COMBINED MANAGEMENT REPORT

BUSINESS MODEL AND ORGANISATIONAL STRUCTURE

Instone Real Estate is one of Germany's leading residential developers and is listed on the Prime Standard of the Frankfurt Stock Exchange. Instone Real Estate AG has been listed on the SDAX since 29 August 2019. The Company develops attractive residential and apartment buildings and publicly subsidised residential construction, plus designs modern city districts and refurbishes listed buildings. These are marketed to owner-occupiers, private investors with the intention of leasing and institutional investors. Over the course of 29 years, we have consequently realised more than one million square meters. We have 375 employees at nine locations across Germany. As at 31 December 2019, the project portfolio of Instone Real Estate included 55 development projects with an anticipated overall sales volume of approximately €5.8 billion and more than 13,715 units.

As of 31 December 2019, approximately 87% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Nuremberg, Munich and Stuttgart) and approximately 13% in other prosperous medium-sized cities. B and C locations in metropolitan regions are becoming more and more significant in covering the general demand for living space.

COVERAGE OF THE ENTIRE VALUE CHAIN

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

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

GRI 102-4

THE INSTONE VALUE CHAIN

Instone Real Estate has integrated risk management and uses reporting and planning tools to minimise development risks. The German Real Estate Agency (MaBV) gives Instone Real Estate the option of contractually agreeing instalment payments on the basis of construction progress for residential units sold to owner-occupiers or private investors planning to lease the units which significantly reduces the financing risk for Instone Real Estate.

The number of newly acquired and ongoing projects shows the continuous investing activities which have taken place in the past financial year, including the acquisition of land and real estate with an anticipated total sales volume of €1,284 million after completion of development.

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

Instone Real Estate Group AG acts as a strategic management holding company; the major subsidiary Instone Real Estate Development GmbH is responsible for the operational project business.

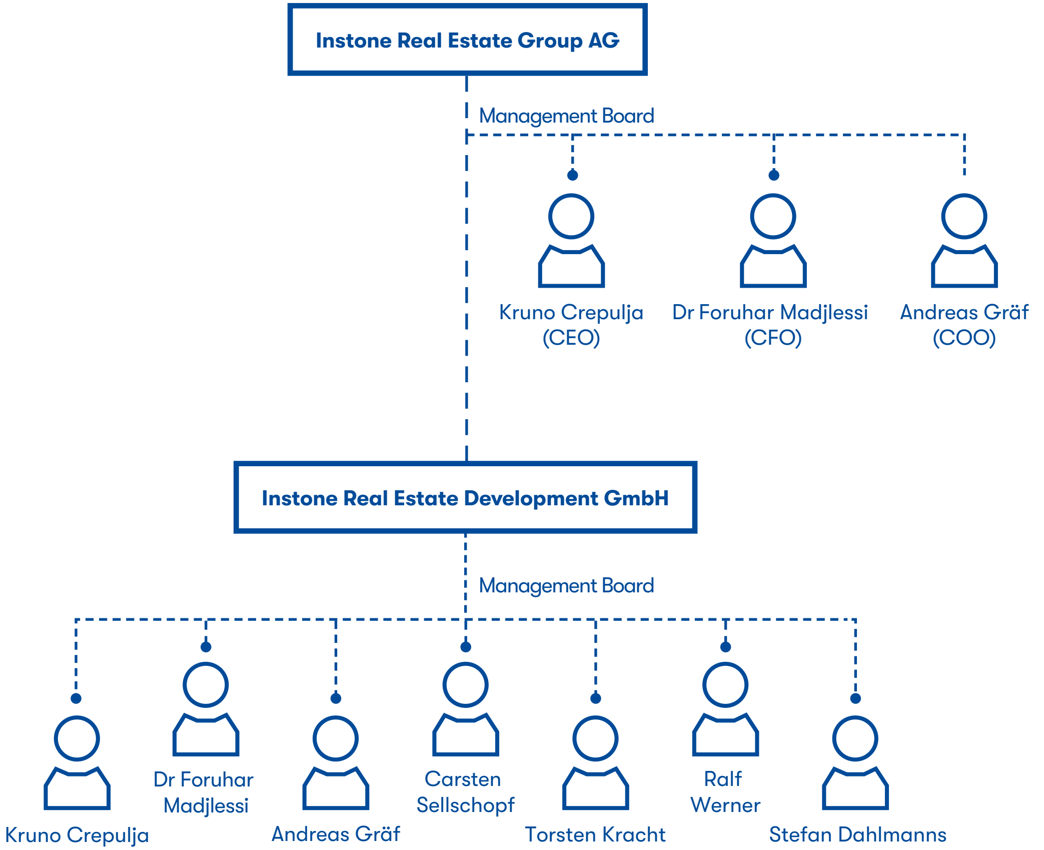
NUMBER OF EMPLOYEES

Including the employees of foreign subsidiaries, 375 people were employed in the Instone Group as of 31 December 2019 (previous year: 311 employees).

At the end of 2019, one employee was working for us at each of our international locations in Luxembourg and Austria. GRI 102-8

Further information on the subject of employees can be found in the "Sustainability" chapter from page 41 onwards.

ORGANISATIONAL STRUCTURE OF INSTONE REAL ESTATE (AS OF: 1/1/2020) GRI 102-18



MARKET ENVIRONMENT AND REGULATORY CONDITIONS

POLITICAL AND REGULATORY ENVIRONMENT

Real estate development is also dependent on the political environment, the regulatory framework and public approval. In recent years, the housing market has been more involved in the current political and public debate. This is mainly due to the continued high demand for housing and demographic development, as well as migration into Germany, but also in particular within Germany, which both lead to a long-term shortage of housing in the metropolitan regions. Together with the policy-makers and administration, Instone Real Estate sees itself as responsible for developing solutions. We see our greatest contribution as the creation of housing. Instone Real Estate continuously monitors the constantly changing legal situation and aligns its corporate activities with new legislation.

We maintain an intensive dialogue with local authorities and those at national level. In this way, Instone Real Estate contributes suitable measures to maintain or improve the political environment for the development of housing. For example, our CEO, Kruno Crepulja, is Deputy Chairman of the Central Real Estate Committee (ZIA).

Instone Real Estate takes its corporate responsibility seriously with the creation of long-term living space which is both liveable and affordable. Thanks to active and transparent communication and credibility, our project developments are supported by the public in most cases. Instone Real Estate communicates very openly in construction plan processes and involves all relevant stakeholders at an early stage. For example, *Bürgercafés*, an event where local citizens, councillors and mayors come together over coffee and cake, were organised at the start of the “Schumanns Höhe” project development planning procedure in Bonn. This helped ascertain the expectations of future neighbours so that they could be incorporated into the process. This led to there being no opposition to the subsequent procedures under public law. GRI 102-15

The obligations of urban development contracts with communities are met through Instone Real Estate’s value chain itself; as such, in its current projects, Instone Real Estate is creating 1,555 nursery places. Critical considerations of our projects are, of course, taken seriously. In such cases, we actively seek dialogue with the stakeholders and examine the points of criticism.

“Berlin rent cap”

The planned new law on the capping of rent for non-price-linked flats for rent in apartment buildings (excluding new housing construction) entered into force on 1 March 2020. The key content of the current draft bill includes the introduction of rent caps, a prohibition on raising rent for five years and limiting modernisation fees. The legal tenability of the law introduced by the Senate of Berlin and its compliance with the German constitution is disputed amongst experts.

Instone Real Estate only sees the “Berlin rent cap” having a very minor influence on its own business model. As a residential developer, Instone Real Estate does not have its own rental portfolio. In the current draft bill, housing construction is exempt from the rent cap. For this reason, the “Berlin rent cap” cannot have any direct effect on our business activities at all, but will have an indirect effect, for example due to uncertainty concerning any further tightening of tenancy law which could lead to restrictions in second lettings.

However, these indirect effects on Instone Real Estate would also be extremely low. The current Berlin share in the highly differentiated regional project portfolio is only 5.0%. If the projects which have not yet been sold are included, the Berlin share in the entire portfolio is only 1.9%.

Instone Real Estate sells its new builds to three groups of purchasers: owner-occupiers, private investors and institutional investors. It is expected that the owner-occupier group, who will live in the property themselves, will not experience any changes as a result of the rent cap and other regulations but may experience a shortage of supply due to higher demand. For institutional buyers who continue to want to invest in property in Berlin, Instone Real Estate furthermore sees the possibility that this will lead to a reallocation of investment volume away from existing property and into new builds. For residential developers such as Instone Real Estate, this can lead to increased demand in Berlin from the institutional side as well.

Intensification of rent controls

Since 2015, the federal states have been having to introduce the Mietbremse or rent control for areas with an overstretched housing market for a period of five years. In October 2019, the German Federal government decided that the Mietbremse should be extended to the end of 2025 and intensified in terms of what it can do. The current law on "extending and improving regulations regarding permitted rental increases at the start of a rental" ensures that rent in cities with strained housing markets (currently 336 municipalities) may only be increased by 10% over the usual local comparative rent even beyond 2020.

What the current law newly stipulates is that tenants should also be able to claim overpaid rent retroactively. In addition, the requirement to give notice of defects is being simplified. In the future, an email will also be sufficient.

Further planned changes to the tenancy law relate to a draft approved by the Cabinet in September for a longer period of consideration for the local benchmark rent. In future, a consideration period of six years is to be considered when determining the local benchmark rent. Under the current scheme, the rents which have been agreed in the last four years are included in the calculation of the local benchmark rent.

Instone Real Estate also sees the intensification of rent control having only a very minor impact on its own residential developer business. The Mietbremse still excludes new flats (built after 2014), extensive renovations or higher rent already paid by the previous tenant. As Instone Real Estate does not hold any housing stock and housing construction is generally excluded from the law, the announced intensification will not have any direct impact on our own activities. Indirectly, the tightening of the law may lead to increased uncertainty among institutional and private investors. However, we estimate that, unlike letting agents, we will instead benefit from the intensification of the law. Institutional investors are expected to more strongly promote capital expenditures in new builds compared with existing housing.

Opportunities for intervention by the municipalities in the course of the planning process

Due to the political sensitivity of the subject of housing, cities and municipalities are now increasingly intervening in the development planning process. In the context of urban development planning, urban development contracts are a commonly used instrument in many municipalities. Urban development contracts can be used across various federal states and are used to carry out and prepare urban planning measures in accordance with the German Building Code (BauGB). The most important case groups for urban development contracts are listed in section 11 of the Building Code. This list is however not exhaustive, meaning that the permissibility of further urban development contracts is left open. It is important that urban development contracts are only concluded in connection with urban development planning measures. The Baulandbeschluss (German building land resolution) is another example of the increased intervention of municipalities in the development planning process. The regulations of the Baulandbeschluss take effect whenever a private property developer is instructed to prepare or modify development plans.

Through our nationwide branches and local contacts, we monitor and take into account possible changes in the development planning process at an early stage.

STRATEGY

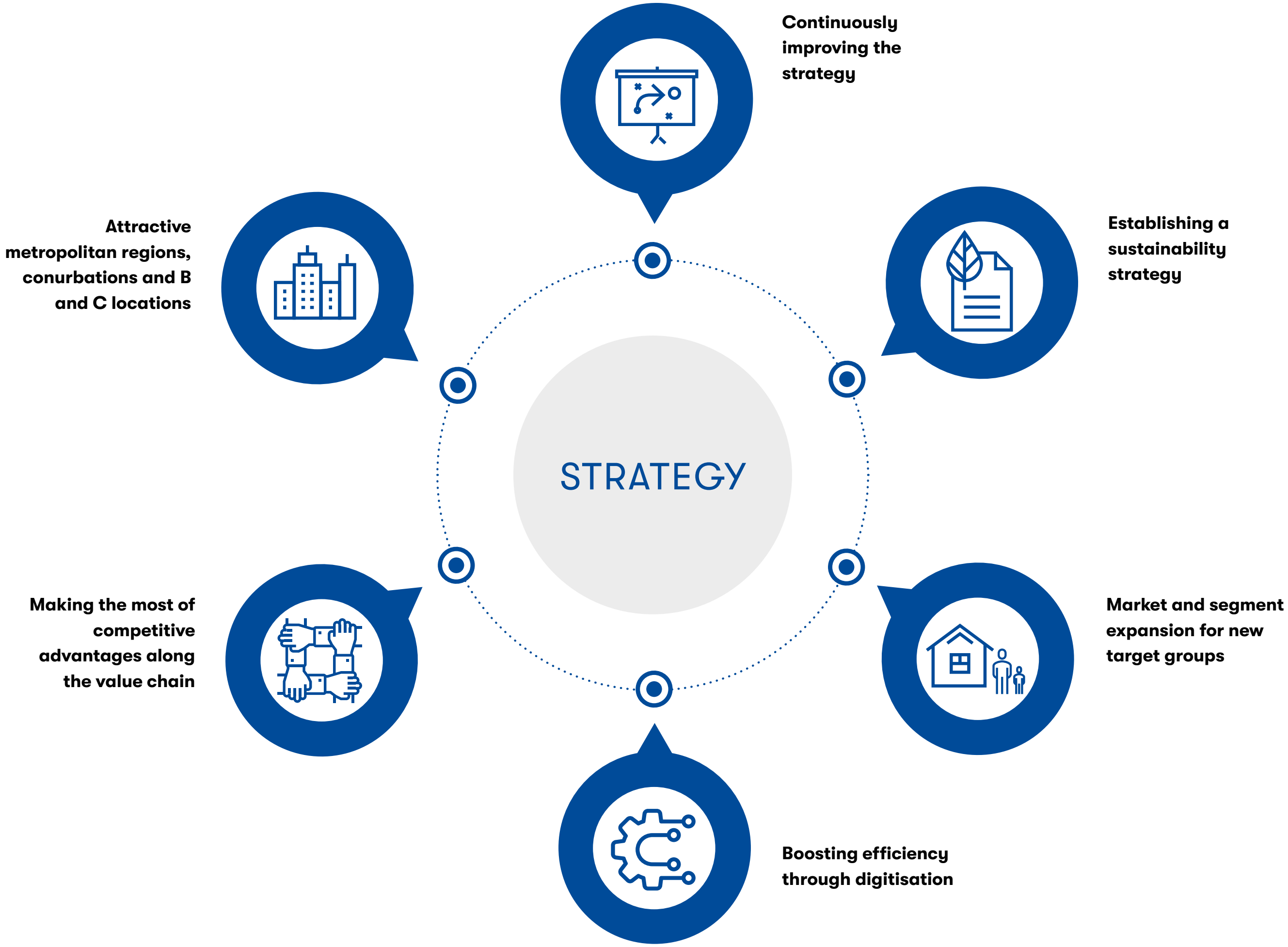
As one of the leading project developers for large housing projects, Instone Real Estate is implementing a clear strategy for profitable growth that exploits the highly attractive opportunities offered by the German market and at the same time serves all our stakeholders, such as shareholders, customers, employees and the social environment in which we operate. Our strategy comprises the following key elements GRI 103; GRI 103-1; GRI 103-2:

Continued focus on the most attractive metropolitan regions and conurbations in Germany

For our "traditional product", the individual development of flats for rent and owner-occupied flats, we focus on inner-city locations in attractive metropolitan regions with a structural surplus of demand. In our projects, we always also focus on sustainable neighbourhood development. With regard to the project sizes, we concentrate on large projects with an average volume of €100 million.

Taking advantage of competitive advantages based on differentiated expertise at all stages of the value-added chain

- When acquiring land, we prioritise "off-market transactions", i.e. on acquisitions outwith the usual bidding process. To do this, we must continuously maintain or expand our network.
- When realising projects, we are able to use our high degree of expertise in implementing the most economically attractive development rights.
- We support municipalities in procuring planning permission, in particular by developing urban planning strategies and proposals for action and in land use plan and development plan processes.



- → Contracts are predominantly awarded on an individual basis.
- → Direct access to our subcontractors and the network we maintain on this basis create competitive advantages, especially in times of high workload for developers.
- → For example, we secure construction capacity at an early stage. At the same time, we are creating a high level of cost transparency and security for our projects.
- → With regard to sales, we use our access to all relevant exit channels such as owner-occupiers, capital investors and institutional investors.
- → Thanks to this ability to sell, and depending on the market environment, we can quickly react to the current demand from the different buyer groups.
- → Boosting planning and building efficiency by continuously digitising processes.

Through the continuous digitisation and analysis of all processes, we can regularly identify potential for improvement and thus increase planning and building efficiency on a sustainable basis. For example, Instone Real Estate has developed a customer portal including a configurator and offers the customer many of the process steps in digital form.

Expanding the existing successful range of products with a new product for a target group not yet specifically tapped by Instone Real Estate.

Instone Real Estate benefits from increasingly attractive opportunities in B and C locations in and around the conurbations that are covered by our eight branches. To expand the market that we can reach as a whole, we are building on market study data. By combining modular planning, lean management and lean construction, product simplification, reduced underground work and the use of digital distribution channels, we can reduce construction costs and the duration of the project. In this way, we are addressing the high demand for flats for rent and owner-occupied flats for low to medium-sized income groups.

Establishing a sustainability strategy and sustainability management

Fair and responsible action with regard to economic, ecological and social sustainability is a matter of course for Instone Real Estate when optimising our processes. In the short-term, we want to anchor sustainability aspects even more strongly in our corporate strategy and consider the holistic performance of the Group by giving greater consideration to non-financial concerns. For this purpose, we are currently building up a sustainability management system and developing a sustainability strategy for the Company. In financial year 2020, corresponding targets and measures should be generated from this. The sustainability reporting should be based on the GRI standards “Core” option and also take into account ESG criteria. For this purpose, we are currently setting up the relevant reporting systems and will expand them gradually in future.

Accessible design

The integration of social aspects in our planning is of great importance to our Company. One of our main focuses is on a high market share of apartments with an accessible design. A current example of this is the project “Schumanns Höhe”, which we are currently carrying out in Bonn.

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 success component for further strengthening Instone Real Estate's competitive position.

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

→ Integrated management information system

→ Database-supported project management

→ Structured meeting system

→ Financial and real estate key performance indicators

→ Group-wide risk management

Integrated management information system

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

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

Database-supported project management

Within the scope of its project management, Instone Real Estate relies on a database-supported planning and reporting system that is 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.

CORPORATE GOVERNANCE KEY PERFORMANCE INDICATORS

FINANCIAL AND REAL ESTATE KEY PERFORMANCE INDICATORS

Important corporate governance key performance indicators

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

Adjusted revenue

The key indicator for 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 of IFRS IC to exclude share deals from the revenue recognition relating to the period according to IFRS 15. In addition, adjusted revenue recognition is calculated without the effects of purchase price allocations.

Adjusted gross profit margin

Adjusted gross profit is determined from the adjusted revenue less material expenditure, changes in inventories, 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 the project and places the focus on the projects' profitability.

Adjusted EBIT

The adjusted EBIT is determined from adjusted gross profit less platform expenses consisting of personnel expenses, other operating income and expenses and amortisations, but also adjusted by effects from purchase price allocations and share deals in addition to any one-off and extraordinary effects. In particular, 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 significant income includes, in particular, income from capital gains from sales of fixed assets, compensation for damages, write-downs on fixed assets, reimbursements 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 important 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 fulfilled and the entire sale[1] and the full transfer are completed, projects are removed from the project portfolio.

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

Volume of new permits

The volume of new permits reflects the Company's success in acquiring new land and development projects. The internal approvals associated with the volume of new permits are based on secured property access.

Project gross profit or loss and project gross profit margin

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

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

SUSTAINABILITY REPORT (UNAUDITED)

FAIR AND RESPONSIBLE TREATMENT IN TERMS OF ECONOMIC, ENVIRONMENTAL AND SOCIAL ASPECTS

As one of the leading residential developers in Germany, we at Instone Real Estate are aware of our corporate and social responsibility. The increasing trend towards urbanisation, growing cities and the creation of new living space for all social strata are among the key topics of our time. Compliance with environmental standards in housing is a must for us – as is taking into account social sustainability aspects when planning and implementing our neighbourhood developments and in our treatment of our employees. Instone Real Estate considers sustainability holistically and in the direction of all relevant stakeholder groups of the Company. In the case of corporate decisions, we comply with social and environmental criteria as well as economic criteria. Meeting deadlines along with financially secured and solidly planned projects create trust among customers, business partners and in society and form the basis for long-term company success. Instone Real Estate considers sustainable corporate behaviour as an integrated approach that affects all of the Group's business units and must be continuously evaluated and developed.

The aim of Instone Real Estate is to develop a sustainability strategy in financial year 2020 and to establish a sustainability management system with the corresponding reporting systems. In future, we intend to expand this continuously.

SUSTAINABILITY REPORTING AND RECORDING AT INSTONE REAL ESTATE

In recent years, Instone Real Estate has reported on the company's sustainability activities and non-financial performance indicators, such as recently in the Annual Report 2018, both in the image section and in the management report, however this is not yet based on the guidelines of the Global Reporting Initiative GRI.

Following the international trend, Instone Real Estate is basing its sustainability reporting on the currently applicable GRI standards for the first time in its Annual Report 2019. The main objective is to achieve greater transparency in the presentation of the key performance indicators, the Company's objectives and the strategy of Instone Real Estate in the area of sustainability, as well as better comparability with other listed and non-listed companies from the housing industry preparing reports according to the GRI standards. An overview of the GRI standard information used can be found on pages 160 f. in the "GRI contents index" and the individual GRI information can be found directly alongside the relevant text passages. GRI 102-51; 102-54

The topics and data presented in this annual report are based on an inventory of existing data at Instone Real Estate. The sequence of the topics presented below does not reflect any prioritisation based on materiality.

KEY FIGURES II GRI 417-2

	2019	2018
Confirmed corruption incidents and actions taken[1]	0	0
Legal proceedings for anticompetitive behaviour or price-fixing and monopoly practices[2]	0	0
Reported potential data protection breaches	1[3]	0

[1] Compliance disclosures, Instone Real Estate.
[2] Risk management disclosures, Instone Real Estate.
[3] Procedure suspended by the competent data protection authority.

Neither a substantive review nor an examination of the correct positioning of the GRI data was carried out by the Global Reporting Initiative. Instone Real Estate is aware that this list is not exhaustive. The company set itself the goal of further expanding the Group's sustainability reporting over the next few years and making it auditable. GRI 102-56

EMPLOYEES

Responsible treatment of our employees

Instone Real Estate's employees are critical to ensuring the Company's long-term success. Acting sustainably therefore means that our primary focus is the fair and responsible treatment of employees and the creation of an attractive working environment. Ongoing education and training, diversity, equal opportunities and the promotion of ideas and innovation are important building blocks, therefore, for the future viability Instone Real Estate. Employees who feel comfortable at Instone Real Estate and identify with their tasks are also the best ambassadors for customers. Employee and customer satisfaction are therefore closely related.

KEY PERFORMANCE INDICATORS I

	2019	2018
Total number of employees[1]	**375**	**311**
Total number of locations	**9**	**8**
Diversity of employees[1]		
Gender		
Women	161	131
Men	214	180
Age groups		
< 30 years	87	59
30 – 50 years	196	163
> 50 years	92	89

[1] Personnel disclosures, Instone Real Estate.

As of 31 December 2019, a total of 375 employees were employed in the entire Instone Group. We hired 70 new employees in the 2019 financial year. GRI 102-8

At the end of 2019, one employee was working for Instone Real Estate at each of our international locations in Luxembourg and Austria.

Statements on the total number of new employees and staff turnover in the reporting period can be found in the table below. GRI 401-1

LEFT VS JOINED

(employees)

	2019	2018
Joined	70	43
Left	29	27
Fluctuation rate (%)	10.22	10.71
FTE Ø	283.9	252.1

EMPLOYEES' REASONS FOR LEAVING

	2019	2018
Severance agreement	11	5
Termination by the employer	3	3
Termination by the employee	15	7
Termination of contract	0	1
Other reasons	0	11

Promotion of young talent

The promotion of young talent is of great importance at Instone Real Estate. For this reason, internal options are considered for vacant positions as a rule. This also applies to our executives. For example, at the end of the 2019 financial year, an organisational structural adjustment at management level was announced which is already being implemented at the start of the 2020 financial year. After the successful integration of Instone Real Estate Leipzig GmbH and in order to further optimise the organisational structure and prepare for further growth, new Managing Directors were appointed to Instone Real Estate Development GmbH, who were all appointed internally. GRI 202-2

It is also important for Instone Real Estate to boost the local community and to recruit new employees from all hierarchical levels – therefore also vacant positions for senior executives – from the respective region and/or federal state. At Instone Real Estate, this idea is also strongly linked to the topic of market knowledge and is therefore one of the success factors of the Company. As a housing developer, Instone Real Estate depends on its team knowing the local property markets in great detail. In the 2019 financial year, 33% (based on appointing three people overall) from the third management level were recruited from local markets (according to the GRI definition) or existing Instone employees. GRI 202-2

In order to attract talented young employees, Instone Real Estate is involved at universities and technical colleges – for example, Instone executives act as guest lecturers. In this way, we want to get students excited about courses that are important to our Company, such as construction engineering, architecture and real estate, at an early stage and offer practical, first-hand knowledge. The Instone Real Estate recruitment dinner was held again in June 2019, where Instone Real Estate invited 30 young students for them to get to know each other. In the 2019 financial year, Instone Real Estate supported eight Bachelor and Master theses, both financially and in terms of providing expert information (2018: seven Bachelor and Master theses). 24 of the 70 employees hired in 2019 were under 30-years-old. In the 2019 financial year, Instone Real Estate hired 37 interns and student trainees and nine apprentices.

Employee offers

We offer our employees a wide range of skilled employment relationships with full-time and part-time models, employee representation rights and remuneration models and salary structures in line with the market. Our employees also receive a range of additional offers and services, such as:

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

As Instone Real Estate is tariff-bound in the form of an in-house wage agreement, the entry-level salary for new employees is always above the statutory minimum wage in Germany. No significant proportion of employees at the Instone Group are remunerated based on the statutory minimum wage GRI 202-1. Of the 375 employees, 49.6% are bound by the in-house wage agreement. GRI 102-41

The balance between work and family is a central theme at Instone Real Estate. For this reason, employees are able to choose different part-time models or work from a home office. The modern, digitised work infrastructure at Instone Real Estate makes this option easier.

In the financial year 2019, 23 employees (2018: 22 employees) were on paternity leave, 15 of which were women and eight of which were men. We would also like to encourage men further to avail themselves of the paternity leave to which they are entitled. GRI 401-3

DAYS OFF IN LIEU

	2019	2018
Days off in lieu for educational leave	2	1
Days off in lieu for birth of a child	4	2
Days off in lieu for marriage	7	9
Days off in lieu due to death	4	12
Day off in lieu for house move	21	33
Individual days off in lieu	2	0
	40	**57**

Full-time employees at Instone Real Estate are granted three days of time off in lieu in addition to their statutory holiday entitlement, irrespective of their employment relationship (excluding the Management Board, Managing Directors and AG employees).

Additional leave of absence is granted in the following cases:

- → Marriage or registration of a civil partnership
- → Birth of a child with a registered civil partner or wife
- → Death of parents, spouses, registered civil partners or children
- → Severe illness of a family member living in the household
- → When moving home

In the 2019 financial year, 40 days off in lieu were used at Instone Real Estate (2018: 57 days off in lieu). GRI 401-2

Occupational health and safety

Instone Real Estate sets high standards on the health of employees and safety at work – be it in the office or on the construction site. MPLUS Management GmbH, a specialist for optimising a healthy and safe working environment, has been commissioned to supervise these areas. This service provider with many years of experience in consulting with companies on construction activities supports Instone Real Estate inter alia with regard to its annual workplace instructions and safety instructions on the subject of occupational safety. Operational instructions on safely handling safety hazards (for example ladders and electrical devices) can also be found on the company's intranet GRI 403-1; GRI 403-2. Instone employees have the opportunity to take part in various further education sessions in the field of occupational safety at the premises of the professional association for construction and other external suppliers responsible for Instone Real Estate GRI 403-5. The professional association for construction which appoints the company doctor, can be described as a occupational medical service according to the GRI definition, which contributes to identifying and eliminating dangers and minimising risks within the Instone Group. In addition to workplace inspections at all locations, G37 workstation inspections were conducted on a voluntary basis. G37 is an occupational medical check-up for workstations in order to prevent or detect injuries (vision problems, motor system complaints etc.) at an early stage. GRI 403-3

THOUSAND-PERSON QUOTA

	2019	2018
Number of occupational accidents subject to reporting	2	0
Thousand-person quota	8.54	0

Once per quarter, the Instone Occupational Health and Safety Committee meets with representatives of MPLUS, the Management Board, human resources, the works council and company doctor. The safety officer of the respective location will optionally take part in discussions on relevant topics and will take part in the working committee once a year. In addition, workplace inspections and risk assessments are carried out at regular intervals. Where appropriate, this will result in changes to the conditions at the workplace. New measures or changes in employees are communicated by the management of the relevant branch. GRI 403-4

We ensure through access controls on our construction sites that the only persons present are personnel of the commissioned companies and that the minimum wage laws are being observed.

In the reporting period, there were two occupational accidents that were subject to reporting in the entire Instone Group. In order to compare the frequency of accidents in companies and between different industries, the 1,000 person quota (TMQ) is used in operational accident statistics in Germany. This is comprised of the number of operational accidents that must be reported x 1,000 employees/number of full-time employees. For the reporting period, the 2019 financial year, Instone Real Estate therefore has a 1,000-person quota of around 8.5 – a very good value in comparison with the industry (comparison value: 2018: 53.07).

↗ www.dguv.de/de/zahlen-fakten/au-wu-geschehen/au-1000-vollarbeiter/index.jsp

There were no fatal accidents of Instone employees or on Instone Real Estate construction sites in 2018 or 2019. GRI 403-9

Instone Real Estate also offers a number of voluntary measures to promote the health of employees. These include individual, location-related health measures, such as free fresh fruit, fitness training or participation in sports events, such as company runs. In addition, non-tariff employees are able to take part in the "Bodyguard" health check from the age of 40 onwards. GRI 403-6

TRAINING AND FURTHER EDUCATION

Average number of hours for training and further education per year and per employee

	2019	2018
Employees	375	311
Further education in hours	2,102	2,445
Personal development per employee	5.6	7.9

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

Training and further education

Instone Real Estate highly values the training and personal development of its employees. Among other things, we offer a range of opportunities for personal development. We ensure that managers develop an eye for their employees' individual skills and actively promote these – by providing internal and external further education and training or even, if desired, by moving them into other areas of the Company.

In the 2019 financial year, Instone employees completed a total of 2,102 hours of further education (2018: 2,445); this is an average of 5.6 hours of further education per employee (2018: 7.9) GRI 404-1. Every year, executives conduct interviews with their employees to agree goals and to discuss their potential. Individual training measures are also decided together in these interviews. GRI 102-8

Further training opens up new perspectives. This is an integral part of Instone Real Estate's human resources development. In addition to compulsory training in data protection and compliance, every employee receives €1,800 per year for tailored professional training.

DIVERSITY RATIO (MANAGEMENT LEVEL)

	Management Board		1st management level (Management Board)		2nd management level (authorised representative)		3rd management level (executives)	
	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage
Men	4	100%	3	100%	18	(78%)	2	(67%)
Women	0	0 %	0	0 %	5	(22%)	1	(33%)
Total	4	100%	3	100%	23	(100%)	3	(100%)

Diversity and equal opportunities

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 the employees orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. It also sets out values to which Instone Real Estate is emphatically committed. GRI 405; 406

This discusses the issues "Equal opportunities and banning of discrimination":

"Great potential lies in the diversity of employees. 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 for reasons of racial or ethnic origin, gender, religion or belief, disability, age or sexual identity." GRI 405; 406

Pursuant to the German Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*), no incidents of discrimination were reported at Instone Real Estate during the reporting period GRI 406-1. Further information can be found in the "Compliance" chapter on page 77.

As of 31 December 2019, 20% of the members of the Supervisory Board of Instone Real Estate Group AG were female; there are currently no women on the Management Board. There are no women on the first management level (managing directors). As at 31 December 2019, on the second management level (authorised representatives) the proportion of women was 22% and on the third management level (executives) the proportion of women was 33%, with a total proportion of women in the workforce of 43%. GRI 405-1

More detailed information on the topic of diversity on governance bodies GRI 405-1 can be found in the Corporate Governance section on page 97 – 104.

The ratio of the basic salary and remuneration of women to men is as follows GRI 405-2:

BASIC SALARY RATIO

As a percentage of the average basic salary

	1st management level (Management Board)	2nd management level (authorised representative)	3rd management level (executives)	Employee
Men	100	102	111	113
Women	0	92	79	84

The freedom of association of employees and the formation of works councils are regulated by law in Germany. In the case of Instone Real Estate, there are three works councils and one general works council. Instone Real Estate is not aware of the right to freedom of association or collective bargaining being breached or under threat at any of the company's suppliers during the reporting period. GRI 407; 407-1

SOCIAL RESPONSIBILITY

Active cooperation

As one of the largest German residential developers, Instone Real Estate also assumes responsibility in numerous public and private organisations and associations.

The Management Board, executives and employees intend to actively participate in shaping and supporting social, political and building law developments. We also want to protect the interests of customers and the real estate industry. The memberships, cooperations or partnerships listed below represent part of our well-developed network. GRI 102-12; 102-13

Instone Real Estate takes its corporate responsibility seriously with the creation of long-term living space which is both liveable and affordable. GRI 102-15

Compliance with human rights

We also demand compliance with our high requirements and standards from our business partners and suppliers. We intend to ensure this with the code of conduct for contractual partners and the code of conduct for Instone employees already mentioned. These important documents, for example, explicitly refer to the prohibition of child labour. Instone Real Estate does not tolerate child labour or any exploitation of children and adolescents. The minimum age for admission to employment must not be below the age at which mandatory schooling ends and may in no case be below 15 years of age. GRI 408; 408-1

Instone Real Estate Stakeholder Management

The stakeholder management at Instone Real Estate takes into account the varied influences of internal and external stakeholder groups. In order to systematically identify their requirements and to incorporate them strategically, the stakeholder approach is heterogeneous. The stakeholder groups see Figure are identified for each project or superordinate business topic in order to plan a targeted approach. Target group-specific activities and formats for the involvement of stakeholders are carried out by the operating sites or central departments on a regular basis or in response to certain events. These include:

→ Construction site communication (continuous)

→ Communication with authorities, municipalities, the State (continuous)

→ Communication with shareholders and analysts (continuous)

→ Employee feedback (every two to four years)

→ Management Board executive events (on a regular basis)

→ Press relations (continuous)

→ Capital market communication (continuous)

→ Specialist trade fairs, conventions and events (continuous/ad hoc)

→ Market studies (on a regular basis)

→ Image and media resonance analyses (continuous)

INSTONE REAL ESTATE STAKEHOLDER GROUPS

Instone Real Estate collects internal feedback in particular through employee surveys. In this way, we receive important information on employees' satisfaction and commitment, and information on desired improvements. An Instone Real Estate employee survey was conducted throughout the company in the reporting year in which approximately 70% of employees took part. Measures were assessed and established in the new reporting year. GRI 102-40

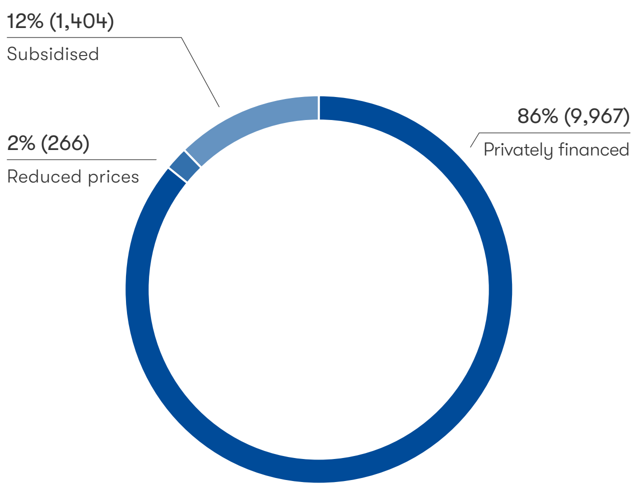
Social factors of Instone housing projects

The construction of new flats and entire city neighbourhoods is accompanied by a wide range of impacts on the environment and society. In addition to the development of residential units, Instone Real Estate also makes a major contribution to the development of subsidised urban district developments within the context of neighbourhood developments. As at 31 December 2019, approximately 1,700 of the 13,700 units of Instone's project portfolio (sold and unsold housing units of the 2019 project portfolio) were designed as flats bound by social benefit prices see adjacent figures. We think it is important to create mixed new neighbourhoods that are attractive to different population groups. This applies not only to different income groups, but also to different generations, such as in our Schumanns Höhe project in Bonn where we have integrated multi-generational housing and nursing homes. When developing a neighbourhood, it is important to Instone Real Estate to ensure that the needs of future residents and the surrounding neighbourhoods are identified and considered as well as possible. As a result, Instone Real Estate endeavours to also consider the need for green relaxation spaces, playgrounds, nurseries, schools or even a single provider in the neighbourhoods. GRI 203; 203-1

An increasingly important topic in the development of large neighbourhoods is the provision of social infrastructure, such as the construction of child day-care centres, participation in the costs of new school buildings, accessibility by road and the promotion of alternative mobility services.

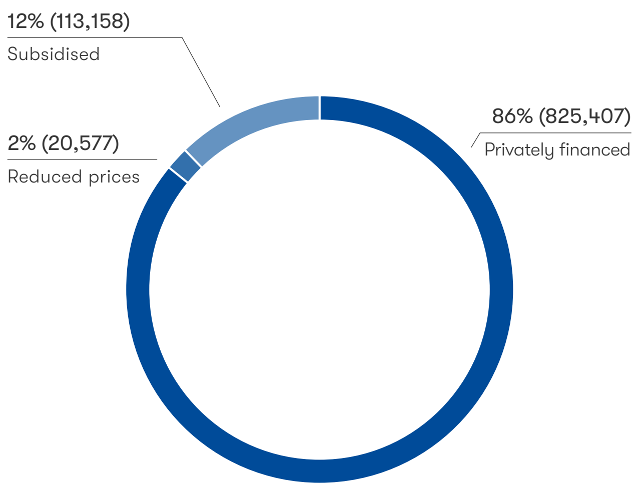
HOUSING GRI 203-2

in units



HOUSING AREA GRI 203-2

in m²



Instone Real Estate – a reliable partner

Our many years of experience make us a reliable partner for the public sector, private apartment purchasers and long-term institutional housing investors, such as pension insurance companies and pension funds. One of our core competencies is obtaining planning permission. In the case of Instone projects, our experienced experts support the municipalities closely with obtaining planning permission. In this context, planners and architects discuss with the local authorities the form which construction law should take. Municipalities are responsible for the public procedures and are obliged to inform the general public. This usually takes place at public meetings and presentations to the public. Instone Real Estate has a presence here, speaking and responding about the topics raised and encouraging dialogue. Instone Real Estate proactively informs customers and neighbouring residents about the status of the relevant construction project; customers receive detailed information about the project in the context of broker and developer regulations and neighbouring residents are informed about the possible impact on them. This partly occurs, especially in large construction projects, via physical events on site, such as a citizens' information event for neighbouring residents and interested parties, and also via the Group's own websites, where status reports and important information relating to the construction are published. Instone Real Estate also informs the general public via press releases that we issue both to regional and national media and specialist media on a regular basis. GRI 102-43

Construction activities may lead to restrictions (such as traffic restrictions), emissions or noise pollution for local communities and neighbours. In addition to the information provided to neighbouring residents, as already discussed, we coordinate with municipalities on topics relating to construction site logistics and try to the best of our ability to respect neighbourhood concerns, such as arrival and departure times of commuter traffic. Restricted working hours are regulated by law for noisy work. We try to protect local residents from dust emissions to the best of our ability, e.g. by using dust-binding agents, such as water or protective screening. In doing so, we are not just obliged as the building developer to protect third parties pursuant to the German Federal Emissions Protection Act (*Bundesimmissionsschutzgesetz*) but also of course to protect persons employed on construction sites. GRI 413-1

Security

In addition to securing the land with fencing and using security services to secure the construction site, Instone construction sites are also fitted with protective nets on scaffolds, covered footpaths and sign postage to minimise safety risks. GRI 416-1

ENVIRONMENT

When it comes to the environment, Instone Real Estate is aware that there is a great need to create a sustainability management system, including appropriate reporting structures. These are gradually being expanded with the forthcoming business reports in line with the strategy.

Materials

In our construction projects, we only use materials that have corresponding approvals in Germany and that comply with the legal requirements. In all aspects affecting the construction site, it must always be noted that Instone Real Estate acts as a building developer and not as a construction company. GRI 416-1

Waste and recycling

In terms of waste reductions 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. GRI 306

Brownfield developments and biodiversity

One of the major current debates in all construction projects, not just in housing, relates to the new natural surface sealing. Surface sealing or soil sealing means covering the natural soil floor revealed during construction work. The majority of Instone projects are not carried out on greenfield sites, but instead on former industrial sites and areas earmarked for redevelopment that are reassigned to residential use. Examples of this include the major "Kleyerquartier" project in Frankfurt am Main with over 1,200 residential units which is being built on the former Avaya offices, or the "FRANKLIN-Quartier" project in Mannheim, which is being carried out on a former US Armed Forces military site. With regard to the restoration of historical monuments, we use the existing building material and convert the listed building into housing. An example of this is the "Theaterfabrik" project in Leipzig. GRI 304

BROWNFIELD DEVELOPMENTS*

Projects	Site area	Living space
31	782,178 m²	690,157 m²

*In relation to current projects.

As at 31 December 2019, approximately 31 projects from the current development portfolio are planned on already sealed areas, meaning only few new areas are sealed. In each project, Instone Real Estate provides ecological compensation areas that have at least the same biodiversity, but generally have significantly greater biodiversity. In general, Instone Real Estate builds urban areas in which there is no or very little wildlife. Measures are coordinated with the nature conservation authorities responsible when there is evidence that wild animals are present. Although it is not the general rule, there are projects that occur on an area where there are indigenous animal or plant species that are on the Red List of the International Union for Conservation of Nature (IUCN) or on national lists of protected species. This commonly relates to bat species. One example is the "Wohnen am Safranberg" project in Ulm where pipistrelle bats were found. In consultation with nature protection authorities, compensation areas are agreed in unused subcellars, access created for animals through available light shafts and artificial habitats, known as bat bricks, created GRI 304-2; 304-3; 304-4

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

Energy consumption of properties used by Instone

An energy audit in accordance with DIN EN 16247-1:2012 was carried out in 2016 by TÜV Rheinland for Instone Real Estate (at that time still operating under the name of formart). The new audit has already been discussed with TÜV Rheinland for 2020. GRI 302-5

Vehicle fleet

The Instone vehicle fleet consists of 125 vehicles (vehicles from the Leipzig site have not been recorded). Average CO_2 emissions were 122 g/km and average fuel consumption was 4.9L/100 km as of 31 December 2019. There is no comparison value for 2018. In future, this value will be included in the reporting system. The breakdown according to CO_2 emissions and type of fuel can be seen from the following figures. GRI 302-1; 305

FUEL ALLOCATION OF THE FLEET

Fuel	2019
Diesel	69.6% (87)
Petrol	28.0% (35)
Hybrid	2.4% (3)

CO_2 VALUE OF THE FLEET

CO_2 emissions	Number of vehicles in 2019
< 101 g/km	7
101 – 120 g/km	45
121 – 140 g/km	55
141 – 160 g/km	15
161 – 200 g/km	3

GOVERNANCE

Combining Corporate Governance, compliance and sustainability is of great importance to Instone Real Estate. In addition to the content reported in the "Sustainability" chapter, Instone Real Estate makes detailed and comprehensive statements for this purpose, in addition to the "Taxes" subchapter below, in particular on the following areas:

→ Risk management page 71 ff.

→ Corporate Governance page 97 – 104

→ Compliance page 77 f.

→ Corruption page 77 f.; page 104

Tax

The Internal Tax department is in regular contact with the tax authorities. It is very important to us to always be cooperative and transparent when working with the tax authorities. The financial years of the key companies of Instone Real Estate were fully audited by the financial authorities of the tax administration department. This guarantees a continuous dialogue with the competent tax authorities. The tax return is always completed taking into account the applicable laws of the respective jurisdiction. If there are tax-related options, an attempt is always made to utilise these options in accordance with the statutory provisions and taking into account the economic and business consequences for the Company, and taking the opinion of the competent authority into account.

As with all other risks, tax risks are documented, managed and monitored within the risk management system. In order to counter possible wrongdoing, our employees have the opportunity to report possible unethical or illegal conduct anonymously, including in relation to taxes, via the whistle-blower system. Within the Management Board, responsibility for tax lies with the CFO.

Instone Real Estate is located in the tax jurisdictions of Germany, Austria and Luxembourg, although no active operations are carried out in Austria and Luxembourg, but the post-completion issues relating to our former foreign branches are simply looked after there. One employee was employed at each location. GRI 207-1 to 207-4

ECONOMIC CONDITIONS

SOCIO-DEMOGRAPHIC DEVELOPMENT

According to the German Federal Statistical Office, around 83 million people were living in Germany at the end of 2018; this is the seventh consecutive year that the population has grown. Since 2011, growth of around 3.4% or just under 2.7 million people has been recorded.[1] This is primarily due to a migration surplus, that means more people move to Germany than from Germany to other countries.

The population growth in the Core Cities (A cities and Leipzig) is even more pronounced. The average growth here over the past seven years (including the forecast value) was 7.8%, more than twice as strong as in the Federal Republic as a whole. The highest growth rates were recorded in Leipzig at 13.6% and Frankfurt am Main at 13.4%. At 4.6%, the city of Hamburg has the lowest increase of the core cities, but it is still above the nationwide average.[2]

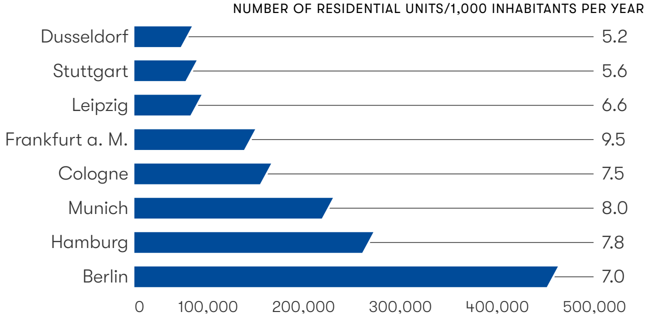
This trend is set to continue in the coming years – albeit no longer quite as pronounced. According to the current average forecast, Germany is expected to grow by a further 1.2 million inhabitants by 2030, i.e. by around 1.5%.[3] By contrast, the Core Cities, with a plus of 6.7% by 2030, have significantly higher growth forecasts than the national average.[3a]

The attractiveness of the core cities can be explained by the continuing megatrend of urbanisation. Around 77% of Germans already live in cities today. A forecast by the United Nations predicts that this proportion will rise to over 84% by 2050.[4] The 10.7 million inhabitants who lived in the A cities at the end of 2018 alone account for around 13% of the total German population.[3]

Population figures and number of households continue to increase

In addition to the population figures, the trend in the number of households constitutes a relevant key factor for the housing market in particular. Numerous social trends ensure that this figure is also increasing steadily. This is clear when looking at Germany overall: While the population grew by only 1.2% between 2008 and 2018[1], the number of households increased by 3.2% over the same period.[5]

HOUSING DEMAND FORECAST UNTIL 2035 IN THE EIGHT A CITIES



Housing demand forecast A cities (source: bulwiengesa AG)

The reasons for this are, among other things, the increasing trend towards single apartments and increasing life expectancy. The Federal Statistical Office anticipates a further increase in the proportion of single person households to at least 44% by 2035.[6] In most major cities, this figure is already over 50% today.[7]

The life expectancy at birth for girls was around 83 years and around 78 years for boys in 2018 – an average of five years above 1993 figures.[8]

As a result of these factors, there will also be an increase in demand for housing in German cities in the coming years and, to a greater extent, in the core cities.

SOCIO-ECONOMIC DEVELOPMENT

The German economy was on a clear growth course for ten full years. Starting in 2018 and continuing in 2019, growth has slowed significantly, but a broad and profound recession is still not expected. The fundamentals of the German economy are developing positively overall. According to the German Council of Economic Experts, real gross domestic product is expected to grow by 0.5% in 2019. An increase of 0.9% is projected for 2020.[9] While the growth in services and construction, which is primarily based on the domestic economy, continues, the industry continues to suffer from the weak global investment climate caused, among other things, by global trade disputes.[10]

At the end of October 2019, the number of employees subject to social insurance contributions was around 34 million, almost 500,000 more than in the previous year.[11] The A cities were able to show an even clearer growth in employment: In the first half of 2019, the number of employees here increased by 0.6% compared to 2018, whereas the number of employees in Germany as a whole increased by only 0.4% in the same period.[12]

Structural data 2019	Inhabitants in thousands [1]	Inhabitants 2009 – 2019 in % [1]	GDP in millions of euros [2]	GDP per capita in euros [2]	Available income per capita in euros annually 2019 [1]	Unemployment rate in % (as of 12/19) [3]
Berlin	3,672	8.98	118	32,976	22,180	7.7
Dusseldorf	624	6.28	46	74,963	28,448	6.5
Frankfurt a. M.	763	17.75	63	85,861	27,449	5.0
Hamburg	1,849	6.73	105	57,803	26,583	6.0
Cologne	1,097	7.54	59	54,581	25,356	7.6
Leipzig	594	17.5	20	35,123	20,775	5.9
Munich	1,497	9.77	102	69,428	32,594	3.4
Nuremberg	536	n/a [4]	27 [5]	70.722 [5]	n/a [4]	4.2
Stuttgart	640	7.86	49	77,817	27,372	4.2
Top locations	**10,142**	**10.3**	**543**	**54,618**	**27,140**	**5.6**

[1] Ref. to forecast value 2019.
Source: Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019.
[2] Version 2017 Source: See footnote 2, page 54.
[3] Source: See footnote 32, page 54.
[4] Data is not collected or, in the case of residents, only the last 4 years are given.
[5] Most recent data collected in 2015.

Unemployment remains at a low level

At the same time as the increase in employment, the unemployment rate in Germany is declining. At the end of 2019, the unemployment rate was 4.9%, as in the previous year, one of the lowest levels in recent years.[13] Ten years earlier, it was at 7.8%.[14] The Core Cities and Nuremberg had an average unemployment rate of around 5.6% in December 2019, which was slightly above the national average. Munich, with 3.2%, has the lowest rate, while Berlin and Cologne have the highest figures with 7.6% each.[15]

The inflation rate was 1.5% in Germany in December 2019 and is therefore still below the target of just under 2.0%, which the European Central Bank (ECB) uses as a benchmark for good economic development. [16] The inflation rate is also continually declining in the Eurozone. In October 2019, it had reached a three-year low at 0.7%. One year earlier, it had still been 2.3%.[17]

DEVELOPMENT OF THE HOUSING MARKET

From January to November 2019, around 319,000 flats in residential buildings were approved in Germany. According to the Federal Statistical office, there were 1.3% more building permits than in the first eleven months of 2018. Of the building permits granted, around 275,000 and thus about 86% are attributable to the New Build sector. This value is constant with the same period in the previous year.[18]

The number of completions in Germany (new buildings and construction work on existing buildings) continues to increase. In 2018, a new record was reached with just under 286,000 completed flats, which is around 1,000 units and thus slightly above the previous year's figure. Compared with 2011, the figure increased by a whopping 56.0% or more than 100,000 units.[19] In the core cities too, construction activity has been expanded significantly in the last few years. Whereas the total number of construction completions in 2011 was still less than 20,000 residential units, in 2018, around 45,000 units were completed, representing an increase of around 125.0%. In Berlin and Dusseldorf, the number of completions in the same period was even by a factor of four or five.[20]

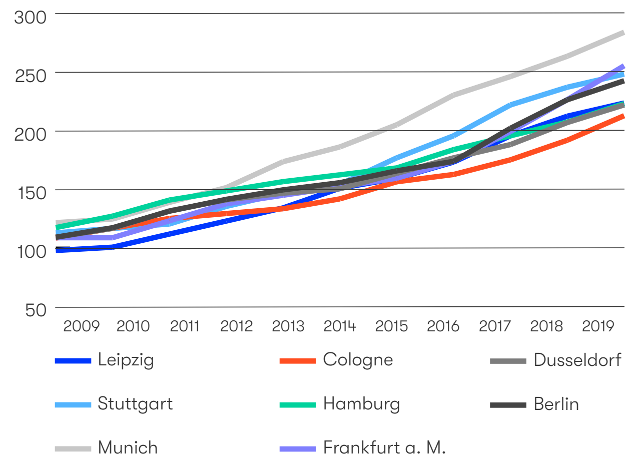
Since 2008, there has been an increase in the number of approved although not yet completed housing units in Germany. This so-called "construction overhang" increased between 2011 and 2018 from 10,300 to 123,000 units in the Core Cities alone, this was a rise of more than twelve times.[20a]

Construction lagged behind demand

Despite the fact that construction has been steadily increasing for years, completions are not sufficient to meet the demand for housing. According to the Cologne Institute of Economic Research's housing demand model in Germany, the annual completions (2016-2018) cover only 83.0% of annual demand (2016-2020). In the Core Cities, only 71.0% of the flats needed to balance out the market were built in the same period. According to the study, around 342,000 new flats will be needed throughout Germany in 2020, 63,000 of them in the Core Cities.[21] Due to high capacity utilisation in the construction industry, the shortage of skilled workers in the construction sector and lengthy planning and approval processes, a sudden reversal of the trend is not expected in the coming years.[21]

The fact that demand for housing continues to increase despite rising building completion figures is also underlined by the data of the current CBRE empirica Vacancy Index: For the past 12 years, the vacancy rate has been declining in Germany and reached a new record low in 2018 at 2.8%. In metropolitan areas, the active market vacancy rate is still significantly lower. The lowest rates were in Munich with 0.2% and Frankfurt am Main with 0.4%.[22]

AVERAGE SALES PRICES IN THE EIGHT CORE CITIES 2009 – 20191 (FIRST OCCUPATION)
In %



[1] Forecast figure for 2019.
Sales price development in the Core Cities (source: bulwiengesa AG).

Housing prices continue to increase

Continued strong demand also has an impact on housing prices and rent. According to the index of the Association of German Pfandbrief Banks, the price for owner-occupied residential property increased by approx. 48.0% between the third quarter of 2011 and the third quarter of 2019. On average, the annual growth rate since 2016 has been at a very high level of around 6.6%.[23] In the A cities, growth has been almost twice as strong since the third quarter of 2011, at a total of around 79.0%. However, since the end of 2018, a flattening dynamic of price increases in the A cities can be observed. While the growth rates in 2017 were still 11.5% on average, only 4.1% was achieved in the first three quarters of 2019. Berlin achieved the largest price increase compared with the same quarter of the previous year at 4.3%; Munich recorded the lowest growth at 2.5%.[24]

Another picture becomes apparent if just the New-build, Privately-owned Flats segment is considered. Here, too, there has been very strong growth in the core cities at 87.5% since 2011; in comparison with the overall market, however, this growth continues unabated. As a result, prices in 2019 increased to an average of around 6,200 euros per square metre, which was an increase of around 8% compared with the previous year. One year earlier, the growth rate was around 9%.[25]

More moderate growth in rent

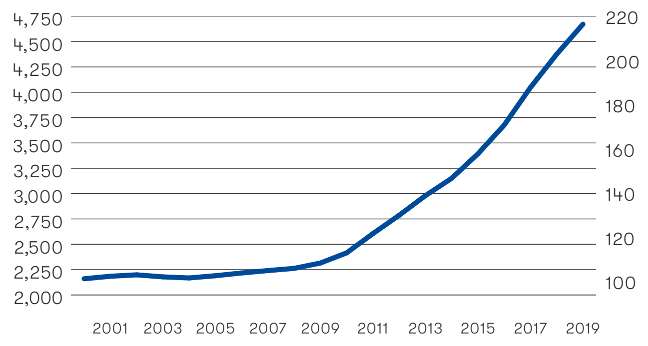
Rent prices, on the other hand, are developing in line with the prices of owner-occupied properties. Since 2012, the rent for first-time rental units in Germany has risen by 2.9% per annum; in the A cities the increase was 3.3%. However, rental growth is showing signs of slowing down in the A cities. In Berlin, for example, rent for flats in the New-build segment fell to €13.50 between 2018 and the first half of 2019 and therefore by more than 3%. This is the first decline since 2014.[26]

BULWIENGESA REAL ESTATE INDEX NEW BUILD RESIDENTIAL UNITS

AS OF: 4ST QUARTER 2019

Average figures in euros per m²

In %

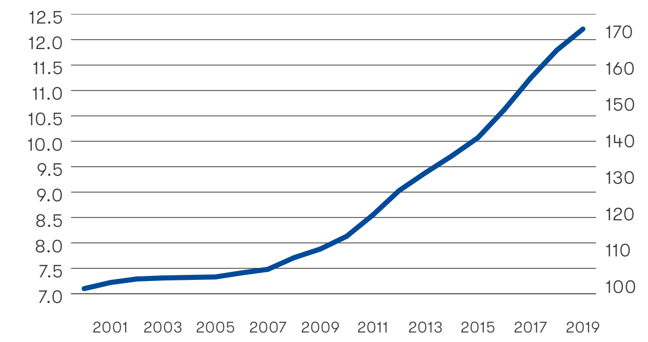


BULWIENGESA REAL ESTATE INDEX NEW BUILD APARTMENT RENTS

AS OF: 4ST QUARTER 2019

Average figures in euros per m²

In %



With the trend towards increasingly high prices, this increasingly raises the question of the affordability of residential real estate for German households. According to the IVD Affordability Index from October 2019, the affordability of residential property in Germany remained stable in the first half of 2019 compared with the previous year. The index value is at a high level of 219.7 and corresponds to a relatively low budgetary burden of 11.4%.a This means that residential property in Germany is still affordable. Overall, however, the affordability of residential property has been decreasing slightly since 2015. This is due to the higher prices, especially in metropolitan areas, whereas interest rates have remained at the same level and there is still little room for a further reduction.[27] In October 2019, the interest rate for housing loans to private households with an initial interest rate for more than ten years was at a figure of 1.22%, reaching a historic low.[28]

The income of German households is rising steadily, but cannot keep up with the real estate prices. Compared with the described growth in prices for owner-occupied residential property of around 6.6% per year since 2016, wages in Germany have increased by only 2.7% since then.[29]

In the core cities, too, there is a similar picture. In Leipzig, monthly net household income increased by almost 30% from 2011 to 2018.[30]

Residential properties remain in demand

Interest rate developments are mainly influenced by the European Central Bank (ECB). At present, the ECB's key interest rate is 0%, and this means that the average interest for mortgage loans is at its lowest.[31]

Despite this development, low interest rates, rising rents and a lack of alternative, profitable forms of investment ensure that investments in residential real estate will continue to be attractive in the coming months.

Footnotes:

a Declaration on the IVD Affordability Index: The basic index assumption is that a budgetary burden of 25% is affordable as a result of the acquisition of real estate. This figure was intended to ensure that the burden on housing, i.e. including ancillary housing costs and reserves, is under 35-40% of household income. A value of 100 is exactly a budgetary burden of 25% as a result of financing costs. The current index value of 219.7 corresponds to a relatively low budgetary burden of 11.4%. The calculation of the affordability index is based on a number of assumptions that define an average property, an average buyer and average financing. This ensures that the affordability figures are comparable across space and time and that the affordability figures represent real transaction conditions. For example, a ratio of 25% is assumed based on the purchase price including incidental purchase costs. For more information, see: Source No. 27, p. 8 et seq. (Methodology).

Source:

1 Federal Statistical Office (Destatis), Weekly Statistical Reports, Population and Labour – Monthly figures, published in the 2nd calendar week of 2020 (tab BEV1) www.destatis.de/DE/Themen/Querschnitt/Statistische-Wochenberichte/wochenberichte-bevoelkerung-xlsx.xlsx?__blob=publicationFile and Destatis: Population extrapolation based on the 2011 census – Technical series 1 Series 1.3 – 2017.

2 Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019 (Key figures_forecasts_bulwiengesa AG IRE_GB 2019), population development and state statistical offices.

3 bulwiengesa, Datei Einwohnerentwicklung in den letzten 10 Jahren für Deutschland (file population development in the last 10 years for Germany).

3a Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019 (Key figures_forecasts_bulwiengesa AG IRE_GB 2019).

4 www.dsw.org/projektionen-urbanisierung/

5 Federal Statistical Office www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Tabellen/lrbev05.html

6 Federal Statistical Office, Development of private households until 2035 www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Publikationen/Downloads-Haushalte/entwicklung-privathaushalte-5124001179004.pdf?__blob=publicationFile (PDF, p. 10, trend variant).

7 For example: City of Leipzig https://statistik.leipzig.de/statdist/table.aspx?cat=2&rub=9&item=220
City of Berlin: www.statistik-berlin-brandenburg.de/BasisZeitreiheGrafik/Bas-Mikrozensus.asp?Ptyp=300ageb=12011reg=BBBnzwer=5

8 Federal Statistical Office www.destatis.de/DE/Presse/Pressemitteilungen/2019/11/PD19_427_12621.html

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OVERALL STATEMENT ON THE FINANCIAL YEAR

Successful 2019 financial year

2019 was yet another successful financial year for Instone Real Estate. The targets set for the key management performance indicators for the 2019 financial year were raised in September 2019 based on the very positive development in the project business and were also met fully at Group level. The successful completion of the acquisition of the major "Westville" project in Frankfurt am Main and the sale of the entire project to an investor, which has already been successfully implemented, should be emphasised in this context. Even with other projects being implemented, the rather weaker revenue development in the first few months was more than offset by a strong final spurt. Instone Real Estate was thus able to take full advantage of the favourable market environment.

The increase in the project portfolio to €5,845.7 million (previous year: €4,763.2 million) results from additions of new project developments in the amount of €1,284.2 million, disposals in the amount of €228.8 million and revaluations in the amount of €27.1 million. Adjusted Group revenues improved by 98% to €736.7 million (previous year: €372.8 million). With an increase of 160%, adjusted earnings before interest and taxes (EBIT) rose to €128.9 million (previous year: €49.6 million). Adjusted Group earnings also fell due to positive tax effects in the financial year amounting to €105.6 million (previous year: €19.1 million).

Operating cash flow excluding payments for land acquisitions increased due to the positive net working capital development to €115.0 million (previous year: €32.1 million). Additionally, Instone Real Estate has financially secured its growth strategy for the next three years with newly concluded credit agreements to the amount of approximately €330 million in FY 2019.

Comparison of actual and forecasted development

COMPARISON OF ACTUAL AND FORECASTED DEVELOPMENT IN 2019
In millions of euros

		ACTUAL 2019	Adjusted forecast[1]	Initial forecast[2]
Revenues (adjusted)		736.7	700 to 750	500 to 550
Earnings before interest and tax (EBIT) (adjusted)		128.9	110 to 125	85 to 100
Volume of marketing		1,403.1	more than 1,100	450 to 550
Gross profit margin (adjusted)	in %	25.5	around 24	around 28

[1] See Q3 2019 quarterly statement, page 16.
[2] See 2018 annual report, page 77.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

CUMULATIVE KEY FINANCIAL PERFORMANCE INDICATORS

In millions of euros

	2019	2018
Revenues adjusted[1]	736.7	372.8
Gross profit adjusted	187.8	106.4
Gross profit margin adjusted[1]	25.5%	28.5%
EBIT adjusted[1]	128.9	49.6
EBT adjusted	107.8	41.5

[1] Financial performance indicators.

Expansion of the Instone Group

Last year, the Instone Group acquired the residential property development activities pooled in S&P Stadtbau from the Sontowski & Partner Group. As a result of this acquisition, seven project companies were consolidated for the first time on 1 September 2019.

Effects from company mergers

This takeover and the first consolidations of Instone Real Estate Development GmbH on 1 October 2014 and Instone Real Estate Leipzig GmbH on 31 December 2015 led to extraordinary effects from purchase price allocations in the consolidated financial statements of Instone Real Estate Group AG for 2019.

First-time application of IFRS 16 “Leases”

In the 2019 financial year, the Instone Group applied International Financial Reporting Standard 16 (IFRS 16) “Leases” for the first time. The effects of the first-time application arise for Instone real estate as a lessee in lease agreements.

In accordance with the principles of IFRS 16, a lessee must recognise an asset from the right of use in the amount of the lease obligation upon conclusion of a lease agreement. As a counter-position, the lessee records a lease liability equal to the cash value of the lease obligation. In the course of the first-time application, the lessee must value and record all existing lease agreements with the residual value of the lease obligation as an asset and as a lease liability. Prior to the first-time application of IFRS 16, these lease obligations were managed outside of the lessee’s balance sheet.

Consequently, the subsequent evaluations of the lease agreements also result in a change in the income statement. The lessee’s income statement shows the depreciation of the right of use of the leased asset and the expenses arising from the compounding of the lease obligation. Prior to the first-time application of IFRS 16, these ongoing payments of the lease obligations were recognised as other operating expenses.

As of 31 December 2019, on the basis of the first-time application of IFRS 16, lease assets in the amount of €9.7 million and lease liabilities in the amount of €9.8 million were included in the consolidated balance sheet. In the consolidated income statement, depreciation of €3.2 million and interest expenses of €0.3 million were incurred in the 2019 financial year, which were offset by a reduction of €2.9 million in expenses from lease payments. Adjusted EBIT fell accordingly by €0.3 million.

RESULTS OF OPERATIONS

The presentation of the results of operations in the consolidated financial statements of Instone Real Estate Group AG for the 2019 financial year reflects this business which is largely impacted by the project developments of the Instone Group. For this reason, the following adjustments have been made to the income statement.

As part of the adjusted earnings situation 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 an expected decision by the IFRS IC to exempt share deals from period-based revenue recognition under IFRS 15.

Adjusted earnings before interest and taxes are intended to reflect the sustained operating profitability and are thus adjusted for one-off and extraordinary 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 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 significant income includes, in particular, income from capital gains arising from sales of fixed assets, compensation for damages, write-downs on fixed assets, refunds of taxes from previous years based on audits, reversals of provisions for extraordinary events and merger gains.

The ongoing amortisation of purchase price allocations due to the expansion of the scope of consolidation in the past year and in previous years are also adjusted in the income figures.

The calculation of the individual adjusted items results from the following items in the income statement:

- → Adjusted revenues are revenues adjusted for the effects of purchase price allocations and including effects from share deal agreements.
- → Project costs include the cost of materials less changes in inventories, indirect selling expenses and capitalised interest. It thus reflects the external costs allocated to the project developments.
- → Adjusted gross profit is the result of adjusted revenues less project costs.
- → Adjusted platform costs are the total of staff costs, other operating income, as well as other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project costs, adjusted for one-off and extraordinary effects.
- → Adjusted earnings before interest and taxes is adjusted gross profit reduced by the adjusted platform costs.
- → Adjusted investment and financial result is the total of the earnings from associated affiliates, other income from investments, financial income, financial expenditure and write-downs on securities classified as financial assets less capitalised interest.
- → Adjusted earnings before tax results from adjusted earnings before interest and tax less the adjusted investment and financial result.
- → Adjusted income taxes correspond to income taxes adjusted for the tax effects of purchase price allocations and one-off and extraordinary effects.
- → Adjusted earnings after taxes are the adjusted earnings before tax less the adjusted income taxes.

ADJUSTED RESULTS OF OPERATIONS

In millions of euros

	2019	2018	Change
Revenues adjusted	736.7	372.8	97.6%
Project expenses adjusted	– 548.8	– 266.3	106.1%
Gross profit adjusted	**187.8**	**106.4**	**76.5%**
Gross profit margin adjusted	**25.5%**	**28.5%**	
Platform costs adjusted	– 59.0	– 56.9	3.7%
Earnings before interest and tax (EBIT) adjusted	**128.9**	**49.6**	**159.9%**
EBIT margin adjusted	**17.5 %**	**13.7%**	
Investment and other results adjusted	– 5.0	– 0.4	n/a
Financial result adjusted	– 16.1	– 7.7	– 109.1%
Earnings before tax (EBT) adjusted	**107.8**	**41.5**	**159.8%**
EBT margin adjusted	**14.6%**	**11.5%**	
Income taxes adjusted	– 2.2	– 22.4	– 90.2%
Earnings after tax (EAT) adjusted	**105.6**	**19.1**	**452.9%**
EAT margin adjusted	**14.3%**	**5.1%**	

In the future, the Instone Group will report adjusted earnings before interest and taxes (EBIT) including the results of companies consolidated at equity, insofar as these are material for the adjusted earnings situation.

Revenue

In 2019 financial year, the Instone Group almost doubled its adjusted revenues by around 98% compared with the same period in the previous year. As of 31 December 2019, adjusted revenues amounted to €736.7 million (previous year: €372.8 million). Significant increases in marketing, in particular, the marketing of the major “Westville” project, boosted revenues in the fourth quarter of 2019 to €434.3 million (previous year: €150.3 million). Revenues in the fourth quarter attributable to ongoing projects with revenue recognition already begun in the first nine months of 2019 amounted to €151.6 million. Of the projects with first-time revenue recognition beginning in the fourth quarter of 2019, 10.7 million euros was attributable to projects with individual sales and 271.9 million euros to projects with global sales. The amortisation of the effects from purchase price allocations placed a burden of €6.4 million (previous year: 12.0 million) were incurred as a burden on the reported revenues.

REVENUE

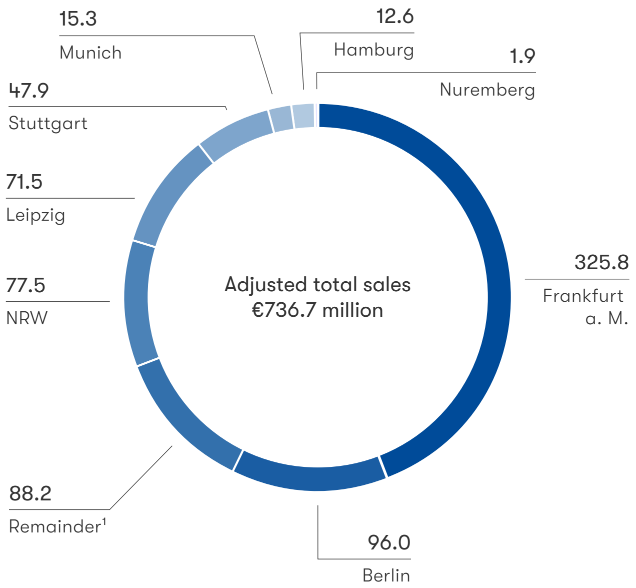
In millions of euros

	2019	2018	Change
Revenue	**509.5**	**360.8**	**41.2%**
+ Effects from purchase price allocations	6.4	12.0	– 46.4%
+ Effects from share deals	220.8	–	–
Revenues adjusted	**736.7**	**372.8**	**97.6%**

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

ADJUSTED TURNOVER BY REGIONS

In millions of euros



[1] Includes Wiesbaden (€55,3 million), Ulm (€3,9 million), Mannheim (€24,5 million), Hanover (€2,6 million) and Wolfratshausen (€1,7 million).

Project costs

At the end of the financial year, the adjusted project expenses also significantly increased to €548.8 million (previous year: €266.3 million). The two main influencing factors are the increase in the cost of materials and, conversely, the changes in inventories.

The increase in the cost of materials to €634.0 million (previous year: 320.4 million Euro) is based on the increase in construction activities for project developments and the purchase of land, which are neutralised by the changes in inventories in project expenses.

As of 31 December 2019, the changes in inventories were €277.3 million (previous year: €57.0 million) and thus significantly higher than in the previous year.

Indirect sales expenses allocated to the project expenses amounted to €3.1 million as of 31 December 2019 (previous year: €1.9 million). The adjustment of the capitalised interest in the changes in inventories of €3.2 million (previous year: €1.1 million) burdened the project effort.

PROJECT COSTS

In millions of euros

	2019	2018	Change
Project costs	**356.7**	**263.3**	**35.5%**
+ Effects from purchase price allocations	– 7.9	0.0	0.0%
+ One-off and extraordinary effects	6.3	3.0	110.0%
+ Effects from share deal agreements	193.7	0.0	0.0%
Project expenses adjusted	**548.8**	**266.3**	**106.1%**

Gross profit

Due to the increase in construction activities and the increase in revenues, the adjusted gross profit also rose significantly to 187.8 million (previous year: €106.4 million).

GROSS PROFIT

In millions of euros

	2019	2018	Change
Gross profit	**152.8**	**97.5**	**56.7%**
+ Effects from purchase price allocations	14.2	11.9	19.3%
+ One-off and extraordinary effects	– 6.3	– 3.0	110.0%
+ Effects from share deal agreements	**27.1**		
Gross profit adjusted	**187.8**	**106.4**	**76.5%**
Gross profit margin adjusted	**25.5%**	**28.5%**	

The adjusted gross profit margin – calculated from the adjusted gross profit or loss for the adjusted revenues – amounts to 25.5% (previous year: 28.5%). The moderate decline is due to the high share of earnings from the major "Westville" project with a low gross project earnings margin. The gross profit margin would have been 31.1% without the inclusion of the "Westville" share deal.

Platform costs

The adjusted platform expenses increased to €59.0 million (previous year: €56.9 million). In the financial year, one-off effects in the amount of 4.7 million euros were adjusted and removed from the platform costs. Of these effects, €2.5 million relate to expenses for the acquisition of S&P Stadtbau in the third quarter and subsequent effects of €2.2 million in connection with an acquisition in 2015. Furthermore, indirect costs of €3.1 million were reclassified in project expenses.

PLATFORM COSTS

In millions of euros

	2019	2018	Change
Platform costs	**66.8**	**59.4**	**12.4%**
+ One-off and extraordinary effects	–7.8	–2.5	211.6%
Platform costs adjusted	**59.0**	**56.9**	**3.7%**

At €37.3 million, personnel expenses rose slightly at the end of the 2019 financial year compared with the previous year's level (previous year: €33.6 million). This was mainly due to the higher number of employees of 375 (previous year: 311) and the corresponding increase in the FTE figure of 346.5 (previous year: 258.7). Other operating income increased to €9.0 million (previous year: €2.7 million) GRI 102-8. Other operating expenses rose in the same period to €33.0 million (previous year: €27.9 million). Depreciation increased to €4.1 million (previous year: €0.6 million). The first-time application of IFRS 16 "Leases" essentially resulted in a change in the recognition for ongoing lease payments from other operating expenses to the depreciation of assets from rights of use. The effect in the financial year from this depreciation amounted to €3.2 million.

Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax rose significantly to €128.9 million due to the positive business performance (previous year: €49.6 million).

EBIT

In millions of euros

	2019	2018	Change
EBIT	**86.1**	**38.1**	**126.0%**
+ Effects from purchase price allocations	14.3	11.9	20.2%
+ One-off and extraordinary effects	1.4	–0.4	n/a
+ Effects from share deals	27.1	0.0	0.0%
EBIT adjusted	**128.9**	**49.6**	**159.9%**
EBIT margin adjusted	**17.5%**	**13.7%**	

Investment and financial income

In the financial year, expenses in the investment result from the change in minority interests of €5.8 million were incurred. These expenses relate to the subsidiary "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG". The Instone Group holds a 70% interest in this company, with a 30% stake being held by minorities.

The financial result decreased in the financial year to €–17.8 million (previous year: €–8.8 million). The increase in interest expenses is mainly attributable to the increase in debt in the financial year.

The financial result adjusted for the interest from project financing capitalised in the changes in inventories before the start of sales in the amount of €3.2 million (previous year: €1.1 million) and financial result adjusted for opposing one-off interest income on tax refunds of €1.5 million decreased to €–16.1 million (previous year: €–7.7 million).

Earnings before tax (EBT)

Due to the positive business performance and the improvement in the financing structure, adjusted earnings before tax increased significantly to €107.8 million (previous year: €41.5 million).

EBT

In millions of euros

	2019	2018	Change
EBT	**63.2**	**29.6**	**113.5%**
+ Effects from purchase price allocations	14.3	11.9	20.2%
+ One-off and extraordinary effects	3.2	0.0	0.0%
+ Effects from share deals	27.1	0.0	0.0%
EBT adjusted	**107.8**	**41.5**	**159.8%**
EBT margin adjusted	**14.6%**	**11.5%**	

Income taxes

The tax rate in the adjusted earnings situation in financial year 2019 was approximately 2% (previous year: > 50%). The positive development was due on the one hand to the one-off tax effects from the previous year ceasing to apply, and on the other hand, to the approach to tax loss carryforwards from the parent company from previous years, which on the basis of the positive decision made by the Annual General Meeting in June 2019 could be used to conclude a control and profit transfer agreement with a subsidiary. This control and profit and loss transfer agreement was concluded on 11 September 2019 with retroactive effect on 1 January 2019 following its registration on 13 September 2019.

Income taxes in the reported result, due to the effects mentioned above, amounted to income of €6.5 million (previous year: expenditure €20.5 million).

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €105.6 million (previous year: €19.1 million). Before adjustment for effects from purchase price allocations, effects from share deal agreements and extraordinary effects, the profit after tax of €69.8 million (previous year: €9.0 million).

EAT

In millions of euros

	2019	2018	Change
EAT	**69.8**	**9.0**	**675.6%**
+ Effects from purchase price allocations	9.8	10.1	–3.0%
+ One-off and extraordinary effects	3.2	0.0	0.0%
+ Effects from share deal agreements	22.8	0.0	0.0%
EAT adjusted	**105.6**	**19.1**	**452.9%**
EAT margin adjusted	**14.3%**	**5.1%**	

Minority interests

In the financial year, the adjusted share of non-controlling interests amounted to €0.0 million (previous year: €2.9 million).

MINORITY INTERESTS

In millions of euros

	2019	2018	Change
EAT	**69.8**	**9.0**	**675.6%**
Group interests	69.8	6.5	n/a
Non-controlling interests	0.0	2.5	–100.0%
EAT adjusted	**105.6**	**19.1**	**452.9%**
Group shares adjusted	105.6	16.1	n/a
Non-controlling interests adjusted	0.0	2.9	–100.0%

Earnings per share

Adjusted earnings per share improved significantly in the 2019 financial year to €2.85 (previous year: €0.44). In the previous year, earnings per share were still weighed down by high negative one-off tax effects.

EARNINGS PER SHARE

In millions of euros

	2019	2018	Change
Shares (in thousand units)	36,988.3	36,988.3	0.0%
Group interests	**69.8**	**6.5**	**n/a**
Earnings per share (in €)	1.89	0.18	n/a
Group interests adjusted	105.6	16.1	n/a
Earnings per share adjusted (in Euro)	2.85	0.44	n/a

NET ASSETS

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	31/12/2019	31/12/2018	Change
Non-current assets	20.4	2.8	628.6%
Inventories	732.1	404.4	81.0%
Contract assets	219.0	158.5	38.2%
Other receivables and assets	34.7	32.9	5.5%
Cash and cash equivalents	117.1	88.0	33.1%
Assets	**1,123.4**	**686.6**	**63.6%**
Equity	310.2	246.9	25.6%
Liabilities from corporate finance	180.8	66.1	173.6%
Liabilities from project-related financing	414.7	199.5	107.9%
Provisions and other liabilities	217.8	174.1	25.1%
Equity and liabilities	**1,123.4**	**686.6**	**63.6%**

As of 31 December 2019, the Instone Group's total assets rose to €1,123.4 million (previous year: €686.6 million). This was mainly attributable to the increase in inventories. The main effects of this increase resulted from the successfully implemented purchase of land for the “Westville” project with inventories of €195.8 million and the acquisition of S&P Stadtbau GmbH, which was completed in the third quarter and increased inventories and contract assets by €76.4 million. In addition, goodwill of 6.1 million euros has arisen, which results in showing deferred taxes of 5.7 million euros. The increase also resulted from the first-time application of IFRS 16 as of 1 January 2019, on the basis of which leases are accounted for as “Assets from rights of use granted”. On the basis of the first-time application of IFRS 16 on 1 January 2019, assets from granted rights of use were recognised on the balance sheet for the first time as of 31 December 2019 and amounted to €9.7 million (previous year: €0 million). In future, these assets will be depreciated over the useful life anticipated from the lease agreement.

As of 31 December 2019, inventories rose to €732.1 million (previous year: €404.4 million). This increase in inventories is mainly the result of the purchase of new land for future residential project developments.

CONTRACT ASSETS

In millions of euros

	31/12/2019	31/12/2018	Change
Contract assets	479.4	466.9	2.7%
Payments received	– 266.9	– 318.1	– 16.1%
	212.5	**148.8**	**42.8%**
Receivables from contract start-up costs	6.5	9.7	– 33.0%
	219.0	**158.5**	**38.2%**

Receivables from customers for work-in-progress (contract assets) already sold and valued at the current completion level of development rose to €479.4 million as of 31 December 2019 (previous year: 466.9 million) due to the increased completions. As of 31 December 2019, advance payments from customers amounted to €266.9 million (previous year: €318.1 million). The capitalised direct distribution costs decreased to €6.5 million (previous year: €9.7 million). The balance of these items results in an increase in the contractual assets to €219.0 million (previous year: €158.5 million). The total increase is due to the higher volume of global sales with prepayments not increasing proportionately.

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, inventories and contract assets as at 31 December 2019 still included write-ups of €46.0 million (previous year: €39.4 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 decreased to €8.3 million (previous year: €13.1 million). The portfolio of receivables is the result of transfers of housing to investors with only a few remaining services to be carried out.

The shares accounted for using the equity method, which also include participations in project companies, rose in the 2019 financial year from €0.2 million to €0.7 million.

Other current receivables and other assets decreased from €18.8 million to €12.5 million in 2019. As of 31 December 2019, other receivables are recognised that relate to a tax exemption of €2.3 million by Hochtief Solutions AG, Essen, and capitalised tax receivables of €1.1 million. Prepayments on real estate for which the transfer of benefits and encumbrances takes place after the respective balance sheet date decreased from €10.6 million to €6.0 million. In addition, processing fees already paid for loans in the amount of €1.9 million (previous year: €0.9 million) distributed over the entire term are recognised in “Other receivables and other assets”.

Cash and cash equivalents of €117.1 million (previous year: €88.0 million) increased mainly required as a result of the inflow of financing in the second and third quarters. This increase is balanced by cash outflows for investments in new land for project development. For more information, please refer to the Group's consolidated statement of cash flows. page 111 f.

Non-current provisions for pensions and similar obligations fell slightly by €0.1 million to €3.9 million in 2019. The defined benefit obligation for pension obligations amounting to €12.6 million (previous year: €11.3 million) was offset by plan assets of €8.7 million (previous year: €7.3 million). Plan assets of €8.2 million (previous year: €6.8 million) were invested in a trust account with Helaba Pension Trust e.V., Frankfurt am Main, while €0.5 million (previous year: €0.5 million) was invested in a trust account at European Bank for Financial Services GmbH (ebase®), Aschheim, Germany. At €1.0 million, the increase in plan assets on the trust account at Helaba Pension Trust results from a contribution made in the financial year. This contrasts with the decrease in value of the plan assets caused by the current financial market situation. GRI 201-3

The remaining other non-current provisions for the financial year rose from €4.5 million to €6.3 million in 2019. For the most part, provisions for long-term incentive plans amounting to €5.2 million and other non-current personnel provisions amounting to €0.6 million are included in this item.

The other short-term provisions for the financial year increased by €5.3 million in 2019, from €17.7 million (as at 31 December 2018) to €23.0 million. The main reason for this increase was the increase in project risks. Project-related provisions for work still to be carried out, impending losses and warranty and litigation risks increased in the financial year by €19.2 million (previous year: €12.7 million).

As of 31 December 2019, non-current financial liabilities rose to €451.6 million (previous year: €177.7 million). In the same period, current financial liabilities also increased to €143.9 million (previous year: €87.8 million). The increase in financial liabilities by a total of €329.9 million resulted from the utilisation of corporate financing in the third quarter and the financing of the increased completion of project developments.

Liabilities from net assets allocated to minority shareholders of €9,504 million (previous year: €0 million) relate to minority interests of "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG".

Leasing liabilities of €9.8 million (previous year: €0 million) arose in the period from January 1 to 31 December 2019 under the first-time application of IFRS 16.

Trade payables increased slightly in the financial year to €87.6 million (previous year: €78.3 million) and essentially comprise the services provided by contractors.

Deferred tax liabilities as at 31 December 2019 amounted to €12.0 million (previous year: €32.2 million). This figure also included deferred tax liabilities of €14.9 million (previous year: €13.7 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 from €18.1 million as of 31 December 2018 to €29.1 million as of 31 December 2019. This was the result of income taxes for the increased profits of the German Group companies.

The equity ratio as of 31 December 2019 was 27.6% (previous year: 36.0%).

NET FINANCIAL DEBT AND DEBT-TO-EQUITY RATIO

In millions of euros

	31/12/2019	31/12/2018	Change
Non-current financial liabilities	451.6	177.7	154.1%
Current financial liabilities	143.9	87.8	63.9%
Financial liabilities	**595.5**	**265.5**	**124.3%**
– Cash and cash equivalents	– 117.1	– 88.0	33.1%
Net financial debt (NFD)	**478.4**	**177.5**	**169.5%**
EBIT adjusted (LTM [1])	128.9	49.6	159.9%
Depreciation and amortisation (LTM [1])	4.1	0.6	583.3%
EBITDA adjusted (LTM [1])	**132.9**	**50.2**	**164.7%**
Debt-to-equity ratio (NFS/EBITDA)	3.6	3.5	–

[1] LTM = Last twelve months

As of the end of the 2019 financial year, the Instone Group was able to improve its debt-to-equity ratio compared with 31 December 2018. Despite the higher net debt, the degree of debt was only 3.6 times the EBITDA due to the increased profit and therefore represents solid debt sustainability for the Instone Group.

FINANCIAL POSITION

As a result of the expansion of the project volume, the liabilities from project financing increased to €414.7 million in the 2019 financial year (previous year: €199.2 million). The overall financing framework of €994.7 million now (previous year: €582.0 million) was increased during 2019, not only due to the conclusion of classic project financing, but also by further corporate financing. As of 31 December 2019, credit lines in the amount of €667.2 million from project financing and €327.5 million from corporate financing were available. Instone Real Estate strives to continuously optimise its financing structure. With new credit agreements in the amount of around €330 million, the Instone Group was able to secure financial support for its growth strategy for the next three years. In the second quarter of 2019, a large company financing of €200.0 million was concluded (since reduced to a €125.0 million credit facility). Furthermore, in the course of a rescheduling of the existing promissory note loan from Instone Real Estate Development GmbH to Instone Real Estate Group AG in the third quarter of 2019, additional investors were acquired and existing business relationships were expanded to a volume of €106.0 million. The third pillar is a syndicated three-year credit line of €84.0 million concluded in the fourth quarter of 2019. The agreements of these corporate financing arrangements contain financial covenants which are described on page 143.

The liabilities resulting from these financing arrangements as at 31 December 2019 increased to €594.9 million (previous year: €265.2 million).

The individual project-related financing of Instone Real Estate was negotiated with various financial institutions and is subject to different conditions. In general, the loans are subject to variable interest rates. Different amounts and frequencies have been agreed for the use of funds from loans with fixed interest or fixed term. The interest rates for 2019 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

In millions of euros

	Due by	Credit line	Utilisation as of 31 December 2019	Interest rate conditions
Corporate finance				
Promissory note loan	31/08/2022	78.0	78.0	2.50% to 3.10%
Promissory note loan	31/08/2024	28.0	28.0	3.00%
Term loans	31/05/2021	125.0	75.0	5.00%
Syndicated loan	31/12/2022	84.0	0.0	2.85%
Current account loans <1 year	31/12/2020	12.5	0.0	1.75% to 3.47%
		327.5	**181.0**	
Project financing				
Term <1 year	31/12/2020	187.0	142.8	1.45% to 3.90%
Term >1 and <2 years	31/12/2021	364.3	222.2	1.75% to 4.50%
Term >2 and <3 years	31/12/2022	115.9	51.8	1.75% to 5.75%
Term >3 years	>31/12/2022	0.0	0.0	
		667.2	**416.9**	

CONDENSED STATEMENT OF CASH FLOWS

In millions of euros

	31/12/2019	31/12/2018	Change
Cash flow from operations	–205.1	–40.4	–407.7%
Cash flow from investing activities	–32.4	0.5	n/a
Free cash flow	**–237.5**	**–39.9**	**–495.2%**
Cash flow from financing activities	266.2	54.3	390.2%
Cash change in cash and cash equivalents	**28.7**	**14.4**	**99.3%**
Cash and cash equivalents at the beginning of the period	88.0	73.6	19.6%
Other changes in cash and cash equivalents	0.4	0.0	0.0%
Cash and cash equivalents at the end of the period	**117.1**	**88.0**	**33.1%**

266.2 million as at 31 December 2019, cash flow from financing activities was well above the figure for the same period of the previous year (previous year: €54.3 million). This includes payments received from new loans taken out in the amount of €559.5 million and repayments for terminated loans in the amount of €283.1 million.

The cash flow from investing activities in the 2019 financial year was negative at €–32.4 million (previous year: €0.5 million) was mainly influenced by the payment of €31.8 million made in the acquisition of the company. 0.9 million was invested in property, plant and equipment in the financial year (previous year: €1.1 million). The investments mainly related to technical equipment and other office equipment. This was offset by interest received of €1.6 million.

The Instone Group's cash flow from operating activities of €–205.1 million in the financial year (previous year: –40.4 million) was mainly characterised by the increase in cash outflows. This is due to purchase price payments for land partially secured in previous years – mainly for the "City Prag", Stuttgart, "Rote Kaserne", Potsdam, "Gartenstadt", Dortmund, and the "Wiesbaden-Delkenheim" project in the first quarter, for the "Friedberger Landstrasse" and "Idsteiner Strasse" projects, both in Frankfurt am Main, in the second quarter and in the third quarter for the projects "Kösliner Weg", Hamburg, "Rothenburgsort", Hamburg, "Schäferlinde", Herrenberg, and for the projects "Westville", Frankfurt am Main, "S'Lederer", Schorndorf, and "Rothenburgsort", Hamburg, in the fourth quarter – with a total value of €320.1 million (previous year: €72.5 million).

The operating cash flow adjusted for the payments for land in the financial year, at €115.0 million (previous year: €32.1 million) and thus demonstrates the sustained positive liquidity development of the Instone Group from ongoing residential project developments.

The depreciation of fixed assets amounting to €0.8 million (previous year: €0.6 million), the decline in deferred tax liabilities by €25.9 million (previous year: €24.5 million), the increased revaluation of shares accounted for using the equity method by €0.4 million (previous year: €0.2 million reduction), expenses from the investment result of minorities of €5.8 million (previous year: €0 million), interest expenses of €18.0 million (previous year: €8.4 million) and income tax expenses of €20.3 million (previous year: €17.4 million) in the financial year did not affect cash.

CASH FLOW FROM OPERATIONS

In millions of euros

	31/12/2019	31/12/2018	Change
EBITDA adjusted	132.9	50.2	164.7%
Other non-cash items	–38.0	–33.2	–14.5%
Taxes paid	–22.2	–6.5	–241.5%
Working Capital Change	–277.8	–50.9	–445.8%
Cash flow from operations	**–205.1**	**–40.4**	**–407.7%**
Payments for land	320.1	72.5	341.3%
Cash flow from operations without new investments	**115.0**	**32.1**	**257.9%**

The increase in provisions by €6.9 million (previous year: reduction of €28.4 million) was also a non-cash item. In the previous year, the reduction of provisions in the amount of €29.5 million was accounted for in the cash flow from operating activities. In the previous year, there were inflows from the repayment of loans to the former shareholders in the same amount in the financing cash flow.

Non-cash expenses and income reduced the cash flow from operating activities in financial year 2019 by €0.3 million (previous year: €14.2 million).

As of 31 December 2019, financial resources amounted to €117.1 million (previous year: €88.0 million). This includes released funds amounting to €109.0 million (previous year: €81.7 million) which were not used to secure existing project-related financing.

In addition to cash loans from banks, as at 31 December 2019 the guarantee facilities of the credit insurers were also reduced to €275.5 million (previous year: 185.2 million euros).

PROJECT BUSINESS AT A GLANCE

VOLUME OF SALES CONTRACTS

The marketing success in the 2019 financial year was significantly above the medium-term target level with 2,733 residential units and a volume of sales contracts of €1,403.1 million. The previous year's figure of €460.8 million was thus increased by a factor of three.

In the fourth quarter of 2019, the volume of sales contracts increased significantly by over €1 billion compared with the first nine months, exceeding the already successful development of the first nine months of the financial year and the expected value from the forecast for 2019, which was already adjusted in September 2019.

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS

In millions of euros

		2019	2018
Volume of sales contracts		1,403.1	460.8
Volume of sales contracts	In units	2,733	1,033
Project portfolio (existing projects)		5,845.7	4,763.2
of which already sold		2,174.0	998.2
Project portfolio (existing projects)	In units	13,715	11,041
of which already sold	In units	4,814	2,395

Unless otherwise stated, the key performance indicators are the cumulative figures for the reporting year as of the respective reporting date.

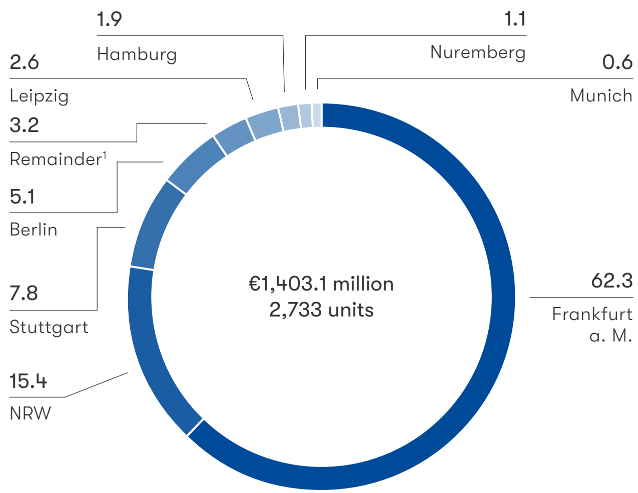
This was due in particular to the successful completion of the institutional sales announced. In the third quarter the global sale with Wohnbau GmbH for the project "Niederkasseler Lohweg" in Dusseldorf with 221 residential units was already completed. In addition, in the last quarter of 2019 further sales for individual plots of the overall measures in the "Schönhof-Viertel" in Frankfurt am Main, "Wohnen im Hochfeld" in Dusseldorf-Unterbach and "west.side" in Bonn with a total of around 650 residential units and a volume of around €300 million were concluded. In addition, we were able to sell the "S'Lederer" quarter development in Schorndorf with a total of around 224 rental flats and four townhouses to R+V Lebensversicherung AG. The transaction for one of the largest German residential projects with more than 1,200 new apartments in the Gallus district in Frankfurt am Main has also been successfully concluded. In addition, continuous sales in individual sales are developing very positively due to the uninterrupted high demand and led to the sale of 526 residential units with a marketing volume of approximately €300 million in the 2019 financial year.

In the fourth quarter of 2019, there were two cancelled transactions. One flat has already been resold and we also expect a timely resale on the same terms for the other flat.

The marketing volume realised as of 31 December 2019 is concentrated almost exclusively in the most important metropolitan regions in Germany, accounting for approximately 97% of the total. Around 3% is accounted for by the other prospering medium-sized cities. graphic

SALES IN 2019 BY REGION

In %



[1] Includes Wiesbaden, Mannheim and Hanover.

IThe following projects essentially contributed to successful marketing in the 2019 period under review:

REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS – VOLUME OF REVENUE CONTRACTS
In millions of euros

		Volume	Units
Westville	Frankfurt a. M.	n/a[1]	> 1,200
Siemens-Areal	Frankfurt a. M.	n/a[1]	404
S'Lederer	Schorndorf	n/a[1]	229
Niederkasseler Lohweg	Dusseldorf	n/a[1]	221
Quartier Stallschreiber-straße – Luisenpark	Berlin	70.1	121
St. Marienkrankenhaus	Frankfurt a. M.	66.6	65
west.side	Bonn	n/a[1]	141
Unterbach	Dusseldorf	n/a[1]	111
Property Bonn, Schumanns Höhe	Bonn	37.8	97
Wiesbaden – Wohnen am Kurpark	Wiesbaden	35.4	47

[1] The two contracting parties agreed to keep the purchase price of the project confidential.

In the 2019 financial year, the "Schwarzwaldstraße" project in Herrenberg, "Schulterblatt Amanda" in Hamburg and "Beethoven West" in Augsburg were sold with a total of around 540 units and a sales volume of €240 million in individual sales and replenished the sales portfolio on the market over the course of the year. In addition, the good sales in the projects had a negative impact on the supply. In total, as of 31 December 2019, this results in a sales offer of 618 residential units comparable to the previous year (€369.4 million, 557 units) with an expected revenue volume of approximately €340 million.

At the end of the financial year, the project portfolio of Instone Real Estate in 2019 comprised 55 projects with a total sales volume currently expected to be €5,845.7 million. Again, there was a significant increase compared with the end of 2018 (€4,763.2 million). This was largely achieved thanks to the successful acquisition activities with a total volume of around €1,284 million in 2019. On the one hand, we acquired the residential real estate development platform of S&P Stadtbau GmbH from the Sontowski & Partner Group. In the course of the purchase, we were able to take over six existing project developments in addition to our current business activities, thereby expanding our portfolio by around €300 million and approximately 1,000 residential units. On the other hand, the following projects were acquired:

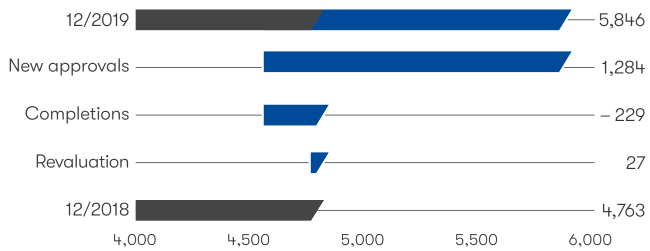
NEW PERMITS IN 2019
In millions of euros

		Volume	Units
S&P (6 projects)		302.2	994
Rothenburgsort	Hamburg	181.6	716
Aukamm	Wiesbaden	147.8	289
Rosa Luxemburg	Leipzig	115.5	358
REME Mönchengladbach	Mönchen-gladbach	105.2	303
Büntekamp	Hanover	93.1	258
Bamberg, Lagarde	Bamberg	72.9	227
Literaturquartier	Essen	67.5	212
Herrenberg III	Herrenberg	55.5	141
Römerhügel, Augsburg	Augsburg	51.2	102
Eslarner Straße	Nuremberg	48.8	101
Düsseldorfer Landstraße	Duisburg	26.4	81
Nathusiusstraße	Leipzig	16.5	75
Total		**1,284.2**	**3,857**

As in the 2018 financial year, it was thus possible to exceed the new approval volume of €900 to €1,000 million targeted in the medium term. Based on the existing project portfolio, Instone Real Estate is in a good position to achieve the targets aimed at and has created a solid basis for sustainable growth in the coming years. For this reason, we assume that the medium-term revenue target of €900 to €1,000 million for the 2022 financial year will be exceeded, with adjusted revenue expected to exceed €1 billion. The increase in existing project forecasts of around €27 million in 2019 as a result of plans that materialised and market prices that were adjusted also highlights the revenue potential in the overall project portfolio.

In the course of the 2019 reporting year, eight projects were removed from the portfolio (€–228.8 million) due to completion or handover of the properties sold in the Leipzig region (see "Development of the project portfolio in the course of 2019").

DEVELOPMENT OF THE PROJECT PORTFOLIO DURING 2019
AS OF: DECEMBER 2019
In millions of euros

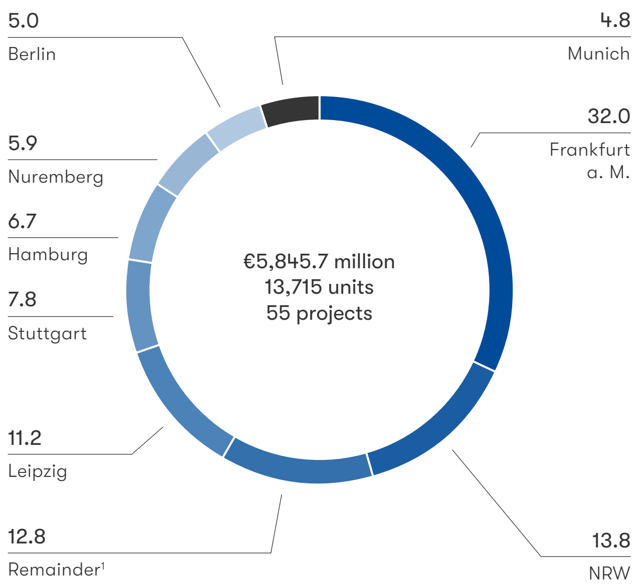


Taking into account an assumed price development for projects not yet in distribution – of 1.5% per annum on the revenue side and 3.5% per annum on the construction cost side – this results in an anticipated project gross profit margin on the profit portfolio of about 25% as at the reporting date.

The majority – approximately 87 % – of anticipated overall volume of revenue from the project portfolio as at 31 December 2019 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg. Around 13 % is located in other prosperous medium-class cities (see "Project portfolio by region").

PROJECT PORTFOLIO BY REGION

In %

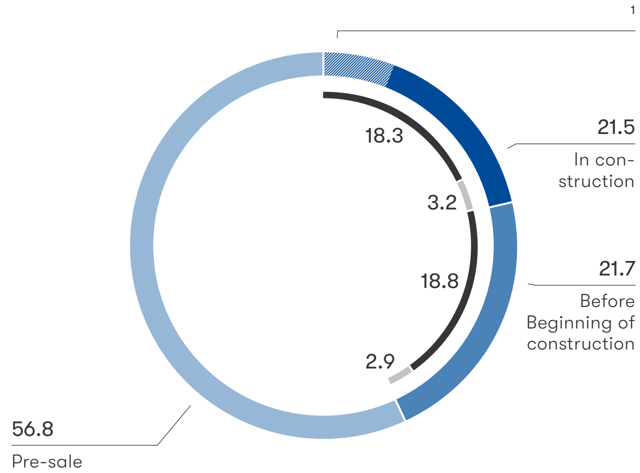


[1] Includes Wiesbaden, Mannheim, Hanover, Potsdam, Bamberg.

Based on the continuous growth of our project portfolio in recent years, the majority of our ongoing projects are in the "pre-sale" development stage. The comparison to the 2018 financial year in the categories "pre-sale" (previous year: 70.7%) and "pre-construction" (previous year: 5.4%) confirms the progressing concretisation in the individual project phases of the overall portfolio and clarifies the planning basis for the targets set out in the medium-term sales forecast.

PROJECT PORTFOLIO BY GROUPS; BASIS: SALES REVENUES

In %



Internal sector:
■ Sold
■ Unsold
[1] 6.2% of the project portfolio has already been transferred.

In addition, the preceding chart shows that we have already sold around 37% of the expected total revenue volume of the project portfolio as of 31 December 2019. In terms of the expected revenue volume, 86 % of the "under construction" and "pre-construction" projects were sold as at 31 December 2019.

Adjusted revenues

In addition to the positive sales development, the economically successful development in the 2019 financial year is also reflected in the adjusted revenues achieved. As of 31 December 2019, adjusted revenues amounted to €736.7 million and are therefore at the upper end of the forecast target range of €700–750 million. The following projects carried out contributed in particular to the adjusted revenues in the period under review:

KEY PROJECTS REVENUE REALISATION (ADJUSTED) 2019

In millions of euros

		Revenue volume (adjusted)
Westville	Frankfurt a. M.	220.8
Quartier Stallschreiber Straße – Luisenpark	Berlin	95.0
St. Marienkrankenhaus	Frankfurt a. M.	58.3
Wiesbaden – Wohnen am Kurpark	Wiesbaden	55.3
Heeresbäckerei	Leipzig	38.7
City-Prague – Wohnen im Theaterviertel	Stuttgart	31.9
Siemens-Areal	Frankfurt a. M.	26.3
Grundstück Bonn, Schumanns Höhe	Bonn	25.8
west.side	Bonn	25.0
MA Franklin	Mannheim	24.5

The sustainable growth of Instone Real Estate is not only significant in the growing project portfolio, but the projects already in the portfolio are also developing successfully. Several projects entered the construction phase during the period under review:

START OF CONSTRUCTION

City-Prague – Wohnen im Theaterviertel	Stuttgart	around 260 residential units
Land in Bonn, Schumanns Höhe (all construction)	Bonn	around 185 residential units
west.side (2nd construction)	Bonn	around 120 residential units
Herrenberg, Schwarzwaldstraße	Herrenberg	around 115 residential units
Theaterfabrik	Leipzig	around 75 residential units
Schwesternwohnheim Marie (final construction)	Frankfurt a. M.	around 55 residential units
MarinaBricks	Regensburg	around 50 residential units
Friedrich-Ebert-Straße	Leipzig	around 15 residential units
Fregestraße	Leipzig	around 5 residential units

Construction in projects already under construction is also progressing as expected. In 2019, Instone Real Estate celebrated topping-out ceremonies for a total of five projects, which represent around 640 new residential units.

TOPPING-OUT CEREMONIES

Wiesbaden – Wohnen am Kurpark	Wiesbaden	around 150 residential units
MA Franklin	Mannheim	around 95 residential units
Rebstock BF 1.2	Frankfurt a. M.	around 120 residential units
Quartier Stallschreiberstraße – Luisenpark	Berlin	around 235 residential units
Property Bonn, Schumanns Höhe	Bonn	around 35 residential units

At completion, Instone Real Estate projects have reported a 100% sales ratio in almost all cases. In the case of fully completed projects, our portfolio does not contain any more than 1% of unsold units without a sales agreement.

INSTONE REAL ESTATE GROUP AG

OPERATIONS

Instone Real Estate Group AG is the Instone Group's strategic management holding. Instone Real Estate Group AG owns all shares in Instone Real Estate Development GmbH as well as 100% (previous year: 94%) of the interests in Instone Real Estate Leipzig GmbH and almost all shares in the other subsidiaries of the Instone Group.

The annual financial statements of Instone Real Estate Group AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report is summarised in the Group Management Report. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) in accordance with Section 315e (1) HGB. Differences between the accounting and valuation methods according to the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS) mainly arise in accounting for inventories, receivables, provisions and deferred taxes in the balance sheet.

CONTROL SYSTEM, FUTURE DEVELOPMENT AND RISK SITUATION

As a holding company, Instone Real Estate Group AG acts directly with control functions and services for the operating activities of the subsidiaries and depends indirectly on the results and the economic performance of its subsidiaries. The management system, expected development and opportunities and risks of the Instone Group are reported in detail in the "Strategy" page 36, "Corporate Management" page 38, "Risk and opportunities report" page 71 and "Outlook" page 83 Sections of this Combined Management Report.

BUSINESS PERFORMANCE 2019

The business performance and situation of Instone Real Estate Group AG is largely determined by the business development and success of the Instone Group. This is described in detail in the Sections "Overview of Business Performance" page 65 and "Results of Operations, Net Assets and Financial Position" page 56 of this Combined Management Report.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT

In millions of euros

	2019	2018	Change
Revenue	1.6	1.4	12.4%
Other operating income	3.5	6.0	–42.6%
Staff costs	–5.2	–4.8	8.3%
Other operating expenses	–10.3	–23.0	–55.2%
Financial result	26.3	–4.5	n/a
Taxes on earnings	26.2	0.4	n/a
Earnings after tax	**42.0**	**–24.4**	**n/a**

The reported revenues of Instone Real Estate Group AG in the amount of €1.6 million (previous year: €1.4 million) result mainly from the provision of services to affiliated companies.

Other operating income increased to €3.5 million (previous year: €6.0 million) and includes, in particular, revenues from the intra-Group sale of shares in a subsidiary company.

Staff costs rose to €5.2 million (previous year: €4.8 million) due to a greater allocation to the provisions for long-term and short-term incentive plans in the amount of €3.1 million (previous year: €2.4 million) and higher salaries due to the increase in the number of employees.

At €10.3 million, other operating expenses were far below the previous year's level of €23.0 million and mainly comprise expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.5 million. They also include additions to provisions for long-term incentive plans for employees of Group companies in the amount of €1.0 million as well as consulting expenses in connection with the conclusion of corporate financing in the amount of €3.3 million.

The changes in the financial result by €30.8 million to €26.3 million (previous year: -4.5 million) are essentially composed as follows:

→ In the financial year under review, income from investments amounted to €41.9 million (previous year: €0 million).

→ Income from profit and loss transfer agreements amounted to €21.2 million (previous year: €0 million).

→ On the other hand, write-downs on financial assets amounting to €29.6 million (previous year: 0 million) due to the equity-reducing distribution of the subsidiary Instone Real Estate Leipzig GmbH.

→ Interest and similar expenses increased to €9.6 million (previous year: €4.6 million). This was due to the utilisation of corporate financing in the financial year.

26.2 million (previous year: –0.4 million) due to the one-off effect of capitalisation of deferred taxes on losses carried forward.

In the period under review, the total annual profit amounted to €42.0 million (previous year: net loss of €24.4 million).

NET ASSETS

As at year-end, the total assets of Instone Real Estate Group AG was €495.3 million (previous year: €286.6 million). This was in part mainly attributable to the utilisation of corporate financing in the amount of €182.7 million, but also to the increase in loans to subsidiaries.

Financial assets mainly included the investment book values of Instone Real Estate Development GmbH, Essen amounting to €181.8 million and Instone Real Estate Leipzig GmbH, Leipzig amounting to €48.6 million (previous year: €71.2 million). The carrying amount of Instone Real Estate Leipzig GmbH was written down in the financial year due to the equity-reducing distribution.

The loans, receivables and other assets amounting to €231.6 million (previous year: €6.0 million) included loans to affiliated companies amounting to €190.5 million (previous year: €3.2 million) and ongoing receivables from affiliated companies based on profit and loss transfer agreements. In the other assets amounting to €14.1 million (previous year: €2.8 million), in particular, include receivables from tax refund claims and receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement results from the exemption from property transfer tax expenses in connection with the acquisition of the Company, for which a corresponding provision exists.

Due to the first-time recognition for the assertion of loss carryforwards, deferred tax assets amounting to €27.7 million (previous year: €0 million).

The equity ratio on the balance sheet date was 51.2% (previous year: 73.8%).

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2019	2018	Change
Financial assets	230.9	253.3	– 8.8%
Loans and receivables from affiliated companies and shareholders	217.4	3.2	n/a
Other receivables and other assets	14.2	2.8	402.0%
Bank balances	5.1	27.3	– 81.2%
Assets	27.7	0.0	0.0%
	495.4	**286.6**	**72.9%**
Equity	253.5	211.5	19.9%
Provisions	9.5	8.1	18.6%
Liabilities to banks	182.7	0.0	0.0%
Liabilities to affiliated companies and shareholders	48.4	63.5	– 23.7%
Other liabilities	1.2	3.5	– 66.0%
Equity and Liabilities	**495.4**	**286.6**	**72.9%**

Provisions rose to €9.5 million in the financial year (previous year: €8.1 million) and in particular relate to tax provisions and personnel provisions for premium commitments to the Company's own employees and Group company employees.

The financial liabilities essentially consist of loan liabilities to credit institutions amounting to €182.7 million (previous year: €0 million) and affiliated companies in the amount of €48.4 million (previous year: €63.5 million). The liabilities to credit institutions result from the strategic realignment of financial management, which includes corporate financing taken by the Group's parent company and its use in the Group companies.

FINANCIAL POSITION

By appropriate financial management, the Instone Group, through Instone Real Estate Group AG, provides sufficient liquid funds to meet the operational and strategic financial needs of the Group companies at all times. As a listed company, Instone Real Estate Group AG considers the interests of shareholders and banks in its financial management. Instone Real Estate Group AG ensures an appropriate ratio between equity and debt financing in the interests of these stakeholders.

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

EMPLOYEES

At the end of the year, around five people were employed at Instone Real Estate Group AG (previous year: around one). GRI 102-8

RISK AND OPPORTUNITIES REPORT

The risk management of Instone Real Estate is geared towards securing the successful, continued development and profitability of the Group in the long term. The key instrument for achieving this goal is our risk management system. This identifies, evaluates and manages risks whereas opportunities are considered separately.

The further development of the risk management system was supported in 2019 by the newly created Internal Audit department, which superseded the previous external audit. Its purpose was to continuously improve the business processes with the aim of minimising risk and creating added value for the organisation. The audit department supports the Management Board and Supervisory Board with their control, management and steering functions by carrying out independent, internal audit mandates.

RISK MANAGEMENT SYSTEM

Instone Real Estate refers to the entirety of all organisational regulations and measures as a risk management system intended to identify business risks at an early stage and to counteract them with appropriate measures in good time. This is intended to secure the defined business goals and future success of Instone Real Estate. Unrecognised and therefore uncontrolled and unmanaged risks represent a high risk potential for Instone Real Estate. Systematic risk management reduces the risk potential and ensures the continued existence of the Company, the preservation of jobs and the successful further development of Instone Real Estate.

Key elements of the risk management system include the use of risk management software, quarterly risk identification measures, periodic reviews, internal approval processes for any far-reaching decisions, ICS and the four-eyes principle. The powers for individual decision-making levels are clearly regulated in the internal guidelines.

We are continuously working to optimise the risk management system together with our independent partners. Instone Real Estate is subject to the appropriate regulatory framework conditions as a stock corporation listed on the Frankfurt Stock Exchange and has also voluntarily committed to comply with the German Corporate Governance Code (GCGC). All applicable internal guidelines, Rules of Procedure and measures designed to ensure a Group-wide standardised and structured approach to risk management are reviewed internally on a regular basis. For example, we will also continue to evaluate all applicable internal regulations in 2019. This review and evaluation process is a continuous, ongoing process. In 2019, we completely revised some of the Company's guidelines in this context. The decision-making procedures which are valid for the entire Group have been further developed for the Management Board of Instone Real Estate Group AG on the basis of the Rules of Procedure and taking into consideration the applicable legislation and relevant case law. These regulate essential procedures and decision-making processes throughout the Group which require approval.

Responsibilities

In organisational terms, risk management is allocated directly to the Management Board, which has overall responsibility for the risk management system. It makes decisions regarding the structural and procedural organisation of risk management and the provision of resources. The Board also adopts the documented risk management results and takes them into consideration in its corporate management. The Supervisory Board's audit committee monitors the findings of the risk management system. The Management Board and Supervisory Board have jointly decided to have the adequacy of the risk management system reviewed by an independent third party. In the interest of major stakeholders such as shareholders, customers, employees, suppliers, investors and corporations, the Management Board pursues a conservative, safety-focused risk strategy which also takes the sustainability of our trading activities into account.

The top-level executives below the Management Board are designated as risk officers and assume responsibility for identifying, evaluating, documenting, managing and communicating all material risks within their area of responsibility. Every Instone Real Estate employee is required to behave in a risk-aware manner, i.e. to be clear about the risk situation within his or her area of responsibility and to deal responsibly with identified risks. Inappropriately high risks are to be avoided.

Risk management process

Within the scope of the risk management process, the risk manager coordinates the recording, evaluating, documentation and communication of risks. They consolidate the risk reports of the risk officers and prepare the report for the Management Board and Supervisory Board. This enables the Management Board to systematically identify and assess material risks within the Company or in the Company's environment in a timely manner and initiate appropriate countermeasures.

Instone Real Estate's risk management system ensures the early identification, evaluation, management and monitoring of all material risks beyond the short-term financial risks that are processed in the Controlling department, not only with regard to the net assets and financial position, but also the intangible assets, such as those which may jeopardise the reputation of the Company. Potential dangers that may affect the Company's value or development are thereby recognised early. This takes environmental and company-specific early warning indicators into account and also includes the regional knowledge and perceptions of our employees around the country.

Risk assessment

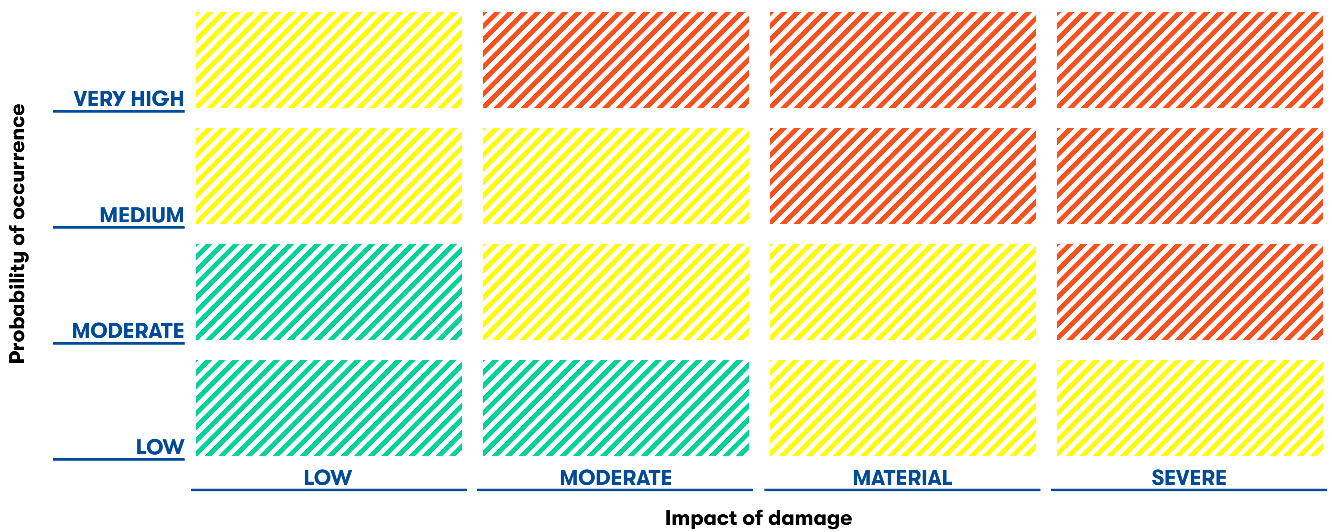
Risk managers regularly identify or update all risks within their area of responsibility with their employees as part of a systematic process. These are subdivided into the six risk categories "general business risks", "compliance risks", "financial risks", "IT and communication risks", "project business risks" and "legal risks" and their subcategories. The possible levels of damage and probabilities of occurrence are classified within specified bandwidths for each risk and documented in a Group-wide risk overview. An assessment is made with regard to the EBT and liquidity.

Risks are documented as net risks, and the damage impact is thereby already reduced by the impact of the effective measures implemented. The goal is to control every risk with the help of measures. Countermeasures serve to avoid, reduce or transfer risks. Risks are assessed as material individual risks if they have a serious effect and have at least a moderate probability that they will occur.

Probability of occurrence	In %	Damage impact	EBT in thousands of euros	Liquidity in thousands of euros
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

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

RISK ASSESSMENT MATRIX



Due to the size of the company, the increased liquidity (among other things due to new corporate financing volumes) and the good economic situation of Instone Real Estate, the risk-bearing capacity was increased in the 2019 financial year in terms of liquidity.

Monitoring the risk management system

The risk management system is subject to regular updates and further development, and in particular, to adaptation to changes in the Company too. The risk policy describes the core elements of the risk management system and defines the various responsibilities. This is amended continuously as necessary.

Fundamental and coordinating activities related to the risk management system are delegated to the Risk Management Committee. The responsibilities of the risk management committee include:

- Documentation and communication of rules for the risk management process at Instone Real Estate
- Further development of existing risk management regulations
- A point of contact for all base risk management issues at Instone Real Estate
- Critical scrutiny of the reported risk situation as well as discussion and critical reflection in the event of uncertainties regarding reported or unreported risks
- Discussion, coordination and follow-up of countermeasures
- Reporting to the Management Board about material risks and their development

The Risk Management Committee meets at least once every quarter. Extraordinary meetings are convened when needed.

Reporting

Risk management documentation is provided quarterly in a risk report which is made available to the Management Board. The Supervisory Board's audit committee is also informed about the risk situation four times a year. This reporting system ensures that both management and supervisory bodies are fully informed and that relevant operational early warning indicators are in place. In this way, undesirable developments can be detected in good time and countermeasures initiated at an early stage. If material risks occur suddenly, they are reported to the Management Board without delay.

Internal Control System (ICS)

The Internal Control System (ICS) is linked to risk management system as a sub-element. The ICS regulates the avoidance or limitation of risks by means of control measures. 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 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. To this end, the ICS is embedded in the finance and accounting departments as well as in the process and risk management departments. The finance and accounting department is responsible for the 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 four-eyes principle and the requirement for functional separation. Instone Real Estate has an authorisation concept that is adapted to the relevant job profile of the employees.

Internal Audit

The Internal Audit Department, newly created in the 2019 financial year, prepares a risk-oriented audit plan annually based on an analysis of all material business processes. After approval by the Management Board or the Audit Committee of the Supervisory Board, the Internal Audit Department independently and autonomously checks whether the legal requirements and Group-wide guidelines for the control system are being complied with. 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 be the subject of follow-up audits. The Management Board and the Audit Committee will receive an annual report from the Internal Audit Department. The Internal Audit Department is involved in all major projects and adjustments to internal processes and structures.

The management of the Internal Audit Department is shared with the management of the Process and Risk Management unit. In order to counteract any appearance of impaired organisational independence or personal objectivity, extensive measures have been taken, also to comply with the conservative risk policy, with the introduction of internal auditing. In addition to the close exchange with the Management Board, there is a direct communication channel to the Audit Committee. Furthermore, in the case of audits on processes which are located in the Process and Risk Management unit, the audit opinion of the Internal Audit Department is to be verified and plausibility checked by means of externally conducted audits. It is the task of the internal audit to maintain an independent state of mind for each matter to be examined and also in the case of audit opinions to be subordinate to the enterprise unit process and risk management regarding not other influences. In order to avoid possible conflicts of interest for the management of the Internal Audit Department, the main responsibility for audits on business processes in the Process and Risk Management unit lies with the operational Internal Audit Department, which is not involved in any other business processes.

CURRENT RISK ASSESSMENT

Risks are divided into red, amber and green areas according to their expected values using a traffic light system (see illustration of the risk matrix on page 72. The expected value is calculated using the probability of occurrence multiplied by the extent of the damage.

The main risk categories and their sub-categories at Instone Real Estate are described below in a compressed risk assessment. The description is based on the risk inventory as of 31 December 2019. 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 is in the area "significant" or "serious".

Instone Real Estate did not identify any material individual risks in the 2019 financial year. Risks are assessed as material individual risks if they have a serious effect and have at least a moderate probability that they will occur.

The risk situation is virtually unchanged from the previous year, with one exception. The risk sub-category "Sales" is assessed as relevant compared to the previous year.

A risk atlas was developed compared to the previous year. The risk subcategories "Reputation" and "Capital market" as well as "Selection of business partners and contractor loyalty" and "Awarding" were combined. The summary was based on the subject-related overlaps and dependencies.

General business risks

Global/national economy

Instone Real Estate is heavily dependent on the German residential real estate market which is influenced by various macroeconomic and general factors, such as economic, demographic and political developments. Britain's imminent exit from the EU and a potential trade war with the United States have created political and economic uncertainty in Europe. Disadvantageous global and European developments in politics and the economy could have negative effects on the export-oriented German economy as a whole and may in particular lead to a higher unemployment rate, lower per capita purchasing power and increasing economic uncertainty. Such factors could significantly reduce or delay the demand for residential real estate. In addition, demographic and socioeconomic trends in the key Instone Real Estate markets could have a significant impact on residential property demand. Although the population in the most important conurbations in Germany increased between 2008 and 2019 as a result of increasing urbanisation and a generally growing population in Germany, this trend could reverse or at least slow down.

Without taking immigration into account, a shrinking and ageing population is to be expected in Germany. Lower levels of immigration and an ageing population, which would slow down the urbanisation trend, could in turn reduce demand, especially in Instone Real Estate's key markets. However, based on the sales figures, Instone Real Estate was unable to register a change in the continued demand for housing in the 2019 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 as well as Nuremberg and Erlangen where it provides real estate in various price segments, from publicly funded to high-end residential constructions as well as in prosperous medium-sized cities. The project portfolio includes new construction projects as well as the renovation of listed buildings. The projects 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. Despite this diversification and other measures, the impact of the remaining risk arising from the global and national economies is considered to be relevant.

Regulatory risks

The real estate sector is subject to various legal framework conditions page 34 f. Changes to these conditions may lead to disadvantages for the real estate industry and thus for Instone Real Estate. These may include, but are not limited to, legislative changes or amendments to construction regulations (such as the German Energy Saving Ordinance), as well as regulatory intervention in the real estate market, for example through rent brakes or subsidised housing quotas.

Due to the political explosiveness of the topic housing cities and municipalities meanwhile increasingly intervene in the development plan procedure. In the context of urban land-use planning the urban development contracts belong in many municipalities to a frequently used instrument. 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 that could lead to financial losses and delays in the completion of development projects as well as have negative effect 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 serious 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

Instone Real Estate's project portfolio is mainly located in Germany's most important urban and metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg). Here, about 87% of the properties are located (measured by the expected total revenue volume).

Positive population and household development are key factors in the currently attractive real estate market. In recent years, increased demand for housing in conurbations and large cities has been observed. If growth in the conurbations changes, this would be a risk for the core markets. Instone Real Estate is also looking into project opportunities outside the seven A cities plus Leipzig and Nuremberg/Erlangen to counteract such a development.

Instone Real Estate relies on numerous internal and external data sources such as Bulwiengesa, IZ Research and Thomas Daily Premium to evaluate future market developments.

The positive development of the entire housing market continued once again in the 2019 financial year. Instone Real Estate continues to see demand for residential neighbourhoods at a stable high level. Since Instone Real Estate would be directly affected by a change in the market, the effects of market development risks are not considered relevant in the short term and relevant in the medium to long term.

Staff

A further aggravation of the shortage of skilled labour is foreseeable and is already noticeable. Demographic change and a shift in values among the younger generation are risks faced by Instone Real Estate. Due to the increasing average age of society and the current high demand for labour in the economy (low unemployment), it is possible that vacant positions will remain unfilled and there may be a lack of skilled workers in the company.

Instone Real Estate relies on the values of responsibility, trust, perspectives and freedom to set itself up in a good position for the future as part of life phase-oriented personnel development. Instone Real Estate has a recruiting portal on its website that is specifically adapted to the new media world and the needs of applicants. Social media is also used as a platform for recruiting.

Our employees are the flagship of the entire Group and represent our link to our customers and business partners. By deliberately keeping an eye on and developing qualified personnel, we can place highly skilled employees in the positions that best fit their profile. We believe this will enable us to effectively promote the image of the Instone Real Estate brand and retain sufficient qualified personnel.

Due to its streamlined business structure, Instone Real Estate cannot rule out vacancies in positions requiring highly 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. The Company encourages discussions among colleagues in order to share this expertise and factual knowledge between several colleagues.

Instone Real Estate was able to increase its workforce in 2019 and has thus positioned itself 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 otherwise be influenced by macroeconomic, socio-economic or employment trends, resulting in a concentration of demand in particular areas.

Instone Real Estate sees itself as being able to identify and analyse such developments in good time and to adapt its existing or planned development projects in a timely manner to take advantage of the respective customer preferences. We use our network to various market players (including brokers, research institutes) to identify customer preferences and also carry out a customer survey with our customers after handover of the property. We also use the pre-marketing quota as an instrument to offer projects in the market and analyse customer feedback in order to be able to implement any adjustments to the design prior to the start of construction. We try to counteract the risk with our years of experience and by several key people being involved in every decision-making process. We consider the impact of this risk to be relevant despite the measures we have put in place.

Reputation

To some extent, Instone Real Estate's business and growth strategy 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 associates, 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, the rent cap and 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 communication 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 regular 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.

Competition

The German residential real estate market is highly competitive. This competition covers the entire value chain of Instone Real Estate's development activities. Competitors mainly consist of local real estate developers who have very good networking and specialist knowledge in these markets. There are also other major competitors throughout Germany who operate in the same regions and cities where Instone Real Estate is represented. Instone Real Estate also competes with these residential real estate developers to acquire attractive development properties which are typically limited in availability and in high demand.

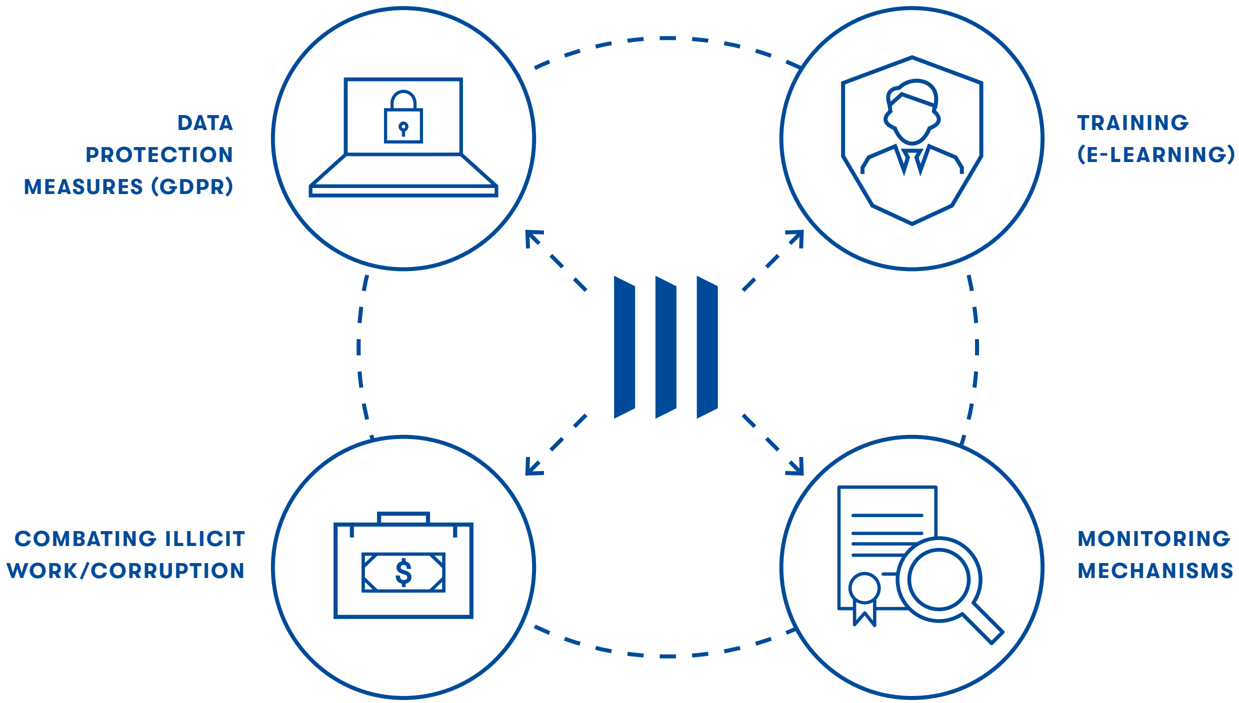
Nevertheless, Instone Real Estate is one of the leading project developers with expertise in urban district development and complex building law. With its established branch structure which focuses on the eight Core Cities as well as Nuremberg and Erlangen, Instone Real Estate has continued its strategy 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. This regional structure was expanded to include the Erlangen site in 2019.

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

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 the paying the minimum wage and measures to combat illegal work, bribery and corruption as well as anti-money laundering, among other things. Instone Real Estate depends on all its employees complying with the applicable laws and compliance guidelines issued by Instone Real Estate. In the 2019 financial year, Instone Real Estate revised a series of guidelines regarding Group-wide compliance policies and processes to further increase compliance. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

COMPLIANCE RESPONSIBILITIES



With regard to our compliance and risk management procedures and monitoring mechanisms, we seek to detect and prevent any law violations and unethical behaviour (including corruption). Instone Real Estate is constantly working on improving the compliance management system and providing supportive information to all employees.

In the 2019 financial year, there were no legal proceedings due to anti-competitive behaviour, price-fixing or monopoly practices. Furthermore, Instone Real Estate is not aware of any allegations of corruption, so no risks have arisen in this area. GRI 206-1; 205-3

New rules on data protection must be observed in accordance with the General Data Protection Regulation (DSGVO) which came into force on 24 May 2016 and has been applicable since 25 May 2018. The sanctions for non-compliance are considerable. Instone Real Estate has appointed an external Data Protection Officer who is available as a contact person for all employees. Instone Real Estate provides its employees with annual training and information material from the external Data Protection Officer. The IT landscape of Instone Real Estate has been adapted 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 418-1; 417-2; 417-3

Despite the measures implemented, there remains a residual risk. We consider the impact of these risks arising from compliance 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.

Instone Real Estate has a Financial Risk Policy that specifies the concept and structure of banking selection. Financial transactions may only be concluded with the prior approval of the Management Board and only with approved banking partners. In order to assess creditworthiness, Instone Real Estate follows the general market observations of the individual credit institutions and reviews potential default risks in given cases. We consider the potential impact of the risk to be relevant.

Financing structure

Financial covenants have been established in various financing agreements. Failure to comply with the financial covenants may involve the risks arising from more stringent financing conditions and extraordinary terminations of financing which trigger the repayment of the financing provided. In addition, lenders may also require the liquidation of pre-existing collateral. In the event of terminations and the associated premature repayment of the financing, refinancing would only be possible under less favourable conditions. The covenant requirements are continuously monitored and forecast at Instone Real Estate and there is comfortable leeway in this regard.

The probability that this risk will occur is very low due to this continuous monitoring. Based on corporate planning, there are also no indications that the financial covenants cannot be complied with in the future. page 143

However, we consider this to be relevant as the occurrence of the risk of failure to comply with the financial covenants would have serious consequences.

Accounting

Failure to comply with legal and internal regulations may result in incorrect quarterly, consolidated or annual financial statements. The German Corporate Governance Code (GCGC) could lead, inter alia, to other requirements that may need to be met.

With regard to the accounting process, Instone Real Estate has an internal control system (ICS) which was mentioned at the beginning of the risk report. The ICS aims to reduce potential risks to a minimum.

Instone Real Estate does not consider the potential impact of these accounting risks to be relevant due to the system that is in place.

Liquidity

The solvency of the Company is monitored on an ongoing basis by continuously updating the liquidity forecast. The liquidity forecast structures anticipated cash flows in monthly time windows according to their origin so that the level of risk and probability can be identified in a targeted way and quantified. The respective specialist departments provide planned 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. As far as economically reasonable, debt financing is generally concluded for projects.

Sufficient cash and cash equivalents were available throughout the financial year.

There are no discernible circumstances that indicate a liquidity shortage. Instone Real Estate considers the potential impact of liquidity risk to be relevant, despite the implemented measures due to the serious effects.

Tax

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 December 2020. 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.

The Bundestag and the Bundesrat have passed a land tax reform. This has an uncertain impact on the entire real estate sector and could lead to an additional tax burden or a decline in demand. Although the land tax reform does not enter into force for several years, we must think in advance about what we will change.

Tax regulations relating to ‘interest barriers’ apply to Instone Real Estate. According to this, up to 30% net interest expenses (i.e. after deduction of interest income) of the taxable EBITDA are in principle tax deductible.

The possible impact of tax risks is considered to be relevant despite the conservative tax declaration.

Interest

The projects are financed by bank loans and equity. The current low interest rate levels allow Instone Real Estate to finance project costs efficiently. At present, a noticeable rise in interest rates is not foreseeable in the short term. For new projects which usually run over several years, we are using the precautionary principle and factoring in higher interest rates for the future. To achieve the best possible interest rate security for the projects, banks are promptly requested to state the financing conditions in the form of term sheets. The resulting financing conditions, in particular, the equity capital to be invested, the processing commission, and also the interest margin to be secured for the term of the financing, are then included in the economic 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 this risk 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 2020 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 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 limit and in the due quality.

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 defined 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 the individual projects, the Project Services department carries out cost calculations for all branches on 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 the entire 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 by awarding contracts to contractors as early as possible for the most important contract work (structural work, building envelope, 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

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 during the procurement of construction rights are analysed in detail. Outstanding issues are clarified in dialogue with local authorities and community representatives. However, due to the increased number of building applications, there may be delays in the process which could have a negative impact on the planned implementation schedule. In exceptional cases, the acquired land will need to be resold if construction rights are not granted. Due to the large project portfolio, such delays can often be addressed by re-prioritising the project implementation so that the impact is absorbed at enterprise level. The potential impact of this risk is considered to be relevant by Instone Real Estate.

Project implementation/construction

A variety of risks can occur during project implementation, causing a delay to the start of construction or the late completion of the development project. Such delays can also lead to an increase in construction costs that Instone Real Estate may not be able to compensate for. As a result, under some circumstances Instone Real Estate may not be able to sell some or all its development properties on profitable terms.

The refurbishment of listed buildings involves special risks associated with the 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.

Instone Real Estate makes every effort to identify and evaluate all potential project risks at an early stage. The purpose of the regular meetings at project, branch and group level is, among other things, to closely support the project and discuss potential risks at an early stage in order to consider the further course of action together. Instone Real Estate encourages communication between employees to support knowledge transfer. In this way, specialist expertise can be passed on by a few people to other colleagues. All projects are conservatively forecasted in the controlling system and brought up to date with the current state of knowledge.

Instone Real Estate considers the potential impact of these risks to be relevant.

Sales

Before sales begin, it may be possible to apply market prices that can no longer be implemented at the time of the sale, so that the marketing and sales process of Instone Real Estate is slower, not at all or more cost-intensive.

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 rechecked. At the same time, this approach enables us to identify and implement opportunities in sales.

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 insurance to reduce potential losses for Instone Real Estate.

Instone Real Estate estimates the potential impact of the risk not to be relevant.

IT and communication risks

Instone Real Estate relies on dependable, efficient IT systems for its operations, and uses complex, customised IT systems to manage all phases of its development activities along the value chain. Instone Real Estate IT systems may fail or be disrupted by events that are entirely or partially beyond the control of Instone Real Estate. The systems may be vulnerable to unauthorised access and data loss (inside or outside the Group), computer viruses, malware, cyber security attacks and the interception or misuse of information transmitted or received by Instone Real Estate.

Instone Real Estate has implemented extensive data security measures and is constantly working to keep pace with developments and meet the needs of the IT industry. To ensure this, Instone Real Estate relies on specialist service providers 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. 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 2019 financial year. The individual branches are responsible for the legal disputes and appoint local law firms in advance to defend against potential claims by third parties or to enforce claims. The majority of these claims relate to defects and the warranty rights of Instone Real Estate customers. Instone Real Estate has largely set aside provisions for litigation. The remaining potential impact of the risk is not considered to be relevant.

Liability and insurance

As the warranty period extends over several years, the risk of warranty claims continues long after completion of the projects. This could lead to costs which were not factored in. Instone Real Estate, working together with its contractors, aims to hand over real estate of a very high defect-free quality and therefore to prevent any potential claims. Instone Real Estate is also entitled to assert acquirers' claims against the executing contractor.

Although Instone Real Estate is insured against fire, natural disasters, business interruption and liability, Instone Real Estate's insurance contracts are subject to exclusions (such as terrorist attacks) and liability limits for claims and insured events. With the help of an insurance concept, we assume that we are adequately insured against the most common types of damage.

For these reasons, we do not consider the potential impact of the risk to be relevant.

OPPORTUNITIES REPORT

Aside from the risks mentioned, the current prevailing market conditions and forecasts regarding the development of the market also offer major opportunities for Instone Real Estate. These include:

- → Persistently high demand for housing
- → Rising population in conurbations
- → Expansion of demand to the outskirts of the conurbations
- → Low financing costs for Instone Real Estate and purchasers of real estate
- → Only a few investment alternatives in the low interest rate environment

Instone Real Estate is one of the largest German project developers in residential real estate and is represented nationwide in the most in-demand conurbations 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. The project volume of Instone Real Estate rose from €4.8 billion to €5.8 billion during the past year.

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 the 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 the good networking in the target regions.

With its established branch structure which focuses on the seven A cities plus Leipzig and Nuremberg/Erlangen, 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.

In the case of acquired and newly acquired properties, we see opportunities for Instone Real Estate, on the basis of our many years of experience in terms of gross floor area (GFA), site occupancy ratio (SOR) and floor area ratio (FAR).

Instone Real Estate pursues a sustainable value-oriented business model focussed on growth and customer orientation which unites the interests of shareholders and buyers. Instone Real Estate's growth strategy is geared towards the sustainable growth of its existing project portfolio and attractive acquisitions which will add value. There are further opportunities to act in accordance with our growth strategy through active dialogue with the capital market and a high level of transparency towards investors and analysts.

Instone Real Estate 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 resistance to cyclical fluctuations.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITIES SITUATION BY THE MANAGEMENT BOARD

In the overall assessment of the risk situation for Instone Real Estate in the 2019 financial year, there were no material changes compared to the previous year. From today's perspective, the Management Board of Instone Real Estate does not consider there to be any risks that the Company will be unable to adequately counteract or which risk jeopardising the continued existence of the Group's income from operations, net assets and/or financial position. Both our business model and our diversified financing instruments provide the most extensive independence from economic fluctuations.

Overall, this results in a risk profile that is normal for the business segment. An early analysis of the risks and a pro-active approach allow us to react in good time and mitigate the corresponding potential impact. The remaining risks have no material impact on the continued existence of Instone Real Estate. The risk situation was taken into account in the forecast.

None of the aforementioned risks had a material impact on Instone Real Estate in the 2019 financial year.

OUTLOOK

General economic and industry economic conditions

The Federal Ministry for Economic Affairs and Energy released the economic forecast for 2020 in autumn 2019. According to the forecast for the year 2020 the gross domestic product (adjusted for price) will increase by 1.1%[1] The German economy continues to grow. However, the momentum is dampened by difficult foreign trade issues (Brexit, uncertain political situation in the USA and the Middle East) and by additional special effects (climate discussion, regulatory adjustments in Germany and other countries in the real estate sector). The labour market continues to develop positively. Business demand for workers remains very high in many sectors, such as the real estate industry. The average unemployment rate for 2019 was still very low at 5.0%. According to forecasts, the average unemployment rate for 2020 will only increase slightly to 5.1%.[2] In the meantime, however, the coronavirus pandemic described on the following page has created considerable uncertainty regarding previous expectations. The Board of Management therefore expects a significant slowdown in overall economic development going forward.

Housing development is developing moderately, but is still not meeting the demand for housing. Persistent high demand coupled with limited supply at the same time allow sale prices and rents to rise further, albeit at a more moderate pace than in previous years.

Vacancy rates are permanently low in the housing markets in the top locations. Due to the steadily growing population in conurbations, the new construction is lagging behind the demand for housing despite rising completion figures. At the same time, building is becoming more difficult as the number of designated construction areas is decreasing and civil participation in protests and countermeasures continue to increase. The capacity utilisation of the construction industry remains high and can only be compensated by long-term commissions and by highlighting the prospects for subcontractors. Nonetheless, these conditions do increase building prices. The gap between approved and actually finished apartments is steadily increasing. We are working hard to close this gap with the projects we have acquired and those we are planning to initiate.

There are no signs of a slowdown in the housing markets, so the continued buoyancy of flat purchase prices and rents in the forecast period is expected to continue until the end of 2020.

In the past ten years (incl. forecast value for 2019) the population of the Alocations of Instone Real Estate grew between about 6.3% (in Dusseldorf) and 17.8% (in Frankfurt am Main)[3] Therefore, almost 1 million more people live there today than in 2009. In fact, only 182,700 flats have been completed at Instone Real Estate's Core-Cities in the past five years. The gap between supply and demand is also continuing to grow.

The resources in the construction industry are still subject to an extremely high rate of utilisation and are thus a key factor in successful development. A major difference is the lack of "manpower" and the much higher capacity utilisation of the construction industry. This is demonstrated by the capacity utilisation determined by the Federal Institute for Building, Urban Affairs and Spatial Research, which was around 77% in the fourth quarter of 2019, which is about 3% below the previous year's figure. However, this does not lead to a more relaxed situation.[4]

The housing construction sector still has room to grow, which is also evidenced by the persistently growing surplus of building permits in comparison with construction completions. At the top eight locations of Instone Real Estate, the gap was around 78,700 residential units in the last five years. Cumulatively since 2014, around 261,400 flats have been approved, but only about 182,700 units have been built.[3]

The prices for residential real estate are expected to increase more slowly in future, but the upward trend should continue over the next few years. Between 2018 and 2019, the purchase prices for residential real estate increased by around 6.8% (and by around 8% between 2017 and 2018) with rent increases of around 3.6% (around 5% between 2017 and 2018).[3]

The German real estate market remains interesting for investors – especially at a time of constant inflation[5] and continuing low interest rates.

IW REAL ESTATE INDEX FOR HOUSING AS OF: 4TH QUARTER 2019

In %

■ Situation ■ Expectations

The IW Real Estate Index tracks the financial position of large real estate companies and project developers on a quarterly basis. The figures are based on the proportion of the net positive versus negative responses.[6]

The index shows that Germany will remain a more attractive housing market than its European neighbours, even if the real estate industry is looking forward to 2020 with mixed feelings. The indices, which are clearly worse than in the previous year (situation –19% and negative expectations), are above all due to topics of regulation that are discussed in many ways.[6]

↗

1 www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html
[2] www.spiegel.de/wirtschaft/soziales/arbeitslosigkeit-forscher-rechnen-2020-mit-leichtem-anstieg-a-1302079.html
[3] Kennzahlen_Prognosen_bulwiengesa AG IRE_GB 2019
[4] www.bbr.bund.de/BBSR/DE/Bauwesen/BauwirtschaftBauqualitaet/Bauwirtschaft/kapazitaetsauslastung/ergebnisse.html;jsessionid=7AC5C0B47BF48EC729D2EB2B63F-BE064.live21304?nn=1949516
[5] Inflation rate in Germany up to 2019 _ Statista
[6] IW brief report 2019 on the real estate industry

Coronavirus pandemic

In December 2019, diseases caused by the novel and previously unknown coronavirus SARS-CoV-2 appeared for the first time in China. Further spread is also expected to have negative consequences for global supply chains, particularly the availability of certain raw materials and precursors.

Economists expect that the spread of the disease will dampen growth prospects worldwide. The extent to which this will occur cannot be conclusively assessed at present. Furthermore, a spreading infection cannot be ruled out for Germany either.

Instone Real Estate is dependent on a small number of global supply chains, as the vast majority of precursors come from local and regional production. Nevertheless, the absence of employees at Instone Real Estate or its subcontractors due to illness could result in a slowdown in construction activity or the shutdown of individual construction sites. In addition, as the virus becomes more widespread in Germany, interest on the part of both private and institutional buyers could temporarily decline. Overall, the Management Board believes that this could have a moderate impact on the net assets, financial position and results of operations of Instone Real Estate in financial year 2020, despite the structurally unbroken demand for residential space.

Outlook for the Instone Group

The forecast macroeconomic and industry economic conditions as well as assumptions about construction cost trends and selling price trends on the real estate market have a significant influence on the forecasts presented below. An important prerequisite is also to achieve significant milestones in our projects. A particular focus is on the planned start of sales, the achievement of the planned sale deadlines and the expected start and scheduled progress of our construction projects.

Any change in the economic and political factors or the opportunities and risks already described in the Section “Risk and Opportunities Report” ☰ page 71 – 82 of this Combined Management Report or any changes to the project schedule may cause the actual business development to deviate from the forecasts.

Against the backdrop of the macroeconomic outlook described above and on the basis of our well-filled project portfolio of around €5.8 billion as of 31 December 2019, Instone Real Estate expects business to develop positively overall in the 2020 financial year. The risks from the described coronavirus pandemic have been taken into account by the Management Board in its assessment and currently assume a moderate negative impact on the business development.

Assuming that the effects of the coronavirus pandemic on the overall economic environment normalise as the year progresses, we expect a volume of sales contracts in 2020 of more than €600 million. This forecast is based on the current market offer of €340 million and further projects to be sold in 2020. In the average of the years 2019 and 2020 Instone Real Estate will thus reach or exceed the medium-term goal of a marketing volume of about €1 billion.

We also expect adjusted sales of €600 million to €650 million for the 2020 financial year.

FORECAST OF THE MANAGEMENT KEY PERFORMANCE INDICATORS FOR 2020

In millions of euros

		2020 outlook
Revenues (adjusted)		600 to 650
Earnings before interest and tax (EBIT) (adjusted)		95 to 120
Volume of sales contracts		greater 600
Gross profit margin (adjusted)	In %	approximately 26 – 27

Based on the projected profitability of our projects, we expect an adjusted gross profit margin of around 26–27%. The resulting adjusted consolidated earnings before interest and tax will range between €95 million and €120 million.

Overall statement by the Management Board on future trends

Overall, the Management Board of the Instone Group expects a consolidation of the business volume for the 2020 financial year. In view of the considerable contributions to the adjusted sales revenues in 2019 from the “Westville” project, which will not be repeated in this amount. The risks from the described coronavirus epidemic have been taken into account by the Management Board in its assessment and currently assume a moderate negative impact on the business development.

REMUNERATION REPORT

This remuneration report is part of the Combined Management Report of Instone Real Estate Group AG. In accordance with the legal requirements and the recommendations of the German Corporate Governance Code (GCGC) in the version dated February 2017, it explains the principles and structure of the compensation system for the Management Board and Supervisory Board of Instone Real Estate Group AG and also discloses the remuneration of individual Management Board and Supervisory Board members for the performance of their duties in the Company and its subsidiaries in the 2019 financial year. It also takes into account the requirements of German Accounting Standard No. 17 (Deutscher Rechnungslegungsstandard, GAS) and the HGB.

Transparency and traceability of the remuneration system and the individual remuneration of the Management Board and Supervisory Board members are key components of good corporate governance at Instone Real Estate Group AG.

REMUNERATION OF THE MANAGEMENT BOARD

Remuneration system

Responsibility for determining the total remuneration of the individual members of the Management Board and the regular review of the remuneration system lies with the Supervisory Board of Instone Real Estate Group AG. The Supervisory Board has also set up a Remuneration Committee which, in accordance with the Supervisory Board's rules of procedure, is responsible for providing advice regarding the employment contracts of Management Board members and preparing the relevant decisions of the Supervisory Board.

The remuneration system described below for the members of the Management Board of Instone Real Estate Group AG was already in force at the time of the Company's conversion into a stock corporation under German law. It has been in existence in this form since 13 February 2018, the date of the Company's change of legal form from a limited liability company under Dutch law to a Dutch stock corporation, which took place immediately prior to the successful initial public offering and first listing on the Frankfurt Stock Exchange on 15 February 2018.

The existing remuneration system had already been discussed by the annual general meeting of former Instone Real Estate Group N.V. on 29 June 2018 prior to the change of legal form to a German stock corporation. The Supervisory Board will continue to address the topic of the appropriate remuneration of the Management Board in line with its responsibility in this regard.

Basic features of the remuneration system for the Management Board

The remuneration of Instone Real Estate Group AG's Management Board is determined in accordance with the requirements of the German Stock Corporation Act (AktG) and in consideration of the GCGC and is geared towards sustainable corporate development. The calculation is mainly based on the size and complexity of the Instone Group, its economic situation and financial position, and its success and future prospects. Further criteria for determining the remuneration are the respective tasks and the personal performance of the individual members of the Management Board. The structure and appropriateness of the Management Board's remuneration is subject to the Supervisory Board's regular review in accordance with its supervisory responsibilities.

The total remuneration of the individual members of the Management Board consists of various components. In terms of structure, the remuneration components are regulated in the same way for all members of the Management Board and have the following essential content. Two members of the Management Board have a pension commitment in deviation from this.

The remuneration of the Management Board consists of non-performance-related salary and benefits in kind, performance-related (variable) emoluments and pension commitments. Variable remuneration is based on a multi-year assessment basis in order to create incentives for sustainable and long-term corporate development. The system explicitly stipulates that both positive and negative developments are taken into account.

The regular cash remuneration for one year, consisting of a non-performance related fixed annual salary and a performance-based (variable) salary, is largely based on performance due to the high proportion of variable remuneration.

Non-performance related emoluments

The members of Instone Real Estate Group AG's Management Board receive non-performance-related emoluments in the form of a fixed base annual salary (base remuneration) and fringe benefits. The fixed annual base salary is paid in twelve equal instalments at the end of a month, and for the last time for the full month in which the Management Board employment contract ends.

The members of the Management Board also receive non-performance-related fringe benefits. These mainly include the use of a company car and the payment of premiums for accident insurance with standard services and the reimbursement of expenses and travel costs.

Performance-based emoluments

The performance-based remuneration components consist of a variable remuneration element with a (one-year) short-term incentive (STI) and a variable remuneration element with a multi-year long-term incentive (LTI).

One-year variable compensation (Short-term incentive, STI)

The one-year variable compensation in the form of an STI is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board. The total amount of this variable remuneration component is determined according to the achievement of the objectives for the individual components described below and the following weighting:

Adjusted earnings before tax (EBT) with a weighting of	52.8%
Adjusted ROCE[1] with a weighting of	27.2%
Personal targets with a weighting of	20.0%

[1] Adjusted return on capital employed (ROCE) = adjusted EBIT in relation to a 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, the Supervisory Board determines the achievement of the objectives in relation to the personal and company-related targets. The amount is paid in the month following the audited annual financial statements. If the target achievement is less than 80%, the targets are considered to have been missed and there is no entitlement to the variable remuneration component (target lower limit).

The one-year variable remuneration is limited in its total amount to the amount corresponding to a target achievement of 150% (target upper limit).

If the Management Board member is not entitled to remuneration for the entire financial year underlying the calculation, a corresponding pro rata reduction of this variable remuneration component will be made.

Multiple year variable remuneration (LTI)

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

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 goals achieved, the projected EBT figure is set in relation to the actual EBT figure. The projected figure is derived from the business plan for the financial year.

The contractually agreed base amount – an individually determined starting amount for each member of the Board of Management which is used as the basis for the calculation – is multiplied by the target achievement calculated. If the target achievement is less than 80% in the bonus year, the targets are considered to have been missed and there is no entitlement to an LTI bonus.

Any LTI bonus is limited to the amount corresponding to a target achievement of 150% in the bonus year (Cap 1).

The multiplied base amount gives the value which is then divided by the average closing prices of Instone shares for the specified last 20 trading days before the end of the relevant bonus year. This is then used to calculate the number of virtual shares which are relevant to the bonus year.

The virtual shares calculated annually for the bonus year have a term of three years and are only paid out at the end of the respective term at the share price determined at that time plus any dividend that may have been distributed.

The payout amount at the end of the three-year term is capped per virtual share to the amount corresponding to 200% of the value determined for the respective bonus year (Cap 2).

If the employment contract of a member of the Management Board is terminated extraordinarily for good cause before the end of the term of the LTI bonus (so-called “bad leaver case”), this will result in the expiry of all rights arising from the LTI bonus which is attributable to a period before 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, the entitlement to the LTI bonus exists on a pro rata basis (so-called “good leaver case”).

The plan is a cash-settled, long-term incentive plan that does not include the right to receive actual shares. In accordance with the requirements of GAS 17, IFRS 2 and HGB, the total expense from share-based payment and the fair value of the performance share plan must be disclosed when the payment is granted.

Pension commitments

Two members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years. The pension amount is determined using a percentage of the fixed remuneration which increases depending on the length of the term of office. A member of the Management Board receives a maximum of 65% of his last fixed remuneration. Survivors receive 60% of the pension. GRI 201-3

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 IFRSs and HGB.

PENSION COMMITMENTS

In thousands of euros

		2019	Allocation	2018
Kruno Crepulja (CEO)	HGB	219.5	61.3	158.3
	IFRS	298.5	76.5	222.0
Andreas Gräf (COO)	HGB	215.2	33.2	182.0
	IFRS	279.9	35.0	244.9
	HGB	**434.7**	**94.5**	**340.2**
	IFRS	**578.4**	**111.5**	**467.0**

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 OF FORMER MEMBERS OF THE MANAGEMENT BOARD

In thousands of euros

		2019	Allocation	2018
Pension commitments of former members of the Management Board	HGB	1,099.2	70.6	1,028.6
	IFRS	1,378.7	47.9	1,330.8

Remuneration of Management Board members in the 2019 financial year

In accordance with the recommendations of the GCGC in the version of 7 February 2017, the remuneration of Management Board members is presented in two separate tables. The benefits granted for the financial year including fringe benefits and for variable remuneration components, the minimum and maximum achievable remuneration are reported in one table.

The inflow/total remuneration earned, consisting of fixed remuneration, short-term variable remuneration and long-term variable remuneration, is differentiated according to the respective reference years in the other table.

Benefits granted in accordance with GCGC

BENEFITS GRANTED IN THE FINANCIAL YEAR

In thousands of euros

	Kruno Crepulja				Dr Foruhar Madjlessi			
	CEO				CFO			
	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)	2018
Non-performance related emoluments								
Fixed remuneration	450	450	450	421	360	360	360	0
Benefits-in-kind and other additional remuneration	26	26	26	24	16	16	16	0
Severance payments	0	0	0	0	0	0	0	0
	476	**476**	**476**	**445**	**376**	**376**	**376**	**0**
Performance-based emoluments								
Short-term Incentive	250	0	375	250	300	0	450	0
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2018 – 31.12.2021)	0	0	0	300	0	0	0	0
Performance share plan (01.01.2019 – 31.12.2022)	300	0	900	0	250	0	750	0
	550	**0**	**1,275**	**550**	**550**	**0**	**1,200**	**0**
Remuneration for old-age provision								
Pension expenses	68	68	68	26	0	0	0	0
Total emoluments	**1,094**	**544**	**1,819**	**1,021**	**926**	**376**	**1,576**	**0**
Reconciliation to total remuneration within the meaning of Sections 285 no. 9a and 314 (1) no. 6a HGB in conjunction with GAS 17								
Less pension expenses	– 68			-26	0			0
Plus obligation figure retirement	61			48	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**1,087**			**1,043**	**926**			**0**

BENEFITS GRANTED IN THE FINANCIAL YEAR

In thousands of euros

	Andreas Gräf				Torsten Kracht			
	COO				CSO			
					Resigned: 31/12/2019			
	2019	**2019 (min.)**	**2019 (max.)**	**2018**	**2019**	**2019 (min.)**	**2019 (max.)**	**2018**
Non-performance related emoluments								
Fixed remuneration	300	300	300	285	200	200	200	191
Benefits-in-kind and other additional remuneration	16	16	16	15	22	22	22	23
Severance payments	0	0	0	0	0	0	0	0
	316	**316**	**316**	**300**	**222**	**222**	**222**	**215**
Performance-based emoluments								
Short-term Incentive	260	0	390	260	225	0	338	225
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2018 – 31.12.2021)	0	0	0	180	0	0	0	125
Performance share plan (01.01.2019 – 31.12.2022)	180	0	540	0	125	0	375	0
	440	**0**	**930**	**440**	**350**	**0**	**712**	**350**
Remuneration for old-age provision								
Pension expenses	27	27	27	34	0	0	0	0
Total emoluments	**783**	**343**	**1,273**	**774**	**572**	**222**	**934**	**565**
Reconciliation to total remuneration within the meaning of Sections 285 no. 9a and 314 (1) no. 6a HGB in conjunction with GAS 17								
Less pension expenses	–27			–34	0			0
Plus obligation figure retirement	33			55	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**789**			**796**	**572**			**565**

The total compensation granted to the members of the Management Board totalled €3.4 million for the 2019 financial year (min. €1.5 million, max.: €5.6 million) (previous year: €5.1 million). Of which, €1.3 million (previous year: 1.2 million Euro) to fixed, non-performance-related, 1.9 million €(min: €0 million, max.: €4.1 million) (previous year: €1.3 million) to variable, one-year and multiple year performance-related compensation components, €0.1 million (previous year: €0.7 million) to non-performance-related, non-cash benefits and other benefits, €0 million (previous year: €1.5 million) to severance payments and €0.1 million (previous year: €0.4 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

Inflow according to the GCGC

GRANTS RECEIVED/EARNED IN THE FINANCIAL YEAR

In thousands of euros

	Kruno Crepulja		Dr Foruhar Madjlessi		Andreas Gräf		Torsten Kracht	
	CEO		CFO		COO		CSO	
			Joined: 01/01/2019				Resigned: 31/12/2019	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-performance related emoluments								
Fixed remuneration	450	421	360	0	300	285	200	191
Benefits-in-kind and other additional remuneration	26	24	16	0	16	15	22	23
Severance payments	0	0	0	0	0	0	0	0
	476	**445**	**376**	**0**	**316**	**300**	**222**	**215**
Performance-based emoluments								
Short-term Incentive	359	175	0	0	374	140	323	140
Multi-year assessment basis (Long-term Incentive)								
Performance Share Plan (01.01.2015 – 31.12.2018)	0	8,349	0	0	0	5,379	0	1,912
	359	**8,524**	**0**	**0**	**374**	**5,519**	**323**	**2,052**
Remuneration for old-age provision								
Pension expenses	68	26	0	0	27	34	0	0
Total emoluments	**903**	**8,995**	**376**	**0**	**717**	**5,854**	**545**	**2,266**

The total remuneration received/earned by the members of the Management Board totalled €2.5 million for the 2019 financial year (previous year: €25.1 million). Of which, €1.3 million (previous year: €1.2 million) was allocated to fixed, non-performance-related compensation components, €1.1 million (previous year: €21.3 million) to variable, one-year and multiple year performance-related compensation components, €0.1 million (previous year: €0.7 million) to non-performance-related, non-cash benefits and other benefits, €0 million (previous year: €1.5 million) to severance payments and €0.1 million (previous year: €0.4 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

In the year under review, no advances were paid to members of the Management Board and no loans were made.

REMUNERATION OF THE SUPERVISORY BOARD

Remuneration system

The remuneration of the Supervisory Board is set out in Section 13 of Instone Real Estate Group AG's Articles of Assotiation and is designed as a purely fixed remuneration.

Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of €60,000.00 The Chairman of the Supervisory Board receives twice the remuneration and the Deputy Chair one and a half times this amount. Members of the audit committee receive an additional lump-sum remuneration of €15,000.00 while members of the remuneration and nominations committee each receive an additional €1,500.00 for each financial year in return for their work on these committees. The respective committee 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 D&O group insurance for corporate bodies. No performance-related remuneration is paid for Supervisory Board members.

If a member of the Supervisory Board does not belong to the Supervisory Board or to a committee for the entire financial year, their remuneration is reduced pro rata temporis. The Company reimburses each member for the VAT due on their remuneration.

Remuneration of the members of the Supervisory Board during the 2019 financial year

The total remuneration of the Supervisory Board during the 2019 financial year was €425,700.00 (previous year: €406,300.00). Of which, €354,900.00 (previous year: €343,000.00) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €70,800.00 (previous year: €63,300.00). The following table shows the individual emoluments of the members of the Supervisory Board for the 2019 financial year.

SUPERVISORY BOARD REMUNERATION

In thousands of euros

	Remuneration in 2019		
	Role	Role	
	General Committee	Committees	Total
Stephan Brendgen	120.0	18.6	138.6
Dr Jochen Scharpe	88.1	31.9	120.0
Marija Korsch	60.0	8.8	68.8
Dietmar P. Binkowska	43.4	2.6	46.0
Thomas Hegel	43.4	8.8	52.2
Total remuneration	**354.9**	**70.8**	**425.7**

In the 2019 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 loans.

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 2019, the subscribed capital (share capital) of Instone Real Estate Group AG amounted to €36,988,336.00. It is divided into 36,988,336 no-par-value bearer shares. The share capital is fully paid up. All shares in the Company have the same rights and obligations. Each share carries one vote and an entitlement to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As of 31 December 2019, 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, members of the Management Board and members of the extended management have acquired shares from former direct sole shareholders in connection with the restructuring of a management remuneration programme even before the IPO and in connection with the IPO itself. According to this restriction, these shares may not be sold or otherwise transferred, inter alia, without the consent of the former direct sole shareholders. The transfer and voting restrictions will end 12, 24 or 36 months after the date on which the respective share acquisition was concluded with the former direct sole shareholders for one third of the shares acquired during the acquisition of shares. As far as the Management Board is aware, the aforementioned transfer restriction affects a total of 435,531 shares of the Company.

Furthermore, the Company is not aware of any other agreements entered into by shareholders of Instone Real Estate Group AG concerning the restriction of voting rights or the transfer of shares.

3 DIRECT OR INDIRECT INTERESTS IN THE CAPITAL AMOUNTING TO MORE THAN 10% OF THE VOTING RIGHTS

To the knowledge of the Management Board, there are no direct or indirect shareholdings in the capital amounting to more than 10% of the voting rights. GRI 102-25

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 shareholdings in the Company's capital in which the employees do not directly exercise their own control rights.

6 APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD; AMENDMENTS TO THE RULES OF PROCEDURE

The appointment and dismissal of members of the Management Board of the Company are in accordance with the provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG). According to Section 8.1 of the Company's Articles of Association, the Management Board consists of at least two people. The Supervisory Board determines the number of Management Board members. It may appoint a chair and a deputy chair of the Management Board in accordance with Section 84 AktG and Section 8.2 of the Company's Articles of Association.

Pursuant to Section 179 (1) 1 AktG, the amendment of the Company's Articles of Association is made by resolution of the Annual General Meeting. Resolutions of the Annual General Meeting are passed in accordance with Section 20.4 of the Company's Articles of Association by a simple majority of the votes cast, unless statutory legislation or the Articles of Association require a larger majority. If the statutory legislation requires a capital majority in addition to the majority of votes, the simple majority of the share capital represented when passing the resolution is sufficient, unless the statutory legislation or Company's Articles of Association stipulate otherwise. According to Section 20.5 of the Company's Articles of Association, resolutions that can be passed with a simple majority of votes and capital pursuant to Section 20.4 of the Articles of Association, in particular, include, 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 20.6 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 20.6 of the Articles of Association themselves. Finally, pursuant to Section 17.3 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

In accordance with Section 6.1 of the Articles of Association, the Management Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital until 28 June 2023 by up to a total of €18,450.00 by issuing up to a total of 18,450,000 new no-par-value shares against cash and/or non-cash contributions (Authorised Capital 2018) and, in accordance with Section 6.2 of the Articles of Association with the consent of the Supervisory Board, to exclude the subscription rights of shareholders under certain conditions and within predefined limits. The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen (HRB 29362) during the cross-border conversion on 28 August 2018.

7.2

The Management Board was authorised by the Annual General Meeting with effect from 28 June 2019, with the consent of the Supervisory Board, to issue bearer or registered bonds with warrants or convertible bonds with a total nominal value of up to €250 million with or without a limited term (hereinafter jointly referred to as **"Bonds"**) on one or more occasions up to 12 June 2024 and to grant the holders or creditors of the bonds option or conversion rights for up to 3.698,833 new shares of the Company with a proportionate total amount of the share capital of up to €3,698,833.00 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 Euro, the Bonds may also be issued in a foreign legal currency, limited to the corresponding €-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 of the Company and to make further declarations required for a successful issue and to take actions. Issues of bonds can 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 share capital. The capital stock figure on the effective date of this authorisation is decisive when calculating this limit. If the capital stock is lower at the time the authorisation pursuant to number (ii) is exercised, this lower figure shall be used. This amount shall include the pro rata amount of the share 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 under exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act, (y) which is attributable to treasury shares of the Company that have been or will be issued on the basis of authorisations pursuant to Section 71 (1) no. 8 of the German Stock Corporation Act during the term of this authorisation until its utilisation under 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 analogous application of Section 186 (3) sentence 4 AktG under 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. Under the authorisation referred to in (iii), bonds may only be issued with the exclusion of subscription rights if 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 of the Company, which are issued or sold by the Company during the term of this authorisation until it is exercised by utilising another authorisation with 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 under exclusion of subscription rights and which enable or oblige the conversion into or subscription to shares of the Company, no more than 10% of the share capital is arithmetically allotted. The basis for calculating the limit of 10% of the share capital is the capital stock at the time of effective date of this authorisation. If the capital stock 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 can be combined and/or compensated for in cash. The proportionate amount of the share 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 the 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, in lieu of the payment of a due amount of money, new shares or treasury shares in the Company. 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 follow-up 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 the those entitled to exercise the warrant bonds are granted treasury shares in the Company or to new shares from authorised capital. The proportional amount of the share 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 share 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 terms and conditions may also provide for a value-preserving adjustment of the option or conversion price for other measures of 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.

7.3

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 own shares from the end of this Annual General Meeting until 12 June 2024 up to a total of 10% of the share capital of €36,988,336 or the lower share capital figure at the time the authorisation is exercised, whereby the authorisation may be exercised 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 share 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 exchange 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 exchange 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 exchange, 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 AG shares in Xetra or a comparable follow-up 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 AG 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 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 exchange 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 equity interests 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 share capital. The basis for calculating the limit of 10% is the capital stock figure at the time of effective date of this authorisation. If the capital stock is lower at the time the authorisation is exercised in accordance with number (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 numbers (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 of the balance sheet date, there were no other key agreements by Instone Real Estate Group AG with third parties or Group companies that would take effect, change or terminate in the event of a takeover bid.

9 COMPENSATION AGREEMENTS OF THE COMPANY THAT HAVE BEEN ENTERED INTO WITH THE MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Dr Foruhar Madjlessi, member of the Management Board since 1 January 2019, is entitled to a special contract termination right in the event of a change of control. According to this agreement, a change of control occurs if a majority participation within the meaning of Section 16 AktG occurs. When exercising the special right of termination, Dr Madjlessi will be paid compensation of three gross annual salaries in compliance with the recommendation in Section 4.2.3 (5) of the GCGC as amended on 7 February 2017. After two years, the severance payment will be reduced to two gross annual salaries, whereby the severance payment will be proportionately reduced in the case of a residual term of the employment contract of less than two years.

CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT (UNAUDITED)

In this report, Instone Real Estate Group AG (hereinafter also: the Company) provides information about the Company's corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) on the principles of corporate governance, Section 161 of the German Stock Corporation Act (AktG) and Section 3.10 of the German Corporate Governance Code (GCGC). In addition to the Declaration of Conformity with the GCGC, the report also contains information about corporate governance and the composition and working methods of the Management Board and Supervisory Board, as well as the Supervisory Board committees.

IMPLEMENTATION OF THE GCGC

Corporate governance involves the responsible management and control of companies, geared towards long-term value creation. The corporate governance and corporate culture of Instone Real Estate Group AG comply with the legal requirements and – with a few exceptions – the additional recommendations of the GCGC. The Management Board and Supervisory Board feel very committed to good corporate governance and all divisions are guided by this objective. The Company focusses on values such as competence, transparency and sustainability.

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the Code as amended on 7 February 2017 and, in December 2019, in accordance with Section 161 AktG for the second time after the cross-border change of legal form to a German stock corporation, submitted their Declaration of Conformity with the recommendations of the Code and commented on the few exceptions.

The declaration is published on the Company's website under ↗ Instone Declaration of Conformity.

DECLARATION OF CONFORMITY

Pursuant to Section 161(1) AktG, the Management Board and Supervisory Board of a listed stock corporation must annually declare that the recommendations of the Code have been and will be complied with and which recommendations have or will not be complied withand why not. In December 2019, the Management Board and the Supervisory Board of the Company issued the following joint Declaration of Conformity according to 161 AktG:

Declaration of Conformity according to Section 161 AktG

The Management Board and Supervisory Board of Instone Real Estate Group AG (the "Company") are required pursuant to Section 161 (1) of the German Stock Corporation Act (AktG) to issue an annual declaration of conformity 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 Conformity for the first time in December 2018.

The Management Board and Supervisory Board declare that since submitting the Declaration of Conformity in December 2018, the Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version last published in the official part of the Federal Gazette dated 7 February 2017 (the "Code") and will do so in future, with the following exceptions:

Section 4.2.3 paragraph 2 sentence 6 of the Code recommends that the compensation of the members of the Management Board as a whole and with regard to their variable compensation components is subject to a maximum limit. The current remuneration system of the Management Board, which was already set before the first listing on the stock exchange and therefore before the recommendations of the Code applied, limits all significant remuneration elements individually to an amount, i.e. the fixed remuneration, the variable remuneration components assessed on a one-year and multi-year basis, and the pension commitments. However, there is no maximum limit set for fringe benefits that are part of the remuneration (essentially the use of a company car and the payment of premiums for accident insurance with standard services and the reimbursement of expenses and travel costs). As a result, no total maximum limit has been defined. The Management Board and the Supervisory Board do not believe that the lack of a limited amount of fringe benefits and the resulting lack of a total maximum limit against the backdrop of setting maximum limits for all relatively significant remuneration components constitutes a material deviation from the recommendation of the Code. As a precautionary measure, the Management Board and Supervisory Board nevertheless declare a deviation from Section 4.2.3 paragraph 2 sentence 6 of the Code.

→ Section 7.1.2 of the Code recommends making mandatory interim financial information publicly available within 45 days of the end of the reporting period. The Company complies with the publication of interim reports in accordance with legal requirements (making half-yearly financial reports available within three months of the end of the reporting period) and with the requirements of the Exchange Rules of the Frankfurt Stock Exchange for the Prime Standard (making half-yearly financial reports available within three months and making quarterly financial reports or communications available within two months of the end of the period under review). The Management Board and Supervisory Board consider these to be appropriate. Publication within the shorter deadline recommended by the Code would currently require the use of significant additional financial and human resources that, in the opinion of the Management Board and Supervisory Board, are disproportionate to the shareholders' need for information.

Essen, December 2019
The Management Board
The Supervisory Board

CORPORATE GOVERNANCE PRACTICES

The management of Instone Real Estate Group AG is largely determined by the provisions of the German Stock Corporation Act (AktG) and is also geared towards the requirements of the German Corporate Governance Code. In addition, the Management Board has laid down 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 offers Instone Group employees orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. Instone Real Estate Group AG is expressly committed to the values reflected in the Code of Conduct.

WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Instone Real Estate Group AG, as a stock corporation in accordance with the German Stock Corporation Act (Aktiengesetz), with headquarters in Essen, Germany, has a dual management system consisting of the Management Board and Supervisory Board. These work together closely and trustingly for the benefit of the Company. The Management Board manages the Company whereas the Supervisory Board provides advice and supervision.

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

Both the Management Board and the Supervisory Board have rules of procedure which, among other things, contain detailed regulations for the respective committee activities and internal organisation as well as for the cooperation between the Executive Board and the Supervisory Board that go beyond the requirements of stock corporation law. GRI 102-18

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, 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 2019 financial year on 2 October 2019.
GRI 102-18

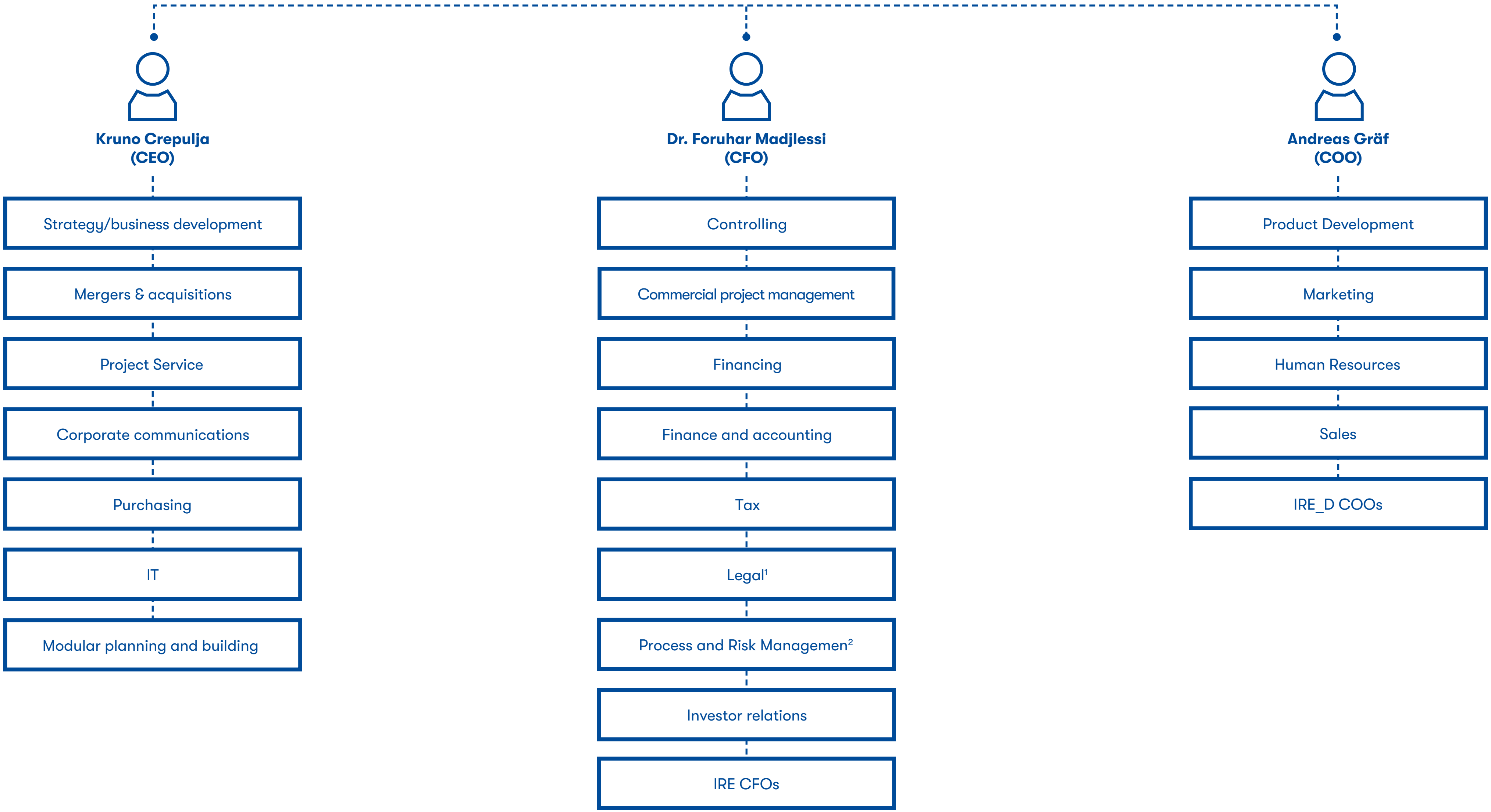
The defined allocation of responsibilities of the Management Board is shown on page 99 of this report.

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 direction of the Chairman of the Management Board. Occasionally, individual board members also attend by phone or video conference. The Rules of Procedure for the Management Board also allow resolutions to be passed outside of meetings. Resolutions are passed by a simple majority of the votes cast unless the law provides otherwise.

In accordance with the general representation rules of the 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.

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 plan, larger land acquisitions and the conclusion and amendment of certain financing agreements, as well as the implementation of certain corporate law measures. Accordingly, transactions between the Company or one of its subsidiaries and members of the Management Board or related parties require the approval of the Supervisory Board and must comply with the usual market conditions.

Instone Real Estate Group AG – organisational chart



[1] Including corporate and capital markets as well as support for the Supervisory Board.
[2] Including auditing, compliance, data protection.

The Management Board informs the Supervisory Board regularly, promptly, comprehensively 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 all issues relevant to strategy, planning and business development, the risk situation, risk management and compliance relevant to the Company as well as the ongoing projects and the financing situation of the Company. The 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 10 August 2018 and the Rules of Procedure for the Management Board. It appoints and dismisses the members of the Management Board, represents the Company when dealing with them and, together with the Management Board, ensures long-term succession planning.

The work of the Supervisory Board takes place both in plenary sessions and in committees. The work of the committees aims to further increase the efficiency of the Supervisory Board's work. The committee chairs regularly report to the Supervisory Board on the work of their respective committees. According to its Rules of Procedure, the Supervisory Board must hold at least two meetings in six calendar months. In addition, it holds meetings where these are in the interests of the Company, and assesses the efficiency of its activities at regular intervals, most recently in financial year 2018.

Members of the Supervisory Board are selected in light of their respective knowledge, abilities and professional aptitude as well as their skills profile. According to the 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 Board as a whole

→ At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing (Section 100 (5) AktG)

→ Experience with capital market instruments and bank financing

Only persons who have not yet reached the age of 70 at the time of appointment are to be proposed for election as a member of the Company's Supervisory Board. The standard limit for the period of membership of the Supervisory Board is twelve years.

The Company has complied with the individual recommendations in Section 5.4.1 (2) and (3) GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the Corporate Governance Report. In the 2019 financial year, the members of the Supervisory Board fulfilled the overall competence profile. GRI 102-22; 102-24

TARGET FIGURES FOR THE PROPORTION OF WOMEN

The "German law for the equal participation of women and men in management positions in the private sector and in the public sector" obliges Instone Real Estate Group AG 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.

Following the Company's change of form into a stock corporation (Aktiengesellschaft) under German law, the Supervisory Board therefore set a target for the proportion of women in the Supervisory Board of 20% for the first time in financial year 2018. The proportion of women on the Supervisory Board is currently 20%, so that the target is met.

For the Management Board of Instone Real Estate Group AG, the target proportion of women, as defined by the Supervisory Board, remains at 0%.

This is due not least to the fact that the Supervisory Board, taking into account the existing circumstances, in particular the current term of appointment of the members of the Management Board, was not able to set a higher quota when it determined the number of women in the 2018 financial year. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will continue to respect diversity. Nevertheless, the Supervisory Board is convinced that a position is to be filled primarily on the basis of qualification and competence – irrespective of gender. The Company has met the targets during the period under review. The target applies for the period up to 30 November 2020, based on the specifications of the Supervisory Board. At the end of this period, it will reassess the target.

For the proportion of women at the first management level below the Management Board, i.e. at the management level of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board also set the target rate at 0% as a minimum figure following the change in legal form to a German stock corporation on 18 December 2018. This still complies with the actual quota, meaning that the minimum proportion was met during the period under review. At the second Management level below the Board of Directors, i.e. at the level of the authorised representatives of the Company, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board set the minimum proportion of women at 25%. At this time, the proportion of women at this management level was 17%. In the past financial year, the Management Board has succeeded in further increasing this proportion to around 22% and is significantly closer to achieving its self-imposed target. The share of women in the second management level is therefore currently only slightly below the self-imposed target of 25%. The Management Board had set a period of two years as a deadline for achieving the targets at the time, which will expire on 18 December 2020.

The Management Board facilitates the achievement of goals through long-term planning. This includes, for example, the targeted support of female staff through training and further education measures as well as separate 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, with regard to Section 4.1.5 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 and promotion of 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 persons. The number of members is determined by the Supervisory Board. In the 2018 financial year, the Management Board consisted of four members with equal rights, each responsible for the departments assigned to them. Dr Foruhar Madjlessi joined the Management Board on 1 January 2019. As of 31 December 2019, Mr Torsten Kracht left 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. After the Supervisory Board members Stefan Mohr and Richard Wartenberg left office as of 31 December 2018, at the request of the Management Board the Essen District Court appointed Mr Dietmar P. Binkowska and Mr Thomas Hegel as members of the Supervisory Board by a resolution dated 3 April 2019 and who were confirmed by the Annual General Meeting of the Company on 13 June 2019.

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 AG in accordance with Section 285 No. 10 HGB. page 141 f.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and Supervisory Board work together closely for the benefit of the Company. The intensive and constant dialogue between the Boards forms the basis for efficient and targeted company management. The Management Board develops the strategic direction of Instone Real Estate Group AG, coordinates this with the Supervisory Board and ensures its implementation. GRI 102-26

The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Chair of the Supervisory Board regularly liaises with the Management Board between meetings and discusses questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The 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 development 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, the Articles of Association and the Management Board's Rules of Procedure, which contain comprehensive provisions for the reports and information to be submitted. GRI 102-30; 102-31

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.

Transactions with the Company by members of the Management Board and related parties also require the approval of the Supervisory Board, as does assumption of ancillary activities outside the Company – in particular taking on supervisory board mandates and mandates on comparable supervisory bodies of commercial enterprises.

A D&O group insurance policy has been concluded for the members of the Management Board and the Supervisory Board. It provides for a deductible that complies with the requirements of Section 93 (2) 3 AktG and Section 3.8 GCGC.

SUPERVISORY BOARD COMMITTEES

In the 2018 financial year, the Supervisory Board had established three committees: the nomination committee, the audit committee and the remuneration committee. Further committees can be formed as required. GRI 102-18; 102-22

Due to the departure of Mr Mohr and Mr Wartenberg from the Supervisory Board at the end of the 2018 financial year and the appointment of Mr Hegel and Mr Binkowska as members of the Supervisory Board during the year, various changes have been made to the individual committees in terms of their personnel composition in the 2019 financial year, and these are presented below.

Nomination committee

The nomination committee advises on key topics and prepares resolutions of the Supervisory Board by proposing suitable candidates to the Supervisory Board for its nominations to the Annual General Meeting.

Members of the nomination committee in the 2019 financial year were:

→ Dietmar P. Binkowska (since 1 June 2019: Chair)

→ Stefan Brendgen

→ Dr Jochen Scharpe (since 24 January 2019)

→ Marija Korsch (1 January to 31 May 2019)

Audit committee

The audit committee is responsible, in particular, for monitoring the accounting process, effectiveness of the internal control system and internal auditing system, the audit, in particular, the independence of the auditor, additional services provided by the auditor, the appointment of the auditor, granting the audit assignment to the auditor, the determination of audit priorities and the fee agreement as well as compliance.

The audit committee prepares the resolutions of the Supervisory Board relating to the annual financial statements and the consolidated financial statements. It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of the statement or its approval and the profit appropriation proposal of the Management Board. Furthermore, the audit committee prepares the agreements with the auditor, in particular the appointment of the auditor, the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the Annual General Meeting. This also includes consideration of the necessary independence, whereby the audit committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the audit committee decides on the approval of contracts with external auditors with regard to additional advisory services, insofar as these agreements require the approval of the Supervisory Board. The audit committee discusses the principles of compliance, risk assessment, risk management and the appropriateness and functionality of the internal control system with the Management Board.
GRI 102-29; 102-30; 102-33

The following members were members of the audit committee in the 2019 financial year:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Brendgen

→ Thomas Hegel (since 1 June 2019)

→ Marija Korsch (24 January to 31 May 2019)

The Chair of the audit committee is independent, has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and thus fulfils the requirements of Section 100 (5) AktG. In addition, the Chair of the committee is also familiar with the principles and specifications of audits and their procedures. The members of the audit committee have accounting and auditing expertise and the composition of the committee complies with all independence requirements within the meaning of the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors or members of the supervisory boards of listed companies and management/supervisory board committees (2005/162/EC) as well as within the meaning of the recommendations of the GCGC.

Remuneration committee

The remuneration committee advises on the employment contracts of the members of the Management Board and prepares resolutions of the Supervisory Board.

In the 2019 financial year, the remuneration committee consisted of the following members:

→ Marija Korsch (since 24 January 2019 – Chairwoman)

→ Stefan Brendgen

→ Dietmar P. Binkowska (since 1 June 2019)

→ Dr Jochen Scharpe (24 January to 31 May 2019)

The Chair of the remuneration committee is independent within the meaning of the recommendations of the Code.

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 AG assert their rights at the Annual General Meeting and exercise their voting rights. Each share in the Company grants one vote.

The Annual General Meeting takes place annually within the first eight months of the financial year. The agenda for the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the Company's website under ↗ 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 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 exchange views on the further development of the Company.

Instone Real Estate Group AG provides its shareholders with a proxy who is bound to follow shareholders' instructions and who can also be contacted during the Annual General Meeting in order to 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.

FURTHER ASPECTS OF CORPORATE GOVERNANCE

Diversity GRI 405-1

Instone Real Estate Group AG 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. Diversity is therefore an important element for Instone Real Estate Group AG for sustainable corporate success.

Given this, the Supervisory Board determined in 2018 that attention will continue to be paid to diversity with regard to the composition of the Management Board in the future. The Supervisory Board has also set a target for the proportion of women on the Management Board and a standard retirement age for Management Board members at the age of 65. In the interests of complementary cooperation within the Supervisory Board, the selection of candidates for the Supervisory Board should also be based on sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience. The target for the proportion of women on the Supervisory Board is currently at 20%.

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as of 31 December 2019 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, and one of the Management Board members has not yet reached the age of 50. The Supervisory Board continues to remain diverse as of 31 December 2019.

Above all, the Chair of the audit committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. Several members have experience in managing or supervising medium-sized or large companies. In addition, two new Supervisory Board members, Mr. Thomas Hegel and Mr. Dietmar P. Binkowska, were recruited in financial year 2019. Their respective knowledge, skills and many years of experience – particularly in the areas of capital markets, real estate and the management and supervision of large companies – complement the competence profile of the Supervisory Board and further 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 of 31 December 2019 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.

Reportable securities and share ownership by the Management Board and Supervisory Board

The members of the Management Board and Supervisory Board of Instone Real Estate Group AG, as well as persons closely related to them, are, in accordance with Article 19 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) required to report transactions in Instone Real Estate Group AG shares or related financial instruments to the Company without delay and no later than three business days after the date of the transaction. The Company publishes the notifications pursuant to Article 19 (2) of the Market Abuse Regulation without delay and no later than three business days after the transaction. The reports can be found on the Company's website at ↗ Instone Managers Transactions.

Compliance management system

Compliance at Instone Real Estate is an integral part of successful and responsible corporate governance.

We are committed to ethical principles and valid legal norms. We have enshrined this in our compliance management system policy and employee code of conduct, which is available on our website at ↗ Instone Code of Conduct. Furthermore, there are various guidelines, such as the Grant Policy, which sets out the legal framework and our internal guidelines for our employees. Our goal is to focus on compliance and find a positive as well as motivational approach to our employees. The Code of Conduct is applicable throughout the Group and was introduced in all affiliated companies where we have direct or indirect controlling influence.

A controlling influence is normally to be assumed if there is a participation in more than 50% of the voting rights.

Our central compliance organisation sees itself as a key contributor to an integrity-led corporate governance and culture. It promotes a compliance culture in our Company and ensures that this is internalised among managers and employees.

The ultimate goal of the Group-wide compliance management system is to prevent breaches of applicable laws and internal policies and to protect the Instone Group and its employees from inappropriate and unlawful conduct. We have therefore implemented a compliance management system that identifies risks, reduces them and ensures compliance within the Company. All activities are in accordance with the legal requirements and our guidelines and internal regulations. The Compliance Officer at Group level is responsible for Group-wide structuring, further development and implementation of the compliance management system and the implementation of the training courses. All compliance officers are responsible for conducting the quarterly meetings of the relevant compliance committee and overseeing the compliance management system in their company. All Compliance Officers are available to employees as contact persons for compliance issues. The effectiveness and appropriateness of the compliance system are reviewed at regular meetings of the compliance committee, and any follow-up needs are identified and carried out.

We regularly conduct compliance and data protection training that provides our employees with information about laws and codes of conduct. Participation in the training events is mandatory and is reviewed and documented. In the year under review, the topics related primarily to anti-corruption, data protection, and competition and price-fixing law. In 2019, a compliance Section was added to the Instrone intranet site so that employees have direct, compact access to all key compliance information (including contact details for compliance, links and guidelines). Regular information on all current compliance topics will be posted here. GRI 205-2

Despite the best, wide-ranging prevention measures, companies may still experience infringements and breaches of duty. Our employees have their supervisors, compliance officers, a whistleblower hotline and a digital whistle-blower portal at their disposal to report violations and suspicions of violations of rights, legislation and internal policies and regulations. Calls to the whistleblower hotline are received by an external law firm and, like the reports in the digital whistleblower portal, are passed on anonymously to the company. GRI 102-33

We consistently follow all instructions within the scope of the legal options, pursue their clarification without compromise and impose sanctions appropriate to the offence and degree of blame. Within the scope of the ongoing development of the compliance management system and when dealing with legal issues, the Management Board and compliance officer at the Group level can be given legal advice if required.

We also demand compliance with our high standards from our business partners and suppliers. In our Code of Conduct for contractors, they commit to refrain from any kind of corruption or acts that could be construed as such. We also expect and work to ensure that our business partners and suppliers respect these obligations, principles and values, and take all of the measures necessary to prevent and punish active and passive corruption.

No significant fines were imposed on Instone Real Estate in the 2019 reporting year for non-compliance with laws and regulations in the social and economic sphere. GRI 419-1

PREPARATION

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

On 13 February 2018 we were converted into a Dutch "stock corporation (naamloze vennootschap) and changed our name to Instone Real Estate Group N.V. This took place in connection with the private placement of our shares (the “Placement”) and admission for listing and trading on the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the corresponding market with additional admission requirements (Prime Standard) (the “Listing”). On 28 August 2018, we were transformed into a stock corporation under German law through an identity-preserving, cross-border conversion of legal form and have since then been trading as Instone Real Estate Group AG.

This report concerns the financial year ending 31 December 2019. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2019.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These are statements that are not historical facts or events, and are not facts or events that exist at the time this report is published. This applies, in particular, to statements in this report that include information about future financial viability, plans and expectations for growth and profitability, and the business environment to which Instone Real Estate is exposed. Words such as “forecast,” “predict,” “plan,” “intend,” “seek,” “expect,” or “target” indicate that this is a forward-looking statement.

The forward-looking statements in this report are subject to risks and uncertainties as they relate to future events. They are based on the best 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 Section “Outlook”, as well as in places where statements regarding intentions, opinions or current expectations of the Company regarding its future financial position or operating results, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment in which Instone Real Estate operates.

In view of these uncertainties and assumptions, the future events mentioned in this report may not occur. Furthermore, the forward-looking statements and forecasts in this report, which are based on reports prepared by third parties, may prove to be incorrect. Actual results and events may differ substantially from those expressed in these statements, including but not limited to the following: Changes in the general economic situation in Germany, including changes to the unemployment rate, consumer prices, wages and salaries, etc.; demographic change, especially in Germany; changes affecting interest rates; changes to the competitive environment, for example changes to residential construction activity, accidents, terrorist attacks, natural disasters, fires or environmental damage; the impossibility of finding and retaining qualified personnel; political changes; changes in corporate taxation, in particular, land transfer tax; changes in laws and regulations, in particular in the field of construction planning law or in broker and developer regulations and in environmental law.

Furthermore, it should be noted that all forward-looking statements are made only as of 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.