INSTONE REAL ESTATE
ANNUAL REPORT
2021

SUSTAINABLE LIVING

SUSTAINABLE LIVING

The world is changing rapidly. Terms like sustainability, digital transformation, affordable housing and work-life balance are on everyone's lips. At Instone Real Estate, we continuously scrutinise our thoughts and actions in response to these trends. The following Annual Report shows how Instone is reconciling economic growth with our social and ecological responsibility as one of Germany's biggest residential developers and a listed company.

ADJUSTED EAT

€ 96.9 MILLION

Previous year: €41.1 million

ADJUSTED REVENUE

€ 783.6 MILLION

Previous year: €480.1 million

PROJECT PORTFOLIO
with a total revenue volume of

€ 7.5 BILLION

provides strong foundations for medium-term revenue planning

ADJUSTED GROSS PROFIT MARGIN
of 28.3% in line with our forecast for 2021 of at least 26%

1.5°C target – Reduction in GHG emissions from operations (Scope 1 and 2) in accordance with the Paris Climate Agreement and certification by the Science-Based Target Initiative

We are creating affordable housing in and around Germany's major cities with our new subsidiary. We aim to significantly accelerate our growth as a result.

~41%

of the total revenue volume of the project portfolio has already been sold

Key figures at a glance

TABLE 001

in € million

		2021	2020	Q4 2021	Q4 2020
Key performance indicators					
Volume of sales contracts		1,140.1	464.4	761.7	246.0
Volume of new approvals[1]		1,587.4	489.9	254.0	193.7
Adjusted revenue		783.6	480.1	378.0	188.8
Key earnings figures					
Adjusted gross profit		221.5	146.6	100.5	52.5
Adjusted gross profit margin	in %	28.3	30.5	26.6	27.8
Adjusted EBIT		155.7	83.8	90.4	33.8
Adjusted EBIT margin	in %	19.9	17.5	23.9	17.9
Adjusted EBT		136.5	59.4	81.3	25.0
Adjusted EBT margin	in %	17.4	12.4	21.5	13.2
Adjusted EAT		96.9	41.1	56.6	16.2
Adjusted EAT margin	in %	12.4	8.6	15.0	8.6
Key liquidity figures					
Cash flow from operations		43.9	119.9		
Cash flow from operations without new investments		256.3	225.0		
Free cash flow		167.4	– 64.2		

Key figures at a glance

TABLE 001

in € million

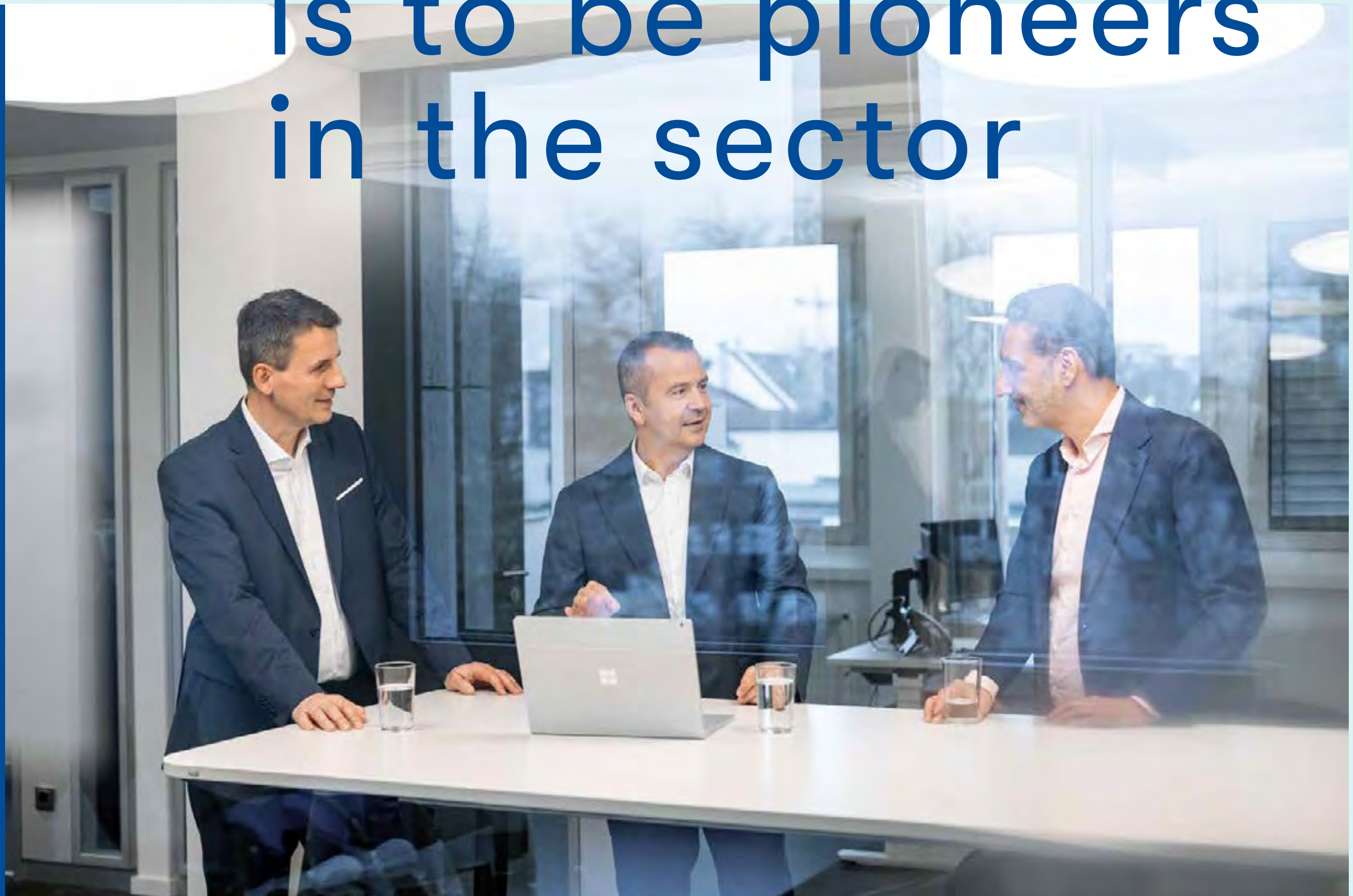
		31 Dec. 2021	31 Dec. 2020
Key performance indicators			
Project portfolio		7,500.0	6,053.6
Key balance sheet figures			
Total assets		1,520.8	1,283.1
Equity		590.9	521.0
Cash and cash equivalents and term deposits[2]		151.0	232.0
Net financial debt[3]		239.5	249.7
Leverage[4]		1.5	2.8
Loan-to-cost[5]	in %	20.1	26.4
Adjusted ROCE[6]	in %	22.0	10.3
Employees			
Number		457.0	413.0
FTEs[7]		387.6	342.5

[1] Excluding volume of approvals from joint ventures consolidated at equity.
[2] Term deposits comprise cash investments with a term of more than three months.
[3] Net financial debt = financial liabilities less cash and cash equivalents and term deposits.
[4] Leverage = Net financial debt/12-month adjusted EBITDA
[5] Loan-to-cost = Net financial debt/(inventories + contract assets).
[6] Return on capital employed = LTM adjusted EBIT/(four-quarter average equity + net financial debt).
[7] Full-time employees.

CONTENTS

IN CONVERSATION WITH THE MANAGEMENT BOARD

Our aspiration is to be pioneers in the sector



What conclusions do you draw looking back at 2021? How has the Company progressed in terms of sustainability? What is behind the "Instone spirit"? The Management Board of Instone Real Estate provides answers to this and other questions in the following interview.

Mr Crepulja, 2021 was a further year strongly marked by the impact of the pandemic. What is the Management Board's assessment?

KRUNO CREPULJA Despite all the adversity, 2021 was a good year for Instone Real Estate overall. Our strong team achieved a great deal under continuing difficult conditions. From a financial perspective, we significantly increased revenue and profits and even exceeded some of our targets. We maintained our industry-leading profitability. Above all, we succeeded in strengthening the foundation for accelerated medium-term growth. The launch of our new subsidiary, nyoo, with its clear focus on affordable housing, is making a key contribution here. I don't know any other project developer that so vehemently takes on the societal challenge of making construction and housing affordable for the broad core of society.

I don't know any other project developer that takes on societal challenges so vehemently.

Kruno Crepulja

In particular, in the past year we made a clear commitment to our intention to be the pioneer in the sector when it comes to sustainability. We do don't just use slogans and make announcements - our motto is: actions speak louder than words! My Management Board colleague Dr Foruhar Madjlessi will go into greater detail about that. In summary, it can be said that we enthusiastically set the course for the future viability of our business model in many different areas within the Company. That makes me very optimistic for the future.

Of course, I make no bones about the fact that the 2021 financial year didn't meet all expectations due to the pandemic. Planning and approval processes are taking longer overall than we would like. On the other hand that will reduce the speed of our future growth. It's also important to note that our project pipeline has now grown to a total volume of €7.2 billion. All in all, that's an excellent starting point for our further expansion course.

The key theme is affordable housing. What were Instone Real Estate's motives for pursuing this additional new path?

KRUNO CREPULJA Bringing economic growth into line with our social and ecological responsibilities is part of our identity as one of Germany's leading residential developers and listed companies. The housing shortage is severe, particularly in metropolitan areas. According to calculations by analysis firm bulwiengesa, by 2035 around 60,000 new homes per year will be needed in the "core cities" alone. Compare that to the number of around 45,500 homes completed in 2020.

At the same time, the share of subsidised units has steadily decreased. In 2002 there were 2.5 million, in 2019 only 1.1 million. It is common knowledge that shortages drive prices up. As a result, rents are now astronomical, especially in growing urban centres. For example, the monthly rent including heating for a four-room apartment in a central Düsseldorf location could well be €2,300 or more – prices of €20 or more per square metre are far from uncommon these days. We believe the huge gap in supply can only be filled sustainably and for the long term by new construction, with the private housing sector assuming a central role.

> Through nyoo, we are creating a competitive edge over our rivals with an immense potential for growth.
>
> **Kruno Crepulja**

Our new, innovative product makes it possible to reduce rents by around 30% to 40% – and that's at attractive B locations with good connections to the core cities. How does this work? A whole range of finely adjusted gears mesh with one another here in an intelligent and custom-fit way: maximum standardisation and digitalisation of the project development and construction process and smart and cost-optimised housing concepts with intelligent floor plans that focus on lower operating costs right from the planning phase. In particular, the price of the land plays a major role. Thus, we can acquire and plan more quickly, cost-efficiently and effectively – while still remaining flexible in each individual case. Added to this are workflows and construction processes with few interfaces, enabling us to create significant competitive advantages for ourselves. This is how we make housing construction more affordable – without compromising on quality.

By as early as 2030 we intend to have around half of all homes developed by the Instone Group in the affordable housing sector. This segment complements our existing business model perfectly and is a key pillar of our growth strategy. We are certain that this additional offer will increase the attractiveness of our Instone Real Estate umbrella brand for social impact and ESG-oriented investors.

However, innovative solutions for developing neighbourhoods in an efficient, contemporary way are only one side of the coin, with political conditions and interactions with local authorities on the other.

KRUNO CREPULJA That is undoubtedly so. That's why we strive all the more to have an influence wherever possible, on behalf of our customers, investors, partners and shareholders. Staying with this metaphor, our claim is that our side of the coin is engraved with the term "innovation leadership". This claim is underscored by our joint ventures with renowned partners. For example, with the jointly founded enterprise Beeboard, we are pursuing the aim of raising the increasingly digital project management process to the next level, creating a new industry standard in the construction and real estate sector. We are working full steam to make the processes along the operating value chain more transparent and simplify the interactions between all the parties involved considerably. We are becoming faster and more efficient – and without impacting the renowned Instone quality level here, either.

Almost
60,000
new homes per year will be needed in the core cities by 2035

As for the other side of the coin, the pandemic has clearly shown us how heavily factors outside our control can appreciably affect the market environment. As mentioned, the indirect effects of the pandemic also continue to lead to delays with construction permits and thus the start of construction. Instone Real Estate isn't entirely unaffected by the effects on global supply chains and consequences of inflation, either. Supply bottlenecks also have a dampening effect on business performance.

Our industry advantage as a reliable partner to local authorities is certainly an asset Instone Real Estate can leverage. Instone Real Estate has earned a reputation for developing leading-edge concepts for urban living while incorporating local concerns and circumstances into the process. The company brings sustainable value, quality of life and contemporary infrastructure to cities. By reactivating disused areas, we build for the future. Thanks to our high level of expertise, lived partnership at eye level, reliability and consistently high quality, we have earned a high level of trust and an outstanding reputation over the years.

However, these strengths can't obscure the fact that the processes for obtaining planning permission at local authority level are becoming structurally more complex and lengthy. This is why we welcome the new German government's stated intention to support new construction in Germany and accelerate planning processes. It would also be desirable for the Federal government to issue a clear long-term commitment to supporting energy-efficient construction methods. We need reliable political conditions to enable us to strengthen investment confidence, which is already decreasing in view of global uncertainties, and ensure construction is as environmentally friendly as possible to help the thousands of people searching for homes.

The ability to assume the social and ecological responsibility mentioned earlier and bring it to life requires a consensus in the workforce. How does the Management Board bring this internal culture into the team?

> It was extremely important to us to include our employees in order to capture the "Instone spirit" and put it into words.
>
> **Andreas Gräf**

ANDREAS GRÄF The words "internal culture" already say it all: it's about an inner stance that each colleague develops and takes for him or herself. Accordingly, our approach can't be to tell the team what to think. Our employees are the Company. Therefore, when we talk about what Instone Real Estate stands for, it's ultimately about what the team stands for. When it comes to the operational and strategic focus of our Company, we rely very heavily on the elements of communication and participation.

Only recently, we deliberated in depth on what Instone Real Estate stands for and should stand for in future, the values and beliefs we advocate, and our visions and goals. How do we work together within the Company and with our customers and partners? What requirements do we have of our product – and of the quality of our work? What can we do better? We really asked ourselves a lot of questions. And when I say "we", I don't only mean the Management Board and executives. It was extremely important to us to include our employees in order to capture the "Instone spirit" and put it into words. We therefore put all these questions to our employees, too, and asked for their input as part of an online campaign.

Did the employees' input lead to any surprises? And can the "Instone spirit" be summarised in one sentence?

ANDREAS GRÄF The feedback from our workforce largely corresponds with what we in the Management Board also consider important. That's positive, as it demonstrates broad consensus within the Company as to how we at Instone Real Estate tick. As our model is divided into the five categories of meaningfulness, mission, vision, guiding principles and values, a single sentence can't do justice to the complex themes. By way of example, I would like to pick out two messages that reflect our philosophy well. The first is: "We use innovative ideas to create sustainable and affordable living space." The other is: "We safeguard the profitability of our Company, because this is the basis for our growth, for secure jobs and for our social and ecological commitment." These aren't marketing slogans, but statements based on feedback from our workforce.

Incidentally, a very impressive example of the said "Instone spirit" is the "Instone moves" fundraising campaign we launched last year to support victims of the Ahr Valley flood disaster. Within a few weeks, hundreds of colleagues from all parts of the Company eagerly raised money through sporting activities. Whole departments met to go jogging together after work – for the good cause and for their health. The sense of community and social engagement shown by our employees were literally moving.

The popular term "sustainability" has come up several times. What does it mean for Instone Real Estate's business model that this criterion, often abbreviated to "ESG", is now so highly relevant to all stakeholders?

DR FORUHAR MADJLESSI "Sustainability" has indeed become something of a buzzword. We are referring to a very clear position here. This can't be about "greenwashing". Our credibility is a valuable asset for us here at Instone Real Estate. We have ambitious targets, but we don't make any promises we can't keep. Neither is it the case that we now frantically have to flick every switch. For us, ESG is an ongoing process that began many years ago. Issues such as energy efficiency and carbon footprints, but also creating social infrastructure in the form of day care centres, schools and neighbourhood squares that are shared meeting places for the new residents, have all had high priority in our projects for long a time. There is a good reason that renowned ESG rating agency Sustainalytics recently awarded us a top rating right away and ranked us among the top 2% of global real estate developers.

Only someone who knows the Company's goals can identify with them.

Andreas Gräf

Step by step, we are gearing our business model and processes even more strongly towards ESG aspects and continuously enhancing our sustainability strategy, which itself is firmly anchored in our corporate focus. We have also significantly increased the level of transparency regarding our net zero strategy once again in this annual report. The driver for this is the deep conviction that such measures are necessary and right. At the same time, we realise of course that there's a marked desire among all our stakeholders to invest more heavily in sustainability. ESG issues are continually raised on the product demand side, as well as in discussions with our investors and even in relation to borrowing. It isn't a bonus to do ESG – it's a handicap not to do it. We believe that our Company's sustainability performance is key to our long-term business success and competitiveness.

Sustainability has many facets and encompasses ecological and social aspects as well as the approach to corporate governance. What specific goals is Instone Real Estate pursuing?

DR FORUHAR MADJLESSI In view of the complexity and diversity of ESG tasks, I would like to pick out just a few key points here. Let's start with "E" for environment: we have set ourselves ambitious goals and support the climate targets of the EU, the German government and the United Nations. The construction sector is currently responsible for around 40% of global CO_2 emissions and has a corresponding impact on climate change. Therefore, together with our business partners, we will vigorously push ahead with decarbonising the construction and building sector as well as appreciably reducing our consumption of resources and emissions. As an interim step, by 2030 we will increase the share of Instone projects with a carbon-neutral energy source – such as heat pumps and geothermal systems, for example – from the current figure of around 12% to at least 40%. We have resolved to make our business climate-neutral along our entire value chain as of 2045.

Our aspiration is to be pioneers in our sector in this area – in order also to motivate market competitors to take action. We are setting a number of levers in motion to achieve our ambitious climate targets. This naturally also includes extensively addressing the extent to which our business activities can contribute to climate protection. We have therefore significantly intensified our efforts to measure our greenhouse gas footprint. We are aiming to reach a net-zero climate impact by 2045 and have submitted our data to the global SBT initiative for certification. We will initially reduce the greenhouse gas emissions created, for example, by our company vehicles or leased office buildings by around 40% in Scope 1 and 2 of the Greenhouse Gas Protocol by 2030.

As my Management Board colleagues have already described, when it comes to "S" for social and "G" for governance we devote a great deal of attention to all aspects of operating sustainably. With our strong focus on affordable housing and holistic residential neighbourhoods, we are committed to key social issues as well as improving the quality of life and the attractiveness of communities. Furthermore, we live a corporate culture characterised by respect, trust and transparency in which there is no room for any form of discrimination. As you rightly say, sustainability has many facets.

Our credibility is a valuable asset for us here at Instone Real Estate.

Dr Foruhar Madjlessi

In the real estate sector, the construction of buildings puts the greatest strain on the environment as manufacturing the necessary building materials, such as concrete, produces carbon emissions. With this in mind, how is it possible to make new buildings completely climate-neutral as of 2045? What role do new technologies or offsetting measures play in this?

DR FORUHAR MADJLESSI That's exactly what I mean by "a number of levers". We want to achieve the best possible interaction of different solutions. This is why we are engaging intensively with new technologies that make the production of building materials more environmentally friendly. We are also looking at alternative materials such as wood in detail. We naturally have to take key factors such as statics, insulation and fire protection into account. A step-by-step policy is also a sensible approach – using wooden rather than plastic windows, for example.

Increasing energy efficiency in the completed building is, as mentioned, a further key point. Structuring the project environment in an ecologically compatible way and measures such as tree planting also play a role. Going forward, we believe that precisely this customised interaction between innovative technologies, improved processes in planning and construction, alternative materials and a modified energy mix will lead us to our goal of climate neutrality. Of course, we can't achieve that all on our own. For this reason, we are in close dialogue with other relevant sectors such as the energy industry, building materials manufacturers and one or two start-ups to enable us to explore the best possible paths together.

Instone achieved a great deal in 2021. Something the Management Board certainly can't be satisfied with is the negative performance of the Instone share price. What should we make of this performance and future prospects?

DR FORUHAR MADJLESSI Of course, we can't be satisfied with the performance of the share price at all. As already described, the negative impact of the pandemic and delays in planning processes are slowing our growth. We had to take account of this performance in our financial forecast. This caused disappointment among our investors. However, as is generally acknowledged, it is of utmost importance that our business model is still intact and the fundamental conditions on the supply and demand side remain favourable. Our business model remains a key beneficiary of the excess demand for residential real estate in Germany. We are also working on the assumption that real estate prices will continue to rise. This positive view is also shared, for example, by the financial analysts who follow us closely. Therefore, the analysts are currently issuing only buy recommendations for our shares with average price targets significantly higher than the current share price.

What speaks for the success of your business model over the long term?

KRUNO CREPULJA As described, demand for housing significantly outstrips supply. However, demand will rise even further as the number of households in Germany is also growing continuously due to net immigration. According to estimates from the German Economic Institute (IW), around 308,000 new homes per year will be needed across Germany by 2025. People are primarily moving to urban regions. For reasons of cost and due to increasing flexibility in the working world, for example in the form of models that enable working from home, regions on the edges of metropolitan areas are also becoming attractive for growing numbers of people searching for homes. With nyoo, we have positioned ourselves perfectly for this trend. For many years, far too few homes have been built – that will create huge demand and further price increases for a very long time to come. In addition to this, property investments are gaining significance for increasing numbers of people owing to uncertainty on the capital market.

Finally, how would each of you summarise – in one or two sentences – what is important to you personally as regards the further development of the Company?

KRUNO CREPULJA Despite all our successes, we need to roll up our sleeves and use all our strength and resolve to drive forward the growth course we have embarked on. Where we are leading, we have to extend our lead over the competition even further. Where we are good, we have to become better.

ANDREAS GRÄF The pandemic showed us in an impressive way that our employees deliver top-quality performance, even under difficult conditions. We don't take that for granted. We will therefore keep up our efforts to improve employee satisfaction further, support talent and optimise processes. Our corporate culture is at the heart of what we do.

DR FORUHAR MADJLESSI Sustainability isn't an empty marketing phrase for us. We have to demonstrate that every day – with actions, not words.

Ranked in the top

2%

of real estate developers worldwide: the assessment of Instone Real Estate by the renowned ESG rating agency Sustainalytics

THE INVESTOR

TRUST AND RELIABILITY

1 View of the future “Westville” neighbourhood, which is currently being built in the Gallus district in Frankfurt

Bayerische Versorgungskammer – Germany’s largest pension group under public law – values its collaboration with Instone Real Estate.

As Germany’s largest pension group under public law, Bayerische Versorgungskammer (BVK), based in Munich, houses 12 occupational and municipal pension schemes under one roof. In Bavaria alone, around one in five households is entitled to benefits from BVK. That entails a great deal of responsibility and requires farsighted investments. It is not just since coronavirus and declining yields on the capital market that this unique symbiosis of supreme public authority and modern financial enterprise has been focusing on real estate – and residential neighbourhoods “made by Instone” – as a form of investment.

“Over the last ten years, the share of real estate in our investment portfolio has risen from 5% to around 23%,” reports Christoph Geirhos, Head of Real Estate Portfolio Management at BVK. This rise is documented by an impressive figure: the value of BVK’s real estate assets now amounts to around €33 billion (as of November 2021). Approximately half of the properties for both commercial and residential use are situated outside Germany in locations all over the world. BVK, which employs over 1,400 people, purchases real estate and subsequently rents it to companies, institutions or private individuals.

All in all, the Bavarian investment experts have acquired all or part of four residential neighbourhoods from Instone Real Estate in recent years that are still under construction in attractive major German cities. For example, the “Westville” project will create one of Frankfurt’s largest new neighbourhoods with over 1,200 homes in the fashionable Gallus district of the metropolis on the River Main. BVK has also secured 190 homes on the “Core Living” construction site in Frankfurt am Main, this time in the Schönhof quarter in the Bockenheim district. Based on current information, these projects should all be completed in 2024, while first-time occupancy of the 250 homes in the “City Prag – Living in the Theatre District” project in central Stuttgart is scheduled for as early as 2022. This is in addition to 275 of the 550 residential units

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1 **275 apartments in the "west. side" in Bonn were already handed over to BVK in 2021**

2 **Christoph Geirhos is the Head of Real Estate Portfolio Management at BVK**

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> We appreciate being listened to; there's an in-depth understanding of our viewpoints and requirements.

"

making up the "west.side" project in Bonn-Endenich, which were handed over to BVK in 2021.

The fact that BVK has repeatedly acquired residential projects from Instone Real Estate before they have even been realised implies a high level of trust – trust that is honoured by one of Germany's leading residential developers. "Partnership-based collaboration is extremely important to us," explains Christoph Geirhos. In his words, "This is particularly evident in the very close dialogue in the three to five-year phase from the initial exploratory discussions through to contract design, construction and handover."

But how do developers and investors actually collaborate in practice? "At the start, Instone Real Estate always presents the project idea to us," says Christoph Geirhos. For him and his team, the criteria for an attractive investment in economic terms naturally include the choice of location, the overall architectural concept and sustainability aspects such as energy efficiency – but not only that: "The reliability of our partners has high priority for us. Monthly construction meetings ensure a very in-depth and constructive exchange with Instone Real Estate." This certainly also involves controversial points of discussion sometimes: the professional real estate portfolio manager raises the following questions: Should new-build housing be rented with or without built-in kitchens in each case or should more families or single people be approached as tenants? Is the infrastructure good enough in terms of local amenities, day care centres, schools and transport links? As such questions arise, BVK also actively contributes its ideas to the complex project development process. "We appreciate being listened to; there's an in-depth understanding of our viewpoints and requirements," says Christoph Geirhos.

THE MUNICIPAL PARTNER

GOOD RELATIONSHIPS FOR LIVEABLE CITIES

Cornelia Zuschke is head of the planning department in Düsseldorf, the state capital of North Rhine-Westphalia. She is therefore responsible for one of the most densely populated urban centres in Germany. In this interview, she provides insights into her work striking a balance between contradictory aspirations, requirements and feasibility.

1 Cornelia Zuschke has been the head of the planning department in Düsseldorf since 2016

Ms Zuschke, what opportunities and challenges do you encounter as head of the Düsseldorf planning department?

CORNELIA ZUSCHKE The greatest challenge when developing neighbourhoods is not to focus purely on developing quantity, but rather developing genuine quality in the process and outcome. What strikes me is that frequently there are contradictions in many areas, whether to do with mobility and public space or housing and working, that are not easy to resolve. One example: we need a lot of homes quickly. However, we are now learning from the pandemic that we also need far more urban open spaces, a dense network of public welfare facilities in the immediate surroundings and in new neighbourhoods. These requirements contradict each other and yet need to be reconciled with one another, preferably at the same time and fully in each case. That is exactly what is at the heart of my profession: balancing all these interests with the outcome of a people-friendly and liveable city of the highest quality. Hugely demanding – but also a great job!

2 Being the head of the planning department means always seeing the big picture

Do you as a local authority solve this problem alone or do you enter into partnerships with other cities and districts?

CORNELIA ZUSCHKE We are certainly aware that challenges are best overcome together. We are well connected with our neighbours in terms of planning and mobility. Whether that's always in the most minute detail is another story, but we are on the right path. One of the best and most fruitful shared endeavours is the Regio network between the cities of Duisburg, Düsseldorf and Krefeld, the adjacent towns of Meerbusch and Ratingen and the district of Mettmann. We have provided our own areas to the network and want to work together to develop housing, create infrastructure and tackle mobility projects, each with responsibility for our own areas, but working in concert. It's here that you realise it's not enough to talk about regional cooperation: you also have to live and implement it project by project.

Which urban development trends have you observed?

CORNELIA ZUSCHKE The most important trend I see is the move away from segregated cities – and no longer just in discussions, but in practice. We are mixing again and digitalisation is helping us a lot in this respect by enabling new working and mobility habits. We no longer want to organise everything in cities so neatly according to commerce, industry, schools and housing. We are now striving towards a multicoded, multifunctional merger that includes many different uses and shared public spaces for all. However, in many areas this conflicts with an aspiration for legislative absolutism that has become outdated. Just take a look at the German Technical Instructions on Protection Against Noise: they forbid direct proximity of commercial and residential areas, yet allow a new residential area on a heavily loaded road network. That really is absurd. A further trend is a rethink on the subject of densification, where we are now increasingly recognising limits and also new opportunities. If we continue to build more in cities, at some point that works against the interests of the people who already live there. We can densify, but then we also have to create more open spaces or also build ground

> “The most important trend I see is the move away from segregated cities – and no longer just in discussions, but in practice.”

floors with public interest facilities and recreational components, for example. For an integrated, inclusive city, you have to take everything into consideration at all times.

So how can you ensure that the needs, aspirations and requirements of the city's inhabitants are preserved? Where is public participation essential, and where do you see the limits of participation processes?

CORNELIA ZUSCHKE Participation is important and complex. There are limits – but then again there aren't. Each process and each phase of a project is different. I grew up with the principle that everyone can share their opinion, but far from everyone is right. I have internalised this principle and it applies to participation processes, too. I recently gave a lecture for prospective city planners and architects at RWTH Aachen University that also covered participation processes. We made it clear to the young city planners that they must not just withdraw into their professional expertise. They have to grasp things and take them seriously, but not allow themselves to be replaced by participation. Technical expertise translates participation into plans and options for action. Public participation is not a request programme, but rather an exchange of opinions and an opportunity to bring in direct location-specific expertise. As city planners, we have to listen, understand, question, moderate – particularly when a great number of opinions converge – and act accordingly. We are needed when it is necessary to translate requirements and opinions into concepts and solutions and ultimately we also have to present and support the decisions. In the end, it isn't the person who shouts the loudest who makes this decision; the decision is the result of democratic processes and professional preparation. If you take that into account and communicate it to all the participants in a transparent way, then participation works very well.

What role does the issue of affordable housing play in urban planning? Where do you see opportunities and what challenges do you have to overcome?

CORNELIA ZUSCHKE In Düsseldorf, we have a tool that works really well: our Housing Action Plan ("Handlungskonzept Wohnen" – HKW). This ensures that development planning processes allow for 40% social and affordable housing. The HKW is currently being updated and will be discussed further with our partners in the housing and construction industry. Unfortunately, we have lost sites for which relevant planning permission had been obtained due to market operations that we couldn't influence in policies. These sites are now missing from the balance sheet, and that does bother me. But there are also many reliable partners.

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As city planners, we have to listen, understand, question, moderate, and act accordingly.

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3 **View of the Rhine in Düsseldorf – one of Europe's most important rivers**

What concepts and characteristics must project developers contribute for good joint collaborations?

CORNELIA ZUSCHKE You need expertise and project management skills at all stages of a project to reconcile complex processes, as well as a shared awareness of values. But the most important thing is the desire to create housing and living space and not simply make a profit. In a city, we should create values that outlive us because, ultimately, for the people who will move into the new neighbourhoods and buildings at some point, this is home. If the city and investors agree on that, not much can go wrong. The important thing is to contribute something really solid and sustainable to the city that people can use – a growth ring, if you will, that shapes the city for a long time.

How did you get to know Instone Real Estate? Are we living up to your expectations?

CORNELIA ZUSCHKE I can remember very well how I got to know Instone Real Estate in connection with various projects at the beginning of my term in office. Back then, your colleagues from North Rhine-Westphalia took me on a tour of Düsseldorf to show me Instone's properties – we travelled through the urban area from Unterbach in the south to the left bank of the Rhine. I can still see myself standing by the window with them now, up in Belsenpark, looking out over the city and thinking together about how we could develop it further in an individual and networked way, how different qualities are incorporated into neighbourhoods and how we can manage neighbourhoods better. We also found a workable solution to an intermunicipal traffic problem for two cities and your project company. That was remarkable! So, overall, my experience of collaborating with Instone Real Estate has been one of working in partnership with a developer that has an interest going beyond just business in the living space and city neighbourhoods it is creating and the surroundings affected by them. All in all, what I find important is for our project partners to think beyond boundaries and have a desire for flexible urban solutions. I also find cooperation models very exciting when, for example, different players in the market get involved with real estate together, coordinate their efforts and bear risks in a cooperative way, but also just have that shared vision for a neighbourhood.

Thank you for speaking to us, Ms Zuschke!

“ The most important thing is the desire to create housing and living space. ”

4 **Urban development policy also happens at her personal workplace**

4

CORNELIA ZUSCHKE

Cornelia Zuschke has been Head of Planning, Construction, Housing and Real Estate in the state capital of Düsseldorf since September 2016. She has a degree in architecture (Dipl-Ing.) and was the head of department responsible for planning and transport in Darmstadt from 2014 to 2016. Prior to that, she worked in Fulda from 1990, including a role as head of the planning department from 2000 onwards.

Inclusive housing and living in the neighbourhood

Many people would like their social environment to be colourful and diverse. This happens when players from the social sector, local authorities and private industry work well together.

1 **Bernhard Hösch, Head of Corporate Development/ New Districts, North at Stiftung Liebenau**

2 **Stiftung Liebenau has set itself the task of promoting the participation of people with disabilities**

1

“Full and effective participation and inclusion in society” – this basic right is guaranteed under Article 3c of the UN Convention on the Rights of Persons with Disabilities that came into force in 2008 and is also part of German legislation. However, anyone who looks around Germany’s urban centres soon notices that people with disabilities are often invisible in the streetscape. Children and young adults in particular are still placed in specialised centres the range of housing groups, residential communities and other special living arrangements is comparatively limited in Germany. The general shortage of housing in urban areas further intensifies the situation in subsidised housing.

8

accessible homes

A special residential project is taking shape in Rottenburg am Neckar

Bernhard Hösch, Head of Corporate Development/New Districts, North at Stiftung Liebenau, knows things can be different. “Our foundation works towards a colourful and diverse society, supports participation and creates structures that enable inclusion. People with disabilities have a guaranteed human right to integration and participation. If we succeed in this, all of society benefits.”

But how can this be achieved? A glance at Rottenburg am Neckar provides an answer. This is where Instone Real Estate is developing the Neckar.Au Viertel – a modern, urban concept comprising diverse housing, work opportunities and family-friendly options with a shared neighbourhood square in the

> “We’re only good as a society when we’re colourful.”

2

1 The location-specific factors in the neighbourhood are ideal

centre. A special kind of housing for people with additional support needs is also being created in this district at the suggestion of the group FUNKE Tübingen e.V., sponsored by Stiftung Liebenau, supported by the town of Rottenburg am Neckar – and realised by Instone Real Estate. “The parents at the FUNKE initiative had long been searching for suitable housing for their children with neurological diseases,” explains Hösch. “The head of the social department for the district of Tübingen and FUNKE approached our foundation together as it was clear that the district finally wanted to create such an option with us as a partner.”

The location-specific factors are ideal for the new neighbourhood. The building, inner courtyard and central neighbourhood square and businesses offer numerous opportunities for residents to meet each other, get talking to one another and share everyday life. Twenty-four people with disabilities will live autonomously there with professional support in housing appropriate to their needs – right in the centre and as part of a new diverse neighbourhood.

> “The more we treat disability in a normal way, the more strongly we put it at the centre of society.”

2 Schloss Liebenau, a stately home in Meckenbeuren in the Bodenseekreis district, has been the foundation’s home since 1870

12

Apartments on 5 floors

All pulling in the same direction

It is thanks to the determination of everyone involved that this project can be implemented as part of a private real estate development. Compromises were and are necessary on all sides to make the idea of integrated living a reality. For example, the local authority had to recognise the residential project as social housing so that Instone Real Estate could meet its quota of subsidised housing – although the residents are not direct recipients of housing allowances and the homes are not being sold to the foundation as social housing.

Instone Real Estate showed a willingness to compromise during planning and implementation: homes for people with disabilities naturally require different floor plans and infrastructure from those found in traditional residential construction, where defined standards are key to efficiency. Finally, the foundation also had to be willing to approach the

2

1

1 **The building in the background forms part of Stiftung Liebenau's residential project in Rottenburg**

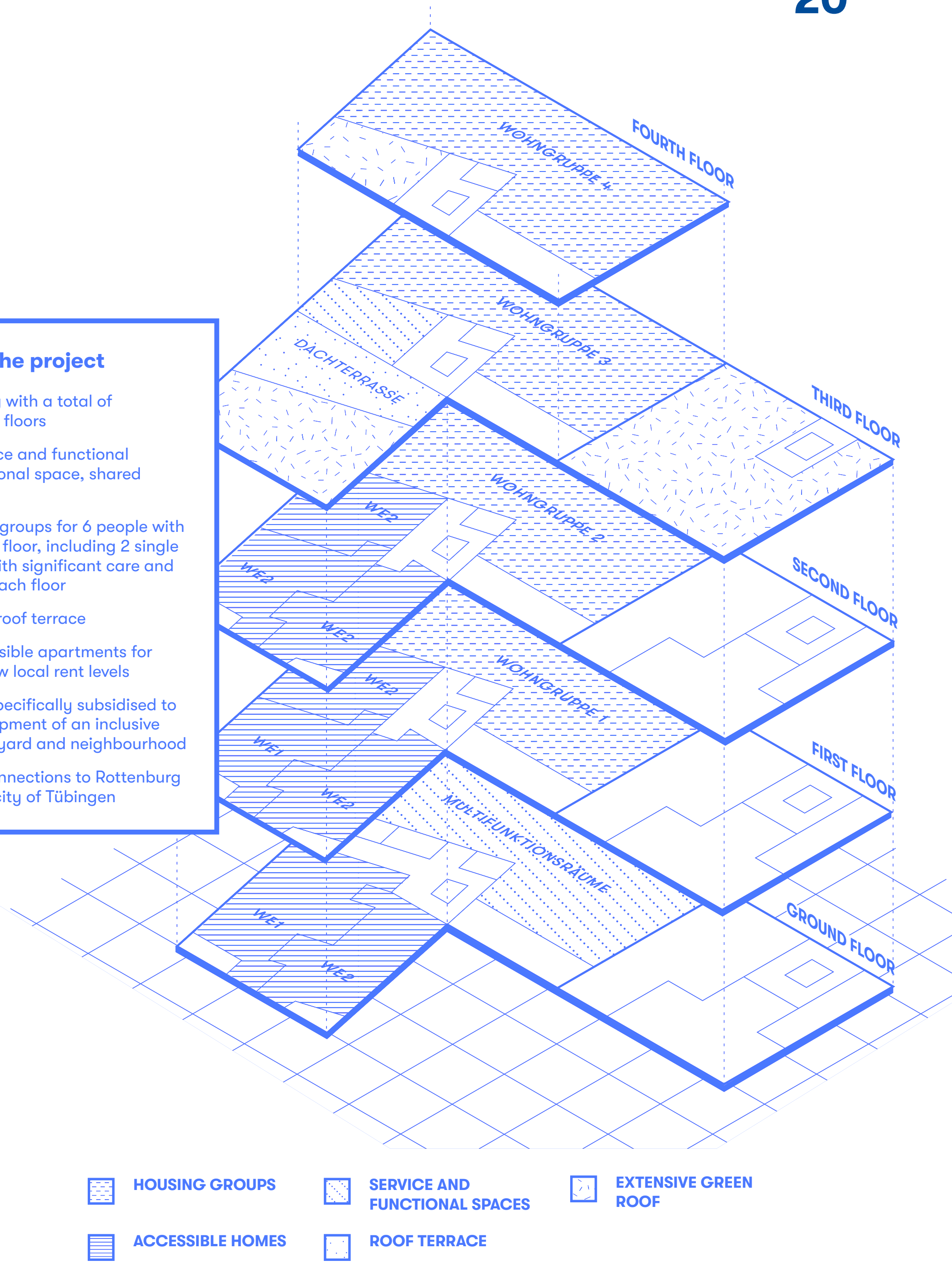
2 **An eye for detail is an important element of the planning process as a whole**

project in a way that was different to what it was used to. "It was really new to me not to sit directly at the table with the planners," explains Bernhard Hösch. "And there were also contractual challenges for us to overcome."
All in all, it was a challenging process that demanded a lot of courage from everyone to try something new.

Housing and living are dominant components of our daily life, just as work and leisure are. And that is what makes the neighbourhood so special: because it is planned as a space for diverse life plans in brand new neighbourhoods, it provides the best possible conditions for Stiftung Liebenau and the FUNKE parent initiative's inclusive residential project.
"Creating opportunities with local authorities and players from the construction industry," is how Bernhard Hösch describes the undertaking. "Whether the concept ultimately succeeds will become clear over the years. Either way, we have set the right course."

An overview of the project

- → Residential building with a total of 12 apartments on 5 floors
- → Ground floor: service and functional spaces, multifunctional space, shared terrace
- → Floors 1-4: housing groups for 6 people with disabilities on each floor, including 2 single rooms for people with significant care and support needs on each floor
- → Third floor: shared roof terrace
- → West wing: 8 accessible apartments for open rental at below local rent levels
- → Inclusion project: specifically subsidised to promote the development of an inclusive culture in the courtyard and neighbourhood
- → Public transport connections to Rottenburg and the university city of Tübingen



OUR COMMITMENT

INSTONE REAL ESTATE SUPPORTS SOCIAL PROJECTS

Social engagement was a particular focus for Instone Real Estate last year. All our employees were able to make a personal contribution. In addition to "Instone moves" – our major fundraising campaign involving sport – each location was released for a social day. This enabled our workforce to support regional social projects close to their hearts directly in situ. These examples show the many diverse ways to carry out social engagement.

INSTONE MOVES

For us, social engagement isn't just an empty phrase in the annual report. In our "Instone moves" campaign, our words were followed by very specific actions. In autumn 2021, our team as well as our business partners and friends contributed to collecting sport units over a period of four weeks. Each unit was then valued at €2 and a donation calculated based on that.

In total, around 200 colleagues generated 14,355 units and around 60 external participants 2,681 units. Instone Real Estate increased the amount to €50,000, which went to support flood victims in Dernau, a community of around 1,700 inhabitants in the Ahr Valley. We are involved in renovating a residential building for a family of four and are also equipping a meeting point for the flood victims, a private initiative, with a container facility including a kitchen and toilets.

↗ **https://youtu.be/ddZ2Rth4PbE**

17,036
sport units were collected

Bavaria North paints for primary school students

In September 2021, our Nuremberg colleagues got to work bonding, sanding and painting at the Friedrich Hegel primary school.

Every six years, the school organises a project day when the children paint the pillars in the playground. Each of the 26 classes can then redesign their pillars.

We helped prepare the around 70 pillars for the next project day in the coming school year by sanding and priming them in advance.

HAMBURG HELPS AT A NATURE EXPERIENCE GARDEN

Our Hamburg branch was also hard at work in September 2021 supporting BUND-Landesverband Hamburg e. V.'s BUND nature experience garden in the district of Wilhelmsburg. They spent the whole day sawing, fixing screws, picking, mowing, hoeing and raking.

The garden provides space for community gardening, learning from one another and talking to different people about protecting nature and the environment.

As part of the regional BUND association's #canoe4nature campaign, our team also pulled a large amount of rubbish out of the surrounding canals.

NYOO TEAM PLANTS TREES IN GARATHER FOREST

For the social day in November 2021, the whole nyoo team swapped the office for the forest, blazers for work gloves and keyboards for spades. Together, they planted trees to restore the regional forest.

1,000
trees were planted in a total of six hours

3,500
tonnes of CO_2 will be bound by these trees over their lifetime

Bavaria South helps at the Münchner Tafel foodbank

Our Munich colleagues found a good solution for their social day despite all the adversity of coronavirus. On several dates throughout autumn 2021, three or four people helped at the Münchner Tafel e. V. foodbank (open air food market).

Each time, their work involved unloading and sorting the products and setting up the serving stands. The products were then distributed to Munich residents in need.

LEIPZIG TAKES OVER THE SPONSORSHIP OF A SCHOOL GARDEN

Experiencing nature in all its facets and assuming responsibility – that is the aim of the newly created research garden at the DPFA-Regenbogen-Grundschule primary school in Leipzig. The children now have around 145 m² in which to get creative, strengthen their sense of independence and recharge their batteries. We are proud to have provided €9,000 in financial support for this sustainable project as school sponsor.

145 m²

of research garden for the children to cultivate

We have also provided over €20,000 to support various regional projects. The donations benefited Lebenshilfe Nürnberg e. V., TU Dortmund University, SC DHfK Handball Verwaltung GmbH in Leipzig and Deutsche Rechnungslegungs Standards Committee e. V. (the national setter of accounting standards in Germany).

The newly created research garden at the DPFA-Regenbogen-Grundschule in Leipzig. (Copyright: DPFA)

LEIPZIG READS ALOUD

Christmas is the best time for reading aloud poems and festive stories. Therefore, in December 2021 seven colleagues met at the VitaMed assisted living facility in the Grünau district of Leipzig. Tables decked with Christmas stollen cake, almond biscuits and gingerbread were spread over three floors as the residents eagerly awaited their unknown visitors.

The readers sweetened the elderly audience's evening prayers by telling traditional Christmas stories. Afterwards, they decorated little gingerbread houses together with the senior citizens and talked about old times.

TO OUR SHAREHOLDERS

Letter to shareholders

Kruno Crepulja
Chairman of the Management Board/CEO

Dear Shareholders,
Dear Readers,

Despite the continuing pandemic, 2021 was a good year for Instone Real Estate on the whole. In the face of adversity, our employees achieved a great deal and laid the groundwork for accelerated growth in the medium term. We were even able to raise our profit target slightly, although in particular the impacts of the pandemic meant that our revenue did not quite meet expectations. Our project pipeline continued to grow to a total volume of around €7.5 billion, thereby providing excellent foundations for the policy of expansion that we have successfully initiated.

As one of Germany's biggest residential developers and a listed company, we are aware of our social and ecological responsibility. We strive to reconcile economic growth with social requirements and aspects of environmental protection as a matter of principle. These efforts are reflected in our sustainability strategy, which we are continuously developing and which is presented in greater detail in a dedicated section of this Annual Report. We have set ourselves ambitious goals and we support the climate targets of the EU and the German Federal Government. Our aim is to be a trailblazer within the industry in this area, and we are making good progress: In evaluating us for the first time, the renowned ESG rating agency awarded us a top rating and ranked us among the best 2% of real estate developers worldwide. This good result serves as an incentive for us to set standards in this area for the long term.

Above and beyond this, our strategic objective is to be the innovation leader within the industry. This is underlined by our subsidiary, nyoo, which we founded in October 2021. It embodies a new and innovative product that will provide impetus for standardised, digitised planning and serial building. nyoo will allow us to reduce construction costs considerably. This will make construction and housing in medium-sized cities and peripheral metropolitan areas significantly more affordable again for the broad core of society. The first two nyoo projects have been under construction since the second half of 2021 – and have already been acquired by a strategic investor and a pension fund respectively. We are addressing new markets and target groups with nyoo, and we believe this offers huge growth potential for the Instone Group. By 2030, the affordable housing segment will account for around half of all homes developed by the Group. Based in Cologne, the independent company has around 40 employees and this figure is continuing to rise. The nyoo concept serves as an impressive demonstration of the fact that business success and sustainable, responsible action do not have to be mutually exclusive, but rather that they can work in harmony.

Our innovative strength is also illustrated by a joint venture with high-profile partners: Beeboard aims to take the growth area of digital project development to the next level and establish a new industry standard for the construction and real estate industry. Its stated objective is to offer a unique industry solution that clearly and transparently models all processes along the operational value chain and substantially simplifies cooperation between all participants. Why is Instone Real Estate, a pure residential developer, investing in a start-up for the development of a software solution? Because we firmly believe that – in addition to quality – efficiency and speed will be the decisive factors in the project development process of the future. By participating in the development of this system solution, which is the only one of its kind in the industry, we can ensure that it is optimally geared towards the specific requirements of our project teams right from the start. In other words, we are creating a useful tool that is quite literally made for us and our work.

From highly resource-efficient construction and affordable housing to the rapid digital transformation, Instone Real Estate is intensively addressing the major social topics of our time and believes that they offer significant opportunities for its continued business development. Although our thoughts and actions are underpinned by the principles of sustainability and innovation, the market environment in which we operate is currently a challenging one. The indirect effects of the pandemic are still leading to delays in building permits. Furthermore, Instone Real Estate is not immune to the global impact on supply chains and the consequences of inflation. Business development is being curbed by supply bottlenecks and delays to the start of construction, some of which are due to permits. In addition, the processes for obtaining planning permission at a municipal level are becoming increasingly complex and lengthy as a result of structural factors. This development will restrict the pace of our growth over the coming years. We therefore expressly welcome the stated intention of the new German Federal Government to encourage new construction in Germany and speed up planning processes.

We are currently forecasting moderate revenue growth for the coming years. We are making property purchases in order to strengthen the foundations for our accelerated growth in the medium term. We are maintaining our medium-term revenue target of €1.6 billion in 2026. We are well on track at an operational level: We are continuing to set quality standards in building construction and have costs under control, and we are successful when it comes to acquisitions and the sale of our projects. Every day, our entire team demonstrates its expertise, commitment, inventiveness and team spirit – even under conditions that remain difficult due to the coronavirus situation. Their efforts merit my considerable respect and gratitude.

Dear shareholders, I would also like to expressly thank you for the confidence and loyalty you have placed in us. We are convinced of the future viability and solidity of our business model, and we will continue to resolutely pursue the growth path we have successfully initiated. We see this as our obligation and our mission.

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

The Management Board

From left to right:

Dr Foruhar Madjlessi
Chief Financial Officer

Kruno Crepulja
Chairman of the Management Board/ CEO

Andreas Gräf
Chief Operating Officer

Management Board

Management Board

Kruno Crepulja
Chairman of the Management Board/
CEO of Instone Real Estate Group SE

Kruno Crepulja is Chairman of the Management Board/CEO of Instone Real Estate Group SE. He is also CEO of Instone Real Estate Development GmbH. He has comprehensive experience as an engineer, site manager and project developer as well as an 18-year career on the management boards of large development companies, such as Wilma Wohnen Süd GmbH. Mr Crepulja has been CEO of Instone Real Estate Development GmbH's predecessor, formart GmbH & Co. KG, since 2008. He was also responsible for Hochtief AG's project development activities in Europe between 2011 and 2013.

Member of the Management Board since 13 February 2017; appointed until 31 December 2025.

Dr Foruhar Madjlessi
Member of the Management Board/
CFO of Instone Real Estate Group SE

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

Member of the Management Board since 1 January 2019; appointed until 31 December 2022.

Andreas Gräf
Member of the Management Board/
COO of Instone Real Estate Group SE

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

Member of the Management Board since 13 February 2017; appointed until 31 December 2025.

Supervisory Board report

Dear Shareholders,
Dear Readers,

Before I inform you about the work of the Supervisory Board and its committees in 2021, I would like to share a few observations about the past financial year.

Once again, we can look back on a financial year that was significantly affected by the Corona pandemic, even though the impact on our Company was fortunately not as severe as in the previous year. In our view, this is in particular due to our employees and our Management Board who have responded excellently to the special challenges challenges over the last two years, and through their extraordinary contribution to our Company paved the way for the very pleasing result of this financial year. I would like to emphasise at this point: This is an outstanding success, without having returned to the normal operations before the start of the pandemic, which is also reflected in the proposal for a dividend of dividend of EUR 0.62 per share - more than double the dividend paid for the compared to the dividend paid for the first time in the last financial year.

I would therefore like to take this opportunity to express my gratitude to our employees and our Management Board for their tireless and unremitting efforts on behalf of Instone Real Estate.

In the past financial year, the work of the Supervisory Board again involved dealing with the consequences of the coronavirus pandemic and other current challenges to a large extent. Accordingly, one particularly important focal point was the question of how material shortages and rising production costs are being handled at our construction sites and what consequences they will have. We also intensively addressed the continued development and positioning of the Nyoo Real Estate product, which Instone is using to substantially improve the availability of affordable housing in Germany's metropolitan regions. Our board work also focused on a large number of other innovation topics. These include, for example, our company's activities to establish and expand a uniform CRM, the digitized customer portal, and in addition, our Company's involvement in the development of a collaborative lean management tool - an important content of our digital toolbox in the future.

In the past year, we also laid important foundations for our Company's continued long-term success by extending the terms of office of our Chief Executive Officer, Mr Crepulja, and our Chief Operating Officer, Mr Gräf, until 2025. The work of the Supervisory Board in the past financial year also involved intensively addressing various legal issues, such as the revision of the remuneration system for the members of the Management Board and the reorganisation of Instore Real Estate as a Societas Europaea (SE). Finally, the Supervisory Board also approved further large-scale development projects in Cologne, Stuttgart and the Frankfurt/Main metropolitan area in the past year in order to support the continued successful development of our Company. This will lay the foundations for our Company to press ahead with its extremely successful development in future.

On behalf of the entire Supervisory Board, I would also like to take this opportunity to thank you, our shareholders, for the confidence you again placed in our Company in the past financial year.

In the following section, we will inform you about the work of the Supervisory Board and its committees in 2021.

The Supervisory Board fulfilled all the duties assigned to it by the law and the Articles of Association in the 2021 financial year. It monitored the Management Board's management of the Company and was available to advise the Management Board. GRI 2-17

Meetings and resolutions of the Supervisory Board in the past financial year

In the past financial year, the Supervisory Board held a total of nine meetings and also met regularly without the presence of the Management Board, for instance when topics such as Management Board remuneration or the assessment of the quality of the audit of the financial statements were discussed. In total, three resolutions were passed in writing.

Due to the effects of the coronavirus pandemic, the majority of the meetings in the past year were held virtually via video conferencing and with the use of an online boardroom. This allowed the Supervisory Board to continue its work without limitation throughout the coronavirus pandemic and manage the topics to be covered efficiently.

Topics covered by the Supervisory Board and its committees

At its first meeting of the financial year on 2 February 2021, the Supervisory Board extensively reviewed the Company's planning and 2021 budget and approved these items following an in-depth discussion with the Management Board.

The Supervisory Board meeting on 12 March 2021 firstly focused on extensively discussing the audited annual financial statements and the consolidated financial statements, including the combined management report for the 2020 financial year, and then approving and adopting these. The Supervisory Board also resolved the profit appropriation proposal, including the distribution of a dividend for the first time. In addition, the Supervisory Board discussed the Report of the Supervisory Board to be presented to the Annual General Meeting as well as a planned major project in Cologne.

The planned major project in Cologne was also the subject of an extraordinary meeting of the Supervisory Board on 13 April 2021.

On 23 April 2021, the Supervisory Board meeting firstly addressed the agenda for and implementation of the 2021 Annual General Meeting as well as the resolutions by management to be proposed to the AGM. As in the previous year, the Supervisory Board approved the Management Board's proposal to take advantage of simplified rules enacted by legislators to conduct the Annual General Meeting virtually. The meeting also addressed the resolutions on the revised remuneration systems for the members of the Management Board and Supervisory Board and the reorganisation of Instone Real Estate Group AG as a Societas Europaea (SE). At this meeting, the Supervisory Board also heard the regular report of the Management Board on the course of business and addressed price developments and the supply situation for construction materials in particular. Without the presence of the Management Board, the Supervisory Board additionally approved the variable remuneration for the Management Board for the 2020 financial year based on the recommendation of the Remuneration Committee.

At its meeting on 9 June 2021, the Supervisory Board held a follow-up discussion of the virtual Annual General Meeting and addressed the report by the Nomination Committee on the appointment of a successor for Ms Marija Korsch, who stepped down from the Supervisory Board at the end of the Annual General Meeting.

On 1 July 2021, the Supervisory Board heard the regular report of the Management Board on the course of business, which again concentrated on the development of material and purchasing prices. The Supervisory Board also approved a strategic investment in a joint venture with a focus on digital project development. This meeting also discussed the candidate proposal for filling the vacant position on the Supervisory Board following the departure of Ms Korsch. At the recommendation of its Nomination Committee, the Supervisory Board recommended that Ms Christiane Jansen be appointed by court to succeed Ms Korsch on the Supervisory Board. It also made changes to the composition of the Supervisory Board committees to reflect Ms Korsch's departure.

At its meeting on 20 July 2021, the Supervisory Board firstly approved a further development project in the Frankfurt/Main metropolitan area. This also marked the constituent meeting of the Supervisory Board of Instone Real Estate Group SE, which was composed of the same persons. It reappointed the members of the Management Board with the same composition as previously. In addition, the Supervisory Board extended the terms of office of the Management Board members Kruno Crepulja and Andreas Gräf ahead of schedule until 31 December 2025 and approved the conclusion of modified employment contracts with all of the members of the Management Board to reflect the new remuneration system. This represented an important milestone in ensuring the ongoing continuity of our senior management.

On 14 October 2021, the Supervisory Board heard the regular report of the Management Board on the course of business. It also approved another new project in Stuttgart and was informed by the Management Board about the medium-term and short-term liquidity and financing situation. The Supervisory Board also discussed the half-yearly financial report and resolved to update the Rules of Procedure of the Management Board and the Supervisory Board to reflect the reorganisation of the Company as a Societas Europaea (SE).

At its last meeting of the financial year on 8 December 2021, the Management Board again gave its regular report on the course of business and presented the Company's preliminary planning for the 2021 financial year to the Supervisory Board, which discussed this in detail with the Management Board. In addition, the Supervisory Board deliberated on various governance issues and approved the Declaration of Compliance with the German Corporate Governance Code (GCGC). The Supervisory Board also conducted the scheduled self-assessment of its work.

The three Supervisory Board resolutions passed in writing in the past financial year related to the approval of a property acquisition presented by the Management Board, the adoption of the Corporate Governance Statement, and the approval of project finance for a property acquisition. GRI 2-18

Trust-based cooperation between the Management Board and the Supervisory Board

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

In addition to its meetings, the Supervisory Board again discussed strategic issues with the Management Board in November of the past financial year. In particular, this strategy meeting focused on the various digital transformation projects at Instone Real Estate, particularly in the areas of lean management, CRM and the digital customer portal, as well as the Company's acquisition strategy for new projects.

The Management Board informed the Supervisory Board regularly, promptly and comprehensively about any and all aspects that were material to the Company, and fulfilled its reporting duties as specified by law, the Articles of Association and the Rules of Procedure. Above all, these included the business development of Instone Group, key investment plans, risk management and internal auditing progress, and fundamental matters concerning corporate planning, strategy and organisation. The Management Board additionally reported extensively to the Supervisory Board on the business performance of the Instone Group in conference calls that took place in addition to Supervisory Board meetings in connection with the publication of the quarterly reports and the half-yearly financial report. Outside of these meetings, the Chairman of the Management Board in particular maintained an intensive and regular dialogue with the Chairman of the Supervisory Board in particular.

Business and transactions requiring the consent of the Supervisory Board pursuant to the Articles of Association and Rules of Procedure of the Management Board – which this year related in particular to development projects, project finance and the reorganisation as a Societas Europaea (SE) – were submitted to the Supervisory Board for resolution by the Supervisory Board and discussed in detail with the Supervisory Board prior to the resolution.

Supervisory Board composition and meetings

The Company's Supervisory Board consists of five members in accordance with the Articles of Association. All members are elected as shareholder representatives by the Annual General Meeting of the Company and are, in the opinion of the Supervisory Board, independent within the meaning of Recommendations C. 6 and C. 7 of the GCGC. The Supervisory Board is not subject to employee co-determination.

The Company supports the members of the Supervisory Board in taking advantage of training and further education options on Supervisory Board-specific topics, for instance by bearing the required costs of such training.

Members of the Supervisory Board during the period under review

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

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

→ Marija Korsch
(Member from 13 February 2018 until 9 June 2021)

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

→ Thomas Hegel
(Member since 12 April 2019)

→ Christiane Jansen
(Member since 20 September 2021)

The detailed CVs of the current members of the Supervisory Board can be found on the ↗ Company's website under **Investor Relations → Corporate Governance → Management**.

A breakdown of individual attendance at meetings of the Supervisory Board and Supervisory Board committees is shown on page 33 and can also be found on the ↗ Company's website.

Supervisory Board committees

In order to streamline the work of the Supervisory Board, the Supervisory Board had three standing committees with various responsibilities in the 2021 financial year, each of which has three members in accordance with the Rules of Procedure of the Supervisory Board: the Nomination Committee, the Audit Committee and the Remuneration Committee. Other committees may be set up by the Supervisory Board as required. The committees prepare the deliberations and resolutions of the plenary Supervisory Board in their areas of responsibility. In addition, they make decisions in the context of various tasks defined in the Rules of Procedure of the Supervisory Board, insofar as the Supervisory Board has delegated these tasks to the relevant committee in the Rules of Procedure.

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Supervisory Board 2021/Overview of meeting participation TABLE 002

	Stefan Brendgen	Dr Jochen Scharpe	Marija Korsch	Dietmar P. Binkowska	Thomas Hegel	Christiane Jansen	Written SB resolutions
Supervisory Board							
02/02	Yes	Yes	Yes	Yes	Yes		
12/03	Yes	Yes	Yes	Yes	Yes		
13/04	Yes	Yes	No	Yes	Yes		
23/04	Yes	Yes	No	Yes	Yes		
09/06	Yes	Yes		Yes	Yes		
01/07	Yes	Yes		Yes	Yes		
20/07	Yes	Yes		Yes	Yes		
14/10	Yes	Yes		Yes	Yes	Yes	
08/12	Yes	Yes		Yes	Yes	Yes	
Total	**9/9**	**9/9**	**2/4**	**9/9**	**9/9**	**2/2**	**3**
Audit Committee							
02/02	Yes	Yes			Yes		
12/03	Yes	Yes			Yes		
23/04	Yes	Yes			Yes		
01/07	Yes	Yes			Yes		
31/08	Yes	Yes			Yes		
07/12	Yes	Yes			Yes		
Total	**6/6**	**6/6**			**6/6**		**0**
Remuneration Committee							
15/04	Yes		Yes	Yes			
21/04	Yes		Yes	Yes			
20/07	Yes	Yes		Yes			
14/10	Yes	Yes		Yes			
08/12	Yes	No		Yes			
Total	**5/5**	**2/3**	**2/2**	**5/5**			**0**
Nomination Committee							
29/6	Yes	Yes		Yes			
Total	**1/1**	**1/1**		**1/1**			**0**

Audit Committee

The Audit Committee is responsible in particular for reviewing the accounting, monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, the audit of the financial statements, in particular the independence of the auditor, the additional services provided by the auditor, granting the audit assignment to the auditor, the determination of audit priorities, and the assessment of the quality of the audit of the financial statements, as well as compliance and ESG and CSR reporting.

The Audit Committee prepares the resolutions of the Supervisory Board relating to the annual financial statements and the consolidated financial statements. It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of their approval and adoption, and the preliminary examination of the profit appropriation proposal of the Management Board. The Audit Committee also prepares the appointment of the auditor that is made to the Annual General Meeting, whereby the Audit Committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee decides on agreements with the auditor and the approval of transactions with related parties in accordance with Section 107 (3) Sentence 4 in conjunction with Section 111b (1) of the German Stock Corporation Act (AktG).

The members of the Audit Committee in the 2021 financial year were:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Brendgen

→ Thomas Hegel

The members of the Audit Committee are independent and have professional expertise in the area of accounting and auditing, thereby fulfilling the requirements of Section 107 (4) Sentence 3 in conjunction with Section 100 (5) AktG. Furthermore, the Chairman of the Audit Committee has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and is familiar with the audit of financial statements.

The Audit Committee met six times in the 2021 financial year. Among the topics that the Audit Committee dealt with during the period under review were the annual planning for the purpose of preparing the resolutions of the plenary Supervisory Board and the preparation of the resolutions of the full Supervisory Board on the annual financial statements and consolidated financial statements for the 2020 financial year together with the combined management report, as well as on the proposal for the appointment of the auditor made to the Annual General Meeting. It also addressed the implementation of the requirements of the German Act to Strengthen Financial Market Integrity (FISG), the assessment of the quality of the audit of the financial statements, and the discussion of the auditor's audit priorities for the 2021 financial year. In addition, the Audit Committee dealt intensively with the Company's internal audit activities and the audit plan for the 2021 financial year.

Nomination Committee

The Nomination Committee names suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting and concerns itself with succession planning for the Supervisory Board.

The members of the Nomination Committee in the 2021 financial year were:

→ Dietmar P. Binkowska (Member and Chairman until 1 July 2021)

→ Stefan Brendgen

→ Dr Jochen Scharpe

→ Thomas Hegel (Member and Chairman since 1 July 2021)

The Nomination Committee held one meeting in the past financial year. The subject of the meeting was the recommendation to the plenary Supervisory Board that Ms Christiane Jansen be proposed as a new Supervisory Board by way of an application for court appointment by the Management Board. This had become necessary due to Ms Korsch stepping down from the Supervisory Board during the course of the year.

Mr Binkowska and Mr Hegel, who served as the Chairman of the Nomination Committee during the 2021 financial year, are both independent.

Remuneration Committee

The Remuneration Committee advises on the employment contracts of the members of the Management Board and prepares resolutions for the Supervisory Board, and in particular recommendations on the definition of targets for the variable remuneration of the Management Board and their measurement. It also prepares the Supervisory Board resolution on the remuneration systems and remuneration reports for the members of the Management Board and Supervisory Boards.

The members of the Remuneration Committee in the 2021 financial year were:

- → Marija Korsch (Member and Chair until 9 June 2021)
- → Stefan Brendgen
- → Dietmar P. Binkowska (Chairman since 1 July 2021)
- → Dr Jochen Scharpe (Member since 1 July 2021)

The Remuneration Committee met five times in the 2021 financial year. In particular, these meetings dealt with the preparation of the Supervisory Board resolutions on the revised remuneration system for the members of the Management Board, the employment contracts for the members of the Management Board modified on this basis, the definition of the variable remuneration of the Management Board members for the 2021 financial year and the definition of the financial and personal targets for Management Board remuneration for the 2022 financial year.

Ms Korsch and Mr Binkowska, who served as the Chair of the Remuneration Committee during the 2021 financial year, are both independent.

Corporate governance and Declaration of Conformity

The Management Board and the Supervisory Board are committed to the principles of good corporate governance in accordance with the recommendations of the Government Commission on the German Corporate Governance Code (GCGC). Accordingly, the Supervisory Board again dealt with corporate governance matters extensively and repeatedly in the past financial year.

The topics covered included the delegation of authorities for the Management Board, the remuneration of the members of the Supervisory Board and Management Board, and the Supervisory Board's self-assessment of its work.

In December 2021 the Management Board and Supervisory Board of Instone Real Estate Group SE issued a joint Declaration of Compliance with the recommendations of the German Corporate Governance Code in accordance with the provisions of Section 161 of the German Stock Corporation Act after in-depth deliberations. It is included on page 169 f of this Annual Report and can also be found in the Investor Relations section of the Company's website under Instone Compliance Statement.

The Management Board and Supervisory Board also report in detail on the corporate governance of Instone Real Estate Group SE in the Corporate Governance Statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB), which can be found on page 169 f. of this Annual Report. The declaration on corporate governance can also be found on the Company's website in the Investor Relations section.

In accordance with the recommendations of the GCGC, the Supervisory Board also informs the Annual General Meeting of any conflicts of interest among members of the Supervisory Board. No such conflicts of interest were disclosed to or identified by the Supervisory Board during the entire period under review.

Personnel changes in the Management Board and Supervisory Board

There were no personnel changes in the Management Board in the 2021 financial year. As part of the reorganisation of Instone Real Estate as a Societas Europaea (SE), the members of the Management Board were reappointed by the newly constituted Supervisory Board of the SE as the members of the Management Board of the SE with the same composition as previously.

Ms Marija Korsch stepped down from the Supervisory Board at the end of the Annual General Meeting of the Company on 9 June 2021. Ms Christiane Jansen was appointed as her successor by the responsible court on 20 September 2021 in response to an application by the Management Board following a corresponding recommendation by the Supervisory Board and its Nomination Committee.

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Audit of annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, was elected as auditor of the annual financial statements and consolidated financial statements for the 2021 financial year by the Annual General Meeting of the Company and commissioned by the Supervisory Board. The focal points of the audit were discussed in detail with the auditor at the Audit Committee meeting on 31 August 2021 and established accordingly.

The consolidated financial statements for the 2021 financial year were prepared on the basis of the International Financial Reporting Standards (IFRSs) as adopted in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

The auditor provided its report and the documentation relating to the financial statements for the 2021 financial year to the members of the Audit Committee and Supervisory Board on 11 March 2022.

The report was discussed in detail at the Audit Committee meeting and the financial statements review meeting held by the plenary Supervisory Board on 14 March 2022. The auditor was present at both meetings. The auditor provided detailed reports on the main findings of the audit at the meetings and answered all the questions posed by members of the Audit Committee and the plenum. In addition, the auditor provided information about services provided by it in addition to the auditing services. There was no evidence of bias on the part of the auditor.

The auditor issued an unqualified opinion on the annual and consolidated financial statements for 2021 and the combined management report on 11 March 2022. Following a detailed review of the annual financial statements, the consolidated financial statements and the combined management report as at 31 December 2021 by the Audit Committee, the latter recommended its approval to the plenary Supervisory Board. Per the final result of its own examination, no objections were raised by the Supervisory Board. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements have therefore been adopted. Having examined it in detail and weighed up all considerations, the Supervisory Board approved the proposal of the Management Board to the 2022 Annual General Meeting on the appropriation of the annual net profit for the 2021 financial year.

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

Essen, 14 March 2022

For the Supervisory Board

Stefan Brendgen

Chairman of the Supervisory Board

Equity story

Major beneficiary of the strong demand for housing in German metropolitan regions:

As one of Germany's leading residential real estate developers, Instone Real Estate benefits from structurally growing demand combined with the low availability of housing, especially in metropolitan regions.

Instone Real Estate has operations throughout Germany, with a focus on attractive locations in Germany's most important metropolitan areas. The Company possesses a great deal of expertise in-house and covers the entire value chain – an important competitive factor. Value is generated by activities ranging from purchasing and developing property to planning and providing construction services to selling homes. This extensive expertise is also reflected in a gross margin of **28.3%**, which puts Instone Real Estate at the top of the industry.

Product innovation nyoo promises additional growth:

The development and launch of the innovative new product nyoo provides Instone Real Estate with a significant edge over the competition and offers huge growth potential. After several years of development, Instone Real Estate has succeeded in significantly reducing planning and construction costs by using smart standardisation in the planning process and simplifying the production process. The digitalisation of the planning process and creation of a highly scalable product are the key success factors. The new product enables the Company to enter a completely new market in the mid-price segment, which has to date barely been served.

Developing this new business area is a material pillar of the growth strategy for which a sharp increase in revenue of around **€1.6 billion** has been forecast between now and 2026.

Key milestones in 2021 included the successful sale of the first two nyoo projects to a strategic investor and a pension fund respectively, with construction work already having commenced in both cases.

Current project portfolio secures revenue for the coming years:

The project portfolio secured as at 31 December 2021 with a gross development value of **€7.5 billion** means that future income is highly visible.

Of this **€7.5 billion**, projects totalling a sales volume of **€3.3 billion** are ready for or already in the construction phase. Of these, homes accounting for a sales volume of around **€3.0 billion** were already sold as at 31 December 2021. This means that the forecast revenue for the coming years has already largely been secured despite the additional risk factors resulting from the pandemic. Instone Real Estate's shareholders also benefit from the prospect of an attractive dividend yield with considerable medium-term growth potential. On the basis of the current earnings forecast for 2022, the dividend yield amounts to **3.6%** based on the closing price for the 2021 financial year.

Growth strategy underpinned by a strong balance sheet:

Strong balance sheet ratios provide solid foundations for sustainable growth and the further substantial expansion of the project portfolio that is planned. The low debt ratio as at the reporting date is reflected in the leverage ratio of **1.5x** (net financial liabilities/EBITDA) and a loan-to-cost ratio of **20.1%**.

Clear commitment to taking social responsibility:

Sustainability has developed into a key pillar of our corporate strategy. Instone Real Estate supports the climate targets of the EU and the German Federal Government and has committed to becoming carbon neutral by 2045. It will already reduce its CO_2 emissions by 50% between now and 2030. All in all, Instone Real Estate aims to be a trailblazer within the industry when it comes to sustainability. Sustainability was integrated into the Group's organisational structure in 2021 as part of a comprehensive concept and a decision was taken to include ESG criteria in the remuneration of the Management Board. The rating agency Sustainalytics, which specialises in ESG ratings, evaluated Instone Real Estate for the first time in the past financial year. The Company achieved a top rating and was immediately ranked among the best 2% of real estate developers worldwide. Instone Real Estate is firmly committed to continuously improving its rating over the coming years.

TCFD strategy

Shares

Instone's share price performance

The global stock markets developed extremely positively in 2021, with many international indices recording new all-time highs. Among others, the benchmark DAX index in Germany reached a new high of 16,251 points in November, ultimately closing the year with substantial growth of 15.8%. The selection index for German small caps, the SDAX, also enjoyed positive performance of 11.2% compared with the previous year.

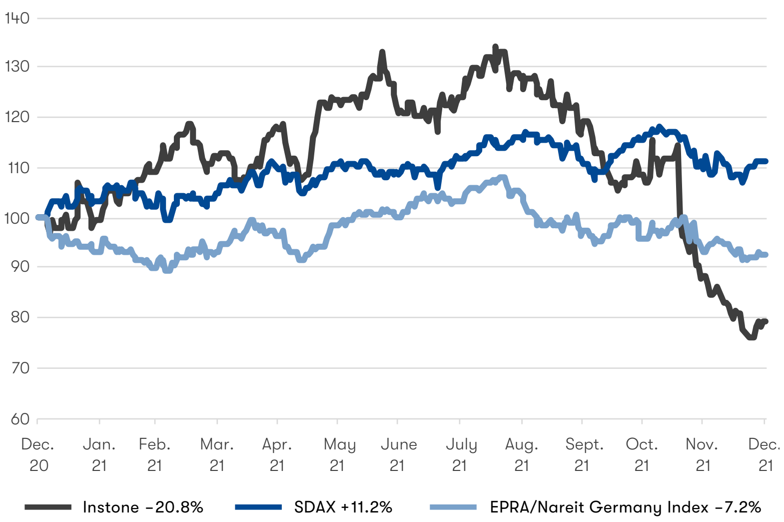
As governments gradually relaxed the pandemic-related restrictions after the winter months and vaccine availability increased, the markets showed signs of optimism with regard to an accelerated economic recovery. Companies exceeded their profit expectations on the whole, with forecasts being upwardly revised for the most part. The extreme low interest rate environment remained an important supporting factor. The stock markets saw strong growth in the first half of the year in particular. Risk factors became more evident in the second half of the year, including growing fears of inflation, disruption to global supply chains and signs that the central banks were preparing to tighten their monetary policy. However, the stock markets remained robust on the whole, and the temporary price downturns in November 2021 in response to the emergence of the Omicron variant were recovered in the final month of the year.

The benchmark index for German real estate stocks, the EPRA/NAREIT Germany, was unable to keep pace with the broader indices. While it also reached a new all-time high in the summer, the generally defensive nature of the sector and interest rate concerns in the second half of the year led to falling share prices, with the result that the index closed the year with negative performance of – 7.2%.

Instone's shares initially outperformed the benchmark SDAX and EPRA/NAREIT Germany indices by some distance in the first nine months of the 2021 financial year as the markets rewarded the good fundamental conditions of the asset class of German residential real estate – a fact that is extremely beneficial to Instone Real Estate's business model. The resistance of Instone's business model during the coronavirus crisis was also positively recognised by the markets. The share price reached a high for the year of €28.20 on 18 August 2021, which also represented an all-time high. However, performance in the final quarter of the year was overshadowed by growing concerns regarding material price rises and supply bottlenecks for some products, as well as the global increase in inflation and the expectation of interest rate hikes. Supply shortages and ongoing delays affecting approval processes, including as a result of the coronavirus crisis, were the market-related reasons why the Company lowered its revenue guidance when it published its Q3 results in November. This triggered more pronounced sell-side pressure towards the end of the year. The share price closed at €16.64 on 31 December 2021. Including the dividend distribution, this meant the shares recorded negative performance of – 19.96%. Instone Real Estate's market capitalisation amounted to €759 million at the end of the year (previous year: €987 million).

Share price performance from 1 January 2021 to 31 December 2021

Indexed, 31 Dec. 2020 = 100%

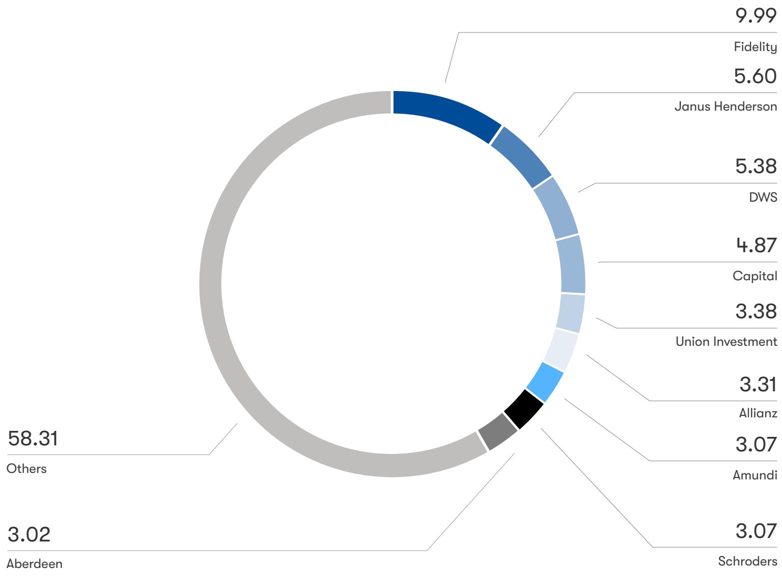


Source: Factset

Major shareholders

As at 31 Dec. 2021

Share in %



Source: Voting rights notifications according to the German Securities Trading Act

Shareholder structure and investor relations activities

The largest institutional investors in Instone Real Estate include numerous high-profile German and international asset managers and pension funds that are seeking to participate in the Company's medium-term to longer-term growth in particular. According to Deutsche Börse's definition, 100% of Instone's shares remain in free float.

Although travel restrictions remained in place, we again engaged in an intensive dialogue with existing and potential shareholders and other stakeholders in the past financial year. With one exception, all roadshows and conferences were held virtually, as was the Annual General Meeting. We visited selected construction projects together with investors on three occasions. In total, the Management

Board held 17 virtual roadshows in Europe and North America in the past year and participated in 16 investor conferences. In October, we also attended an event for private investors organised by Schutzgemeinschaft der Kapitalanleger e. V.

A total of six analysts currently regularly prepare research on our shares. Currently, all these analysts have issued a buy recommendation for Instone's shares with a share price target of €26.00 (as at February 2022). Our aim is to increase the number of research departments reporting on the Company. The current ratings and share price targets and the consensus of the analysts' estimates can be found on our Investor Relations website.

In the financial year under review, the Management Board regularly reported on the current financials and operational developments after the end of each quarter in conference calls. Recordings of the conference calls are available to all interested parties on our Investor Relations website.

All current information about the Company, such as presentations, financial reports, and press releases and ad hoc notifications, can be found in the Investor Relations section of the ↗ Instone website.

Appropriation of profits

The Management Board and Supervisory Board will propose to the Annual General Meeting on 9 June 2022 that a dividend of €0.62 be paid for each no-par value share carrying dividend rights (previous year: €0.26) and that the net profit attributable to shares not carrying dividend rights be carried forward to new account and/or appropriated to other revenue reserves. In addition, the Management Board continues to pursue its goal of distributing around 30% of the adjusted earnings after tax (EAT) to the shareholders in the long term.

Basic information about the shares

Initial listing	15 February 2018
Total number of shares	46,988,336
Registered capital	€46,988,336
Free float	100%
ISIN	DE000A2NBX80
WKN	A2NBX8
Ticker symbol	INS
Share type	No-par value bearer shares
Stock market	Frankfurt Stock Exchange
Market segment	Regulated Market (Prime Standard)
Indices	SDAX
Xetra closing price (31 December 2021)	€16.64
Dividend proposal for 2021:	€0.62 per share
Market capitalisation (31 December 2021)	€759 million
Xetra high (18 August 2021)	€28.20
Xetra closing price (23 December 2021)	€16.00
Average daily trading volume	1.7 million

We will also be happy to advise you personally.
Contact us at:

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Head of Business Development & Communication
Phone: +49 201 45355-137
Mobile: +49 173 2606034
E-mail: investorrelations@instone.de

COMBINED MANAGEMENTREPORT

Business model and organisational structure

GRI 1

Instone Real Estate is one of Germany's leading residential real estate developers. Its shares are listed on the SDAX on the Frankfurt Stock Exchange. In line with a resolution passed by the shareholders at this year's Annual General Meeting, the conversion of Instone Real Estate Group AG into a European Stock Corporation (Societas Europaea - SE) took place in August 2021. The Instone Group develops residential buildings and apartment complexes, and also operates in the publicly subsidised residential construction sector. It also works on contemporary urban planning and the refurbishment of listed buildings. These are sold to owner-occupiers, retail buy-to-let investors and institutional investors. Over the past 30 years, Instone has developed more than one million square metres of real estate. The Company employs 457 employees across nine locations in Germany. As of 31 December 2021, the project portfolio of Instone Real Estate included 54 development projects with an anticipated gross development value of approximately €7.5 billion and 16,418 units. GRI 2-7

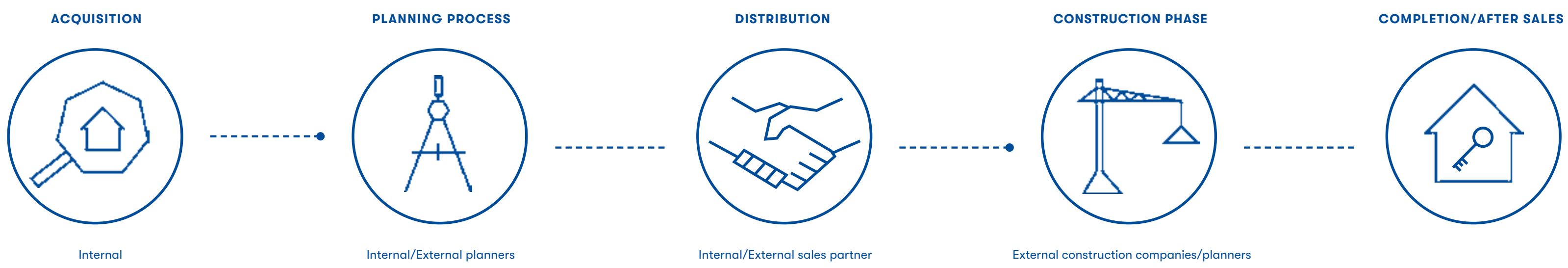
Our portfolio has traditionally been focused on the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart), with those areas representing approximately 87% of the portfolio (based on anticipated revenue volume after completion of development), with approximately 13% of projects in other prosperous medium-sized cities. Well-connected suburbs and medium-sized cities in the metropolitan regions are becoming increasingly attractive and can thus help to meet the generally high demand for residential space.

In addition to the classic core product, individually planned and tailored development of homes for rent and homes for sale, Instone Real Estate has launched a second product onto the market. Under the nyoo brand, in our own Group company we are developing affordable and new, smart-design flats for rent on the outskirts of metropolitan areas and well-connected B and C cities. In line with management's strategy, the expansion of nyoo should make a significant contribution to the planned growth. Using nyoo, around half of all real estate developed by the Instone Group is expected to come from the "affordable housing" segment by 2030. See also the "Strategy" section.

Coverage of the entire value chain

Instone Real Estate is the only listed developer in Germany that focuses on residential real estate and also covers the entire value chain Figure. The Instone Group offers a fully integrated platform across Germany which covers land acquisition, land development, concept planning and construction management through to marketing and sales. GRI 2-6

The Instone value chain



At Instone's eight operating locations, our own on-site teams are responsible for acquisition, planning and building management as well as marketing and sales management. Strategic decisions are coordinated with the headquarters and implemented jointly. The site in Cologne is also the headquarters of the nyoo subsidiary, which currently has around 40 employees.

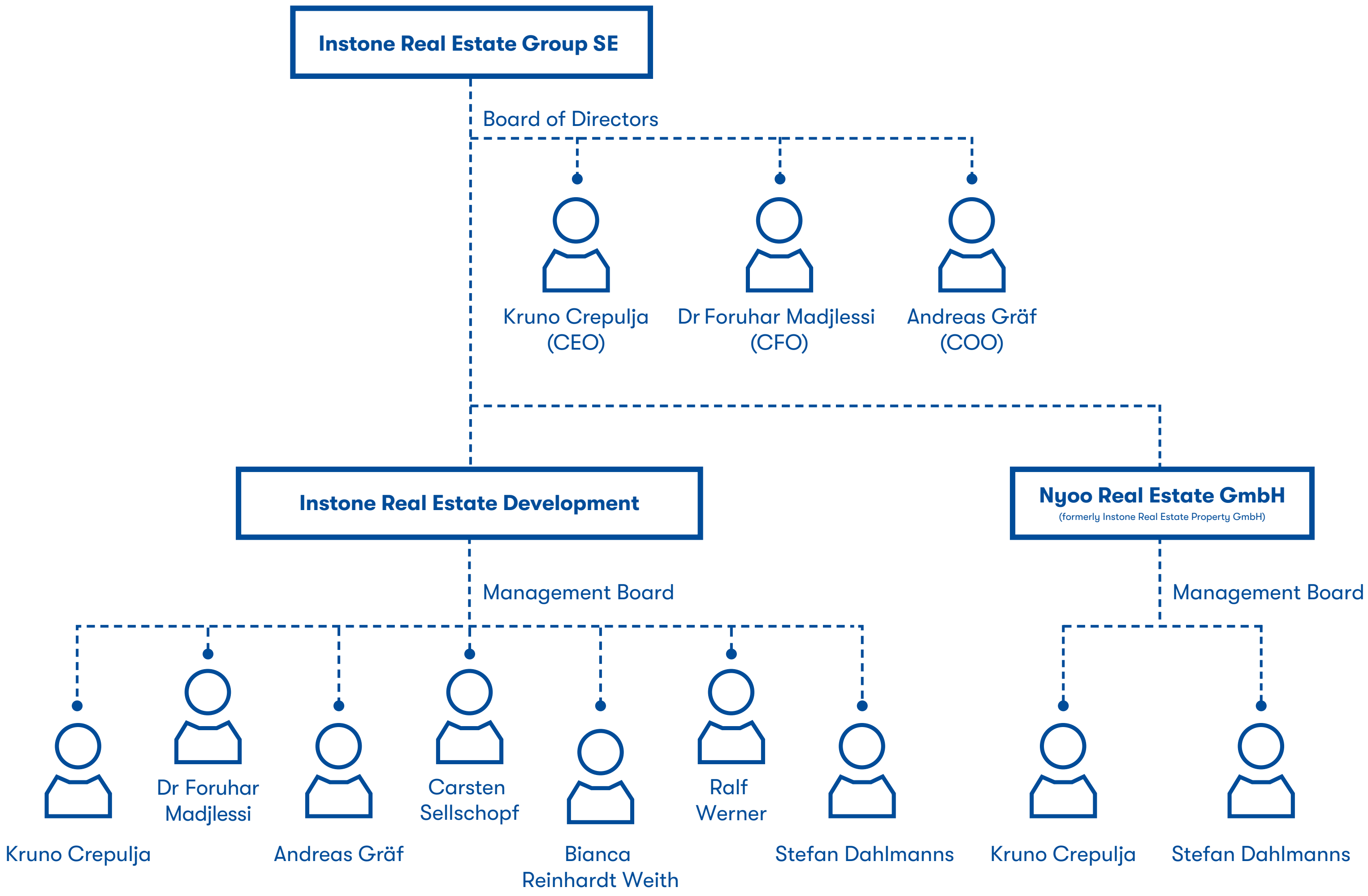
GRI 2-4

To achieve the planned growth, Instone Real Estate invested in the further expansion of its project portfolio during the past financial year. We have acquired land and real estate, including joint venture projects (Instone share), with a projected gross development value of some €1.8 billion after completion of development.

A key structural growth driver for Instone Real Estate's business activities is the continued high demand for housing, partly due to the increasing number of households and the steadily increasing urbanisation in Germany.

Instone Real Estate has integrated risk management for corporate governance and uses reporting and planning tools to minimise risk in the development process. Under the German Broker and Developer Regulations (Makler- und Bauträgerverordnung, MaBV), for example, Instone Real Estate has the option of contractually agreeing instalment payments on the basis of construction progress for residential units sold to owner-occupiers or retail buy-to-let investors. Comparable financing methods are also often negotiated with institutional investors. This significantly reduces both the financing risk and the capital commitment for the Group. Instone Real Estate Group SE acts as a strategic management holding company. Its subsidiary Instone Real Estate Development GmbH is responsible for operational project business relating to the traditional core product. Nyoo Real Estate GmbH is responsible for the business with the new product in relation to affordable housing. Figure

Organisational structure of Instone Real Estate (as at: 31 December 2021)



Number of employees continued to rise

In the 2021 financial year, the number of employees in the Instone Group rose once again. As at 31 December 2021, 457 people were employed in our Group (previous year: 413 people). GRI 2-7

Market environment and regulatory conditions

Market environment

Instone Real Estate is one of the leading residential real estate developers in Germany and has a nationwide presence in all major metropolitan regions. On the German residential real estate market, there has been structural excess demand for housing for years – especially in the large cities and conurbations, but also increasingly in their commuter belts. The demand for affordable housing is also rising. With its traditional core product, the Group focuses on the key metropolitan areas. Around 87% of the anticipated gross development value of the project portfolio as at 31 December 2021 was located in Germany's most important metropolitan areas: Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg. Around 13% is located in other prosperous medium-class cities. With the market launch of nyoo, the complementary product to create affordable housing, we are expanding our radius to attractive B locations in the areas surrounding metropolitan regions. In addition, through the development of this innovative modularly planned product, Instone Real Estate is opening up a market in the mid-price segment, a market with immense growth potential that has scarcely been catered for until now.

The competitive environment is fragmented. Instone Real Estate has a leading position on the market. There are few other project developers that operate throughout Germany and are therefore able to compete nationwide in the purchase of development projects. The competitive situation is instead characterised by smaller, regional or local project developers. This market structure means that few companies have the financial and human resources or the economies of scale to create a product with standardised planning to develop affordable housing. Further information on the development of the German residential real estate market over the past financial year can be found in the "Economic framework" section starting on page 115.

Political and regulatory framework

Real estate development is affected by a number of factors, including the political environment, the regulatory framework and general public acceptance. The housing market has increasingly been the focus of political debate and public discussion in recent years. This is due primarily to the persistently high level of demand for housing driven by demographic change and migration both into Germany and, in particular, within Germany. Given the relatively low level of new construction activity, these factors are leading to a sustained shortage of housing in the metropolitan areas. We believe that Instone Real Estate has a joint responsibility alongside policy-makers and local authorities to focus on finding solutions to this excess demand, We consider the creation of liveable and affordable housing to be our greatest contribution. Instone Real Estate continuously monitors the constantly changing regulatory framework closely and aligns its business activities with the new legislation. We cultivate an intensive dialogue with local authorities and state legislatures to actively help to improve the framework for the creation of housing. To achieve this objective, Chair of the Management Board Kruno Crepulja is, for instance, Vice Chair of the Residential Real Estate Committee for the German Property Federation (ZIA), the umbrella organisation of the real-estate industry in Germany.

When considering the regulatory environment, it is also important to note that it is the balancing of residents' individual interests and the common good within re-densification projects for markets with housing shortages that is increasingly leading to project delays or halted projects. The increasing weight of environmental concerns also further increases the complexity of the process of procuring construction rights. Nevertheless, it is worth noting at present that most Instone Real Estate projects are supported by the public. On our part, this is underpinned by active and transparent communication and high levels of credibility. In development planning processes, Instone Real Estate maintains open communications and involves all stakeholders, such as neighbours and interested citizens, at an early stage of planning the neighbourhood, which results in comparatively few conflicts and minimal associated public law proceedings.

The obligations under the urban development contracts with local authorities are met by Instone Real Estate itself as an integral part of the value chain. This includes the creation within our current projects of some 1,288 child day-care places and affordable housing in locations with large shortages, amounting to 2,859 subsidised homes or 233 reduced-price homes. Management expects that more than 6,000 residential units will be under construction by the end of 2022. In this way, we are consistently implementing our growth strategy.

The following significant changes in the regulatory environment or uncertainty factors are currently ongoing and could affect our Group's business model:

A traffic-light coalition in the German Federal Government

On 7 December 2021, the SPD, the Greens and the FDP signed their coalition agreement, paving the way for what is known as a traffic-light coalition. The coalition agreement describes the creation of new housing as an important political objective. Among other things, a separate Federal Ministry of Construction is to be created for this purpose. The main objective is the construction of 400,000 new apartments every year, of which 100,000 will be publicly subsidised. Key tools for achieving this objective are considered to be accelerating planning procedures and increasing the efficiency advantages that result from standardisation and digitalisation. The contract named the increase in the depreciation rates from 2 to 3% as a specific financial measure for the promotion of new builds. The reintroduction of non-profit housing companies to create low-cost housing is also to receive financial support.

In addition to social goals, measures to support climate targets also form a key issue in the coalition agreement for the housing industry. As part of the continued climate-protection programme, a subsidy programme focusing on greenhouse gas emissions per square metre of living space is to be introduced in 2022 following the end of the scheme that promotes new builds with KfW's efficiency house standard 55 (EH 55). For example, the German Building Energy Act (Gebäudeenergiegesetz) is intended to align the new construction standards with the applicable KfW-EH 40 standard on 1 January 2025. To strengthen protections for tenants, the rent control (Mietpreisbremse) is to be extended until 2029 and intensified, although new builds are still to be excluded from this.

We welcome the new construction targets and the intended promotion of new affordable housing. We see the acceleration of planning procedures and the promotion of efficiency advantages ranging from standardisation and digitalisation as practical tools for achieving this. Although the exact design of many measures has not yet been set in stone, we consider ourselves to be well positioned as a pioneer in the development of affordable housing.

The German Building Land Modernisation Act (Baulandmodernisierungsgesetz) and the conversion ban

The German Building Land Modernisation Act came into effect on 23 June 2021. Among other things, this introduced the withholding of approval for the conversion of rental apartments into freehold apartments (Section 250 of the German Federal Building Code (BauGB)). Municipalities in which the housing market is considered under pressure may in certain cases now prohibit the conversion of flats for rent into freehold apartments. This provision will apply until the end of 2025. In the real estate industry, the Act is viewed as a drastic intervention in the market and in property rights which is expected to result in a sustainable reduction in supply for purchasers of freehold apartments. As a result, we expect the excess demand in the housing market, and therefore the demand for Instone Real Estate products, to continue to rise.

Pre-emptive purchase rights of local authorities

The new German Construction Land Modernisation Act also extends the pre-emptive purchase rights of local authorities. Local authorities now have more opportunities to gain preferential access to land and houses, and to build housing there themselves. Accordingly, an increasing proportion of pre-emptive purchase rights exercised by local authorities may also affect the acquisition activities of Instone Real Estate. The generally small financial leeway of many local authorities, further eroded by the consequences of the COVID-19 pandemic, significantly limits their acquisition potential.

Indeed, Instone Real Estate believes that the increased exercise of pre-emptive purchase rights could lead to additional opportunities through potential public sector collaborations.

Municipal land regulations

There are political efforts in a number of Instone Real Estate's core markets to further extend regulations as part of creating new planning permission. As well as increases in mandatory quotas for the creation of subsidised housing, there are also initiatives to regulate privately financed residential construction more heavily at local-authority level, for example by using fixed quotas for homes for sale, homes for rent, social rented housing or cooperative housing.

While additional regulations of this type are likely to have negative effects on both the demand for and supply of construction land in general, Instone Real Estate believes that it is well positioned to compete in this environment thanks to the development of a product for affordable housing. With our expertise in products and implementation in the area of low-cost construction, our assessment is that we are further strengthening our relative competitive position compared to other developers. In addition, these conditions do not affect existing projects with planning permission and projects where the process to procure construction rights has already started.

Strategy

Instone Group is one of the leading residential real estate developers in Germany. The strategic goal is to continuously expand this competitive position through profitable growth. As part of the strategy, we take advantage of the, in our view, highly attractive opportunities in the German market while creating added value for all stakeholders. This particularly includes our customers, employees, shareholders, local authorities and the social environment in which we operate. The Group strategy includes the following essential elements: GRI 2-22

Focus on metropolitan areas and conurbations in Germany and on B and C locations

As part of our traditional core product, the individually planned and tailored development of homes for rent and homes for sale, we are focusing on inner-city locations in metropolitan areas and medium-sized cities with structural surplus demand and demographic growth. With our new nyoo product, we are also targeting B and C locations around economic centres which are in our view becoming increasingly attractive. In our projects, we also always focus on sustainable, environmentally-friendly neighbourhood development and the integration of social aspects. For example, we regularly build a high proportion of accessible apartments. Neighbourhood developments consist of a mix of residential units supplemented by other usage categories, such as offices, commercial spaces and community facilities, like child day-care centres. For a larger proportion of non-residential developments, we take on land development and include project partners for the commercial part. In terms of project size, with our traditional product we concentrate on large projects with an average value of €100 million. The average project size at nyoo, on the other hand, is around €30 to €50 million.

Nyoo as a growth driver for affordable housing

With our new nyoo product, we want to supplement our existing successful product range with high-quality, low-cost apartments based on modular planning to create affordable housing. By combining modular planning, serial construction, product simplification and using digital sales channels, we plan to significantly reduce production costs and the duration of projects. The cost advantages created by this product are allowing Instone Real Estate to tap into the mid-price market which has barely been catered for until now and represents vast potential for growth. This will enable us to address the high demand for homes for rent and homes for sale for medium-income groups while making a valuable contribution to more affordable housing on the outskirts of metropolitan areas and in what we believe to be attractive B and C locations. The first two pilot projects in Düsseldorf-Unterbach and Duisburg were sold to one strategic and one institutional investor, respectively, and represent important milestones. Construction has also already begun. By 2030, around half of the apartments developed are expected to be affordable housing.

Expansion of the project pipeline

The acquisition of suitable land is of key importance for the planned growth of Instone Group. We apply our many years of experience and our procurement networks to exploit these opportunities. In 2022 and in the medium term, we will continue to significantly expand the project portfolio both in terms of traditional business and our new product for affordable residential construction in order to lay the foundations for the target revenue volume set by management of around €1.6 billion in 2026. Due to the solid balance sheet, it as assessed by the Management, Instone Real Estate is very well positioned for further growth.

Making the most of competitive advantages along the value chain

As one of the few developers in Germany focusing exclusively on residential real estate, Instone Real Estate is able to draw on its many years of extensive expertise along the entire value chain:

→ When acquiring land, we prioritise "off-market transactions", i.e. acquisitions outside the public, multi-level bidding process. Establishing networks over the long term represents an important success factor in opening up attractive buying opportunities.

→ When making acquisitions, we prioritise land that has no planning permission in order to harness the increased potential for added value. Instone Real Estate uses its experience to acquire economically attractive building rights.

→ Instone Real Estate supports local authorities with procuring planning permission, in particular by developing urban planning strategies and proposals for action as well as drafting land use and development plans.

→ In the majority of cases, Instone Real Estate acts as its own general contractor. Contracts are individually awarded to regional and national construction companies from our existing network on the basis of relevant selection criteria. These criteria include the Company's experience with comparable projects, the technical requirements and the level of quality required.

→ Direct access to subcontractors creates competitive advantages, especially when contractors are working at near-full capacity. This makes it possible to ensure building capacity at an early stage and to provide a high level of cost transparency. Our own added value has a positive overall effect on the operating margin.

→ In marketing and sales, we maximise our access to any relevant target groups, such as owner-occupiers, capital investors and institutional investors.

Exploiting efficiency gains through digitisation

For Instone Real Estate, the increasing digitisation of our business processes is a key factor in further efficiency increases, as well as being a key competitive advantage in a highly fragmented industry with comparatively little digitisation. Through continuously analysing and digitising all processes, we can routinely identify potential for improvement, and thus increase efficiency in the planning and building process in the long term. For example, we are working on the uniform digitisation of our entire process landscape with proprietary software. This provides an integrated planning and construction process that can make the best possible use of the opportunities offered by serial construction.

Implementing a sustainability strategy and sustainability management

Fair and responsible action with regard to economic, environmental and social sustainability is the cornerstone of Instone Real Estate's Group strategy. In the past financial year, the newly implemented sustainability strategy, including the formulation of ambitious climate protection targets, has become a key cornerstone of our corporate strategy. As part of this combined management report, we have also further strengthened our sustainability strategy by expanding our reporting, among other things. In 2021, we also received an external ESG rating for the first time. The initial rating of the rating agency Sustainalytics has immediately Instone Real Estate among the top 2% of global real estate developers. GRI 2-22 TCFD strategy

Corporate management

Instone Group's Corporate Management system

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

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

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

→ Integrated management information system

→ Database-supported project management

→ Structured meeting system

→ Financial and real estate business key performance indicators

→ Group-wide risk management

Integrated management information system

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

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

Database-supported project management

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

Structured meeting system

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

Governance key performance indicators

Financial and real estate business key performance indicators

Important governance key performance indicators

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

Adjusted revenue

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

Adjusted gross profit margin

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

Adjusted earnings after tax

Adjusted earnings after tax is calculated on the basis of adjusted gross profit less platform costs, consisting of staff costs, other operating income and expenses, depreciation and amortisation, income from investments and other earnings, financial result and income taxes, but is also adjusted for the effects from purchase price allocations and share deals, as well as any non-recurring effects, where applicable.

In particular, the following significant expenses are adjusted for disposal losses from sales of tangible or financial assets or securities, unscheduled depreciation of tangible and financial assets, costs for acquisitions, merger losses, contractual penalties, demands for additional taxes from previous years based on audits, severance payments to the Management Board, and personnel reductions and restructuring to a greater extent, if these do not meet the strict criteria set out in IAS 37. The adjustment of material income includes, in particular, income from capital gains arising from sales of non-current assets, compensation for damages, write-ups on non-current assets, refunds of taxes from previous years based on audits, reversals of provisions for extraordinary events and merger gains.

Volume of sales contracts

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

Other key performance indicators

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

Current offer for sale

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

Project portfolio

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

Volume of new approvals

The volume of new approvals reflects our Group's success in acquiring new land and development projects. The internal approvals associated with the volume of new approvals are based on secured property access. The volume of new approvals is measured at the sales volume expected at the time the new approval is granted.

Project gross profit or loss and project gross profit margin

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

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

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

Sustainability report (unaudited)

Foreword from the CFO

As a listed company and one of the leading residential property developers in Germany, Instone Real Estate takes responsibility for the environment, society and its employees.

We are completely convinced that a company can only be successful over the long term in a healthy, socially balanced environment. Sustainable entrepreneurship and profitable growth are not mutually exclusive – each needs the other. That is why, last year, we embedded sustainability as an integral part of our corporate strategy.

With this chapter on sustainability, we refer in particular to the interests of clients, the environment, employees, the assumption of social responsibility, respect for human rights and the fight against corruption and bribery.

In order to underline our commitment to our sustainability strategy and to further increase our transparency, we also received an independent ESG rating from the renowned Sustainalytics agency for the first time in 2021 and were able to achieve excellent results right away. We were therefore able to substantiate our claim that we intend to be a pioneer in the industry in terms of sustainability.

In relation to climate change, our goal is to achieve climate neutrality along our entire value chain from 2045 onwards. We are therefore clearly committed to the climate targets of the United Nations and the German Federal Government. Starting this year, we are reporting not only our scope 1, 2 and 3 greenhouse gas emissions but also the emissions from the building lifecycle of our projects. Our climate target has been validated by the Science Based Target Initiative. Another component of our commitment is to officially support and implement the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD). With this in mind, we recorded for the first time the material risks that transitory or physical climate risks could pose for our business using scenario analysis, and incorporated them into our business planning.

For us, assuming social responsibility primarily means making our contribution to the creation of affordable housing in German metropolitan regions. We are also pursuing innovative and unconventional approaches to this. With our subsidiary nyoo, we are consistently focusing on the advantages of digitalisation and standardisation and have managed to significantly reduce construction costs compared with our competitors.

The protection of human rights and high standards in relation to labour standards, environmental protection and the fight against corruption are fundamental values for us. We have demonstrated this in the past year by signing the Charta der Vielfalt and becoming a member of the DGNB.

Our sustainability targets are ambitious but we are already seeing promising results that we would like to present to you in the following sections of this report.

We look forward to your feedback and to dialogue with you.

Dr Foruhar Madjlessi
Chief Financial Officer

GRI 2-22 TCFD governance

Requirements for the sustainability report

GRI 2-5

With this sustainability report, Instone is voluntarily fulfilling the commercial law requirements for non-financial reporting in accordance with Section 315c HGB in conjunction with Sections 289c-289e HGB. We do so as we are convinced that it is the right thing to do, even though we would not be required to provide non-financial reports under the German Commercial Code in view of the size of the Company. At the same time, the report goes beyond the statutory minimum level of information required under the provisions of the German Commercial Code. All sections of text, tables and charts in the sustainability report that are allocated to the non-financial report are marked with a III. For this purpose, a "reconciliation" of the GRI definition of materiality with the definition of materiality in the German Commercial Code was performed, meaning that not all the information contained in this report is an integral part of the separate non-financial declaration. References to information in the management report are part of the non-financial declaration.

Under Section 289c (3) HGB, we are obliged to examine issues for "double materiality". Double materiality requires disclosures on the non-financial aspects when two criteria are met:

1. The disclosures are necessary in order to understand the Company's business development, performance and position.

2. The disclosures make it possible to understand how the Company's business activities affect non-financial aspects.

We have examined the issues identified for double materiality. The issues that meet this definition are marked in the report by the following icon: III.

As defined in Section 289c (2) and (3) and Section 315c HGB, and taking into account the existing measures and requirements within the Group, no "material risks" have been identified in relation to our own business activities or our business relationships, products and services, which "very likely [have or will have] serious negative effects" on the action areas described.

The non-financial disclosures and key figures on our sustainability activities provided in this report were subjected to an independent audit with limited assurance by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, in accordance with the audit standards relevant to sustainability reporting (ISAE 3000 Revised).

In our disclosures, we are guided by recognised standards and reporting initiatives, including the requirements of the Global Reporting Initiative (GRI) Core Option and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Our climate targets were reviewed by the Science-Based Target Initiative (SBTI). In addition, we have reviewed each of the relevant action areas identified and the associated measures taken at Instone to determine whether they support the United Nations Sustainable Development Goals.

GRI 3-2, 3-3

Business model and corporate governance

Business model

Detailed information on the business model is explained in the section "Foundations of the Group", page 42 et seq.

Corporate governance

The corporate governance statement (see p. 169 et seq.), in addition to the declaration of compliance and comments about the implementation of the German Corporate Governance Code (GCGC) and information on corporate governance, explains the composition and working methods of the Management Board and Supervisory Board, and also the role of the Management Board with regard to sustainability aspects. TCFD Governance

Equity story

The equity story is based on our Company's particular strengths and clearly articulated growth strategy. At the same time, we are addressing our (potential) investors and other stakeholders. Here we describe the key points of the strategy and the future prospects of the Company. The management report contains the detailed explanations on page 37.

Significance of sustainability and activities in 2021

Sustainability at Instone Real Estate

Sustainability has become a central dimension of our business strategy and not only means that we conduct our business in a financially sustainable manner, but also take into account environmental, social and ethical implications when making decisions about our business activities.

We have already put the basic structures in place for this in recent years. In the 2021 financial year, we have now set a course for taking a pioneering role in this area across the industry.

We are convinced that in the long term, positive financial performance and good financial results can only be achieved if sustainability is made strategically relevant as part of corporate governance. In addition, we see ourselves as responsible for taking on a leading role due to the sector's significant influence on many environmental and social issues in order to push for generally positive developments.

Significant milestones in 2021

As part of the integration of sustainability throughout the entire organisation, we achieved the following milestones in 2021:

Environment

1. Supporting the Taskforce for Climate-Related Financial Disclosures (TCFD) and first-time application of the recommendations in this report (see TCFD Index)
2. Reporting all greenhouse gas emissions in accordance with the standards of the GHG Protocol and as part of a lifecycle analysis of the buildings using CAALA software
3. Submitting a climate target compatible with the Paris Agreement to the SME channel of the Science-Based Targets Initiative (SBTI)
4. Performing a qualitative climate-scenario analysis, taking into consideration transitory and physical climate risks
5. Joining the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen, DGNB)

Social issues

1. Establishing the nyoo brand to create affordable and environmentally-friendly living spaces in urban areas
2. Expanding its position as an attractive employer, which also stands for a healthy working environment, an appropriate work-life balance and a strong relationship between family and work, and diversity, among other things
3. Continuous monitoring of compliance with our standards on working conditions at subcontractors' premises

Governance

1. ESG rating from Sustainalytics achieved
2. Performing an initial materiality analysis as the basis for the strategic development of sustainability at Instone Real Estate
3. Realigning the organisational structure and adding new personnel to our Sustainability department

General conditions that influence our actions

In Germany and the European Commission, 2021 was an important year in which efforts to boost sustainability were widely formalised through regulations by economic players and society. The regulatory minimum is not enough to match our ambitions, but we would still like to explain here which public and private initiatives have impacted our activities and what we can expect in future.

The path towards greater sustainability and effective climate protection is supported by defining the specific, comprehensive transparency and reporting obligations in the real economy (the revision of the CSR Directive expected to take effect by late 2022) and the financial sector (entry into force of the Sustainable Finance Reporting Directive, also known as the EU Disclosure Regulation). In this context, from the 2023 reporting year onwards, we will also provisionally fall under the CSR reporting obligation pursuant to the German Commercial Code which represents the national implementation of the CSR Directive.

In this context, our efforts are also expected to make a contribution to meeting the increasing ESG requirements of our investors, many of whom belong to market-driven initiatives such as the Principles for Responsible Investment (PRI) or the Net Zero Asset Owner Alliance (NZAOA) and are also covered by the EU Disclosure Regulation.

The objective of climate neutrality and the significant reduction of greenhouse gas emissions were strengthened by the German Federal Government's Climate Protection Act and the EU Climate Act. At the same time, the foundations have been laid for the transition to a zero-emissions economic system by 2045/2050.

For us, the EU Climate Act forms the legal basis for achieving the target of net-zero emissions by Member States in 2050 already formulated in the EU Green Deal. The interim target of reducing the level of greenhouse gas emissions by 2030 by at least 55% compared with 1990 is also a mandatory legal requirement. The German Climate Protection Act already stipulates national climate neutrality by 2045 and an interim target of cutting greenhouse gas emissions by 65% compared with 1990 by 2030.

In particular, the construction and real estate industries are considered by policymakers as an important factor for achieving the climate protection targets in view of the significance of their resource consumption and the required greenhouse gas emissions caps.

The EU Green Deal and the New European Bauhaus Initiative, financial incentives for housing, and construction projects with low and neutral greenhouse gas emissions were enhanced as part of the European climate target. The requirement for new builds to be Nearly Zero-Energy Buildings (NZEB) under the Energy Performance of Buildings Directive, in force since 2021, is also a lever for decarbonising the building portfolio. The Directive was implemented in Germany via the Building Energy Act (Gebäudeenergiegesetz) which determines the relevant level for NZEBs in Germany. The law focuses on operational carbon, which is emitted during the use phase of buildings, and does not include embedded carbon emissions from the upstream and downstream value chain that Instone Real Estate has already been looking at for its business activities. The EU Taxonomy Regulation also sets limits for buildings to be officially considered environmentally sustainable.

The "technical screening criteria (TSC)" of the EU Taxonomy operationalise the requirements formulated in the Taxonomy. For the "significant contribution to climate protection" aspect, the TSC sets as a "positive criterion" that buildings qualify as Taxonomy-aligned if they fall below the final energy consumption of the locally valid NZEB. Instone Real Estate has set itself the goal of ensuring that this energy-efficient standard is taken into account as extensively as possible when planning and constructing buildings. To this end, we will closely follow the announced gradual elevation of the Taxonomy criteria in the next few years. A detailed review of the fulfilment of Taxonomy requirements is planned for the 2022 financial year.

ESG RISK RATING

In the 2021 financial year, we had our ESG performance evaluated for the first time by the rating agency Sustainalytics. The comprehensive assessment showed that, with a score of 13.2 points, Instone Real Estate is in the low risk category. In comparison with the other companies in the real estate developer sector analysed worldwide by Sustainalytics, we jumped straight in at fourth place among the 284 companies assessed. Our new climate strategy did not yet form part of the assessment in 2021. We will dedicate all available efforts to further improve our rating in 2022 We would like to show that we understand the necessary changes in terms of sustainable business, in particular the relevant political agenda in the European Union, and align Instone Real Estate accordingly.

In addition to climate change, the increasing division between society and social issues, including affordable housing and energy costs, have long been under public debate. The ongoing work on the social taxonomy at European level includes the classification of social economic activities. The first publications by the so-called Technical Expert Group show the addressing of issues surrounding working standards, discrimination and other ethical principles, as well as the way in which they are handled within supply chains. These are questions that Instone Real Estate has been dealing with for years, for example, with standards on the commissioning of service providers and with the Company's own employees. As soon as more details become known, we plan to analyse the implications for our business in detail. In addition, we observe the considerations at the European and German levels of facilitating additional funds to support people with low and medium incomes as part of the transition to an economy with low greenhouse gas emissions – for example, within the framework of the Climate Social Fund which is to be financed by earnings from the emissions trading system. Subsidies for social, affordable and low-emission housing in particular could become relevant for our business. In this context, it remains to be seen whether the newly formed government coalition in Germany will continue to drive forward the campaign for affordable housing and construction in line with its campaign promises. We make a significant contribution to the creation of affordable housing in metropolitan regions with our innovative residential product placed under the nyoo brand. We use this brand to leverage efficiency reserves in planning and construction and to significantly reduce the overall costs of construction. In 2021, we were already able to start construction on our first two projects in this area.

In terms of ethical and responsible corporate governance, we are guided by the German Corporate Governance Code (GCGC) and also plan to follow the world's leading standard, the UN Global Compact, in 2022. GRI 2-22

The following Table 003 provides an overview of our sustainability targets – all objectives are addressed and explained further in the sub-chapters on the environment, social matters and governance.

Table of targets

TABLE 003

Category	Description	2020	2021	Targets
Environment	**Overall greenhouse gas emissions: scope 1, 2 and 3**			
	Greenhouse gas emissions in scope 1 and 2 abs.	3,387 t CO_2e	3,456 t CO_2e	At least – 42% by 2030 (base year 2020) in line with the 1.5°C global warming pathway of the International Energy Agency (IEA)
	Greenhouse gas emissions in scope 1 and 2 intensity	0.024 t CO_2e/m^2	0.010 t CO_2e/m^2	At least – 42% by 2030 (base year 2020) in line with the 1.5°C global warming pathway of the International Energy Agency (IEA)
	Scope 3 greenhouse gas emissions abs.[1 2]	110,058 t CO_2e	147,849 t CO_2e	Net zero climate neutrality by 2045
	Scope 3 greenhouse gas emissions intensity[1]	0.766 t CO_2e/m^2	0.416 t CO_2/m^2	Net zero climate neutrality by 2045
	Greenhouse gas lifecycle[1]			
	Embedded carbon intensity[1]	n/a	0.598 t CO_2/m^2	Net zero climate neutrality by 2045
	Operational carbon intensity[1]	n/a	Climate protection (KSZ)[3]: 0.503 t CO_2/m^2 Business as usual (BAU)[4]: 0.941 t CO_2/m^2	Net zero climate neutrality by 2045
	Total intensity[1]	n/a	KSZ[4]: 1.100 t CO_2/m^2 BAU[5]: 1.539 t CO_2/m^2	Net zero climate neutrality by 2045
	Other environmental key performance indicators:			
	Expected greenhouse gas emissions – overall portfolio in use	11 kg CO_2e/m^2	9.5 kg CO_2e/m^2	Savings of 50% of CO_2e emissions by 2030 (base year: 2020)
	Share of projects with energy requirements at least NZEB* – 10%	Approx. 79.6%	Approx. 82.5%	In 2030, the percentage share of the project portfolio is 100%
	Mobility: Parking spaces with charging stations	Approx. 330	Approx. 734	All Instone projects under construction from 2025 have e-charging stations
	Powered with renewable energy	Approx. 14%	Approx. 22%	Expansion of share of renewable energies to 40% by 2030
	Brownfield developments (site area)	833,746m²	690,204m²	The focus is on acquiring additional brownfield land
	Recording environmental key performance indicators (e.g. biodiversity, waste, water, recycling, etc.)		in progress	100% data supply by 2025

Table of targets

TABLE 003

Category	Description	2020	2021	Targets
Social	Percentage of women at management level [6,7]	25%/22%	25%/23%	Maintaining and improving the status quo
	Employee satisfaction & affiliation with the Company	75% [8]	70%/76%	Employee satisfaction: 75%, employee affiliation with the Company: 80%
	Socially subsidised/cut-price residential units/ privately financed residential units	15%/2%/83%	17%/1.5%/81.5%	At least 50% residential units in the area of affordable housing (socially subsidised, cut-price & nyoo) by 2030
	Employees' Code of Conduct obligation	100%	100%	Proportion of employees who comply with the code of conduct 100%
Governance	Share of independent SB members	100%	100%	Maintaining 100% on a permanent basis
	ESG-dependent remuneration component for the Management Board	available	available	LTI: Improvement of the Sustainalytics rating over the next three years STI: Integration of mandatory targets
	Potential compliance incidents	2	0	The aim is to respond in the short term and appropriately to potential compliance incidents
	E-training – Compliance	96%	99%	Participation rate 100%
	E-training – Data protection	96%	99%	Participation rate 100%

* NZEB = Nearly Zero Energy Building, in accordance with the Building Energy Act (Gebäudeenergiegesetz; GEG) as amended on 31 December 2021
NZEB – 10% corresponds to the maximum energy consumption of a Taxonomy-aligned building according to the "Technical Screening Criteria" of the EU Taxonomy Regulation as amended on 31 December 2021

[1] The portfolio included comprises the net space in m² of the completed buildings and buildings under construction (2020: 143,746 m²/2021: 355,424 m²).

[2] The scope 3 emissions (in the BAU scenario) that have actually arisen during the building construction process are included in the overall analysis. Completed buildings are accounted for with their complete downstream value chain in the year of handover.

[3] The lifecycle analysis does not differentiate between scope 1, 2 and 3 and reports all emissions along the lifecycle phases over the service life of 53 years. A distinction is made between operational carbon from the use phase and embedded carbon from the other phases (manufacture, construction and dismantling).

[4] KSZ: Climate protection scenario - The emissions for electricity and district heating in the use phase were calculated in accordance with the German climate neutrality targets for 2045 (based on the "Climate-neutral Germany in 2045" study from Prognos et al., 2021).

[5] BAU: Business-as-usual scenario - The emissions for electricity and district heating in the use phase were calculated using a conservative approach that assumes that the German energy sector will only pursue decarbonisation to a moderate extent (based on the "Energy Economic Projections and Impact Estimates 2030/2050" study by the Federal Ministry of Economic Affairs (BMWi), 2021).

[6] Management level 1: Management Board of Instone Real Estate Development GmbH and Nyoo Real Estate GmbH

[7] Management level 2: Division heads, branch management, commercial managers, department managers

[8] Calculated as a single value in 2020

GRI 305 TCFD key performance indicators and targets

Our company
To our shareholders
Combined management report
Foundations of the Group
Sustainability report
Economic report
Risk and opportunities report
Outlook
Other disclosures
Consolidated financial statements
Independent auditor's report
Remuneration report
Other information

Materiality analysis

GRI 3, 3-1, 3-2 TCFD risk management

Basics and procedure

Foundations

A qualitative materiality analysis was carried out in the 2020 financial year in order to be able to identify the interests and expectations of our stakeholders. The basis for this is also a stakeholder matrix from the 2021 reporting year (see Table 004 below), which contains the key stakeholders (shareholders/investors, clients, employees, contractual partners/suppliers, city/municipalities/politics, society) and their topics and relevant dialogue formats.

Stakeholder matrix TABLE 004

Stakeholder group	Action areas and potential topics	Communication/dialogue format
Shareholders/Investors	· Sustainability strategy, continual improvement of status quo · Including ESG criteria in the future orientation of the Company	· Face-to-face discussions and conference calls · Investor relations presentations · Investor conferences, roadshows and property tours · Press releases · Annual General Meeting · Annual reports/quarterly reports · Exchange of data and information · Sustainability report
Clients	· Acquiring long-standing and sustainable properties at an acceptable cost-benefit ratio · Streamlined, service-oriented communication (good accessibility, fast response times) · Connections to local public transportation, car sharing, charging stations · Optimising operating costs	· Website – Company and projects · Social media · Direct conversations with clients · Client portal · Client management · Sales events · Real estate portals · Showrooms · Client surveys · Brochures, flyers, advertisements · Brokers

Stakeholder matrix TABLE 004

Stakeholder group	Action areas and potential topics	Communication/dialogue format
Employees	· Clear sustainability strategy · Communication of the ESG strategy and the associated responsibilities and information on the results · Ideas incorporated and implemented in the intranet with the Sustainability Committee · Employee development · Further education · Raising awareness of environmental protection and climate action	· Communication and information via the intranet, informational events, Management Board livestream · Employee surveys · Employee discussions · Code of Conduct · Sustainability report · Personnel development tailored to requirements
Contractual partners/Suppliers	· Awarding contracts with consideration of sustainability considerations · Transparency with regard to ESG efforts · Support for contractual partners towards joint progress on ESG issues	· Functional tenders · Negotiations · Contract · Code of Conduct · Face-to-face discussions · Master agreements
Government/Municipalities/Political sphere	· Viewing sustainability activities as an important component of social responsibility and incorporation into planning · Creating mutually agreed compensatory measures · Compliance with EU regulations and domestic law · Improvement of sustainable infrastructure · Improvement of energy efficiency of residential buildings · Development of sustainable neighbourhoods and creation of an attractive housing mix	· Direct face-to-face discussions with municipalities and responsible authorities for realising construction projects · Written exchange of information · Work in associations · Participation in joint discussion groups · Participation in site-based events and initiatives
Society	· Actively contributing to solving housing problems; creating affordable housing and good housing infrastructure · Developing sustainable neighbourhoods and creating an attractive housing mix · Creation of neighbourhoods worth living in	· Events · Public participation · Interviews/articles in daily and weekly newspapers · Support for social/political initiatives · Work in associations

GRI 2-29

Our stakeholder analysis was updated in the 2021 reporting year using various stakeholder surveys and, based on GRI, was supplemented for the first time by an environmental and company analysis.

The environmental analysis included a media and competition analysis in Instone Real Estate's areas of operation. It identified the most important topics and future challenges of the real estate industry that are the focus of comparable organisations and competitors and are covered in the media.

Procedure

Our stakeholders had the opportunity to quantitatively assess the relevance of selected sustainability topics on a scale of 1–5. The results of this assessment reflect the "influence on stakeholder decisions" dimension.

As part of the materiality analysis, we also assessed all identified topics with regard to their "impact on the environment, society and the economy".

Ultimately, we assessed the economic significance of these issues for Instone Real Estate. We have illustrated all three dimensions of the analysis graphically in the materiality matrix on page 65.

Stakeholder overview

By maintaining close contact with our stakeholders, we are able to identify and review the issues and requirements that are important to our stakeholders with regard to our sustainability targets and measures at an early stage and use these to continuously derive new standards. This input helps us to develop Instone Real Estate's short-term and long-term targets.

We engage in regular and open dialogue with our investors and other stakeholders through bilateral and multilateral discussions on a formal and informal basis. In order to integrate relevant social and economic stakeholder groups into the sustainability process and promote a continual exchange of ideas, we continue to participate in various associations, such as the German Property Federation (ZIA), the Federal Association of Independent Real Estate and Housing Companies (BFW), the Society for Real Estate Research (gif), the German Sustainable Building Council (DGNB) and the Institute for Corporate Governance (ICG). GRI 2-28

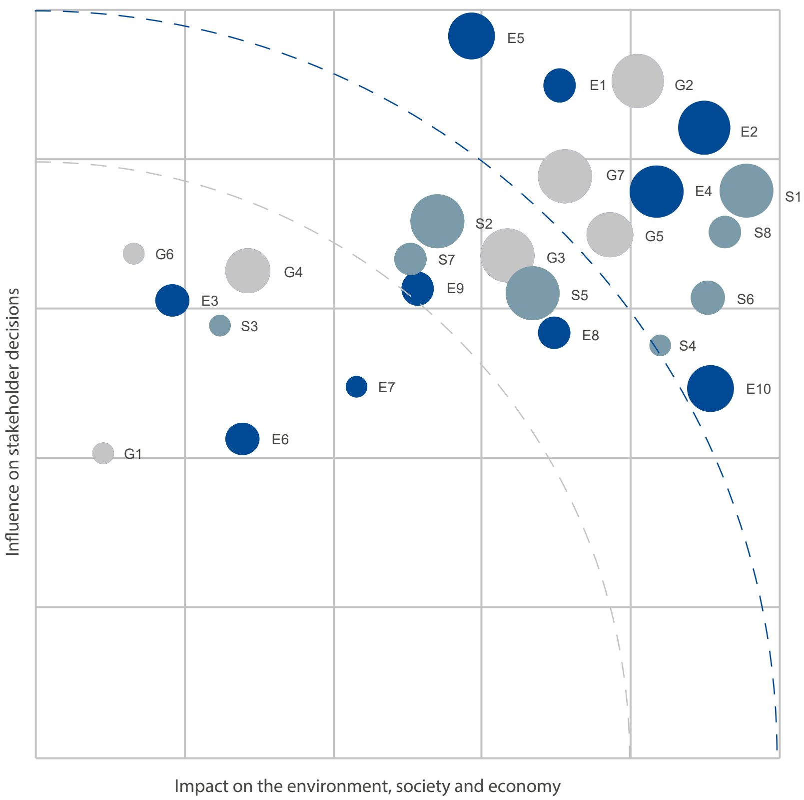
In the 2021 reporting year, our surveys focussed on four stakeholder groups – clients, employees, analysts, and shareholders and bank representatives. We assessed the considerations of the municipality/political sphere and contractual partner stakeholder groups on the basis of discussions and experience gained from our numerous projects. In the coming financial year, we would also like to consider the key issues for these groups through surveys. GRI 2-29

Subject areas and materiality

We have determined the "impact on the environment, society and the economy" and the "significance for Instone Real Estate" on the basis of detailed discussions at Board and management level. The impact of Instone Real Estate's business activities on the environment, society, the economy and stakeholder decisions is assessed in terms of materiality from an inside-out perspective. Accordingly, a high rating is given to issues that are considered to be so significant that they require active management or the appropriate engagement of the Company.

The "significance for Instone Real Estate" is identified using an outside-in perspective, in which the relevance of the topics to the business and the impact of the topics on business activities is assessed.

Materiality matrix



Index:

E1 Recycling & material consumption
E2 Sustainable building materials
E3 Certifications
E4 Greenhouse gas emissions from building manufacture
E5 Greenhouse gas emissions from building operations
E6 Land recycling/brownfield
E7 Biodiversity
E8 Sustainable mobility services
E9 Public transport links
E10 Sustainable mobility in the company
S1 Developing mixed neighbourhoods
S2 Affordable housing
S3 Social commitment
S4 Employee diversity
S5 Work-life balance
S6 Working on the go
S7 Health promotion
S8 Further education
G1 Political influence
G2 Customer satisfaction
G3 Economic development
G4 Compliance/anti-corruption measures
G5 Business ethics
G6 ESG incentives in management
G7 Employee satisfaction

The main topics have been marked in bold.

In this matrix, the topics raised were assessed with regard to their "impact on the environment, society and economy" and "influence on stakeholder decisions", which determines the position of the topics in the matrix. As a second step, the topics were classified in terms of their "significance for Instone Real Estate", which is reflected in the size of the topic points, i.e. larger points are more important for Instone Real Estate than smaller ones. First, all data points that are above the blue dashed line are considered significant for the purposes of this analysis. In addition, the action areas of affordable housing, work-life balance, economic development and compliance/anti-corruption are also classified as significant within the meaning of this analysis due to their significance for Instone. As the report progresses, topics are also discussed that have not been defined as material strategic areas of action but that support those action areas. These include, for example, our dealings with our contractual partners, HR strategy and attractiveness to employees or our digital agenda.

Consideration of the results

The results of the materiality analysis are considered as part of the sustainability strategy and general corporate strategy in relation to Instone Real Estate's activities, products and services.

Action areas and measures

In accordance with the requirements of Section 289c (3) HGB, the topics are assigned to the following action areas:

1. Environmental issues
   - E1 Recycling and material consumption
   - E2 Sustainable building materials
   - E4 Greenhouse gas emissions from building manufacture
   - E5 Greenhouse gas emissions from building operations
   - E10 Sustainable mobility

2. Employee issues
   - S4 Employee diversity
   - S6 Mobile work
   - S8 Further education
   - G7 Employee satisfaction
   - S5 Work-life balance
   - G3 Economic development

3. Social issues
   - S1 Developing mixed neighbourhoods
   - S2 Affordable housing
   - G2 Customer satisfaction
   - G3 Economic development

4. Respecting human rights
   - G5 Business ethics

5. Combating corruption and bribery
   - G4 Compliance/anti-corruption
   - G5 Business ethics

We have assigned measures to the action areas defined in this way that are suitable for addressing the respective concerns in an even better way, and compared them with the relevant UN Sustainability Development Goals (SDGs).

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Key action areas at Instone Real Estate	Key measures at Instone Real Estate	UN Sustainable Development Goals
Environmental issues	→ Determining the status quo of greenhouse gas data within the Company → Initiating a continuous LCA process to leverage potential for optimisation in planning and building materials → Committing to greenhouse gas emission-reduction targets based on SBTI, TCFD and the GHG protocol → Reviewing the use of recyclable materials → Testing the installation of recycled materials → Review of various processes with adjustments as required, including contractual adjustments and documentation → Audit of pilot projects in wood hybrid construction	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 15 LIFE ON LAND
TCFD key performance indicators and targets	→ Gradual transformation of the vehicle fleet into hybrid vehicles and e-cars → Adjustment of business travel activities, focussing on using the railway for business trips within Germany → Consideration and development of mobility concepts for the neighbourhoods developed by Instone Real Estate	3 GOOD HEALTH AND WELL-BEING
Employee issues	→ Improving opportunities for education on specialist topics, soft skills and digital tools for Instone employees → Expanding recruitment measures (in the form of new recruitment formats through social media, lectures at universities, podcasts on job profiles, vlogs/online options for job applications, speed dating) → Greater information and integration of possible career paths for employees → Expanding our internal and external communication on diversity with the help of examples and our mission statement → Establishing continuous diversity monitoring → Annual employee surveys and regional and national processing of potential improvements and feedback → Continuous, sustained, transparent communication on the strategic and economic development of the Company (regular broadcasts by the Management Board, the intranet, regular regional-office meetings, dialogue at function level) → Extending mobile working from one to two days a week → Flexible office use → Exploiting potential for optimisation that can be found by analysing client surveys	4 QUALITY EDUCATION 5 GENDER EQUALITY 3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH

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Key action areas at Instone Real Estate	Key measures at Instone Real Estate	UN Sustainable Development Goals
Social issues	→ Continuing to develop social impact guidelines within the Company and integrating them into projects/neighbourhoods – Improving participation opportunities (for example, through citizen workshops while obtaining planning permission, on-site and online informational events) – Building long-term partnerships that sustainably support the residents of the neighbourhoods to improve the quality of life in the neighbourhood (e.g. neighbourhood managers, DHL parcel service points, neighbourhood initiatives, education services) – Improving joint services and social infrastructure – Creating balanced housing and neighbourhood mixes – Creating areas to improve quality of life in the neighbourhood (e.g. play areas, green spaces, meeting areas, bicycle paths and pedestrian footpaths) → Increasing traffic safety → Promoting the construction of subsidised and cut-price residential housing and expanding partnerships → Further expanding affordable residential construction with the help of Nyoo Real Estate in B and C locations → Supporting local authorities with the timely implementation of urban development goals → Establishing the digital customer satisfaction analysis and derivation of measures from the results	
Respecting human rights Combating corruption and bribery	→ Continuous review of our processes to comply with human rights requirements → Informing and training our employees on corruption and bribery → Reviewing the processes of our systems in place for reporting corruption and bribery	 

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ENVIRONMENT

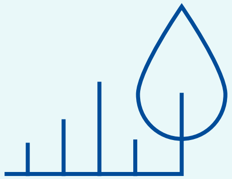
In particular, we pushed ahead with the subject of the climate and the environment as a priority last year:

>95 %

Coverage of scope 1, 2 and 3 in greenhouse gas emissions reporting when considering all measurable categories in line with the current best practice for the building lifecycle

TCFD

Making our business model resilient to the transitory and physical climate risks we analysed across multiple climate scenarios



9.5 kg CO_2e/m^2 – Meeting the greenhouse gas intensity targets of the DGNB Reference Value for Sustainable Buildings in the operational emissions for our entire project portfolio

1.5°C – Reducing operational greenhouse gas emissions (scope 1 and 2) in accordance with the Paris Agreement and certification by the Science-Based Target Initiative

2045

Achieving climate neutrality in terms of net-zero emissions for all greenhouse gas emissions along the value chain

Our climate strategy

According to the 2020 global status report for buildings and construction in the UN environmental program, the greenhouse gas emissions of the two industries make up about 38% of global greenhouse gas emissions. In its 2020 issue, the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety announced that the proportion of greenhouse gas emissions from the use of buildings in Germany continues to amount to 14% of national greenhouse gas emissions. Both percentages make clear that:

1. Buildings and their lifecycles offer enormous potential for reducing greenhouse gas emissions and could be a key driver for effective climate protection.

2. In addition to construction methods with low greenhouse gas emissions, the building's equipment and links to energy sources also play a crucial role in the planning when it comes to minimising greenhouse gas emissions in the later phases of the building's lifecycle.

While the focus today is still primarily on emissions in the context of the operation of the buildings (operational carbon), the focus will shift more strongly to emissions before and after the use phase (embedded carbon).

As part of our climate strategy, we analyse the implications of climate change using the concept of double materiality based on the EU Directive on the disclosure of non-financial information.

Financial materiality deals with the question of how climate change could impact the existing business model. This also includes understanding how increasing measures to protect the climate could change our business as a project developer as well as the construction and real estate industry. As defined in the TCFD recommendations, this year, for the first time and as part of a climate scenario analysis, we have determined what financial opportunities and risks climate change could have for us in the short, medium and long term (see page 83 et seq.). Results of the investigation, using a 1.5° C climate change scenario (ambitious transition), a 2.6° C scenario (business as usual) and a 4.3° C scenario (worst-case), showed that our business might be largely resilient. However, this does not rule out the need for future adaptation measures to effectively manage risks and opportunities. While we should expect rising costs in an ambitious transition, particularly when it comes to construction materials, among other reasons as a result of the pricing of greenhouse gas emissions, in a business-as-usual or worst-case scenario, the reliable selection of locations in the long term could become one of the criteria for success. Across all scenarios, we assume that the demand for residential buildings with low greenhouse gas emissions will continue to rise and we can continue to grow accordingly.

With regard to **environmental and social materiality**, the Company's attention will be focused on measuring and continuously reducing the potential impact of our activities on the environment and/or climate change. In this context, the questions to be answered are to what extent and what proportion our business activities contribute to climate change or to increasing climate protection. As already stated above, in this context, we have significantly ramped up our efforts to measure our greenhouse gas footprint and set ourselves the target of climate neutrality (in the sense of science-based net zero emissions) for our total greenhouse gas emissions by 2045. The certification of these targets by SBTi is intended to underline this endeavor. Like all companies with a climate target, we rely on related sectors, especially the energy sector, to also make every possible effort and to achieve the projected greenhouse-gas emission reductions. GRI 300 TCFD strategy

Our first TCFD report III

As part of our climate strategy, we started implementing the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) this year. This means that we report on our progress in incorporating climate-related opportunities and risks, particularly in our strategy, risk management and goals, and making them measurable through key performance indicators and metrics. Table 005 below provides an overview of where the relevant content can be found in the report.

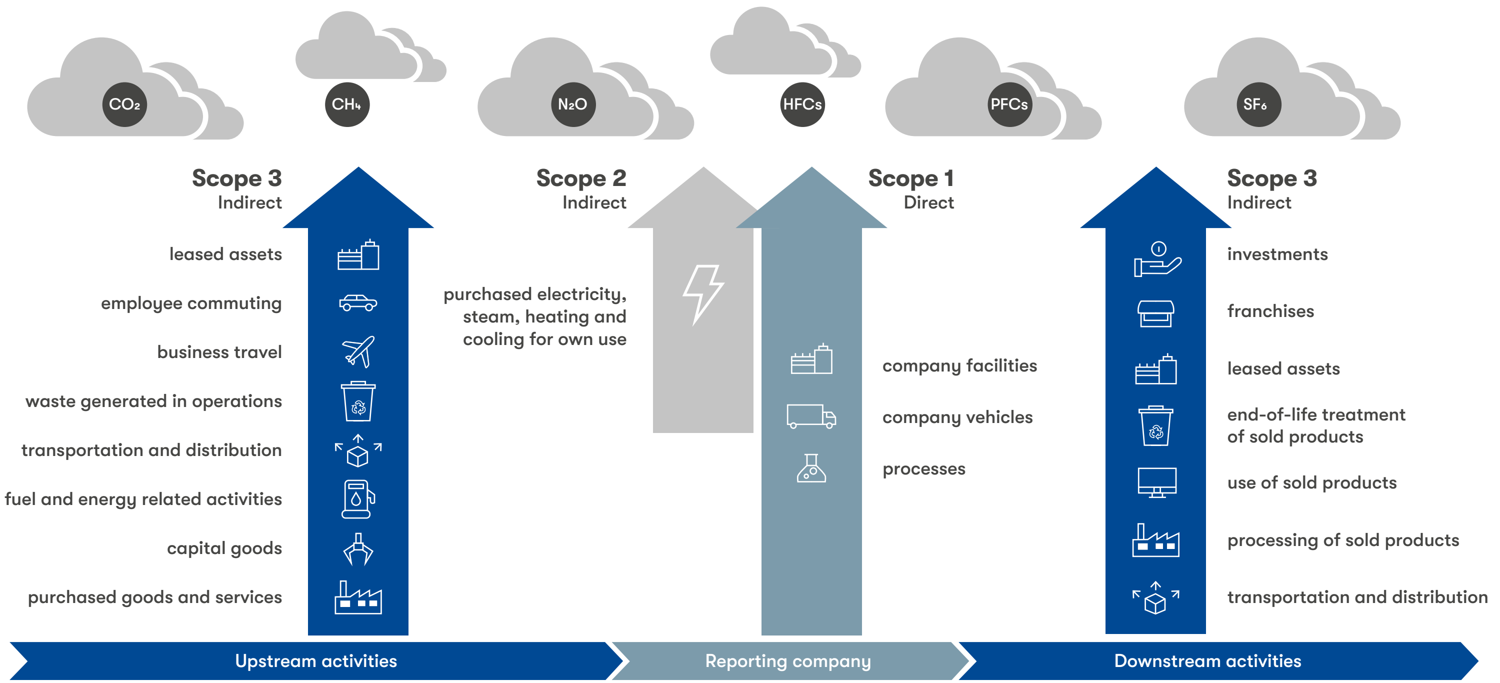
TCFD Reporting Index TABLE 005

Aspects	Recommended information	Benchmark	page
Governance			
Disclose the Company's governance with regard to climate-related risks and opportunities	A. Describe the oversight of climate-related risks and opportunities by the Board	1. Foreword by the CFO	55
	B. Describe the management's role in assessing and managing climate-related risks and opportunities	1. Climate risk management and climate scenario analysis	57, 83 et seq.
		2. Governance in sustainability activities	110
Strategy			
Disclose the actual potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
		3. Foundations of the Group	51
	B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
		3. Equity story	37
	C. Describe the resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or less scenario	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
Risk management			
Disclose how the organisation identifies, assesses and manages climate-related risks	A. Describe the organisation's processes for identifying and assessing climate-related risks	1. Materiality analysis	62
		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
		3. Risk management system	110, 144, 152
	B. Describe the organisation's processes for managing climate-related risks	1. Materiality analysis	62
		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
		3. Climate risk management and climate scenario analysis	83 et seq.
	C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	1. Climate risk management and climate scenario analysis	83 et seq.
		2. Risk management and compliance	111
		3. General business risks	149
Indicators and targets			
Disclose the indicators and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	A. Publish the indicators used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	1. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
		2. Climate risk management and climate scenario analysis	83 et seq.
	B. Publish the greenhouse gas emissions (scope 1, scope 2 and, if appropriate, scope 3) and the related risks	1. Targets table in the sustainability report	61 et seq.
		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq.
	C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	1. Key action areas	67
		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
		3. Climate risk management and climate scenario analysis	83 et seq.

Greenhouse gas emissions: Overall emissions vs. lifecycle analysis

In the following, we report our greenhouse gas emissions from two different perspectives. Firstly, we are presenting the standard classification of our emissions according to scope 1, 2 and 3 within the meaning of the GHG Protocol. The allocation to scope 1, 2 and 3 can be seen in the illustration titled "Greenhouse gas emissions and their allocation". In this analysis, which we call the **balance sheet view** analysis below, emissions are generally taken into account in the year in which they arise (see diagram on page 73). The downstream scope 3 emissions of sold products are an exception – they are fully reported upon sale in the year of handover. In our case, this means that the emissions from the entire use phase (approx. 50 years) and the disposal of our buildings completed in 2021 will also be taken into account in the year under review.

Greenhouse gas emissions and their allocation to scope 1, 2 and 3



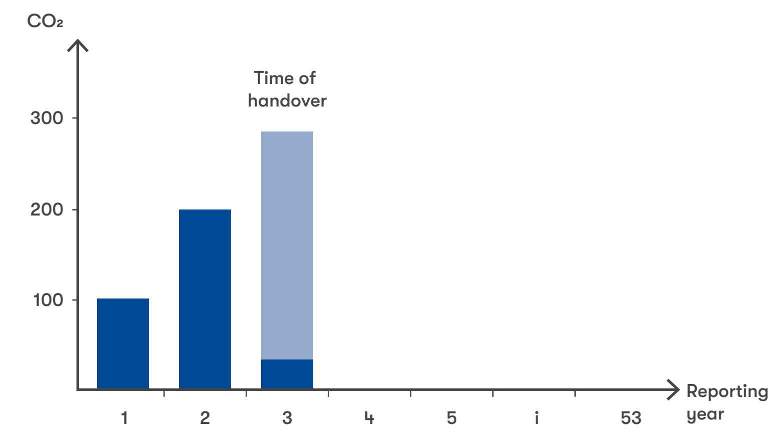
Source: myclimate.org, based on GHG Protocol

The **lifecycle view**, the second perspective that we are presenting in this report (see page 73, on the right), allocates the emissions to the years in which they arise, regardless of their scope. These emissions are only classified in the lifecycle phases of the building in which they are produced (manufacture, construction, use, disposal). In this way, we can distinguish between the operational emissions that result from energy consumption in the use of buildings (operational carbon) and the grey emissions that make up all other emissions in the lifecycle of a building (embedded carbon). This form of analysis helps us to better understand which adjustments can be made to comprehensively reduce building emissions, starting right from the planning stage.

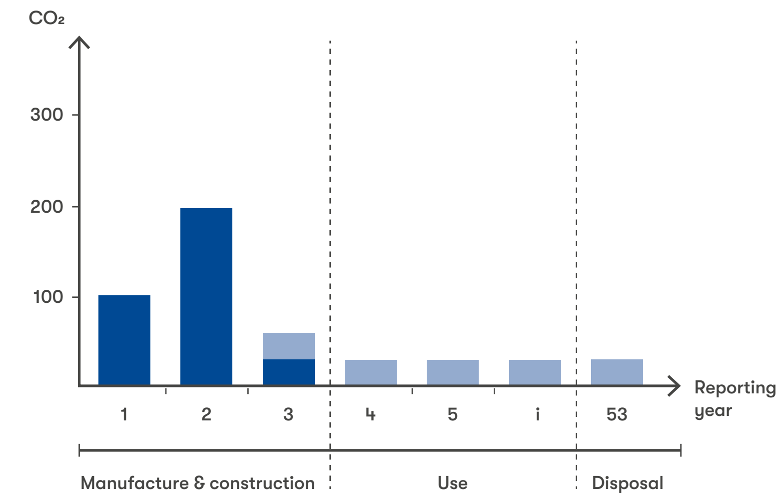
The difference between the overall view and the lifecycle view is shown in the figure of the illustrative allocation (see figures on the right) of the emissions over time.

In the next few sections, we will first present the results of the overall view and planned emission reduction targets and measures before we focus on the lifecycle view in more detail.

Balance sheet view



Lifecycle view



Scope 1, 2, 3 upstream   Scope 3 downstream

Greenhouse gas emissions broken down by scope 1, 2 and 3 for 2020[3] and 2021 – overall analysis
Portfolio: All buildings under construction and completed in 2020 and 2021

TABLE 006

	2020		2021		Average relative proportion	
	t CO_2e	t CO_2e/m^2 [1]	t CO_2e	t CO_2e/m^2 [1]	Percentage of scope	Percentage of total
Scope 1						
Company cars	866	0.006	840	0.002	100%	1%
Total of scope 1	**866**	**0.006**	**840**	**0.002**	**100%**	**1%**
Scope 2						
Electricity	1,593	0.011	1,607	0.005	62%	1%
Heating	929	0.006	1,009	0.003	38%	1%
Total of scope 2	**2,521**	**0.018**	**2,616**	**0.007**	**100%**	**2%**
Scope 3						
Upstream value chain	**34,069**	**0.237**	**79,648**	**0.224**	**44%**	**43%**
Business trips	56	0.000	56	0.000	0%	0%
by air	45	0.000	45	0.000	0%	0%
by train	4	0.000	4	0.000	0%	0%
by rental car	0.12	0.000	0.12	0.000	0%	0%
Hotels	7	0.000	7	0.000	0%	0%
Commuting	134	0.001	160	0.000	0%	0%
Properties rented before the start of the project	3,044	0.021	2,780	0.008	2%	2%
Buildings under construction						
Manufacturing phase	14,585	0.101	62,067	0.175	30%	29%
Completed buildings						
Manufacturing phase	16,250	0.113	14,585	0.041	12%	12%
Downstream value chain	**75,989**	**0.529**	**68,201**	**0.192**	**56%**	**54%**
Completed buildings[1]						
Use phase (BAU[2])	72,082	0.501	64,695	0.182	53%	52%
Disposal phase	3,906	0.027	3,506	0.010	3%	3%
Total for 2020	**110,058**	**0.766**	**147,849**	**0.416**	**100%**	**97%**
Total	**113,445**	**0.789**	**151,306**	**0.426**	**100%**	**100%**

In the overall analysis, all (future) emissions from the downstream value chain are reported in the buildings' year of completion. The usable life is reported for all buildings with a blanket assumption of two years of manufacture and construction, 50 years of use and one year of disposal.

[1] The intensities are based on the net surface area in m^2 of the buildings completed and under construction (2020: 143,746 / 2021: 355,424)

[2] BAU: Business-as-usual scenario - The emissions from energy consumption in the use phase were calculated using a conservative approach that assumes that the German energy sector will only pursue decarbonisation to a moderate extent (based on the "Energy Economic Projections and Impact Estimates 2030/2050" study on behalf of the Economic Affairs and Technology (BMWi), 2021).

[3] The base year for climate targets is 2020.

GRI 302-1, 302-2, 302-3, 305-1, 305-2, 305-3, 305-4 TCFD key performance indicators and targets

Scope 1 and 2 greenhouse gas emissions

Since, as project developers, we have the construction projects implemented by service providers and there is no holding period for the real estate after completion, only around 3% of our current greenhouse gas footprint is comprised of scope 1 and 2 emissions. Scope 1 covers emissions from the company car fleet. Scope 2 is based on the heating and electricity consumption of the offices as well as the power required for construction. We provide our service providers with electricity on construction sites. Despite taking the significant growth of our business activities into account, our science-based target for 2030 corresponds to a reduction of 42% in absolute emissions and thus to the decarbonisation pathway of 1.5° C set out by the International Energy Agency (IEA).It was reviewed by the Science-Based Target Initiative (SBTI).[1]
Our climate pathway is shown in the figure on page 76.

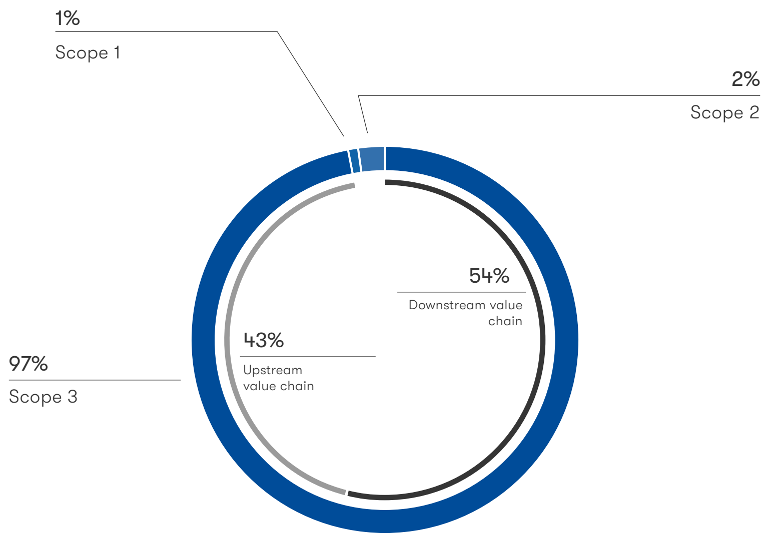
At present, specific measures to achieve the target for scope 1 and 2 by 2030 are already included in the forecasts. These include the following key measures:

→ Switch to green electricity – the switch had already begun in 2021 and will be continued gradually over the next three financial years.
→ Increase the share of electric vehicles by 2030.
→ Since we plan to continue to grow further, minimum standards are used for renting new offices or relocating, as well as for the heating and electricity supply and efficiency of the rental buildings.
→ In the case of existing lease agreements for our office properties, we rely on our landlords when it comes to the heating supply. Most sites are connected to district heating or decentralised natural-gas networks. When calculating our target achievement, we include various scenarios for decarbonising the German heating mix (a business-as-usual scenario and a 1.5° C climate protection scenario based on the "Energy Economic Projections and Impact Estimates 2030/2050" study by the Federal Ministry of Economic Affairs and Technology, 2021, and "Climate-neutral Germany in 2045" study by Prognos, Öko-Institut and the Wuppertal Institute, 2021).

What is important when considering the planned reductions is the fact that we have already reflected our growth trajectory. The growth also explains why the absolute reduction initially slowed from the mid-2020s. In the long term, we plan to achieve net-zero emissions across all scopes by 2045 in accordance with the German Climate Protection Act (deviating from the 1.5° C IEA scenario, five years earlier). In 2022, we plan to further develop the strategy devised in 2021 to achieve net-zero emissions for all three scopes. In doing so, we want to go beyond the measures mentioned above, but also drive forward the assessment of scope 3 potential in dialogue with our business partners.

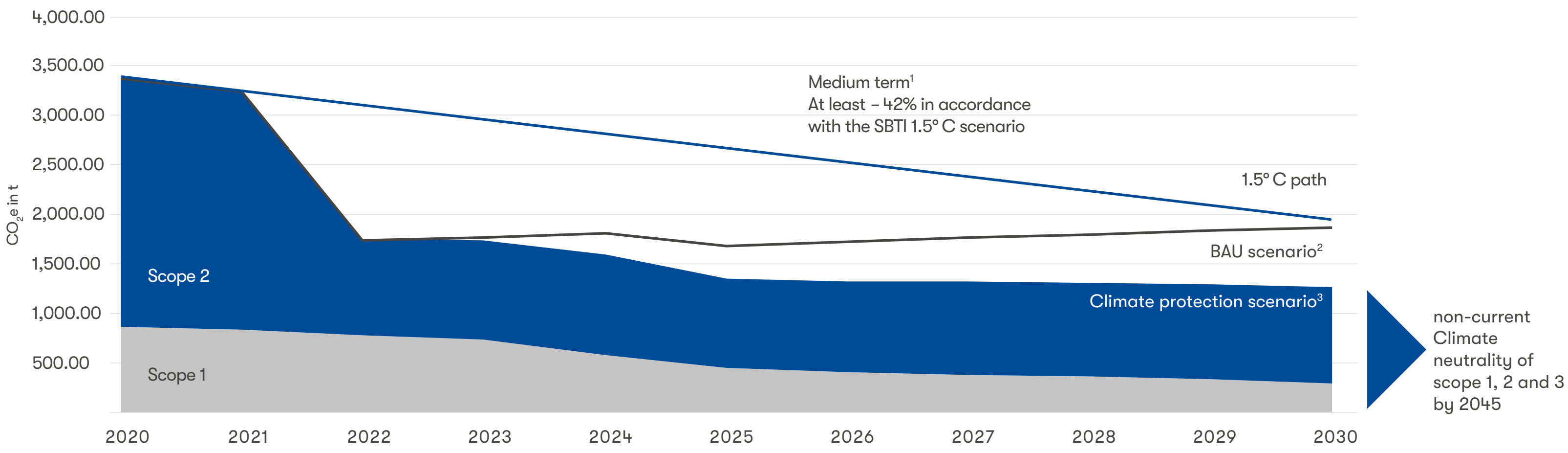
GRI 305-1, 305-2, 305-5 TCFD risk management

Average breakdown of greenhouse gas emissions by scope in 2020 and 2021



[1] As Instone falls into the SBTi category of "small and medium-sized enterprises" due to its size, Instone Real Estate is obliged to set a scope 1 and 2 target and to measure and reduce scope 3.

Decarbonisation curve and climate targets



[1] The progression of scope 1 and 2 emissions is based on the projections of planned measures and taking into account the planned growth.

[2] BAU scenario: scope 2 emissions calculated based on the assumption that the decarbonisation of the energy sector only progresses moderately (based on BMWi, 2021).

[3] Climate protection scenario: scope 2 emissions are calculated based on the assumption that the decarbonisation of the energy sector will achieve climate neutrality by 2045 (based on Prognos et al., 2021).

Scope 3 greenhouse gas emissions

With a 97 % share of total emissions, we are aware of the significance of emissions in the upstream and downstream value chain. This year, scope 3 emissions were therefore comprehensively recorded and analysed for the first time. Our scope 3 emissions include those caused by the manufacture of construction materials, the construction, use, demolition and recycling of developed buildings. We also record the scope 3 emissions caused by Instone Real Estate directly, namely by the travel and commuting of Instone employees and the emissions from buildings rented before the start of the project. We have calculated the scope 3 emissions caused by Instone Real Estate directly. Averages for travel and commuting were calculated for 2020 based on assumptions in accordance with the GHG Protocol and adjusted for the effects of the COVID-19 pandemic.

CAALA software was used for the share of scope 3 emissions in the building lifecycle which Instone Real Estate cannot measure directly. The data includes all projects completed and under construction in 2021. Upstream scope 3 emissions are distributed over an assumed construction period of two years. Downstream scope 3 emissions are recorded in full for the entire 50-year usage period and one-year dismantling time at the handover date. GRI 305-3

Measures for scope 3 based on the building life phases GRI 305-5 — TABLE 007

Components	Measures
Manufacturing phase	→ Gradually increase the proportion of reusable and recyclable materials in tenders → Planning incorporating alternative building materials including timber → Engaging in dialogue with service providers on transport for the lowest emissions possible (e.g. e-trucks) and low-emission construction site infrastructure facilities (e.g. greater use of recycled rubble for paths and backfilling)
Construction phase (Instone share)	→ Low-emission travel for reasons including the predominant use of the railway → Reduction of travel by using the established digital work environment → Motivational programmes to promote employee health and the supply of company bicycles
Use phase	→ Planning and using solutions with optimal energy technology → Dialogue with business partners on the further development of smart home solutions that promote energy-efficient behaviour → Increased planning of photovoltaic systems on roofs as soon as the regulatory environment allows this → Engaging in dialogue with municipalities and energy suppliers to expand the low-emissions heating infrastructure and increasing the testing for the installation of heat pumps
Disposal phase	→ Adapting the design of buildings to enable simplified dismantling and the re-use of materials → For dismantling activities that Instone Real Estate performs in its projects: revising the requirements for service providers taking on this aspect

Deviations in greenhouse gas emissions during the use phase[1] in the business-as-usual (BAU) and climate protection (KSZ) scenarios Portfolio: All buildings under construction and completed in 2021 — TABLE 008

LCA	Business as usual (BAU)		Climate protection (KSZ)		Deviation
	t CO_2e abs.	t CO_2e/m² [2]	t CO_2e abs.	t CO_2e/m² [2]	as a %
Energy consumption during operation (B6)	334,612	0.94	178,601	0.50	–47%

[1] The use phase covers 50 years – for the buildings completed in 2021, the emissions cover the period from 2022 to 2072.

[2] The intensities are based on the net surface area in m² of the buildings completed and under construction (2021: 355,424)

Table 008 shows the deviation of approx. –47% between greenhouse gas emissions in two scenarios. The business as usual scenario (BAU) is based on the assumption that decarbonisation of the energy sector only progresses moderately (based on BMWi, 2021). The climate protection scenario (KSZ) is based on the assumption that the decarbonisation of the energy sector will achieve climate neutrality by 2045 (based on Prognos et al., 2021). Details can be found in the box on the CAALA software below. This great discrepancy highlights our dependence on various players along our value chain – in this case, energy suppliers – when it comes to reducing greenhouse gas emissions. This is just one example of how stakeholders, especially in the building sector, should work together and engage in dialogue to ensure effective emissions savings. We take our responsibility in this regard very seriously and are already in close contact with upstream and downstream companies in the value chain. In our planning, we are also currently working intensively on the use of hybrid-timber construction materials. For the 2022 financial year, we are committed to evaluating more intensively the possibility of using low-emissions construction materials in particular. In relation to reducing emissions in the use phase, the ambition announced last year is enhanced as follows: By 2030,

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100% of buildings under construction (as at 31 December 2021) are expected to meet the technical screening criteria of the EU Taxonomy in relation to the set of criteria for new builds, meaning they require a maximum of 90% of the final energy requirements of a nearly zero energy building.

In terms of our overall portfolio (including the buildings planned, under construction and completed in 2021), we are already far below the current German average in terms of expected emissions in the use phase (taking into account the current emission factors of the energy sources). Our current project portfolio in the building use phase is 9.5 kg CO_2e/m^2 (average value of greenhouse gas emissions for the heated areas of residential buildings in Germany in 2020: 26 kg CO_2e/m^2)[1]. Our result therefore also corresponds to the DGNB reference value, which is specified in the "New buildings criterion catalogue" for the criterion "Lifecycle assessment of the building".

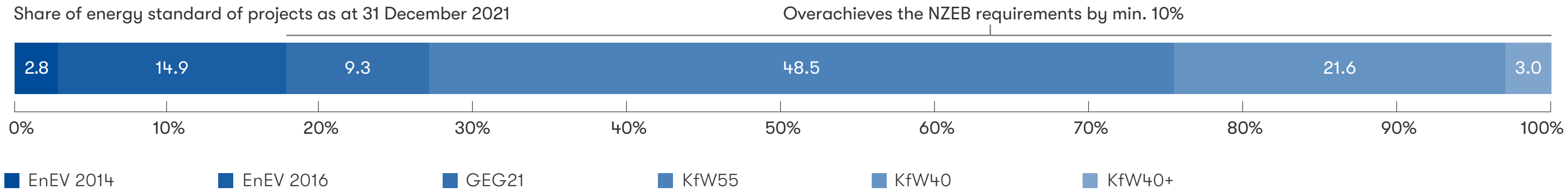
This year, therefore, we have also come closer to our target of reducing the baseline value of 11 kg of CO_2e/m^2 in 2020 by 50% by 2030.

In 2020, we had also set ourselves the target of increasing the share of CO_2 neutral energy sources in the portfolio from 14% to at least 40% by 2030. In the 2021 financial year, the figure rose to 22.2%. This likewise demonstrates progress. GRI 302, 302-2, 302-3, 302-4, 302-5

[1] 2020 heat monitor from the German Institute for Economic Research [Deutsche Institut für Wirtschaftsforschung e.V.] (published every two years)

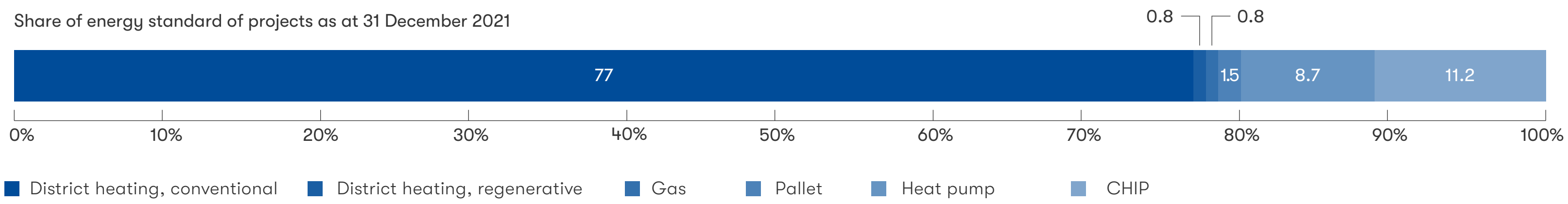
Distribution of energy standards in the Instone Real Estate project portfolio as at 31 December 2021 based on share of surface area
Portfolio: All buildings planned, under construction and completed in 2021

In %



Percentage distribution of energy sources in the current Instone Real Estate project portfolio as at 31 December 2021 based on share of surface area Portfolio: All buildings planned, under construction and completed in 2021

In %



A significant increase in the KfW 40 standard by more than 21% from the previous year can be seen in the illustrations (on pages 78 and 79) of the energy standard distribution for the current Instone project portfolio in 2021 based on the percentage share of surface area. In addition, we have one project with the KfW 40+ standard in our portfolio. GRI 201-4

The planned measures to reduce scope 3 emissions can be found in Table 007 on pages 77. In addition, in the 2022 financial year, we intend to identify the effective, most efficient solutions for reducing scope 3 emissions using marginal abatement cost curves (MACCs).

CAALA

CAALA is software that serves to optimise buildings in terms of their energy, economic performance and environmentally-friendly nature. Buildings can be recorded and planned early in the planning phase. The software directly provides a lifecycle assessment of the planned or existing building, based, among other things, on its components, future replacement measures, service life and net surface area. The calculation is based on the methodology of the lifecycle assessment applied in accordance with DIN EN 14040 and 14044 and in accordance with the basic rules for construction products in accordance with DIN EN 15804 and the calculation rules in the context of buildings in accordance with DIN EN 15978. An overview of all lifecycle modules in accordance with DIN 15978 can be found on the following page. The analysis framework for this method is based on the DGNB methodology and the accounting standards of the Sustainable Buildings quality seal (QNG), as these reflect the current state of lifecycle assessment in Germany.

The selection of lifecycle modules comprises the following modules in accordance with DIN EN 15978 (other modules are not currently being recorded as the data on collection or estimation is missing and they could not be covered consistently):

→ Manufacturing phase (A1-A3),
→ Replacement during use (B4),
→ Energy consumption during operation (B6),
→ Waste treatment and disposal (C3, C4) and
→ Additional information outside the system limits (Module D), which is, however, presented separately.

In this context, it is possible to differentiate between grey emissions (embedded carbon) in phases A1-3, B4 and C3-4 and the emissions during operation (operational carbon) in phase B6.

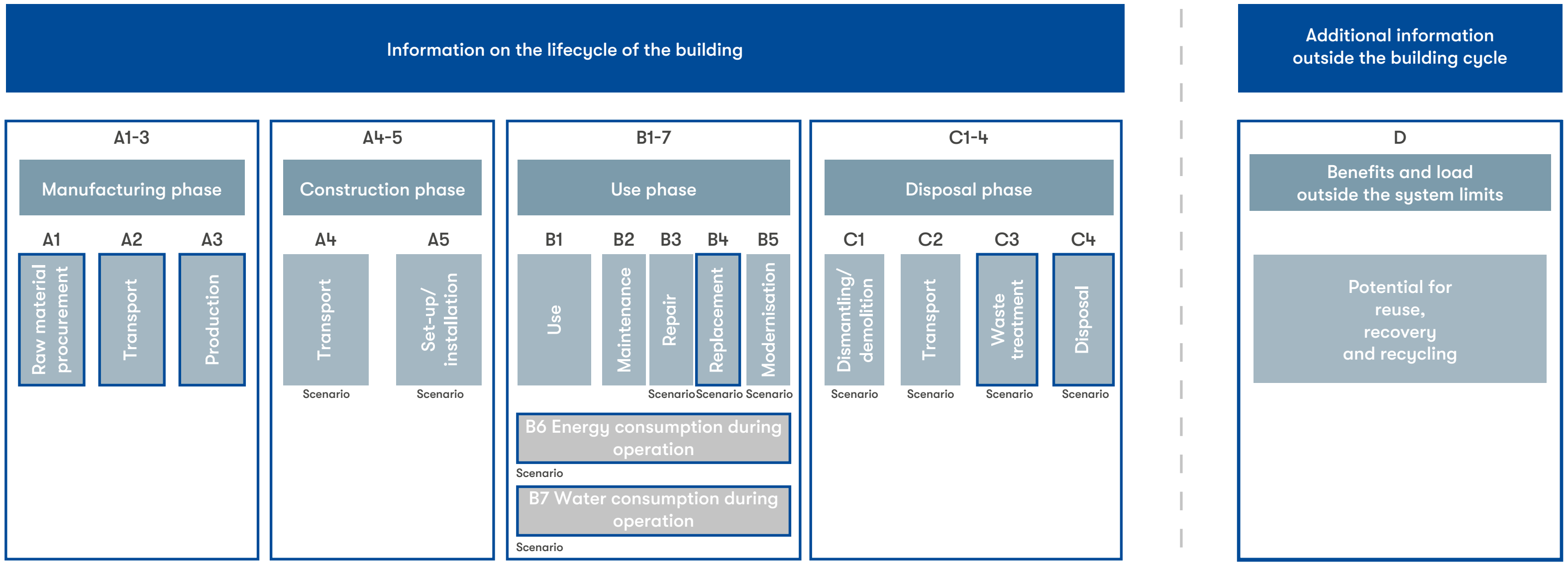
Emissions in the construction phase are in line with the assumptions about the average speed of construction progress (approx. two years in total). A lifecycle analysis, which represents the distribution of the greenhouse gas emissions, follows on page 82 et seq.Here the emissions are shown in the years in which they actually arise. GRI 302-5

The recording of greenhouse gas emissions in buildings during the use phase fundamentally depends on the technical energy solution installed and the user behaviour of the occupants. CAALA takes the technical solution for the heating and electricity supply from the relevant building application and uses greenhouse gas-emission factors based on the final energy consumption of the building from ÖKOBAUDAT for the calculation. In terms of usage behaviour, the accounting rules of the Sustainable Building quality seal (QNG) are applied. These are based on the use of highly efficient devices and energy-saving behaviour and assume an average final energy consumption of 20 kWh of mains power per square metre of net floor area. The dynamic behaviour of greenhouse gas-emission factors due to the increasing decarbonisation of the German electricity mix is examined in two scenarios:

Business as usual (BAU):Conservative further development of the German district heating and electricity mix with a linear reduction (electricity: 0.515 g CO_2e/kWh to 0.318 g CO_2e/kWh in 2050/district heating: 0.247 g CO_2e/kWh to 0.130 g CO_2e/kWh in 2050) – the assumed reduction is based on the assumption that all climate protection measures planned by the Federal Government to decarbonise the German energy sector by late 2020 will be implemented and no further measures will be implemented (source: BMWi 2021)

1. Climate protection (KSZ):Reduction in emissions for district heating by 95% by 2045 with a linear improvement in the current value (target values: electricity 0.038 g CO_2e/kWh/district heating 0.03 g CO_2 e/kWh by 2045) – the assumed reduction is based on decarbonisation in the German energy sector as required to achieve climate neutrality in 2045 (sources: DENA 2017, Prognos et al. 2021)

Lifecycle phases according to DIN EN 15978



Greenhouse gas emissions during the lifecycle between 2020 and 2073 – lifecycle view[1]
Portfolio: All buildings under construction and completed in 2021 (construction started in 2020)

TABLE 009

	2020-2073 – Business as usual		2020-2073 – Climate protection		Distribution
	$t\ CO_2e$	$t\ CO_2e/m^2$ [2]	$t\ CO_2e$	$t\ CO_2e/m^2$ [2]	Percentage
Manufacturing phase					
A1-3 Raw material procurement, transport, production	153,303	0.431	153,303	0.431	33%
Construction phase					
A4-5 Transport, construction/installation (Instone share only)	13,074	0.037	13,074	0.037	3%
Use phase					
B4 Replacement	29,372	0.083	29,372	0.083	6%
B6 Energy consumption during operation	334,612	0.941	178,601	0.503	55%
Disposal phase					
C3-4 Waste treatment, disposal	16,678	0.047	16,678	0.047	4%
Total	**547,038**	**1.539**	**391,027**	**1.100**	**100%**
of which, embedded carbon	**212,427**	**0.598**	**212,427**	**0.598**	

[1] The lifecycle consists of two years of manufacture and construction, 50 years of use and one year of dismantling and disposal.

[2] The intensities are based on the net surface area in m² of the buildings completed and under construction (2021: 355,424)

GRI 305 TCFD key performance indicators and targets

TCFD key performance indicators and targets/TCFD risk management

Lifecycle view

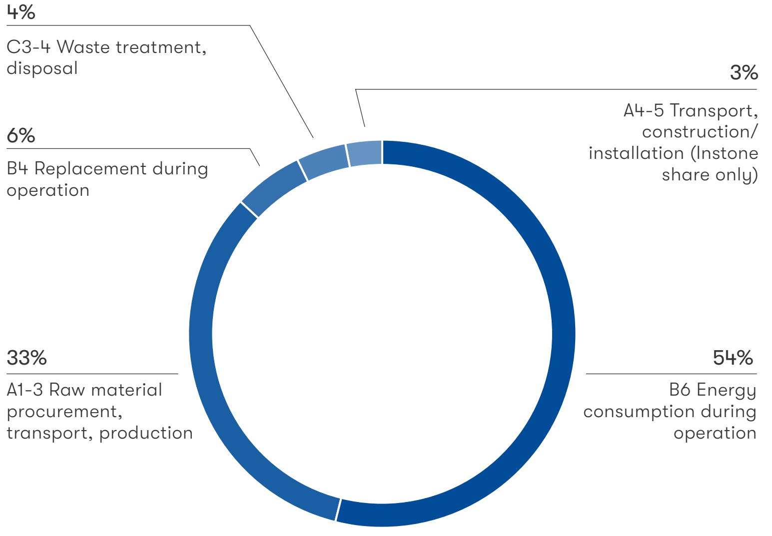
In the lifecycle view of our emissions, we assign emissions to the times when they actually arise. All upstream and downstream emissions of all completed buildings and those under construction for the year under review are taken into account. In particular, downstream emissions are reported in the future years in which they will arise. This differs from the balance sheet view, in which these greenhouse gas emissions are always reported in full "ahead of time" in the year of sale.

The lifecycle view has two key advantages:

1. The reduction of scope 3 emissions in particular can be tracked and managed across the portfolio through response measures.
2. By using the CAALA software, every property can be recorded and analysed as early as the planning phase. Changes and optimisations can also be evaluated from an emissions perspective all the way through to completion. Instone Real Estate also planning to use CAALA during building planning, starting with the first projects in the 2022 financial year.

The figure on the next page shows the distribution of emissions across the lifecycle phases of the buildings. The emissions in the construction phase that are not currently covered by CAALA, but which we have recorded directly for our activities, were integrated into this lifecycle analysis. This mainly deals with the emissions that arise directly as part of our business activities in the course of the planning and construction work (office and construction site power, transport by Instone Real Estate).

Average distribution of greenhouse gas emissions over the lifecycle phases of buildings completed and under construction in 2021 over the period 2020-2073



Average across the business-as-usual (BAU) and climate-protection (KSZ) scenarios analysed over the period from 2020 to 2073

The setup helps us to better understand the distribution of operational and embedded carbon and what adjustments can be made. As part of the ongoing analysis with the help of the CAALA software, Instone Real Estate is planning to further expand the measures to reduce emissions by working together with its business partners in future, particularly in the construction and use phases.

TCFD key performance indicators and targets

Climate risk management and climate scenario analysis

GRI 201-2 TCFD Risk Management

We are convinced that climate change also has financial implications for all economic actors, especially for the building and construction industry in which we operate. These changes could be reflected in financial risks (e.g. an increase in CO_2 prices, an increasing number of flood disasters), but also in business opportunities (for example, the increasing attractiveness of low-emission new builds).

In line with the recommendations of the TCFD, we conducted an initial qualitative climate scenario analysis so we could systematically assess material climate risks and opportunities for Instone Real Estate.

Procedure

Climate scenario analysis considers the business activities of companies along their value chain based on assuming various levels of global warming and identifying the key drivers of risks and opportunities. The assumptions as to how a world might look with different levels of global warming are derived from scientific climate scenarios and applied in the company context. In general, a distinction is made in the scenarios between transition risks and physical risks. While transition risks in relation to regulatory, technological and market-related changes tend to dominate in more ambitious climate scenarios, in scenarios with higher degree of global warming, physical risks in the form of the increased severity and frequency of severe weather events and long-term climate change play a significant role.

In the course of the analysis, we focused on the climate scenarios that are essential to us:

→ 1.5° C scenario to consider transition risks as this is in line with our aspirations of achieving climate neutrality
→ 2.6° C and 4.3° C-scenarios to consider the physical risks, as the former is currently considered by scientists to be the most likely scenario and the latter allows us to analyse the maximum risk.

Our sources were the "Climate-neutral Germany in 2045" (Prognos, Öko-Institut, Wuppertal-Institut, 2021) study and the RCP 4.5 and 8.5-scenarios of the Intergovernmental Panel on Climate Change. Only information that is consistent with these scenarios was used as accompanying source material to help close some data gaps in the scenarios used. In addition to the scenario sources, information that is specific to Instone and/or the industry, such as the historical prices of building materials and new builds, material quantities and company growth were used for the analysis. Table 010 shows an overview of the scope of our analysis.

Scope of the scenario analysis TABLE 010

Transitory risks		Physical risks	
Scenarios			
~ 1.5°C – Climate-neutral Germany in 2045 Period analysed: 2020-2045/2050 Main sources: Prognos, Öko-Institut, Wuppertal-Institut (2021), BMWi energy projections (2021), NGFS scenario platform (2021).		**~ 2.6°C – "Business as usual"/~ 4.3°C – "Worst case"** Period analysed: various periods, 2030-2100 Main sources: RCP 4.5 and 8.5 of the IPCC (Intergovernmental Panel on Climate Change), Climate Atlas of the German Weather Service (2021), European Climate Adaptation Platform (Climate-ADAPT) (2021)	
Climate risks			
Regulatory issues		Temperature rises	Rainfall
Markets		Hot days	Floods: Rivers, Coastline, Heavy rain
Technology		Days of frost	Water scarcity

Temperature increases in the scenarios refer to the average values that could be achieved by 2100.

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In comparison with the respective scenario assumptions, the relevant drivers influencing the financial performance of our business were analysed using a decision tree to illustrate the respective topics. Impact chains were allocated to the financial key performance indicators affecting them (e.g. revenue, capital expenditure or costs). The final assessment of risks and opportunities was carried out based on two key dimensions. On the one hand, we reviewed the extent to which a change in their magnitude would be significant for Instone Real Estate, and on the other, we analysed whether our Company has the opportunity to mitigate the risks by initiating adaptation measures.

Climate scenarios analysed

The key objective of the scenario analysis is to gain an understanding of what a future world could look like in the context of an assumed level of global warming.

1.5°C scenario: Climate-neutral Germany in 2045

We identified three key fields for our business activities in the context of using the "Climate-neutral Germany in 2045" scenario and took into account the assumptions associated with these in the scenario analysis (see Table 011). In addition, we also used the assumptions for the performance of the energy sector.

Detailed assumptions concerning the 1.5°C scenario for the construction and building sectors in Germany TABLE 011

Surface areas	→ **Total living space** will increase from 3,885 million m² in 2018 to 4,132 million m² in 2030 (+6%) to 4,271 million m² in 2050 (+10%) → The surface area of **apartment buildings will** increase by +11% by 2050 → The surface area of **new builds** (total, without areas in the industrial sector) will increase by 75% by 2050, driven mainly by residential construction, as commercial space is expected to shrink as the number of employees decreases → Per capita living space will increase from 48 m² in 2018 to 52 m² in 2050
Materials	→ Construction activity with significantly more efficient use of **cement, cement clinker** and **concrete** – decrease in volume from 2030 – Smarter geometry of components – Reduction of cement percentage in concrete through improved binders – Optimised grain-size distribution of the concrete aggregates → Increased recycling of **steel** and increased use of **rubble** → Increase in **the percentage of timber construction in** residential construction from 16% in 2018 to 23% in 2045
Equipment	→ Sharp increase in installed **heat pumps, biomass heating and solar thermal energy** → Use of water-saving fittings to reduce **hot water consumption** → Development of more energy-efficient, fixed **applications** (e.g. permanently installed lighting, room climate control, etc.)

Source: Prognos, Öko-Institut, Wuppertal-Institut (2021): Climate-neutral Germany in 2045. On behalf of Stiftung Klimaneutralität, Agora Energiewende and Agora Verkehrswende

2.6°C and 4.3°C scenarios: global "business as usual" and "worst case"

RCP scenarios 4.5 and 8.5 from the Intergovernmental Panel on Climate Change were used for the physical risks. With these two scenarios, it was essential to understand the key climate-driven, global changes in order to be able to classify the scenario in terms of the extent of its consequences.

Local changes in acute and chronic weather events were of central importance for analysing the physical risks. As part of this initial analysis, the main construction sites were therefore assessed using a city analysis. Data from the RCP scenarios prepared by the German Weather Service and the European Environment Agency was used for this purpose. As information on location-related physical risks was not yet available, we intend in future years to examine the extent to which more granular data can be used for each individual project.

Analysis of transition risks and opportunities

TCFD strategy/risk management/key performance indicators and targets

To analyse the causal chain transitory risks, the scenario information was shown in a tree structure, broken down into specific topics based on our value chain.

All of the risk and opportunity drivers identified for the scenario-based assumptions were then included in the risk analysis. Table 012 shows the drivers, their magnitude according to the sources used, the financial KPIs in question, and the results of the risk assessment. To assess the risk, the relative relevance of the driver and the possibility of implementing adjustment measures were taken into account.

Assessment of risks and opportunities in the 1.5°C scenario TABLE 012

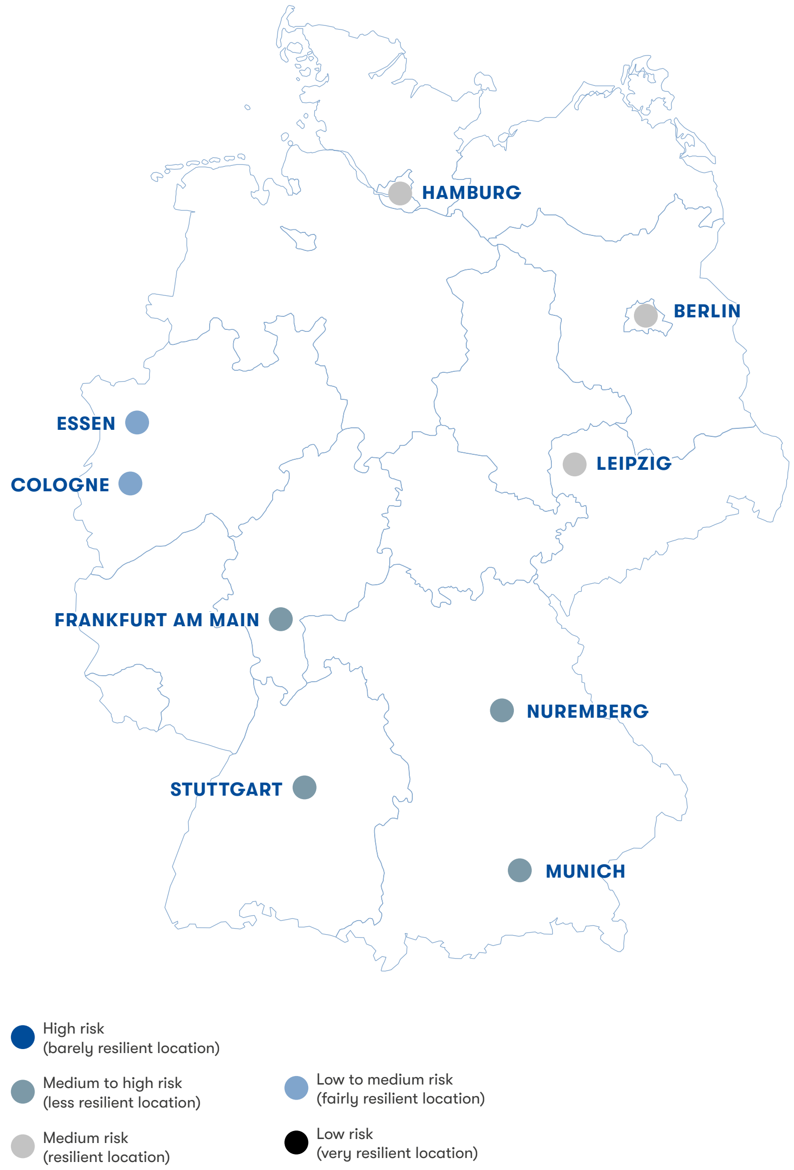
Drivers	Magnitude	Financial KPIs	Risk
Energy costs during operation	Increase in the price of electricity: approx. +49% by 2025, followed by a slight reduction at a high level up to 2030. Increase in natural gas prices: approx. +84% by 2025, then average 5-year growth of approx. +23% by 2040	Costs	Medium risk
Energy costs during construction	Increase of approx. +49% by 2025 then a large number of slight decreases by 2030.	Costs	Medium risk
Demand development	Increase in new builds: +781 million m² (+73%). Increase in apartment buildings: +182 million m² (+11%)	Revenue	No risk/opportunity
Cost of materials for the cement industry (reinforced concrete, cement clinker)	Doubling of prices by 2030 (approx. +109%), then stabilising and then doubling again from 2040 to 2050	Costs	Higher risk
Cost of steel	Increase of approx. +14% by 2025, doubling by 2045, but very low proportion	Costs	No risk/opportunity
Cost of bricks (not cement clinker)	Increase: Up to 34% by 2030, prices double by 2050	Costs	Medium risk
Cost of sand-lime bricks	Increase: Up to 7% by 2030, up to 19% by 2050	Costs	No risk/opportunity
Cost of timber	Possible price increases for timber (extent unknown)	Costs	No information

Higher risk · Medium risk · No risk/opportunity · No information

Analysis of physical risks

TCFD governance/strategy/risk management/key performance indicators and targets

The method for analysing the impact chains of physical risks was structurally similar to the analysis of transition risks, although with one exception. The scenario sources available provided data on the change in acute and chronic weather events, but no estimate of the amount of costs and damages. Accordingly, the impact chains were drawn up and the impact of the physical hazards was determined for each location (see the figure on the right).



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A qualitative risk assessment was carried out on the basis of the causal chains, the degree to which the locations are affected and the known information on the relevance of the driver. This is to be expanded in future to include further financial information.

Risk assessment of physical risks considering the 2.6°C and 4.3°C scenarios TABLE 013

Drivers	Effect	Financial impact	Risk	Locations affected
Temperature rises	Adaptation of installed air conditioning technology	Rising cost of materials and construction, if applicable	No risk	Essen, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich, Stuttgart, Cologne and Berlin
Hot days	Falling efficiency in construction	Rising construction costs, delays to sales	Medium risk	Essen, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich, Stuttgart, Cologne and Berlin
Days of frost	Increasing efficiency in construction	Fewer days of frost leads to compensation for rising construction costs in summer	No risk	Essen, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich, Stuttgart, Cologne and Berlin
Rainfall	Falling efficiency in construction	Rising construction costs, delays to sales	Medium risk	Essen, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich, Stuttgart, Cologne and Berlin
	Increased capability of required drainage systems	Rising cost of materials and construction, if applicable	No risk	
Floods (rivers, coastlines and heavy rain)	Reduction of the attractiveness of the construction site (eligibility for insurance)	Reduction in sales prices	Higher risk	Frankfurt am Main, Hamburg, Stuttgart
	Design and structural implementation of safety measures	Rising cost of materials and construction, if applicable	No risk	
	Delays to construction implementation	Rising construction costs, delays to sales	Medium risk	
	Measures to additionally secure the construction material	Rising construction costs	Medium risk	
Water scarcity	Rising water costs during construction	Rising construction costs	No risk	

Higher risk Medium risk No risk

Results at a glance

Our business model should be resilient to a large extent across both climate scenarios.

- 1.5° C: rising manufacturing prices can be passed on to clients for the most part; the demand for low-CO_2 buildings and the demand for space in the residential sector could further drive our growth.
- 2.6/4.3° C: building prices could increasingly be affected by low-risk locations. Efficiency on the construction site is not affected by the increase in the number of hot days due to the simultaneous decrease in frost days.

The following were derived as additional adjustment measures:

- Transition risks: The diversification of the use of low-CO_2, reused and recyclable building materials we are already striving for is to be continued to make us less dependent on conventional raw materials and to further increase the attractiveness of buildings.
- Physical risks: In future, longer-term and forward-looking data will be included in the initial assessment of the plots to be used for construction land as part of the investment application. Adjustment measures should increasingly be integrated when planning at locations with an increased risk profile.

Outlook TCFD strategy/risk management

Instone Real Estate is planning to expand its regular climate-scenario analysis and include more quantitative data in future.

In this context, even greater attention should be paid to the following aspects, depending on the availability of data, in order to enhance the forecasting value of the analysis:

- Increased inclusion of our key financial performance indicators
- Inclusion of costs and damage values for physical risks
- Increase in the location-related granularity of physical risks
- Quantitative results derived at Company level

Climate scenario analysis is also to be established at organisational and procedural level in future:

- Use of scenario-analysis pilots to raise awareness and aid further education for employees around the topic of the TCFD recommendations
- Regular implementation of the scenario analysis by the Sustainability, Risk Management and Controlling departments
- Use of results in risk management and corporate planning
- Integration of individual aspects in business processes, for example, establishing physical risk analysis as part of each investment application for new projects

Further environmental impacts

Resource consumption GRI 301-1, 301-2, 301-3, 303, 303-2, 303-3

As part of our comprehensive reporting, in the past year we also began systematically collecting further data in order to reduce the long-term consumption of resources, defining specific targets and measures and taking these into account for corporate governance. Our goal is to promote nature conservation and biodiversity in order to maintain a healthy environment in the long term as a basis for our business activities.

To achieve comprehensive reporting of extended environmental key performance indicators and set specific targets, we are planning to set up an automated retrieval system via our ERP infrastructure. The focus will be on the following topics:

Overview of future data fields to be collected TABLE 014

Data field	Comments
Water	→ Consumption on construction sites and in offices → Discharge of wastewater on construction sites
Use of recycled materials	→ Use of recycled and reusable materials in construction and on construction sites
Disposal of construction rubble/waste	→ Disposal of construction rubble and waste – Scope – Proportion of recycled and reusable materials

Contamination and waste disposal GRI 306-1, 306-2, 306-3, 306-4

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

If demolition is required on our contruction sites, we draw up plans for demolition with contractual partners. Waste removal is contractually agreed with the subcontractors and the appropriate proof is furnished. Recycled materials can sometimes be used to develop and/or construct the projects. We are working to record and gradually increase the proportion of recycled and reusable materials used. We see the increased use of recycled and reusable materials as one of the main drivers for achieving net zero-emission residential buildings. According to the Embodied Carbon Primer from the London Energy Transformation Initiative (LETI) from 2020, about 50% of the materials in the residential sector would have to be recycled by 2030 and 80% would have to be reusable for future buildings.

Handling of environmental characteristics in the phase before land is purchased

Instone Real Estate has established a clearly defined due-diligence process in the phase before land is purchased, evaluating the following environmental and occupational health and safety emissions prior to the submission of an offer.

Environmental characteristics:

- → Protection of monuments and nature conservation
  - – Among other things, audits of flora and fauna, seasonal dependencies, listed construction, soil and natural resources and the impact of flowing water, supplemented by expert opinions if necessary
- → Ground water
  - – Structural and analytical chemical audits and drainage options, supplemented by expert opinions if necessary
- → Contamination/contaminated areas
  - – Due diligence, looking for known contamination by sampling the land and existing buildings, due diligence on disposal and use of waste, special further due diligence if the land was used for industrial purposes, landfill or for waste water. As a rule, we always obtain expert opinions and perform analysis and evaluations.
- → Demolition/conversion work
  - – Inventory and assessment, due diligence on disposal and use of waste. As a rule, expert opinions are always produced and analyses are performed and evaluated
- → Emission and immission control
  - – Due diligence on all emissions and immissions that adversely affect residential construction
- → Environmental aspects of the construction site
  - – Checked according to the individual requirements of the project Protection of the soil and bodies of water
  - – Checked before land is purchased and impacted by the construction site

In addition to assessing environmental characteristics, the following resulting occupational safety characteristics are also included in the audit:

- → Contamination/contaminated areas
- → Significant heights
- → Underground work
- → Work sites next to, on and above water
- → Demolition
- → Explosives
- → Explosive ordinance
- → Power lines
- → Supply lines

- Underpinning/undercutting
- Specific hazards caused by traffic
- Shift work
- Extension and removal of elements > 10t
- Health and safety coordinator

Instone Real Estate has a good overview from its comprehensive analysis of the preparations needed and takes this into account when making an offer to purchase land.

With land purchases, Instone Real Estate carries out the preparatory measures it is already aware of to resolve the issues identified in the purchase agreement.

In the case of heavy contamination, for example, due to an industrial or military use of land or land with oil, the competent environmental office or the district government must declare the site available for re-use after remediation of the contaminated areas before further use. When land is reused for residential property, Instone Real Estate also provides evidence of the safety of the "soil to human interaction pathway" as defined by the Federal Soil Protection and Contaminated Sites Ordinance.

Prevention of contamination during the construction phase

Through our Code of Conduct and the applicable environmental guidelines, we impose on our contractual partners an additional contractual obligation to comply with the relevant requirements and with measures to prevent contamination. If the contractual partner causes contamination, they are obliged to remedy it.

Handling of potentially hazardous substances and residues before and during the construction phase

Intensive expert analysis prior to the purchase of land partly assesses the existing pollution, but the expert also highlights the measures necessary for dealing with the contamination. The measures are determined according to expert opinions and adopted in the tender for removal in accordance with the applicable regulations. The performance of the work is based on the list of services and expert opinions. Specialist expert support is ensured during the construction phase so that measures can be carried out and conditions can be complied with in a verifiable manner.

During the construction phase, the logistics company commissioned will organise the disposal of building materials for all of Instone's contractual partners during the preparations for construction and during the shell construction. They are responsible for ensuring that waste is sorted and disposed of accordingly. Alternatively, the contractual partners are responsible for the disposal of their residual building materials.

A disposal certificate is required to document the disposal of contaminated substances.

The contractual partners performing the finishing work are contractually obliged to carry out separate disposal of all substances that arise according to their usability.
GRI 306-4

Land and soil GRI 304-4

We develop our projects almost exclusively in urban or metropolitan areas. We are therefore working on the topics of densification and new surface sealing of undisturbed areas when looking for a location for construction sites.

The majority of Instone projects are brownfield projects, i.e. our buildings are replacing old buildings or intensively used commercial areas that have come to the end of their lifecycle. In this way, we not only ensure the preservation of green areas, but also actively shape diversity in neighbourhoods (for example, when converting old industrial sites) by creating housing and day-care centres, and putting infrastructure in place close to the housing. Examples in our current portfolio are the Schönhofviertel in Frankfurt am Main or "Wohnen im Hochfeld" in Düsseldorf.

Brownfield projects TABLE 015

Projects	Number	Site area in m²
Brownfield projects	26	690,204

Biodiversity GRI 304, 304-2, 304-3

In each project, we meet the requirements for creating compensatory areas, which must have a comparable level of biodiversity at the very least. In line with our orientation towards urban living, areas where wild animals are found are only very rarely affected. On rare occasions, projects also involve areas where there are indigenous animal or plant species that are on the Red List of the International Union for Conservation of Nature or on national lists of protected species. When there is evidence that wild animals or endangered species are present, we coordinate measures with the nature conservation authorities responsible to relocate them or help them remain on site.

Close cooperation with nature conservation authorities, landscape planners and nature protection associations, and the setting of a sustainable catalogue of measures form the basis for including biodiversity aspects in planning construction projects. Measures here are varied and range from considering bird breeding seasons and bat activities to planning and revising the construction schedule, mounting nesting boxes for certain species or promoting bee settlements to building green roofs for rainwater retention (for relieving the strain on sewer systems). GRI 304-4

In addition to the TCFD recommendations on climate reporting, we also monitor the work of the Taskforce for Nature-Related Financial Disclosures (TNFD) and are anticipating concrete recommendations for reporting on nature and biodiversity-related content in the 2022 financial year.

SOCIAL

77%

Employees recommend the Company to others.

We are stepping up our involvement in social issues – and in the current financial year will add concrete activities to our agenda aimed at helping us meet our targets.

With about 1,288 places in day-care centres in our current project portfolio, we are assuming, and will continue to assume, responsibility for creating social infrastructure.

25%

We have increased the percentage of women in the first management level and going forward will continue to support and promote women with supervisory management duties.

We want to keep the thousand-person quota below 10 based on a three-year average. To this end, we continuously provide training on occupational health and safety issues.

7.75%

We want to further reduce our fluctuation rate and improve employee retention.

Our employees invested an average of 8.8 hours in further education in 2021. We ensure that all our employees can participate in all relevant further training.

Social issues GRI 400

Our starting position

The Instone mission statement represents both the cornerstone of our strategic orientation and our responsibility for our employees and all other stakeholders.

Our values of trust, responsibility, cooperation, profitability and vision, as defined in our mission statement, form the basis of our actions at all times.

HR strategy and employee attractiveness

The Instone working environment is subject to continuous change: digital transformation and the promotion of sustainability, technological progress and a shortage of skilled labour are key developments that are also taken into account in our HR strategy.

The aim of our HR strategy is to position Instone as an attractive employer in the industry, to strengthen employee retention and to attract new employees for the Company over the long term through the targeted promotion of young talent.

We see the increase of 108 new colleagues in 2021 as confirmation of a successful HR policy and a sustainable position as an employer brand on the labour market.

Personnel development and employee retention

Supporting and developing employees III

Well-trained and qualified personnel are a key requirement for the further development of the Company and of central importance for the Company's success. We are convinced of the concept of "lifelong learning". For this reason, we support our employees in systematically continuing their education in accordance with the requirements of the market during all phases of their professional lives.

The average number of hours of further education in the 2021 financial year was 8.8 hours per employee (2020: 4.5). In addition, all employees carried out mandatory web-based training on data protection, compliance, anti-corruption and antitrust law. GRI 404, 404-1; 404-2

In order to continue to welcome well-trained young professionals, we are increasingly committed to promoting young talent. To this end, apprenticeships for office management staff were reintroduced and many of our employees continued along the proven path of the dual course of study. A customised trainee programme in the commercial sector was designed for the relevant target group.

In August 2021, we were able to welcome a new member of staff on a dual course of study at Instone, meaning that in 2021, we had seven employees on a dual course of study involving the real estate, construction engineering and business engineering fields at Instone, and we helped two of our working students complete their Master's theses in the areas of project management and project development. GRI 202-2

Recruitment

Positioning ourselves as an attractive employer throughout Germany is a strategic challenge for Instone. We want to offer qualified employees an attractive long-term job, develop them both professionally and personally, and attract new talent in order to counteract the impending shortage of skilled labour. GRI 404

The Recruitment department is increasingly looking to digital channels when it comes to hiring new employees. Instone directly targets different groups via social media and digital platforms, such as LinkedIn and Xing, and is promoting itself as a potential employer at universities to an increasing extent. Instone also launched employer branding campaigns on Instagram in order to increase its brand recognition among the general public.

We are undertaking numerous activities to make our employer brand more attractive. We are conducting active networking at all locations to attract employees and rely on direct dialogue in doing so. To this end, we maintain close ties with leading universities, such as our cooperation with the study platform Studydrive, in which we give an insight into the start of employment at Instone as part of the "career to go" podcast.In addition, we have established applicant training and speed-dating formats at universities. They will continue to be an integral part of our recruitment measures in the coming year. A summary of these measures can be found in Table 016.

Recruitment strategy TABLE 016

Measures	Description
XING LinkedIn	→ Actively reaching out to potential candidates via social media
#JOBDERWOCHE (job of the week)	→ Active advertising of Instone job vacancies in our own social media format
Job exchanges	→ Publication of positions via Stepstone, social media and subject-specific portals
Trade fairs	→ Participation in various trade fair formats
University marketing	→ Offer of applicant training and speed dating → Placement of the Instone brand on the university portals Studydrive and JobTeaser → Cooperation with Studydrive to record a podcast episode → Supervision of theses → Trainee programme for graduates
Marketing measures	→ Customised campaigns (e.g. radio ads or posters at our construction sites)

Employee satisfaction

In addition to attracting new skilled labour and young professionals, the retention of existing specialist staff is an important issue for Instone. For this reason, we determine the satisfaction and needs of our employees on an annual basis as part of a digital employee survey. The findings provide the Company with important impetus for the further development of its corporate culture and HR work. In the 2021 employee survey, digital transformation, good cooperation and working atmosphere were of particular importance for employees.

The results of the employee survey are discussed in dialogue between employees, employee representatives and management at the higher and regional levels, with all parties working together to define suitable measures. The Management Board reports on the progress of the measures in relation to overarching issues at regular intervals (approximately every six to eight weeks) as part of interactive live video conferences. Regional topics are continuously discussed in location-specific appointments.

With a Group-wide participation rate in this employee survey of 63% (based on the reporting date of 30 June 2021, 419 active employees), overall satisfaction is 70% and affiliation with the company is 76%. 77% of employees would recommend Instone as an employer.

In addition to the pure satisfaction rating, we received around 1,300 times feedback and ideas about the four main topics of corporate culture, communication, working environment and sustainability. GRI 402, 402-1

Diversity

Instone Real Estate is committed to diversity and is working along the core dimensions (see link to footnote) of the "Charta der Vielfalt" (Charter of Diversity[1]), which Instone Real Estate signed up to in the 2021 financial year.

[1] Charter of Diversity – core dimensions

We value diversity and are committed to forms of work in which different skills, talent, experience and convictions can play a role. GRI 406

In this sense, our aim is to always treat our employees equally, regardless of all their differences in age, gender, sexual orientation, physical characteristics, ethnicity, nationality, religion and belief or other characteristics. Vacancies are advertised and filled at Instone Real Estate in accordance with the General Equal Opportunities Act (Gleichbehandlungsgesetz, AGG).

In order to underline this, we are expressly committed to the following conventions:

→ General Declaration of Human Rights
→ "Charta der Vielfalt" (member of the initiative since 2021)
→ International Labour Standards of the International Labour Organisation (ILO), in particular with regard to anti-discrimination and equal opportunities at the Company and throughout the entire value chain

The Management Board and Supervisory Board are convinced that diversity in the workforce is an important driver for innovation and employee engagement. Diverse teams are often more creative, arrive at more innovative decisions and thus make a significant contribution to Instone's success.

We aim to achieve a balanced distribution of male and female executives over the next few years. The current distribution of managers by gender can be found in Table 017.

In 2021, 198 female (43%) and 259 male (57%) colleagues worked for Instone, which can be seen in Table 018.

Diversity ratio (management levels) TABLE 017

	Management Board		1st management level[2]		2nd management level[3]	
	Number	Percentage	Number	Percentage	Number	Percentage
Men	3	100%	3	75%	20	77%
Women	0	0%	1	25%	6	23%
Total	3	100%	4	100%	26	100%

[2] Management level 1:Managing Director of Instone Real Estate Development GmbH & Nyoo Real Estate GmbH
[3] Management level 2:Division, branch, commercial and departmental management

The principle of diversity also extends to executive positions, including the people appointed to the Supervisory Board and the Management Board. On the basis of this fundamental conviction, we also make every effort to draw up a diverse shortlist when selecting members of the Supervisory Board and the Management Board, and generally exclude any form of discriminatory treatment.

The current composition of all Board positions is based on this principle. The Supervisory Board has been set a female members target of 20% in order to improve the proportion of women in management positions. This quota was already reached at the time of the Company's stock market launch and has since been observed or maintained in the case of new appointments.

The proportion of women on the Management Board is currently 0%. As an expansion of the Management Board does not seem appropriate, there is currently no possibility of increasing the proportion of women on the Board. Consequently, the Supervisory Board set the target for the proportion of women on the Management Board at 0%. When a new member of the Management Board is appointed, the Supervisory Board will ensure that qualifications and personality are the decisive selection criteria, but in particular that any disadvantage due to background, gender, religious belief or sexual orientation is excluded.

The issue of diversity is continually monitored by the general works council of Instone Real Estate. Critical issues are discussed with general management or the Management Board. GRI 405, 409

Further information on diversity can be found in the "Corporate Governance" section that begins on page 169 et seq.

Key employee figures

As at the reporting date of 31 December 2021, a total of 457 employees – 93 of them part-time (including 29 student trainees) – were employed at Instone Real Estate, including all subsidiaries.

In line with our Company's continual growth, this figure is up around 10.6% (44 employees) on the previous year.

In particular, Instone was able to successfully fill positions in the areas of project development and management, the commercial sector and planning – such as architects, structural engineering engineers and BIM specialists.

As at 31 December 2021, 42 employees were working under temporary contracts. These include, for example, apprentices and trainees and participants in work-study programmes. GRI 2-7

The average age in 2021 was around 41 years. Around 16% of our employees are under 30 years of age, around 59% are 30 to 50 years old and around 25% are older than 50 years of age. The breakdown by age group and gender in comparison with the past two years can be found in Table 018.

Key performance indicators II TABLE 018

	31/12/2021	31/12/2020
Total number of employees[1]	**457**	**413**
Total number of locations	**9**	**9**
Diversity of employees[1]		
Gender		
Women	198	170
Men	259	243
Age groups		
<30 years	74	70
30–50 years	271	238
>50 years	112	105

[1] Personnel disclosures, Instone Real Estate.

Length of service and staff turnover rate

The length of service (Table 019) reflects the growth of recent years and the Company's existing ambitious growth targets.

Some 17% of employees have been employed by Instone Real Estate for more than 10 years, 11.6% longer than 15 years. Against the backdrop of current challenges and ongoing changes in the labour market, Instone is particularly proud of this continuity.

Length of service TABLE 019

	Number of employees
<1 year	98
1–5 years	221
6–10 years	60
11–15 years	25
>15 years	53

Over the past three years (two years), the staff turnover rate was 9.04% (8.46%) based on the average number of employees (full-time equivalents). As shown in Table 020, we were therefore able to reduce our staff turnover rate for the third year in a row. In particular, we are proud to have a particularly low staff turnover rate and termination rate in the current difficult climate of the COVID-19 pandemic (see also Table 021), which is also a sign of Instone employees' confidence in the Company.

The key figures for the years of service and turnover in Tables 019 and 020 demonstrate the high loyalty of Instone employees. GRI 401, 401-1, 2-7

Left vs Joined TABLE 020

(employees)

	2021	2020
Joined	108	88
Left	28	30
Fluctuation rate (%)*	7.75	9.16
FTE ø	361.2	327.6

* Interns, student trainees and marginally employed workers are not included.

Type of separation TABLE 021

	2021	2020
Severance agreement	5	6
Termination by the employer	2	3
Termination by the employee	21	21
Termination of contract*	0	5
Other reasons	0	0

* Expiring temporary contracts not included in the fluctuation rate.

Working hours regulations, remuneration and benefits III

Working hours regulations

Instone offers its employees various working models to create a basis for consideration of professional and private interests in a changing working environment. If compatible with operational processes, we offer full-time and part-time models, flexible working hours and the scope for mobile working on up to two working days a week.

As a family-friendly company, Instone offers its employees a wide range of opportunities to return to their workplace after parental leave. In 2021, 36 employees (18 women and 18 men) took parental leave. Our proportion of part-time employees in 2021 was around 20%. GRI 401-3

Remuneration

The Instone salary system is the basis for transparent remuneration of our employees in line with the market. Remuneration is non-discriminatory and performance-based, i.e. it takes into account the position, experience, area of responsibility and the quality of the work performed. Instone makes every effort to rule out any form of unjustifiable remuneration differences among female and male employees. For this reason, we measure and assess the development of the gender pay gap for our employees and make gradual adjustments to the required roles. GRI 202-1; 405-2

Instone Real Estate bases the remuneration of its employees on the collective agreement for the mainstream construction industry, which also safeguards the framework conditions of the statutory minimum wage. In addition to our current works agreements, the link to the collective bargaining agreement is the basis for a transparent salary structure.

Of the 457 Instone employees, 305 employees (66.7%) are subject to collective bargaining agreements. GRI 2-7

Benefits

In addition to the basic salary, Instone Real Estate offers employees voluntary additional benefits. These are calculated on the basis of each employee's basic salary and can include Company performance-based, employee performance-based or fixed amounts. This includes, among other things, the possibility of an employer-supported pension scheme. GRI 401-2

Employees receive time off in lieu in addition to their statutory holiday entitlement, irrespective of their employment relationship.

Additional special leave is also granted in accordance with Section 616 of the German Civil Code (BGB), of which, as shown in Table 022, 153 days were used in 2021 (2020: 95).

Days off in lieu TABLE 022

	2021	2020
Days off in lieu for educational leave	26	0
Days off in lieu for birth of a child	17	19
Days off in lieu for marriage	31	15
Days off in lieu due to death	25	10
Day off in lieu for house move	54	51
Individual days off in lieu	0	0
	153	95

Performance reviews

Personal and development goals are defined and their achievement assessed as part of the annual performance reviews between superiors and employees. The basis of the performance reviews with employees are the Company's strategic goals, which are measured using specified indicators, as well as personal and task-related targets. GRI 404-3

Dialogue between employee representatives and joint tasks

Employee representatives

The right to freedom of association stipulates that workers are free to form works councils and to carry out their activities freely and without restriction or interference.

The employee representatives of Instone are broken down for the Group and its subsidiaries as follows:

- Group works council of Instone Real Estate Group SE
- Works council of Instone Real Estate Group SE
- Instone Real Estate Development GmbH – general works council, consisting of representatives of the regional works councils (regions: north, west and south)
- Nyoo Real Estate GmbH – employees are represented by the respective regional works council of Instone Real Estate Development GmbH

In addition to the works council, employees have the right to join trade unions and to actively participate in them. There is no obligation to inform Instone of any such activity.

Prior to the conversion of Instone Real Estate Group AG into Instone Real Estate Group SE (entered in the commercial register on 31 August 2021), the Management Board concluded a participation agreement with the special negotiating body formed by the general works council on future co-determination at Instone Real Estate Group SE. The participation agreement regulates the formation of an SE works council at the level of Instone Real Estate Group SE and its responsibilities.

In addition, it was agreed that the Management Board will in future regularly inform the SE works council about the development of the business situation and prospects of the SE at national level, for example on the consolidated financial position or the strategic development of the Instone Group.

The works councils participate in change processes at an early stage and are involved in operational decisions so that together they can find the best solutions for the company and its employees. GRI 403, 403-7, 403-8, 407

Regular consultations and discussions with the works council take place, for example, with human resources in the context of personnel measures that require approval, or with the Management Board and managers regarding relevant overarching issues.

In 2021, the works agreement on mobile working was extended and expanded, among other things. It now includes the option of working on mobile devices on up to two days a week.

Occupational health and safety

The health and safety of our employees is extremely important to Instone. The continuous monitoring and improvement of occupational health and the supply of health-promoting programmes and initiatives are basic principles when establishing working conditions.

Human resources is supported in this process by our occupational safety service provider MPlus and the professional association for the construction industry to ensure that all relevant legal requirements and internal requirements are met.

All potential emergency situations are systematically recorded and analysed to prevent possible workplace accidents. In 2021, there was one work accident subject to mandatory reporting at Instone Real Estate Development; this results in a thousand-person ratio of 2.77 for the Company as a whole, as shown in Table 023. The thousand-person ratio has averaged 3.77 per year over the past three years. GRI 403

Thousand-person quota TABLE 023

	2021	2020
Number of occupational accidents subject to reporting	1	0
Thousand-person quota	2.77	0

There were no fatal accidents involving Instone employees or on Instone construction sites in the last three reporting years. GRI 403-9

In order to prevent workplace accidents, Instone Real Estate regularly conducts recurring training sessions, inspections of defined codes of conduct and instructions to increase the safety of employees, contractual partners and customers, together with MPlus and the professional association for the construction industry at the branches or on the construction sites.

Construction site inspections and all safety instructions are prepared by MPlus and carried out together with the project teams. The branches are informed in writing about this.

In addition to securing the construction sites with fencing and using security services at Instone Real Estate construction sites, there are protective nets on the scaffolding, covered walkways and sufficient lighting and signposts. Safety officers in all areas of the Company support the tasks of the occupational health and safety team. GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-7, 410-1, 416

Human resources acts as an interface to all parties involved in occupational health and safety and moderates the meetings of the Occupational Safety Committee (ASA), which took place quarterly in 2021. The Committee consists of the external occupational safety specialist, the safety officer and a member of the Management Board. GRI 416-1

Within the scope of the Occupational Health and Safety Act, we provide at least the required quota of company first-aiders. In 2021, we trained a total of 26 employees, meaning we now have a total of 45 trained first-aiders at the Company.

Instone healthcare management focuses primarily on prevention and the active commitment of our employees to their health. GRI 403-1

In 2021, health management included, in particular, health and safety measures in relation to the COVID-19 pandemic in the form of hygiene concepts for our construction sites and office spaces.

With regular communication from our Chief Human Resources Officer, Instone Real Estate has succeeded in implementing the necessary measures in a timely and proactive manner. GRI 403-7, 403-8

Instone encouraged people to exercise as a way of balancing out their daily routine in the office and on the construction site in 2021, among other things with its "Instone bewegt" (Instone Moves) campaign. With each sporting activity carried out, a donation was collected for the people affected by the flood disaster in the Ahr valley (see image section). In addition to these activities, employees initiate a range of joint sports activities. GRI 413

In addition, since the end of 2021, Instone has offered its employees a company or rental bicycle for permanent personal use within the scope of occupational health care.

The professional association for construction supports human resources in the tasks of the occupational health management, for example by providing an occupational health service and workplace inspections.

In addition, Instone Real Estate offers all employees not subject to a collective bargaining agreement the option of participating in the health check-up starting at the age of 40. In 2021, 120 COVID-19 vaccines were offered through the professional association for construction.

The rate of absence due to illness in 2021 remained at a comparatively low level of 2.37% (2020: 2.72%). GRI 403-6 No occupational illnesses have been reported. GRI 403-10

Compliance with ILO requirements

The employee-related information in the previous chapters indicates that Instone Real Estate complies with and supports the following ILO requirements:

→ Freedom of association and right to collective bargaining GRI 2-30, 407
→ Elimination of forced labour through the Instone Code of Conduct: Instone Real Estate rejects all forms of forced labour. No one may be forced to take up employment, directly or indirectly, through violence and/or intimidation. Employees must only be employed if they have voluntarily made themselves available for employment. GRI 408, 409
→ Zero tolerance of child labour in the Instone Code of Conduct: Instone Real Estate does not tolerate child labour or any exploitation of children and adolescents. The minimum age for acceptance for employment must not be less than the age at which compulsory schooling ends and may under no circumstances be less than 15 years. GRI 408
→ Prohibition of discrimination in employment and occupation through the Instone Code of Conduct and the discrimination policy: Employee diversity offers great potential. For this reason, Instone Real Estate believes in employing employees with different backgrounds and experience. All employees are called upon to create an atmosphere of respectful co-existence and to combat discrimination based on skin colour or ethnic origin, nationality, gender, religion or belief, disability, age or sexual identity. GRI 406

Social commitment III

Strategy

Instone Real Estate sees itself as a part of society and actively wishes to make a positive contribution to the development of society as a whole. Responsibility is firmly rooted in our corporate culture and therefore in our day-to-day activities. Instone Real Estate aims to contribute to positive development through its projects. These include, for example, the creation of lively neighbourhoods, cooperation with organisations and initiatives that promote a sense of neighbourhood and the development of social facilities in the neighbourhood or infrastructural improvements. GRI 413-1, 413-2

Creation of public and social infrastructure

Due to ongoing demographic change and social and ecological changes, a holistic approach is necessary, taking into account social sustainability factors: affordability, development in line with requirements and the creation of housing. Involving citizens and other stakeholders at an early stage is essential for successful urban development. In this context we work closely with municipalities and local authorities and lend our knowledge to their efforts.

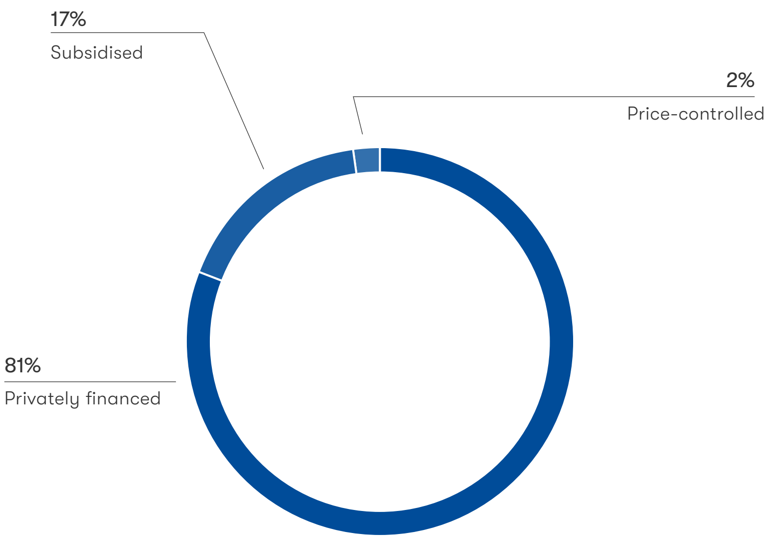
For these reasons, Instone's focus in the planning phase is on the development of city districts that are worth living in. Diverse housing stock, various home sizes, integrative living and the integration of social service infrastructure such as day-care centres, schools, areas for sports and meeting places underscore this. To ensure adequate transportation options, we additionally optimise connections to local public transportation together with municipalities and local authorities. Instone's commitment to neighbourhoods worth living in can be seen in the construction of social infrastructure, among other aspects. Table 024 presents some key figures on this.

TABLE 024

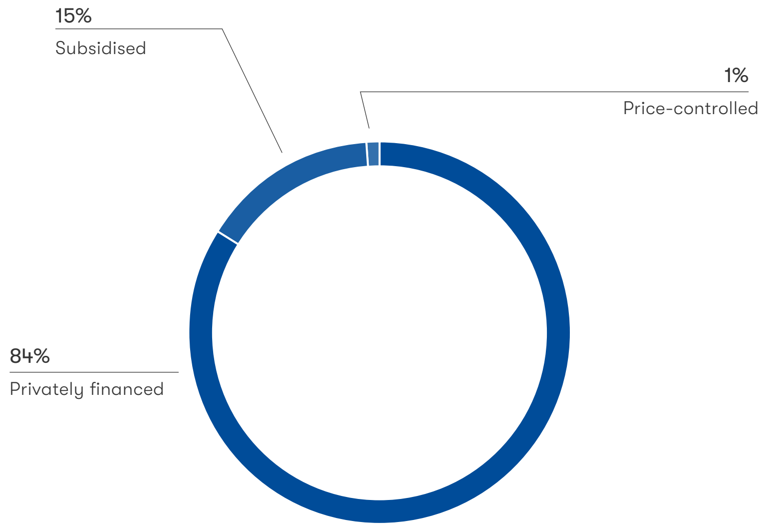
	Total
Number of daycare centre places	1,288 units
Number of charging stations	~734 units
Number of e-bike charging stations	~ 479
Number of cycle parking spaces	~18,835 units
Public spaces and green space (including playgrounds)	~ 160,000 m²

In addition to the development of freehold flats, Instone Real Estate also makes a major contribution to the development of subsidised and price-controlled housing. As at 31 December 2021, approximately 3,092 of the 16,418 units of Instone Real Estate's project portfolio (sold and unsold housing units of the 2021 project portfolio) were designed as price-controlled flats. This way, we create mixed neighbourhoods that are attractive to all population groups and income levels. GRI 203, 203-1

Portfolio – units



Portfolio – retail space



Creating affordable housing for Germany's metropolitan regions

In Germany, hundreds of thousands of flats are needed, especially in the affordable segment. In the seven German A cities alone, around 15,000 more flats need to be completed each year. This high demand for housing in combination with the decline in the number of social housing buildings seen for many years now (from 2.5 million in 2002 to only 1.1 million in 2019) creates a significant shortfall of supply, especially in the growing metropolitan regions. The rental prices in these cities have now become considerable and will continue to rise as a result of this shortfall of supply. A real-life example shows that the monthly rent including heating for a 65 m² flat in Düsseldorf currently equates to about one-third of household income. If we assume that this rental burden is barely tolerable or at the absolute limit, it becomes clear that affordability of housing is one of the most urgent social issues of our time.
(Source: https://blog.quis.de/aktuelle-mietbelastung-fuer-staedte-im-vergleich)

Instone Real Estate is convinced that this task can only be resolved in the long term and sustainably through new builds and that the private housing industry will play a central role in this and will play an increasingly significant role in the future. As one of the major German housing developers, Instone Real Estate can and wants to contribute to overcoming this challenge. With the establishment of the subsidiary Nyoo Real Estate GmbH, we are therefore working proactively and systematically on potential solutions by creating a supply of smart new housing in the metropolitan regions that is 10% below the respective market level.

nyoo opens up new markets and target groups and thus optimally complements the portfolio of our core business. Through this expansion of the portfolio, the Instone Real Estate Group is also becoming increasingly attractive among investors and shareholders whose decisions are heavily influenced by social impact and ESG.

nyoo is geared towards housing construction for middle-income households. With integrated end-to-end project development, nyoo maps the entire process from acquisition to handover digitally, thus transferring traditional processes into a more automated project development and project management process. By standardising its planning, nyoo has a flexible and cost-efficient toolbox for housing construction that makes it possible to acquire and plan quickly, cost-effectively and efficiently. nyoo projects throughout Germany can be supported with social housing funds. nyoo's first projects are already under construction or in planning in Düsseldorf, Duisburg and Mönchengladbach. More will follow shortly in the major metropolitan areas of Cologne, Nuremberg, Frankfurt am Main and Stuttgart.

nyoo uses land sparingly, utilises previously used land as efficiently as possible, focuses on intelligent use of materials, adheres to high energy standards and implements sustainable mobility concepts. All nyoo flats are planned and executed in accordance with the DGNB certification system for holistic, sustainable construction.

nyoo is expected to make a significant contribution to Group revenues in the foreseeable future. We expect that around half of all flats developed by the Instone Group will come from nyoo in 2030. As at 31 December, projects involving around 250 residential units had already entered the concrete development stage. GRI 203, 203-1

Neighbourhood development and social impact III

Neighbourhood development

Instone Real Estate Development GmbH, as Instone's neighbourhood developer, assumes responsibility for the development of a new neighbourhood by organising coordination processes with local stakeholders such as the mayor, city council and planning and construction offices.

In consultation with the parties involved from the local authorities, the relevant stakeholder groups for each project are determined and the communication strategies defined.

Social impact

Our approach not only excludes negative effects ("ESG screening"), but also establishes a direct and measurable social impact as the main objective (intention and addition) in addition to a return in line with the market. This effect is achieved through our active management of the positive/negative and planned/unintended social effects.

Accordingly, the neighbourhood will become an area for action, in which we, as project developers, can trigger an impact. The functions of a neighbourhood include:

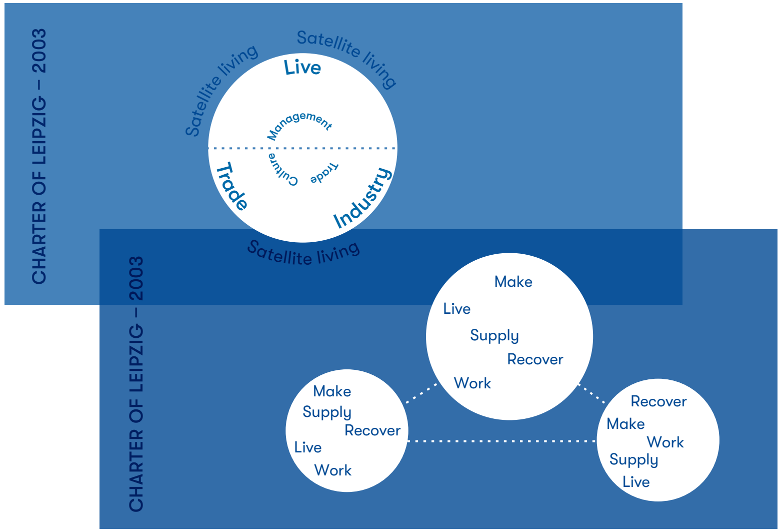
- → Life and work;
- → Amenities (service providers, local suppliers, restaurants, medical facilities);
- → Education (cultural and educational institutions);
- → Recreation (play and sports venues, green spaces, neighbourhood square)
- → Linking all these aspects through infrastructure (roads and pavements) and mobility services (bike and car sharing, e-mobility).

The effects are diverse, as they can have an impact on quality of life, opportunities, perspectives, commitment, social and economic participation, and diversity of residents, especially in terms of income and background – both positively and negatively.

In addition, emotional factors such as neighbourhood, participation, security concerns, architectural culture, identification with and affinity to the location must be taken into account, which is often not apparent and can only be identified in dialogue with stakeholders.

Social impact in our neighbourhood development must therefore be considered at all times, taking into account the social, economic and environmental impacts, as well as the local, political and legal framework conditions.

Athens Leipzig



The following trends in urban development (shown with one example each) are taken into account when discussing social impact:

- → Urbanisation (sufficient affordable housing, especially in conurbations)
- → Culture of knowledge (open book cabinets on neighbourhood squares)
- → Connectivity and digitalisation (neighbourhood apps to strengthen neighbourhood communication)
- → Increasing awareness of sustainability (urban gardening)
- → Consciousness (free and public services such as fitness trails)
- → New work (integration of co-working spaces)
- → New mobility behaviour (use of sharing services)
- → Demographic change (increase in age-appropriate types of housing, such as living communities for senior citizens or multigenerational accommodation)

Measurability

Key internal factors are documented and made measurable in the projects, in the reporting in the combined management report and in the sustainability section of our website and our external communications. In future, we plan to include all social expenditures for the purposes of social impact investing, such as total investments for the project's social infrastructure.

All projects take into account overarching aspects such as inclusion, community, quality of life and safety, which are also reflected in the United Nations' (UN) SDGs. Here, the focus is on goals 3, 10, 11, 12 and 16 in particular.

Communication

The impact approach requires a change from short-term action with a focus on the economic aspects to a long-term perspective with an equivalent assessment of economic, ecological and social aspects. The impact on our stakeholders and society is considered over a longer period, i.e. even beyond the holding period ("responsible exit"). In the project implementation, this means that neighbourhood development will create as much social added value as possible for (urban) society. Our goal is to generate a social impact for the neighbourhoods and cities by making concrete and direct contributions through our projects. Therefore, project development at Instone Real Estate is not implemented as a "top-down neighbourhood development", but on an equal footing with the future residents, taking into account the existing and local needs.

We are a learning organisation and want to further expand our internal and external communication on the topic of social impact in future so that we can advance this important topic and, in particular, our implementation criteria.

Customer satisfaction III

Instone Real Estate uses customer satisfaction surveys to obtain information about the expectations and satisfaction of existing customers. If we as a company know whether our offer meets the expectations of our customers, we can incorporate this information into the planning, sales and implementation stages of subsequent projects, adapt offers and processes and thus maintain or increase customer satisfaction.

Since 2021, customer surveys have only been carried out digitally via a questionnaire, which our customers usually receive upon handover of their flat by logging in to our customer portal. The surveys are created on a project-specific basis and cover the following topics:

→ Satisfaction with Instone Real Estate as a project developer
→ Decisive purchase criteria
→ Satisfaction with individual steps during the value-adding process
→ Satisfaction with/importance of the building-related characteristics of the project
→ Feedback option
→ Statistical information on the residential unit, reason for purchase and awareness
→ Importance of sustainability aspects

As the projects were handed over at the end of 2021, the evaluations are still being processed.

Associations and initiatives

At Instone Real Estate, we not only want to operate as sustainably as possible in our own right, we also want to show that it is possible to assume responsibility and to be commercially successful at the same time. In this way, we want to contribute to the development of our economy in a way that is geared to the common good and that creates value. We therefore draw public attention to a wide range of topics and are committed to sustainable solutions in industry associations.

Only together with other stakeholders in the real estate industry and with what we believe to be powerful initiatives can we deliver innovation for the industry and our clients.

In addition to being involved in various initiatives, Instone Real Estate is also a member of a number of associations and organisations. In some areas, the management and employees of Instone Real Estate also have roles to play in associations or the initiatives of associations and organisations. However, we do not provide any association/organisation with financial resources beyond the standard membership fee.

For example, the CEO of Instone Real Estate is Deputy Chairman of the Committee for the Housing Segment at the ZIA e.V. and supports the "Wir geben Leben Raum" (We give life space) initiative, which was launched in 2021. This is an initiative of businesses that explain the functions and added values of the industry to a broad target group and highlight the contribution that is made to society.

The figure below of the associations and initiatives provides an overview of which initiatives, charters and principles guide our work.

GRI 2-23, 2-24, 2-28, 415, 415-1

GOVERNANCE

2021

For the first time, we distributed a dividend.

Around two thirds of our contractual partners have a regional link

SE, Group and general works councils as well as three regional works councils represent the interests of employees.

DIGITAL AGENDA

We have continuously developed ourselves as a company

100%

of Instone Real Estate's Supervisory Board members are independent. Instone Real Estate wants to maintain this independence.

The digital client satisfaction analysis, which was launched in 2021, is being further expanded

We secured our first external ESG rating in 2021.

Meeting ESG targets has been an integral part of the Management Board remuneration since 2021.

Corporate governance, risk report and compliance

Corporate governance

Detailed information on corporate governance and the principles of corporate governance at Instone Real Estate, particularly the cooperation between the Management Board and Supervisory Board, the composition of both Boards, and compliance with the recommendations of the German Corporate Governance Code (GCGC) by the Management Board and Supervisory Board of Instone Real Estate Group SE can be found in the corporate governance statement presented on page 169 et seq. as part of the combined management report. GRI 2-9

Management Board/Supervisory Board

The Management Board consists of three members. The Supervisory Board consists of five members. In 2021, the Supervisory Board prematurely extended the mandates of our Chief Executive Officer, Kruno Crepulja, and of Andreas Gräf, member of the Management Board and Chief Operating Officer, through to 2025.

In 2021, the Supervisory Board worked intensively on the sustainable structure of the remuneration for the Management Board and approved an updated remuneration system for the members of the Management Board which was subsequently approved with a large majority by the Annual General Meeting. Since 1 July 2021, a significant portion of the variable remuneration of the Management Board has therefore been dependent on meeting strategy and sustainability targets (25% of the short-term variable Management Board remuneration) and ESG targets (30% of the long-term variable Management Board remuneration).

Governance in sustainability activities

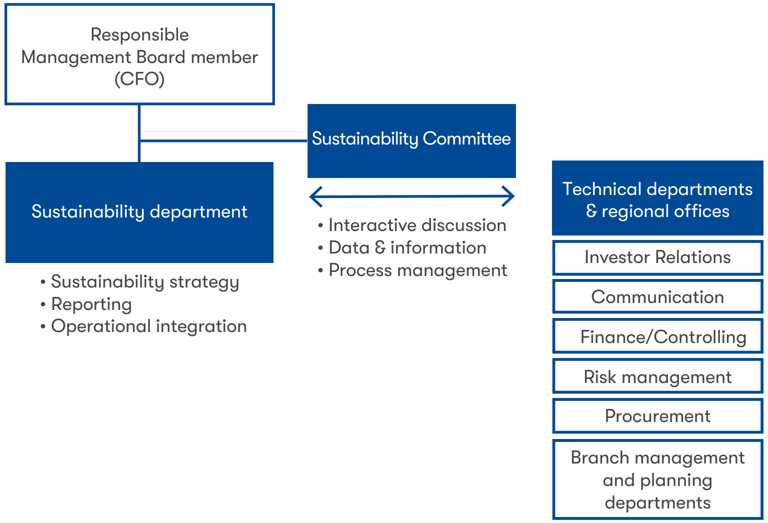
Organisational structure and sustainability management

The Management Board and the management teams of the subsidiaries are jointly responsible for the sustainable actions of Instone Real Estate. In the 2021 financial year, we not only made significant advancements in our sustainability strategy and its implementation, but also adapted the way in which the issue of sustainability is rooted within the organisation. Previously, we had a sustainability committee spanning multiple departments, coordinated by a sustainability officer, but sustainability only took up part of her working hours. A Sustainability department has now been set up which already has three employees and an assistant to provide support. The department supports our Chief Financial Officer, Dr Foruhar Madjlessi, who is responsible for the Instone sustainability strategy, its implementation and (sustainability) risk management at Management Board level. He regularly monitors and checks the progress and status of the target achievement, and ensures that cross-divisional issues are included in the activities of other departments and in corporate planning and governance, and also when it comes to drafting or revising guidelines. To this end, the Management Board has overall responsibility and will continue to consult with the Sustainability Committee, which consists of the head of the Sustainability department and currently has two representatives for all relevant departments, in relation to key topics and decisions approximately every four weeks. Dialogue at work level takes place on a weekly basis. The illustration on page 172 shows the organisational chart.

Instone Real Estate places great importance on all employees interacting responsibly with each another, on protecting natural resources and nature, and on good business conduct. The Code of Conduct is available to all employees. Instone Real Estate's activities in environmental areas, social impact, stakeholder dialogue and within the organisation are coordinated in collaboration with the Sustainability department and the Communications and Investor Relations departments. This joint coordination plays a key role in sustainability management. The Management Board achieves transparency through the individual managers, the risk management system (RMS) and Group auditing and takes measures if necessary. Since the individual aspects of ESG (environment, social and governance) are often closely interlinked, we have switched to a duties-based structure here. As a link between other specialist departments and the regional branches, the Sustainability department ensures that the targets fit into the business planning and play a leading role in their Company's ambitions, but are nevertheless sustainable and feasible for the organisation as a whole. Examples of this are the coordination with Procurement regarding future requirements for suppliers to reduce greenhouse gas emissions or the integration of sustainability key performance indicators into our ERP system in collaboration with Controlling. The recording of lifecycle view in the CAALA software for the greenhouse gas emissions for our planned and completed projects was also only possible with the support and cooperation of the regional offices.

Our company
To our shareholders
Combined management report
Foundations of the Group
Sustainability report
Economic report
Risk and opportunities report
Outlook
Other disclosures
Consolidated financial statements
Independent auditor's report
Remuneration report
Other information

Sustainability management



Key performance indicators I — TABLE 025

	2021	2020
Confirmed corruption incidents and steps taken[1]	0	0
Legal proceedings for anticompetitive behaviour or price-fixing and monopoly practices[2]	0	0
Substantiated complaints concerning breaches of customer privacy and losses of customer data[3]	0	0

[1] Compliance disclosures, Instone Real Estate.
[2] Risk management disclosures, Instone Real Estate.
[3] Data protection disclosures, Instone Real Estate3

On top of the automation of sustainability reporting and the associated database for internal governance and external reporting, the plan also includes the increasingly formalised recording of sustainability risks, in particular material climate risks, and their consideration in all stages of the value chain for the real estate we build. In this context, the Sustainability department conducted a qualitative analysis of existing transitory and physical climate risks for the first time in the past financial year in consultation with the Management Board. During the current 2022 financial year, this practice is to be firmly established and further developed as a recurring annual process, the results of which can be used for business planning and risk management. GRI 2-9, 2-18 TCFD Governance

Risk management and compliance III

Risk management

Risk management at Instone Real Estate aims to ensure the Group's successful future development and profitability for the long term. Further information on the risk management system and the early detection system at Instone Real Estate and on the risks identified can be found in the risk and opportunities report on page 144 et seq. TCFD risk management.

Compliance, anti-corruption and anti-money laundering

TCFD risk management

At Instone Real Estate, compliance is an integral part of responsible corporate governance. Our centralised compliance organisation acts as a key architect of our integrity-based corporate governance activities and corporate culture.

The ultimate goal of the Group-wide compliance management system is to prevent violations of applicable laws and internal policies and to protect Instone Real Estate and its employees from inappropriate and unlawful conduct. The key pillars of our compliance management system include our well-developed compliance culture, in particular our whistleblower system, and our compliance programme, which includes measures that we use to avoid and mitigate compliance risks. These also include measures to prevent corruption and bribery, as well as money laundering prevention.

Our whistleblower system offers people within and outside the Company the opportunity to report potential violations of rules or laws by our employees to us. We examine every report and follow them up consistently. In doing so, we abide by the following principles:

- → The process is fair,
- → The whistleblower's anonymity is protected,
- → Investigations are confidential, and
- → Processes are efficient and protected.

A digital whistleblower system, an external, independent law firm with a hotline and direct contact with our Compliance Officer are options available to those looking to report potential misconduct.

Likewise, under no circumstances is corruption tolerated by Instone Real Estate, neither on the part of business partners or third parties nor on the part of our own employees. Corruption cases are consistently investigated without exception in order to protect our employees and our Company. Every Instone employee is strictly prohibited from engaging in any form of bribery, corruption or potential corruption, including the acceptance or granting of privileges.

We also do not allow transactions with our Company to be misused for the purposes of money laundering or the financing of terrorism. We reject any transaction in which a third party benefits from a criminal offence. We have therefore taken special preventive measures as part of our compliance programme to detect and take steps against such suspicions, including:

- → Due diligence of business partners for compliance risks,
- → Due diligence around suspicions of money laundering,
- → Checking of potential business partners for entries in sanctions lists, and
- → Verification of bank details and payments to and from business partners.

Further information on the compliance management system and the measures taken by Instone Real Estate to prevent corruption and on anti-money laundering can be found in the management report on page 172 or on our website.
GRI 406, 406-1

Contractual partners

In dialogue with our contractual partners, we discuss the sustainability topics along the entire supply chain and thus promote increasing transparency in order to jointly create the necessary conditions for documentation.

Selecting Instone contractual partners GRI 308, 308-1, 308-2

As a rule, Instone Real Estate issues tenders for its construction services as individual or general contracts.

When awarding a contract, contractual partners have the opportunity, in accordance with the tender documents, to make an offer for a specific project section or, if required, as a general contractor. Our Procurement department prepares a corresponding price table and compares the content of the offers submitted with the internal calculations. In addition, there are joint negotiations, with standardised negotiation documentation and a subsequent conclusion of the work or general contractor contract.

All known and new contractual partners are included in our SRM database, assessed and weighted across multiple aspects so that we can respond in the case of deviations at any time before and during a project and even after completion of the project.

The aspects assessed include:

- → Contractual topics
- → Quality of work
- → Project completion
- → ESG criteria

In the contract, in addition to the scope of services and remuneration, we also agree deadlines and penalties with the contractual partners as well as compliance with the necessary regulations, which include compliance with our Code of Conduct in addition to the construction-related emissions. GRI 407-1, 408-1, 409-1, 414, 414-1

Contractual partners – Regions

Our suppliers can be subdivided into various categories:

- Brokers who have access to our clients
- Consultants who provide due diligence assistance during the purchase and sales processes
- General contractors, construction companies and contractual partners responsible for individual project sections operating at construction sites
- Property management service providers
- Planning teams comprising architects and design engineers

Instone Real Estate procures most products and services directly from companies in the region of Germany where its properties are located.

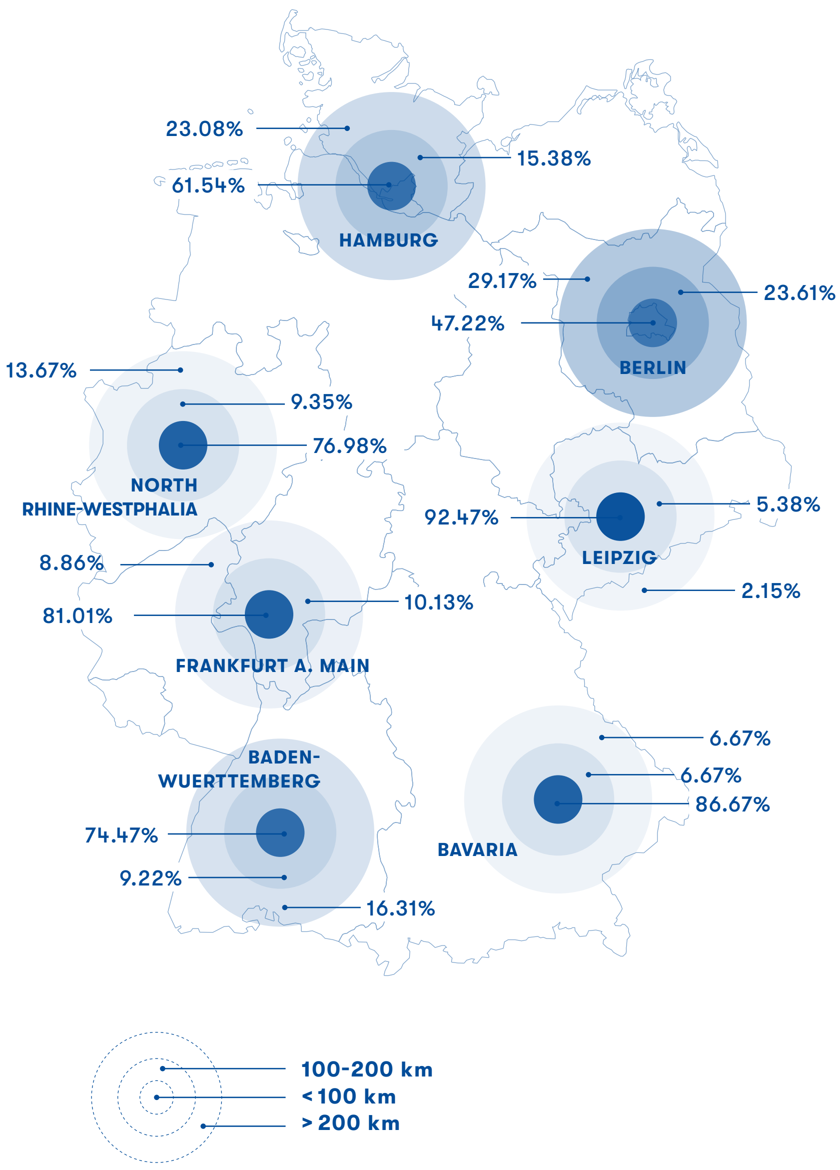
In the past financial year, we have therefore also integrated environmental and social aspects as described above as essential elements in the assessment of contractual partners in Procurement. Firstly, this was anchored in the new contracts with our contractual partners and the necessary information to be made available in this connection. Secondly, we have begun to expand our systems so that in future we are able to assess contractual partners with regard to their sustainability principles and measures in terms of criteria such as energy efficiency and CO_2 emissions, but also employee standards, health and safety and other criteria.

Since the 2021 financial year, this information has been collected and evaluated in the newly installed SRM system which includes an assessment system.
GRI 204; 204-1

Instone Real Estate's existing Code of Conduct for contractual partners already makes our expectations clear to our partners. This is supplemented by the Code of Conduct for Instone Real Estate employees.

We obtain most of our products and services on a regional basis using contractual partners close to our locations. This contributes to sustainability in our supply chains.

Supplier region



Human rights

Respecting human rights is an integral part of our responsible corporate governance efforts. We require respect for all human rights along our entire value chain from our own Company as well as from our business partners. We expect that all participants will meet their duty of care with regard to human rights.

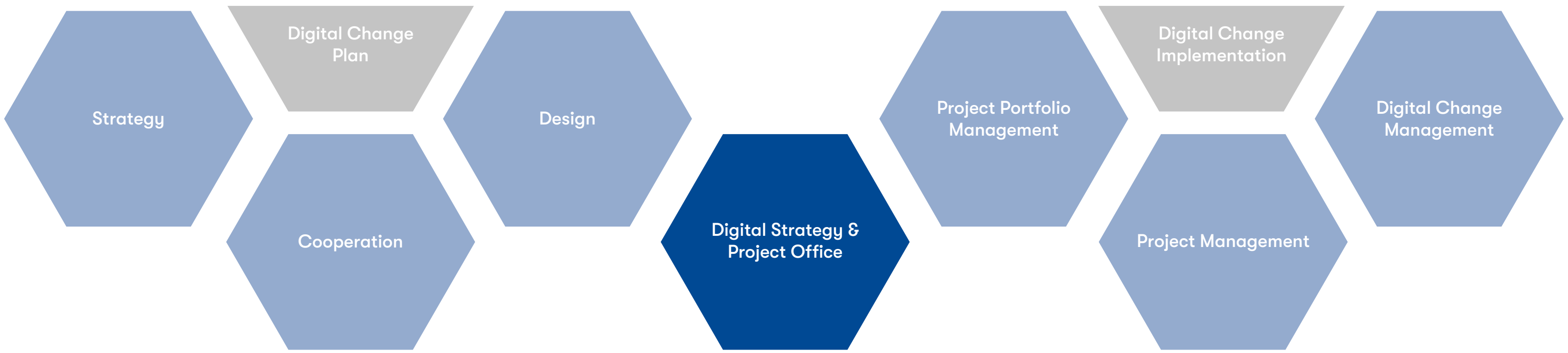
The Instone Real Estate Management Board set out core values of lawful and ethical conduct in a Group-wide Code of Conduct. This specifies existing duties and responsibilities, and derives various codes of conduct on the basis of the law or existing official instructions. The Code of Conduct offers employees, service providers and contractual partners of Instone Real Estate orientation and assistance in their day-to-day work and interactions. It also sets out values to which Instone Real Estate is expressly committed. In 2020 we amended our Code of Conduct to include new wording on human rights and child labour in line with United Nations definitions.

We continuously review our processes and enter into internal and external dialogue in this regard. GRI 408, 408-1

Our digital agenda

For Instone Real Estate, digitalisation means the joint path through the digital transformation. During the past year, we focused on four internal digitalisation projects which are supported by the conviction of both management and our employees.

DSPO list



For Instone, digital transformation partly means generating sustainable competitive advantages, but also taking the Instone workforce with us on this journey. Technological innovation is key to the way people organise themselves, work together and communicate with one another.

The Instone DSPO (Digital Strategy & Project Office) team has set itself this target. This is where all Company-wide activities regarding the digital transformation flow together. In addition to strategic issues relating to the digital agenda, the focus is also on the design of digital change management within the organisation. Establishing an open and transparent corporate culture is the basis for digital transformation.

THREE KEY QUESTIONS TO ASK:

→ What does the user want?
→ What is the (additional) benefit?
→ Is it easier to use than before?

Creating sustainable added value with specific projects

Digitalisation@Instone is the tagline for specific projects that not only convert analogue processes into digital technology, but also create sustainable added value. Digitalisation is not seen as an end in itself, because projects are determined by the corporate strategy and contribute to ensuring and further developing the business model.

All projects are put under the microscope: What are the user's needs? How can we meet these needs in the best possible way by tapping into technological opportunities? What added value does this have for companies and employees?

Our experience shows that projects are particularly successful when project teams are interdisciplinary – and span different regional offices and departments. Different perspectives and points of view from the core operating business and the central functions, as well as support from external specialists where necessary, contribute significantly to establishing ideas within the Company.

All digital projects are synchronised strategically via the Digital Board. This ensures that the individual digital initiatives are not considered in isolation, but are included in the corporate goals as a whole. In addition, the Digital Board acts as a sparring partner, a driving force and promoter of the digital transformation.

In addition to fundamental strategic emissions and the involvement of colleagues from specialist departments, the core duties of the project team also include overarching issues such as data protection, IT security and interfaces to other specialist departments.

Selected internal digital transformation projects:

1. Client portal: Communication with purchasers is quick and easy thanks to the online client portal.

2. Data management: Data is a key factor for the future, so Company-wide databases – for example for interested parties and clients, subcontractors and land to be acquired – are being expanded.

3. Process management: Instone Real Estate is developing a digital working tool specifically for project teams based on a lean management approach to make the teams' challenging duties easier.

4. Cloud-based work: Cloud-based work enables flexibility, data security and automated processes, including when it comes to file storage in complex construction projects.

Shaping digital cultural change

The many different projects regarding the digital transformation keep spawning new digital processes, the introduction of new applications and programs, and a new form of communication, organisation and collaboration.

Simply rolling out a digital solution is not enough – it must also be embedded in our day-to-day business. For this purpose, we use different channels, means and methods to provide information and training and to communicate. Be it through news articles on our intranet (InHome), special internal project pages, push notifications about teams or major events, such as the annual summer conference – transparent communication plays a crucial role in the successful implementation of digital solutions. Key users ("digital Champions") also support employees directly on-site at the individual locations and are on hand to answer any technical questions.

Digital workplace

Due to the COVID-19 crisis, the importance of working from home and digital collaboration has once again increased exponentially. By providing modern infrastructure (surfaces for all employees) and the Microsoft365 work environment, employees can work as productively from home, on the construction site and on the go as they do in the office. Microsoft Teams is the central platform for communication and cooperation within the Company. Modern video conference facilities complement the technological possibilities of digital collaboration across different sites. All employees are always informed about important announcements, personnel news and ongoing projects via the Company-wide intranet (InHome). This also gives them access to technical information and the Instone learning and knowledge world.

Economic conditions

The German economy continued to be impacted by the COVID-19 crisis

The economic situation in Germany was also impacted by the COVID-19 crisis in 2021. Although the German economy returned to its growth trajectory, it was still unable to return to pre-crisis levels. The upswing was also slowed by increasing supply bottlenecks, especially in industry. According to initial calculations by the Federal Statistical Office, gross domestic product increased by + 2.7% in 2021. Overall, it was still 2.0% below the pre-crisis level of 2019. The German Bundesbank expects the economic recovery to continue, with strong growth of + 4.2% and + 3.2% for 2022 and 2023 respectively.

After the slump in economic output in 2020, almost all economic sectors were able to grow significantly again in the past financial year. In contrast, the Construction industry, which was the only segment not to record a decline during the crisis in 2020, closed 2021 slightly down by – 0.4%. Compared with the 2019 pre-crisis level, however, the Construction industry grew significantly by + 3.3% in contrast to most other economic sectors.

In 2021, economic growth was once again significantly driven by government consumer spending which rose by + 3.4% compared with the previous year, attributable in particular to measures to combat the COVID-19 pandemic. Private consumer spending, on the other hand, stagnated at the low level of the previous year. The savings ratio dropped back slightly to 15% (previous year: 16.3%) although still above pre-pandemic levels.

Growth in construction investments slowed in 2021 to only + 0.5%, after having been strong for five years. Fully utilised capacities, the shortage of workers and the increasing shortage of materials due to supply bottlenecks all had a negative impact here despite continued high demand. Investments in equipment and foreign trade recovered from the declines of 2020 and contributed 3.2% and 0.9% respectively to GDP growth.

Robust labour market

After the pandemic had initially led to a significant increase in unemployment in 2020, the situation on the labour market stabilised in 2021 in what continued to be a difficult environment. According to the Federal Statistical Office, the average number of employed people in Germany in 2021 was 44.9 million, at the same level as the previous year but still significantly below 2019 pre-crisis levels. The number of employees subject to paying social-security contributions rose while those in short-time work declined significantly. According to the Federal Employment Agency, the unemployment rate in Germany fell to 5.7% in 2021 (previous year: 5.9%). The Bundesbank expects a further improvement to 5.2% for 2022. The core cities recorded an annual average unemployment rate of 6.9% in 2021 which was above the average for Germany as a whole. Munich and Stuttgart recorded the lowest figures at 4.5% each whereas Berlin and Cologne again posted the highest figures with 9.7% and 9.3%.

The construction industry, on the other hand, is experiencing a significant shortage of skilled workers. According to the ifo Institut, at the beginning of 2022 many vacancies were still unable to be filled in a timely way. Although the first signs of easing are appearing, those construction companies surveyed still believe the situation to be significantly worse than a year earlier.

Rise in inflation

Inflation jumped in the second half of 2021, reaching its highest level since 1992 in December at 5.3%. According to the Federal Statistical Office, the inflation rate was 3.1% in total last year, significantly above the previous year's figure of 0.5%. It was generally expected to rise due to basic effects following the withdrawal of the temporary VAT reduction on 1 January 2021 and the introduction of nationwide emissions trading for CO_2 pricing in Transport and Heating. In addition, rises in energy and producer prices plus the price increase for industrial goods due to continuing supply bottlenecks and increased transport costs all had a negative impact on inflation. The German Bundesbank expects inflation to rise further to 3.6% in 2022 due to high price increases for energy and food.

Demand for real-estate loans remains high

According to data from the German Bundesbank, the volume of newly granted real estate loans from German banks to private households increased by +3.5% in the period from January to November 2021, at what is still a low but slightly rising interest-rate level. In November, the average effective interest rate for private households on housing loans with interest rates initially fixed for more than ten years was 1.33%. The ECB's key interest rate remained at 0.0%.

TABLE 026

Structural data for 2021	Inhabitants in thousands[1]	Population growth 2011–2021 as a %[1]	GDP in millions of euros[2]	GDP per capita in euros[2]	Available income per capita in euros annually in 2021[1]	Unemployment rate % (average for 2021)[3]
Berlin	3,712	11.59	156,839	42,886	22,176	9.7
Dusseldorf	625	5.98	53,085	85,540	28,329	7.8
Frankfurt a. M.	772	14.11	73,297	96,670	27,072	6.6
Hamburg	1,869	8.80	123,595	67,017	26,715	7.5
Cologne	1,092	7.71	66,372	61,073	25,234	9.3
Leipzig	604	18.47	22,889	38,762	20,902	7.3
Munich	1,498	9.74	122,247	82,719	32,413	4.5
Nuremberg	516	5.22	32,302	62,314	25,253	5.2
Stuttgart	633	7.13	57,964	91,228	27,596	4.5
Core cities	**11,321**	**10.12**	**708,588**	**69,801**	**26,188**	**6.9**

[1] For the 2021 forecast value/source: bulwiengesa AG.
[2] As at 2019/Source: Federal and State Statistical Offices.
[3] Federal Employment Agency.

Population numbers in Germany stagnate

According to the Federal Statistical Office, Germany's population was 83.2 million at the end of 2021, therefore remaining constant compared to the end of 2020. As early as 2020, population growth stagnated, mainly due to lower net immigration as a result of the COVID-19 pandemic. Although net immigration recovered to between around 270,000 and 320,000 last year, it was merely able to compensate for the gap between births and the increased number of deaths. In their forecasts, the leading economic research institutes initially expect net immigration to increase to 335,000 people in 2023, followed by a slow decline. Accordingly, the working age population (15–74 years) will initially increase slightly and then gradually decline from 2023 as a result of ageing.

Above-average population growth in the core cities

The core cities have grown at an above-average rate in recent years. According to figures published by bulwiengesa, the population there increased by around +9.1% between 2011 and 2020. The figure for Germany as a whole during the same period was 3.5%. The highest growth rates, according to those figures, were in Leipzig at +17.2% and Frankfurt am Main at +12.9%. At +5.2%, the city of Nuremberg had the lowest increase of the core cities, but it was still above the average for Germany. According to bulwiengesa, the growth forecast for the core cities continues to remain positive. By 2030, the population is expected to increase by +3.7%, although the areas around the big cities have also been experiencing positive population growth for years. The main reasons for this are increasing rents and purchase prices in the big cities and the desire for a quieter, more child-friendly environment. The COVID-19 crisis is likely to amplify this trend as the growing acceptance of working from home leads to a need for more living space. Fewer days in the office could also encourage workers to take on longer commutes. In this way, B cities in the commuter belts around cities that can be reached by train in less than one hour are in our view becoming increasingly attractive, for example.

Further increase in the number of households expected

The trend in the number of households is the most important determinant of demand for housing. Several social developments have ensured that this figure has increased disproportionately compared to population growth in recent years. According to the Federal Statistical Office, while the population grew by only 3.5% between 2011 and 2020, the number of households increased by 4.1% over the same period. This was largely driven by the growing proportion of single-person households, which increased from 39.6% to 40.6% during this period. One reason for this is, for example, the increasing number of single people due in part to an increase in life expectancy. For newborn girls, this is currently 83.4 years and 78.6 years for boys. The Federal Statistical Office expects a further increase in the proportion of single-person households to more than 45% by 2040, compared with around 41% in 2020.

As a result of these factors, there will also be an increase in demand for housing in German cities with good infrastructure in the coming years.

More permits than completions

From January to November 2021, the number of building permits in Germany increased by 2.8% compared with the previous year. Approvals for apartment buildings rose by +0.5%. According to the Federal Statistical Office, planning permission was granted for a total of 341,037 homes (Jan – Nov 2020: 331,909).

The latest figure for completed homes published for 2020 by the Federal Statistical Office shows an increase of 4.6% to 306,376 – the highest number since 2001. The positive trend has therefore remained uninterrupted since 2011. The annual number of completed homes has risen by around 67% overall, or 123,000 units since 2011. According to bulwiengesa, construction activity in the core cities has also expanded in recent years. Whereas the total number of completed builds was still less than 20,000 residential units in 2011, more than 45,000 units were completed in 2020. Leipzig recorded a particularly significant rise with the value increasing severalfold, followed by Berlin and Düsseldorf, where more than four times as many apartments have been completed.

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At the same time, however, the so-called construction surplus, the number of construction projects not yet started or completed, has increased further. The trend has persisted since 2008 and continued to do so in 2020, bringing the figure to 779,432, its highest level for Germany as a whole since 1998. In the core cities alone, the surplus increased by a factor of more than 14 between 2011 and 2020.

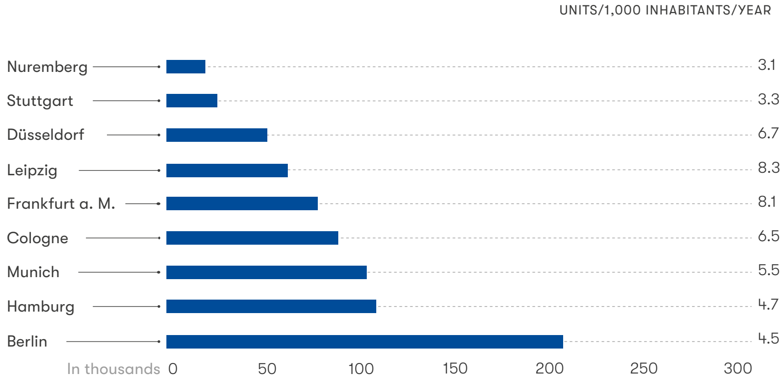
Construction lags behind demand

Despite the fact that construction has been increasing for years, completions are not sufficient to meet the demand for housing. According to calculations by bulwiengesa, just under 60,000 new homes will be needed every year until 2035 in the core cities alone. In contrast, only around 45,500 homes were completed in 2020. This means that only about 77% of the homes that are needed are currently being built. Only Hamburg is currently managing to build as many apartments as are needed. Berlin has the second highest coverage ratio at 94%, while Cologne sits at the bottom at 25%. According to the German Economic Institute (IDW), around 308,000 new homes will be needed every year across Germany until 2025.

Due to persistently high capacity utilisation in the construction industry, the shortage of skilled workers in that industry and lengthy planning and approval processes, the trend is not expected to change suddenly in the coming years. However, there has been a slight easing recently due to the significant expansion of capacity in the construction industry in recent years combined with reduced demand in other industries, such as hotel and office construction, as a result of the COVID-19 pandemic.

Even the reduction of vacant properties is not significantly bringing noticeable relief to the housing market. This is shown in the data from the current CBRE empirica vacancy index. The active market vacancy rate in growth regions was 1.4% at the end of 2020. Munich and Frankfurt am Main continued to record the lowest rates, both at 0.2%. Across all regions, the vacancy rate was 2.8%, the first slight year-on-year increase in 14 years. The extent to which this is a sustainable reversal of the trend still remains to be seen. The effects of COVID-19 in 2020 are distorting the statistics here. On balance, the number of inhabitants has fallen in many cities due to reduced immigration as a result of COVID-19.

Housing demand forecast to 2035 in the core cities (quantity of residential units)[1]



[1] Reference year: 2020, replacement and additional demand excluding pent-up demand (source: State Statistical Offices with bulwiengesa forecasts).

Further price and rental increases despite the continuing pandemic

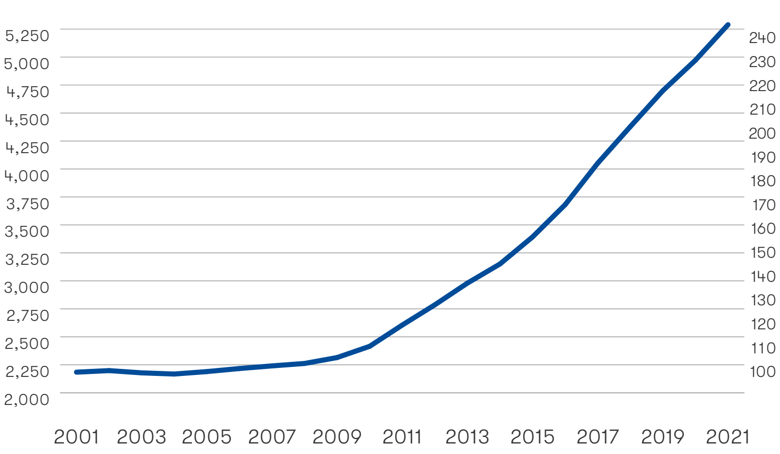
Despite the continuing COVID-19 pandemic, residential real estate prices in Germany continued to rise in the past year and thus continued the structural upward trend that has been ongoing for more than ten years. According to bulwiengesa, the purchase prices for new residential units throughout Germany increased significantly by + 6.4% in 2021 compared with the previous year. The continuing significant demand surplus in the German residential real estate market had an impact here and was further intensified by the relocation of the centre of people's lives to their own four walls during the pandemic. The lending interest rates, which remained low, and the lack of alternative defensive and stable forms of investment also had a supporting effect.

In the core cities, purchase prices rose by an average of + 6.5% to over €6,900 per square metre (previous year: around €6,500). Overall, prices have more than doubled since 2011. The greatest price increase compared with the same quarter in the previous year was recorded in Cologne at + 10.5%; Stuttgart recorded the lowest increase at + 2.8%.

Rents have also risen more dynamically again compared with the previous year, despite the COVID-19 crisis. According to bulwiengesa, rents for first-time rentals in new builds in Germany increased by + 3.6% in 2021. Growth in the core cities was + 3.1% compared with 2020. The average annual increase since 2011 was 4.1%.

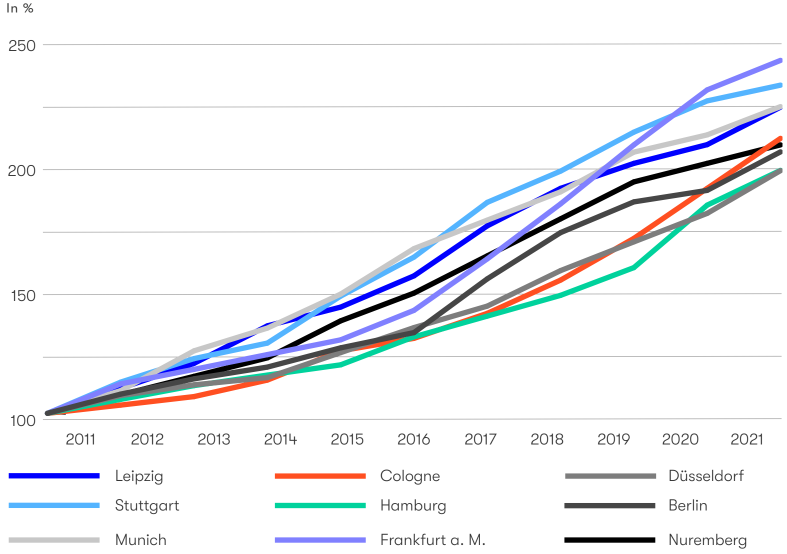
Bulwiengesa real estate index price for new-build residential units

AS AT: Q4 2021



Source: © bulwiengesa AG

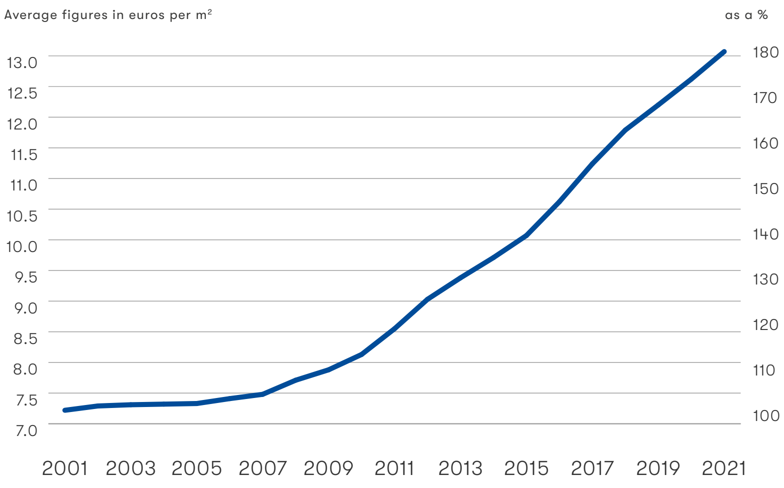
Average purchase prices in the core cities 2011–2021[1] (first occupation)



[1]Forecast figure for 2021 (source: bulwiengesa AG)

Bulwiengesa real estate index
New-build housing rent

AS AT: Q4 2021



Source: © bulwiengesa AG

Residential real estate in Germany still affordable in many regions

The trend towards increasingly high prices increasingly raises the question of the affordability of residential real estate for German households, and therefore the prospects for future price trends. On the one hand, interest rates on housing loans are still at a historically low level, significantly boosting affordability. On the other hand, the increase in nominal wages, at an average of + 2.0% per year between 2016 and 2020, was significantly below the real estate price trend which showed growth of + 6.7%.

According to analysis by the Economic Research Institute (HWWI) for Postbank's Wohnatlas, significant regional differences exist in terms of the affordability of residential property. In around 90% of German districts and independent municipalities, buyers must pay around 20% of their disposable household income for a real estate loan, based on a 70-square-metre apartment in an existing building. In 38 regions, households have to pay more than 30% of their income. At over 40%, the share of real estate financing in disposable household income is by far the highest in the cities of Munich, Berlin, Frankfurt am Main and Hamburg.

Residential properties remain in demand

In our opinion, despite rising prices and a moderately decreasing trend in affordability, investments in residential property will remain attractive in the coming months thanks to continuing low interest rates, rising rents and a lack of alternative defensive forms of investment. For this reason, HWWI and Postbank expect prices for residential real estate to rise further, particularly in and around major German cities.

Overall statement on the financial year

2021 financial year still affected by the COVID-19 pandemic

Business development in the 2021 financial year was also affected by the COVID-19 pandemic, albeit to a lesser extent than in the previous year. In particular, delivery bottlenecks for construction materials and COVID-19-related delays in processing construction applications had a negative impact on construction performance and, as a result, on revenue realisation. However, we continued to record high levels of housing sales to owner-occupiers and private investors as a result of strong demand. In terms of sales activities involving institutional investors, the volume of the contracts concluded also increased. As a result of these developments, we reduced our revenue expectations for the full year in November, while at the same time being able to adjust our expectations upwards for the gross margin, earnings after tax and the volume of sales contracts.

The increase in the project portfolio to €7,500.0 million as at 31 December 2021 (previous year: €6,053.6 million) resulted from additions of new project developments in the amount of €1,587.4 million, disposals of €429.2 million and revaluations of €288.3 million. Adjusted consolidated revenue increased by around +63% to €783.6 million as the previous year's revenue had been particularly impacted by the COVID-19 pandemic (previous year: €480.1 million). With an increase of +86%, adjusted earnings before interest and taxes (EBIT) rose to €155.7 million (previous year: €83.8 million). At €96.9 million (previous year: €41.1 million) adjusted consolidated earnings were also considerably better than the previous year, which was exceptionally weighed down by COVID-19.

Operating cash flow before payments for land acquisitions increased due to the positive net profit for the year and the positive trend of net working capital before land acquisitions to €256.3 million (previous year: €225.0 million).

Comparison of actual and forecasted development

Comparison of actual and forecasted development in 2021 TABLE 027

In millions of euros

		Actual 2021	Adjusted Forecast [1]	Initial forecast [2]
Revenue (adjusted)		783.6	780 to 800	820 to 900
Gross profit margin (adjusted)	In %	28.3	around 28	26 to 27
Earnings after tax (EAT) (adjusted)		96.9	93 to 96	90 to 95
Volume of sales contracts		1,140.1	greater than 1,000	greater than 900

[1] Source: unaudited quarterly report for Q3 2021, page 25.

[2] Combined management report for 2020, page 139.

Results of operations, net assets and financial position

Cumulative financial key performance indicators TABLE 028

In millions of euros

	2021	2020	Change
Revenue adjusted [1]	783.6	480.1	63.2%
Gross profit adjusted	221.5	146.6	51.1%
Gross profit margin adjusted [1]	28.3%	30.5%	
EBIT adjusted	155.7	83.8	85.8%
EBT adjusted	136.5	59.4	129.8%
EAT adjusted [1]	96.9	41.1	135.8%

[1] Financial performance indicators.

Results of operations

To present the results of operations, some items in the income statement are combined into new items:

→ Cost of materials and changes in inventories form project costs.

→ The gross profit item is the balance of revenue and project costs.

→ Other operating income, staff costs as well as other operating expenses and depreciation and amortisation are summarised under the heading Platform costs.

→ The consolidated earnings from operating activities and share of results of joint ventures form earnings before interest and tax (EBIT).

From the results of operations, the following adjustments are made to the adjusted results of operations, which are relevant from the point of view of the Management of the Instone Group:

As part of the adjusted results of operations of the Instone Group, revenue recognition will continue to reflect share deals and asset deals in the same way and similarly in accordance with IFRS 15, irrespective of a decision by the IFRS IC to exempt share deals from revenue recognition over time under IFRS 15.

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

The ongoing effects from purchase price allocations following the expansion of the scope of consolidation in previous years have also been eliminated in the adjusted income figures.

The calculation of the individual adjusted items results from the following items in the income statement and the above-mentioned consolidated items:

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

→ Project costs adjusted include the project costs adjusted for the material cost-induced other operating income (income opposed by a directly attributable item in cost of materials), indirect selling expenses and capitalised interest. It thus reflects the external costs allocated to the project developments.

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

→ Adjusted platform costs are the platform costs less other operating income after subtracting the cost of materials and indirect sales expenses allocated to project costs and adjusted for non-recurring effects.

→ Earnings of associates are the pro rata earnings contributions of subsidiaries included in the consolidated financial statements using the equity method.

→ Adjusted earnings before interest and tax are the adjusted gross profit reduced by the adjusted platform costs, plus the earnings of companies consolidated at equity.

→ Adjusted investment and financial result is the total of other income from investments, finance income, finance costs, and depreciation and amortisation on securities classified as financial assets less capitalised interest.

Adjusted results of operations TABLE 029

In millions of euros

	2021	2020	Change
Revenue adjusted	783.6	480.1	63.2%
Project costs adjusted	– 562.1	– 333.5	68.5%
Gross profit adjusted	**221.5**	**146.6**	**51.1%**
Gross profit margin adjusted	**28.3%**	**30.5%**	
Platform costs adjusted	– 80.5	– 65.5	22.9%
Share of results of joint ventures adjusted	14.6	2.7	440.7%
Earnings before interest and tax (EBIT) adjusted	**155.7**	**83.8**	**85.8%**
EBIT margin adjusted	**19.9%**	**17.5%**	
Income from investments adjusted	0.1	– 1.2	n. a.
Financial result adjusted	– 19.3	– 23.2	– 16.8%
Earnings before tax (EBT) adjusted	**136.5**	**59.4**	**129.8%**
EBT margin adjusted	**17.4%**	**12.4%**	
Income taxes adjusted	– 39.6	– 18.3	116.4%
Earnings after tax (EAT) adjusted	**96.9**	**41.1**	**135.8%**
EAT margin adjusted	**12.4%**	**8.6%**	

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

→ Adjusted income taxes correspond to income taxes adjusted for the tax effects of purchase price allocations, share deal agreements and non-recurring effects.

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

Revenue

Adjusted revenue rose by around + 63% to €783.6 million in the 2021 financial year (previous year: €480.1 million). In addition to the increased construction volume in the year under review, the rise in revenue was due to the significantly increased sales volume, including the numerous institutional sales in the fourth quarter. In the previous year, the temporary reluctance to purchase due to the pandemic also had a negative impact on revenue.

The adjustment of effects from purchase price allocations resulted in adjusted revenue of €– 2.7 million (previous year: €– 6.2 million). The separate valuation of share deals ("Westville" project) increased the adjusted revenue by + €45.1 million (previous year: €28.3 million).

Revenue TABLE 030

In millions of euros

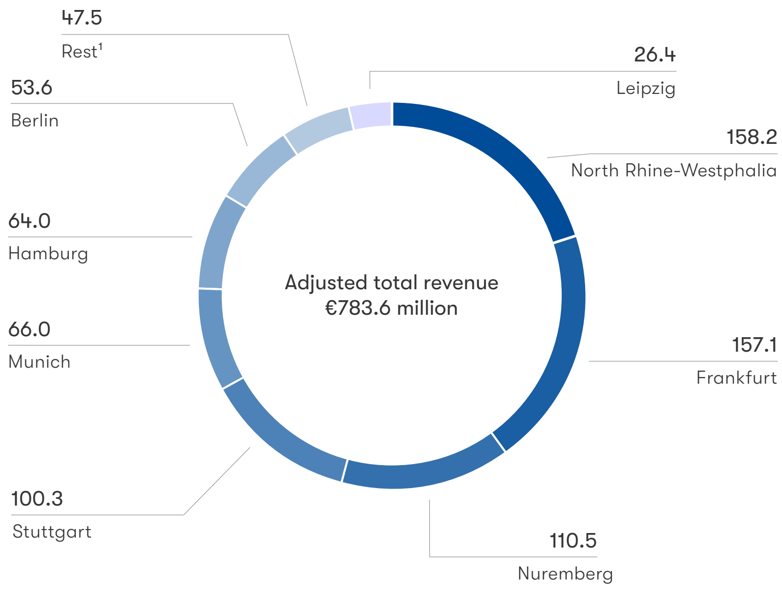
	2021	2020	Change
Revenue	**741.2**	**464.4**	**59.6%**
+ effects from purchase price allocations	– 2.7	– 6.2	– 56.5%
+ non-recurring effects	0.0	– 6.4	– 100.0%
+ effects from share deal agreements	45.1	28.3	59.4%
Revenue adjusted	**783.6**	**480.1**	**63.2%**

The increase in the revenue contribution from the "Westville" project resulted from the planned construction progress. There were no non-recurring effects during the financial year.

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

Sales (adjusted) by region

In millions of euros



[1] Includes Potsdam, among others (€23.8 million) and Wiesbaden (€23.7 million)

Project costs

The adjusted project costs, essentially consisting of the cost of materials and the changes in inventories, also rose in the financial year to €562.1 million (previous year: €333.5 million). The increased purchases of land and the continuation of construction activities led to a significant increase in the cost of materials to €608.1 million (previous year: €362.2 million). The increased changes in inventories to just €65.9 million (previous year: €45.0 million), in contrast to the steep increase in the cost of materials, reflected the rising level of sales of projects being realised.

Indirect sales expenses in the amount of €2.0 million (previous year: (€2.4 million) and material cost-related other operating income of €– 0.6 million (previous year: €–1.5 million) were allocated to adjusted project costs as at 31 December 2021. The adjustment to the capitalised interest in the changes in inventories of €– 4.0 million (previous year: €-3.1 million) burdened the adjusted project costs. Effects from the amortisation of purchase price allocations reduced adjusted project costs by €–14.4 million (previous year: €– 9.0 million). Due to the separate valuation of share deals, adjusted project costs again increased by €36.9 million (previous year: €25.5 million).

Project costs TABLE 031

In millions of euros

	2021	2020	Change
Project costs	**542.1**	**317.2**	**70.9%**
+ effects from purchase price allocations	– 14.4	– 9.0	60.0%
+ effects from reclassifications	– 2.6	4.0	n. a.
+ non-recurring effects	0.0	– 4.2	– 100.0%
+ effects from share deal agreements	36.9	25.5	44.7%
Project costs adjusted	**562.1**	**333.5**	**68.5%**

Gross profit

Adjusted gross profit increased compared with the previous year to €221.5 million (previous year: €146.6 million) due to the increase in revenue in the financial year.

Gross profit TABLE 032

In millions of euros

	2021	2020	Change
Gross profit	**199.1**	**147.2**	**35.3%**
+ effects from purchase price allocations	11.7	2.9	303.4%
+ effects from reclassifications	2.6	– 4.0	n. a.
+ non-recurring effects	0.0	– 2.2	– 100.0%
+ effects from share deal agreements	8.2	2.8	192.9%
Gross profit adjusted	**221.5**	**146.6**	**51.1%**

The adjusted gross profit margin – calculated from the adjusted gross profit relating to the adjusted revenue – amounted to 28.3% (previous year: 30.5%). As expected, the adjusted gross profit margin in the financial year was lower than in the previous year, mainly due to the changed project mix and the increased proportion of institutional sales.

Platform costs

Adjusted platform costs increased to €80.5 million (previous year: €65.5 million). In the financial year, indirect distribution costs of €– 2.0 million and material cost-related other operating income in the amount of €0.6 million were reclassified as project costs.

Platform costs TABLE 033

In millions of euros

	2021	2020	Change
Platform costs	**81.9**	**66.5**	**23.2%**
+ effects from reclassifications	– 1.4	– 0.9	55.6%
Platform costs adjusted	**80.5**	**65.5**	**22.9%**

At €50.0 million, personnel expenses rose by around + 19% at the end of the 2021 financial year compared with the previous year's level (previous year: €42.1 million). This was mainly due to the larger number of employees of 457 (previous year: 413) and the corresponding increase in the FTE figure to 387.6 (previous year: 342.5). Other operating income declined to €3.2 million, mainly due to lower income from the reimbursement of compensation for damages and reimbursements of substitute performance measures (previous year: €5.7 million). GRI 2-7, 2-8 Other operating expenses increased to 30.5 million in the period under review (previous year: €26.1 million), mainly due to increased insurance expenses and scheduled expenses for general warranty provisions on the basis of guaranteed revenues from handovers. Depreciation and amortisation was €4.6 million (previous year: €4.1 million), a slight increase compared with the previous year.

Share of results of joint ventures

The adjusted shares of results of joint ventures of €14.6 million (previous year: €2.7 million) was almost entirely attributable to sales and the construction activities of the Berlin joint venture "Friedenauer Höhe".

Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax increased to €155.7 million in the 2021 financial year, mainly due to the increased revenues and significant profits from joint ventures (previous year: €83.8 million).

EBIT TABLE 034

In millions of euros

	2021	2020	Change
EBIT	**131.9**	**83.4**	**58.2%**
+ effects from purchase price allocations	11.7	2.9	303.4%
+ effects from reclassifications	4.0	– 3.1	n. a.
+ non-recurring effects	0.0	– 2.2	– 100.0%
+ effects from share deal agreements	8.2	2.8	192.9%
EBIT adjusted	**155.7**	**83.8**	**85.8%**
EBIT margin adjusted	**19.9%**	**17.5%**	

Investment and financial result

The adjusted result from equity investments in the financial year of €0.1 million (same period last year: €– 1.2 million) was due to a change in the entitlements to profits of minority shareholders in project-specific limited partnership companies.

The reported financial result improved in the financial year to €– 15.3 million (previous year: €– 26.3 million). The reduction in interest expenses was mainly attributable to the decrease in net debt in this financial year and in the previous year.

The adjusted financial result also increased to €– 19.3 million (previous year: €– 23.2 million). The adjusted financial result of €– 4.0 million (previous year: €3.1 million) included reclassifications of capitalised interest from project financing before the start of sales, which reduced the adjusted project costs by the same amount.

Earnings before tax (EBT) GRI 207-1

Adjusted earnings before tax rose significantly compared to the same period last year, increasing to €136.5 million (previous year: €59.4 million) due to the increase in revenue, the results from joint ventures and the improved financial result.

EBT TABLE 035

In millions of euros

	2021	2020	Change
EBT	**116.6**	**55.9**	**108.6%**
+ effects from purchase price allocations	11.7	2.9	303.4%
+ non-recurring effects	0.0	– 2.2	– 100.0%
+ effects from share deal agreements	8.2	2.8	192.9%
EBT adjusted	**136.5**	**59.4**	**129.8%**
EBT margin adjusted	**17.4%**	**12.4%**	

Income taxes

The tax rate in the adjusted results of operations in financial year 2021 was 29.0% (same period last year: 30.8%). Non-recurring tax effects from subsidiaries resulted in a temporary reduction in the reporting period.

Due to the effects mentioned above, income taxes in the reported earnings amounted to an expense of €35.4 million (previous year: €22.2 million).

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €96.9 million (previous year: €41.1 million) as a result of the aforementioned effects and the increase in tax expenses. Before adjustment for effects from purchase price allocations as well as effects from share deal contracts, reported earnings after tax were €81.3 million (same period last year: €33.7 million).

EAT TABLE 036

In millions of euros

	2021	2020	Change
EAT	**81.3**	**33.7**	**141.2%**
+ effects from purchase price allocations	7.6	2.0	280.0%
+ non-recurring effects	0.0	3.0	– 100.0%
+ effects from share deal agreements	8.0	2.4	233.3%
EAT adjusted	**96.9**	**41.1**	**135.8%**
EAT margin adjusted	**12.4%**	**8.6%**	

Earnings after tax and after minority interests

Non-controlling interests in the earnings after tax amounted to €– 1.8 million (previous year: €0.0 million). Non-controlling interests in the adjusted earnings after tax also amounted to €– 1.8 million (previous year: €0.0 million).

Earnings after tax and after minority interests TABLE 037

In millions of euros

	2021	2020	Change
EAT after minority interests	**83.1**	**33.7**	**146.6%**
+ effects from purchase price allocations	7.6	2.0	280.0%
+ non-recurring effects	0.0	3.0	– 100.0%
+ effects from share deal agreements	8.0	2.4	233.3%
EAT adjusted after minority interests	**98.7**	**41.1**	**140.1%**

Earnings per share

Adjusted earnings per share in 2021 were €2.10 (same period last year: €0.99), thus significantly above the figure for the same period last year.

Earnings per share TABLE 038

In millions of euros

	2021	2020	Change
Shares (in thousands of units) [1]	46,988.3	41,553.5	13.1%
Owners of the Company	83.1	33.7	146.6%
Earnings per share (in euros)	1.77	0.81	118.5%
Owners of the Company adjusted	98.7	41.1	140.1%
Earnings per share adjusted (in euros)	2.10	0.99	112.1%

[1] Average weighted number of shares as at 31/12/2020.

Net assets

Condensed statement of financial position[1] TABLE 039

In millions of euros

	31/12/2021	31/12/2020	Change
Non-current assets	70.2	52.9	32.7%
Inventories	843.7	777.8	8.5%
Contract assets	358.0	194.2	84.3%
Other current assets	97.9	26.3	272.2%
Cash and cash equivalents and term deposits	151.0	232.0	–34.9%
Assets	**1,520.8**	**1,283.1**	**18.5%**
Equity	590.9	521.0	13.4%
Liabilities from corporate finance	199.1	207.2	–3.9%
Liabilities from project-related financing	191.4	274.5	–30.3%
Provisions and other liabilities	539.3	280.4	92.3%
Equity and liabilities	**1,520.8**	**1,283.1**	**18.5%**

[1] Items have been adjusted: Term deposits have been allocated to liquid assets due to short- to medium-term availability, and financial liabilities allocated on the basis of their use in corporate finance or project financing.

As at 31 December 2021, Instone Group total assets increased to €1,520.8 million (previous year: €1,283.1 million). This was mainly attributable to the increase in stocks of inventories and contract assets.

As at 31 December 2021, contract assets rose to €843.7 million (previous year: €777.8 million). This increase in inventories is mainly the result of the purchase of new land for future residential project developments. As at 31 December 2021, acquisition costs and incidental acquisition costs for land amounting to €631.9 million (previous year: €589.0 million) were included in inventories.

Receivables from customers for work-in-progress (gross contract assets) already sold and valued at the current completion level of development rose to €858.6 million as at 31 December 2021 (previous year: €573.1 million) due to the increased completion of work-in-progress. As at 31 December 2021, advance payments from customers amounted to €506.6 million (previous year: €383.5 million). The increase reflects the progress made in construction in the financial year linked to advance payments from customers. Due to the increased proportion of sales from projects before the start of construction, advance payments received grew disproportionately more slowly than contract assets.

Contract assets TABLE 040

In millions of euros

	31/12/2021	31/12/2020	Change
Contract assets (gross)	858.6	573.1	49.8%
Payments received	–506.6	–383.5	32.1%
	352.0	**189.6**	**85.7%**
Capitalised costs to obtain a contract	6.0	4.6	30.4%
Contract assets (net)	**358.0**	**194.2**	**84.3%**

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as at 31 December 2021 inventories and contract assets still included write-downs of €31.4 million (previous year: €43.0 million) from purchase price allocations. Based on current estimates, the Instone Group expects these effects to expire in 2024.

Trade receivables in the financial year rose to €48.2 million (previous year: €1.1 million). The significant increase in trade receivables is mainly the result of property sales in December, for which proportional payment receipts are already available as at 31 December 2021 and further payment receipts become due in future.

Shares in joint ventures, also including investments in project companies, rose in the 2021 financial year from €10.9 million to €30.8 million as a result of the sale and construction progress of project developments of joint ventures.

Non-current financial receivables amounting to €17.6 million (previous year: €21.5 million) included loans to joint ventures and decreased in the financial year as a result of the repayment of financing.

Other current receivables and other assets increased in 2021 from €12.1 million to €47.9 million. This was due to first-time receivables from public-sector grants in the amount of €30.3 million recorded in the 2021 financial year. The subsidies were linked to projects that meet the special energy requirements of the KfW 55 or KfW 40 standards. As at 31 December 2021, a short-term liquidity advance to a joint venture amounting to €7.5 million was recorded in Other receivables. In addition, as at 31 December 2021, other receivables were recognised relating to a tax exemption of €1.2 million (previous year: €1.4 million) by Hochtief Solutions AG, Essen, and capitalised tax receivables of €0.1 million (previous year: €1.0 million). Prepayments on land for which the transfer of benefits and encumbrances occurring after the respective balance sheet date remained at €6.7 million (previous year: €6.0 million), around the same level as last year. In addition, processing fees for loans already paid amounting to €0.2 million (previous year: €0.8 million) which were distributed over the entire term, are recognised under other receivables and other assets.

Cash and cash equivalents and term deposits of €151.0 million (previous year: €232.0 million) declined mainly as a result of the increased cash outflow for investments in new land. In the period under review, financing was also reduced and dividend payments were made to the shareholders for the first time. For more information, please refer to the Group's consolidated statement of cash flows. page 111 et seq. As at the reporting date, term deposits amounted to a total of €20.0 million (previous year: €145.0 million) and had a maturity of more than three months.

Non-current provisions for pensions and similar obligations fell slightly by €– 0.3 million to €4.4 million in 2021. The defined benefit obligation for pension obligations amounting to €14.2 million (previous year: €14.2 million) was offset by plan assets of €9.8 million (previous year: €9.5 million). Plan assets amounting to €9.3 million (previous year: €8.9 million) were placed in a trust account with Helaba Pension Trust e. V., Frankfurt am Main, Germany, whereas €0.5 million (previous year: €0.5 million) was invested in a trust account with European Bank for Financial Services GmbH (ebase®), Aschheim, Germany.
GRI 201-3

The remaining other non-current provisions for the financial year rose from €5.0 million to €6.1 million in 2021. For the most part, provisions for long-term incentive plans amounting to €5.1 million and other non-current personnel provisions amounting to €1.0 million are included in this item.

The other current provisions for the 2021 financial year remained at the previous year's level of €24.1 million (previous year: €24.1 million). Project-related provisions for work still to be carried out, impending losses, and warranty and litigation risks in the 2021 financial year were €17.2 million (previous year: €17.5 million).

Non-current financial liabilities decreased to €220.9 million as at 31 December 2021 (previous year: €313.7 million). During the same period, current financial liabilities rose to €169.6 million (previous year: €168.0 million). In the past financial year, project financing in the amount of €131.1 million, reported as non-current as at 31 December 2020, was reclassified as at 31 December 2021 as current financial liabilities as these will be repaid within one year with the scheduled completion of the projects. The overall decline in financial liabilities resulted from the increased volume of institutional sales for which no project financing is required.

Liabilities from net assets attributable to non-controlling interests of €0.0 million (previous year: €10.3 million) relating to minority interests in "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG". The decline resulted from offsetting the proportional remaining profit due to the minority shareholders.

Leasing liabilities in the amount of €9.7 million (previous year: €10.7 million) fell as at 31 December 2021 due to regular payments for contracts with long-term leases.

Trade payables in the financial year rose to €125.1 million (previous year: €68.9 million) and essentially comprise the services provided by contractors. The increase corresponds to the improved performance in the financial year.

The increase in other current liabilities to €292.4 million (previous year: €88.7 million) resulted mainly from advance payments received for the "Westville" project in the amount of €241.4 million (previous year: €77.7 million) and liabilities from government grants in the amount of €29.8 million (previous year: €0.0 million).

Deferred tax liabilities as at 31 December 2021 amounted to €45.6 million (previous year: €22.9 million). This figure also included deferred tax liabilities of €11.1 million (previous year: €14.0 million) which were formed on the basis of the write-downs from the first-time consolidation of Group companies in 2014, 2015 and 2019.

Income tax liabilities increased to €20.2 million as at 31 December 2021 (previous year: €14.4 million) due to the increased taxable profits of the German Group companies.

The equity ratio as at 31 December 2021 was 38.9% (previous year: 40.6%).

Net financial debt and debt-to-equity ratio TABLE 041

In millions of euros

	31/12/2021	31/12/2020	Change
Non-current financial liabilities	220.9	313.7	–29.6%
Current financial liabilities	169.6	168.0	1.0%
Financial liabilities	**390.5**	**481.7**	**–18.9%**
– Cash and cash equivalents and term deposits	–151.0	–232.0	–34.9%
Net financial debt (NFD)	**239.5**	**249.7**	**–4.1%**
Inventories and contract assets/liabilities	1,190.1	946.4	25.8%
Loan-to-cost[1]	**20.1%**	**26.4%**	
EBIT adjusted (LTM[2])	155.7	83.8	85.8%
Depreciation and amortisation (LTM[2])	4.6	4.1	12.2%
EBITDA adjusted (LTM[2])	**160.3**	**87.9**	**82.4%**
Leverage (NFD/EBITDA adjusted [LTM[2]])	1.5	2.8	

[1] Loan-to-cost = net financial debt/(inventories + contract assets/liabilities).

[2] LTM = last twelve months.

Leverage has decreased compared to the previous year's figure. The decline in net debt due to income from the project business and significantly improved earnings reduced the debt ratio to 1.5 times the adjusted EBITDA. The ratio of net debt to balance sheet inventories, contract assets and contract liabilities also improved to 20.1% (previous year: 26.4%).

Financial position

In the 2021 financial year, the utilisation of corporate-financing lines fell to €197.5 million (previous year: €206.0 million). Utilisation of project-financing lines decreased to €190.9 million (previous year: €275.9 million). The overall financing framework available, which now stands at €612.1 million (previous year: €798.7 million), reduced overall in the financial year due to more liquidations compared with the conclusion of new classic project financing and other corporate finance. As at 31 December 2021, credit lines were available amounting to €295.6 million (previous year: €473.7 million) from project financing and €316.5 million (previous year: €325.0 million) from corporate finance. These corporate finance agreements contain financial ratios that are described in the "Other disclosures" section of the notes to the consolidated financial statements on page 163.

In the 2021 financial year, liabilities from corporate finance fell to €199.1 million (previous year: €206.9 million). Liabilities from project financing fell to €191.4 million (previous year: €274.5 million). Recognised total liabilities from financing operations thus fell to €390.5 million on the reporting date (previous year: €481.5 million). The current project financing included in this is comprised of option agreements for extension.

The individual project financing of Instone Real Estate was negotiated with various financial institutions and was subject to varying conditions. In general, the loans are subject to variable interest rates. Different amounts and frequencies have been agreed for the use of funds from loans with fixed interest or a fixed term. The interest rates for 2021 were at the previous year's level.

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

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

Financial liabilities TABLE 042

In millions of euros

	Due in	Credit line	Utilisation as at 31/12/2021
Corporate finance			
Promissory note loan	2022	69.5	69.5
Promissory note loan	2024	28.0	28.0
Promissory note loan	2025	100.0	100.0
Syndicated loan	2023	10.0	0.0
Syndicated loan	2024	84.0	0.0
Current account loans <1 year	2022	15.0	0.0
Current account loans >1 and <2 years	2023	10.0	0.0
		316.5	**197.5**
Project financing			
Term <1 year	2022	106.0	97.7
Term >1 and <2 years	2023	150.6	54.9
Term >2 and <3 years	2024	24.1	24.1
Term >3 years	> 2024	14.9	14.2
		295.6	**190.9**

Condensed statement of cash flows TABLE 043

In millions of euros

	2021	2020	Change
Cash flow from operations	43.9	119.9	–63.4%
Cash flow from investing activities	123.5	–184.1	n.a.
Free cash flow	**167.4**	**–64.2**	**n.a.**
Cash flow from financing activities	–123.5	34.2	n.a.
Cash change in cash and cash equivalents	**43.9**	**–30.0**	**n.a.**
Cash and cash equivalents at the beginning of the period	87.0	117.1	–25.7%
Other changes in cash and cash equivalents	0.0	0.0	n.a.
Cash and cash equivalents at the end of the period	**131.0**	**87.0**	**50.5%**

Cash flow from operations in the Instone Group amounted to €43.9 million in the 2021 financial year (previous year: €119.9 million) was essentially due to the increased payment flows from customer payments for current projects with simultaneous purchase price payments and land acquisition taxes for land plots totalling €212.4 million (previous year: €105.1 million).

In the 2021 financial year, the Instone Group was able to achieve a positive overall cash flow from operations and thus strengthen its position in terms of cash and cash equivalents. The operating cash flow, adjusted for payments for land, in the period under review was distinctly positive at €256.3 million (previous year: €225.0 million). This underpins the sustained positive return flows of liquidity to the Instone Group from the current residential property developments, in spite of the ongoing restrictions due to the COVID-19 crisis.

Cash flow from operations TABLE 044

In millions of euros

	2021	2020	Change
EBITDA adjusted	160.3	87.9	82.4%
Other non-cash or reclassified items	–36.6	–3.8	863.2%
Taxes paid	–8.3	–11.4	–27.2%
Change in net working capital[1]	–71.5	47.2	n.a.
Cash flow from operations	**43.9**	**119.9**	**63.4%**
Payments for land	212.4	105.1	102.1%
Cash flow from operations without new investments	**256.3**	**225.0**	**13.9%**

[1] Net working capital is made up of inventories, contract assets and trade receivables less contract liabilities and trade payables.

Depreciation on non-current assets of €4.6 million (previous year: €4.1 million), expenses from deferred taxes of €20.6 million (previous year: €13.0 million), the results from the revaluation of the shares valued at equity of €14.6 million (previous year: €2.7 million), expenses from minority-interest income from investments of €0.0 million (previous year: €1.2 million), the interest expense of €15.3 million (previous year: (€26.3 million), the increase in provisions by €1.7 million (previous year: decrease €–0.8 million) as well as expenses for current income taxes amounting to €14.8 million (previous year: €9.3 million) in the 2021 financial year were non-cash expenses or were reclassified into other items.

Cash flow from investing activities amounted to €123.5 million in the past financial year (previous year: €–184.1 million). This was mainly due to the netted repayment of short-term deposits in the amount of €145.0 million and the allocation of long-term deposits as an investment in financial assets of €20.0 million and the repayment of a loan to joint ventures in the amount of €5.8 million.

The cash flow from financing activities as at 31 December 2021 was at €– 123.5 million (previous year: €34.2 million). This was mainly due to the net repayment of finance facilities in the amount of €109.5 million. This includes payments received from new finance facilities taken out in the amount of €77.8 million and repayments for terminated finance facilities in the amount of €187.3 million. In the financial year, payments for interest amounting to €14.8 million (previous year: €12.7 million) and dividend payments of €12.2 million (previous year: €0 million) were included in the cash flow from financing activities.

As at 31 December 2021, financial resources increased to €131.0 million (previous year: €87.0 million).

As at 31 December 2021, the Instone Group had credit guarantee facilities of €385.0 million (previous year: €272.4 million). The increase results from the successful conclusion of new agreements and increases in existing agreements.

Project business at a glance

Real estate business key performance indicators TABLE 045

In millions of euros

		2021	2020
Volume of sales contracts		1,140.1	464.4
Volume of sales contracts	In units	2,915	1,292
		31/12/2021	31/12/2020
Project portfolio (existing projects)		7,500.0	6,053.6
of which, already sold		3,038.9	2,328.8
Project portfolio (existing projects)	In units	16,418	13,561
of which, already sold	In units	7,215	5,381

Due to the product depth and attractiveness of our sales portfolio, we were also able to win over the market in the 2021 financial year. In total, the sales activities in 2021 resulted in a volume of sale contracts of €1,140.1 million and 2,915 units. Our marketing success in the 2021 financial year also confirms the continued steady upward trend in the German housing market and the associated high demand for our product from private and institutional investors. In addition, the target for the 2021 financial year, which had already been adjusted as at 17 November 2021, was confirmed with a volume of sales contracts of more than €1 billion.

The sales volume more than doubled compared with the previous year's figure of €464.4 million. Taking into account the temporary effects from the COVID-19 pandemic in 2020, it is clear that despite the ongoing pandemic situation, we achieved a greater marketing success for the 2021 financial year. One of the reasons for this was the expanded supply base on the market as a result of achieving regulatory resilience in a large number of our development projects. In addition, adapted measures in the sales process supported a continuously high-level sales process with the use of various digitalisation options when approaching interested parties or assisting our customers.

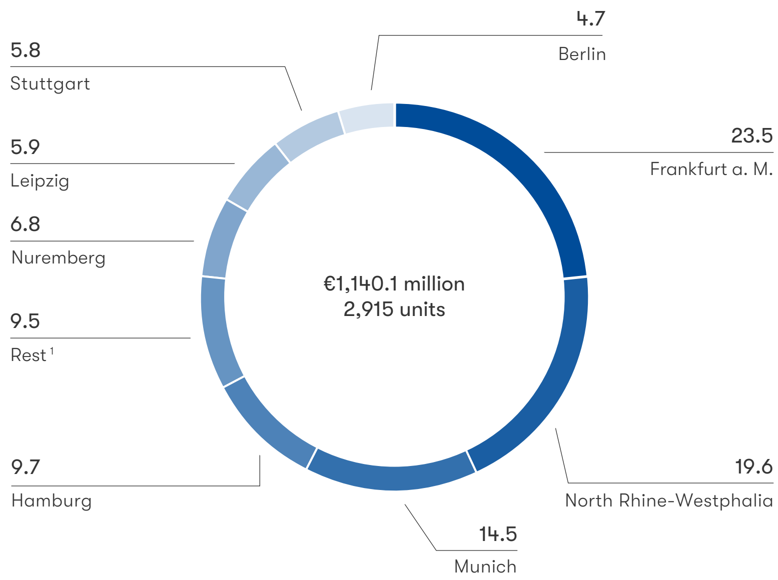
The sales development, which had a positive effect throughout the 2021 financial year, was particularly evident in the noticeably increased marketing success of the last three months of the year. In total, a sales volume of €761.7 million and 1,906 units was achieved in the fourth quarter of 2021, doubling the value for the first nine months (€378 million). For projects involving unit sales, the volume of sales contracts achieved in the fourth quarter at €97.1 million and 209 residential units was above the average for the first three quarters (€234 million in total). The accompanying analysis of the development shows that, overall, continuously high sales ratios for the projects were achieved for the financial year despite the ongoing COVID-19 pandemic and temporary restrictions. As a result, the excellent sales of units in 2021 resulted in the sale of 622 residential units to owner-occupiers and capital investors with a volume of €330.6 million.

However, the highly attractive nature of our product was not only evident in the demand and willingness to buy of private investors, but also became apparent in the last quarter from sales to institutional investors. The package and property sales made up to the third quarter, having a transaction volume of €145 million, were supplemented in the fourth quarter by purchase agreements with a volume of sales contracts of €664.7 million and 1,697 units. This included selling an apartment package of around 330 residential units to LEG. The overall package consists of 96 privately financed rental apartments in the "west.side" area in Bonn-Endenich and a further 236 rental apartments as publicly subsidised or privately financed apartments in the "Literatur Quartier" in Essen. Another forward deal was concluded with Patrizia on the "Urban.Isle Campus" micro-apartment residential complex in Hamburg-Rothenburgsort. The building, which is constructed according to BEG efficiency house standard 55EE, will create a mix of uses consisting of 469 micro apartments, additional commercial space and sufficient bicycle parking spaces on the ground floor. In Baden-Württemberg, the branch was able to conclude a purchase agreement with the Liebenau Foundation for the "Neckar.Au Viertel" quarter in Rottenburg for a further sub-section with plans for the realisation of inclusive housing on an area of around 1,630 m². Accessible rental apartments and residential units for residential groups for six people each are to be built in the building to be constructed in accordance with the KfW 55 energy standard. In addition, in the south of Germany, the "Augusta and Luca" project in the Augsburg city centre with around 429 rental apartments was sold to a European asset manager as part of a forward deal. Furthermore, a purchase agreement was concluded in December 2021 with the Aberdeen Standard Investments Deutschland property fund for two construction sites with 314 residential units within the "Schönhof-Viertel" neighbourhood development in Frankfurt am Main. The living space in the two sold sections of the neighbourhood was around 24,000 m²; more than 300 residential units, a day-care centre and underground parking spaces are to be built in the next few years. In addition to the investor deals concluded, additional purchase agreements for the sale of properties in Berlin and Hamburg, among other locations, were concluded in the last quarter of 2021 with a total volume of sales contracts of around €55 million.

The volume of sales contracts realised as at 31 December 2021 was concentrated almost exclusively in the most important metropolitan regions in Germany, and accounted for approximately 90.5% of the total. Around 9.5% is located in other prosperous medium-class cities.

Marketing in 2021 by region

In %



[1] mainly includes Potsdam and Wiesbaden

The following projects mainly contributed to successful marketing in the 2021 period under review:

Real estate business key performance indicators – volume of sales contracts in 2021 TABLE 046

In millions of euros

		Units
"Schönhof-Viertel"[1]	Frankfurt a. M.	529
Beethovenpark ("Augusta and Luca")	Augsburg	429
Rothenburgsort – "Urban.Isle Campus"	Hamburg	477
Literaturquartier Essen	Essen	236
"Wohnen im Hochfeld" Unterbach	Dusseldorf	120
Parkresidenz	Leipzig	155
Wiesbaden-Delkenheim, Lange Seegewann	Wiesbaden	252
"Neckar.Au Viertel"	Rottenburg	155
Wendenschlossstraße	Berlin	1
west.side	Bonn	96

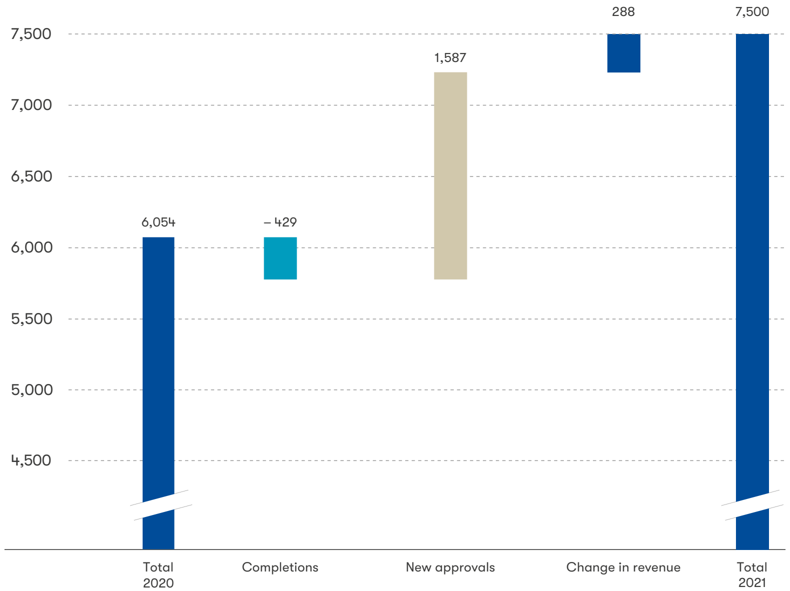
[1] Including an increase in the quantity of units in the course of consolidating planning.

Compared with the final year value for 2020 (345 units and €228 million), we were at a slightly higher level with the current supply base (391 units) at the end of the 2021 financial year. Significant differences can be seen in the accompanying comparison analysis for the two calendar years. In 2020, the effects of the COVID-19 pandemic had a delayed effect on the placement of new sales phases on the market and led to the sales launch of six unit-sales projects with 482 units. In contrast, a very broad supply base was offered on the market during the course of 2021. This year, we started the sales process with eleven individual sales projects with 670 residential units. These included the sales launch for around 130 residential units in the last two construction phases of the "Wohnen im Hochfeld" project in Düsseldorf and a further 54 units in the second implementation phase of our "Fontane Gärten" project in Berlin. In addition, sales were launched with 132 units for the implementation phase of the "Schönhofs-Viertel" in Frankfurt am Main planned for unit sales and for the "Lokhöfe, Bahnhofsareal Nord" project in Rosenheim with 143 units. Also, the first construction phases have successfully begun marketing at the "Parkresidenz" site in Leipzig. A further 212 residential units were added to the supply base. Taking into account the broad supply base, the offers for sale still available on the market at the end of the year highlight the high demand for our product and the associated excellent sales with our projects. In one project, all of the 70 units placed had already been sold within one year and, in total, almost 60% of the available units had already been sold to owner-occupiers and capital investors for all projects initiated in the sales process.

In view of the marketing success enjoyed in 2021, the existing supply base at the end of the year and the planned start of sales for 2022, we see the good basis for achieving our real-estate business targets in relation to marketing as a key success factor in the economic earning potential of our Group.

Development of the project portfolio as at 31/12/2021

In millions of euros



The excellent performance of our Company and the stability of our business model are also demonstrated by the successful further growth of our project portfolio. As at 31 December 2021, it comprised 54 projects with a total revenue volume currently expected to be €7,500.0 million. In addition, there was a sharp increase compared with the previous year (€6,053.6 million). The increase in the comparison of the volume of new approvals for the two financial years was particularly significant. Besides the seven projects already acquired in the first nine months of 2021 with an expected revenue volume of €1,333 million and 2,728 units, a further three projects were approved in the fourth quarter. Overall, this led to a significantly higher volume of new approvals in the 2021 financial year of €1,587.4 million and 3,245 units compared to the previous year (€490 million). This was partly due to the Management Board's initial reluctance as regards new project purchases in 2020 due to the COVID-19 pandemic. In addition, a major project with a land area of around 170,000 m² in North Rhine-Westphalia and an expected revenue volume of €715 million and around 1,500 units was successfully approved and purchased last year.

In addition, we participated in the establishment of a company consolidated at equity for a project in the "Europaviertel" in Stuttgart. The project includes an expected revenue volume of around €389 million with our share amounting to approx. €195 million.

The following projects led to the volume of new approvals in 2021:

Volume of new approvals in 2021 TABLE 047

In millions of euros

	Volume	Units
Stuttgart	70	161
Nuremberg	111	180
Frankfurt a. M.	55	95
Wiesbaden	283	599
Nuremberg	68	162
Wiesbaden	31	36
North Rhine-Westphalia	715	1,495
Hamburg	84	117
Frankfurt a. M.	97	216
North Rhine-Westphalia	73	184
Total	**1,587**	**3,245**
Companies consolidated at equity:		
Stuttgart (100% view)	389	385
Total including equity	**1,976**	**3,630**

In addition to the steady expansion of our portfolio with new projects, seven projects with a revenue volume of €429.2 million were removed from the portfolio in 2021 due to their successful completion. Two sold properties were handed over in Hamburg and Erlangen. Plus, the construction of the "Schumanns Höhe" project in Bonn, "Quartier Stallschreiber Straße" in Berlin and two other projects in Leipzig were fully completed and all apartments handed over to their owners.

Within the project portfolio, our existing projects also developed constantly with the availability of further planning specifics and, in some cases, changed sales concepts. Overall this led to realised and expected revenue increases of approx. €288 million for 2021, highlighting the revenue potential of the projects already in the portfolio.

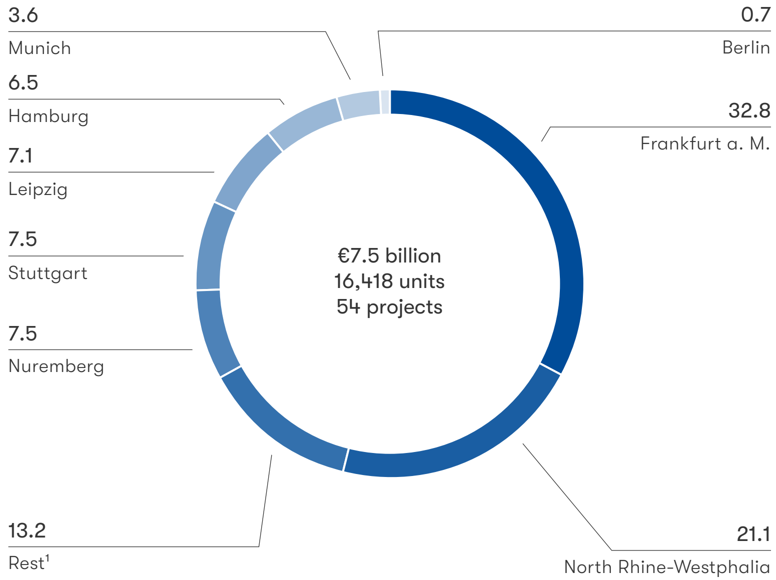
Overall, the current project portfolio of Instone Real Estate clearly demonstrates the great attractiveness and strength of our business model and lays a solid foundation for achieving the envisaged economic targets and the planned growth in the next few years.

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

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

Project portfolio by region

In %

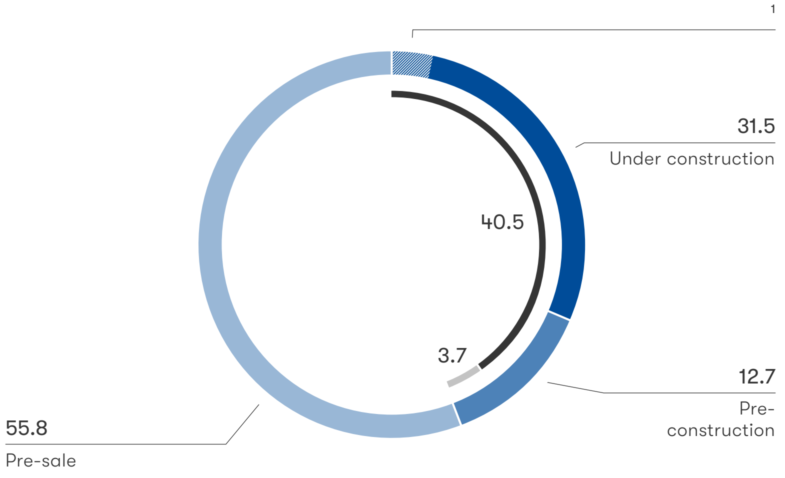


[1] Includes Wiesbaden, Hanover, Potsdam, Bamberg

The majority – approximately 87% – of the anticipated overall volume of revenue from the project portfolio as at 31 December 2021 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart. Around 13% is attributable to other prosperous medium-sized cities.

Project portfolio by groups; Basis: Sale proceeds

In %



Internal sector:
Sold
Unsold

[1] 5.9% of the project portfolio has already been handed over.

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

In addition, the preceding diagram shows that, as at 31 December 2021 we had already sold approximately 41% of the anticipated overall revenue volume of the project portfolio. In terms of the anticipated revenue volume, approximately 92% of the "under construction" and "pre-construction" projects were sold as at 31 December 2021.

In addition to the 54 projects, Instone Real Estate's project portfolio will be supplemented by three further projects that will be realised in joint ventures. In addition to the projects already purchased in 2020 in Berlin and the Frankfurt am Main region, another project was added to the "Europaviertel" in Stuttgart. Overall, a total volume of sales of over €1 billion (Instone Real Estate share approx. €500 million) and the development of approximately 1,800 residential units is expected for these projects. Successful implementation progress had already been achieved in 2021 in the "Friedenauer Höhe" project in Berlin. Three sections of the project with more than 900 residential units were sold in full and the first implementation phase sold to Quantum Immobilien KVG with 537 rental apartments was under construction.

Adjusted revenue

In the 2021 financial year, we achieved adjusted revenue of €783.6 million and were therefore within the adjusted target range of €780 to €800 million for the third quarter. At the end of the year, the delays in building approval processes associated with the COVID-19 pandemic and isolated delivery bottlenecks had an impact on the structural realisation of some projects and therefore on the development of revenue. This was assessed accordingly by the Management Board and led to the adjustment of revenue expectations in November 2021. Nevertheless, good overall business development for 2021 was confirmed by the strong increase in adjusted revenues compared with the previous year's revenue (€480.1 million). The following projects contributed to the adjusted revenues in the period under review:

Key projects revenue realisation (adjusted) 2021 TABLE 048

In millions of euros

		Revenue volume (adjusted)
"Wohnen im Hochfeld" Unterbach	Dusseldorf	60.3
Beethovenpark ("Augusta and Luca")	Augsburg	58.7
"Schönhof-Viertel"	Frankfurt	54.6
St. Marienkrankenhaus	Frankfurt a. M.	53.9
Wendenschlossstraße	Berlin	n/a
Westville	Frankfurt a. M.	45.1
west.side	Bonn	45.0
"Carlina Park", Schopenhauerstraße	Nuremberg	34.5
Schulterblatt "Amanda"	Hamburg	32.6
City Prag – Wohnen im Theaterviertel	Stuttgart	30.0

The building blocks of success for realising the adjusted revenues were steady marketing progress and a further development process in the structural implementation of our projects. In addition to the significant marketing success achieved in the 2021 reporting period, the progress of the projects already under construction and successful construction starts therefore determined revenue development in 2021. The following 15 construction phases had begun with more than 2,600 residential units in the past year:

Construction starts in 2021 TABLE 049

"Fontane Gärten" (construction phases 1 and 2)	Potsdam	around 110 residential units
Westville (3 construction phases)	Frankfurt a. M.	around 980 residential units
"Neckar.Au Viertel" (2nd construction phase)	Rottenburg	around 80 residential units
"Wohnen im Hochfeld" (2 construction phases)	Dusseldorf	around 135 residential units
Düsseldorfer Landstraße	Duisburg	around 80 residential units
"Lokhöfe", Bahnhofsareal Nord	Rosenheim	around 145 residential units
"Schönhof-Viertel" (1st construction phase)	Frankfurt a. M.	around 190 residential units
Beethovenpark	Augsburg	around 430 residential units
"Urban.Isle Campus" – Rothenburgsort	Hamburg	around 480 residential units
Park residence (2 construction phases)	Leipzig	Day-care centre and car park

At the same time, the projects already under construction were developing steadily and the planned progress was being made for the majority of projects. In the 2021 reporting period, we celebrated the topping-out ceremony for a total of three projects. These included the "Amanda" project in Hamburg with 113 residential units, "Wohnen im Hochfeld" in Düsseldorf with a construction phase for 104 rental apartments and "Niederkasseler Lohweg" also in Düsseldorf with 221 publicly subsidised, low-priced and privately financed rental apartments. The cases of COVID-19 infections that occurred sporadically over the course of the year in the various trades were identified and isolated by us at an early stage so that the effects in terms of health and on the construction process remained manageable. Supply bottlenecks for certain materials, which were also triggered by the pandemic, only resulted in delays in construction progress in just a few projects. Here, too, developments on the market and in our projects were closely monitored and compensated for as much as possible with appropriate adjustments to the process. The handover processes for the projects already completed also went forward according to plan in 2021.

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

Instone Real Estate Group SE

Operations

Instone Real Estate Group SE is the Instone Group's strategic management holding company. Instone Real Estate Group SE owned all the shares in Instone Real Estate Development GmbH, all of the interests in Instone Real Estate Leipzig GmbH and Nyoo Real Estate GmbH and all or almost all the shares in the other operating subsidiaries of the Instone Group.

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

Governance system, future development and risk situation

As a holding company, Instone Real Estate Group SE works directly with governance functions and services for the operating activities of the subsidiaries and depends indirectly on the results and the economic performance of its subsidiaries. The control system, expected development, and opportunities and risks of the Instone Group are reported in detail in the "Strategy" page 49, "Corporate governance" page52, "Risk and opportunities report" page 144 and "Outlook" page 161 sections of this combined management report.

2021 business performance

The business performance and financial position of Instone Real Estate Group SE is largely determined by the business growth and success of the Instone Group. This is described in detail in the "Project business at a glance" page 115 and "Results of operations, net assets and financial position" page 103 section of this combined management report.

Results of operations

Condensed income statement TABLE 050

In millions of euros

	2021	2020	Change
Revenue	3.9	0.9	333.3%
Other operating income	1.2	0.7	71.4%
Staff costs	–4.5	–4.0	12.5%
Other operating expenses	–7.2	–16.6	–56.6%
Financial result	105.7	10.2	n/a
of which, income/losses from profit and loss transfer agreements	106.4	20.0	432.0%
Taxes on earnings	–30.3	–6.9	339.1%
Earnings after tax	**68.7**	**–15.8**	**n/a**

The reported revenue of Instone Real Estate Group SE in the amount of €3.9 million (previous year: €0.9 million) resulted mainly from the provision of services to affiliated companies. The increase resulted from the services provided for the first time over the full period during the financial year and their corresponding recalculation.

Other operating income rose to €1.2 million (previous year: €0.7 million) and included, in particular, income from passing on expenses to affiliated companies.

Staff costs rose in the year under review to €4.5 million (previous year: €4.0 million) due to further additions to the provisions for long-term and short-term incentive plans in the amount of €0.7 million (previous year: €1.6 million).

At €7.2 million, other operating expenses were significantly below the previous year's level of €16.6 million. The reduction is mainly due to the costs of the capital increase incurred in the previous year. During the financial year, other operating expenses essentially included expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.5 million and expenses for insurance premiums of €1.1 million. In addition, they included ongoing expenses for organisational consulting and services amounting to €2.3 million.

The changes in the financial result by €95.5 million to €105.7 million (previous year: €10.2 million) were essentially made up as follows:

→ Income from profit and loss transfer agreements amounted to €110.6 million (previous year: €20.1 million).

→ Income from loans amounted to €10.3 million (previous year: €9.5 million).

→ On the other hand, financial assets were written down by €1.0 million (previous year: €8.4 million).

→ Expenses from the assumption of losses amounted to €4.2 million (previous year: €0.1 million).

→ Interest and similar expenses increased to €10.0 million (previous year: €10.9 million), around the same level as the previous year.

Taxes on income and earnings amounted to €-30.3 million (previous year: €-6.9 million).

In the period under review, there was a net income of €68.7 million (previous year: net loss of €15.8 million). This significant improvement was mainly due to the steep rise in income from profit and loss transfer agreements.

Net assets

Condensed statement of financial position TABLE 051

In millions of euros

	31/12/2021	31/12/2020	Change
Financial assets	222.6	223.6	-0.4%
Loans and receivables from affiliated companies	445.9	300.0	48.6%
Other receivables, other assets and prepaid expenses and deferred charges	1.9	3.3	-42.4%
Bank balances	73.2	141.8	-48.4%
Deferred tax assets	5.9	23.0	-74.3%
Assets	**749.6**	**691.8**	**8.4%**
Equity	477.1	420.6	13.4%
Provisions	22.5	11.6	94.0%
Loans from banks and other lenders	200.3	208.9	-4.1%
Liabilities to affiliated companies	48.8	50.0	-2.4%
Other liabilities	0.8	0.7	14.3%
Equity and liabilities	**749.6**	**691.8**	**8.4%**

The total assets of Instone Real Estate Group SE as at the year-end increased to €749.6 million (previous year: €691.8 million). On the assets side, this was mainly attributable to the increase in receivables from affiliated companies from the income from profit and loss transfer agreements and on the liabilities side was mainly due to the increased equity due to the significant increase in the profit for the year.

Financial assets mainly included the investment book values of Instone Real Estate Development GmbH, Essen amounting to €181.8 million (previous year: €181.8 million) and Instone Real Estate Leipzig GmbH, Leipzig amounting to €40.3 million (previous year: €41.3 million).

Loans, receivables and other assets and prepaid expenses and deferred income amounting to €445.9 million (previous year: €303.3 million) included loans to affiliated companies amounting to €312.5 million (previous year: €268.1 million) and ongoing receivables from affiliated companies based on profit and loss transfer agreements. Other assets amounting to €1.5 million (previous year: €3.2 million), in particular, included receivables from tax refund claims and receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement resulted from the exemption from property transfer tax expenses in connection with the acquisition of the Company, for which a corresponding provision exists.

Due to temporary valuation differences between the commercial balance sheet and the tax balance sheet, deferred tax assets of €5.9 million continued to be recognised (previous year: €23.0 million) as at the reporting date. The deferred tax assets on loss carryforwards arising in previous years were reversed in the financial year as these loss carryforwards were fully offset by gains.

The equity ratio on the balance sheet date was 63.6% (previous year: 60.8%).

Provisions increased to €22.5 million in the financial year (previous year: €11.6 million) and in particular related to tax provisions and personnel provisions for premium commitments to the Company's own employees and employees of Group companies.

Liabilities essentially consisted of loan liabilities to credit institutions and other lenders amounting to €200.3 million (previous year: €208.9 million) and those to affiliated companies in the amount of €48.8 million (previous year: €50.0 million). Loans from banks resulted from the strategic alignment of financial management, which included corporate finance taken by the Group's parent company and its use in the Group companies.

Financial position

As a goal for appropriate financial management, the Instone Group, through Instone Real Estate Group SE, provides sufficient liquid funds to meet the operational and strategic financial needs of the Group companies at all times.

As a listed company, Instone Real Estate Group SE considers the interests of shareholders and banks in its financial management. Instone Real Estate Group SE ensures what we deem to be an adequate ratio between equity and debt financing in the interests of these stakeholders.

Employees

At the end of the year, around 11 people were employed at Instone Real Estate Group SE (previous year: around eight employees). GRI 2-7

Outlook

Due to its positioning as a strategic holding company, the Company does not have its own operating business. Revenues are generated almost exclusively from the administrative services provided to Group companies and the fees agreed for doing so. At the same time, the Company also bears expenses for Management Board salaries and Supervisory Board remuneration, as well as for interest expenses from corporate finance. The total of these expenses exceeds the revenue that can be generated.

As part of a reorganisation, the Company is expected to take on further employees of administrative central departments from April 2022, which previously had been located in the subsidiary Instone Real Estate Development GmbH, thereby further expanding the scope of services to be provided for the Instone Group. In this respect, an increase in revenues is to be expected compared with the previous year, which should then be roughly equal to the additional personnel costs.

The Company generates significant income from existing profit and loss transfer agreements with subsidiaries, in particular with Instone Real Estate Development GmbH. Due to the expected business development of this subsidiary, a decline in income from profit and loss transfer agreements compared with the previous year must be assumed for the 2022 financial year as a whole. Overall, we expect earnings after tax for the 2022 financial year significantly below the previous year's figure.

Risk and opportunities report

Risk management at Instone Real Estate aims to ensure the Group's successful future development and profitability for the long term.

Risk management system TCFD risk management

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

Key elements of the risk management system include the use of risk management software, quarterly risk identification measures, closely monitored, database-assisted project controlling, periodic reviews, internal approval processes for any far-reaching decisions, the internal control system (ICS) and the dual control principle. The powers for individual decision-making levels are clearly regulated in the internal guidelines. Instone Real Estate assesses identified opportunities with regard to their impact on the planned earnings as part of existing planning and controlling processes. Opportunities are considered and documented in a process that is separate from the Instone Real Estate risk management system.

We are continuously working to optimise the risk management system together with our independent partners. As a German stock corporation listed on the Frankfurt Stock Exchange (Prime Standard), Instone Real Estate is subject to the appropriate regulatory framework. As a result, the Management Board and the Supervisory Board are also obliged to issue an annual declaration on the extent to which the recommendations of the German Corporate Governance Code (GCGC) have been observed. All applicable internal guidelines, Rules of Procedure and measures designed to ensure a Group-wide standardised and structured approach to risk management are reviewed internally on a regular basis. For example, we will also continue to evaluate all applicable internal regulations in 2021. This review and evaluation process is a continuous, ongoing process. In 2021, we completely revised some of the Company's guidelines in this context. GRI 2-9

Responsibilities

In organisational terms, risk management is a sub-department of Controlling and is allocated directly to the Management Board, which has overall responsibility for the risk management system. It makes decisions regarding the structural and procedural organisation of risk management and the provision of resources. The Board also adopts the documented risk management results and takes them into consideration in its corporate management. The Supervisory Board's Audit Committee monitors the findings of the risk management system. In the interests of major stakeholders such as shareholders, customers, employees, suppliers and investors, the Management Board pursues a conservative, safety-focused risk strategy which also takes the sustainability of our trading activities into account.

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

Risk management process

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

The risk management system of Instone Real Estate ensures the early identification, assessment, management and monitoring of all material risks. In particular, this also includes risks that exist beyond the financial risks processed in controlling which can endanger not only the net assets and financial position, but also intangible assets, such as the reputation of the Company. Project risks are identified and evaluated in particular as part of the project-controlling process. Project controlling uses central database-supported software, the data and analyses of which are used for close coordination in relation to the status of projects and potential risks, both at project and company level. Potential dangers that may affect the Company's value or development are thereby recognised early. This takes environmental and company-specific early warning indicators into account and also includes the regional knowledge and perceptions of our employees working around the country.

Risk assessment

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

Risks are documented as gross and net risks. The probability of occurrence and damage impact are therefore recorded before and after the impact of the effective measures implemented. The goal is to control every risk with the help of measures. Countermeasures serve to avoid, reduce or transfer risks. Risks are assessed as material individual net risks if they have a severe effect and have at least a moderate probability of occurrence.

TABLE 052

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

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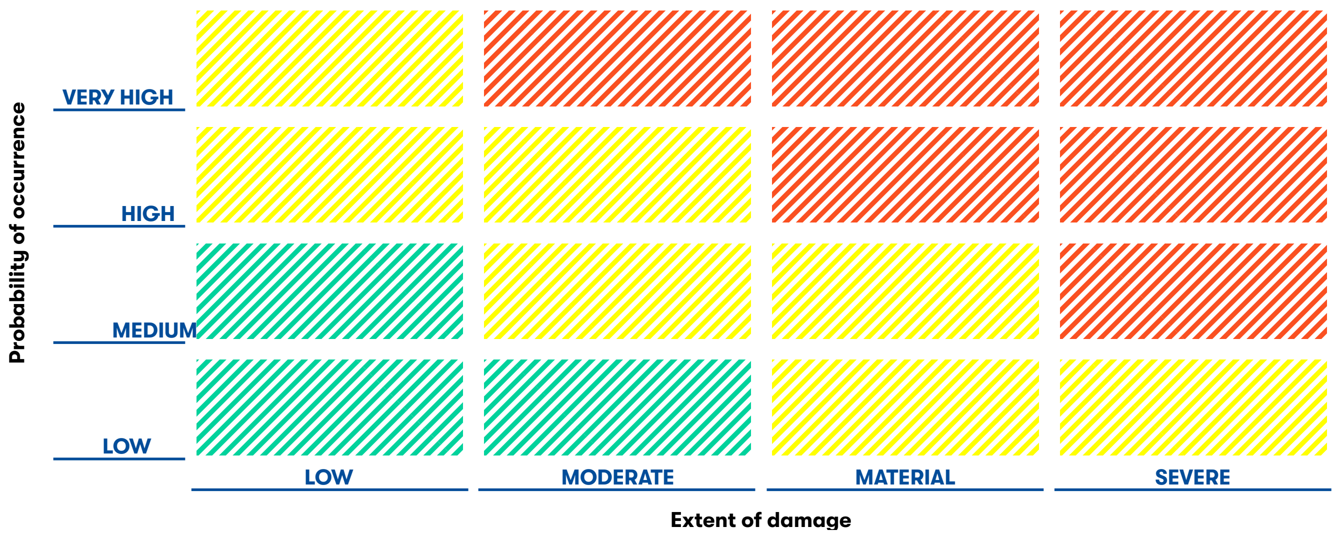
This scheme creates an assessment matrix that categorises the individual risk notifications into a traffic light system (green, amber and red).

Risk-assessment matrix



Monitoring the risk management system

The risk management system is subject to regular updates and further development, and in particular, to adjusting to changes in the Company and/or the Instone Group too. The risk management guidelines describe the core elements of the risk management system and define the various responsibilities. This is amended continuously as necessary. Fundamental and coordinating activities related to the risk management system are delegated to the Risk Management Committee. The responsibilities of the risk management committee include:

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

→ Definition, ongoing determination and review of the Company's risk-bearing capacity

→ Further development of existing risk management regulations

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

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

→ Discussion, coordination and follow-up of countermeasures

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

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

Reporting

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

Internal Control System (ICS)

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

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

The objective of the accounting-related ICS for the purposes of the relevant regulations is to guarantee legally compliant and correct financial reporting. The ICS is embedded in the Finance and Accounting department for this purpose. The Finance and Accounting department is responsible for guidelines for the adoption of accounting regulations, and for the content and timing of the financial reporting process.

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

Internal Audit

The Internal Audit Department prepares a risk-oriented audit schedule annually based on an analysis of all material business processes. After approval by the Management Board, the Internal Audit Department independently and autonomously checks the compliance with the legal requirements and Group-wide guidelines for the control system. This evaluates the functionality and effectiveness of the internal control and risk management system and identifies possible optimisation potential for minimising risks in process execution and the control environment. Individual audit reports are provided to the Management Board and the audited business unit. This allows the Management Board to make timely adjustments to processes and to further develop the ICS that is already in place. The implementation of the jointly agreed measures will also be the subject of follow-up audits. The Management Board and the Audit Committee receive an annual report from the Internal Audit Department. GRI 205-1

Material changes to the risk management system in the 2021 financial year

To take into account the new regulations contained in the new version of IDW PS 340, which describes the audit of the risk early detection system by the auditors, Instone Real Estate has adapted its risk management system in line with the new requirements. Changes include:

→ The introduction of gross and net valuations in risk management in the 2021 financial year due to the increasing requirement for response management. This clearly shows the effects of the measures.

→ In addition, quarterly reporting includes an overview of the measures in response to the top risks in order to adequately monitor the appropriateness and effectiveness of the measures.

→ Potential gross and net risks are assessed in the actual and subsequent year and on 30 September, including the three subsequent years.

→ A risk-bearing capacity concept was implemented.

Risk management was also implemented in Controlling in the 2021 financial year. This was intended to produce synergy effects and create a completely uniform overall risk inventory. The changes to the RMS compared with the previous year based on analyses performed do not have any significant effects on presentation and/or valuation.

Risk-bearing capacity

Within risk management, ensuring risk-bearing capacity is a key objective at Instone Real Estate. The assessment of overall operational risk through risk aggregation makes it possible to state whether the risk coverage potential of a company is sufficient to cover all risks even in the future. The overall risk position is the level of risk that results from the aggregation of all quantitative and qualitative EBT and liquidity risks.

The risk coverage potential is regularly determined by Controlling and forms part of determining the risk-bearing capacity. The basic scenario for the risk coverage potential is the ongoing Group planning which exclusively takes into account the existing projects in the project portfolio while keeping the personnel and material cost planning constant. The risk coverage potential for the comparison of the overall risk position EBT (EAT) is made up of IFRS equity or, on the liquidity side, available liquid assets including contractually secured credit lines.

The overall risk position is the risk measure that results from the aggregation of all the quantitative risk assessments in the risk inventory according to their EBT and liquidity impact. The EBT overall risk position is then converted to an EAT overall risk position.

The risk-bearing capacity is analysed over time on a cumulative basis.

Current risk assessment

Risks are divided into red, amber and green areas according to their expected values using a traffic light system page 146. The expected value is calculated using the probability of occurrence multiplied by the extent of the damage.

The main risk categories and their risk sub-categories at Instone Real Estate are described below in greater detail in a compressed risk assessment. The description is based on the risk inventory as at 31 December 2021. The greatest risks in the risk sub-categories are explicitly mentioned in the descriptions. Risk sub-categories are divided into "relevant" and "not relevant". Risk subcategories are assessed as relevant if they have a share of more than 5% in the assessed overall risk situation or if at least one risk falls within the area of "material" or "severe".

Instone Real Estate had not identified any material individual risks as of 31 December 2021. Risks are assessed as material individual risks if they have a severe effect and at least a moderate probability of occurrence.

The risk situation has changed slightly compared to the previous year. Despite the Covid-19 pandemic, no new risks were documented in connection with the pandemic in 2021. In individual cases, risks had to be reassessed. The risk sub-categories "global/national economy", "taxes" and "interest" are now not considered to be relevant, unlike in the previous year.

General business risks TCFD risk management

Global/national economy

Instone Real Estate is dependent on the German residential real estate market which is impacted by various macroeconomic and general factors, such as economic, demographic and political developments. The current Covid-19 pandemic has created political and economic uncertainty in Europe. Disadvantageous global and European developments in politics and the economy could have negative effects on the export-oriented German economy as a whole and may in particular lead to a higher unemployment rate, lower per capita purchasing power and increasing economic uncertainty. Such factors could significantly reduce or delay the demand for residential real estate. In addition, demographic and socioeconomic trends in the key Instone Real Estate markets could have a significant impact on residential property demand. Although the population in the most important conurbations in Germany increased between 2008 and 2021 as a result of increasing urbanisation and a generally growing population in Germany, this trend could also reverse or at least slow down.

This trend did not reverse in 2021, but there was a significantly lower level of immigration from abroad. Not taking immigration into account, a shrinking and ageing population is to be expected in Germany. Lower levels of immigration and an ageing population, which would slow down the urbanisation trend, could in turn reduce demand, especially in Instone Real Estate's key markets. However, based on the sales figures, Instone Real Estate did not register a fundamental reduction, but rather a shift, in the continued demand for housing in the 2021 financial year.

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

Business-specific regulatory risks

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

Housing is a contentious political issue and as such, cities and local authorities have become increasingly involved in the development planning process. In many regions, urban development contracts are commonly used as part of the development planning process. Instone Real Estate may encounter inconsistencies with local authorities and/or regulators in connection with its activities, resulting in administrative proceedings and unfavourable decrees, directives or enactments. These could in turn lead to financial losses and delays in the completion of development projects and have a negative impact on the Instone Real Estate brand.

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

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

Market developments

As at 31 December 2021, approximately 91% of our portfolio (based on anticipated revenue volume after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart) and approximately 9% in other prosperous medium-sized cities. In our opinion, positive population and household trends are key factors in the currently attractive real estate market. In recent years, increased demand for housing in conurbations and large cities has been observed, despite the fact that we have seen a flattening of the population curve in A cities. If growth changes in the conurbations, this would be a risk for the core markets of Instone Real Estate. Instone Real Estate is also looking into project opportunities outside the core cities to counteract such a development. With the subsidiary Nyoo Real Estate GmbH, the affordable housing business segment and the target group that can be reached through affordable housing will be expanded significantly as well as the potential project locations in conurbations and beyond (especially in so-called B locations). We are closely monitoring market developments and the situation in terms of supply and demand so we can react to any changes that may occur. Instone Real Estate is currently working on the assumption that the dynamic sales price increases of recent years due to the COVID-19 pandemic will not continue over the coming months. We are closely monitoring market developments so we can react to any changes that may occur. GRI 202

As Instone Real Estate would be directly affected by a change in the market, the effects arising from the market development risks are considered to be relevant.

Staff

The health risks from the Covid-19 pandemic remain relevant to Instone Real Estate and could make key employees ill at the same time and for extended periods. Instone Real Estate responded to the coronavirus pandemic early on and introduced appropriate hygiene and protective measures in its branches and on its construction sites to protect employees and contractors, as well as the measures taken in the previous year. For example, we established a 3G concept at an early stage and offer our employees extensive opportunities for testing. Through the measures we introduced, we offer our employees the safest possible working environment. In the 2021 financial year, this once again ensured that there were no significant interruptions to business at our branches or on our construction sites.

The lack of skilled labour has been a key factor in the labour market for many years. The demand for potential employees is changing dynamically due to various influencing factors, such as demographic change, globalisation and the digital transformation. To meet this challenge, Instone Real Estate has set itself the task of further expanding its internal and external promotion of young talent. In doing so, the Company continues to pursue individualised concepts that will serve future long-term needs.

The promotion of young talent is a key issue in recruiting in order to be able to adequately meet medium and long-term needs. In 2021, the focus was on expanding social media channels and the placement of Instone Real Estate at universities. Applicant training and speed-dating formats have been established at universities and will also form an integral part of university marketing for the coming year. To ensure and optimise the management of knowledge transfer on a sustainable basis in the future, we focused increasingly on the building block of promoting young talent. For example, we will enhance vocational training and continue along the proven path of the dual course of study. We designed an individualised and tailored trainee programme in the commercial sector for the target group of graduates.

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

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

Instone Real Estate was able to increase its workforce in 2021 and thus sees itself as positioned well for further corporate growth and any potential employee turnover.

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

Customer satisfaction/demand

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

Instone Real Estate sees itself as being able to identify and analyse such developments in good time and to adapt its existing or planned development projects in a timely manner to take advantage of the respective customer preferences. We use our network of various market players, including brokers and research institutes, to identify customer preferences and also survey our customers after they have taken over the property. We also use the pre-marketing quota as an instrument to offer projects in the market and analyse customer feedback and to therefore be able to implement any adjustments to the design prior to the start of construction. We try to counteract the risk with our years of experience and by involving several key people in every decision-making process. The new subsidiary Nyoo Real Estate GmbH will significantly expand the product portfolio and range of the target group in question. This will also have an impact on the expansion of potential project locations. We consider the impact of this risk to be relevant despite the measures we have put in place.

Reputation

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

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

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

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

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

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

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

Sustainability strategy GRI 2-22 TCFD risk management

From the 2022 reporting year, all major financial market participants will be required to report within the framework of the EU taxonomy, but for 2022 they will initially only be required to report on the environmental targets of climate protection and adapting to climate change. Unknown risks may yet exist in this area as the exact criteria for assessment are still the subject of political negotiations, and short-term changes in legislation may occur, especially against the backdrop of compliance with the Paris Climate Agreements at Federal political level. Instone Real Estate is continuously monitoring the corresponding legislative process. Instone Real Estate is not yet subject to mandatory reporting.

A relevant share of the future price increases of different CO_2-intensive building materials is expected to correlate with their CO_2 intensity. They were cushioned by using various alternative building materials. According to current estimates, energy costs on construction sites are expected to increase by up to approximately 49% by 2025, meaning that an increase in energy costs is expected. In this area, Instone intends to actively seek alternative solutions.

A range of developments can already be seen on the financial market. On the one hand, climate stress tests are already being carried out by investors, and on the other hand, a shift in investment behaviour has been observed towards climate-conscious decisions so long as these do not step outside a set cost/profitability framework. For the future, Instone Real Estate expects a consistent increase in climate-conscious investment behaviour.

Instone Real Estate does not consider the risks in the sustainability strategy sub-category to be relevant in the medium term.

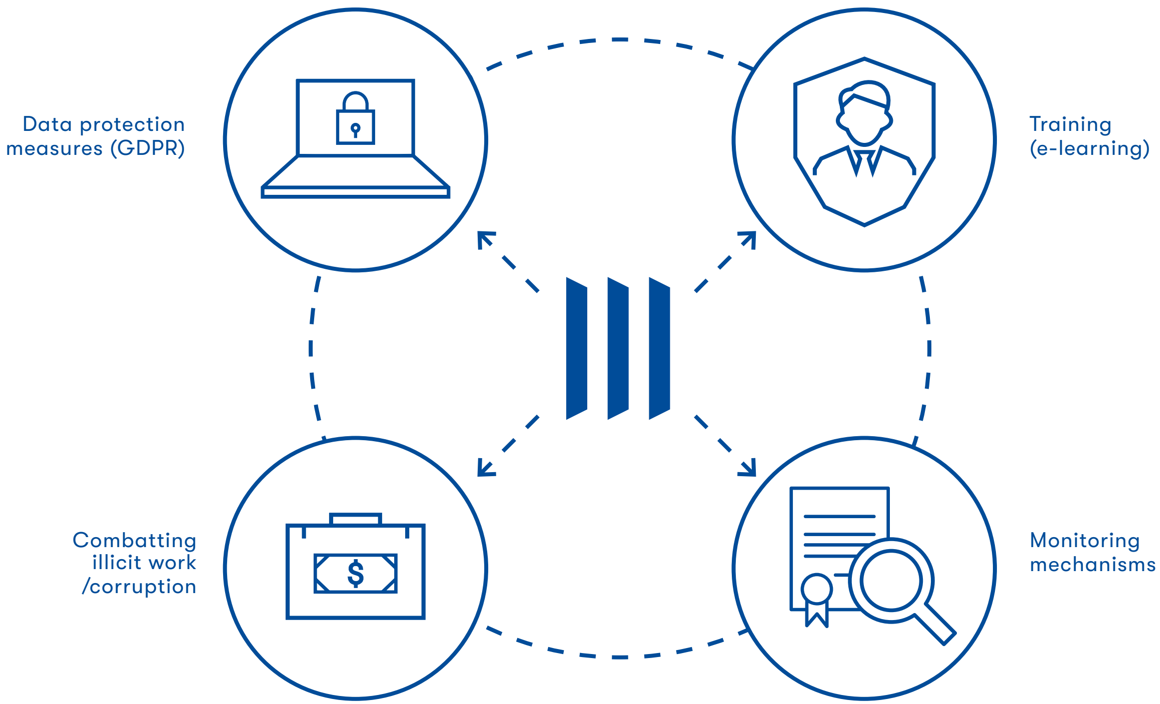
Competition

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

Nevertheless, Instone Real Estate is one of the leading project developers with expertise in urban district development and complex building law. With its established branch structure focusing on the core cities, Instone Real Estate has continued its strategy of intensive and regionally adapted market development. Instone Real Estate achieves very good networking in the markets thanks to its regional structure. This enables us to achieve our targeted acquisition volume and gives Instone Real Estate access to interesting projects.

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

Compliance responsibilities



Compliance and data protection

The real estate and construction sectors are subject to various laws and regulations which relate to compliance with price-fixing and data protection law, and paying the minimum wage in addition to measures to combat illegal work, bribery and corruption as well as anti-money laundering, among other things. As a listed company, Instone Real Estate is also subject to a variety of capital market law regulations, which it must comply with in accordance with the law. Instone Real Estate depends on the compliance of all employees with the applicable laws and compliance guidelines issued by Instone Real Estate.

The internal, Group-wide compliance guidelines and procedures for further expanding compliance are kept constantly up-to-date and revised as necessary. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

With the help of our compliance and risk management procedures and monitoring mechanisms, we seek to detect and prevent any violations of the law or unethical behaviour, including corruption, and also ensure that our internal company guidelines are observed by Instone Real Estate employees. Instone Real Estate is constantly working on improving the compliance management system and providing helpful information to all employees. An anonymous whistleblower system is available to employees and third parties such as customers or business partners to report irregularities.

Compliance at Instone Real Estate is organisationally part of the Corporate Legal department of Instone Real Estate Group SE, the head of which reports directly to the Chief Financial Officer. The Supervisory Board's Audit Committee also deals with compliance and reports to the Supervisory Board. Instone Real Estate has also set up a Compliance Committee that deals with compliance-related issues, including the continuous further development of the compliance management system, on a regular basis and as necessary.

In the 2021 financial year, there were no legal proceedings due to anti-competitive behaviour, price-fixing or monopoly practices. Furthermore, there was no evidence of compliance violations at Instone Real Estate. Notwithstanding this, Instone Real Estate carefully investigates suspected compliance cases and responds to them. Instone Real Estate is not aware of any allegations of corruption at this time, so no risks have arisen in this area. GRI 205; 205-3; 206-1

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

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

Financial risks

Banking partners

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

Furthermore, the previous financing conditions may deteriorate due to changes in interest rates, meaning that existing financing may become more expensive or new financing can only be concluded under worse conditions.

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

Financing structure

In principle, financial covenants are agreed in the corporate financing contracts. Failure to comply with the financial covenants may involve the risk of more stringent financing conditions and extraordinary terminations of financing. This would trigger the repayment of the financing provided. In the event of terminations and the associated premature repayment of the financing, refinancing would only be possible under worse conditions. The covenant requirements are continuously monitored and forecast at Instone Real Estate. Instone Real Estate believes that there is comfortable leeway as regards this covenant.

Due to continuous monitoring, there is a low probability of occurrence of the risk of a financial covenant being violated. Based on corporate planning, there are also no indications that the financial covenants cannot be serviced in the future. Nevertheless, non-compliance with the financial covenants would have a severe impact on the Company so we consider this risk to be relevant.

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Accounting

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

In relation to the accounting process, Instone Real Estate has an internal control system (ICS) page 147. The ICS aims to reduce the potential risks of an unintentional failure to comply to a minimum.

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

Liquidity

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

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

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

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

Tax

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

The current tax audit for Instone Real Estate for 2014 to 2016 is expected to be completed in May 2022. From March 2022, the tax audit of the Instone companies will begin for the 2017 to 2019 assessment periods. The basis for the conservative tax declaration is provided by accounting which uses the described ICS. The ICS aims to ensure the accuracy of the disclosures.

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

The possible impact of tax risks is not considered to be relevant on the basis of the conservative tax declaration. GRI 207-1, 207-2

Interest

The projects are mostly financed through a mix of bank loans and equity. The current low interest rate levels allow Instone Real Estate to finance projects efficiently. At present, we do not foresee a noticeable rise in interest rates. For new projects which usually run over several years, we are factoring in an interest-rate buffer for the future. To achieve the best possible financing security for the projects, banks are requested to promptly state the financing terms in the form of term sheets. The resulting financing conditions, in particular, the equity to be invested, the amount of borrowed funds available, any processing commission – if this is not passed on to the interest margin – and also the interest margin to be secured for the term of the financing, are then included in the profitability analysis for the projects. Given the current market environment and the inclusion of an interest rate buffer, Instone Real Estate does not consider the potential impact of an interest rate increase to be relevant in the short term.

Instone Real Estate assumes that the ECB will slowly increase the key interest rate from the end of 2023 at the earliest and has taken this into account in its planning.

Project business risks

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

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

Selecting business partners, engaging contractors and awarding contracts

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

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

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

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

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

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

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

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

Approval process

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

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

Project implementation/construction

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

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

In the 2021 financial year, there was an increase in the price of plastic materials for the production of insulation materials, window profiles and synthetic resin. In addition, prices for steel reinforcements and mineral construction materials rose. This was due to the global shortage of basic materials for plastic products due to increased demand on the Asian market (where the pandemic has already been overcome) and a collapse in production capacities due to climatic influences in the USA (power cuts at plants due to severe winter weather) and force majeure in Europe (major fire damage and loss of production at one of the most important production and warehouse locations in Rotterdam).

All the project sections in which insulation materials are manufactured continue to be affected, such as plastic windows, coatings for underground car parks and shell construction work. In addition to price increases, longer delivery times and therefore possible delays in the construction process are to be expected as a result of the shortages. Instone Real Estate is seeking to compensate for price increases and bottlenecks in materials by agreeing price adjustment clauses, advance purchases and warehousing of the required materials by subcontractors, as well as by awarding contracts to subcontractors at an early stage.

As of 31 December 2021, there were isolated cases of Covid-19 infections among subcontractors and employees on our construction sites, but these did not have a significant impact on construction progress. Nevertheless, there is a risk that new decrees issued by the German Federal Government or by the individual state governments could tighten restrictions again. This would restrict Instone Real Estate's ability to complete construction and thus to receive payments linked to construction activity. We have introduced appropriate hygiene and protective measures on our construction sites to protect employees and contractors. At the same time, these measures allow us to react to possible infections on our construction sites. Another possible risk is that our contractors could get into difficulties. For Instone Real Estate, this would mean delays at our construction sites. So far, we cannot foresee such difficulties. However, we are staying in close contact with our contractors who we subject to a creditworthiness check as a matter of principle prior to commissioning.

Due to climate change, weather-related events may increasingly occur which may restrict future construction activity such that, for example, construction progress may falter as a result of heavy rain, heat, cold or storms. Instone Real Estate has insurance cover which provides protection against damage, but not against delays.

Instone Real Estate makes every effort to identify and evaluate all potential project risks at an early stage. The purpose of the regular meetings at project, branch and Group level is, among other things, to closely support the project and discuss potential risks at an early stage in order to consider the further course of action together. Instone Real Estate encourages communication between employees to support knowledge transfer. This facilitates the sharing of expertise among employees. All projects are conservatively forecasted in the controlling system and updated with the current state of knowledge.

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

Marketing/sales

Before sales begin, it may be possible to apply market prices that can no longer be implemented at the time of the sale meaning that Instone Real Estate's marketing and sales process is either slower, does not occur at all or is more cost-intensive. Furthermore, sideways movement in the house price index may mean that inflationary purchase price adjustments cannot be realised. Our risk management ensures that the planned revenues and schedules for each project are analysed and scrutinised critically by the Management Board during the approval and sales release processes. We use our pre-sale quota to test the project development concept and planned sales prices for market acceptance. If the concept is not accepted or, for example, if sales expectations are not achievable, the project will be re-adjusted and re-checked. At the same time, this approach enables us to identify and implement opportunities in sales.

In light of the Covid-19 pandemic, it cannot be ruled out that the trend towards a reluctance among private and institutional investors to buy will be further exacerbated as the pandemic continues. For example, some of our potentially interested parties may refrain from making major investments in real estate due to the uncertainties of the economic situation – including on the labour market – caused by a lack of income for the self-employed, short-time work or lay-offs. On the sales side, we have responded to the decline in the number of interested parties and the restrictions related to contact by intensifying our digital communications with potential buyers.

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

Other project risks

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

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

IT and communication risks

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

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

Instone Real Estate's server infrastructure also has complete server redundancy and is protected against viruses and malware using multi-level and continuously updated defence systems. Multi-level data storage systems allow the complete recovery of all data. Furthermore, as part of its digitisation strategy, Instone Real Estate is increasingly mirroring or relocating applications and data to Microsoft cloud data centres in the EU in order to further optimise the data security/redundancy and functionality of its IT systems. In our opinion, the measures taken ensure a minimum risk of failure and a high level of data security.

Instone Real Estate does not consider the potential impact of IT and communication risks to be relevant due to the IT concepts that it has implemented.

Legal risks

Litigation

Instone Real Estate was exposed to several legal disputes during the 2021 financial year. The individual branches are responsible for the legal disputes and appoint local law firms in advance to defend against potential claims by third parties or to enforce claims. The majority of these claims relate to defects and the warranty rights of Instone Real Estate customers. Instone Real Estate has largely set aside provisions for litigation. The remaining potential impact of the risk is not considered to be relevant.

Liability and insurance

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

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

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

Opportunities report

Instone Real Estate defines its opportunities, by analogy to its definition of risks, as a positive deviation from the corporate planning. In our view, aside from the risks mentioned, the current prevailing market conditions and forecasts regarding the development of the market based on the Group's valuation scheme also offer significant opportunities for Instone Real Estate. These include:

→ Persistently high demand for housing

→ Rising population in conurbations

→ Expansion of demand to the outskirts of the conurbations

→ Great willingness to invest in sustainable residential real estate, partly due to fewer investment alternatives in the low-interest environment

→ Sustainability in building efficiency required by society and encouraged politically

→ Establishment of planning and construction processes to boost efficiency for our nyoo product in the Company's core business

The low leverage and the large liquidity reserves of Instone Real Estate plus our excellent reputation among municipal and institutional decision-makers provide the financial framework and confidence to be able to make even greater use of the opportunities from real estate acquisitions to implement large, complex projects in terms of volume.

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

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

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

Instone Real Estate's many years of experience and the land already acquired and to be acquired offers opportunities for the extended utilisation of land in terms of gross floor area (GFA), site occupancy ratio (SOR) and floor area ratio (FAR).

We are pursuing a value-oriented business model focussed on growth, environmental sustainability and customer orientation which unites the interests of shareholders and buyers. Instone Real Estate's growth strategy is geared towards achieving the target of sustainable growth within its existing project portfolio and expanding what in our view are attractive project acquisitions which will add value. There are further opportunities to act successfully in line with our growth strategy through active dialogue with the capital market and a high level of transparency towards investors and analysts.

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

Overall assessment of the risk and opportunities situation by the Management Board

On the whole, the overall risk assessment for Instone Real Estate saw a slightly changed macroeconomic risk situation in the 2021 financial year compared to the previous year. This was due on the one hand to increases in the price of materials and supply bottleneck linked to international inflationary trends. We will closely monitor these developments and, where possible, take into account the potential economic project effects arising from these developments by responding appropriately. On the other hand, we are taking note of a change in the general expectation of future interest rate developments, meaning that slightly rising interest rates in 2022 cannot be ruled out, contrary to our current assessment. We assume that this will take place in the medium term to an extent that will not have a serious impact on our business environment.

Looking at specific projects, the slow nature of municipal decision-making processes, related in particular to the procurement of planning permits and construction rights, has not changed, contrary to our original expectations.

From today's perspective, the Management Board of Instone Real Estate does not consider there to be any risks that the Company will be unable to adequately counteract or which risk jeopardise the continued existence of the Group's income from operations, net assets and/or financial position. In our opinion, our business model and our diversified financing instruments provide the best possible insulation from economic fluctuations.

Overall, this results in a risk profile that is normal for this business segment, in particular in light of the current coronavirus pandemic. An early analysis of the risks and a pro-active approach allow us to react in good time and mitigate the corresponding potential impact. The Management Board expects the downturn caused by the Covid-19 pandemic to gradually return to normal over the course of 2022 and 2023. The current risk situation was taken into account in the forecast.

Outlook

General economic and industry-specific economic conditions

In its December 2021 forecast for 2022, the Bundesbank expects calendar-adjusted GDP growth of 4.2%. According to the Bundesbank, private consumption is expected to be a key driver of the increase. This is based, among other things, on the additional savings made during the pandemic, some of which can now be used to drive consumption. In addition, it is expected that the global supply bottlenecks will be resolved by the end of 2022 and that exports will then primarily benefit temporarily from catch-up effects. Real GDP growth is not expected to normalise until 2024.

The labour market recovered significantly from mid-2021. The Bundesagentur für Arbeit (German Federal Employment Agency) reported a decrease in the average unemployment rate year-on-year from 5.9% to 5.7%. The use of short-time work had been reduced further since March 2021. In particular, the easing of Covid-19 restrictions in the hospitality sector contributed to the increase in employment subject to social security contributions. For 2022, the Bundesbank expects a further significant improvement in the unemployment rate to 5.2% which is almost a return to pre-crisis levels.

The German residential real estate market has also proved to be crisis-resistant in a recessionary macroeconomic environment during the pandemic. Rents and residential real estate prices in Germany continued to show an upward trend overall in 2021. Continued high demand for housing combined with comparatively low supply, extremely low interest rates, and the stabilising effects of state support measures on the labour market, among other things, continued to boost the rising property-price trend.

Based on current expected macroeconomic performance, we expect the German residential real estate market to continue to perform positively for the forecast period to the end of 2022.

The structural increase in single-person and two-person households, domestic migration from rural to metropolitan areas within Germany and net immigration from abroad, which increased slightly once again in 2021, are driving stable growth in the demand for housing in the metropolitan areas, and therefore in Instone Real Estate's core regions.

In recent years, the annual volume of completed new builds has increased (2020: 306,376 residential units) and for the first time almost reached the annual demand of around 308,000 residential units currently estimated by the Institute of the German Economy (IW). In previous years, however, significant excess demand has been established as the level of new construction activity was continuously too low, and the pronounced shortage situation in Germany has further intensified overall accordingly.

Outlook for the Instone Group

The development of the macroeconomic and industry environment has a significant effect on the forecasts presented below. An important prerequisite is also to achieve significant milestones in our projects. The focus is particularly on obtaining building rights and building permits, the planned start of sales, and achieving the planned sales speed as well as the expected start and scheduled progress of our construction projects.

Any deviation from the assumptions regarding the macroeconomic-environment trends for this industry or any changes in political factors or the risks and opportunities already described in the "Risk and opportunities report" section page 144 of this combined management report or any changes to the project schedule may cause the actual business performance to deviate from the forecasts.

The effects of the currently ongoing COVID-19 pandemic were taken into account appropriately by the Management Board with regard to further delays in building permits and reductions in the speed of construction as a result of ongoing supply bottlenecks. The Management Board has assumed that the pandemic-related effects will gradually ease from mid-2022. Any prolonging of the restrictions directly or indirectly related to the pandemic, or even a tightening of those restrictions, could have a temporary negative effect on the granting of building rights, construction activities and thus on the Group's revenue and earnings forecasts.

In February 2022, Russia unilaterally recognised territories in eastern Ukraine as independent states and took military action, invading the sovereign territory of Ukraine. As a result, the European Union, NATO, the US and other states have adopted or announced massive and long-term economic sanctions against Russia. The specific effects of this conflict on economic development in Germany and Europe, on interest rates and on the prices and availability of energy and raw materials cannot be conclusively assessed at this time. Risks from this development, including for the forecasted Instone business development, cannot be ruled out despite a further positive environment for residential real estate.

On the basis of the assumptions made and taking into account the current uncertainties, we expect a continued high volume of sales contracts of at least €1.0 billion in 2022.

We also expect another significant increase in adjusted revenue for 2022 ranging from €900 million to €1.0 billion.

In the project mix relevant to revenue recognition, we assume a gross profit margin of 25% to 26%.

The forecast for adjusted consolidated earnings after tax ranges between €90 million and €100 million.

Adjusted consolidated earnings after tax also form the basis for determining the distribution. The target figure for the expected payout ratio is 30% of adjusted consolidated earnings.

Forecast of key management performance indicators for 2022 TABLE 053

In millions of euros

		2022 outlook
Revenue (adjusted)		900 to 1,000
Gross profit margin (adjusted)	as a %	25 to 26
Consolidated earnings after tax (adjusted)		90-100
Volume of sales contracts		greater than 1,000

Takeover law disclosures

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

1 Composition of the subscribed capital

As at 31 December 2021, the subscribed capital (registered capital) of Instone Real Estate Group SE amounted to €46,988,336.00. It is divided into 46,988,336 no-par-value bearer shares. The registered capital is fully paid up. All shares in the Company have the same rights and obligations. Each share carries one vote and an entitlement to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As at 31 December 2021, the Company did not hold any of its own shares.

2 Restrictions affecting voting rights and the transfer of shares

To the knowledge of the Management Board, there are no restrictions affecting voting rights or the transfer of shares.

3 Direct or indirect investments in the capital amounting to more than 10% of the voting rights

There are no direct or indirect investments in the registered capital amounting to more than 10% of the voting rights.

GRI 2-15

4 Shares with special rights conferring control powers

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

5 Type of voting rights control when employees have shareholdings in the capital and do not directly exercise their control rights

There are no employee investments in the Company's capital where the employees do not directly exercise their own control rights.

6 Appointment and dismissal of members of the Management Board; amendments to the Articles of Association

The appointment and dismissal of members of the Management Board of the Company occurs in accordance with the provisions of Article 39 (2) sentence 1 of the SE Regulation and Sections 84 and 85 of the German Stock Corporation Act (AktG). According to Section 9.1 of the Company's Articles of Association, the Management Board consists of at least two people. The Supervisory Board determines the number of Management Board members. It may appoint a chair and a deputy chair of the Management Board in accordance with Section 84 AktG and Section 9.2 of the Company's Articles of Association.

Pursuant to Article 9 (1)(c)(ii)) of the SE Regulation in conjunction with Section 179 (1) 1 AktG, the amendment of the Company's Articles of Association is made by resolution of the Annual General Meeting. In accordance with Section 21.4 of the Company's Articles of Association, resolutions of the Annual General Meeting are passed by a simple majority of the votes cast unless mandatory statutory legislation requires a larger majority. In accordance with Section 21.5 of the Articles of Association, unless this is opposed by mandatory statutory legislation, amendments to the Articles of Association require a majority of two-thirds of the votes cast or, if at least half of the registered capital is represented, a simple majority of the votes cast. If the law also requires a majority of the registered capital represented when passing the resolution for resolutions of the Annual General Meeting, the simple majority of the registered capital represented when passing the resolution is sufficient, to the extent permitted by law. According to Section 21.5 of the Company's Articles of Association, resolutions that can be passed with a simple majority of votes pursuant to Section 21.4 of the Articles of Association, include in particular, but not exclusively, all resolutions of the Annual General Meeting regarding capital increases with shareholders' subscription rights against contributions (Section 182 (1) AktG), capital increases from Company funds (Section 207 (2) AktG in conjunction with Section 182 (1) AktG) and the issue of convertible bonds, participating bonds and other instruments to which shareholders have a subscription right

(Section 221 AktG). According to Section 21.6 of the Articles of Association, the dismissal of members of the Supervisory Board who have been elected without being bound by an election proposal requires a majority of at least three quarters of the votes cast. According to this provision of the Articles of Association, this also applies to the amendment of Section 21.6 of the Articles of Association themselves. Finally, pursuant to Section 18.3 of the Articles of Association, the Supervisory Board is entitled to make amendments and additions to the Articles of Association which only affect the wording.

7 Powers of the Management Board to issue or repurchase shares

7.1 The 2018 authorised capital

Under Section 6.1 of the Articles of Association, the Management Board is authorised to increase the Company's registered capital, with the approval of the Supervisory Board, in the period up to 28 June 2023 by up to a total of €8.45 million by issuing up to a total of 8,450,000 new no-par-value bearer shares against cash contributions and/or contributions in kind (2018 Authorised Capital) and, under Section 6.2 of the Articles of Association and with the approval of the Supervisory Board, to exclude shareholders' subscription rights under certain conditions and within predefined limits.

7.2 The 2021 authorised capital

Under Section 6a.1 of the Articles of Association, the Management Board is currently authorised, with the approval of the Supervisory Board, to increase the Company's registered capital during the period to 8 June 2026 by up to a total of €8 million by issuing up to a total of 8,000,000 new no-par-value bearer shares against cash contributions and/or contributions in kind (2021 Authorised Capital) and, under Section 6a.2 of the Articles of Association and with the approval of the Supervisory Board, to exclude shareholders' subscription rights under certain conditions and within predefined limits.

7.3 The 2021 conditional capital

The Management Board was authorised by the Annual General Meeting with effect from 31 August 2021 to issue, with the consent of the Supervisory Board, bearer or registered bonds with warrants or convertible bonds with a total nominal value of up to €350 million with or without a limited term (hereinafter jointly referred to below as **"Bonds"**) on one or more occasions up to 8 June 2026 and to grant the holders or creditors of the bonds option or conversion rights up to 4,698,833 new shares in the Company with a proportionate total amount of registered capital of up to €4,698,833 in accordance with the respective option or convertible bond conditions to be determined by the Management Board (hereinafter jointly referred to as **"Conditions"**).

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

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

Bonds may only be issued to the exclusion of subscription rights provided the total of the new shares to be issued on the basis of such bonds – together with new shares from authorised capital or treasury shares in the Company issued or sold by the Company during the term of this authorisation until it is exercised by utilising another authorisation to the exclusion of shareholders' subscription rights, and, together with rights issued during the term of this authorisation until it is exercised by exercising another authorisation to the exclusion of subscription rights and which enable or oblige the conversion into or subscription to shares in the Company – concerns no more than 10% of the registered capital in numerical terms. The basis for calculating the 10% limit of the registered capital is the registered capital figure at the time of effective date of this authorisation. If the registered capital figure is lower at the time the authorisation is exercised, this lower figure shall be used.

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

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

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

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

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

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

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

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

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

7.4 Authorisation to purchase treasury shares

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

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

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

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

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

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

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

8 Key agreements reached by the Company in the event of a change of control following a takeover bid, and the consequent effects

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

Members of the Management Board are entitled to a special right to terminate a contract in the event of a change of control. A change of control shall take place in particular if one third party or several third parties acting jointly who currently do not have a share in the Company or have a share with less than 30% of the voting rights, acquire at least 30% of the voting rights in the Company.

9 Company compensation agreements that have been entered into with the members of the Management Board or employees in the event of a takeover bid

Members of the Management Board are entitled to a severance payment in the amount of 1.5 times the gross annual remuneration if there is a fundamental impairment of the commercial basis of the Company in addition to the change of control, i.e. if the resigning member of the Management Board has been removed from his/her role, a control and/or profit transfer agreement is concluded with the Company as a dependent company, or the legal form of the Company is changed or if the decision-making powers of the resigning member of the Management Board are significantly impaired without objective grounds. If the remaining term of the contract is to amount to less than one and a half years, the severance payment is reduced pro rata temporis.

Corporate governance statement (unaudited)

In this section, Instone Real Estate provides information about the Company's corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) on the principles of corporate governance and Section 161 of the German Stock Corporation Act (AktG) and in accordance with the German Corporate Governance Code (GCGC). In addition to the Declaration of Compliance with the GCGC, the corporate governance statement also contains information about corporate governance and the compliance management system, and the composition and working methods of the Management Board and Supervisory Board, as well as the Supervisory Board committees. GRI 2-14

Implementation of the GCGC

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

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the GCGC as amended on 16 December 2019 and submitted their routine Declaration of Compliance in line with the recommendations of the GCGC in December 2021 under Section 161 AktG and commented on the few exceptions.

The statement and any further declarations of compliance since the IPO are published on the Company's website under the ↗ Instone compliance statement.

Declaration of Compliance

The Management Board and Supervisory Board of Instone Real Estate Group SE (the "Company") are required pursuant to Section 161 (1) of the German Stock Corporation Act (AktG) to issue an annual Declaration of Compliance stating that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official Section of the Federal Gazette have been and are being complied with or which recommendations have not been or are not being complied with and why not. The Management Board and Supervisory Board issued a Declaration of Compliance in December 2020, which was updated during the year in April 2021 due to the adoption of an updated remuneration system for the members of the Management Board on 23 April 2021.

The Management Board and Supervisory Board declare that, for the period between the submission of the declaration of conformity in December 2020 and the submission of the updated declaration of conformity in April 2021, the recommendations of the Government Commission on the German Corporate Governance Code in the version of 16 December 2019 last published in the official part of the Federal Gazette on 20 March 2020 ("GCGC") on the remuneration of the members of the Management Board in section G.I. (G.1, G.2, G.6, G.7, G.10 and G.11) and recommendation F.2 of the GCGC were not complied with.

The Management Board and Supervisory Board declare that since submitting the updated Declaration of Compliance in April 2021, they have complied with the recommendations of the GCGC, with the following exceptions:

In accordance with recommendation G.7 of the GCGC, the Supervisory Board is to define the performance criteria for all variable remuneration components for each Board member for the upcoming financial year. In addition to operational criteria, these are primarily to be based on strategic objectives. The corporate planning and forecast that the Supervisory Board uses to derive the relevant performance criteria for the Management Board are approved due to the improved planning accuracy at the beginning of the financial year. The Supervisory Board also sets the performance criteria for the variable remuneration components based on this at the beginning of the respective financial year. The Supervisory Board views this as appropriate in order to align the approved corporate planning with the performance criteria for the Management Board.

In accordance with recommendation G.10 sentence 2 of the GCGC, a member of the Management Board should only have variable long-term grant amounts after four years. The remuneration system for the Management Board and the employment contracts of the members of the Management Board deviate from this and provide for the granting of the variable long-term grant amounts after the end of a three-year performance period. This meets both the requirements of stock corporation law for long-term assessment bases for variable remuneration and the recommendations of various institutional consultants on voting rights. In the Supervisory Board's view, a longer deferment of the payment of variable long-term remuneration does not have any additional added value in comparison with the existing contractual provisions when it comes to incentivising the Management Board.

Against this backdrop, the Management Board and Supervisory Board do not intend to comply with the aforementioned recommendations G. 7 and G. 10 sentence 2 of the GCGC in future either.

Furthermore, recommendation F. 2 of the GCGC, which states that mandatory interim financial information should be made publicly available within 45 days of the end of the reporting period, has also not been complied with since the updated Declaration of Compliance was issued in April 2021 as the organisational requirements and resources for reporting within this deadline were not yet in place. However, as the necessary organisational conditions have now been established, the Company intends to comply with the recommendation in future and to publish mandatory financial information during the year within 45 days of the end of the period under review.

Essen, December 2021

The Management Board

The Supervisory Board

Corporate governance practices

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

Working methods of the Management Board and Supervisory Board

As a Societas Europaea (SE) with its registered office in Essen, Germany, Instone Real Estate Group SE has a dual management system in line with its Articles of Association, consisting of a Management Board and a Supervisory Board. These work together closely and trustingly for the benefit of the Company. The Management Board manages the Company whereas the Supervisory Board provides advice and supervision.

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

The Management Board and the Supervisory Board each have their own Rules of Procedure which include detailed regulations about the respective activities of the Boards and the internal organisation, as well as the collaboration between the Management Board and the Supervisory Board, which go beyond the provisions of stock corporation law. GRI 2-9

Management Board

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

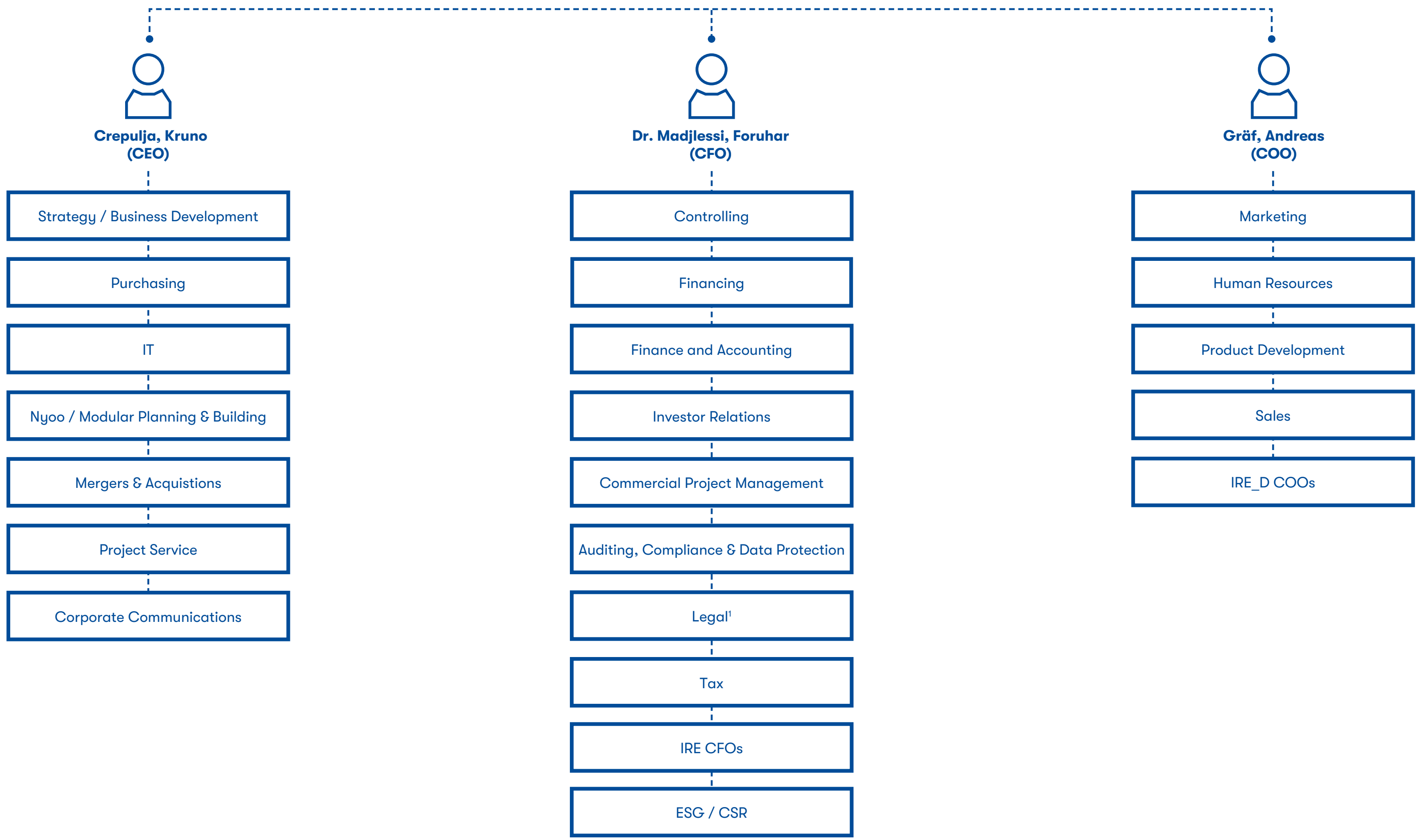
The Management Board performs the management function as a collegial body. Irrespective of the overall responsibility for the management, the individual members of the Management Board are responsible for the departments assigned to them in accordance with the legislation, the Articles of Association and the Rules of Procedure for the Management Board, and are personally responsible in the context of Board of Management resolutions. The work of the Management Board, including the allocation of responsibilities, is governed by the Rules of Procedure for the Management Board which were adopted by the Supervisory Board and last amended in the 2021 financial year on 8 December 2021.

The organisational chart defined for the Management Board is shown on the following page.

The Rules of Procedure for the Board of Management also specify when a resolution is required to be passed by the entire Management Board and for which matters a Management Board resolution always requires the participation of the Chair of the Management Board and/or the Chief Financial Officer. Management Board meetings are held biweekly when possible, but at least once a month, under the leadership of the Chair of the Management Board. Occasionally, individual members of the Management Board also participate by telephone or video conference, and in the past financial year board meetings were regularly held virtually due to the impact of the coronavirus pandemic. The Rules of Procedure for the Management Board also allow resolutions to be passed outside of meetings. Resolutions are passed by a simple majority of the votes cast unless the law provides otherwise.

In accordance with the general representation rules of the Articles of Association, the Company is represented by two members of the Management Board or by one member of the Management Board together with an authorised representative. GRI 2-9

Schedule of responsibilities of the management board of Instone Real Estate Group SE dated October 14, 2021



[1] including corporate and capital market law as well as support of the Supervisory Board

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

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

Supervisory Board

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

Its rights and duties are determined by the statutory provisions, the Articles of Association, the Rules of Procedure for the Supervisory Board of 14 October 2021 and the Rules of Procedure for the Management Board. It appoints and dismisses the members of the Management Board, represents the Company when dealing with them and, together with the Management Board, ensures long-term succession planning.

The work of the Supervisory Board takes place both in plenary sessions and in committees. The work of the committees aims to further increase the efficiency of the Supervisory Board's work. The committee chairs regularly report to the Supervisory Board on the work of their respective committees. According to the Articles of Association, the Supervisory Board must hold at least two meetings in six calendar months. In addition, it holds meetings as often and as soon as these are in the interests of the Company, and assesses the efficiency of its activities at regular intervals, most recently in the 2021 financial year. The Company also supports the members of the Supervisory Board in performing the tasks of their office and with their training and continual professional development.

Members of the Supervisory Board are selected in light of their respective knowledge, abilities and professional aptitude as well as their skills profile. In accordance with the requirements of stock-corporation law and targets for the skills profile of members of the Supervisory Board, this in particular includes the following knowledge, skills and professional experience required for the members of the Supervisory Board as a whole:

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

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

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

→ At least one member of the Supervisory Board must have expertise in the area of accounting and at least one other member of the Supervisory Board must have expertise in the area of auditing (Section 100 (5) AktG)

→ Experience with capital market instruments and bank financing

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

The Company has complied with the requirements of stock corporation law on the composition of the Supervisory Board and the individual recommendations in section C.1 of the GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the corporate governance statement. In the 2021 financial year, the members of the Supervisory Board overall fulfilled the agreed competence profile. GRI 2-10

Target figures for the proportion of women

The German Stock Corporation Act (Aktiengesetz) obliges Instone Real Estate Group SE to set target figures for the proportion of women on the Supervisory Board, the Management Board and the first two management levels below the Management Board.

Target figure for the Supervisory Board

The Supervisory Board has set the target for the proportion of women on the Supervisory Board at its current level of 20%. Due to the departure of Ms Korsch from the Supervisory Board on 9 June 2021, the target in the period under review was temporarily not achieved until the effective legal appointment of Ms Jansen as a member of the Supervisory Board on 20 September 2021. Following the appointment of Ms Jansen, the proportion of women on the Supervisory Board is again 20%, meaning that the target has been met.

Target figure for the Management Board

For the Management Board of Instone Real Estate Group SE, the target proportion of women, as defined by the Supervisory Board, is currently 0%. This is due not least to the fact that the Supervisory Board, taking into account the existing circumstances, in particular the current appointment term of members and the current number of members of the Management Board, which is currently only three members, was not able to set a higher quota. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will also continue to respect diversity in the future. Nevertheless, the Supervisory Board is convinced that a position is to be filled primarily on the basis of qualifications and competence – irrespective of gender. The Company has met the targets during the period under review.

Both targets confirmed for the Management Board and the Supervisory Board most recently in December 2020 are valid for five years until December 2025 according to the guidelines of the Supervisory Board. At the end of this period, it will reassess the targets.

Target figure for the first management level

As regards the proportion of women in the first management level below the Management Board, consisting of the members of the Management Board of Instone Real Estate Development GmbH and Nyoo Real Estate GmbH, the Management Board decided in December 2020 to raise the target figure to 25% (without taking into account dual mandates), after the target had previously been 0%. The proportion of women at the first management level was 25% as at 31 December 2021, meaning that the target was met.

Target figure for the second management level

In December 2020, the Management Board decided to set the target at 30% for the proportion of women in the second management level below the Management Board, consisting of branch managers, commercial managers, division heads and department heads of the Instone Group, after the target had previously been 25%. As at 31 December 2021, the proportion of women in the second management level was 23% (as of 31 December 2020: 19%), meaning that the target has not yet been achieved, but Instone Real Estate was able to make further progress in this area as planned. From 1 January 2022, the proportion of women in the second management level will already reach 26%.

The Management Board has set implementation deadlines of five years, ending in December 2025, for the achievement of the targets at the first and second management levels.

Promotion of executives

The Management Board promotes the achievement of goals through long-term staff planning and development. This includes, for example, the targeted support of female employees through training and further education measures as well as separate work time models to promote equal opportunities in order to increase the number of women in management positions. In line with the practice adopted since the IPO, the Management Board has also determined, in accordance with Section A.1 of the GCGC, that diversity should also be respected and promoted for management appointments within the Company. The Management Board believes that diversity includes – but is not limited to – age, gender, international background, education and professional experience. Notwithstanding, the appointment of and promotion to senior management positions in the Company and the underlying selection decisions will continue to be substantially based on specific qualifications. The Management Board will therefore continue to select managers based on their professional ability and aptitude for the specific roles in this management role, regardless of their background, gender or other non-performance characteristics.

Composition of the Management Board and Supervisory Board

According to the Company's Articles of Association, the Management Board consists of at least two people. The number of members is determined by the Supervisory Board. In the 2021 financial year, the Management Board consisted of three members with equal rights, each responsible for the departments assigned to them.

Together with the Management Board, the Supervisory Board ensures long-term succession planning for appointments to the Management Board. The long-term succession planning of Instone Real Estate Group SE is based on the corporate strategy, and takes into account the duration of the employment contracts of members of the Management Board and the standard age limit of 65 years laid down by the Supervisory Board for the members of the Management Board. The Supervisory Board has decided to negotiate an extension to an expiring contract before an employment contract expires, in principle together with the Management Board, and/or, if necessary, to initiate their succession by another suitable candidate. The Supervisory Board shall draft a job profile for vacant positions on the Management Board or for external candidates for positions to be filled, taking into account the diversity concept of the Company. In doing so, the Supervisory Board shall ensure that the knowledge, skills and experience of the candidates are in line with the requirements of the position to be filled and that they are balanced across the Management Board as a whole. In addition, the Management Board reports regularly on appointments and succession planning at the other management levels below the Management Board.

According to the Articles of Association, the Supervisory Board consists of five members. It is not subject to employee co-determination. All members are elected as shareholder representatives by the Company's Annual General Meeting. All members of the Supervisory Board are independent in accordance with the recommendations of the GCGC.

Details of the members of the Management Board and the Supervisory Board can be found in the notes to the consolidated financial statements of Instone Real Estate Group SE in accordance with Section 285 No. 10 of the German Commercial Code (HGB). page 227 f.

Remuneration systems and remuneration report

The remuneration report for the 2021 financial year, including the auditor's report in accordance with Section 162 AktG, the applicable remuneration system pursuant to Section 87a (1) and (2) sentence 1 AktG and the most recent remuneration resolution pursuant to Section 113 AktG, are publicly available on the Instone Real Estate website at https://ir.de.instone.de/websites/instonereal/English/5930/remuneration.html. GRI 2-19, 2-20

Collaboration between the Management Board and Supervisory Board

The Management Board and Supervisory Board work together closely for the benefit of the Company. The intensive and constant dialogue between the Boards forms the basis for efficient and targeted company management. The Management Board develops the strategic direction of Instone Real Estate Group SE, coordinates this with the Supervisory Board and ensures its implementation. GRI 2-12, 2-13

Both Boards also hold an annual joint strategy meeting, at which the respective members exchange views openly on the strategic direction of the company and initiatives of the Management Board. The Management Board also discusses the status of the strategy implementation with the Supervisory Board at regular intervals. The Chair of the Supervisory Board and the Chair of the Audit Committee regularly liaise with the Management Board between meetings and discuss questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The Chair of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessing the financial position and performance as well as for managing the Company and its Group companies. The Chair of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary. In addition, the Management Board reports to the Supervisory Board regularly and as required by law, by the Articles of Association and by the Management Board's Rules of Procedure which contain comprehensive provisions for the reports and information to be submitted. GRI 2-30, 3

The Articles of Association and the Rules of Procedure for the Management Board also stipulate that fundamentally significant measures and legal transactions must be subject to approval by the Supervisory Board. In order to deal with conflicts of interest in the Supervisory Board and the Management Board, the respective Rules of Procedure for the Management Board and Supervisory Board also contain regulations that, in addition to an obligation to immediately disclose conflicts of interest, in the event of significant conflicts of interest in the Management Board, provide for the approval of the Supervisory Board and, in the event of conflicts of interest being identified in the Supervisory Board, a ban on participation and/or voting for the member in question. In the case of significant and non-temporary conflicts of interest, the member of the Supervisory Board concerned must resign from office. No conflicts of interest were identified in the Management Board or Supervisory Board in the year under review.

Transactions with the Company or their affiliated companies by members of the Supervisory Board and the Management Board and related parties also require the approval of the Supervisory Board's Audit Committee. The undertaking of ancillary activities outside the Company by members of the Management Board – in particular, the performance of supervisory board mandates and mandates in the comparable supervisory bodies of commercial enterprises – requires the approval of a Supervisory Board plenary session.

A D&O group insurance policy has been concluded for the members of the Management Board and the Supervisory Board. It provides for a deductible for members of the Management Board that complies with the requirements of Section 93 (2) 3 AktG. GRI 2-25, 2-26

Supervisory Board committees

In the 2021 financial year, the Supervisory Board had at its disposal three committees: the Nomination Committee, the Audit Committee and the Remuneration Committee. Further committees can be formed as required. The tasks and responsibilities and the personnel composition of the committees are set out below:

Nomination Committee

The Nomination Committee proposes suitable candidates to the Supervisory Board for its nominations to the Annual General Meeting and handles succession planning on the Supervisory Board.

Members of the Nomination Committee in the 2021 financial year were:

→ Dietmar P. Binkowska (member and chair until 1 July 2021)

→ Stefan Brendgen

→ Dr Jochen Scharpe

→ Thomas Hegel (member and chair since 1 July 2021)

The members of the Remuneration Committee are independent within the meaning of the recommendations of the GCGC.

Audit Committee

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

The Audit Committee prepares the Supervisory Board resolutions that relate to the annual financial statements and the consolidated financial statements. The Committee is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of the statement or its approval and the profit appropriation proposal of the Management Board. Furthermore, the Audit Committee prepares the agreements with the auditor (in particular the appointment of the auditor), the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the Annual General Meeting. This also includes auditing the necessary independence, whereby the Audit Committee takes appropriate measures to ascertain and monitor the independence of the auditor.

The Audit Committee, instead of the Supervisory Board plenary session, decides on the agreements with the statutory auditor (in particular the appointment of the auditor, the determination of audit priorities and the fee agreement). The Audit Committee, instead of the full Supervisory Board plenary session, also decides on related-party transactions. The Audit Committee discusses the principles of compliance, risk assessment, risk management and the appropriateness and functionality of the internal control system with the Management Board. GRI 2-16

The following members were members of the Audit Committee in financial year 2021:

→ Dr Jochen Scharpe (Chair)

→ Stefan Brendgen

→ Thomas Hegel

Each member of the Audit Committee is independent and has expertise in the field of auditing and accounting based on his/her training or professional experience and is familiar with the sector in which the Company operates, meaning that the requirements of Section 107 (4) Sentence 3 in conjunction with Section 100 (5) of the German Stock Corporation Act (Aktiengesetz) are complied with. In addition, the Chair of the Committee has the particular knowledge and experience in the application of accounting principles and internal control procedures required by the GCGC, and is familiar with auditing.

Remuneration Committee

The Remuneration Committee advises on the employment contracts of the members of the Management Board and prepares Supervisory Board resolutions.

In the 2021 financial year, the Remuneration Committee consisted of the following members:

→ Marija Korsch (member and chair until 9 June 2021)

→ Stefan Brendgen

→ Dietmar P. Binkowska (chair since 1 July 2021)

→ Dr Jochen Scharpe (member since 1 July 2021)

The members of the Remuneration Committee are independent within the meaning of the recommendations of the GCGC.

Management Board committees

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual departments allocated to individual members of the Management Board.

Annual General Meeting and shareholders

The shareholders of Instone Real Estate Group SE assert their rights at the Annual General Meeting and exercise their voting rights. Each share in the Company grants one vote.

As a rule, the Annual General Meeting takes place annually within the first six months of the financial year. The Management Board may, with the approval of the Supervisory Board, decide to hold the Annual General Meeting before 31 August 2022 as a purely virtual Annual General Meeting without the physical presence of the shareholders and their representatives on the basis of the special regulation of Section 1 (5) of the German Law on Measures in Company, Cooperative, Association, Foundation and Housing Property Law to Combat the Effects of the Coronavirus Pandemic. The agenda for the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the Company's website at ↗ Instone AGM.

Fundamental decisions are made at the Annual General Meeting. These include resolutions on the appropriation of any profits, the discharge of the Management Board and Supervisory Boards, the election of Supervisory Board members and the selection of the auditor, amendments to the Articles of Association as well as capital measures. The Annual General Meeting offers the Management Board and the Supervisory Board the opportunity to liaise directly with the shareholders and discuss the further development of the Company.

Instone Real Estate Group SE provides its shareholders with a proxy who is bound to follow shareholders' instructions and who can also be contacted during the Annual General Meeting in order to allow shareholders to personally exercise their rights. The invitation to the Annual General Meeting explains how instructions can be issued prior to the Annual General Meeting. Shareholders also remain free to be represented at the Annual General Meeting by a proxy of their choice.

2021 Annual General Meeting

As in the previous year, the Management Board made use, with the consent of the Supervisory Board, of the option provided by the German Law on Measures in Company, Cooperative, Association, Foundation and Housing Property Law to Combat the Effects of the Coronavirus Pandemic for the 2021 Annual General Meeting. The Annual General Meeting of Instone Real Estate Group SE (at that time still Instone Real Estate Group AG) took place on 9 June 2021 in Essen and was held as a virtual annual general meeting without the physical presence of shareholders on the basis of the official regulations in force at that time to protect against the health risks associated with the SARS-CoV-2 coronavirus. The shareholders were able to follow the Annual General Meeting via a live stream and cast their votes by postal vote or via a proxy. The shareholders present at the meeting represented 82.31% of the registered capital. All agenda items were agreed with a large majority.

Diversity GRI 405

Instone Real Estate Group SE places great value on diversity, both with regard to its administrative bodies and its employees as a whole, and sees diversity as one of the company's strengths. For Instone Real Estate Group SE, diversity is therefore an important element for sustainable corporate success.

Given this, the Supervisory Board determined in 2018 and confirmed once again in the 2020 financial year that attention will continue to be paid to diversity with regard to the composition of the Management Board in the future. The Supervisory Board has also set a target for the proportion of women on the Management Board and a standard retirement age at the age of 65 for Management Board members. In the interests of complementary cooperation within the Supervisory Board, the selection of candidates for the Supervisory Board should also be based on sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience. The target for the proportion of women on the Supervisory Board is currently 20%.

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as at 31 December 2021 complies with the described diversity concepts. The members of the Management Board have a range of different professional qualifications and, inter alia, many years of experience in international corporations. Dr Foruhar Madjlessi has been a member of the Management Board since 1 January 2019 and brings with him many years of international experience and specialist expertise in capital markets and corporate finance. Furthermore, none of the members of the Management Board has reached the age of 65. The Supervisory Board continues to remain diverse as at 31 December 2021.

Above all, the Chair of the Audit Committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. The members of the Supervisory Board possess the experience, knowledge and skills for managing or supervising medium-sized or large companies, particularly in the areas of capital markets, real estate, management and supervision, and thus contribute to the diverse composition of the Supervisory Board. In addition, the Supervisory Board has one female member, so that the self-imposed target figure of 20% for the proportion of women as at 31 December 2021 was also achieved. None of the Supervisory Board members – all of whom are over 50 years of age – had reached the age of 70 when they were elected.

Compliance

Compliance at Instone Real Estate is a significant part of successful and responsible corporate governance.

We are committed to ethical principles and valid legal norms. We have enshrined this at a senior level in our compliance management system policy and employee code of conduct, which is available on our website at ↗ Instone Code of Conduct. Our goal is to focus on compliance and find a positive as well as motivational approach to our employees. The Code of Conduct is applicable throughout the Group and was introduced in all affiliated companies where we have direct or indirect controlling influence. A controlling influence is normally assumed if there is a participation in more than 50% of the voting rights.

We also expect our partners, such as customers, suppliers and other contractual partners, to comply with certain standards, including in particular compliance with legal requirements and rules that we have set out in our Code of Conduct for contractors.

Our centralised compliance organisation acts as a key architect of our integrity-based corporate governance activities and corporate culture. It promotes a compliance culture and ensures that this is internalised among managers and employees. GRI 2-27

Compliance management system

The primary goal of our Group-wide compliance management system is to prevent and reveal violations of applicable law and Company guidelines, and to protect Instone Group and its employees from inappropriate and illegal activity. We have therefore implemented a compliance management system that identifies and then reduces risks, and ensures compliance within the Instone Group. To this end, we make use of various internal company guidelines and processes, for example, on anti-money laundering and business partner compliance, capital market compliance and corruption prevention, and on training and advising our employees. Other key pillars of our compliance management system are our whistleblower system and our Code of Conduct for our contractors.

Our Group Compliance Officer is responsible for the Group-wide structuring, development and implementation of our compliance management system and for delivering training courses. Further compliance officers are responsible for monitoring the compliance management system in their company. All Compliance Officers are available to employees as contact persons for compliance issues. The effectiveness and appropriateness of the compliance systems of the respective companies are reviewed at regular meetings of the Compliance Committee, and any follow-up needs are identified and met. Within the scope of the ongoing development of the compliance management system, and when dealing with legal issues, the Management Board and Compliance Officer at Group level can receive legal advice if required.

We regularly conduct compliance and data protection training that provides our employees with information about laws and codes of conduct. Participation in the training events is mandatory for every Instone employee and is reviewed and documented. In the year under review, the proportion of successful training completed was more than 99%. In the year under review, the topics related primarily to anti-corruption, data protection, data security, and competition and cartel law. There is a compliance section on the Instone Real Estate intranet site so that employees have direct, compact access to any material compliance information (including contact details for compliance, links and guidelines). Information on all current compliance issues is posted here. GRI 205-2

Whistleblower system

Despite the best wide-ranging prevention measures, violations of the law and breaches of duty may still occur. Violations or suspicions of a violation of laws, legislation and internal guidelines and regulations may be reported by employees, customers, contractors and other third parties by email, via a whistleblower hotline or via a digital external whistleblower portal. Calls to the whistleblower hotline are received by an external law firm and, like reports in the digital whistleblower portal, are passed on to Instone Real Estate anonymously at the request of the whistleblower. Our employees can also contact their superiors and compliance officers directly at any time in this regard. GRI 2-16

We examine every report and follow it up consistently. In doing so, we abide by the following principles:

→ the process is fair,

→ anonymity is protected

→ investigations are confidential, and

→ processes are efficient and protected.

In the 2021 financial year, there were no reports of compliance violations at Instone Real Estate reported by employees or third parties via, for example, the whistleblower system. Notwithstanding this, Instone Real Estate carefully investigates suspected compliance cases and responds to them.

Prevention of money laundering and business partner compliance

An essential component of compliance at Instone is the careful selection of business partners, in particular to reduce the risk of corruption and fraud, and to prevent money laundering. Instone Real Estate has therefore taken special prevention measures to detect and take steps against such suspicions, including:

→ due diligence of business partners for compliance risks,

→ due diligence around suspicions of money laundering,

→ checking of potential business partners for entries in sanctions lists, and

→ verification of bank data and payment transactions for contractors.

Before each contract is concluded – for example, with contractors or buyers of our residential units – third-party due diligence must be carried out by Instone Real Estate. Instone Real Estate employees are obliged to first carefully identify each potential business partner by following company guidelines. The initial priority is for employees who conclude contracts with business partners, such as purchasing, project or sales managers, to be obliged to do this. To this end, Instone Real Estate has set up a formal due diligence and control process in which business partners are classified into risk groups. In-depth due diligence checks are carried out as soon as the possibility of an increased compliance risk or a money laundering risk is identified using predefined criteria. If this in-depth due diligence process confirms an increased compliance risk or a money laundering risk, a contract may only be concluded after being approved by the Compliance Officer.

Instone Real Estate and its employees also comply with the provisions of the German Anti-Money Laundering Act (GwG) in order to protect Instone Real Estate from damage (particularly with regard to its reputation). In the case of real estate transactions, the notaries involved are also obliged to perform identity checks and help prevent money laundering in the context of real estate transactions. If a suspicion of a money laundering risk is detected during the due diligence on a business partner, a more detailed examination of the business partner will be carried out. If the suspicion of a money laundering risk is confirmed, the Compliance Officer will decide on the further course of action and whether to make a report to the competent government agencies.

Instone Real Estate complies with the legal obligations to perform due diligence on new customers, suppliers and service providers as regards inclusion in sanctions lists. Similarly, due diligence is also performed at regular intervals on, for example, existing customers and suppliers with whom a longer cooperation exists.

Our employees are also obliged to perform due diligence on and release bank data, transfers and receipts of payments in order to prevent fraud through a company policy based on the principle of dual control.

Code of Conduct for contractors

We also demand compliance with our high standards from our business partners and suppliers. As mentioned in the introduction, in our Code of Conduct for contractors, they commit to refraining from any kind of corruption or acts that could be construed as such. We also expect and work to ensure that our business partners and suppliers respect these obligations, principles and values, and take all of the measures necessary to prevent and punish active and passive corruption.

Capital market compliance

As a company listed in the Prime Standard, Instone Real Estate is subject to a large number of capital market law regulations which are, in particular, the result of regulations of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), the Securities Trading Act (WpHG) and the Exchange Rules for the Frankfurt Stock Exchange. To comply with these obligations, Instone Real Estate continues to require its board members and employees to follow established codes of conduct which relate in particular to the following obligations:

→ ban on insider trading and unlawful disclosure of inside information

→ ad hoc publicity obligation

→ ban on market manipulation

→ reporting managers' own transactions

Instone Real Estate has also set up an Ad Hoc Committee that advises the Management Board and provides recommendations for action on the trading of any inside information. Employees are obliged to report potential insider information to the Ad Hoc Committee without delay and will be included on insider lists in accordance with statutory obligations if they become aware of inside information. Trading in Instone shares with the knowledge of inside information is prohibited. Employees are also requested not to directly or indirectly trade in Instone shares during closed periods within 30 days prior to the publication of the semi-annual or annual financial statements. A traffic light system is used on the Instone intranet to inform you of the start and end of these closed periods.

The members of the Management Board and Supervisory Board of Instone Real Estate Group SE, as well as other persons who perform management tasks at Instone Real Estate Group SE, and persons closely related to them, are, in accordance with Article 19 (1) of the Market Abuse Regulation, required to report transactions in Instone Real Estate Group SE shares or related financial instruments to the Company without delay and no later than three business days after the date of the transaction. The Company publishes the notifications pursuant to Article 19 (2) of the Market Abuse Regulation without delay and no later than three business days after the transaction. The reports can be found on the Company's website under ↗ Instone Managers' Transactions.

Fines

No significant fines were imposed against Instone Real Estate in the 2021 reporting year due to non-compliance with laws and regulations in the social and economic sphere.

Preparation

In this document, the terms "we", "us", "our", "Instone Real Estate", "Instone Group" and the "Company" refer to Instone Real Estate Group SE and its subsidiaries accordingly. Instone Real Estate Group SE has been domiciled at Grugaplatz 2 - 4, 45131 Essen, Germany since 28 August 2018. It is the top-level domestic parent company of the Instone Group.

This report concerns the financial year ending 31 December 2021. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2021.

Forward-looking statements

This report contains forward-looking statements. These are statements that are not historical facts or events, and are not facts or events that existed at the time this report was published. This applies, in particular, to statements in this report that include information about future financial viability, plans and expectations for growth and profitability, and the business environment to which Instone Real Estate is exposed. Words such as "forecast," "predict," "plan," "intend," "seek," "expect," or "target" indicate that this is a forward-looking statement.

The forward-looking statements in this report are subject to risks and uncertainties as they relate to future events. They are based on the best judgement of the Company's current estimates and assumptions. These forward-looking statements are based on assumptions and other factors and are subject to uncertainties, the occurrence or non-occurrence of which may cause the actual results, including the net assets, financial position and results of operations of Instone Real Estate, to be materially different or more negative than those expressly or implicitly assumed or described in these statements. These statements can be found in various parts of this report, in particular in the "Outlook" section, as well as in places where statements are made regarding the intentions, opinions or current expectations of the Company regarding its future financial position or operating results, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment in which Instone Real Estate operates.

In view of these uncertainties and assumptions, the future events mentioned in this report may not occur. Furthermore, the forward-looking statements and forecasts in this report which are based on reports prepared by third parties may prove to be incorrect. Actual results and events may differ substantially from those expressed in these statements, including but not limited to the following: Changes in the general economic situation in Germany, including changes to the unemployment rate, consumer prices, wages and salaries, etc.; demographic change, especially in Germany; changes affecting interest rates; changes to the competitive environment, for example changes to residential construction activity; accidents, terrorist attacks, natural disasters, fires or environmental damage; the impossibility of finding and retaining qualified personnel; political changes; changes in corporate taxation, in particular, land transfer tax; changes in laws and regulations, in particular in the field of construction planning law or in broker and developer regulations and in environmental law.

Furthermore, it should be noted that all forward-looking statements are made only as at the date of this report and that the Company accepts no obligation to update such statements or adapt them to current events or trends, except as required by law. Details of certain factors that could affect the actual development of the matters described in the forward-looking statements of the Company are included in the "Outlook" section of this report on page 161.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement GRI 201

CONSOLIDATED INCOME STATEMENT TABLE 054

In thousands of euros

	Note	2021	2020
Revenue	1	741,242	464,390
Changes in inventories		65,942	44,974
		807,184	**509,365**
Other operating income	2	3,245	5,756
Cost of materials	3	–608,074	–362,189
Staff costs	4	–50,024	–42,060
Other operating expenses	5	–30,483	–26,071
Depreciation and amortisation	6	–4,619	–4,080
Consolidated earnings from operating activities		**117,228**	**80,722**
Share of results of joint ventures	7	14,627	2,721
Other results from investments	7	94	–1,207
Finance income	8	1,285	346
Finance costs	8	–16,743	–26,327
Other financial result	8	153	–324
Consolidated earnings before tax (EBT)		**116,645**	**55,931**
Income taxes	9	–35,370	–22,245
Consolidated earnings after tax (EAT)		**81,275**	**33,686**
Attributable to:			
Group interests		83,051	33,673
Non-controlling interests		–1,776	14
Weighted average number of shares (in units)		46,988,336	41,553,540
Basic and diluted earnings per share (in euros)[1]	**10**	**1.77**	**0.81**

[1] The weighted average number of shares was adjusted retroactively due to the issuing of new shares with subscription rights in the 2020 financial year.

Consolidated statement of comprehensive income GRI 201-1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME TABLE 055

In thousands of euros

	2021	2020
Consolidated earnings after tax	**81,275**	**33,686**
Items which are not reclassified into the consolidated earnings in future periods		
Actuarial gains and losses	902	–1,326
Income tax effects	–286	610
Income and expenses after tax recognised directly in equity	**616**	**–716**
Total comprehensive income for the financial year after tax	**81,891**	**32,970**
Attributable to:		
Group interests	83,666	32,956
Non-controlling interests	–1,776	14
	81,891	**32,970**

Consolidated statement of financial position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION TABLE 056

In thousands of euros

	Note	31/12/2021	31/12/2020
ASSETS			
Non-current assets			
Goodwill	11	6,056	6,056
Intangible assets	12	1,446	932
Right of use assets	13	9,376	10,535
Property, plant and equipment	14	2,274	2,273
Interests in joint ventures	15	30,845	10,871
Other investments	16	469	445
Financial receivables	18	17,580	21,467
Other receivables		5	0
Deferred tax	28	2,142	297
		70,193	**52,876**
Current assets			
Inventories	17	843,703	777,761
Financial receivables	18	20,046	155,750
Contract assets	19	358,017	194,158
Trade receivables	20	48,202	1,080
Other receivables and other assets	21	47,988	12,065
Income tax assets	22	1,639	2,359
Cash and cash equivalents	23	130,969	87,044
		1,450,564	**1,230,218**
TOTAL ASSETS		**1,520,756**	**1,283,093**

Consolidated statement of financial position (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 056

In thousands of euros

	Note	31/12/2021	31/12/2020
EQUITY AND LIABILITIES			
Equity	24		
Share capital		46,988	46,988
Capital reserves		358,983	358,983
Group retained earnings/loss carryforwards		186,378	115,544
Accumulated reserves recognised in other comprehensive income		–1,465	–2,080
Equity attributable to shareholders		590,884	519,435
Non-controlling interests		61	1,598
		590,945	**521,033**
Non-current liabilities			
Provisions for pensions and similar obligations	25	4,398	4,718
Other provisions	26	6,140	4,971
Financial liabilities	27	220,943	313,665
Liabilities from net assets attributable to non-controlling interests	29	5	10,337
Leasing liabilities	30	6,474	7,704
Other liabilities	32	0	4,977
Deferred tax	28	45,630	22,941
		283,591	**369,313**
Current liabilities			
Other provisions	26	24,050	24,141
Financial liabilities	27	169,606	168,037
Leasing liabilities	29	3,193	3,036
Contract liabilities	31	11,667	25,554
Trade payables	32	125,112	68,895
Other liabilities	33	292,439	88,726
Income tax liabilities	34	20,153	14,359
		646,220	**392,748**
TOTAL EQUITY AND LIABILITIES		**1,520,756**	**1,283,093**

Consolidated statement of cash flows GRI 201-1

CONSOLIDATED STATEMENT OF CASH FLOWS TABLE 057

In thousands of euros

	2021	2020
Consolidated earnings after tax	**81,275**	**33,686**
(+) Depreciation and amortisation/(–) write-ups of non-current assets	4,619	4,080
(+) Profit/(–) loss on disposals of property, plant and equipment	75	31
(+) Increase/(–) decrease in provisions	1,690	– 759
(+) Current income tax income/(–) current income tax expense	14,775	9,251
(+) Deferred income tax income/(–) deferred income tax expense	20,595	12,994
(+) Income from equity carrying amounts/(–) expenses	– 14,627	– 2,721
(+) Profit from the investment result of minority interests/(–) expenses	– 2	1,224
(+) Interest income/(–) interest expense	15,305	26,304
(+/–) Change in net working capital[1]	– 71,535	47,174
(+) Income tax reimbursements/(–) income tax payments	– 8,261	– 11,388
= Cash flow from operations	**43,908**	**119,877**
(–) Outflows for investments in intangible assets	– 658	– 853
(+) Proceeds from disposals of property, plant and equipment	18	0
(–) Outflows for investments in property, plant and equipment	– 1,102	– 1,069
(+) Proceeds from disposals of investments	5,709	0
(–) Outflows for investments in financial assets	– 20,084	– 34,727
(–) Outflows for investments in unconsolidated companies and other companies	– 5,641	– 2,914
(+) Proceeds due to financial investments within the scope of current financial planning	245,000	0
(–) Disbursements due to financial investments within the scope of current financial planning	– 100,000	– 145,000
(+) Dividends received	281	442
= Cash flow from investing activities	**123,523**	**– 184,121**

Consolidated statement of cash flows (continued)

CONSOLIDATED STATEMENT OF CASH FLOWS TABLE 057

In thousands of euros

	2021	2020
(+) Proceeds from additions to issued capital	0	182,885
(–) Payments for transaction costs of the equity injection	0	–7,864
(+) Contributions from minority shareholders	17,074	0
(–) Payments to minority shareholders	–363	–390
(+) Proceeds from loans and borrowings	77,760	266,501
(–) Repayments of loans and borrowings	–187,250	–391,148
(–) Payments from lessees to repay liabilities from lease agreements	–3,734	–3,131
(–) Interest paid	–14,775	–12,654
(-) Dividends paid	–12,217	0
= Cash flow from financing activities	**–123,506**	**34,199**
Cash and cash equivalents at the beginning of the period	87,044	117,090
(+/–) Cash change in cash and cash equivalents	43,924	–30,046
= Cash and cash equivalents at the end of the period	**130,969**	**87,044**

[1] Net working capital is made up of inventories, contract assets and trade receivables less contract liabilities and trade payables.

Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY TABLE 058

In thousands of euros

	Note	Total	Share capital	Capital reserves	Group retained earnings/loss carryforwards	Accumulated reserves recognised in other comprehensive income	Equity attributable to shareholders	Non-controlling interests
As at: 01 January 2020		**310,161**	**36,988**	**198,899**	**74,713**	**–1,364**	**309,237**	**924**
Consolidated earnings after tax		33,686	0	0	33,673	0	33,673	14
Changes in actuarial gains and losses		–716	0	0	0	–716	–716	0
Total comprehensive income		**32,970**	**0**	**0**	**33,673**	**–716**	**32,956**	**14**
Capital increase		182,885	10,000	172,885	0	0	182,885	0
Transaction costs		–5,643	0	0	–5,643	0	–5,643	0
Other neutral changes		660	0	–12,802	12,802	0	0	660
		177,902	**10,000**	**160,084**	**7,158**	**0**	**177,242**	**660**
As at: 31 December 2020	24	**521,033**	**46,988**	**358,983**	**115,544**	**–2,080**	**519,435**	**1,598**
As at: 01 January 2021		**521,033**	**46,988**	**358,983**	**115,544**	**–2,080**	**519,435**	**1,598**
Consolidated earnings after tax		81,275	0	0	83,051	0	83,051	–1,776
Changes in actuarial gains and losses		616	0	0	0	616	616	0
Total comprehensive income		**81,891**	**0**	**0**	**83,051**	**616**	**83,666**	**–1,776**
Dividend payments		–12,217	0	0	–12,217	0	–12,217	0
Other changes		239	0	0	0	0	0	239
		–11,978	**0**	**0**	**–12,217**	**0**	**–12,217**	**239**
As at: 31/12/2021	24	**590,945**	**46,988**	**358,983**	**186,378**	**–1,465**	**590,884**	**61**

Notes to the consolidated financial statements

Basis of the consolidated financial statements

General information about the Company

Instone Real Estate Group SE (hereinafter referred to as the "Company") has been domiciled at Grugaplatz 2–4, 45131 Essen, Germany since 28 August 2018. It is the top parent company of the Instone Real Estate Group (hereinafter also referred to as "Instone Real Estate" or the "Instone Group"). In line with a resolution passed by the shareholders at this year's Annual General Meeting, the conversion of Instone Real Estate into a European Stock Corporation (Societas Europaea, SE) took place in September 2021.

The Company holds equity investments in subsidiaries whose principal activities are the acquisition, development, construction, leasing, management and sale or other use of land and buildings, as well as participation in other companies active in the sector.

The consolidated financial statements and the combined management report were approved by the Management Board of Instone Real Estate Group SE on 10 March 2022.

Basis of the consolidated financial statements GRI 2-4

The consolidated financial statements for Instone Real Estate as at 31 December 2021 were prepared on the reporting date on the basis of Section 315e(1) HGB in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they apply in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union.

Various items of the consolidated statement of financial position and the consolidated income statement are combined into one item for a better overview. These items are shown and explained separately in the Notes. The consolidated income statement is prepared according to the nature of expense method.

The consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are expressed in thousands of euros (€thousand) unless otherwise stated. Commercial rounding may lead to immaterial rounding differences in the totals.

The consolidated financial statements of subsidiaries were prepared on the reporting date of the annual financial statements of Instone Real Estate Group SE.

First-time application of accounting standards in the current financial year GRI 2-4

In recent years, the International Accounting Standards Board (IASB) has made various changes to existing IFRSs and published new IFRSs as well as Interpretations of the IFRS Interpretations Committee (IFRS IC). The primary aim of the collective standards is to clarify inconsistencies and formulations. The following standards that were to be newly applied from the 2021 financial year onwards and the changes applicable as at 1 June 2021 as a result of IFRS 16 had no impact on these consolidated financial statements, except for any additional disclosures in the Notes:

→ Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16, IAS 39

Accounting standards and interpretations already published but not yet implemented

In addition to the above-mentioned mandatory IFRSs, the IASB has published further amended IASs and IFRSs, but these only need to be applied at a later date. Several of these standards have already been transposed into EU law ("endorsement"). Voluntary early application of these standards is expressly permitted or recommended. Instone Real Estate does not make use of this option. These standards will be implemented in the consolidated financial statements at the time of mandatory adoption.

Already transposed into EU law (first-time adoption date in brackets):

→ Amendments to IFRS 3 (1 January 2022)

→ Amendment to IFRS 16 (1 April 2020)

→ Amendments to IAS 16 (1 January 2022)

→ Amendments to IAS 37 (1 January 2022)

→ Annual improvements to IFRSs, 2018-2020 cycle (1 January 2022)

→ IFRS 17 (1 January 2023)

→ IFRS 1 (1 January 2023)

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

→ IFRS 17 (1 January 2023)

→ Amendments to IAS 1 (1 January 2023)

→ Amendment to IAS 8 (1 January 2023)

→ Amendment to IAS 12 (1 January 2023)

With the exception of new or modified notes, the new and amended standards are not expected to have a material impact on the consolidated financial statements.

Scope of consolidation GRI 2-4

The equity investments of Instone Real Estate Group SE include subsidiaries, joint ventures and financial interests.

In addition to Instone Real Estate Group SE, the consolidated financial statements of Instone Real Estate include all subsidiaries controlled by Instone Real Estate Group SE according to the acquisition method. A control relationship exists if Instone Real Estate as an investor has the continuing opportunity to determine the relevant activities of the subsidiary. Significant activities are activities that significantly affect returns. Furthermore, Instone Real Estate Group SE must participate in the form of fluctuating returns and be able to influence them with the options and rights available to the Company for its own benefit. As a rule, a controlling relationship exists if the majority of the voting rights are held directly or indirectly. In group companies, a controlling relationship can also arise through contractual agreements.

Shares in joint ventures and associated companies are recognised using the at-equity method. A joint venture exists if the Instone Group jointly conducts activities together with third parties on the basis of a contractual obligation. Decisions on significant activities are made unanimously among the partners. The partners have rights to the net assets of the joint venture. A company is classed as an associated company if the Instone Group can exercise significant influence over that company without being able to control it.

As at 31 December 2021, a total of 18 (previous year: 18) domestic and two (previous year: two) European foreign subsidiaries, in addition to Instone Real Estate Group SE, were included and fully consolidated in these consolidated financial statements.

On 31 December 2021, eight joint ventures (previous year: seven) and one associate (previous year: 0) were measured using the at-equity method. The measurement using the equity method was based on the latest available annual financial statements.

In total, six subsidiaries (previous year: six) had a low business volume or no business operation and were not consolidated on grounds of materiality. They are recognised at acquisition cost under other investments.

Due to their overall minor importance, five companies (previous year: five) were not included in the consolidated financial statements using the at-equity method. These companies are of minor importance both individually and as a whole for the presentation of the results of operations, net assets and financial position of Instone Real Estate.

A detailed overview of all shares directly or indirectly held by Instone Real Estate Group SE is provided in the list of shareholdings. page 237 et seq.

Business combinations GRI 2-4

Business combinations are accounted for at acquisition cost as soon as control is transferred to the Instone Group.

The consideration paid for the acquisition is measured at fair value. The same applies to the acquired identifiable net assets and debts. The resulting goodwill is subjected to an impairment test annually. All profits from acquisitions at prices below the market value are posted directly to income. Transaction costs are recognised when they arise, except when issuing bonds or equity securities.

The consideration paid does not include the amounts required to settle past relationship receivables. These amounts are always recognised in the income statement. Contingent considerations are recognised at their fair value at the acquisition date. If an obligation to make a contingent consideration that meets the requirements of the definition of a financial instrument is classified as equity, and it will not be revalued and recognised in equity. In other respects, a contingent consideration is valued at the fair value as at the respective balance sheet date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

As at 31 December 2021, BEYOUTOPE GmbH, Hanover, was included in the consolidated financial statements for the first time as part of full consolidation using the anticipated acquisitions method. Instone Real Estate Development GmbH acquired 0.02% of the shares in the Company on 20 December 2018 with the option of acquiring the remaining shares by 31 May 2021. On 27 May 2021, this option to acquire the remaining shares was extended by three years. As it is highly likely that the acquisition of construction rights will be completed within this period or very promptly after the expiry of this period, the Management now assumes that it is highly likely that the option will be exercised. As at the balance sheet date of 31 December 2021, the potential voting rights were deemed to be substantial and the Company was included in the consolidated financial statements as a fully consolidated company. The total purchase price in the amount of €10,570 thousand was attributable in full to the Company's land reported as part of the inventories. Correspondingly, a liability is recognised in the amount of the purchase price payment still outstanding of €7,810 thousand.

Acquisition of non-controlling interests

Non-controlling interests are measured on the basis of their share, which at the time of acquisition is equal to the identifiable net assets of the acquirer. Changes in Group equity investments in a subsidiary that do not result in a loss of control are treated as equity transactions.

Basis of consolidation

The financial statements of the companies included in the scope of consolidation are prepared using standardised accounting principles. Inter-company balances, business transactions, income and expenses as well as profits and losses from intra-Group transactions were eliminated in full. Deferred taxes are deferred for temporary differences from consolidation measures. Consolidation adjustments are performed on impairment losses recorded for Group companies in their separate financial statements.

The same consolidation principles apply to shares in equity-accounted investees. These include the joint ventures of the Instone Group.

The financial statements of all equity-accounted affiliated companies are prepared in accordance with standardised Group accounting principles.

Foreign currency translation

All fully consolidated companies and equity-accounted affiliated companies prepare their separate financial statements in accordance with standardised Group accounting principles.

Accounting principles GRI 102-46

Assets and liabilities are recognised according to the historical cost principle. This excludes derivative financial instruments, securities and shares in associates which are recognised at fair value.

Goodwill from the acquisition of subsidiaries is recognised at cost and is not subject to scheduled depreciation, but is instead subject to an impairment test in accordance with IAS 36 once a year and, in addition, a further test if there exist indicators that point to a potential impairment. The goodwill accounted for in the Bavaria North branch as a cash-generating unit, is classified as an intangible asset with an indefinite useful life as it has neither a product life cycle nor is it subject to technical, technological or commercial wear or other restrictions.

The annual impairment test of goodwill is carried out at the Instone Group on 31 December of the financial year. As part of the impairment tests, the recoverable amount of a branch is compared with the carrying amount. The recoverable amount of the cash-generating unit is determined on the basis of the individual value in use of the allocated project developments. This corresponds to the present value of future cash flows that are expected to be achieved from the group of cash-generating units. The value in use is calculated on the basis of a project valuation model (discounted cash flow method). The determination is based on project-based cash flow plans for the next four years, which are generally based on the project planning approved by the Management Board and valid at the time the impairment test is carried out over the development period. There was no assumption of cash flows beyond the planning period of the projects. Experience and expectations regarding future market development are included in this planning. Cost of capital rates are based on the concept of weighted average cost of capital (WACC). A post-tax calculation of the value in use is carried out by discounting the cash flows at a cost of capital rate calculated separately for each cash-generating unit after tax. No perpetual annuity is recognised.

Acquired **intangible assets** are recognised at amortised cost. These include software for commercial and technical applications only. Intangible assets are generally amortised on a straight-line basis over a period of three to five years. Internally-generated intangible assets include in-house software and are recognised at production costs less scheduled depreciation and amortisation over a useful life of three years. The useful life and depreciation methods are reviewed every year.

Property, plant and equipment are recognised at acquisition cost. These costs only include costs directly attributable to an item in property, plant and equipment. Property, plant and equipment is generally depreciated on a straight-line basis over a period of three to eight years. The useful life and depreciation methods are reviewed every year.

Impairment losses are recognised for tangible and intangible assets if their recoverable amount falls below their carrying amount. If the reason for an earlier loss in value no longer exists, the asset is reversed at amortised cost.

Leases are recognised in accordance with the provisions of IFRS 16. At the time of provision of the leased property, the right of use is recognised as an asset and the associated payment obligation is recognised as a leasing liability in the statement of financial position. The right of use is amortised on a straight-line basis over the shorter of the term of the lease and the economic useful life of the leased asset. Payment obligations are discounted using the appropriate marginal cost of capital rate. Discounting is generally calculated using the term and currency-specific marginal borrowing cost of capital rates, unless the interest rate underlying the lease payments is available. Each lease payment is divided into repayments and interest expenses. Interest expenses are recognised in profit or loss over the term of the lease.

This accounting does not include short-term leases with a term of no more than twelve months nor leases where the asset underlying the lease agreement is of low value The value boundary is €5 thousand. Such agreements are recorded in profit or loss at the time of payment. In addition, rights of use of intangible assets are excluded from the scope of application. These are separated in contracts that include lease components and non-lease components, except in the case of insignificant asset classes.

The Instone Group also generates a small amount of income from leases through the acquisition of leased existing real estate that is intended for demolition or redevelopment. No long-term income is expected from these leases, as the aim of the Instone Group is to terminate the leases.

Shares accounted for using the **equity method** are valued at acquisition cost and are recognised pro rata to the net assets in subsequent periods. The full book value is tested annually for impairment with withdrawals and other changes in equity being increased or decreased. Interests accounted for using the equity method are then impaired if their recoverable amount falls below their carrying amount.

Other investments include investments and securities that fall exclusively in the valuation category "Affecting profit and loss at the fair value". They are measured at their fair value.

Other financial assets include financial receivables, trade receivables and other receivables, and are measured at amortised cost using the effective interest method (taking into account factors such as surcharges and rebates). Non-interest-bearing or low-interest loans are recognised at their discounted amount using a current market interest rate. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables as well as contract assets, and therefore records the expected losses over the total term.

Long-term loans which are recognised in financial liabilities are carried at amortised cost. Interest-bearing loans at normal market rates are recognised at their face value.

Deferred tax liabilities arise due to temporary differences between the IFRS and tax balance sheets of the various companies and as a result of the consolidation.

Deferred tax assets are also recognised for tax refund claims arising from the anticipated utilisation of existing tax loss carryforwards in subsequent years. Deferred tax liabilities must be capitalised if it can be assumed with sufficient certainty that the affiliated economic benefits can be claimed. Their amount is calculated on the basis of the tax rates which apply or are expected to apply at the time of adoption in the different countries. The German trade tax rates applicable to the various companies are taken as a basis within the Group. For all other purposes, deferred tax liabilities are measured on the basis of the tax regulations in force or enacted at the time of reporting. Deferred tax assets and liabilities are offset against each other for each company or group of companies.

Inventories are assets that are in production (work-in-progress) and for which no sales contract has yet been concluded. They are valued at acquisition cost. The acquisition costs include the full production-related costs. Borrowing costs for inventories that are part of the qualifying assets are capitalised as cost components. If the recoverable amount is lower than the capitalised costs on a specific balance sheet date, the lower recoverable amount is used. If the recoverable amount from inventories increases as a result, the resulting gain must be recognised. This is done by increasing the changes in inventories. For the purpose of commercial presentation, the inventories from the individual larger project development measures are split into several sub-project development measures. This split has no impact on the measurement. Within the Group, the respective overall project is recognised as a special measure in the current assets. The risks arising from individual sub-project units can be compensated by opportunities from other sub-projects. An impairment requirement beyond the carrying amount is taken into account by recognising a provision for contingent losses.

Receivables and liabilities from individually negotiated customer contracts are listed under **contract assets** and **contract liabilities**. These receivables and liabilities are accounted for and measured in accordance with IFRS 15 "Revenue from Contracts with Customers".

The Company's customer contracts meet the criteria for identifying a contract under IFRS 15. For measurement purposes, the respective potentially separable performance obligations in the respective contracts are combined into a performance obligation as there is no individual benefit for the customer from separate performance obligations and the contracts do not provide for the transfer of separate benefit obligations. Subsequently agreed special requests of the customer are also added to the single performance obligation.

The contracts are generally regarded as fixed price contracts. Subsequent special requests are added to the fixed price. If the sale of several residential units in a contract is combined in multi-level marketing, a separate fixed price is agreed in the contract for each residential unit. In the case of investor distribution, contracts are always concluded with fixed prices listed separately if the performance obligation of the contract involves several buildings with separate construction phases. In addition to the generally agreed fixed price, the contracts involving investor distribution contain, in some cases, an adjustment clause at a fixed price on the basis of the constructed living space after final completion. The contracts for the sale of residential real estate are generally valued according to revenue recognition over time. In the case of contracts in individual sales, there is usually a right of withdrawal up to a marketing quota of 30% of the residential units of a construction phase so that revenue recognition of the revenue at a period in time only begins after this quota has been reached. Otherwise, in the case of contracts in the area of structured sales or investor distribution, the revenue recognition over time begins directly upon effectiveness of the contract. The agreed fixed price is generally accepted as a basis for the expected revenues for all contracts, as the adjustment to the constructed living space is not clearly identifiable before completion in the case of investor contracts. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the compliance costs. To calculate the costs for each phase of construction, a separate project account is kept in which the costs are recorded and compared with the planned costs. In the case of contracts in individual sales and structure sales, the marketing quota of the construction section is included in the measurement in addition to the performance progress. The unsold portion of the construction stage is valued as inventories in accordance with IAS 2.

Contracts with individual and structured sales are generally concluded with an instalment payment plan in accordance with the Broker and Developer Regulations (Makler- und Bauträgerverordnung, MaBV). As a rule, for contracts involving investor distribution, instalment payment plans are also agreed based on the MaBV regulations.

In receivables and liabilities from contract assets, the advance payments received from customers against the contracts concluded are netted with the receivables from the performance of the contract. In principle, the settlement receivables exceed the advance payments received for the contract and the net value is recognised as a contract asset. In individual cases, advance payments received may exceed the settlement receivables so that the netted value is shown as a contract liability.

The additional contract costs incurred are also capitalised in the "Contract assets" item in the balance sheet. From the beginning of revenue recognition, the sales commissions incurred and capitalised so far are amortised in the income statement under Cost of materials. Depreciation is measured at the fulfilment status so that contract costs remain capitalised on the part not yet fulfilled.

Receivables and liabilities arising from customer contracts are realised in one single business cycle of Instone Real Estate. Consequently, they are classified as current assets or liabilities, even if the realisation of the entire construction contract takes more than one year.

In principle, the contracts with customers in the Instone Group do not provide for redemption obligations and guarantees beyond the statutory framework.

Public-sector grants are recorded at their fair value at the time at which there is sufficient certainty that the conditions associated with the grant have been met and the grant is received. This is recorded in the income statement under Other operating income. In the balance sheet, receivables from these grants are recognised under Other receivables. The grants are recognised as current assets as the receipt and use of the grants are associated with the contract assets and inventories also reported as current assets and inventories. Liabilities from public-sector grants are shown under other liabilities. They are recorded as income in the income statement according to the progress of performance in the periods in which the relevant expenses to be compensated by the public-sector grant are reported as expenses. Grants for income from KfW support programmes are recorded as public-sector grants in the Instone Group.

Cash and cash equivalents (liquid funds and cash and cash equivalents) are in the form of cash and bank balances. They also include all capital investments with a residual maturity at the acquisition date of up to three months. Cash and cash equivalents are valued at their nominal value.

Provisions are made for all legal and constructive liabilities to third parties existing on the closing date from transactions concluded in the past that are likely to result in the disposal of resources which can be reliably estimated.

Provisions are recognised at their anticipated settlement value and are not offset against reimbursement claims. All non-current provisions are recognised at their anticipated settlement value and discounted to the reporting date of the annual financial statements. Furthermore, all cost increases that count towards the settlement date are taken into account when calculating this amount.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These include obligations of the Company with respect to current and future benefits to eligible active and former employees and their survivors. These obligations largely relate to pension benefits. The individual commitments are determined on the basis of the length of service and the salaries of the employees. The measurement of provisions for defined benefit plans is based on the actuarial cash value of the respective obligation. This is determined using the projected unit credit method. This projected unit credit method not only includes pensions and accrued benefits known as at the reporting date but also wage increases and pension increases expected in the future. The calculation is based on actuarial reports using biometric calculation methods (primarily the "Richttafeln 2018 G" (guideline tables) of Klaus Heubeck).

The provision is calculated on the basis of the actuarial present value of the obligation and the fair value of the plan assets required to settle the pension obligation. The service cost is included in staff costs. The net interest income is part of the financial income. Gains and losses from the revaluation of net liabilities or net assets are recognised in full in the period in which they arise. They are reported in equity, are not recognised in profit or loss and are not reported in the consolidated income statement. In subsequent years they are also not shown in the profits and losses.

Instone Real Estate makes no further commitments for defined contribution plans that would exceed the contributions paid to Special Funds. The contributions are recorded as staff costs.

All **other provisions** take into account all identifiable risks. They are recognised at the amount required to meet the future payment obligations of the Group on the basis of prudent business judgement. In this context, the amount is used that appears to be the most likely, taking into account the individual case.

Non-derivative **financial liabilities** (including trade payables) are carried at amortised cost using the effective interest rate method in accordance with IFRS 9. Initial measurement is at fair value including transaction costs.

Liabilities from net assets attributable to non-controlling interests relate to the limited partner share of minority shareholders. On addition to the Group, they are carried as liability at the present value of the repayment amount through other comprehensive income. Subsequent measurement is through profit and loss.

Income tax liabilities include obligations to pay actual income taxes. Income tax liabilities are offset against the corresponding tax refund claims if they exist in the same jurisdiction and are identical in terms of their type and due date.

Contingent liabilities are potential obligations to third parties arising from events that have already taken place and that cannot be fully controlled by the Company, or existing obligations to third parties that are unlikely to lead to an outflow of resources or whose amount cannot be estimated with sufficient reliability. Contingent liabilities are not generally shown in the balance sheet.

Estimates and assumptions

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of the Group's accounting policies, recording and measurement. Estimates are based on past experience and other knowledge of the transactions to be posted. Actual amounts may differ from these estimates.

Estimates are particularly required for the measurement of inventories and contract assets, the allocation of purchase prices, the effectiveness of sales contracts, the granting of pending approvals, the recognition and measurement of deferred tax assets, the allocation of trade payables and contract liabilities, the recognition of provisions for pensions and other provisions.

Segment reporting

Operating segment reporting in accordance with IFRS 8 is based on the management approach and thus corresponds to the management and reporting system that Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates revenue and holds assets mainly in Germany. In the 2021 financial year, revenue from a single customer accounted for 18.58% of the reported total revenue of the Instone Real Estate Group. This equates to revenue of €137,933 thousand. Only one business segment is still shown due to the homogeneity of the services provided to this customer and the other customers. In the previous year, the Instone Group did not achieve more than 10% of its reported total revenue from any one customer.

However, the internal reporting for the single business segment differs from the figures in IFRS accounting. In its internal reporting, Instone Real Estate focuses in particular on the development of housing projects. For this reason, Instone Real Estate conducts segment reporting for this one business segment.

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

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

Adjusted revenue

The performance of the business segment is reported through adjusted revenue on the basis of revenue recognition over time or at a point in time in accordance with IFRS 15. Adjusted revenue is calculated by adding the revenue recognition from share deals in the same way as from asset deals, excluding the effects from purchase price allocations.

Adjusted gross profit

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

Adjusted earnings after tax

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

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

Share deal effects

The project companies Westville 2 GmbH, Westville 3 GmbH, Westville 4 GmbH and Westville 5 GmbH are commercially conceived as asset management companies and constitute one major project in Frankfurt am Main. Instone Real Estate has already sold these project companies in the form of a share deal with the obligation to build a residential complex. In the adjusted results of operations, the overall "Westville" project is managed in the same way as the other projects in the Instone Group, with revenue recognition over time in accordance with IFRS 15. These companies are valued and included in the consolidated financial statements in accordance with IAS 2. The effects from this different valuation are reflected in the revenues of €45,070 thousand (previous year: €28,304 thousand),project costs of €- 36,895 thousand (previous year: €- 25,490 thousand) and income taxes of €- 131 thousand (previous year: €- 445 thousand).

Effects from purchase price allocations

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2021 financial year, as at 31 December 2021 inventories and contract assets still included write-ups of €31,358 thousand (previous year: €43,013 thousand) from purchase price allocations. The ongoing amortisation of these purchase price allocations on the basis of the progressive implementation of the projects included in these initial consolidations is adjusted for internal reporting. The adjustment for the amortisation of purchase price allocations was attributable as follows: €–2,707 thousand (previous year: €- 6,183 thousand) to revenue, €0 thousand (previous year: €- 264 thousand) to cost of materials, €14,362 thousand (previous year: €9,297 thousand) to changes in inventories and €- 4,061 thousand (previous year: €- 842 thousand) to income taxes. Based on current estimates, the Instone Group expects these effects to expire in 2024.

Reclassifications and non-recurring effects

In the financial year, indirect sales expenses in the amount of €1,985 thousand (previous year: €2,393 thousand) were allocated to project costs. In the previous year, material-costs related other operating income (income offset by a directly attributable item in cost of materials) in the amount of 574 thousand (preivous year: €1,486 thousand) was reclassified in cost of materials. The adjustment of the capitalised interest in the changes in inventories of €- 3,980 thousand (previous year: €3,093 thousand) weighed on the project costs.

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

RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS IN 2021

TABLE 059

In thousands of euros

	Adjusted results of operations	Share deal effects	Non-recurring effects	Reclassifications	Effects from PPA	Reported results of operations
Revenue	**783,604**	**–45,070**	**0**	**0**	**2,707**	**741,242**
Project costs	**–562,095**	**36,895**	**0**	**–2,570**	**–14,362**	**–542,132**
Cost of materials	–609,485	0	0	1,411	0	–608,074
Changes in inventories	47,389	36,895	0	–3,980	–14,362	65,942
Gross profit	**221,509**	**–8,174**	**0**	**–2,570**	**–11,655**	**199,110**
Platform costs	**–80,470**	**0**	**0**	**–1,411**	**0**	**–81,881**
Staff costs	–50,024	0	0	0	0	–50,024
Other operating income	2,671	0	0	574	0	3,245
Other operating expenses	–28,499	0	0	–1,985	0	–30,483
Depreciation and amortisation	–4,619	0	0	0	0	–4,619
Share of results of joint ventures	14,627	0	0	0	0	14,627
EBIT	**155,666**	**–8,174**	**0**	**–3,980**	**–11,655**	**131,856**
Other results from investments	94	0	0	0	0	94
Financial result	–19,285	0	0	3,980	0	–15,305
EBT	**136,475**	**–8,174**	**0**	**0**	**–11,655**	**116,645**
Tax	–39,562	131	0	0	4,061	–35,370
EAT	**96,913**	**–8,043**	**0**	**0**	**–7,595**	**81,275**

RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS IN 2020

TABLE 060

In thousands of euros

	Adjusted results of operations	Share deal effects	Non-recurring effects	Reclassifications	Effects from PPA	Reported results of operations
Revenue	**480,146**	**–28,304**	**6,365**	**0**	**6,183**	**464,390**
Project costs	**–333,509**	**25,490**	**–4,163**	**4,001**	**–9,033**	**–317,214**
Cost of materials	–365,420	2,061	0	907	264	–362,189
Changes in inventories	31,912	23,429	–4,163	3,093	–9,297	44,974
Gross profit	**146,637**	**–2,814**	**2,202**	**4,001**	**–2,850**	**147,176**
Platform costs	**–65,547**	**0**	**0**	**–907**	**0**	**–66,454**
Staff costs	–42,060	0	0	0	0	–42,060
Other operating income	4,270	0	0	1,486	0	5,756
Other operating expenses	–23,677	0	0	–2,393	0	–26,071
Depreciation and amortisation	–4,080	0	0	0	0	–4,080
Share of results of joint ventures	2,721	0	0	0	0	2,721
EBIT	**83,811**	**–2,814**	**2,202**	**3,093**	**–2,850**	**83,443**
Other results from investments	–1,207	0	0	0	0	–1,207
Financial result	–23,211	0	0	–3,093	0	–26,304
EBT	**59,393**	**–2,814**	**2,202**	**0**	**–2,850**	**55,931**
Tax	–18,283	445	–5,249	0	842	–22,245
EAT	**41,110**	**–2,368**	**–3,047**	**0**	**–2,008**	**33,686**

Notes to the consolidated income statement

1 Revenue

Revenue is spread across the following regions:

REVENUE BY REGION TABLE 061

In thousands of euros

	2021	2020
Germany	741,167	464,310
Rest of Europe	74	80
	741,242	**464,390**

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

REVENUE BY REVENUE TYPE TABLE 062

In thousands of euros

	2021	2020
Revenue from building contracts		
Revenue recognised over time	671,894	436,709
Revenue recognised at a point in time	63,247	22,636
	735,142	**459,346**
Income from leases	5,854	4,784
Other services	246	261
	741,242	**464,390**

The total amount of unfulfilled or partly unfulfilled performance obligations as at the balance sheet date was €1,406,683 thousand (previous year: €1,036,967 thousand).

The cycle of contract assets and contract liabilities is – like the project term – an average of three years (previous year: three years).

2 Other operating income

Other operating income was broken down as follows:

OTHER OPERATING INCOME TABLE 063

In thousands of euros

	2021	2020
Income from the reversal of provisions	1,909	2,056
Income from public-sector grants	574	0
Income from disposals of fixed assets	28	83
Income from the write-up of receivables	15	18
Income from the write-up of non-current assets	1	0
Income from released liabilities	0	347
Remaining other operating income	718	3,251
	3,245	**5,756**

Other operating income included €574 thousand (previous year: €0 thousand) of public-sector grants received. There were no unfulfilled conditions or other uncertainties for profit in connection with this grant. Other remaining other income mainly includes cost allocations to subcontractors and items that are not included elsewhere.

3 Cost of materials

COST OF MATERIALS GRI 201-1 TABLE 064

In thousands of euros

	2021	2020
Cost of raw materials, consumables and supplies	– 229,067	– 96,014
Expenses for purchased services	– 379,007	– 266,174
	– 608,074	**– 362,189**

[1] Adjustment in the previous year due to reclassification of non-deductible input tax

4 Staff costs

STAFF COSTS GRI 201-1 — TABLE 065

In thousands of euros

	2021	2020
Wages and salaries	–44,063	–37,096
Social security contributions and expenses for pensions	–5,960	–4,963
	–50,024	**–42,060**

The contributions paid by the employer to the state-administered pension fund in the financial year amounted to €2,473 thousand (previous year: €2,173 thousand).

Pension expenses amounted to €484 thousand (previous year: €388 thousand). They relate to pension entitlements earned in the financial year from defined-benefit plans and payments to defined contribution plans. GRI 201-3

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

EMPLOYEES — TABLE 066

Number (average)

	2021	2020
Germany		
Berlin	36	34
Essen	107	97
Frankfurt a. M.	60	51
Hamburg	32	31
Cologne	76	58
Leipzig	42	44
Munich	18	21
Nuremberg	29	27
Stuttgart	32	32
	432	**395**
Rest of Europe		
Austria	0	1
Luxembourg	1	1
	1	**2**
	433	**397**

5 Other operating expenses

Other operating expenses are broken down as follows:

OTHER OPERATING EXPENSES [GRI 201-1] TABLE 067

In thousands of euros

	2021	2020
Change in warranty and other provisions	–4,546	–1,724
Consulting/analysis expenses	–4,190	–4,661
Court costs, lawyers' and notaries' fees	–3,144	–3,196
Other taxes	–2,454	–2,347
Costs for EDP and IT	–2,377	–1,962
Commissions	–1,985	–2,393
Leasing expenses including ancillary costs	–1,890	–1,384
Warranty costs	–1,529	–1,145
Insurances	–1,304	–374
Auditing expenses	–1,011	–886
Travel costs	–827	–753
Restructuring and adjustment costs	–597	–332
Supervisory Board bonuses	–495	–462
Costs of postal/payment transactions, telecommunications costs	–386	–376
Further education expenses	–287	–320
Sundry other operating expenses	–3,461	–3,755
	–30,483	**–26,071**

Other operating expenses include, among other things, recruitment costs, hospitality costs, contributions to associations, office supplies and other expenses that are not recognised elsewhere.

6 Depreciation and amortisation and impairment

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

The depreciation of the right-of-use assets is divided into the following classes: Real estate €2,038 thousand (previous year: €1,797 thousand), Passenger cars €986 thousand (previous year: €916 thousand) and Other €443 thousand (previous year: €439 thousand).

DEPRECIATION AND AMORTISATION TABLE 068

In thousands of euros

	2021	2020
Right of use assets	–3,467	–3,153
Property, plant and equipment	–1,009	–891
Intangible assets	–143	–36
	–4,619	**–4,080**

7 Results from investments

The income from at-equity consolidated investments and other investment income resulted as follows:

RESULTS FROM INVESTMENTS TABLE 069

In thousands of euros

	2021	2020
Measurement of results of joint ventures recognised at equity		
coreGRID GmbH	– 24	0
FHP Friedenauer Höhe Dritte GmbH & Co. KG	4,996	645
FHP Friedenauer Höhe Erste GmbH & Co. KG	– 115	229
FHP Friedenauer Höhe Sechste GmbH & Co. KG	7,925	1,106
FHP Friedenauer Höhe Vierte GmbH & Co. KG	1,678	487
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	438	– 4
Wohnpark Gießener Straße GmbH & Co. KG	41	243
Wohnpark Heusenstamm GmbH & Co. KG	– 310	14
	14,627	**2,721**
Other results from investments		
Change in net assets attributable to non-controlling interests	2	– 1,224
Other income from investments	92	17
	94	**– 1,207**

8 Financial result

FINANCIAL RESULT TABLE 070

In thousands of euros

	2021	2020
Finance income		
Interest and similar income	1,285	346
	1,285	**346**
Finance costs		
Interest and similar expenses	– 16,620	– 26,271
of which, interest expenses from leases	– 311	– 227
Interest shares in allocations to provisions	– 123	– 55
of which, net interest expenses from pension obligations	– 53	– 47
	– 16,743	**– 26,327**
Other financial result		
Income from long-term securities (previous year: expenditure)	153	– 324
	153	**– 324**

The finance income consists mainly of interest income for cash investments and loans. Financial expenses consist mainly of interest expenses for cash investments, interest-bearing securities and other loans.

In this financial year, interest income of €37 thousand (previous year: €346 thousand) was recognised for financial instruments not recognised at fair value in profit or loss; interest expenses for these financial instruments amounted to €– 16,192 thousand (previous year: €– 23,306 thousand). Interest income of €1,248 thousand (previous year: €80 thousand) was collected for financial instruments valued at fair value in profit and loss.

The net interest expense from pension obligations of €– 53 thousand (previous year: €– 47 thousand) includes the interest calculated annually on the net present value of the pension obligations in the amount of €– 182 thousand (previous year: €– 203 thousand). These amounts are recognised in interest income from plan assets amounting to €129 thousand (previous year: €156 thousand). GRI 201-3

9 Income taxes

INCOME TAXES TABLE 071

In thousands of euros

	2021	2020
Current income tax		
German trade tax	–6,522	–4,950
Corporation tax	–8,253	–4,301
	–14,775	**–9,251**
Deferred tax		
Deferred tax	–20,595	–12,994
	–35,370	**–22,245**

The change in deferred tax liabilities recognised in other comprehensive income was €286 thousand (previous year: €2,154 thousand). The change in current tax liabilities recognised in other comprehensive income was €0 thousand (previous year: €1,029 thousand).

No deferred tax liability was recorded for temporary differences in the amount of €8,763 thousand (previous year: €6,366 thousand) between the net assets of Group companies recognised in the consolidated financial statements and the tax basis of the interests in these Group companies ("Outside Basis Differences") as no sale of affected investments was intended for an indefinite period.

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

TAX RECONCILIATION TABLE 072

In thousands of euros

	2021	2020
Earnings before tax	**116,645**	**55,931**
Theoretical tax expenses 31.32% (previous year: 32.625%)	37,028	17,518
Deviation from the expected Group tax rate	–2,297	142
Tax effect from changes in tax rates	381	870
Initial recognition of deferred tax assets not previously applied to loss carryforwards and interest carryforwards	39	0
Use of loss and interest carryforwards, for which no deferred taxes have previously been capitalised	–1	–69
Income taxes from other periods	–1,630	5,058
Non-tax-deductible expenses and permanent differences	725	–1,719
Trade tax additions and reductions	1,127	236
Other effects	–1	209
Effective tax expenses	**35,370**	**22,245**
Effective tax rate	30.32 %	39.77 %

The reconciliation is calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the different countries. A tax rate for the Instone Group of 31.744% (previous year: 31.320%) has been used as the expected tax rate.

10 Earnings per share

EARNINGS PER SHARE TABLE 073

	2021	2020
Net result for the shareholders of Instone Real Estate Group SE (in thousands of euros)	83,051	33,673
Weighted average number of shares (in units)	46,988,336	41,553,540
Basic and diluted earnings per share (in €)	1.77	0.81

Basic and diluted earnings per share are calculated by dividing the proportion of net consolidated profit attributable to Instone Real Estate shareholders by the weighted average number of outstanding shares. The capital increase carried out in September 2020 has been included in the calculation of the weighted average number of shares.

Notes to the consolidated statement of financial position

11 Goodwill

Goodwill in the amount of €6,056 thousand (previous year: €6,056 thousand) is attributable in full to the Bavaria North branch of Instone Real Estate Development GmbH. Goodwill is not depreciated according to a schedule, but is subjected to an impairment test in accordance with IAS 36 once a year, and whenever certain indicators point to a potential impairment loss. Goodwill is fully non-tax-deductible.

The goodwill of fully consolidated companies, which was capitalised as part of the initial consolidation, has been allocated to the relevant branch as cash-generating units in order to carry out impairment tests.

GOODWILL TABLE 074

In thousands of euros

	2021	2020
Acquisition costs as at 1 January	**6,056**	**6,056**
Changes to the scope of consolidation	0	0
As at 31 December	**6,056**	**6,056**

The discount rates for the cash-generating unit Bavaria North, which are used as part of the impairment tests, are 7.3% after taxes (previous year: 5.75%) and before tax at 10.65% (previous year: 8.4%).

A comparison of the recoverable amounts of the branch with their carrying amount resulted in a surplus and there is therefore no need for a devaluation for goodwill. A sensitivity analysis of key parameters did not lead to any deviating results either.

12 Intangible assets

As in the previous year, intangible assets are not subject to any limitations on disposal. They include €1,327 thousand (previous year: €853 thousand) of capitalised development costs for developments not yet completed as at the balance sheet date, as well as €120 thousand (previous year: €80 thousand) of concessions and industrial property rights. In the 2021 financial year, development costs in the amount of €558 thousand were recognised. The impairment of the capitalized development costs was confirmed using an impairment test as at 31 December 2021.

INTANGIBLE ASSETS TABLE 075

In thousands of euros

	2021	2020
Acquisition costs as at 1 January	**1,056**	**203**
Additions	658	853
As at 31 December	**1,714**	**1,056**
Accumulated depreciation as at 1 January	**124**	**88**
Additions	143	36
As at 31 December	**267**	**124**
	1,446	**932**

13 Right-of-use assets

The right-of-use assets recognised relate to real estate, construction site equipment, passenger cars and construction site containers. In the area of real estate, the Instone Group mainly leases offices and other office buildings. In addition, vehicles and other plant, property and office equipment are leased in the Instone Group.

RIGHT OF USE ASSETS TABLE 076

In thousands of euros

	2021	2020
Acquisition costs as at 1 January	**14,495**	**12,671**
Additions	2,880	4,085
Disposals	– 2,243	– 2,261
As at 31 December	**15,132**	**14,495**
Accumulated depreciation as at 1 January	**3,961**	**2,996**
Additions	3,467	3,153
Disposals	– 1,672	– 2,189
As at 31 December	**5,756**	**3,961**
	9,376	**10,535**

Leasing payments in the amount of €94 thousand (previous year: €112 thousand) from short-term leases and €18 thousand (previous year: €52 thousand) from leases based on low-value contracts are not included in right-of-use assets, for which the option was utilised in accordance with IFRS 16.5 to recognise these contracts in profit or loss. The right-of-use assets are divided into the following classes as follows: Real estate €6,904 thousand, (previous year: €7,711 thousand), Passenger cars €2,204 thousand (previous year: €2,109 thousand) and Other €268 thousand (previous year: €715 thousand).

14 Property, plant and equipment

The development of property, plant and equipment is as follows:

PROPERTY, PLANT AND EQUIPMENT TABLE 077

In thousands of euros

	2021	2020
Acquisition costs as at 1 January	**3,804**	**3,538**
Additions	1,084	1,069
Disposals	– 564	– 522
As at 31 December	**4,325**	**4,085**
Accumulated depreciation as at 1 January	**1,531**	**1,411**
Additions	1,009	891
Disposals	– 489	– 491
As at 31 December	**2,051**	**1,812**
	2,274	**2,273**

15 Interests in joint ventures

The summarised financial information about joint ventures is presented below.

KEY JOINT VENTURES TABLE 078

In thousands of euros

	31/12/2021	31/12/2021	31/12/2021	31/12/2021	31/12/2021	31/12/2021
Financial information on material joint ventures		**FHP Friedenauer Höhe Erste GmbH & Co. KG**	**FHP Friedenauer Höhe Dritte GmbH & Co. KG**	**FHP Friedenauer Höhe Sechste GmbH & Co. KG**	**FHP Friedenauer Höhe Vierte GmbH & Co. KG**	**Wohnpark Heusenstamm GmbH & Co. KG**
Non-current assets	3,828	136	0	0	0	3,692
Current assets	202,490	23,662	41,357	67,538	64,225	5,708
of which, cash and cash equivalents	5,282	20	17	34	5,012	198
Non-current liabilities	128,125	21,325	27,004	44,352	34,675	769
of which, financial liabilities (excluding trade payables)	121,858	21,042	25,012	41,130	34,675	0
Current liabilities	25,384	820	1,028	1,733	21,365	438
of which, financial liabilities (excluding trade payables)	1,206	28	34	56	1,090	0
Net assets	**52,809**	**1,654**	**13,325**	**21,454**	**8,185**	**8,191**
Revenue	156,402	0	39,327	63,578	53,498	0
Interest income	1,372	48	480	844	0	0
Interest expense	–1,556	–249	–302	–491	–512	–3
Income taxes	–6,425	–65	–1,771	–2,844	–975	–769
Profit for the year/ total comprehensive income	**28,777**	**–202**	**9,932**	**15,756**	**3,911**	**–619**
Derivation of the financial information presented on the equity carrying amount in the consolidated financial statements						
Group earnings shares		57.20%	50.30%	50.30%	42.90%	50.10%
Carrying amount at the start of the financial year	10,382	1,061	1,707	2,866	1,834	2,914
Additions in the financial year	1,500	0	0	0	0	1,500
Pro rata profit for the year	14,173	–115	4,996	7,925	1,678	–310
Carrying amount at the end of the financial year	**26,055**	**946**	**6,702**	**10,791**	**3,511**	**4,104**

KEY JOINT VENTURES

TABLE 079

In thousands of euros

Financial information on material joint ventures	31/12/2020	31/12/2020 FHP Friedenauer Höhe Erste GmbH & Co. KG	31/12/2020 FHP Friedenauer Höhe Dritte GmbH & Co. KG	31/12/2020 FHP Friedenauer Höhe Sechste GmbH & Co. KG	31/12/2020 FHP Friedenauer Höhe Vierte GmbH & Co. KG	31/12/2020 Wohnpark Heusenstamm GmbH & Co. KG
Non-current assets	3,725	0	0	0	0	3,725
Current assets	140,800	22,208	28,079	46,219	36,329	7,965
of which, cash and cash equivalents	1,614	320	372	552	370	0
Non-current liabilities	115,252	19,666	24,043	39,685	31,858	0
of which, financial liabilities (excluding trade payables)	115,252	19,666	24,043	39,685	31,858	0
Current liabilities	2,699	419	623	803	775	79
Net assets	**26,574**	**2,123**	**3,413**	**5,732**	**3,695**	**11,611**
Revenue	167	0	0	0	0	167
Interest income	5,930	563	1,542	2,635	1,190	0
Interest expense	– 2,379	– 398	– 504	– 837	– 639	0
Income taxes	– 1,396	– 168	– 335	– 574	– 317	0
Profit for the year/ total comprehensive income	**5,020**	**458**	**1,290**	**2,213**	**1,002**	**57**
Derivation of the financial information presented on the equity carrying amount in the consolidated financial statements						
Owners of the Company		50.00%	50.00%	50.00%	50.00%	25.10%
Carrying amount on acquisition	7,900	833	1,062	1,760	1,347	2,900
Pro rata profit for the year	2,496	229	645	1,106	501	14
Carrying amount at the end of the financial year	**10,382**	**1,061**	**1,707**	**2,866**	**1,834**	**2,914**

IMMATERIAL JOINT VENTURES TABLE 080

In thousands of euros

	31/12/2021	31/12/2020
Net assets		
Assets	16,696	1,922
Liabilities	– 7,606	– 1,387
	9,090	**535**
Earnings		
Revenue	0	0
Profit for the year	809	486

16 Other investments

Other investments are broken down as shown below:

OTHER INVESTMENTS TABLE 081

In thousands of euros

	31/12/2021	31/12/2020
Subsidiaries not included in the consolidated financial statements		
Immobiliengesellschaft C.S.C. S.à r.l.	31	31
Instone Real Estate Projektverwaltungs GmbH	25	25
Westville Vermietungs GmbH (formerly: Instone Real Estate Erste Projekt GmbH)	25	25
Uferpalais Verwaltungsgesellschaft mbH	22	22
Projekt Wilhelmstraße Wiesbaden Verwaltungsgesellschaft mbH	18	18
Kleyer Beteiligungsgesellschaft mbH	112	112
	233	**233**
Other investments		
Parkhausfonds Objekt Flensburg GmbH & Co. KG	149	149
CONTUR Wohnbauentwicklung GmbH	36	26
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH	25	25
formart Wilma Verwaltungsgesellschaft mbH	13	13
FHP Friedenauer Höhe Verwaltungs GmbH	14	0
	236	**213**
	469	**445**

17 Inventories

INVENTORIES TABLE 082

In thousands of euros

	31/12/2021	31/12/2020
Work-in-progress	843,647	777,705
Finished goods	56	56
	843,703	**777,761**

In accordance with IAS 2, inventories include assets that are intended for sale in the normal course of business (finished goods) or that are in the process of being produced for sale (work-in-progress).

Work-in-progress is subject to disposal restrictions due to project financing by banks amounting to €94,460 thousand (previous year: €313,056 thousand).

Borrowing costs in the amount of €10,456 thousand (previous year: €14,347 thousand) were capitalised as part of production costs recognised for inventories attributable to project-related financing based on individual agreements with external lenders.

It is expected that inventories of €620,413 thousand (previous year: €497,341 thousand) can only be realised after more than twelve months.

The inventories were subject to impairment of €6,844 thousand (previous year: €7,464 thousand). There were no reversals of impairment losses either in the financial year or in the previous year.

18 Financial receivables

The financial receivables are as follows:

FINANCIAL RECEIVABLES TABLE 083

In thousands of euros

	31/12/2021	31/12/2020
Non-current		
Loans to joint ventures/other investments	16,991	21,467
Other loans	589	0
	17,580	**21,467**
Current		
Loans to joint ventures/other investments	30	0
Other loans	15	0
Financial receivables from joint ventures/other investments	1	2
Short-term term deposits	20,000	145,000
Other financial receivables	0	10,748
	20,046	**155,750**
	37,626	**177,217**

As at the balance sheet date, current financial receivables decreased mainly as a result of the planned reduction of term deposits.

19 Contract assets

The structure of contract assets is composed as follows:

CONTRACT ASSETS TABLE 084

In thousands of euros

	31/12/2021	31/12/2020
Contract assets	858,648	573,066
Payments received	– 506,601	– 383,546
	352,047	**189,520**
Receivables from costs to obtain a contract	5,970	4,638
	358,017	**194,158**

The change in contract assets is due to the increase in fulfilment of the underlying contracts with customers, with a simultaneous temporary increase in advance payments received from customers.

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

The amortisation of the costs to obtain a contract in the amount of €3,853 thousand (previous year: €8,165 thousand) offsets the fulfilment of the underlying contracts with customers.

20 Trade receivables

Trade receivables are comprised as shown below:

TRADE RECEIVABLES TABLE 085

In thousands of euros

	31/12/2021	31/12/2020
Trade receivables	48,202	1,080
	48,202	**1,080**

The significant increase in trade receivables resulted mainly from sales for which payment receipts had been agreed in the second quarter of 2022.

21 Other receivables and other assets

The following Table shows other current and non-current receivables and other assets.

OTHER RECEIVABLES AND OTHER ASSETS TABLE 086

In thousands of euros

	31/12/2021	31/12/2020
Receivables from public-sector grants	30,348	0
Receivables from advance payments for joint ventures	7,524	0
Upfront payments on land	6,732	6,000
Receivable tax exemption Hochtief Solutions AG	1,229	1,419
Deposits given	640	388
Processing fees for loans	239	809
Other tax assets	104	1,025
Upfront payments on investments	0	1,800
Other receivables and other assets	1,170	623
	47,988	**12,065**

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

22 Income tax assets

INCOME TAX ASSETS TABLE 087

In thousands of euros

	31/12/2021	31/12/2020
Receivables from domestic and foreign tax authorities during the ordinary course of business	1,639	2,359
	1,639	**2,359**

23 Cash and cash equivalents

CASH AND CASH EQUIVALENTS TABLE 088

In thousands of euros

	31/12/2021	31/12/2020
Bank balances	130,964	87,032
Cash	5	12
	130,969	**87,044**
of which, restricted	7,840	8,362

The restrictions on the disposal of cash and cash equivalents result from project financing not yet completed by banks.

24 Equity

The share capital of the Company as at 31 December 2021 was €46,988 thousand (previous year: €46,988 thousand) and is fully paid up. It is divided into 46,988,336 no-par-value shares. The nominal value of the shares is €1.00.

In September 2020, the registered capital was increased by €10,000,000 through the issue of 10,000,000 shares as part of a capital increase with subscription rights in return for cash contributions. The subscription price per share was €18.20. All shares are fully entitled to dividends from 1 January 2020. The transaction costs less the tax effect in connection with this capital increase amounted to €5,643 thousand and were offset against the capital reserves.

The Annual General Meeting decided on 29 June 2018 to create an authorised capital. The Management Board is authorised to increase the share capital of the Company by up to €18,450 thousand in the period to 28 June 2023 through the issue of up to 18,450 thousand new shares. In connection with the capital increase in the 2020 financial year, the authorised capital was utilised by issuing 10,000,000 no-par value shares, so that this authorised capital amounts to 8,450,000.00 euros as at 31 December 2021. This corresponds to 8,450,000 no-par value shares. On 9 June, the Annual General Meeting decided to create additional authorised capital. The Management Board is also authorised to increase the registered capital of the Company by up to €8,000,000 in the period to 8 June 2026 through the issue of up to 8,000,000 new shares.

The Management Board was authorised by the Annual General Meeting with effect from 31 August 2021, with the approval of the Supervisory Board, to grant option or convertible bond conditions on one or more occasions for up to 4,698,833 new shares in the Company (conditional capital) until 8 June 2026.

As at 31 December 2021, the capital reserve remained unchanged at 358,983 thousand (previous year: €358,983 thousand).

Retained earnings/loss carryforwards which were formed as part of Group equity, consist of the income generated by the companies flowing into the consolidated financial statements.

In the financial year, a dividend of €0.26 per share carrying dividend rights was paid with a distribution amount of €12,217 thousand.

The accumulated other total comprehensive income from the Company's equity reflects the changes in equity of the actuarial gains and losses from defined benefit plans amounting to €616 thousand (previous year: €–716 thousand).

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

EQUITY TABLE 089

In thousands of euros

	31/12/2021	31/12/2020
Amount before income taxes	902	–1,043
Income taxes	–286	327
	616	**–716**

Non-controlling interests

The non-controlling interests of €61 thousand (previous year: €1,598 thousand) mainly related to KORE GmbH. In the financial year no dividend (previous year: €0 thousand euro) was distributed to non-controlling interests. The earnings after tax attributable to non-controlling interests amounted to €–1,776 thousand (previous year: €14 thousand).

25 Provisions for pensions and similar obligations

The existing pension plans of Instone Real Estate consist of both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company makes payments to a state or private pension scheme, either on a statutory, contractual or voluntary basis. The Company is not legally obliged to make any further payments. Under the defined benefit plans, the Company is required to pay the promised benefits to existing and former employees. A distinction is made between plans financed by provisions or by external financing.

The old-age provision at Instone Real Estate consists of a basic pension financed by the Group companies in the form of a modular defined contribution plan and an additional pension component linked to the economic success of the Company. In accordance with IAS 19, the corresponding commitments are recorded as liabilities from defined benefit plans. GRI 201-3

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

LIABILITIES FROM DEFINED BENEFIT PLANS TABLE 090

In thousands of euros

	31/12/2021	31/12/2020
Active employees, not dependent on remuneration	6,873	7,620
Vested claims	5,853	5,292
Ongoing pensions	1,495	1,260
	14,221	**14,172**

The average remaining time in service of the eligible active employees was 14.05 years as at the balance sheet date (previous year: 14.73 years).

The pension obligations within the scope of employee stock option programmes are financed by the purchase of interests in mutual funds. The obligations financed via Helaba Pension Trust e.V. account for approx. 65.5% (previous year: approx. 63.1%) of the entire insurance coverage; overall, the coverage is 69.1% (previous year: 66.7%). The hedging of defined benefit obligations by plan assets is shown in the following table:

COVERAGE OF THE DEFINED BENEFIT OBLIGATION BY PLAN ASSETS TABLE 091

In thousands of euros

	31/12/2021	31/12/2020
Pension obligations covered by funds	13,377	13,322
Deferred Compensation covered by funds	845	849
	14,221	**14,172**
Fair value of the fund assets	–9,823	–9,454
	4,398	**4,718**

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

DEFINED BENEFIT OBLIGATION CASH VALUE TABLE 092

In thousands of euros

	2021	2020
Defined benefit obligation cash value on 1 January	**14,172**	**12,600**
Current service cost	544	499
Interest expenses	182	203
Actuarial gains (–)/actuarial losses (+) due to changes in demographic assumptions	0	–1
Actuarial gains (–)/actuarial losses (+) due to changes in financial assumptions	–650	1,105
Actuarial gains (–)/actuarial losses (+) due to changes in other assumptions	33	–124
Pension payments	–60	–111
Defined benefit obligation cash value as at 31 December	**14,221**	**14,172**

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes into account the duration of the pension obligations for the Company. The underlying mortality data was taken from the statistics and experience published for each country. The 2018 G mortality tables of Klaus Heubeck were used for this purpose.

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

PLAN ASSETS TABLE 093

In thousands of euros

	2021	2020
Plan assets as at 1 January	**9,454**	**8,659**
Allocations	0	1,000
Interest income from plan assets	122	99
Income from plan assets not included in net interest income	247	–304
Plan assets as at 31 December	**9,823**	**9,454**

COMPOSITION OF PLAN ASSETS TABLE 094

In thousands of euros

	31/12/2021	31/12/2020
Listing in an active market		
CTA[1] assets	9,320	8,947
DC[2] assets	502	507
Current euro balances	1	0
	9,823	**9,454**

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

FACTORS TABLE 095

%

	31/12/2021	31/12/2020
Discount factor	1.58	1.29
Salary growth rates	3.00	3.00
Pension adjustment: Commitments with adjustment guarantee	1.00	1.00
Pension adjustment: Other commitments	1.85	1.50

Sensitivity analysis

The pension obligations of Instone Real Estate are subject to various risks. The main risks are due to general changes in interest rates and inflation rates. There are no unusual risks associated with the pension obligations.

Interest rate risk: The (actuarial) contributions are converted into benefits within the scope of a defined contribution pension plan using a table of fixed interest rates that are not dependent on actual market interest rates. Instone Real Estate therefore bears the risk arising from the general capital market interest rates with regard to determining benefits. Pension obligations have increased significantly in recent years due to the generally low interest rates on the capital market. The comparatively strong effect results from the relatively long duration of the obligations.

Inflation risk: According to legislation, the benefits of occupational pensions in Germany must be adjusted to inflation trends every three years. The 2000+ pension plan obligations in Germany under occupational pension schemes increase by 1% each year so there is little inflation risk during the retirement phase with regard to long-term pension commitments.

Longevity risk: As a retirement provision is granted for a lifetime, there is a risk that beneficiaries will live longer than originally anticipated, with Instone Real Estate bearing the corresponding risk. In general, this risk balances out across all beneficiaries and only has an impact if the overall lifetime is longer than originally thought.

The following sensitivity analysis shows the possible impact of the stated risks when changing the actuarial assumptions to the obligations under a defined benefit pension plan:

SENSITIVITY ANALYSIS TABLE 096

In thousands of euros

	31/12/2021		31/12/2020	
	Increase	**Decrease**	Increase	Decrease
Discount factor +0.50%/–0.50%	–1,568	1,845	–1,629	1,926
Pension growth rate +0.25%/–0.25%	258	–245	254	–241
Life expectancy +1.00 year/–1.00 year	495	–500	500	–504

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

→ The current service cost for the following financial year is estimated to be €574 thousand (previous year: €499 thousand).

→ The contributions to defined contribution plans are expected to rise in the 2022 financial year by the same proportion as in the 2021 financial year.

26 Other provisions

The other provisions are divided as follows:

OTHER PROVISIONS TABLE 097

In thousands of euros

	31/12/2021	31/12/2020
Non-current		
Personnel provisions	6,101	3,880
Remaining other provisions	40	1,091
	6,140	**4,971**
Current		
Personnel provisions	2,169	2,538
Warranty obligations	9,302	8,473
Provisions for impending losses	4,538	6,247
Tax provisions	1,158	1,412
Litigation risks	3,387	2,782
Remaining other provisions	3,496	2,690
	24,050	**24,141**
	30,190	**29,112**

The short-term and long-term provisions relating to employees primarily relate to provisions for special payments on the basis of a long-term incentive system and early retirement.

Other short-term provisions include, but are not limited to investment risks, compensation for damages and other contingent liabilities.

The provisions for impending losses were made for impending losses arising from construction services obligations to third parties.

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

DEVELOPMENT OF OTHER PROVISIONS TABLE 098

In thousands of euros

	31/12/2021	01/01/2021	Allocation	Liquidation	Consumption
Personnel provisions	8,270	6,418	2,254	–366	–36
Warranty obligations	9,302	8,473	1,274	–418	–27
Provisions for impending losses	4,538	6,247	2,420	0	–4,129
Litigation risks	3,387	2,782	1,007	–174	–228
Tax provisions	1,158	1,412	0	0	–254
Remaining other provisions	3,536	3,781	770	–612	–402
	30,190	**29,112**	**7,725**	**–1,570**	**–5,077**

The personnel provisions include commitments to the employees in connection with long-term incentive plans. Provisions of €7,307 thousand (previous year: €6,874 thousand) have been recognised for these long-term incentive plans. In the 2021 financial year, expenses in the amount of €397 thousand (previous year: €1,867 thousand) were incurred in this context.

27 Financial liabilities

Current and non-current loans from banks consisted of fixed and variable interest rate loans issued by various banks. Loans from banks have a term of between one and four years (previous year: between one and four years). The interest rates are between 1.25% and 4.00% (previous year: 1.45% and 4.00%). The decrease resulted essentially from the repayments of project financing for ongoing projects in the amount of €187,250 thousand, which are offset by the utilisation of financing in the amount of €77,760 thousand.

In accordance with the Group's policy, Instone Group's loans from banks are not the subject of contractual assurances and are instead secured by land charges.

FINANCIAL LIABILITIES TABLE 099

In thousands of euros

	31/12/2021	31/12/2020
Non-current		
To financial institutions from project financing	76,695	108,880
To financial institutions from corporate financing	27,868	104,213
Loans from third parties	99,439	100,526
Liabilities to minority shareholders	16,942	45
	220,943	**313,665**
Current		
To financial institutions from project financing	97,335	165,642
To financial institutions from corporate financing	70,535	2,207
Loans from third parties	1,674	188
Liabilities to minority shareholders	62	0
	169,606	**168,037**
	390,550	**481,701**

FINANCIAL LIABILITIES IN 2021 TABLE 100

In thousands of euros

	31/12/2021	01/01/2021	Cash flow from financing activities	Non-cash changes: Neutral offsetting	Deferred interest	Amortisation from the valuation using the effective interest method
Loans from banks	272,433	380,943	–110,606	0	895	1,201
Loans from third parties	101,113	100,713	224	–11	0	187
Liabilities to minority shareholders	17,004	45	16,610	62	287	0
	390,550	**481,701**	**–93,772**	**51**	**1,182**	**1,388**

FINANCIAL LIABILITIES IN 2020 TABLE 101

In thousands of euros

	31/12/2020	01/01/2020	Cash flow from financing activities	Non-cash changes: Neutral offsetting	Deferred interest	Amortisation from the valuation using the effective interest method
Loans from banks	380.943	594.881	–225.698	0	11.338	422
Loans from third parties	100.713	588	98.600	0	1.468	58
Liabilities to minority shareholders	45	45	0	0	0	0
	481.701	**595.513**	**–127.098**	**0**	**12.807**	**479**

28 Deferred tax

Deferred tax liabilities are calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the various countries and for the different countries. Deferred tax assets and liabilities are offset against each other for each company or group of companies. In other respects, deferred tax liabilities are calculated on the basis of the tax regulations in force or applying on the date of preparation of these financial statements.

Deferred tax assets that are recognised in tax refund claims arising from the expected utilisation of existing tax loss carryforwards in subsequent years, and whose realisation appears sufficiently certain, amounted to €891 thousand (previous year: €12,202 thousand).

Deferred taxes were also applied to interest carryforwards in the amount of €0 thousand (previous year: €4,939 thousand).

There are tax-loss carryforwards from our companies, for which no deferred taxes have been recognised as follows: in Luxembourg in the amount of €18,991 thousand (previous year: €18,999 thousand) and in Austria in the amount of €31,684 thousand (previous year: €31,537 thousand).

In principle, these losses and taxes carried forward within the individual countries can be offset against profits in subsequent years. According to our current assessment, we do not expect these loss carryforwards to be used.

Deferred tax assets and liabilities changed as follows:

DEFERRED TAX TABLE 102

In thousands of euros

	31/12/2021		31/12/2020	
	Deferred tax assets	Deferred tax liability	Deferred tax assets	Deferred tax liability
Non-current assets	563	16,064	2,353	4,891
Current assets	119,101	157,004	180,194	218,965
	119,664	**173,068**	**182,547**	**223,856**
Non-current liabilities				
Pension provisions	2,644	0	2,706	0
Other provisions	1,289	0	2,322	0
Other non-current liabilities	0	476	0	2,307
	3,932	**476**	**5,028**	**2,307**
Current liabilities				
Other provisions	1,089	5,589	1,957	4,886
Other current liabilities	10,069	1	19,179	17,448
	11,158	**5,590**	**21,135**	**22,333**
	134,755	**179,134**	**208,710**	**248,496**
Loss carryforwards	891	0	17,141	0
Gross amount	135,645	179,134	225,851	248,496
Offset	– 133,504	– 133,504	– 225,555	– 225,555
	2,142	**45,630**	**297**	**22,941**

In addition to the deferred taxes recognised in profit or loss, deferred tax assets were recognised in other comprehensive income for actuarial losses in the amount of €286 thousand (previous year: €610 thousand).

29 Liabilities from net assets attributable to non-controlling interests

Liabilities from net assets attributable to non-controlling interests of €5 thousand (previous year: €10,337 thousand) related to the non-controlling interests of Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG.

30 Leasing liabilities

LEASING LIABILITIES TABLE 103

In thousands of euros

	31/12/2021	31/12/2020
Due in up to one year	3,193	3,036
Due in one to five years	6,052	6,855
Due in over five years	422	848
	9,667	**10,739**

Instone Real Estate has concluded long-term contracts for commercial real estate and company vehicles as a tenant/lessee. The carrying amounts of the leasing liabilities as at 31 December 2021 amounted to €3,193 thousand (previous year: €3,036 thousand) of current liabilities and €6,474 thousand (previous year: €7,704 thousand) of non-current liabilities.

31 Contract liabilities

CONTRACT LIABILITIES TABLE 104

In thousands of euros

	31/12/2021	31/12/2020
Payments received	44,390	76,584
Contract assets	– 32,723	– 51,030
	11,667	**25,554**

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

In contrast to the liabilities arising from contract assets in the amount of €25,554 thousand as at 1 January 2021, in this financial year €25,554 thousand in revenues was generated through contract fulfilment.

32 Trade payables

TRADE PAYABLES TABLE 105

In thousands of euros

	31/12/2021	31/12/2020
Trade payables	125,112	68,895
	125,112	**68,895**

33 Other liabilities

OTHER LIABILITIES TABLE 106

In thousands of euros

	31/12/2021	31/12/2020
non-current		
Liabilities from the acquisition of joint ventures	0	4,977
	0	**4,977**
current		
Advance payments received on inventories	241,402	77,701
Liabilities from public-sector grants	29,774	0
Liabilities from bonuses	13,248	8,363
Liabilities to employees	495	282
Liabilities from other taxes	559	812
Liabilities from social security contributions	39	13
Sundry other liabilities	6,921	1,555
	292,439	**88,726**
	292,439	**93,702**

34 Income tax liabilities

INCOME TAX LIABILITIES TABLE 107

In thousands of euros

	31/12/2021	31/12/2020
Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business	20,153	14,359
	20,153	**14,359**

Notes to the consolidated statement of cash flows

The Group's consolidated statement of cash flows distinguishes between cash flows from operating, investing and financing activities. All non-cash income and expenses and all income from the disposal of assets are eliminated as part of the cash flow from operations.

As at 31 December 2021, cash and cash equivalents consisted entirely of liquid funds amounting to €130,969 thousand (previous year: €87,044 thousand), of which €7,840 thousand (previous year: €8,362 thousand) was subject to restrictions on disposal.

The total cash outflow for leases amounted to €3,734 thousand, (previous year: €3,358 thousand) of which, with a repayment share of €3,423 thousand (previous year: €3,131 thousand) and interest share of €311 thousand (previous year: €227 thousand).

Other disclosures

Disclosures about related persons and companies

Key related persons and companies include the material joint ventures. The material transactions with key related persons and companies are shown below:

Relationships with joint ventures GRI 2-15

RELATIONSHIPS WITH JOINT VENTURES/OTHER INVESTMENTS TABLE 108

In thousands of euros

	31/12/2021	31/12/2020
Receivables		
FHP Friedenauer Höhe Dritte GmbH & Co. KG	4,718	4,410
FHP Friedenauer Höhe Erste GmbH & Co. KG	3,807	3,783
FHP Friedenauer Höhe Sechste GmbH & Co. KG	7,954	7,532
FHP Friedenauer Höhe Vierte GmbH & Co. KG	513	5,742
Twelve GmbH & Co. KG	7,524	0
Wohnpark Heusenstamm GmbH & Co. KG	31	0
	24,546	**21,467**
Liabilities		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	400	81
Wohnpark Gießener Straße GmbH & Co. KG	0	107
	400	**188**

The financial receivables from the four project companies FHP Friedenauer Höhe Dritte GmbH & Co. KG, FHP Friedenauer Höhe Erste GmbH & Co. KG, FHP Friedenauer Höhe Sechste GmbH & Co. KG and FHP Friedenauer Höhe Vierte GmbH & Co. KG consist of interest-free loans with residual maturities of between one and five years. The financial liabilities to Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG consist of interest-free loans and have a residual term of up to one year.

Relationships with related persons

There were no material transactions between Instone Real Estate Group SE, Essen, Germany or a Group company and persons from the Management or related persons or companies during the reporting period. There are no conflicts of interest in terms of the participating members of the Management Board and the Supervisory Board. GRI 102-25

Management Board remuneration

The remuneration of the Management Board members in 2021 was comprised of the following components:

Fixed remuneration

→ The fixed remuneration is paid in equal monthly instalments.

Fringe benefits

→ Fringe benefits consist of taxable monetary benefits, such as the private use of company cars or other benefits-in-kind.

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

One-year variable remuneration (short term incentive, STI)

→ The one-year variable remuneration in the form of an STI plan is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board.

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

→ As a further component of variable remuneration, the members of the Management Board are also promised multi-year variable compensation in the form of an LTI bonus. Any LTI bonus depends on achieving financial corporate targets and non-financial ESG targets as well as on the share price performance, taking into account distributions during the performance period. The contractually agreed base amount – an individually determined starting amount for each member of the Management Board underpinning the calculation – was based on the average volume-weighted Instone share price for the last three months before the start of the performance period. At the end of the performance period, the Supervisory Board determined the extent to which the targets had been achieved. The total payout factor was determined, taking into account the weighting of the individual targets. The total amount paid out was capped at 300% of the base amount.

Pension plan

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

The following amounts were expensed for the members of the Management Board in the financial year:

MANAGEMENT BOARD REMUNERATION TABLE 109

In thousands of euros

	31/12/2021	31/12/2020
Benefits due in the short term		
Fixed emoluments	1,254	1,152
Variable emoluments	936	699
Benefits after the end of the employment relationship		
Pension expenses	43	85
Benefits due in the long term		
Variable emoluments	441	668
Benefits on termination of the employment relationship		
Total emoluments	**2,675**	**2,604**
Expenses recognised in the financial year for share-based remuneration components due in the long term with cash settlement	**441**	**668**
Liability recognised as at 31 December for share-based remuneration components due in the long term with cash settlement	**3,179**	**2,747**

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

Supervisory Board remuneration

The total remuneration of the Supervisory Board in the 2021 financial year was €493 thousand (previous year: €462 thousand). of which, €405 thousand (previous year: €390 thousand) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €88 thousand (previous year: €72 thousand).

During the 2021 financial year, the Companies of the Instone Group did not pay or grant any remuneration or other benefits to members of the Supervisory Board for services rendered in a personal capacity, in particular advisory and agency services. Nor were members of the Supervisory Board granted any advances or credits.

Transactions with members of the Supervisory Board

No reportable transactions took place with members of the Supervisory Board in the 2021 financial year.

Members of the Management Board

The Management Board is comprised of the following three members:

Kruno Crepulja

→ Chair of the Management Board/CEO of Instone Real Estate Group SE

→ Managing Director/CEO of Instone Real Estate Development GmbH

Dr Foruhar Madjlessi

→ Member of the Management Board/CFO of Instone Real Estate Group SE

→ Managing Director/CFO of Instone Real Estate Development GmbH

Andreas Gräf

→ Member of the Management Board/COO of Instone Real Estate Group SE

→ Managing Director/COO of Instone Real Estate Development GmbH for Saxony

Members of the Supervisory Board GRI 2-11, 2-15

Stefan Brendgen, independent management consultant

In addition to his role as Chair of the Company's Supervisory Board, Mr Brendgen is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

→ aam2core Holding AG (formerly: aamundo Holding AG) (Chair of the Supervisory Board)

→ Hahn Immobilien-Beteiligungs AG (Chair of the Supervisory Board)

Dr Jochen Scharpe, Managing Director of AMCi and ReTurn Immobilien GmbH

In addition to his role as Deputy Chair of the Supervisory Board of the Company, Dr Scharpe is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

→ FFIRE Immobilienverwaltung AG (Deputy Chair of the Supervisory Board)

→ LEG Immobilien AG (member of the Supervisory Board)

Marija Korsch (until 9 June 2021), Chair of the Supervisory Board of Aareal Bank AG (until 24 November 2021) and member of the Supervisory Board (until 9 December 2021)

In addition to her role as a member of the Supervisory Board of the Company, Ms Korsch is a member of the following other statutory supervisory boards and the comparable domestic and foreign supervisory bodies of commercial enterprises:

→ Aareal Bank AG
Chair of the Supervisory Board (until 24 November 2021) and member of the Supervisory Board (until 9 December 2021)

→ Just Software AG (member of the Supervisory Board)

→ Nomura Financial Products GmbH
Member of the Supervisory Board (until 15 November 2021)

Dietmar P. Binkowska, independent management consultant

Mr Binkowska is a member of the following statutory supervisory boards or comparable domestic and foreign supervisory bodies of commercial enterprises in addition to his role as a member of the Supervisory Board of the Company.

→ Kathrein SE (member of the Supervisory Board)

Thomas Hegel, lawyer and independent consultant

Mr Hegel is a member of the following statutory supervisory boards and comparable domestic or foreign supervisory bodies of commercial enterprises in addition to his role as a member of the Supervisory Board of the Company:

→ Wohnbau GmbH (member of the Supervisory Board)

Christiane Jansen (since 20 September 2021), Managing Director of Westdeutsche Lotterie GmbH & Co. OHG

Ms Jansen is not a member of the other statutory supervisory boards or comparable domestic or foreign supervisory bodies of commercial enterprises besides her role as a member of the Supervisory Board of the Company.

Auditor's fee

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Düsseldorf branch, has been the group auditor of Instone Real Estate Group SE, Essen, Germany since the 2018 financial year. The auditor responsible for the audit since 2020 has been Dr Holger Reichmann.

The following total fees were recorded as an expense for the financial year for the services of the auditor, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Düsseldorf Office:

AUDITOR'S FEE TABLE 110

In thousands of euros

	31/12/2021	31/12/2020
Annual audit	1,065	847
of which, relating to previous years	273	209
Other confirmation services	147	600
	1,213	**1,447**

The auditors mainly conducted an audit of the annual and consolidated financial statements and an audit review pursuant to IDW PS 900, and these are reported on within audit services. In addition, the auditor provided other assurance services; these are audits pursuant to Section 16 MaBV, impairment tests in connection with the conversion into an SE and agreed covenant reporting in accordance with ISRS 4400.

Use of exemption options in accordance with Section 264(3) HGB

Instone Real Estate Development GmbH, headquartered in Essen, Germany and registered in the Commercial Register of the Essen District Court under HRB 28401, complies with the requirements set out in Section 264(3) HGB and is therefore exempt from the disclosure of information in its annual financial statements and the preparation of a management report. Instone Real Estate Leipzig GmbH, with its registered office in Leipzig and registered in the Commercial Register of the Leipzig District Court under HRB 31977, complies with the requirements set out in Section 264(3) HGB and waives disclosure and auditing of its annual financial statements as at 31 December 2021.

Reporting on financial instruments

Financial instruments include financial assets and liabilities as well as contractual rights and obligations relating to the exchange and transfer of financial assets. There are no derivative financial instruments.

Financial assets mainly comprise cash and cash equivalents, receivables and other investments. Most of the financial liabilities are current liabilities which are measured at amortised cost.

The available financial instruments are shown in the balance sheet. The maximum loss or default risk equals the sum of the financial assets. Any risk identified for financial assets is recognised at its impairment charge.

Risk management

All of Instone Real Estate's financial activities are conducted on the basis of a Group-wide financial policy. There are also function-specific operational work instructions on topics such as the handling of collateral.

These guidelines contain the principles used to address the different types of financial risks.

Trading, control and billing are handled separately by the front and back office. This ensures effective risk management. The monitoring and billing of the external trading activities of the Front Office is carried out by a separate and independent back office. Furthermore, the dual control principle must be maintained at least for all external trading activities. Internal powers to issue instructions are limited in number and amount, reviewed regularly (at least once a year) and adjusted if necessary.

The Instone Group considers the interests of shareholders, promissory note investors and the issuing banks in its financial management. Financial and non-financial covenants arise from the contractual conditions of the promissory note loan, the term loan and the syndicated loan. The covenants include compliance with the debt ratio, the interest rate, equity and loan to value. The potential financial risks resulting from the contractual conditions were not considered to be material as at the balance sheet date of 31 December 2021.

The loans are not secured and the Instone Group complied with all obligations in this regard in the financial year as well as in the previous year. For the subsequent periods, the Instone Group monitors the future development as part of Group-wide financial risk management and also continues to anticipate compliance with the contractual terms. This assessment remains unchanged in light of the economic effects of the coronavirus pandemic.

Control of liquidity risk

Instone Real Estate uses largely centralised structures for pooling cash and cash equivalents at Group level to avoid, among other things, bottlenecks in cash flow at individual Group company level. The central liquidity position is calculated monthly using a bottom-up method over a rolling twelve-month period. The liquidity planning is supplemented by monthly stress tests.

The following tables show the contractually agreed residual maturity of non-derivative financial liabilities with agreed repayment periods that apply to the Group. The Tables are recorded on the basis of the non-discounted cash flows of the financial liabilities with the date which the Group can be asked to repay. The Tables contain the cash flow from interest and principal receivable.

Interest payments for items with variable rates are uniformly translated using the last interest rate in effect before the key date.

The consolidated statement of financial position as at 31 December 2021 includes promissory note loans issued in the 2020 financial year with a nominal value of €100,000 thousand and promissory note loans issued in the 2019 financial year with a nominal value of €97,500 thousand. These financial liabilities are accounted for at amortised cost using the effective interest rate method. Interest income and interest expenses as well as directly attributable transaction costs are allocated over the relevant subsequent periods through amortisation recognised in profit or loss.

The maximum payments listed in the following Tables are compensated by contractually determined revenues in the same period, which are not shown here (e.g. trade receivables). which cover a significant part of the cash flows recognised.

Maturity analysis of financial liabilities

The following Table provides an overview of the contractual payments in terms of financial liabilities:

MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2021

TABLE 111

In thousands of euros

	Carrying amount as at 31/12/2021	Cash outflows 2022	Cash outflows 2023-2025	Cash outflows > 2025
Financial liabilities	390,550	176,143	238,949	0
Trade payables	125,112	125,112	0	0
Liabilities from net assets attributable to non-controlling interests	5	0	0	5
Leasing liabilities	9,667	3,530	6,461	433
	525,334	**304,785**	**245,409**	**438**

MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2020

TABLE 112

In thousands of euros

	Carrying amount as at 31/12/2020	Cash outflows 2021	Cash outflows 2022-2024	Cash outflows > 2024
Financial liabilities	481,701	177,128	337,459	0
Trade payables	68,895	68,895	0	0
Liabilities from net assets attributable to non-controlling interests	10,337	0	0	10,337
Leasing liabilities	10,739	3,727	8,354	870
	571,673	**249,750**	**345,813**	**11,207**

The liquidity of the Group is also secured on the basis of available cash, bank balances and unused credit lines.

The following Table shows the most important liquidity instruments:

LIQUIDITY INSTRUMENTS TABLE 113

In thousands of euros

	31/12/2021	31/12/2020
Cash and cash equivalents	130,969	87,044
of which, cash	5	12
of which, restricted	7,840	8,362
Credit line – unused amount	223,730	284,533
	354,698	**371,577**

Control of default risks

Instone Real Estate is subject to certain default risks due to its operating activities and specific financing activities.

At Instone Real Estate, operational risks are managed through the continuous control of trade receivables at branch level. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables as well as contract assets, and therefore records the expected losses over the total term.

The maximum default risk from financial assets is equal to their respective carrying amounts stated in the balance sheet. However, the de facto default risk is lower as collateral has been provided in favour of Instone Real Estate. The maximum risk from financial guarantees is equal to the maximum amount that Instone Real Estate would have to pay. The maximum default risk from loan commitments is equal to the amount of the commitment. It is very unlikely that these financial guarantees and loan commitments will be used at the time of reporting.

Instone Real Estate accepts collateral to secure the fulfilment of the contract by subcontractors, the warranty obligations of the subcontractors and fee claims. These securities include, but are not limited to, warranty guarantees, contract performance guarantees, advance payments and payment guarantees. Instone Real Estate has corresponding guidelines for the acceptance of collateral. This includes, among other things, rules on contract structure, contract implementation and contract management for all contracts. The exact specifications vary and depend, for example, on the country, jurisdiction and current case law. With regard to default risks, Instone Real Estate checks the creditworthiness of the guaranteeing party for all accepted collateral. Instone Real Estate commissions external professionals (such as rating agencies) to assess their creditworthiness as far as possible. The fair value of accepted collateral is not disclosed as it cannot usually be determined reliably.

The age structure of overdue financial assets is typical for the sector. The receipt of a payment depends on the order acceptance and invoice verification, which often take a relatively long time. The majority of these overdue non-impaired financial assets relate to receivables from public-sector clients with outstanding credit ratings. Contract assets are not subject to impairment.

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

The ongoing changes in the 2021 financial year are based on allocations, dissolutions and utilisations, and amount to €112 thousand (previous year: €326 thousand), meaning that, as at 31 December 2021, there was an impairment loss on trade receivables of €1,815 thousand.

IMPAIRMENTS PURSUANT TO IFRS 9 IN 2021

TABLE 114

In thousands of euros

	Carrying amount	Non-overdue	Up to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue
Trade receivables (gross carrying amount)	50,018	46,876	358	160	27	2,597
Impairment provisions	–1,815	–469	–4	–2	0	–1,341
Trade receivables (net carrying amount)	**48,202**	**46,407**	**354**	**158**	**27**	**1,256**

IMPAIRMENTS PURSUANT TO IFRS 9 IN 2020

TABLE 115

In thousands of euros

	Carrying amount	Non-overdue	Up to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue
Trade receivables (gross carrying amount)	3,007	99	379	57	77	2,395
Impairment provisions	–1,927	–1	–4	–1	–1	–1,921
Trade receivables (net carrying amount)	**1,080**	**98**	**375**	**56**	**76**	**474**

Control of interest rate risks

The interest rate risk of Instone Real Estate is mainly related to current and non-current interest bearing financial assets and liabilities due to fluctuations in market interest rates. Depending on the situation on the market, this risk is countered by a mix of fixed income and variable interest rate financial instruments. The risk is not managed separately, as borrowed funds are usually repaid promptly using the payments made by the acquirers.

Changes in market interest rates for non-derivative financial instruments with a fixed interest rate are only recognised in profit or loss if they are shown at their fair value. For this reason, any financial instruments recognised at amortised cost are not subject to interest rate risks as defined by IFRS 9.

As part of a sensitivity analysis, we examined the effects of changes in market interest rates on consolidated earnings after tax over a range of 100 basis points. In the financial year, a hypothetical increase or decrease in market interest rates by 100 basis points (providing all other variables remain constant) would result in higher or lower consolidated earnings after taxes of €–1,268 thousand or €1,138 thousand (previous year: €–2,015 thousand or €1,840 thousand).

Control of capital risk

Instone Real Estate manages its capital with the aim of ensuring that all Group companies continue to operate on a going concern basis. The Group keeps the cost of capital as low as possible. It achieves this by optimising the ratio of equity to debt on an as-needed basis.

The capital structure of the Group consists of current and non-current liabilities less the cash and cash equivalents reported in the balance sheet and in equity. The capital structure of the Group is reviewed regularly. The risk-adjusted capital costs are also taken into account.

The overall strategy for controlling the capital risk did not change in the financial year compared to the previous year.

Further disclosures on financial instruments

The carrying amounts for individual categories are shown below in accordance with IFRS 7:

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2021

TABLE 116

In thousands of euros

	Carrying amount 31/12/2021	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9
ASSETS				
Financial assets				
Financial receivables				
Non-current	17,580	16,991	589	0
Current	20,046	0	20,046	0
	37,626	**16,991**	**20,635**	**0**
Other investments	469	469	0	0
Contract assets	358,017	0	0	358,017
Trade receivables	48,202	0	48,202	0
Other receivables and other assets	47,993	0	47,993	0
Cash and cash equivalents	130,969	0	130,969	0
	623,276	**17,460**	**247,799**	**358,017**
EQUITY AND LIABILITIES				
Financial liabilities				
Financial liabilities				
Non-current	220,943	0	220,943	0
Current	169,606	0	169,606	0
	390,550	**0**	**390,550**	**0**
Contract liabilities	11,667	0	0	11,667
Liabilities from net assets attributable to non-controlling interests	5	5	0	0
Trade payables	125,112	0	125,112	0
Other liabilities	292,439	0	292,439	0
	819,773	**5**	**808,100**	**11,667**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2020

TABLE 117

In thousands of euros

	Carrying amount 31/12/2020	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9
ASSETS				
Financial assets				
Financial receivables				
Non-current	21,467	21,467	0	0
Current	155,750	0	155,750	0
	177,217	**21,467**	**155,750**	**0**
Other investments	445	445	0	0
Contract assets	194,158	0	0	194,158
Trade receivables	1,080	0	1,080	0
Other receivables and other assets	12,065	0	10,265	1,800
Cash and cash equivalents	87,044	0	87,044	0
	472,009	**21,912**	**254,139**	**195,958**
EQUITY AND LIABILITIES				
Financial liabilities				
Financial liabilities				
Non-current	313,665	0	313,665	0
Current	168,037	0	168,037	0
	481,701	**0**	**481,701**	**0**
Contract liabilities	25,554	0	0	25,554
Liabilities from net assets attributable to non-controlling interests	10,337	10,337	0	0
Trade payables	68,894	0	68,894	0
Other liabilities	93,703	0	93,703	0
	680,190	**10,337**	**644,299**	**25,554**

With the short-term financial instruments accounted for at amortised costs, the carrying amount corresponds to the fair value, due to the short remaining term to maturity. In the case of non-current financial liabilities, the carrying amount of a part corresponds to the fair value due to the variable interest rate. A fair value was determined for the fixed-interest non-current liabilities which exceeds the carrying amount by €12,654 thousand as at 31 December 2021 (31 December 2020: €11,311 thousand). Non-current fixed-interest liabilities fall under fair value, income hierarchy level 2. The fair value was determined using a cash value method using company-specific current interest rates derived from the market. Non-current financial receivables, if they are interest-free or low in interest rates, are recognised at their fair value. These bonds fall under fair value hierarchy level 2 and were determined using a cash value method taking into account current market interest rates.

Net results from financial instruments

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

NET RESULTS FROM FINANCIAL INSTRUMENTS TABLE 118

In thousands of euros

	31/12/2021	31/12/2020
Fair value through profit and loss	1.607	– 2,595
Assets at amortised cost	762	– 2,968
Liabilities at amortised cost	– 16,335	– 26,270
	– 13,967	**– 31,833**

The calculation of net results from financial instruments includes interest income and expenses, impairments and reversals, income and expenses from currency translation, dividend income, capital gains and losses and other changes in the fair value of financial instruments recognised through profit or loss.

The changes due to impairment of trade receivables amounted to €– 93 thousand in the financial year(previous year: €– 310 thousand).

Declaration of Conformity with the German Corporate Governance Code

In December 2021, the Management Board and Supervisory Board of Instone Real Estate Group SE issued the declaration of conformity for the financial year in accordance with Section 161 AktG.

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

Other financial obligations

As at 31 December 2021, other financial obligations amounted to €10 thousand (previous year: €165 thousand). The non-current obligations arising from rentals and leases are reported separately in the balance sheet in accordance with IFRS 16.

Events after the balance sheet date

There were no events of particular significance to report after the balance sheet date on 31 December 2021.

Disclosures on preparation and approval

The Management Board of Instone Real Estate Group SE prepared the consolidated financial statements on 10 March 2022 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of reviewing the consolidated financial statements and deciding on their approval.

Essen, Germany, 10 March 2022

The Management Board

Kruno Crepulja   Dr Foruhar Madjlessi   Andreas Gräf

List of shareholdings

LIST OF SHAREHOLDINGS AS AT 31/12/2021 GRI 2-2

TABLE 119

	Share of capital (%)	Equity in thousands of euros	Earnings in thousands of euros
I. Subsidiaries included in the consolidated financial statements			
BEYOUTOPE GmbH, Hanover, Germany[1]	0.02	256	2
Durst-Bau GmbH, Vienna, Austria	100.0	397	– 115
formart Immobilien GmbH, Essen, Germany[2]	100.0	701	0
formart Luxemburg S.à r.l., Luxembourg, Luxembourg	100.0	715	2
Gartenhöfe GmbH, Leipzig, Germany	100.0	6,110	160
Instone Real Estate Development GmbH, Essen, Germany[3]	100.0	153,986	0
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	3,552	4,784
Instone Real Estate Leipzig GmbH, Leipzig, Germany	100.0	35,423	– 117
Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany	100.0	1,225	1,544
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany	100.0	– 765	– 709
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany	100.0	1,062	1,005
KORE GmbH, Dortmund, Germany	85.0	6,322	76
Nyoo Real Estate GmbH (formerly: Instone Real Estate Property GmbH), Essen, Germany[3]	100.0	25	0
Projekt am Sonnenberg Wiesbaden GmbH (formerly: Instone Real Estate Erste Projektbeteiligungs GmbH & Co. KG), Essen, Germany	51.0	– 87	– 575
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany	70.0	18	– 7
Westville 1 GmbH, Essen, Germany	100.0	160	– 10
Westville 2 GmbH, Essen, Germany	99.9	14	– 11
Westville 3 GmbH, Essen, Germany	99.9	15	– 10
Westville 4 GmbH, Essen, Germany	99.9	15	– 10
Westville 5 GmbH, Essen, Germany	99.9	14	– 11

Our company
To our shareholders
Combined management report
Consolidated financial statements
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of cash flows
Consolidated statement of changes in equity
Notes to the consolidated financial statements
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Remuneration report
Other information

LIST OF SHAREHOLDINGS AS AT 31/12/2021 GRI 2-2

TABLE 119

	Share of capital (%)	Equity in thousands of euros	Earnings in thousands of euros
II. Interests in joint ventures			
beeboard GmbH (formerly coreGRID GmbH), Cologne, Germany	33.3	898	– 73
FHP Friedenauer Höhe Dritte GmbH & Co. KG, Berlin, Germany	50.0	– 410	9
FHP Friedenauer Höhe Erste GmbH & Co. KG, Berlin, Germany	50.0	– 418	– 89
FHP Friedenauer Höhe Sechste GmbH & Co. KG, Berlin, Germany	50.0	– 1,430	– 4
FHP Friedenauer Höhe Vierte GmbH & Co. KG, Berlin, Germany	50.0	– 2,995	4,418
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany	50.0	901	876
Twelve GmbH & Co. KG, Stuttgart, Germany	50.1	7,750	0
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany	50.0	31	6
Wohnpark Heusenstamm GmbH & Co. KG, Essen, Germany	50.1	3,577	45
III. Other investments			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	14	– 17
FHP Friedenauer Höhe Verwaltungs GmbH, Berlin, Germany	50.0	27	4
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	44	– 2
Immobiliengesellschaft CSC Kirchberg S.à r.l., Luxembourg, Luxembourg	100.0	79	6
Instone Real Estate Projektverwaltungs GmbH, Essen, Germany	100.0	– 7	– 13
Kleyer Beteiligungsgesellschaft mbH, Frankfurt am Main, Germany	100.0	131	– 14
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany[4]	6.0	2,979	122
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	1	0
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.0	18	– 17
TG Potsdam Projektentwicklungsgesellschaft mbH, Munich, Germany[5]	10.0	– 712	– 236
Twelve Verwaltungs GmbH Stuttgart, Germany	50.1	24	– 1
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	0	1
Westville Vermietungs GmbH (formerly: Instone Real Estate Erste Projekt GmbH), Essen, Germany	100	22	– 1
Wohnpark Heusenstamm Verwaltungs GmbH, Essen, Germany	50.1	24	– 1

[2] Profit and loss transfer agreement with Instone Real Estate Development GmbH.

[3] Profit and loss transfer agreement with Instone Real Estate Group SE.

[1] Annual financial statements 31/12/2019.

[4] Balance sheet date of 30/06/2020.

[5] Annual financial statements 31/12/2015.

LIST OF SHAREHOLDINGS AS AT 31/12/2020 GRI 2-2

TABLE 120

	Share of capital (%)	Equity in thousands of euros	Earnings in thousands of euros
I. Subsidiaries included in the consolidated financial statements			
Durst-Bau GmbH, Vienna, Austria	100.0	512	– 231
formart Immobilien GmbH, Essen, Germany[1]	100.0	701	0
formart Luxemburg S.à r.l., Luxembourg, Luxembourg	100.0	929	216
Gartenhöfe GmbH, Leipzig, Germany	100.0	5,950	130
Instone Real Estate Development GmbH, Essen, Germany[2]	100.0	153,986	0
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	– 1,233	– 380
Instone Real Estate Leipzig GmbH, Leipzig, Germany	100.0	35,541	3,481
Instone Real Estate Projekt Erlangen GmbH & Co. KG, Erlangen, Germany	100.0	– 28	– 35
Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany	100.0	– 318	– 227
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany	100.0	– 56	– 43
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany	100.0	57	29
KORE GmbH, Dortmund, Germany	85.0	6,246	90
Nyoo Real Estate GmbH (formerly: Instone Real Estate Property GmbH), Essen, Germany[2]	100.0	25	0
Projekt am Sonnenberg Wiesbaden GmbH (formerly: Instone Real Estate Erste Projektbeteiligungs GmbH & Co. KG), Essen, Germany	100.0	487	– 543
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany	70.0	17,360	10,008
Westville 1 GmbH, Essen, Germany	100.0	170	49
Westville 2 GmbH, Essen, Germany	99.9	10	– 15
Westville 3 GmbH, Essen, Germany	99.9	11	– 14
Westville 4 GmbH, Essen, Germany	99.9	11	– 14
Westville 5 GmbH, Essen, Germany	99.9	11	– 14

LIST OF SHAREHOLDINGS AS AT 31/12/2020 GRI 2-2

TABLE 120

	Share of capital (%)	Equity in thousands of euros	Earnings in thousands of euros
II. Interests in joint ventures			
FHP Friedenauer Höhe Dritte GmbH & Co. KG, Berlin, Germany	50.0	–889	–612
FHP Friedenauer Höhe Erste GmbH & Co. KG, Berlin, Germany	50.0	–557	–338
FHP Friedenauer Höhe Sechste GmbH & Co. KG, Berlin, Germany	50.0	–2,230	–1,043
FHP Friedenauer Höhe Vierte GmbH & Co. KG, Berlin, Germany	50.0	–947	–620
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany	50.0	24	–8
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany	50.0	511	486
Wohnpark Heusenstamm GmbH & Co. KG, Hamburg, Germany	25.1	3,785	57
III. Other investments			
BEYOUTOPE GmbH (formerly: Sportplatz RKP GmbH), Hanover, Germany[3]	0.02	256	2
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	11	–11
FHP Friedenauer Höhe Verwaltungs GmbH, Berlin, Germany	50.0	23	–2
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	46	2
Immobiliengesellschaft CSC Kirchberg S.à r.l., Luxembourg, Luxembourg	100.0	73	30
Instone Real Estate Erste Projekt GmbH, Essen, Germany	100.0	23	–2
Instone Real Estate Projektverwaltungs GmbH, Essen, Germany	100.0	6	–14
Kleyer Beteiligungsgesellschaft mbH, Frankfurt am Main, Germany	100.0	145	0
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany[4]	6.0	2,979	122
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	0	–8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany	50.0	34	8
TG Potsdam Projektentwicklungsgesellschaft mbH, Munich, Germany[5]	10.0	–712	–236
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany	70.0	–11	–12

[1] Profit and loss transfer agreement with Instone Real Estate Development GmbH.
[2] Profit and loss transfer agreement with Instone Real Estate Group SE.
[3] Annual financial statements 31/12/2019.
[4] Balance sheet date of 30/06/2020.
[5] Annual financial statements 31/12/2015.

TRANSLATION
– German version prevails –

Independent auditor's report

To Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany

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

Audit Opinions

We have audited the consolidated financial statements of Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit and loss, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2021 to 31 December 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report on the parent and the Group of Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany, for the financial year from 1 January 2021 to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the section "Sustainability report" and the content of the corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section "Corporate Governance Statement" of the combined management report.

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

- → the accompanying consolidated financial statements comply, in all material respects, with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

- → the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the section "Sustainability report" and the content of the corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section "Corporate Governance Statement".

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

Basis of the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter we have determined concerning revenue recognition over time as well as the measurement of contract assets and of inventories.

Our presentation of this key audit matter has been structured as follows:

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

b. auditor's response.

Revenue Recognition Over Time Including Measurement of Contract Assets and Inventories

a. In the consolidated financial statements of Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany, for the year ended 31 December 2021, contract assets of kEUR 358,017, inventories amounting to kEUR 843,703, and revenue totalling kEUR 735,142 from the development of residential and multi-family buildings, the design of urban districts, the restoration of historic objects as well as publicly funded construction (development activities) in Germany are reported. Applying the provisions under IFRS 15 on revenue recognition, revenue for units under development is recognised over time. In doing so, the service provided including the pro rata result is reported according to the degree of completion under revenue. Except for restoration objects, revenue for these matters is principally reported if a marketing progress of 30% has been reached for the relevant project. As of this point, the contractual right to withdraw granted to both parties ceases to exist. In the case of restoration objects, the revenue is reported with the start of the construction activity.

The amount of the revenue recognised from a given construction project and the valuation of contract assets or inventories depend on the following parameters:

- the marketing progress,
- the degree of completion and actual costs incurred as at the balance sheet date, and
- the estimate of total revenue and total costs.

While the marketed part of the construction projects is reported under the item contract asset after netting with prepayments received or under contract liabilities, the non-marketed part of the construction projects is reported under inventories.

Revenue recognition and the measurement of contract assets and inventories is based to a substantial extent on estimates and assumptions made by the executive directors with respect to the total amount of costs, the accrual of costs as at the balance sheet date as well as the estimates of total revenue attributable to the respective project. The discretionary estimates made by the executive directors have a direct and, for the most part, significant effect on the amount of revenue recognised in the consolidated statement of profit and loss and the amount of the contract assets or inventories in the consolidated statement of financial position.

Against this background, we have determined this matter as a key audit matter.

Information on revenue recognition and on the measurement of contract assets and inventories is provided by the executive directors in section "Basis for the Consolidated Financial Statements" of the notes to the consolidated financial statements.

b. In auditing revenue, contract assets and inventories, we examined the accounting principles applied in accordance with the provisions under IFRS 15, involving internal IFRS Advisory specialists. Within the scope of our audit, we included the material processes from the acceptance of projects (acquisition of the property) through to project management (construction activity and sale of individual dwelling) as well as the monthly cost accrual procedure, and examined the appropriateness and effectiveness of relevant internal control procedures. Applying the risk-based sampling method, we performed on-site visits to projects and, on the basis of the latter, we assessed the estimates and assumptions made by the executive directors as at the balance sheet date. We assessed the accrual of costs using appropriate evidence based on random sampling. In addition, we examined the accrual postings as at the balance sheet date for plausibility. We assessed the anticipated total revenue and total costs by involving internal Real Estate Consulting specialists as well as their specialist and industry knowledge. We evaluated the relevant disclosures in the notes to the consolidated financial statements as to their completeness and accuracy.

Other Information

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

→ the report of the supervisory board, which is expected to be made available to us after the date of this auditor's report,

→ the section "Corporate Governance Statement" of the combined management report, which also includes the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance,

→ the section "Sustainability report" of the combined management report,

→ the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and

→ all the remaining parts of the annual report, which are expected to be made available to us after the date of this auditor's report,

→ with the exception of the audited consolidated financial statements and the audited disclosures included in the combined management report and our auditor's report.

The supervisory board is responsible for the report of the supervisory board. The executive directors and the supervisory board are responsible for content of the corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section "Corporate Governance Statement" of the combined management report. The executive directors are responsible for the remaining other information.

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

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

→ is materially inconsistent with the consolidated financial statements, with the audited disclosures included in the combined management report or our knowledge obtained in the audit, or

→ otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's reliability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

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

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

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

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

→ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).

→ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3a) HGB

Audit Opinion

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance whether the electronic reproductions of the consolidated financial statements and of the group management report (hereinafter referred to as "ESEF documents") prepared for publication, contained in the provided file, which has the SHA-256 value 477621FD4555843ADFFD378C697015E1AA-5B7234DCE2B3C2B1 C8393F8CD394EF meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB ("ESEF format"). In accordance with the German legal requirements, this audit only covers the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format, and therefore covers neither the information contained in these electronic reproductions nor any other information contained in the file identified above.

In our opinion, the electronic reproductions of the consolidated financial statements and of the group management report prepared for publication contained in the provided file identified above meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above, we do not express any assurance opinion on the information contained within these electronic reproductions or on any other information contained in the file identified above.

Basis for the Audit Opinion

We conducted our audit of the electronic reproductions of the consolidated financial statements and of the group management report contained in the provided file identified above in accordance with Section 317 (3a) HGB and on the basis of the IDW Auditing Standard: Audit of the Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB (IDW AuS 410 (10.2021)). Our responsibilities in this context are further described in the "Group Auditor's Responsibilities for the Audit of the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files

The executive directors of the parent are responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Audit of the ESEF Files

Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

→ identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- obtain an understanding of internal control relevant to the audit of the ESEF files in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, i.e. whether the provided file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, on the technical specification for this electronic file.
- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' general meeting on 9 June 2021. We were engaged by the supervisory board on 20 July 2021. We have been the group auditor of Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany, since the financial year 2018.

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as with the audited ESEF documents. The consolidated financial statements and the group management report converted into the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the audited ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Prof. Dr. Holger Reichmann.

Düsseldorf/Germany, 11 March 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Prof. Dr. Holger Reichmann
Wirtschaftsprüfer
[German Public Auditor]

Signed: Michael Pfeiffer
Wirtschaftsprüfer
[German Public Auditor]

LIMITED ASSURANCE REPORT OF THE INDEPENDENT PRACTITIONER REGARDING THE NON-FINANCIAL STATEMENT

To Instone Real Estate Group SE, Essen/Germany

Our Engagement

We have performed a limited assurance engagement on the voluntary consolidated non-financial statement, which is included in the combined management report for the parent and the group, of Instone Real Estate Group SE, Essen/Germany, (hereafter referred to as "the Company") for the financial year from 1 January to 31 December 2021 (hereafter referred to as "non-financial statement"). This non-financial statement comprises the text passages of Instone Real Estate SE's sustainability report that are marked with the icon ("|||").

Our engagement did not cover any sections not marked with the icon ("|||") nor any other disclosures of Instone Real Estate Group SE's sustainability report.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the voluntary preparation of the non-financial statement in accordance with Section 315c in conjunction with Sections 289c to 289e German Commercial Code (HGB).

These responsibilities of the executive directors of the Company include the selection and application of appropriate methods regarding the non-financial statement and the use of assumptions and estimates for individual non-financial disclosures of the Group which are reasonable under the given circumstances. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of a non-financial statement that is free from material misstatements due to fraudulent behaviour (manipulation of the non-financial statement) or error.

The preciseness and completeness of the environmental data in the non-financial statement is subject to inherent restrictions resulting from the manner in which the data was collected and calculated as well as from assumptions made.

Independence and Quality Assurance of the Audit Firm

We have complied with the German professional requirements on independence and other professional rules of conduct.

Our firm applies the national statutory rules and professional announcements – particularly of the "Professional Charter for German Public Auditors and German Sworn Auditors" (BS WP/vBP) and of the IDW Quality Assurance Standard "Quality Assurance Requirements in Audit Practices" (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW) and does therefore maintain a comprehensive quality assurance system comprising documented regulations and measures in respect of compliance with professional rules of conduct, professional standards, as well as relevant statutory and other legal requirements.

Responsibilities of the Practitioner

Our responsibility is to express a conclusion on the non-financial statement based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", adopted by the IAASB. This standard requires that we plan and perform the assurance engagement so that we can evaluate with limited assurance whether any matters have come to our attention to cause us to believe that the non-financial statement of the Company has not been prepared, in all material respects, in accordance with the requirements of Section 315c in conjunction with Sections 289c to 289e HGB.

The procedures performed in a limited assurance engagement are less in extent than in a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgement.

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Within the scope of our limited assurance engagement, which we performed primarily during the months from January to March 2022, we performed, among others, the following procedures and other work:

→ Obtaining an understanding of the structure of the Group's sustainability organisation and of the stakeholder engagement,

→ Inquiries of relevant employees involved about the process of preparation, about the system of internal control relating to this process, as well as about the disclosures contained in the non-financial statement,

→ Identification of probable risks of material misstatements in the non-financial statement,

→ Analytical evaluation of selected disclosures contained in the non-financial statement,

→ Cross validation of selected disclosures and the corresponding data in the consolidated financial statements as well as in the combined management report,

→ Evaluation of the presentation of the non-financial statement.

Practitioner's Conclusion

Based on the assurance work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the non-financial statement of the Company for the financial year from 1 January to 31 December 2021 has not been prepared, in all material respects, in accordance with the requirements of Section 315c in conjunction with Sections 289c to 289e HGB. This conclusion solely relates to the text passages in Instone Real Estate Group SE's sustainability report that are marked with the icon (“”). Our conclusion does not relate to any sections not marked with the icon (“”) nor any other disclosures of Instone Real Estate Group SE's sustainability report.

Restriction of Use

We issue this report as stipulated in the engagement letter agreed with the Company (including the “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)” as of 1 January 2017 promulgated by the Institut der Wirtschaftsprüfer (IDW)). We draw attention to the fact that the assurance engagement was performed for the purposes of the Company and the report is solely designed for informing the Company about the findings of the assurance engagement. Therefore, it may not be suitable for another than the aforementioned purpose. Hence, this report should not be used by third parties as a basis for any (financial) decision.

We are liable solely to the Company. However, we do not accept or assume liability to third parties. Our conclusion was not modified in this respect.

Düsseldorf/Germany, 11 March 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Prof. Dr. Holger Reichmann
Wirtschaftsprüfer
[German Public Auditor]

Signed: Dr Matthias Schmidt

Remuneration report 2–19, 2–20, 2–21

This remuneration report explains the remuneration systems and remuneration for the Management Board and Supervisory Board of Instone Real Estate Group SE in accordance with the legal requirements and the recommendations of the German Corporate Governance Code (GCGC) in the version adopted on 16 December 2019. It also takes into account the requirements of German Accounting Standard No. 17 (DRS) and the German Commercial Code (HGB).

In the 2021 financial year, with effect from 1 July 2021, the remuneration systems for the members of the Management Board and Supervisory Board were adapted to the new stock corporation law requirements under the Law on the Implementation of the Second Shareholders' Rights Directive (ARUG II) of 12 December 2019.

Against this background, the remuneration report explains both the new regulations regarding the remuneration of the Management Board in Section I which will apply from 1 July 2021, and the old regulations regarding the remuneration of the Management Board applicable until 30 June 2021 in Section II, insofar as they deviate from the new regulations. In the context of this remuneration report, the individual remuneration of the individual members of the Management Board are also detailed in Section III, and the remuneration system and remuneration of Supervisory Board members in the 2021 financial year are disclosed in Section IV. Section V also provides the legally required information on the vertical comparison. GRI 2-19, 2-20

I. Remuneration system for the members of the Management Board of Instone Real Estate Group SE from 1 July 2021

The current remuneration system for the members of the Management Board of Instone Real Estate Group SE approved by the Supervisory Board during this financial year, is based on the remuneration system which entered into force in connection with the successful IPO of the Company and the first listing on the Frankfurt Stock Exchange on 15 February 2018, and was based on the employment contracts of the members of the Management Board until 30 June 2021. On 9 June 2021, the Annual General Meeting of the Company approved the remuneration system described under Section I, which will be in place from 1 July 2021, with 98.27% of votes cast in favour. The full remuneration system can be viewed at ↗https://ir.de.instone.de/websites/instonereal/English/5930/remuneration.html.

Once again under the new remuneration system, remuneration is geared towards sustainable and long-term corporate performance. Transparency and traceability of the remuneration system and the individual remuneration of the Management Board members are key components of good corporate governance at Instone Real Estate Group SE.

The remuneration system applies for a maximum period of four years for all newly concluded employment contracts with Management Board members and for contract extensions and amendments from 1 July 2021. Accordingly, the employment contracts of the members of the Management Board were re-drafted with effect from 1 July 2021 in accordance with the provisions and regulations of the new remuneration system. Remuneration claims prior to 1 July 2021, including those from variable remuneration, shall continue to be based on the respective underlying contractual provisions at that time.

The main components of the remuneration system are as follows:

TABLE 121

Remuneration component	Components	Weighting/description
Non-performance-based emoluments (approx. 40% of the target remuneration)	Basic remuneration	Payable annually in 12 equal instalments at the end of each month
	Fringe benefits	Include, for example, use of a company car, premium for accident insurance and reimbursement of other expenses for Management Board activities
Performance-based emoluments – short-term incentive (STI) (approx. 25% of the target remuneration)	Financial target: EAT (adjusted)	37.5% of the STI bonus base amount, measured by the economic success in the underlying financial year
	Financial target: Volume of sales contracts	37.5% of the STI bonus base amount, measured by the performance in the underlying financial year
	Strategy and sustainability targets (number: 2–4)	25% of the STI bonus base amount, measured on the basis of the target achievement in the underlying financial year
	Payout	Each year following the target approval by the Supervisory Board in the month following the audited annual financial statements
Long-term performance-based emoluments – long-term incentive (LTI) (approx. 35% of the target remuneration)	Performance share plan (financial targets and non-financial ESG target)	Virtual share tranche paid out after the end of a three-year performance period on the basis of the achievement of targets specified in advance by the Supervisory Board and presented below
	Financial target: Relative TSR (Instone share price development including distributions)	20% of the LTI bonus base amount measured by comparing the total shareholder return for Instone (Instone share price performance including distributions) during the three-year performance period to the performance of the SDAX (performance index)
	Financial target: Earnings per share (EPS target)	50% of the LTI bonus base amount, measured by the performance of the adjusted earnings per share over the three-year performance period
	Non-financial ESG target	30% of the LTI bonus base amount, as measured by the target achievement during the three-year performance period
	Payout	At the end of a total of three years in euros in the month following the approval of the annual financial statements, for each tranche based on the performance of the Instone share price during the three-year performance period, including distributions (total shareholder return method)
Caps/maximum remuneration	STI cap	200% of the STI bonus base amount
	max. LTI payout factor	300% of the LTI target achievement
	LTI cap	300% of the LTI bonus base amount
	Maximum remuneration	€3.1 million for the CEO €2.35 million each for other members of the Management Board
Share ownership guideline	Minimum holding by Management Board members of Instone shares	Obligation to hold Instone shares to the equivalent of a non-performance-based basic salary (gross) throughout the entire term of the contract. The equivalent value is measured according to the purchase price of the shares. If the share ownership obligation has not been met at the start of the contract term, it must be achieved during the term of the contract through corresponding acquisitions.
Malus/clawback regulations		Retention and/or clawback of variable remuneration components in the event of violation of statutory obligations or obligations set out in the employment contract or internal codes of conduct

A. Contribution of remuneration to the promotion of the business strategy and the long-term performance of the Company

The calculation of the remuneration is mainly based on the size and complexity of the Instone Group, its economic situation and financial position, and its success and future prospects. The respective tasks and the personal performance of the individual members of the Management Board are further key criteria for determining the remuneration. The remuneration system sets competitive remuneration by comparison nationally and internationally which creates added value for customers, employees, shareholders and other stakeholders by setting performance criteria based on long-term and sustainable company success in particular, and combining them with challenging objectives. The key objectives set by the Supervisory Board for variable remuneration are in line with the corporate strategy and ensure that the remuneration of the Management Board and long-term corporate performance are aligned with the business planning.

B. Procedure to set and implement the remuneration of the Management Board and to review the remuneration system

Responsibility for creating the remuneration system and determining the specific total emoluments of the individual members of the Management Board and regularly reviewing the remuneration system lies with the Supervisory Board of Instone Real Estate Group SE. The Supervisory Board has set up a Remuneration Committee which is responsible, in particular, for providing advice on the employment contracts of Management Board members and preparing relevant resolutions, as well as preparing the setting of the objectives for the variable remuneration components and their assessment by the Supervisory Board. The Supervisory Board reviews the remuneration system at regular intervals on the basis of the preparations and recommendations of the Remuneration Committee. If the Supervisory Board establishes a need for action, it decides on the necessary changes and the remuneration system is again submitted to the Annual General Meeting for approval if it is of material significance.

The Supervisory Board may use external consultants to perform its tasks, which it must ensure are independent of the Management Board and Instone Real Estate Group SE, and has done so also for the preparation of the current remuneration system. With regard to dealing with potential conflicts of interest in the Supervisory Board, the Rules of Procedure for the Supervisory Board contain the corresponding regulations which provide, among other things, for the disclosure to the Chair of the Supervisory Board of potential conflicts of interest, as well as a ban on participation and voting in the case of identified conflicts of interest, and which also apply to remuneration matters.

The Annual General Meeting shall pass a resolution on the remuneration system in the case of any significant change to the remuneration system, but at least every four years. If the Annual General Meeting has not approved the remuneration system, a revised remuneration system must be submitted for approval no later than the next ordinary Annual General Meeting.

C. Setting and appropriateness of the remuneration

In line with the remuneration system, the Supervisory Board has set the amount of the target total remuneration and corresponding remuneration limits (caps) for each member of the Management Board. Remuneration is proportionate to the tasks and performance of the Management Board member and the position of the Instone Group, such that it does not exceed the usual remuneration without special grounds and is geared towards the long-term and sustainable performance of Instone Group. The appropriateness of the remuneration is reviewed regularly by the Supervisory Board. For this purpose, both external and internal comparative analyses are conducted.

Consideration of employee remuneration and employment conditions as well as peer group comparison

Internal analysis was carried out in the form of a vertical comparison of the remuneration and employment conditions of the employees. The remuneration amounts of the members of the Management Board were set in relation to the remuneration levels of the senior management and the workforce as a whole. The delineation between these two employee groups was carried out by the Supervisory Board. Senior management consists of the Managing Directors of the subsidiaries; the total workforce consists of the full-time employees of Instone Group in Germany (including senior management). The results of the vertical comparison are taken into account in determining the remuneration system and future adjustments to the remuneration level of the Management Board, including in terms of their development over time.

The Supervisory Board also carried out an external comparison analysis of the remuneration levels on the basis of two peer groups (sector and growth) to develop the remuneration system and review the appropriateness of the remuneration conditions. The members of the sector group were selected on the basis of six criteria (company size; sector, i.e. direct competitors or companies in other industries with comparable characteristics, in particular, real estate; country; legal form; capital market orientation; and relevant labour market) under the premise of the greatest possible comparability with Instone Real Estate Group SE. Due to the significant growth of the Instone Group since the IPO, a second growth peer group has also been set up which is comparable with Instone Real Estate Group SE in terms of revenue growth rates, corporation size and region.

D. Remuneration components

The total remuneration of the individual members of the Management Board consists of various components. In terms of structure, the remuneration components are regulated in the same way for all members of the Management Board, and are estimates as the amount of the fringe benefits as part of the non-performance-based remuneration may vary in particular:

TABLE 122

Target remuneration p.a.	100%
of which, **non-performance-based** emoluments	Approx. 40%
– of which, **performance-based** emoluments – **short-term (STI)**	Approx. 25%
– of which, **performance-based** emoluments – **long-term (LTI)**	Approx. 35%

The remuneration of the Management Board consists of non-performance-based salary and benefits in kind, performance-based (variable) emoluments and – for two members of the Management Board – pension commitments agreed before appointment to the Management Board, for which the allocations by the Company up to 2020 are expected to correspond to an annual retirement benefit from the age of 65 of between 3% and 5% of the current annual non-performance-based basic salary. Variable remuneration is determined on a multi-year assessment basis in order to create incentives for sustainable and long-term corporate development. The remuneration system explicitly stipulates that any positive and negative developments are taken into account. The Supervisory Board also sets a maximum amount (cap) for each variable remuneration component. The remuneration of the Management Board is heavily based on performance, with a particular focus on long-term variable remuneration.

For example, the STI bonus is approx. 62.5% of non-performance-based emoluments when the target is fully achieved and approx. 125% of non-performance-based emoluments for maximum target achievement. Due to its even greater weighting, the LTI bonus amounts to approximately 87.5% of non-performance-based emoluments if the target is achieved in full and approximately 262.5% of non-performance-based emoluments for maximum target achievement.

This remuneration generally applies to all activities performed for the Company and for the companies affiliated with the Company in accordance with Sections 15 et seq. of the German Stock Corporation Act (Aktiengesetz). GRI 2-21

Non-performance-based emoluments

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

The members of the Management Board also receive non-performance-related fringe benefits. These include, for example, the use of a company car and the payment of premiums for accident insurance with standard services and are taken into account in the maximum remuneration of the Management Board.

Performance-based emoluments

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

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to the structure of the components, the share of the LTI outweighs the share of the STI in the target remuneration.

In the event that the Management Board member is not entitled to remuneration for the entire financial year underlying the calculation, a corresponding pro-rata reduction of these variable remuneration components will be made.

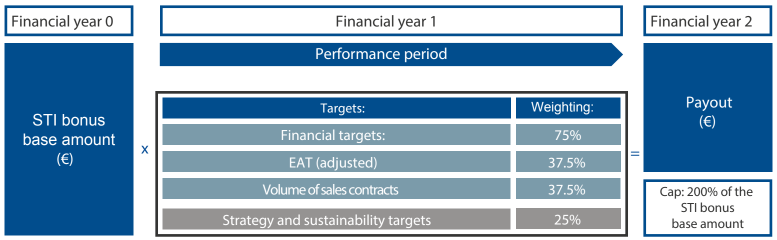
One-year variable remuneration (short term incentive, STI)

The one-year variable remuneration in the form of the STI is linked to

→ the economic results or performance of the Instone Group in the underlying financial year (*financial targets*), and

→ the *strategy and sustainability targets* set for the individual members of the Management Board.

Variable compensation – STI



The financial targets laid down in the STI, which account for a total of 75% of the STI bonus base amount, consist of the adjusted earnings after tax (**EAT (adjusted)**) and the **volume of sales contracts**, and are weighted identically at 37.5% each. Both the EAT (adjusted) and the volume of sales contracts are financial and corporate governance key performance indicators of the Instone Group, and are part of the company forecast. Both financial targets are therefore essential for the Management Board's corporate strategy and the long-term performance of the Instone Group. From the Supervisory Board's point of view, the measurement of short-term variable remuneration using these financial and corporate governance key performance indicators appears appropriate in order to ensure that the Management Board is incentivised to implement the corporate strategy. The earnings-based key performance indicator EAT (adjusted) is also a benchmark for the dividend policy. The volume of sales contracts, which is a common key performance indicator for real estate, includes all sales-related transactions, such as notarised real estate purchase agreements, individual orders from customers and rental income. Both financial targets are derived from the business planning and forecast prepared by the Management Board and approved by the Supervisory Board and are uniformly re-set for the Management Board for each bonus year. EAT (adjusted) and volume of sales contracts are determined on the basis of the adjusted results of operations underlying the financial reporting of Instone Real Estate Group SE and explained in more detail in the annual report on page 122.

Linking the one-year variable remuneration with these Instone Group financial and corporate governance key performance indicators serves to ensure profitable and sustainable growth. In addition, by selecting these targets, incentives are set for the Management Board to act in accordance with the corporate strategy and the business planning approved by the Supervisory Board, or – in the best case – to outperform the forecast communicated to the capital market.

The **strategy and sustainability targets** relevant to the respective bonus year are determined individually by the Supervisory Board for each bonus year and for each member of the Management Board. The Supervisory Board generally defines two to four targets for each member of the Management Board which serve to implement the corporate strategy and the long-term corporate performance. The strategy and sustainability targets amount for 25% of the STI bonus. This allows the Supervisory Board to set central, although not necessarily financial, targets in the interests of the Company for the Management Board and to link them with the individual performance of the members of the Management Board. These objectives may include, for example, the promotion and development of the new product line nyoo (affordable housing) or the creation of subsidised housing in addition to environmental issues, such as CO_2 reduction, and customer and employee satisfaction, the value of investor sales or the optimisation of corporate financing. In order to ensure sufficient transparency and traceability for the achievement of the targets, the Supervisory Board shall ensure that targets are set in each case or criteria are set for the objectives, the achievement of which is set and measurable ideally using quantitative methods. The Supervisory Board may weight the strategy and sustainability targets set annually differently. Each individual target must be weighted with a minimum of at least 25% within the strategy and sustainability targets.

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An STI bonus base amount in euros is agreed for each member of the Management Board in the relevant employment contract. The payment amount of this variable remuneration component is then determined according to the achievement of the objectives whose target and threshold achievement values for each performance period are determined by the Supervisory Board as follows:

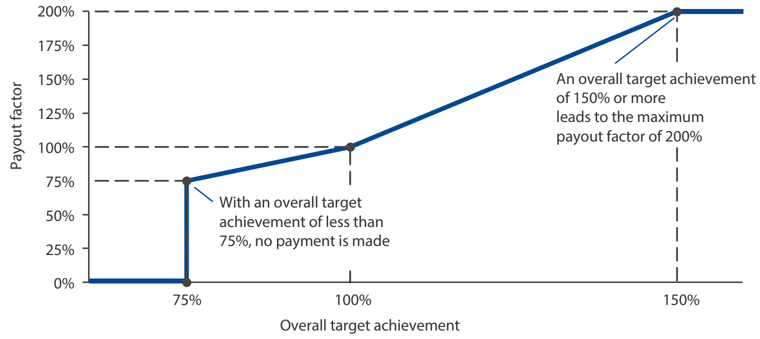
→ At the end of the respective bonus year (performance period), the Supervisory Board determines the achievement of the objectives for each individual target and transfers the achievement of the individual targets into an overall target achievement, taking into account the weighting of the respective individual targets. The maximum target achievement for each individual STI target is capped at 175%.

→ The overall target achievement is allocated to an STI payout factor in accordance with a bonus curve (see below). If the overall target achievement is less than 75% (**lower target limit**), there is no entitlement to a payment of the STI bonus. Due to the ambitious targets set, above-average performance of Management Board members is rewarded at an accordingly high rate: If the overall target achievement is 150% or more (**upper target limit**), the STI payout factor is 200%. The STI payout factor for an overall target achievement of between 100% and 150% is calculated according to this proportionality. With a total target achievement of between 75% and 100%, the STI payout factor has a linear correlation to the overall target achievement.

→ The STI payout factor is multiplied by the agreed STI bonus base amount and thus results in the payout amount of the STI bonus in euros for the performance period. The payout amount may not exceed 200% of the STI bonus base amount (**cap**). Payment is made in the month following the adoption of the audited annual financial statements of the Company.

The following is an example of the overall target achievement of the STI and the resulting STI payout factor:

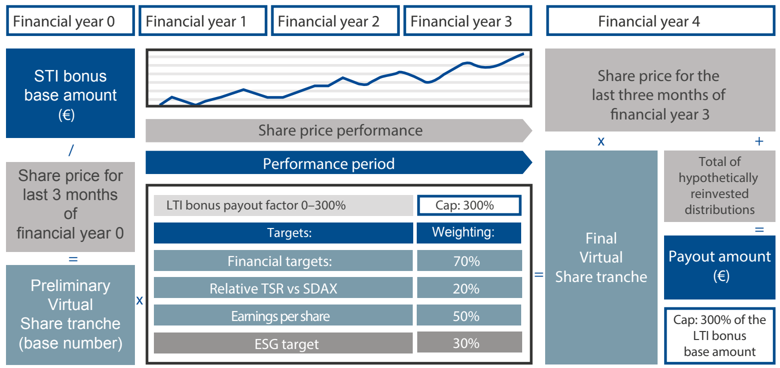
Bonus curve – overall target achievement



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

As a further component of variable remuneration, the members of the Management Board are also promised multi-year variable compensation in the form of an LTI bonus on the basis of a share-based virtual performance share plan. By linking it to the price of the Instone shares, it creates incentives for the Management Board to boost the long-term, sustainable performance of the Instone Group. In addition, it strengthens the balance of interests between shareholders and the Management Board.

Variable compensation – LTI



The amount of any LTI bonus depends on

- → the amount of the LTI bonus base amount and the underlying average share price at the time of allocation of the virtual share tranche in financial year 0,
- → the achievement of *financial targets* and a *non-financial ESG target* during a three-year performance period and
- → the *share price performance* (taking into account distributions) of Instone Real Estate Group SE during the three-year performance period.

The assessment period for the multi-year variable remuneration therefore totals three years.

The financial targets set in the LTI are the performance of the adjusted earnings per share (*EPS*) (**EPS target**) and the total shareholder return (share price performance, taking into account distributions) of Instone Real Estate Group SE compared to the SDAX (**relative TSR**), which accounts for a total of 70% of the LTI bonus base amount and is weighted at 50% and 20% respectively. Both financial targets are derived from the business planning and forecast prepared by the Management Board and approved by the Supervisory Board and are re-defined for the Management Board uniformly for each three-year performance period.

The **EPS target** has set a target that will be used to incentivise the Management Board to increase the long-term profitability of the Company based on to the multi-year performance period. This creates an incentive to manage the Company profitably and in a profit-oriented manner and, at the same time, to generate long-term, sustainable growth in the interests of shareholders. The EPS target is set in the form of an aggregated target price over the performance period. The EPS target is determined on the basis of the adjusted results of operations underlying the financial reporting of Instone Real Estate Group SE and explained in more detail in the annual report on page 122.

The **relative TSR** provides an incentive for the Management Board to achieve an above-average performance compared with other listed companies. The development of the share price also reflects the increase in value of the Company from a shareholder perspective. The Supervisory Board considers the SDAX to be an appropriate benchmark parameter as the Instone share is listed on the SDAX, which is comprised of companies of a comparable size. In the event that the Instone share is no longer listed on the SDAX, the SDAX is significantly changed or other developments that no longer make a reference to the SDAX appear appropriate, the Supervisory Board may select another suitable equity index as the benchmark.

The Supervisory Board also sets a non-financial **ESG target** (*Environmental, Social and Governance target*) which accounts for 30% of the LTI bonus base amount. The ESG target, which is set uniformly for each annually granted LTI tranche for all members of the Management Board, aims to promote the sustainable development of the Instone Group in accordance with the Company's ESG strategy. The Supervisory Board will set a target here that is in the interests of the Company's stakeholders and is geared towards meeting the long-term, three-year target. Measurement of the target achievement should ideally be quantifiable.

An LTI bonus base amount in euros is agreed for each member of the Management Board in the relevant employment contract. This is divided by the average volume-weighted Instone share price for the last three months of the financial year before the start of the performance period in order to determine a preliminary tranche of virtual shares allocated to the respective Management Board member (**base number**). The payment amount of this variable remuneration component is then determined according to the achievement of the objectives for which the Supervisory Board sets the target or the threshold values to be achieved for each performance period and the share price performance of the Instone share, as follows:

- → At the end of the three-year performance period, the Supervisory Board determined the achievement of each individual target.
- → The target achievement for each individual target is assigned to an LTI payout factor according to a bonus curve (see below). Taking into account the respective weighting of the individual target, the individual LTI payout factors determined in this way form a total payout factor. Due to the ambitious targets set, above-average performance of Management Board members is rewarded at an accordingly high rate: If the target achievement of an individual target is 150% or more (**upper target limit**), the relevant LTI payout factor for this individual target is 300%. The LTI payout factor for a target achievement of between 100% and 150% is calculated according to

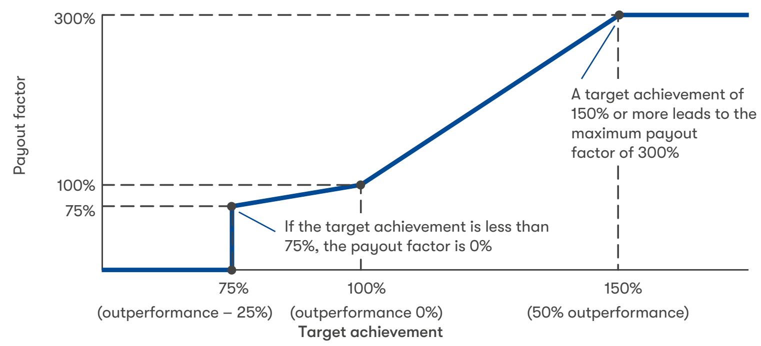
this proportionality. If the target achievement for an individual target is 100% or less, this corresponds (subject to and up to a **lower target limit** set by the Supervisory Board) to the LTI payout factor of the respective target achievement.

→ In order to determine the relative TSR, we calculate the ratio of the final Instone share price compared to the initial price. For smoothing purposes, the initial and final prices are based on the volume-weighted average of the closing prices of the Instone share in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange for the previous three months, and distributions, including dividend payments, are also taken into account at the final price, assuming the re-investment in Instone shares is made during the performance period. For the calculation of the performance of the SDAX (as the performance index), the initial value is the arithmetic mean of the closing values in the SDAX for the last three months before the start of the respective performance period and the final value is the arithmetic mean of the closing values of the SDAX for the last three months of the respective three-year performance period. The target achievement for the relative TSR and the proportional LTI payout factor is 100% if, at the end of the performance period, the performance of the share price (including distributions, including dividend payments and assuming re-investment in Instone shares during the performance period) of the Instone share matches the performance of the SDAX. If the target achievement for the relative TSR is less than 75%, this target is considered to have been missed and it is cancelled (see the bonus curve below).

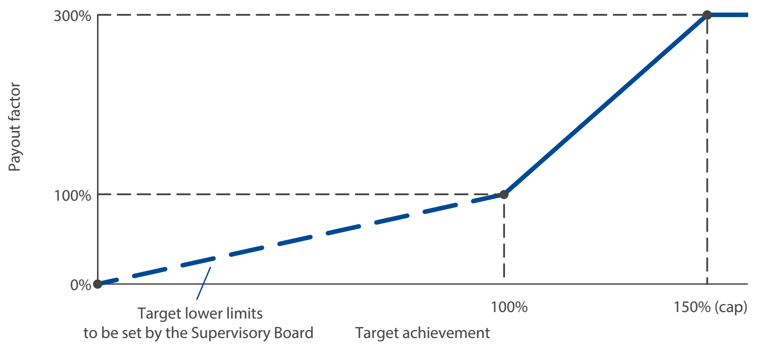
→ The base number of virtual shares is multiplied by the total payout factor and the average volume-weighted share price of the last three months before the end of the last financial year of the performance period, taking into account distributions, including dividend payments and assuming the re-investment in Instone shares during the performance period (total shareholder return approach) in order to put the Management Board member in the same position as a real shareholder. Payment is made after the end of the performance period in the month following the approval of the audited annual financial statements of the Company.

The bonus curves for the relative TSR target (first illustration) and for determining the other LTI payout factors (EPS target and ESG target) (second illustration) are shown below:

Bonus curve – relative TSR



Bonus curve – LTI payout factors



In the event of the extraordinary performance of the share price, the Supervisory Board is entitled to take into account a reasonable longer period before the end of the respective bonus year to determine the average closing price. If capital measures lead to a reduction or an increase in the number of Instone shares (e.g. equity splits or mergers of shares), this effect is taken into account when determining the target achievement by means of suitable calculations and the effect is neutralised.

The amount paid out of the LTI bonus is overall limited to (capped at) the amount equal to 300% of the LTI bonus base amount (LTI cap).

Share ownership guideline

In order to strengthen the long-term performance and boost the Management Board's investment in Instone Real Estate Group SE, the members of the Management Board are obliged, based on the share ownership guideline, to acquire shares in Instone Real Estate Group SE in the amount of a non-performance-based gross annual salary within a four-year build-up phase that starts with their appointment to the Management Board, and to hold shares in Instone Real Estate Group SE for the entire term of their Management Board employment contract. The equivalent value is measured according to the purchase price of the shares. Shares already held by a member of the Management Board count towards the required ownership quota.

If the respective member of the Management Board has acquired shares in the amount of a non-performance-based gross annual salary, this threshold may be undershot by up to 50% for a maximum period of six months. In this case, the Management Board member is obliged, within a period of six months, to top up the number of shares held to the amount of a non-performance-based gross annual salary.

E. Establishing a maximum remuneration and temporary deviations from the remuneration system

Maximum remuneration

Pursuant to Section 87a (1) sentence 2 No. 1 AktG, the Supervisory Board has set a maximum limit for the total of all remuneration components, including fringe benefits and pension commitments. This amounted to €3.1 million for the CEO and €2.35 million for the other members of the Management Board. These maximum remunerations set by the Supervisory Board take into account the findings from the peer group analysis and the strongly performance and growth-oriented structure of this Management Board remuneration system, and are intended to facilitate the market-oriented and company-specific performance of the Management Board remuneration in the interests of the Company.

Temporary deviations from the remuneration system

By way of exception, a deviation from the remuneration system is possible for the Supervisory Board in accordance with the statutory provisions of Section 87a (2) sentence 2 AktG if extraordinary circumstances make such a deviation necessary in the interests of the long-term well-being of the Company. This requires a Supervisory Board resolution that establishes the need for a deviation in a transparent and justified manner. The components of the remuneration system specifically affected by the deviation and the need for a deviation must also be explained to the shareholders in the remuneration report. In the case of the conditions described, a deviation may occur, particularly from the performance criteria for variable remuneration, the proportions of the components of the target remuneration and for extraordinary fringe benefits.

F. The Company's ability to claw back variable remuneration components

The employment contracts of the members of the Management Board contain provisions that provide the Supervisory Board with the discretion to withhold (malus) or reclaim (clawback) variable remuneration components in part or in full. A prerequisite for these regulations to apply is an at least grossly negligent and serious breach of statutory or contractual service obligations or of internal codes of conduct. In these cases, the Supervisory Board may, at its due discretion, reduce variable remuneration components that have not yet been paid out and may withhold or claw back variable remuneration components already paid out.

The aforementioned claims become statute-barred at the end of two years following the end of the assessment period for the respective variable remuneration component.

G. Remuneration-related legal transactions

Terms and conditions for termination of remuneration-related legal transactions

The term of the Management Board employment contracts runs in parallel to the appointment period of the respective member of the Management Board as decided by the Supervisory Board. Each employment contract has a fixed term and therefore does not contain any ordinary right of termination. The right to extraordinary termination remains unaffected.

Severance payments

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

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

Special termination rights were agreed with the members of the Management Board in the event of a change of control. Members of the Management Board are entitled to a severance payment if there is a fundamental impairment of the commercial basis of the Company in addition to the change of control, i.e. if the resigning member of the Management Board has been removed from his/her role, a control and/or profit transfer agreement is concluded with the Company as a dependent company, or the legal form of the Company is changed or if the decision-making powers of the resigning member of the Management Board are significantly impaired without objective grounds. In addition, there are special termination rights for members of the Management Board in the event of a dismissal due to a vote of no confidence from the Annual General Meeting or in the event of a resignation for good cause.

If a special right of termination is exercised, the resigning member of the Management Board is entitled to a severance payment in the amount of 1.5 times the gross annual remuneration. This severance payment shall be reduced on a pro rata basis in the case of a residual term to the end of the employment contract of less than 1.5 years. No claim to a severance payment exists if the appointment ends due to dismissal for good cause within the meaning of Section 626 of the German Civil Code (BGB) or good cause within the meaning of Section 84 (3) AktG which is not based on a vote of no confidence by the Annual General Meeting.

Variable remuneration components are also paid in the event of early termination of Management Board activities in accordance with the originally agreed assessment bases (performance targets, performance periods, etc.) and due dates.

Pension commitments

Two members of the Management Board still have a company pension plan in the form of individual, contractually agreed pension agreements which are valid after reaching the minimum pensionable age of 65 years. These two pension agreements were agreed in 2008 and 1987 respectively and thus significantly before the IPO and the appointment of the eligible Management Board members and will also continue to be executed.

The two members of the Management Board entitled to the pension provision are credited with the pension component for the duration of the pension commitment as part of this company pension provision model and in accordance with the underlying old agreements. This will be credited from the time they reach the age of 65 with a specific monthly payment amount, and will cumulatively reflect the respective pension entitlement under the company pension scheme. The respective amount of the monthly pension component is calculated on the basis of the monthly non-performance-based cash remuneration of the members of the Management Board entitled to the benefit, multiplied by an age factor, which maps an appropriate interest rate, and another fixed amount to be determined annually. The necessary provisions for the pension components and the resulting pension obligations are recalculated annually using actuarial methods. The amount of the credited pension components decreases with the progressive duration of the pension agreements with otherwise unchanged fixed non-performance-based emoluments. GRI 201-3

II. Remuneration system to 30 June 2021 for the members of the Management Board of Instone Real Estate Group SE

As a result of the adjustment of the remuneration system for the members of the Management Board as at 1 July 2021, the old remuneration system regulations valid up to 30 June 2021 are described below where these old regulations deviate from the current remuneration system. The old regulations shall apply to the remuneration of the Management Board up to and including 30 June 2021.

Performance-based emoluments

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

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

Short-term variable remuneration in the form of an STI is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board. The total amount of this variable remuneration component is determined according to the achievement of the objectives for the individual components described below and the following weighting:

TABLE 123

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

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

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

The target figures are derived from the annual budget and are determined by the Supervisory Board. At the end of the respective bonus year, which in the present case was most recently the 2021 financial year, the Supervisory Board determines whether the personal and company-related targets have been achieved. The amount is paid in the month following the audited annual financial statements. If the target achievement is less than 80%, the targets are considered to have been missed and there is no entitlement to the variable remuneration component (target lower limit). The one-year variable remuneration is limited in its total amount to the amount corresponding to a target achievement of 150% (target upper limit).

If the Management Board member is not entitled to remuneration for the entire financial year underlying the calculation, a corresponding pro rata reduction of this variable remuneration component will be made. In accordance with this regulation, this variable remuneration component will be reduced on a pro rata basis, i.e. halved, due to the adjustment of the Management Board contracts to the new remuneration system from 1 July 2021.

Multi-year variable remuneration

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

Any LTI bonus depends on the achievement of corporate goals during the bonus year. The assessment bases used are the projected and actual values specified for adjusted earnings before tax (EBT). To determine the targets achieved, the arithmetic mean of the projected EBT figure for the bonus year and the two preceding calendar years is compared with the arithmetic mean of the actual EBT of the bonus year and the two preceding calendar years.

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

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

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

The virtual shares used annually to calculate the bonus year have a term of three years and are only paid out at the end of the respective term at the average closing price of Instone Real Estate shares over the last 20 trading days of the respective term, as determined at that time, plus any dividend that may have been distributed.

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

III. Remuneration of the Management Board members in the 2021 financial year

The following part of the remuneration report discloses the specific application of the remuneration system to the members of the Management Board and the remuneration of the individual members of the Management Board in the 2021 financial year.

Total remuneration

The total remuneration granted and owed for the members of the Management Board for the 2021 financial year within the meaning of Section 162 (1) sentence 1 AktG amounted to €1,922 thousand. In accordance with the explanatory memorandum in Section 162 (1) AktG, the remuneration (inflows) granted and owed must be indicated as amounts that became due in the period under review and have already been paid to the individual member of the Management Board or the payment due that has not yet been made. The following overview shows the total remuneration according to these principles, broken down by remuneration component and individualised for the members of the Management Board for the 2021 financial year and the previous year.

Remuneration pursuant to Section 162 (1) sentence 1 AktG TABLE 124

	Kruno Crepulja		Dr Foruhar Madjlessi		Andreas Gräf	
	CEO		CFO		COO	
In thousands of euros	2021	2020	2021	2020	2021	2020
Non-performance-based emoluments	490	450	375	360	360	300
Fringe benefits[1]	25	26	9	16	11	16
Short-term variable remuneration (STI)	201	361	242	434	209	375
Long-term variable remuneration (LTI)[2]	0	0	0	0	0	0
Total	**716**	**837**	**626**	**810**	**580**	**691**
Maximum remuneration[3]	3,100	n/a	2,350	n/a	2,350	n/a

[1] Excluding pension expenses. These are shown separately below.
[2] For the first time, the long-term variable remuneration (2018-2022 LTI) will be paid out in the 2022 financial year after the expiry of the relevant vesting period that runs from 1 January 2019 up to and including 31 December 2021.
[3] An absolute maximum remuneration pursuant to Section 87a (1) sentence 2 No. 1 AktG was set in the remuneration system for the first time from 1 July 2021.

The maximum remuneration set by the Supervisory Board pursuant to Section 87a (1) sentence 2 No. 1 AktG for the members of the Management Board was therefore not exceeded in the year under review. There were no claw-backs or retentions of variable remuneration nor any deviations from the remuneration system.

In the year under review, no advances were paid to members of the Management Board and no loans were made. In the 2021 financial year, the members of the Management Board did not receive benefits from third parties with regard to their work on the Management Board, nor have benefits been promised to them.

One-year variable remuneration (short term incentive, STI)

2020 STI – paid out in 2021

The following table shows the weighting, agreed target values and actual value (insofar as these can both be quantified), the target achievement derived from this, the upper target limits (where applicable) and the corresponding STI bonus in euros for the STI targets (i) adjusted earnings before tax (EBT), (ii) adjusted ROCE and (iii) personal targets (set in accordance with the remuneration system up to and including 30 June 2021) for the short-term variable remuneration granted and owed for the 2021 financial year, i.e. the STI earned for the 2020 financial year and paid out in April 2021.

STI 2020 financial year

TABLE 125

Management Board member	Target	Weighting	STI bonus base amount	Targets set for the 2020 financial year		Information on target achievement				STI bonus
						Upper target limit[1]		Target chievement		
		%	In thousands of euros	Value	%	Value	%	Value	%	In thousands of euros
Kruno Crepulja	**STI**									
CEO	Adjusted earnings before tax (EBT)	52.8		€105 million	100	-	-	€59.4 million	56.64	
	Adjusted ROCE	27.2		13.47%	100	-	-	10.26%	76.15	
	Personal targets[2]	20		n/a	100	-	-	n/a	150	
	Total	**100**	**250**	**0**	**100**	**€375 thousand**	**150**	**0**	**80.57**	**201.4**
Dr Foruhar Madjlessi	**STI**									
CFO	Adjusted earnings before tax (EBT)	52.8		€105 million	100	-	-	€59.4 million	56.64	
	Adjusted ROCE	27.2		13.47%	100	-	-	10.26%	76.15	
	Personal targets[2]	20		n/a	100	-	-	n/a	150	
	Total	**100**	**300**	**0**	**100**	**€450 thousand**	**150**	**0**	**80.57**	**241.7**
Andreas Gräf	**STI**									
COO	Adjusted earnings before tax (EBT)	52.8		€105 million	100	-	-	€59.4 million	56.64	
	Adjusted ROCE	27.2		13.47%	100	-	-	10.26%	76.15	
	Personal targets[2]	20		n/a	100	-	-	n/a	150	
	Total	**100**	**260**	**0**	**100**	**€390 thousand**	**150**	**0**	**80.57**	**209.4**

[1] Upper and lower target limits for the STI will not exist at individual target level, but only when the overall assessment of the target achievement has been made following the accumulation of the target achievement on the basis of the individual targets.

[2] The achievement of the objectives under the personal targets defined both quantitatively and qualitatively was assessed by way of an overall assessment and is therefore not presented individually for the defined targets (n/a).

2021 STI – paid out in 2022

Following the Annual General Meeting resolution to update the remuneration system, the Supervisory Board has agreed with the Management Board changes to the existing Management Board employment contracts, in particular to the variable remuneration of the Management Board in order to adapt the Management Board employment contracts with effect from 1 July 2021 to the new Management Board remuneration system rules. As a result, for this 2021 financial year, insofar as variable remuneration claims have arisen up to and including 30 June 2021, these will be based on the old provisions of the remuneration system until 30 June 2021 whereas variable compensation claims that arise from 1 July 2021 will be based on the new remuneration system regulations valid from 1 July 2021. Against this backdrop, payments of the STI bonus and the LTI bonus for the 2021 bonus year will be reduced on a pro rata basis, i.e. halved, under the remuneration systems up to and including 30 June 2021, and from 1 July 2021 respectively.

For this reason, both the STI targets based on (i) adjusted earnings before tax (EBT), (ii) adjusted ROCE and (iii) personal targets (set in accordance with the remuneration system up to and including 30 June 2021) and the STI targets based on (i) EAT (adjusted), (ii) volume of sales contracts and (iii) strategy and sustainability targets (set in accordance with the remuneration system from 1 July 2021) are relevant for assessing the STI bonus in the 2021 financial year.

All financial STI targets, including the key targets for EAT (adjusted) and volume of sales contracts from 1 July 2021 under the new remuneration system, were derived from the plan approved in February 2021. In particular, the Supervisory Board did not update the financial targets under the remuneration system from 1 July 2021 at the time the financial targets were set on 20 July 2021. For each member of the Management Board, the Supervisory Board has also set three personal targets which have been identically adopted and uniformly assessed as strategy and sustainability targets for the current performance period under the remuneration system running from 1 July 2021.

For the 2021 financial year (performance period or bonus year), the Supervisory Board asessed the target achievement for each of the aforementioned individual targets on 2 February and 14 March 2022, and transferred or added to a total target achievement in accordance with the conditions of the two remuneration systems, taking into account the weighting of the respective individual targets, resulting in the overall target achievement.

The table shows the weighting, the agreed target values and the actual value (insofar as these can both be quantified), the target achievement derived from this, the upper target limits and the payout factors (where applicable) as well as the corresponding STI bonus in euros for the members of the Management Board during the 2021 financial year. The 2021 STI will be paid out in April 2022.

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STI 2021 financial year – payout in 2022

TABLE 126

Management Board member	Target	Weighting	STI bonus base amount	Targets set for the 2021 financial year		Information on target achievement: Target upper limit		Information on target achievement: Target achievement		STI bonus	
		%	In thousands of euros[1]	Value	%	Value	%	Value	%	Payout factor (%)	In thousands of euros
Kruno Crepulja	**STI (remuneration system up to 30/06/2021)[2]**										
CEO	Adjusted earnings before tax (EBT)	52.8		€134.7 million	100			€136.5 million	101.3		
	Adjusted ROCE	27.2		18.3%	100			22.0%	119.8		
	Personal targets[3]	20.0		n/a	100			n/a	140.0		
	Total (for the period up to 30 June based on a pro-rata reduction of the STI bonus)	100.0	125		100	€187.5 thousand	150		114.1	114.1	142.6
	STI (remuneration system from 01/07/2021)										
	EAT (adjusted)	37.5		€95.2 million	100	€166.3million	175	€96.9 million	101.8	103.6	
	Volume of sales contracts	37.5		€1,043.9 million	100	€1,827 million	175	€1,140.1 million	109.2	118.4	
	Strategy and sustainability targets[3]	25.0		n/a	100	n/a	175	n/a	140.0	180.0	
	Total (for the period from 1 July based on a pro-rata reduction of the STI bonus)	100.0	162.5		100	€325 thousand	150		114.1	128.3	208.4
	Total STI for the 2021 financial year		287.5								**351.0**

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STI 2021 financial year – payout in 2022 TABLE 126

Management Board member	Target	Weighting	STI bonus base amount	Targets set for the 2021 financial year		Information on target achievement: Target upper limit		Target achievement		STI bonus	
		%	In thousands of euros[1]	Value	%	Value	%	Value	%	Payout factor (%)	In thousands of euros
Dr Foruhar Madjlessi	**STI (remuneration system up to 30/06/2021)[2]**										
CFO	Adjusted earnings before tax (EBT)	52.8		€134.7 million	100			€136.5 million	101.3		
	Adjusted ROCE	27.2		18.3%	100			22.0%	119.8		
	Personal targets[3]	20.0		n/a	100			n/a	140.0		
	Total (for the period up to 30 June based on a pro-rata reduction of the STI bonus)	100.0	150		100	€225 thousand	150		114.1	114.1	171.1
	STI (remuneration system from 01/07/2021)										
	EAT (adjusted)	37.5		€95.2 million	100	€166.3 million	175	€100,4 million	101.8	103.6	
	Volume of sales contracts	37.5		€1,043.9 million	100	€1,827 million	175	€1,140.1 million	109.2	118.4	
	Strategy and sustainability targets[3]	25.0		n/a	100	n/a	175	n/a	140.0	180.0	
	Total (for the period from 1 July based on a pro-rata reduction of the STI bonus)	100.0	120		100	€240 thousand	150		114.1	128.3	144.9
	Total STI for the 2021 financial year		270								**316.0**

STI 2021 financial year – payout in 2022

TABLE 126

Management Board member	Target	Weighting	STI bonus base amount	Targets set for the 2021 financial year		Information on target achievement: Target upper limit		Information on target achievement: Target achievement		STI bonus	
		%	In thousands of euros[1]	Value	%	Value	%	Value	%	Payout factor (%)	In thousands of euros
Andreas Gräf	**STI (remuneration system up to 30/06/2021)[2]**										
COO	Adjusted earnings before tax (EBT)	52.8		€134.7 million	100			€136.5 million	101.3		
	Adjusted ROCE	27.2		18.3%	100			22.0%	119.8		
	Personal targets[3]	20.0		n/a	100			n/a	140.0		
	Total (for the period up to 30 June based on a pro-rata reduction of the STI bonus)	100.0	130		100	€195 thousand	150		114.1	114.1	148.3
	STI (remuneration system from 01/07/2021)										
	EAT (adjusted)	37.5		€95.2 million	100	€166.3 million	175	€96.9 million	101.8	103.6	
	Volume of sales contracts	37.5		€1,043.9 million	100	€1,827 million	175	€1,140.1 million	109.2	118.4	
	Strategy and sustainability targets[3]	25.0		n/a	100	n/a	175	n/a	140.0	180.0	
	Total (for the period from 1 July based on a pro-rata reduction of the STI bonus)	100.0	125		100	€250 thousand	150		114.1	128.3	160.3
	Total STI for the 2021 financial year		255								308.6

[1] The respective STI bonus base amounts and the STI bonuses achieved in euros already take into account the corresponding pro-rata reductions (50%) resulting from the updating of the remuneration system from 1 July 2021.

[2] Lower and upper target limits for the remuneration system STI will not exist at individual target level until 30 June 2021, but only when the overall assessment of the target achievement has been made following the accumulation of the target achievement based on the individual targets.

[3] The achievement of the objectives under the personal targets and strategy and sustainability targets defined both quantitatively and qualitatively was assessed by way of an overall assessment and is therefore not presented individually for the defined targets.

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

LTI 2022–2024 (new)

In accordance with the conditions of the Management Board employment contracts updated with effect from 1 July 2021, the preliminary tranche of virtual shares (base number) presented in the Table below was allocated at the end of the 2021 financial year to the members of the Management Board based on the parameters presented below for the performance period from 1 January 2022 up to and including 31 December 2024 (**LTI 2022–2024 (new)**).

For the 2022–2024 LTI (new), the Supervisory Board set a CAGR of 5.5% p.a. as a target value for the EPS target for a 100% target achievement. For the non-financial ESG target, target achievement is dependent on the Sustainalytics Risk Rating score for the Real Estate sector, whereby an upper target limit of 150% has been set with a Risk Rating score of 5 or less and a lower target limit (50%) has been set with a Risk Rating score of 25 or more. The upper and lower target limits of the relative TSR target met the requirements of the remuneration system from 1 July 2021 onwards (see section I. D. of this remuneration report).

The target achievement will be set and assessed and the LTI 2022–2024 (new) paid in the 2025 financial year after the LTI 2022–2024 (new) performance period has ended.

LTI 2021–2024 (old)

In accordance with the conditions of the Management Board employment contracts valid up to and including 30 June 2021, the base number of virtual shares shown in the table below was allocated to the members of the Management Board on the basis of the parameters presented below for the 2021 bonus year with a vesting period from 1 January 2022 up to and including 31 December 2024 **LTI 2021–2024 (old)**.

For the 2021–2024 LTI (old), targets achieved were determined by the Supervisory Board using the arithmetic mean of the EBT target from the 2021 bonus year and the two previous years on 14 March 2022.

The 2021–2024 LTI (old) will be paid in January 2025 after the expiry of the vesting period on 31 December 2024.

The relevant LTI bonus base amount, the allocation price based on the average share price for the last three months of the 2021 financial year LTI 2022–2024 (new) or the last 20 trading days before the end of the bonus year LTI 2021–2024 (old), the preliminary virtual share tranche (base number) and the respective caps 1 and 2 can be summarised as follows:

Long-term variable remuneration (LTI) TABLE 127

	Kruno Crepulja		Dr Foruhar Madjlessi		Andreas Gräf	
In thousands of euros	CEO		CFO		COO	
Tranche	LTI 2022–2024 (new)	LTI 2021–2024 (old)	LTI 2022–2024 (new)	LTI 2021–2024 (old)	LTI 2022–2024 (new)	LTI 2021–2024 (old)
LTI bonus base amount[1]	227.5	150.0	168.0	125.0	175.0	90.0
Allocation price (€)	20.70	17.04	20.70	17.04	20.70	17.04
Base number (in units)	10,990	8,655	7,669	7,212	8,454	5,193
Base number (total)	**19,645**		**14,882**		**13,647**	
Cap 1	n/a	225	n/a	187.5	n/a	135
Cap 2	n/a	589.9	n/a	491.6	n/a	353.9
LTI cap	683	n/a	504	n/a	525	n/a

[1] The respective LTI bonus base amounts already take into account the corresponding pro rata reductions (50%) resulting from the updating of the remuneration system from 1 July 2021.

LTI tranches granted

The LTI tranches granted as at 31 December 2021 (each granted under the remuneration system operating until 30 June 2021) are broken down by the respective members of the Management Board in the following Table:

LTI tranches TABLE 128

In thousands of euros		Base number of virtual shares (in units)	Payout price (in euros)	LTI bonus (in thousands of euros)	Payout
Kruno Crepulja, CEO	2018-2021 LTI	25,779.0	17.30	446.0	January 2022
	2019-2022 LTI	21,781.2	n/a	n/a	January 2023
	2020-2023 LTI	14,861.2	n/a	n/a	January 2024
Dr Foruhar Madjlessi, CFO[1]	2019-2022 LTI	18,151.0	n/a	n/a	January 2023
	2020-2023 LTI	12,384.3	n/a	n/a	January 2024
Andreas Gräf, COO	2018-2021 LTI	15,467.4	17.30	267.6	January 2022
	2019-2022 LTI	13,068.7	n/a	n/a	January 2023
	2020-2023 LTI	8,916.7	n/a	n/a	January 2024

[1] Member of the Management Board since 1 January 2019.

Pension commitments

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

Pension commitments TABLE 129

In thousands of euros		2021	Allocations	2020
Kruno Crepulja (CEO)	German Commercial Code (HGB)	373.3	86.4	286.9
	IFRS	403.6	23.7	379.9
Andreas Gräf (COO)	German Commercial Code (HGB)	340.5	79.0	261.5
	IFRS	364.3	31.9	332.4
	German Commercial Code (HGB)	**713.8**	**165.4**	**548.4**
	IFRS	**767.9**	**55.6**	**712.3**

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

Pension commitments for former members of the Management Board TABLE 130

In thousands of euros		2021	Allocations	2020
Pension commitments for former members of the Management Board	German Commercial Code (HGB)	1,417.6	198.6	1,219.0
	IFRS	1,501.7	4.9	1,496.8

Share ownership guideline

Since 1 July 2021, the members of the Management Board have been obliged to acquire shares in Instone Real Estate Group SE in the amount of a non-performance-based gross annual salary and to hold them for the entire term of their Management Board employment contract. This obligation was met by the members of the Management Board in the 2021 financial year. The following Table shows the shareholdings of the members of the Management Board reported to the Company as at 31 December 2021:

Shareholding

	Number of shares	Participation in the registered capital (%)
Kruno Crepulja (CEO)	105,775	0.225
Dr Foruhar Madjlessi (CFO)	27,668	0.059
Andreas Gräf (COO)	50,319	0.107

Remuneration decisions of the Supervisory Board during the 2021 financial year

As part of the extension of their Management Board employment contracts, an agreement has been concluded with the members of the Management Board Kruno Crepulja and Andreas Gräf that the fixed annual base salary, the STI bonus base amount and the LTI bonus base amount are to increase by approx. 15.4% for Mr Crepulja from 1 January 2024 and by 10% for Mr Gräf if the overall target achievement of the LTI in 2022 and 2023 reaches 200% cumulatively.

IV. Supervisory Board remuneration

Remuneration system

The remuneration of the Supervisory Board is set out in Section 14 of Instone Real Estate Group SE's Articles of Association and is designed to be a purely fixed remuneration. Until 31 August 2021, the effective date of the conversion of Instone Real Estate Group AG into a European company (SE), the remuneration was regulated in Section 13 of Instone Real Estate Group AG's Articles of Association and is now regulated in Section 14 of Instone Real Estate Group SE's Articles of Association.

On 9 June 2021, the Annual General Meeting of Instone Real Estate Group AG approved the proposal to approve the system on the remuneration of the members of the Supervisory Board, together with a resolution on a corresponding amendment to the Articles of Association of Instone Real Estate Group AG (now Instone Real Estate Group SE), with a majority of 99.05% of the votes cast.

Under the remuneration system agreed by the Annual General Meeting, the members of the Supervisory Board receive a fixed annual remuneration of €75.0 thousand (up to and including 30 August 2021: €60 thousand). The Chairman of the Supervisory Board receives twice the remuneration and the Deputy Chairman one and a half times this amount. Members of the Audit Committee receive an additional remuneration of €15.0 thousand and members of the Remuneration Committee and Nomination Committee each receive an additional €7,500 (up to and including 30 August 2021: €1,500) per financial year for their work on these committees. The respective committee chair receives twice the remuneration. Reasonable out-of-pocket expenses are also reimbursed to the members of the Supervisory Board by the Company. The Company has also included the members of the Supervisory Board in the D&O group insurance for corporate bodies. No deductible for the members of the Supervisory Board has been agreed. No performance-based remuneration or attendance fee is paid to Supervisory Board members.

Supervisory Board remuneration TABLE 132

In thousands of euros	Remuneration in 2021 (earned)			Remuneration in 2020 (paid)		
	Remuneration Role General Committee	Remuneration Role Committees	Remuneration Total	Remuneration Role General Committee	Remuneration Role Committees	Remuneration Total
Stephan Brendgen	130.1	22.0	152.2	120.0	18.0	138.0
Dr Jochen Scharpe	97.6	36.3	133.9	90.0	31.5	121.5
Marija Korsch[1]	26.3	1.3	27.6	60.0	3.0	63.0
Dietmar P. Binkowska	65.1	7.8	72.8	60.0	4.5	64.5
Thomas Hegel	65.1	20.6	85.6	60.0	15.0	75.0
Christiane Jansen[2]	21.2	0.0	21.2	0.0	0.0	0.0
Total remuneration	**405.3**	**88.0**	**493.3**	**390.0**	**72.0**	**462.0**

[1] Member of the Supervisory Board until 9 June 2021
[2] Member of the Supervisory Board since 20 September 2021

If a member of the Supervisory Board does not belong to the Supervisory Board or to a committee for the entire financial year, their remuneration is reduced pro rata temporis.

Remuneration of the members of the Supervisory Board during the 2021 financial year

The total remuneration of the Supervisory Board in the 2021 financial year was €493.3 thousand. (previous year: €462.0 thousand). Of which, €405.3 thousand (previous year: €390.0 thousand) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €88.0 thousand (previous year: €72.0 thousand). The above table shows the emoluments to the members of the Supervisory Board on an individual basis pursuant to Section 162 (1) sentence 1 AktG, i.e. the remuneration (inflows) granted and owed for work in the 2020 financial year paid in the first quarter of 2021, and the remuneration earned for work on the Supervisory Board in the 2021 financial year paid in the first quarter of 2022.

In the 2021 financial year, the Instone Group Companies did not pay or grant any remuneration or other benefits to members of the Supervisory Board for services rendered in a personal capacity, in particular advisory and agency services. Nor were members of the Supervisory Board granted any advances or credits. GRI 2-21

V. Vertical comparison

The following overview provides a comparative representation of the annual change in remuneration, the earnings performance of the Company and the average remuneration of employees viewed over the last three financial years on a full-time equivalence basis in accordance with Section 162 (1) sentence 2 No. 1 AktG. The 2016 and 2017 financial years are not shown as the Company only changed its legal form to a stock corporation in the 2018 financial year.

The remuneration of Board Members that underlies the vertical comparison was determined on the basis of remuneration granted/owed in accordance with Section 162 (1) AktG. The relevant employee comparison group includes all people employed in the Instone Group in Germany during the relevant period between 1 January and 31 December under the definition contained in Section 267 (5) HGB. The average remuneration of this comparison group was calculated on the basis of remuneration paid with regard to the employment rate.

Vertical comparison TABLE 133

Changes (%)

Comparison period	2019 vs. 2018[2]	2020 vs 2019	2021 vs 2020
Management Board members			
Kruno Crepulja	34.7%	0.2%	–14.5%
Dr Foruhar Madjlessi[1]	–	115.2%	–22.6%
Andres Gräf	56.7%	0.2%	–11.5%
Supervisory Board members			
Stephan Brendgen	–0.6%	–0.4%	10.3%
Dr Jochen Scharpe	14.3%	1.3%	10.2%
Marija Korsch[3]	9.2%	–8.4%	5.4%
Dietmar P. Binkowska[4]	–	2.8%	12.9%
Thomas Hegel[5]	–	8.7%	14.1%
Christiane Jansen[6]	–	–	–
Average employee remuneration	n/a[7]	6.9%	–0.5%
Net income/net loss for the year of Instone Real Estate Group SE (in accordance with separate financial statements pursuant to the German Commercial Code (HGB))	172.3%	–16.9%	368.6%
Adjusted EAT (as per the IFRS consolidated financial statements)	453.3%	–61.1%	135.7%

[1] Member of the Management Board since 1 January 2019
[2] Disclosures for the members of the Supervisory Board and the Management Board have been extrapolated for the entire 2018 calendar year, as the appointment as members of the Management Board occurred during the year in the course of the conversion of the Company into a stock corporation under Dutch law.
[3] Left the Board during the year in 2021. Value extrapolated for the entire 2021 calendar year.
[4] Joined the Board during the year in 2019. Value extrapolated for the entire 2019 calendar year.
[5] Joined the Board during the year in 2019. Value extrapolated for the entire 2019 calendar year.
[6] Member of the Supervisory Board since 20 September 2021.
[7] Database for 2018 not available.

Opinion on the remuneration report

TRANSLATION
– German version prevails –

Report of the Independent Auditor on the Audit of the Remuneration Report in accordance with Section 162 (3) AktG

To Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany

Audit Opinion

We conducted a formal audit of the remuneration report of Instone Real Estate Group SE (formerly: Instone Real Estate Group AG), Essen/Germany, for the financial year from 1 January to 31 December 2021, to assess whether the disclosures required under Section 162 (1) and (2) German Stock Corporation Act (AktG) have been made in the remuneration report. In accordance with Section 162 (3) AktG, we did not audit the content of the remuneration report.

In our opinion, the disclosures required under Section 162 (1) and (2) AktG have been made, in all material respects, in the accompanying remuneration report. Our audit opinion does not cover the content of the remuneration report.

Basis for the Audit Opinion

We conducted our audit of the remuneration report in accordance with Section 162 (3) AktG and in compliance with the IDW Auditing Standard: *Audit of the Remuneration Report pursuant to Section 162 (3) AktG (IDW AuS 870 (08.2021))*. Our responsibilities under those requirements and this standard are further described in the "Auditor's Responsibilities" section of our auditor's report. Our audit firm has applied the requirements of the *IDW Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1)*. We have fulfilled our professional responsibilities in accordance with the German Public Auditor Act (WPO) and the Professional Charter for German Public Auditors and German Sworn Auditors (BS WP/vBP) including the requirements on independence.

Responsibilities of the Executive Board and the Supervisory Board

The executive board and the supervisory board are responsible for the preparation of the remuneration report, including the related disclosures, that complies with the requirements of Section 162 AktG. In addition, they are responsible for such internal control as they consider necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the disclosures required under Section 162 (1) and (2) AktG have been made in the remuneration report, in all material respects, and to express an audit opinion thereon as part of an auditor's report.

We planned and conducted our audit so as to be able to determine whether the remuneration report is formally complete by comparing the disclosures made in the remuneration report with the disclosures required under Section 162 (1) and (2) AktG. In accordance with Section 162 (3) AktG, we did neither audit whether the contents of these disclosures are correct, nor whether the contents of individual disclosures are complete, nor whether the remuneration report has been reasonably presented.

Düsseldorf/Germany, 14 March 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Prof. Dr. Holger Reichmann
Wirtschaftsprüfer
[German Public Auditor]

Signed: Michael Pfeiffer
Wirtschaftsprüfer
[German Public Auditor]

Insurance of legal representatives

To the best of our knowledge, we declare that the consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of Instone Group in accordance with the applicable accounting principles and that the management report of the Group, which is combined with the Company's management report, includes a true and fair view of the development, performance and results of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of Instone Group.

Essen, Germany, 10 March 2022

The Management Board

Kruno Crepulja	Dr Foruhar Madjlessi	Andreas Gräf

Quarterly comparison TABLE 134

In millions of euros		Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Real estate business key performance indicators									
Volume of sales contracts		761.7	170.7	89.1	118.6	246.0	94.9	54.1	69.4
Volume of sales contracts	In units	1,906	468	169	372	708	128	347	109
Project portfolio (existing projects)		7,500.0	7,154.9	6,268.1	6,054.2	6,053.6	5,937.5	5,701.3	5,744.4
of which already sold		3,038.9	2,308.7	2,444.0	2,360.5	2,328.8	2,108.6	2,017.1	2,189.0
Project portfolio (existing projects)	In units	16,418	15,913	14,338	13,678	13,561	13,374	13,075	12,952
of which already sold	In units	7,215	5,401	5,679	5,510	5,381	4,770	4,648	4,799
Volume of new approvals[1]		254	1,097.6	165.9	69.8	193.7	109.3	186.9	0.0
Volume of new approvals	In units	517.0	2,292	275	161	482	197	492	0
Adjusted results of operations									
Revenue adjusted		378.0	145.1	132.4	128.1	188.8	111.7	79.9	99.7
Project costs adjusted		–277.5	–100.8	–96.2	–87.6	–136.3	–75.4	–51.8	–70.0
Gross profit adjusted		**100.5**	**44.3**	**36.2**	**40.5**	**52.5**	**36.3**	**28.1**	**29.7**
Gross profit margin adjusted		**26.6%**	**30.5%**	**27.3%**	**31.6%**	**27.8%**	**32.5%**	**35.2%**	**29.8%**
Platform costs adjusted		–22.2	–20.2	–21.8	–16.3	–20.7	–14.9	–18.0	–11.9
Share of results of joint ventures adjusted		12.0	0.1	0.0	2.5	2.0	0.4	0.0	0.3
Earnings before interest and tax (EBIT) adjusted		**90.4**	**24.2**	**14.4**	**26.7**	**33.8**	**21.8**	**10.2**	**18.0**
EBIT margin adjusted		**23.9%**	**16.7%**	**10.9%**	**20.8%**	**17.9%**	**19.5%**	**12.8%**	**18.1%**
Income from investments adjusted		0.0	0.0	0.1	0.0	0.0	–0.6	0.2	–0.8
Financial result adjusted		–9.1	–2.6	–3.5	–4.1	–8.9	–5.4	–4.2	–4.7
Earnings before tax (EBT) adjusted		**81.3**	**21.7**	**10.9**	**22.6**	**25.0**	**15.7**	**6.2**	**12.5**
EBT margin adjusted		**21.5%**	**15.0%**	**8.2%**	**17.6%**	**13.2%**	**14.1%**	**7.8%**	**12.5%**
Income taxes adjusted		–24.7	–4.8	–3.3	–6.8	–8.7	–4.7	–1.1	–3.8
Earnings after tax (EAT) adjusted		**56.6**	**16.9**	**7.6**	**15.8**	**16.2**	**11.2**	**5.0**	**8.7**
EAT margin adjusted		**15.0%**	**11.6%**	**5.7%**	**12.3%**	**8.6%**	**10.0%**	**6.3%**	**8.7%**
Earnings per share (adjusted)	In euros	1.19	0.36	0.21	0.34	0.36	0.28	0.13	0.22

[1] Excluding the volume of approvals from joint ventures consolidated at equity.

Multi-year overview

TABLE 135

In millions of euros

		2021	2020	2019	2018
Key liquidity figures					
Cash flow from operations		43.9	119.9	– 205.1	-40.4
Cash flow from operations without new investments		256.3	225.0	115.0	32.1
Free cash flow		167.4	– 64.2	– 237.5	-39.9
Cash and cash equivalents and term deposits[1]		151.0	232.0	117.1	88
Key balance sheet figures					
Total assets		1,520.8	1,283.1	1,123.4	686.6
Inventories		843.7	777.8	732.1	404.4
Contract assets		358.0	194.2	219.0	158.5
Equity		590.9	521.0	310.2	246.9
Financial liabilities		390.5	481.7	595.5	265.6
Of which, from corporate finance		199.1	207.2	180.8	66.1
Of which, from project financing		191.4	274.5	414.7	199.5
Net financial debt[2]		239.5	249.7	478.4	177.5
Leverage		1.5	2.8	3.6	3.5
Loan-to-cost[3]	In %	20.1	25.7	50.3	n/a
ROCE[4] adjusted	In %	22.0	10.3	22.8	11.9
Employees					
Number		457	413	375	311
FTE[5]		387.6	342.5	307.7	258.7

In millions of euros

		2021	2020	2019	2018
Real estate business key performance indicators					
Volume of sales contracts		1,140.1	464.4	1,403.1	460.8
Volume of sales contracts	In units	2,915	1,292	2,733	1,033
Project portfolio (existing projects)		7,500.0	6,053.6	5,845.7	4,763.2
of which already sold		3,038.9	2,328.8	2,174.0	998.2
Project portfolio (existing projects)	In units	16,418	13,561	13,715	11,041
of which already sold	In units	7,215	5,381	4,814	2,395
Volume of new approvals[6]		1,587.4	489.9	1,284.2	1,298.0
Volume of new approvals	In units	3,245	1,171	3,857	3,314
Adjusted results of operations					
Revenue adjusted		783.6	480.1	736.7	372.8
Project costs adjusted		– 562.1	– 333.5	– 548.8	– 266.3
Gross profit adjusted		**221.5**	**146.6**	**187.8**	**106.4**
Gross profit margin adjusted		**28.3 %**	**30.5 %**	**25.5 %**	**28.5 %**
Platform costs adjusted		– 80.5	– 65.5	– 59.0	– 56.9
Share of results of joint ventures adjusted		14.6	2.7	0.7	0.0
Earnings before interest and tax (EBIT) adjusted		**155.7**	**83.8**	**129.6**	**49.6**
EBIT margin adjusted		**19.9 %**	**17.5 %**	**17.6 %**	**13.7 %**
Income from investments adjusted		0.1	– 1.2	– 5.7	– 0.4
Financial result adjusted		– 19.3	– 23.2	– 16.1	– 7.7
Earnings before tax (EBT) adjusted		**136.5**	**59.4**	**107.8**	**41.5**
EBT margin adjusted		**17.4 %**	**12.4 %**	**14.6 %**	**11.5 %**
Income taxes adjusted		– 39.6	– 18.3	– 2.2	– 22.4
Earnings after tax (EAT) adjusted		**96.9**	**41.1**	**105.6**	**19.1**
EAT margin adjusted		**12.4 %**	**8.6 %**	**14.3 %**	**5.1 %**
Earnings per share (adjusted)	In euros	2.10	0.99	2.69	0.44
Dividend per share[7]	In euros	0.62	0.26		
Dividends paid[7]		29.1	12.2		

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

[2] Net financial debt = financial liabilities less cash and cash equivalents and term deposits.

[3] Loan-to-cost = net financial debt/(inventories + contract assets).

[4] Return on capital employed = LTM EBIT adjusted/(four-quarter average equity + net financial debt).

[5] Full-time employees.

[6] Excluding volume of approvals from joint ventures consolidated at equity.

[7] Current financial year: proposed dividend/proposed distribution.

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Dawin Meckel (p. 3-9, 13-16, 18, 19, 25, 27)
Stiftung Liebenau Kirchliche Stiftung privaten Rechts (p. 18, 19)

About us

Instone Real Estate Group SE

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of the Essen District Court under
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Financial calendar

17/03/2022	Publication of the financial report for the year ended 31 December 2021
12/05/2022	Publication of quarterly report as at 31 March 2022
09/06/2022	Annual General Meeting
11/08/2022	Publication of the semi-annual report as at 30 June 2022
10/11/2022	Publication of the quarterly statement as at 30 September 2022

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TCFD reporting index

TCFD Reporting Index

Aspects	Recommended information	Benchmark	page
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Publish the Company's governance with regard to climate-related risks and opportunities	A. Describe the oversight of climate-related risks and opportunities by the Board	1. Foreword by the CFO	55
	B. Describe the management's role in assessing and managing climate-related risks and opportunities	1. Climate risk management and climate scenario analysis	57, 83 et seq.
		2. Governance in sustainability activities	110
Strategy			
Publish the actual potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
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	B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
		3. Equity story	37
	C. Describe the resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or less scenario	1. Our climate strategy	70
		2. Climate risk management and climate scenario analysis	83 et seq.
Risk management			
Disclose how the organisation identifies, assesses and manages climate-related risks	A. Describe the organisation's processes for identifying and assessing climate-related risks	1. Materiality analysis	62
		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
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		3. Climate risk management and climate scenario analysis	83 et seq.
	C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	1. Climate risk management and climate scenario analysis	83 et seq.
		2. Risk management and compliance	111
		3. General business risks	149
Indicators and targets			
Publish the indicators and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	A. Publish the indicators used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	1. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
		2. Climate risk management and climate scenario analysis	83 et seq.
	B. Publish the greenhouse gas emissions (Scope 1, Scope 2 and, if appropriate, Scope 3) and the related risks	1. Targets table in the sustainability report	61 et seq.
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		2. Scope 1, 2 and 3 greenhouse gas emissions	74 et seq., 82 et seq.
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Glossary

A/core cities:

A cities: Refers to the metropolitan cities of Berlin, Hamburg, Munich, Cologne, Stuttgart, Frankfurt am Main and Düsseldorf which are considered in the real estate industry to be the seven most desirable locations in Germany.

Core cities: Instone Real Estate also categorises Leipzig as an A city; all of these A cities are collectively referred to as core cities. In light of its size and proximity to Nuremberg, Erlangen is also categorised as a core city.

Anticipated items:

Deferred items in the statement of financial position reflecting that income or expenses incurred during the year under review do not lead to income or expenditure until the following year.

Realignment of boundaries (boundary areas):

When realigning boundaries, scattered plots are grouped into a larger plot and surrounding plots are assigned to a central plot to increase the usability of the land.

Asset deal:

In an asset deal, the asset(s) held in a company are purchased and the individual assets are transferred.

Instone Real Estate affordable housing (nyoo):

An entirely new approach to project development through systematic digitalisation along the value chain creates affordable housing as a product. With our nyoo product, new builds can also be made affordable again for middle-income buyers in Germany.

Brownfield developments:

Project developments on former industrial sites and conversion areas that have been reclassified for residential utilisation and therefore do not require additional sealed surfaces. On the contrary, existing areas are upgraded or improved.

Contractual Trust Arrangement (CTA):

Pension trust company

Deferred compensation:

Deferred compensation; pension commitment within the company pension scheme - financed by a waiver of remuneration of the employee

Divestment:

Release of restricted capital in longer-term assets by selling them

Duration:

Term of commitment of the capital invested in fixed income securities

EBIT:

Earnings before interest and tax

Our company
To our shareholders
Combined management report
Consolidated financial statements
Independent auditor's report
Remuneration report
Other information

EBITDA:

Earnings before interest, tax, depreciation and amortisation

Equity method:

Accounting method for long-term investments in a company that participates in the voting capital of another company (the participation book value is constantly adjusted to the development of the equity of the company in which the investment has been made)

Euribor:

Abbreviation for the reference interest rate Euro Interbank Offered Rate

Family offices:

Companies or departments of banks managing large private assets.

Subsidised residential space:

Homes for rent that have been created or modernised with the provision of subsidies from state budgets or development banks and whose occupancy and rent levels have been regulated for a certain period of time (social commitment).

Investor development:

Project developments for an investor's own portfolio or developments at the risk of, and on behalf of, third parties

Purchasing-power index:

Regional purchasing power level per inhabitant or household compared to the national average (with a standard value of 100)

Conversion (conversion areas):

Conversion or change of use

Mezzanine financing:

Financing with hybrid capital, which includes both equity and debt financing

Prosperous medium-sized cities:

For Instone Real Estate, these cities include the following: Darmstadt, Dresden, Freiburg im Breisgau, Hanover, Heidelberg, Heilbronn, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm, Wiesbaden.

POC method:

Percentage of completion method

Neighbourhood developments:

A neighbourhood includes: A residential environment, community, shops, transport hubs, infrastructure and communal spaces as well as cultural, educational, play and sports venues.

A neighbourhood is determined through its infrastructure, such as public spaces, residential and service buildings, shops and transport hubs, educational, sports, cultural and medical facilities and green spaces, roads, railways and footpaths.

A neighbourhood influences and determines emotional factors such as identity, community, participation processes, a sense of security, accessibility on foot, sense of place and ties through associations.

A neighbourhood can open up or impede: The quality of life, opportunities, prospects, engagement and social and economic participation, resident diversity in terms of income and background – in the city itself and potentially further afield.

Share deals:

In a share deal, purchasers acquire a company by buying all or almost all of the shares of a partnership or corporation.

Thousand-person rate:

Reportable accidents at work per 1,000 full-time workers

Trading development:

The project development process takes place at the own expense of the project developer. The marketing risk is borne by the project developer itself.

Target areas:

In addition to the core cities and prosperous medium-sized cities, Instone Real Estate's target areas also include, for example: Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, Regensburg and the Rhine-Main region.

Affordable living

Concentration on B and C locations in and around the conurbations covered by the eight Instone Real Estate offices. Construction costs and project lengths are reduced by combining modular planning, lean management and lean construction, product simplification, reduced civil engineering and the deployment of digital sales channels. In this way, Instone Real Estate addresses the strong demand for housing for rental and for sale for low- and medium-income groups.

Zoning and development planning processes

According to Section 1 (2) of the German Building Code [Baugesetzbuch, BauGB], a zoning plan is a preparatory urban land-use plan for part of a city, and is governed by Sections 5 et seq. BauGB. It regulates the available and probable space requirements for the individual utilisation options, such as housing, work, leisure and traffic.

A development plan is a binding, urban land-use plan. A development plan regulates how and what may be built on plots of land and the resulting utilisation of the areas to be left free of buildings.

GRI

GRI standards constitute global best practice for public disclosures about various economic, environmental and social impacts. The modular, interlinked GRI standards are supposed to be primarily used as a template for compiling a sustainability report focusing on significant topics. The three universal standards are used by any organisation that publishes a sustainability report.

IFRS 15

International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers"

IFRS 15 regulates when and the extent to which a company reporting in accordance with IFRSs must recognise revenue. Companies preparing the financial statements are also required to provide users of financial statements with more informative, relevant disclosures. The standard offers a single, principle-based, five-step model that can be applied to all contracts with customers.

IFRS 16

International Financial Reporting Standard (IFRS) 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation and disclosure requirements for leases in financial statements for companies reporting in line with IFRS. The lessee uses a single accounting model according to which all assets and liabilities arising from leases (with a few exceptions) are reported in the statement of financial position. The lessor continues to distinguish between finance and operating leases for accounting purposes.

FTE

Full-time equivalent (FTE) is a key indicator used in staff planning. One FTE is equivalent to the time worked by one full-time employee. The standard used to convert an FTE into working hours is the average number of working hours per work day.

ICS

The Internal Control System (IKS), a system of technical and organisational rules for the methodological management and controls in the company with respect to compliance with regulations and preventing losses.

ROCE

Return on Capital Employed (ROCE) is an indicator which measures how efficiently and profitably a company employs the capital it uses. The Instone Group calculates ROCE as follows:

ROCE = EBIT/(two-year average equity + net debt).

B and C cities/add cities

B cities: Major cities of national and regional importance

C cities: key German cities of regional and, to a limited extent, national importance that significantly impact the surrounding regions

Instone Real Estate use the generic term "add cities" for these attractive cities.

MaBV

The German Broker and Developer Regulation (Makler- und Bauträgerverordnung, MaBV) is a legal regulation derived from the German Trade Regulation Act (Gewerbeordnung) which, in German trade law, primarily provides guidelines to protect purchasers of real estate when drawing up and concluding property development contracts.

Individual sales

In an individual sale, an owner-occupied apartment only changes owners once after completion, when it is sold by Instone Real Estate directly to the customer. Individual sales are managed either by commissioned sales agents or by Instone Real Estate.

Capital market sales

Form of selling characterised by a multi-level agency organisation. The agent sells Instone real-estate developments to capital investors.

Investor sales

Projects are sold to investors via Instone Real Estate key account holders.

WACC

Weighted average cost of capital. The average is calculated from the cost of equity and the cost of debt and weighted with their share of total capital.

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