted)	30 to 35
Volume of sales contracts	greater 450

CONSOLIDATED INCOME STATEMENT

CONDENSED CONSOLIDATED INCOME STATEMENT

TABLE 023

In thousands of euros

	01/01 – 30/09/2020	01/01 – 30/09/2019
Revenue	275,897	296,382
Changes in inventories	73,265	86,836
	349,162	**383,218**
Other operating income	5,575	2,388
Cost of materials	– 251,386	– 286,134
Staff costs	– 30,761	– 25,412
Other operating expenses	– 18,407	– 21,962
Depreciation and amortisation	– 3,024	– 2,956
Consolidated earnings from operating activities	**51,159**	**49,142**
Share of results of joint ventures	678	– 2
Other results from investments	– 1,184	– 3,270
Finance income	46	1,429
Finance costs	– 18,223	– 11,816
Other financial result	57	262
Consolidated earnings before tax (EBT)	**32,533**	**35,745**
Income taxes	– 9,269	– 574
Consolidated earnings after tax (EAT)	**23,264**	**35,171**
Attributable to:		
Owners of the Company	23,254	35,898
Non-controlling interests	10	– 727

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TABLE 024

In thousands of euros

	01/01 – 30/09/2020	01/01 – 30/09/2019
Consolidated earnings after tax	**23,264**	**35,171**
Items which are not reclassified into the consolidated earnings in future periods		
Actuarial gains and losses	490	– 1,974
Income tax effects	– 150	644
Income and expenses after tax recognised directly in equity	**340**	**– 1,330**
Total comprehensive income for the financial year after tax	**23,604**	**33,841**
Attributable to:		
Owners of the Company	23,594	34,568
Non-controlling interests	10	– 727
	23,604	**33,841**
Basic and diluted earnings per share (in €)	**0.59**	**0.91**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 025

In thousands of euros

	30/09/2020	31/12/2019
ASSETS		
Non-current assets		
Goodwill	6,056	6,056
Intangible assets	89	115
Right of use assets	7,575	9,675
Property, plant and equipment	2,001	2,126
Interests in joint ventures	914	678
Other investments	2,245	1,145
Financial receivables	0	450
Deferred tax	34	161
	18,914	**20,406**
Current assets		
Inventories	805,392	732,127
Financial receivables	109,900	5
Contract assets	145,805	219,019
Trade receivables	7,192	8,278
Other receivables and other assets	11,688	12,473
Income tax assets	14,749	13,956
Cash and cash equivalents	141,498	117,090
	1,236,224	**1,102,948**
TOTAL ASSETS	**1,255,138**	**1,123,354**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 025

In thousands of euros

	30/09/2020	31/12/2019
EQUITY AND LIABILITIES		
Equity		
Share capital	46,988	36,988
Capital reserves	371,785	198,899
Consolidated equity generated	89,731	74,713
Accumulated reserves recognised in other comprehensive income	−1,024	−1,364
Equity attributable to shareholders	507,480	309,236
Non-controlling interests	934	924
	508,414	**310,161**
Non-current liabilities		
Provisions for pensions and similar obligations	3,939	3,940
Other provisions	6,472	6,329
Financial liabilities	297,684	451,586
Liabilities from net assets attributable to non-controlling interests	10,306	9,504
Leasing liabilities	5,452	6,836
Deferred tax	14,333	11,965
	338,186	**490,161**
Current liabilities		
Other provisions	21,665	22,967
Financial liabilities	250,443	143,927
Leasing liabilities	2,557	3,004
Contract liabilities	27,890	23,292
Trade payables	78,991	87,592
Other liabilities	7,590	13,127
Income tax liabilities	19,401	29,123
	408,538	**323,033**
TOTAL EQUITY AND LIABILITIES	**1,255,138**	**1,123,354**

CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 026

In thousands of euros

	01/01 – 30/09/2020	01/01 – 30/09/2019
Consolidated earnings after tax	**23,264**	**35,171**
(+) Depreciation and amortisation/(–) reversal of impairments of non-current assests	682	612
(+) Loss / (–) profit on disposals of property, plant and equipment	4	0
(+) Increase / (–) decrease in provisions	– 1,162	– 158
(+) Increase / (–) decrease in deferred tax	2,494	– 1,453
(+) Decrease / (–) increase in equity carrying amounts	– 236	– 448
(+) Loss / (–) profit results from investments in minority interests	1,193	3,287
(+) Interest expense / (–) interest income	18,083	10,228
(+) Income tax expense / (–) income tax income	2,815	4,544
(+) Other non-cash Expenses / (–) income	267	– 6,139
(+/–) Change in right of use assets / leasing liabilities	120	35
(+/–) Change in net working capital[1]	– 7,791	– 67,496
(+) Income tax payments / (–) income tax reimbursements	– 13,330	– 10,201
= Cash flow from operations	**26,404**	**– 32,016**
(–) Outflows for investments in intangible non-current assets	0	– 43
(+) Proceeds from disposals of property, plant and equipment	0	2
(–) Outflows for investments in property, plant and equipment	– 534	– 626
(+) Proceeds from disposals of investments	450	0
(–) Outflows for investments in financial assets	– 1,100	– 1,150
(–) Disbursements due to financial investments within the scope of short-term financial planning	– 109,895	0
(+) Interest received	118	0
= Cash flow from investing activities	**– 110,961**	**– 33,664**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 026

In thousands of euros

	01/01 – 30/09/2020	01/01 – 30/09/2019
(+) Proceeds from additions to issued capital	182,885	0
(+) Increase / (–) decrease from non-cash equity injections and other neutral changes in equity	– 8,163	0
(+) Proceeds from loans and borrowings	686,205	392,730
(–) Interest paid	– 5,317	– 5,861
= Cash flow from financing activities	**108,966**	**140,495**
Cash and cash equivalents at the beginning of the period	117,090	87,966
(+/–) Cash change in cash and cash equivalents	24,408	74,815
(+/–) Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents	0	0
= Cash and cash equivalents at the end of the period	**141,498**	**162,781**

[1] Net Working Capital is composed of inventories, contract assets and trade receivables less contract liabilities and trade payables.

SEGMENT REPORTING

Segment reporting in accordance with IFRS 8 is based on the management approach and thus corresponds to the management and reporting system that Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates revenue and holds assets mainly in Germany.

However, the internal reporting for the single business segment differs from the figures in IFRS accounting. In its internal reporting, Instone Real Estate focuses in particular on the development of housing projects. Presentation of the adjusted results largely reflects the business affected by project developments of the Instone Group. For this reason, Instone Real Estate conducts segment reporting for this one business segment.

Internal corporate governance for this segment is based in particular on the internal reporting system for the presentation of key developments relating to real estate and financial key performance indicators, supplemented by an examination of key project milestones and liquidity development.

Instone Real Estate manages its segment through the adjusted results of operations using key performance indicators, adjusted revenue, adjusted gross profit and adjusted earnings after tax.

Adjusted revenue

The performance of the business segment is reported via adjusted revenue on the basis of revenue recognition over time. Adjusted revenue is calculated by adding revenue recognition from share deals in the same way as from asset deals and without the effects from purchase price allocations.

Adjusted gross profit

Adjusted gross profit is used to analyse project-based company performance and is determined on the basis of adjusted revenue less cost of materials, changes in inventories, indirect distribution costs and capitalised interest, but excluding effects from purchase price allocations and adjusted for share deal effects.

Adjusted earnings after tax

Adjusted earnings after tax is calculated on the basis of adjusted gross profit less platform costs, consisting of staff costs, other operating income and expenses, depreciation and amortisation, income from investments and other earnings, financial result and income taxes, but is also adjusted for the effects from purchase price allocations and share deals, as well as any non-recurring effects, where applicable. From the 2020 financial year onwards, the results of associated companies are included in adjusted earnings before interest and taxes, as future results of project companies to be recorded under this item are to be allocated to operating earnings.

The effects of the adjusted results of operations are derived from the following:

Share deal effects

The project companies Westville 2 GmbH, Westville 3 GmbH, Westville 4 GmbH and Westville 5 GmbH are commercially conceived as asset management companies and constitute a major project in Frankfurt am Main. Instone Real Estate has already sold these project companies in the form of a share deal with the obligation to build a residential complex. In the adjusted results of operations, the overall “Westville” project is managed in the same way as the other projects in the Instone Group, with revenue recognition over time per IFRS 15. These companies are valued and included in the consolidated financial statements in accordance with IAS 2. The effects from this different valuation are reflected in revenues €–14.751 thousand (previous-year period: €0 thousand) and the changes in inventories with €13.853 thousand (previous-year period: €0 thousand).

Effects from purchase price allocations

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as of 30 September 2020 inventories and contract assets still included write-ups of €44.902 thousand (31 December 2019: €46,127 thousand) from purchase price allocations. The ongoing amortisation of these purchase price allocations on the basis of the progressive implementation of the projects included in these initial consolidations is adjusted for internal reporting. The adjustment for the amortisation of purchase price allocations was attributable follows: €–679 thousand (previous-year period: €–6.007 thousand) to revenue, with €222 thousand (previous-year period: €117 thousand) to cost of materials, with €–546 thousand (previous-year period: €–507 thousand) to changes in inventories and with €303 thousand (previous-year period: €2.042 thousand) to income taxes. Based on current estimates, the Instone Group expects these effects to expire in 2024.

Reclassifications and non-recurring effects

Indirect sales expenses allocated to the project costs amounted to €1.799 thousand as at 30 September 2020 (previous-year period: €1.778 thousand). The adjustment of the capitalised interest in the changes in inventories of €3.787 thousand (previous year: €2.804 thousand) burdened the project costs.

In the following table, the differences arising from the valuation of the individual data are carried over from the adjusted results of operations to the consolidated reporting:

RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS 1 JANUARY – 30 SEPTEMBER 2020 TABLE 027

In thousands of euros

	Adjusted results of operations	Share deal effects	Non-recurring effects	Reclassifications	PPA	Reported results of operations
Revenue	**291,326**	**–14,751**			**–679**	**275,897**
Project costs	**–197,236**	**13,853**		**5,587**	**–324**	**–178,121**
Cost of materials	–253,407	0	0	1,799	222	–251,386
Changes in inventories	56,171	13,853	0	3,787	–546	73,265
Gross profit	**94,090**	**–898**		**5,587**	**–1,003**	**97,776**
Platform costs	**–44,818**			**–1,799**		**–46,617**
Staff costs	–30,761	0	0	0	0	–30,761
Other operating income	5,575	0	0	0	0	5,575
Other operating expenses	–16,608	0	0	–1,799	0	–18,407
Depreciation and amortisation	–3,024	0	0	0	0	–3,024
Share of results of joint ventures	678	0	0	0	0	678
EBIT	**49,950**	**–898**		**3,787**	**–1,003**	**51,837**
Other results from investments	–1,184					–1,184
Financial result	–14,332	0	0	–3,787	0	–18,119
EBT	**34,434**	**–898**			**–1,003**	**32,533**
Taxes	–9,572				303	–9,269
EAT	**24,862**	**–898**			**–700**	**23,264**

RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS 1 JANUARY – 30 SEPTEMBER 2019

TABLE 027

In thousands of euros

	Adjusted results of operations	Share deal effects	Non-recurring effects	Reclassifications	PPA	Reported results of operations
Revenue	**302,388**				**–6,007**	**296,382**
Project costs	**–203,490**			**4,582**	**–390**	**–199,298**
Cost of materials	–288,030	0	0	1,778	117	–286,134
Changes in inventories	84,539	0	0	2,804	–507	86,836
Gross profit	**98,898**			**4,582**	**–6,397**	**97,084**
Platform costs	**–42,188**		**–3,976**	**–1,778**		**–47,942**
Staff costs	–25,412	0	0	0	0	–25,412
Other operating income	2,388	0	0	0	0	2,388
Other operating expenses	–20,184	0	0	–1,778	0	–21,962
Depreciation and amortisation	–2,956	0	0	0	0	–2,956
subsequent expenses from company acquisition	3,976	0	–3,976	0	0	0
Share of results of joint ventures	–2	0	0	0	0	–2
EBIT	**56,708**	**0**	**–3,976**	**2,804**	**–6,397**	**49,140**
Other results from investments	–3,270	0	0	0	0	–3,270
Financial result	–7,320	0	0	–2,804	0	–10,124
EBT	**46,118**	**0**	**–3,976**	**0**	**–6,397**	**35,745**
Taxes	–2,675	0	58	0	2,042	–574
EAT	**43,443**	**0**	**–3,917**	**0**	**–4,354**	**35,171**

DISCLAIMER

Forward-looking statements

This interim group report contains forward-looking statements that are based on current management plans, goals and forecasts. However, these statements relate only to findings that are available as at the date this condensed consolidated interim report was prepared. Management does not guarantee that these forward-looking statements will necessarily materialise. Actual future development and the results actually achieved are subject to various risks and can therefore deviate significantly from the forward-looking statements. Several risk factors cannot be influenced by Instone Real Estate and therefore cannot be conclusively assessed in advance. These include changes in the economic and competitive environment, legislation, fluctuations in interest or exchange rates, legal disputes and investigative proceedings and the availability of financial resources. These and other risks are listed in the 2019 consolidated report, which includes a summary of the management report, as well as in this condensed consolidated interim report. Furthermore, business development and economic results may also be encumbered by other factors. Following publication of this interim consolidated report, there is no intention to in any way update the forward-looking statements made herein or to adjust them to events and developments.

Rounding

Some figures in this condensed consolidated interim report have been commercially rounded. As a result, there may be minor deviations between figures in tables and the respective analyses of them in the text of the condensed consolidated interim report, as well as between individual amount totals in tables and the total values indicated in the text. All the key figures and percentage changes shown are based on the underlying data in the unit “thousand euros”.

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ABOUT US

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Management Board

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

Chairman of the Supervisory Board

Stefan Brendgen

Commercial Register

Registered in the Commercial Register
of the Essen Local Court under HRB 29362

Sales tax ID number
DE 300512686

Concept, design and implementation

MPM Corporate Communication Solutions,
Mainz, Germany
mpm.de

FINANCIAL CALENDAR

24/02/2021	Preliminary publication of financial figures as at 31 December 2020
18/03/2021	Publication of financial report for year ended 31 December 2020
20/05/2021	Publication of quarterly report as at 31 March 2021
09/06/2021	Annual General Meeting
26/08/2021	Publication of half-year report as at 30 June 2021
18/11/2021	Publication of quarterly report as at 30 September 2021

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