



GROUP FINANCIAL STATEMENTS

**INSTONE REAL ESTATE GROUP N.V.
31 DECEMBER 2017**

FIGURES OF INSTONE REAL ESTATE

WE ARE A LEADING NATIONWIDE RESIDENTIAL
REAL ESTATE DEVELOPER IN GERMANY.

OUR PURCHASER GROUPS

- OWNER OCCUPIERS
- PRIVATE BUY-TO-LET INVESTORS
- INSTITUTIONAL INVESTORS

€ 3.4 BN



PROJECT
PORTFOLIO

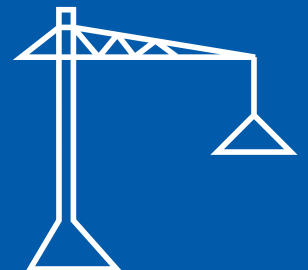


45
PROJECTS

8,000
UNITS



301
EMPLOYEES



OUR FOCUS

- URBAN MULTI-FAMILY BUILDING
- LISTED BUILDINGS FOR RESIDENTIAL USE

INSTONE REAL ESTATE IN GERMANY



OUR PORTFOLIO

▪ 91% OF OUR PORTFOLIO IS IN GERMANY'S KEY METROPOLITAN AREAS

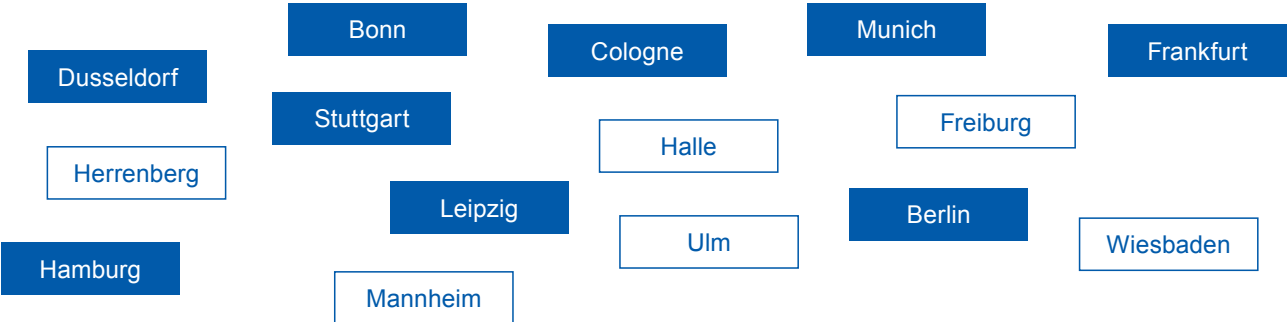


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A. INTRODUCTION

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"NOTHING IN THE HISTORY OF LIFE IS MORE CONSTANT THAN CHANGE."

CHARLES DARWIN

Dear shareholders, dear customers, partners and employees of our Company,

in 2017 we boldly initiated great change, therefore laying the cornerstone for our growth story: in June 2017 a new chapter in the history of the German real estate market was opened with the new brand Instone Real Estate. The companies formart GmbH & Co. KG and GRK-Holding GmbH, which previously operated as independent companies, have since formed a joint enterprise under the new umbrella brand Instone Real Estate and therefore constitute one of the leading German housing developers. The successful private placement of shares of Instone Real Estate Group in February 2018 and the subsequent listing of the Company's shares on the regulated market (Prime Standard) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) underline that this was a very good decision.

TOGETHER MORE IS POSSIBLE

As Instone Real Estate Group N.V. we offer combined competence in new and old buildings from one source. We develop modern, urban multiple family buildings and residential buildings and we also rehabilitate listed buildings for residential purposes in the most important metropolitan regions in Germany. Our aim is to continue growing sustainably and together with our customers, partners and employees to establish our Company as the most successful residential developer in Germany. As such, our focus is on experience, trust and fairness. These three cornerstones have also enabled us internally to smoothly integrate the brand launch and the related larger structures and process convergence.

A FAIR MATTER FROM START TO FINISH

Therefore, 2017 was characterised by change, which served to set the direction for the expansion of our market position. As of 31 December 2017, the project portfolio consisted of 45 projects with more than 8,000 units. The estimated sales volume was around €3.4 billion. Based on the actual secured project portfolio, in the medium term, Instone is planning the development of more than 2,000 residential units per year with a sales volume of €700 million to €800 million and an average gross margin of around 25 per cent, without taking into consideration an increase in the sales prices.

PASSIONATELY DEVELOPING REAL ESTATE

Creating a new house for many people: that is what further motivates us in 2018 and onward. To achieve this, we have already identified and begun processing more than €13 billion worth of potential future sales volumes in acquisition possibilities for highly attractive plots of land.

2017 was a huge success, which every individual employee contributed to with plenty of commitment and passion. We would particularly like to thank them: we are proud to have the support of one of the best teams in Germany.

We would also like to thank our majority shareholder and our investors for their constant trust, as well as our business partners – above all banks, credit insurers and contractors – for their reliable cooperation. Furthermore, we would like to particularly thank our very varied clientele.

Your Management Board of Instone Real Estate Group N.V.

A. INTRODUCTION

A.1 PREPARATION



In this report, the terms “we”, “us”, “our”, “Instone Real Estate” and “the Company” refer to Instone Real Estate Group N.V. (formerly: Formart Holding B.V., thereafter: Instone Real Estate Group B.V., now: Instone Real Estate Group N.V.) and, where appropriate, its subsidiaries.

During the fiscal year ended 31 December 2017, we were a private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid) named Instone Real Estate Group B.V. On 13 February 2018, we were converted into a public limited liability company (naamloze vennootschap) and renamed Instone Real Estate Group N.V. in connection with the private placement of our shares (the “Placement”) and the admission to listing and trading a part of our shares on the regulated market (regulerter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) (the “Listing”).

This report has been prepared by our management board (the “Management Board”) pursuant to Section 2:391 of the Dutch Civil Code (“DCC”) and also contains (i) the Company’s statutory annual accounts within the meaning of Section 2:361(1) DCC and (ii) to the extent applicable, the information to be added pursuant to Section 2:392 DCC.

This report relates to the fiscal year ended 31 December 2017 and, unless explicitly stated otherwise, all financial and other information presented in this report is as at 31 December 2017.

A.2 FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of publication of this report. This applies, in particular, to statements in this report containing information on Instone Real Estate's future earnings capacity, plans and expectations regarding its business growth and profitability, and the general economic conditions to which Instone is exposed. Statements made using words such as "predicts", "forecasts", "plans", "intends", "endeavors", "expects" or "targets" may be an indication of forward-looking statements.

The forward-looking statements contained in this report are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Company's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause Instone Real Estate's actual results, including the financial condition and profitability of Instone, to differ materially from, or fail to meet, the expectations expressed or implied in the forward-looking statements. These expressions can be found in different sections of this report, particularly in chapter B.7 of this report, and wherever information is contained in this report regarding the Company's intentions, beliefs, or current expectations relating to its future financial condition and results of operations, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment to which Instone is subject.

In light of these uncertainties and assumptions, it is also possible that the future events mentioned in this report might not occur. In addition, the forward-looking estimates and forecasts reproduced in this report from third-party reports could prove to be inaccurate. Actual results, performance or events may differ materially from those in such statements due to, among other reasons: changes in general economic conditions in Germany, including changes in the unemployment rate, the level of consumer prices, wage levels etc.; demographic changes, in particular with respect to Germany; changes affecting interest rate levels; changes in the competitive environment, e.g.,

changes in the level of construction activity relating to housing; the occurrence of accidents, terrorist attacks, natural disasters, fire, or environmental damage; inability to attract and retain qualified personnel; political changes; changes to the taxation of corporations and particularly tax rates for real estate transfer tax (Grunderwerbsteuer); and changes in laws and regulations, in particular construction planning law (Bauplanungsrecht), the German Real Estate Agent and Commercial Contractor Regulation (Makler- und Bauträgerverordnung), as well as environmental laws and regulations.

Moreover, it should be noted that all forward-looking statements only speak as of the date of this report and that the Company does not assume any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments. See chapter B.6 of this report for a further description of some of the factors that could influence the actual outcome of the matters described in the Company's forward-looking statements.

B. GROUP MANAGEMENT REPORT

B.1 ORGANISATION



We are a leading nationwide residential real estate developer in Germany¹. We develop modern, urban, multifamily residential properties and redevelop existing buildings for residential use. As of 31 December 2017, our project portfolio comprised 45 development projects with an aggregate expected sales volume for fully developed projects of more than €3.4 billion. As of that date, approximately 91% of our portfolio (by expected sales volume for fully developed projects) were located in Germany's key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart) and 9% in other prospering medium-sized cities. Our purchaser groups are owner-occupiers, retail buy-to-let investors and institutional investors.

We are one of only a few pure play residential real estate developers in Germany with operations spanning the entire development value chain other than actual construction. We operate through a fully integrated nationwide platform covering the acquisition of land, land development, concept design, construction management, as well as marketing and sales. Headquartered in Essen, we also operate through seven branches in Berlin, Cologne, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart. Each branch has its own local teams for acquisition, planning, construction management and marketing and sales activities, while strategic decisions are coordinated

and managed together with our headquarters. We have strong risk management processes in place and apply sophisticated reporting and planning tools to mitigate development risks. The German Real Estate Agent and Commercial Contractor Regulation (Makler- und Bauträgerverordnung (MaBV)) enables us to contractually agree on significant fixed down payments based on construction milestones for residential units sold to owner-occupiers and retail buy-to-let investors which substantially reduces our development risk.

The strong backlog of current projects reflects the high level of investment activities from 2015 to 2017, in which land plots and properties were acquired with an aggregate expected sales volume for fully developed projects of €506 million, €974 million (including €48 million attributable to the acquisition of GRK-Holding GmbH (today Instone Real Estate Leipzig GmbH)) in 2016 and €879 million in 2015, respectively. This high level of investment activity followed a less active acquisition phase in 2014, while Instone Real Estate Development GmbH was still under the control of Hochtief Solutions AG, in which land plots or properties were acquired with an aggregate expected sales volume for fully developed projects of €223 million.

Our core business originates from Hochtief Solutions AG's real estate development division. In 2013, Hochtief

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¹ | Selected residential property developers in so-called A-category cities, in 2017

Solutions AG contributed its development division into a separate entity, formart GmbH & Co. KG. In 2014, formart GmbH & Co. KG, which has since been renamed and converted into Instone Real Estate Development GmbH, was acquired by the Company. In 2015, the Company acquired the former GRK-Holding GmbH, which has since been renamed into Instone Real Estate Leipzig GmbH, a real estate developer specialised in the redevelopment of listed buildings for residential use. In June 2017, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH were integrated within Instone Real Estate Group N.V., which serves as holding company of the Group.

The Management Board of Instone Real Estate Group N.V.:

Kruno Crepulja (CEO, 46)

Kruno Crepulja is Chairman of the Management Board/ CEO of Instone Real Estate Group N.V. At the same time, he is CEO of Instone Real Estate Development GmbH. As its Chief Executive Officer, he is in charge of strategy, project service, purchasing, corporate communications and business development.

Oliver Schmitt (CFO, 53)

Oliver Schmitt is Member of the Management Board/ CFO of Instone Real Estate Group N.V. At the same time, he is CFO of Instone Real Estate Development GmbH. In his position as the Chief Financial Officer he is tasked with commercial project management, human resources, financing, finance and accounting, taxation, law, IT and corporate control.

Andreas Gräf (CDO, 51)

Andreas Gräf is member of the Management Board/CDO of Instone Real Estate Group N.V. At the same time, he is COO of Instone Real Estate Development GmbH for the branches Northrhine-Westphalia and Rhine-Main. He has been working in the construction and real estate sector for 30 years.

Manfred Torsten Kracht (CSO, 50)

Manfred Torsten Kracht is member of the Management Board/CSO of Instone Real Estate Group N.V. At the same time, he is Managing Director of Instone Real Estate Leipzig GmbH. As a member of the Management Board of Instone Real Estate's predecessor, GRK-Holding GmbH, Leipzig, he had been in charge of sales and project development since 2006 and assumed the management of Instone Real Estate Leipzig GmbH in 2016.

Former members of the Management Board:

Robert Victor van Beemen, trust lawyer, Managing Director of Instone Real Estate Group N.V. (from April 2014 to June 2017)

Stefan Mohr, Head of Corporate Real Estate at ActivumSG Advisory GmbH, Managing Director of Instone Real Estate Group N.V. (from April 2015 to June 2017) and member of the supervisory board of the Company (from February 2018 to date).

We are aware of the fact that women are underrepresented on the Management Board of Instone Real Estate Group N.V. and have been over the past years. The Management Board of Instone Real Estate Group N.V. was newly formed in 2017 with members of the Management Board from the two subsidiaries.

We will take this into account when appointing individuals to chief managerial positions in the future. Instone Real Estate will make a serious effort to achieve the goals as prescribed by Dutch law regarding equality for men and women on the Management Board in the years to come. The same applies to the composition of the Supervisory Board of Instone Real Estate Group N.V., which was established in February 2018.

Instone Real Estate specifically promotes female employees through training and further education and through special working time models for equal opportunities in order to accommodate more women on management levels.

B.2 STRATEGY

The strategy of Instone is to create additional value for its project portfolio and to keep and further strengthen the Company's competitive position in the German residential real estate development market. To achieve this, the Company will leverage its strong platform and deep market knowledge and expand its competitive position in the German residential development sector. Also, Instone aims to fuel further growth through the realisation of growth opportunities, among others in Germany's key metropolitan regions, for which Instone expects further growth potential. Instone intends to achieve this as follows:

B.2.1 MAINTAIN AND EXPAND ITS COMPETITIVE POSITION IN THE GERMAN RESIDENTIAL DEVELOPMENT SECTOR WITH A CONTINUED FOCUS ON GERMANY'S KEY METROPOLITAN REGIONS.

Instone Real Estate's exclusive focus on modern urban mid-rise residential properties and their location in Germany's key metropolitan regions and other prospering medium-sized cities in Germany has been a key contributing factor to Instone Real Estate's success in the past. Its regional approach is driven by Germany's attractive growth markets (North Rhine-Westphalia and Rhine Main, Baden-Wuerttemberg and Bavaria, Saxony, as well as Northern and Eastern Germany) with four regional heads and seven branches.

Instone aims to continue to focus on, and seeks to strengthen its presence in, metropolitan growth regions in Germany (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart) as well as on other prospering medium-sized cities such as Darmstadt, Dresden, Freiburg, Hanover, Heidelberg, Heilbronn, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm and Wiesbaden. These metropolitan regions and prospering medium-sized cities present strong demographic growth, reinforced by the urbanisation trend, sustainable household formation and supportive regionally diversified economic backgrounds.

In addition, Instone is also aiming to invest with an opportunistic approach in particularly attractive areas that are

likely to benefit from incidental demand, such as Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, the Rhine-Main region around Frankfurt am Main, Regensburg, the Western Ruhr area, and Wurzburg.

B.2.2 FOCUS ON LAND PLOTS OR PROPERTIES WITHOUT ZONING OR PLANNING PERMISSION FOR RESIDENTIAL DEVELOPMENT PURPOSES AT THE TIME OF ACQUISITION.

The acquisition strategy of Instone Real Estate is driven by the aim to achieve attractive margins from project developments without taking undue risks. To this end, Instone Real Estate land acquisition strategy focuses primarily on land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition, as it believes that such plots or properties typically offer a higher potential for value creation and less competition than land plots or properties with full zoning and planning permission. To manage regulatory development risk, Instone relies on its know-how and expertise to ensure it has a thorough understanding of remaining planning issues and only acquires land plots or properties that it considers highly likely to be granted the required planning permission in the near future, generally following pre-discussions with local building authorities. Accordingly, Instone does not invest in land if it does not believe it will be able to obtain zoning or planning permission within this time frame (no speculative land banking). Instone also seeks to avoid acquiring land to the extent it believes the purchase price already includes a step-up in value for future building permission.

Instone Real Estate has an excellent track record in developing land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition, having successfully obtained zoning and planning permission for 100% of the land plots or properties for which it has submitted an application in the period from 1 January 2015 through 31 December 2017.

In accordance with its acquisition criteria, Instone constantly aims to identify opportunities to acquire land plots

or properties in Germany's key metropolitan regions by remaining close to the local markets through its seven branches. It focuses on the key German metropolitan residential markets while likewise reviewing other large and liquid markets that are also of interest for private and institutional investors.

KEY PERFORMANCE INDICATORS OF INSTONE REAL ESTATE

Volume of sales contracts

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

Operating performance

Revenue and changes in inventories make up the operating performance of Instone Real Estate.

Earnings before tax (EBT)

Instone Real Estate establishes the earnings before tax in accordance with the International Financial Reporting Standards as adopted in the EU (IFRS).

Volume of new internal acquisition permits

The volume of new internal acquisition permits for Instone Real Estate is seen as an indicator for the trend of the future business volume – expressed in revenue.

B.3 SUSTAINABILITY

Sustainable properties create long-term added value for investors, owners, users as well as developers. Sustainable action implies the consideration of ecological, social and economic aspects during the development of a property. The creation, erection, use and management of a building cause greenhouse gas emissions. Sustainable properties are economically efficient as well as environmentally-friendly as they preserve resources in the long run. It is our goal to create an optimal living environment which provides comfortable, healthy surroundings to our customers.

Instone Real Estate develops, builds, revitalises and markets residential real estate and city districts in Germany's growth regions. The properties and city districts on the one hand meet the needs of residents while on the other they are fulfilling complex technical requirements. Thanks to new technologies and digital progress, Instone Real Estate properties provide an attractive infrastructure and a high quality of use. This helps to accomplish a long-term acceptance of new and revitalised properties in inner-city locations.

In line with the core values of sustainability which include the re-use, secondary use and extension of the life cycle within a suitable time frame, we develop and restore listed buildings. We revitalise Gründerzeit architecture and repurpose special real estate.

For us as equal public-sector partner, this sustainable real estate development includes the conceptualisation of building rights for complex properties. This comprises the realisation of modern city residences, the construction of complete residential areas or residential complexes with a high share of barrier-free residential units plus the consideration of subsidised and low-rent residences.

The early commitment between Instone Real Estate and municipalities and organisations to the sustainable development of zoning and land use plans as well as to the shaping of urban development contracts guarantees optimal results.

As a matter of fact, in developing our old and new properties we comply with current energy-saving regulations, as

we are striving to keep the consumption of energy both low during the construction and the later operation of the buildings. This results in low operating expenses.

Instone Real Estate is a member of relevant associations of the real estate industry, including the Zentraler Immobilien Ausschuss (ZIA) and the Bundesverband Freier Immobilien- und Wohnungsunternehmen (bfw). Furthermore, Instone Real Estate is involved in different committees that aim to positively influence shared regulations in Germany, including those regarding sustainable property. We also regularly participate in market analyses and conduct customer surveys to adapt our residential properties to the needs of potential owners and users.

In intensive meetings, we advise our customers on decoration options and technical solutions. Our aim is to create flexible living space that encompasses all target groups. This is why the residential units and living forms developed by Instone Real Estate in both new and restored pre-war buildings are always at least low-barrier solutions, if not barrier-free solutions.

B.4 STAFF

As at 31 December 2017, Instone Real Estate employed a total of 301 staff compared to 292 in the previous year, including the team members of its foreign subsidiaries.

The international locations employed two employees in Luxembourg and one in Vienna (as at 31 December 2017). The number of staff remained unchanged as expected, respectively with two withdrawals in Austria. During the previous years 2014 and 2015, restructuring activities at both locations had preceded, which led to a noticeable reduction of personnel.

B.5 NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

The consolidated financial statements of Instone Real Estate Group N.V. for the year 2017 were influenced by effects resulting from the expansion of the scope of consolidation in prior years. The Group division formart GmbH & Co KG, Essen, Germany, which operates today as Instone Real Estate Development GmbH, was consolidated for the first time on 1 October 2014. This consolidation led to the formation of Instone Real Estate Group N.V. as a group. The Group division GRK-Holding GmbH, Leipzig, Germany, which operates today as Instone Real Estate Leipzig GmbH, was included in the consolidated financial statements for the first time on 31 December 2015.

B.5.1 NET ASSETS

The **total assets** of Instone Real Estate rose to €789.1 million (31 December 2016: €685.2 million). This was primarily due to the increase of **inventories** to €659.4 million (84%) from €542.7 million (79%) as at 31 December 2016. Inventories essentially include unfinished products from ongoing project developments, the share of which grew to €659.4 million in 2017 compared to €537.6 million in the previous year. Finished products were valued at €0.1 million (31 December 2016: €5.1 million). The decrease is due to the sale and subsequent handover of finished condominiums. Existing **trade receivables** for the year under review were down to €4.2 million (31 December 2016: €19.6 million) as the projects accounted for using the percentage of completion (PoC method) were almost totally handed over to the customer in 2017.

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015, inventories as of 31 December 2017 still included €50.5 million (31 December 2016: €71.9 million) step-ups from the purchase price allocations. Based on our current assumptions, we assume that these effects will expire in 2022.

Total inventories minus received upfront payments increased from €381.2 million to €429.0 million during the year under review. This was primarily due to a higher increase in inventories by €116.8 million compared to the €68.8 million increase of received upfront payments.

The capitalised work done to the inventories was partially higher than the received upfront payments. This was due to the restrictions of German law which does not allow to receive the customer payments earlier than the construction is in line. Accordingly, the financing of inventories by upfront payments received deteriorated slightly.

The **equity-method investments**, which include shareholdings in project companies, dropped from €1.4 million to €0.4 million in the financial year 2017. The decrease was due to the dividend pay-out by Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, in 2017.

The **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, valued at €0.7 million (31 December 2016: €0.7 million).

The **current financial receivables** of €32.4 million (prior year: €0.2 million) resulted in receivables to associated companies. These included €32.3 million receivables to the majority shareholders for the indemnity of other operating expenses and personnel costs relating to the planned private placement and the Company's listing on the Frankfurt Stock Exchange. These receivables were based on a cost-sharing and indemnity agreement and an indemnification agreement.

Other receivables and other assets (current) rose from €5.6 million to €15.5 million in 2017. In the year under review, other receivables were accounted relating to a tax indemnification of €2.8 million by Hochtief Solutions AG, Essen, Germany, capitalised transaction costs of €2.5 million, €1.7 million receivables from a sale of voting rights of a subsidiary in amount and bails as contract performance guarantee of €1.0 million. The comprised contingent items grew from €0.8 million to €2.3 million for upfront payments on land where the transfer of use and encumbrances occurred after the individual balance sheet date. Moreover, changes to already paid arrangement fees which were spread over the term of the €2.5 million loans in the financial year 2017 (31 December 2016: €0.5 million) contributed to the volatility of other receivables and other assets. Also, the

rise of tax receivables from €2.8 million to €3.2 million in 2017 was essentially the result of refund claims in connection with the German Value Added Tax Act (Section 13b) (Umsatzsteuergesetz). These items were largely responsible for the fluctuations over the financial years.

Cash and cash equivalents declined from €112.5 million in 2016 to €73.6 million in the financial year 2017, which was mainly the result of a cash outflow for the investment in new land for project development. We refer to the consolidated statement of cash flows.

Non-current provisions for pensions and similar obligations increased slightly by €0.1 million to €4.2 million in 2017. The values for provisions resulted from offsetting the plan assets of €5.6 million (31 December 2016: €5.4 million). Plan assets of €5.0 million (31 December 2016: €4.9 million) were placed in a trustee deposit with Helaba Pension Trust e. V., Frankfurt am Main, and €0.6 million (31 December 2016: €0.6 million) in a trustee deposit with the European Bank for Financial Services GmbH (ebase®), Aschheim.

The **remaining other non-current provisions** for the year under review decreased from €12.4 million to €1.3 million in 2017. This was a result of personnel-related provisions which went down from €11.7 million in 2016 to €0.7 million in 2017. The reason for this was essentially the transition of maturity of the liabilities for special payments in connection with a long-term incentive scheme to the current provisions.

Other current provisions for the year under review increased by €22.6 million – from €25.6 million at 31 December 2016 to €49.2 million. This was primarily due to the transition of maturity of the liabilities for payments in connection with a long-term incentive scheme from the €11.1 million non-current provisions, the increase in current personnel-related provisions by €17.0 million and a decrease by €5.5 million in other current provisions mainly due to project-related provisions for warranty risks and litigation risks.

Non-current financial liabilities for the financial year 2017 were reduced to €241.0 million (31 December 2016:

€300.9 million). €48.0 million of the liabilities towards the shareholders of Instone Real Estate Group N.V. were converted into equity in 2017. During the year 2017, interests were capitalised, so that at the end of 2017, the liabilities to shareholders still amounted to €57.8 million (31 December 2016: €96.6 million). Instone Real Estate Development GmbH was able to sustainably improve its liquidity by first-time placement of a promissory note loan worth €66.9 million. The non-current financial liabilities to banks for project related financing decreased during the reporting year.

The non-current financial liabilities as at 31 December 2016 had included a €52.4 million financial liability relating to a mezzanine financing. This facility was fully repaid to the lender in the year under review, and Instone Real Estate was able to sustainably lower its interest burden through its early repayment.

The **current financial liabilities** grew to €134.7 million (31 December 2016: €81.6 million). The increase of the current financial liabilities by €53.1 million was mainly due to two effects: Within an amount of €88.9 million new project-related loans from banks were taken over and €21.5 million liabilities for the call and put option for the shares in Instone Real Estate Development GmbH at 31 December 2016 were fully redeemed in the year under review.

The financing of a special project constituted a crucial component of other current financial liabilities, which were valued €12.5 million at 31 December 2016 and were fully redeemed in the year under review.

Trade payables increased to €275.7 million in the financial year 2017 (31 December 2016: €215.2 million). This was primarily due to the capitalisation of the upfront payments. These amounted to €230.4 million received for new sales of condominiums or further instalments according to the ongoing construction of sold condominiums that were attributed as inventories.

The first-time consolidation of Instone Real Estate Development GmbH in the financial year 2014 and the first-time consolidation of Instone Real Estate Leipzig GmbH in the financial year 2015 had essentially generated

deferred tax liabilities on newly-valued inventories. Mainly due to this effect the deferred tax liabilities as at 31 December 2017 fell to €7.7 million from €23.4 million in the previous year. They included deferred tax liabilities generated by the development of step-up effects on inventories of €17.0 million (31 December 2016: €23.9 million).

The Income tax liabilities increased to €13.8 million (31 December 2016: 6.2 million) due to the income taxes on increased profits of the German group entities.

The **equity ratio** as at 31 December 2017 was 6.6% (31 December 2016: 0.4%). The clear increase in 2017 was at first due to the €48.0 million shareholder loan conversion into equity from 28 December 2017. Second, it was owed to the contribution from shareholders in equity of €32.3 million by the cost-sharing and indemnification agreements from shareholders in favour of Instone Real Estate Group N.V. These were entered for the indemnity of other operating expenses and personnel costs relating to the planned private placement and the Company's listing on the Frankfurt Stock Exchange. Third, neutral changes in equity were the result of the actuarial gains and losses from defined benefit plans in the amount of €0.9 million (31 December 2016: €-1.2 million). In contrast to these positive effects equity was influenced by the negative overall result of €31.0 million in the year under review. The shareholdings of other shareholders decreased by €0.5 million compared to the previous year. The decrease was connected to the dividend pay-out of GRK REVION Hamburg GmbH, Leipzig, Germany which had already been fully consolidated in the previous year.

B.5.2 FINANCIAL POSITION

The cash flow of Instone Real Estate in the financial year 2017 was essentially affected by cash outflow for investments in new project developments, which were opposed by inflows after entering into new financing contracts. As in previous years, outgoing payments for the acquisition of the two Group divisions had impact on the cash flow, combined with the realignment of the financing structure of Instone Real Estate.

In 2017, Instone Real Estate continued to expand its project development business by investing in new land plots and simultaneously, the scope of financing for bank loans increased to €664.6 million (31 December 2016: €334.7 million). This new project financing and the €66.9 million first-time placement of a promissory note by Instone Real Estate Development GmbH increased liabilities to €317.4 million (31 December 2016: €197,2 million).

The capital structure of Instone Real Estate as at 31 December 2017 was defined by a 6.6% equity ratio (31 December 2016: 0.4%). However, the non-current financial liabilities contained liabilities towards shareholders valued at €57.8 million (31 December 2016: €96.6 million). This corresponded to a 13.9% share (31 December 2016: 14.5%) in the balance sheet total.

As part of the placement of the promissory note by Instone Real Estate Development GmbH, we were able to raise various loan tranches of credit institutions. The maturity structure of the individual tranches was as follows:

in € million	2017
Due to 31.12.2020	47.0
Due to 31.12.2022	19.9

Debt financing drawn from financial institutions to finance projects increased to €250.5 million (31 December 2016: €209.7 million (including mezzanine financing)). The ongoing cash inflow from our project developments reduced this item constantly, providing sufficient flexibility to procure additional debt capital – for example, for the acquisition of land.

Cash flow from financing activities rose to €18.2 million in the financial year 2017 (2016: €8.5 million), which was primarily due to inpayments relating to new borrowings. These exceeded the outpayments from repayments and the outpayments for interest.

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

in € million	2017	2016
Due to 31.12.2018 (2016: due to 31.12.2017)	134.2	57.8
Due to 31.12.2019 (2016: due to 31.12.2018)	61.7	109.3
Due to 31.12.2020 (2016: due to 31.12.2019)	10.3	42.6

The individual project-related financing of Instone Real Estate was negotiated with multiple financial institutions and was subject to varying terms and conditions. For a draw-down of funds under fixed-rate loans or term loans, different amounts and frequencies have been agreed. The 2017 interest rate conditions were at the level of the previous year.

Funds required at short notice can be procured using overdraft facilities that have been agreed with the individual banks. To compensate for interest, any payments already received go to these overdraft facilities which the purchasers of our properties pay into separately managed omnibus accounts dedicated to purchase price payments. If required, these overdraft facilities can be converted into fixed-rate loans or term loans.

The **cash flow from investing activities** in the financial year 2017 sank slightly to a cash outflow of €22.7 million (2016: cash outflow of €21.8 million). It was in principle defined by the exercise of the third tranche of the call and put option by the former controlling shareholder of Instone Real Estate Development GmbH, Hochtief Solutions AG. It led to a cash outflow of €22.5 million.

During the year under review, we invested €0.5 million (2016: €0.4 million) in property, plant and equipment. The key investments were technical and other office equipment.

The **net cash flow from operating activities** of Instone Real Estate of €-34.5 million in the financial year 2017

(2016: €87.7 million) was characterised by the increase in cash outflow from new investing in land for project developments: The increase in inventories of unfinished products as well as the decrease in the volume of receivables resulted in an aggregate cash outflow of €106.5 million in the year under review (2016: €41.5 million). This resulted from investments in land as well as project-related activities in 2017 and in previous years.

The inflow of upfront payments of €68.8 million had a positive effect on the cash flow from operating activities in the financial year 2017.

The depreciation of fixed assets of €0.4 million (2016: €0.4 million), the increase of provisions by €12.5 million from €15.0 million in 2016, the decrease of deferred tax liabilities and increase of deferred tax assets by €15.7 million from €12.9 million in 2016 and the increase of revaluations of interest held at equity by €1.0 million (2016: €-1.3 million) in the financial year 2017 were cash neutral. Non-cash expenditures in connection with the consolidation of the subsidiaries increased cash flow from operating activities in the financial year 2017 by €31.2 million (2016: €23.5 million).

As at 31 December 2017, financial resources had decreased to €73.6 million (2016: €112.5 million). This included resources that were not related to the ongoing financing (free cash) in the total amount of €58.7 million (2016: €91.1 million).

Following the successful extension of certain guarantee facility agreements with renowned credit insurers, financing for Instone Real Estate was further secured and diversified.

As at 31 December 2017, a €185.2 million surety line of insurances was available (2016: €185.0 million). An amount of €99.4 million was drawn under such a surety line (2016: €102.7 million). This provided flexibility for further investments in the financial year 2018. Project-related financing agreements supplied further €16.7 million surety volumes (2016: €137.8 million), of which €1.4 million (2016: €2.3 million) was being used as at 31 December 2017.

B.5.3 RESULTS OF OPERATIONS

For the financial year 2017, the operating performance of Instone Real Estate decreased to €319.9 million (2016: €362.5 million). Due to a decline in construction work for project developments, the cost of materials went down to €244.8 million (2016: €293.7 million). This corresponded to 76.5% of the operating performance (2016: 81.0%). In the year under review, changes in inventories were lower than in the previous year due to deliveries of products to customers. The production costs of projects under construction have only partially compensated for this reduction as fewer projects are under construction. The operating performance in 2017 was negatively affected by the amortisation of the step-up of the purchase price allocation of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH in the amount of €23.1 million (2016: €49.9 million).

The decrease of cost of materials in 2017 by €48.9 million to €244.8 million (2016: €293.7 million) corresponded mainly to the decrease of the consolidated operating performance. This decrease was due to a decline in construction work for multi-annual project developments compared to the previous year.

Staff costs increased by €14.3 million to €49.5 million in 2017 (2016: €35.2 million). This increase was primarily due to expenses for payments in connection with a long-term incentive scheme in the financial year 2017.

Other operating income of €5.4 million (2016: €8.3 million) essentially included the one-off refund for the sale of voting rights and for a better fortunes clause – in total €2.7 million (2016: €0.0 million) – as well as €0.9 million income from the reduction of impairment and the reversal of provisions (2016: €1.4 million).

Other operating expenses of €41.5 million (2016: €42.4 million) decreased slightly by €0.9 million. The reduction of commission fees and other distribution costs by €5.7 million was primarily the result of the lower volume of sales contracts in 2017. This effect was partially offset both by the €4.0 million rise in business consulting, attorneys' and notaries' fees mainly relating to the planned private

placement and the Company's listing on the Frankfurt Stock Exchange and other overhead costs.

In 2017, the result from €0.2 million equity-method investments (2016: €1.3 million) included the €0.9 million decrease in value of Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main (2016: increase of €1.4 million).

From the effects shown, essentially due to the higher staff costs, the consolidated result of operating activities (EBITDA) in the financial year 2017 declined significantly by €11.7 million and resulted in a loss of €10.4 million (2016: profit of €1.3 million).

The 2017 financial result improved to €-20.4 million (2016: €-24.8 million). A decisive contributing factor was the reduction of interest costs by €3.7 million. Further improvement in the financial result is attributable to an increase in interest income and reductions in interest components from the increase in provisions.

As at 31 December 2017, earnings before tax resulted in a loss of €31.2 million (2016: loss of 24.0 million). This higher loss compared to the previous year is mainly due to the higher staff costs for payments in connection with a long-term incentive scheme. The lower financing costs as well as the lower balance of operating performance and cost of materials could partly mitigate this effect.

In the financial year 2017, €0.2 million tax income (2016: €1.8 million) slightly improved the consolidated result. The release of deferred tax liabilities mainly due to the write-down of the revaluation of inventories from the first-time consolidation of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH resulted in a profit of €15.3 million (2016: €12.6 million). This was offset by €15.1 million expenses from corporate income taxes and trade taxes (2016: €10.8 million) due to the taxation of the higher positive results in the subsidiaries.

Earnings after tax of Instone Real Estate totalled €-31.0 million (2016: €-22.2 million); due to the effects shown, they were significantly lower than in the previous year mainly to the higher staff costs.

The impact on equity by the 2017 loss of €31.0 million was offset by the contribution from shareholders in equity with a profit of €32.3 million by the cost-sharing and indemnification agreements from shareholders in favour of Instone Real Estate Group N.V.

B.5.4 OTHER FINANCIAL PERFORMANCE INDICATORS

In 2017, volume of sales contracts decreased to €359.1 million (2016: €519.3 million), the number of sales contracts including residential units sank to 826 (2016: 1,129). This decrease was justified by a postponement of sales launches and of two block sales.

For the year under review, Instone Real Estate generated a total amount of revenue and changes in inventories worth €319.9 million (2016: €362.5 million) – including a €94.8 million share for land plot purchases (2016: €127.8 million); therefore €225.1 million (2016: €234.7 million) were attributed to project implementation.

The volume of newly internal acquisition permits reached €506.1 million in 2017 (2016: €878.9 million). This led to a project portfolio corresponding to an aggregate expected sales volume of €3.4 billion as at 31 December 2017.

B.6 RISK REPORT

The risk policy of Instone Real Estate has the aim of advancing the Group's successful development and profitability in the long term. Our sophisticated risk management system is key to achieving this goal. It employs proactive risk control to minimise potential impacts.

B.6.1 RISK MANAGEMENT SYSTEM

Instone Real Estate has installed a risk management system which identifies potential risks, assesses the risks identified and mitigates these. This particularly applies to risks whose effects could jeopardise the continued existence of Instone Real Estate as a going concern. We continued to apply our proven risk management system throughout the financial year 2017. Moreover, we extended the risk management system to include the Instone Real Estate Leipzig GmbH (formerly GRK-Holding GmbH). In general, the aim of the Group is to recognise risks and secure them at an early stage. However, some industry-standard risks (i.e. risks of delay in permission of building rights) must be taken that can not be secured. Their successful handling in the past has given the Group advantages over competitors.

Together with external partners we continue to work towards optimising this system. All applicable internal regulations, rules of procedure and arrangements that vouch for a Group-wide standard, structured approach to risks are regularly subjected to an internal review. In 2017, for example, we continued with the evaluation of all applicable internal regulations. This review and evaluation is an ongoing and continuous process. In 2017, we also completely revised some of the Company's guidelines. Moreover, based on the rules of procedure for the Management Board of Instone Real Estate – and taking into consideration current laws and relevant case law – we further developed the decision-making policy that applies to the entire Group. This essentially governs the material process flows and decision-making approvals within the entire Group that are subject to approval.

Central risk-controlling elements include internal approval processes for critical decisions, and the dual-control principle. The powers of the individual decision-making levels

are clearly defined by the policies on decision-making. For example, each new project, including the date of its sales start, must be approved by the Management Board. Beforehand, Instone Real Estate's acquisition projects must undergo an intensive selection process which always also involves the Management Board. Upon release of the project, requirements specific to the project are automatically issued to mitigate risks. Material changes or digressions of the projects from approved specifications or parameters must be laid out in detail and are discussed during the scheduled monthly forecast and results meetings with the Management Board.

We raise and evaluate opportunities and risks at project level monthly and summarise them in reports. This constitutes the foundation on which talks are held each month within the project team, as well as forecast and results discussions with the Management Board. All risks related to approved projects as well as tied to imminent acquisitions and the respective measures to mitigate risks are defined during these meetings.

During the financial year 2017, the Compliance System which was developed in 2015 and was specifically tailored to the needs of Instone Real Estate, was driven forward. It explicitly targets the Company's risk fields that are the direct result of developing residential property. It provides additional support to our employees in handling laws, regulations, decrees and other requirements. For the first time we used an eLearning system in 2017 to train our employees in compliance and data protection. This system enables us to provide our employees with current general and task-specific information.

The Compliance System was expanded in the beginning of 2018 in preparation for the private placement and the Listing on Frankfurt Stock Exchange. Among other things, an internal compliance hotline has been set up where employees can anonymously address any violations or grievances at Instone. Furthermore, an organisational structure for ad hoc announcements and other information requiring disclosure was implemented in order to meet the requirements of capital market compliance, in particular to fulfil the post-admission obligations which apply to the Company since the listing of its shares.

We believe that our overall risk management system (as discussed above and in chapters B.6.2, B.6.3 and C.2.4 of this report) also encompassed, and sufficiently safeguarded the integrity of, our financial reporting. However, during the fiscal year ended 31 December 2017, we did not have a specific formal risk management and control system relating to the process of financial reporting by the Company and our subsidiaries whose financial information is included in our consolidated financial statements.

B.6.2 IN-CONTROL AND RESPONSIBILITY STATEMENTS

On the basis of reports and information provided to our Managing Directors, our Management Board is of the opinion that:

- a. this report provides sufficient insight into any failings in the effectiveness of the Company's risk management and control systems;
- b. the Company's risk management and control systems provide reasonable assurance that the Company's financial reporting does not contain material inaccuracies;
- c. based on the Company's state of affairs as at the date of this report, it is justified that the Company's financial reporting is prepared on a going concern basis; and
- d. this report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for a period of twelve months after the date of this report.

Furthermore, our Management Board confirms that:

- a. to the best of their knowledge, the statutory annual accounts included in this report give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries taken as a whole; and
- b. this report includes a fair review concerning the financial position, on the balance sheet date, and the

development and performance of the business of the Company and its consolidated subsidiaries as a whole, together with a description of the principal risks and uncertainties that they face.

B.6.3 RISKS

Material threats from Instone Real Estate's operating activities result primarily from potential changes in the market situation:

- revenue risks due to a market-related reduction in demand and any potential-related decline in prices
- revenue risks due to changes in demand implying that the planning concept may no longer adequately cater to market requirements
- cost risks from higher purchase prices (price increases for the contract work)
- cost risks from unplanned costs in relation to the restoration of listed buildings
- interest and financing risks (for example, increase in the level of interest rates)
- performance delivery risks due to delays in applying building rights
- litigations

Additionally, there are potential risks that could be triggered internally:

- cash flow bottlenecks
- loss of knowledge/loss of qualified personnel
- loss of reputation following the integration of the formart and GRK trademarks, into the new umbrella trademark, Instone Real Estate

We deem the revenue risk as result of a decline in demand to be very low under current general market conditions.

Our risk management ensures that during the approval process and sales release procedure for projects, the planned sales proceeds and the speed of marketing activities are critically examined and questioned by the Management Board. By establishing a pre-sales rate, we can test the planned purchase prices and the project development concept on the market. Should this result in either the concept not being accepted by the market or the anticipated sales prices not being achievable, the project undergoes a readjustment and a renewed review. At the same time this allows us to identify and exploit opportunities for increasing the purchase price.

We lower cost risks by entering into long-term partnerships with our subcontractors and retaining contractors as early as possible for key contract work. Moreover, product standards undergo an ongoing development to achieve a very high cost certainty for the individual projects. The Project Service department is tasked with costing for all branches and in doing so can rely on experience gained from all projects throughout Germany. Likewise, we regularly prepare a costing analysis from figures based on experience gathered from projects already implemented, to test the cost approach recurrently. We deem the impact of cost risks at a medium level.

The restoration of listed buildings involves specific risks from unplanned costs. In acquiring the GRK Group in 2015 we gained specific know-how in relation to this on the one hand; on the other, these specific cost risks are included in the context of our project planning and calculation. The impact of this risk is deemed as low.

The projects are financed via bank loans and a proportionate share of equity. The current low level of interest rates makes it possible for us to finance the project's cost effectively. A significant rise in interest rates at short notice is currently not foreseeable. For longer-term projects, we calculate with higher interest rates based on the principle of prudence. To preferably ensure high certainty concerning interest rates for our projects, we ask that banks, at the time of enquiring about the financing of investments, in addition to their financing terms, also provide so-called term sheets, or request completely prepared and arranged financing contracts.

The resulting financing conditions, especially the rate of interest, are taken into consideration in the projects' profitability analyses. For further explanations on how we manage cash flow, interest and default risks, we refer to the explanations in the notes to the consolidated financial statements. As a result and in connection with current market environments, Instone Real Estate assesses the risk as low.

To secure the Company's solvency, we continuously monitor our cash flow based on the individual projects. Even cash flow forecasts of relevant acquisition projects are taken into consideration in the cash flow planning at an early point in time following the prior approval by the Management Board. Instone Real Estate's business model greatly limits default risk. We can recognise potential cash flow bottlenecks at an early stage and avoid these by processing cash flow forecasts from the individual projects, organising the cash flow planning at a higher level and continually monitoring the relevant cash flows.

Other risks concerning our projects, for example vandalism or fire, are insured accordingly (liability insurance, contractor's all risk insurance, insurance against fire during the construction phase). Beyond this, we have taken out additional Group-wide insurance policies to avoid any potential damage for Instone Real Estate.

In order to mitigate performance delivery risks due to delays in applying building rights, Instone Real Estate relies on its strong regional network and expertise for a thorough analysis of remaining zoning or planning issues. The Company only acquires land plots and properties that it considers highly likely to be granted the required planning permission in the near future, generally following pre-discussions with local building authorities. This risk is rated medium.

Instone Real Estate mitigates litigation risks by using standard terms and conditions in the agreements with purchasers, architects, construction companies and using a standard sales contract with its customers. Additionally, potential litigation risks are identified and analysed in accordance with our Group-wide Compliance System. The impact of this risk is evaluated as low for the Group.

The loss of reputation and image following the merger of the formart and GRK trademarks into the new umbrella trademark, Instone Real Estate, has not had any significant impact on our operating activities (as originally assumed). Maintaining the good name was therefore the focus of our interest. The brand launch was therefore accompanied by a broad kick-off campaign. Our 'Gemeinsam geht mehr' (Achieving more together) motto highlights the values of our new umbrella brand. With our powerful new brand, we emphasise the aspects of experience, trust, and fairness.

Additionally, our employees are the flagship of the entire Group and form the link to customers and business partners. The specific targeting and development of qualified personnel helps us to ensure that we always place employees with outstanding training in positions that suit their profile. This is the best approach to developing the image of the Instone Real Estate trademark and to retain sufficiently qualified key personnel. We deem the impact of this risk at a low level.

In summary, this results in a risk sphere that is common for the business field. By reviewing risks early and dealing with them openly, we can act early to mitigate them. The residual risks are minor and do not have any major impact on Instone Real Estate's continued existence.

None of the risks described above influenced the financial position of the financial year 2017 significantly and therefore no remedial measures to the risk management system were necessary. It is not possible to estimate the possible consequences of significant risks that may materialise in the future and that may not be controlled by our risk management system.

B.7 OUTLOOK

Instone is one of the largest housing project developers in Germany (number 2 company in the residential segment according to the bulwiengesa AG project developer study 2017/2018). Its focus is on trading development – i.e. the development of properties intended for sale – as well as condominiums.

Instone has eight locations and realises projects throughout Germany. All target cities defined have a higher-than-average housing demand and a below-average risk in German-wide comparison.

Our current strategy of investing in inner-city and suburban locations of A-cities as well as in other target cities offers good long-term market opportunities. Therefore, we continue to invest in large-scale realisations combined with rental housing construction to develop attractive urban neighborhoods.

In addition to investing in new properties for the project business, we do not plan any significant investments in long-term assets for the year 2018. We also plan to expand our financing activities to include project-related financing. Changes to the company's finances are not planned.

As in previous years, we will not incur any significant expenses for research and development in 2018.

For 2018, we do not expect any significant changes in the number of personnel.

For the financial year 2018, we expect the volume of concluded sales contracts to increase to more than €500 million based on projects available for sale or ready for the start of the marketing phase.

Based on the planned handovers for 2018, we expect an operating performance of more than €500 million and an adjusted EBT between €25 million and €30 million. We expect better operating results for the future as the effects of PPA will not impact future results as much compared to previous years.

B.8 SUPPLEMENTARY REPORT

On 22 January 2018, Instone Real Estate published the press release about the planned listing of its shares on the regulated market of the Frankfurt Stock Exchange (Prime Standard) in 2018. As part of the planned previous private placement, both new and existing shares were planned to be offered. As a result of a capital increase, new shares were planned to be issued with gross proceeds to the Company, and existing shares were planned to be offered by the Company's shareholders, funds launched by ActivumSG Capital Management Limited.

On 13 February 2018, part of the Company's share premium was converted into share capital, thereby increasing the Company's share capital from €8,386.00 to €50,316.00 and, following the effectiveness of the conversion of the Company into a public limited liability company (naamloze vennootschap) and the change of its name which took place in this context, from €50,316.00 to 29,988,336.00. On the same day, a further capital increase took place according to which €7,000,000.00 new shares were issued with a par value of €1.00 each. These measures together resulted in an increase of the Company's share capital to €36,988,336.00.

On 13 February 2018, the Placement was completed, and on 15 February 2018 the Company's shares were listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

In the Placement, a total of 19,900,000 shares were placed with institutional investors. The placed shares consisted of 7,000,000 new shares from the capital increase and 12,900,000 existing shares held by the Company's shareholders Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V, including additional shares from an over-allotment option. The placement price for the shares of the Company was €21.50.

Around €56 million of the net proceeds from the capital increase were used to fully repay an existing shareholder loan. With the remaining approximately €86.0 million, the Company plans to finance the acquisition and development of new housing projects and other corporate

expenses. One portion of this remaining capital was also used to repay an intercompany loan.

The free float on 23 April 2018 was around 50.4%. The remaining shares were still held by Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V.

In addition, certain of the Company's organisational documents were revised (and additional internal rules were adopted) so that its internal organisation became suitable for a listed company; also, a Supervisory Board (the "Supervisory Board") and certain Supervisory Board committees were established.

The Supervisory Board is composed of the following five members:

Stefan Brendgen, born in 1964 in Mönchengladbach, Germany, as chairman of the Supervisory Board and chairman of the nomination committee.

Stefan Mohr, born in 1967 in Frankfurt am Main, Germany, as deputy chairman of the Supervisory Board.

Marija Korsch, born in 1948, in Zadar, Croatia, as member of the Supervisory Board.

Dr. Jochen Scharpe, born in 1959 in Werdohl, Germany, as member of the Supervisory Board and chairman of the audit committee.

Richard Wartenberg, born 1968 in Stuttgart, Germany, as member of the Supervisory Board and chairman of the remuneration committee.

Furthermore, as our business activities and properties are geographically concentrated in Germany, we have filed with the Dutch trade registry, on 9 February 2018, a proposal to convert the Company into a German stock corporation (Aktiengesellschaft), governed by the laws of the Federal Republic of Germany and having its registered seat in Essen, Germany (the "AG Conversion"). The resolution to convert the Company into a German stock corporation is expected to be proposed to the Company's general shareholders meeting (the "General Meeting") by the Management Board and the Supervisory Board, subject to certain conditions (as specified in the proposal) having been met.

On 29 March 2018, Instone Real Estate Leipzig GmbH repaid a €22.6 million bank loan for the corporate financing of the Company.

There are no other events which might influence the Company's outlook and which are not discussed in the statutory annual accounts included in this report.

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C. CONSOLIDATED FINANCIAL STATEMENTS

C.1 CONSOLIDATED FINANCIAL STATEMENTS

This consolidated financial statements is after proposed result appropriation.

C.1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

in euros	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Intangible assets	1	0.00	8.00
Property, plant and equipment	2	1,597,348.91	1,543,362.11
Equity-method investments	3	396,411.37	1,427,150.05
Other financial assets	6	333,461.79	667,726.79
Financial receivables	8	683,029.91	683,029.91
Other receivables	10	1,021,934.00	0.00
		4,032,185.98	4,321,276.86
Current assets			
Inventories	7	659,443,925.77	542,687,177.03
Financial receivables	8	32,360,116.92	168,246.20
Trade receivables	9	4,217,263.67	19,603,414.27
(thereof percentage-of-completion receivables)		0.00	(3,357,819.82)
Other receivables and other assets	10	15,452,214.48	5,589,246.00
Current income tax assets	11	80.15	314,337.51
Cash and cash equivalents	12	73,623,790.63	112,547,605.13
		785,097,391.62	680,910,026.14
Total assets		789,129,577.60	685,231,303.00
Equity and liabilities			
Equity			
Share capital	13	8,386.00	8,386.00
Capital reserve		85,378,772.19	37,394,560.00
Retained earnings / loss carryforwards		-34,329,443.13	-35,498,616.07
Accumulated other comprehensive income		-348,034.29	-1,251,875.31
Equity attributable to shareholders		50,709,680.77	652,454.62
Non-controlling interests		1,510,330.54	2,031,746.83
Total equity		52,220,011.31	2,684,201.45
Non-current liabilities			
Provisions for pensions and similar obligations	14	4,181,464.00	4,148,226.77
Other provisions	15	1,330,363.61	12,428,181.41
Financial liabilities	16	241,006,984.23	300,869,506.09
Deferred tax liabilities	17	7,669,307.28	23,413,968.72
		254,188,119.12	340,859,882.99
Current liabilities			
Other provisions	15	49,158,905.81	25,554,997.62
Financial liabilities	16	134,671,758.77	81,635,041.18
Trade payables	18	275,691,919.20	215,163,933.39
Other liabilities	19	9,406,314.15	13,126,356.97
Income tax liabilities	20	13,792,549.24	6,206,889.40
		482,721,447.17	341,687,218.56
Total equity and liabilities		789,129,577.60	685,231,303.00

C.1.2 CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR 2017

in euros	Notes	2017	2016
Revenue	21	199,699,960.88	203,611,050.80
Changes in inventories	22	120,207,157.69	158,915,328.23
		319,907,118.57	362,526,379.03
Other operating income	23	5,381,094.47	8,332,350.46
Cost of materials	24	-244,818,533.07	-293,683,570.61
Staff costs	25	-49,530,637.93	-35,180,814.54
Other operating expenses	26	-41,472,814.36	-42,386,249.68
Income from associated affiliates	27	234,631.75	1,333,076.56
Other income from investments	28	-61,233.14	312,175.12
Earnings before interest, tax, depreciation and amortization (EBITDA)		-10,360,373.71	1,253,346.34
Depreciation and amortisation	29	-437,703.92	-440,574.19
Earnings before interest and tax (EBIT)		-10,798,077.63	812,772.15
Finance income		595,011.97	133,215.23
Finance costs		-20,965,143.00	-25,029,828.20
Reversal of impairment losses of long-term securities		18,004.26	113,523.64
Finance result	30	-20,352,126.57	-24,783,089.33
Earnings before tax (EBT)		-31,150,204.20	-23,970,317.18
Income taxes	31	190,661.12	1,769,546.94
Earnings after tax (EAT)		-30,959,543.08	-22,200,770.24
Attributable to:			
Shareholders of the Group		-31,088,126.79	-22,409,509.42
Non-controlling interests		-128,583.71	-208,739.18
		-30,959,543.08	-22,200,770.24
in euros	Notes	2017	2016
Earning per share (basic and diluted)	32	-0.84	-0.61

C.1.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2017

in euros	2017	2016
Earnings after tax	-30,959,543.08	-22,200,770.24
Items that will not be reclassified to profit or loss		
Actuarial gains/losses on defined benefit obligation	1,317,725.39	-1,368,353.35
Income tax effect	-413,884.37	210,289.91
Other comprehensive income for the year	903,841.02	-1,158,063.44
Total comprehensive income for the year	-30,055,702.06	-23,358,833.68
Attributable to:		
Shareholders of the Group	-30,184,285.77	-23,567,572.86
Non-controlling interests	128,583.71	208,739.18
	-30,055,702.06	-23,358,833.68

C.1.4 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR 2017

in euros	Notes	31 December 2017	31 December 2016
Consolidated earnings		-30,959,543.08	-22,200,770.24
± Depreciation and amortisation		437,703.92	440,574.19
± Increase/decrease of provisions		12,539,327.62	15,025,181.40
± Increase/decrease of deferred taxes		-15,744,661.44	-12,872,946.74
± Decrease/increase of equity carrying amounts		1,018,238.68	-1,333,076.56
± Decrease/increase of other financial assets		250,000.00	0.00
± Other non-cash income and expenses		31,201,176.31	23,501,085.61
± Profit/loss on disposals of property, plant and equipment		0.00	21,757.49
± Decrease/increase of inventories, trade receivables and other assets		-112,345,425.26	-25,646,410.47
± Increase/decrease of trade payables and other liabilities		83,365,318.77	116,912,000.69
= Cash flow from operating activities		-30,237,864.48	93,847,395.37
- Income taxes paid		-4,236,469.06	-6,182,870.08
Net cash flow from operating activities		-34,474,333.54	87,664,525.29
+ Proceeds from disposals of property, plant and equipment		0.00	15,700.00
- Purchase of property, plant and equipment		-491,684.72	-371,516.69
+ Proceeds from disposals of intangible assets		2.00	0.00
+ Proceeds from disposals of non-current financial assets		0.00	259,822.26
- Payments for acquisitions of shares in consolidated companies		-22,839,425.33	-21,968,654.32
+ Receipts from the disposal of subsidiaries		121,765.00	155,000.00
- Acquisitions of non-consolidated subsidiaries		-25,000.00	-27,500.00
+ Interest received		572,428.20	113,921.07
= Cash flow from investing activities		-22,661,914.85	-21,823,227.68
- Payout to non-controlling interests		-650,000.00	0.00
+ Cash proceeds from borrowings		-121,877,369.09	64,428,248.08
- Cash repayments of borrowings		-88,304,688.32	-38,343,065.80
- Interest paid		-14,735,246.88	-17,581,570.11
= Cash flow from financing activities		18,187,433.89	8,503,612.17
Increase (decrease) in cash and cash equivalents		-38,948,814.50	74,344,909.78
± Net foreign exchange differences and changes in group structure		25,000.00	2,302,284.85
+ Cash and cash equivalents at the beginning of the period		112,547,605.13	35,900,410.50
= Cash and cash equivalents at the end of period	12	73,623,790.63	112,547,605.13

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C.1.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2017

in euros	Notes	Share capital	Capital reserve	Retained earnings/loss carryforwards	Accumulated other comprehensive income	Equity attributable to shareholders	Non-controlling interests	Total
1 January 2016		8,386.00	37,394,560.00	-13,122,992.00	-93,811.87	24,186,142.13	11,484,048.46	35,670,190.59
Earnings after taxes		0.00	0.00	-22,409,509.42	0.00	-22,409,509.42	208,739.18	-22,200,770.24
Changes in actuarial profits and losses		0.00	0.00	0.00	-1,158,063.44	-1,158,063.44	0.00	-1,158,063.44
Total comprehensive income		0.00	0.00	-22,409,509.42	-1,158,063.44	-23,567,572.86	208,739.18	-23,358,833.68
Additional non-controlling interests which emerged in the course of purchasing GRK Holding GmbH		0.00	0.00	0.00	0.00	0.00	-9,627,155.46	-9,627,155.46
Change in group structure		0.00	0.00	33,885.35	0.00	33,885.35	-33,885.35	0.00
31 December 2016 / 1 January 2017		8,386.00	37,394,560.00	-35,498,616.07	-1,251,875.31	652,454.62	2,031,746.83	2,684,201.45
Earnings after taxes		0.00	0.00	-31,088,126.79	0.00	-31,088,126.79	128,583.71	-30,959,543.08
Changes in actuarial profits and losses		0.00	0.00	0.00	903,841.02	903,841.02	0.00	903,841.02
Total comprehensive income		0.00	0.00	-31,088,126.79	903,841.02	-30,184,285.77	128,583.71	-30,055,702.06
Contribution to capital reserve		0.00	47,959,212.19	0.00	0.00	47,959,212.19	0.00	47,959,212.19
Change in group structure		0.00	25,000.00	0.00	0.00	25,000.00	0.00	25,000.00
Payout to non-controlling shareholders		0.00	0.00	0.00	0.00	0.00	-650,000.00	-650,000.00
Contribution from shareholders		0.00	0.00	32,257,299.73	0.00	32,257,299.73	0.00	32,257,299.73
		0.00	47,984,212.19	32,257,299.73	0.00	80,241,511.92	-650,000.00	79,591,511.92
31 December 2017	13	8,386.00	85,378,772.19	-34,329,443.13	-348,034.29	50,709,680.77	1,510,330.54	52,220,011.31

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C.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C.2.1 ACCOUNTING PRINCIPLES

General principles

The company Formart Holding B.V. was formed on 16 April 2014 in Amsterdam, the Netherlands, and registered in the Dutch Commercial Register under number 60490861 at the main registered place of business Amsterdam, the Netherlands. The Company's place of effective management is Baumstraße 25, 45128 Essen, Germany. With effect from 9 June 2017, Formart Holding B.V., Amsterdam, the Netherlands, was renamed into Instone Real Estate Group B.V., Amsterdam, the Netherlands ("Instone Real Estate" or "Company"). On 15 February 2018, the Company was listed in the Prime Standard of the Frankfurt Stock Exchange. In connection therewith, the Company was converted into a public limited liability company (naamloze vennootschap) and renamed Instone Real Estate Group N.V.

The Company invests in subsidiaries whose principal activity consists of the acquisition, development, construction, letting, management and sale or other utilisation of land and buildings and equity interests in other companies operating in this business sector.

In October 2014, Instone Real Estate Group N.V. acquired 76.0% of the limited partnership interests in Instone Real Estate Development GmbH (formerly: formart GmbH & Co. KG) from Hochtief Solutions AG, Essen, Germany. Consequently, Hochtief Solutions AG continued to hold 24.0% of the limited partnership interests as a minority shareholder in October 2014. After the limited partnership interest was increased by way of special legal succession in October 2015 by approx. 6.2%, in October 2016 by approx. 6.2% and in February 2017 by approx. 11.6%, Instone Real Estate Group N.V. now holds 100.0%. After the contribution was reduced by approx. 6.2% in October 2015, in October 2016 by approx. 6.2% and in February by approx. 11.6%, Hochtief Solutions AG now holds 0.0%. Instone Real Estate Development GmbH develops residential condominium units for owner-occupiers and investors.

In December 2015, 94% of the shares in Instone Real Estate Leipzig GmbH, (formerly GRK-Holding GmbH),

Leipzig, Germany, and its subsidiaries and equity interests as well as 6% each of the shares in OPUS Wohnbau GmbH (GRK Group) and GRK REVION Hamburg GmbH were transferred to Instone Real Estate Group N.V., Amsterdam, with effect from 31 December 2015. The Instone Real Estate Leipzig GmbH is operating mainly in the field of development and restoration of buildings under monument protection and the repurposing of specialty properties.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS-EU) and the requirements of Part 9 of Book 2 of the Dutch Civil Code.

In addition to the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows, a statement of changes in equity is presented.

To enhance the clarity of presentation, several items of the consolidated statement of financial position and of the consolidated statement of profit or loss are combined to one. These items are broken down into their constituents and commented on elsewhere in these notes. The consolidated statement of profit or loss is presented using the nature of expense method.

The consolidated financial statements are presented in euro.

The consolidated financial statements have been prepared on the historical cost basis as a principle.

The consolidated financial statements are prepared on the going concern basis. The negative results and currently low equity ratio is of only temporary nature. In 2017, the results were affected by the amortisation effects from purchase price allocation (PPA) both for the formart acquisition and for the GRK acquisition. Further, the impact of these amortisation effects will get lower and the profits from project development will not be netted off anymore as a result of the PPA effects. Additionally, the change in customer contracts for projects the marketing of which

commenced on or after 1 August 2015 will result in a realisation of profits in later periods. This will also strengthen the equity ratio.

The financial statements were approved by the Management Board of Instone Real Estate Group N.V. and authorised for issue on 7 May 2018.

Basis of consolidation

The financial statements of Instone Real Estate Group N.V. and its subsidiaries have been included in these consolidated financial statements. Control occurs if Instone Real Estate as investor has the current ability to direct the relevant activities of the subsidiary. Relevant activities are activities that significantly affect the returns. Furthermore, Instone Real Estate must participate in these returns in the form of variable returns and must be able to influence them in its favour with the existing possibilities and rights. As a rule, control occurs if a direct or indirect majority of the voting rights are held. In structured enterprises, control may result from contractual arrangements. Material investments in associates are accounted for using the equity method of accounting. Companies will be deemed associates if Instone Real Estate has a significant influence based on a proportion of voting rights between 20% and 50% or based on contractual arrangements.

At 31 December 2017, in addition to Instone Real Estate Group N.V. a total of 16 (prior year: 16) German subsidiaries, one (prior year: one) Luxembourg subsidiary and one (prior year: one) Austrian subsidiary had been included in the present consolidated financial statements by way of full consolidation.

Four (in the prior year: seven) subsidiaries are of minor importance to the net assets, financial position and results of operations of Instone Real Estate and have not been consolidated. Their revenue in 2017 accounted for less than one percent of Instone Real Estate's total revenue.

Two (prior year: three) German companies have been included using the equity method. The group of companies to be included using the equity method has not changed in the reporting year.

Due to their minor overall significance, three (prior year: five) companies have not been included in the consolidated financial statements on the basis of the equity method.

With effect from 28 February 2017, the Instone Real Estate Group N.V. exercised a granted call and put option relating to ownership interests in Instone Real Estate Development GmbH and bought 11.6% of the ownership interests in Instone Real Estate Development GmbH from Hochtief Solutions AG at a purchase price of €22,508,243.41. Instone Real Estate Group N.V. increased its ownership interest in Instone Real Estate Development GmbH from 88.4% to 100.0%.

For an overview of subsidiaries, associates and other participating interests of Instone Real Estate please refer to chapter C.2.5 "Subsidiaries, associates and other participating interests".

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. In all other respects, other contingent consideration is measured at fair value at each balance-sheet date, and subsequent changes of the fair value of contingent considerations are recognised in profit or loss.

Acquisition of non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Segment reporting

Segment reporting in accordance with IFRS 8 is based on the management approach and is therefore consistent with the management and reporting system used by Instone Real Estate for its segments. Instone Real Estate operates only in one business segment and one geographical segment and generates its revenue and holds its assets mainly in Germany. Therefore, Instone Real Estate did not prepare a segment report. Internal reporting is also based on the IFRS accounting figures. Non-current assets of the Group are mainly located in Germany.

Consolidation policies

The financial statements of the entities included in the consolidation are prepared using uniform accounting policies.

Expenses and income as well as liabilities between consolidated companies are eliminated. Intra-group intermediary results are eliminated to the extent that they are not of minor significance. Any impairment losses recognised for consolidated companies in their separate financial statements are reversed.

The same consolidation policies also apply to interests in equity-accounted investees. They comprise both associates and joint ventures of the Group.

The financial statements of all equity-accounted investees are prepared in accordance with consistent Group accounting policies.

Foreign currency translations

All fully consolidated entities and equity-accounted investees prepare their separate financial statements in the currency euro, which at the same time corresponds to the

functional currency in which these consolidated financial statements are presented.

Exchange differences from the settlement of monetary items in foreign currencies during the year as well as the measurement of open foreign currency positions at the rate on the balance sheet date are realised in profit or loss.

Accounting policies

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Intangible assets are accounted for at cost. They include exclusively software for commercial and technical applications. Intangible assets are generally written off using the straight-line method over three to five years. The useful lives and amortisation methods are reviewed each year.

Property, plant and equipment are accounted for at amortised cost. Only amounts directly attributable to an item of property, plant and equipment are included in its cost. Items of property, plant and equipment are generally written off on a straight-line basis over three to eight years. The useful lives and amortisation methods are reviewed annually.

Impairment losses are recognised for intangible and tangible if their recoverable amount falls below their carrying amount. If the reason for an earlier impairment loss does no longer exist, such reductions are reversed to amortised cost.

Equity-method investments are accounted for at cost, in subsequent periods they are accounted for at the amortised pro-rata net assets. The full carrying amount is tested for impairment annually, withdrawals and all other changes in equity are increased or decreased. Equity-method investments are subject to impairment if their recoverable amount falls below their carrying amount.

Interests in non-consolidated subsidiaries recognised as other financial assets, other interests and the non-current equity securities exclusively fall into the measurement category "available for sale". They are measured at fair

value, provided that this value can be determined reliably. Due to the lack of observable market transactions, the fair value is determined using the discounted cash flow method. Where the fair value cannot be reliably determined, the financial assets are recognised at cost (less value impairment). They are recognised for the first time on the date of performance. Unrealised profits or losses are recognised in consideration of deferred tax in the changes in equity without affecting profit or loss and will be reflected through profit or loss only when sold. If there are objective indications of impairment losses of an asset it will be written down through profit or loss.

Other financial assets are measured at cost. An impairment loss is recognised if there is any objective material evidence that the other financial asset may be impaired.

The receivables include financial receivables, trade receivables and other receivables. Receivables and other assets are measured at amortised cost, using the effective interest rate method (accounting for factors such as premiums and discounts). An impairment loss is recognised if there is any objective material evidence that a financial asset may be impaired. Impairment losses are recognised according to actual default risk.

Long-term loans included in financial receivables are stated at amortised cost. Loans yielding interest at normal market rates are reported at nominal amounts.

Receivables or payables from specifically negotiated construction contracts are reported in inventories, trade receivables and trade payables. In principle, they are accounted for using the completed contract (CC) method. Under application of the CC method, the costs for land and the cumulative construction costs were recognised as an asset in inventories and the progress payments received were recognised as trade liabilities. In principle, sales revenue is recognised after transfer of the contractual object to the customer. In the case of contracts for newly developed residential quarters and apartment buildings, the handover and thus the revenue recognition is bound to the full payment and the recording of the acceptance and handover by the customer. For contracts on refurbishment of monument-protected properties, the handover and thus

the revenue recognition is bound to the payment up to the rate of readiness for occupancy and the recording of the acceptance and handover by the customer.

With some old contracts, receivables or payables are accounted for using the PoC method. If the usual pre-marketing rate of 30% is reached, the construction starts for specifically negotiated construction contracts and the PoC method is applied in accordance with IAS 11. Here the proportionate result of the PoC method is determined depending on the construction progress and the marketing progress. If cumulative work done (contract costs and contract net profit) of contracts in progress exceeds progress payments received, the construction contract is recognised as an asset in PoC receivables. If a negative balance results after deducting progress payments, it is recognised as an obligation under a construction contract on the liabilities side as liabilities from PoC. Expected contract losses are accounted for on the basis of identifiable risks and immediately fully included in the contract net profit. For completed construction contracts, the contractual proceeds and adjustments as well as addenda are recognised as contract proceeds in conformity with IAS 11.

Receivables and liabilities from construction contracts are realised within one business cycle of Instone Real Estate. Consequently, they are recognised as current assets or liabilities, even if the realisation of the whole construction contract takes a period of more than one year.

Deferred taxes are arising from temporary differences between the IFRS and tax accounts of the individual entities and as result of consolidation processes. Deferred tax assets are also recognised for tax refund entitlements resulting from the anticipated use of existing tax loss carryforwards in subsequent years. Deferred taxes are to be capitalised if it is sufficiently certain that related economic advantages can be used. Their amount is measured on the basis of the tax rates that apply or are expected to be applied in the individual countries at the time of realisation. In the Group, the trade tax rates attributable to the individual entities are taken as a basis. For all other purposes, deferred taxes are measured on the basis of the tax regulations in force or enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset per entity or per tax group.

Inventories are assets under construction (work in progress). Inventories are recognised at cost. Cost comprises the production-related full cost. Borrowing costs for inventories that are qualifying assets are capitalised as part of cost. Should the recoverable amount be lower than the capitalised cost at a given balance sheet date, such lower recoverable amount will be recognised. Should the recoverable amount of such inventories subsequently increase, the resulting gain must be recognised. This is done by reducing materials expense.

The inventories of individual major project development measures are broken down into several partial project development measures for reasons of commercial presentation. The breakdown does not affect measurement. In the Group, the respective total project is treated as a special form of measurement unit in current assets. The risks of individual partial project measures may be compensated by the opportunities within other partial projects. An exceeding requirement for impairment is reflected by measuring a provision for contingent losses.

Cash and cash equivalents exist as cash-in-hand and bank balances.

Provisions are measured for any legal or factual liabilities in relation to third parties existing on the financial statement date which are resulting from past transactions that are likely to lead to an outflow of resources the amount of which may be reliably estimated. The provisions are recognised with their expected settlement amount and not netted with refund claims.

All non-current provisions are accounted for with their expected settlement amount discounted to the financial statement date. Furthermore, any cost increases expected to be incurred by the settlement date are to be taken into account in the calculation of this amount.

As a principle, provisions are reversed against the expense item for which they are made.

Provisions for pensions and similar obligations are recognised for defined benefit plans. They include obligations of the entity for current and future benefits to entitled active and former employees and their surviving dependants.

The obligations primarily relate to pension benefits. The individual commitments are measured based on the length of service and salaries of the employees.

For the measurement of provisions for defined benefit plans the actuarial present value of the respective obligation is taken as basis. It is determined using the projected unit credit method. This projected unit credit method not only includes the pensions and accrued benefits known on the reference date but also salary and pension increased to be expected in the future. This calculation is based on actuarial reports in consideration of biometric calculation methods (mainly the “2005 G Reference Tables” by Klaus Heubeck). The provision results from the balance of the actuarial present value of the obligation and the fair value of the plan assets required to cover the pension obligation. The service cost is included in the personnel expenses. The net interest income is a component of the financial income.

Profits and losses from remeasured net liabilities or net assets are recognised fully in the period during which they arise. They are recognised in equity without affecting profit or loss and not included in the consolidated statement of profit or loss. Also, in the subsequent years they will not be recognised in profit or loss.

For defined contribution plans, Instone Real Estate does not incur any further obligations exceeding the payment of contribution to special-purpose funds. The contribution payments are stated in the personnel expenses.

Income tax liabilities include obligations from current income tax. Liabilities for income tax are offset with the corresponding tax refund entitlements if they exist in the same jurisdiction and are identical in terms of nature and maturity.

All other provisions take adequate account of all discernible risks and other contingent liabilities. They are recognised at the amount necessary according to prudent commercial judgement to settle future payment obligations of the Group. In this connection the amount resulting as most likely when examining the individual case will be recognised.

Non-current liabilities, to the extent that they are not of minor significance, are accounted for with their settlement amount discounted to the financial statement date. The settlement amount also includes cost increases to be taken into account on the financial statement date.

Non-derivative financial liabilities (including trade payables) within the scope of IAS 39 are measured at amortised cost, using the effective interest rate method. Initial measurement is performed at fair value, including transaction costs. In the subsequent measurement the residual value is adjusted by the premium write-ups and discount write-downs remaining until maturity. The premium or discount is recognised in the financial result over their duration.

Contingent liabilities are possible obligations in relation to third parties based on past events which cannot be fully controlled by the entity, or current obligations in relation to third parties that are unlikely to lead to an outflow of resources or the amount of which cannot be stated with sufficient reliability. As a principle, contingent liabilities are not recognised in the statement of financial position.

Estimate and assumptions

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of accounting principles in the Group, the recognition and measurement. The estimates and assumptions are based on experience from the past and other knowledge gained of transactions to be accounted for. The actual amounts may vary from these estimates and assumptions.

Estimates and assumptions are necessary in particular in the measurement of inventories and amounts due from customers for contract work (CC), purchase price allocations, the recognition and measurement of deferred tax assets, the recognition of provisions for pensions and other provisions.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting standards implemented in 2017

The International Accounting Standards Board (IASB) made various changes to existing IFRS in the last years,

along with the publication of new IFRS and interpretations from the IFRS Interpretations Committee (IFRS IC). Furthermore, the IASB published changes to existing standards in the scope of the Annual Improvements Project (AIP). The primary target of the collective standards is to clarify inconsistencies and phrasings.

The following changes to standards that were to be newly applied as of the financial year 2017 did not affect these consolidated financial statements, apart from possible supplementary information in the notes:

- changes to IAS 7 “Statement of cash flows – disclosure initiative”
- changes to IAS 12 “Income taxes – recognition of deferred tax assets for unrealised losses”

Already published accounting standards and interpretations – not yet implemented

In addition to the above mandatory IFRS, the IASB published further changed IAS and IFRS that are to be applied mandatorily only at a later time. Various standards for this have already gone through the recognition in EU law (“Endorsement”) for European application. Voluntary early adoption of these standards is expressly permitted or recommended. Instone Group does not use these option rights. These standards will be implemented in the consolidated financial statements at the time of mandatory application.

Already transferred to EU law

(in brackets: time of mandatory first application):

- Changes to IAS 40 “Transfers of Investment Property” (1 January 2018)
- Changes to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” (1 January 2018)
- IFRS 9 “Financial Instruments” (1 January 2018)
- IFRS 15 “Revenue from Contracts with Customers” with separate clarifications (1 January 2018)
- IFRS 16 “Leases” (1 January 2019)
- Annual improvement to IFRS: Cycle 2014 – 2016 (effective from 1 January 2017)
- Change to IFRS 4: Application of IFRS 9 “Financial Instruments” together with IFRS 4 “Insurance Contracts” (1 January 2018)

- IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” (1 January 2018)

Not yet transferred into EU law

(in brackets: IASB date of initial application):²

- Changes to IAS 28 “Long-term Interests in Associates and Joint Ventures” (1 January 2019)
- IFRS 17 “Insurance Contracts” (1 January 2021)
- Annual improvement to IFRS: Cycle 2014 – 2016 (effective from 1 January 2018)
- Annual improvement to IFRS: Cycle 2015 – 2017 (1 January 2019)
- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments” (1 January 2019)

The following accounting standards not relevant for the Instone Group.

- Changes to IAS 40 “Transfers of Investment Property” (1 January 2018)
- Changes to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” (1 January 2018)
- IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” (1 January 2018)

The following will explain the accounting standards that are relevant for the Instone Group. The other new and changed standards are not expected to have any essential effect on the consolidated financial statements, apart from new or modified information in the notes.

IFRS 9 “Financial Instruments”

The main impact of IFRS 9 “Financial Instruments” is shown below:

Classification and Measurement

In particular, IFRS 9 contains a new approach to the classification and measurement of financial assets and financial liabilities that reflects both the business model in which the assets are held and the characteristics of their cash flows. The criteria determine whether the instrument in the subsequent measurement is to be measured at cost or fair value. Whenever financial investments are categorised as equity instruments, Instone Real Estate will

exercise an irrevocable option to state future changes to the fair value under other comprehensive income in equity. Gains or losses recognised in other comprehensive income are never reclassified from equity to the income statement when disposed of. In general, the new classification and measurement requirements will not have any material impact.

IFRS 15 “Revenue from Contracts with Customers”

In May 2017, the IASB published IFRS 15 “Revenue from Contracts with Customers”. The standard introduces an industry-independent and principle-based five-step model for the recognition of revenue earned from a contract with a customer. The standard does not affect the collection of revenue that results in connection with financial instruments within the scope of IAS 39/IFRS 9. Collection of revenue from leasing agreements subject to the scope of application of IAS 17/IFRS 16 shall be excluded as well.

According to IFRS 15, revenue is recognised at the amount of the consideration that an entity can expect in return for transfer of goods or services to a customer (transaction price). Revenue is realised when the customer receives the power to dispose of the goods or services. IFRS 15 further includes specifications on recognition. The new standard also demands disclosure of some quantitative and qualitative information in order to enable potential addressees of the financial statements to understand the type, amount, time of occurrence and uncertainty of revenue and cash flows from contracts with customers. The new standard for revenue will replace any provisions currently applicable on revenue recognition and the associated interpretations according to IFRS. For financial years that commence on or after 1 January 2018, either a full retrospective approach or a modified retrospective approach can be used.

To assess the effects of applying IFRS 15, the Group has commissioned an expert opinion from an external auditing and consulting company. The subject of the evaluation is whether the valuation of contracts with customers in future project developments of the Instone Real Estate Group N.V. in accordance with IFRS 15 is covered by a period-related revenue recognition, which leads to an

² | The EU decided to not transfer the interim standard IFRS 14 “Regulatory Deferral Accounts” (1 January 2016) into European law and to wait until the standard is finally adopted.

early realisation of revenue and earnings. According to the current state of the examination, the retrospective application of IFRS 15 and the associated possible application of a period-related revenue recognition for the financial years ending before 1 January 2018 will result in an increase in the opening balance of equity at the time of first application on 1 January 2018 of approx. €28.8 million.

IFRS 16 “Leases”

In January 2016, the IASB published the new standard IFRS 16 “Leases”. IFRS 16 replaces the previous standard on the recognition of leases (IAS 17) and the interpretations IFRIC 4, SIC-15 and SIC-27. The standard is mandatory as of 1 January 2019. Voluntary early adoption is permitted, but only if IFRS 15 “Revenue from Contracts with Customers” is adopted at the same time. The essential changes due to IFRS 16 refer to disclosure requirements for lessees. The differentiation by Operate Lease and Finance Lease for the lessee is removed. For all leases, assets have to be recognised for the usage rights acquired (the “Right-of-Use approach”) and liabilities for the payment obligations incurred by the lessee. Simplified application is permitted for “low-value” leases and short-term leases with a term of up to one year. For low-value leases, this simplification even applies if they are to be classified as material in total. The simplified application comprises an option right for application of the recognition and disclosure requirements of IFRS 16.

The disclosure requirements for lessors were only slightly changed and mostly continue to correspond to the previous provisions of IAS 17. The changed disclosure requirements for leases in which Instone Group is the lessee will affect the consolidated financial statements. In particular, rights of use for leased vehicles or real property will be capitalised. Additionally, the type of expenses connected to these leases will change, since IFRS 16 replaces the recognition of expenses for operating leases on a straight-line basis by a depreciation expense for right-of-use assets and interest expenses for debt from the lease. Instone Group has completed its initial assessment of possible effects on its consolidated financial statements, but the detailed evaluation has not yet been completed. The actual effects depend on the interest rate to be applied as

of 1 January 2019, the composition of the leasing portfolio or the assessment of the exercise of extension options. Major effects on the consolidated financial statements are not expected.

C.2.2 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Acquisition of subsidiaries

With effect from 28 February 2017, the Instone Real Estate Group N.V. exercised the third granted call and put option relating to ownership interests in Instone Real Estate Development GmbH and bought 11.6% of the ownership interests in Instone Real Estate Development GmbH from Hochtief Solutions AG at a purchase price of €22,508,243.41. Instone Real Estate Group N.V. increased its ownership interest in Instone Real Estate Development GmbH from 88.4% to 100.0%.

The call and put option has changed as in the table below:

	in euros
Value call and put option as at 31 Dec. 2014	43,125,420.83
Interests 2015	1,550,349.98
Exercised put option 2015	-11,494,876.22
Value call and put option as at 31 Dec. 2015	33,180,894.59
Interests 2016	1,123,968.87
Exercised put option 2016	-11,925,801.62
Value call and put option as at 31 Dec. 2016	22,379,061.84
Interests 2017	129,181.57
Exercised call option 2017	-22,508,243.41
Value call and put option as at 31 Dec. 2017	0.00

Non-controlling interests

The non-controlling interests amounting to €1,510,330.54 relate to the entities west.side gmbH, Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Instone Real Estate Leipzig GmbH, GRK REVION Hamburg GmbH and GRK Beteiligung GmbH.

In the year under review, a dividend to non-controlling shareholders has been paid in the amount €650,000.00 (prior year 0.00). The earnings after tax attributable to non-controlling interests amount to €128,583.71 (prior year: €208,739.18)

Set out below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before intercompany eliminations.

	Instone Real Estate Leipzig GmbH	GRK REVION Hamburg GmbH	GRK Beteiligung GmbH
Ownership interest held by non-controlling interests in %	6,00%	47,00%	2,00%
in euros	31 December 2017	31 December 2017	31 December 2017
Non-current assets	34,808,515.06	0.00	7,875,208.55
Current assets	77,757,850.28	857,876.00	4,052.55
Non-current liabilities	-10,233,060.21	0.00	0.00
Current liabilities	-60,351,761.63	-798,359.57	-8,197,907.50
Net assets	41,981,543.50	59,516.43	-318,646.40
Net assets of non-controlling interests	2,464,033.28	29,651.08	880,703.82
Revenue	69,621,297.32	1,901,832.38	0.00
Profit	13,876,443.58	427,928.08	-145,494.87
Comprehensive income	13,876,443.58	427,928.08	-145,494.87
Profit attributed to non-controlling interests	-120,129.12	0.00	0.00
Cash flows from operating activities	5,267,548.52	1,708,538.36	-8,187,717.26
Cash flows from investing activities	523,531.94	0.00	0.00
Cash flows from financing activities	-7,524,343.54	-1,298,215.00	8,184,214.29
Net change in cash and cash equivalents	-1,733,263.08	410,323.36	-3,502.97
	Instone Real Estate Leipzig GmbH	GRK REVION Hamburg GmbH	GRK Beteiligung GmbH
Ownership interest held by non-controlling interests in %	6.00%	47.00%	2.00%
in euros	31 December 2016	31 December 2016	31 December 2016
Non-current assets	26,782,779.49	0.00	7,875,208.55
Current assets	85,595,307.82	1,694,788.77	7,555.52
Non-current liabilities	-36,397,003.47	0.00	0.00
Current liabilities	-48,308,699.17	-763,200.42	-8,055,915.60
Net assets	27,672,384.67	931,588.35	-173,151.53
Net assets of non-controlling interests	1,184,119.51	464,117.31	997,190.37
Revenue	93,454,347.52	9,226,383.49	0.00
Profit	21,280,466.70	1,599,721.48	-179,425.95
Comprehensive income	21,280,466.70	1,599,721.48	-179,425.95
Profit attributed to non-controlling interests	1,545,141.51	0.00	0.00
Cash flows from operating activities	28,576,961.48	2,524,155.66	-165,095.33
Cash flows from investing activities	-6,070,188.00	0.00	0.00
Cash flows from financing activities	-10,112,709.61	-2,374,881.64	172,650.85
Net change in cash and cash equivalents	12,394,063.87	149,274.02	7,555.52

A. INTRODUCTION

B. GROUP MANAGEMENT
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E. OTHER INFORMATION

1. INTANGIBLE ASSETS

Intangible assets are not subject to any restrictions on their disposal.

2. PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment and their development in the financial year and the prior year are shown below. As in the prior year, also in 2017 property, plant and equipment are not subject to any restrictions on their disposal.

in euros	2017	2016
Cost of acquisition or production		
Balance on 01 January	1,850,547.61	1,656,662.16
Additions	491,678.72	368,900.69
Disposals	-521.22	-175,015.24
Balance on 31 December	2,341,705.11	1,850,547.61
Cumulative amortisation		
Balance on 01 January	307,185.50	28,440.49
Additions	437,703.92	439,889.19
Disposals	-521.22	-161,144.18
Reclassification to work in progress	-12.00	0.00
Balance on 31 December	744,356.20	307,185.50
Carrying amounts 31 December	1,597,348.91	1,543,362.11

3. EQUITY-METHOD INVESTMENTS

The equity-method investments are composed as follows:

in euros	31 December 2017	31 December 2016
Associates		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	347,635.48	1,364,367.36
Wohnpark Gießener Straße GmbH & Co. KG	48,775.89	50,710.07
	396,411.37	1,415,077.43
Joint ventures		
Wohnentwicklung Theresienstraße GmbH & Co. KG	0.00	12,072.62
	0.00	12,072.62
Carrying amounts	396,411.37	1,427,150.05

4. ASSOCIATES

The table below shows the significant items of the statement of financial position and statement of profit or loss of the equity-accounted associates:

in euros	31 December 2017	31. December 2016
Assets	3,804,734.26	5,926,075.30
Liabilities	-2,758,937.37	-2,842,946.29
Net assets	1,045,796.89	3,083,129.01
in euros	2017	2016
Revenue	1,088,101.00	3,619,044.22
Profit or loss	918,219.35	2,771,085.05

The profit or loss from equity-accounted associates does not include any impairment. As in the prior year, the interests in associates are not subject to any restrictions on their disposal.

The significant associates of Instone Real Estate are listed below:

Name	Registered office of the entity	Business activity	Ownership interest in %
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	Frankfurt am Main	Project development	50%
Wohnpark Gießener Straße GmbH & Co. KG	Frankfurt am Main	Project development	50%

The summarised finance information of the significant associates and the reconciliation with the equity-accounted carrying amount of the ownership interest are shown below:

Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG

in euros

	31 December 2017	31 December 2016
Current assets	3,363,598.82	5,440,697.27
Current liabilities	-2,415,353.71	-2,458,988.40
Net assets	948,245.11	2,981,708.87
Ownership interest of the Group: 50.0 percent		
Carrying amount of the ownership interest	347,635.48	1,364,367.36

in euros

	2017	2016
Revenue	1,088,101.00	3,608,004.22
Net income for the financial year	922,087.70	2,765,551.46

Wohnpark Gießener Straße GmbH & Co. KG

in euros

	31 December 2017	31 December 2016
Current assets	441,135.44	485,378.03
Current liabilities	-343,583.66	-383,957.89
Net assets	97,551.78	101,420.14
Ownership interest of the Group: 50.0 percent		
Carrying amount of the ownership interest	48,775.89	50,710.07

in euros

	2017	2016
Revenue	0.00	11,040.00
Net income for the financial year	-3,868.35	5,533.59

5. JOINT VENTURES

The joint venture of Instone Real Estate in 2016 was:

Name	Registered office of entity	Business activity	Ownership interest in %
Wohnentwicklung Theresienstraße GmbH & Co. KG	Munich	Project development	50%

This joint venture was liquidated as at 17 October 2017.

6. OTHER FINANCIAL ASSETS

The other financial assets are as listed below. The non-consolidated subsidiaries were not impaired in the financial year. As in the prior year, other financial assets are not subject to any restrictions on their disposal.

in euros	31 December 2017	31 December 2016
Shares in affiliated companies, not included in the consolidated financial statements		
Immobilien-gesellschaft C.S.C. S.A.	30,986.79	30,986.79
GRK Golf Masters GmbH	25,000.00	25,000.00
Instone Real Estate Assets GmbH	25,000.00	0.00
Uferpalais Verwaltungsgesellschaft mbH	22,250.00	22,250.00
Wiesbaden Verwaltungs GmbH	17,500.00	17,500.00
ArtOffice GmbH	0.00	35,000.00
Warenhaus Flensburg Verwaltungsgesellschaft mbH	0.00	25,000.00
formart Beteiligungsverwaltungsgesellschaft mbH	0.00	24,265.00
	120,736.79	180,001.79
Ownership interests		
Parkhausfonds Objekt Flensburg GmbH & Co. KG	149,100.00	149,100.00
CONTUR Wohnbauentwicklung GmbH	26,125.00	26,125.00
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH	25,000.00	25,000.00
formart Wilma Verwaltungsgesellschaft mbH	12,500.00	12,500.00
TG Potsdam Projektentwicklungsgesellschaft mbH	0.00	250,000.00
Projektverwaltungsgesellschaft Mönchengladbach - Area of Sports mbH	0.00	12,500.00
WTS GmbH	0.00	12,500.00
	212,725.00	487,725.00
	333,461.79	667,726.79

7. INVENTORIES

The development in inventories can be seen from the table below:

in euros	31 December 2017	31 December 2016
Work in progress	659,387,741.19	537,603,950.21
Finished goods	56,184.58	5,083,226.82
	659,443,925.77	542,687,177.03

Work in progress is subject to restrictions in the amount of €358,923,007.18 (prior year: €254,344,289.48) as a result of the project financing by banks.

Borrowing costs of €6,959,487.84 (prior year: €7,118,732.08) were capitalised under cost of production shown under inventories, which are resulting from project financing based on individual contracts with external lenders.

Inventories in an amount of €419,297,432.49 (prior year: €414,781,302.40) are expected to be recovered after more than twelve months.

9. TRADE RECEIVABLES

in euros	31 December 2017	31 December 2016
Amount due from customers for contract work (PoC)	0.00	13,637,818.91
Progress payments received	0.00	-10,279,999.09
	0.00	3,357,819.82
Trade receivables	4,217,263.67	15,735,693.42
Trade receivables from non-consolidated subsidiaries	0.00	509,901.03
	4,217,263.67	19,603,414.27

The total decline in the amount due from customers for contract work (PoC) is due to the change in customer contracts for projects of which the marketing commenced on or after 1 August 2015, requiring the application of the completed contract method.

8. FINANCIAL RECEIVABLES

The non-current financial receivables amounting to €683,029.91 (prior year: €683,029.91) and the current financial receivables of €32,360,116.92 (prior year: €168,246.20) result from receivables from shareholder and associated companies.

For additional information we refer to the related party disclosure in section C.2.4.

10. OTHER RECEIVABLES AND OTHER ASSETS

The following table includes the non-current and current other receivables and other assets.

in euros	31 December 2017	31 December 2016
Tax assets without income tax	3,154,916.78	2,820,963.90
Tax indemnification Hochtief Solutions AG	2,758,072.96	0.00
Capitalized transaction costs	2,532,633.69	0.00
Loans and receivables	2,467,867.03	510,168.81
Prepayments on land	2,251,500.00	750,000.00
Sale of voting rights "TG Potsdam"	1,700,000.00	0.00
Bail "Stadt Leipzig"	1,021,934.00	0.00
Prepaid expenses	587,195.71	869,077.00
Other	28.31	639,036.29
	16,474,148.48	5,589,246.00

No other receivables and other assets, except Bail "Stadt Leipzig" in amount of €1,021,934.00, are expected to be recovered after more than twelve months.

11. INCOME TAX ASSETS

The current income tax assets in the amount of €80.15 (prior year: €314,337.51) relate to receivables from fiscal authorities.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the amount of €73,623,790.63 (prior year: €112,547,605.13) include cash-in-hand and bank balances. Cash and cash equivalents are subject to restrictions in the amount of €14,903,272.21 (prior year: €21,478,007.06) as a result of the project financing by banks.

13. EQUITY

The share capital in the amount of €8,386.00 is held by the shareholder Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands at a rate of 59.6%, by the shareholder Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands at a rate of 33.3% and by the shareholder Coöperatieve Activum SG Fund V Investments U.A., Amsterdam, the Netherlands at a rate of 7.1% and are

fully paid. The share capital is divided in a total of 8,386 shares with a nominal value of €1.00 each. On 1 January 2016, Steffen Göpel held €886.00 of the shares. During 2017 Coöperatieve Activum SG Fund V Investments U.A. bought these €886.00 shares from Steffen Göpel. Subsequently, Coöperatieve Activum SG Fund V Investments U.A. sold €295.00 to Coöperatieve Formart Investments U.A.

The capital reserve in the amount of €85,378,772.19 (prior year: €37,394,560.00) relates to additional contributions by shareholders as share premium on the share capital. In this context, the shareholder Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands, passed a resolution and paid a share premium of €14,000,000.00 and the shareholder Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands, a share premium of €7,000,000.00. According to a resolution passed on 1 December 2015, the shareholder Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands paid €8,000,000.00 and the shareholder Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands, €4,000,000.00, in total €12,000,000.00 as a share premium to Instone Real Estate Group N.V., Amsterdam, the Netherlands. Upon contribution of the 10.6% share of the share capital, the share premium between the nominal value of the shares amounting to €886.00 and the fair value of the shares amounting to €4,394,560.00 was allocated to the capital reserve in

2015. As a result of the contribution agreement dated 28 December 2017, liabilities to the shareholders were partially converted into equity and transferred to the capital reserve: the shareholder Coöperatieve Activum SG Fund III Investments U.A. for €28,594,808.13, the shareholder Coöperatieve Activum SG Fund V Investments U.A. for €5,067,000.00 and the shareholder Coöperatieve Formart Investments U.A. for €14,267,404.06.

The retained earnings/loss carryforwards as part of the generated equity of the Group comprise the earnings/losses generated by the companies included in the Group financial statements.

The income tax effects recognised directly in equity break down as follows:

in euros	31 December 2017	31 December 2016
Amount before tax	1,317,725.39	-1,368,353.35
Income tax	-413,884.37	210,289.91
Amount after tax	903,841.02	-1,158,063.44

Appropriation of result

According to the article 23 of the articles of association as of 9 June 2017, the shareholders decided to add the result for the year to the retained earnings/loss carryforwards. This proposal has been reflected in the stand-alone financial statements and in the consolidated financial statements.

14. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Within Instone Real Estate, the company pension schemes consist of both defined contribution plans and defined benefit plans. For defined contribution plans, the entity pays contributions to government or private pension

Other significant effects in the retained earnings/loss carryforwards include the contribution from shareholders in the amount of €32,257,299.73. This was a result of the indemnity of the Group from the costs relating to the planned private placement and the Company's listing on the Frankfurt Stock Exchange by the shareholders.

The accumulated other comprehensive income of the shareholders' equity are the changes in equity of the actuarial gains and losses from defined benefit plans in the amount of €903,841.02 (prior year: €-1,158,063.44).

insurance institutions based on statutory or contractual provisions or on a voluntary basis. The entity does not have any legal obligation to pay further contributions. In defined benefit plans, the obligation of the entity is to pay promised benefits to active and former employees, with these benefit plans being subdivided into benefit plans financed by provisions and financed by external sources.

The pension arrangements in Instone Real Estate consist of a Company-financed basic pension in the form of a modular defined contribution plan and a supplementary pension component linked to the Company performance. Under IAS 19, these commitments are categorised as defined benefit liabilities.

The defined benefit pension liabilities in Instone Real Estate are made up as follows:

in euros	31 December 2017	31 December 2016
Active members	6,277,427.00	6,468,394.00
of which dependent on final salary	0.00	786,408.00
thereof not dependent on final salary	6,277,427.00	5,681,986.00
Vested benefits	2,871,013.00	3,045,741.00
Current pensions	609,542.00	74,789.00
	9,757,982.00	9,588,924.00

Number	31 December 2017	31 December 2016
Active members	193	200
Former members with benefit entitlements	78	63
Pensioners	4	2

The average remaining service years of the active members with benefit entitlements on the balance sheet date are 12.3 years (prior year: 12.6 years).

Plan assets

The pension liabilities are largely funded by funds and to a minor extent by provisions. In the financial year, the funding by funds takes the form of a contractual trust arrangement (CTA), furthermore, there were agreements on deferred compensation (DC).

Composition of plan assets

in euros	31 December 2017	31 December 2016
Investment funds - quoted in an active market		
CTA assets	5,013,020.77	4,870,917.53
DC assets	563,124.27	569,527.46
Current euro balances	372.96	252.24
	5,576,518.00	5,440,697.23

Pension obligations under deferred employee compensation arrangements are funded by the purchase of retail fund units. The coverage of the obligations funded by the Helaba Pension Trust e. V. amounts to approx.

51.3% (prior year: 50.8%); the overall coverage is 57.1% (prior year: 56.7%). The coverage of the defined benefit obligations by plan assets is shown in the table below:

Coverage of defined benefit obligations by plan assets

in euros	31 December 2017	31 December 2016
Pension obligations covered by plan assets	8,943,041.00	8,769,507.00
Deferred Compensation covered by plan assets	814,941.00	819,417.00
	9,757,982.00	9,588,924.00
Fair value of plan assets	-5,576,518.00	-5,440,697.23
	4,181,464.00	4,148,226.77

The size of the pension provisions is determined on an actuarial basis which involves estimations. Specifically, the underlying actuarial assumptions of the calculation are shown below.

The discount factors are derived from the Mercer Pension Discount Yield Curve Approach (MPDYC)

taking into account the company-specific duration of the pension liabilities. The underlying biometric mortality assumptions are based on published country-specific statistics and experience. They were determined using the "2005 G Reference Tables" by Professor Dr. Klaus Heubeck.

in %	31 December 2017	31 December 2016
Discount factor	1.93	1.72
Salary increases	2.50	2.50
Pension increases for VO2000+	1.00	1.00
Pension increases for other commitments	1.30	1.30
Inflation	1.30	1.30

The present value of the defined benefit obligations and the fair value of the plan assets break have changed as follows:

in euros	2017	2016
Defined benefit obligations on 1 January	9,588,924.00	7,741,347.00
Current service cost	434,486.00	335,943.00
Interest expenses	164,646.00	187,274.00
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	-529,036.00	1,513,548.00
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	114,444.00	-189,188.00
Pension payments	-15,482.00	0.00
Defined benefit obligations on 31 December	9,757,982.00	9,588,924.00

in euros	2017	2016
Plan assets on 1 January	5,440,697.23	5,299,719.00
Interest income from plan assets	135,820.00	140,978.23
Return on plan assets not included in net interest expenses or income	0.77	0.00
Plan assets on 31 December	5,576,518.00	5,440,697.23

Sensitivity analysis

The pension obligations in Instone Real Estate are exposed to various risks. The main risks result from general changes in interest and inflation rates; there is no unusual risk inherent in the pension obligations.

Interest rate risk: The (notional) contributions are translated into benefits under a contribution-based pension

scheme using a table of fixed interest rates, independent of the current market interest rate. Instone Real Estate thus bears the risk of general capital market interest rates with regard to the determination of benefits. Pension obligations have increased significantly in recent years due to the generally low level of capital market interest rates. The comparatively large impact is due to the relatively long term of the obligations.

Inflation risk: By law, company pensions in Germany must be raised level with the inflation rate at least every three years. German company pension commitments under the 2000+ pension scheme rise at a fixed 1% annually, therefore there is only a minor inflation risk in the pension phase for longer-term pension commitments.

Longevity risk: As lifelong pensions are granted, the risk of pensioners living longer than actual projections predict

will be borne by Instone Real Estate. The risk normally cancels out collectively across all pension plan members and only has an effect if general longevity is longer than expected.

The impact of the stated risks on the defined benefit obligations under a corresponding change in actuarial assumptions is shown in the sensitivity analysis shown below:

in euros	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Discount rate +0,50%/-0,50%	-1,120,744.00	1,324,314.00	-1,131,605.00	1,340,168.00
Salary increases +0.50%/- 0.50%	30,358.00	-29,252.00	34,483.00	-33,078.00
Pension increases +0.25%/-0,25%	167,760.00	-160,458.00	174,657.00	-167,015.00
Life expectancy + 1.00 year	286,041.00	n/a*	289,085.00	n/a*

* n/a not available

The expenses from defined benefit obligations is made up as follows:

in euros	31 December 2017	31 December 2016
Current service cost	434,486.00	335,943.00
Interest expense for accrued benefits	164,646.00	187,274.00
Interest income from plan assets	-135,820.00	-140,978.23
Net interest expense/income	28,826.00	46,295.77
Total amount recognised in profit or loss	463,312.00	382,238.77

The current service cost for the subsequent financial year is forecast at €435,030.00 (prior year: €434,486.00).

15. OTHER PROVISIONS

in euros	31 December 2017	31 December 2016
Non-current		
Employee-related provisions	726,760.91	11,684,728.71
Provisions for potential losses	356,252.70	356,252.70
Other provisions	247,350.00	387,200.00
	1,330,363.61	12,428,181.41
Current		
Employee-related provisions	34,115,069.49	5,996,752.00
Provision for tax	2,758,072.96	2,401,931.23
Warranty obligations	6,764,754.90	5,170,918.76
Litigation risks	3,181,480.00	2,909,330.00
Provision for work pending completion	0.00	4,839,008.73
Restructuring costs	0.00	258,000.00
Other provisions	2,339,528.46	3,979,056.90
	49,158,905.81	25,554,997.62
Other provisions	50,489,269.42	37,983,179.03

The non-current employee-related provisions primarily relate to provisions for early retirement arrangements as well as long-service awards.

The current employee-related provisions mainly relate to provisions for long-service awards, early retirement arrangements.

Other current provisions include, without limitation, investment risks, payments for damages and other contingent liabilities.

The development of other provisions can be seen from the table below:

in euros	1 Jan. 2017	Addition	Reversal	Reclassification	Utilisation	31 Dec. 2017
Employee-related provisions	17,681,480.71	23,460,973.91	-120,361.78	-6,053,766.00	-126,496.44	34,841,830.40
Warranty obligations	5,170,918.76	1,813,057.37	-123,339.30	0.00	-95,881.93	6,764,754.90
Provision for potential losses	356,252.70	0.00	0.00	0.00	0.00	356,252.70
Provision for tax	2,401,931.23	2,758,072.96	0.00	-2,401,931.23	0.00	2,758,072.96
Litigation risks	2,909,330.00	1,240,860.00	-873,230.00	0.00	-95,480.00	3,181,480.00
Provision for work pending completion	4,839,008.73	0.00	-2,742.50	-4,836,266.23	0.00	0.00
Restructuring costs	258,000.00	0.00	0.00	0.00	-258,000.00	0.00
Other provisions	4,366,256.90	0.00	-979,196.47	-453,606.97	-346,575.00	2,586,878.46
	37,983,179.03	29,272,964.24	-2,098,870.05	-13,745,570.43	-922,433.37	50,489,269.42

Employee-related provisions include commitments to employees in connection with long-term-incentive-plans relating to the planned private placement and the Company's listing on the Frankfurt Stock Exchange.

For these long-term-incentive-plans, provisions in the amount of €34,092,319.49 (prior year: €11,678,445.03) were recognised. Those provisions are classified as current, due to the expected payment in the first quarter of 2018.

16. FINANCIAL LIABILITIES

in euros	31 December 2017	31 December 2016
non-current		
Liabilities to banks	183,202,837.72	151,888,440.92
Liabilities to shareholders	57,804,146.51	96,570,637.02
Liabilities to third parties	0.00	52,410,428.15
	241,006,984.23	300,869,506.09
current		
Liabilities to banks	134,204,629.20	45,273,651.44
Liabilities to third parties	447,129.57	36,341,389.74
Liabilities to shareholders	20,000.00	20,000.00
	134,671,758.77	81,635,041.18
	375,678,743.00	382,504,547.27

in euros	1 January 2017	Financing Cash Flows	Non-cash changes			31 December 2017
			shareholder contribution	capitalized interests	Fair value adjustments	
Liabilities to banks	197.162.092,36	121.877.369,09		866.725,47	-2.498.720,00	317.407.466,92
Liabilities to shareholders	96.590.637,02		-47.959.212,19	9.192.721,68		57.824.146,51
Liabilities to third parties	88.751.817,89	-88.304.688,32				447.129,57
	382.504.547,27	33.572.680,77	-47.959.212,19	10.059.447,15	-2.498.720,00	375.678.743,00

The non-current and current liabilities to banks consist of loans from various banks with fixed and variable interest rates. The terms of the bank liabilities are between one to five (prior year: one to three) years. Interest rates vary between 0.87% and 4.24% (prior year: 0.87% and 6.25%).

The Group's liabilities to banks are generally not subject to covenants but are secured by land charges.

The non-current financial liabilities to shareholders in the total amount of €57,804,146.51 (prior year: €96,570,637.02), of which an amount of €36,862,004.07 (prior year: €61,668,979.07) belongs to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, and an amount of €18,318,252.03 (prior year: €30,730,489.53) to Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands. Current financial liabilities include liabilities to the shareholder Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands, in the amount of €20,000.00 (prior year: €20,000.00).

In 2014, Instone Real Estate granted a call and put option for the remaining non-controlling interests in Instone Real Estate Development GmbH to the seller Hochtief Solutions AG. The call and put option has been exercised in three tranches only, starting with the first tranche which is exercisable 12 months from the "Closing Date", the second tranche, which was exercisable 24 months from the "Closing Date", and the third tranche, which was exercisable 36 months from the "Closing Date". Interests are calculated based on an interest rate of 4%. With effect from 28 February 2017, the Instone Real Estate Group N.V. exercised the third (prior year: second) granted call and put option relating to ownership interests in Instone Real Estate Development GmbH and bought 11,6% (prior year: 6.2%) of the ownership interests in Instone Real Estate Development GmbH from Hochtief Solutions AG at a purchase price of €22,508,243.41 (prior year: €11,925,801.62). For further information regarding the development of the call and put option please refer to C.2.2 indention "Acquisition of subsidiaries".

17. DEFERRED TAXES

Deferred tax is measured on the basis of the individual tax rates that apply to the individual countries and companies at the time of realisation or are expected to be applied. Deferred tax asset and deferred tax liabilities are offset per entity or per tax group. In all other respects, the provisions of tax law valid or adopted on the financial statement date are used to measure deferred tax.

Deferred tax assets on tax refund claims resulting from the expected use of existing tax loss carryforwards in subsequent years and whose realisation is sufficiently certain amount to €8,660,159.41 (prior year: €9,542,139.07).

There are loss carryforwards of our entities which do not relate to deferred tax assets: in Germany amounting to €8,297,743.44 (prior year: €11,079,500.89), in Luxembourg in the amount of €21,802,000.00 (prior year: €21,526,000.00) and in Austria in the amount of €31,086,846.74 (prior year: €28,384,164.00).

In principle, these loss carryforwards may be offset within each country with profits in the subsequent years. According to the current assessment we do not anticipate any use of these loss carryforwards.

Deferred tax assets and deferred tax liabilities have changed as follows:

	31 December 2017		31 December 2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
in euros				
Non-current assets	77,154.16	1,041,892.88	16,318.59	0.00
Current assets	5,199,349.94	22,985,180.99	220,341.10	25,130,257.11
Non-current liabilities	1,688,921.89	4,462,537.84	991,983.53	2,286,024.05
- Financial liabilities	0.00	3,508,207.68	0.00	2,213,838.11
- Pension provisions	1,495,571.57	0.00	754,967.29	0.00
- Provisions	193,350.32	20,950.47	237,016.24	0.00
- Other non-current liabilities	0.00	933,379.69	0.00	72,185.94
Current liabilities	14,321,642.15	2,830,712.94	1,646,999.76	412,832.11
- Other provisions	11,335,624.78	2,628,599.86	77,438.59	21,929.39
- Other current liabilities	2,986,017.37	202,113.08	1,569,561.17	390,902.72
	21,287,068.13	31,320,324.65	2,875,642.98	27,829,113.27
Loss carryforwards	2,363,949.24	0.00	1,539,501.57	0.00
Gross amount	23,651,017.37	31,320,324.65	4,415,144.55	27,829,113.27
Balance	-23,651,017.37	-23,651,017.37	-4,415,144.55	-4,415,144.55
Reported in the statement of financial position	0.00	7,669,307.28	0.00	23,413,968.72

18. TRADE PAYABLES

	31 December 2017	31 December 2016
in euros		
Trade payables	45,340,013.55	53,620,968.80
Progress payments received	230,351,905.65	161,519,425.41
	275,691,919.20	215,140,394.21
Payables from non-consolidated subsidiaries	0.00	23,539.18
	0.00	23,539.18
	275,691,919.20	215,163,933.39

19. OTHER LIABILITIES

in euros	31 December 2017	31 December 2016
Current		
Tax liabilities, others than income tax	1,031,941.53	918,151.36
Liabilities to employees	7,977,144.04	438,981.52
Social security liabilities	10,774.80	10,840.02
Liabilities due to purchase shares in GRK Holding	0.00	5,436,918.80
Liabilities to shareholders	0.00	2,481,863.01
Sundry other liabilities	386,453.78	3,839,602.26
	9,406,314.15	13,126,356.97

Sundry liabilities include obligations outside of trade accounts payable.

20. INCOME TAX LIABILITIES

The current income tax liabilities amounting to €13,792,549.24 (prior year: €6,206,889.40) relate to liabilities to fiscal authorities.

C.2.3 NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS**21. REVENUE**

The revenue is attributable to the following regions:

in euros	2017	2016
Germany	196,722,509.28	190,547,638.06
Rest of Europe	2,977,451.60	13,063,412.74
	199,699,960.88	203,611,050.80

For the breakdown of total revenue by types, please see the table below:

in euros	2017	2016
Revenues from percentage of completion	0.00	78,934,258.71
Revenues from completed construction contracts	196,778,069.77	120,969,139.89
Other services	2,921,891.11	3,707,652.20
	199,699,960.88	203,611,050.80

22. CHANGES IN INVENTORIES

The changes in inventory of the products in the amount of €120,207,157.69 (prior year: -€158,915,328.23) include cost of production for project developments.

In the year under review €120,496,982.15 (prior year: €130,230,298.30) of inventories are recognised as an expense.

23. OTHER OPERATING INCOME

Other operating incomes complied as follows:

in euros	2017	2016
Demand from sale voting rights TG Potsdam	1,700,000.00	0.00
Bonus payment Hofgut Obermühle	1,044,743.70	0.00
Income from the reduction impairment	893,705.06	46,182.77
Income from the reversal of provisions	0.00	1,334,480.74
Reimbursement of planning services	0.00	1,600,000.00
Insurance reimbursements	0.00	48,822.46
Rental income	0.00	50,453.66
Profit of sale of tangible assets	0.00	15,700.00
Income from the settlement of legal disputes	0.00	1,553,669.02
Cost reimbursements	0.00	1,085,341.34
Other income	1,742,645.71	2,597,700.47
	5,381,094.47	8,332,350.46

24. COST OF MATERIALS

in euros	2017	2016
Cost of materials and supplies	120,872,761.97	165,266,771.38
Cost of purchased services	123,945,771.10	128,416,799.23
	244,818,533.07	293,683,570.61

25. STAFF COSTS

in euros	2017	2016
Wages and salaries	23,682,398.52	22,831,158.80
Long-term incentive	22,413,874.46	8,897,793.03
Social insurance, pensions and support	3,434,364.95	3,451,862.71
	49,530,637.93	35,180,814.54

Employer's contributions paid to state pension insurance institutions in the reporting year amounted to €1,399,277.59 (prior year: €1,347,461.67).

Expenditure on pensions totalled €425,896.00 (prior year: €335,943.00). This mostly comprises new entitlements accrued during the year under defined pension plans and payments into defined contribution pension schemes.

The average number of employees breaks down as follows:

	2017	2016
Number of employees including trainees and working students	301	292

All employees were employed outside the Netherlands.

26. OTHER OPERATING EXPENSES

in euros

	2017	2016
Commission fees and other distribution costs	18,409,905.19	24,062,765.85
Rentals and lease rentals	4,615,339.83	3,131,925.32
Court costs, attorneys' and notaries' fees	3,983,640.76	2,256,615.89
Other overheads	2,314,863.79	0.00
Technical and business consulting	2,218,663.78	2,577,970.84
Litigation costs	1,112,796.54	1,267,585.70
Vehicle costs	970,786.36	351,662.24
Mail and funds transfer expenses	882,659.24	500,444.10
Insurances	785,901.49	606,038.81
Real estate tax, wealth tax and other taxes	771,424.75	460,618.14
Non-deductible VAT	703,426.11	0.00
Loss resolution from sale rental portfolio Steffen Göpel	697,073.55	900,780.77
Restructuring and adjustment costs	689,684.61	215,222.09
Advertising measures	483,947.01	623,421.08
Entertainment expenses	296,855.33	245,483.59
Stationery	217,131.70	217,690.04
Property levies	139,201.40	162,412.78
Operating costs	0.00	1,456,114.22
Management compensation	0.00	70,383.72
Travel expenses, transportation costs	0.00	731,225.22
Further education measures	0.00	344,408.75
Compensation during the construction period	0.00	800,783.83
Sundry other operating expenses	2,179,512.92	1,402,696.70
	41,472,814.36	42,386,249.68

Sundry operating expenses mostly comprise order processing, costs of materials for administrative purposes, costs of preparing the annual financial statements and other expenses not reported elsewhere.

27. INCOME FROM ASSOCIATED AFFILIATES

The income from associated affiliates can be made up as follows:

in euros	2017	2016
Share of profits and losses of equity-accounted interests		
Wohnentwicklung Theresienstraße GmbH & Co. KG	427.38	-177.64
Wohnpark Gießener Straße GmbH & Co. KG	-1,934.18	2,766.80
TG Potsdam Projektentwicklungsgesellschaft mbH	-250,000.00	0.00
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co KG	-991,637.18	1,364,366.36
SEVERINS WOHNEN GmbH & Co. KG	0.00	-37,501.00
CONTUR Wohnbauentwicklung GmbH & Co. KG	0.00	3,622.04
	-1,243,143.98	1,333,076.56
Profit distribution from equity-accounted interests		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co KG	1,477,775.73	0.00
	1,477,775.73	0.00
	234,631.75	1,333,076.56

28. OTHER INCOME FROM INVESTMENTS

The other income from investments breaks down as follows:

in euros	2017	2016
Income from the sale of participating interests		
DURST-BAU GmbH	371.51	0.00
Instone Real Estate Development GmbH	91.14	0.00
formart Immobilien GmbH, Essen, Germany	15,179.99	0.00
Projektverwaltungsgesellschaft Mönchengladbach - Area of Sport mbH	-115.63	0.00
formart Beteiligungsverwaltungsgesellschaft mbH	-780.19	0.00
Warenhaus Flensburg Verwaltungsgesellschaft mbH	-165,686.61	0.00
Wohnentwicklung Theresienstraße GmbH & Co. KG	-9,839.79	0.00
ArtOffice GmbH	6,663.34	0.00
Area of Sports GmbH & Co. KG	0.00	36,000.00
Uferpalais Projektgesellschaft mbH & Co. KG	0.00	13,029.94
RheinauArtOffice GmbH & Co. KG	0.00	-5,037.38
	-154,116.24	43,992.56
Net income from non-consolidated subsidiaries and other participating interests		
Domaine Etoile S.C.I.	92,883.10	0.00
	92,883.10	0.00
Income from the sale of affiliated companies		
Immobilière de Hamm S.à r.l.	0.00	278,182.56
Flensburg Kaufhaus GmbH & Co. KG	0.00	-10,000.00
	0.00	268,182.56
	-61,233.14	312,175.12

29. DEPRECIATION AND AMORTISATION

in euros	2017	2016
Tangible assets	437,703.92	439,889.19
Intangible assets	0.00	685.00
	437,703.92	440,574.19

As in the prior year, there were no impairment losses on intangible and property, plant and equipment.

30. FINANCIAL RESULT

in euros	2017	2016
Interest and similar income	595,011.97	133,215.23
Finance income	595,011.97	133,215.23
Interest and similar expenses	-20,486,550.57	-23,519,342.37
Interest call and put option	-129,181.57	-1,123,968.87
Interest components of increase in provisions	-320,584.86	-340,221.20
Net interest expenses on pension obligations	-28,826.00	-46,295.77
Finance cost	-20,965,143.00	-25,029,828.21
	-20,370,131.03	-24,896,612.98
Result from long-term securities	18,004.46	113,523.64
Financial result	-20,352,126.77	-24,783,089.34

Interest and similar income or expenses consist of interest income or expenses on cash investments, interest-bearing securities and other loans. Interest and similar income furthermore represent all profit shares and dividends from long-term and short-term securities. The resulting net interest result amounts to €-20,370,131.03 (prior year: €-24,896,612.97).

In the financial year, interest income of €595,011.97 was recorded for financial instruments not carried at fair value through profit or loss (prior year: of €133,215.23);

interest expenses on such financial instruments were recorded in the amount of €20,615,732.14 (prior year: €24,643,244.24).

Net interest expenses on pension obligations in the amount of €28,826.00 (prior year: €46,295.77) include the annual interest on the net present value of pension obligations in the amount of €164,646.00 (prior year: €187,274.00), offset against interest income from plan assets in the amount of €-135,820.00 (prior year: €140,978.23)

31. INCOME TAXES

in euros	2017	2016
Income taxes		
Corporate income tax	-7,410,497.52	-4,555,820.97
Trade income tax	-7,654,253.78	-6,258,519.14
Current income taxes	-15,064,751.30	-10,814,340.11
Deferred taxes	15,255,412.42	12,583,887.05
	190,661.12	1,769,546.94

The reconciliation of theoretical income tax to recognised income tax is as follows:

in euros	2017	2016
Income before taxes	-31,150,204.20	-23,970,317.18
Theoretical tax expenses at 25.00%	7,787,551.05	5,992,579.30
Tax effects on		
Difference in tax rates	1,752,058.75	-685,991.44
Prior year adjustment	590,308.94	1,937,036.08
Non-tax-allowable expenses	-6,130,041.17	-3,237,899.28
Non-tax-allowable income	-7,555,376.91	102,287.39
Trade tax adjustments	0.00	848,681.86
Equity accounting of associates	-2,067,147.83	131,834.75
Recognition and measurement of deferred tax assets	-3,376,632.47	848,950.18
Adjustment of previously recognised deferred tax asset	-281,861.68	-1,348,194.30
Tax differing result allocation	1,031,478.32	-1,031,478.32
Effects from consolidation	9,163,214.63	-1,577,732.58
Reduction of assessed property value	28,602.57	28,206.36
Transaction-related special effect	-939,524.96	-167,027.13
Supplementary balance sheet effects	187,155.94	0.00
Others	875.94	-71,705.93
Current income taxes	190,661.12	1,769,546.94

It is based on the individual tax rates that apply to the individual countries and companies at the time of realisation or are expected to be applied. The Company's tax rate of 25.0% (prior year: 25.0%) was used as the expected tax rate.

Unrecognised deferred tax assets for loss carryforwards mainly relate to the losses of the entity in Luxembourg as well as Instone Real Estate Leipzig GmbH.

32. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the portion of net income attributable to Instone shareholders by the average number of shares outstanding; treasury shares are not taken into account in this calculation. As at 31 December 2016 and 31 December 2017 no shares were outstanding, consequently the number of shares issued on 13 February 2018 were included in the calculation.

	2017	2016
Earnings per share		
Net income for Instone Real Estate Group N.V. shareholders (in euros)	-31,088,126.79	-22,409,509.42
Number of shares outstanding in thousands (weighted average)	36,988	36,988
Basic and diluted earnings per share (in euros)	-0.84	-0.61

C.2.4 OTHER DISCLOSURES

Reporting on financial instruments

Financial instruments include financial assets and liabilities as well as contractual claims and obligations relating to exchanges and transfers of financial assets. There are no derivative financial instruments.

Financial assets mostly comprise cash and cash equivalents, receivables and other financial investments. Financial liabilities are mostly current liabilities measured at amortised cost.

The financial instruments held are shown in the balance sheet. The maximum risk of loss or default is equal to total financial assets. Any such risk identified in respect of financial assets is accounted for with an impairment loss.

Risk management

All finance activities in Instone Real Estate are conducted on the basis of a Group-wide financial directive. This is supplemented by function-specific operating work guidelines on subjects such as collateral management. These policies include principles for dealing with the various classes of financial risk.

Trading, control and settlement activities are divided between front and back offices. This ensures effective risk management where monitoring and settlement of front office external trading activities are performed by a separate and independent back office. Furthermore, the dual control principle must be observed at minimum for

all external trading transactions. Internal authorisations to give instructions are strictly limited in number and monetary amount, are reassessed at regular intervals (at least once a year) and adjusted if necessary.

Management of liquidity risk

Instone Real Estate uses largely centralised liquidity structures to pool liquidity at Group level, amongst other things to avoid cash flow bottlenecks at the level of individual entities. The central liquidity position is determined on a monthly basis and calculated in a bottom-up process over a rolling 12-months period. Liquidity budgets are supplemented with monthly stress testing.

The tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the date on which the Group can be required to pay. The tables include both interest and principal cash flow. Interest payments on variable rate items are translated uniformly using the last interest rate fixed prior to the balance sheet date.

The maximum payments shown in the tables below are offset by contractually fixed receipts in the same periods that are not shown here (for example, from trade receivables), which cover the shown cash outflows to a considerable extent.

Maturity analysis of financial liabilities

The following table summarises the contractual payments relating to financial liabilities:

in euros	Carrying amount		Cash-outflows	
	31 December 2017	2018	2019-2021	>2021
Non-derivative financial liabilities				
Financial liabilities	375,678,743.00	201,049,202.01	170,640,571.58	20,159,352.02
Trade payables	275,691,919.20	275,691,919.20	0.00	0.00
	651,370,662.20	476,741,121.21	170,640,571.58	20,159,352.02
in euros	Carrying amount		Cash-outflows	
	31 December 2016	2017	2018-2020	>2020
Non-derivative financial liabilities				
Financial liabilities	382,504,547.27	145,094,762.12	268,142,635.13	0.00
Trade payables	215,163,933.39	215,163,933.39	0.00	0.00
	597,668,480.66	360,258,695.51	268,142,635.13	0.00

Furthermore, Group liquidity is sufficiently secured, also based on the available cash in hand and bank balances

in euros

Cash and cash equivalents
Credit line - amount unused

as well as undrawn cash credit lines.

The table below shows the main liquidity instruments:

	31 December 2017	31 December 2016
Cash and cash equivalents	73,623,790.63	112,547,605.13
Credit line - amount unused	457,452,555.90	77,220,568.59
	531,076,346.53	189,768,173.72

Management of default risks

Instone Real Estate is exposed to default risks from operations and from certain financing activities.

Instone Real Estate performs risk management for operations by continuously monitoring trade receivables at a branch level. If a specific default risk is detected, it is countered by recognizing an individual impairment to the extent necessary.

The maximum default risk exposure of financial assets is equivalent to their carrying amounts in the statement of financial position. However, the actual default risk exposure is lower due to collateral given in favour of Instone Real Estate. The maximum risk exposure on financial guarantees is the maximum amount that Instone Real Estate would have to pay. The maximum default risk for loan commitments is the amount of the commitment. Recourse to these financial guarantees and loan commitments is very unlikely at the time of reporting.

Instone Real Estate accepts collateral to secure contract performance by subcontractors, subcontractors' warranty obligations, and claims to remuneration. Such collateral includes, without limitation, guarantees relating

to warranty obligations, contract performance, advance payments, and payment bonds. Acceptance of collateral is governed by an Instone Real Estate policy. It includes, without limitation, the contractual drafting, implementation and management of all agreements. The detailed instructions vary, depending on the country jurisdiction and current case law, for example. For default risks, Instone Real Estate examines the credit rating of the party providing the collateral for all guarantees accepted. Instone Real Estate engages external specialists (such as rating agencies) for assessing credit standings as far as possible. The fair values of accepted collateral are not disclosed as they cannot be measured reliably as a rule.

The age structure of financial assets that are past due is specific to the industry. Receipt of payment depends on order acceptance and invoice checking, which often takes a relatively long time.

Most of these past due unimpaired financial assets are due from contracting authorities with top credit ratings.

The following table shows the past due, unimpaired financial assets:

in euros	31 December 2017			
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days
Trade receivables	3,587,563.19	42,316.31	22,396.04	459,419.56

in euros	31 December 2016			
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days
Trade receivables	8,999,476.24	135,370.81	2,338,886.24	4,771,861.16

in euros	1 January 2016	Changes*	31 December 2016	Changes*	31 December 2017
	Trade reivables	8,363,172.41	-2,032,946.35	6,330,226.06	-2,712,407.45

*Changes result from allocations, reversals, utilisations and changes in Group structure

Individually impaired financial assets are shown below:

in euros	31 December 2017	31 December 2016
Trade reivables		
Gross amount	9,568,191.34	13,444,235.54
Impairment	-3,617,818.61	-6,330,226.06
Net amount	5,950,372.73	7,114,009.48

With regard to financial assets that are neither past due nor impaired, there are currently no indications of any need to recognise impairments for reasons relating to credit ratings.

Management of interest risks

The interest rate risk in Instone Real Estate mainly consists of short- and long-term interest-bearing financial assets and liabilities due to fluctuations in market interest rates. Depending on the market situation, this risk is countered by a mix of fixed- and variable-interest financial instruments. The risk is not controlled separately, as the external borrowings are usually redeemed within a short time by payments of the acquirers.

Changes in the market interest rates of non-derivative financial instruments with a fixed interest rate have an impact on the result only if they are recognised at fair value. For this reason, all fixed-interest financial instruments carried at amortised cost are not subject to interest rate risks as defined by IFRS 7.

As part of a sensitivity analysis, we examined the impact of the change in market interest rates in a range of 100 basis points on the earnings after tax. In the financial

year, a hypothetical increase/decrease in the market interest rate of 100 basis points, with other variables remaining constant, would result in lower/higher earnings after tax of €-1,812,431.26/ €+1,812,431.26 (prior year: €-1,257,767.56 / €+ 1,252,768.67).

Capital risk management

Instone Real Estate manages its capital with the aim of ensuring that all Group companies can continue to operate as a going concern. The Group keeps the cost of capital as low as possible by optimizing the balance between equity and debt as the need arises. These measures primarily serve to secure the best possible credit standing as well as to maximise shareholder returns.

The Group's capital structure consists of the current and non-current liabilities less cash and cash equivalents recognised in the balance sheet and the shareholders' equity. The Group's capital structure is assessed at regular intervals, taking into account the risk-adjusted cost of capital.

The overall capital risk management strategy did not change in the year under review compared with the prior year.

Additional information on financial instruments

In the following, carrying amounts and fair values are shown for each class of financial instrument and carrying amounts for each IAS 39 category:

in euros	Available for sale	Loans and receivables	At (amortised) cost	Total 31 December 2017	Total fair value 31 December 2017
FINANCIAL ASSETS	333,461.79	110,884,201.13	0.00	111,217,662.92	111,217,662.92
Other financial assets	333,461.79	0.00	0.00	333,461.79	333,461.79
Financial receivables	0.00	33,043,146.83	0.00	33,043,146.83	33,043,146.83
Non-current	0.00	683,029.91	0.00	683,029.91	683,029.91
Current	0.00	32,360,116.92	0.00	32,360,116.92	32,360,116.92
Trade receivables	0.00	4,217,263.67	0.00	4,217,263.67	4,217,263.67
Cash and cash equivalents	0.00	73,623,790.63	0.00	73,623,790.63	73,623,790.63
FINANCIAL LIABILITIES	0.00	0.00	651,370,662.20	651,370,662.20	651,370,662.20
Financial liabilities	0.00	0.00	375,678,743.00	375,678,743.00	375,678,743.00
Non-current	0.00	0.00	241,006,984.23	241,006,984.23	241,006,984.23
Current	0.00	0.00	134,671,758.77	134,671,758.77	134,671,758.77
Trade payables	0.00	0.00	275,691,919.20	275,691,919.20	275,691,919.20

Additional information on financial instruments as of 31 December 2016

in euros	Available for sale	Loans and receivables	At (amortised) cost	Total 31 December 2016	Total fair value 31 December 2016
FINANCIAL ASSETS	667,726.79	133,002,295.51	0.00	133,670,022.30	133,670,022.30
Other financial assets	667,726.79	0.00	0.00	667,726.79	667,726.79
Financial receivables	0.00	851,276.11	0.00	851,276.11	851,276.11
Non-current	0.00	683,029.91	0.00	683,029.91	683,029.91
Current	0.00	168,246.20	0.00	168,246.20	168,246.20
Trade receivables	0.00	19,603,414.27	0.00	19,603,414.27	19,603,414.27
Cash and cash equivalents	0.00	112,547,605.13	0.00	112,547,605.13	112,547,605.13
FINANCIAL LIABILITIES	0.00	0.00	597,668,480.66	597,668,480.66	597,668,480.66
Financial liabilities	0.00	0.00	382,504,547.27	382,504,547.27	382,504,547.27
Non-current	0.00	0.00	300,869,506.09	300,869,506.09	300,869,506.09
Current	0.00	0.00	81,635,041.18	81,635,041.18	81,635,041.18
Trade payables	0.00	0.00	215,163,933.39	215,163,933.39	215,163,933.39

As current financial instruments have short remaining maturities, their carrying amounts correspond to market value as of the balance sheet date. Non-current securities in the “available-for-sale” category are measured at fair value through profit or loss; as such, their carrying amounts also correspond to fair value.

For other financial investments there are no reliable fair values. They are measured at cost within the “available-for-sale” category. There were no transfers between the categories of financial instruments, neither in the financial year nor in the prior year.

Net result from financial instruments

The following table shows the net result from financial instruments by IAS 39 category:

in euros	31 December 2017	31 December 2016
Available for sale	399,992.58	1,758,775.32
Loans and receivables	571,017.47	133,215.23
Liabilities at amortised cost	-20,408,246.57	-24,643,311.23
	-19,437,236.52	-22,751,320.68

The calculation of net profit from financial instruments includes interest income and expenses, impairments and impairment reversals, income and expenses from currency translation, dividend income, gains and losses on disposal, and other changes in the fair value of financial instruments recognised in income.

in euros	31 December 2017	31 December 2016
Due within one year	2,749,154.10	2,594,408.40
Due in one to five years	5,323,370.42	5,555,692.42
Due after five years	1,405,847.00	747,099.00
	9,478,371.52	8,897,199.82

Instone Real Estate as a lessee has concluded long-term leases on commercial properties and company cars.

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows classifies cash flows into operating, investing, and financing activities. All non-cash income and expense and all income from asset disposals is eliminated in cash flow from operations.

In the financial year, the change of impairments on trade receivables amounted to €-2,712,407.45 (prior year: €-2,032,946.35).

Operating leases

The future minimum lease payments are as follows:

Cash outflow from investing activities is marked primarily by the acquisition of subsidiaries amounting to €22,839,425.33.

Cash and cash equivalents as of 31 December 2017 exclusively comprised cash amounting to €73,623,790.63 (prior year: €112,547,605.13), of which of €14,903,272.21 (prior year: €21,478,007.06) was subject to restrictions.

Related party disclosures

Significant related parties mostly include the significant equity-accounted entities and shareholders. Material

transactions were entered into with significant related parties, which had an effect on the following items in the financial statements:

Relations to shareholders**in euros**

	31 December 2017	31 December 2016
Financial receivables		
Coöperatieve Activum SG Fund III Investments U.A.	19,232,828.37	0.00
Coöperatieve Activum SG Fund V Investments U.A.	2,273,320.31	0.00
Coöperatieve Formart Investments U.A.	10,751,151.05	0.00
Steffen Göpel	0.00	480.11
	32,257,299.73	480.11
Financial liabilities		
Coöperatieve Activum SG Fund III Investments U.A.	38,631,264.34	61,668,979.07
Coöperatieve Formart Investments U.A.	19,192,882.17	31,557,777.20
Steffen Göpel	0.00	6,271,168.42
	57,824,146.51	99,497,924.69
Other current liabilities		
Steffen Göpel	0.00	4,739,845.29
Coöperatieve Activum SG Fund III Investments U.A.	0.00	1,661,576.76
	0.00	6,401,422.05
Revenue		
Steffen Göpel	0.00	849,000.00
	0.00	849,000.00
Other operating expenses		
Steffen Göpel	697,073.55	0.00
Coöperatieve Activum SG Fund III Investments U.A.	0.00	118,339.06
	697,073.55	118,339.06
Interest		
Coöperatieve Activum SG Fund III Investments U.A.	3,787,833.13	3,814,707.63
Coöperatieve Activum SG Fund V Investments U.A.	673,866.47	0.00
Coöperatieve Formart Investments U.A.	1,885,166.56	1,925,867.51
Steffen Göpel	221,965.11	241,084.44
	6,568,831.27	5,981,659.58

The financial receivables to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, in the amount of €19,232,828.37, Coöperatieve Activum SG Fund V Investments U.A., Amsterdam, in the amount of €2,273,320.31 and Coöperatieve Formart Investments U.A., Amsterdam, in the amount of

€10,751,151.05 are interest-free and have a maturity of less than one year.

These financial receivables were a result of the indemnity of the Group from the costs relating to the planned private

placement and the Company's listing on the Frankfurt Stock Exchange by the shareholders.

The financial liabilities to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, in the amount of €36,882,004.07 and Coöperatieve Formart Investments U.A., Amsterdam, in the amount of €18,318,252.03 are interest-bearing at a rate of 7% and are due for repayment in December 2020.

The financial liabilities to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, in the amount of €1,749,260.27 and Coöperatieve Formart Investments U.A., Amsterdam, in the amount of €874,630.14 are interest-bearing at a rate of 6% and are due for repayment in May 2021.

As at 31 December 2017, shareholders of Instone Real Estate Group N.V. were Coöperatieve Activum SG Fund

III Investments U.A., Amsterdam, with a share in the amount of 59.6%, Coöperatieve Activum SG Fund V Investments U.A., Amsterdam, with a share in the amount of 7.1%, Coöperatieve Formart Investments U.A., Amsterdam, with a share in the amount of 33.3%.

ActivumSG Capital Management L.P., Jersey/UK, is the Group parent company for the largest group of entities in the ActivumSG Group and also the ultimate party for the group of entities in Instone Real Estate.

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties. For detailed terms and conditions of financial liabilities please refer to note 16. "Financial liabilities". Services were bought based on the prices in force and terms that would be available to third parties.

Relations to associates

in euros

	31 December 2017	31 December 2016
Financial receivables		
Projektverwaltungsgesellschaft Mönchengladbach - Area of Sports mbH	37,783.22	0.00
Uferpalais Verwaltungsgesellschaft mbH	65,033.97	0.00
Contur Wohnbauentwicklung GmbH	0.00	148,500.00
Projektverwaltungsgesellschaft Severins Wohnen GmbH	0.00	19,746.20
	102,817.19	168,246.20
Financial liabilities		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	450,000.00	1,380,000.00

The financial receivables have a maturity of less than one year.

The financial liabilities to Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, in the amount of €450,000.00 is interest-free and has a maturity of less than one year.

Relations to joint ventures

No other material transactions were entered into between Instone Real Estate Group N.V. or any Group company and Executive or related parties in the reporting period. There were no conflicts of interest involving Executives.

Compensation of key management

The compensation for the Management Board members for 2017 comprises

1. a fixed compensation
2. fringe benefits
3. a variable compensation
4. a long-term-incentive component divided in two components:
 - 4.a Pre-Placement STI
 - 4.b Pre-Placement LTIP
5. a pension plan

1. The fixed compensation is paid in equal monthly amounts.
2. The fringe benefits comprise amounts to be recognised for tax purposes for private use of company cars and other non-cash benefits.
3. The one-year variable compensation is computed on the basis of the following equally weighted components: adjusted free cash flow, consolidated earnings before taxes as compared to the plan for the actual year.
- 4.a Under the Pre-Placement STI, the members of the Management Board reinvested certain amounts received, in addition to the total value of any amounts reinvested under the Pre-Placement STI with respect to the financial years 2015 to 2017. Thereafter, the value of the virtual shares will be subject to the Company's share price performance to be determined based on the number of virtual shares multiplied with the share price at a given point in time.
- 4.b The successful sale of shares by the shareholders in the Placement will constitute a trigger event under the long-term incentive plan previously agreed between the Company and the four members of the Management Board. In accordance with addenda to the Pre-Placement LTIP agreements, all Pre-Placement LTIP Beneficiaries will receive the aggregate amounts payable under their respective Pre-Placement LTIP agreements upon settlement of the Private Placement.
5. Some members of the Management Board have Company pension plans in the form of individual contractual pension arrangements that provide for a minimum pension age of 65. The amount of the pension is determined as a percentage of fixed compensation, the percentage rising with the number of years in office. The maximum amount the Management Board member can receive is 65% of his final fixed compensation. Surviving dependents receive 60% of the pension.

The remuneration of the Management Board in the year under review was as follows:

in euros	Kruno Crepulja	Oliver Schmitt	Andreas Gräf	Torsten Kracht	Total
Current compensation					
Fixed compensation	352,700.36	305,071.71	291,650.81	148,080.84	1,097,503.72
Fringe benefits	64,271.12	61,423.40	48,301.86	11,333.33	185,329.71
One-year variable compensation	136,778.21	102,597.48	118,293.10	140,000.00	497,668.79
Variable remuneration components with long-term incentive effect and risk character					
Long-term incentive component	3,803,713.44	2,159,585.79	2,139,132.85	1,306,106.74	9,408,538.82
Pensions					
Pension expenses	-40,272.00	-277,267.00	-53,324.00	0.00	-370,863.00
Total compensation	4,317,191.13	2,351,411.38	2,544,054.62	1,605,520.92	10,818,178.04

The total compensation in the amount of €10,818,178.04 was partly paid by Instone Real Estate Development GmbH in the amount of €1,067,074.58 and by Instone Real Estate Leipzig in the amount of €1,015,493.42.

The management appointed for the financial year 2016 and until June 2017 did not receive any remuneration for the management activities in the financial year, neither in 2017 nor in the prior year.

The Company and its subsidiaries did not make available any loans, advances and guarantees for the benefit of any member of key management.

Furthermore, there were no rights granted to the members of key management to subscribe for, or otherwise acquire, shares in the capital of the Company or a subsidiary, or depository receipts for such shares, as part of their compensation during 2017.

Auditor's fee

The total fees for services provided by Deloitte Accountants B.V., Amsterdam, the Netherlands and Deloitte GmbH, Munich, Germany, were recognised as expenses as follows:

in euros	31 December 2017	31 December 2016
Financial statement audits	758,425.00	357,832.50
Other audit engagements	322,260.45	0.00
Other non-audit services	91,421.03	7,210.00
	1,172,106.48	365,042.50

Deloitte Accountants B.V., Amsterdam:

in euros	31 December 2017	31 December 2016
Financial statement audits	244,500.00	89,950.00
Other audit engagements	151,250.00	0.00
	395,750.00	89,950.00

Deloitte GmbH, Munich:

in euros	31 December 2017	31 December 2016
Financial statement audits	513,925.00	267,882.50
Other audit engagements	171,010.45	0.00
Other non-audit services	91,421.03	7,210.00
	776,356.48	275,092.50

Waiver of disclosure and preparation of the management report in accordance with § 264 (3) HGB (German Commercial Code) Instone Real Estate Development GmbH (registered in Essen, Germany, under number HRB 28401) has fulfilled the conditions required by § 264 (3) HGB and is therefore released from the disclosure of its annual financial statements and the preparation of a management report.

EVENTS AFTER THE FINANCIAL STATEMENT DATE

On 22 January 2018, Instone Real Estate published the press release about the planned listing of its shares on the regulated market of the Frankfurt Stock Exchange (Prime Standard) in 2018. As part of the planned previous private placement, both new and existing shares were planned to be offered. As a result of a capital increase, new shares were planned to be issued with gross

proceeds to the Company, and existing shares were planned to be offered by the Company's shareholders, funds launched by ActivumSG Capital Management Limited.

On 13 February 2018, part of the Company's share premium was converted into share capital, thereby increasing the Company's share capital from €8,386.00 to €50,316.00 and, following the effectiveness of the conversion of the Company into a public limited liability company (naamloze vennootschap) and the change of its name which took place in this context, from €50,316.00 to €29,988,336.00. On the same day, a further capital increase took place according to which €7,000,000.00 new shares were issued with a par value of €1.00 each. These measures together resulted in an increase of the Company's share capital to €36,988,336.00.

On 13 February 2018, the Placement was completed, and on 15 February 2018, the Company's shares were listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

In the Placement, a total of 19,900,000 shares were placed with institutional investors. The placed shares consisted of 7,000,000 new shares from the capital increase and 12,900,000 existing shares held by the Company's shareholders Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V, including additional shares from an over-allotment option. The placement price for the shares of the Company was €21.50.

Around €56 million of the net proceeds from the capital increase were used to fully repay an existing shareholder loan. With the remaining approximately €86 million, the Company plans to finance the acquisition and development of new housing projects and other corporate expenses. One portion of this remaining capital was also used to repay an intercompany loan.

The free float on 23 April 2018 was around 50.4%. The remaining shares were still held by Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V.

In addition, certain of the Company's organisational documents were revised (and additional internal rules were adopted) so that its internal organisation became suitable for a listed company; also, a Supervisory Board (the "Supervisory Board") and certain Supervisory Board committees were established.

The Supervisory Board is composed of the following five members:

Stefan Brendgen, born in 1964 in Mönchengladbach, Germany, as chairman of the Supervisory Board and chairman of the nomination committee.

Stefan Mohr, born in 1967 in Frankfurt am Main, Germany, as deputy chairman of the Supervisory Board.

Marija Korsch, born in 1948, in Zadar, Croatia, as member of the Supervisory Board.

Dr. Jochen Scharpe, born in 1959 in Werdohl, Germany, as member of the Supervisory Board and chairman of the audit committee.

Richard Wartenberg, born 1968 in Stuttgart, Germany, as member of the Supervisory Board and chairman of the remuneration committee.

Furthermore, as our business activities and properties are geographically concentrated in Germany, we have filed with the Dutch trade registry, on 9 February 2018, a proposal to convert the Company into a German stock corporation (Aktiengesellschaft), governed by the laws of the Federal Republic of Germany and having its registered seat in Essen, Germany (the "AG Conversion"). The resolution to convert the Company into a German stock corporation is expected to be proposed to the Company's general shareholders meeting (the "General Meeting") by the Management Board and the Supervisory Board, subject to certain conditions (as specified in the proposal) having been met.

On 29 March 2018, Instone Real Estate Leipzig GmbH repaid a bank loan for the corporate financing of the company in the amount of €22.6 million.

There are no other events which might influence the Company's outlook and which are not discussed in the statutory annual accounts included in this report.

C.2.5 SUBSIDIARIES, ASSOCIATES AND OTHER PARTICIPATING INTERESTS

Subsidiaries, associates and other participating interests as at 31 December 2017:

IFRS	Percentage of capital	Equity in euros	Net profit/loss of the year in euros
I. Affiliated entities which are included in the consolidated financial statements			
Instone Real Estate Development GmbH, Essen, Germany	100.00	142,260,113.32	18,555,668.78
Durst-Bau GmbH, Wien, Austria	100.00	560,627.81	-894,548.26
formart Immobilien GmbH, Essen, Germany*	100.00	700,518.93	0.00
formart Luxembourg S.à r.l., Luxemburg, Luxemburg	100.00	2,866,119.22	2,161,383.34
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany	70.00	875,197.41	-281,995.10
west.side gmbH, Cologne, Germany	94.90	500,935.42	137,718.60
Instone Real Estate Leipzig GmbH, Leipzig, Germany	94.00	24,971,165.88	2,098,275.41
GRK Elsterlofts GmbH & Co.KG, Leipzig, Germany	100.00	63,396.89	76,078.37
GRK Beteiligung GmbH, Leipzig, Germany	98.00	498,716.92	-100,363.02
GRK REVION Hamburg GmbH, Leipzig, Germany	98.00	59,516.43	427,928.08
Instone Real Estate Capital GmbH & CO.KG, Leipzig, Germany	100.00	13,101,632.18	5,904,515.39
Instone Real Estate Verwaltungs GmbH, Leipzig, Germany	100.00	45,274.94	-433.41
Instone Real Estate Wohnbau GmbH, Leipzig, Germany	100.00	2,833,380.53	1,919,909.67
OPUS Wohnbau GmbH, Leipzig, Germany	94.00	565,739.68	-60,709.49
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.00	8,749,986.44	-92,232.77
OPUS Beteiligung GmbH, Leipzig, Germany	100.00	-11,188.18	-9,084.68
Gartenhöfe GmbH, Leipzig, Germany	100.00	4,630,510.35	4,499,793.45
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.00	-1,620,277.01	-191,508.24
II. Investments accounted for using the equity method			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany	50.00	948,245.11	922,087.70
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany	50.00	33,062.95	-3,868.35
III. Other investments			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.00	46,221.78	-71,658.30
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.00	40,396.18	2,117.10
Immobilien-gesellschaft CSC Kirchberg S.à r.l., Luxemburg, Luxemburg	99.90	38,659.43	-7,203.79
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany	6.00	3,459,414.47	139,540.79
Projekt Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.00	24,137.32	174.05
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.00	48,407.87	-6,593.84
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.00	-38,601.77	-9,312.83
GRK Golf Masters, Leipzig, Germany	100.00	34,152.69	-21,652.69
* Profit transfer agreement			

A. INTRODUCTION

B. GROUP MANAGEMENT
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E. OTHER INFORMATION

Subsidiaries, associates and other participating interests as at 31 December 2016:

IFRS	Percentage of capital	Equity in euros	Net profit/loss of the year in euros
I. Affiliated entities which are included in the consolidated financial statements			
Instone Real Estate Development GmbH , Essen, Germany	82.2	142,939,611.41	4,187,343.17
DURST-BAU GmbH, Vienna, Austria	99.9	1,455,176.07	-2,289,509.70
formart Luxembourg S.à r.l., Luxembourg, Luxembourg	100.0	10,576,844.58	9,728,408.77
Instone Real Estate Management GmbH, Essen, Germany	100.0	-185,559.73	195,021.25
formart Immobilien GmbH, Essen, Germany*	100.0	700,518.93	0.00
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany	70.0	1,157,192.51	1,286,649.63
west.side gmbH, Cologne, Germany	94.9	363,216.82	158,998.54
Instone Real Estate Leipzig GmbH, Leipzig, Germany	94.0	22,287,993.94	16,254,806.17
Instone Real Estate Wohnbau GmbH, Leipzig, Germany	100.0	913,470.86	2,388,059.49
OPUS Wohnbau GmbH, Leipzig, Germany	94.0	626,449.17	-177,845.14
Gartenhöfe GmbH, Leipzig, Germany	100.0	156,896.91	449,057.57
Instone Real Estate Verwaltungs GmbH, Leipzig, Germany	100.0	45,708.35	-1,563.85
GRK Elsterlofts GmbH & Co. KG, Leipzig, Germany	100.0	587,318.52	506,181.64
GRK Beteiligung GmbH, Leipzig, Germany	98.0	714,957.43	125,064.26
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	-2,103.50	-18,135.57
Parkresidenz Leipzig GmbH, Leipzig, Germany	53.9	9,840,976.03	-3,538,075.64
Instone Real Estate Capital GmbH & Co. KG, Leipzig, Germany	100.0	7,586,829.40	-14,759,198.96
GRK REVION Hamburg GmbH, Leipzig, Germany	53.0	931,588.35	1,599,721.48
GRK Golf Masters, Leipzig, Germany**	100.0	34,152.69	-21,652.69
Instone Real Estate Landmark GmbH	100.0	25,000.00	0.00
II. Equity-method investments			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany	50.0	2,981,708.87	2,765,551.46
Wohnentwicklung Theresienstraße GmbH & Co. KG i.L., Munich, Germany	50.0	24,645.26	-355.27
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany	50.0	36,931.30	5,533.59
III. Other investments			
ArtOffice GmbH, Cologne, Germany	100.0	41,663.34	-596.39
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	117,880.08	83,535.43
formart Beteiligungsverwaltungsgesellschaft mbH, Essen, Germany	100.0	23,484.81	-242.59
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	38,279.08	7,767.71
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany	6.0	3,572,873.32	52,784.48
Immobilien-gesellschaft CSC Kirchberg S.a r.l., Luxembourg, Luxembourg	99.9	103,863.22	59,161.89
Projektverwaltungsgesellschaft Mönchengladbach - Area of Sports mbH, Dusseldorf, Germany	50.0	25,815.02	3.64
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.0	55,001.71	21,102.58
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	-81,680.77	-114,276.66
Warenhaus Flensburg Verwaltungsgesellschaft mbH, Essen, Germany	100.0	-140,686.61	-1,570.41
WTS GmbH i.L., Munich, Germany	50.0	15,521.42	-474.69
TG Potsdam Projektentwicklungsgesellschaft mbH, Hannover, Germany**	10.0	0.00	0.00

* Profit transfer agreement

** Figures were not available at the time consolidated financial statements were prepared

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Approval and signing of the consolidated financial statements.

Essen, 7 May 2018

Signed
Management Board members
Kruno Crepulja, Oliver Schmitt, Andreas Gräf,
Manfred Torsten Kracht

Signed
Supervisory Board members
Stefan Brendgen, Stefan Mohr, Marija Korsch,
Dr. Jochen Scharpe, Richard Wartenberg

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C.3 COMPANY FINANCIAL STATEMENTS

This company financial statements is after proposed result appropriation.

C.3.1 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

in euros	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Investment in subsidiaries	1	252,503,760.29	229,639,334.96
		252,503,760.29	229,639,334.96
Current assets			
Financial receivables	2	29,530,908.11	2,763,786.06
Other receivables and other assets	3	5,295,080.45	24,864.01
Cash and cash equivalents	4	4,440,152.11	6,005,035.35
		39,266,140.67	8,793,685.42
Total assets		291,769,900.96	238,433,020.38
Equity and Liabilities			
Equity			
Share capital		8,386.00	8,386.00
Capital reserve		85,353,772.19	37,394,560.00
Retained earnings / loss carryforwards		-11,939,078.21	-22,739,088.87
Accumulated other comprehensive income		-377,398.00	0.00
Equity attributable to shareholders	5	73,045,681.98	14,663,857.13
Non-current liabilities			
Provisions for pensions and similar obligations	6	495,798.00	0.00
Other provisions	7	0.00	8,730,687.98
Financial liabilities	8	69,003,544.19	196,194,297.57
Deferred taxes	9	15,317,687.49	11,939,919.74
		84,817,029.68	216,864,905.29
Current liabilities			
Other provisions	7	31,421,162.63	0.00
Financial liabilities	8	97,574,440.74	20,000.00
Trade payables	10	3,918,987.39	1,675,760.04
Other liabilities	11	652,501.87	4,868,401.25
Income tax liabilities	12	340,096.67	340,096.67
		133,907,189.30	6,904,257.96
Total equity and liabilities		291,769,900.96	238,433,020.38

C.3.2 STATEMENT OF PROFIT OR LOSS FOR THE YEAR 2017

in euros	Notes	31 December 2017	31 December 2016
Revenue	13	155,050.14	250,000.00
Change in inventories		0.00	-250,000.00
Other operating income	14	22,212.99	4,358,776.90
Staff costs	15	-8,699,698.14	-60,212.45
Other operating expenses	16	-12,012,441.15	-8,895,398.95
Other income from investments	17	22,581,828.61	11,247,926.27
Earnings before interest, tax, depreciation and amortization (EBITDA)		2,046,952.45	6,651,091.77
Earnings before interest and tax (EBIT)		2,046,952.45	6,651,091.77
Finance income		468.00	543.00
Finance costs		-17,042,617.00	-15,680,566.90
Interest components of increase in provisions		-297,037.02	30,939.44
Write-down of long-term securities		-2,022.77	0.00
Finance result	18	-17,341,208.79	-15,649,084.46
Earnings before tax (EBT)		-15,294,256.34	-8,997,992.69
Income taxes	19	-3,432,891.11	-5,013,785.54
Earnings after tax (EAT)		-18,727,147.45	-14,011,778.23

C.3.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2017

in euros	31 December 2017	31 December 2016
Earnings after tax	-18,727,147.45	-14,011,778.23
Items that will not be reclassified to profit or loss		
Actuarial gains/losses on defined benefit obligation	-377,398.00	0.00
Other comprehensive income for the year	-377,398.00	0.00
Total comprehensive income for the year	-19,104,545.45	-14,011,778.23

C.3.4 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2017

in euros	Notes	Share capital	Capital reserve	Retained earnings/loss carryforwards	Accumulated other comprehensive income	Total
1 January 2016		8,386.00	37,394,560.00	-8,727,310.64	0.00	28,675,635.36
Earnings after taxes		0.00	0.00	-14,011,778.23	0.00	-14,011,778.23
Changes in actuarial profits and losses		0.00	0.00	0.00	0.00	0.00
Total comprehensive income		0.00	0.00	-14,011,778.23	0.00	-14,011,778.23
31 December 2016 / 1 January 2017		8,386.00	37,394,560.00	-22,739,088.87	0.00	14,663,857.13
Earnings after taxes		0.00	0.00	-18,727,147.45	0.00	-18,727,147.45
Changes in actuarial profits and losses		0.00	0.00	0.00	-377,398.00	-377,398.00
Total comprehensive income		0.00	0.00	-18,727,147.45	-377,398.00	-19,104,545.45
Indemnification Agreement						
Contribution from shareholders		0.00	0.00	29,527,158.11	0.00	29,527,158.11
Contribution to capital reserve		0.00	47,959,212.19	0.00	0.00	47,959,212.19
		0.00	47,959,212.19	29,527,158.11	0.00	77,486,370.30
31 December 2017	5	8,386.00	85,353,772.19	-11,939,078.21	-377,398.00	73,045,681.98

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C.3.5 STATEMENT OF CASH FLOWS FOR THE YEAR 2017

in euros	Notes	31 December 2017	31 December 2016
Earnings after tax		-18,727,147.45	-14,011,778.23
± Increase/decrease of provisions		23,186,272.65	6,847,714.54
± Increase/decrease of deferred taxes		3,377,767.75	4,690,055.03
± Other non-cash income and expenses		17,945,501.55	15,649,627.46
± Increase/decrease of inventories, trade receivables and other assets		-2,510,180.38	-13,289,156.43
± Increase/decrease of trade payables and other liabilities		-1,972,672.03	-6,972,570.84
Cash flow from operating activities		21,299,542.09	-7,086,108.47
- Income taxes paid		0.00	16,366.15
Net cash flow from operating activities		21,299,542.09	-7,069,742.32
- Payments for acquisitions of shares in consolidated companies		-22,864,425.33	-65,669.29
Cash flow from investing activities		-22,864,425.33	-65,669.29
+ Cash proceeds from borrowings		0.00	10,486,243.20
- Cash repayments of borrowings		0.00	0.00
- Interest paid		0.00	-67.00
Cash flow from financing activities		0.00	10,486,176.20
Increase (decrease) in cash and cash equivalents		-1,564,883.24	3,350,764.59
+ Cash and cash equivalents at the beginning of the period		6,005,035.35	2,654,270.76
Cash and cash equivalents at the end of period	4	4,440,152.11	6,005,035.35

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C.4 NOTES TO THE COMPANY FINANCIAL STATEMENTS

C.4.1 ACCOUNTING PRINCIPLES

General principles

Instone Real Estate Group N.V., Amsterdam, Netherlands (formerly: Formart Holding B.V., thereafter: Instone Real Estate Group B.V., now: Instone Real Estate Group N.V.) was incorporated in Amsterdam, the Netherlands on 16 April 2014 and entered in the Dutch commercial register, number 60490861, at the Company's head office, which is in Amsterdam, the Netherlands. According to the shareholders' resolution of 16 April 2015, the Company's place of management is on Baumstraße 25, 45128 Essen, Germany. According to the entry in the register dated 9 June 2017, Format Holding B.V., Amsterdam, the Netherlands was renamed Instone Real Estate Group B.V., Amsterdam, the Netherlands. By entry in the register dated 13 February 2018, the Company changed its legal form to become a public company with limited liability organised under the laws of the Netherlands (Naamloze Vennootschap, N.V.).

The object of the Company is the purchase, the development, the building, the letting, the management and the sale or other exploitation of land and buildings; the development, realisation and coordination of real estate projects as well as the participation in other companies and the formation, the financing and the consultation of companies which operate within this line of business.

The Management Board of Instone Real Estate Group N.V. approved these statements on 7 May 2018.

For additional details please see section "General Principles" in the consolidated financial statements 2017.

Principles for the preparation of the financial statements

The separate financial statements of Instone Real Estate Group N.V. have been prepared in compliance with IAS 27.17 and the respective requirements as to financial reporting in accordance with Part 9 of the 2nd Volume of the Dutch Civil Code.

The separate financial statements have been prepared in accordance with International Financial Reporting

Standards (IFRS) and the interpretations as issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

The statement of profit or loss was prepared in accordance with the total cost method. In preparing its financial statements, it was assumed that the Company would continue its activities (going concern).

IFRS 9 "Financial Instruments"

The main impact of IFRS 9 "Financial Instruments" is shown below:

Classification and Measurement

In particular, IFRS 9 contains a new approach to the classification and measurement of financial assets that reflects both the business model in which the assets are held and the characteristics of their cash flows. The criteria determine whether the instrument in the subsequent measurement is to be measured at cost or fair value. Whenever financial investments are categorised as equity instruments, the Company will exercise an irrevocable option to state future changes to the fair value under other comprehensive income in equity. Gains or losses recognised in other comprehensive income are never reclassified from equity to the income statement when disposed of. In general, the new classification requirements will not have any material impact.

IFRS 16 "Leases"

In January 2016, the IASB published the new standard IFRS 16 "Leases". IFRS 16 replaces the previous standard on the recognition of leases (IAS 17) and the interpretations IFRIC 4, SIC-15 and SIC-27. The standard is mandatory as of 1 January 2019. Voluntary early adoption is permitted, but only if IFRS 15 "Revenue from Contracts with Customers" is adopted at the same time. The essential changes due to IFRS 16 refer to disclosure requirements for lessees. The differentiation by Operate Lease and Finance Lease for the lessee is removed. For all leases, assets have to be recognised for the usage rights acquired (the "Right-of-Use approach") and liabilities for the payment obligations incurred by the lessee. Simplified application is permitted for "low-value" leases and short-term leases with a term of up to one year.

For low-value leases, this simplification even applies if they are to be classified as material in total. The simplified application comprises an option right for application of the recognition and disclosure requirements of IFRS 16.

The disclosure requirements for lessors were only slightly changed and mostly continue to correspond to the previous provisions of IAS 17. The changed disclosure requirements for leases in which the Company is the lessee will affect the separate financial statements. In particular, rights of use for leased vehicles or real property will be capitalised. Additionally, the type of expenses connected to these leases will change, since IFRS 16 replaces the recognition of expenses for operating leases on a straight-line basis by a depreciation expense for right-of-use assets and interest expenses for debt from the lease. The Company has

completed its initial assessment of possible effects on its separate financial statements, but the detailed evaluation has not yet been completed. The actual effects depend on the interest rate to be applied as of 1 January 2019, the composition of the leasing portfolio or the assessment of the exercise of extension options. Major effects on the separate financial statements are not expected.

Accounting principles

In preparing the separate financial statements of Instone Real Estate Group N.V., the same accounting policies were applied as were endorsed for the consolidated financial statements. Unless otherwise stated, the same accounting policies were applied as had been endorsed in previous years. For additional details please see section "Accounting Policies" in the consolidated financial statements 2017.

C.4.2 NOTES TO THE STATEMENT OF FINANCIAL POSITION

1. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are composed as follows:

in euros

	31 December 2017	31 December 2016
Instone Real Estate Development GmbH	181,795,870.81	159,262,436.26
Instone Real Estate Leipzig GmbH	70,387,169.48	70,056,178.70
GRK REVION Hamburg GmbH	155,880.00	155,880.00
OPUS Wohnbau GmbH	114,840.00	114,840.00
Instone Real Estate Landmark GmbH	25,000.00	25,000.00
Instone Real Estate Assets GmbH	25,000.00	0.00
Instone Real Estate Management GmbH	0.00	25,000.00
	252,503,760.29	229,639,334.96

The costs for the acquisition of Instone Real Estate Development GmbH increased by virtue of a third call and put option exercised with Hochtief Solutions AG in 2017. Also, Instone Real Estate Assets GmbH, Essen, Germany was formed by deed of incorporation of 19 June 2017. The Company was entered in commercial register B of the Essen Local Court, no. HR B 28251 on 26 June 2017. The object of the Company is to accept liability and to provide

collaterals and/or guarantees to third parties in the real estate sector.

By notarised contract of 11 August 2017, Instone Real Estate Management GmbH merged with Instone Real Estate Development GmbH as per 1 January 2017 24:00 hours retrospectively.

The essential affiliates of Instone Real Estate Group N.V. are listed below:

Name	Seat	Activities	Participation in %
Instone Real Estate Development GmbH	Essen, Germany	Development	100.00
Instone Real Estate Landmark GmbH	Leipzig, Germany	Development	100.00
Instone Real Estate Leipzig GmbH	Leipzig, Germany	Development	94.00
GRK REVION Hamburg GmbH	Leipzig, Germany	Development	6.00
OPUS Wohnbau GmbH	Leipzig, Germany	Development	6.00

The investments in affiliates are posted at acquisition cost minus impairment. For additional analyses and information please see section 1, "Acquisition of subsidiaries" in the notes to the consolidated financial statements 2017.

2. FINANCIAL RECEIVABLES

Financial receivables in the amount of €29,530,908.11 (prior year: €2,763,786.06) primarily include receivables against shareholders (€29,527,158.11).

3. OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets include receivables against the former minority shareholder Hochtief Solutions AG, Essen, Germany, under an indemnification agreement for real estate income tax liabilities (€2,758,072.96) as well as accrued expenses and deferred income (€2,532,633.69).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the amount of €4,440,152.11 (prior year: €6,005,035.35) comprise cash on hand and cash in banks. There are no restrictions for cash and cash equivalents.

5. EQUITY

The components of and the changes in equity are shown in the statement of changes in equity.

The subscribed capital in the amount of €8,386.00 was divided into 8,386 shares with a nominal value of €1.00 each and is fully paid.

Upon conclusion of a contribution agreement on 28 December 2017, major parts of the shareholder loans were converted to equity and allocated to the capital reserve. The capital reserve, which amounts to €85,353,772.19 (prior year: €37,394,560.00) is held by the shareholder Coöperatieve Activum SG Fund III Investments U.A. (€50,594,808.13), Coöperatieve Formart Investments U.A. (€25,297,404.06) and Coöperatieve Activum SG Fund V Investments U.A. (€9,461,560.00) respectively.

Other significant effects in the retained earnings/loss carryforwards include the contribution from shareholders in the amount of €29,527,158.11. This was a result of the indemnity of the Company from the costs relating to the planned private placement and the Company's listing on the Frankfurt Stock Exchange by the shareholders.

By the end of the year the subscribed capital and the capital reserve was divided between the shareholders as follows:

31 December 2017 in euros	Subscribed capital	in %	Capital reserve	in %
Coöperatieve Activum SG Fund III Investments U.A.	5,000.00	59.62	50,594,808.13	59.28
Coöperatieve Activum SG Fund V Investments U.A.	591.00	7.05	9,461,560.00	11.08
Coöperatieve Formart Investments U.A.	2,795.00	33.33	25,297,404.06	29.64
	8,386.00	100.00	85,353,772.19	100.00

31 December 2016 in euros	Subscribed capital	in %	Capital reserve	in %
Coöperatieve Activum SG Fund III Investments U.A.	5,000.00	59.62	22,000,000.00	58.83
Steffen Göpel	886.00	10.57	4,394,560.00	11.75
Coöperatieve Formart Investments U.A.	2,500.00	29.81	11,000,000.00	29.42
	8,386.00	100.00	37,394,560.00	100.00

Retained earnings show the revenue generated by the Company until the 2017 financial year. The income tax

impact on the changes in the participation in profits and losses recognised directly in equity is as follows:

in euros	31 December 2017	31 December 2016
Amount before income taxes	-15,294,256.34	-8.997.992,69
Income taxes	-3,432,891.11	-5.013.785,54
Amount after income taxes	-18,727,147.45	-14.011.778,23

The table below shows the reconciliation of the consolidated equity to the equity of the separate financial statements:

in euros	31 December 2017	31 December 2016
Total consolidated equity	52,220,011.31	2,684,201.45
non-controlling interests	521,416.29	9,452,301.67
individual retained earnings	7,595,285.75	-7,122,252.49
individual net result	12,360,934.34	8,397,731.19
individual other comprehensive income	348,034.29	1,251,875.31
Total stand-alone equity	73,045,681.98	14,663,857.13

The following table contains a reconciliation of the consolidated profit or loss for the year with the profit/loss for the

year shown in the separate financial statements for the following reporting periods:

in euros	31 December 2017	31 December 2016
Total comprehensive income for the year	-30,959,543.08	-22.200.770,24
thereof non-controlling interest	-128,538.71	-208.739,18
Net result shown in the separate financial statements of the subsidiaries	12,360,934.34	8.397.731,19
Comprehensive income for the year shown in the separate financial statements	-18,727,147.45	-14.011.778,23

The difference between the consolidated equity and the equity shown in the separate financial statements was primarily due to the negative impact of the consolidated profit for the year in relation to the development of the purchase price allocation resulting from the acquisition of

Instone Real Estate Development GmbH in 2014, and of Instone Real Estate Leipzig GmbH in 2015.

The net income/loss in the separate financial statements for the subsidiaries is shown in the table below:

in euros	31 December 2017	31 December 2016
Results subsidiaries	-22,837,225.96	-36,692,999.38
Income from investments in subsidiaries	22,637,424.98	11,247,926.27
Current adjustment PPA (Instone Real Estate Leipzig GmbH)	19,182,393.97	38,060,012.38
Shares GRK Beteiligungen GmbH	6,244,267.39	-5,065,899.23
Current adjustment PPA (Instone Real Estate Development GmbH)	3,888,220.68	11,853,028.35
Provision for trade tax group division Formart	-1,031,478.32	1,031,478.32
Deferred taxes on current adjustment for PPA	-6,950,049.01	-18,921,437.64
Deferred Taxes	-9,254,442.06	0.00
Addition of inventories Parkresidenz Leipzig GmbH	0.00	3,812,733.19
Settlement Agreement - acquisition of land below market price	0.00	2,250,000.00
Interest accrued from put options Hochtief	0.00	1,123,968.87
Reversal of provisions for subsequent consolidation (disposal of projects)	0.00	-765,349.74
Other	481,822.67	464,269.80
Net result recognized in the separate financial statements of the subsidiaries	12,360,934.34	8,397,731.19

Appropriation of result

According to Art. 23 of the Articles of Association of 9 June 2017 the shareholders decided to add the result for the year to the retained earnings. This proposal has been reflected in the separate financial statements and consolidated financial statements.

6. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension scheme of Instone Real Estate Development GmbH comprises a basic pension in the form of a modular defined contribution plan and a supplementary pension linked to Company performance, plus a few direct commitments. The module for the basic pension is tied partially to the income and the age of the employee (annuity factor), and partially to a general contribution which is reviewed every three years. The module for the supplementary pension is tied to the trends in earnings after taxes according to IFRS. Up to 20% of the basic pension can be achieved from this. The pension scheme that applied until 31 December 1999 provided for benefit groups based on collective agreements. They have been

integrated into the new pension scheme as so-called initial modules. Benefits comprise a retirement pension, a disability pension and a survivor's pension.

Discount factor	1.9%
Salary increase rate	2.5%
Pensions increases for VO2000+	1.0%
Pension increase for other commitments	1.3%
Inflation	1.3%

To finance pension obligations, Instone Real Estate Development GmbH participates in a Contractual Trust Arrangement (CTA). The assets that were transferred are held in trust by Helaba Pension Trust e. V., Frankfurt am Main, and exclusively serve to finance these pension obligations. Funds that were assigned are invested in the capital market in accordance with investment principles endorsed under the trust agreement. The pension fund assets, just like the re-insurance policies pledged to the staff, meet the requirements of Section 246 (2) sentence 2 of the German Commercial Code (Handelsgesetzbuch – HGB). According to this, the fair value of the assets is to be offset against the repayment amount of the

pension obligations; the proceeds from these assets are to be offset against the interest expenses incurred by the pension obligations. Offsetting is separated by type of pension commitment. A surplus or a deficit will show in the statement of financial position either on the asset or the liability side, respectively.

As at 1 December 2017, the obligations of Instone Real Estate Development GmbH in the amount of €815,001.00 were assumed. At the same time, fund assets in the amount of €707,936.00 were transferred from Instone

Real Estate Development GmbH.

The pension obligations were cleared by €706,926.00 (prior year: €0.00) against covered funds. As at 31 December 2017, the provisions for pensions amounted to €495,798.00.

For additional analyses and information please see section 14, "Provisions for pensions and similar obligations" in the notes to the consolidated financial statements 2017.

7. OTHER PROVISIONS

in euros	1 January 2017	Additions	Transfers	Change of basis of consolidation	31 December 2017
Non-current					
Personnel provisions	8,730,687.98	0.00	-8,730,687.98	0.00	0.00
	8,730,687.98	0.00	-8,730,687.98	0.00	0.00
Current					
Tax provisions	0.00	2,758,072.96	0.00	0.00	2,758,072.96
Personnel provisions	0.00	16,172,338.60	8,073,887.98	4,416,863.09	28,663,089.67
	0.00	18,930,411.56	8,073,887.98	4,416,863.09	31,421,162.63
	8,730,687.98	18,930,411.56	-656,800.00	4,416,863.09	31,421,162.63

For additional analyses and information please see section 15, "Other provisions" in the notes to the consolidated financial statements 2017.

8. FINANCIAL LIABILITIES

in euros	31 December 2017	31 December 2016
Non-current		
Liabilities towards shareholders	55,180,256.10	96,570,637.02
Liabilities towards subsidiarie	13,823,288.09	99,623,660.55
	69,003,544.19	196,194,297.57
Current		
Liabilities towards shareholders	20,000.00	20,000.00
Liabilities towards subsidiarie	97,554,440.74	0.00
	97,574,440.74	20,000.00
	166,577,984.93	196,214,297.57

in euros	1 January 2017	Financing Cash Flows	Non-cash changes	Fair value adjustments	31 December 2017
			shareholder contribution	capitalized interests	
Liabilities towards shareholders	96,590,637.02		-47,959,212.19	6,568,831.27	55,200,256.10
Liabilities towards associates	99,623,660.55			11,754,068.28	111,377,728.83
	196,214,297.57	0.00	-47,959,212.19	18,322,899.55	166,577,984.93

The non-current financial liabilities include liabilities towards shareholders in the amount of €55,180,256.11 (prior year: €96,570,637.02), of which €36,862,004.07 (prior year: €61,668,979.07) from loans towards Coöperatieve Activum SG Fund III Investments U.A., as well as loans of Coöperatieve Formart Investments U.A., in the amount of €18,318,252.04 (prior year: €30,730,489.53). The interest rate for these loans is 7%.

The liabilities towards subsidiaries include two (prior year: two) loans to Instone Real Estate Development GmbH in the amount of €78,482,375.99 (prior year: €73,891,209.89). The term for the loans is four years and three years respectively. Interest is calculated at 7% and 14.5%. To finance the purchase of shares in

Instone Real Estate Group during the financial year 2015, Instone Real Estate Leipzig GmbH extended three (prior year: two) loans to Instone Real Estate Group N.V. As at 31 December 2017, the loans total €33,358,142.06 (prior year: €25,732,450.57) with a total term of three years and two years respectively subject to an 8% interest rate.

The current financial liabilities towards the shareholder, Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands total €20,000.00 (prior year: €20,000.00).

For additional analyses and information please see section 16, "Financial Liabilities" in the notes to the consolidated financial statements 2017.

9. DEFERRED TAXES

Deferred tax assets and deferred tax liabilities are structured as stated below:

in euros	31 December 2017		31 December 2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets	0.00	22,374,382.59	0.00	15,031,005.83
Current assets	0.00	552,315.77	0.00	167,664.13
Non-current liabilities	0.00	1,607,585.09	202,391.80	302,615.72
Financial liabilities	0.00	1,586,634.62	0.00	302,615.72
Other provisions	0.00	20,950.47	202,391.80	0.00
Current liabilities	9,216,596.06	0.00	1,569,561.17	10,412.07
Financial liabilities	0.00	0.00	0.00	0.00
Other provisions	8,861,285.67	0.00	1,569,561.17	0.00
Trade payables	0.00	0.00	0.00	10,412.07
Other current liabilities	355,310.29	0.00	0.00	0.00
	9,216,596.06	24,534,283.45	1,771,952.97	15,511,697.75
Loss carryforwards	0.00	0.00	1,799,825.04	0.00
Gross amount	9,216,596.06	24,534,283.45	3,571,778.01	15,511,697.75
Balance	-9,216,596.06	-9,216,596.06	-3,571,778.01	-3,571,778.01
Reported in the statement of financial position	0.00	15,317,687.49	0.00	11,939,919.74

Deferred tax assets were stated insofar as it seems likely that the Company will generate taxable revenue in the future against which these tax losses will be offset.

10. TRADE PAYABLES

Trade payables in the amount of €3,918,987.39 (prior year: €1,675,760.04) primarily comprise incurred costs and outstanding invoices.

11. OTHER LIABILITIES

Other liabilities in the amount of €652,501.87 (prior year: €4,868,401.25) essentially include accrued/deferred liabilities from bonus commitments and costs for employee holidays not yet taken.

12. INCOME TAX LIABILITIES

Income tax liabilities regard taxes from income.

C.4.3 NOTES TO THE STATEMENT OF PROFIT OR LOSS

13. REVENUE

Revenue in the amount of €155,050.14 (prior year: €250,000.00) essentially regards revenue with affiliates. Of these amounts, €33,955.26 are attributed to Instone Real Estate Development GmbH; €116,826.82 to Instone Real Estate Leipzig GmbH; €3,750.00 to

Gartenhöfe GmbH; and €518.06 are attributed to other revenue.

14. OTHER OPERATING INCOME

Other operating income in the amount of €22,212.99 (prior year: €4,358,776.90) results from a de-recognition of a trade payable from previous years.

15. STAFF COSTS

Staff costs are comprised of a change to the contribution to provisions for long term incentive programmes in the amount of €8,004,119.84 (prior year: €0.00); salaries paid out in the amount of €530,749.31 (prior year: €50,000.00) and social insurance contributions in the amount of €5,348.99 (prior year: €10,212.45) plus changes to pension provisions in the amount of €8,590.00 (prior year: €0.00) and changes to the contribution to other provisions for staff costs €150,890.00 (prior year: €0.00). During the financial year, the Company employed 2.3 (2016: 0.4) employees in Germany on average.

16. OTHER OPERATING EXPENSES

in euros	2017	2016
Long-term incentives	7,721,016.74	6,900,793.03
Consulting	1,518,935.38	36,432.21
Subsequent adjustment resulting from the acquisition of a rental portfolio	697,073.55	900,780.77
Non-deductible input tax	606,862.46	0.00
Court, attorney and notary fees	548,984.05	355,542.35
Distribution costs	298,344.54	0.00
Preparation and auditing of annual financial statements	239,687.81	383,503.50
Management	199,114.50	70,383.72
Insurance premiums	83,512.97	0.00
Postage costs and bank fees	5,828.50	0.00
Rental expense	2,400.00	0.00
Other	90,680.65	247,963.37
	12,012,441.15	8,895,398.95

17. OTHER NET INCOME FROM INVESTMENTS

Other net income from investments includes all income and expenses regarding subsidiaries, in the amount of €22,581,828.61 (prior year: €11,247,926.27).

18. FINANCE RESULT

in euros	2017	2016
Interest and similar income	468.00	543.00
Financial income	468.00	543.00
Interest and similar expenses	-17,042,617.00	-15,680,566.90
Interest portion of allocations to provisions	-297,037.02	30,939.44
Depreciation of securities classified as financial investments	-2,022.77	0.00
Finance costs	-17,341,676.79	-15,649,627.46
Financial result	-17,341,208.79	-15,649,084.46

19. INCOME TAXES

Income taxes are composed as follows:

in euros	2017	2016
Income taxes		
Corporate income tax	-55,123.36	-323,730.52
Current income taxes	-55,123.36	-323,730.52
Deferred taxes	-3,377,767.75	-4,690,055.02
	-3,432,891.11	-5,013,785.54

Income taxes for the year can be deducted as follows:

in euros	2017	2016
Income before taxes	-15,294,256.34	-8,997,992.69
Theoretical tax expenses at 25.00 %	3,823,564.09	2,249,498.17
Tax effects on		
Difference in tax rates	1,166,187.04	686,096.94
Prior year adjustment	1,308,078.31	16,366.08
Non-tax-allowable expenses	-5,917,967.51	-1,317,315.24
Tax rate difference	0.00	-5,691,289.99
Use of unrecognised loss carryforwards	-3,756,682.99	0.00
Recognition and measurement of deferred tax assets	0.00	-880,874.02
Others	-56,070.05	-76,267.48
Current income taxes	-3,432,891.11	-5,013,785.54

The corporate income tax rate of 25.0% (2016: 25.0%) was applied as the tax rate to be expected. The difference between the expected tax expense and the recognised tax expense is primarily due to the difference in German and Dutch income tax laws.

C.4.4 OTHER DISCLOSURES

Reporting on financial instruments

For additional analyses and information please see section "Reporting on financial instruments" in the notes to the consolidated financial statements 2017.

Risk management

For additional analyses and information please see section "Other provisions" in the notes to the consolidated financial statements 2017.

Management of liquidity risks

The following table summarises the contractually agreed payments relating to financial liabilities:

in euros	Carrying amount		Cash outflows	
	31 December 2017	2018	2019 - 2021	>2021
Non-current liabilities	69,003,544.19	55,549,464.67	15,641,293.75	0.00
Current liabilities	97,574,440.74	102,073,459.82	0.00	0.00
Trade payables	3,918,987.39	3,918,987.39	0.00	0.00
	170,496,972.32	161,541,911.88	15,641,293.75	0.00

in euros	Carrying amount		Cash outflows	
	31 December 2016	2017	2018 - 2020	>2020
Non-current liabilities	196,194,297.57	20,163,074.57	213,551,601.63	0.00
Current liabilities	20,000.00	20,000.00	0.00	0.00
Trade payables	365,090.04	365,090.04	0.00	0.00
	196,579,387.61	20,548,164.61	213,551,601.63	0.00

Furthermore, liquidity is sufficiently secured, also based on the available cash in hand and bank balances as well

as available, unused cash credit facilities.

The table below shows the main liquidity instruments:

in euros	31 December 2017	31 December 2016
Cash-in-hand and available bank balances	4,440,152.11	6,005,035.35
Credit facilities unused	2,604,608.59	2,604,608.59
	7,044,760.70	8,609,643.94

For additional analyses and information please see section "Management of liquidity risks" in the notes to the consolidated financial statements 2017.

For additional analyses and information please see section "Management of interest risks" in the notes to the consolidated financial statements 2017.

Management of interest risks

Interest risks at Instone Real Estate Group N.V. are the result of borrowing new funds at variable rates of interest. The risk is not controlled separately, as external borrowings tend to be redeemed within a short period of time by payments from the buyers.

Management of default risks

For additional analyses and information please see section "Management of default risks" in the notes to the consolidated financial statements 2017.

As at 31 December 2017 and 31 December 2016, the Company posted borrowings with fixed interest rates only, so that there is no interest rate risk due to variable interest rates.

Capital risk management

For additional analyses and information please see section "Capital risk management" in the notes to the consolidated financial statements 2017.

Additional information on financial instruments

In the following, carrying amounts and fair values are shown for each class of financial instrument and carrying amounts for each IAS 39 category:

values. For additional analyses and information please see section “Additional information on financial instruments” in the notes to the consolidated financial statements 2017.

Due to the short maturity, the carrying amounts of the above financial instruments correspond to their fair

in euros	Loans and receivables	at (amortised) cost	Total 31 December 2017	Total fair value 31 December 2017
ASSETS	33,971,060.22	0.00	33,971,060.22	33,971,060.22
Financial receivables	29,530,908.11	0.00	29,530,908.11	29,530,908.11
current	29,530,908.11	0.00	29,530,908.11	29,530,908.11
Cash and cash equivalents	4,440,152.11	0.00	4,440,152.11	4,440,152.11
EQUITY AND LIABILITIES	0.00	170,496,972.32	170,496,972.32	170,496,972.32
Financial liabilities	0.00	166,577,984.93	166,577,984.93	166,577,984.93
non-current	0.00	69,003,544.19	69,003,544.19	69,003,544.19
current	0.00	97,574,440.74	97,574,440.74	97,574,440.74
Trade payables	0.00	3,918,987.39	3,918,987.39	3,918,987.39
in euros	Loans and receivables	at (amortised) cost	Total 31 December 2016	Total fair value 31 December 2016
ASSETS	8,768,821.41	0.00	8,768,821.41	8,768,821.41
Financial receivables	2,763,786.06	0.00	2,763,786.06	2,763,786.06
current	2,763,786.06	0.00	2,763,786.06	2,763,786.06
Cash and cash equivalents	6,005,035.35	0.00	6,005,035.35	6,005,035.35
EQUITY AND LIABILITIES	0.00	196,579,387.61	196,579,387.61	196,579,387.61
Financial liabilities	0.00	196,214,297.57	196,214,297.57	196,214,297.57
non-current	0.00	196,194,297.57	196,194,297.57	196,194,297.57
current	0.00	20,000.00	20,000.00	20,000.00
Trade payables	0.00	365,090.04	365,090.04	365,090.04

Net result from financial instruments

The net result from financial instruments can be summarised as follows:

in euros	31 December 2017	31 December 2016
At cost	22,545,036.01	11,247,926.27
Loans and receivables	468.00	-543.00
Liabilities at amortised cost	-17,042,617.00	-15,556,215.33
	5,502,887.01	-4,308,832.06

For additional analyses and information please see section "Net result from financial instruments" in the notes to the consolidated financial statements 2017.

Operating leases

The future minimum lease payments are as follows:

in euros	31 December 2017	31 December 2016
Due within one year	55,877.64	0.00
Due in one to five years	46,803.43	0.00
	102,681.07	0.00

Instone Real Estate as a lessee has concluded long-term leases on commercial properties and company cars.

Notes to the statement of cash flows

The statement of cash flows classifies cash flows from operating, investing, and financing activities. The year-end total for cash and cash equivalents in the amount of €4,440,152.11 (prior year: €6,005,035.35) shown on the statement of cash flows matches the total shown for

cash and cash equivalents in the statement of financial position. There are no restrictions for cash and cash equivalents. All non-cash income and expenses are cleared in cash flow from operating activities.

Related party disclosures

Transactions with related parties are as follows (by category):

Relations to shareholders

in euros	31 December 2017	31 December 2016
Financial receivables		
Coöperatieve Activum SG Fund III Investments U.A.	17,605,031.08	0.00
Coöperatieve Activum SG Fund V Investments U.A.	2,080,914.67	0.00
Coöperatieve Formart Investments U.A.	9,841,212.36	0.00
	29,527,158.11	0.00
Financial liabilities		
Coöperatieve Activum SG Fund III Investments U.A.	36,882,004.07	61,688,979.07
Coöperatieve Formart Investments U.A.	18,318,252.03	30,730,489.53
Steffen Göpel	0.00	4,171,168.42
	55,200,256.10	96,590,637.02
Other liabilities		
Coöperatieve Activum SG Fund III Investments U.A.	0.00	7,001.42
Steffen Göpel	0.00	4,739,845.29
	0.00	4,746,846.71
Other operating expenses		
Coöperatieve Activum SG Fund III Investments U.A.	0.00	63,763.72
	0.00	63,763.72
in euros		
Finance costs		
Coöperatieve Activum SG Fund III Investments U.A.	3,787,833.13	3,814,707.63
Coöperatieve Activum SG Fund V Investments U.A.	673,866.47	0.00
Coöperatieve Formart Investments U.A.	1,885,166.56	1,898,579.84
Steffen Göpel	221,965.11	224,417.77
	6,568,831.27	5,937,705.24

The financial receivables to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands, in the amount of €17,605,031.08, Coöperatieve Activum SG Fund V Investments U.A., Amsterdam, the Netherlands, in the amount of €2,080,914.67 and Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands, in the amount of €9,841,212.36 were interest-free and have a maturity of less than one year.

These financial receivables were a result of the indemnity of the Company from the costs relating to the planned

private placement and the Company's listing on the Frankfurt Stock Exchange by the shareholders.

The financial liabilities to Coöperatieve Activum SG Fund III Investments U.A., Amsterdam, the Netherlands, in the amount of €36,882,004.07 and Coöperatieve Formart Investments U.A., Amsterdam, the Netherlands, in the amount of €18,318,252.03 were interest-bearing at a rate of 7% and are due for repayment in December 2020.

Relations to affiliated companies

in euros	31 December 2017	31 December 2016
Financial liabilities		
Instone Real Estate Development GmbH	78,482,375.99	73,891,209.98
Instone Real Estate Leipzig GmbH	32,895,352.84	25,732,450.57
	111,377,728.83	99,623,660.55
Financial assets		
Instone Real Estate Development GmbH	0.00	2,763,786.06
Gartenhöfe GmbH	3,750.00	4,739,845.29
	3,750.00	7,503,631.35
Other liabilities		
Instone Real Estate Development GmbH	0.00	24,737.01
	0.00	24,737.01
Revenues		
Instone Real Estate Development GmbH	33,955.26	0.00
Instone Real Estate Leipzig GmbH	116,826.82	0.00
Gartenhöfe GmbH	3,750.00	0.00
	154,532.08	0.00
Other net income from investments		
Instone Real Estate Development GmbH	22,508,243.41	11,247,926.27
	22,508,243.41	11,247,926.27
Other operating expenses		
Instone Real Estate Development GmbH	288,750.00	2,400.00
Instone Real Estate Leipzig GmbH	68,750.00	0.00
	357,500.00	2,400.00
Finance costs		
Instone Real Estate Development GmbH	8,284,003.08	8,253,689.94
Instone Real Estate Leipzig GmbH	2,188,772.65	1,364,820.15
	10,472,775.73	9,618,510.09

The financial liabilities to Instone Real Estate Development GmbH, Essen, in the amount of €78,482,375.99 are interest-bearing at a rate between 7% and 14.5% and have an average maturity of less than one year. The financial liabilities to Instone Real Estate Leipzig GmbH, Leipzig, in the amount of €32,895,352.84 are interest-bearing at a rate of 8% and have an average maturity of one and three quarters of a year.

The financial asset to Gartenhöfe GmbH, Leipzig, in the amount of €3,750.00 is interest-free and has a maturity of less than one year.

ActivumSG Capital Management L.P., Jersey/UK is the ultimate group parent company for the largest group of entities in the ActivumSG Group and also the ultimate parent for the group of entities in Instone Real Estate.

There is no specific allowance for impairment losses in relation to outstanding balances, and no expense has been recognised in respect of impaired receivables due from affiliated companies. For the terms and conditions of financial liabilities, please refer to the section "Financial liabilities" in the notes. Services were bought based on the prices that stand up to third-party comparison. Outstanding balances are unsecured and are repayable in cash.

Remuneration of key management

For analyses and information please see section "Related party disclosures" in the notes to the consolidated financial statements 2017.

Auditor's fees

For analyses and information please see section on "Related party disclosures" in the notes to the consolidated financial statements 2017.

Events after the reporting period

On 22 January 2018, Instone Real Estate published the press release about the planned listing of its shares on the regulated market of the Frankfurt Stock Exchange (Prime Standard) in 2018. As part of the planned previous private placement, both new and existing shares were planned to be offered. As a result of a capital increase, new shares were planned to be issued with gross proceeds to the Company, and existing shares were planned to be offered by the Company's shareholders, funds launched by ActivumSG Capital Management Limited.

On 13 February 2018, part of Company's share premium was converted into share capital, thereby increasing the Company's share capital from €8,386.00 to €50,316.00 and, following the effectiveness of the conversion of the Company into a public limited liability company (naamloze vennootschap) and the change of its name which took place in this context, from €50,316.00 to €29,988,336.00. On the same day, a further capital increase took place according to which €7,000,000.00 new shares were issued with a par value of €1.00 each. These measures together resulted in an increase of the Company's share capital to €36,988,336.00.

On 13 February 2018, the Placement was completed, and on 15 February 2018, the Company's shares were listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

In the Placement, a total of 19,900,000 shares were placed with institutional investors. The placed shares consisted of 7,000,000 new shares from the capital increase and 12,900,000 existing shares held by the Company's shareholders Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V, including additional shares from an over-allotment option. The placement price for the shares of the Company was €21.50.

Around €56 million of the net proceeds from the capital increase were used to fully repay an existing shareholder loan. With the remaining approximately €86 million, the Company plans to finance the acquisition and development of new housing projects and other corporate expenses. One portion of this remaining capital was also used to repay an intercompany loan.

The free float on 23 April 2018 was around 50.4%. The remaining shares were still held by Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V.

In addition, certain of the Company's organisational documents were revised (and additional internal rules were adopted) so that its internal organisation became suitable for a listed company; also, a Supervisory Board (the "Supervisory Board") and certain Supervisory Board committees were established.

The Supervisory Board is composed of the following five members:

Stefan Brendgen, born in 1964 in Mönchengladbach, Germany, as chairman of the Supervisory Board and chairman of the nomination committee.

Stefan Mohr, born in 1967 in Frankfurt am Main, Germany, as deputy chairman of the Supervisory Board.

Marija Korsch, born in 1948, in Zadar, Croatia, as member of the Supervisory Board.

Dr. Jochen Scharpe, born in 1959 in Werdohl, Germany, as member of the Supervisory Board and chairman of the audit committee.

Richard Wartenberg, born 1968 in Stuttgart, Germany, as member of the Supervisory Board and chairman of the remuneration committee.

Furthermore, as our business activities and properties are geographically concentrated in Germany, we have filed with the Dutch trade registry, on 9 February 2018, a proposal to convert the Company into a German stock corporation (Aktiengesellschaft), governed by the laws of

the Federal Republic of Germany and having its registered seat in Essen, Germany (the “AG Conversion”). The resolution to convert the Company into a German stock corporation is expected to be proposed to the Company’s general shareholders meeting (the “General Meeting”) by the Management Board and the Supervisory Board, subject to certain conditions (as specified in the proposal) having been met.

There are no other events which might influence the Company’s outlook and which are not discussed in the statutory annual accounts included in this report.

Signing of the financial statements

Essen, 7 May 2018

Signed
Management Board members
Kruno Crepulja, Oliver Schmitt, Andreas Gräf,
Manfred Torsten Kracht

Signed
Supervisory Board members
Stefan Brendgen, Stefan Mohr, Marija Korsch,
Dr. Jochen Scharpe, Richard Wartenberg

A. INTRODUCTION

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D. CORPORATE GOVERNANCE

D.1 DUTCH CORPORATE GOVERNANCE CODE



The Company acknowledges the importance of good corporate governance. With effect from the Company's listing on the Frankfurt Stock Exchange, the Dutch Corporate Governance Code (the "DCGC") became applicable to the Company. However, for the fiscal year ended 31 December 2017, the DCGC did not yet apply to the Company. Consequently, the Company does not consider itself to have been bound by the DCGC during the fiscal year ended 31 December 2017 nor to have deviated from any of the principles and best practice provisions of the DCGC in such fiscal year. Similarly, the Company does not consider the disclosure recommendations promulgated by the DCGC with respect to the contents of a listed company's board report to be relevant with respect to this report, because this report pertains to a fiscal year during which the DCGC did not apply to the Company. Nevertheless, some of these disclosure recommendations shall be addressed in this report on a voluntary basis.

Without prejudice to what is stated above, the Company has reviewed the DCGC and supports the principles and best practice provisions thereof. As of the date of publication of this report, the Company is not aware of (actual or intended) material deviations from the DCGC during the fiscal year 2018 other than the ones listed below (but cannot exclude the possibility of deviating from one or more provisions of the DCGC after the date of this report):

- The members of the Management Board and the Supervisory Board are appointed by our General Meeting upon the binding nomination by the Supervisory Board. In deviation from what the DCGC recommends, the General Meeting may only overrule the binding nomination by a resolution adopted by at least a two-thirds majority of the votes cast, provided such majority represents more than half of our issued share capital. A second meeting as referred to in Section 2:120(3) DCC cannot be convened with respect to these matters. The previous sentence also applies to the dismissal or suspension of members of the Management Board and the Supervisory Board, which is subject to a simple majority vote representing one-third of our issued share capital, unless the resolution is passed at the proposal of the Supervisory Board.
- In deviation from the applicable recommendation of the DCGC, the members of the Management Board are entitled to severance payments of 1.5 years' annual gross remuneration (base salary, New STI and New LTIP), reduced, however, pro rata in accordance with a potentially shorter remaining term of their service agreements. Such severance payment becomes due if a member of the Management Board is released from his duties under the relevant Management Board service agreement for the remaining term of such agreement without

cause. In this event, such member's service agreement will end with a six-months' notice period to the end a month with an entitlement (i) to the contractual remuneration during this period and (ii) to the severance payment in the following month. This severance payment entitlement is in compliance with German market practice and the corresponding recommendation of the German Corporate Governance Code and was agreed upon taking into account the Company's focus on the German market, the appointment of a German team of Managing Directors and the planned AG Conversion.

The text of the DCGC can be accessed at <http://www.mccg.nl>.

D.2 CODE OF CONDUCT AND OTHER CORPORATE GOVERNANCE PRACTICES

As at 31 December 2017, the Company did not voluntarily apply other formal codes of conduct or corporate governance practices.

D.3 GENERAL MEETING

As at 31 December 2017, all powers that did not vest in the Management Board pursuant to applicable law, the Company's articles of association or otherwise, vested in the General Meeting; those powers of the General Meeting included, subject in each case to the applicable provisions in the Company's articles of association as they were in force at that time:

- a. the appointment, suspension and dismissal of our Managing Directors;
- b. the reduction of the Company's issued share capital;
- c. the adoption of the Company's statutory annual accounts;
- d. the appointment of the Dutch independent auditor to examine the Company's statutory annual accounts;

- e. amendments to the Company's articles of association;
- f. approving a merger or demerger by the Company, without prejudice to the authority of the Management Board to resolve on certain types of mergers and demergers if certain requirements are met; and
- g. the dissolution of the Company.

D.4 SHAREHOLDER RIGHTS

As at 31 December 2017, each share in the Company's capital carried one vote. Share-holders, irrespective of whether or not they have voting rights, have meeting rights under Dutch law (including the right to attend and address the General Meeting). Furthermore, each share in the Company's capital carries an entitlement to dividends and other distributions as set forth in the Company's articles of association. As at 31 December 2017, our articles of association provided that, under circumstances, a shareholders' voting, meeting and dividend rights could be suspended; see chapter D.8.2 of this report for further details.

D.5 MANAGEMENT BOARD

The Management Board is charged with managing the Company's affairs and the implementation of its strategy. In performing their duties, our Managing Directors shall be guided by the interests of the Company and of the business connected with it.

As at 31 December 2017, the Management Board was composed as follows:

Name and age (as at 31 December 2017)	Gender	Nationality	Date of appointment	Expiration of current term of office *
Kruno Crepulja (46)	M	[Bosnian]	9 June 2017	N/A
Oliver Schmitt (53)	M	[German]	9 June 2017	N/A
Andreas Gräf (51)	M	[German]	9 June 2017	N/A
Torsten Kracht (50)	M	[German]	9 June 2017	N/A

* As the Company was a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) during the fiscal year ended 31 December 2017, the Company was not subject to a mandatory requirement or best practice provision to provide for an end-term of the appointment of the individual members of the Management Board. Following the Listing, the Company intends to comply with the relevant best practice provisions of the DCGC, pursuant to which our Managing Directors may be appointed for a maximum term of four years each, without limitation on the number of consecutive terms which a Managing Director may serve.

D.6 SUPERVISORY BOARD AND COMMITTEES

As at 31 December 2017, the Company did not have a Supervisory Board or any committees, because the Company was not subject to a mandatory requirement or best practice provision to establish a Supervisory Board or committees.

D.7 DIVERSITY

As at 31 December 2017, the Company did not have a diversity policy, because the Company was not subject to a mandatory requirement or best practice provision to establish such a policy.

However, in the course of the conversion of the legal form of the Company on 13 February 2018, also a diversity policy was adopted by the shareholders' meeting that is in force at the date thereof. According to such policy, the Company is committed to supporting, valuing and leveraging diversity in the composition of the Management Board

and the Supervisory Board in accordance with the principles laid down therein but also stresses that the importance of diversity should not set aside the overriding principle that someone should be recommended, nominated and appointed simply for being "the best person for the job". According to the diversity policy, to the extent possible, the Company intends for the composition of the Management Board and the Supervisory Board that at least 30% of their respective members are men and at least 30% of their respective members are women. Also, according to the diversity policy, the Company strives for a balanced mix of ages in the composition of the Management Board and the Supervisory Board but does not set itself a concrete objective in this respect. Finally, in terms of experience and expertise the Company intends for the Management Board and the Supervisory Board to be composed of individuals who, as a collective, are knowledgeable in all of the following areas:

- the industry in which the Company operates;
- general management;
- finance, administration and accounting;
- strategy;
- marketing and sales;
- manufacturing and production;
- innovation, research and development;
- safety and environment;
- human resources, personnel and organisation;

D.8 DISCLOSURE PURSUANT TO THE DECREE ON SECTION 10 OF THE TAKEOVER DIRECTIVE

D.8.1 CAPITAL STRUCTURE

As at 31 December 2017, the issued share capital of the Company amounted to €8,386.00 and was divided into 8,386 shares, each such share having a nominal value of €1.00. The Company's shares were in registered form (op naam). The issued share capital has been fully paid up. As at 31 December 2017, the Company did not own shares in its own capital.

D.8.2 LIMITATION ON TRANSFERS

As at 31 December 2017, the Company's articles of association provided for a quality requirement (kwaliteitseis), pursuant to which – for as long as the Company had at least two shareholders – only parties to the then existing shareholders' agreement with respect to the Company dated 10 December 2015 (as amended from time to time) (the "Shareholders' Agreement") could be or could become a shareholder of the Company. Non-compliance by a shareholder of the Company would lead to a suspension of such shareholder's voting, meeting and dividend rights. Furthermore, as at 31 December 2017, the Company's articles of association provided that, if the aforementioned quality requirement (kwaliteitseis) had ceased to be effective, or in case of termination of the Shareholders' Agreement, any transfer of shares in the Company's capital would be subject to the statutory restrictions referred to in Section 2:195 DCC. As at 31 December 2017, (i) the Company imposed no other limitation, under its articles of association or by contract, on the transfer of shares in its capital (or depository receipts for such shares issued with the Company's cooperation) and (ii) except for the agreement described in the following paragraph, no agreements with one or more shareholders of the Company which may result in such a limitation are known to the Company.

Pursuant to a deed of pledge of shares dated 6 October 2014, 750 shares in the share capital of the Company

(which shares were split into 7,500 shares on 10 December 2015) (the "Pledged Shares") were encumbered with a right of pledge (the "Pledge") in favour of Instone Real Estate Development GmbH (formerly named: formart GmbH & Co. KG) (the "Pledgee"). In the deed of pledge, Coöperatieve Activum SG Fund III Investments U.A. and Coöperatieve Formart U.A. undertook, inter alia, not to sell, agree to sell or otherwise dispose of the shares and not to create or grant or permit to subsist any encumbrance on the shares other than the Pledge.

The Pledge has been terminated by means of a joint pledge release agreement which entered into effect on 13 February 2018.

D.8.3 SUBSTANTIAL INTERESTS

As at 31 December 2017, there were no interests which were required to be notified to the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten) pursuant to Dutch law, because such disclosure rules did not apply to the Company during such fiscal year. The free float on 23 April 2018 was around 50.4%. The remaining shares of around 49.6% were still held by Coöperatieve Activum SG Fund III Investments U.A., Coöperatieve Formart Investments U.A. and Coöperatieve Activum SG Fund V. No other shareholder held shares of more than 6%.

D.8.4 PARTICIPATION PLAN

As at 31 December 2017, there was no participation plan in place that provides for shares in the capital of the Company or one of its subsidiaries and where the control rights are not exercised directly by the employees.

D.8.5 LIMITATION ON VOTING RIGHTS

As at 31 December 2017, except for the possibility to suspend a shareholder's voting rights under certain circumstances as described in chapter D.8.2 of this report, (i) the Company imposed no other limitation, under its articles of association or by contract, on the exercise of voting rights, deadlines for exercising voting rights or the issuance of depository receipts for shares in the Company's capital issued with the Company's cooperation and

(ii) except for the agreement described in the following paragraph, no agreements with one or more shareholders of the Company which may result in such a limitation are known to the Company.

Pursuant to the Pledge, the voting rights attached to the Pledged Shares held by Coöperatieve Activum SG Fund III Investments U.A. and Coöperatieve Formart Investments U.A. would vest in the Pledgee subject to the fulfilment of certain conditions precedents, including the occurrence of an enforcement event with respect to the Pledge. Furthermore, each pledgor undertook in the deed creating the Pledge, inter alia, not to exercise its voting rights in favour of a resolution (i) for an amendment of the articles of association of the Company which would affect the rights of the Pledgee under the deed of pledge, (ii) to dissolve or liquidate the Company, (iii) to apply for the Company's bankruptcy or (preliminary) suspension of payments, (iv) for a conversion (omzetting), legal merger (juridische fusie) or legal division (juridische splitsing) of the Company, or (v) to issue shares or rights to acquire shares in the capital of the Company).

The Pledge has been terminated by means of a joint pledge release agreement which entered into effect on 13 February 2018.

D.8.6 APPOINTMENT, DISMISSAL AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As at 31 December 2017, our Managing Directors could be appointed or dismissed by the General Meeting; and a resolution to dismiss any of our Managing Directors could be adopted by the General Meeting by simple majority of votes cast, provided that at least half of our issued share capital would be represented at the General Meeting. As at 31 December 2017, a resolution of the General Meeting to amend our articles of association was subject to a unanimous vote adopted in a meeting where all shareholders would be present or represented.

D.8.7 POWERS OF THE MANAGEMENT BOARD

The Company is managed by our Management Board. Our Management Board is charged primarily with the

Company's day-to-day business and operations and the implementation of the Company's strategy. As at 31 December 2017, the Management Board was entitled to represent the Company in the performance of acts on the Company's behalf; the power to represent the Company also vested in any two of our Managing Directors acting jointly. As at 31 December 2017, the Management Board was allowed to decide on the acquisition of shares in the Company's capital, subject to the restrictions imposed by the Company's articles of association (including the requirement that any such decision was subject to the prior approval of the General Meeting) and applicable law.

D.8.8 CHANGE OF CONTROL PROVISIONS IN MATERIAL AGREEMENTS

As of 31 December 2017, cash and guarantee agreements entered into by subsidiaries of Instone Real Estate Group N.V. with an aggregated volume of €229.1 million contained change of control provisions, which in the event of a change of control of Instone Real Estate Group N.V. could be critical in case that it was exercised by the other party. In addition, there were cash and guarantee agreements from subsidiaries of Instone Real Estate Group N.V. with change-of-control provisions, where the exercise of the clause would require a change of direct shareholder of the borrower.

The risk of the exercise of a change of control provision is considered low in both cases.

D.8.9 CHANGE OF CONTROL PROVISIONS IN EMPLOYMENT AGREEMENTS

The agreements with members of key management and employees of Instone Real Estate as of 31 December 2017 includes no change of control provisions.

E. OTHER INFORMATION

E.1 INDEPENDENT AUDITOR'S REPORT



A. INTRODUCTION

B. GROUP MANAGEMENT REPORT

C. CONSOLIDATED FINANCIAL STATEMENTS

D. CORPORATE GOVERNANCE

E. OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To the shareholders and the supervisory board of Instone Real Estate Group N.V.

Report on the audit of the financial statements 2017 included in the group financial statements

Our opinion

We have audited the accompanying financial statements for 2017 of Instone Real Estate Group N.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Instone Real Estate Group N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The consolidated and company statement of financial position as at 31 December 2017.
2. The following statements for 2017: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Instone Real Estate Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 12.000.000. The materiality is based on 1,5% of total assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the general meeting that misstatements in excess of € 600.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Instone Real Estate Group N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Instone Real Estate Group N.V.

Our group audit mainly focused on significant group entities.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by component auditors from other Deloitte network firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. For each component we determined whether we required an audit of the complete financial information or whether other procedures would be sufficient. Those where a full audit was required included the German components Instone Real Estate Leipzig (former Formart) and Instone Real Estate Essen (former GRK). For other non-significant entities we performed review procedures or specific audit procedures.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the general meeting. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

General observation

Internal control & Information Technology: A strong internal control environment including supporting (usage of) information technology is crucial for any organization. As part of our 2017 audit of the financial statements we tested the design and implementation of controls relevant for the audit, including relevant controls with respect to information security. Based on the maturity of certain 'entity-level' controls, including controls as part of the financial reporting business process, we have not applied a control reliance audit approach.

Valuation of projects and related revenue recognition

Key Audit Matter

The group's result for 2017 is significantly influenced by the results of large and specific development projects. The valuation of these projects is considered a key audit matter because this is subject to uncertainty as a result of the complexity of underlying contracts as well as the complexity concerning assessment of the costs to complete and settlement of significant amounts of variation orders and claims on principals. The inherent uncertainty around these estimates is critical from a risk and financial impact perspective, and therefore the valuation of these contracts as well as the related revenue recognition has been one of our key audit matters.

How our audit addressed this matter

Our audit procedures and the audit procedures of our component auditors on these projects included an assessment of Instone Real Estate Group N.V.'s project control, site visits and substantive testing of management's positions against underlying documentation. We also verified that the project expenses meet the recognition criteria and that the projects are valued accurately by making use of (internal) valuation experts and/or supporting documentation. We challenged management's assumptions at the project and local entity levels in order to evaluate the reasonableness and consistency of the valuation of the variation orders and claims within these projects and the final forecast project result.

Our observations on this matter

We considered management's key assumptions and estimates to be within the acceptable range. Based on our procedures we have no observations to report that would modify our opinion.

Related parties

Key Audit Matter

During the year 2017 various transactions with related parties occurred. Amongst others, transactions with both the shareholders and the management board were executed. We identified these transactions as a key audit matter due to the nature of the various transactions with related parties and the importance and impact of these transactions to the consolidated financial statements.

How our audit addressed this matter

We have requested management to provide us with an overview of all related parties and transactions with these parties. We have assessed the proper accounting for these transactions, the at arms' length basis of these transactions and the disclosure hereof.

Our observations on this matter

Our procedures did not result in material findings for the related party transactions. In addition, we consider that there is adequate disclosure in the notes to the financial statements of the nature and the amounts of the related party transactions in accordance with the applicable standards and applicable legislation.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE GROUP FINANCIAL STATEMENTS

In addition to the financial statements and our auditor's report thereon, the group financial statements contain other information that consists of:

- Introduction
- Group Management Report
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code
- Corporate Governance reporting

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Group Management Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Engagement**

We were engaged by the general meeting as auditor of Instone Real Estate Group N.V. on August 2, 2017, for year 2017 and have operated as statutory auditor since the financial year 2014.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's 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 our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit.

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

Amsterdam, May 7, 2018
Deloitte Accountants B.V.

Signed by
P. Kuijpers

E.2 PROFIT APPROPRIATION PROVISIONS

As at 31 December 2017, the following provisions of our articles of association governed the appropriation of our profits:

1. The General Meeting is authorised to resolve to allocate the profits as determined by virtue of the adoption of the Annual Accounts. A resolution of the General Meeting to allocate profits requires a majority of more than fifty per cent (50%) of the votes cast, in a meeting in which at least fifty per cent (50%) of the issued and outstanding Shares are present or represented.
2. The General Meeting is authorised to determine a distribution of the profits, to the extent that its net assets exceed the reserves which must be maintained under the law or the articles of association. A resolution of the General Meeting to distribute profits requires a majority of more than fifty per cent (50%) of the votes cast, in a meeting in which at least fifty per cent (50%) of the issued and outstanding Shares are present or represented.
3. The General Meeting may, subject to and with due observance of the provisions as set out in paragraph 2 of this article and the relevant statutory provisions, resolve to distribute the reserves in whole or in part. A resolution of the General Meeting to distribute reserves requires a majority of more than fifty per cent (50%) of the votes cast, in a meeting in which at least fifty per cent (50%) of the Issued and outstanding Shares are present or represented.
4. The General Meeting may, subject to and with due observance of the provisions as set out in paragraph 2 of this article and the relevant statutory provisions, resolve to pay interim-dividend. A resolution of the General Meeting to pay interim-dividend requires a majority of more than fifty per cent (50%) of the votes cast, in a meeting in which at least fifty per cent (50%) of the issued and outstanding Shares are present or represented.
5. Subject to and with due observance of the provisions of article 21 paragraph 4, any resolution of the General Meeting to make a distribution, as referred to in the previous paragraphs of this article, shall be without any effect until the Management Board has granted Its approval to such resolution.
6. The Management Board shall only withhold the approval as referred to in paragraph 5 of this article, if the Management Board is aware or reasonably should be aware of any circumstances by virtue of which the Company cannot continue to meet its obligations after the relevant distribution
7. Any claim of a Shareholder for payment of a distribution shall be barred after five (5) years have elapsed.

E.3 BRANCHES

As the Company's effective place of management is Essen, Germany, it has a branch office in Essen, Germany that is registered with the local court of Essen under HRB 26426. Additionally, for an overview of our operational branches we refer to page 3. Beside this Instone Real Estate has one office in Luxembourg, Luxembourg and one office in Vienna, Austria.

