

Prospectus dated August 27, 2020



**Prospectus  
for the public offering**

in Germany

of

9,863,556 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*) from a capital increase against contribution in cash resolved by the Management Board on August 26, 2020, approved by the Supervisory Board on the same day, utilizing the Authorized Capital 2018 as resolved by the ordinary shareholders' meeting (*Hauptversammlung*) on June 29, 2018, with subscription rights for existing shareholders of Instone Real Estate Group AG

and

**for admission to trading**

on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)

of

10,000,000 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*) from the above-mentioned capital increase

— each such share representing a notional value of €1.00  
and full dividend rights from January 1, 2020 —

of

**Instone Real Estate Group AG**

Essen, Germany

**Subscription Price: €18.20**

International Securities Identification Number (ISIN): DE000A2NBX80

German Securities Code (*Wertpapierkennnummer* (WKN)): A2NBX8

Trading Symbol: INS

*Joint Global Coordinators and Joint Bookrunners*

**Credit Suisse**

**Deutsche Bank**

*Joint Lead Managers*

**MAINFIRST**

**UniCredit**

The Company's securities have been admitted to trading on a regulated market continuously for at least the last 18 months and the Company will issue securities fungible with existing securities pursuant to Art. 14 para. 1 lit a) of Regulation (EU) 2017/1129. The disclosure in this prospectus is based on the simplified disclosure regime for secondary issuances pursuant to Art. 14 of Regulation (EU) 2017/1129 and Annex 3 and Annex 12 of Delegated Regulation (EU) 2019/980.

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## I. PROSPECTUS SUMMARY

### A. – Introduction and Warnings

This prospectus (the “**Prospectus**”) relates to ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*) of Instone Real Estate Group AG (the “**Company**” and, together with its consolidated subsidiaries, “**Instone Group**” or “**Instone**”), Grugaplatz 2-4, 45131 Essen, Federal Republic of Germany (“**Germany**”), telephone +49 201 45355-0, website: www.instone.de, legal entity identifier (“**LEI**”) 391200DINUIRPDZQH03, each such share having the International Securities Identification Number (“**ISIN**”) DE000A2NBX80.

The new shares of the Company will be offered by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, United Kingdom (+44 20 7888-8888; www.credit-suisse.com), LEI DL6FFRRLF74S01HE2M14 (“**Credit Suisse**”), Deutsche Bank Aktiengesellschaft, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany (+49 69 910-30128; www.db.com), LEI 7LTWFZYICNSX8D621K86 (“**Deutsche Bank**”, and, together with Credit Suisse, the “**Joint Global Coordinators**”), MAINFIRST BANK AG, Kennedyallee 76, 60596 Frankfurt am Main, Germany, LEI 529900MC68RTGHKI4F05 (+49 69 78808 175; www.mainfirst.com) (“**MAINFIRST**”) and UniCredit Bank Aktiengesellschaft, Arabellastraße 12, 81925 Munich, Germany (+49 89 378 15050; www.hypovereinsbank.de), LEI 2ZCNRR8UK83OBTEK2170 (“**UniCredit**” and, together with MAINFIRST and the Joint Global Coordinators, the “**Underwriters**”). The Company and the Underwriters assume responsibility for the contents of this Prospectus.

On August 27, 2020, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany (+49 228 4108-0; www.bafin.de), approved this Prospectus as competent authority under Regulation (EU) 2017/1129.

*This summary should be read as an introduction to this Prospectus. Investors should base any decision to invest in the shares on the review of this Prospectus as a whole. Investors in the shares may lose all or part of their invested capital. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary, including any translation thereof, but only where this summary is misleading, inaccurate or inconsistent, when read together with the other parts of this Prospectus, or where it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the shares.*

### B. – Key Information on the Issuer

#### B.1 – Who is the Issuer of the Securities?

**Registration and Applicable Laws** – The Company has its registered seat in Essen, Germany, is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Essen, Germany, under docket number HRB 29362 and has the LEI 391200DINUIRPDZQH03. As a German stock corporation (*Aktiengesellschaft*) it is incorporated in Germany and governed by the laws of Germany.

**Principal Activities** – Instone is a leading nationwide residential real estate developer in Germany in terms of square meters of secured development projects not yet under construction (*Source: bulwiengesa*). Instone develops modern, urban, multifamily residential properties and redevelops listed buildings for residential use. As of June 30, 2020, Instone’s project portfolio comprised 53 development projects with an aggregate expected sales volume for fully developed projects (“**Expected Sales Volume**”) of approximately €5.7 billion. As of that date, approximately 88% of Instone’s portfolio (by Expected Sales Volume) was located in key metropolitan regions (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) and 12% (by Expected Sales Volume) in other prospering medium-sized cities. In addition to its traditional project developments (*i.e.*, individual multifamily residential properties) in its key markets, Instone has developed a new product offering standardized residential developments based on modular planning at reduced price points. With this new “valuehome” product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers, which it considers to be a largely untapped customer group. Instone’s key purchaser groups generally comprise owner-occupiers, retail buy-to-let investors and institutional investors. For its new valuehome product, Instone will also focus on municipal housing companies and professional landlords.

Instone believes that the regional German residential real estate markets in which Instone operates are highly attractive. Germany is Europe’s largest and most stable economy. In 2019, Germany had the highest gross domestic product (“**GDP**”) in Europe (€3.4 trillion) as well as one of the highest GDP per capita (€41.5 thousand) (*Source: Destatis, GDP*). Sound structural growth in the German residential property market is expected to continue due to a combination of several factors, including modest population growth (*Source: Destatis*), steadily increasing urbanization, an increasing number of households (*Destatis, Private Households*) and the current structural undersupply of residential properties (*Source: IW Report*). While the German economy and the residential real estate market have been negatively affected by the COVID-19 pandemic in 2020, Instone believes these structural trends will continue to drive demand for residential real estate in Germany in the medium- to long-term. Instone’s business further benefits from the favorable German regulatory framework for project developments. The German Real Estate and Commercial Contractor Regulation (*Makler- und*

*Bauträgerverordnung* (MaBV)) enables Instone to contractually agree on significant fixed down payments based on construction milestones for residential units sold to owner-occupiers and retail buy-to-let investors which substantially reduces its development risk. Furthermore, applicable German law significantly limits the ability of purchasers to terminate contracts for the sale of residential real estate properties to cases in which, for example, the product quality does not meet agreed standards or there is a substantial delay of delivery.

Instone is one of only a few pure play residential real estate developers in Germany with a fully integrated nationwide platform covering the entire development value chain. Instone's operations include the identification and acquisition of suitable land, land development, concept design, construction management, as well as marketing and sales. Headquartered in Essen, Instone operates through eight branches in Berlin, Cologne, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg (Erlangen) and Stuttgart. Each branch has its own local teams for acquisition, planning, construction management and marketing and sales activities, while strategic decisions are coordinated and managed together with Instone's headquarters. Instone has strong risk-management processes in place and applies sophisticated reporting and planning tools to mitigate development risks.

Instone has a successful acquisition and development track record. Since 1991, Instone (including its predecessors) has developed residential units comprising more than one million sqm of residential space. Between January 1, 2018 and June 30, 2020, Instone's management approved the acquisition of land plots and properties for residential development with an aggregate Expected Sales Volume for fully developed projects of approximately €2.8 billion at the time of acquisition. In 2018, 2019 and in the six-month period ended June 30, 2020, Instone successfully sold 1,033, 2,733 and 456 residential units, respectively, with a corresponding volume of customer sales contracts of €460.8 million, €1,403.1 million and €123.5 million. Instone believes that its success is attributable to its regional focus, its nationwide regional presence, and the know-how and strong network of its experts located across Germany.

Instone believes that the development of its business is supported by the following strengths:

- Instone benefits from its exposure to Europe's largest and most stable economy with attractive housing sector fundamentals.
- Instone has a market-leading nationwide platform with an attractive project portfolio focused on key metropolitan regions and prospering medium-sized cities in Germany.
- Instone benefits from its deep and local expertise in the development of residential real estate properties.
- Instone has a strong track record of profitable growth.
- Instone's efficient financing mix allows for an attractive cash flow profile and high returns on capital.
- Instone has a highly experienced management team with a proven track record of value generation.

In order to further expand its competitive position, Instone plans to:

- Continue to focus on the most attractive metropolitan regions and conurbations in Germany;
- Leverage its differentiated expertise along the entire project development value chain;
- Drive further efficiency gains through digitalization along the value chain;
- Introduce its new "valuehome" product with the goal of achieving a step change in long-term growth and higher internal rates of return (IRRs);
- Take full advantage of significant short-term opportunities in the land market, accelerating future growth and supporting enhanced, long-term returns; and
- Establish a sustainability strategy and sustainability management.

**Major Shareholders** – 9.995% FMR LLC (indirectly held via Fidelity Management & Research Company LLC); 6.96% Janus Henderson Group plc (indirectly held with 4.99% held via Henderson Global Investors Limited); 6.10% T. Rowe Price Group, Inc. (indirectly held via T. Rowe Price International Ltd.); 5.24% Cohen & Steers, Inc. (indirectly held with 5.02% held via Cohen & Steers Capital Management, Inc.); 4.87% The Capital Group Companies, Inc. (indirectly held with 4.16% held via Capital International, Inc.); 3.24% DWS Investment GmbH (indirectly held); 3.20% Allianz SE (indirectly held with 3.04% held via Allianz Lebensversicherungs-Aktiengesellschaft); 3.07% Amundi S.A. (indirectly held via Amundi Asset S.A.S.); 3.001% Union Investment Privatfonds GmbH (directly held).

**Management Board** – The members of the Company's management board (the "**Management Board**") are Kruno Crepulja (Chief Executive Officer), Dr. Foruhar Madjlessi (Chief Financial Officer) and Andreas Gräf (Chief Operating Officer).

**Statutory Auditors** – The Company's statutory auditor is Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Schwannstraße 6, 40476 Düsseldorf, Germany.



## B.2 – What is the Key Financial Information regarding the Issuer?

The financial information contained in the following tables is taken or derived from the audited consolidated financial statements of the Company as of and for the financial year ended December 31, 2019, the unaudited condensed consolidated interim financial statements of the Company as of and for the six-month period ended June 30, 2020, and the Company's accounting records or internal reporting system.

### Selected Information from the Consolidated Income Statement

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Revenue .....	168.9	171.0	509.5	360.8
Consolidated earnings before tax (EBT) .....	17.7	23.3	63.2	29.6
Consolidated earnings after tax (EAT) .....	13.0	22.9	69.8	9.0

### Selected Information from the Consolidated Statement of Financial Position

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
Total assets .....	1,106.4	1,123.4	686.6
Total equity .....	323.2	310.2	246.9
Equity attributable to shareholders .....	322.3	309.2	241.7
Total non-current liabilities .....	293.4	490.2	218.4
Total current liabilities .....	489.9	323.0	221.3

### Selected Information from the Consolidated Statement of Cash Flows

	As of and for the six-month period ended June 30,		As of and for the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Cash flow from operations .....	(37.8)	1.5	(205.1)	(40.4)
Cash flow from investing activities .....	(11.5)	0.0	(32.4)	0.5
Cash flow from financing activities .....	(7.8)	12.5	266.2	54.3
Cash and cash equivalents at the end of period .....	60.0	102.0	117.1	88.0

### Adjusted Results of Operations<sup>(1)</sup> (Segment Information)

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Adjusted revenue <sup>(2)</sup> .....	179.6	174.2	736.7	372.8
Adjusted gross profit <sup>(3)</sup> .....	57.8	58.5	187.8	106.4
Adjusted gross profit margin (in %) <sup>(4)(5)</sup> .....	32.2	33.6	25.5	28.5
Adjusted EBIT <sup>(6)</sup> .....	28.2	31.9	128.9	49.6
Adjusted EBIT margin (in %) <sup>(4)(7)</sup> .....	15.7	18.3	17.5	13.3

(1) Adjustments relate to

- Reclassification items, in order to change the line item classification of indirect selling expenses and capitalized interest when calculating adjusted gross profit to include all external costs necessary for the generation of adjusted revenue;
- purchase price allocation (“PPA”) effects, in order to eliminate the effects from step ups in the values of acquired assets resulting from prior acquisitions;
- share deal effects, in order to align the treatment of share deals, in which development projects are sold by way of a sale of the shares of the relevant project company, with the accounting under IFRS 15 for other projects sold in asset deals; and
- non-recurring items, in order to eliminate the impact of items that are unusual or incurred on a non-recurring basis.

(2) Adjusted revenue corresponds to revenue adjusted for PPA effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: negative €3.2 million; 2019: negative €6.4 million; 2018: negative €11.9 million), and effects from share deals (six-month period ended June 30, 2020: negative €10.5 million; six-month period ended June 30, 2019: nil; 2019: negative €220.8 million; 2018: nil).

- (3) Adjusted gross profit corresponds to adjusted revenue less adjusted project costs. Project costs corresponds to the difference between cost of materials and changes in inventories. Adjusted project costs corresponds to project costs adjusted for reclassification items (six-month period ended June 30, 2020: €4.2 million; six-month period ended June 30, 2019: €3.5 million; 2019: €6.3 million; 2018: €3.0 million), PPA effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: €0.1 million; 2019: negative €7.9 million; 2018: nil) and share deal effects (six-month period ended June 30, 2020: €10.1 million; six-month period ended June 30, 2019: nil; 2019: €193.7 million; 2018: nil).
- (4) Unaudited.
- (5) Adjusted gross profit margin corresponds to adjusted gross profit divided by adjusted revenue.
- (6) For 2019 and 2018, adjusted EBIT corresponds to adjusted gross profit less adjusted platform costs. For the six-month period ended June 30, 2020 as well as for the six-month period ended June 30, 2019, adjusted EBIT corresponds to adjusted gross profit less adjusted platform costs plus share of results of joint ventures. Platform costs corresponds to the sum of staff costs, other operating income, other operating expenses and depreciation and amortization. Adjusted platform costs corresponds to platform costs adjusted for reclassification items (*i.e.*, indirect selling expenses allocated to project costs (six-month period ended June 30, 2020: negative €1.1 million; six-month period ended June 30, 2019: negative €1.3 million; 2019: negative €3.1 million; 2018: negative €1.9 million) and other items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: negative €0.5 million; 2019: nil; 2018: negative €0.6 million) and non-recurring items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: nil; 2019: negative €4.7 million; 2018: nil). Share of results of joint ventures corresponds to the share of results of joint ventures as reported in Instone's consolidated income statement (six-month period ended June 30, 2020: €0.3 million; six-month period ended June 30, 2019: negative €0.4 million).
- (7) Adjusted EBIT margin corresponds to adjusted EBIT divided by adjusted revenue.

### Selected Key Indicators (in addition to Adjusted Results of Operations)

	As of or for the six-month period ended June 30,		As of or for the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(unaudited) (in € million)	
Volume of customer sales contracts <sup>(1)</sup> .....	123.5	131.8	1,403.1	460.8
Volume of management approvals <sup>(2)</sup> .....	186.9	270.6	1,284.2	1,298.0
Project portfolio <sup>(3)</sup> .....	5,701.3	5,091.7	5,845.7	4,763.2
Adjusted EAT <sup>(4)</sup> .....	13.7	25.1	105.6	19.1
Cash flow from operations without new investments <sup>(5)</sup> .....	12.5	57.4	123.7	34.6

- (1) Refers to the sum, over the relevant reporting period, of all sales-related transactions, such as notarized real estate purchase agreements, individual orders from customers and rental income.
- (2) Refers to the monetary volume of new land and development projects for which internal approvals are granted and property access is secured (*e.g.*, by means of exclusivity, notarized purchase agreements) in the relevant period.
- (3) Project portfolio value as of a reporting date is the anticipated overall volume of revenue (also referred to as gross development value) from all approved projects that form the portfolio.
- (4) Adjusted EAT corresponds to EAT adjusted for PPA effects (six-month period ended June 30, 2020: negative €0.4 million; six-month period ended June 30, 2019: negative €2.1 million; 2019: negative €9.8 million; 2018: negative €10.0 million), share deal effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: nil; 2019: negative €22.8 million; 2018: nil) and non-recurring items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: nil; 2019: negative €3.2 million; 2018: nil).
- (5) Cash flow from operations without new investments corresponds to cash flow from operations less cash outflow due to payments for land and real estate transfer tax (excluding other ancillary costs) (six-month period ended June 30, 2020: €50.3 million; six-month period ended June 30, 2019: €56.0 million; 2019: €328.8 million; 2018: €75.0 million).

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million, unless otherwise specified)	(unaudited) (in € million, unless otherwise specified)	
Net financial debt <sup>(1)</sup> .....	540.0	478.4	177.5
Leverage ratio adjusted (as multiple) <sup>(2)</sup> .....	4.2	3.6	3.5

- (1) Net financial debt corresponds to the sum of non-current financial liabilities (as of June 30, 2020: €253.6 million; 2019: €451.6 million; 2018: €177.7 million) and current financial liabilities (as of June 30, 2020: €346.4 million; 2019: €143.9 million; 2018: €87.8 million) less cash and cash equivalents (as of June 30, 2020: €60.0 million; 2019: €117.1 million; 2018: €88.0 million).
- (2) Leverage ratio adjusted is the ratio of net financial debt to the sum of (i) adjusted EBIT for the last twelve months (June 30, 2020: €125.9 million; 2019: €128.9 million; 2018: €49.6 million) and (ii) depreciation and amortization for the twelve-month period ended on the date indicated (June 30, 2020: €4.1 million; 2019: €4.1 million; 2018: €0.6 million). As indicated above, adjusted EBIT for the twelve-month period ended June 30, 2020 corresponds to adjusted gross profit less adjusted platform costs plus share of results of joint ventures.

### B.3 – What are the Key Risks that are Specific to the Issuer?

- Instone may be adversely affected by developments in the German real estate market, particularly in Germany’s key metropolitan regions.
- The effects of the coronavirus pandemic could have a significant adverse impact on the German residential real estate market, thereby affecting Instone and other residential real estate developers along the value chain.
- Instone may not be able to realize project developments within the originally envisaged budget and timeline, in which case it could incur a loss on such projects.
- Instone may not be able to correctly estimate and fully realize the expected sales volume and revenues of its projects, in which case Instone may not realize a profit on such projects.
- Instone may not be able to identify suitable development opportunities and to acquire these opportunities on attractive terms, in which case its ability to grow could be significantly constrained.
- Instone may not be able to identify and properly address, or take recourse for, all risks associated with the development opportunities it acquires, which could result in Instone having difficulties implementing the envisaged development projects.
- Instone’s business may be adversely affected if it fails to obtain, or if there are any material delays in obtaining, zoning or land-use plans and building permits and approvals or if these are subsequently withdrawn or challenged.
- Instone may not be able to obtain or maintain sufficient financing on acceptable terms or at all.
- Instone depends on suppliers and contractors to develop and construct its properties and it may not be able to hire qualified and reliable suppliers and contractors and they may fail to properly perform their obligations.
- Demand for Instone’s properties depends on purchaser preferences for types of accommodations or locations of property and perceptions as to the attractiveness or quality of its project developments.
- Instone may not be able to successfully implement and market its new valuehome product outside its existing markets and the anticipated cost and time savings may never be realized.
- Instone may be adversely affected by changes to the general tax environment in Germany as such changes might result in an increase of Instone’s tax burden.

### C. – Key Information on the Securities

#### C.1 – What are the Main Features of the Securities?

This Prospectus relates to the offering of 9,863,556 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each representing a notional value of €1.00 and with full dividend rights from January 1, 2020 (the “**Offer Shares**”). The Offer Shares originate from a capital increase against contributions in cash and with indirect subscription rights (*mittelbares Bezugsrecht*) through which the Company’s registered share capital will be increased from €36,988,336.00 to €46,988,336.00 through the issue of 10,000,000 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each representing a notional value of €1.00 and with full dividend rights from January 1, 2020, resolved by the Management Board on August 26, 2020, approved by the supervisory board of the Company (the “**Supervisory Board**”) on the same day (the “**Capital Increase**”), utilizing the authorized capital as resolved by the Company’s ordinary shareholders’ meeting (*Hauptversammlung*) on June 29, 2018. With respect to a fractional share amount of 136,444 new ordinary bearer shares with no-par value originating from the Capital Increase (the fractional shares together with the Offer Shares, the “**New Shares**”), the subscription rights of the shareholders have been excluded.

**Number and Nature of Shares** – As of the date of this Prospectus, the Company’s share capital amounts to 36,988,336 shares. All shares of the Company, including the New Shares, are ordinary bearer shares with no-par value representing a notional value of €1.00. All existing shares of the Company are fully paid up.

**ISIN and Denomination** – The ISIN of the shares of the Company, including the New Shares, is DE000A2NBX80; German Securities Code (*Wertpapierkennnummer*, “**WKN**”): A2NBX8; Trading Symbol: INS. The New Shares are denominated in Euros. The subscription rights relating to the Offer Shares have the ISIN: DE000A289WQ9 and WKN: A289WQ.

**Rights Attached to the Shares, relative Seniority and Transferability** – Each share, including the New Shares, carries one vote at the Company’s shareholders’ meeting. There are no restrictions on voting rights. All New Shares carry full dividend rights as from January 1, 2020. The New Shares, together with the Company’s existing shares, are subordinated to all other securities and claims in case of an insolvency of the Company. All shares, including the New Shares, are freely transferable in accordance with the legal requirements for ordinary bearer shares (*Inhaberaktien*). The New Shares will be entitled to a share of any liquidation proceeds or insolvency surpluses at the ratio of their notional share in the Company’s share capital.

**Dividend Policy** – Subject to market conditions and the Company’s financial position at the relevant time, the Management Board intends to propose to the shareholders’ meeting to resolve a dividend distribution of around 30% of its adjusted EAT (consolidated earnings after tax) for the first time in 2021 for the financial year 2020.

### C.2 – Where will the Securities be traded?

The Company will apply for admission of the New Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (“**FSE**”) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard).

### C.3 – What are the Key Risks that are Specific to the Securities?

- The market price and trading volume of the Company’s shares could fluctuate considerably and the subscription price could exceed the market price of the Company’s shares.
- In light of the current market uncertainty, an active trading market may not develop for the subscription rights. If such trading does develop, the subscription rights may be subject to greater price fluctuations than the Company’s shares.
- The Company has not paid dividends in the past, its ability to pay dividends depends on a variety of factors and its dividend policy may change.

## D. – Key Information on the Offer of the Securities and the Admission to Trading

### D.1 – Under which Conditions and Timetable can I invest in this Security?

**Offer Conditions**..... The Offer Shares originating from the Capital Increase will be offered to the Company’s shareholders for subscription by means of indirect subscription rights (*mittelbares Bezugsrecht*) at a ratio of 15:4 (15 existing shares entitling the holder to subscribe for 4 Offer Shares at the Subscription Price (as defined below) (the “**Subscription Offer**”). To achieve an even subscription ratio, a shareholder has waived one subscription right resulting from an existing share towards the Company. With respect to a fractional share amount of 136,444 shares originating from the Capital Increase, the subscription rights of the shareholders have been excluded. The implementation of the Capital Increase is expected to be registered with the commercial register at the local court of Essen, Germany on or around September 15, 2020.

**Scope of the Offering** ..... The Subscription Offer will include (i) a public offering in Germany, (ii) private placements in the United States of America (the “**United States**”) to qualified institutional buyers (“**QIBs**”) as defined in Rule 144A under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and (iii) private placements to eligible investors outside the United States in offshore transactions within the meaning of, and in reliance on, Regulation S under the Securities Act. The fractional shares, for which the subscription rights of shareholders have been excluded, will be offered to qualified investors by way of private placements in certain jurisdictions at a price at no less than the Subscription Price (as defined below). Any Offer Shares that are not subscribed for in the Subscription Offer and any unplaced fractional shares (together the “**Rump Shares**”) will be offered by the Underwriters for sale to eligible investors in selected jurisdictions at a price at no less than the Subscription Price (as defined below) by way of private placements (the “**Rump Placement**”, together with the placement of the fractional shares and the Subscription Offer, the “**Offering**”). In the United States, the Rump Shares will only be offered in the course of the Rump Placement to QIBs in a transaction meeting the requirements of Rule 144A under the Securities Act and outside the United States to eligible investors in offshore transactions in reliance on Regulation S under the Securities Act.

**Offer Period**..... September 1, 2020 through September 14, 2020 (the “**Subscription Period**”).

**Subscription Rights Trading** ..... In connection with the Subscription Offer, the subscription rights (ISIN DE000A289WQ9/WKN A289WQ) for the Offer Shares and fractional amounts of subscription rights will be traded on the FSE’s regulated market (*regulierter Markt*) (Xetra and Xetra Frankfurt Specialist) during the period from September 1, 2020 up to and including September 9, 2020. Neither the Company nor the subscription agent will apply for admission of the subscription rights to trading on any other stock exchange. The market price of the subscription rights depends, inter alia, on the development of the price of the Company’s shares, but it may deviate substantially from it. No compensation will be paid for subscription rights not exercised. Upon expiration of the Subscription Period, subscription rights not exercised will lapse and be of no value. The purchase of 15 subscription rights enables the exercise of the subscription rights for the

purchase of 4 Offer Shares, *i.e.*, 4 Offer Shares may be purchased for 15 subscription rights.

<b>Offer Price</b> .....	The subscription price per New Share will be €18.20 (the “ <b>Subscription Price</b> ”).
<b>Distribution</b> .....	The Offer Shares will be offered to the Company’s shareholders by way of an indirect subscription right ( <i>mittelbares Bezugsrecht</i> ). Any Rump Shares will be offered to qualified investors by way of a Rump Placement in certain jurisdictions. The fractional shares will be offered to qualified investors by way of private placements in certain jurisdictions. The allotment of the New Shares to qualified investors will be at the Company’s discretion.
<b>Dilution</b> .....	The rights of the shareholders to subscribe for the Offer Shares from the Capital Increase ensure that each shareholder exercising its subscription rights will continue to hold its original, nearly unchanged percentage of ownership in the Company’s share capital and voting rights following the Capital Increase. To the extent that shareholders do not exercise their subscription rights, and assuming that all New Shares will be issued, each shareholder’s participation in the Company’s share capital and voting right will be diluted by approximately 21.3%.
<b>Subscription by Certain Shareholders</b> .....	Kruno Crepulja (CEO) and Andreas Gräf (COO), both members of the Management Board, have indicated to the Company and the Underwriters that they intend to sell a portion of their subscription rights for Offer Shares and to use the proceeds therefrom to exercise the remaining portion of their subscription rights for Offer Shares ( <i>opération blanche</i> ). In addition, Dr. Foruhar Madjlessi (CFO), member of the Management Board, has indicated to the Company and the Underwriters that he intends to fully exercise his subscription rights for the Offer Shares out of freely available funds.
<b>Total Expenses</b> .....	The Company’s total expenses in relation to the Offering will be approximately €7.8 million.

**Expenses Charged to**

**Investors** .....

Only customary transaction and handling fees charged by the investors’ brokers.

**D.2 – Who is the Offeror and the Person asking for Admission to Trading?**

**Offeror**.....

Instone Real Estate Group AG, a stock corporation (*Aktiengesellschaft*) incorporated and with its registered seat in, and operating under the laws of, Germany.

**Admission to Trading**.....

The Company, together with Deutsche Bank, expects to apply for the admission to trading.

**D.3 – Why is this Prospectus being Produced?**

**Reasons for the Offering and the Admission to Trading** .....

This Prospectus has been prepared for the public offering of the Offer Shares in Germany and their listing on the FSE’s regulated market with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard).

**Use of Proceeds**.....

The Company expects a step change in long-term growth based on (i) the introduction of its valuehome product with vast medium- to long-term growth potential and (ii) the opportunity to increase volumes for its traditional product on the back of the COVID-19 pandemic. The Company intends to use the majority of the net proceeds from this Offering for additional land investments over the next six to 18 months with an Expected Sales Volume of at least €1.5 billion with a view to increasing its sustainable long-term adjusted target revenues to €1.6-1.7 billion in the medium- to long-term. Any remaining net proceeds will be used for general corporate purposes.

**Net Proceeds**.....

Assuming the sale of all New Shares at the Subscription Price, the Company would expect to receive net proceeds from the Offering of approximately €174.2 million.

**Underwriting Agreement** ...

The Offer Shares will be offered to the existing shareholders for subscription by way of indirect subscription rights pursuant to an underwriting agreement entered into between the Company and the Underwriters on August 26, 2020. Any Rump Shares will be offered to qualified investors by way of a Rump Placement in certain jurisdictions. The fractional shares will be offered to qualified investors by way of private placements in certain jurisdictions.

**Material Conflicts of Interest**.....

There are no material conflicts of interests with respect to the Offering or the listing of the New Shares.

## II. PROSPEKTZUSAMMENFASSUNG

### A. – Einleitung und Warnhinweise

Dieser Prospekt (der „**Prospekt**“) bezieht sich auf auf den Inhaber lautende Stückaktien der Instone Real Estate Group AG (die „**Gesellschaft**“ und zusammen mit ihren konsolidierten Tochtergesellschaften die „**Instone-Gruppe**“ oder „**Instone**“), Grugaplatz 2-4, 45131 Essen, Bundesrepublik Deutschland („**Deutschland**“), Telefon +49 201 45355-0, Website: www.instone.de, Rechtsträgerkennung („**LEI**“) 391200DINUIRPDZQHX03, wobei jede dieser Aktien die internationale Wertpapier-Identifikationsnummer („**ISIN**“) DE000A2NBX80 hat.

Die neuen Aktien der Gesellschaft werden von Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, Vereinigtes Königreich (+44 20 7888-8888; www.credit-suisse.com), LEI DL6FFRRLF74S01HE2M14 („**Credit Suisse**“), Deutsche Bank Aktiengesellschaft, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Deutschland (+49 69 910-30128; www.db.com), LEI 7LTWFZYICNSX8D621K86 („**Deutsche Bank**“, und zusammen mit Credit Suisse, die „**Joint Global Coordinators**“), MAINFIRST BANK AG, Kennedyallee 76, 60596 Frankfurt am Main, Deutschland, LEI 529900MC68RTGHI4F05 (+49 69 78808 175; www.mainfirst.com) („**MAINFIRST**“) und UniCredit Bank Aktiengesellschaft, Arabellastraße 12, 81925 München, Deutschland (+49 89 378 15050; www.hypovereinsbank.de), LEI 2ZCNR8UK83OBTEK2170 („**UniCredit**“ und, zusammen mit MAINFIRST und den Joint Global Coordinators, die „**Konsortialbanken**“) angeboten. Die Gesellschaft und die Konsortialbanken übernehmen die Verantwortung für den Inhalt dieses Prospekts.

Die Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Deutschland (+49 228 4108-0; www.bafin.de), hat diesen Prospekt als zuständige Behörde gemäß Verordnung (EU) 2017/1129 am 27. August 2020 gebilligt.

*Diese Zusammenfassung sollte als eine Einleitung zu diesem Prospekt verstanden werden. Anleger sollten jede Entscheidung, in die Aktien zu investieren, auf eine Durchsicht des Prospekts als Ganzes stützen. Die Anleger könnten das gesamte angelegte Kapital oder einen Teil davon verlieren. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der klagende Anleger nach nationalem Recht die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben. Zivilrechtlich haften nur diejenigen Personen, die diese Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben, und dies auch nur für den Fall, dass diese Zusammenfassung, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass sie, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die Aktien für die Anleger eine Entscheidungshilfe darstellen würden.*

### B. – Basisinformationen über die Emittentin

#### B.1 – Wer ist die Emittentin der Wertpapiere?

**Sitz und geltendes Recht** – Die Gesellschaft hat ihren eingetragenen Sitz in Essen, Deutschland, ist im Handelsregister des Amtsgerichts Essen unter der Nummer HRB 29362 eingetragen und hat die LEI 391200DINUIRPDZQHX03. Als deutsche Aktiengesellschaft ist sie in Deutschland inkorporiert und unterliegt deutschem Recht.

**Haupttätigkeiten** – Instone ist, gemessen an der Anzahl der Quadratmeter der gesicherten aber noch nicht im Bau befindlichen Immobilienprojekte, ein führender landesweit tätiger Wohnimmobilienentwickler in Deutschland (*Quelle: bulwiengesa*). Instone entwickelt moderne, urbane Mehrfamilienwohnanlagen und saniert denkmalgeschützte Immobilien zu Wohnzwecken. Zum 30. Juni 2020 bestand das Projektportfolio von Instone aus 53 Entwicklungsprojekten mit einem gesamten erwarteten Umsatzvolumen für vollständig entwickelte Projekte (das „**Erwartete Umsatzvolumen**“) von rund €5,7 Milliarden. Zu diesem Datum befanden sich ca. 88 % des Portfolios von Instone (ausgehend vom Erwarteten Umsatzvolumen) in den wichtigsten Metropolregionen Deutschlands (Berlin, Bonn, Köln, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, München, Nürnberg und Stuttgart) und 12 % (ausgehend vom Erwarteten Umsatzvolumen) in anderen prosperierenden mittelgroßen Städten. Zusätzlich zu seinen traditionellen Entwicklungsprojekten (d.h. individuelle Mehrfamilienhäuser) in seinen Kernmärkten hat Instone ein neues Produkt entwickelt; das Angebot von standardisierten Wohnanlagen basierend auf modularer Planung zu reduzierten Preisen. Mit diesem neuen „**valuehome**“ Produkt konzentriert sich Instone auf Haushalte mit mittleren bis niedrigeren Einkommen in B Standorten in und um seine wichtigsten Metropolregionen sowie in anderen B Standorten im städtischen Einzugsbereich von Wirtschaftszentren, welche Instone für eine weitgehend unerschlossene Kundengruppe hält. Die maßgeblichen Käufergruppen von Instone umfassen im Allgemeinen Eigennutzer, Privatanleger mit Vermietungsabsicht sowie institutionelle Investoren. Für sein neues „**valuehome**“ Produkt wird sich Instone auch auf kommunale Wohnungsunternehmen und professionelle Vermieter konzentrieren.

Nach Einschätzung von Instone sind die regionalen deutschen Märkte für Wohnimmobilien, in welchen Instone tätig ist, äußerst attraktiv. Deutschland ist Europas größte und stabilste Volkswirtschaft. Im Jahr 2019 wies Deutschland das höchste Bruttoinlandsprodukt („**BIP**“) in Europa (€3,4 Billionen) sowie eines der höchsten BIPs pro Kopf (€41,5 Tausend) auf (*Quelle: Destatis, GDP*). Es wird erwartet, dass sich das solide strukturelle Wachstum des deutschen Wohnimmobilienmarkts aufgrund einer Kombination mehrerer Faktoren, einschließlich eines moderaten

Bevölkerungswachstums (*Quelle: Destatis*), stetig zunehmender Urbanisierung, einer steigenden Anzahl von Haushalten (*Quelle: Destatis, Private Haushalte*) sowie der derzeitigen strukturellen Unterversorgung mit Wohnimmobilien (*Quelle: IW Report*), auch weiterhin fortsetzen wird. Während die deutsche Wirtschaft und der Wohnimmobilienmarkt durch den Ausbruch der COVID-19 Pandemie im Jahr 2020 negativ beeinflusst worden sind, glaubt Instone, dass diese strukturellen Trends die Nachfrage nach Wohnimmobilien in Deutschland mittel- bis langfristig weiter antreiben werden. Weiterhin profitiert Instone von dem günstigen regulatorischen Umfeld für Projektentwicklung in Deutschland. Die deutsche Makler- und Bauträgerverordnung (MaBV) ermöglicht es Instone, bei Wohneinheiten, die an Eigennutzer oder Privatanleger mit Vermietungsabsicht verkauft werden, Teilzahlungen in beträchtlicher Höhe je nach Baufortschritt vertraglich zu vereinbaren, was das Entwicklungsrisiko von Instone erheblich verringert. Darüber hinaus schränkt das geltende deutsche Recht die Möglichkeit der Käufer, Verträge über den Verkauf von Wohnimmobilien zu kündigen, auf Fälle ein, in denen zum Beispiel die Produktqualität nicht den vereinbarten Standards entspricht oder es zu einer erheblichen Verzögerung der Übergabe kommt.

Instone ist einer der wenigen reinen Wohnimmobilienentwickler in Deutschland, der über eine vollintegrierte landesweite Plattform verfügt, die die gesamte Wertschöpfungskette der Entwicklung abdeckt. Instones Geschäftstätigkeit umfasst die Identifizierung und den Erwerb von geeigneten Grundstücken, die Grundstückerschließung, Konzeptplanung, Bauleitung sowie Marketing und Verkauf. Instone hat seinen Hauptsitz in Essen und betreibt sein Geschäft außerdem durch acht Niederlassungen in Berlin, Köln, Frankfurt am Main, Hamburg, Leipzig, München, Nürnberg (Erlangen) und Stuttgart. Jede Niederlassung verfügt über eigene lokale Teams für Akquise, Planung, Bauleitung sowie Marketing und Vertrieb, während strategische Entscheidungen zusammen mit Instones Hauptsitz abgestimmt und gesteuert werden. Instone verfügt über ein starkes Risikomanagement und nutzt ausgeklügelte Berichts- und Planungsinstrumente, um die Entwicklungsrisiken zu minimieren.

Instone hat eine gute Erfolgsbilanz in der Akquise und Projektentwicklung. Seit 1991 hat Instone (einschließlich seiner Vorgängerunternehmen) Wohneinheiten mit mehr als einer Million Quadratmeter Wohnfläche entwickelt. Zwischen dem 1. Januar 2018 und dem 30. Juni 2020 genehmigte die Geschäftsführung von Instone den Erwerb von Grundstücken und Objekten für Wohnraumentwicklung mit einem im Zeitpunkt der Akquisition Erwarteten Umsatzvolumen in Höhe von ca. €2,8 Milliarden. In den Jahren 2018, 2019 und in dem zum 30. Juni 2020 endenden Sechsmonatszeitraum verkaufte Instone erfolgreich jeweils 1.033, 2.733 bzw. 456 Wohneinheiten mit einem entsprechenden Volumen an Kaufverträgen von jeweils €460,8 Millionen, €1.403,1 Millionen und €123,5 Millionen. Instone ist der Auffassung, dass der Erfolg des Unternehmens auf seinen regionalen Fokus, seine landesweite regionale Präsenz sowie die Expertise und das starke Netzwerk seiner über ganz Deutschland verteilten Experten zurückzuführen ist.

Instone ist der Auffassung, dass die folgenden Stärken die Entwicklung seines Geschäfts unterstützen:

- Instone profitiert von seinem Zugang zu Europas größter und stabilster Wirtschaft mit attraktiven Fundamentaldaten des Wohnungssektors.
- Instone verfügt über eine markführende landesweite Plattform mit einem attraktiven Projektportfolio, das sich auf die wichtigsten Metropolregionen und andere prosperierende mittelgroße Städte in Deutschland fokussiert.
- Instone profitiert von seiner tiefgreifenden und lokalen Expertise bei der Entwicklung von Wohnimmobilien.
- Instone verfügt über eine starke Erfolgsbilanz für profitables Wachstum.
- Der effiziente Finanzierungsmix von Instone ermöglicht ein attraktives Cash-Flow-Profil und hohe Kapitalrenditen.
- Instone hat ein sehr erfahrenes Management-Team mit einer nachgewiesenen Erfolgsbilanz bei der Wertgenerierung.

Um seine Wettbewerbsposition weiter auszubauen, beabsichtigt Instone:

- sich weiterhin auf die attraktivsten Metropolregionen und Ballungsräume in Deutschland zu konzentrieren;
- seine differenzierte Expertise entlang der gesamten Wertschöpfungskette der Projektentwicklung zu nutzen;
- durch Digitalisierung weitere Effizienzsteigerungen entlang der Wertschöpfungskette zu generieren;
- sein neues „valuehome“ Produkt einzuführen mit dem Ziel eine signifikante Veränderung des langfristigen Wachstums und höhere interne Renditen (IRRs) zu erreichen;
- signifikante, kurzfristige Möglichkeiten auf dem Grundstücksmarkt voll auszuschöpfen, um das zukünftige Wachstum zu beschleunigen und eine verbesserte, langfristige Rendite zu fördern; und
- eine Nachhaltigkeitsstrategie und ein Nachhaltigkeitsmanagement einzurichten.

**Hauptaktionäre** – 9,995 % FMR LLC (mittelbare Beteiligung über Fidelity Management & Research Company LLC); 6,96 % Janus Henderson Group plc (mittelbare Beteiligung, 4,99 % gehalten über Henderson Global Investors Limited gehalten); 6,10 % T. Rowe Price Group, Inc. (mittelbare Beteiligung über T. Rowe Price International Ltd.); 5,24 % Cohen & Steers, Inc. (mittelbare Beteiligung, 5,02 % gehalten über Cohen & Steers Capital Management, Inc.); 4,87 % The Capital Group Companies, Inc. (mittelbare Beteiligung, 4,16 % gehalten über Capital International, Inc.); 3,24 % DWS

Investment GmbH (mittelbare Beteiligung); 3,20 % Allianz SE (mittelbare Beteiligung, 3,04 % gehalten über Allianz Lebensversicherungs-Aktiengesellschaft); 3,07 % Amundi S.A. (mittelbare Beteiligung über Amundi Asset S.A.S.); 3,001 % Union Investment Privatfonds GmbH (unmittelbare Beteiligung).

**Vorstand** – Die Mitglieder des Vorstands der Gesellschaft (der „Vorstand“) sind Kruno Crepulja (Chief Executive Officer), Dr. Foruhar Madjlessi (Chief Financial Officer) und Andreas Gräf (Chief Operating Officer).

**Abschlussprüfer** – Der Wirtschaftsprüfer der Gesellschaft ist die Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Schwannstraße 6, 40476 Düsseldorf, Deutschland.

## B.2 – Welches sind die wesentlichen Finanzinformationen über die Emittentin?

Die in den nachfolgenden Tabellen enthaltenen Finanzinformationen wurden dem geprüften Konzernabschluss der Gesellschaft für das zum 31. Dezember 2019 endende Geschäftsjahr, dem ungeprüften verkürzten Konzernzwischenabschluss der Gesellschaft für den zum 30. Juni 2020 endenden Sechsmonatszeitraum sowie der internen Buchhaltung oder dem internen Berichtswesen der Gesellschaft entnommen oder daraus abgeleitet.

### Ausgewählte Informationen aus der Konzern Gewinn- und Verlustrechnung

	Für den zum 30. Juni endenden Sechsmonatszeitraum		Für das zum 31. Dezember endende Geschäftsjahr	
	2020	2019	2019	2018
	(ungeprüft) (in € Mio.)		(geprüft) (in € Mio.)	
Umsatzerlöse .....	168,9	171,0	509,5	360,8
Konzernergebnis vor Steuern (EBT) .....	17,7	23,3	63,2	29,6
Konzernergebnis nach Steuern (EAT).....	13,0	22,9	69,8	9,0

### Ausgewählte Informationen aus der Konzernbilanz

	Zum 30. Juni	Zum 31. Dezember	
	2020	2019	2018
	(ungeprüft) (in € Mio.)	(geprüft) (in € Mio.)	
Summe Aktiva .....	1.106,4	1.123,4	686,6
Eigenkapital .....	323,2	310,2	246,9
Den Aktionären zurechenbares Eigenkapital .....	322,3	309,2	241,7
Langfristige Schulden .....	293,4	490,2	218,4
Kurzfristige Schulden .....	489,9	323,0	221,3

### Ausgewählte Informationen aus der Konzern-Kapitalflussrechnung

	Zum und für den am 30. Juni endenden Sechsmonatszeitraum		Zum und für das am 31. Dezember endende/n Geschäftsjahr	
	2020	2019	2019	2018
	(ungeprüft) (in € Mio.)		(geprüft) (in € Mio.)	
Cashflow aus laufender Geschäftstätigkeit.....	(37,8)	1,5	(205,1)	(40,4)
Cashflow aus der Investitionstätigkeit.....	(11,5)	0,0	(32,4)	0,5
Cashflow aus der Finanzierungstätigkeit.....	(7,8)	12,5	266,2	54,3
Finanzmittelfonds am Ende der Periode.....	60,0	102,0	117,1	88,0

### Bereinigte Ertragslage (Segmentinformationen)<sup>(1)</sup>

	Für den zum 30. Juni endenden Sechsmonatszeitraum		Für das zum 31. Dezember endende Geschäftsjahr	
	2020	2019	2019	2018
	(ungeprüft) (in € Mio.)		(geprüft) (in € Mio.)	
Bereinigte Umsatzerlöse <sup>(2)</sup> .....	179,6	174,2	736,7	372,8
Bereinigtes Rohergebnis <sup>(3)</sup> .....	57,8	58,5	187,8	106,4
Bereinigte Rohergebnismarge (in %) <sup>(4)(5)</sup> .....	32,2	33,6	25,5	28,5
Bereinigtes EBIT <sup>(6)</sup> .....	28,2	31,9	128,9	49,6
Bereinigte EBIT-Marge (in %) <sup>(4)(7)</sup> .....	15,7	18,3	17,5	13,3

(1) Die Anpassungen beziehen sich auf

- Umgliederungsposten, um die Einzelpostenklassifizierung der indirekten Vertriebsaufwendungen und aktivierten Zinsen bei der Berechnung des bereinigten Rohergebnisses dahingehend zu ändern, dass alle externen Kosten, die für die Generierung von bereinigten Umsatzerlösen erforderlich sind, berücksichtigt werden;
- Kaufpreisallokationseffekte („PPA-Effekte“), um die Auswirkungen von Werterhöhungen der erworbenen Vermögenswerte, die sich aus früheren Akquisitionen ergeben, zu eliminieren;



- Share Deal-Effekte, um die Behandlung eines Verkaufs von Beteiligungen (Share Deal), bei welchem Entwicklungsprojekte durch den Verkauf der Beteiligung an der betreffenden Projektgesellschaft verkauft werden, mit der Bilanzierung für andere Projekte gemäß IFRS 15, die im Rahmen eines Verkaufs von Vermögensgegenständen (Asset Deal) verkauft werden, anzugleichen; sowie
  - Nicht wiederkehrende Positionen, um die Auswirkungen von ungewöhnlichen oder nicht wiederkehrenden Posten zu eliminieren.
- (2) Bereinigte Umsatzerlöse entsprechen den Umsatzerlösen bereinigt um PPA-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €0,3 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: minus €3,2 Mio.; 2019: minus €6,4 Mio.; 2018: minus €11,9 Mio.), und Share Deal-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €10,5 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: null; 2019: minus €220,8 Mio.; 2018: null).
- (3) Das bereinigte Rohergebnis entspricht den bereinigten Umsatzerlösen abzüglich des bereinigten Projektaufwands. Der Projektaufwand entspricht der Differenz von Materialaufwand und Bestandsveränderungen. Der bereinigte Projektaufwand entspricht dem Projektaufwand bereinigt um Umgliederungsposten (zum 30. Juni endender Sechsmonatszeitraum 2020: €4,2 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: €3,5 Mio.; 2019: €6,3 Mio.; 2018: €3,0 Mio.), PPA-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €0,3 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: €0,1 Mio.; 2019: minus €7,9 Mio.; 2018: null) und Share Deal-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: €10,1 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: null; 2019: €193,7 Mio.; 2018: null).
- (4) Ungeprüft.
- (5) Die bereinigte Rohergebnismarge entspricht dem bereinigten Rohergebnis geteilt durch die bereinigten Umsatzerlöse.
- (6) Das bereinigte EBIT für 2019 und 2018 entspricht dem bereinigten Rohergebnis abzüglich des bereinigten Plattformaufwands. Das bereinigte EBIT für den zum 30. Juni endenden Sechsmonatszeitraum 2020 sowie für den zum 30. Juni endenden Sechsmonatszeitraum 2019 entspricht dem bereinigten Rohergebnis abzüglich des bereinigten Plattformaufwands zuzüglich des Ergebnis aus at Equity bilanzierten Beteiligungen. Das bereinigte EBIT entspricht dem bereinigten Rohergebnis abzüglich des bereinigten Plattformaufwands. Der Plattformaufwand entspricht der Summe aus Personalaufwand, sonstigen betrieblichen Erträgen, sonstigen betrieblichen Aufwendungen und Abschreibungen. Der bereinigte Plattformaufwand entspricht dem Plattformaufwand bereinigt um Umgliederungsposten (d.h. die dem Projektaufwand zugeordneten indirekten Vertriebsaufwendungen (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €1,1 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: minus €1,3 Mio.; 2019: minus €3,1 Mio.; 2018: minus €1,9 Mio.) und andere Posten (zum 30. Juni endender Sechsmonatszeitraum 2020: null; zum 30. Juni endender Sechsmonatszeitraum 2019: minus €0,5 Mio.; 2019: null; 2018: minus €0,6 Mio.) und nicht wiederkehrende Positionen (zum 30. Juni endender Sechsmonatszeitraum 2020: null; zum 30. Juni endender Sechsmonatszeitraum 2019: null; 2019: minus €4,7 Mio.; 2018: null). Ergebnis aus at Equity bilanzierten Beteiligungen entspricht dem Ergebnis aus at Equity bilanzierten Beteiligungen wie in der Konzern Gewinn- und Verlustrechnung von Instone ausgewiesen (zum 30. Juni endender Sechsmonatszeitraum 2020: €0,3 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: minus €0,4 Mio.).
- (7) Die bereinigte EBIT-Marge entspricht dem bereinigten EBIT geteilt durch die bereinigten Umsatzerlöse.

#### Ausgewählte Wesentliche Kennzahlen (zusätzlich zur Bereinigten Ertragslage)

	Zum oder für den am 30. Juni endenden Sechsmonatszeitraum		Zum oder für den am 31. Dezember endenden Dreimonatszeitraum	
	2020	2019	2019	2018
	(ungeprüft) (in € Mio.)		(ungeprüft) (in € Mio.)	
Vermarktungsvolumen <sup>(1)</sup> .....	123,5	131,8	1.403,1	460,8
Neugenehmigungsvolumen <sup>(2)</sup> .....	186,9	270,6	1.284,2	1.298,0
Projektportfolio <sup>(3)</sup> .....	5.701,3	5.091,7	5.845,7	4.763,2
Bereinigtes EAT <sup>(4)</sup> .....	13,7	25,1	105,6	19,1
Cashflow aus laufender Geschäftstätigkeit ohne Neuinvestitionen <sup>(5)</sup> .....	12,5	57,4	123,7	34,6

- (1) Bezieht sich auf die Summe aller vertriebsbezogenen Transaktionen wie notariell beurkundete Immobilienkaufverträge, Einzelaufträge von Kunden sowie Mieteinnahmen während des betreffenden Berichtszeitraums.
- (2) Bezieht sich auf das monetäre Volumen neuer Grundstücke und Entwicklungsprojekte, für die in dem betreffenden Zeitraum interne Genehmigungen erteilt werden und der Grundstückszugriff gesichert ist (z.B. mittels Exklusivität, notariell beurkundeten Kaufverträgen).
- (3) Der Projektportfoliowert zum Berichtszeitpunkt ist das erwartete Gesamtvolumen der Umsatzerlöse (auch als Bruttoentwicklungswert bezeichnet) aus allen genehmigten Projekten, die das Projektportfolio bilden.
- (4) Das bereinigte EAT entspricht dem EAT (Konzernergebnis nach Steuern) bereinigt um PPA-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €0,4 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: minus €2,1 Mio.; 2019: minus €9,8 Mio.; 2018: minus €10,0 Mio.), Share Deal-Effekte (zum 30. Juni endender Sechsmonatszeitraum 2020: minus €0,3 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: null; 2019: minus €22,8 Mio.; 2018: null) und nicht wiederkehrende Positionen (zum 30. Juni endender Sechsmonatszeitraum 2020: null; zum 30. Juni endender Sechsmonatszeitraum 2019: null; 2019: minus €3,2 Mio.; 2018: null).
- (5) Der Cashflow aus laufender Geschäftstätigkeit ohne Neuinvestitionen entspricht dem Cashflow aus laufender Geschäftstätigkeit abzüglich des Zahlungsmittelabflusses aufgrund von Auszahlungen für Grundstücke und Grunderwerbsteuer (ohne andere Nebenkosten) (zum 30. Juni endender Sechsmonatszeitraum 2020: €50,3 Mio.; zum 30. Juni endender Sechsmonatszeitraum 2019: €56,0 Mio.; 2019: €328,8 Mio.; 2018: €75,0 Mio.).

	Zum 30. Juni	Zum 31. Dezember	
	2020	2019	2018
	(ungeprüft) (in € Mio., soweit nicht anders angegeben)		
Nettofinanzschulden <sup>(1)</sup> .....	540,0	478,4	177,5
Verschuldungsquote bereinigt (als Vielfaches) <sup>(2)</sup> .....	4,2	3,6	3,5

- (1) Die Nettofinanzschulden entsprechen der Summe der langfristigen Finanzverbindlichkeiten (zum 30. Juni 2020: €253,6 Mio.; 2019: €451,6 Mio.; 2018: €177,7 Mio.) und kurzfristigen Finanzverbindlichkeiten (zum 30. Juni 2020: €346,4 Mio.; 2019: €143,9 Mio.; 2018: €87,8 Mio.) abzüglich flüssiger Mittel (zum 30. Juni 2020: €60,0 Mio.; 2019: €117,1 Mio.; 2018: €88,0 Mio.).
- (2) Die Verschuldungsquote bereinigt ist das Verhältnis der Nettofinanzschulden zur Summe von (i) bereinigtem EBIT für die letzten zwölf Monate (30. Juni 2020: €125,9 Mio.; 2019: €128,9 Mio.; 2018: €49,6 Mio.) und (ii) Abschreibungen für den zum angegebenen Datum endenden Zwölfmonatszeitraum (30. Juni 2020: €4,1 Mio.; 2019: €4,1 Mio.; 2018: €0,6 Mio.). Wie oben angegeben, entspricht das bereinigte EBIT für den Zwölfmonatszeitraum bis zum 30. Juni 2020 dem bereinigten Rohergebnis abzüglich des bereinigten Plattformaufwands zuzüglich des Ergebnis aus at Equity bilanzierten Beteiligungen.

### **B.3 – Welches sind die zentralen Risiken, die für die Emittentin spezifisch sind?**

- Instone könnte von den Entwicklungen auf dem deutschen Immobilienmarkt, insbesondere in den wichtigen deutschen Metropolregionen, negativ beeinflusst werden.
- Die Auswirkungen der Coronavirus-Pandemie könnten erhebliche negative Auswirkungen auf den deutschen Wohnimmobilienmarkt haben und dadurch Instone und andere Wohnimmobilienentwickler entlang der Wertschöpfungskette betreffen.
- Instone ist möglicherweise nicht in der Lage, Projektentwicklungen innerhalb des ursprünglich vorgesehenen Budgets und Zeitrahmens zu realisieren, in welchem Fall Instone bei solchen Projekten einen Verlust erleiden könnte.
- Instone ist möglicherweise nicht in der Lage, das erwartete Verkaufsvolumen und die Einnahmen seiner Projekte richtig einzuschätzen und vollständig zu realisieren, in welchem Fall Instone möglicherweise mit solchen Projekten keinen Gewinn erzielt.
- Instone ist möglicherweise nicht in der Lage, geeignete Entwicklungschancen zu identifizieren oder solche Chancen zu attraktiven Bedingungen zu erwerben, in welchem Fall seine Fähigkeit zu wachsen erheblich eingeschränkt sein könnte.
- Instone ist möglicherweise nicht in der Lage, alle Risiken, die mit erworbenen Entwicklungschancen verbunden sind, zu identifizieren und ordnungsgemäß zu adressieren oder Regressansprüche geltend zu machen, was dazu führen könnte, dass Instone Schwierigkeiten bei der Durchführung der geplanten Projekte hat.
- Die Geschäftstätigkeit von Instone könnte negativ beeinflusst werden, wenn es nicht oder nur mit erheblichen Verzögerungen gelingt, Flächennutzungs- oder Bebauungspläne und Baugenehmigungen zu erwirken oder wenn diese später widerrufen oder angefochten werden.
- Instone ist möglicherweise nicht in der Lage eine ausreichende Finanzierung zu akzeptablen Bedingungen oder überhaupt zu erhalten bzw. aufrechtzuerhalten.
- Instone ist bei der Entwicklung und dem Bau seiner Immobilien von Lieferanten und Vertragspartnern abhängig und ist möglicherweise nicht in der Lage, qualifizierte und zuverlässige Lieferanten und Auftragnehmer zu beschäftigen, und diese kommen möglicherweise ihren Verpflichtungen nicht ordnungsgemäß nach.
- Die Nachfrage nach Instones Immobilien hängt von den Käuferpräferenzen im Hinblick auf Art und Standort der Immobilien ab und davon, inwieweit die Produktentwicklungen als attraktiv und qualitativ hochwertig empfunden werden.
- Instone ist möglicherweise nicht in der Lage, sein neues Produkt „valuehome“ außerhalb seiner bestehenden Märkte erfolgreich zu implementieren und zu vermarkten, und die erwarteten Kosten- und Zeiteinsparungen werden sich möglicherweise nie realisieren.
- Instone könnte durch Änderungen des allgemeinen steuerlichen Umfelds in Deutschland negativ beeinflusst werden, da diese Änderungen zu einer Erhöhung der Steuerlast von Instone führen könnten.

## **C. – Basisinformationen über die Wertpapiere**

### **C.1 – Welches sind die wichtigsten Merkmale der Wertpapiere?**

Dieser Prospekt bezieht sich auf das Angebot von 9.863.556 neuen, auf den Inhaber lautenden Stückaktien, jeweils mit einem anteiligen Betrag des Grundkapitals von €1,00 und mit voller Dividendenberechtigung ab dem 1. Januar 2020 (die „**Angebotsaktien**“). Die Angebotsaktien stammen aus einer vom Vorstand am 26. August 2020 beschlossenen und vom Aufsichtsrat der Gesellschaft (der „**Aufsichtsrat**“) am selben Tag genehmigten Kapitalerhöhung gegen Bareinlagen und mit mittelbarem Bezugsrecht, durch welche das eingetragene Grundkapital der Gesellschaft von €36.988.336,00 auf €46.988.336,00 durch Ausgabe von 10.000.000 neuen, auf den Inhaber lautenden Stückaktien, jeweils mit einem anteiligen Betrag des Grundkapitals von €1,00 und mit voller Dividendenberechtigung ab dem 1. Januar 2020 (die „**Kapitalerhöhung**“), durch Ausnutzung des von der Hauptversammlung am 29. Juni 2018 beschlossenen genehmigten Kapitals, erhöht wird. Das Bezugsrecht der Aktionäre wurde hinsichtlich einer Aktienspitze von 136.444 neuen, auf den Inhaber lautenden Stückaktien, die aus der Kapitalerhöhung stammen, ausgeschlossen (die Aktienspitze zusammen mit den Angebotsaktien, die „**Neuen Aktien**“).

**Anzahl und Art der Aktien** – Zum Datum dieses Prospekts beträgt das Stammkapital der Gesellschaft 36.988.336 Aktien. Alle Aktien der Gesellschaft, einschließlich der Neuen Aktien, sind auf den Inhaber lautende Stückaktien mit einem anteiligen Betrag des Grundkapitals von je €1,00. Alle bestehenden Aktien der Gesellschaft sind voll eingezahlt.

**ISIN und Währung** – Die ISIN der Aktien, einschließlich der Neuen Aktien, lautet DE000A2NBX80; Wertpapierkennnummer („WKN“): A2NBX8; Ticker Symbol: INS. Die Neuen Aktien sind in Euro denominated, Die Bezugsrechte auf die Angebotsaktien haben die ISIN DE000A289WQ9 und WKN A289WQ.

**Mit den Aktien verbundene Rechte, relativer Nachrang und Übertragbarkeit** – Jede Aktie, einschließlich der Neuen Aktien, gewährt eine Stimme in der Hauptversammlung der Gesellschaft. Es gibt keine Stimmrechtsbeschränkungen. Alle Neuen Aktien sind ab dem 1. Januar 2020 voll dividendenberechtigt. Die Neuen Aktien sind, zusammen mit den bestehenden Aktien der Gesellschaft, im Falle einer Insolvenz der Gesellschaft gegenüber allen anderen Wertpapieren und Forderungen nachrangig. Alle Aktien, einschließlich der Neuen Aktien, sind gemäß den gesetzlichen Bestimmungen für Inhaberaktien frei übertragbar. Die Neuen Aktien berechtigen zu einem Anspruch auf einen Anteil am Liquidationserlös oder an einem Insolvenzüberschuss im Verhältnis zu ihrem nominellen Anteil am Grundkapital der Gesellschaft.

**Dividendenpolitik** – Der Vorstand beabsichtigt, abhängig von Marktkonditionen und der finanziellen Lage der Gesellschaft zum relevanten Zeitpunkt, der Hauptversammlung erstmals im Jahr 2021 die Dividendenausschüttung in Höhe von ungefähr 30 % seines bereinigten EAT (Konzernergebnis nach Steuern) für das Geschäftsjahr 2020 vorzuschlagen.

## **C.2 – Wo werden die Wertpapiere gehandelt?**

Die Gesellschaft wird die Zulassung der Neuen Aktien zum Handel am regulierten Markt der Frankfurter Wertpapierbörse („FWB“) und zugleich zu dessen Teilbereich mit zusätzlichen Zulassungsfolgenpflichten (*Prime Standard*) beantragen.

## **C.3 – Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?**

- Der Marktpreis und das Handelsvolumen der Aktien der Gesellschaft könnten erheblich schwanken und der Bezugspreis könnte den Marktpreis der Aktien der Gesellschaft übersteigen.
- Angesichts der aktuellen Marktunsicherheit entwickelt sich für die Bezugsrechte möglicherweise kein aktiver Handelsmarkt. Falls sich ein solcher Handel entwickelt, unterliegen die Bezugsrechte eventuell größeren Kursschwankungen als die Aktien der Gesellschaft.
- Die Gesellschaft hat in der Vergangenheit keine Dividenden gezahlt, ihre Fähigkeit, Dividenden zu zahlen, hängt von einer Reihe von Faktoren ab, und ihre Dividendenpolitik kann sich ändern.

## **D. – Basisinformationen über das Angebot der Wertpapiere und die Zulassung zum Handel**

### **D.1 – Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?**

**Angebotskonditionen** ..... Die aus der Kapitalerhöhung stammenden Angebotsaktien werden den Aktionären der Gesellschaft im Verhältnis von 15:4 durch mittelbare Bezugsrechte zum Bezug angeboten (15 bestehende Aktien berechtigen den Inhaber zum Bezug von 4 Angebotsaktien zum Bezugspreis (wie unten definiert)) (das „**Bezugsangebot**“). Um ein glattes Bezugsverhältnis herzustellen, hat ein Aktionär auf ein Bezugsrecht aus einer bestehenden Aktie gegenüber der Gesellschaft verzichtet. Hinsichtlich einer aus der Kapitalerhöhung resultierenden Aktienspitze von 136.444 Aktien ist das Bezugsrecht der Aktionäre ausgeschlossen. Die Durchführung der Kapitalerhöhung wird voraussichtlich am oder um den 15. September 2020 in das Handelsregister des Amtsgerichts Essen eingetragen werden.

**Umfang des Angebots** ..... Das Bezugsangebot besteht aus (i) einem öffentlichen Angebot in Deutschland, (ii) Privatplatzierungen in den Vereinigten Staaten von Amerika (die „**Vereinigten Staaten**“) an qualifizierte institutionelle Anleger („**QIBs**“) in Übereinstimmung mit Rule 144A nach dem United States Securities Act von 1933 in der jeweils gültigen Fassung (der „**Securities Act**“) und (iii) Privatplatzierungen an berechnete Anleger außerhalb der Vereinigten Staaten im Rahmen von Offshore-Transaktionen im Sinne von und unter Berufung auf Regulation S des Securities Act. Die Aktienspitze, für die das Bezugsrecht der Aktionäre ausgeschlossen ist, wird qualifizierten Investoren im Wege von Privatplatzierungen in ausgewählten Jurisdiktionen zu einem Preis angeboten, der nicht unter dem Bezugspreis (wie unten definiert) liegt. Diejenigen Angebotsaktien, die nicht im Rahmen des Bezugsangebots gezeichnet werden sowie nicht platzierte Aktienspitzen (zusammen die „**Restaktien**“), werden von den Konsortialbanken im Rahmen von Privatplatzierungen berechtigten Investoren in ausgewählten Jurisdiktionen zu einem Preis zum Kauf angeboten, der nicht unter dem

Bezugspreis (wie unten definiert) liegt (die „**Restaktienplatzierung**“, zusammen mit der Platzierung der Aktienspitze und dem Bezugsangebot, das „**Angebot**“). In den Vereinigten Staaten werden die Restaktien nur im Rahmen der Restaktienplatzierung an QIBs in Rahmen einer Transaktion angeboten, die den Anforderungen der Rule 144A des Securities Act entspricht. Außerhalb der Vereinigten Staaten werden die Restaktien nur an berechnigte Anleger in Offshore-Transaktionen in Übereinstimmung mit Regulation S des Securities Act angeboten

- Angebotszeitraum**..... 1. September 2020 bis 14. September 2020 (die „**Bezugsfrist**“).
- Bezugsrechtshandel** ..... Im Zusammenhang mit dem Bezugsangebot werden die Bezugsrechte (ISIN DE000A289WQ9/WKN A289WQ) für die Angebotsaktien und Bruchteile von Bezugsrechten in der Zeit vom 1. September 2020 bis einschließlich 9. September 2020 im regulierten Markt (Xetra und Xetra Frankfurt Specialist) der FWB gehandelt. Weder die Gesellschaft noch die Bezugsstelle werden die Zulassung der Bezugsrechte zum Handel an einer anderen Börse beantragen. Der Marktpreis der Bezugsrechte hängt unter anderem von der Entwicklung des Kurses der Aktien der Gesellschaft ab, kann aber erheblich davon abweichen. Für nicht ausgeübte Bezugsrechte wird kein Ausgleich gezahlt. Mit Ablauf der Bezugsfrist verfallen die nicht ausgeübten Bezugsrechte und verlieren ihren Wert. Der Erwerb von 15 Bezugsrechten ermöglicht die Ausübung der Bezugsrechte für den Erwerb von 4 Angebotsaktien, d.h. 4 Angebotsaktien können für 15 Bezugsrechte erworben werden.
- Angebotspreis** ..... Der Bezugspreis pro Neuer Aktie wird €18,20 betragen (der „**Bezugspreis**“).
- Zuteilung** ..... Die Angebotsaktien werden den Aktionären der Gesellschaft im Wege eines mittelbaren Bezugsrechts angeboten. Die Restaktien werden qualifizierten Anlegern im Wege von Restaktienplatzierungen in bestimmten Rechtsordnungen angeboten. Die vom Bezugsrecht der Aktionäre ausgeschlossene Aktienspitze wird qualifizierten Anlegern im Wege von Privatplatzierungen in bestimmten Jurisdiktionen angeboten. Die Zuteilung der Neuen Aktien an institutionelle und qualifizierte Anleger liegt im Ermessen der Gesellschaft.
- Verwässerung** ..... Das Recht der Aktionäre, die Angebotsaktien aus der Kapitalerhöhung zu beziehen, stellt sicher, dass jeder Aktionär, der seine Bezugsrechte ausübt, auch nach der Kapitalerhöhung seinen ursprünglichen, nahezu unveränderten prozentualen Anteil am Grundkapital und an den Stimmrechten der Gesellschaft behält. In dem Umfang, in dem die Aktionäre ihre Bezugsrechte nicht ausüben, und unter der Annahme, dass alle Neuen Aktien ausgegeben werden, wird die Beteiligung jedes Aktionärs am Grundkapital und an den Stimmrechten der Gesellschaft um etwa 21,3% verwässert.
- Zeichnung durch bestimmte Aktionäre** ..... Kruno Crepulja (CEO) und Andreas Gräf (COO), beide Mitglieder des Vorstands, haben der Gesellschaft und den Joint Global Coordinators mitgeteilt, dass sie beabsichtigen, einen Teil ihrer Bezugsrechte auf Angebotsaktien zu veräußern und die jeweiligen Erlöse für die Ausübung des verbleibenden Teils ihrer Bezugsrechte auf Angebotsaktien zu verwenden (*opération blanche*). Darüber hinaus hat Dr. Foruhar Madjlessi (CFO), Mitglied des Vorstands, der Gesellschaft und den Joint Global Coordinators mitgeteilt, dass er beabsichtigt, seine Bezugsrechte für die Angebotsaktien vollständig aus frei verfügbaren Mitteln auszuüben.
- Gesamtkosten** ..... Die Gesamtkosten der Gesellschaft im Zusammenhang mit dem Angebot werden sich auf ungefähr €7,8 Mio. belaufen.
- Kosten, die Anlegern in Rechnung gestellt werden** ..... Ausschließlich marktübliche Transaktions- und Abwicklungskosten, die durch die Broker der Anleger in Rechnung gestellt werden.

**D.2 – Wer ist der Anbieter und/oder die die Zulassung zum Handel beantragende Person?**

- Anbieter** ..... Instone Real Estate Group AG, eine Aktiengesellschaft, die nach deutschem Recht gegründet wurde, ihren eingetragenen Sitz in Deutschland hat und nach deutschem Recht tätig ist.
- Zulassung zum Handel** ..... Die Gesellschaft geht davon aus, dass sie zusammen mit Deutsche Bank die Zulassung zum Handel beantragen wird.

### D.3 – Weshalb wird dieser Prospekt erstellt?

<b>Gründe für das Angebot und die Börsennotierung .....</b>	Dieser Prospekt wurde für das öffentliche Angebot der Angebotsaktien in Deutschland und deren Notierung im regulierten Markt mit gleichzeitiger Zulassung zu dessen Teilbereich mit weiteren Zulassungsfolgepflichten ( <i>Prime Standard</i> ) der FWB erstellt.
<b>Zweckbestimmung der Erlöse.....</b>	Die Gesellschaft erwartet eine signifikante Veränderung im langfristigen Wachstum, basierend auf (i) der Einführung ihres „valuehome“ Produktes mit großem mittel- bis langfristigen Wachstumspotenzial und (ii) der Gelegenheit, die Volumina für ihr traditionelles Produkt vor dem Hintergrund der COVID-19 Pandemie zu steigern. Die Gesellschaft beabsichtigt, den Großteil der Nettoerlöse aus diesem Angebot für zusätzliche Grundstücksinvestitionen in den nächsten sechs bis 18 Monaten mit einem Erwarteten Umsatzvolumen von mindestens €1,5 Mrd. zu verwenden, um das mittel- bis langfristig bereinigte Umsatzziel auf €1,6-1,7 Mrd. zu erhöhen. Die verbleibenden Nettoerlöse werden für allgemeine Unternehmenszwecke verwendet.
<b>Nettoerlöse.....</b>	Unter der Annahme des Verkaufs aller Neuen Aktien zum Bezugspreis rechnet die Gesellschaft mit einem Nettoerlös aus dem Angebot von etwa €174,2 Mio.
<b>Zeichnungsvereinbarung...</b>	Die Angebotsaktien werden den bestehenden Aktionären durch mittelbare Bezugsrechte gemäß eines am 26. August 2020 zwischen der Gesellschaft und den Konsortialbanken abgeschlossenen Übernahmevertrags zum Bezug angeboten. Die Restaktien werden qualifizierten Anlegern im Wege von Restaktienplatzierungen in bestimmten Rechtsordnungen angeboten. Die vom Bezugsrecht der Aktionäre ausgeschlossene Aktienspitze wird qualifizierten Anlegern im Wege von Privatplatzierungen in bestimmten Rechtsordnungen angeboten.
<b>Wesentliche Interessenkonflikte.....</b>	In Bezug auf das Angebot oder die Börsennotierung der Neuen Aktien bestehen keine wesentlichen Interessenkonflikte.

## 1. RISK FACTORS

*Prospective investors should carefully consider the risk factors set out below, together with the other information contained in this prospectus (the “**Prospectus**”), before making an investment decision with respect to acquiring subscription rights and investing in shares in Instone Real Estate Group AG, Essen, Germany (hereinafter, the “**Company**” and, together with its fully consolidated subsidiaries, the “**Group**” or “**Instone**”).*

*According to Article 16 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, the risk factors featured in a prospectus shall be limited to risks which are specific to the issuer and/or to the securities and which are material for taking an informed investment decision. Therefore, the following risks are only those risks that are specific to Instone and to the Company’s shares. In addition, Instone faces various risks generally faced by any company operating in the markets in which Instone operates with a platform similar to its platform. Furthermore, any investment in the Company’s shares bears general risks relevant to investments in this type of security. The market price of the Company’s shares could decline if any of these risks were to materialize, in which case investors could lose some or all of their investment.*

*The following risk factors are categorized into subcategories based on their respective nature. Within each such subcategory, the order of risk factors is based on the Company’s current assessment with respect to the probability of occurrence and expected magnitude of impact of such risk factors, with at least the two most material risk factors (i.e., those the Company believes are most likely to have a material adverse impact) mentioned at the beginning of each subcategory. Irrespective of this order, however, any of the risks described below, individually or together with other circumstances, could have a material adverse effect on the business, financial condition, cash flows, results of operations and prospects of the Group as well as the price of the Company’s shares.*

### **1.1 Risks relating to the Industry in which Instone operates**

#### **1.1.1 Instone may be adversely affected by developments in the German real estate market, particularly in Germany’s key metropolitan regions.**

As a German residential real estate developer, Instone focuses on the development of modern, urban, multifamily residential properties and the redevelopment of listed buildings for residential use in Germany’s key metropolitan regions. As of June 30, 2020, approximately 88% of Instone’s portfolio (by expected sales volume for fully developed projects) was located in Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart, with the remaining 12% located in other prospering medium-sized cities. Accordingly, Instone’s business is highly dependent on the development of the German residential real estate market, in particular in Germany’s key metropolitan regions.

The residential real estate market in Germany has been supported in recent years by the strength of the overall German economy and the favorable interest rate environment. It also benefits from demographic and socioeconomic trends that have contributed to demand for residential real estate in Instone’s key metropolitan regions. Housing prices in these key metropolitan regions have increased significantly as a result of population growth and a general trend towards urbanization. Market observers have been warning for several years about the increasing risk of overvaluations and a full-blown housing bubble in the German residential real estate market, in particular due to the continued low interest rates and the willingness of banks to provide highly leveraged financing to real estate purchasers (*Source: Bundesbank; DB Research*).

While the Company believes that the medium- to long-term structural trends will continue to support the German residential real estate market, this market could come under significant pressure in the short term as a result of recent developments. Due to the ongoing effects of tariff disputes and other geopolitical developments, Germany only narrowly avoided recession at the end of 2019. Prospects for Germany’s economy further deteriorated significantly as a result of the pandemic spread of a novel strain of the coronavirus and the infectious disease caused by it (“**COVID-19**”) and the measures taken by various countries, including Germany, to combat its spread. These measures have resulted in a substantial slowdown in economic activity. In light of the ongoing COVID-19 pandemic, the European Commission recently warned that there is a very real risk of a severe and deep recession in the European markets, including Germany (*Source: EEF*). In case of Germany entering recession, demand for residential real estate could decline significantly with housing prices stagnating or even declining in the short term.

In addition to short-term risks, negative demographic and socioeconomic developments could have a significant impact on demand for real estate in the medium- to long-term, influencing the type, functionality and locations that are likely to be popular. Leaving immigration aside, Germany's population as a whole is shrinking and ageing (*Source: Destatis*). Lower immigration levels and an ageing society that is less of a driver for urbanization could lead to a decline of the population in Germany's key metropolitan regions and consequently adversely affect demand for residential real estate in these regions. In addition, as a result of the COVID-19 pandemic people may choose increasingly to work from home and living in less congested areas of the country may gain in popularity as a response to remote working.

In addition, political initiatives or developments such as the introduction of rent caps (*Mietobergrenze*), limitations on rent increases (*Mietpreisbremse*), increased quotas for subsidized housing, higher government subsidies for rural areas at the expense of metropolitan regions, or a reduction of government-backed financing programs could also reduce demand for residential real estate in Germany's key metropolitan regions.

Any of the above developments could result in a deterioration of the currently favorable economic environment for residential real estate in Germany, which could have a significant impact on demand for residential real estate, particularly in the key metropolitan regions and other prospering medium-sized cities in which Instone operates.

**1.1.2 *The effects of the coronavirus pandemic could have a significant adverse impact on the German residential real estate market, thereby affecting Instone and other residential real estate developers along the value chain.***

In December 2019, a novel strain of coronavirus and the infectious diseases caused by it (COVID-19) was identified in Wuhan, China. COVID-19 has since spread to over 180 countries, including Germany and other European countries. Within Germany, COVID-19 has spread to every state where Instone owns and develops properties and has its offices and principal operations. On March 11, 2020 the World Health Organization declared COVID-19 a pandemic.

The rapid spread of COVID-19 has adversely impacted global economic activity and contributed to significant volatility and negative pressure in financial markets. Many countries, including Germany, have taken radical measures including travel restrictions, quarantines, shelter-in-place orders, and similar government orders or restrictions, in an attempt to control the spread and mitigate the impact of the disease. Such orders and restrictions have resulted in, among others, business closures, work stoppages, slowdowns and delays, work-from-home policies, and cancellation or postponement of events, leading to a substantial slowdown in economic activity.

While the impact of the COVID-19 pandemic on the German project development market has been limited to date, Instone experienced a noticeable decline in demand for residential housing in the initial months of the crisis. As a result thereof, certain real estate developers have withdrawn or revised their forecasts for the current financial year. The medium- to long-term impact of COVID-19 on the German residential real estate market is, however, still difficult to predict. Instone believes that the further spread of COVID-19 (including a second wave of infection) could result in:

- further decline in demand from owner-occupiers, retail buy-to-let and institutional investors, particularly if banks reduce their mortgage lending activities as a result of an increase in the rate of mortgage or other credit defaults;
- delays in obtaining zoning plans (*Flächennutzungspläne*), land-use plans (*Bebauungspläne*), or building permits (*Baugenehmigungen*) as a result of government agencies operating at minimum capacity;
- disruptions or delays in the operations of contractors or suppliers, or disruptions in their supply chains;
- disruptions, delays or other impairments as regards internal business processes, in particular due to working from home schemes being implemented at Instone and potential increased risks in terms of IT exposure and data security;
- temporary closures of construction sites, whether due to restrictions imposed by municipal, state or federal authorities, or a lack of skilled personnel;
- penalty payments due to delayed completion and handover of units that have been sold;

- potential consequences of COVID-19 driven legislation, such as the moratorium for retail investors under certain contracts pursuant to Article 240 of the Introductory Act to the German Civil Code (*Einführungsgesetz BGB*); and
- reduced access to debt and equity capital, limiting the ability of project developers to finance new land acquisitions and/or project developments and potentially leading to a liquidity squeeze.

The full extent of the COVID-19 impact on the German project development market is highly uncertain and subject to change, and will depend on a number of factors, including the scope and duration of the pandemic (including potential second or third waves of infection), actions taken by governmental authorities in response to the ongoing or re-emerging pandemic, the impact of the pandemic on the businesses of third-party suppliers and contractors, the extent and duration of any economic recessionary conditions and the impact on the financial markets. Any further spread of the COVID-19 pandemic or any second wave of infection, or even the threat or perception that this could occur, or any protracted duration of decreased economic activity, could have a material adverse impact on Instone along the entire value chain.

### ***1.1.3 Instone is exposed to significant competition, which may intensify in the future.***

The German real estate market is competitive. Instone faces competition all along the development value chain from nationwide real estate developers, such as Bonava Deutschland GmbH, Consus Real Estate AG or BPD Immobilienentwicklung GmbH, which are active in most of the regions and cities focused on by Instone, and from regional players with specialized knowledge of these markets. For example, Instone competes with other residential real estate developers for the acquisition of attractive development plots, which are typically limited in number and in high demand. Moreover, recruiting and retaining skilled personnel which is essential to successfully operate and further expand Instone's business, is challenging due to a shortage in qualified personnel in the real estate development sector, resulting in attractive competing offers by other market participants. The current growth of the real estate development market is also leading to competition for reliable and experienced third-party suppliers, in particular concept planners, architects, building contractors, and real estate agents. Finally, Instone faces competition in the sale of residential units, which may affect its pricing power and access to potential purchasers.

Some of Instone's competitors may have comparatively greater name recognition, a broader client base, a larger or more diversified project portfolio, substantially greater financial, technical and marketing resources or better access to land acquisitions. These competitors might increase their market presence through greater use of advertising, more aggressive pricing, or by making more attractive offers to current and future employees or to companies that do business with Instone. Furthermore, there are generally no significant barriers to invest in residential real estate developments other than the availability of capital, real estate expertise and access to land acquisition offers. These are ideal conditions for the entry of new market participants, including residential real estate companies currently, primarily, or only focused on letting residential real estate, which could result in competition increasing in the future.

The competition to which Instone is currently exposed and the potential increase of competition in the German residential real estate development market may lead to a substantial increase of development costs (including, among others, higher land acquisition and construction costs) or force Instone to lower its sales prices, any of which could result in lower margins and/or loss of market share thus jeopardizing Instone's growth strategy, cashflows and results of operations.

## **1.2 Risks related to the Business Activities of Instone**

### ***1.2.1 Instone may not be able to realize project developments within the originally envisaged budget and timeline, in which case it could incur a loss on such projects.***

As a residential real estate developer covering the entire value chain, Instone faces risks at all stages of the development process and many of these may only materialize after Instone has already invested significant resources. The entire development process may take as long as six years from identifying new development opportunities through the completion of construction (potentially in construction phases (*Bauabschnitte*)) and delivery to purchasers of completed units. As a result, there is a significant risk that conditions between start and finish of this process change significantly (*e.g.*, in case of adverse developments affecting the attractiveness of the respective micro-location). Due to the inherent uncertainties of the development process, there is no guarantee that Instone's project developments will be profitable, in particular if it fails to complete the construction process within the scheduled timeframe and budget.



For example, for its traditional product, Instone focuses primarily on land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition, as it believes that such plots or properties typically offer a higher potential for value creation and less competition than land with full zoning and planning permission. Negotiations with multiple stakeholders, in particular local authorities, are highly unpredictable and may result in significant delays and cost increases. Instone could also ultimately fail to obtain zoning plans (*Flächennutzungspläne*), land-use plans (*Bebauungspläne*), or building permits (*Baugenehmigungen*) suitable for its residential development projects, in which case it may be forced to sell acquired land plots or properties at a loss. Furthermore, while Instone typically does not initiate construction until it has sold residential units representing at least 30% of the expected sales volume of a project, new development projects nevertheless proceed largely at Instone's risk. Given that, generally, 70% of the development project remains unsold when construction begins, there can be no assurance that Instone will be able to successfully find purchasers for the rest of the development project. On average, Instone must sell approximately 80% of a new project development (assuming development is approximately 80% complete) to enable it to cover its project-related outstanding debt.

Any individual factor, or combination of factors, preventing Instone from successfully managing its development projects, including unanticipated delays, could adversely affect Instone's ability to recoup its investment and result in substantial losses. Such delays may also result in increased construction costs, which Instone may not be able to pass on to purchasers in the form of higher purchase prices, particularly with regard to units that have already been sold. As a result, Instone may not be able to fully or partially sell its development properties at all or on profitable terms. In addition, purchasers may have the right to withdraw from their purchase agreements if Instone fails to deliver its properties on time and free of material defects. In the event purchasers are entitled to withdraw from their purchase contracts, Instone would be required to reimburse such purchasers' pre-payments and could face claims for damages.

As of June 30, 2020, Instone had entered into sales contracts with customers accounting for 35.4% of its aggregate expected sales volume of approximately €5.7 billion and with regard to 86.6% of its projects that are in the pre-construction or construction development phase (measured by expected sales volume). Although Instone has strong risk-management processes, there can be no assurance that Instone will be able to complete construction and delivery as scheduled or that it will be able to sell the remaining residential units at all or on profitable terms, which could result in lower revenues, higher costs or delayed cashflows from operations.

***1.2.2 Instone may not be able to correctly estimate and fully realize the expected sales volume and revenues of its projects, in which case Instone may not realize a profit on such projects.***

Instone's project portfolio comprises projects for which land plots or properties have been acquired or approved for acquisition by Instone. As of June 30, 2020, Instone's project portfolio comprised 53 development projects with an aggregate expected sales volume for fully developed projects of approximately €5.7 billion. Estimating the sales volume and revenues of fully developed (re)development projects is inherently subjective due to the individual nature of each project. In addition, factors such as changes in regulatory requirements and applicable laws (including in relation to building and environmental regulations, taxation and planning), transport and infrastructure policies, political conditions, the condition of financial markets, the financial condition of purchasers, potentially adverse tax consequences and interest and inflation rate fluctuations greatly contribute to the uncertainty of such estimates. Furthermore, for land plots or properties that were approved for acquisition by Instone, there is no guarantee that the transaction will actually materialize as sellers could rescind from or refuse to enter into definitive agreements or request additional commitments making the acquisition unattractive.

Instone's expected sales volumes and revenues for its fully developed project portfolio are estimates only and are ascertained on the basis of assumptions (including steady housing prices in general and items such as demand for units and unit sizes, average sales prices, an assumption of construction cost increases of 3.5% and assumed number of units within (re)developments), which may prove to be inaccurate. Any failure to sell as many residential units as anticipated, or for at least the sales prices expected, could result in Instone not achieving its expected sales volume for fully developed projects. There can be no assurance that Instone's valuations of land plots or properties or its expected sales volumes or revenues for fully developed projects will reflect the actual sales volumes and revenues achieved, in which case Instone may not realize a profit on such projects, adversely affecting profit margins and results of operations.

**1.2.3 *Instone may not be able to identify suitable development opportunities and to acquire these opportunities on attractive terms, in which case its ability to grow could be significantly constrained.***

Instone's medium- and long-term growth depends on its ability to successfully identify and acquire land plots or listed buildings for residential property development that are located in Instone's key markets, meet its target criteria and can be acquired at a reasonable price. Instone's strategy is to focus on the acquisition of land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition as it believes that such plots or properties typically offer a higher potential for value creation and less competition than land with full zoning and planning permission. This includes, among other matters, old industrial or commercial properties, for the purpose of (re)developing such properties.

Instone has heavily relied on its ability to acquire attractive land plots and properties via its sourcing network, in particular through the contacts of its branches. There can, however, be no assurance that Instone's sourcing network will be able to continue to identify sufficient attractive acquisition opportunities or that Instone will be able to maintain its sourcing network in the future. Furthermore, Instone's ability to acquire land plots or properties without zoning or planning permission for residential development purposes may be adversely affected by the willingness of sellers to sell such land plots or properties at attractive prices, the availability of acquisition financing, regulatory requirements including those in relation to zoning, housing density, the environment, and other market conditions.

In addition, Instone faces strong competition for such opportunities from other project developers, in particular in its key metropolitan regions where only a limited number of land plots is available and suitable for project developments. Such competition may drive purchase prices to levels at which acquisition opportunities become unattractive to Instone. Furthermore, in some instances, Instone may already have invested significant time and resources in pursuing a development opportunity before such acquisition fails to materialize, in which case Instone would lose its initial investments.

If the availability of land plots or properties without zoning or planning permission for residential development purposes becomes limited, or Instone fails to identify or acquire such land plots or properties, Instone's ability to grow could be significantly limited, the number of residential units it is able to develop and sell could be reduced, and its costs per residential unit could be substantially increased.

**1.2.4 *Instone may not be able to identify and properly address, or take recourse for, all risks associated with the development opportunities it acquires which could result in Instone having difficulties implementing the envisaged development projects.***

Instone generally conducts a thorough due diligence investigation of the development opportunities it intends to acquire with a view to identifying and evaluating all relevant risks. The information provided during such investigation may, however, be inaccurate or misleading. In some cases, Instone may only be able to conduct a limited due diligence investigation and, accordingly, may not be able to identify all risks associated with the development opportunities it acquires. Such risks typically include structural, technical and environmental defects as well as negative tax implications, the validity of required permits and compliance of previous owners with the conditions imposed by such permits. In addition, the acquired land plots or redevelopment properties may suffer from hidden defects or damages, and Instone may not be in a position to carry out all investigations, inspections and appraisals or to obtain the results of such inquiries. Therefore, Instone may fail to recognize, evaluate and address these risks appropriately, in which case it may overvalue development opportunities.

While Instone typically obtains warranties from the seller of the respective land plots or redevelopment properties, such warranties may not cover all relevant risks or may fail to cover such risks sufficiently. Additionally, such warranties may be unenforceable due to a seller's insolvency or for other reasons (e.g., the expiration of such warranties). In some cases, a seller may refuse to make any representation or warranty as to risks associated with the acquisition, or make no representation or warranty as to the sufficiency and correctness of the information made available in the context of a due diligence investigation, or as to whether such information remains correct during the period between the conclusion of the due diligence investigation and the closing of the respective acquisition.

Any of the above factors may result in Instone having difficulties implementing, or being unable to implement at all, the envisaged development projects. Any such failure could expose Instone to additional costs and result in termination of contracts and loss of resources already invested.

**1.2.5 *Instone's business may be adversely affected if it fails to obtain, or if there are any material delays in obtaining, required zoning or land-use plans and building permits and approvals or if these are subsequently withdrawn or challenged.***

Instone has a particular focus on land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition. In order to be able to start the realization of its development projects, Instone must obtain a variety of approvals from local authorities, such as zoning plans (*Flächennutzungspläne*), land-use plans (*Bebauungspläne*), and building permits (*Baugenehmigungen*) suitable for its residential development projects. Instone's development activities may require further approvals and permits with respect to, among others, protection of listed buildings, density, site planning, and environmental issues.

Instone's ability to obtain the permits required to realize its development projects is dependent on its ability to meet the relevant regulatory and planning requirements. As of June 30, 2020, Instone owned land plots and properties in about 28 different municipalities and may therefore need to meet different requirements for each municipality while being subject to various authorities' discretion in granting such permits. Instone's progress on its development activities is highly dependent on the decisions of such local authorities, and this process is often time-consuming, uncertain and political, and may require significant efforts or costs in order to secure approvals. There can be no assurance that the necessary approvals and permits will be received, or that they will be received in a timely manner. Planning regulations and permits could also be challenged within the relevant statutory period, which could eventually lead to delays in the realization or even in completion of a particular development project. As a result of the high demand for properties, property owners are in most cases not willing to agree on option agreements enabling Instone to only acquire the land plot or property if the required planning permission can be obtained within a set time frame, or to grant Instone withdrawal or price reduction rights, if the required planning permission cannot be obtained within a set time. Accordingly, Instone has to generally take the risk that it may never be able to build on an acquired land plot or property.

Moreover, to realize its development concepts, Instone may be required to accept concessions and conditions imposed by the competent authorities. For example, Instone may enter into urban development contracts (*städtebauliche Verträge*) with local authorities which typically provide for significant conditions, such as the construction of kindergartens, school facilities or landscaping of adjacent land, being imposed on Instone. Such urban development contracts often also require Instone to dedicate a certain percentage of floor space of a development project for subsidized housing purposes (*öffentlich geförderter Wohnungsbau*). If Instone fails to properly anticipate such concessions and conditions, this could prevent it from generating a profit on the respective project development, and if it fails to observe the restrictions imposed by them, Instone may be required to pay damages or be prevented from realizing such project developments.

In addition, owners of adjoining properties, environmental interest groups and other local activists and neighborhood groups have opposed land-use plans and proposed development plans, and have taken various legal and other actions to partially or completely prevent development in certain areas (*e.g.*, project Westville in Frankfurt am Main, project Parkstadt Dösen in Leipzig). Any such actions may result in litigation, trigger intervention from local authorities, otherwise lead to delays in the construction process, cause Instone to incur additional costs, or cause a loss of Instone's initial investment, and ultimately prevent Instone from realizing its intended project developments.

**1.2.6 *Instone may not be able to obtain or maintain sufficient financing on acceptable terms or at all.***

The real estate development industry is capital-intensive and requires significant up-front expenditures to acquire land plots or properties and carry out (re)development activities.

Instone historically has financed and currently finances its business operations predominantly from borrowings under individual project financings and therefore depends on the availability of such financing. There can, however, be no assurance that Instone will be able to maintain its existing project financings or to secure sufficient further project financing for its business operations, due to various factors. General conditions for real estate financing are subject to constant change, and the attractiveness of different financing options depends on a variety of factors beyond Instone's control, including overall monetary policy, interest rates, general tax conditions and the value of real estate properties to be used as collateral. For instance, Instone's creditors could terminate existing project financings, which are typically subject to regular termination rights with short notice periods. Lenders may also require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans or higher interest rates. If Instone is not successful in obtaining sufficient financing for its planned capital and other expenditures, it may be unable to acquire additional land plots

or properties for its (re)development activities or be unable to fund their development. Any difficulty in maintaining or obtaining sufficient capital for planned development expenditures could also cause project delays and any such delay could result in cost increases.

Furthermore, Instone is able to finance a substantial part of its ongoing development costs by means of the staggered purchase price framework provided by the German Real Estate Agent and Commercial Contractor Regulation (*Makler- und Bauträgerverordnung*, “**MaBV**”). In principle, the staggered payment framework entitles Instone to receive fixed down payments to be paid by private investors, such as owner-occupiers or retail buy-to-let investors, of residential units as and when construction milestones are achieved. As a result, to the extent residential units have been sold, a total of 58% of the agreed purchase price will have been paid to Instone upon completion of the building shell. However, Instone may not issue the first partial invoice to the purchaser unless Instone has registered a priority notice (*Auflassungsvormerkung*) in the land register (*Grundbuch*) with respect to the respective purchaser’s title of ownership, or if this process is delayed, until a surety covering the respective pre-payment amount has been provided to the purchaser (also known as MaBV Aval). Any significant delays in registering a priority notice (*Auflassungsvormerkung*) in the land register (*Grundbuch*) or in issuing sureties could cause project delays and any such delay could result in cost increases. If the purchaser of Instone’s residential units is a consumer and installment payments are agreed, Instone is further required to issue to such purchaser a surety with respect to 5% of the aggregate purchase price when the first installment payment under the relevant contract becomes due and payable (the “**FoSiG Surety**”). The purpose of the FoSiG Surety is to secure contractual performance in a timely and adequate manner and to protect purchasers from the consequences of an insolvency of project developers. If Instone were unable to obtain such FoSiG Sureties from credit institutions (or other credit insurers) on acceptable terms or at all, it would be required to reduce the amount of the first installment payment by an amount corresponding to 5% of the aggregate purchase price.

Instone may also in the future seek additional loans from banks or issue debt for future expansion and development of its business in the longer term. There can, however, be no assurance that such additional financing will be available at the relevant time or, if available, whether it would be on acceptable terms. If, in the longer term, Instone does not successfully obtain further financing (should it be required to fund its future investments), this may constrain its ability to grow by limiting further acquisitions of land plots or properties, as well as investments in development projects.

***1.2.7 Instone depends on third-party suppliers and contractors to develop and construct its properties and it may not be able to hire qualified and reliable suppliers and contractors and such third parties may fail to properly perform their obligations.***

Instone depends on third-party suppliers and contractors to provide construction and various other services with respect to the realization of its development projects. In particular, these outsourced services include architectural design, concept design, construction, and sale of its residential units. As part of its business strategy, Instone relies on regional networks of qualified and reliable contractors with most of which Instone has built up longstanding business relationships. Due to the significant competition in the German residential real estate sector, particularly in Germany’s key metropolitan areas, qualified and reliable contractors are in great demand and especially hard to find at short notice. If Instone is not able to find or hire qualified and reliable contractors for any of its development projects, its ability to successfully complete projects in time or up to required standards of quality or to sell its residential units within the expected time frame and price could be impaired.

Furthermore, if third parties involved in Instone’s project developments fail to provide their services in a timely and/or adequate manner (*e.g.*, due to labor, equipment or materials restraints, financial difficulties, reduced availability as a result of increased demand or significant accidents and other incidents at a construction site), Instone may be required to source these services at a higher price than originally anticipated and may face delays at its project sites until it is able to identify suitable replacements. Any of these events could negatively affect Instone’s profitability and cash position, as Instone will not be able to pass on increased costs to its purchasers, and may be liable to them or other third parties for damages resulting from project execution delays, any of which could have an adverse effect on Instone’s reputation and its ability to maintain the high quality standards of its developments. In addition, while Instone attempts to verify the compliance of its contractors with health, safety and environmental regulations, labor laws (in particular with respect to the common issue of illegal employment (*Schwarzarbeit*) and minimum wage (*Mindestlohn*) compliance) and other applicable laws and regulations, any failure by its contractors to so comply could render Instone liable in respect of these obligations.

In addition, third-party suppliers and contractors have been and may continue to be adversely affected by economic downturns or poor management decisions. Instone may hire a contractor that subsequently becomes insolvent, causing cost overruns and project delays and increasing the risk that Instone will be unable to recover

costs in relation to any defective work performed by such contractor, to the extent such costs are not covered by insurance or other security provided by the contractor. The insolvency or other financial distress of one or more contractors could cause financial and reputational harm to Instone and also result in substantial delays in the completion of construction works.

***1.2.8 Instone is exposed to the risk of construction defects and of defective construction materials.***

With respect to the construction of its development projects, Instone is exposed to various risks relating to defective construction work or the use or installation of defective construction materials by third-party suppliers or contractors. Although Instone seeks to obtain warranty, guarantee or indemnity protection in its contracts with such third-party suppliers and contractors, and has arrangements with insurance providers to insure against certain risks, it may not be able to obtain this protection in all cases, or the protection may not cover all risks. Significant liabilities may not be identified or may only come to light after the expiry of Instone's warranty, guarantee or indemnity claims. Furthermore, Instone may not be able to enforce claims in the respective amount, or at all, due to the third-party contractor's or supplier's insolvency, or for other reasons. Any claims relating to defects arising from or related to one of Instone's development projects may give rise to contractual or other liabilities, which can extend, depending on the relevant contractual or statutory provisions, for five years following completion of the development project and may not be covered by claims against Instone's contractors or suppliers. Unexpected levels of expenditure attributable to such construction defects or defective construction materials arising on a development project may adversely affect Instone's financial condition and results of operations.

***1.2.9 The construction of new residential properties involves health, safety and environmental risks.***

Operating in the residential real estate industry poses certain health, safety, and environmental ("HSE") related risks. A significant HSE incident at one of Instone's (re)development projects or a general deterioration in Instone's HSE standards could put its employees, its contractors or the general public at risk of injury or death and could lead to litigation, significant penalties or damage to Instone's reputation.

Instone may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances (including, but not limited to, asbestos) located on, under or in a property currently or formerly owned by Instone, whether or not it caused or knew of the pollution. Furthermore, Instone may also be deemed responsible for latent or historic risks from unknown contamination, or may incur greater liability or costs than originally anticipated. The costs of remediation, investigation or defending against claims can be substantial, and they may not be covered by warranties and indemnities from the seller of the affected land plot or property or by Instone's insurance policies, or may prove unenforceable.

Monitoring and ensuring HSE best practices may become increasingly expensive for Instone in the future if additional HSE requirements were to come into effect. Any failure in HSE performance, including any delay in responding to changes in HSE regulations, may result in penalties for non-compliance with relevant regulatory requirements.

***1.2.10 Demand for Instone's properties depends on purchaser preferences for types of accommodations or locations of property and perceptions as to the attractiveness or quality of its project developments. Instone may not be able to adapt to a change in purchasers' preferences in a timely manner.***

The residential real estate market in which Instone operates is subject to changing purchaser trends, demands and preferences. Demand and preferences may vary over the course of the development of a project, which takes up to six years, depending on project phasing, and are mainly outside of Instone's control. For instance, targeted purchasers may develop preferences for a different micro-location, neighborhood, specific home design (such as multifamily condominiums, micro homes, or detached houses), or may otherwise be influenced by macroeconomic, socioeconomic, or employment dynamics that restrict demand in a specific area.

There can be no assurance that Instone will be able to timely identify and evaluate such changes and adapt its existing or planned development projects in a timely fashion to suit such changes in purchaser preferences. Hence, any failure by Instone to timely identify any such changes in trends or preferences, its inability to adapt its development projects accordingly, or its misinterpretation of such could adversely affect demand for Instone's properties.

**1.2.11 *Damage to Instone's reputation, the reputation of the residential real estate development sector as a whole or inadequate purchaser satisfaction may result in decreased demand for Instone's development properties.***

Instone's business and growth strategy is dependent in part on the maintenance of its integrity and its reputation for quality. Instone's reputation can be damaged by a number of factors and events, some of which may be outside its control. Such factors and events may include unethical or illegal practices of employees or business partners, labor conditions, incidents at development sites, widespread or significant construction defects and related claims for damages, inability to meet purchaser preferences, negative media coverage (including social media), or actual or threatened litigation. In addition, Instone may face disagreements with local authorities and/or regulatory bodies in the course of its operations, which may be subject to administrative proceedings and unfavorable orders, directives or decrees that result in financial losses and delay the completion of its development projects. There can be no assurance that Instone will be able to adequately and timely detect or respond to such threats to its reputation.

Instone's reputation may also suffer from actions taken by one or more of its competitors resulting in an industry-wide contagion stemming from the misconduct of one of its peers. Residential real estate developments attract significant public interest. The range and likelihood of reputational risks deriving from negative publicity therefore tends to be higher than that of other businesses. Real estate developers may become the subject of political debate, for example, by being blamed for the potential negative impacts of the design or location of their development projects. As most real estate development projects are both long-term and highly visible in a community, the risk of becoming associated with a competitor's dubious actions is higher. In such a situation, the reputation of the entire sector may be tarnished, and all market participants may suffer the consequences of significant adverse publicity.

Any loss of reputation, whether in or outside Instone's control, could result in a decreased demand for Instone's development projects, Instone being unable to raise capital on favorable terms or at all, Instone being exposed to stricter regulation and/or opposition from public authorities, or strained key relationships with its third-party suppliers, contractors and other service providers.

**1.2.12 *Constraints on the availability and higher costs of mortgage funding may adversely affect Instone's sales.***

The vast majority of prospective homeowners, individual investors and institutional investors who purchase Instone's residential units finance their acquisitions through debt funding, in particular loans secured by land charges (*Grundschulden*). Consequently, Instone's business partly depends upon the ability of its purchasers to obtain such mortgage lending.

Access to residential mortgage lending in Germany may be restricted due to a number of factors, including the exit of a number of mortgage providers from the German and/or European market, more stringent equity requirements for German financial entities, a more cautious approach to valuations of properties by surveyors (which, in turn, reduces the value of the mortgage loan that can be obtained on a given property), stricter underwriting standards by lenders that have resulted in more stringent mortgage application requirements for borrowers (including increased down payments), a desire by certain lenders to limit their lending exposure in relation to specific types of housing developments, and the reduction or discontinuation of government-backed residential property financing purchase assistance programs, such as KfW Group's (*Kreditanstalt für Wiederaufbau*) promotional loans.

Mortgage lending rates for private homeowners predominantly bear fixed interest rates for at least ten years in Germany. Interest rates for new mortgages (or prolongations of mortgages) are closely linked to the European Central Bank's main refinancing rate. An increase in interest rates would increase mortgage costs and may negatively affect the availability or attractiveness of mortgage loans as a source of financing for the acquisition of residential property and, accordingly, reduce demand, and potentially sales prices, for Instone's residential units. Individual investors who could obtain a mortgage loan at current interest rates may not be able to obtain a mortgage loan at increased interest rates or be deterred by increased interest rates (and, in turn, higher monthly interest payments) and instead elect to remain in their current property. Institutional investors who had been looking to invest in property could also be deterred by the possibility of increased interest rates, as higher interest rates could negatively affect their investment returns, and they may make a higher-yielding investment in a different sector.

Regardless of the type of investor, limited availability of mortgage lending may constrain growth in sales volumes and housing prices in the German residential development industry. Even if potential purchasers do not themselves need financing, adverse changes in interest rates and mortgage availability could make it more difficult for them to sell their existing homes to other potential purchasers who need mortgage financing, thereby constraining their ability to purchase a new home.

***1.2.13 Instone may not be able to perform its obligations under its sales contracts and is exposed to the risk of purchasers not performing their obligations under such contracts.***

As a project developer, Instone is required to make representations, warranties and negative declarations of knowledge to the purchaser with respect to characteristics of the sold property. As a result, Instone may become subject to claims for damages from purchasers, who could assert that Instone has failed to meet its obligations, or that its representations were incorrect. This may occur for a variety of reasons, such as a significant increase in costs making delaying the (re)development process or the required permits for its development or redevelopment projects being withdrawn or challenged. Instone may also be unable to perform its obligations under a sales contract, if it does not reach the level of sales necessary to commence construction of the project (generally a sales level of 30% of the relevant expected sales volume is required). In addition, Instone is exposed to the risk of its purchaser not performing their obligations under the sales contracts including, among other matters, their purchase price payment obligations.

In case Instone fails to perform its obligations under its sales contracts, Instone may need to refund any purchaser pre-payments, or its purchasers may terminate their contracts or seek to renegotiate the terms of their contracts to obtain more favorable terms. With respect to the purchasers failing to perform their obligations, Instone may be exposed to additional significant costs in litigation or for marketing and selling the respective unit to other purchasers.

***1.2.14 Instone may not be able to successfully implement and market its new valuehome product outside its existing markets and the anticipated cost and time savings may never be realized.***

In addition to its traditional project developments in its key markets, Instone has developed a new product offering standardized residential developments based on modular planning at reduced price points. With this new “valuehome” product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers.

There is, however, no guarantee that the implementation and marketing of its new product in such B locations will be successful. For example, it may be difficult for Instone to identify sufficient development opportunities in these areas and to properly assess such opportunities without an established local network. As a result, Instone may not be able to adequately plan new projects or may overpay for new acquisitions. In addition, it may be more difficult for Instone to implement its new valuehome product as originally envisioned due to the shortage of qualified and reliable employees and third-party contractors.

Given the operational risks associated with the implementation of Instone’s new valuehome product, Instone may be unable to realize the anticipated benefits in terms of cost and time savings or synergies or these benefits may not be achieved within a reasonable period of time. Instone may also incur greater costs than initially expected in attempting to achieve the anticipated benefits. As a result, Instone may not be able to achieve an adjusted gross profit margin of around 20% for its valuehome product. In addition, the implementation of its new product could disrupt Instone’s ongoing operations and divert management resources that would otherwise focus on developing its traditional business, in which case Instone may need to employ additional personnel or consultants that are knowledgeable of such products and markets.

***1.2.15 Non-compliance with certain building requirements with respect to Instone’s redevelopment of listed buildings may adversely affect its business.***

In addition to Instone’s regular development activities, Instone engages in, to a limited extent, the redevelopment of listed buildings in Germany. To allow its purchasers to benefit from the favorable tax framework provided by current German tax legislation (see “1.2.16 Changes in German tax legislation allowing for special depreciation of redevelopment investments in listed buildings may adversely affect Instone’s business.”), Instone is required to comply with certain building requirements with respect to the redevelopment of listed buildings under applicable heritage protection laws (*Denkmalschutzgesetze*). If Instone fails to comply with such requirements, its purchasers may not be able to apply the special depreciation rate on the portion of the purchase price that relates to the redevelopment of listed buildings. The special depreciation rate is, however, one of the

main selling points for redeveloped listed buildings. In case Instone's purchasers are not able to benefit from the special depreciation rate due to Instone's non-compliance with applicable building requirements, Instone may be required to refund its purchasers the funds that they had advanced, or its purchasers may terminate their contracts or seek to renegotiate the terms of their contracts to obtain more favorable terms.

***1.2.16 Changes in German tax legislation allowing for special depreciation of redevelopment investments in listed buildings may adversely affect Instone's business.***

Current German tax legislation allows purchasers to apply a special depreciation rate on the portion of the purchase price that relates to the redevelopment of listed buildings. In particular, investors are entitled to depreciate 9% of their redevelopment costs per annum over a period of eight years and an additional 7% per annum over a subsequent period of four years, resulting in the possibility to depreciate the total redevelopment costs over a period of 12 years in total. Investors occupying the property (owner-occupiers) are entitled to depreciate 9% of their redevelopment costs per annum over a period of ten years.

The special depreciation is one of the main selling factors for redeveloped listed buildings. Any change in German tax law with respect to the deductibility of redevelopment costs may lead to reduced demand for Instone's redevelopment properties.

***1.2.17 Instone may lose key personnel or may be unable to recruit qualified personnel for key positions.***

Instone's success greatly depends on the performance of the members of the Company's management board and other qualified employees in key positions. In particular, Instone's key employees are fundamental to its ability to successfully generate and manage its business opportunities, including, among other matters, in the acquisition of land, land development, concept design, construction management, and marketing and sales, in every stage of which local knowledge and relationships are key to Instone's success.

Furthermore, Instone may need to hire additional qualified employees if its future growth exceeds the capacities of its current platform, or if Instone is forced to replace qualified employees. Even though key positions at Instone have been occupied for many years with qualified and experienced real estate experts and Instone aims to provide attractive working conditions, due to the intense competition for qualified personnel in the residential real estate sector, there can be no assurance that Instone will be able to hire and retain sufficiently qualified key employees on acceptable terms in the future. If any key personnel leave and carry on any activities that compete with Instone, it may lose potential purchasers, other key professionals and staff members, and legal remedies against such individuals may be limited.

The loss of any key employees or failure to attract new qualified employees could impair Instone's growth and make it difficult to maintain its business activities at current levels.

***1.2.18 Instone is exposed to risks related to natural disasters and risks resulting from acts of terrorism affecting its properties and could incur substantial losses from damage not covered by, or exceeding the coverage limits of, its insurance policies.***

Instone's development projects are exposed to risks relating to natural disasters and acts of terrorism. Disastrous natural events, such as storms, floods, fires, earthquakes, or terrorist incidents in locations where Instone's development projects are located may result in damage to Instone's project portfolio, increased costs for development site reparations and lower property values.

While Instone is insured against fire, natural disasters, operational interruptions and third-party liability, Instone's insurance policies are subject to exclusions (e.g., acts of terrorism) and limitations of liability both in amount and with respect to the insured events. Instone does not have insurance coverage for any losses caused by the COVID-19 pandemic. There can be no assurance that Instone's assessment that it is sufficiently insured against contingencies is accurate. Even where Instone has obtained sufficient insurance coverage, its insurance providers could become insolvent, requiring Instone to bear any liabilities and losses. If Instone suffers a loss or incurs a liability against which it is uninsured or insufficiently insured, this could adversely affect Instone's financial condition results of operations.



***1.2.19 Instone is dependent on the uninterrupted operation and security of its information technology systems and infrastructure.***

Instone relies on the efficient and uninterrupted operation of complex information technology systems to operate its development processes and other parts of its business, in particular managing data with respect to its project portfolio and general market developments. Any disruption, infiltration or failure of these information technology systems (e.g., due to software or hardware malfunctions, system implementations or upgrades, computer viruses, cyber-attacks, third-party security breaches, including breaches at Instone's providers, employee error, theft or misuse, unauthorized access, malfeasance or power disruptions) could cause breaches of data security, loss of critical data, or the release and misappropriation of sensitive information and impair Instone's project developments and other business operations. Furthermore, Instone may become subject to litigation, reputational harm and financial losses that are either not insured against or not fully covered through any insurance maintained by it.

***1.2.20 Land plots and real estate properties can be illiquid assets and could significantly impede Instone's ability to respond to adverse changes in the real estate or financial markets.***

Land plots and real estate properties can be relatively illiquid, meaning that they may not be easily sold and converted into cash. Although Instone acquires land plots and properties for (re)development purposes and generally expects to sell such assets in the form of residential units following completion of development, Instone may seek to, or be required to, sell entire land plots or properties in certain circumstances, including due to changes in development plans, failure to obtain required building permits, its decision not to proceed with the development, changes in economic or property market conditions, negative political developments affecting the residential real estate market or financial distress. Such illiquidity may affect Instone's ability to value, or dispose of or liquidate part of, its project portfolio in a timely fashion and at satisfactory prices when required or desirable, and it may incur additional costs until it is able to sell such land plots or properties.

***1.2.21 Instone's profit forecast for the financial years 2020 and 2021 could differ materially from its actual results of operations.***

Instone initially published a profit forecast for the financial year 2020 which was included in Instone's combined management report for the financial year ending December 31, 2019. However, due to the significant uncertainties associated with the COVID-19 pandemic, Instone withdrew its initial forecast for the financial year 2020 in May 2020.

Instone's revised profit forecast for the financial years 2020 and 2021 included in this Prospectus (the "**Profit Forecast**") reflects numerous assumptions made by its management board. Assumptions which are beyond Instone's control include housing price development, demand for new-build residential units, the timely approval of building rights and building permits, construction capacity and construction price development, availability of long-term bank or project financing, and unforeseen events as well as the impact of the COVID-19 pandemic. In addition, Instone's Profit Forecast is also based on assumptions, which may be influenced by it, such as the volume of concluded sales contracts, construction progress, adjusted revenues, project costs and platform costs. Such assumptions are inherently subject to significant business, operational, economic and other risks, many of which are outside of Instone's control.

As with its initial forecast, such assumptions may change or may not materialize at all. Should one or more of the assumptions underlying the Profit Forecast prove to be incorrect, Instone's actual results of operations for the years ending December 31, 2020 and ending December 31, 2021 could differ materially from such forecast and projections. As a result, investors should not place undue reliance on the Profit Forecast included in this Prospectus.

### **1.3 Legal, Regulatory and Tax Risks**

***1.3.1 Changes to applicable law and/or regulations in the residential real estate sector may adversely affect the sustainable success of Instone's business model.***

Instone is required to comply with a wide range of laws and regulations and their application by local authorities. These relate, in particular, to land use, planning, developing, building (requiring, for example, fire, health and safety protection measures), environmental protection, consumer protection and employment. Key laws applicable to Instone's business and operations include the German Building Code (*Baugesetzbuch*), the MaBV, the German Trade Regulation (*Gewerbeordnung*, "**GewO**"), the German Construction Tendering and Contract

Regulation – Part B (*Vergabe- und Vertragsordnung für Bauleistungen – Teil B* (“VOB/B”)) and the German Civil Code (*Bürgerliches Gesetzbuch*) as well as special regulations applicable to contracts in the construction industry.

Such laws and regulations are critical to the development of Instone’s project developments and the marketing of its properties. Any changes in relevant laws and regulations, or their application and interpretation by authorities and courts, may give rise to substantial compliance, remediation and other costs as well as fines in connection with Instone’s development activities, and may prevent Instone from realizing its project developments. Such changes may even occur between the time Instone acquires a certain property and the completion of the respective project development, which may cause delays, increase costs, reduce the expected rate of return or make a proposed development project financially unviable. Furthermore, legislative initiatives and the corresponding public debates could result in significant planning uncertainty and increased development costs, even if such initiatives do not ultimately become law.

For example, there is an ongoing debate in Germany as to how future increases of rents for residential real estate can be limited. To this effect, various political parties and private initiatives are calling for a strict rent cap (*Mietobergrenze*). There are also demands to extend certain provisions providing for limitations on rent increases (*Mietpreisbremse*) to newly built residential units or the subsequent letting of such units, in which case they would also apply to Instone’s completed project developments. Any legislation to limit rents for residential real estate could adversely affect rent developments, the attractiveness of the German residential real estate market overall as well as the prices Instone can achieve for its project developments.

Furthermore, Instone is typically required to ensure that a certain share of its project developments is dedicated to subsidized housing (*öffentlich geförderter Wohnungsbau*) (i.e., residential real estate for which the rent the respective landlord can demand is limited). Due to such rent price limitations, Instone can only achieve lower sales volumes for residential units subject to social housing restrictions. In light of the ongoing lack of affordable housing, there have been growing calls to increase the share of subsidized housing for new residential project developments. If such requirements were introduced through new laws and regulations or policies of competent municipal authorities, this could adversely affect the profitability of Instone’s project developments.

Accordingly, actual or potential changes to applicable local laws, regulations, policies and administrative requirements in the residential real estate sector as well as the risk of conditions being imposed by local authorities may result in significant planning uncertainty, and additional development costs could have a material adverse effect on the profitability of Instone’s project developments.

**1.3.2 *Non-compliance with the Real Estate Agent and Commercial Contractor Regulation (Makler- und Bauträgerverordnung (MaBV)) or the German Trade Regulation (Gewerbeordnung (GewO)) could result in administrative fines (Bußgelder) or a revocation of Instone’s license entitling it to receive staggered down payments from private purchasers upon the achievement of certain development milestones.***

As a residential real estate developer, Instone holds a license (*Erlaubnis*) pursuant to Section 34c GewO allowing it to conduct its development business under the GewO and the MaBV. Prior to granting such license, the relevant authorities review whether the applicant (in case of a legal entity, the members of its management board) is reliable (*zuverlässig*) as required for the exercise of this trade. Each real estate developer is required to undergo an annual audit with respect to its obligations under the MaBV. The GewO and the MaBV provide for a broad range of administrative obligations (e.g., provision of security, record keeping, information, reporting and notification requirements), the non-compliance with which could result in administrative fines (*Bußgelder*) or even a revocation of the license.

If Instone repeatedly failed to comply with its obligations under the GewO and the MaBV and/or if the members of the Company’s management board were no longer considered reliable (*zuverlässig*) within the meaning of the GewO, the competent local authorities could accordingly impose administrative fines (*Bußgelder*) or even revoke Instone’s license.

A revocation of Instone’s license would render Instone no longer entitled to request and receive staggered down payments from certain purchasers of real estate, such as owner-occupiers and retail buy-to-let investors, upon the achievement of certain development milestones (e.g., 30% down payment upon start of ground works, further installments to be paid depending on the progress of construction activities) as provided by the MaBV which would consequently increase Instone’s financing requirements and make Instone’s development projects less attractive to those purchasers.

**1.3.3 *Instone’s compliance systems may not have been, or may not be, sufficient to adequately prevent or detect legal, financial and operational risks.***

Instone’s business is subject to various laws and regulations relating to, among other things, prevention of illegal employment, bribery and corruption (for example, in connection with land-use plans or building permits), and money laundering, as well as compliance with antitrust, data protection, consumer protection and minimum wage regulations. Instone is reliant on the compliance of its employees and the members of the Company’s management board with applicable laws and compliance policies implemented by Instone.

However it cannot be excluded that employees or members of the management board have committed or will commit criminal, unlawful or unethical acts (including corruption) or that Instone’s compliance and risk management and its monitoring capabilities may prove insufficient to prevent or detect any breaches of the law. Any such acts or breaches of law could result in significant civil penalties and damage claims and, in certain cases, the revocation of Instone’s license (*Erlaubnis*) pursuant to Section 34c GewO and cause considerable damage to Instone’s reputation in the real estate market, thereby negatively affecting future business opportunities.

**1.3.4 *Instone handles personal data including sensitive customer data in the ordinary course of its business, and any failure to maintain the confidentiality of that data could result in legal liability and reputational harm to its business.***

Instone processes sensitive customer data (including, in certain instances, names and addresses) as part of its business, and therefore must comply with strict data protection and privacy laws. For example, Instone is subject to German and European laws and regulations on privacy, information security and data protection, the main and most relevant of which relate to the collection, protection and use of personal and business data, including the EU Regulation 2016/679 (“**GDPR**”). The costs of complying with the GDPR are increasing, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place. Any failure to comply with privacy, data protection and information security laws, such as the GDPR, could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions and damage to Instone’s reputation.

Moreover, data protection laws and rules impose certain standards of protection and safeguarding on Instone’s ability to collect and use personal information relating to customers and potential customers and could make Instone liable in the event of a loss of control of such data or as a result of unauthorized third-party access. Unauthorized data disclosure could occur through cyber security breaches as a result of human error, external hacking, malware infection, malicious or accidental user activity, internal security breaches, and physical security breaches due to unauthorized personnel gaining physical access.

**1.3.5 *Standard terms and conditions used by Instone in agreements with purchasers, architects, and construction companies may be invalid.***

Instone uses standardized terms and conditions in its agreements with various third parties, in particular with its purchasers. Any invalid provisions or ambiguities in standardized contracts can therefore affect a multitude of contractual relationships. Under German law, standardized terms and conditions have to comply with the rules of the German Civil Code (*Bürgerliches Gesetzbuch*) on general terms and conditions (*Allgemeine Geschäftsbedingungen*). Standardized terms and conditions are therefore subject to fairness control by competent courts regarding their content and the way they are presented to the other contractual party by Instone. As a general rule, standardized terms are invalid if they are not transparent, unclearly worded, unbalanced or discriminatory. Any standardized clauses in Instone’s contracts found invalid could lead to a substantial number of claims being brought against Instone.

In addition, Instone uses standardized agreements *vis-à-vis* architects. In Germany, the German Fee Regulations for Architects and Engineers (*Honorarordnung für Architekten und Ingenieure*, “**HOAI**”) imposes mandatory fee rules on architects and their counterparties. Instone’s standardized agreements with architects do not completely adhere to the minimum fee requirements pursuant to the HOAI. As a result, Instone may be required to pay higher fees than contractually agreed upon, if an architect successfully claims compensation pursuant to the HOAI. On July 4, 2019, the European Court of Justice ruled that the provisions of the HOAI standardizing prices for architectural services violate European law. Consequently, these rules will no longer be applicable to standardized agreements with architects going forward, and may even be invalid for existing agreements. As a result, prices for architectural services could increase, which may adversely affect Instone’s profitability, and even if such prices decrease, this could lead to a reduction in the number of practicing architects and ultimately limit the availability of such services at short notice.

Furthermore, Instone uses standardized agreements with building contractors that deviate in part from Part B of the German Construction Contract Procedures (*Vergabe- und Vertragsordnung für Bauleistungen, Teil B*). If Part B of the German Construction Contract Procedures is incorporated without any changes, the agreements are not subject to the German law on general terms and conditions pursuant to the rules of the German Civil Code (*Bürgerliches Gesetzbuch*). As a result of the deviation from Part B of the German Construction Contract Procedures, some provisions in Instone's construction contracts may be found unfair and void under the German law on general terms and conditions. Consequently, Instone could also incur higher construction cost, thereby decreasing its profits.

Instone also uses standardized purchase agreements with certain purchasers in order to benefit from favorable provisions provided by the MaBV. For example, the staggered payment framework under the MaBV entitles Instone to fixed down payments to be paid by certain purchasers of its residential units as and when construction milestones are achieved. However, these provisions are only applicable to sales contracts with owner-occupiers and retail buy-to-let investors. As a result of a deviation from the MaBV, certain provisions in Instone's sales contracts may be found unfair and void, which could lead to a substantial number of claims being brought against Instone.

**1.3.6 *Instone is exposed to risks from ongoing and potential future litigation and other legal and regulatory actions and risks, and could incur significant liabilities and substantial legal fees.***

As a project developer, Instone is regularly involved in various legal disputes, administrative and regulatory proceedings as well as government investigations. As of June 30, 2020, Instone's provisions for judicial proceedings amounted to €3.6 million. Legal disputes may, in particular, arise from its relationships with investors, employees, third-party facility managers, building contractors and other contractual counterparties and neighbors, each of whom may be alleging breaches of contract, tort or other legal violations. In addition, administrative and regulatory proceedings and other investigations may be conducted by public authorities, including tax authorities, the German Federal Financial Supervisory Authority (BaFin) and other institutions (e.g., financial supervision/audit institutions), who may be alleging the failure to comply with applicable laws and regulations, including applicable accounting standards. For example, as of the date of this Prospectus, the Company is subject to an ongoing sample audit by the German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung, e.V.*, "**FREP**") with respect to its audited consolidated financial statements of the Company as of and for the financial year ended December 31, 2018. In July 2020, the FREP issued a preliminary statement relating to the accounting of certain costs incurred in connection with the Company's initial public offering in 2018. The Company does not agree with the FREP's preliminary statement and submitted a written response to this effect to the FREP on August 20, 2020. If the FREP's conclusion does prove correct, Instone may be required to issue a correction notification (*Korrekturmeldung*) in the German Federal Gazette (*Bundesanzeiger*). In any case, the final assessment to be issued by the FREP will have no impact on the total amount of equity, liquidity or net liquidity in the 2018 consolidated financial statements or on the Company's adjusted results of operations for 2018.

Legal disputes, administrative proceedings and government investigations are subject to inherent uncertainties, and unfavorable rulings could require Instone to pay monetary damages or fines or result in injunctions prohibiting it from performing critical activities (e.g., completing its project developments). There may also be investigations by governmental authorities into circumstances of which Instone is currently not aware or which will arise in the future, including possible regulatory and environmental laws, licensing requirements or criminal proceedings.

Even if legal claims brought against Instone are without merit, defending such claims could be time consuming and expensive, could divert management's attention from other business concerns, and Instone may decide to settle such claims, which could prove expensive.

**1.3.7 *Instone may be adversely affected by changes to the general tax environment in Germany as such changes might result in an increase of Instone's tax burden.***

Instone tax burden depends on various tax laws, as well as their application and interpretation, in particular, the German Real Estate Transfer Tax (*Grunderwerbsteuer*, "**RETT**") regime, and any change of such tax laws may adversely affect Instone. In addition, amendments to tax laws may take effect retroactively, and their application or interpretation by tax authorities or courts may change unexpectedly, which could also lead to an increase of Instone's tax burden.

For example, any increase in the RETT rate, reduction of the legal or economic ownership threshold of currently 95% of the shares or interests in a real estate holding company upon which RETT is triggered, extension of the holding period for various RETT exemptions or introduction of other amendments to the RETT regime would increase the number of transactions that fall within the scope of the RETT regime. To this end, the German legislator initially announced plans to lower the 95% threshold for share purchases to 90% and to extend the minimum holding period to avoid RETT being triggered from five to ten years. Consequently, a transfer of 90% or more of the shares in a corporation to a new shareholder will trigger RETT (*i.e.*, it is not required that the shares are actually held by a single acquirer). It is currently unclear whether and to which extent such changes will enter into force with retroactive effect.

Furthermore, Instone is required to pay German real estate tax (*Grundsteuer*) on any real estate held by Instone. Given that it typically does not lease such real estate, Instone is not able to require tenants to reimburse such real estate tax. The framework for real estate tax is currently undergoing a comprehensive revision and the new legal framework may lead to a significant increase in Instone's tax burden for real estate tax.

The Company and the Company's subsidiaries are regularly subject to tax audits in Germany. The Company is furthermore subject to tax audits in the Netherlands up until and including the financial year 2018 since its conversion into a German stock corporation (*Aktiengesellschaft*) only became effective in August 2018. The most recent tax audits with respect to Instone Real Estate Leipzig GmbH covered the financial years from 2012 up to and including 2014 and with respect to Instone Real Estate Development GmbH the financial year 2013, respectively. With respect to the Company, tax audits for the financial years 2014 up to and including 2016 are currently ongoing. The lack of more recent final and binding tax assessments increases the uncertainty regarding the tax authority's interpretation of applicable tax laws for periods for which no final and binding assessment has been received and increases the possibility that such interpretation may differ from Instone's interpretation. In particular, this may be the case with respect to the Company's conversion into a German stock corporation (*Aktiengesellschaft*), other reorganization measures or impairments on properties with regard to which tax authorities could take the view that they ought to be disregarded for tax purposes. Besides this, expenses could be treated as non-deductible or RETT could be assessed. Furthermore, given the legal uncertainties regarding German regulation of earning stripping rules (*Zinsschranke*) which limits the deductibility of interest expenses for German tax purposes, it cannot be ruled out that the tax authorities might not accept all tax deductions for interest payments. In addition, expenses could be treated as non-deductible. Any tax assessments that deviate from the expectations of Instone could lead to an increase of its tax burden and give rise to interest payable on the additional amount of taxes. Instone has established, and will continue to establish, provisions for risks associated with audits based on its past experience. These provisions, however, may prove to be insufficient and when paid may negatively impact Instone's cash flow.

## **1.4 Risks Related to the Shares and the Offering**

### ***1.4.1 The market price and trading volume of the Company's shares could fluctuate considerably and the subscription price could exceed the market price of the Company's shares.***

Securities markets in general and shares of companies in the real estate sector in particular have been volatile in the past. For example, in the recent past, the rapid spread of a novel strain of coronavirus and the infectious diseases caused by it (COVID-19) in early 2020 has adversely impacted global economic activity and contributed to significant volatility and negative pressure in financial markets. Hence, the market price and trading volume of the Company's shares may fluctuate significantly. Some of the factors that could negatively affect the share price of the Company's shares or result in fluctuations in the price or trading volume of the Company's shares include, for example, changes in the Company's actual or projected results of operations or those of its competitors, changes in earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of the strategy described in this Prospectus, as well as the evaluation of the related risks, changes in general economic conditions and changes in the Company's shareholder base and liquidity as well as an exclusion from indices. General fluctuations in share prices, particularly the price of shares in other companies in the real estate sector, or a general deterioration in capital markets, may lead to pressure on the price of the Company's shares, and these fluctuations in share price may not necessarily be based on the business operations or the earnings prospects of the Company.

The value of the subscription rights for the shares that form part of the rights offering being the subject matter of the Prospectus is dependent to a large extent on the share price of the Company's shares. Existing and prospective shareholders should note that the subscription price might exceed the current market price of the shares in the Company. Should the market price of the Company's shares fall below the subscription price, the subscription rights would become worthless.

**1.4.2 *Subscription rights for the offer shares that form part of the rights offering will expire if they are not exercised prior to expiry of the subscription period.***

Subscription rights that are not exercised by and including September 14, 2020 will expire valueless. If a shareholder fails to exercise his or her subscription right, such shareholder's proportionate share of the total equity and the voting rights will decline. If a shareholder also fails to sell his or her subscription rights, such shareholder will sustain a monetary dilution in the amount of the value of the subscription rights. This dilution will be proportional to the percentage rate by which the share capital of the Company is increased and to the extent to which the shareholder does not participate in the capital increase.

The offer shares and subscription rights that form part of the rights offering are not and will not be registered in accordance with the provisions of the United States Securities Act of 1933, as amended, with the securities regulators of the individual states of the United States of America or in other countries outside the Federal Republic of Germany. Furthermore, the offer shares that form part of the rights offering will only be offered for public sale in the Federal Republic of Germany ("**Germany**") and, in particular, will not be offered for public sale in the United States of America. It thus cannot be guaranteed that the acceptance of the rights offering being the subject matter of the Prospectus will be compatible with prevailing legislation in countries other than Germany. Certain shareholders abroad could therefore be precluded from participating in the rights offering being the subject matter of the Prospectus.

**1.4.3 *In light of the current market uncertainty, an active trading market may not develop for the subscription rights. If such trading does develop, the subscription rights may be subject to greater price fluctuations than the Company's shares.***

The Company intends to allow the subscription rights to be traded on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the period from September 1 up to and including September 9, 2020. The Company does not intend to file an application for the trading of the subscription rights on any other stock exchange. In light of the current market uncertainty due to the COVID-19 pandemic, an active trading market for the subscription rights may not develop on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during this period, or sufficient liquidity may not be available during the subscription rights trading period. The market price of the subscription rights will depend, among other things, on the market price of the Company's shares, but could also be subject to significantly greater price fluctuations than is the market price of its shares. Insufficient liquidity in subscription rights trading could lead to sharp declines in the value of such rights or in the inability of investors to sell such rights at their fair price.

**1.4.4 *Future capital measures could lead to a substantial dilution of shareholders' interests in the Company and their voting rights and may adversely affect the market price of the shares.***

The Company may require additional capital in the future to finance its business operations and acquisitions or to repay its existing debt. The raising of additional equity through the issuance of new shares, the potential exercise of conversion or option rights by holders of convertible bonds or bonds with warrants, which may be issued in the future, and the exercise of stock option rights which may be granted to the management board members and certain other employees may dilute shareholders' interests and could have an adverse effect on the price of the Company's shares.

The Company may issue all or part of its remaining authorized capital or utilize its remaining authorization to issue convertible bonds or bonds with warrants without any action or approval by its shareholders and, under certain, limited conditions, without granting any preemptive subscription rights to its shareholders. If the Company issues additional shares of common stock in the future, or if it issues securities that are convertible into shares of the Company's common stock, current shareholders may experience dilution of their equity investment.

**1.4.5 *The Company has not paid dividends in the past, its ability to pay dividends depends on a variety of factors and its dividend policy may change.***

The Company is a holding company with no operations of its own and no significant assets other than shares of its direct and indirect subsidiaries and may therefore be unable or elect not to declare dividends in the future. The payment of dividends by the Company, which the management board currently intends to propose to the shareholders' meeting for the first time in 2021 for the financial year 2020, depends on, among other things, future profits, financial position, capital requirements, the availability of distributable profit (*Bilanzgewinn*) and

contractual and regulatory restrictions on the payment of dividends. The distributable profit is calculated based on the Company's unconsolidated financial statements prepared in accordance with the requirements of the generally accepted accounting principles of the German Commercial Code (*Handelsgesetzbuch*) which differ from IFRS in material respects. When determining the distributable profit, net income or loss for the year (*Jahresüberschuss/-fehlbetrag*) must be reduced by profit/loss carryforwards (*Gewinn-/Verlustvorträge*) from the prior financial year and releases of or allocations to reserves. Certain capital reserves must be established by law and have to be deducted when calculating the distributable profit.

Furthermore, the availability of distributable profit at the level of the Company depends on the ability of its operating subsidiaries to upstream sufficient cash and/or pay dividends to the Company. The Company's operating subsidiaries, however, have financial obligations that must be satisfied, including among others, debt service and obligations to trade creditors, and are furthermore subject to contractual and regulatory restrictions on the payment of dividends. In addition, given that the Company's shares are, and any dividends to be paid in respect of them will be, denominated in Euro, an investment in the Company's shares by an investor whose principal currency is not the Euro in addition exposes the investor to foreign currency exchange rate risk.

Should the Company be unable to distribute dividends, or decide against declaring dividends contrary to investor's expectation of a dividend distribution at such time, this could have a material adverse effect on the market price of the shares of the Company.

## 2. GENERAL INFORMATION

### 2.1 Responsibility Statement

Instone Real Estate Group AG (the “**Company**” and, together with its consolidated subsidiaries, “**Instone Group**” or “**Instone**”), Grugaplatz 2-4, 45131 Essen, Federal Republic of Germany (“**Germany**”), telephone +49 201 45355-0, website: www.instone.de, legal entity identifier (“**LEI**”) 391200DINUIRPDZQHX03, registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Essen, Germany, under docket number HRB 29362, together with Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, United Kingdom, telephone: +44 20 7888-8888, website: www.credit-suisse.com, LEI DL6FFRRLF74S01HE2M14 (“**Credit Suisse**”), Deutsche Bank Aktiengesellschaft, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany, telephone: +49 69 910-30128, website: www.db.com, LEI 7LTWFZYICNSX8D621K86 (“**Deutsche Bank**”, and, together with Credit Suisse, the “**Joint Global Coordinators**”), MAINFIRST BANK AG, Kennedyallee 76, 60596 Frankfurt am Main Germany, telephone: +49 69 78808 175, website: www.mainfirst.com, LEI 529900MC68RTGHKI4F05 (“**MAINFIRST**”) and UniCredit Bank Aktiengesellschaft, Arabellastraße 12, 81925 Munich, Germany, telephone: +49 89 378 15050, website: www.hypovereinsbank.de, LEI 2ZCNRR8UK83OBTEK2170 (“**UniCredit**” and, together with MAINFIRST and the Joint Global Coordinators, the “**Underwriters**”), assume responsibility for the contents of this prospectus (the “**Prospectus**”) and declare that the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and that this Prospectus makes no omissions likely to affect its import.

If any claims are asserted before a court of law based on the information contained in this Prospectus, the investor appearing as plaintiff may have to bear the costs of translating this Prospectus prior to the commencement of the court proceedings pursuant to the national legislation of the member states of the European Economic Area (the “**EEA**”).

The information contained in this Prospectus will not be updated subsequent to the date hereof except for any significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus, which may affect the assessment of the shares of the Company and which arises or is noted between the time when this Prospectus is approved and the completion of the public offering or admission of the securities to trading, whichever occurs later, which will be disclosed in a supplement to this Prospectus pursuant to Article 21 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (the “**Prospectus Regulation**”) without undue delay.

### 2.2 Competent Supervisory Authority

This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, “**BaFin**”), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany, as the competent authority under the Prospectus Regulation. BaFin has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Company. Investors should make their own assessment as to the suitability of investing in the securities.

This Prospectus has been drawn up based on the simplified disclosure regime for secondary issuances in accordance with Article 14 of the Prospectus Regulation, and has been composed based on the requirements of Annex 3 and Annex 12 of Commission Delegated Regulation (EU) 2019/980 supplementing the Prospectus Regulation.

### 2.3 Purpose of this Prospectus

This Prospectus relates to the offering of 9,863,556 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each representing a notional value of €1.00 and with full dividend rights from January 1, 2020 (the “**Offer Shares**”). The Offer Shares originate from a capital increase against contributions in cash and with indirect subscription rights (*mittelbares Bezugsrecht*) through which the Company’s registered share capital will be increased from €36,988,336.00 to €46,988,336.00 through the issue of 10,000,000 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each representing a notional value of €1.00 and with full dividend rights from January 1, 2020, resolved by the management board of the Company (the “**Management Board**”) on August 26, 2020, approved by the supervisory board of the Company (the “**Supervisory Board**”) on the same day (the “**Capital Increase**”), by utilizing the authorized capital as



resolved by the ordinary shareholders' meeting (*Hauptversammlung*) on June 29, 2018 (the “**Authorized Capital 2018**”). With respect to a fractional share amount of 136,444 shares originating from the Capital Increase (the fractional shares together with the Offer Shares, the “**New Shares**”), the subscription rights of the shareholders have been excluded.

For the purpose of admission to trading of the New Shares on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), this Prospectus relates to 10,000,000 New Shares, each such share representing a notional value of €1.00 and with full dividend rights from January 1, 2020.

## 2.4 Forward-Looking Statements

This Prospectus contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on Instone Group's future earnings capacity, plans and expectations regarding its business growth and profitability, and the general economic conditions to which Instone Group is exposed. Statements made using words such as “predicts”, “forecasts”, “projects”, “plans”, “intends”, “endeavors”, “expects” or “targets” generally indicate forward-looking statements.

The forward-looking statements contained in this Prospectus are subject to opportunities, risks and uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Company's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause Instone Group's actual results, including its financial condition and profitability, to differ materially from those expressed or implied in the forward-looking statements. These expressions can be found, in particular, in the Sections “1. Risk Factors”, “10. Markets and Competition”, “11. Business”, “20. Recent Developments and Outlook” and wherever information is contained in this Prospectus regarding the Company's plans, intentions, beliefs or current expectations relating to Instone Group's future financial condition and results of operations, plans, liquidity, business prospects, growth, strategy and profitability, investments and capital expenditure requirements, future growth in demand for its residential units as well as the economic and regulatory environment which Instone Group is subject to.

In light of these uncertainties and assumptions, future events mentioned in this Prospectus may not occur. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party sources could prove to be inaccurate (for further information on the third-party sources used in this Prospectus, see “2.5 Sources of Market Data”). Actual results, performance or events may turn out to be better or worse compared to the results, performance and events described in the forward-looking statements, in particular due to:

- changes in general economic conditions in the markets in which Instone Group operates, in particular due to the effects of COVID 19;
- changes affecting interest rate levels;
- changes in the competitive environment (*e.g.*, changes in the level of residential real estate construction);
- the occurrence of accidents, terrorist attacks, natural disasters, fire or environmental damage;
- inability to attract and retain qualified personnel;
- political changes;
- changes to the taxation of corporations;
- tax rates for German Real Estate Transfer Tax (*Grunderwerbsteuer*, “**RETT**”); and
- changes in laws and regulations, in particular the construction planning law (*Bauplanungsrecht*) and the German Real Estate Agent and Commercial Contractor Regulation (*Makler- und Bauträgerverordnung*), as well as environmental laws and regulations.

Moreover, it should be noted that all forward-looking statements only speak as of the date of this Prospectus, and that neither the Company nor the Underwriters assume any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments.

The Section “1. Risk Factors” contains a detailed description of various risks. If these risks were to materialize, this could adversely affect the actual outcome of the matters described in the forward-looking

statements contained in this Prospectus, in particular where such statements relate to the development of Instone's business, financial condition, cash flows, results of operations and prospects.

## 2.5 Sources of Market Data

Unless otherwise specified, the information contained in this Prospectus on the market environment, market developments, growth rates, market trends and competition in the markets in which Instone Group operates are based on the Company's assessments. These assessments, in turn, are based in part on internal market observations and on various market studies.

The following sources of market data included in this Prospectus were prepared before the pandemic spread of a novel strain of coronavirus and the infectious diseases caused by it ("COVID-19"), and have not been updated for the potential effects of this pandemic. The Company is not able to determine whether the third parties who have prepared such sources will revise their estimates and projections due to the potential impact of COVID-19 on future market developments.

- bulwiengesa AG, Real Estate Developers (*Projektentwicklerstudie*) 2020, study published on April 8, 2020 ("**bulwiengesa**");
- bulwiengesa AG, database on the development of households and housing stocks from 2008 to 2019, as of August 3, 2020, ("**bulwiengesa, Core Cities**");
- bulwiengesa AG, database on the development of purchase and rental prices since 2000, as of December 31, 2019, ("**bulwiengesa, Property Index**");
- bulwiengesa AG, database on building activity (*i.e.* completed and approved residential units in the 8 core cities), data for 2018 and 2019, as of August 3, 2020, ("**bulwiengesa, Building Activity**");
- Cologne Institute for Economic Research (*Institut der deutschen Wirtschaft Köln*), IW Report 28/2019, *Ist der Wohnungsbau auf dem richtigen Weg?*, published July 2019, [https://www.iwkoeln.de/fileadmin/user\\_upload/Studien/Report/PDF/2019/IW-Report\\_2019\\_Wohnungsbaubedarfmodell.pdf](https://www.iwkoeln.de/fileadmin/user_upload/Studien/Report/PDF/2019/IW-Report_2019_Wohnungsbaubedarfmodell.pdf), ("**IW Report**");
- Cologne Institute for Economic Research (*Institut der deutschen Wirtschaft Köln*), IW policy paper 24/2015, *future demand for housing (Der künftige Bedarf an Wohnung)*, [https://www.iwkoeln.de/fileadmin/publikationen/2015/239762/Der\\_kuenftige\\_Bedarf\\_an\\_Wohnungen\\_policy\\_paper.pdf](https://www.iwkoeln.de/fileadmin/publikationen/2015/239762/Der_kuenftige_Bedarf_an_Wohnungen_policy_paper.pdf), ("**IW Policy Paper**");
- Deloitte Touche Tohmatsu Limited, Publication, "Property Index: Overview of European Residential Markets", published July 2019, <https://www2.deloitte.com/content/dam/Deloitte/de/Documents/real-estate/property-index-2019-2.pdf>, ("**Deloitte, Property Index**");
- Destatis, German Federal Statistical Office, *Demographic changes – assumptions and results of the 14th coordinated population projection*, published June 27, 2019, [https://www.destatis.de/EN/Themes/Society-Environment/Population/Population-Projection/Publications/Downloads-Population-Projection/germany-population-2060-5124206199004.pdf?\\_\\_blob=publicationFile](https://www.destatis.de/EN/Themes/Society-Environment/Population/Population-Projection/Publications/Downloads-Population-Projection/germany-population-2060-5124206199004.pdf?__blob=publicationFile), ("**Destatis**");
- Destatis, German Federal Statistical Office, "Gross Domestic Product (GDP)", last accessed on August 21, 2020, <https://www.destatis.de/EN/Themes/Economy/National-Accounts-Domestic-Product/Tables/gdp-bubbles.html>, ("**Destatis, GDP**");
- Destatis, German Federal Statistical Office, Annual Report, "Bauen und Wohnen. Baugenehmigungen / Baufertigstellungen lange Reihen z.T. ab 1949 - 2018", published July 14, 2020, [https://www.destatis.de/DE/Themen/Branchen-Unternehmen/Bauen/Publikationen/Downloads-Bautatigkeit/baugenehmigungen-baufertigstellungen-pdf-5311101.pdf?\\_\\_blob=publicationFile](https://www.destatis.de/DE/Themen/Branchen-Unternehmen/Bauen/Publikationen/Downloads-Bautatigkeit/baugenehmigungen-baufertigstellungen-pdf-5311101.pdf?__blob=publicationFile), ("**Destatis, Building Permits / Building Completions**");
- Destatis, German Federal Statistical Office, Report, "Entwicklung der Privathaushalte bis 2040: Ergebnisse der Haushaltsvorausberechnung – 2020", published March 2, 2020, [https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Publikationen/Downloads-Haushalte/entwicklung-privathaushalte-5124001209004.pdf?\\_\\_blob=publicationFile](https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Haushalte-Familien/Publikationen/Downloads-Haushalte/entwicklung-privathaushalte-5124001209004.pdf?__blob=publicationFile), ("**Destatis, Private Households**");

- Destatis, German Federal Statistical Office, Press Release, “General government recorded surplus of 49.8 billion euros in 2019”, published February 25, 2020, [https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/02/PD20\\_057\\_813.html](https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/02/PD20_057_813.html), (“**Destatis, Press Release No. 057**”);
- Destatis, German Federal Statistical Office, House price index, price index for building land: Germany, years, last accessed on July 22, 2020, <https://www-genesis.destatis.de/genesis/online?&sequenz=tabelleErgebnis&selectionname=61262-0001&language=en#abreadcrumb>, (“**Destatis, House Price Index**”);
- Destatis, German Federal Statistical Office, “Städte (Alle Gemeinden mit Stadtrecht) nach Fläche, Bevölkerung und Bevölkerungsdichte am 31.12.2018”, published October 31, 2019, <https://www.destatis.de/DE/Themen/Laender-Regionen/Regionales/Gemeindeverzeichnis/Administrativ/05-staedte.html>, (“**Destatis, Cities by Population**”);
- Eurostat, Database, Main Tables: “Gross domestic product at market prices”, last updated March 3, 2020, <https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00001&language=en>, (“**Eurostat, Gross Domestic Product**”);
- Organization for Economic Cooperation and Development, Housing Prices, last accessed June 24, 2020 (“**OECD, Housing Prices**”) <https://data.oecd.org/price/housing-prices.htm>;
- United Nations, Department of Economic and Social Affairs, database on world urbanization prospects, File 21: Annual Percentage of Population at Mid-Year Residing in Urban Areas by region, subregion and country, 1950-2050, last accessed on July 9, 2020, <https://population.un.org/wup/Download/>, (“**United Nations**”);
- Verband Deutscher Pfandbriefbanken, vdp Property Price Index 2003 - Q1.2020, time series, published May 5, 2020, [https://www.pfandbrief.de/site/en/vdp/real\\_estate/financing\\_and\\_market/vdp-property-price-index.html](https://www.pfandbrief.de/site/en/vdp/real_estate/financing_and_market/vdp-property-price-index.html), (“**vdp**”); and
- Wohnungsboerse.net, aktuelle Mietspiegeldaten in Deutschland, last accessed July 16, 2020, <https://www.wohnungsboerse.net/mietspiegel-mietpreise>, (“**wohnungsboerse**”).

In addition, the following sources used in this Prospectus were prepared during or after the COVID-19 pandemic and either deal explicitly with the effects of the pandemic or implicitly include them by presenting current figures:

- Destatis, German Federal Statistical Office, Dossier: Statistiken zur COVID-19-Pandemie, published August 3, 2020, [https://www.destatis.de/DE/Themen/Querschnitt/Corona/Downloads/dossier-covid-19.pdf?\\_\\_blob=publicationFile](https://www.destatis.de/DE/Themen/Querschnitt/Corona/Downloads/dossier-covid-19.pdf?__blob=publicationFile) (“**Destatis, Corona Dossier**”);
- Deutsche Bank Research, German property market outlook 2020, published May 5, 2020, [https://www.dbresearch.de/PROD/RPS\\_EN-PROD/PROD000000000507651/German\\_property\\_market\\_outlook\\_2020.PDF](https://www.dbresearch.de/PROD/RPS_EN-PROD/PROD000000000507651/German_property_market_outlook_2020.PDF), (“**DB Research**”);
- Destatis, German Federal Statistical Office, Press Release, “Gross domestic product in the 2nd quarter of 2020 down 10.1% on the previous quarter”, published July 30, 2020, [https://www.destatis.de/EN/Press/2020/07/PE20\\_287\\_811.html](https://www.destatis.de/EN/Press/2020/07/PE20_287_811.html), (“**Destatis, Press Release No. 287**”);
- Destatis, German Federal Statistical Office, Press Release, “June 2020: employment unchanged at previous month’s level after seasonal adjustment”, published July 30, 2020, [https://www.destatis.de/EN/Press/2020/07/PE20\\_284\\_132.html](https://www.destatis.de/EN/Press/2020/07/PE20_284_132.html), (“**Destatis, Press Release No. 284**”);
- European Commission, “European Economic Forecast – Spring 2020”, published May 6, 2020, [https://ec.europa.eu/info/sites/info/files/economy-finance/ip125\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf), (“**EEF**”);
- Federal Employment Agency (*Bundesagentur für Arbeit*), “Arbeitslosigkeit im Zeitverlauf: Entwicklung der Arbeitslosenquote (Strukturmerkmale)”, published July 2020, <https://statistik.arbeitsagentur.de/Statistikdaten/Detail/Aktuell/iiii4/alo-zeitreihe-dwo/alo-zeitreihe-dwo-b-0-xlsx.xlsx>, (“**Federal Employment Agency, Development of Unemployment Rate**”);
- Federal Employment Agency (*Bundesagentur für Arbeit*), Arbeitsmarkt im Überblick – Statistik nach Regionen – Bund, Länder und Kreise, reporting period July 2020, last accessed August 3, 2020,

<https://statistik.arbeitsagentur.de/DE/Navigation/Statistiken/Statistiken-nach-Regionen/Politische-Gebietsstruktur-Nav.html>, (“**Federal Employment Agency, Unemployment July 2020**”);

- German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*), Sondergutachten “Die gesamtwirtschaftliche Lage angesichts der Corona-Pandemie”, published March 22, 2020, <https://www.sachverstaendigenrat-wirtschaft.de/sondergutachten-2020.html>, (“**German Council, Special Report 2020**”);
- German Federal Reserve (*Deutsche Bundesbank*), Perspektiven der deutschen Wirtschaft für die Jahre 2020 bis 2022, monthly report June 2020, published June 22, 2020, <https://www.bundesbank.de/resource/blob/834276/8fd4a5ab552c6179e4982f459b6d108c/mL/2020-06-projektion-data.pdf>, (“**Bundesbank, Inflation**”); and
- German Federal Reserve (*Deutsche Bundesbank*), interest rates statistics, last accessed on June 24, 2020, <https://www.bundesbank.de/resource/blob/615022/1ad824a012e919f3729f69774cc6555d/mL/s510atgv-data.pdf>, (“**Bundesbank, Interest Rates**”).

It should be noted, in particular, that reference has been made in this Prospectus to information concerning markets and market trends. Such information was obtained from the aforementioned sources. The Company has accurately reproduced such information and, as far as the Company is aware and able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Prospective investors are, nevertheless, advised to consider this data with caution. For example, market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. The fact that information from the aforementioned third-party sources has been included in this Prospectus should not be considered as a recommendation by the relevant third parties to invest in, purchase, or take any other action with respect to, shares in the Company.

Irrespective of the assumption of responsibility for the content of this Prospectus by the Company and the Underwriters (see “*2.1 Responsibility Statement*”), neither the Company nor the Underwriters have independently verified the figures, market data or other information on which third parties have based their studies. Accordingly, the Company and the Underwriters make no representation or warranty as to the accuracy of any such information from third-party studies included in this Prospectus. In addition, prospective investors should note that the Company’s own estimates and statements of opinion and belief are not always based on studies of third parties.

## 2.6 Documents Available for Inspection

For the period during which this Prospectus remains valid, the following documents will be available for inspection on the Company’s website at [www.instone.de](http://www.instone.de) under the “Investor Relations” section:

- the Company’s articles of association (the “**Articles of Association**”);
- the unaudited condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2020 of the Company prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (“**IFRS**”), on interim financial reporting (IAS 34);
- the audited consolidated financial statements of the Company prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315e para. 1 of the German Commercial Code (*Handelsgesetzbuch*, “**HGB**”) as of and for the financial years ended December 31, 2019 and 2018; and
- the audited unconsolidated financial statements of the Company prepared in accordance with German generally accepted accounting principles of the HGB as of and for the financial year ended December 31, 2019.

The Company’s future consolidated financial statements, unconsolidated financial statements and condensed consolidated interim financial information will be available from the Company on its website and the paying agent designated in this Prospectus (see “*14.9 Announcements and Paying Agent*”). The Company’s consolidated and unconsolidated financial statements will also be or are published in the German Federal Gazette (*Bundesanzeiger*).

Information on the Company's website [www.instone.de](http://www.instone.de) and information accessible via this website is neither part of, nor incorporated by reference into, this Prospectus.

## **2.7 Currency Presentation**

In this Prospectus, “Euro” and “€” refer to the single European currency adopted by certain participating member states of the European Union, including Germany.

## **2.8 Presentation of Financial Information**

The financial information contained in this Prospectus is taken or derived from the audited consolidated financial statements of the Company as of and for the financial year ended December 31, 2019 and the unaudited condensed consolidated interim financial statements of the Company as of and for the six-month period ended June 30, 2020. Additional financial information is taken or derived from the Company's accounting records or internal reporting system.

Where financial information in the tables included this Prospectus is labeled “audited”, this means that it has been taken from the Company's audited financial statements mentioned in Section “2.6 Documents Available for Inspection”. The label “unaudited” indicates financial information that has not been taken from the audited financial statements mentioned above, but was taken either from the Company's condensed consolidated interim financial statements mentioned in Section “2.6 Documents Available for Inspection” or the Company's accounting records or internal reporting systems, or is based on calculations of figures from the aforementioned sources.

Unless indicated otherwise, all financial information presented in the text and tables below is shown in millions of Euro (in € million). Certain financial information, including percentages, has been rounded according to established commercial standards. As a result, the aggregate amounts (sum totals or subtotals or differences or if numbers are put in relation) may not correspond in all cases to the aggregated amounts of the underlying (unrounded) figures appearing elsewhere in this Prospectus. Furthermore, rounded figures in tables may not add up exactly to the totals contained in those tables.

Financial information presented in parentheses denotes the negative of such number presented. A dash (“-”) signifies that the relevant figure is not available, while a zero (“0.0”) signifies that the relevant figure is available but has been rounded to zero.

### **2.8.1 Comparability of Financial Information**

While not required in a prospectus based on the simplified disclosure regime for secondary issuances pursuant to Article 14 of Regulation (EU) 2017/1129 and Annex 3 and Annex 12 of Delegated Regulation (EU) 2019/980, this Prospectus also includes on a supplemental basis the consolidated financial statements of the Company as of and for the financial year ended December 31, 2018. In 2018, the Company applied IFRS 15 for the first time, resulting in a change of the accounting treatment of its project developments. Prior to January 1, 2018, Instone accounted for the revenue and costs of a project primarily at the point in time of full completion of the project. Starting from January 1, 2018, Instone accounted for its contracts with customers on the basis of revenue recognition over time. Instone started applying IFRS 15 based on the modified retrospective approach, *i.e.*, the financial information for 2017 was not restated. Accumulated differences as of January 1, 2018 were recognized in Group retained earnings (for further information, see F-66 et seq.). As a result of the application of IFRS 15 from January 1, 2018 onwards, Instone's financial information for 2017 is not comparable with the financial information for 2018, 2019 or the interim 2020 information.

### **2.8.2 Presentation of Adjusted Results of Operations and Other Key Indicators**

The presentation of Instone's adjusted results of operations is based on its segment reporting in accordance with IFRS 8. Instone operates in only one business segment and one geographical segment and generates its revenue and holds its assets mainly in Germany. Its segment reporting, which differs from the figures prepared in accordance with IFRS, reflects the internal management and reporting system used by Instone for its segment. In the internal reporting, Instone focuses on the development of housing projects, using adjusted results of operations. Instone's adjusted results of operations correspond to regrouped reported numbers, adjusted for reclassification items, purchase price allocation effects, share deal effects and non-recurring items that are not reflective of Instone's operating performance. Its adjusted results of operations include adjusted revenue, adjusted gross profit and adjusted earnings before interest and taxes, each as defined below:

- Adjusted revenue corresponds to revenue adjusted for purchase price allocation effects and share deal effects;
- Adjusted project cost is defined as material costs less changes in inventories, adjusted for reclassification items (indirect selling expenses and capitalized interest), purchase price allocation effects and share deal effects;
- Adjusted gross profit corresponds to adjusted revenue less adjusted project costs. Project costs corresponds to the difference between cost of materials and changes in inventories. Adjusted project costs corresponds to project costs adjusted for reclassification items, purchase price allocation effects and share deal effects;
- Adjusted gross profit margin corresponds to adjusted gross profit divided by adjusted revenue;
- Adjusted platform costs corresponds to platform costs adjusted for reclassification items (*i.e.*, indirect selling expenses allocated to project costs and other items) and non-recurring items. Platform costs corresponds to the sum of staff costs, other operating income, other operating expenses and depreciation and amortization;
- Adjusted EBIT for 2019 and 2018 corresponds to adjusted gross profit less adjusted platform costs. Adjusted EBIT for the six-month period ended June 30, 2020 as well as for the six-month period ended June 30, 2019 corresponds to adjusted gross profit less adjusted platform costs plus share of results of joint ventures. Share of results of joint ventures corresponds to the share of results of joint ventures as reported in Instone's consolidated income statement; and
- Adjusted EBIT margin corresponds to adjusted EBIT divided by adjusted revenue.

In addition to the presentation of Instone's adjusted results of operations, this Prospectus contains certain other financial measures and ratios that are not required by, or presented in accordance with, IFRS. The Company presents such measures because they are used by management in monitoring Instone's business and because Instone believes that they and similar measures are frequently used by securities analysts, investors and other interested parties in evaluating companies in the residential real estate development industry. Instone uses, among others, the following measures:

- Project portfolio as of a reporting date is the anticipated overall volume of revenue (also referred to as gross development value) from all approved projects that form the portfolio;
- Volume of new customer sales contracts refers to the sum, over the relevant reporting period, of all sales-related transactions, such as notarized real estate purchase agreements, individual orders from customers and rental income. Volume of customer sales contracts reflects Instone's success in marketing its project development, which generally starts prior to construction;
- Volume of new management approvals is defined as the monetary volume of new land and development projects for which internal approvals are granted and property access is secured (*e.g.*, by means of exclusivity, notarized purchase agreements) in the relevant period. The volume of management approvals reflects the Company's success in acquiring new land and development projects;
- Adjusted EAT corresponds to EAT adjusted for reclassification items (indirect selling expenses and capitalized interest), purchase price allocation effects, share deal effects and non-recurring items;
- Cash flow from operations without new investments corresponds to cash flow from operations less cash outflow due to payments for land (excluding ancillary costs);
- Free cash flow corresponds to the sum of cash flow from operations and cash flow from investing activities;
- Net financial debt corresponds to the sum of non-current financial liabilities and current financial liabilities less cash and cash equivalents;

- Leverage ratio adjusted corresponds to net financial debt divided by the sum of adjusted EBIT and depreciation and amortization for the twelve-month period ended on the date indicated; and
- ROCE refers to return on capital employed, which is defined as adjusted EBIT divided by the sum of the two-year average of equity capital (at the end of the relevant prior year and at the relevant current balance sheet date) plus net financial debt.

Most of the key indicators contained in this Prospectus are not recognized as measures under IFRS and should not be considered as substitutes for figures on consolidated earnings before tax, net earnings, cash flow from operating activities or other consolidated statement of financial position or cash flow data, as determined in accordance with IFRS, or as measures of profitability or liquidity. Such key indicators do not necessarily indicate whether cash flow will be sufficient or available for Instone’s cash requirements, nor whether any such measure is indicative of its historical operating results. The key indicators are not meant to be indicative of future results. Because not all companies calculate these measures and figures in the same way, Instone’s presentation of the key indicators is not necessarily comparable with similarly titled measures used by other companies.

## **2.9 Regulatory Disclosure pursuant to Regulation (EU) No 596/2014**

### **2.9.1 Disclosure pursuant to Article 17 of Regulation (EU) No 596/2014**

Within the last 12 months from the date of this Prospectus, the Company has made the following disclosures pursuant to Article 17 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (“**MAR**”) that are relevant as of the date of this Prospectus:

By disclosure of inside information (*ad hoc announcement*) pursuant to Article 17 MAR on August 15, 2019 the Management Board announced, that the Company has entered into a binding agreement for the acquisition from Sontowski & Partner Group of the residential property development activities bundled in S&P Stadtbau GmbH at an aggregate purchase price of approximately €74 million (based on all outstanding equity and debts as well as including transactions costs).

The forecast upgrade for the financial year 2019 disclosed on September 16, 2019 as well as the preliminary results for the financial year 2019 disclosed on February 19, 2020 are both prevailed by the disclosure and release of the actual results and the annual report of Instone Group for the financial year 2019 on March 19, 2020.

By disclosure of inside information (*ad hoc announcement*) pursuant to Article 17 MAR on May 7, 2020 the Management Board announced that it suspended its forecast for financial year 2020 due to the significant uncertainties associated with the COVID-19 pandemic.

By disclosure of inside information (*ad hoc announcement*) pursuant to Article 17 MAR on August 26, 2020 it was announced that the Management Board, with consent of the Supervisory Board, has resolved on the Capital Increase.

Except for the disclosures mentioned above, the Company has not made any further publications in accordance with Article 17 MAR in the last 12 months that are relevant at the date of this Prospectus.

### **2.9.2 Disclosure pursuant to Article 19 of Regulation (EU) No 596/2014**

Within the last twelve months from the date of this Prospectus, the Company has made the following disclosures pursuant to Article 19 MAR with regard to transactions by persons discharging managerial responsibilities and persons closely associated with them (*directors’ dealings*):

<u>Publication Date</u>	<u>Transaction Date</u>	<u>Name of person</u>	<u>Transaction description</u>
April 9, 2020	April 7, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €1,095.20 at a price of €14.80)
April 9, 2020	April 7, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €1,568.62 at a price of €14.66)
April 9, 2020	April 7, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €5,261.54 at a weighted average price of €14.6970)

April 9, 2020	April 7, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €35,539.62 at a weighted average price of €14.7162)
April 9, 2020	April 7, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €23,899.94 at a weighted average price of €14.6986)
April 9, 2020	April 6, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €31,330.94 at a weighted average price of €14.5252)
April 9, 2020	April 6, 2020	Dr. Foruhar Madjlessi	share acquisition (aggregated volume of €47,471.76 at a weighted average price of €14.5485)
March 25, 2020	March 25, 2020	Dr. Jochen Scharpe	share acquisition (aggregated volume of €79,500.00 at a price of €15.90)
September 2, 2019	August 30, 2019	Stefan Brendgen	share acquisition (aggregated volume of €44,000.06 at a price of €17.6000024)
August 30, 2019	August 29, 2019	Stefan Brendgen	share acquisition (aggregated volume of €44,472.80 at a price of €17.78912)
August 30, 2019	August 28, 2019	Stefan Brendgen	share acquisition (aggregated volume of €46,648.82 at a price of €18.659528)
August 28, 2019	August 27, 2019	Thomas Hegel	share acquisition (aggregated volume of €20,614.00 at a price of €18.7400) executed via a joint custody account with wife Ingrid Wolter
June 18, 2019	June 17, 2019	Stefan Brendgen	derivative acquisition (aggregated volume of €36,900.00 at a price of €0.41)
June 18, 2019	June 14, 2019	Stefan Brendgen	derivative acquisition (aggregated volume of €4,300.00 at a price of €0.43)
June 14, 2019	June 13, 2019	Dr. Jochen Scharpe	share acquisition (aggregated volume of €82,306.25 at a weighted average price of €20.5765625)
June 14, 2019	June 12, 2019	Dr. Jochen Scharpe	share acquisition (aggregated volume of €82,705.10 at a weighted average price of €20.676525)
June 14, 2019	June 11, 2019	Dr. Jochen Scharpe	share acquisition (aggregated volume of €41,644.10 at a weighted average price of €20.82205)



### 3. THE OFFERING

#### 3.1 Subject Matter of the Offering

This offering relates to 9,863,556 Offer Shares, which will be offered to the Company's shareholders for subscription by means of indirect subscription rights (*mittelbares Bezugsrecht*) at a ratio of 15:4 (15 existing shares entitle to subscribe for 4 Offer Shares at the subscription price per Offer Share of €18.20 (the "**Subscription Price**") (the "**Subscription Offer**"). To achieve an even subscription ratio, a shareholder has waived one subscription right resulting from an existing share towards the Company. The Offer Shares originate from a capital increase with subscription rights against contribution in cash through which the Company's registered share capital will be increased from €36,988,336.00 to €46,988,336.00 through the issue of 10,000,000 New Shares, resolved by the Management Board on August 26, 2020, approved by the Supervisory Board on the same day, utilizing the Authorized Capital 2018. With respect to a fractional share amount of 136,444 shares originating from the Capital Increase, the subscription rights of the shareholders have been excluded. The consummation of the Capital Increase is expected to be registered with the commercial register at the local court (*Amtsgericht*) of Essen, Germany (the "**Commercial Register**") on or around September 15, 2020.

The Subscription Offer will include (i) a public offering in Germany, (ii) private placements in the United States of America (the "**United States**") to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**") and (iii) private placements to eligible investors outside the United States in offshore transactions within the meaning of, and in reliance on, Regulation S under the Securities Act. The fractional shares, for which the subscription rights of shareholders have been excluded, will be offered to qualified investors by way of private placements in certain jurisdictions at a price at no less than the Subscription Price. Any Offer Shares that are not subscribed for in the Subscription Offer and any unplaced fractional shares (the "**Rump Shares**") will be offered by the Underwriters for sale to eligible investors in selected jurisdictions at a price at least as high as the Subscription Price by way of private placements (the "**Rump Placement**" and, together with the placement of the fractional shares and the Subscription Offer, the "**Offering**"). In the United States, the Rump Shares will only be offered in the course of the Rump Placement to QIBs in a transaction meeting the requirements of Rule 144A under the Securities Act and outside the United States to eligible investors in offshore transactions in reliance on Regulation S under the Securities Act.

Credit Suisse and Deutsche Bank are acting as Joint Global Coordinators and, together with MAINFIRST and UniCredit, also as Underwriters. The Offering is based on the underwriting agreement dated August 26, 2020 among the Company and the Underwriters (the "**Underwriting Agreement**"). This Offering is subject to, among other things, registration of the consummation of the Capital Increase with the Commercial Register.

The final results of the Subscription Offer will be published on the Company's website. Under certain circumstances, the Offering may be terminated. See below "**3.3 Subscription Offer**".

#### 3.2 Expected Timetable for the Offering

The following is the expected timetable of the Subscription Offer, which may be extended or shortened:

August 27, 2020 .....	Approval of the Prospectus by BaFin
	Publication of the approved Prospectus on the Company's website www.instone.de under the "Investor Relations" section
August 28, 2020 .....	Publication of Subscription Offer in the German Federal Gazette ( <i>Bundesanzeiger</i> )
September 1, 2020.....	Commencement of the subscription period
	Commencement of trading of the subscription rights
	"Ex rights" trading of shares
September 9, 2020.....	End of the subscription rights trading (about 12:00 (noon) CEST)
September 14, 2020.....	End of the subscription period (about 17:30 CEST)

	Last day for payment of the Subscription Price
	Application for registration of the consummation of the Capital Increase with the Commercial Register
September 15, 2020.....	Announcement of the final results of the Subscription Offer on the Company's website
	Rump Placement of the Rump Shares
	Registration of the consummation of the Capital Increase with the Commercial Register
September 16, 2020.....	Admission of the New Shares to the regulated market ( <i>regulierter Markt</i> ) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
	Publication of the admission of the New Shares in the German Federal Gazette ( <i>Bundesanzeiger</i> ) and at <a href="http://www.deutsche-boerse.com">www.deutsche-boerse.com</a> , the website of the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
September 17, 2020.....	Commencement of the trading of the New Shares on the regulated market ( <i>regulierter Markt</i> ) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
	Book-entry delivery of the New Shares

This Prospectus will be published on the Company's website at [www.instone.de](http://www.instone.de) under the "Investor Relations" section. Printed copies of this Prospectus are available from the Company free of charge during normal business hours at the following address: Instone Real Estate Group AG, Grugaplatz 2-4, 45131 Essen, Germany.

### 3.3 Subscription Offer

The following is an English language translation of the German-language Subscription Offer. The German-language Subscription Offer is expected to be published in the German Federal Gazette (*Bundesanzeiger*) on August 28, 2020:

**"Instone Real Estate Group AG,  
Essen, Germany  
(ISIN DE000A2NBX80 / WKN A2NBX8)**

On June 29, 2018, the ordinary shareholders' meeting of Instone Real Estate Group AG (the "**Company**") adopted a resolution, which was registered with the commercial register at the local court (*Amtsgericht*) of Essen, Germany (the "**Commercial Register**") on August 28, 2018, authorizing the management board of the Company (the "**Management Board**"), pursuant to Article 6.1 of the articles of association of the Company and subject to the approval of the supervisory board of the Company (the "**Supervisory Board**"), to increase the share capital of the Company by an amount of up to €18,450,000.00 by issuing, once or in several instances, up to 18,450,000 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*) against contributions in cash and/or in kind in the period until June 28, 2023.

In exercising this authorization, the Management Board resolved on August 26, 2020, with the approval of the Supervisory Board on the same day, to increase the Company's share capital from €36,988,336.00 by €10,000,000.00 to €46,988,336.00 against contributions in cash through the issuance of 10,000,000 new ordinary bearer shares with no-par value, each such share representing a notional value of €1.00 and carrying full dividend rights as of January 1, 2020 (the "**Capital Increase**").

In connection with the Capital Increase, the Company's existing shareholders will be granted the statutory subscription right with respect to 9,863,556 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), originating from the Capital Increase (the "**Offer Shares**") in the form of an indirect subscription right (*mittelbares Bezugsrecht*) pursuant to Section 186 para. 5 of the German Stock Corporation Act (*Aktiengesetz*). With respect to a fractional share amount of 136,444 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), the subscription rights of the shareholders have been excluded.

Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, United Kingdom, telephone: +44 20 7888-8888, website: www.credit-suisse.com, LEI DL6FFRRLF74S01HE2M14 ("**Credit Suisse**"), Deutsche Bank Aktiengesellschaft, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany, telephone: +49 69 910-30128, website: www.db.com, LEI 7LTWFZYICNSX8D621K86 ("**Deutsche Bank**"), and, together with Credit Suisse, the "**Joint Global Coordinators**", MAINFIRST BANK AG, Kennedyallee 76, 60596 Frankfurt am Main Germany, telephone: +49 69 78808 175, website: www.mainfirst.com, LEI 529900MC68RTGHKI4F05 ("**MAINFIRST**") and UniCredit Bank Aktiengesellschaft, Arabellastraße 12, 81925 Munich, Germany, telephone: +49 89 378 15050; website: www.hypovereinsbank.de, LEI 2ZCNR8UK83OBTEK2170 ("**UniCredit**" and, together with MAINFIRST and the Joint Global Coordinators, the "**Underwriters**") have agreed, pursuant to the underwriting agreement dated August 26, 2020 and concluded between the Company and the Underwriters (the "**Underwriting Agreement**"), to offer the Offer Shares to the shareholders of the Company at a ratio of 15:4 (15 existing shares entitle to subscribe for 4 Offer Shares) (the "**Subscription Offer**"), subject to the terms set forth below under "*Important Notice*". To achieve an even subscription ratio, a shareholder has waived one subscription right resulting from an existing share towards the Company.

The subscription rights for the Offer Shares (ISIN DE000A289WQ9/WKN A289WQ) attributable to the existing shares of the Company (ISIN DE000A2NBX80/WKN A2NBX8) will automatically be delivered by Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany, to the custodian banks on September 3, 2020 as per the status on September 2, 2020 at 11:59 p.m. CEST (Record Date). The custodian banks are responsible for booking the subscription rights to the eligible custodian accounts of the Company's existing shareholders.

The implementation of the Capital Increase is expected to be registered with the Commercial Register on September 15, 2020.

#### ***Subscription Period and Exercise of the Subscription Rights***

To avoid exclusion from the exercise of their subscription rights, shareholders who want to purchase Offer Shares have to exercise their subscription rights relating to the Offer Shares in the period

**from September 1, 2020 up to and including September 14, 2020**

through their custodian bank at the subscription agent Deutsche Bank during regular business hours (the "**Subscription Period**"). Investors are recommended to follow the respective instructions by their custodian banks. Subscription rights that are not exercised in a timely manner will lapse and be of no value. No compensation will be payable for subscription rights that are not exercised.

The subscription agent has its office in Frankfurt am Main, Germany.

In accordance with the subscription ratio of 15:4, 15 existing shares of the Company entitle the holder to subscribe for 4 Offer Shares at the subscription price per Offer Share. Shareholders may only subscribe for one share or multiples thereof. To achieve an even subscription ratio, a shareholder has waived one subscription right resulting from an existing share towards the Company. The notice of the exercise of subscription rights is binding upon its receipt by the subscription agent and cannot be altered afterwards. The exercise of the subscription rights is, however, conditional upon the registration of the implementation of the capital increase with the Commercial Register and subject to the other limitations set forth below under "*Important Notice*". The transfer of the Offer Shares to the shareholders of the Company that have exercised their subscription rights in the Offer Shares will be made by Deutsche Bank through the depository banks.

### ***Subscription Price***

The subscription price per Offer Share is €18.20 (the “**Subscription Price**”). The Subscription Price must be paid no later than September 14, 2020.

### ***Trading in Subscription Rights***

In connection with the Subscription Offer, the subscription rights (ISIN DE000A289WQ9/ WKN A289WQ) for the Offer Shares and fractional amounts of subscription rights will be traded on the regulated market (*regulierter Markt*) (Xetra and Xetra Frankfurt Specialist) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the period from September 1, 2020 up to and including September 9, 2020. Neither the Company nor the subscription agent will apply for admission of the subscription rights to trading on any other stock exchange. The market price of the subscription rights depends, *inter alia*, on the development of the price of the Company’s shares, but it may deviate substantially from the price of the Company’s shares. No compensation will be paid for subscription rights not exercised. Upon expiration of the subscription period, subscription rights not exercised will lapse and be of no value. The purchase of 15 subscription rights enables the exercise of the subscription rights for the purchase of 4 Offer Shares, *i.e.*, 4 Offer Shares may be purchased for 15 subscription rights.

As of September 1, 2020, the existing shares of the Company (ISIN DE000A2NBX80/ WKN A2NBX8) will be quoted as “ex-rights” on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

Credit Suisse may effect transactions on behalf of the Underwriters to provide liquidity for fair and orderly subscription rights trading and other measures customarily undertaken in this regard, such as, in particular, purchasing and selling subscription rights for Offer Shares or undertaking hedging transactions in the Company’s shares, subscription rights or corresponding derivatives. Such measures and hedging transactions may influence the stock price or market rate of the subscription rights and shares in the Company. However, there is no guarantee that active trading in the Company’s subscription rights will develop on the aforementioned stock exchange and that there will be enough liquidity during the period of subscription rights trading.

The price of the subscription rights is determined continuously during the ordinary times of trading. On September 9, 2020, the subscription rights trading on Xetra will end with a closing auction starting not before 11:45 a.m. CEST and on Xetra Frankfurt Specialist with a special midday auction starting at 12:00 (noon) CEST.

The market price of the subscription rights is determined by the development of the price of the Company’s shares but may be subject to stronger fluctuations than the share price.

### ***Important Notice***

**Prior to making a decision to exercise, purchase or sell subscription rights for the Offer Shares, shareholders and investors are advised to carefully read the securities prospectus dated August 27, 2020, for the public offering of the Offer Shares (the “Prospectus”) and to take particular note of the risks described in section “1. Risk Factors” of the Prospectus and to consider such information when making their decision. In light of the potentially high volatility of equity prices and the market environment, shareholders should inform themselves of the Company’s current share price before exercising their subscription rights for the Offer Shares at the Subscription Price. The Company reserves the right to withdraw from the Subscription Offer, in particular, in the event of a deterioration of the market conditions.**

The Underwriters are entitled, under certain circumstances, to terminate the Underwriting Agreement or to decide, together with the Company, to extend the Subscription Period. These circumstances include, amongst others, a loss or interference with respect to the Company’s business from fire, explosion, flood or other calamity (whether or not covered by insurance), or from any labor dispute or court or governmental action, order or decree, a material change or development reasonably likely to result in a material change to the share capital of the Company, in long-term debt of the Company, in the condition, business, prospects, management, financial position, shareholders’ equity or results of operations of the Company and/or its group, the incurrence of a material liability or obligation, direct or contingent, a suspension in trading (other than for technical reasons) in securities of the Company or in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange or the New York Stock Exchange or a general moratorium on banking activities, a material

adverse change in national or international financial, political, or economic conditions or currency exchange rates or currency controls, which could have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States, the outbreak or escalation of hostilities, or the declaration of a national emergency or war which have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States or the occurrence of any acts of terrorism or any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or currency control, which have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States. The Underwriters are further relieved from their obligations under the Underwriting Agreement, if the implementation of the capital increase is not registered with the Commercial Register at the local court (*Amtsgericht*) of Essen, Germany, on the second business day following the day on which the Offer Shares and the fractional shares were subscribed, by 11:59 p.m. CEST, and the Underwriters and the Company fail to reach an agreement on a later deadline.

If the Underwriters terminate the Underwriting Agreement or the Company withdraws from the Subscription Offer before the implementation of the capital increase has been registered with the Commercial Register, shareholders' subscription rights will lapse without compensation. In this case, the institutions brokering subscription rights trading will not reverse any transactions already completed with investors. Accordingly, investors who have acquired subscription rights through a stock exchange would suffer a complete loss. In addition, if, at the time of the termination, any sales of Offer Shares have already been made, the seller of the relevant shares bears the risk of not being able to meet the delivery obligation by delivering Offer Shares. If the Underwriters terminate the Underwriting Agreement after the registration of the implementation of the capital increase in the Commercial Register, shareholders and purchasers of subscription rights who have exercised their subscription rights will be entitled to acquire Offer Shares at the Subscription Price; a withdrawal of the shareholders and those having acquired and exercised subscription rights is no longer possible in such case.

#### *Form and Delivery of the Offer Shares*

The Offer Shares (ISIN DE000A2NBX80/WKN A2NBX8) will be represented by a global share certificate, which will be deposited with Clearstream Banking Aktiengesellschaft. Under the Company's articles of association, shareholders are not entitled to have their shares evidenced by individual share certificates. Unless the Subscription Period is extended or the Subscription Offer is cancelled, the Offer Shares subscribed for in the Subscription Offer are expected to be made available to the collective securities custody as a co-ownership proportion in the global share certificate on or about September 17, 2020. In the same way, the Offer Shares acquired in the Rump Placement (as described below) are expected to be made available on September 17, 2020, *i.e.*, after the end of the Rump Placement. The Offer Shares hold the same rights as all other shares of the Company (including full dividend rights from the financial year starting January 1, 2020) and do not convey any additional rights or advantages.

#### *Commission*

The custodian banks may charge a customary commission in connection with the subscription of the Offer Shares as well as for the sale and purchase of subscription rights.

#### *Placement of Unsubscribed Offer Shares and Unplaced Fractional Shares / Rump Placement*

The Underwriters will offer any Offer Shares that are not subscribed for in the Subscription Offer and any unplaced fractional shares (the "**Rump Shares**") for sale to eligible investors in the Federal Republic of Germany ("**Germany**") and other selected jurisdictions at a price at least as high as the Subscription Price (the "**Rump Placement**"). In the United States of America ("**United States**"), the Rump Shares will only be offered to qualified institutional buyers ("**QIBs**") within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), meeting the requirements of Rule 144A under the Securities Act and outside the United States to eligible investors in offshore transactions in reliance on Regulation S under the Securities Act. The fractional shares, for which the subscription rights of shareholders have been excluded, will be offered to qualified investors by way of private placements in certain jurisdictions, also outside the Rump Placement, at a price at no less than the Subscription Price.

#### *Information on the Subscription for Offer Shares by Certain Shareholders*

Kruno Crepulja (CEO) and Andreas Gräf (COO), both members of the Management Board, have indicated to the Company and the Underwriters that they intend to sell a portion of their subscription rights for

Offer Shares and to use the proceeds therefrom to exercise the remaining portion of their subscription rights for Offer Shares (*opération blanche*). In addition, Dr. Foruhar Madjlessi (CFO), member of the Management Board, has indicated to the Company and the Underwriters that he intends to fully exercise his subscription rights for the Offer Shares out of freely available funds.

#### ***Admission to Trading and Listing of the Offer Shares***

The admission to trading of the Offer Shares on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to be granted on September 16, 2020. The Offer Shares are expected to be included in the existing quotation of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (ISIN DE000A2NBX80/ WKN A2NBX8) on September 17, 2020.

#### ***Selling Restrictions***

The Offer Shares and the subscription rights will only be publicly offered in Germany. Neither the Offer Shares nor the subscription rights have been or will be registered under the Securities Act or with the securities regulatory authority of any state or other jurisdiction of the United States. The Offer Shares and subscription rights may at no time be offered, sold, exercised, pledged, transferred or delivered, directly or indirectly, to or within the United States, except pursuant to an exemption from the registration requirements of the Securities Act, in a transaction not subject to the registration requirements of the Securities Act or in a transaction outside the registration requirements of the Securities Act and any applicable securities laws of any state of the United States.

The acceptance of this offer outside Germany may be subject to restrictions. Persons who intend to accept this offer outside Germany are requested to inform themselves of and comply with the restrictions that exist outside Germany.

#### ***Stabilization Measures***

In connection with the placement of the Offer Shares, no stabilization measures will be undertaken by, or on behalf of, the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the over-the-counter market (*Freiverkehr*) or otherwise.

#### ***Availability of Prospectus***

The Prospectus has been published on the Company's website ([www.instone.de](http://www.instone.de) under the "Investor Relations" section) on August 27, 2020. Printed copies of the Prospectus will be available for distribution free of charge during normal business hours at Instone Real Estate Group AG, Grugaplatz 2-4, 45131 Essen, Germany.

Essen, August 28, 2020

Instone Real Estate Group AG

The Management Board"

### **3.4 Subscription Rights Not Exercised and Transferability**

Subscription rights not exercised within the Subscription Period will become void and have no value. The subscription rights are fully transferable.

### **3.5 Lock-up Agreement**

In the Underwriting Agreement, the Company has agreed with the Underwriters that, during the period commencing on August 26, 2020 and ending six months after the first day of trading of the New Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), without the prior written consent of the Joint Global Coordinators, which shall not be unreasonably withheld, the Company will not, and will not agree to:

- announce or effect an increase of the Company's share capital out of authorized capital or contingent capital, if any;

- propose to its shareholders' meeting an increase of the Company's share capital;
- announce, effect or propose the issuance of securities with conversion or option rights on the Company's shares;
- offer, pledge, allot, issue (unless required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares in the Company's capital or any securities convertible into or exercisable or exchangeable for shares in the Company's capital or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares in the Company's capital; or
- enter into a transaction or perform any action economically similar to those described above.

The foregoing does, however, not apply to (i) any increase of the Company's share capital in connection with the Capital Increase and the issuance of the New Shares, (ii) any increase of the Company's share capital if the relevant subscriber of shares in the Company undertakes vis-à-vis the Company to observe and comply with the then remaining portion of the lock-up as set forth above, or (iii) proposals to the Company's shareholders' meeting to create authorized capital, contingent capital, an authorization to issue securities convertible into or exercisable or exchangeable for shares in the Company's share capital (such authorizations, for the avoidance of doubt, not to be exercised throughout the lock-up period). The Company may further issue or sell shares or other securities to directors or employees of the Company or of its subsidiaries under a customary directors' and/or employees' stock option plan.

### **3.6 Dilution**

The rights of the shareholders to subscribe for the Offer Shares from the Capital Increase ensure that each shareholder exercising its subscription rights will continue to hold its original, nearly unchanged percentage of ownership in the Company's share capital and voting rights following the Capital Increase. To the extent that shareholders do not exercise their subscription rights, and assuming that all New Shares will be issued, each shareholder's participation in the Company's share capital and voting rights will be diluted by approximately 21.3%.

The net book value as of June 30, 2020 (corresponding to the total assets less goodwill, less intangible assets less total non-current liabilities and less total current liabilities) derived from the Company's unaudited condensed consolidated interim financial statements prepared in accordance with IFRS on interim financial reporting (IAS 34) amounted to €317.1 million, which resulted in a net book value per Share of €8.57 (rounded and based on 36,988,336 shares outstanding immediately prior to the Offering).

Assuming a placement of all 10,000,000 New Shares (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price) from the Capital Increase at a Subscription Price of €18.20 per New Share (and after deducting the estimated expenses relating to the Offering amounting to approximately €7.8 million), the net book value of the Company as of June 30, 2020 would increase by €174.2 million to €491.2 million, which would result in a net book value per share of €10.45 per Share (calculated as adjusted for the effects of the Offering assuming 46,988,336 shares of the Company will be outstanding after completion of the Offering).

This corresponds to an increase of the Company's net book value of €1.88 or 22.0% per Share for the Company's existing shareholders as a result of the Offering and entails an immediate decrease in net book value per Share for the purchasers of New Shares of €7.75 or 42.6% per Share since the net book value per Share of the Company is below the Subscription Price per Share by this amount or percentage.

### **3.7 Costs of the Offering and Net Issue Proceeds**

Assuming the placement of all 10,000,000 New Shares (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price) at the Subscription Price, the Company will receive gross proceeds from this Offering in the amount of approximately €182.0 million. The total expenses of the Offering, including the commissions for the Underwriters, are expected to amount to approximately €7.8 million and the net proceeds from the Capital Increase are thus expected to amount to approximately €174.2 million.

Investors will not be charged expenses by the Company or the Underwriters. Investors will have to bear such costs that may occur in connection with the securities, including possible fees charged by their depository banks in connection with the subscription and holding of the securities.

### **3.8 Additional Selling Restrictions**

Neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction other than Germany except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required to inform themselves about and observe any such restrictions, including those set out in the preceding paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

#### **3.8.1 United States of America**

The Company does not intend to register either the Offering or any portion of the Offering in the United States or to conduct a public offering of shares in the United States. The New Shares and the subscription rights have not been, and will not be, registered pursuant to the provisions of the Securities Act or with the securities regulators of the individual states of the United States and may not be offered, sold or delivered, directly or indirectly, in or into the United States except pursuant to an exemption from the registration and reporting requirements of the United States securities laws and in compliance with all other applicable United States legal regulations. The New Shares may be sold in or into the United States only to persons who are QIBs within the meaning of Rule 144A or another exemption from registration, and outside the United States in accordance with Rule 903 of Regulation S and in compliance with other United States legal regulations, and no “direct selling efforts” as defined in Regulation S may take place. Any offer or sale of shares in reliance on Rule 144A will be made by broker dealers who are registered as such under the Securities Act. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of this Offering, an offer or sale of shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

#### **3.8.2 United Kingdom**

Sales in the United Kingdom are also subject to restrictions. The Underwriters will represent and warrant to the Company that: (i) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any New Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and (ii) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Shares in, from or otherwise involving the United Kingdom.

#### **3.8.3 European Economic Area and the United Kingdom**

The Underwriters will further represent and warrant in the Underwriting Agreement that they have not and will not publicly offer the New Shares in any of the member states of the EEA that are subject to the Regulation (EU) 2017/1129 and the United Kingdom (each, a “**Relevant State**”), other than the offers contemplated in this prospectus, except that the Underwriters may make an offer to the public in that Relevant State of any New Shares at any time under the following exemptions under the Regulation (EU) 2017/1129: (a) solely to qualified investors; (b) to fewer than 150 natural or legal persons (other than qualified investors) subject to obtaining the prior consent of the Underwriters for any such offer; or (c) in any other circumstances falling within Article 1 No. 4 of the Regulation (EU) 2017/1129, provided that no such offer (as set forth in clauses (a) to (c)) of New Shares shall result in a requirement for the publication by the Company or the Underwriters of a prospectus pursuant to Article 3 of the Regulation (EU) 2017/1129. The expression an “offer to the public” in relation to the New Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any New Shares to be offered so as to enable an investor to decide to purchase or subscribe for any New Shares.



### 3.9 Underwriting Agreement

On August 26, 2020, the Company and the Underwriters entered into the Underwriting Agreement with respect to the Offering. The Underwriters have undertaken to firmly underwrite the New Shares.

Pursuant to the Underwriting Agreement, each of the Underwriters has severally agreed to underwrite the number of Offer Shares set forth below. The Company has agreed to issue the corresponding number of Offer Shares to the Underwriters:

<u>Underwriters</u>	<u>Address</u>	<u>Number of Offer Shares</u>	<u>Percentage of Offer Shares</u>
Credit Suisse Securities (Europe) Limited	One Cabot Square London E14 4QJ United Kingdom	4,142,694	42.00
Deutsche Bank Aktiengesellschaft .....	Mainzer Landstraße 11-17 60329 Frankfurt am Main Germany	4,142,694	42.00
MAINFIRST BANK AG .....	Kennedyallee 76 60596 Frankfurt am Main Germany	789,084	8.00
UniCredit Bank Aktiengesellschaft .....	Arabellastraße 12 81925 Munich Germany	789,084	8.00
<b>Total</b> .....		<b>9,863,556</b>	<b>100.00</b>

In addition, Credit Suisse has agreed to firmly underwrite 136,444 fractional shares and the Company has agreed to issue the corresponding number of fractional shares to Credit Suisse.

The Subscription Offer will include (i) a public offering in Germany, (ii) private placements in the United States to QIBs and (iii) private placements to eligible investors outside the United States in offshore transactions within the meaning of, and in reliance on, Regulation S under the Securities Act. The fractional shares, for which the subscription rights of shareholders have been excluded, will be offered to qualified investors by way of private placements in certain jurisdictions at a price at no less than the Subscription Price. The Rump Shares will be offered by the Underwriters for sale in the Rump Placement. In the United States, the Rump Shares will only be offered in the course of the Rump Placement to QIBs in a transaction meeting the requirements of Rule 144A under the Securities Act and outside the United States to eligible investors in offshore transactions in reliance on Regulation S under the Securities Act.

The Underwriting Agreement also stipulates that the Company must release the Underwriters from certain liabilities and that the Underwriters' obligations under the Underwriting Agreement are contingent on the fulfillment of certain conditions, including, for example, the receipt of standard legal opinions.

Under the Underwriting Agreement, the Company is obliged to pay the Underwriters basic placement commissions of 2.45% of the aggregate gross proceeds from the Offering. The overall fees to be paid by the Company to the Underwriters amount to approximately €6.0 million based on the assumption of the placement of all New Shares at the Subscription Price (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price). The Company has also agreed to reimburse the Underwriters for certain expenses incurred by them in connection with the Offering.

See section "3.3 Subscription Offer" above for additional information on termination rights under the Underwriting Agreement.

### 3.10 Information on the Subscription for Offer Shares by Certain Shareholders

Kruno Crepulja (CEO) and Andreas Gräf (COO), both members of the Management Board, have indicated to the Company and the Underwriters that they intend to sell a portion of their subscription rights for Offer Shares and to use the proceeds therefrom to exercise the remaining portion of their subscription rights for Offer Shares (*opération blanche*). In addition, Dr. Foruhar Madjlessi (CFO), member of the Management Board, has indicated to the Company and the Underwriters that he intends to fully exercise his subscription rights for the Offer Shares out of freely available funds.

### 3.11 Interests of Parties Participating in the Offering

In connection with the Offering and the listing of the New Shares, the Underwriters have entered into a contractual relationship with the Company under the Underwriting Agreement. The Underwriters will advise the Company on the Offering and the admission of the New Shares to trading on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and will receive a commission in return upon successful completion of the Offering, the size of which depends on the results of the Offering. As a result, the Underwriters have a financial interest in the success of the Offering.

Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates may take up a portion of the New Shares in the Offering and in that capacity may retain, purchase or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares in the Issuer. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Additionally, the Underwriters or companies affiliated with them have, and may from time to time in the future continue to have, other business relationships with the Company or its group and render other services to the Company or its group in the ordinary course of business, for which they may receive customary fees and commissions. The Company as borrower and Credit Suisse as lender entered into a revolving credit facility agreement in March 2020 providing the Company with a €10 million revolving credit facility. Credit Suisse therefore has a financial interest in the success of the Offering.

The members of the Company's Management Board (*i.e.*, Kruno Crepulja, Andreas Gräf, Dr. Foruhar Madjlessi) and several members of the Company's Supervisory Board (*i.e.*, Dr. Jochen Scharpe, Stefan Brendgen, Thomas Hegel) hold shares of the Company and therefore have a personal interest in the performance of the Company's share price.

Other than the interests described above, there are no material interests. None of the aforementioned interests in the Offering or the listing of the New Shares constitute a conflict of interests or a potential conflict of interests. Consequently, there are no conflicts of interest with respect to the Offering and the listing of the New Shares.

## 4. INFORMATION ON THE NEW SHARES

### 4.1 Current and Future Share Capital; Legal Framework for the Creation of the New Shares

The provisions of the German Stock Corporation Act (*Aktiengesetz*, “AktG”) on capital increases by utilizing authorized capital against cash contributions, sections 202 et seq. and sections 182 et seq. AktG, form the legal basis for the issuance of the New Shares.

As of the date of this Prospectus, the share capital of the Company amounts to €36,988,336.00 and is divided into 36,988,336 ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each such share representing a notional value of €1.00. The share capital has been fully paid up. The Company’s shares were originally created pursuant to Dutch law and are now, as a consequence of the conversion of the Company into a German stock corporation (*Aktiengesellschaft*), governed by the laws of Germany.

By resolution of the Company’s ordinary shareholders’ meeting of June 29, 2018, the Management Board is, under the Authorized Capital 2018, authorized, subject to the consent of the Supervisory Board, to increase the share capital of the Company by an amount of up to €18,450,000.00 by issuing, once or in several instances, up to 18,450,000 new ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*) against contributions in cash and/or in kind in the period until June 28, 2023. The Authorized Capital 2018 was registered with the Commercial Register on August 28, 2018. By resolution of the Management Board dated August 26, 2020, with approval of the Supervisory Board on the same day, the Management Board resolved to increase the Company’s registered share capital by €10,000,000.00, through the issue of 10,000,000 new ordinary bearer shares with no-par value, each such share representing a notional value of €1.00, from €36,988,336.00 to €46,988,336.00. The implementation of the Capital Increase is expected to be entered into the Commercial Register on September 15, 2020.

### 4.2 Admission to Exchange Trading; Certification; Delivery

The application for admission of the New Shares to trading on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to be made on September 14, 2020. The decisions approving the admission of the New Shares to exchange trading are expected on September 16, 2020. The New Shares are expected to begin trading on the German stock exchanges and to be included in the existing quotations of the Company’s shares on the German stock exchanges on or about September 17, 2018.

The New Shares will be delivered to buyers in the form of co-ownership rights in a global share certificate expected to be deposited with the collective securities depository Clearstream Banking Aktiengesellschaft (“Clearstream”) on September 17, 2020. The New Shares are expected to be credited to investors’ accounts on September 17, 2020 through the book-entry facilities of Clearstream Banking Aktiengesellschaft. Investors can obtain information about the actual delivery of the Offer Shares subscribed for under the Subscription Offer from their respective custodian bank. Trading in New Shares is expected to start on the day of the crediting of such shares to the investor’s account. According to the Company’s Articles of Association, shareholders are not entitled to receive individual share certificates.

### 4.3 ISIN/WKN/Trading Symbol

The various security identification numbers for the New Shares are as follows:

International Securities Identification Number (ISIN) .....	DE000A2NBX80
German Securities Code ( <i>Wertpapierkennnummer (WKN)</i> ) .....	A2NBX8
Trading Symbol.....	INS

The various security identification numbers for the subscription rights are as follows:

International Securities Identification Number (ISIN) .....	DE000A289WQ9
German Securities Code ( <i>Wertpapierkennnummer (WKN)</i> ) .....	A289WQ

#### **4.4 Form; Voting Rights; Currency of the Securities Issue**

All of the Company's shares are ordinary bearer shares with no-par value, each with a notional value of €1.00. Each share entitles the owner to one vote at the shareholders' meetings of the Company. There are no restrictions on voting rights.

The Company's shares, including the New Shares, are denominated in Euro.

#### **4.5 Dividend Rights and Liquidation Rights**

The New Shares carry full dividend entitlements from January 1, 2020. In the event of the Company's liquidation, any proceeds will be distributed to the holders of the Company's shares in proportion to their interest in the Company's share capital.

#### **4.6 Transferability**

The Company's shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no legal restrictions on the transferability of the shares except for the lock-up agreements as described under section "3.5 Lock-up Agreement" as well as described in section "3.3 Subscription Offer" and section "3.8 Additional Selling Restrictions".

#### **4.7 Notice to Distributors**

Solely for the purpose of fulfilling the product governance requirements set forth in (i) Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments, as amended ("MiFID II"), (ii) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 of April 7, 2016 supplementing MiFID II and (iii) local implementing measures (together, the "MiFID II Requirements"), and disclaiming any and all liability, whether arising in tort, contract or otherwise, which a "manufacturer" (for the purposes of the MiFID II Requirements) may otherwise have with respect thereto, the subscription rights to the New Shares and the New Shares have been subject to a product approval process. As a result of such process, it has been determined that the subscription rights and the New Shares are (i) compatible with an end-target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II, and (ii) eligible for distribution through all distribution channels permitted by MiFID II (the "Target Market Assessment").

Notwithstanding the Target Market Assessment, the price of the subscription rights and the New Shares may decline and investors could lose all or part of their investment. The New Shares offer no guaranteed income and no capital protection, and an investment in the subscription rights or New Shares is only suitable for investors who:

- do not need a guaranteed income or capital protection;
- either alone or together with an appropriate financial or other adviser, are capable of evaluating the merits and risks of such an investment; and
- have sufficient resources to be able to bear any losses that may result from such an investment.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions with respect to the Offering and does not constitute (i) an assessment of suitability or appropriateness for the purposes of MiFID II or (ii) a recommendation to any investor or group of investors to invest in, purchase or take any other action with respect to the subscription rights or the New Shares. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the subscription rights and the New Shares and determining appropriate distribution channels.

## 5. PROCEEDS AND COSTS OF THE OFFERING AND LISTING; REASONS FOR THE ISSUANCE OF NEW SHARES AND USE OF PROCEEDS

The Company will receive the net proceeds from the sale of the New Shares. The net proceeds, which correspond to the gross proceeds after the deduction of any expenses relating to the Offering to be borne by the Company, depend on the actual number of New Shares sold, the Subscription Price and the offer price for the Rump Shares as well as the expenses related to the Offering.

Assuming a placement of all 10,000,000 New Shares (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price) at the Subscription Price, the gross proceeds resulting from the Offering would amount to approximately €182.0 million. The Company estimates that its total expenses (including underwriting commissions and other costs related to the Offering) would then amount to approximately €7.8 million. Accordingly, assuming the sale of all New Shares at the Subscription Price, the Company expects to receive net proceeds from the Offering of approximately €174.2 million.

Investors will not be charged expenses by the Company or the Underwriters. Investors will have to bear such costs that may occur in connection with the securities, including possible fees charged by their depository banks in connection with the subscription and holding of the securities.

The Company expects a step change in long-term growth based on (i) the introduction of its valuehome product with vast medium- to long-term growth potential and (ii) the opportunity to increase volumes for its traditional product on the back of the COVID-19 pandemic.

Instone's valuehome product is based on a modular and standardized planning concept with optimized groundfloor designs, minimized underground construction, lean construction management processes as well as standardized sales processes and fully digital distribution channels. Its valuehome product will allow Instone to substantially reduce complexities and increase efficiency offering substantial cost and time saving potential throughout the development process. As a result, Instone will be able to offer its valuehome product at reduced price points and to expand its addressable market. Instone believes the product will be highly scalable adding an attractive secular growth pillar to the near-term growth opportunity offered by its traditional product (see "*11.4.2 Instone's Valuehome Product*").

In addition, it is expected that the ongoing COVID-19 pandemic will create attractive short-term land acquisition opportunities in the German land market as certain sellers facing challenging economic circumstances may choose to sell land suitable for residential development. This land may include land plots previously designated for commercial development that is no longer economically viable while still offering attractive economics for potential residential use. At the same time, highly levered regional or national residential real estate developers may no longer be able to compete for such land as their highly leveraged financing typically requires mezzanine debt which is increasingly difficult to obtain. As a result of the increased supply of land and declining number of potential buyers, Instone expects that land prices will remain stable over the next six to 18 months, presenting a window of opportunity for Instone to increase its project portfolio including traditional as well as valuehome projects in and around its key metropolitan regions. As of the date of this Prospectus, Instone had identified a pipeline of potential land acquisitions that meet or exceed its target internal rate of return ("**IRR**") and margin requirements for both its established traditional product and its new valuehome product (for further information see "*11.5.2 Acquisition Pipeline*").

In light of the above, the Company intends to use the majority of the net proceeds from this Offering for additional land investments over the next six to 18 months with an expected sales volume for fully developed projects of at least €1.5 billion with a view to increasing its sustainable long-term adjusted target revenues to €1.6-1.7 billion in the medium- to long-term. Any remaining net proceeds will be used for general corporate purposes.

## 6. DIVIDEND POLICY; RESULTS AND DIVIDENDS PER SHARE

### 6.1 General Provisions Relating to Profit Allocation and Dividend Payments

The shareholders' share of the Company's profits is determined based on their respective interests in the Company's share capital. For a German stock corporation (*Aktiengesellschaft*) under the laws of Germany, the distribution of dividends for any given financial year and the amount and payment date thereof are resolved by the Company's shareholders' meeting (*Hauptversammlung*) of the subsequent financial year, based upon either a joint proposal by the Management Board and the Supervisory Board or upon the Management Board's or the Supervisory Board's proposal. The shareholders' meeting must be generally held within the first eight months of each financial year. As a consequence of the COVID-19 pandemic, the German legislator however adopted a legislative act on March 27, 2020 providing for several temporary exemptions from certain statutory rules for the year 2020 (*Gesetz zur Abmilderung der Folgen der COVID-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht*, the "COVID-19 Mitigation Act"). Under the COVID-19 Mitigation Act, the shareholders' meeting of a German stock corporation (*Aktiengesellschaft*) may be held within the whole financial year of the relevant entity, but in any case in 2020, based on a decision of the management board in conjunction with the supervisory board's approval. This legislative act also, amongst others, allows for a shortened convocation period of such shareholders' meeting of 21 days, certain facilitations for the digital participation or casting of votes in shareholders' meetings and the holding of fully virtual shareholders' meetings (in which shareholders have only limited rights to request information and only limited possibilities to legally challenge resolutions of such shareholders' meeting), each based on a decision of the management board in conjunction with the supervisory board's approval.

Dividends may only be distributed from the net retained profits (*Bilanzgewinn*) of the Company. The net retained profits are calculated based on the Company's unconsolidated financial statements prepared in accordance with German generally accepted accounting principles of the HGB. Such accounting principles differ from IFRS in material respects.

When determining the net retained profits, the net income or loss for the financial year (*Jahresüberschuss/-fehlbetrag*) must be adjusted for retained profit/loss carryforwards (*Gewinn-/Verlustvorträge*) from the previous financial year and withdrawals from, or appropriations to, reserves (retained earnings). Certain reserves must be set aside by law and deducted when calculating the net retained profits available for distribution.

The Management Board must prepare unconsolidated financial statements (balance sheet, income statement and notes to the unconsolidated financial statements) and a management report for the previous financial year by the statutory deadline and present these to the Supervisory Board and the auditors immediately after preparation. At the same time, the Management Board must present a proposal for the allocation of the Company's net retained profits to the Supervisory Board pursuant to Section 170 para. 2 AktG. According to Section 171 AktG, the Supervisory Board must review the unconsolidated financial statements, the Management Board's management report and the proposal for the allocation of the net retained profits and report to the shareholders' meeting in writing on the results of such review.

The shareholders' meeting's resolution on the allocation of the net retained profits requires a simple majority of votes cast to be passed. Pursuant to Section 23 of the Articles of Association, the shareholders' meeting may also resolve on a distribution in kind in addition to or in place of a distribution in cash. Notifications of any distribution of dividends resolved upon are published in the German Federal Gazette (*Bundesanzeiger*) without undue delay after the shareholders' meeting.

The COVID-19 Mitigation Act provides in deviation from general rules that the Management Board may, with the consent of the Supervisory Board, decide to pay an interim dividend from the retained profits to shareholders. The relevant provisions under the COVID-19 Mitigation Act currently apply only to shareholders' meetings held in and interim dividends paid out in 2020.

Dividends resolved by the shareholders' meeting are due and payable in compliance with the rules of the respective clearing system on the third business day following the relevant shareholders' meeting, unless a later due date is specified in the dividend resolution or the Articles of Association. Since all of the Company's dividend entitlements will be evidenced by one or more Global Share Certificates deposited with Clearstream, Clearstream will transfer the dividends to the shareholders' custodian banks for crediting to their accounts. German custodian banks are obligated to distribute these funds to their customers. Shareholders using a custodian bank located outside Germany must inquire at their respective bank about the terms and conditions applicable in their case. To

the extent dividends can be distributed by the Company in accordance with the HGB and corresponding decisions are taken, there are no restrictions on shareholders' rights to receive such dividends.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For further information on the taxation of dividends, see section "18.1.1 No Taxation".

Any dividends not claimed within three years become time-barred. Once the statute of limitations applies, the right to receive the relevant dividend payments passes to the Company.

## **6.2 Dividend Policy and Dividends per Share**

The Company did not pay any dividends for the financial years 2017, through 2019 and has retained all available funds and any future earnings to support its operations and to finance the growth and development of its business by carrying forward the net profit for the financial year 2019 in full to a new account. Subject to market conditions and the Company's financial position at the relevant time, the Management Board intends to propose to the shareholders' meeting the distribution of around 30% of its adjusted consolidated earnings after tax as a dividend to shareholders for the first time in 2021 for the 2020 financial year.

Any determination to pay dividends will be made in accordance with applicable laws, and will depend upon, among other factors, its results of operations, financial condition, contractual restrictions and capital requirements. The Company's future ability to pay dividends may be limited by the terms of any existing and future debt or preferred securities.

## 7. CAPITALIZATION AND INDEBTEDNESS; STATEMENT ON WORKING CAPITAL

The following tables set forth, on an unaudited basis, the Company's consolidated capitalization and indebtedness as of June 30, 2020 as taken or derived from the Company's condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2020, the Company's accounting records and the Company's internal reporting systems, (i) prior to the implementation of the Offering, (ii) as adjusted for the effects of the Debt Refinancing (as defined below), and (iii) as adjusted for the completion of the Offering assuming a placement of all 10,000,000 New Shares (i.e., including fractional shares which will be offered at a price at no less than the Subscription Price) at a Subscription Price of €18.20 per New Share without reflecting any tax effects. Investors should read these tables in conjunction with Section "8. Management's Discussion and Analysis of Net Assets, Financial Condition and Results of Operations" and the Company's consolidated financial statements, including the related notes thereto, included in this Prospectus.

### 7.1 Capitalization

	As of June 30, 2020 (actual)	Adjustments for the Debt Refinancing <sup>(1)</sup>	Adjustments for the Offering <sup>(2)</sup>	Total <sup>(3)</sup>
		(unaudited) (in € million)		
<b>Total current debt<sup>(4)</sup></b> .....	<b>489.9</b>	<b>(75.0)</b>	–	<b>414.9</b>
Thereof guaranteed .....	–	–	–	–
Thereof secured <sup>(5)</sup> .....	268.4	–	–	268.4
Thereof unguaranteed/unsecured .....	221.5	(75.0) <sup>(11)</sup>	–	146.5
<b>Total non-current debt<sup>(6)</sup></b> .....	<b>293.4</b>	<b>100.0</b>	–	<b>393.4</b>
Thereof guaranteed .....	–	–	–	–
Thereof secured <sup>(5)</sup> .....	129.4	–	–	129.4
Thereof unguaranteed/unsecured .....	164.0	100.0 <sup>(12)</sup>	–	264.0
<b>Total shareholder's equity<sup>(7)</sup></b> .....	<b>323.2</b>	–	<b>174.2</b>	<b>497.4</b>
Share capital <sup>(8)</sup> .....	37.0	–	10.0 <sup>(13)</sup>	47.0
Legal reserves <sup>(8)</sup> .....	198.9	–	164.2 <sup>(14)</sup>	363.1
Other reserves <sup>(10)</sup> .....	87.3	–	–	87.3
<b>Total<sup>(15)</sup></b> .....	<b>1,106.4</b>	<b>25.0</b>	<b>174.2</b>	<b>1,305.6</b>

- (1) Reflects the effects of (i) the conclusion of the Helaba Promissory Note Loan Agreement with a loan amount of €100 million as described and defined in "11.6.2.2 Helaba Promissory Note Loan (Schuldscheindarlehen)" and (ii) the repayment of the outstanding indebtedness of €75 million under the Facility Agreement as described and defined in "11.6.1 Term Loan Facility Agreement" from the proceeds received under the Helaba Promissory Note Loan Agreement (the steps described in items (i) and (ii) together, the "Debt Refinancing").
- (2) Reflects the receipt of net proceeds from the Offering, assuming the Offering would have taken place as of June 30, 2020. For the calculation in this table, the placement of all 10,000,000 New Shares (i.e., including fractional shares which will be offered at a price at no less than the Subscription Price) at the Subscription Price of €18.20 per New Share is assumed, leading to estimated gross proceeds from the Offering in the amount of €182.0 million. In such case, the costs of the Offering are assumed to amount to approximately €7.8 million. On the basis of these assumptions, the net proceeds from the Offering would be €174.2 million.
- (3) Shows the capitalization as adjusted to reflect the effects of (i) the Debt Refinancing and (ii) the Offering and the receipt of the net proceeds from the Offering.
- (4) Referred to as "total current liabilities" in the Company's unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (5) Comprises debt secured by land charges.
- (6) Referred to as "total non-current liabilities" in the Company's unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (7) Referred to as "total equity" in the Company's unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (8) Referred to as "share capital" in the Company's unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (9) Referred to as "capital reserves" in the Company's unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (10) Corresponds to the sum of the condensed consolidated statement of financial position items "Group retained earnings/loss carryforwards", "accumulated reserves statement of changes in equity recognized in other comprehensive income" and



“non-controlling interests” in the Company’s unaudited condensed consolidated statement of financial position as of June 30, 2020.

- (11) Reflects the full repayment of the outstanding indebtedness of €75.0 million under the Facility Agreement as described and defined in “11.6.1 Term Loan Facility Agreement” (€74.4 million book value) from the proceeds received under the Helaba Promissory Note Loan Agreement. The presentation does not take into account any transaction costs, interest expenses or tax expenses in connection therewith.
- (12) Reflects the proceeds of €100.0 million received under the Helaba Promissory Note Loan Agreement as described and defined in “11.6.2.2 Helaba Promissory Note Loan (Schuldscheindarlehen)” (€100.0 million book value), not taking into account any transaction costs, interest expenses or tax expenses in connection therewith.
- (13) Amount of €10.0 million results from the issuance of 10,000,000 New Shares (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price) at a notional amount of €1.00 per New Share.
- (14) Amount of €164.2 million reflects the difference of net proceeds received amounting to €174.2 million less the increase in share capital at the notional value per New Share amounting to €10.0 million.
- (15) Totals may not add up due to rounding.

## 7.2 Indebtedness

	As of June 30, 2020 (actual)	Adjustments for the Debt Refinancing	Adjustments for the Offering <sup>(1)</sup>	Total <sup>(2)</sup>
	(unaudited) (in € million)			
A. Cash <sup>(3)</sup> .....	60.0	25.0 <sup>(8)</sup>	174.2	259.2
B. Cash equivalents <sup>(4)</sup> .....	–	–	–	–
C. Other current financial assets <sup>(5)</sup> .....	9.9	–	–	9.9
<b>D. Liquidity (A)+(B)+(C)</b> .....	<b>69.9</b>	<b>25.0</b>	<b>174.2</b>	<b>269.1</b>
E. Current financial debt <sup>(6)</sup> .....	348.9	(75.0) <sup>(8)</sup>	–	273.9
F. Current portion of non-current financial debt .....	–	–	–	–
<b>G. Current financial indebtedness (E)+(F)</b> .....	<b>348.9</b>	<b>(75.0)</b>	<b>–</b>	<b>273.9</b>
<b>H. Net current financial indebtedness (G)-(D)</b> .....	<b>279.0</b>	<b>(100.0)</b>	<b>(174.2)</b>	<b>4.8</b>
I. Non-current financial debt <sup>(7)</sup> .....	259.5	100.0 <sup>(8)</sup>	–	359.5
J. Debt instruments .....	–	–	–	–
K. Non-current trade and other payables .....	–	–	–	–
<b>L. Non-current financial indebtedness (I)+(J)+(K)</b> .....	<b>259.5</b>	<b>100.0</b>	<b>–</b>	<b>359.5</b>
<b>M. Total financial indebtedness (H)+(L)<sup>(9)</sup></b> .....	<b>538.6</b>	<b>–</b>	<b>(174.2)</b>	<b>364.4</b>

- (1) Reflects the receipt of net proceeds from the Offering, assuming the Offering would have taken place as of June 30, 2020. For the calculation in this table, the placement of all 10,000,000 New Shares (*i.e.*, including fractional shares which will be offered at a price at no less than the Subscription Price) at the Subscription Price of €18.20 per New Share is assumed, leading to estimated gross proceeds from the Offering in the amount of €182.0 million. In such case, the costs of the Offering are assumed to amount to approximately €7.8 million. On the basis of these assumptions, the net proceeds from the Offering would be €174.2 million.
- (2) Shows the indebtedness as adjusted to reflect the effects of (i) the Debt Refinancing and (ii) the Offering and the receipt of the net proceeds from the Offering.
- (3) Cash corresponds to the statement of financial position item “cash and cash equivalents” in the Company’s unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (4) Cash equivalents are included in item “A. Cash” (see footnote 3).
- (5) Corresponds to the sum of “current financial receivables” and “Loans and receivables” included in the statement of financial position item “other receivables and other assets” as presented in the Company’s unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (6) Corresponds to the sum of “current financial liabilities” and “current leasing liabilities” in the amount of €2.6 million as presented in the Company’s unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (7) Corresponds to the sum of “non-current financial liabilities” and “non-current leasing liabilities” in the amount of €5.9 million as presented in the Company’s unaudited condensed consolidated statement of financial position as of June 30, 2020.
- (8) Reflects (i) the proceeds of €100.0 million received under the Helaba Promissory Note Loan Agreement as described and defined in “11.6.2.2 Helaba Promissory Note Loan (Schuldscheindarlehen)” (€100.0 million book value) and (ii) the full repayment of the outstanding indebtedness of €75.0 million under the Facility Agreement as described and defined in “11.6.1 Term Loan Facility Agreement” (€74.4 million book value) from the proceeds received under the Helaba Promissory Note Loan Agreement, in each case not taking into account any transaction costs, interest expenses or tax expenses in connection therewith. The difference amount of €25.0 million between the proceeds received under the

Helaba Promissory Note Loan Agreement and the full repayment of the outstanding indebtedness of €75.0 million under the Facility Agreement is included in cash.

(9) Totals may not add up due to rounding.

### **7.3 Contingent and Indirect Liabilities**

As of June 30, 2020, there were no contingent or indirect liabilities of the Company.

### **7.4 Statement on Working Capital**

In the Company's opinion and in line with the duration of the validity of the prospectus established in Article 12 of the Prospectus Regulation, it has sufficient working capital for a period of at least twelve months from the completion of the Offering.

## 8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Investors should read the following management's discussion and analysis of net assets, financial condition and results of operations in conjunction with the sections entitled "1. Risk Factors" and "11. Business".*

*The financial information contained in the following discussion and elsewhere in this Prospectus is taken or derived from the audited consolidated financial statements of the Company as of and for the financial year ended December 31, 2019 and the unaudited condensed consolidated interim financial statements of the Company as of and for the six-month period ended June 30, 2020. Additional financial information is taken or derived from the Company's accounting records or internal reporting system.*

*Deloitte GmbH Wirtschaftsprüfungsgesellschaft ("Deloitte"), has audited and issued unqualified independent auditor's reports with respect to the Company's consolidated financial statements as of and for the financial years ended December 31, 2019 and December 31, 2018. The respective independent auditor's reports thereon are, together with the related financial statements, included in this Prospectus. The aforementioned audited consolidated financial statements of the Company were prepared in accordance with IFRS as adopted in the EU (IFRS) and the additional requirements of Section 315e para. 1 HGB. The unaudited condensed consolidated interim financial statements were prepared in accordance with IFRS on interim financial reporting (IAS 34).*

*Where financial information in the following tables is labelled "audited", this means that it has been taken from the audited financial statements mentioned above. The label "unaudited" is used in the following tables to indicate financial information that has not been taken from the audited financial statements mentioned above, but has been taken either from the Company's unaudited condensed interim consolidated financial statements mentioned above or the Company's accounting records or internal reporting system, or has been calculated based on figures from the aforementioned sources.*

*All of the financial information presented in the tables below are shown in millions of Euro (in € million), except as otherwise stated. Certain financial information, including percentages, has been rounded according to established commercial standards. As a result, the aggregate amounts (sum totals or sub totals or differences or if numbers are put in relation) in the following tables may not correspond in all cases to the aggregated amounts of the underlying (unrounded) figures appearing elsewhere in this Prospectus. Furthermore, in those tables, these rounded figures may not add up exactly to the totals contained in those tables.*

*Financial information presented in parentheses denotes the negative of such number presented. A dash ("–") signifies that the relevant figure is not available, while a zero ("0.0") signifies that the relevant figure is available but has been rounded to zero.*

### 8.1 Overview

Instone is a leading nationwide residential real estate developer in Germany in terms of square meters ("sqm") of secured development projects not yet under construction (*Source: bulwiengesa*). Instone develops modern, urban, multifamily residential properties and redevelops listed buildings for residential use. As of June 30, 2020, Instone's project portfolio comprised 53 development projects with an aggregate expected sales volume for fully developed projects ("**Expected Sales Volume**") of approximately €5.7 billion. As of that date, approximately 88% of Instone's portfolio (by Expected Sales Volume) was located in key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) and 12% (by Expected Sales Volume) in other prospering medium-sized cities. In addition to its traditional project developments (*i.e.*, individual multifamily residential properties) in its key markets, Instone has developed a new product offering standardized residential developments based on modular planning at reduced price points. With this new "valuehome" product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers, which it considers to be a largely untapped customer group. Instone's key purchaser groups generally comprise owner-occupiers, retail buy-to-let investors and institutional investors. For its new valuehome product, Instone will also focus on municipal housing companies and professional landlords.

## **8.2 Factors Affecting Comparability**

The comparability of the Company's financial statements in the periods under review has been affected by a forward share sale of project Westville, the acquisition of S&P Stadtbau GmbH's business and the first time application of IFRS 15 and IFRS 16 in financial years 2018 and 2019, respectively.

### **8.2.1 Sale of Shares (Project Westville)**

In accordance with IFRS 15, for all of its project developments sold as asset deals Instone begins to recognize revenue and project costs once the projected aggregate sales volume has been contractually secured and then does so over time as contracted sales volumes grow and construction progresses. From time to time, Instone may sell shares of a project company to institutional investors. In such cases, in accordance with IFRS 10, revenue and project costs are not recognized in the consolidated income statement. Instead, acquisition of the land plot and construction progress is reflected in positive changes in inventories (offset by corresponding cost of materials), with the gain or loss from the sale included in earnings upon completion and delivery of each relevant sub-project, in each case corresponding to a project company.

In its internal management reporting, Instone aligns the treatment of share deals with the accounting for its other projects under IFRS 15 and recognizes revenue and project costs over time rather than only recognizing the gain or loss from the project upon completion. Instone refers to the adjustments it makes to align the treatment of share deals with the accounting for its other projects as share deal effects. Instone presents its results of operations, adjusted for share deal effects, in its segment reporting (see F-20 et seq).

In 2019, a large development project in Frankfurt am Main, known as project Westville, with an Expected Sales Volume (at the time of acquisition of the relevant land plot) of approximately €600 million, was sold prior to the start of construction to an institutional investor in a share deal involving four separate project companies. In its consolidated income statement, the sale of these project companies does not result in revenue recognition. Instead, the gain or loss from the sale will be reflected in earnings upon completion and delivery of the relevant sub-project.

In its adjusted results of operations, Instone aligns the treatment of the project Westville share deals with the accounting for its other projects by adjusting for share deal effects. In 2019, the share deal effects were €220.8 million related to revenue and €193.7 million related to project costs (primarily the land plot acquisition costs). In 2020, the share deal effects related to revenue are expected to be in a low to mid double digit million euro range, thus substantially below those in 2019, as construction is not scheduled to begin until 2021 after demolition is completed and relevant building permits have been obtained. Project Westville negatively impacted Instone's adjusted gross profit margin, which decreased from 28.5% in 2018 to 25.5% in 2019. Excluding project Westville, Instone's adjusted gross profit margin would have been 31.2% in 2019. Given the smaller expected adjusted revenue share of project Westville in 2020, it will have a smaller negative effect on Instone's adjusted gross profit margin in 2020.

### **8.2.2 Acquisition of S&P Stadtbau GmbH's Business**

In August 2019, Instone Development acquired certain business activities of S&P Stadtbau GmbH from the Sontowski & Partner-Stadtbau Group. S&P Stadtbau GmbH's business has been fully consolidated in the Company's consolidated financial statements since August 31, 2019. Accordingly, the Company's 2019 consolidated financial statements are not fully comparable with its 2018 consolidated financial statements and the consolidated financial statements for the six-month period ended June 30, 2020 are not fully comparable with the consolidated financial statements for the six-month period ended June 30, 2019. S&P Stadtbau GmbH's business contributed revenue and EBT of €1.9 million and €1.0 million, respectively, to Instone's consolidated income statement.

### **8.2.3 First time application of IFRS 16**

In 2019, Instone applied IFRS 16 for the first time using the modified retrospective approach, which means that comparative figures for 2018 were not adjusted for the effects of IFRS 16. According to IFRS 16, a lessee has to recognize a right-of-use asset for the right-of-use equal to the net present value of the leasing liability. Before the application of IFRS 16, these right of use assets and liabilities were recorded as off-balance sheet items if the leasing contract was classified as an operating lease. Following initial recognition, under IFRS 16, the right of use assets are amortized over time and interest expenses for the leasing liabilities are accrued. Before the application of IFRS 16, lease payments were recorded as operating expenses.

As of December 31, 2019, Instone recognized right of use assets of €9.7 million and leasing liabilities of €9.8 million. In 2019, the application of IFRS 16 reduced adjusted EBIT by €0.3 million as Instone recorded depreciation expenses related to right of use assets of €3.2 million instead of operating expenses for leasing payments of €2.9 million. Furthermore, Instone recorded interest expenses related to leasing liabilities of €0.3 million.

#### **8.2.4 First time application of IFRS 15**

In 2018, the Company applied IFRS 15 for the first time, resulting in a change of the accounting treatment of its project developments. Prior to January 1, 2018, Instone accounted for the revenue and costs of a project primarily at the point in time of full completion of the project. Starting from January 1, 2018, Instone accounted for its contracts with customers on the basis of revenue recognition over time. Instone started applying IFRS 15 based on the modified retrospective approach, *i.e.*, the financial information for 2017 was not restated. Accumulated differences as of January 1, 2018 were recognized in Group retained earnings (for further information, see F-66 et seq.).

### **8.3 Key Factors Influencing the Company's (Adjusted) Results of Operations**

The key factors discussed below have significantly affected Instone's unadjusted and adjusted results of operations, financial condition and cash flows during the periods for which financial information is included in this Prospectus, and the Company believes that these factors will continue to affect Instone in the future:

#### **8.3.1 Demand and Market Conditions**

Instone's business is highly dependent on the German residential real estate market and most significantly affected by developments in, and related to, the residential real estate sector in Germany's key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) in which 88% of Instone's project portfolio (by Expected Sales Volume) is located.

Instone believes that the regional German residential real estate markets in which Instone operates are highly attractive. The German economy has experienced a prolonged period of economic prosperity, resulting in strong demand for residential real estate as well as low unemployment rates. Sound structural growth in the German residential property market is expected to continue due to a combination of several factors, including modest population growth (*Source: Destatis*), steadily increasing urbanization, an increasing number of households (*Source: Destatis, Private Households*) and the current structural undersupply of residential properties (*Source: IW Report*). For additional information, see "10. Markets and Competition".

However, the rapid spread of a novel strain of coronavirus and the infectious diseases caused by it (COVID-19) in early 2020 has adversely impacted global economic activity and contributed to significant volatility and negative pressure in financial markets. Many countries, including Germany, have taken radical measures including travel restrictions, quarantines, shelter-in-place orders, and similar government orders or restrictions, in an attempt to control the spread and mitigate the impact of the disease. Such orders and restrictions have resulted in, among others, business closures, work stoppages, slowdowns and delays, work-from-home policies, and cancellation or postponement of events, leading to a substantial slowdown in economic activity. Recently, a number of European countries have started lifting lockdown restrictions, including travel restrictions, quarantines as well as safety and precautionary measures. Various experts, however, have warned that the premature lifting of lockdown restrictions increases the risk of second or third waves of infection.

While the impact of the COVID-19 pandemic on the German project development market has been limited to date, there was a noticeable decline in demand in the first few months of the crisis. In Instone's case, the decline in demand began in early March and continued through the end of June when it began to recover, as evidenced by a strong improvement of its sales ratio (*i.e.*, the weekly number of units sold divided by the four week moving average of the number of units on offer), which returned to pre-crisis levels in July. The full extent of the impact is, however, highly uncertain and subject to change, and will depend on a number of factors, including the scope and duration of the pandemic (including potential second or third waves of infection), actions taken by governmental authorities in response to the ongoing or re-emerging pandemic, the impact of the pandemic on the businesses of third-party suppliers and contractors, the extent and duration of any economic recessionary conditions and the impact on the financial markets.

### 8.3.2 Volume of Customer Sales Contracts and Project Development Progress

As a project developer, Instone's results of operations are strongly influenced by the volume of customer sales contracts and the progress Instone makes on building the relevant residential units.

The volume of customer sales contracts includes the monetary value of all sales-related transactions, such as notarized real estate purchase agreements, individual orders from customers and rental income. The value of the notarized sales depends on the price per residential unit and the number of residential units sold. Instone's sales prices are mainly influenced by demand and general market conditions in the regions in which Instone operates.

The number of residential units offered for sale by Instone in any given period is a function of the volume of land plots and properties acquired in prior periods and of the regulatory approvals obtained. Once Instone identifies a suitable land plot or building for acquisition, it seeks internal approval to enter into the relevant paperwork. Instone typically requires 12 to 24 months from initial sourcing to acquire land plots or properties for its development projects. Depending on volume and complexity of a project, Instone usually needs 12 to 40 months following land acquisition to develop a concept design and obtain the required approvals. The subsequent construction management phase, which Instone typically begins only after having sold residential units representing at least 30% of the Expected Sales Volume of a project, generally takes 18 to 24 months for individual construction phases. Revenue is recognized as additional sales are secured and construction progresses.

The following table sets forth the volume of customer sales contracts, volume of management approvals, project portfolio and adjusted revenue as of or for the periods indicated:

	As of or for the six-month period ended June 30,		As of or for the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(unaudited, unless otherwise indicated) (in € million)	
Volume of customer sales contracts <sup>(1)</sup> .....	123.5	131.8	1,403.1	460.8
Volume of management approvals <sup>(2)</sup> .....	186.9	270.6	1,284.2	1,298.0
Project portfolio <sup>(3)</sup> .....	5,701.3	5,091.7	5,845.7	4,763.2
Adjusted revenue <sup>(4)(5)</sup> .....	179.6	174.2	736.7	372.8

- (1) Refers to the volume of new customer sales contracts, which is the sum, over the relevant reporting period, of all sales-related transactions, such as notarized real estate purchase agreements, individual orders from customers and rental income. Volume of customer sales contracts reflects Instone's success in marketing its project development, which generally starts prior to construction. As such, the volume of customer sales contracts is an indicator of future revenue.
- (2) Refers to the volume of new management approvals, which is defined as the monetary volume of new land and development projects for which internal approvals are granted and property access is secured (e.g., by means of exclusivity, notarized purchase agreements) in the relevant period. The volume of management approvals reflects the Company's success in acquiring new land and development projects.
- (3) Project portfolio value as of a reporting date is the anticipated overall volume of revenue (also referred to as gross development value) from all approved projects that form the portfolio.
- (4) Taken from Instone's segment reporting.
- (5) Audited for the financial year ended December 31, 2019 and 2018.

Instone expects that revenue will increase in the medium term given an increase in the number of units in its project portfolio. The table below shows the development of the number of units in the project portfolio, the average size per unit and the average sales price per unit as of the dates and for the periods indicated.

	As of or for the six-month period ended June 30,		As of or for the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited)		(unaudited)	
Number of units in the project portfolio (units) ..	13,075	11,628	13,715	11,041
Average size per unit (square meters).....	78	81	79	81
Average sales price per square meter (€) .....	5,472	5,376	5,416	5,336

### **8.3.3 Ability to Deliver Projects on Time and in Budget**

Instone's success depends on its ability to complete project developments within the envisaged timeframe and budget. When acquiring land plots or properties, Instone projects achievable sales prices on the basis of actual demand and market conditions, determines a detailed development budget and sets the maximum acquisition price for such land plots or properties that enable it to achieve its anticipated gross project margin and internal rate of return on capital, subject to successful planning and construction.

Instone's projections include a schedule for obtaining necessary regulatory approvals, commencement of construction, and delivery of completed residential units. Instone typically does not have construction carried out until residential units representing at least 30% of the Expected Sales Volume of a project have been sold. Cost overruns for units sold may generally not be passed on to purchasers and have to be borne by Instone.

As a result of its strong risk-management processes and sophisticated reporting and planning tools as well as house price inflation in recent years, Instone has consistently exceeded its targeted gross project margin for its traditional project developments of 25%. In 2019, Instone's adjusted gross profit margin declined from 28.5% in 2018 to 25.5% due to the significant contribution to adjusted revenues from the sale of project Westville, a large project with a lower adjusted gross profit margin. Excluding project Westville, Instone's adjusted gross profit margin would have been 31.2% in 2019.

### **8.3.4 Platform Costs**

Instone's results of operations are significantly impacted by its ability to control its cost structure. Instone distinguishes between project costs, which include all non-financial external project related costs as well as – to the extent and for the periods capitalized in inventory – project related staff costs, and platform costs, which reflect all internal costs and those non-financial external costs not directly related to particular development projects.

Instone manages platform costs, which it defines as the sum of staff costs, other operating income, other operating expenses excluding indirect sales costs and depreciation and amortization, to determine its costs not directly related to a particular development project. The largest component of platform costs is staff cost. In 2019, staff costs increased to €37.3 million, primarily driven by the increase in headcount from 258.7 full-time equivalents in 2018 to 307.7 full-time equivalents in 2019. Platform costs in 2020 are expected to grow compared to 2019, as a result of the continued increase in the size of Instone's project portfolio. This increase will be driven by staff costs related to the hiring of additional employees.

Platform costs are not directly related to a particular project development. Instone believes that an increase in its adjusted revenues will lead to a comparatively smaller increase in its platform costs. An increase in adjusted revenues from €372.8 million as of December 31, 2018 to €736.7 million as of December 31, 2019 was achieved based on only a modest increase in platform costs, leading to an increase in adjusted EBIT margin from 13.3% in 2018 to 17.5% in 2019.

### **8.3.5 Financing of its Project Development**

Instone typically obtains project-related debt financing to finance some of its total cost of materials of any relevant project. Instone's project financing expenses related to its third-party debt financing are primarily influenced by an upfront fee payable at the time the relevant financing is entered into, the relevant interest margin and the extent and duration for which the committed project financing amount is actually drawn.

Building construction financing usually comprises a mix of corporate funds provided by Instone, project financing from third parties and partial financing by purchasers through installment payments. The amount of such purchasers' installment payments is offset against the amount drawn under project financing arrangements, significantly reducing the drawn debt financing amount under the respective financing agreements and resulting in a lower overall interest burden to be borne by Instone as a project progresses. Generally, Instone aims to limit corporate-level cash funding to approximately 10% to 20% of the expected total development costs for fully developed projects. For the remaining 80% to 90% of the expected total development costs for fully developed projects, Instone generally obtains project-related debt financing. Given the favorable legal framework in Germany, Instone expects a substantial portion of the expected total development costs to be funded by the incoming cash flow resulting from customer installment payments under the MaBV. The interest under its project-related debt financing agreements (including upfront fee) is a function of the actual amount drawn down and the duration of the relevant financing arrangement. The effective interest rate paid by Instone under its project-related debt financings is typically within the range of 4.5% to 5%.

In 2019 and 2020, Instone entered into new third-party debt financing arrangements that improved its overall financing structure. These new arrangements include a term loan facility with Deutsche Bank Aktiengesellschaft (which was fully repaid by August 21, 2020), promissory note loans with IKB Deutsche Industriebank AG and Landesbank Hessen-Thüringen Girozentrale and revolving credit facility agreements. See “11.6 Material Agreements”.

### **8.3.6 Seasonality**

Seasonality affects Instone in a number of ways. Instone experiences a higher number of purchase agreements being entered into towards the end of the year than at the beginning of a year. Instone also depends on the weather conditions in its construction activities, as excavations and the building of shells progress more slowly during the winter than in the rest of the year. Accordingly, Instone typically makes more progress in its project development between March and November. As Instone recognizes revenue over time in accordance with IFRS 15, seasonal effects on the progress of project development also affect Instone’s revenue.

### **8.3.7 Special Tax Effects**

Instone’s income taxes in the period under review were driven by special tax effects. In 2018, Instone recorded tax expenses of €20.5 million, driven by an income tax from its recurring business, and €9.8 million deferred taxes related to provisions for IPO related management incentives recorded before 2018, which is non-recurring. In 2019, Instone recorded income from income taxes of €6.5 million, driven by the first time recognition of tax loss carryforwards and corresponding deferred tax assets due to a domination and profit and loss transfer agreement with its main operating subsidiary entered into with effect as of January 1, 2019. Instone expects a less volatile normalized tax rate around 32.5% going forward.

## **8.4 Adjusted Results of Operations Discussion**

Instone operates in only one business segment and one geographical segment and generates its revenue and holds its assets mainly in Germany. Segment reporting in accordance with IFRS 8 is based on the management approach. Instone’s segment reporting reflects the internal management and reporting system used by Instone for its segment. The internal reporting differs from the figures prepared in accordance with IFRS. In the internal reporting, Instone focuses on the development of housing projects, using adjusted results of operations. These adjusted results of operations include adjusted revenue, adjusted gross profit and adjusted earnings before interest and taxes, each as defined below. The adjusted results of operations correspond to regrouped reported numbers, adjusted for reclassification items, purchase price allocation (“PPA”) effects, share deal effects and non-recurring items that are not reflective of Instone’s operating performance. Beginning in 2020, Instone’s adjusted results of operations include share of results of joint ventures in EBIT.

The following table shows the operating performance of Instone’s segment for the periods indicated:



	Six-month period ended June 30, 2020			Six-month period ended June 30, 2019			For the financial year ended December 31, 2019			For the financial year ended December 31, 2018		
	(adjusted) internal reporting	Adjustment	(reported) IFRS reporting	(adjusted) internal reporting	Adjustment	(reported) IFRS reporting	(adjusted) internal reporting	Adjustment	(reported) IFRS reporting	(adjusted) internal reporting	Adjustment	(reported) IFRS reporting
	(unaudited) (in € million)			(unaudited) (in € million)			(audited) (in € million)			(audited) (in € million)		
<b>Revenue<sup>(1)</sup></b> .....	<b>179.6</b>	<b>(10.7)</b>	<b>168.9</b>	<b>174.2</b>	<b>(3.2)</b>	<b>171.0</b>	<b>736.7</b>	<b>(227.2)</b>	<b>509.5</b>	<b>372.8</b>	<b>(11.9)</b>	<b>360.8</b>
<b>Project costs<sup>(2)</sup></b> .....	<b>(121.8)</b>	<b>14.0</b>	<b>(107.8)</b>	<b>(115.7)</b>	<b>3.6</b>	<b>(112.1)</b>	<b>(548.8)</b>	<b>192.2</b>	<b>(356.7)</b>	<b>(266.3)</b>	<b>3.0</b>	<b>(263.3)</b>
<i>Cost of materials</i> .....	<i>(163.4)</i>	<i>1.3</i>	<i>(162.2)</i>	<i>(161.9)</i>	<i>1.4</i>	<i>(160.5)</i>	<i>(616.1)</i>	<i>(17.9)</i>	<i>(634.0)</i>	<i>(322.2)</i>	<i>1.9</i>	<i>(320.4)</i>
<i>Changes in inventories</i> .....	<i>41.7</i>	<i>12.7</i>	<i>54.3</i>	<i>46.2</i>	<i>2.2</i>	<i>48.4</i>	<i>67.2</i>	<i>210.1</i>	<i>277.3</i>	<i>55.9</i>	<i>1.1</i>	<i>57.0</i>
<b>Gross Profit<sup>(3)</sup></b> .....	<b>57.8</b>	<b>3.3</b>	<b>61.1</b>	<b>58.5</b>	<b>0.3</b>	<b>58.8</b>	<b>187.8</b>	<b>(35.0)</b>	<b>152.8</b>	<b>106.4</b>	<b>(8.9)</b>	<b>97.5</b>
<b>Platform costs<sup>(4)</sup></b> .....	<b>(29.9)</b>	<b>(1.1)</b>	<b>(31.0)</b>	<b>(26.2)</b>	<b>(1.8)</b>	<b>(28.0)</b>	<b>(59.0)</b>	<b>(7.8)</b>	<b>(66.7)</b>	<b>(56.9)</b>	<b>(2.5)</b>	<b>(59.4)</b>
<i>Staff costs</i> .....	<i>(20.0)</i>	<i>0</i>	<i>(20.0)</i>	<i>(16.5)</i>	<i>0</i>	<i>(16.5)</i>	<i>(37.3)</i>	<i>0</i>	<i>(37.3)</i>	<i>(33.6)</i>	<i>0</i>	<i>(33.6)</i>
<i>Other operating income</i> .....	<i>4.6</i>	<i>0</i>	<i>4.6</i>	<i>2.6</i>	<i>0</i>	<i>2.6</i>	<i>7.7</i>	<i>0</i>	<i>7.7</i>	<i>2.7</i>	<i>0</i>	<i>2.7</i>
<i>Other operating expenses</i> .....	<i>(12.5)</i>	<i>(1.1)</i>	<i>(13.6)</i>	<i>(10.2)</i>	<i>(1.8)</i>	<i>(12.0)</i>	<i>(25.3)</i>	<i>(7.8)</i>	<i>(33.0)</i>	<i>(25.4)</i>	<i>(2.5)</i>	<i>(27.9)</i>
<i>Depreciation and amortization</i> .....	<i>(2.0)</i>	<i>0</i>	<i>(2.0)</i>	<i>(2.0)</i>	<i>0</i>	<i>(2.0)</i>	<i>(4.1)</i>	<i>0</i>	<i>(4.1)</i>	<i>(0.6)</i>	<i>0</i>	<i>(0.6)</i>
Share of results of joint ventures <sup>(5)</sup> .....	0.3	0	0.3	(0.4)	0	(0.4)	–	–	–	–	–	–
<b>EBIT<sup>(6)</sup></b> .....	<b>28.2</b>	<b>2.2</b>	<b>30.3</b>	<b>31.9</b>	<b>(1.4)</b>	<b>30.5</b>	<b>128.9</b>	<b>(42.8)</b>	<b>86.1</b>	<b>49.6</b>	<b>(11.5)</b>	<b>38.1</b>
Other results from investments <sup>(7)</sup> .....	(0.6)	0	(0.6)	(2.4)	0.5	(1.9)	(5.0)	0	(5.0)	(0.4)	0.7	0.3
Financial result <sup>(8)</sup> .....	(8.9)	(3.1)	(12.0)	(3.1)	(2.2)	(5.3)	(16.1)	(1.8)	(17.8)	(7.7)	(1.1)	(8.8)
<b>EBT<sup>(9)</sup></b> .....	<b>18.7</b>	<b>(1.0)</b>	<b>17.7</b>	<b>26.5</b>	<b>(3.2)</b>	<b>23.3</b>	<b>107.8</b>	<b>(44.6)</b>	<b>63.2</b>	<b>41.5</b>	<b>(11.9)</b>	<b>29.6</b>
Income taxes <sup>(10)</sup> .....	(4.9)	0.2	(4.7)	(1.4)	1.0	(0.4)	(2.2)	8.8	6.5	(22.4)	1.9	(20.5)
<b>EAT<sup>(11)</sup></b> .....	<b>13.7</b>	<b>(0.7)</b>	<b>13.0</b>	<b>25.1</b>	<b>(2.1)</b>	<b>22.9</b>	<b>105.6</b>	<b>(35.8)</b>	<b>69.8</b>	<b>19.1</b>	<b>(10.0)</b>	<b>9.0</b>

- (1) Revenue corresponds to revenue as reported in Instone's consolidated income statement. Adjusted revenue corresponds to revenue adjusted for PPA effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: negative €3.2 million; 2019: negative €6.4 million; 2018: negative €11.9 million) and effects from share deals (six-month period ended June 30, 2020: negative €10.5 million; six-month period ended June 30, 2019: nil; 2019: negative €220.8 million; 2018: nil).
- (2) Project costs corresponds to the difference between cost of materials and changes in inventories as reported in Instone's consolidated income statement. Adjusted project costs corresponds to project costs adjusted for reclassification items (indirect selling expenses and capitalized interest: six-month period ended June 30, 2020: €4.2 million; six-month period ended June 30, 2019: €3.5 million; 2019: €6.3 million; 2018: €3.0 million), PPA effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: €0.1 million; 2019: negative €7.9 million; 2018: nil) and share deal effects (six-month period ended June 30, 2020: €10.1 million; six-month period ended June 30, 2019: nil; 2019: €193.7 million; 2018: nil).
- (3) Gross profit corresponds to revenue less project costs. Adjusted gross profit corresponds to adjusted revenue less adjusted project costs.
- (4) Platform costs corresponds to the sum of staff costs, other operating income, other operating expenses and depreciation and amortization as reported in Instone's consolidated income statement. Adjusted platform costs corresponds to platform costs adjusted for reclassification items (*i.e.*, indirect selling expenses allocated to project costs (six-month period ended June 30, 2020: negative €1.1 million; six-month period ended June 30, 2019: negative €1.3 million; 2019: negative €3.1 million; 2018: negative €1.9 million) and other items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: negative €0.5 million; 2019: nil; 2018: negative €0.6 million) and non-recurring items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: nil; 2019: negative €4.7 million; 2018: nil).
- (5) Share of results of joint ventures corresponds to the share of results of joint ventures as reported in Instone's consolidated income statement. For the financial years 2019 and 2018, share of results of joint ventures is included in other results from investments.
- (6) EBIT corresponds to gross profit less platform costs. For 2019 and 2018, adjusted EBIT corresponds to adjusted gross profit less adjusted platform costs. For the six-month period ended June 30, 2020 as well as for the six-month period ended June 30, 2019, adjusted EBIT corresponds to adjusted gross profit less adjusted platform costs plus share of results of joint ventures.

- (7) For the financial years 2019 and 2018, other results from investments corresponds to the sum of share of results of joint ventures and other results from investments, in each case as reported in Instone's consolidated income statement. For the six-month period ended June 30, 2020 as well as the six-month period ended June 30, 2019, other results from investments corresponds to other results from investments as reported in Instone's consolidated income statement (*i.e.*, excluding the share of results of joint ventures).
- (8) Financial result corresponds to the sum of finance income, finance costs and other financial result as reported in Instone's consolidated income statement. Adjusted financial result corresponds to financial result adjusted for reclassification items (capitalized interest: six-month period ended June 30, 2020: negative €3.1 million; six-month period ended June 30, 2019: negative €2.2 million; 2019: negative €3.2 million; 2018: negative €1.1 million) and non-recurring items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: nil; 2019: €1.5 million in connection with subsequent VAT-related adjustments from the acquisition of Instone Leipzig in 2015; 2018: nil).
- (9) EBT corresponds to EBIT less other results from investments less financial result. Adjusted EBT corresponds to adjusted EBIT less adjusted other results from investments less adjusted financial result.
- (10) Income taxes corresponds to income taxes as reported in Instone's consolidated income statement. Adjusted income taxes corresponds to income taxes as reported in Instone's consolidated income statement adjusted for the tax effects from PPA effects (six-month period ended June 30, 2020: €0.2 million; six-month period ended June 30, 2019: €1.0 million; 2019: €4.5 million; 2018: €1.9 million) and share deal effects (six-month period ended June 30, 2020: €0.1 million; six-month period ended June 30, 2019: nil; 2019: €4.3 million; 2018: nil).
- (11) EAT corresponds to consolidated earnings after tax (EAT) as reported in Instone's consolidated income statement. Adjusted EAT corresponds to EAT adjusted for PPA effects (six-month period ended June 30, 2020: negative €0.4 million; six-month period ended June 30, 2019: negative €2.1 million; 2019: negative €9.8 million; 2018: negative €10.0 million), share deal effects (six-month period ended June 30, 2020: negative €0.3 million; six-month period ended June 30, 2019: nil; 2019: negative €22.8 million; 2018: nil) and non-recurring items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: nil; 2019: negative €3.2 million (relating to expenses for company acquisitions in 2019); 2018: nil).

Instone defines reclassification items, PPA effects, share deal effects and non-recurring items as follows:

- **Reclassification items:** Reclassification items relate to the reclassification of indirect selling expenses from platform costs to project costs and of capitalized interest from project costs to finance costs as project costs reflect all non-financial external costs related to the production of revenue.
- **PPA effects:** PPA effects is defined as the effects on the consolidated income statement resulting from prior acquisitions in connection with which Instone was required to allocate the purchase prices paid to the assets and liabilities that were acquired based on estimated fair values, which resulted in a step up in the value of the acquired assets and other effects.

In the periods under review, PPA effects relate to the acquisition of Instone Real Estate Development GmbH (“**Instone Development**”) in 2014, Instone Real Estate Leipzig GmbH (“**Instone Leipzig**”) in 2015 and the business of S&P Stadtbau GmbH in 2019.

As of June 30, 2020, the step ups reflected in inventories and contract assets amounted to €45.3 million. As of December 31, 2019 and December 31, 2018, they amounted to €46.1 million and €39.4 million, respectively. These step ups are amortized over time as projects progress (PPA effects). For purposes of managing its business, Instone adjusts its results of operations for these PPA effects. Instone currently expects that the impact from the PPA effects will end in 2024.

- **Share deal effects:** Share deal effects relate to adjustments Instone makes to its reported results in the case of development project sales taking the form of a sale of the shares of the relevant project company. Under IFRS 15, for all of its project developments sold as asset deals Instone begins to recognize revenue and project costs once the projected aggregate sales volume has been contractually secured and then does so over time as contracted sales volumes grow and construction progresses. For projects sold before completion by way of a sale of shares in the project company, revenue and project costs are not recognized in the consolidated income statement. Instead, acquisition of the land plot and construction progress is reflected in positive changes in inventories (offset by corresponding cost of materials), with the gain or loss from the sale included in earnings upon completion and delivery of each relevant sub-project, in each case corresponding to a project company. In its internal management reporting, Instone aligns the treatment of share deals with the accounting for its other projects under IFRS 15 and recognizes revenue and project costs over time rather than only recognizing the gain or loss from the project upon completion.

In 2019, Instone agreed to sell certain project companies established in connection with project Westville in Frankfurt am Main to an institutional investor in a share deal. In 2019, the share deal effects were €220.8 million related to revenue and €193.7 million related to project costs (primarily the land plot acquisition costs). In 2020, the share deal effects related to revenue are expected to be in a low to mid double digit million euro range (six-month period ended June 30, 2020: €10.5 million), thus substantially below those in 2019, as construction is not scheduled to begin until 2021 after demolition is completed and relevant building permits have been obtained. See also “8.2.1 Sale of Shares (Project Westville)”.

- **Non-recurring items:** Non-recurring items is defined as items which, in management’s view, are unusual or incurred on a non-recurring basis.

In 2019, non-recurring items included expenses for the acquisition of the residential development activities of S&P Stadtbau and subsequent VAT-related adjustments from the acquisition of Instone Leipzig in 2015. In the six-month period ended June 30, 2020, in the six-month period ended June 30, 2019 and in 2018, no effects were adjusted as non-recurring items.

### 8.4.1 Adjusted Revenue

In order to align the treatment of share deals with the accounting for its other projects under IFRS 15 and to eliminate other effects resulting from prior acquisitions, Instone adjusts revenue in its segment reporting for PPA effects and share deal effects.

As part of its operations, Instone may acquire existing buildings with a view to demolishing or modernizing these buildings. As some of these buildings are let at the time of acquisition, Instone recognizes a small amount of revenue from leases.

The following table reconciles revenue to adjusted revenue for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Revenue .....	168.9	171.0	509.5	360.8
PPA effects <sup>(1)</sup> .....	0.3	3.2	6.4	11.9
Share deal effects <sup>(2)</sup> .....	10.5	–	220.8	–
<b>Adjusted revenue .....</b>	<b>179.6</b>	<b>174.2</b>	<b>736.7</b>	<b>372.8</b>

- (1) PPA effects related to the acquisitions of Instone Development, Instone Leipzig and the business of S&P Stadtbau GmbH in the six-month period ended June 30, 2020, the acquisitions of Instone Development and Instone Leipzig in the six-month period ended June 30, 2019, the acquisitions of Instone Development, Instone Leipzig and the business of S&P Stadtbau GmbH in 2019 and the acquisitions of Instone Development and Instone Leipzig in 2018.
- (2) Share deal effects related to project Westville in the six-month period ended June 30, 2020 and in 2019. There were no share deal effects in the six-month period ended June 30, 2019 and in 2018.

#### 8.4.1.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Adjusted revenue increased by 3.1% from €174.2 million in the six-month period ended June 30, 2019 to €179.6 million in the six-month period ended June 30, 2020, primarily driven by share deal effects due to subsequent acquisition costs and other expenses related to project Westville for which Instone recognizes adjusted revenue and adjusted project costs over time (see “8.2.1 Sale of Shares (Project Westville)”), which more than offset the slight decline in retail sales (e.g., sales to owner-occupiers and retail buy-to-let investors) driven by reduced demand for residential housing in the second quarter of 2020 in light of the ongoing COVID-19 pandemic.

#### 8.4.1.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Adjusted revenue increased by 98% from €372.8 million in 2018 to €736.7 million in 2019, primarily due to a higher number of newly concluded sales contracts and construction progress related to projects for which Instone has started to recognize adjusted revenue, with the largest contribution coming from project Westville. A number of other projects, including Siemens Areal in Frankfurt am Main, S’Lederer in Schorndorf and Niederkasseler Lohweg in Dusseldorf also made significant contributions. In 2018, the projects Quartier Stallschreiber Straße – Luisenpark, Berlin and Heeresbäckerei, Leipzig accounted for more than 1/3 of Instone’s adjusted revenue.

### 8.4.2 Adjusted Project Costs

Adjusted project cost is defined as material costs less changes in inventories, adjusted for reclassification items (indirect selling expenses and capitalized interest), PPA effects and share deal effects.

The following table reconciles project costs to adjusted project costs for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)	
Project costs .....	107.8	112.1	356.7	263.3

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited, unless otherwise indicated) (in € million)	
<i>Reclassification items<sup>(1)(2)</sup></i> .....	4.2	3.5	6.3	3.0
<i>PPA effects<sup>(1)(3)</sup></i> .....	(0.3)	0.1	(7.9)	0.0
<i>Share deal effects<sup>(4)</sup></i> .....	10.1	–	193.7	–
<b>Adjusted project costs</b> .....	<b>121.8</b>	<b>115.7</b>	<b>548.8</b>	<b>266.3</b>

(1) Unaudited.

(2) Consists of indirect selling expenses of €1.1 million in the six-month period ended June 30, 2020, €1.3 million in the six-month period ended June 30, 2019, €3.1 million in 2019 and €1.9 million in 2018 and adjustments for capitalized interest allocated to interests expenses of €3.1 million in the six-month period ended June 30, 2020, €2.2 million in the six-month period ended June 30, 2019, €3.2 million in 2019 and €1.1 million in 2018.

(3) PPA effects related to the acquisition of Instone Development in the six-month period ended June 30, 2020 and to the acquisition of the business of S&P Stadtbau GmbH in 2019.

(4) Share deal effects related to project Westville in both the six-month period ended June 30, 2020 and in 2019.

#### 8.4.2.1 *Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019*

Adjusted project costs increased by 5.3% from €115.7 million in the six-month period ended June 30, 2019 to €121.8 million in the six-month period ended June 30, 2020, primarily due to project Westville for which Instone recognizes adjusted revenue and adjusted project costs over time (see “8.2.1 Sale of Shares (Project Westville)”), more than offsetting the overall decrease in project costs as a result of the decrease in construction activity in light of the ongoing COVID-19 pandemic.

#### 8.4.2.2 *Comparison of the Years Ended December 31, 2019 and December 31, 2018*

Adjusted project costs increased by 106.1% from €266.3 million in 2018 to €548.8 million in 2019, due to an increase in expenses related to the acquisition of land plots (including real estate transfer tax and ancillary costs) to €333.0 million in 2019 as well as an increase in construction activity as the gross development value under construction increased from €1.1 billion as of December 31, 2018 to €1.3 billion as of December 31, 2019.

### 8.4.3 *Adjusted Gross Profit*

Adjusted gross profit is defined as adjusted revenue less adjusted project costs.

The following table reconciles gross profit to adjusted gross profit for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited and in € million, unless otherwise indicated)		(audited and in € million, unless otherwise indicated)	
Gross profit .....	61.1	58.8	152.8	97.5
<i>Reclassification items<sup>(1)</sup></i> .....	(4.2)	(3.5)	(6.3)	(3.0)
<i>PPA effects<sup>(1)</sup></i> .....	0.6	3.2	14.3	11.9
<i>Share deal effects<sup>(1)</sup></i> .....	0.4	–	27.1	–
<b>Adjusted gross profit</b> .....	<b>57.8</b>	<b>58.5</b>	<b>187.8</b>	<b>106.4</b>
Adjusted gross profit margin (in %) <sup>(1)(2)</sup> .....	32.2	33.6	25.5	28.5

(1) Unaudited.

(2) Adjusted gross profit margin corresponds to adjusted gross profit divided by adjusted revenue.

#### 8.4.3.1 *Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019*

Gross profit increased by 3.9% from €58.8 million in the six-month period ended June 30, 2019 to €61.1 million in the six-month period ended June 30, 2020.

Adjusted gross profit in the six-month period ended June 30, 2020 remained relatively stable at €57.8 million, compared to €58.5 million in the six-month period ended June 30, 2019. Adjusted gross profit margin

slightly decreased from 33.6% in the six-month period ended June 30, 2019 to 32.2% in the six-month period ended June 30, 2020, primarily due to a slightly higher share of projects sold to institutional investors with a lower gross project margin.

#### 8.4.3.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Gross profit increased by 56.7% from €97.5 million in 2018 to €152.8 million in 2019.

Adjusted gross profit increased by 76.5% from €106.4 million in 2018 to €187.8 million in 2019, primarily due to the increase in revenue resulting from increased construction activity. The moderate decline in the adjusted gross profit margin from 28.5% in 2018 to 25.5% in 2019 was mainly due to the high share of earnings from the sale of project Westville, a large project with a lower gross project margin. Excluding project Westville, Instone's adjusted gross profit margin would have been 31.2% in 2019.

#### 8.4.4 **Adjusted Platform Costs**

Adjusted platform costs is defined as the sum of staff costs, other operating income, other operating expenses and depreciation and amortization adjusted for reclassification items (e.g., indirect selling expenses allocated to project costs) and non-recurring items.

The following table reconciles platform costs to adjusted platform costs for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited)		(audited and in € million, unless otherwise indicated)	
	(in € million)			
Platform costs.....	31.0	28.0	66.7	59.4
Reclassification items <sup>(1)</sup> .....	(1.1)	(1.8)	(3.1)	(2.5) <sup>(2)</sup>
Non-recurring items <sup>(3)</sup> .....	–	–	(4.7)	–
<b>Adjusted platform costs.....</b>	<b>29.9</b>	<b>26.2</b>	<b>59.0</b>	<b>56.9</b>

(1) Consists of indirect selling expenses allocated to project costs (six-month period ended June 30, 2020: €1.1 million, six-month period ended June 30, 2019: €1.3 million; 2019: €3.1 million; 2018: €1.9 million) and other items (six-month period ended June 30, 2020: nil; six-month period ended June 30, 2019: negative €0.5 million; 2019: nil; 2018: negative €0.6 million) resulting from subsequent VAT-related adjustments from the acquisition of Instone Leipzig in 2015 (which were booked as a non-recurring item in financial year 2019).

(2) Unaudited.

(3) In 2019, €2.5 million related to expenses for the acquisition of the business of S&P Stadtbau GmbH and €2.2 million related to subsequent VAT-related adjustments from the acquisition of Instone Leipzig in 2015 (which were booked as a reclassification item in 2018). Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Adjusted platform costs increased by 3.7% from €26.2 million in the six-month period ended June 30, 2019 to €29.9 million in the six-month period ended June 30, 2020. This development was mainly due to an increase in staff costs driven by an increase in the number of full-time equivalents due to both organic growth as well as the acquisition of S&P Stadtbau GmbH's business in the third quarter of 2019.

#### 8.4.4.1 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Adjusted platform costs increased by 3.7% from €56.9 million in 2018 to €59.0 million in 2019. This increase was mainly due to an increase in staff costs driven by an increase in the number of full-time equivalents and an increase in depreciation and amortization driven by the first time application of IFRS 16. An increase in other operating income had a partially offsetting effect.

#### 8.4.5 **Adjusted EBIT**

Adjusted EBIT for 2019 and 2018 corresponds to adjusted gross profit less adjusted platform costs. Adjusted EBIT for the six-month period ended June 30, 2020 as well as for the six-month period ended June 30, 2019 corresponds to adjusted gross profit less adjusted platform costs plus share of results of joint ventures. Share of results of joint ventures corresponds to the share of results of joint ventures as reported in Instone's consolidated income statement.

The following table reconciles EBIT to adjusted EBIT for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited and in € million, unless otherwise indicated)		(audited and in € million, unless otherwise indicated)	
EBIT .....	30.3	30.5	86.1	38.1
Reclassification items <sup>(1)</sup> .....	(3.1)	(1.8)	(3.2)	(0.4)
PPA effects <sup>(1)</sup> .....	0.6	3.2	14.3	11.9
Share deal effects <sup>(1)</sup> .....	0.4	–	27.1	–
Non-recurring items <sup>(1)</sup> .....	–	–	4.7	(0.0)
<b>Adjusted EBIT</b> .....	<b>28.2</b>	<b>31.9</b>	<b>128.9</b>	<b>49.6</b>
Adjusted EBIT margin (in %) <sup>(1)(2)</sup> .....	15.7	18.3	17.5	13.3

(1) Unaudited.

(2) Adjusted EBIT margin corresponds to adjusted EBIT divided by adjusted revenue.

#### 8.4.5.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Adjusted EBIT decreased by 11.6% from €31.9 million in the six-month period ended June 30, 2019 to €28.2 million in the six-month period ended June 30, 2020, primarily due to the only slight increase in adjusted gross profit and the increase in adjusted platform costs. As a percentage of adjusted revenue, adjusted EBIT decreased from 18.3% in the six-month period ended June 30, 2019 to 15.7% in the six-month period ended June 30, 2020.

#### 8.4.5.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Adjusted EBIT increased by 159.9% from €49.6 million in 2018 to €128.9 million in 2019, mainly as a result of the significant increase in adjusted gross profit. As a percentage of adjusted revenue, adjusted EBIT increased from 13.3% in 2018 to 17.5% in 2019 despite the decrease in Instone's adjusted gross profit margin, mainly due to economies of scale.

#### 8.4.6 **Adjusted EAT**

Adjusted EAT corresponds to EAT adjusted for PPA effects, share deal effects and non-recurring items.

The following table reconciles EAT to adjusted EAT for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited and in € million, unless otherwise indicated)		(audited and in € million, unless otherwise indicated)	
EAT .....	13.0	22.9	69.8	9.0
PPA effects <sup>(1)</sup> .....	0.4	2.1	9.8	10.0
Share deal effects <sup>(1)</sup> .....	0.3	–	22.8	–
Non-recurring items <sup>(1)(2)</sup> .....	–	–	3.2	–
<b>Adjusted EAT</b> <sup>(1)</sup> .....	<b>13.7</b>	<b>25.1</b>	<b>105.6</b>	<b>19.1</b>

(1) Unaudited.

(2) Non-recurring items related to expenses for company acquisitions in 2019. No effects were adjusted as non-recurring items in the six-month periods ended June 30, 2020 and June 30, 2019 and in 2018.

#### 8.4.6.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Adjusted EAT decreased significantly by €11.4 million from €25.1 million in the six-month period ended June 30, 2019 to €13.7 million in the six-month period ended June 30, 2020, mainly due to the substantial decrease in adjusted EBT driven by the rise in finance costs and the substantial increase in income taxes from a tax expense of €0.4 million in the six-month period ended June 30, 2019 to a tax expense of €4.9 million in the six-month period ended June 30, 2020 due to the lack of positive one-off tax effects from which Instone benefited in the first six-month period ended June 30, 2019 due to the first-time recognition of loss carryforwards.

#### 8.4.6.2 *Comparison of the Years Ended December 31, 2019 and December 31, 2018*

Adjusted EAT increased from €19.1 million in 2018 to €105.6 million in 2019. This increase was mainly due to the significant increase in adjusted EBIT and the substantial increase in income taxes from a tax expenditure of €20.5 million in 2018 to a tax income of €6.5 million in 2019 which was driven by the conclusion of the IRED-DPLTA in September 2019 and the related positive one-off tax effects driven by the first-time recognition of loss carryforwards.

### 8.5 Results of Operations

The following table provides an overview of the Company's consolidated results of operations for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
<b>Revenue</b> .....	<b>168.9</b>	<b>171.0</b>	<b>509.5</b>	<b>360.8</b>
Changes in inventories <sup>(1)</sup> .....	54.3	48.4	277.3	57.0
Other operating income .....	4.6	2.6	7.7	2.7
Cost of materials .....	(162.2)	(160.5)	(634.0)	(320.4)
Staff costs .....	(20.0)	(16.5)	(37.3)	(33.6)
Other operating expenses .....	(13.6)	(12.0)	(33.0)	(27.9)
Depreciation and amortization .....	(2.0)	(2.0)	(4.1)	(0.6)
<b>Consolidated earnings from operating activities</b> .....	<b>30.1</b>	<b>30.9</b>	<b>86.1</b>	<b>38.1</b>
Share of results of joint ventures .....	0.3	(0.4)	0.7	0.3
Other results from investments .....	(0.6)	(1.9)	(5.7)	(0.0)
Finance income .....	0.0	0.7	1.1	0.5
Finance costs .....	(12.0)	(6.2)	(19.1)	(8.9)
Other financial result .....	(0.1)	0.2	0.2	(0.4)
<b>Consolidated earnings before tax (EBT)</b>	<b>17.7</b>	<b>23.3</b>	<b>63.2</b>	<b>29.6</b>
Income taxes .....	(4.7)	(0.4)	6.5	(20.5)
<b>Consolidated earnings after tax (EAT)</b>	<b>13.0</b>	<b>22.9</b>	<b>69.8</b>	<b>9.0</b>
<b>Attributable to:</b>				
Owners of the Company .....	13.0	22.9	69.8	6.5
Non-controlling interests .....	0.0	0.0	0.0	2.5

- (1) Instone's consolidated income statement has been prepared using the total cost (nature of expense) method. This method is different from the cost of sales method, in which the cost of goods sold include only those costs directly related to the production of revenue recognized in the relevant period and changes in inventories (and capitalized cost) are reported only on the balance sheet.

#### 8.5.1 Revenue

The following table provides a breakdown of the Company's revenue by type for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
<b>Revenue from building contracts</b> .....				
Revenue recognition at a point in time .....	0.0	1.3	20.3	25.9
Revenue recognition over time .....	166.4	167.3	482.9	321.9
<b>Total revenue from building contracts</b> .....	<b>166.4</b>	<b>168.6</b>	<b>503.2</b>	<b>347.9</b>
Income from leases .....	2.4	2.2	6.1	6.4
Other services .....	0.1	0.1	0.2	6.6
<b>Revenue</b> .....	<b>168.9</b>	<b>171.0</b>	<b>509.5</b>	<b>360.8</b>



#### 8.5.1.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Revenue slightly decreased by 1.2% from €171.0 million in the six-month-period ended June 30, 2019 to €168.9 million in the six-month period ended June 30, 2020, primarily due to the slight decline in retail sales (e.g., sales to owner-occupiers and retail buy-to-let investors) driven by reduced demand for residential housing in the second quarter of 2020 in light of the ongoing COVID-19 pandemic.

#### 8.5.1.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Revenue increased significantly by 41.2% from €360.8 million in 2018 to €509.5 million in 2019. In particular, revenue from building contracts increased by 44.6% from €347.9 million in 2018 to €503.2 million in 2019, primarily due to a higher number of newly concluded sales contracts and construction progress related to projects for which Instone has started to recognize revenue.

### **8.5.2 Change in Inventories**

Change in inventories comprises the acquisition and disposal of land plots and cost of production for project developments less any such costs related to project developments in respect of which revenue is recognized in accordance with IFRS 15.

#### 8.5.2.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Change in inventories increased by €5.9 million from €48.4 million in the six-month period ended June 30, 2019 to €54.3 million in the six-month period ended June 30, 2020, primarily driven by the ongoing construction activity for project developments that have not yet been sold mainly due to reduced demand for residential housing in light of the COVID-19 pandemic and, consequently, have not yet been recognized in revenue.

#### 8.5.2.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Change in inventories increased significantly from €57.0 million in 2018 to €277.3 million in 2019, reflecting both increased construction activity for project developments not yet recognized in revenue and the acquisition of land plots, partially offset by increased sales reflected in revenue.

### **8.5.3 Other Operating Income**

Other operating income comprises Instone's other income sources.

#### 8.5.3.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Other operating income increased from €2.6 million in the six-month period ended June 30, 2019 to €4.6 million in the six-month period ended June 30, 2020, primarily due to income from the reversal of provisions and income from the settlement of legal disputes.

#### 8.5.3.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Other operating income increased from €2.7 million in 2018 to €7.7 million in 2019, primarily due to income from the reversal of provisions, income from released liabilities and income from the settlement of legal disputes.

### **8.5.4 Cost of Materials**

Cost of materials comprises cost of raw materials, consumables and supplies and expenses for purchased services. Cost of raw materials, consumables and supplies primarily relate to costs incurred from the acquisition of land plots and purchasing costs for construction materials. Expenses for purchased services primarily relate to the procurement cost for concept planners, architects and building contractors.

The following table provides a breakdown of Instone's cost of materials for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Cost of raw materials, consumables and supplies .....	56.9	60.2	371.5	94.4
<i>Thereof:</i>				
<i>Cost of land (including real estate transfer tax and ancillary costs) .....</i>	<i>50.6</i>	<i>42.8</i>	<i>333.0</i>	<i>71.2</i>
Expenses for purchased services.....	105.2	100.3	262.5	225.9
<b>Total .....</b>	<b>162.2</b>	<b>160.5</b>	<b>634.0</b>	<b>320.4</b>

#### 8.5.4.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Cost of materials slightly increased by €1.7 million from €160.5 million in the six-month period ended June 30, 2019 to €162.2 million in the six-month period ended June 30, 2020. Cost of materials mainly reflected expenses related to the acquisition of land plots (including real estate transfer tax and ancillary costs) of €50.6 million in the six-month period ended June 30, 2020, primarily relating to project Aukamm in Wiesbaden. In addition, cost of land reflected additional payments with respect to real estate transfer tax relating to project Westville.

#### 8.5.4.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Cost of materials increased by 97.9% from €320.4 million in 2018 to €634.0 million in 2019. Cost of materials reflected expenses related to the acquisition of land plots (including real estate transfer tax and ancillary costs) of €333.0 million in 2019, primarily related to the successful acquisition of land for project Westville, and of €71.2 million in 2018, primarily related to project Beethovenpark in Augsburg. An increase in construction activities with respect to Instone's project developments also contributed to the increase in cost of materials.

#### 8.5.5 *Staff Costs*

Staff costs comprise wages and salaries, social insurance, pensions and support as well as costs incurred in connection with long-term incentive plans.

The following table provides a breakdown of Instone's staff costs for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Wages and salaries.....	17.5	14.4	33.0	29.7
Social security contributions and expenses for pensions.....	2.5	2.1	4.3	3.8
<b>Total .....</b>	<b>20.0</b>	<b>16.5</b>	<b>37.3</b>	<b>33.6</b>

#### 8.5.5.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Staff costs increased by €3.5 million from €16.5 million in the six-month period ended June 30, 2019 to €20.0 million in the six-month period ended June 30, 2020, driven by the increase in headcount due to both organic growth as well as the acquisition of S&P Stadtbau GmbH's business in the third quarter of 2019.

#### 8.5.5.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Staff costs increased by 11% from €33.6 million in 2018 to €37.3 million in 2019, primarily driven by the increase in headcount from 258.7 full-time equivalents in 2018 to 307.7 full-time equivalents in 2019. This increase was due to both organic growth as well as the acquisition of S&P Stadtbau GmbH's business.

## **8.5.6 Other Operating Expenses**

### **8.5.6.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019**

Other operating expenses increased by 13.3% from €12.0 million in the six-month period ended June 30, 2019 to €13.6 million in the six-month period ended June 30, 2020, mainly as a result of ongoing business expenses such as commissions, consulting expenses as well as court costs, attorneys' and notaries' fees.

### **8.5.6.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018**

Other operating expenses increased by 18.3% from €27.9 million in 2018 to €33.0 million in 2019, primarily as a result of other taxes related to land transfer tax for the acquisition of project companies and non-deductible input tax and subsequent VAT-related adjustments from the acquisition of Instone Leipzig in 2015. The increase in court costs, attorneys' and notaries' fees from €2.4 million in 2018 to €3.9 million in 2019 was primarily attributable to the acquisition of S&P Stadtbau GmbH's business.

## **8.5.7 Consolidated Earnings from Operating Activities**

### **8.5.7.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019**

Consolidated earnings from operating activities slightly decreased by €0.8 million from €30.9 million in the six-month period ended June 30, 2019 to €30.1 million in the six-month period ended June 30, 2020.

### **8.5.7.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018**

Consolidated earnings from operating activities improved significantly by 126% from €38.1 million in 2018 to €86.1 million in 2019.

## **8.5.8 Financial Result**

### **8.5.8.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019**

Financial result (defined as the sum of finance income, finance costs and other financial result) decreased by €6.7 million from negative €5.3 million in the six-month period ended June 30, 2019 to negative €12.0 million in the six-month period ended June 30, 2020. This was mainly driven by an increase in interest expenses due to an increase in current and non-current financial liabilities resulting from the utilization of corporate financing in the third quarter of 2019 and increased financing for project developments.

### **8.5.8.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018**

Financial result (defined as the sum of finance income, finance costs and other financial result) decreased by 102.4% from negative €8.8 million in 2018 to negative €17.8 million in 2019, driven by an increase in interest expenses due to an increase in current and non-current financial liabilities. The increase in current and non-current financial liabilities resulted from the utilization of corporate financing in the third quarter of 2019 and increased financing for project developments.

## **8.5.9 Consolidated Earnings before Tax (EBT)**

### **8.5.9.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019**

Consolidated earnings before tax (EBT) decreased by €5.6 million from €23.3 million in the six-month period ended June 30, 2019 to € 17.7 million in the six-month period ended June 30, 2020, primarily due to the substantial increase in finance costs to €12.0 million as a result of the increase in corporate financing in 2020.

### **8.5.9.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018**

Consolidated earnings before tax (EBT) more than doubled from €29.6 million in 2018 to €63.2 million in 2019, primarily due to the improvement in consolidated earnings from operating activities driven by growth of Instone's operations and economies of scale.

## 8.5.10 Consolidated Earnings after Tax (EAT)

### 8.5.10.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

Consolidated earnings after tax (EAT) decreased significantly by €9.9 million from €22.9 million in the six-month period ended June 30, 2019 to €13.0 million in the six-month period ended June 30, 2020, primarily due to the decrease in EBT and an increase in income taxes due to the lack of tax loss carryforwards in the first six months of 2020.

### 8.5.10.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018

Consolidated earnings after tax (EAT) increased significantly from €9.0 million in 2018 to €69.8 million in 2019 primarily due to the increase in EBT and a change in income taxes from an expense in 2018 to income in 2019. Income taxes changed from an expense of €20.5 million in 2018 to income of €6.5 million in 2019, primarily due to non-recurring items described above that negatively affected tax expenses in 2018 and the recognition of tax loss carryforwards of the Company in 2019.

## 8.6 Assets

The following table shows Instone's assets as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
<b>ASSETS</b>			
<b>Total assets</b> .....	<b>1,106.4</b>	<b>1,123.4</b>	<b>686.6</b>
<b>Total non-current assets</b> .....	<b>19.7</b>	<b>20.4</b>	<b>2.8</b>
<i>Thereof:</i>			
Goodwill .....	6.1	6.1	–
Right of use assets .....	8.3	9.7	–
Property, plant and equipment .....	2.0	2.1	2.0
Other investments .....	2.2	1.1	0.4
Financial receivables .....	0.0	0.5	–
<b>Total current assets</b> .....	<b>1,086.7</b>	<b>1,102.9</b>	<b>683.8</b>
<i>Thereof:</i>			
Inventories .....	786.5	732.1	404.4
Financial receivables .....	9.9	0.0	0.0
Contract assets .....	203.0	219.0	158.5
Other receivables and other assets .....	10.3	12.5	18.8
Income tax assets .....	14.2	14.0	1.0
Cash and cash equivalents .....	60.0	117.1	88.0

### 8.6.1 Non-Current Assets

Non-current assets are comprised of goodwill, intangible assets, right of use assets, property, plant and equipment, interests in joint ventures, other investments, financial receivables as well as deferred taxes.

#### 8.6.1.1 June 30, 2020 Compared to December 31, 2019

Non-current assets decreased slightly by €0.7 million from €20.4 million as of December 31, 2019 to €19.7 million as of June 30, 2020, primarily due to a decrease in (i) right of use assets as a result of the ongoing depreciation and (ii) financial receivables due to the repayment of a loan by a subsidiary, which was partially offset by an increase in other investments.

### 8.6.1.2 December 31, 2019 Compared to December 31, 2018

Non-current assets increased significantly from €2.8 million as of December 31, 2018 to €20.4 million as of December 31, 2019, primarily due to an increase in right of use assets of €9.7 million as a result of the first time application of IFRS 16 in 2019 and due to the recognition of goodwill of €6.1 million in the Bavaria North branch in connection with the acquisition of S&P Stadtbau GmbH's business.

### 8.6.2 Current Assets

Current assets include inventories, financial receivables, contract assets, trade receivables, other receivables and other current assets, current income tax assets as well as cash and cash equivalents.

#### 8.6.2.1 Inventories

Inventories comprise assets in the process of production for sale (work-in-progress) or assets intended for sale in the ordinary course of business (finished goods).

The following table provides an overview of Instone's inventories as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
Work-in-progress .....	786.4	732.1	392.1
Finished goods .....	0.1	0.0	12.3
<b>Total</b> .....	<b>786.5</b>	<b>732.1</b>	<b>404.4</b>

#### 8.6.2.1.1 June 30, 2020 Compared to December 31, 2019

Inventories increased by 7.4% from €732.1 million as of December 31, 2019 to €786.5 million as of June 30, 2020, primarily due to the acquisition of land for project Aukamm in Wiesbaden accounting for an increase in inventories of €30.8 million as well as other acquisitions of land and the increase of other work-in-progress inventories mainly due to the slight decline in retail sales driven by reduced demand for residential units in light of the ongoing COVID-19 pandemic.

Work-in-progress inventories of €382.1 million are subject to restraints on disposal due to project financing by banks. In addition, borrowing costs capitalized under production costs shown under inventories decreased by 68.2% from €13.2 million as of December 31, 2019 to €4.2 million as of June 30, 2020. This mainly results from project financing for several projects in the pre-construction stage based on individual contracts with external lenders.

#### 8.6.2.1.2 December 31, 2019 Compared to December 31, 2018

Inventories increased by €327.7 million, or 81%, from €404.4 million as of December 31, 2018 to €732.1 million as of December 31, 2019, primarily due to the acquisition of land for project Westville accounting for an increase in inventories of €193.7 million as well as the acquisition of S&P Stadtbau GmbH's business, which accounted for an increase in inventories of €71.1 million and contract assets of €5.2 million.

Work-in-progress inventories of €366.0 million are subject to restraints on disposal due to project financing by banks. In addition, borrowing costs capitalized under production costs shown under inventories increased by 276.6% from €3.5 million as of December 31, 2018 to €13.2 million as of December 31, 2019. This mainly results from project financing for several projects in the pre-construction stage based on individual contracts with external lenders.

#### 8.6.2.2 Contract Assets

Contract assets (or liabilities) comprise receivables (or liabilities) from individually negotiated customer contracts, which are accounted for and measured in accordance with IFRS 15 "Revenue from Contracts with Customers".

Contract assets reflect the positive difference between revenue recognized pursuant to IFRS 15 from the performance of the contracts with customers and advance payments received from these customers. If the advance payments received exceed the receivables, the net amount is presented as a contract liability.

In addition, Instone incurs certain contract costs when it enters into purchase agreements with customers. These contract costs are also capitalized in contract assets. As revenue is recognized for the relevant contract, these capitalized contract costs are amortized over time as cost of materials in line with the percentage of completion.

The following table provides an overview of Instone's contract assets as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
Contract assets .....	491.1	479.4	466.9
Payments received .....	(292.9)	(266.9)	(318.1)
	<b>198.2</b>	<b>212.5</b>	<b>148.8</b>
Receivables from contract start-up costs .....	4.7	6.5	9.7
<b>Total</b> .....	<b>203.0</b>	<b>219.0</b>	<b>158.5</b>

#### 8.6.2.2.1 June 30, 2020 Compared to December 31, 2019

Contract assets decreased by €16.0 million from €219.0 million as of December 31, 2019 to €203.0 million as of June 30, 2020, primarily due to the slight decline in retail sales driven by reduced demand for residential units in light of the ongoing COVID-19 pandemic.

Receivables from customers for sold work-in-progress inventories (contract assets) increased by 2.4% from €479.4 million as of December 31, 2019 to €491.1 million as of June 30, 2020. Payments received from customers increased by 9.7% from €266.9 million as of December 31, 2019 to €292.9 million as of June 30, 2020 which partially offset the increase in contract assets. Accordingly, as of June 30, 2020, the balance amounted to €198.2 million compared to €212.5 million as of December 31, 2019. In addition, direct selling expenses capitalized under contract assets decreased by 27.8% from €6.5 million as of December 31, 2019 to €4.7 million as of June 30, 2020.

Due to the first-time consolidation of Instone Development in 2014 and Instone Leipzig in 2015 as well as of S&P Stadtbau GmbH's business in 2019, inventories and contract assets as of June 30, 2020 still included write-ups of €45.3 million from PPA.

#### 8.6.2.2.2 December 31, 2019 Compared to December 31, 2018

Contract assets increased by 38.2% from €158.5 million as of December 31, 2018 to €219.0 million as of December 31, 2019, due to an increase in sales to institutional buyers, where Instone may recognize revenue from the performance of the contracts with customers at an earlier point in time than for individual sales.

Receivables from customers for sold work-in-progress inventories (contract assets) increased by 2.7% from €466.9 million as of December 31, 2018 to €479.4 million as of December 31, 2019. Payments received from customers decreased by 16.1% from €318.1 million as of December 31, 2018 to €266.9 million as of December 31, 2019 which partially offset the increase in contract assets. Accordingly, as of December 31, 2019 the balance amounted to €212.5 million compared to €148.8 million as of December 31, 2018. In addition, direct selling expenses capitalized under contract assets decreased by 33% from €9.7 million as of December 31, 2018 to €6.5 million as of December 31, 2019.

Due to the first-time consolidation of Instone Development in 2014 and Instone Leipzig in 2015 as well as of S&P Stadtbau GmbH's business in 2019, inventories and contract assets as of December 31, 2019 still included write-ups of €46.1 million from PPA.

### 8.6.2.3 Cash and Cash Equivalents

The following table provides an overview of Instone's cash and cash equivalents as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
Bank balances .....	60.0	117.1	88.0
Cash .....	0.0	0.0	0.0
<b>Total</b> .....	<b>60.0</b>	<b>117.1</b>	<b>88.0</b>
<i>Of which restricted</i> .....	5.4	8.0	6.3

#### 8.6.2.3.1 *June 30, 2020 Compared to December 31, 2019*

Cash and cash equivalents decreased by €57.1 million from €117.1 million as of December 31, 2019 to €60.0 million as of June 30, 2020, primarily due to the acquisition of land for project Aukamm in Wiesbaden and additional payments with respect to real estate transfer tax relating to project Westville.

#### 8.6.2.3.2 *December 31, 2019 Compared to December 31, 2018*

Cash and cash equivalents increased by 33.1% from €88.0 million as of December 31, 2018 to €117.1 million as of December 31, 2019, primarily due to the inflow of funds from financing arrangements, including a term loan facility agreement entered into with Deutsche Bank AG and five promissory note loan agreements (*Schuldscheindarlehenverträge*) entered into with IKB Deutsche Industriebank AG, in the second, third and fourth quarter of 2019, which was partially offset by cash outflows for investments in new project developments.

## 8.7 Liabilities

The following table shows Instone's liabilities as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations .....	4.2	3.9	4.0
Other provisions .....	7.0	6.3	4.5
Financial liabilities .....	253.6	451.6	177.7
Liabilities from net assets attributable to non-controlling interests .....	9.7	9.5	–
Leasing liabilities .....	5.9	6.8	–
Deferred tax .....	13.0	12.0	32.2
<b>Total non-current liabilities</b> .....	<b>293.4</b>	<b>490.2</b>	<b>218.4</b>
<b>Current liabilities</b>			
Other provisions .....	22.6	23.0	17.7
Financial liabilities .....	346.4	143.9	87.8
Leasing liabilities .....	2.6	3.0	–
Contract liabilities .....	22.7	23.3	6.6
Trade payables .....	64.5	87.6	78.3
Other liabilities .....	6.2	13.1	12.7
Income tax liabilities .....	24.9	29.1	18.1
<b>Total current liabilities</b> .....	<b>489.9</b>	<b>323.0</b>	<b>221.3</b>
<b>Total liabilities</b> .....	<b>783.3</b>	<b>813.2</b>	<b>439.7</b>

The following table provides an overview of Instone's financial liabilities as of the dates indicated:

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
<b>Non-current</b>			
Loans from banks.....	253.6	451.6	177.7
Loans from third parties.....	–	–	–
<b>Total non-current financial liabilities</b> .....	<b>253.6</b>	<b>451.6</b>	<b>177.7</b>
<b>Current</b>			
Loans from banks.....	345.7	143.3	87.5
Loans from third parties.....	0.6	0.6	0.3
<b>Total current financial liabilities</b> .....	<b>346.4</b>	<b>143.9</b>	<b>87.8</b>
<b>Total financial liabilities</b> .....	<b>600.0</b>	<b>595.5</b>	<b>265.6</b>

#### 8.7.1 June 30, 2020 Compared to December 31, 2019

Financial liabilities slightly increased by €4.5 million from €595.5 million as of December 31, 2019 to €600.0 million as of June 30, 2020, primarily due to a reduced number of new land acquisitions in the first six months of 2020 and the corresponding decrease in debt financing required for such land acquisitions and other project developments.

Non-current financial liabilities significantly decreased by 43.8% from €451.6 million as of December 31, 2019 to €253.6 million as of June 30, 2020. At the same time, current financial liabilities significantly increased by 140.7% from €143.9 million as of December 31, 2019 to €346.4 million as of June 30, 2020. This development is primarily due to the fact that the current maturity of certain corporate loans and other project-related financings is less than 12 months.

#### 8.7.2 December 31, 2019 Compared to December 31, 2018

Financial liabilities significantly increased by 124.2% from €265.6 million as of December 31, 2018 to €595.5 million as of December 31, 2019, primarily due to an increase in non-current debt financing, including a term loan facility with Deutsche Bank AG and promissory note loans, as well as additional current debt financing required for Instone's project developments.

Non-current financial liabilities increased by 154.1% from €177.7 million as of December 31, 2018 to €451.6 million as of December 31, 2019, primarily due to the increase of corporate financing in the third quarter 2019 and the increase in external financing of Instone's project developments. Current financial liabilities increased by 63.9% from €87.8 million as of December 31, 2018 to €143.9 million as of December 31, 2019. Current and non-current loans from banks consisted of loans with fixed and variable interest rates (interest rates range from 1.45% to 5.75%) and a term of one to four years.

## 8.8 Equity

	As of June 30,	As of December 31,	
	2020	2019	2018
	(unaudited) (in € million)	(audited) (in € million)	
Share capital.....	37.0	37.0	37.0
Capital reserve .....	199.0	199.0	199.0
Group retained earnings / loss carryforwards .....	87.7	74.7	6.8
Accumulated reserves recognized in other comprehensive income.....	(1.4)	(1.4)	(1.1)
<b>Equity attributable to shareholders</b> .....	<b>322.3</b>	<b>309.2</b>	<b>241.7</b>
Non-controlling interests .....	0.9	0.9	5.2
<b>Total equity</b> .....	<b>323.2</b>	<b>310.2</b>	<b>246.9</b>
ROCE adjusted (in %) <sup>(1)(2)</sup> .....	15.2	21.4	12.7



(1) Unaudited.

(2) ROCE refers to return on capital employed, which is defined as adjusted EBIT for the last twelve months divided by the sum of the two-year average of equity capital (at the end of the relevant prior year and at the relevant current balance sheet date) plus net financial debt. Net financial debt corresponds to the sum of non-current financial liabilities and current financial liabilities less cash and cash equivalents.

#### 8.8.1.1 June 30, 2020 Compared to December 31, 2019

Equity increased by €13.0 million from €310.2 million as of December 31, 2019 to €323.2 million as of June 30, 2020, primarily due to an increase in group retained earnings / loss carryforwards from €74.7 million as of December 31, 2019 to €87.7 million as of June 30, 2020 as a result of the still positive EAT. The Company's share capital remained unchanged at €37.0 million and the capital reserve remained unchanged at €199.0 million.

#### 8.8.1.2 December 31, 2019 Compared to December 31, 2018

Equity increased by 25.6%, from €246.9 million as of December 31, 2018 to €310.2 million as of December 31, 2019, primarily due to a significant increase in group retained earnings / loss carryforwards from €6.8 million as of December 31, 2018 to €74.7 million as of December 31, 2019 as a result of the increase in EAT. The Company's share capital remained unchanged at €37.0 million and the capital reserve remained unchanged at €199.0 million.

In 2019, non-controlling interests decreased from €5.2 million as of December 31, 2018 to €0.1 million as of December 31, 2019. This decrease primarily relates to reclassification of profit shares of non-controlling interests to liabilities from net assets allocated to non-controlling interests.

## 8.9 Liquidity and Capital Resources

Instone's main sources of liquidity include cash flow from financing activities and sales proceeds (including prepayments from customers) in connection with project developments, which typically exceed the liabilities related to the residential units sold.

### 8.9.1 Consolidated Statement of Cash Flows

The following table shows Instone's consolidated statements of cash flows for the periods indicated:

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
<b>Cash flow from operations</b> .....	<b>(37.8)</b>	<b>1.5</b>	<b>(205.1)</b>	<b>(40.4)</b>
<i>Thereof:</i>				
Changes in net working capital <sup>(1)</sup> .....	(61.4)	(21.7)	(277.8)	(50.9)
Income tax reimbursements.....	(7.1)	(6.3)	(22.2)	(6.5)
<b>Cash flow from investing activities</b> .....	<b>(11.5)</b>	<b>0.0</b>	<b>(32.4)</b>	<b>0.5</b>
<i>Thereof:</i>				
Outflows for investments in property, plant and equipment .....	(1.1)	(0.5)	(0.9)	(1.1)
Outflows for investments in financial assets ....	(11.0)	–	–	–
Payments for acquisitions less cash and cash equivalents acquired.....	–	–	(31.8)	–
Interest received .....	0.2	–	1.6	0.8
<b>Cash flow from financing activities</b> .....	<b>(7.8)</b>	<b>12.5</b>	<b>266.2</b>	<b>54.3</b>
<i>Thereof:</i>				
Proceeds from additions to issued capital.....	–	–	–	150.5
Proceeds from loans and borrowings.....	353.7	131.7	559.5	83.9
Repayments of loans and borrowings.....	(358.2)	(117.3)	(283.1)	(135.5)
Interest paid .....	(3.0)	(1.8)	(6.9)	(7.1)

	For the six-month period ended June 30,		For the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited) (in € million)		(audited) (in € million)	
Cash and cash equivalents at the beginning of period.....	117.1	88.0	88.0	73.6
Change in cash and cash equivalents .....	(57.1)	14.0	28.7	14.3
Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents.....	–	–	0.5	–
<b>Cash and cash equivalents at the end of period.....</b>	<b>60.0</b>	<b>102.0</b>	<b>117.1</b>	<b>88.0</b>

(1) Net working capital consists of inventories, contract assets, trade receivables less contract liabilities and trade payables.

	As of or for the six-month period ended June 30,		As of or for the financial year ended December 31,	
	2020	2019	2019	2018
	(unaudited and in € million, unless otherwise indicated)		(audited and in € million, unless otherwise indicated)	
<b>Key liquidity figures</b>				
Cash flow from operations.....	(37.8)	1.5	(205.1)	(40.4)
Cash flow from operations without new investments <sup>(1)(2)</sup> .....	12.5	57.4	123.7	34.6
Free cash flow <sup>(1)(3)</sup> .....	(49.3)	1.5	(237.5)	(39.9)
Cash and cash equivalents .....	60.0	102.0	117.1	88.0

(1) Unaudited.

(2) Cash flow from operations without new investments corresponds to cash flow from operations less cash outflow due to payments for land and real estate transfer tax (excluding other ancillary costs) (six-month period ended June 30, 2020: €50.3 million; six-month period ended June 30, 2019: €56.0 million; 2019: €328.8 million; 2018: €75.0 million).

(3) Free cash flow corresponds to the sum of cash flow from operations and cash flow from investing activities.

### 8.9.1.1 Comparison of the Six-Month Period Ended June 30, 2020 and June 30, 2019

#### 8.9.1.1.1 *Cash Flow from Operations*

Cash flow from operations decreased from a cash inflow of €1.5 million in the six months ended June 30, 2019 to a cash outflow of €37.8 million in the six months ended June 30, 2020. This change was primarily due to a significant increase in net working capital, driven by increased payments for land acquisitions and real estate transfer tax (excluding other ancillary costs) in the aggregate amount of €50.3 million, which mainly included payments related to project Aukamm in Wiesbaden.

Cash inflow from operations adjusted for payments for land acquisitions, which Instone uses to analyze the contribution from its ongoing project developments to cash flows, was €12.5 million in the six months ended June 30, 2020, compared to €57.4 million in the six months ended June 30, 2019, primarily driven by slightly lower earnings and ongoing outflows for Instone's construction activities.

#### 8.9.1.1.2 *Cash Flow from Investing Activities*

Cash flow from investing activities changed from a cash outflow of €0.0 million in the six months ended June 30, 2019 to a cash outflow of €11.5 million in the six months ended June 30, 2020, primarily due to investments in financial assets driven by a loan to a minority shareholder of a project company, higher investments in property, plant and equipment as well as payments relating to the acquisition of a minority stake in a new project company.

#### 8.9.1.1.3 *Cash Flow from Financing Activities*

Cash flow from financing activities decreased from a cash inflow of €12.5 million in the six-month period ended June 30, 2019 to a cash outflow of €7.8 million in the six-month period ended June 30, 2020,

resulting from a lower cash inflow from corporate debt financing and additional cash outflow for repayments for terminated loans.

#### *8.9.1.2 Comparison of the Years Ended December 31, 2019 and December 31, 2018*

##### *8.9.1.2.1 Cash Flow from Operations*

Cash flow from operations decreased by €164.7 million from a cash outflow of €40.4 million in 2018 to a cash outflow of €205.1 million in 2019. This change was primarily due to a significant increase in net working capital, driven by increased payments for land acquisitions and real estate transfer tax (excluding other ancillary costs) in the aggregate amount of €328.8 million compared to €75.0 million in 2018. The payments for land acquisitions included mainly payments related to project Westville, but also payments related to projects in Dortmund, Frankfurt am Main, Hamburg, Herrenberg, Potsdam, Schorndorf, Stuttgart and Wiesbaden.

Cash inflow from operations adjusted for payments for land acquisitions, which Instone uses to analyze the contribution from its ongoing project developments to cash flows, was €123.7 million in 2019, up from €34.6 million in 2018, primarily driven by higher customer payments.

##### *8.9.1.2.2 Cash Flow from Investing Activities*

Cash flow from investing activities decreased by €32.9 million from cash inflows of €0.5 million in 2018 to cash outflows of €32.4 million in 2019, primarily due to the payment of €31.8 million made in connection with the acquisition of certain business activities of S&P Stadtbau GmbH less cash and cash equivalents acquired.

##### *8.9.1.2.3 Cash Flow from Financing Activities*

Cash flow from financing activities significantly increased from a cash inflow of €54.3 million in 2018 to a cash inflow of €266.2 million in 2019, primarily due to higher cash inflows from new debt financing, including €181.0 million of corporate debt financing, which were only partially offset by higher cash outflow for repayments for terminated loans.

#### **8.9.2 Investments**

In the periods under review, Instone's most significant investments was the acquisition of certain business activities of S&P Stadtbau GmbH. On August 15, 2019, Instone entered into a purchase agreement with Sontowski & Partner Stadtbau Group concerning the acquisition of selected business activities of S&P Stadtbau GmbH's business. The agreed purchase price amounted to €72.1 million (based on all outstanding equity and debts excluding transaction costs). The Company financed this investment by using available cash and cash equivalents.

On October 10, 2019, the Company acquired the remaining 6% of the shares in Instone Leipzig for €3.3 million under a put option, making Instone Leipzig a wholly owned subsidiary of the Company. As a result, minority interests in equity decreased by €1.5 million. To finance its investments, the Company used available cash and cash equivalents.

Instone does not acquire land plots or properties as investment properties in its core business. It develops and sells such land plots or properties following completion of its development activities. Accordingly, its land acquisitions are recorded as inventories in Instone's current assets (see "8.6.2.1 Inventories").

Besides the investments described above, Instone has made no firm commitments on any significant ongoing or future investments as of the date of this Prospectus.

#### **8.9.3 Financial Liabilities**

Instone's financial liabilities consist of fixed and variable interest rate loans extended by various banks. As of December 31, 2019, liabilities to banks had a term of between one and four years (December 31, 2018: between one and five years). The interest rates were between 1.45% and 5.75% (December 31, 2018: 1.50% and 4.24%). Generally, Instone's liabilities to banks are not the subject of contractual assurances and are instead secured by land charges.

Instone monitors its leverage based on the ratio of net debt to adjusted EBITDA. The following table shows the development of Instone's leverage as of the dates indicated.

	As of or for the twelve-month period ended June 30,	As of or for the financial year ended December 31,	
	2020	2019	2018
	(unaudited and in € million, unless otherwise indicated)	(unaudited and in € million, unless otherwise indicated)	
Corporate debt .....	202.3	180.8	66.4
Project debt .....	397.7	414.7	199.2
<b>Financial debt<sup>(1)</sup></b> .....	<b>600.0</b>	<b>595.5<sup>(2)</sup></b>	<b>265.5<sup>(2)</sup></b>
Cash and cash equivalents .....	60.0	117.1 <sup>(2)</sup>	88.0 <sup>(2)</sup>
<b>Net financial debt<sup>(3)</sup></b> .....	<b>540.0</b>	<b>478.4</b>	<b>177.5</b>
Adjusted EBIT .....	125.9 <sup>(4)</sup>	128.9 <sup>(2)</sup>	49.6 <sup>(2)</sup>
Adjusted EBITDA .....	130.0	132.9	50.2
<b>Leverage ratio adjusted (as multiple)<sup>(5)</sup></b> .....	<b>4.2</b>	<b>3.6</b>	<b>3.5</b>

(1) Corresponds to financial liabilities.

(2) Audited.

(3) Net financial debt corresponds to the sum of non-current financial liabilities (as of June 30, 2020: €253.6 million; 2019: €451.6 million; 2018: €177.7 million) and current financial liabilities (as of June 30, 2020: €346.4 million; 2019: €143.9 million; 2018: €87.8 million) less cash and cash equivalents (as of June 30, 2020: €60.0 million; 2019: €117.1 million; 2018: €88.0 million).

(4) Adjusted EBIT for the twelve month period ended June 30, 2020 is calculated by subtracting adjusted EBIT for the six months ended June 30, 2019 in the amount of negative €31.9 million from the sum of adjusted EBIT for the period from January 1, 2019 to December 31, 2019 in the amount of €128.9 million and share of results of joint ventures in the amount of €0.7 million (to align adjusted EBIT calculation for fiscal year 2019 to the changed definition used from January 1, 2020 onwards) and by adding adjusted EBIT for the six months ended June 30, 2020 in the amount of €28.2 million.

(5) Leverage ratio adjusted is the ratio of net financial debt to the sum of (i) adjusted EBIT for the last twelve months (as of June 30, 2020: €125.9 million; 2019: €128.9 million; 2018: €49.6 million) and (ii) depreciation and amortization for the twelve-month period ended on the date indicated (as of June 30, 2020: €4.1 million; 2019: €4.1 million; 2018: €0.6 million).

## 8.10 Qualitative and Quantitative Disclosure about Financial Risks

For information on qualitative and quantitative disclosure about financial risks, see “Reporting on financial instruments” on page F-42 up to and including “Control of the capital risk” on page F-45.

## 8.11 Significant Accounting Policies

For information on Instone's accounting policies, see “Scope of consolidation” on page F-14 up to and including “Consolidation principles” on page F-17.

## 8.12 Changes in Accounting Standards

For information on changes in accounting standards, see “Basis of the consolidated financial statements” on page F-12 up to and including “Not yet incorporated into EU law (first-time adoption date in brackets)” on page F-14.

## 9. PROFIT FORECAST

### 9.1 Forecast for Adjusted Gross Profit Margin and Adjusted EAT for Instone Group

The forecast of (i) adjusted gross profit margin and adjusted EAT of the Company and its subsidiaries for the financial year ending December 31, 2020 (the “**Profit Forecast 2020**”) and (ii) adjusted EAT of the Company and its subsidiaries for the financial year ending December 31, 2021 (the “**Profit Forecast 2021**”), together with the Profit Forecast 2020 and the respective explanatory notes, hereinafter collectively referred to as the “**Profit Forecast**”) set out in this section are not a representation of facts and should therefore not be regarded as such by prospective investors. Rather, they reflect the forward-looking expectations of the Management Board of the Company with respect to adjusted gross profit margin and adjusted EAT for Instone Group. Any forward-looking statements, including the Profit Forecast, are necessarily based on a number of assumptions and estimates about future events and significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond Instone’s control, and upon assumptions with respect to future business decisions that are subject to change.

The Profit Forecast is based on assumptions made by the Management Board with respect to the development of Instone’s adjusted gross profit margin and adjusted EAT as set out below under “9.3 Explanatory Notes to the Profit Forecast“. These assumptions relate in part to factors that Instone cannot influence. Although Instone believes that these assumptions are reasonable on the date as of which the Profit Forecast is published, they may subsequently prove to have been unjustified or incorrect. If any of these assumptions proves to have been unjustified or incorrect, Instone’s actual adjusted gross profit margin and adjusted EAT could materially deviate from the Profit Forecast. Accordingly, prospective investors should treat this information with caution and should not place undue reliance on the Profit Forecast.

### 9.2 Definition of the Forecasted Adjusted Earnings Measures

Instone uses adjusted gross profit margin and adjusted EAT as key earnings measures to manage and analyze the project-based group performance. The adjusted earnings measures are based on Instone’s internal management and reporting system, which focuses on the performance of Instone’s development projects. The adjusted earnings measures correspond to reported numbers that have been regrouped to provide an economically more meaningful presentation of Instone’s performance, adjusted for reclassification items, purchase price allocation effects, share deal effects and non-recurring items that are not indicative of Instone’s operating performance.

The measures adjusted gross profit margin and adjusted EAT are not earnings measures under International Financial Reporting Standards as adopted by the European Union (IFRS) (“**Non-IFRS Measures**”) and should not be considered a substitute for the Company’s earnings or losses before income taxes, cash flow from operating activities or any other performance indicator as reported under IFRS. The key earnings measures adjusted gross profit margin and adjusted EAT described below may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools.

Adjusted gross profit margin reflects the operating result after deducting all external costs directly attributed to the projects, and adjusting for purchase price allocations and share deal effects. It is calculated by dividing adjusted gross profit by adjusted revenue. Adjusted EAT corresponds to adjusted EBIT less adjusted other results from investments, adjusted financial result and adjusted income taxes. Adjusted EBIT is defined as adjusted gross profit less platform costs (consisting of all other costs and other operating income (before interest and taxes) not directly attributed to the projects) adjusted for non-recurring items. Beginning in 2020, adjusted EBIT includes the share of results of joint ventures (companies consolidated at-equity).

The following table sets forth a definition of the adjusted earnings measures:

	<b>Revenue<sup>(1)</sup></b>
+	PPA effects
±	Share deal effects
	<hr/>
	<b>Adjusted revenue</b>
-	Project costs <sup>(2)</sup>
+ / -	Reclassification items
+	PPA effects
-	Share deal effects
	<hr/>
	<b>Adjusted gross profit</b>

-	Platform costs <sup>(3)</sup>
+ / -	Reclassification items
+ / -	Non-recurring items
±	Share of results of joint ventures <sup>(4)</sup>
	<b>Adjusted EBIT</b>
-	<i>Other results from investments</i> <sup>(5)</sup>
+ / -	<i>Non-recurring items</i>
	<b>Adjusted other results from investments</b> <sup>(6)</sup>
-	<i>Financial result</i> <sup>(7)</sup>
+ / -	<i>Reclassification items</i>
+ / -	<i>Non-recurring items</i>
	<b>Adjusted financial result</b> <sup>(8)</sup>
-	<i>Income taxes</i> <sup>(9)</sup>
-	<i>PPA effects</i>
-	<i>Share deal effects</i>
+ / -	<i>Non-recurring items</i>
-	Adjusted income taxes <sup>(10)</sup>
	<b>Adjusted EAT</b>

- (1) Revenue corresponds to revenue as reported in Instone's consolidated income statement.
- (2) Project costs corresponds to the difference between cost of materials and changes in inventories as reported in Instone's consolidated income statement.
- (3) Platform costs corresponds to the sum of staff costs, other operating income, other operating expenses, depreciation and amortization as reported in Instone's consolidated income statement.
- (4) Share of results of joint ventures corresponds to the share of results of joint ventures as reported in Instone's consolidated income statement.
- (5) Other results from investments corresponds to other results from investments as reported in Instone's consolidated income statement.
- (6) Adjusted other results from investments corresponds to other results from investments adjusted for non-recurring items.
- (7) Financial result corresponds to the sum of finance income, finance costs and other financial result as reported in Instone's consolidated income statement.
- (8) Adjusted financial result corresponds to the sum of finance income, finance costs and other financial result, each as reported in Instone's consolidated income statement, adjusted for reclassification of capitalized interest from project costs to finance costs and non-recurring items.
- (9) Income taxes corresponds to income taxes as reported in Instone's consolidated income statement.
- (10) Adjusted income taxes corresponds to income taxes as reported in Instone's consolidated income statement adjusted for the tax effects from PPA effects, share deal effects and non-recurring items.

Instone defines reclassification items, PPA effects, share deal effects and non-recurring items as follows:

- **Reclassification items:** Reclassification items relate to the reclassification of indirect selling expenses from platform costs to project costs and of capitalized interest from project costs to finance costs as project costs reflect all non-financial external costs related to the production of revenue.
- **PPA effects:** PPA effects is defined as the effects on the consolidated financial statement resulting from prior acquisitions in connection with which Instone was required to allocate the purchase prices paid to the assets and liabilities that were acquired or assumed based on estimated fair values, which resulted in a step up in the value of the acquired assets and other effects.
- **Share deal effects:** Share deal effects relate to adjustments Instone makes to its reported results in the case of development project sales taking the form of a sale of the shares of the relevant project company. Under IFRS 15, for all of its development projects sold as asset deals Instone begins to recognize revenue and project costs once the projected aggregate sales volume has been contractually secured and then does so over time as contracted sales volumes grow and construction progresses. For projects sold before completion by way of a sale of shares in the project company, revenue and project costs are not recognized in the consolidated income statement. Instead, acquisition of the land plot and construction progress is reflected in positive changes in inventories (offset by corresponding cost of materials), with the gain or loss from the sale included in earnings upon completion and delivery of the each relevant sub-project, in each case corresponding to a project company. In its internal management reporting, Instone aligns the treatment of share deals with the accounting for its other projects under IFRS 15 and

recognizes revenues and project costs over time rather than only recognizing the gain or loss from the project upon completion.

- **Non-recurring items:** Non-recurring items is defined as items which, in management's view, are unusual or incurred on a non-recurring basis.

### **9.3 Explanatory Notes to the Profit Forecast**

#### **9.3.1 Underlying Principles**

The Profit Forecast was prepared in accordance with the principles of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V., IDW*) as set forth in the IDW Accounting Practice Statement: Preparation of Forecasts and Estimates in Accordance with the Specific Requirements of the Regulation on Prospectuses (IDW AcPS AAB 2.003) (*IDW Rechnungslegungshinweis: Erstellung von Gewinnprognosen und -schätzungen nach den besonderen Anforderungen der Prospektverordnung* (IDW RH HFA 2.003)).

The Profit Forecast excludes effects from extraordinary events within the meaning of IDW Accounting Practice Statement (IDW RH HFA 2.003) such as effects from purchase price allocations, share deal effects and non-recurring items (including any non-recurring items that may arise after the date of this Profit Forecast).

Although adjusted gross profit margin and adjusted EAT are Non-IFRS Measures, the Profit Forecast was prepared on the basis of IFRS accounting principles. The accounting policies applied are described in the notes to the Company's consolidated financial statements as of and for the year ended December 31, 2019 and in the appendix to the Company's unaudited interim condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2020.

The Profit Forecast is based on a number of factors. The development of these factors is based on specific assumptions made by the Management Board, which are set out below.

#### **9.3.2 Factors Beyond Instone's Control and Related Assumptions**

The Profit Forecast is subject to factors beyond Instone's control. These factors and the Management Board's assumptions regarding their development and impact on Instone are as follows:

##### **9.3.2.1.1 Factor: Extent and Implications of Coronavirus Pandemic**

In December 2019, a novel strain of coronavirus and the infectious diseases caused by it (COVID-19) was identified in Wuhan, China. COVID-19 has since spread to over 180 countries, including Germany and other European countries. Within Germany, COVID-19 has spread to every state where Instone owns and develops properties and has its offices and principal operations. The full impact of the COVID-19 pandemic on Instone's business is difficult to predict and will depend on a number of factors. Such factors include the scope and duration of the pandemic (including potential second or third waves of infection), actions taken by governmental authorities in response to the ongoing or re-emerging pandemic, the impact of the pandemic on the businesses of third-party suppliers and contractors, the extent and duration of any economic recessionary conditions and the impact on the financial markets.

For purposes of the Profit Forecast, Instone assumes demand for its residential units, which has been negatively impacted by the COVID-19 pandemic, to be broadly in line with demand levels prior to the COVID-19 pandemic as well as continued availability and affordability of mortgage lending to potential customers. Instone furthermore assumes no material delays in building rights or building permit approval processes with authorities for its project developments. Finally, Instone assumes no negative impact on its construction sites due to the COVID-19 pandemic and that its construction progress will be in line with its initial construction schedule. These assumptions have been reflected in Instone's assumption on adjusted revenues (see "9.4.1.3 Factor: Adjusted Revenues") and factored into the Profit Forecast.

##### **9.3.2.1.2 Factor: Unforeseen Events**

Instone assumes that no unforeseen events will occur that could result in material or lasting constraints on the ongoing operations of the entities of the Instone Group or any of its construction sites, such as force majeure, including fire, hurricanes, storms, earthquakes or terrorist attacks, weather conditions that would slow

down or stop progress on its construction sites or other material macroeconomic events with a material negative impact on demand for residential buildings, or war.

#### *9.3.2.1.3 Factor: Timely Approval of Targeted Building Rights and Building Permits*

Many of Instone's projects rely on timely completion of permits and building rights processes involving local authorities. Instone assumes that building rights processes and building permits in relation to its project developments with first time revenue recognition in financial year 2020 and in financial year 2021, respectively, will be completed and available in line with management expectations. Instone's current assumptions involve 2-3 projects with expected completions of building rights in the financial year 2020 and 3-4 projects with expected completions of building rights in the financial year 2021.

#### *9.3.2.1.4 Factor: Legislative and Other Regulatory Measures*

Instone may become subject to more rigorous regulation by governmental authorities in the future. For purposes of the Profit Forecast, Instone assumes that none of these potential changes will materially affect projects with expected revenue recognition in the financial years 2020 and 2021.

#### *9.3.2.1.5 Factor: Demand for New-Build Residential Units*

Demand for new-build residential units from owner-occupiers in the regions in which Instone operates has consistently outpaced supply over recent years due to a number of trends, including urbanization, migration and an increasing number of single households. In addition, retail buy-to-let investors as well as institutional investors have increased the allocation to residential property investments as the yield for government bonds and other highly rated fixed income instruments has diminished. For purposes of the Profit Forecast, Instone assumes demand for its products, which has been negatively impacted by the COVID-19 pandemic, to be broadly in line with demand levels prior to the COVID-19 pandemic.

#### *9.3.2.1.6 Factor: Construction Capacity and Construction Price Development*

Instone relies heavily on subcontractors and, in limited cases, on general contractors for the building and construction of its development projects. Despite increasing competition for construction capacity in the last few years, Instone has consistently succeeded in retaining relevant subcontractors and, in relevant cases, general contractors in order to secure on time and on budget delivery of its development projects. For purposes of the Profit Forecast and in relation to all projects in the "pre-sale" development stage, Instone assumes a stable cost price environment for the next 18 months. In addition, Instone assumes a continued ability to retain relevant subcontractors or general contractors in line with its construction cost budgets.

#### *9.3.2.1.7 Factor: Housing Price Development*

Housing prices have benefited from mid to high single digit percent price increases annually for the last few years. The Profit Forecast is based on specific price lists for the projects in the "pre-construction" and "under construction" development stage. For projects in the "pre-sale" development stage, Instone assumes a stable rather than inflationary housing price environment for the next 18 months. In relation to the Profit Forecast, Instone assumes housing price development in line with the stated assumptions.

#### *9.3.2.1.8 Factor: Availability of Secured Long-Term Bank Financing*

Most of Instone's retail and institutional clients use secured long-term bank loans to finance the purchase price of apartments and buildings. Debt financing costs for secured loans are a major driver of affordability for Instone's retail customers and economic attractiveness for its buy to let and institutional clients. Secured bank loans have consistently been available to a broad group of potential buyers at attractive terms over recent years. For purposes of the Profit Forecast, Instone assumes continued availability of long-term secured bank financings at attractive terms for its target customer groups.

#### *9.3.2.1.9 Factor: Availability of Project Financing for Instone*

Most of Instone's projects are financed through a mix of corporate funds and project level debt. Instone benefits from a large number of local, regional and nationwide lenders that offer project level debt at attractive terms and conditions in relation to its projects. Where projects have not already been financed, management assumes that project financing will be available if and when required. For purposes of the Profit Forecast, Instone



assumes that the project-related debt financing for these projects will be available in accordance with customary contractual terms of the relevant financing and that the relevant advance payments from customers will be received on schedule.

#### **9.4 The Profit Forecast 2020**

On the basis of the developments for the six-month period ended June 30, 2020, as well as the assumptions as set out below, the Management Board expects that in the financial year 2020 Instone will have an adjusted gross profit margin of at least 28.0% and adjusted EAT in the range of €30 million to €35 million.

##### **9.4.1 Factors That Can Be Influenced By Instone and Related Assumptions**

In addition to the factors and assumptions that are beyond Instone's control (see "9.3.2 Factors Beyond Instone's Control and Related Assumptions"), the Profit Forecast 2020 is subject to the following key factors that can be influenced by Instone and the related assumptions.

###### **9.4.1.1 Factor: Volume of Concluded Sales Contracts**

The volume of concluded customer sales contracts is a critical parameter in determining Instone's adjusted revenues, adjusted gross profit margin and adjusted EAT. For purposes of the Profit Forecast 2020, Instone assumes a total of concluded customer sales contracts in the financial year 2020 in excess of €450 million. This forecast of concluded sales contracts is based on Instone's projects on the market as of June 30, 2020 with an aggregate Expected Sales Volume of €273 million and additional retail and institutional sales in 2020. Instone's ability to achieve this volume of concluded customer sales contracts will, *inter alia*, depend on its ability to start the sales process for relevant projects in the financial year 2020 in line with its scheduled timing, which Instone assumes will be possible.

###### **9.4.1.2 Factor: Construction Progress**

The construction progress as measured by the ratio of project related costs in any relevant period and expected total project cost of that project is essential in calculating Instone's adjusted revenues as well as its adjusted gross profit margin and adjusted EAT. In deriving the Profit Forecast 2020, Instone assumes the progress of construction of its relevant development projects in the financial year 2020 to be in line with its construction schedule.

###### **9.4.1.3 Factor: Adjusted Revenues**

Instone defines adjusted revenues as revenue adjusted for PPA effects and share deal effects, as described above. For purposes of the Profit Forecast 2020, Instone assumes that adjusted revenues for the financial year 2020 will be in the range of €470 million to €500 million. Instone's expectation is based on a bottom-up calculation of expected adjusted revenues from each relevant development project. For purposes of the Profit Forecast 2020, Instone relies on its existing project portfolio as newly acquired projects will typically require lead times in excess of 12 months prior to contributing to adjusted revenues. The decrease of expected adjusted revenues for the financial year 2020 compared to adjusted revenues for the financial year 2019 is primarily the result of (i) the expected negative impact on the residential real estate market in 2020 due to the COVID-19 pandemic and (ii) project Westville contributing a substantial share to adjusted revenues in the financial year 2019. Project Westville is a large development project in Frankfurt am Main that was sold in 2019 prior to the start of construction to an institutional investor in sales of the shares of four separate project companies. In 2019, share deal effects from such sale transactions were €220.8 million relating to adjusted revenue (and €193.7 million relating to adjusted project costs (primarily the land plot acquisition costs)). While these transactions will continue to impact adjusted revenues (and adjusted project costs) until the project is completed, the impact in 2020 will be substantially below that of 2019 as construction is not scheduled to begin until 2021 after demolition has been completed and all building permits have been obtained.

###### **9.4.1.4 Factor: Project Costs**

Project costs (defined as cost of materials less changes in inventories) are a significant element in calculating Instone's adjusted gross profit margin and adjusted EAT. For purposes of the Profit Forecast 2020, Instone assumes that adjusted gross profit margins for projects with revenue recognition in the financial year 2020 will increase compared to the financial year 2019. This assumption is based on the low average margin for project Westville, which negatively impacted Instone's adjusted gross profit margin for the financial year 2019,

and the expectation, described above, that project Westville's proportional contribution to adjusted revenue and adjusted project costs in the financial year 2020 will be substantially lower than in the financial year 2019.

#### 9.4.1.5 Factor: Platform Costs

For purposes of the Profit Forecast 2020, Instone assumes that its platform costs (defined as the sum of staff costs, other operating income, other operating expenses and depreciation and amortization) will grow in the financial year 2020 compared to the financial year 2019, reflecting the continued increase in size of its project portfolio as well as its medium-term adjusted revenues targets. The expected increase in platform cost is to a large extent driven by an increase in personnel costs as Instone will hire additional employees to cope with the growing number of projects and manage the associated growth of the group.

#### 9.4.1.6 Factor: Share of Results of Joint Ventures and Other Results from Investments

For purposes of the Profit Forecast 2020, Instone assumes both share of results of joint ventures and other results from investments for the period to be immaterial.

#### 9.4.1.7 Factor: Financial Result

Instone's financial result (defined as the sum of finance income, finance costs and other financial result) is primarily determined by the amount of average financial liabilities Instone uses to finance its business over the relevant period and its effective cost of debt (*i.e.*, interest paid divided by average financial liabilities). For purposes of the Profit Forecast 2020, Instone assumes its negative financial result will increase in 2020 compared to 2019 due to increased financial liabilities.

#### 9.4.1.8 Factor: Income Taxes

For purposes of the Profit Forecast 2020, Instone assumes that its adjusted effective tax rate (*i.e.*, effective tax rate adjusted for discrete items) for the financial year 2020 will be around 31%.

### **9.5 The Profit Forecast 2021**

On the basis of the developments for the six-month period ended June 30, 2020, as well as the assumptions as set out below, the Management Board expects that in the financial year 2021 Instone will have an adjusted EAT of at least €90 million.

#### ***9.5.1 Factors That Can Be Influenced By Instone and Related Assumptions***

In addition to the factors and assumptions that are beyond Instone's control (see "9.3.2 Factors Beyond Instone's Control and Related Assumptions"), the Profit Forecast 2021 is subject to the following key factors that can be influenced by Instone and the related assumptions.

##### 9.5.1.1 Factor: Volume of Concluded Sales Contracts

The volume of concluded customer sales contracts is a critical parameter in determining Instone's adjusted revenues, adjusted gross profit margin and adjusted EAT. For purposes of the Profit Forecast 2021, Instone assumes a total of concluded customer sales contracts in the financial year 2021 in excess of €800 million. Instone's ability to achieve this volume of concluded customer sales contracts will depend on its ability to start the sales process for relevant projects in the financial year 2021 in line with its scheduled timing, which Instone assumes will be possible.

##### 9.5.1.2 Factor: Construction Progress

The construction progress as measured by the ratio of project related costs in any relevant period and expected total project cost of that project is essential in calculating Instone's adjusted revenues as well as its adjusted gross profit margin and adjusted EAT. In deriving the Profit Forecast 2021, Instone assumes the progress of construction of its relevant development projects in the financial year 2021 to be in line with its construction schedule.

#### 9.5.1.3 Factor: Adjusted Revenues

Instone defines adjusted revenues as revenue adjusted for PPA effects and share deal effects, as described above. For purposes of the Profit Forecast 2021, Instone assumes that adjusted revenues for the financial year 2021 will be in the range of €900 million to €1.0 billion. Instone's expectation is based on a bottom-up calculation of expected adjusted revenues from each relevant development project. For purposes of the Profit Forecast 2021, Instone relies on its existing project portfolio as newly acquired projects will typically require lead times in excess of 12 months prior to contributing to adjusted revenues.

#### 9.5.1.4 Factor: Project Costs

Project costs (defined as cost of materials less changes in inventories) are a significant element in calculating Instone's adjusted EAT. For purposes of the Profit Forecast 2021, Instone assumes that adjusted gross profit margins for projects with revenue recognition in the financial year 2021 will be in line with its long-term gross profit margin target of around 25% for its traditional project developments.

#### 9.5.1.5 Factor: Platform Costs

For purposes of the Profit Forecast 2021, Instone assumes that its platform costs (defined as the sum of staff costs, other operating income, other operating expenses and depreciation and amortization) will grow in the financial year 2021 compared to the financial year 2020, reflecting the expected continued increase in size of its project portfolio, the expansion of its valuehome division as well as its medium-term adjusted revenues targets. The expected increase in platform cost is to a large extent driven by an increase in personnel costs as Instone will hire additional employees to cope with the growing number of projects and manage the associated growth of the group.

#### 9.5.1.6 Factor: Share of Results of Joint Ventures and Other Results from Investments

For purposes of the Profit Forecast 2021, Instone assumes both share of results of joint ventures and other results from investments for the period to be immaterial.

#### 9.5.1.7 Factor: Financial Result

Instone's financial result (defined as the sum of finance income, finance costs and other financial result) is primarily determined by the amount of average financial liabilities Instone uses to finance its business over the relevant period and its effective cost of debt (*i.e.*, interest paid divided by average financial liabilities). For purposes of the Profit Forecast 2020, Instone assumes its negative financial result will increase in 2021 compared to 2020 due to increased financial liabilities.

#### 9.5.1.8 Factor: Income Taxes

For purposes of the Profit Forecast 2021, Instone assumes that its adjusted effective tax rate (*i.e.*, effective tax rate adjusted for discrete items) for the financial year 2021 will be around 29%.

### **9.6 Other Explanatory Notes**

Instone had initially published a profit forecast for the financial year 2020 which was included in the combined management report of the Instone Group for the financial year ending December 31, 2019. Due to the significant uncertainties associated with the COVID-19 pandemic, Instone withdrew its initial forecast for the financial year 2020 in May 2020.

The Profit Forecast is based on a bottom up planning of Instone's projects. Instone's bottom up planning takes into account the actual results and all relevant expectations in relation to the forecast period. The Profit Forecast has been compiled and prepared on a basis which is both comparable with Instone's historical financial information and consistent with Instone's accounting policies.

As the Profit Forecast refers to a period not yet concluded and has been prepared on the basis of assumptions regarding uncertain future events and actions (factors), it inherently involves considerable uncertainties, particularly in light of the ongoing COVID-19 pandemic (see "9.3.2.1.1 Factor: Extent and Implications of Coronavirus Pandemic"). As a result of such uncertainties, it is possible that the Instone Group's actual adjusted gross profit margin and adjusted EAT may differ materially from the Profit Forecast.

The Profit Forecast was prepared on August 26, 2020.

## 10. MARKETS AND COMPETITION

### 10.1 Markets

Instone is a leading nationwide residential real estate developer in Germany in terms of sqm of secured development projects not yet under construction (*Source: bulwiengesa*). Instone develops modern, urban, multifamily residential properties and redevelops listed buildings for residential use. As of June 30, 2020, Instone's project portfolio comprised 53 development projects with an aggregate Expected Sales Volume of approximately €5.7 billion. As of that date, approximately 88% of Instone's portfolio (by Expected Sales Volume) was located in key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) and 12% (by Expected Sales Volume) in other prospering medium-sized cities. In addition to its traditional project developments (*i.e.*, individual multifamily residential properties) in its key markets, Instone has developed a new product offering standardized residential developments based on modular planning at reduced price points. With this new "valuehome" product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers, which it considers to be a largely untapped customer group.

Instone's business is highly dependent on the German residential real estate market, which is influenced by general macroeconomic and demographic trends that have contributed to its long-term position of structural undersupply. Furthermore, Instone strongly benefits from highly favorable real estate market conditions in the key growth regions in which Instone primarily operates.

#### 10.1.1 General Macroeconomic Developments in Germany

##### 10.1.1.1 Gross Domestic Product

Germany has an advanced, diversified and competitive economy. Germany is Europe's largest economy with a gross domestic product ("GDP") of €3.4 trillion in 2019, accounting for approximately 21% of the European Union's ("EU") total GDP in 2019 (*Source: Eurostat, Gross Domestic Product*). Germany also has one of the highest GDP per capita (€41.5 thousand) in Europe (*Source: Destatis, GDP*). Notably, in 2019, Germany achieved a budget surplus amounting to €49.8 billion, which corresponds to a general government surplus of 1.4% of GDP under Maastricht criteria (*Source: Destatis, Press Release No. 057*).

While Germany's economy has proven to be relatively resilient in recent years, it could come under significant pressure in the short-term as a result of recent developments. Due to the ongoing effects of tariff disputes and other geopolitical developments, Germany only narrowly avoided recession at the end of 2019. Prospects for Germany's economy further deteriorated significantly as a result of the pandemic spread of a novel strain of the coronavirus and the infectious disease caused by it ("COVID-19") and the measures taken by various countries, including Germany, to combat its spread. These measures have resulted in a substantial slowdown in economic activity. In light of the ongoing COVID-19 pandemic, the European Commission recently warned that there is a very real risk of a severe and deep recession in the European markets, including Germany (*Source: EEF*). Although the impact of the pandemic on the project development market in Germany has been limited to date, it could lead, if efforts to contain the virus are not successful and current restrictions affecting economic activity remain in place or are intensified, to a significant and potentially prolonged slowdown in construction activity.

##### 10.1.1.2 Inflation

While the inflation rate amounted to 1.4% in Germany in 2019, inflation is currently expected to decrease to 0.8% in 2020 before rising to 1.1% and 1.6% in 2021 and 2022, respectively, mainly due to fluctuations in prices for energy and food. A further increase in 2022 is possible due to rising energy prices and the slight increase in the core rate (*Source: Bundesbank, Inflation*).

##### 10.1.1.3 Interest Rates

In recent years, interest rates in Germany have declined significantly, with effective interest rates on home mortgages with an initial fixed interest period of more than ten years falling from 4.97% *per annum* in April 2008 to 1.22% *per annum* in April 2020 and 1.27% *per annum* in May 2020 (*Source: Bundesbank, Interest Rates*). As a result of this decrease, financing for residential real estate has become considerably more affordable in recent years, resulting in increased demand.

#### 10.1.1.4 Employment

The ongoing labor market boom is a major driver of the high demand for residential real estate in Germany. Between 2009 and 2019, the overall unemployment rate in Germany fell from 8.1% to 5.0% (Source: Federal Employment Agency, *Development of Unemployment Rate*). In light of COVID-19, the Federal Employment Agency (*Bundesagentur für Arbeit*, “BA”) recorded a massive increase in notifications of short-time work. While only 42,206 short-time work notifications were received in February 2020, around 2.6 million and around 8.0 million such notifications were recorded for March and April 2020, respectively (Source: Destatis, *Corona Dossier*). In May 2020, the number went down to around 1.1 million notifications and in June 2020 it decreased even further to 400,000 notifications. In light of these developments, it is expected that the overall unemployment rate in Germany will increase from 5.0% to 5.3% for 2020 (Source: German Council, *Special Report 2020*).

### 10.1.2 **German Residential Real Estate Market**

#### 10.1.2.1 Overview

Driven by the overall positive economic developments, in particular the low interest rate environment, the German real estate market has witnessed strong growth rates over the last decade and remains attractive for real estate investments. Between 2009 and 2019, average purchase prices for new residential property and existing residential property in Germany increased by 41.3 base points and 46.6 base points, respectively (Source: Destatis, *Residential, House Price Index*). Rents for such apartments have also benefited, increasing by 12.9 base points during that same period (OECD, *Housing Prices*). Yet despite such strong demand, residential real estate remains comparably affordable in Germany, where the purchase price of new housing with a floor space of 70 sqm corresponded to approximately 5.1 times the average annual gross salary in 2018, compared to 9.4 times in the United Kingdom and 6.2 times in Italy (Source: Deloitte, *Property Index*).

#### 10.1.2.2 Key Trends

Overall, the German residential real estate market is affected by several key trends:

##### 10.1.2.2.1 *Urbanization*

Germany has traditionally had only a few large and several medium-sized cities. In recent years, the country has, however, experienced increasing urbanization due to, *inter alia*, better employment opportunities in Germany’s metropolitan regions. As a result, the number of residents in Germany’s urban centers has constantly increased, with 77.4% of the overall population living in a city at the end of 2019 (Source: United Nations). Nevertheless, compared to other major European markets, this implies that there is still significant catch-up potential, as in the United Kingdom, France and Spain, a total of 83.7%, 80.7% and 80.6% of the population, respectively, was living in a city at the end of 2019 (Source: United Nations). Consequently, the share of residents living in urban centers is expected to grow continually and reach 81.5% in Germany by 2040 (Source: United Nations). The continued urbanization not only increases the importance and affluence of Germany’s largest cities, but also leads to continued growth in the metropolitan regions surrounding these cities, further exacerbating the growing gap between rural areas and these metropolitan regions.

##### 10.1.2.2.2 *Household Sizes*

One of the main factors influencing demand for residential real estate in Germany is the number of households. While the overall population is ageing and declining, the number of households is expected to grow from 41.5 million in 2019 by 1.7% to 42.2 million in 2025 and by a further 0.9% to 42.6 million in 2040 (Source: Destatis, *Private Households*). This increase is primarily driven by the general trend towards a reduction in household sizes, in particular, a growing number of single-person households. From 2019 onwards, the number of households is anticipated to significantly increase in cities and densely populated regions. By 2040, it is expected that the total number of single person households will increase to approximately 19.3 million from 17.4 million in 2019, while the number of two-person households will increase to 14.1 million from 14.0 million in 2019 (Source: Destatis, *Private Households*).

##### 10.1.2.2.3 *Supply and Demand*

The strong economic situation and growth in the number of households have resulted in continuous, strong demand for residential real estate in Germany. While the number of building permits for residential

buildings significantly increased from a historically low level of 177,570 in 2009 to 360,493 in 2019 (*Source: Destatis, Building Permits / Building Completions*), the German residential real estate market has nevertheless been in a long-term position of structural undersupply. With the number of completed building projects showing a natural delay in relation to the number of building permits issued, there has been a constant shortage of completions since 2009, with the shortfall amounting to approximately 67,000 completed units in 2019 (*Source: Destatis, Building Permits / Building Completions*).

Due to a lack of available land plots and strict legal restrictions regarding construction projects imposed by German law, supply of new residential units has traditionally lagged behind considerably. While building activity has increased in recent years, actual completions of new housing still fail to match the strong demand for German residential real estate.

The following table shows the expected annual demand for new residential units in Berlin, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart as well as the number of residential units completed in these cities in 2018 and 2019:

City	Annual demand for new residential units between 2015 and 2030 <sup>(1)</sup>	Completed residential units in 2018 <sup>(2)</sup>	Completed residential units in 2019 <sup>(2)</sup>
Berlin.....	16,785	14,327	15,376
Cologne.....	5,449	3,402	2,030
Dusseldorf.....	2,345	2,028	1,996
Frankfurt am Main.....	5,337	3,244	3,941
Hamburg.....	9,064	9,700	9,079
Leipzig.....	1,146	1,925	1,563
Munich.....	11,438	8,502	6,663
Stuttgart.....	2,941	1,604	945

(1) IW Policy Paper.

(2) bulwiengesa, Building Activity.

The significant imbalance between historically low building activity and continued strong demand for new residential units in most of these cities implies a continued supply shortage of such units in Instone’s key metropolitan regions.

#### 10.1.2.2.4 Housing Market in B Locations In and Around Instone’s Key Metropolitan Regions

With its new “valuehome” product (*i.e.*, standardized residential developments based on modular planning at reduced price points), Instone plans to enter the residential real estate market in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers. Through its new product, Instone targets mid- to lower income households in selected B locations, which it considers to be a largely untapped customer group. In addition to its traditional customer segments, Instone believes that its new valuehome product will be well received by municipal housing companies searching for social housing, professional landlords looking for densification of housing stock and larger corporates searching for corporate housing.

While rent levels in Germany’s key metropolitan regions have generally outperformed rent levels in B locations, rental growth in such B locations showed a much higher growth in 2019 primarily driven by the catch-up in prices resulting from so-called spillover effects (*Source: Company information*). For example, the average rent for an apartment in Moenchengladbach and Duisburg in 2019 increased by 5.0% and 5.6%, respectively, compared to 2018, and thus more than the average rent in Dusseldorf (1.6%) and Cologne (2.3%) (*Source: bulwiengesa, Property Index*). In June 2020, the average basic rent for a 80 sqm apartment in Dusseldorf and Cologne amounted to €998 and €1,010, respectively, compared to €586 and €517 in Moenchengladbach and Duisburg (*Source: wohnungsboerse*), respectively. Instone believes that the strong potential for rental growth is further driven by the fact that the basic rent (including ancillary costs) in B locations (*e.g.*, Moenchengladbach and Duisburg) as a share of disposable household income is substantially lower compared to A cities such as Dusseldorf and Cologne.

Similarly, the purchase price for condominiums, on average, has risen more strongly in A-cities than in B-cities since 2009. (*Source: bulwiengesa, Property Index*). For example, the average purchase price per sqm for condominiums in Dusseldorf increased by 103.4% since 2009 while the average purchase price per sqm in

B cities around Dusseldorf (*i.e.*, Duisburg, Essen, Moenchengladbach, Neuss) only increased between 62% and 84% during the same period (*Source: bulwiengesa, Property Index*). Taking into account additional spillover effects, Instone believes that these economics allow for significant growth potential.

### *10.1.2.3 Germany's Key Metropolitan Regions*

Due to the federal structure of Germany, there is no dominant metropolis such as London in the United Kingdom or Paris in France. Consequently, several key metropolitan regions each represent key markets for residential real estate, with Berlin, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Munich, and Stuttgart foremost amongst them. These are collectively also referred to as the “Top 7” or “A cities”. The large residential real estate markets in these cities have several advantages for investors (*e.g.*, higher market transparency, transaction numbers, concentrated demand and asset liquidity). Instone operates in all of these residential real estate markets, plus Bonn, Nuremberg, and Leipzig.

#### *10.1.2.3.1 Metropolitan Region of Berlin*

Berlin, the capital of Germany, is a modern, innovative city and a growing technology hub. With a population of 3.64 million as of December 31, 2018, Berlin is the largest city in Germany (*Source: Destatis, Cities by Population*). The unemployment rate in Berlin published by the BA was 10.8% as of July 2020 (*Source: Federal Employment Agency, Unemployment July 2020*).

Between 2009 and 2019, the number of households in Berlin grew by 8.2% to approximately 2.15 million, while the housing stock increased by 3.9% to approximately 1.97 million (*Source: bulwiengesa, Core Cities*). In 2019, the average rent per sqm for newly built residential units increased by 3% to €13.90 compared to 2018, well below the average annual increase of 5.8% since 2009 (*Source: bulwiengesa, Property Index*). The average purchase price per sqm for newly built residential units increased by 7.1% to €6,000, being slightly below the average annual increase of the last ten years of approximately 8.8% (*Source: bulwiengesa, Property Index*).

#### *10.1.2.3.2 Metropolitan Region of Cologne*

Cologne's industry is heavily focused on insurance and other services. The city of Cologne is known as a center for culture and media, as well as an important university town in the Rhine-Ruhr region, one of the largest urban agglomerations in Europe. With a population of 1.09 million as of December 31, 2018, Cologne is the fourth largest city in Germany (*Source: Destatis, Cities by Population*). The unemployment rate in Cologne published by the BA was 9.9% as of July 2020 (*Source: Federal Employment Agency, Unemployment July 2020*).

Between 2009 and 2019, the number of households in Cologne grew by 12.1% to approximately 605,000, while the housing stock increased by 7.4% to approximately 563,000 (*Source: bulwiengesa, Core Cities*). In 2019, the average rent per sqm for newly built residential units increased by 2.3% to €13.30 in 2019, being slightly lower than the average annual increase of 2.9% since 2009 (*Source: bulwiengesa, Property Index*). In contrast, the average purchase price for newly built residential units increased by 10.9% to €5,100, thereby outperforming the average annual increase of 7% since 2009 (*Source: bulwiengesa, Property Index*).

#### *10.1.2.3.3 Metropolitan Region of Dusseldorf*

The metropolitan region of Dusseldorf is one of Germany's most important trading centers offering a healthy mix of industries and business sectors including industrial manufacturing, mobile telecoms, life sciences, business and legal consulting, fashion and advertising. With a population of 619,294 as of December 31, 2018, Dusseldorf is the seventh largest city in Germany (*Source: Destatis, Cities by Population*). Dusseldorf's unemployment rate as published by the BA was 8.4% as of July 2020 (*Source: Federal Employment Agency, Unemployment July 2020*).

Between 2009 and 2019, the number of households in Dusseldorf grew by 9.4% to approximately 343,000, while the housing stock increased by 6.4% to approximately 347,000 (*Source: bulwiengesa, Core Cities*). In 2019, the average rent per sqm for newly built residential units increased by 1.6% to €13.10, however, well below the average annual increase of 3.7% since 2009 (*Source: bulwiengesa, Property Index*). In contrast, the average purchase price per sqm for newly built residential units increased by 7.3% to €5,900, being in line with the average annual increase of 7.4% since 2009 (*Source: bulwiengesa, Property Index*).



#### 10.1.2.3.4 Metropolitan Region of Frankfurt am Main

Frankfurt is firmly established as a global financial center and benefits from excellent infrastructure. With a population of 753,056 as of December 31, 2018, Frankfurt is the fifth largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Frankfurt published by the BA was 7.5% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Frankfurt grew by 16.8% to approximately 431,000, while the housing stock increased by 10.6% to approximately 398,000 (Source: bulwiengesa, *Core Cities*). In 2019, the average rent per square meter for newly built residential units increased by 3.9% to €16.10, only slightly lower than the annual growth rate of 4.4% for the period since 2009 (Source: bulwiengesa, *Property Index*). Similarly, the average purchase price per sqm for newly built residential units increased by 12.8% to €7,050 compared to 2018, clearly outperforming the average annual growth rate since 2009 of 9% (Source: bulwiengesa, *Property Index*).

#### 10.1.2.3.5 Metropolitan Region of Hamburg

As a maritime trade and commerce center with the third largest container port in Europe, Hamburg boasts a diverse economy. With a population of 1.84 million as of December 31, 2018, Hamburg is the second largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Hamburg published by the BA was 8.5% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Hamburg grew by 8.2% to approximately 1.07 million, while the housing stock increased by 8.6% to approximately 966,000 (Source: bulwiengesa, *Core Cities*). In 2019, the average rent per sqm for newly built residential units increased by 1.4% to €14.40 compared to 2018, but well below the average annual increase of 2.8% since 2009 (Source: bulwiengesa, *Property Index*). The average purchase prices per sqm for newly built residential units increased by 7.6% to €5,700 in 2019, well above the average annual increase of 6.7% since 2009 (Source: bulwiengesa, *Property Index*).

#### 10.1.2.3.6 Metropolitan Region of Leipzig

Leipzig, known for its historic baroque architecture, is one of the fastest growing cities in Germany and a major center for the logistics and automobile industries. With a population of 587,857 as of December 31, 2018, Leipzig is the eighth largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Leipzig published by the BA was 8.1% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Leipzig grew by 16.8% to approximately 348,000, while the housing stock increased by 8.3% to approximately 341,000 (Source: bulwiengesa, *Core Cities*). In 2019, the average rent per sqm for newly built residential units increased by 5.5% to €11.50 compared to 2018, slightly below the average annual increase of 6.7% since 2009 (Source: bulwiengesa, *Property Index*). The average purchase price per sqm for newly built residential units increased by 5.3% to €4,000 compared to 2018, well below the average annual increase of 8.7% since 2009 (Source: bulwiengesa, *Property Index*).

#### 10.1.2.3.7 Metropolitan Region of Munich

Munich is a major technology and electronics center in Germany and boasts a diversified economic structure with a mix of multinational corporations and medium-sized companies. With a population of 1.47 million as of December 31, 2018, Munich is the third largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Munich published by the BA was 5.4% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Munich grew by 14.9% to approximately 864,000, while the housing stock increased by 8.0% to approximately 806,000 (Source: bulwiengesa, *Core Cities*). In 2019, the average rent price per sqm for newly built residential units increased by 4.2% to €19.80, being slightly lower than the average annual growth rate of 4.7% since 2009 (Source: bulwiengesa, *Property Index*). In contrast, the average purchase price per sqm for newly built residential units increased by 7.8% to €9,000 compared to 2018, being slightly lower as well than the average annual growth rate of 8.9% since 2009 (Source: bulwiengesa, *Property Index*).

#### 10.1.2.3.8 Metropolitan Region of Nuremberg

Nuremberg, as Bavaria's second-largest city, is well positioned as a high-tech, industrial (including electrical engineering, mechanical engineering and the production of automotive parts) and innovative service location. With a population of 518,365 as of December 31, 2018, Nuremberg is the fourteenth largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Nuremberg published by the BA was 7.0% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Nuremberg grew by 6.2% to approximately 283,000, while the housing stock increased by 5.5% to approximately 279,000 (Source: *bulwiengesa, Core Cities*). In 2019, the average rent price per sqm for newly built residential units increased by 5.2% to €12.20, being slightly higher than the annual growth rate of 4.9% since 2009 (Source: *bulwiengesa, Property Index*). In contrast, the average purchase price per sqm for newly built residential units increased by 8.3% to €5,200 compared to 2018, being slightly higher than the annual growth rate of 8.1% since 2009 (Source: *bulwiengesa, Property Index*).

#### 10.1.2.3.9 Metropolitan Region of Stuttgart

Stuttgart is known as an innovative high-tech center with a particular focus on the automotive industry, and, in recent years, has experienced strong economic growth. Local companies are export-oriented and benefit from the continued trend towards globalization. With a population of 634,830 as of December 31, 2018, Stuttgart is the sixth largest city in Germany (Source: Destatis, *Cities by Population*). The unemployment rate in Stuttgart published by the BA was 5.8% as of July 2020 (Source: Federal Employment Agency, *Unemployment July 2020*).

Between 2009 and 2019, the number of households in Stuttgart grew by 10.3% to approximately 351,000, while the housing stock increased by 6.0% to approximately 315,000 (Source: *bulwiengesa, Core Cities*). In 2019, the average rental price per sqm for newly built residential units amounted to €15.90, an increase by 2.6% compared to 2018 but well below the average annual growth rate of 5.2% since 2009 (Source: *bulwiengesa, Property Index*). In comparison, the average purchase price per sqm for newly built residential units increased by 4.8% to €6,600 compared to 2018, but still well below the average annual growth rate of 8.2% since 2009 (Source: *bulwiengesa, Property Index*).

## 10.2 Competition

The competitive landscape for project developments of residential real estate situated in Germany is highly fragmented. Only a few project developers are active in all major markets across Germany, while the role of regional developers tends to be limited to individual local markets.

In its key metropolitan regions, Instone faces competition from the following types of project developers, in particular when it comes to the acquisition of new development opportunities:

- **Regional German Real Estate Developers:** Regional project developers, such as Bayerische Hausbau, Wilma Immobilien GmbH, Otto Wulff Projektentwicklung GmbH and WvM Immobilien + Projektentwicklung GmbH, often possess specialized knowledge of certain regions and own a significant portfolio of strategic real estate in these regions. They typically also benefit from a strong local network in such markets as well as from access to sufficient financial resources. While regional German real estate developers often lack the requisite scale, experience and resources to become strong competitors at a nationwide level, such developers tend to be relevant competitors in the individual metropolitan regions that are the focus of these developers.
- **Nationwide Real Estate Developers in Germany:** Nationwide German real estate developers, such as Bonava Deutschland GmbH, Consus Real Estate AG or BPD Immobilienentwicklung GmbH, which are active in most of the key metropolitan regions and prospering medium-sized cities in Germany in which Instone operates. Such project developers usually have great access to financing opportunities, enabling them to acquire significant and strategic land as well as to increase production levels to further meet demand. As a result, such project developers compete effectively and are aggressive in pricing and margin assumptions when bidding for land.

The Company believes that due to its long-standing expertise, strong network all along the value chain and clear focus on the residential real estate market in the German key metropolitan regions, it has obtained an excellent position, allowing it to effectively compete also against sophisticated competitors. The Company

believes that its development expertise provides it with a competitive advantage over many real estate investors, particularly in value-added acquisitions.

## 11. BUSINESS

### 11.1 Overview

Instone is a leading nationwide residential real estate developer in Germany in terms of sqm of secured development projects not yet under construction (*Source: bulwiengesa*). Instone develops modern, urban, multifamily residential properties and redevelops listed buildings for residential use. As of June 30, 2020, Instone's project portfolio comprised 53 development projects with an aggregate Expected Sales Volume of approximately €5.7 billion. As of that date, approximately 88% of Instone's portfolio (by Expected Sales Volume) was located in key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) and 12% (by Expected Sales Volume) in other prospering medium-sized cities. In addition to its traditional project developments (*i.e.*, individual multifamily residential properties) in its key markets, Instone has developed a new product offering standardized residential developments based on modular planning at reduced price points. With this new "valuehome" product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers, which it considers to be a largely untapped customer group. Instone's key purchaser groups generally comprise owner-occupiers, retail buy-to-let investors and institutional investors. For its new valuehome product, Instone will also focus on municipal housing companies and professional landlords.

Instone believes that the regional German residential real estate markets in which Instone operates are highly attractive. Germany is Europe's largest and most stable economy. In 2019, Germany had the highest GDP in Europe (€3.4 trillion) as well as one of the highest GDP per capita (€41.5 thousand) (*Source: Destatis, GDP*). Sound structural growth in the German residential property market is expected to continue due to a combination of several factors, including modest population growth (*Source: Destatis*), steadily increasing urbanization, an increasing number of households (*Source: Destatis, Private Households*) and the current structural undersupply of residential properties (*Source: IW Report*). While the German economy and the residential real estate market have been negatively affected by the COVID-19 pandemic in 2020, Instone believes these structural trends will continue to drive demand for residential real estate in Germany in the medium- to long-term. Instone's business further benefits from the favorable German regulatory framework for project developments. The German MaBV enables Instone to contractually agree on significant fixed down payments based on construction milestones for residential units sold to owner-occupiers and retail buy-to-let investors which substantially reduces its development risk. Furthermore, applicable German law significantly limits the ability of purchasers to terminate contracts for the sale of residential real estate properties to cases in which, for example, the product quality does not meet agreed standards or there is a substantial delay of delivery.

Instone is one of only a few pure play residential real estate developers in Germany with a fully integrated nationwide platform covering the entire development value chain. Instone's operations include the identification and acquisition of suitable land, land development, concept design, construction management, as well as marketing and sales. Headquartered in Essen, Instone operates through eight branches in Berlin, Cologne, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg (Erlangen) and Stuttgart. Each branch has its own local teams for acquisition, planning, construction management and marketing and sales activities, while strategic decisions are coordinated and managed together with Instone's headquarters. Instone has strong risk-management processes in place and applies sophisticated reporting and planning tools to mitigate development risks.

Instone has a successful acquisition and development track record. Since 1991, Instone (including its predecessors) has developed residential units comprising more than one million sqm of residential space. Between January 1, 2018 and June 30, 2020, Instone's management approved the acquisition of land plots and properties for residential development with an aggregate Expected Sales Volume for fully developed projects of approximately €2.8 billion at the time of acquisition. In 2018, 2019 and in the six-month period ended June 30, 2020, Instone successfully sold 1,033, 2,733 and 456 residential units, respectively, with a corresponding volume of sales contracts of €460.8 million, €1,403.1 million and €123.5 million. Instone believes that its success is attributable to its regional focus, its nationwide regional presence, and the know-how and strong network of its experts located across Germany.

Instone has a record of strong financial performance. In 2019, Instone had adjusted revenues of €736.7 million, an adjusted gross profit margin of 25.5% and adjusted EBIT of €128.9 million. In the six-month period ended June 30, 2020, Instone had adjusted revenues of €179.6 million, an adjusted gross profit margin of 32.2% and adjusted EBIT of €28.2 million.

## **11.2 Business Strengths**

Instone believes that the following strengths have been the primary drivers of Instone's success in the past and that based on these strengths, Instone believes it will be able to implement its strategy to successfully compete in the future:

### ***11.2.1 Exposure to Europe's largest and most stable economy with attractive housing sector fundamentals***

Germany has an advanced, diversified and competitive economy. In 2019, Germany had the highest GDP in Europe, €3.4 trillion, as well as one of the highest GDP per capita (€41.5 thousand) (*Source: Destatis, GDP*). In 2019, Germany's GDP continued to grow, increasing by a total of 0.6% (after price, seasonal and calendar adjustments) compared to 2018 (*Source: Destatis, GDP*). At the same time, inflation has remained low, despite the economy being close to full employment, and the interest rate environment continues to be very benign. While the short-term economic outlook has deteriorated significantly as a result of the measures taken in Germany and around the world to slow the spread of COVID-19, the Company believes that the economic fundamentals in Germany remain sound.

In line with general macroeconomic trends, the German real estate market has performed well. The residential real estate sector has been in a dynamic phase for several years with prices growing strongly in the context of robust housing demand and insufficient and relatively inelastic supply. On average, housing prices in Germany increased by 46.9% between 2011 and 2019. During the same period, housing prices in Instone's key metropolitan regions (excluding Bonn, Leipzig and Nuremberg) increased by 75.4% (*Source: vdp*), substantially outpacing consumer price inflation. While housing prices may stagnate in the short-term if Germany enters recession as a result of the measures taken to combat COVID-19, structural undersupply will continue to drive demand for residential real estate. Housing demand in Germany is expected to increase until 2025 with unmatched annual demand estimated at about 260,200 residential units nationwide and about 51,400 units in Instone's key metropolitan regions (excluding Bonn, Leipzig and Nuremberg) (*Source: IW Report*). While the number of building permits for residential buildings significantly increased, supply of new residential units has traditionally lagged behind (*Source: IW Report*). The Company believes that these trends will likely continue in the long term due to the underlying demographic trends, including shrinking household sizes and steadily increasing urbanization.

### ***11.2.2 A market-leading nationwide platform with an attractive project portfolio focused on key metropolitan regions and prospering medium-sized cities in Germany***

Instone is a leading nationwide residential real estate developer in Germany with a long-standing nationwide regional presence. Headquartered in Essen, Instone is supported by its eight regional branches in Berlin, Cologne, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg (Erlangen) and Stuttgart. Instone's success is mainly due to its regional branch structure which provides it with high levels of local market knowledge. Each branch has its own local teams for acquisition, planning, construction management and marketing and sales activities, while strategic decisions are coordinated and managed together with Instone's headquarters. Instone's development teams are involved at a very early stage to help assess land value and its potential for value creation. Instone believes that its success is attributable to its regional focus, its nationwide regional presence, and the know-how and strong network of its experts located across Germany.

Instone has what it considers to be a particularly attractive portfolio of projects situated in Germany's key metropolitan regions and other prospering medium-sized cities in Germany. Its secured project portfolio comprises 53 projects with an aggregate Expected Sales Volume of approximately €5.7 billion as of June 30, 2020. Broken down by geography, Instone's project portfolio is spread across Germany with Frankfurt accounting for the largest share (35%), followed by North Rhine Westphalia ("NRW") (amongst others Bonn, Cologne and Dusseldorf) (14%), Leipzig (10%), Stuttgart (8%), Hamburg (7%), Nuremberg (6%), Berlin (5%), Munich (4%) and various medium sized cities (including Wiesbaden, Mannheim, Hannover, Potsdam, Bamberg) (12%) (in each case measured by Expected Sales Volume).

### ***11.2.3 Deep and local expertise in the development of residential real estate properties***

Instone was the first and is still one of only a few pure play residential real estate developers in Germany to have developed a fully integrated platform covering the entire value chain. Its activities include the identification and acquisition of suitable land plots and properties, land development, concept design, construction management, as well as marketing and sales. In conducting its operations, Instone particularly benefits from its deep development and construction management expertise, established network of contractors,

property agents, consultants, financiers as well as long-standing relationships with the relevant local authorities, some of which date back to the time when Instone was still part of HOCHTIEF Solutions AG's real estate development division.

Instone's recognized expertise and reputation is a differentiating success factor when sourcing land plots and properties. Instone's acquisition strategy is driven by the aim to achieve attractive margins from project developments without taking undue risks. To this end, Instone's land acquisition strategy focuses primarily on land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition, as it believes that such plots or properties typically offer a higher potential for value creation. In identifying and acquiring suitable land, Instone benefits from its strong nationwide regional network that enables it to access a large number of potential acquisition opportunities at an early stage. Instone's regional branch structure ensures proximity to local markets and access to the most interesting potential project development sites. In addition, Instone also benefits from its external sourcing network which includes its contacts to municipalities, local private or commercial land owners, lawyers, and other real estate professionals. Due to its well-known execution capacity and master planning skills, Instone is generally able to source and acquire the vast majority of its land plots and properties in off-market transactions, which are characterized by a fast-paced process without multiple bidding phases.

In carrying out its construction management activities, Instone benefits from its highly qualified and skilled employees with strong expertise in developing and constructing residential real estate properties. By leveraging its in-house knowledge and its strong established network of regional and supra-regional construction partners, Instone tailors the assignment of construction work in line with specific project requirements. Unlike any of its competitors, Instone generally does not employ a general contractor for conducting its construction activities. Instead, Instone awards contracts directly to the actual contractors and manages the construction process based on in-house expertise and using its own on-site project managers. To ensure that Instone's quality criteria and construction deadlines are met, Instone's experienced project managers are in charge of supervising the individual progress of each construction phase. Its tailored approach in construction management enables Instone to mitigate the risk of cost overruns or a lack of capacity from qualified contractors, in particular by partnering with highly qualified building contractors at an early stage of the development process. Its long-standing relationships with relevant experts and contractors, as well as its considerable in-house expertise, enables Instone to successfully manage various project types and successfully source and deliver a diverse portfolio of residential real estate project developments.

In selling and marketing its residential properties, Instone focuses on both private investors (*i.e.*, owner-occupiers, retail buy-to-let investors) and institutional investors and generally makes the final decision regarding the preferred marketing method based on a thorough review of all relevant exit alternatives prior to executing any sale. Instone's long standing marketing expertise helps in making the right choice on whether a new project development should be marketed to private investors or whether the entire project or large parts thereof should be sold to a single institutional investor. Historically, Instone sold the majority of its development properties to private investors. In 2019, Instone sold 79% of its development properties (by sales volume) to institutional investors, reflecting increasing institutional demand for property investments. The remaining 21% (by sales volume) were sold to private investors, of which approximately 12% were sold to owner-occupiers and approximately 9% to retail buy-to-let investors. Without taking into account project Westville, Instone sold 63% of its development properties (by sales volume) to institutional investors and 37% to private investors in 2019.

#### **11.2.4 Strong track record of profitable growth**

Since its initial public offering in early 2018, Instone has built a strong track record of profitable growth. As of September 30, 2017, Instone's project portfolio comprised 48 projects with an aggregate Expected Sales Volume of approximately €3.4 billion. At the time, Instone set its target for annual acquisitions in the medium term at an aggregate Expected Sales Volume of €900 million to €1.0 billion. Driven by its strong operational performance, Instone was able to substantially increase its project portfolio to 45 projects with an Expected Sales Volume of approximately €4.8 billion as of December 31, 2018, to 55 projects with an aggregate Expected Sales Volume of approximately €5.8 billion as of December 31, 2019 and to 53 projects with an aggregate Expected Sales Volume of approximately €5.7 billion as of June 30, 2020. The growth in Expected Sales Volume is primarily driven by the volume of project approvals (*i.e.*, the number of internal approvals obtained with respect to its development projects) of €1,298 million in 2018 and of €1,284 million in 2019, in each year exceeding its anticipated target for annual acquisitions of €900 million to €1.0 billion.

As a result of Instone's strong development activities, adjusted revenues increased significantly by 97.6% from €372.8 million in 2018 to €736.7 million in 2019, with Instone's adjusted gross profit increasing by

76.5% from €106.4 million in 2018 to €187.8 million in 2019. Instone's adjusted results in 2019 included project Westville in Frankfurt am Main, which contributed €220.8 million to adjusted revenues at a substantially below average margin. Instone's adjusted gross profit margin (excluding project Westville) increased from 28.6% in 2018 to 31.2% in 2019. While Instone's adjusted gross profit margin (including project Westville) declined from 28.5% in 2018 to 25.5% in 2019, the year-on-year development demonstrates the scalability of the Company's business model as the significantly higher level of adjusted revenues could be achieved with only a modest increase in adjusted platform costs. Adjusted EBIT margin increased from 13.3% in 2018 to 17.5% in 2019 despite the decrease in Instone's adjusted gross profit margin (including project Westville), demonstrating Instone's ability to benefit from economies of scale in a significant way.

### ***11.2.5 Efficient financing mix allows for an attractive cash flow profile and high returns on capital***

Instone believes that its efficient financing mix allows it to benefit from an attractive cash flow profile and generate high returns on capital. The required project financing for Instone's traditional project developments typically comprises three components: Own cash funding, project-related debt financing as well as customers' pre-payments. Instone typically aims to limit own cash funding to approximately 10% to 20% of the expected total development costs for fully developed projects. In addition to the funds resulting from its development activities, Instone obtains corporate financing to fulfil its own cash funding requirements and further drive future growth. In 2019 and 2020, Instone was able to secure corporate financing comprising promissory note loans (*Schuldscheindarlehen*), a term loan facility (which was fully repaid by August 21, 2020) and revolving credit facility agreements with an aggregate commitment of €520 million. Under these corporate financing arrangements, Instone benefits from attractive interest rates which are in the range of 2.50% to 4.00% (nominal interest rate without upfront fee).

With respect to the remaining 80% to 90% of the expected total development costs for fully developed projects, Instone generally obtains project-related debt financing from banks. Due to the favorable regulatory framework in Germany, Instone benefits from the staggered payment framework provided by the MaBV which enables it to agree with private investors (*i.e.*, owner-occupiers and retail buy-to-let investors) on fixed installment payments to be paid as and when certain construction milestones are achieved. Under project-related financing agreements, installment payments under the MaBV serve as kind of a collateral and are thus offset against the amount drawn under the respective financing agreement. As a result, only the difference is subject to interest under such financing agreements.

For sales to owner-occupiers and retail buy-to-let investors, the expected total development costs are partly funded by the incoming cash flow resulting from installment payments under the MaBV during the project lifetime. In the case of sales to institutional investors, Instone typically agrees on advance payments comparable to those under the MaBV. Given that advance payments from institutional investors are typically higher than those from private investors, Instone considers on a case-by-case basis whether it needs to obtain additional project-related debt financing from banks. The actual amount required under its project-related financing depends on the sale progress of the individual residential units and the corresponding installment payments. The interest paid under its project-related financing agreements (including upfront fee) is a function of the actual amount drawn down and the duration of the relevant financing arrangement. The effective interest rate paid by Instone under its project-related financing is typically within the range of 4.5% to 5%.

As a result of this attractive financing mix, for its traditional development projects, Instone targets an adjusted gross profit margin of around 25%, an unlevered project level IRR of around 15% and a levered project level IRR of around 20%, although it may pursue projects from time to time that do not meet these criteria. For its valuehome products, Instone believes that it will be able to achieve an adjusted gross profit margin of around 20%, with IRRs likely exceeding those for its traditional products. Going forward, Instone believes that its efficient financing mix consisting of low equity requirements and flexible project-related debt financing, will enable Instone to continue to achieve highly attractive returns on invested equity.

### ***11.2.6 Highly experienced management team with a proven track record of value generation***

Instone has a highly experienced management team with significant breadth and depth of expertise in the entire development value chain. Instone's management team is familiar not only with the specific features of the German residential real estate market, but also possesses the necessary knowledge of the regional markets in which Instone operates. Instone's top management has longstanding experience in Instone's markets and in Instone's operating business. In addition, the management team is supported by strong headquarter and local branch management teams with extensive knowledge of Instone's business and the residential real estate development industry.

With their collective extensive experience, exposure and drive, Instone's management team maintains an established network of, among others, contractors, suppliers, property agents, consultants, financiers as well as long-standing relationships with the relevant local authorities. With these resources, Instone believes that it will be able to continually source for suitable development sites, achieve optimal development value from these sites, manage its construction and development processes efficiently and ensure purchaser satisfaction by delivering quality value and services.

### **11.3 Strategy**

As one of the leading residential real estate developers in Germany, Instone has a clear strategy for profitable growth that seeks to capitalize on the highly attractive German real estate market opportunity while serving all our stakeholders, including shareholders, customers, employees and the communities in which Instone operates. Instone's strategy comprises the following key elements:

#### ***11.3.1 Continue to focus on the most attractive metropolitan regions and conurbations in Germany***

For its traditional products, Instone will continue to focus on inner-city locations in attractive metropolitan regions and prospering medium-sized cities with a structural surplus of demand. These metropolitan regions and prospering medium-sized cities present strong demographic growth, reinforced by the urbanization trend, sustainable household formation and supportive regionally diversified economic backgrounds resulting in increased demand for residential real estate. With regard to project size, Instone targets mostly larger projects with an average Expected Sales Volume (also referred to as gross development value) of €100 million. Such projects include large-scale neighborhood projects (*Quartiersentwicklungen*), which may comprise a mix of residential units, offices, retail space and amenities for the community such as day care centers.

With its new valuehome product (*i.e.*, standardized residential developments based on modular planning, offered at reduced price points), Instone primarily targets B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers. By targeting neighborhoods that are well connected to the city and economic centers, Instone expects to benefit from spillover effects to such surrounding neighborhoods (*e.g.*, areas around Dusseldorf, Cologne and Bonn). In terms of project size for its valuehome product, Instone targets development projects with an average Expected Sales Volume of €30 million to €50 million.

#### ***11.3.2 Leverage its differentiated expertise along the entire project development value chain***

As one of the only few pure play residential real estate developers in Germany, Instone will continue to leverage its differentiated expertise along the entire project development value chain.

When acquiring land plots, Instone will continue to prioritize "off-market transactions", *i.e.*, acquisition opportunities without the usual multi-phase bidding process. To this end, Instone will continue to maintain or expand its regional network, which is key to its ability to identify such acquisition opportunities at an early stage. Instone focuses on land plots or properties without zoning or planning permission as such plots or properties typically offer a higher potential for value creation. It applies its vast experience to generate economically highly attractive building rights. In this connection, Instone will continue to work with municipalities at the local level to procure planning permissions, in particular by developing urban planning strategies and proposal for action and in land use plan and development plan processes.

With regard to construction management, Instone will continue to act in most cases as its own general contractor, awarding contracts on an individual basis to firms in its network of regional and supra-regional construction partners based on their experience with similar developments, technical know-how, quality of performance, reference projects, capacity, location and other relevant criteria. Instone's direct access to its subcontractors in the network it maintains is key to its ability to secure construction capacity at an early stage in the project development process, at the same time creating a high level of cost transparency and planning security for its projects.

In marketing and selling its project developments, Instone will continue to leverage its strong regional distribution network to access both private investors (*i.e.*, owner-occupiers, retail buy-to-let investors) and institutional investors. Based on its marketing expertise and access to all relevant buyer groups, Instone is able to react quickly to changes in current demand. Capitalizing on its long-standing experience as a leading project



developer, Instone aims to take advantage of its competitive strengths based on its differentiated expertise at all stages of the value chain.

### ***11.3.3 Digitalization as key driver for further efficiency gains along the value chain***

Instone believes that digitalization will be a key driver for further efficiency improvements and a competitive advantage in a highly fragmented and, compared to other sectors, still under-digitalized industry. Through the continuous digitalization and analysis of its processes, Instone seeks to regularly identify potential for improvement to increase efficiencies all along the value chain. Instone particularly aims at optimizing its IT infrastructure as well as its management and construction processes.

With respect to its IT-infrastructure, Instone is currently in the process of migrating its IT systems to a cloud environment. Instone has further developed an online customer portal with a configurator, which allows Instone's customers to modify the interior of their apartments online and send inquiries and receive updates via the portal. Going forward, Instone intends to implement a fully integrated, end-to-end customer relationship management platform with a view to streamlining marketing and sales processes and improving customer service. With respect to its marketing and sales activities, Instone also intends to increase its share of "digital sales" by introducing new digital marketing features.

With respect to its management and construction processes, Instone has been developing a well-structured process map covering the entire project development value chain, functioning as a central control element. By incorporating its process map into a digital structure, the current project status of all projects is documented and reported to Instone's management in real-time. By linking the individual steps in the value chain, Instone is able to continuously control the progress of its projects and initiate required next steps. This central control element aims at optimizing Instone's construction management process with a view to minimizing material, time and labor. To this end, Instone has entered into cooperation agreements with companies focusing on developing digital tools to map the complex process of project development and construction management on site.

### ***11.3.4 Introduce its new "valuehome" product with the goal of achieving a step change in long-term growth and higher IRRs***

In addition to its traditional product, Instone aims to expand its addressable market by introducing its new "valuehome" product, *i.e.* standardized residential developments based on modular planning, offered at reduced price points. The key obstacles to developing such a modular and standardized concept are the individual building laws of each of Germany's 16 federal states. This lack of uniformity is further reinforced on a local level by additional individual statutes in each city. To overcome these challenges, Instone has employed significant resources, including a team of external and internal planning experts, over a period of three years with a view to developing a simple but universally usable and highly scalable product. By standardizing and digitalizing its traditional planning, construction and marketing and sales processes, Instone aims to substantially reduce development costs for its valuehome projects. With its new product, Instone targets mid- to lower income households in B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers, which it considers to be a largely untapped market segment. Instone believes that it has created a distinctive, digital and standardized product that fulfils almost all German building law and social housing requirements and, at the same time, is highly synergistic with its traditional product.

The core element of its new product is Instone's modular and standardized planning concept based on optimized groundfloor designs, which ensures a highly efficient process while maintaining high architectural standards. Instead of individual prototyping of each project, Instone's modular planning approach is based on a modular housing groundplan kit that includes numerous possible combinations based on a limited set of pre-defined planning elements with standardized dimensions and geometries (*e.g.*, floorplans, staircases, pre-dimensioned wall elements, standardized span width of ceilings). While Instone does not yet engage in modular construction with prefabricated elements, Instone expects that the simplification and standardization of design elements will allow for more competitive procurement of standardized construction materials and other industrialized parts. In particular, Instone will benefit from economies of scale due to higher purchasing power for larger volumes of commoditized products. In terms of construction, Instone aims to implement lean construction management processes to reduce complexities and increase efficiency and expects further benefits considering the simplified and repetitive structures and designs. With respect to its marketing and sales activities, Instone has been developing a standardized sales process for institutional investors and a fully digital distribution channel for owner-occupiers and retail buy-to-let investors offering digital customer service until handover and delivery of residential units as well as after-sales. In addition to its traditional customer segments, Instone

believes that its new valuehome product will be well received by municipal housing companies searching for social housing, professional landlords looking for densification of housing stock and larger corporates searching for corporate housing.

Instone believes that its innovative and highly efficient modular planning process offers the potential for substantial cost savings of up to 25% in terms of project costs and additional time saving potential of up to 30% in terms of project duration, in each case compared to its traditional product. With respect to project costs, Instone aims to achieve a reduction of total production costs across the entire value chain, including planning, marketing and sales, from around €2,800 per sqm to around €2,000 (without underground construction) to €2,300 per sqm. Due to its modular approach, Instone expects to shorten the planning and approval process for its valuehome products by around six months and the construction process by six to ten months, in each case compared to its traditional product. In terms of returns, Instone targets a gross profit margin of 20% for its valuehome products and expects a higher average IRR compared to its traditional product considering the streamlined planning and construction process and associated timing benefits. In addition, Instone expects its new product to be highly synergistic with its traditional product as its modular planning capabilities will also benefit the development of Instone's social housing sections, which are typically required by municipalities as part of the building rights processes in Instone's traditional development projects.

In 2020, Instone launched two valuehome pilot projects in Dusseldorf (Gerresheimer Landstraße) and Duisburg (Dusseldorfer Landstraße) with construction and handover expected to be completed in 2023. Going forward, Instone intends to invest a portion of its annual budget for new project investments in its valuehome product category. Based on the more standardized approach associated with the planning and execution of its valuehome product, a reduced requirement for highly skilled staff and access to a broader potential customer segment, Instone expects this product to be highly scalable with lower risk (compared to its traditional product), adding an attractive secular growth pillar to the near term growth opportunity offered by its traditional product. In the medium-term, Instone is targeting revenues from sales of such projects in a significant three digit million euro amount.

### ***11.3.5 Take full advantage of significant short-term opportunities in the land market, accelerating future growth and supporting enhanced, long-term returns***

By leveraging its strong expertise and sourcing network, Instone intends to take full advantage of the significant short-term land acquisition opportunities in the German land market emerging as a result of the ongoing COVID-19 pandemic. Except for a noticeable decline in demand for residential housing in the initial months of the crisis, Instone has not yet experienced significant negative effects on its business due to COVID-19. In the German land market, however, Instone expects an increasing number of land plots suitable for residential development being offered by sellers facing challenging economic circumstances. These may include land plots previously designated for commercial development that are no longer economically viable while still offering attractive economics for potential residential use. At the same time, highly levered regional or national residential real estate developers may no longer be able to compete for such land as their highly leveraged financing typically requires mezzanine debt which is increasingly difficult to obtain. As a result of the increased supply of land and declining number of potential buyers, Instone expects that land prices will remain stable over the next six to 18, presenting a window of opportunity for Instone to increase its project portfolio including traditional as well as valuehome projects in and around its key metropolitan regions.

Instone's view of the short-term land opportunity is driven by confidence in the medium and long-term outlook of the German residential real estate market. Due to the low interest rate environment and strong underlying demand, Instone believes that the housing market is likely to remain resilient in the medium-term. Depending on the relevant type of product (e.g., traditional product, valuehome product), sales starts of units from new land acquisitions in the next 12 months would be expected to have an impact from 2023 onwards, when Instone expects that the impact of the pandemic will have largely passed and the house price index is likely to have resumed. This growth is expected to be achieved within the existing business footprint subject to a slight increase in headcount. Instone targets a mix of land opportunities, both in terms of size and structure, creating a balanced portfolio and supporting sustainable future growth and enhanced, long-term returns.

As of the date of this Prospectus, Instone had identified a pipeline of potential land acquisitions that meet or exceed its target IRR and margin requirements for both its established traditional product and its new valuehome product. In total, 29 projects with an Expected Sales Volume of €4.3 billion are under review. Of these projects, management approval has already been granted for two projects with an Expected Sales Volume of €115 million, terms sheets are being negotiated for eleven projects with an Expected Sales Volume of €1.2 billion, and ongoing active discussions are taking place for 16 projects with an Expected Sales Volume of €3.0

billion. For further information on Instone’s current pipeline see “11.5.2 Acquisition Pipeline”. Instone expects that additional land investments over the next six to 18 months with an Expected Sales Volume of at least €1.5 billion will increase its sustainable long-term adjusted target revenues to €1.6-1.7 billion, an increase of more than 60% compared to its previously communicated steady adjusted revenue level.

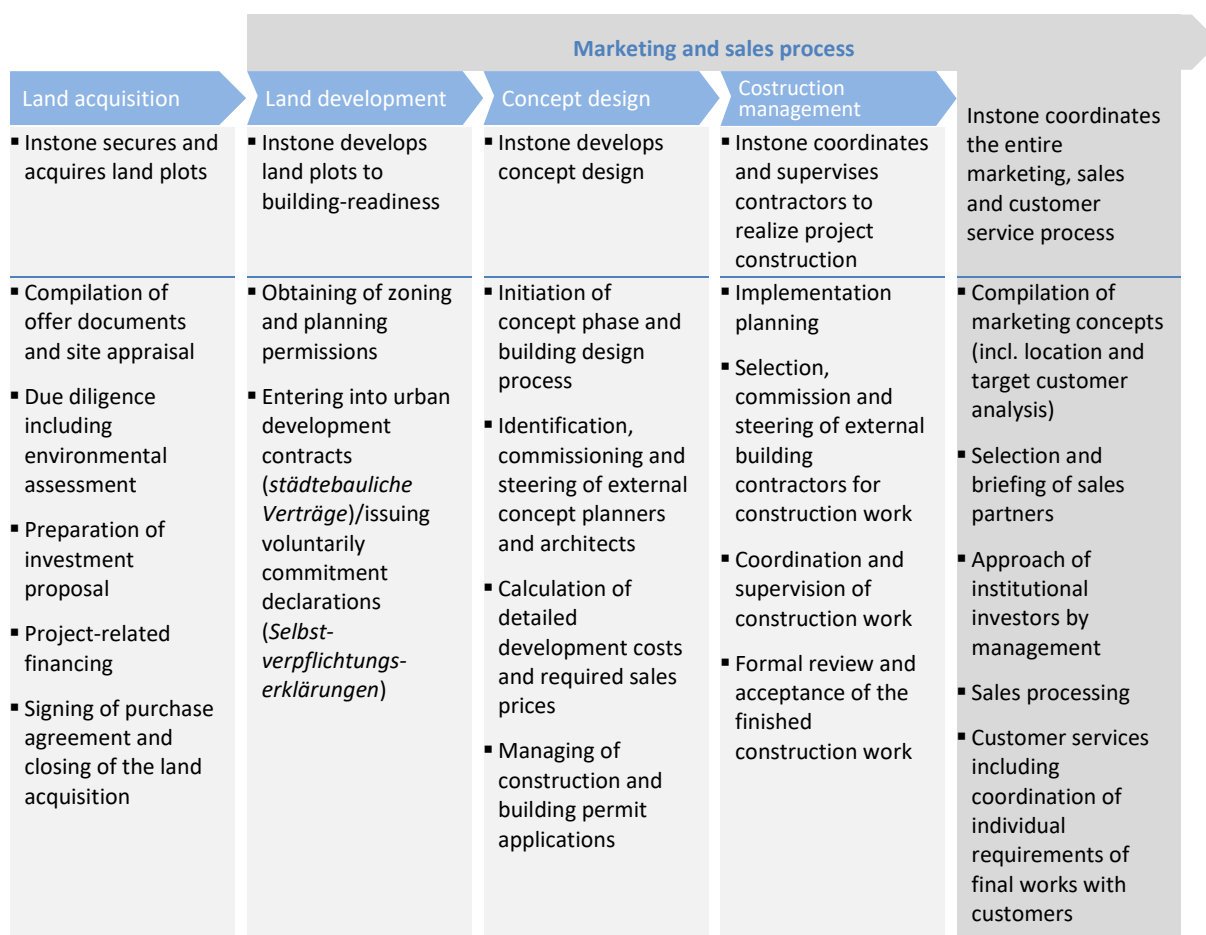
### 11.3.6 Establishing a sustainability strategy and sustainability management

Throughout its processes, Instone is committed to fair and responsible conduct with a view to economic, environmental and social sustainability. Going forward, Instone aims to link relevant sustainability aspects more closely to its corporate strategy and take a holistic view of Instone’s performance by also taking into account non-financial concerns. To this end, Instone has been developing a sustainability management system and a sustainability strategy for the Company. Instone intends to base its sustainability reporting on the Global Reporting Initiative (GRI) standards (core option) and also take into account environmental, social and corporate governance (ESG) criteria. To this end, Instone is in the process of setting up the relevant reporting systems which will be gradually expanded going forward.

## 11.4 Business Operations

### 11.4.1 Instone’s Traditional Product

Instone’s traditional development business comprises primarily new-build developments and the redevelopment of listed buildings. Instone operates through a fully integrated platform covering the acquisition of land, land development, concept design, construction management, and marketing and sales.



Headquartered in Essen, Instone is supported by its eight regional branches in Berlin, Cologne, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg (Erlangen) and Stuttgart. Instone’s success is mainly due to its regional branch structure which provides it with high levels of local market knowledge. Each branch has its own teams for its acquisition, planning, construction and sales activities. Instone’s development teams are involved at a very early stage to help assess land value and its potential for value creation.

Instone typically requires 12 to 24 months from initial sourcing to acquire land plots or properties for its development projects. Depending on volume and complexity of a project, Instone usually needs 12 to 40 months following land acquisition to develop a concept design and obtain the required approvals. The subsequent construction management phase, which Instone typically begins only after having sold residential units representing at least 30% of the Expected Sales Volume of a project, generally takes 18 to 24 months for individual construction phases. Consequently, Instone's project developments usually take approximately 36 to 76 months from the initial sourcing of land plots or properties to delivery of completed units.

#### *11.4.1.1 Land Acquisition*

Instone's land acquisition process typically involves six main phases: the identification of land plots or properties based on ongoing local market screening, the compilation of offer documents and site appraisal, due diligence including environmental assessment, preparation of investment proposal, negotiating and obtaining project-related financing, as well as signing of the purchase agreement and closing of the acquisition. On average, it takes Instone six to twelve months to complete the land acquisition process from the identification of land plots or properties to the closing of the acquisition.

##### *11.4.1.1.1 Identification of Land Plots and Properties*

Instone's recognized expertise and reputation is a differentiating success factor when sourcing land plots and properties. Instone's strategy is to focus on the acquisition of land plots and properties without zoning or planning permission for residential development purposes at the time of acquisition, including greenfield as well as industrial and/or commercial sites or properties, with the aim of (re)developing such land plots and properties. Instone acquires such land plots and properties through several acquisition channels with a particular focus on so-called off-market transactions.

Instone is generally able to source and acquire the vast majority of its land plots and properties in off-market transactions, which are characterized by a fast-paced process without multiple bidding phases. In such transactions, typically less than ten development companies are invited to participate in the bidding process for a land plot or property. Instone particularly benefits from its nationwide sophisticated regional network that enables it to access a large number of potential acquisition opportunities at an early stage. Instone's regional branch structure ensures proximity to local markets and access to the most interesting potential project development sites. Typically, land acquisition opportunities are originated by Instone's regional branches, taking into account Instone's acquisition criteria. As part of its business strategy, Instone has established separate regional acquisition teams (comprising between one and three member(s)) which are in charge of identifying land plots or properties suitable for residential development purposes in accordance with Instone's business model. In addition to its regional acquisition teams, Instone also benefits from its external sourcing network which includes its contacts to municipalities, local private or commercial land owners, lawyers, and other real estate professionals.

Due to its well-known execution capacity, reliability and experience in solving complex zoning and planning situations, Instone is also often actively approached with land acquisition opportunities before they are marketed. Another major source for Instone's land acquisitions is the public sector as an owner of a large volume of land with often complex zoning and planning situations. Instone's long-standing regional network comprising, *inter alia*, city planners and other municipal real estate administration representatives often enables it to identify attractive land plots or properties available for sale at an early stage. Given its well-known execution capacity, reliability and experience, Instone is also able to exploit its long-standing regional relationships with city planners and other municipal real estate administration representatives for an early involvement in the discussion on, and generation of, complex land utilization and development plans as well as urban development contracts.

In limited cases, Instone also acquires land plots and properties in regular market transactions, which are characterized by a broad and multi-phased sales process open to all real estate development companies. In the first round typically 30 to 50 potential buyers are invited to participate in the bidding process. Generally, five to seven potential buyers are selected for the second round. In contrast to off-market transactions, in market transactions, development companies are required to submit an investment proposal to the competent sales agent. Due to its low cost structure and its sophisticated master planning skills, Instone has also established a successful track record in such transactions.

Due to its extensive expertise in developing land, Instone is a well-known solution provider to sellers of land. Instone acquires most of its land plots and properties from public entities and other commercial owners. Public entities generally pursue the public goal of increasing housing accessibility. Instone offers tailor-made

solutions for complex zoning and planning situations including neighborhood regeneration projects. Instone offers other commercial owners transaction certainty and its well-known reliability and experience. Instone acquires the remaining land plots and properties from private owners which benefit from a fair valuation of the land plot or property to be sold as well as an efficient acquisition process.

Instone's acquisition criteria comprise:

- Geographical focus. For its traditional product, Instone primarily focuses on land plots and properties in its key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart), in other prospering medium-sized cities in Germany (Darmstadt, Dresden, Freiburg, Hanover, Heidelberg, Heilbronn, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm, and Wiesbaden) and, with an opportunistic approach in case of particularly attractive project developments also in other cities (Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, the Rhine-Main region around Frankfurt am Main, and Regensburg).
- Project size. For its traditional development projects, Instone generally targets development projects (including regular development projects and redevelopment projects) with an average Expected Sales Volume of €100 million. With respect to larger development projects, Instone seeks to mitigate development risks by completion of construction in construction phases (*Bauabschnitte*).
- Planning permission. Instone's land acquisition strategy focuses primarily on land plots or properties without zoning or planning permission for residential development purposes at the time of acquisition, as it believes that such plots or properties typically offer a higher potential for value creation and less competition than land or properties with full zoning and planning permission. Instone relies on its strong regional network and expertise for a thorough analysis of remaining zoning or planning issues and only acquires land plots and properties that it considers highly likely to be granted the required planning permission in the near future, generally following pre-discussions with local building authorities. Instone has a strong track record of acquiring land plots and properties at attractive terms. Instone refrains from investing in land for which it does not expect zoning permission and building permit in the near future (no speculative land banking) and from purchasing land at prices that are higher than the current market value on the basis of an estimated future value as fully permitted building land.
- Financial acquisition criteria. For its traditional projects, Instone targets an adjusted gross profit margin of around 25%, an unlevered project level IRR of around 15% and a levered project level IRR of around 20%, although it may pursue projects from time to time that do not meet these criteria.

#### 11.4.1.1.2 *Compilation of Offer Documents and Site Appraisal*

Once Instone has determined that a particular land plot or property potentially meets its acquisition criteria, it prepares a project budget for the potential development of such land as well as a sales analysis. Instone's budget and sales analysis includes the following aspects: demand and supply in the respective area, previous sales in the area of Instone's own residential units and that of other residential real estate developers' sales in the area, demographic and socioeconomic developments, price ranges and housing stock, suitability of the planned development project, viability of construction, expected cash flows, and availability of project financing. Once the analysis of the above aspects has been completed and the potential sales volumes, adjusted gross profit margin, cash flows and return ratios have been determined, Instone reaches a conclusion regarding the maximum acquisition price which would allow Instone to obtain its targeted returns. If the requested selling price for the particular land plot or property does not exceed the budgeted maximum acquisition price, offer documents are prepared, standardized due diligence measures are initiated and an investment proposal to the Management Board is prepared.

#### 11.4.1.1.3 *Due Diligence including Environmental Assessment*

Before entering into a binding agreement to acquire a land plot or property, Instone's specialist teams, supported by external experts, conduct a thorough due diligence review, taking into account zoning and planning history and status, access to infrastructure (*e.g.*, roads and public transportation), environmental issues, archaeology, and legal matters. The environmental assessment of the land plot or property involves a review of all known, potential, and contingent environmental liabilities and obligations (*e.g.*, soil or groundwater contamination from current and historic uses, ordinance, potential contamination from offsite locations as well as hazardous building materials, including asbestos and lead-based paints). In addition, there may also be a need to evaluate the land plot or property for site specific features, such as wetlands, and threatened and endangered species, or to determine the costs to remove any asbestos or lead-based paints if demolition is contemplated. The

nature and extent of environmental due diligence is influenced by the current use and historic use of the property (e.g., commercial, industrial, residential), as well as by its location and the nature of the laws and regulations to which the property is subject.

#### *11.4.1.1.4 Preparation of Investment Proposal*

If Instone's local acquisition team determines following their due diligence that a land plot or property meets all of Instone's acquisition criteria, they prepare an investment proposal to be presented to Instone's management board. The investment proposal involves consideration of various factors relating to the proposed development, including the underlying assumptions related to value, risk, costs and expected sales prices, as well as factors such as the location, design, quality, and scale of the project. The final investment proposal is presented by the regional branch manager to Instone's Management Board which ultimately decides on such investment proposal, including the maximum price to be paid for such land plot or property. In limited circumstances, additional approval by the Supervisory Board may be required. The preparation and presentation of the investment proposal is a key step in the land acquisition process. Once the maximum price is set by Instone's Management Board, the final negotiations on the purchase agreement and purchase price with the vendor begin.

#### *11.4.1.1.5 Negotiating and Obtaining Project-Related Financing*

Concurrently with or shortly following the preparation of the investment proposal, Instone's headquarters, supported by the regional project teams, negotiate with banking and/or other financing institutions to obtain necessary project-related financing. Instone thereby relies on its extensive, well-established network and typically approaches two to four local banks with respect to each development project. In order to obtain indicative term sheets from these banks, Instone submits an information memorandum outlining the respective development project. Following the submission of such information memorandum, Instone and the banks usually enter into detailed discussions and negotiations of the terms and conditions of the indicative term sheet. It usually takes Instone between two and four weeks to obtain an indicative term sheet from each bank, depending on its respective internal compliance and approval procedures.

Instone typically selects the financing based on the most favorable indicative term sheet. Following its decision, Instone enters into negotiations with respect to the definitive financing agreement. Depending on the size of the project and the amount of the credit facility, it may take up to eight weeks until a final draft of the financing agreement has been agreed between Instone and the relevant bank. Before Instone is able to enter into definitive financing arrangements, the financing needs to be approved by the Management Board. In limited circumstances, additional approval by the Supervisory Board may be required. The final draft of the financing agreement often forms part of the investment proposal submitted and presented to the Management Board. In certain cases, however, approval of the financing agreement is obtained at a later stage.

#### *11.4.1.1.6 Signing of the Purchase Agreement and Closing of the Land Acquisition*

Finally, following the approval of the investment proposal and acceptance of Instone's offer by the relevant seller, Instone acquires the land plot or property by signing the respective purchase agreement followed by the registration as owner of the respective land plot or property in the land register (*Grundbuch*). Between January 1, 2018 and June 30, 2020, Instone has explored targeted acquisition projects with an aggregate Expected Sales Volume of approximately €5 billion. More than 50% of these projects have been approved by Instone.

#### *11.4.1.2 Land Development*

Instone typically acquires land plots or properties for which no zoning or planning permission for residential development purposes exists at the time of acquisition or for which the existing planning permission could be optimized. Concurrently with and in particular following the acquisition of land plots or properties, Instone's regional management teams use their experience and long-standing relationships in a direct dialogue with local authorities to obtain required zoning and land-use plans.

In some cases, Instone's project development concepts may require the adoption of a new or amended zoning plan (*Flächennutzungsplan*) by the competent municipality. Zoning plans stipulate, with respect to the entire municipal territory, a basic classification of land uses according to urban development objectives and the needs of the municipality. Such plans may, for example, determine for which purpose specific areas should be used in the future, e.g., building areas and traffic areas, but do not create or affect individual rights. Frequently,

in order to implement its project development concepts, Instone needs to obtain a new or an amended land-use plan (*Bebauungsplan*). Land-use plans are based on zoning plans and establish legally binding rules with respect to certain matters such as the size of plots and the height, housing density and specific use of buildings erected on a plot and may also designate land as being reserved for public purposes, industrial use, mixed use, social housing, infrastructure, open spaces, and protected areas.

Under certain circumstances, Instone may need to perform (or make a commitment to perform) specified urban planning and development activities before a land-use plan is approved. Urban planning and development requirements can be complex and are typically undertaken in close cooperation with local authorities. For example, Instone regularly enters into urban development contracts (*städtebauliche Verträge*) with local authorities that require Instone, for example, to construct kindergartens and school facilities, landscape adjacent land, improve roads or provide utilities access. To obtain a building permit (*Baugenehmigung*) with regard to land plots for which no land-use plan exists, Instone is often required to voluntarily commit itself (*Selbstverpflichtungserklärung*) vis-à-vis the respective municipality to conduct certain urban planning and development activities. As a result of such obligations under urban development contracts or voluntary self-commitments, Instone is sometimes required to enter into lease agreements with such facility providers for a limited period of time to the extent such properties have not been sold at the time upon which the provision of such facility is due.

In addition to commitments made under urban development contracts (*städtebauliche Verträge*) or voluntarily (*Selbstverpflichtungserklärung*), most German cities also require real estate developers to dedicate a certain number of residential units for social housing purposes. The required minimum percentage of social housing units within a new development differs between Germany's cities, but the key aspect is typically a quota requirement per new development. In Instone's key metropolitan regions, Stuttgart (20% of rental apartments) and Dusseldorf (40% of total units, 20% to 30% of subsidized rental units) mark the low and high end of the scale, respectively, whereas most other cities have set the social housing quota at 30% of new-build units.

Instone's progress on its development activities is highly dependent on the decisions of the competent local authorities. Instone has a highly experienced local network, enabling it to present attractive solutions to local authorities' urban planning requirements that are compliant with Instone's development targets. Instone was successful in obtaining approval for its zoning and land-use applications for each of its development projects completed in the period from 2018 to 2019.

In limited cases, Instone sells land plots after completion of the land development phase. This primarily applies to the very few land developments for commercial buildings that Instone has been engaged in in the course of its residential land development.

#### *11.4.1.3 Concept Design*

Once suitable zoning and land-use plans have been obtained, Instone initiates the concept design phase. In a first step, Instone commissions operational contractors such as architects and concept planners with respect to the preparation of the building design concept. Such concepts are usually developed by the regional management teams in coordination with external concept planners.

In the course of its concept design analysis, Instone also develops a marketing concept and conducts a viability analysis taking into account demand and supply, including an analysis of sales of residential units by other real estate developers in the area, price range and housing stock. Instone further develops a detailed calculation of the sales prices that serves as a basis for Instone's selling strategy. At this stage, the sales process target is to achieve sales of residential units representing at least 30% of the Expected Sales Volume of a project, which is a prerequisite to proceed to the construction phase of the development project.

Once the building design as well as the marketing and sales concepts have been finalized, Instone prepares, together with the architects and other concept planners commissioned by it, a construction application in order to obtain the building permit (*Baugenehmigung*) required to start construction of the project. Instone has a strong track record in obtaining the relevant building permits for its development projects as 100% of its building permit applications for development projects completed during the period from 2018 through 2019 were successful. After the building permit has been obtained, Instone launches the marketing and sales process and selects external real estate brokers in order to prepare and conduct the sale of its residential units.

#### 11.4.1.4 Construction Management

After having obtained the required building permit and having reached the required sales level, Instone commences the next phase of the value chain: the actual realization and construction of the development project.

Instone's construction process is highly systematized. In conducting its construction activities, Instone relies on its strong established network of regional and supra-regional construction partners in order to manage its construction processes efficiently and deliver purchaser satisfaction by delivering quality products and services. Following internal approval of the start of construction works, Instone's regional project managers invite selected third-party suppliers, contractors and other service providers to tender for each individual construction phase in a competitive bidding process. In general, Instone's selection of bidders invited to tender is based on a number of factors, such as experience with similar developments, technical know-how, quality of performance, solvency, reference projects, capacity and location. With respect to major construction works (*Hauptgewerke*), such as the building shell (including façade works (*Fassadenarbeiten*)), technical building installations or roof construction, Instone usually obtains offers from the contractors with which it has worked in the past. In some cases, Instone also enters into construction contracts with some of its long-standing partners covering a series of development projects, which enables Instone to benefit from lower prices, synergies and a well-experienced and coordinated construction team. Instone also regularly conducts site visits at bidders' manufacturing sites or their reference projects in order to be able to assess bidders' manufacturing conditions as well as the quality of their work. Instone's selection process is designed to ensure that the selected contractors get a complete understanding of the development project and all detailed steps that need to be executed in order to mitigate any cost deviation risk. The final decision to which contractor the project is to be awarded is made by the respective project managers together with the purchase manager. The decision is based on several factors including, among other things, the presentation during the tendering process, strategic factors (*e.g.*, new vs. trusted partners), possibility of bundling orders across projects or branches, profitability, solvency, agreed securities and/or guarantees and proof of compliance with social security regulations. Once the project manager together with the purchase manager have made their final decision, further internal approvals may be required depending on the amount of the awarded contract.

In most cases, Instone does not employ a general contractor for conducting its development activities. Instead, internal project managers are in charge of supervising on site the individual progress of each construction phase in order to ensure that Instone's quality criteria and the envisaged time frame is met. Instone includes very precise and detailed building descriptions in its construction contracts and also establishes guarantees and penalties to ensure the fulfillment of the established partial milestones and completion dates without cost overruns. Instone typically enters into construction contracts with its contractors based on a fixed price per unit arrangement (*Detailpauschalvertrag*). Under such arrangement, contractors review the construction tender documents, which typically include a determination of the amount required (*benötigte Menge*), and calculate a fixed price based on the unit price for the specific type of work (*Einzelpreis für die Leistungsposition*) multiplied by the respective amount required (*benötigte Menge*). Based on this calculation, Instone and the contractor then agree on an aggregate fixed price and amount for the specific type of work (*Leistungsposition*) for a trade (*Gewerk*), avoiding risks relating to prices (*Preisrisiko*) or the actual required amount of such type of work (*Mengenrisiko*). In addition, the contractor typically also assumes the functional risk (*Funktionsrisiko*) for the respective trade (*Gewerk*); accordingly, construction works that were not apparent from or not specifically described in the construction tender documents but which are absolutely necessary for the function of the respective trade (*Gewerk*) are deemed to be included in the fixed price agreed between Instone and the contractor. Any change in the scope or type of work to be performed due to incomplete work specifications (*Vollständigkeitsrisiko*), however, generally results in an adjustment of such fixed price per unit arrangement (*Detailpauschalvertrag*).

In very few cases Instone enters into global fixed price contracts (*Globalpauschalverträge*) which also cover the risk of incomplete building specifications (*Vollständigkeitsrisiko*) in the construction tender documents and require the contractor to nevertheless deliver the agreed final work without triggering additional fees. In view of this additional risk for the contractors, such global fixed price contracts typically contain a risk premium (*Risikozuschlag*) protecting the contractor from any cost overruns and other conditions that will not be recoverable from the developer. Given such risk premium (*Risikozuschlag*), global fixed price contracts are typically more costly and result in reduced margins. Instead the local teams operate a constant and direct oversight of costs, thereby enabling Instone to achieve lower prices under its fixed price per unit arrangements (*Detailpauschalverträge*) than with global fixed price contracts (*Globalpauschalverträge*) whilst ensuring cost control based on its longstanding experience in cost monitoring.



During the construction phase, the project managers regularly meet with the contractors to closely monitor the construction process and also issue regular reports (on, among other things, timing, quality and cost compliance) to anticipate and correct any potential deviations. Instone pursues a highly precise cost monitoring approach, on property level and with regard to the building cost categories in accordance with the standards of cost planning in building construction issued by the Building and Civil Engineering Standards Committee (German Industry Norm 276 (DIN 276)). To the limited extent that cost overruns occur, the reasons are taken into account in the calculation of costs for new projects. The project managers are also responsible for formally accepting the final completion of the works after verifying that all works have been properly carried out according to Instone's standards and requirements. This approach provides Instone with better control over costs and timing of construction and allows it to efficiently allocate resources across its projects.

Instone's success in its construction management activities is mainly based on two pillars: its long-term relationships with contractors and its thorough solvency checks and guarantees. In particular, its long-term contractor relationships enable Instone to maintain its high quality standards and, at the same time, to reduce any construction deficiencies. Through its risk assessment, Instone is able to achieve lower administrative costs (e.g., from framework agreements). Time and costs of development projects are optimized through recurring processes and Instone's planning activities are optimized through early partner integration. In addition, its solvency checks include the review of balance sheet ratios and solvency ratings for up to four years performed by established credit solvency agencies. Instone further conducts an assessment of the average sector default risk and a comprehensive assessment of its contractors' stakeholders. Prior to selecting a particular contractor, Instone also obtains information from third parties on such contractor's balance sheet and profit and loss statement and considers past payment experiences and requests such contractor's commitment to Instone's code of conduct. In case of potential contractors with limited information available, Instone conducts a closer evaluation than usual. In any case, Instone obtains guarantees and warranties for contractual obligations in its contractor agreements. In particular, any failure to pay taxes and social security contributions or to comply with mandatory minimum wage laws is covered by such contracts. Instone's sophisticated selection and management process aims to significantly reduce contractor risk resulting in low default rates among its contractors. If companies nevertheless default or violate its obligations under the contractor agreement, such companies may be blocked and may therefore not be awarded a contract in the future.

#### *11.4.1.5 Marketing and Sales*

##### *11.4.1.5.1 Marketing and Sales Concept*

Instone's comprehensive marketing approach seeks to add value throughout all stages of the value chain. As part of Instone's land acquisition strategy and concept design activities, Instone's project team conducts market research on the preferences of potential purchasers, assists with the concept design analysis, performs viability studies based on market analysis and determines appropriate marketing and sales strategies for each development project. To this end, Instone obtains and collects data on demand trends from in-house and third-party sources including, among other matters, agent and expert opinions, purchaser feedback and online platforms. In some cases, Instone also assesses and evaluates potential competition from neighboring development projects. Instone believes that a high granularity of "project-related data" allows optimization of the sales price for each unit to maximize pricing outcome. Such project-related data particularly include external factors (e.g., reputation of the area, noise of surroundings), micro position in the project (e.g., illumination, view out of the window), floor plan quality (e.g., unit outline and size) and general facilities (e.g., energy systems, technical features).

Once a development project is ready to enter the marketing and sales phase, Instone's sales team generally establishes on-site sales offices for the respective development project and commissions external real estate brokers, which are typically selected based on several factors, such as their qualification, experience, size, and solvency. Instone typically also enters into framework agreements with its sales partners to reduce marketing and sales costs.

In the course of its marketing and sales activities, Instone (whether through its internal sales team or external real estate brokers) generally provides prospective purchasers with a presentation of the architectural, design and construction aspects of the project, as well as with information on the surrounding community and amenities, recommends appropriate units based on their purchase criteria and accompanies prospective purchasers on tours of the model residential units and project amenities. In addition to external real estate brokers, Instone uses multiple other channels to market its residential units, such as on-site billboards and sales points, Instone's website, third-party websites (e.g., Immobilienscout or Immoworld), corporate sponsorship of events and general and specialized press. Instone's marketing professionals attend commercial exhibitions and

are frequent speakers at seminars and conferences related to real estate. In general, Instone's marketing and sales activities, such as the preparation of marketing materials and the corporate sponsorship of events, are conducted in line with defined design guidelines consistent with Instone's corporate identity.

Following the launch of the sales process, Instone continuously monitors and tests the market to gauge pricing adequacy of its units. At the beginning, Instone only releases a discreet number of units for sale and tracks sales speed and price outcome in order to be able to adapt and optimize its pricing strategy based on market feedback.

Following completion of the construction process, Instone proceeds to deliver its units to its clients and provides them with post-sale assistance, in order to ensure that their degree of satisfaction meets their expectations.

#### 11.4.1.5.2 Sale to Private Investors

Instone's customer group includes private investors, such as owner-occupiers and retail buy-to-let investors. Owner-occupiers comprise singles and families from the mid to upper income wealth range. Retail buy-to-let investors include private buy-to-let investors, small institutional investors and clients of tax offices and banks. While owner-occupiers have limited price sensitivity as they benefit from a good availability of mortgage financing, the attractive market conditions appeal to an even wider base of private investors including a significant portion of retail buy-to-let investors. Between January 1, 2018 and June 30, 2020, Instone sold approximately 27% of its residential units to private investors.

In marketing and selling its new-build units to private investors, Instone also benefits from the staggered purchase price payment framework provided by the MaBV. In principle, the staggered payment framework enables Instone to receive significant fixed down payments to be paid by private investors as and when construction milestones are achieved. The MaBV provides for 13 construction milestones out of which the respective real estate developer may select up to seven to be included in the individual payment schedule agreed under the sales contract. As a result, to the extent residential units have been sold, a total of up to 58% of the agreed purchase price can already have become payable to Instone upon completion of the building shell of the relevant development project. However, Instone may not request payment of the first installment from the purchaser unless Instone has satisfied several conditions including, *inter alia*, the registration of a priority notice (*Auflassungsvormerkung*) in the land register (*Grundbuch*) with respect to the respective purchaser's title of ownership. If the process of registering such priority notice (*Auflassungsvormerkung*) is delayed, Instone can instead issue to the purchaser a surety covering the respective pre-payment amount (also known as "**MaBV Aval**"; for further information see "*12.5.2.2 German Real Estate Agent and Commercial Contractor Regulation*"). Once either the priority notice (*Auflassungsvormerkung*) has been registered in the land register or a corresponding MaBV Avale has been issued, Instone is entitled to request the installment payments under the agreed payment schedule from the purchaser. In addition, Instone is required to issue to the purchaser a FoSiG Surety (as defined in Section "*12.5.2.1 Applicable Provisions in the BGB*") with respect to 5% of the aggregate purchase price when the first installment payment under the relevant contract becomes due and payable. Under applicable law, Instone can grant such surety either by (i) reducing the amount of the first installment payment by an amount corresponding to 5% of the aggregate purchase price or (ii) providing a guarantee in the corresponding amount. The purpose of the FoSiG Surety is to secure contractual performance in a timely and adequate manner and to protect purchasers from the consequences of an insolvency of the respective project developer.

With respect to the marketing and sale of its redevelopment units, Instone primarily works with partners from its strong regional distribution network, comprising small institutional investors and specialized real estate marketing agencies. Instone, however, uses different distribution channels with respect to the marketing and sale of Instone's development and redevelopment residential units. For instance, with respect to its redevelopment projects Instone often works together with nationwide financial service providers for the marketing and sale of its redevelopment properties. Due to these differences, commission fees and other distribution costs with respect to its redevelopment units are significantly higher than for its development units. Instone usually works with many different marketing and sales partners to avoid any dependencies and, at the same time, to strengthen and expand its sophisticated network of distribution partners. As part of its sales and marketing strategy, Instone conducts and/or attends workshops, site visits, launch events as well as trade shows. In addition, for its redevelopment projects, Instone uses and manages an online reservation system (*TeamProQ*) in which all sold or reserved residential units are registered on a regular basis and which is accessible online for every distribution partner. To a lesser extent, Instone also uses this sales channel with respect to the sale of its new-build units.

#### 11.4.1.5.3 Sale to Institutional Investors

In addition to its sales to private investors, Instone increasingly focuses on selling larger shares of new-build units or entire projects to institutional investors (e.g., specialized real estate funds, insurance companies, pension funds and family offices). Between January 1, 2018 and June 30, 2020, Instone sold approximately 73% of its residential units to institutional investors (including project Westville). Adjusted gross profit margins of sales to institutional investors are typically significantly lower than adjusted gross profit margins of residential units sold to private investors.

Institutional investors are usually approached separately by the members of the Management Board and the regional chief operating officers pursuing a more personal and direct marketing strategy. As a result of, among other things, the low interest rate environment, institutional investors have an incentive to invest in yielding residential real estate. With institutional investors, Instone typically agrees on upfront payments comparable to installment payments paid by private investors under the MaBV.

#### 11.4.1.6 Project Financing and Project Cash Flows

For its traditional development activities, Instone generally targets an unlevered project level IRR of around 15% and a levered project level IRR of around 20%. To achieve these targets, Instone pursues a strict funding policy comprising own cash funding, project-related debt financing as well as customers' installment payments under the MaBV or comparable advance payments from institutional buyers. For further information on Instone's project-related financing agreements, see "11.6.4 Financing of the Project Developments".

Typically, Instone aims to limit own cash funding to approximately 10% to 20% of the expected total development costs for fully developed projects. As of June 30, 2020, Instone had cash and cash equivalents in an amount of €60 million on its balance sheet primarily resulting from its development activities. Instone aims to reinvest these excess funds as well as the majority of the net proceeds from this offering to fund its acquisition and development activities to create additional value and stable returns from its development business.

With respect to project-related debt financing, Instone generally aims to obtain financing for the entire development project, covering both land acquisition (*Grundstücksankauffinanzierung*) and building construction financing (*Hochbaufinanzierung*). Instone primarily negotiates with banks and, to a limited extent, other financing institutions in order to obtain necessary project-related financing. Instone typically seeks to limit project-related debt financing to approximately 80% to 90% of the expected total development costs for fully developed projects.

Due to the favorable regulatory framework in Germany, Instone benefits from the staggered payment framework provided by the MaBV which enables it to agree with private investors (i.e., owner-occupiers and retail buy-to-let investors) on fixed installment payments to be paid as and when certain construction milestones are achieved. With institutional investors, Instone also typically agrees on advance payments which, however, are not subject to the MaBV framework and can therefore be freely agreed between the parties. Given that advance payments from institutional investors are typically higher than those from private investors, Instone typically does not obtain additional project-related debt financing for projects sold to institutional investors.

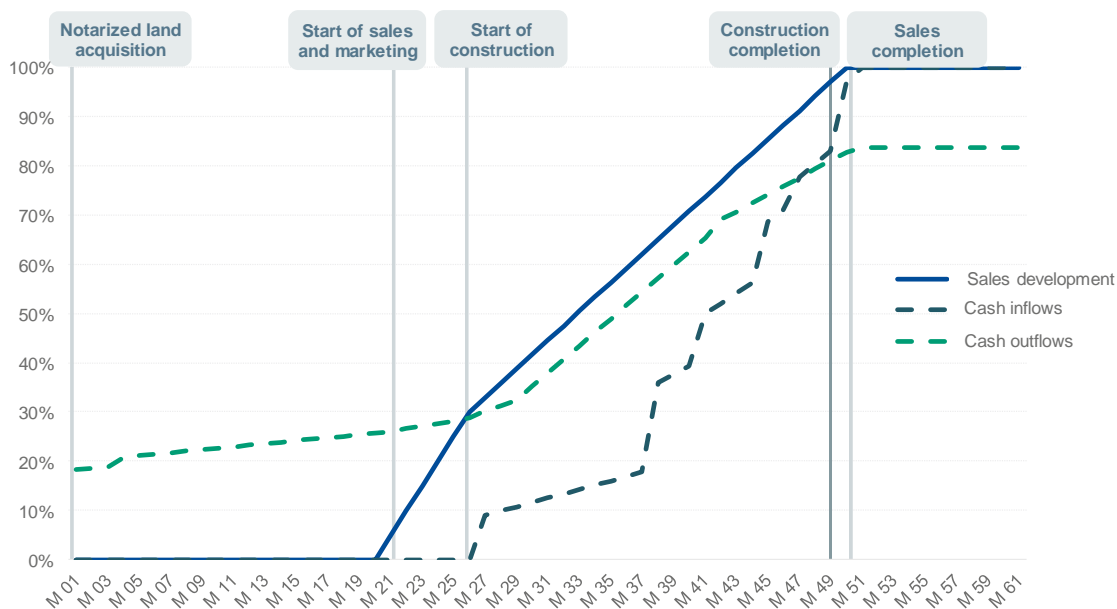
Under project-related financing agreements, installment payments under the MaBV serve as kind of a collateral and are thus offset against the amount drawn under the respective financing agreement. As a result, only the difference is subject to interest under such financing agreements. While Instone generally obtains project-related debt financing for 80% to 90% of the expected total development costs for fully developed projects, Instone expects a substantial portion of the expected total development costs to be funded by the incoming cash flow resulting from installment payments under the MaBV. The actual amount required under its project-related financing therefore depends on the sale progress of the individual residential units and the corresponding installment payments under the MaBV. The interest under its project-related financing agreements (including upfront fee) is a function of the actual amount drawn down and the duration of the relevant financing arrangement. The effective interest rate paid by Instone under its project-related financing is typically within the range of 4.5% to 5%.

The beneficial cash flow effect resulting from installment payments under the MaBV is furthermore enhanced by the fact that Instone does not begin construction until it has completed sales of residential units representing at least 30% of the Expected Sales Volume of a project and, thus, already obtains a significant amount of cash inflow upon start of construction. This model, however, not only allows Instone to cover a substantial part of its ongoing development costs, but also enables it to repay its outstanding project-related third-

party debt once the respective project turns “cash positive” (this typically occurs when approximately 75% to 80% of a project has been sold and construction has been approximately 75% to 80% completed).

As a result, Instone typically limits own cash funding to approximately 10% to 20% of the expected total development costs for fully developed projects. For the remaining 80% to 90% of the expected total development costs, Instone generally obtains third-party debt financing, whereas a significant amount is targeted to be funded by the incoming cash flow resulting from installment payments under the MaBV. Instone estimates its Expected Sales Volume to be comprised of approximately 18% land costs, approximately 57% construction and other costs and an average adjusted gross profit margin of approximately 25%.

The chart below illustrates the typical cash flow profile of a traditional project from land acquisition until completion of construction, showing the development of aggregated cash flows and sales over time as a percentage:



#### 11.4.2 Instone’s Valuehome Product

For its valuehome development projects, Instone typically requires six to 12 months from the initial sourcing of land to the completion of the relevant land acquisition. Due to the modular and standardized planning concept, Instone expects that it will take six to eight months following land acquisition to finalize a concept design and obtain the required approvals. Construction management for its valuehome projects are expected to take 12 to 18 months for individual construction phases, depending on the complexity of the relevant project (e.g., including or excluding underground construction). Instone expects to be able to complete its valuehome projects within approximately 42 to 48 months from the initial sourcing of land to delivery of completed units.

##### 11.4.2.1 Land Acquisition

Instone’s land acquisition process for its valuehome product generally follows the same process as for its traditional product, which includes six main phases: the identification of land plots or properties based on ongoing local market screening, the compilation of offer documents and site appraisal, due diligence including environmental assessment, preparation of investment proposal, negotiating and obtaining project-related financing, as well as signing of the purchase agreement and closing of the acquisition. By leveraging its extensive expertise and sourcing network, Instone believes that it is able to further reduce sourcing and acquisition time for its valuehome product.

Instone’s acquisition criteria for its valuehome product comprise:

- **Geographical focus.** Instone has developed a clearly defined project acquisition profile for its valuehome product with a particular focus on B locations in and around its key metropolitan regions and other B locations situated in the commuter belts of economic centers. By targeting neighborhoods that are well connected to the city and economic centers, Instone expects to benefit from spillover

effects to such surrounding neighborhoods (e.g., areas around Dusseldorf, Cologne and Bonn). Instone expects to be able to benefit from better availability of land at comparably lower prices and substantially less competitive markets. In certain cases, Instone may rededicate land that it has previously acquired for developing a traditional project for purposes of its valuehome projects (e.g., project Gerresheimer Landstraße).

- Project size. Instone generally targets valuehome development projects with an average Expected Sales Volume of €30 million to €50 million. Through Instone's modular planning approach and its increased focus on permitted land, smaller sized projects (compared to its traditional product) become economically viable.
- Planning permission. While Instone generally focuses on land plots without zoning or planning permission for residential development purposes, the valuehome product will also take advantage of fully permitted building land available in the B locations in and around its key metropolitan regions, thereby reducing its share of projects with complex and time-consuming masterplanning processes.
- Financial acquisition criteria. For its valuehome products, Instone believes that it will be able to achieve an adjusted gross profit margin of around 20%, with IRRs likely exceeding those for its traditional products (levered project level IRR of around 20%).

#### 11.4.2.2 Land Development

In relation to its valuehome product, Instone intends to include a substantially higher share of fully permitted building land available in the B locations in and around its key metropolitan regions, thereby reducing its share of projects with complex and time-consuming masterplanning processes. Instone expects to be able to benefit from better availability of land at comparably lower prices and substantially less competitive markets.

#### 11.4.2.3 Concept Design

Instone's modular and standardized planning concept specifically designed for its valuehome product ensures a highly efficient process while maintaining high architectural standards with modern designs and strong sustainability marks. Instead of individual prototyping of each project, Instone's modular planning approach is based on a modular housing groundplan kit that includes numerous possible combinations of planning elements (e.g., floorplans, staircases). For example, with respect to floorplans, Instone has developed a reduced number of basic layouts that are space-efficient and compact and provide for smart solutions for traditionally expensive components (e.g., bathrooms, shafts, storage). These basic layouts offer floorplans for one- to five-room apartments that can be easily combined in accordance with urban planning requirements or the individual housing demand. Furthermore, Instone has developed a universally applicable staircase element in two different size variations, a key feature in terms of cost efficiency. With respect to the construction of the building shell, Instone has further improved and standardized the required building parts (i.e., pre-dimensioned wall elements and standardized span width of ceilings). To this end, Instone has developed three different span widths of ceilings and pre-dimensioned wall elements with a constant wall thickness. By using such pre-dimensioned building parts, Instone is able to standardize its static calculation allowing it to quickly generate the required static proof for the building application.

To achieve the maximum degree of standardization and efficiency, Instone has transferred the entire design process for its valuehome product into a streamlined BIM (building information modeling) based process allowing for the fully integrated technical planning of the entire project. Key element of this process is Instone's 4D BIM based planning software which incorporates all relevant building and construction information (e.g., urban siteplan, modular groundplan kit, customer fit-out configurator (in case of owner-occupier projects)) allowing for advanced processing and cross-referencing of planning data. In addition, Instone's BIM based design system provides for real-time mass and cost calculation and automatically generates standardized tender documents.

#### 11.4.2.4 Construction Management

In terms of Instone's construction management for its valuehome product, Instone aims to implement lean construction management processes to reduce complexities and increase efficiency throughout the entire construction process. Due to its modular approach, reduced underground work and repetitive structures and designs, Instone expects to shorten the construction process by up to twelve months compared to its traditional product, corresponding to an additional time saving potential of up to 30% in terms of project duration.

#### 11.4.2.5 Marketing and Sales

In addition to its traditional customer segments (*i.e.*, owner-occupiers, retail buy-to-let investors and institutional investors), Instone specifically targets municipal housing companies searching for social housing, professional landlords looking for densification of housing stock and larger corporates searching for corporate housing.

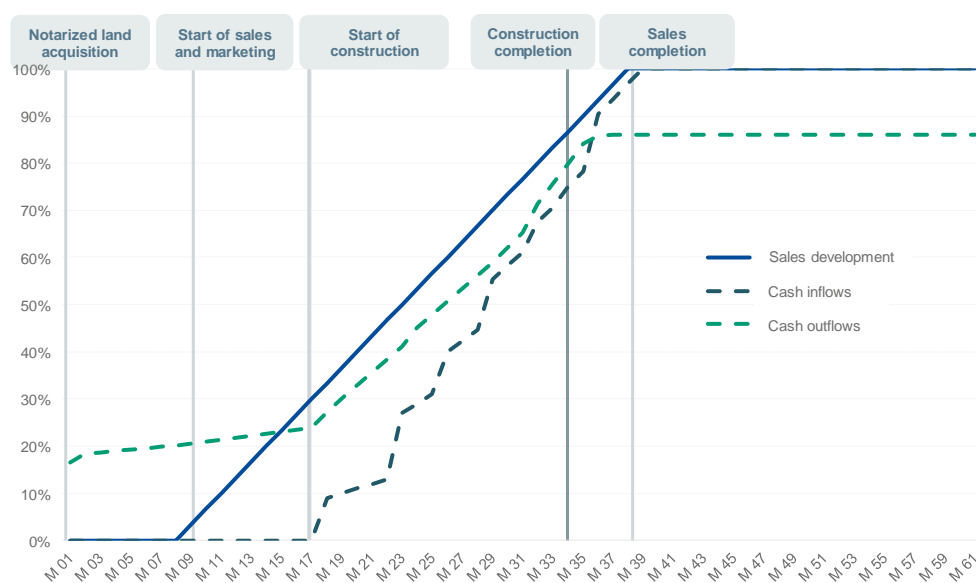
For purposes of marketing and selling its valuehome product, Instone has been developing a standardized sales process for institutional investors and a fully digital distribution channel for owner-occupiers and retail buy-to-let investors offering digital customer service until handover and delivery as well as after-sales. For example, in case of owner-occupier projects, Instone has developed a customer fit-out configurator that is accessible online through its 4D BIM based planning software offering its valuehome customers a limited number of pre-selected design options. For example, if a customer wants to add a second window in the living room, such customer just needs to tick a box and the window appears in a predefined position on the digital floorplan. Instone generally works with partners from its strong regional distribution network, comprising small institutional investors and specialized real estate marketing agencies.

#### 11.4.2.6 Project Financing and Project Cash Flows

For its valuehome products, Instone believes that it will be able to achieve an adjusted gross profit margin of around 20%. In terms of IRRs, Instone expects that its new valuehome product will likely exceed IRRs for its traditional product (*i.e.*, levered project level IRR of around 20%). To achieve these targets, Instone intends to leverage its strict funding policy comprising own cash funding, project-related debt financing as well as customers' installment payments under the MaBV or comparable advance payments from institutional buyers.

As for its traditional product, Instone aims to limit own cash funding for its valuehome products to approximately 10% to 20% of the expected total development costs for fully developed projects. For the remaining 80% to 90% of the expected total development costs, Instone will obtain third-party debt financing, whereas a substantial portion is targeted to be funded by the incoming cash flow resulting from installment payments under the MaBV. Due to its modular planning concept, Instone is able to substantially shorten concept design processes to six to eight months following land acquisition compared to 12 to 40 months for its traditional product. Depending on the complexity of the relevant project (*e.g.*, including or excluding underground construction), construction management activities for its valuehome projects are also expected to be substantially shorter than for its traditional product. As a result, its valuehome product will allow Instone to substantially reduce complexities and increase efficiency offering substantial cost and time saving potential throughout the development process.

The chart below illustrates the typical cash flow profile of a valuehome project from land acquisition until completion of construction, showing the development of aggregated cash flows and sales over time as a percentage:



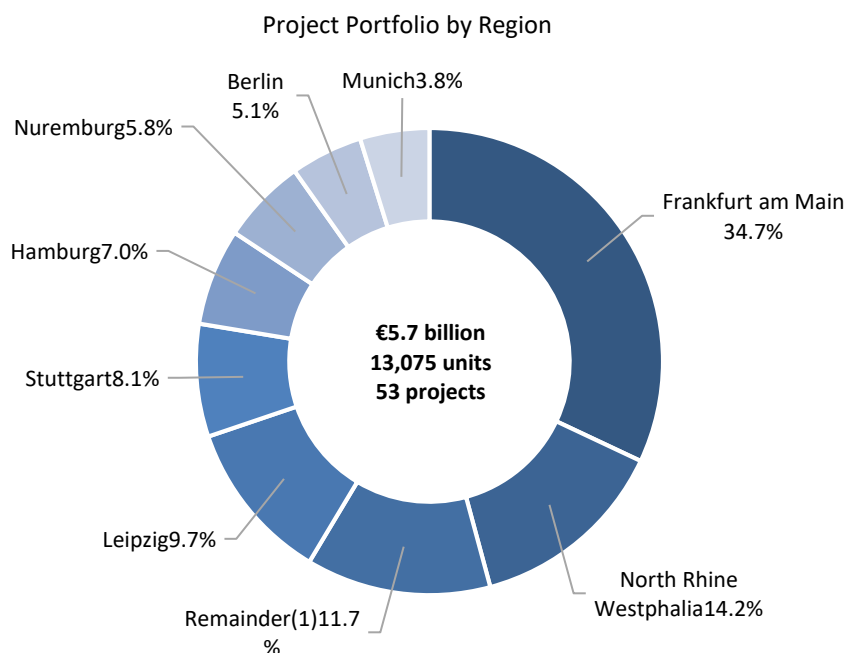
## 11.5 Project Portfolio and Acquisition Pipeline

### 11.5.1 Project Portfolio

#### 11.5.1.1 Overview

As of June 30, 2020, Instone had a project portfolio with an aggregate Expected Sales Volume of approximately €5.7 billion. The vast majority of Instone's project portfolio is located in Western Germany. As of June 30, 2020, approximately 88% of Instone's portfolio (by Expected Sales Volume) was located in Germany's key metropolitan regions (Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Nuremberg and Stuttgart) and approximately 12% in other prospering medium-sized cities.

The following graphic illustrates the breakdown of Instone's project portfolio by region:



(1) Includes Wiesbaden, Mannheim, Hanover, Potsdam, Bamberg.

Instone divides its project portfolio into three categories based on the development phase. Projects in the "pre-sale" category comprise projects for which land plots or properties have been acquired or approved for acquisition by Instone but for which it has not yet commenced its marketing and sales activities. In the "pre-sale" category, Instone performs its land development and concept design activities to enable it to initiate its sales activities. Once Instone starts its marketing and sales activities, projects are assigned to the "pre-construction" phase. Once building measures are being carried out, projects are categorized as being "under construction".

As of June 30, 2020, 59.2% of its project portfolio was in the "pre-sale" category, 20.2% was in the "pre-construction" category and 20.6% was "under construction" (in each case measured by Expected Sales Volume). As of that same date, Instone had entered into sales contracts with customers accounting for 35.4% of its aggregate Expected Sales Volume of approximately €5.7 billion and with regard to 86.6% of its projects that are in the pre-construction or construction development phase (measured by Expected Sales Volume).

The following table provides an overview of Instone's projects with an Expected Sales Volume of more than €30 million per project, accounting for an aggregate Expected Sales Volume of approximately €5.7 billion as of June 30, 2020:

Project	Location	Expected sales volume (in € million)	Land plot acquired <sup>(1)(2)</sup>	Building right obtained <sup>(3)</sup>	Sales started <sup>(1)</sup>	Construction started <sup>(1)</sup>
<b>Hamburg</b>						
Schulterblatt "Amanda"	Hamburg	95	●	●	●	●
Kösliner Weg	Norderstedt-Garstedt	102	●	◐		
Sportplatz Bult	Hannover	120				
Rothenburgsort	Hamburg	183	●	◐		
Büntekamp	Hannover	95	●	◐		
<b>Berlin</b>						
Quartier Stallschreiber Straße / Luisenpark	Berlin	236	●	●	●	●
Wendenschlossstr.	Berlin	52	●	◐		
Rote Kaserne West	Potsdam	49	●	●		
<b>NRW</b>						
Sebastianstraße / Schumanns Höhe	Bonn	70	●	●	●	●
Niederkaßeler Lohweg	Düsseldorf	–	●	●	●	
Unterbach / Wohnen am Hochfeld	Düsseldorf	172	●	●	◐	
Literaturquartier	Essen	68		●		
REME	Mönchengladbach	105		◐		
west.side	Bonn	187	●	●	◐	◐
Gartenstadtquartier	Dortmund	100	●			
<b>Rhine-Main</b>						
Wiesbaden-Delkenheim, Lange Seegewann	Wiesbaden	111	●	◐		
Siemens-Areal	Frankfurt	554	●	◐	◐	
St. Marienkrankenhaus	Frankfurt am Main	211	●	●	●	●
Friedberger Landstraße	Frankfurt am Main	324		◐		
Elisabethenareal	Frankfurt am Main	30	●			
Steinbacher Hohl.	Frankfurt am Main	53	●	●		
Gallus	Frankfurt am Main	41	●	●		
Westville	Frankfurt am Main	– <sup>(4)</sup>	●	●	●	
Aukamm	Wiesbaden	149	●			
Heusenstamm	Heusenstamm (Kreis Offenbach)	148	●			
<b>Baden-Württemberg</b>						
City-Prag - Wohnen im Theaterviertel	Stuttgart	126	●	●	●	●
Franklin	Mannheim	69	●	●	●	●
Schwarzwaldstraße	Herrenberg	49	●	●	●	●
S'LEDERER	Schorndorf	–	●	●	●	●
Neckartalterrassen	Rottenburg	147	●	●	◐	
Schäferlinde	Herrenberg	56	●			
<b>Bavaria North</b>						
Schopenhauerstraße	Nuremberg	67	●	●	●	
Stephanstraße	Nuremberg	65	●	●		
Seetor	Nuremberg	112	●	●	◐	
Eslarner Straße	Nuremberg	50	●	●		
Lagarde	Bamberg	73		◐		
<b>Bavaria South</b>						
Ottobrunner Strasse	Munich	84	●	●		
Beethovenpark	Augsburg	58	●	●		
Römerhügel	Augsburg	51		●		
<b>Leipzig</b>						
Semmelweisstraße	Leipzig	73	●	●		



Project	Location	Expected sales volume	Land plot acquired <sup>(1)(2)</sup>	Building right obtained <sup>(3)</sup>	Sales started <sup>(1)</sup>	Construction started <sup>(1)</sup>
Parkresidenz	Leipzig	250	●	◐		
Rosa-Luxemburg-Straße	Leipzig	114	●	●		
Heide-Süd	Halle (Saale)	38				

- (1) In this column, the semi-filled circle means that the relevant milestone has been achieved for a particular phase of the project (e.g., land plot acquisition, start of sales or construction).
- (2) In this column, no circle for land plot acquired means that the land has not yet been purchased but either secured by means of a definitive agreement or approved for acquisition by Instone.
- (3) In this column, the fully filled circle means that either a land-use plan (*Bebauungsplan*) is in place or, with respect to land plots or properties for which no land-use plan will be issued under applicable law, an individual building permit (which differs from building permits obtained on the basis of a land-use plan) has been obtained. The semi-filled circle in this column means that the relevant processes for obtaining a land-use plan or an individual building permit have been initiated.
- (4) At the time of the acquisition of the relevant land plot, project Westville had an Expected Sales Volume of approximately €600 million.

### 11.5.1.2 *Selected Case Studies*

#### 11.5.1.2.1 *Project Luisenpark in Berlin*

One of Instone's most significant projects in Berlin is located in Berlin-Mitte at Stallschreiberstraße (**"Project Luisenpark"**). Project Luisenpark features several residential buildings to be built in three building phases comprising an aggregate of 553 residential units, 172 car parking spots as well as seven commercial units, one of which will be a daycare facility for children. Instone acquired the building site in 2016. In October 2016, Instone entered into an urban development contract (*städtebaulicher Vertrag*) with the State of Berlin according to which, among other matters, Instone is required to construct the daycare facility and to ensure its operation for at least 20 years, to reserve 139 residential units for subsidized housing purposes (*soziale Wohnraumförderung*) as well as to provide a substantial cash contribution to the municipality for the expansion of the elementary school (*Grundschule*) located in that area. Furthermore, in line with the recommendations of the German Urban Development Association (*Empfehlungen des deutschen Städtebaus*), Instone had to provide a customary guarantee as collateral for the fulfillment of its obligations under the development contract. Instone obtained the building permits in 2017 subject to customary conditions. Instone started marketing and selling Project Luisenpark with respect to the first building in March 2017 and with respect to second building December 2017, while the third building, which comprises the 139 residential units for subsidized housing purposes (*soziale Wohnraumförderung*), had already been sold to a Berlin housing association in June 2016. As of December 31, 2019, 100% of the first building and the third building and as of June 30, 2020, approximately 90% of the second building have been sold. Instone expects to be able to complete construction work for the third building by July 2020; the other two buildings were already completed in 2019. Delivery and handover of the sold units is expected to be completed by the end of 2020.

#### 11.5.1.2.2 *Project Niederkasseler Lohweg in Dusseldorf*

One of Instone's most significant projects in Dusseldorf is located at Niederkasseler Lohweg 20 (**"Project NKL"**). Project NKL comprises four building complexes A, B, C and D, featuring 221 residential units, one commercial unit (a daycare facility for children) and 151 car parking spots. Out of the total of 221 residential units, 40 units are classified as price reduced housing (*preisgedämpfter Wohnungsbau*), 50 units as subsidized housing (*öffentlich geförderter Wohnungsbau*) and the remaining 131 units are reserved for privately financed rented housing (*freifinanzierter Mietwohnungsbau*). Furthermore, a kindergarten with two groups is being implemented in the buildings. Instone acquired the relevant land plot for Project NKL in the fourth quarter of 2015. It was able to obtain the land-use plan (*Bebauungsplan*) in July 2019 and has already applied for the relevant building permit (*Baugenehmigung*). The dismantling of the existing building has been completed in June 2020. Instone sold Project NKL to an institutional investor in September 2019. Completion is scheduled for February 2023.

#### 11.5.1.2.3 *Project Westville in Frankfurt am Main*

Instone's most significant development project in Frankfurt am Main is located on the former Avaya grounds in Frankfurt's Gallus district (**"Project Westville"**). Project Westville will feature four sections with a total of 1,331 residential units as well as 1,100 car parking spots. Approximately 30% of the residential units

will be built as subsidized residential units (*öffentlich geförderter Wohnungsbau*). As a neighborhood development (*Quartiersentwicklung*), Westville will include three daycare centers, business premises and other commercial space. Instone entered into three urban development contracts (*städtebauliche Verträge*) with the City of Frankfurt: The first is a follow-up cost contract with the obligation to set up three daycare centers and requiring Instone to subsidize the establishment of a primary school, to pay for necessary traffic conversion measures, to install a mandatory social component of subsidized housing and to give a guarantee. The second urban development contract relates to noise protection and the third includes the takeover of the necessary development measures, a contract fulfillment guarantee and the transfer of the completed development areas to the Frankfurt city council. Instone sold project Westville prior to the start of construction to an institutional investor in a share deal involving four separate project companies. Instone acquired the relevant land plot for Project Westville in October 2019. A zoning plan is already in place. Instone is in the process of obtaining the relevant building permits (*Baugenehmigungen*) for each of the four sections which are expected to be issued in the course of the second half of 2020 with the last building permit expected to be issued in early 2021. According to Instone's project plan, construction for certain sections is expected to begin in 2021 and completion is scheduled for 2025.

#### *11.5.1.2.4 Project Carlina Park in Nuremberg*

One of Instone's most significant projects in Nuremberg is located at Schopenhauerstraße 10 in the district of Maxfeld ("**Project Carlina Park**"). Project Carlina Park will feature five buildings with buildings one to four comprising 101 residential units reserved for privately financed housing (*freifinanzierter Wohnungsbau*) with a total base area of 9,800 sqm and building five comprising non-intrusive businesses with a total base area of 3,300 sqm. In addition, the project will feature a total of 102 car parking spots. The relevant land plot for Project Carlina Park was acquired in the fourth quarter of 2016. The building permit (*Baugenehmigung*) was issued in June 2020. The demolition of the existing building has been largely completed. Completion of construction is scheduled for the third quarter of 2022.

#### *11.5.1.2.5 Valuehome Pilot Projects in Dusseldorf and Duisburg*

In 2020, Instone launched two pilot projects in its valuehome product category. Project Gerresheimer Landstraße is located in Dusseldorf ("**Project Gerresheimer Landstraße**") and Project Dusseldorfer Landstraße is located in Duisburg ("**Project Dusseldorfer Landstraße**"). Each project has a land plot size of around 5,400 sqm and comprises three buildings. Project Gerresheimer Landstraße will feature 66 residential units reserved for subsidized housing (*öffentlich geförderter Wohnungsbau*) with an aggregate living space of 5,024 sqm as well as 28 car parking spots. Project Dusseldorfer Landstraße will feature 81 residential units reserved for privately financed housing (*freifinanzierter Wohnungsbau*) with an aggregate living space of 6,582 sqm as well as 81 car parking spots. While demolition work for Project Gerresheimer Landstraße has already been completed, the demolition of the existing building for Project Dusseldorfer Landstraße has not yet started. For both projects, the building applications will be submitted in the third quarter of 2020 and Instone expects construction work and delivery of units to be completed in the first half of 2023.

### **11.5.2 Acquisition Pipeline**

As of the date of this Prospectus, Instone had identified a pipeline of potential land acquisitions that meet or exceed its target IRR and margin requirements for both its established traditional product and its new valuehome product. In total, 29 projects with an Expected Sales Volume of €4.3 billion are under review. Of these projects, management approval has already been granted for two projects with an Expected Sales Volume of €115 million, terms sheets are being negotiated for eleven projects with an Expected Sales Volume of €1.2 billion, and ongoing active discussions are taking place for 16 projects with an Expected Sales Volume of €3.0 billion.

The following table provides an overview of Instone’s acquisition pipeline broken down by region and Expected Sales Volume as of the date of this Prospectus:

Total			Thereof					
			Management Approval after June 30, 2020		Termsheet Negotiations		Under Active Discussion	
Region	no.	Expected Sales Volume (in € million)	no.	Expected Sales Volume (in € million)	no.	Expected Sales Volume (in € million)	no.	Expected Sales Volume (in € million)
Bavaria (North and South).....	3	225	1	65	2	160	–	–
Rhine-Main.....	8	2,265	–	–	3	270	5	1,990
Baden-Württemberg.....	6	550	–	–	1	150	5	400
NRW.....	6	660	–	–	2	220	4	440
Hamburg.....	4	260	1	50	1	50	2	160
Berlin.....	1	225	–	–	1	225	–	–
Leipzig.....	1	150	–	–	1	150	–	–
<b>Total<sup>(1)</sup>.....</b>	<b>29</b>	<b>4,330</b>	<b>2</b>	<b>115</b>	<b>11</b>	<b>1,225</b>	<b>16</b>	<b>2,990</b>

(1) Includes proportionate Expected Sales Volume for joint venture investments.

For those projects for which Instone has already granted management approvals, Instone expects to be able to complete the acquisition process within one month. With respect to the eleven projects for which terms sheets are currently being negotiated, Instone expects to be able to complete the acquisition within a period of one to six months. For all other projects that are currently under active discussion it is expected that the acquisition process will take longer than six months. All 29 projects that currently form Instone’s acquisition pipeline either have been sourced off-market or are being awarded through a tender process based on the best development concept (*Konzeptvergabe*).

Instone believes that in light of the increasing number of new land acquisition opportunities and the strength of Instone’s negotiating position, which continues to improve also on the back of the COVID-19 pandemic (for further information see “11.3.5 Take full advantage of significant short-term opportunities in the land market, accelerating future growth and supporting enhanced, long-term returns”), it is well-positioned to benefit from such short-term acquisition opportunities. There is, however, no guarantee that Instone will be able to complete any of these potential acquisitions either due to competition from other potential buyers, the willingness of sellers to sell such land plots at attractive prices, the availability of acquisition financing, regulatory requirements including those in relation to zoning, housing density and the environment, or market conditions (see “1.2.3 Instone may not be able to identify suitable development opportunities and to acquire these opportunities on attractive terms, in which case its ability to grow could be significantly constrained.”).

## 11.6 Material Agreements

The following section provides a summary of any material agreements to which Instone is a party:

### 11.6.1 Term Loan Facility Agreement

In May 2019, the Company as borrower, Deutsche Bank AG as arranger and original lender, Global Loan Agency Services Limited as facility agent and GLAS Trust Corporation Limited as security agent entered into a term loan facility agreement (the “**Facility Agreement**”) providing the Company with a €200 million term loan facility. As of June 30, 2020, €75 million have been utilized under the Facility Agreement. This amount was repaid in full by August 21, 2020 with the proceeds from the Helaba Promissory Note Loan Agreement (see “11.6.2.2 Helaba Promissory Note Loan (*Schuldscheindarlehen*)”).

## 11.6.2 *Promissory Note Loans (Schuldscheindarlehen)*

### 11.6.2.1 *IKB Promissory Note Loans (Schuldscheindarlehen)*

In July 2019, the Company entered into four promissory note loan agreements (*Schuldscheindarlehenverträge*) with IKB Deutsche Industriebank AG as arranger, original lender and paying agent for an aggregate loan amount of €98.5 million. A fifth promissory note loan agreement between the Company and IKB Deutsche Industriebank AG as arranger, original lender and paying agent in an aggregate loan amount of €7.5 million was entered into in December 2019. All of these promissory note loan agreements (the “**IKB Promissory Note Loan Agreements**”) were, at least partially, transferred to other institutional lenders.

The loans under the IKB Promissory Note Loan Agreements have a maturity of either three years (€78 million (including the €7.5 million loan that was entered into in December 2019)) or five years (€28 million). All loans shall not be amortized over the term but are repayable in full at their final maturities. €50 million of these loans bear interest at fixed rates (2.5% per annum or 3% per annum), and €56 million at floating rates of six-month EURIBOR (but at least 0.0% per annum) plus a margin (2.5% per annum or 3% per annum).

The Company granted security interests consisting of pledges over the shares held in its subsidiary Instone Development and substantially all of the Company’s bank accounts, and a security assignment of intercompany receivables. The claims arising under the IKB Promissory Note Loan Agreements rank *pari passu* with the claims arising under the Helaba Promissory Note Loan Agreement and the Revolving Credit Facility Agreements described below and are secured by the same security interests.

The IKB Promissory Note Loan Agreements contain negative pledge clauses which provide for certain exemptions (including for the above-mentioned debt ranking *pari passu* and secured financing of the acquisition and development of real estate) and certain dividend restrictions at the level of the Company: (i) as from the financial year 2020 distributions of up to 50% of the net profit of the respective previous financial year, provided that certain further conditions are met, and (ii) a minimum dividend required to be paid under mandatory German corporate law (if any) are permitted under the IKB Promissory Note Loan Agreements.

The Company has to maintain certain financial figures and ratios (on certain test dates), including a leverage ratio (*i.e.*, the ratio of net debt (without non-recourse project-level debt) to EBITDA (adjusted for expenses relating to non-recourse project-level debt)), in order to avoid a step-up in financing cost or termination of the loans.

The IKB Promissory Note Loan Agreements contain customary termination rights for the lenders, in particular if payments are not made when due, financial covenants or other contractual obligations are not complied with, in case of a cross-default or enforcement measures (the latter subject to certain thresholds), if the total financial indebtedness of all subsidiaries of the Company (subject to carve-outs relating, *inter alia*, to existing indebtedness, project financing and intra-group indebtedness) exceeds a certain threshold, or if a third party (or several third parties acting jointly) acquires more than 50% of the shares or voting rights in the Company.

### 11.6.2.2 *Helaba Promissory Note Loan (Schuldscheindarlehen)*

In August 2020, the Company entered into a promissory note loan agreement (*Schuldscheindarlehenvertrag*) with Landesbank Hessen-Thüringen Girozentrale as original lender for a loan amount of €100 million (the “**Helaba Promissory Note Loan Agreement**” and, together with IKB Promissory Note Loan Agreements, the “**Promissory Note Loan Agreements**”). The facility under the Helaba Promissory Note Loan Agreement had been made available for general corporate purposes, was mainly utilized for the full repayment of the outstanding term loan under the Facility Agreement by August 21, 2020 and transferred to other institutional lenders afterwards.

The loan under the Helaba Promissory Note Loan Agreement has a maturity of five years, but may be prepaid without any prepayment fees after three years or four years from the disbursement date or with effect to the end of a calendar quarter after the fourth anniversary of the disbursement. The loan may also be terminated with effect to another date, in which case the Company has to pay the interest as make-whole until the earliest time at which the Helaba Promissory Note Loan Agreement could have been terminated without prepayment fees.

The loan under the Helaba Promissory Note Loan Agreement bears interest at fixed rates of 4% per annum; interest is payable annually in arrears.

The claims arising under the Helaba Promissory Note Loan Agreement rank *pari passu* with the claims arising under IKB Promissory Note Loan Agreements and the Revolving Credit Facility Agreements and are secured by the same security interests.

The Helaba Promissory Note Loan Agreement contains a negative pledge clause which provide for certain exemptions (including for the debt ranking *pari passu* and secured financing of the acquisition and development of real estate). Further, the Company has to maintain certain financial figures and ratios (on certain test dates), including a leverage ratio (*i.e.*, the ratio of group net debt (without non-recourse project-level debt and recourse project-level debt where the loan-to-cost ratio is below a certain threshold) to EBITDA), in order to avoid a termination of the loan.

The Helaba Promissory Note Loan Agreement also contains customary termination rights for the lenders, in particular if payments are not made when due, financial covenants or other contractual obligations are not complied with and the non-compliance has not been cured within 30 business days, in case of a cross-default or enforcement measures (the latter subject to certain thresholds) or if a third party (or several third parties acting jointly) acquires more than 50% of the shares or voting rights in the Company.

### **11.6.3 Revolving Credit Facility Agreements**

#### **11.6.3.1 Syndicated Revolving Facility Agreement**

In December 2019, the Company as borrower, Sparkasse Hannover as arranger, agent and original lender and ten further financial institutions as original lenders entered into a syndicated revolving credit facility agreement (the “**Syndicated Revolving Credit Facility Agreement**”) providing the Company with a €84 million revolving credit facility; by March 16, 2020, two additional financial institution acceded to the Syndicated Revolving Credit Facility Agreement as lenders with total additional commitments of €10 million. The funds under the Syndicated Revolving Credit Facility Agreement can be utilized for working capital and general corporate purposes, including the financing of project development and business acquisitions, and the repayment of existing indebtedness of the Company or its subsidiaries. As of June 30, 2020, €20 million have been utilized under the Syndicated Revolving Credit Facility Agreement. The Syndicated Revolving Credit Facility Agreement terminates in December 2022 at the earliest.

The interest rate per annum of each loan utilized under the Syndicated Revolving Credit Facility Agreement is the aggregate of EURIBOR for the selected interest period of three, six or twelve months (but at least 0.0% per annum) and a margin of 2.85% per annum. The commitment fee for the uncanceled and undrawn part of the facility is 35% of the margin.

The claims arising under the Syndicated Revolving Credit Facility Agreement rank *pari passu* with the claims arising under the Promissory Note Loan Agreements and the Standalone Revolving Credit Facility Agreements (see “11.6.3.2 Standalone Revolving Loan Facility Agreements”) and are secured by the same security interests.

The Syndicated Revolving Credit Facility Agreement contains a number of customary types of general positive and negative undertakings. These undertakings include restrictions on existing and additional indebtedness, limitations on the acquisition or disposal of shares or other assets, mergers, joint ventures or loans, guarantees and security interests granted by the Company or its subsidiaries. Such limitations are subject to certain exceptions and baskets, including in relation to the acquisition and development of real estate and the financing thereof. The payment of dividends or for share buy-backs by the Company is generally permitted unless an event of default has occurred or would occur as result of the dividend payment, or, in case of a share buy-back, shares for more than €10 million are bought back over a rolling 24-month period.

The Company has to maintain certain financial figures and ratios (on certain test dates), including a leverage ratio (*i.e.*, the ratio of net debt (without non-recourse project-level debt) to EBITDA (adjusted for expenses relating to non-recourse project-level debt)), in order to avoid a termination of the loan. The Syndicated Revolving Credit Facility Agreement contains customary termination rights for the lenders, in particular if payments are not made when due, financial covenants or other obligations are not complied with, in case of a cross-default or enforcement measures (the latter subject to certain thresholds).

### 11.6.3.2 Standalone Revolving Loan Facility Agreements

In March and April 2020, the Company as borrower entered into two further revolving credit facility agreements with Credit Suisse and Deutsche Bank as lenders (the “**Standalone Revolving Credit Facility Agreements**”, and together with the Syndicated Revolving Credit Facility Agreement, the “**Revolving Credit Facility Agreements**”) providing the Company with two additional €10 million revolving credit facilities until March 2023 and December 2022, respectively. These Standalone Revolving Credit Facility Agreements have substantially the same terms as the Syndicated Revolving Credit Facility Agreement (including the same financial covenants) and are secured by the same security interests as the Promissory Note Loan Agreements and the Syndicated Revolving Credit Facility Agreement. In addition, they contain change-of-control provisions if one person or several persons acting in concert acquire more than 30% of the voting rights in the Company.

### **11.6.4 Financing of the Project Developments**

#### 11.6.4.1 Project-related Financing Agreements (Projektfinanzierungsverträge)

Instone generally aims to obtain third-party debt financing for the entire development project, covering both land acquisition (*Grundstücksankauffinanzierung*) and building construction financing (*Hochbaufinanzierung*). In the past, Instone was able to obtain all necessary permits and start construction within two to six months following closing of the third-party financing. However, in certain cases, Instone requires more than six months to be able to start construction of the project. In order to avoid any additional costs due to commitment fees (*Bereitstellungsprovision*) requested by some banks, Instone occasionally only obtains land acquisition financing in a first step. In such case, Instone obtains the necessary additional building construction financing (*Hochbaufinanzierung*) usually from the same bank from which it has already obtained the land acquisition financing once all necessary permits have been obtained and construction is ready to be started. Land plot or property acquisition (*Grundstücksankauffinanzierung*) is generally financed through upfront equity investments between 30% to 50%, depending on the relevant building law, while the remaining 50% to 70% are financed by third-party debt. Building construction financing (*Hochbaufinanzierung*) usually comprises equity investments in the amount of 10% to 20% of the expected total development costs for fully developed projects and third-party debt financing for the remaining 80% to 90%. Typically, the third-party financing provided for the land acquisition already partially covers certain finances planning expenses.

Development financing (*Bauträgerfinanzierung*) usually provides several types of financings. The vast majority of Instone’s financing agreements comprise money market financing (*Geldmarktfinanzierung*), current account facilities (*Kontokorrentfinanzierung*) and other types of financing (e.g., surety facilities (*Avallinien*)).

While Instone usually chooses variable money market financing or fixed-interest loans, most of its current financing arrangements for land acquisition purposes contain variable interest rates. With respect to building construction financing (*Hochbaufinanzierung*), Instone again benefits from the staggered payment framework provided by the MaBV as the amount drawn under the credit facility (*ausgenützter Kreditrahmen*) is offset against purchasers’ installments which significantly reduces the drawn credit amount under the respective financing agreement resulting in a lower interest burden (*Zinslast*). This possibility to offset, however, depends on whether the credit is due on a daily basis (*täglich fällig*) in case of which Instone is entitled to repay the drawn credit amount under the respective current account facility daily. Money market financing with a variable interest rate (e.g., three months EURIBOR) is not due daily and can therefore not be offset until due. Current account facilities (*Kontokorrentfinanzierung*), however, are due on a daily basis (*täglich fällig*) but are also more expensive than money market financing as interest rates for current account facilities typically range between 1.5% to 6.25%. In order to be able to benefit from the MaBV installment payments during the course of construction, the bank typically sets up two accounts, the current account facility and the account for collection of MaBV purchase price payments, both in the name of Instone. First, Instone draws a certain amount under the current account facility in order to meet its construction costs. Upon achieving certain milestones, Instone’s purchasers are required to pay a certain portion of the purchase price which is accounted on Instone’s second account, the account for collection of MaBV purchase price payments. While this account is blocked until either the development project is completed or the financing facility is terminated, Instone is only required to pay interest on the difference between the current account balance and the collection account balance. Instone therefore continuously monitors payments under the MaBV to determine which credit facility to choose. Due to the expensive interest rates, current account financing is only used when MaBV payments are expected to be paid in the near future.

Instone rarely uses special purpose vehicles for its development projects (e.g., project “west.side” in Bonn) and therefore takes out most of its project-related financing on the level of Instone Development.

Typically, Instone's financing is exclusively secured by the underlying real estate property (so-called "non-recourse loan"). Instone typically provides mortgages in favor of its lenders, pledges project-related bank accounts and assigns claims against purchasers and tenants of the residential units, against the land sellers, general and other construction-related contractors as well as project-related insurance claims to its lenders. Any further liability of Instone is usually excluded. In certain cases, however, Instone is not able to obtain such non-recourse financing due to certain circumstances. For instance, in cases of the financing for the acquisition of greenfield development sites, banks generally pursue a conservative approach in terms of collateral. In such cases, banks often require Instone to commit to a limited recourse, at least until a land-use plan (*Bebauungsplan*) has been put in place or Instone has obtained the necessary building permit (*Baugenehmigung*) for the respective greenfield land acquired. In general, development financing (*Bauträgerfinanzierung*) usually requires certain conditions to be met before Instone can draw funds under the relevant credit facility. Such conditions typically include the use of equity capital (*Eigenkapital*), a sales quote within the range of 30% to 40% and a minimum price per sqm, cost-overrun guarantees (typically limited to up to 20% of pure construction costs) and a loan-to-cost ratio of 80% to 90%.

#### 11.6.4.2 Surety Insurance Contracts (Kautionsversicherungsverträge)

Typically, Instone's third-party financing agreements provide that the credit line may also be used for the purpose of issuing certain sureties. Instone, however, aims to repay its third-party debt as early as possible (e.g., once the project is cash positive due to the staggered pre-payments by Instone's purchasers under the MaBV). Any credit lines that are still open due to the issuance of sureties under a project-related third-party financing would, however, prevent Instone from terminating such third-party financing resulting in ongoing costs. Instone therefore prefers to issue any necessary sureties under separate surety insurance contracts (*Kautionsversicherungsverträge*) which are independent from the respective project-related financing. The issuance of sureties under such separate insurance contracts is usually also less expensive than the sureties provided by the relevant banks under their project financing agreements.

As of June 30, 2020, Instone has entered into a total of twelve surety insurance contracts (*Kautionsversicherungsverträge*) with respect to the issuance of certain sureties in connection with its development activities. Each contract covers different kinds of sureties, but the majority include such as performance surety (*Vertragserfüllungsbürgschaften*), prepayment sureties (*Vorauszahlungsbürgschaft*), sureties for claims arising from defects (*Mängelansprüchebürgschaft*), sureties under the MaBV, sureties under the FoSiG, contractor sureties (*Bauhandwerkersicherung*) and other general payment sureties pursuant to the German Civil Code (*Bürgerliches Gesetzbuch*). Depending on the respective surety to be issued, Instone is required to pay an annual premium rate (*Prämiensatz*) in the range of approximately 0.60% and 2% of the respective amount, whereby certain contracts also provide for a mandatory minimum premium fee per surety. The surety insurance contracts generally do not contain any security obligations for Instone. However, a few contracts provide for stringent reporting obligations with respect to the issued sureties as well as change of control clauses pursuant to which Instone is either required to notify or obtain consent from its contracting party in case of a change of control.

### **11.7 Material Litigation and Regulatory Proceedings**

In the course of Instone's business operations, the Company and its subsidiaries are regularly parties to legal disputes. As of the date of this Prospectus, Instone is not involved in any material litigation, other than the following:

- Instone Development is the defendant in an independent proceeding for the taking of evidence (*selbständiges Beweisverfahren*) initiated by the homeowner association of Schlosshotel Heidelberg before the Heidelberg District Court (*Landgericht Heidelberg*) claiming various material defects (*Sachmängel*) relating to the property. As of the date of this Prospectus, most deficiencies have already been settled separately apart from those relating to outdoor sun shades. While the aggregate amount in dispute was estimated to amount to approximately €500,000 as of December 31, 2019, Instone Development made a provision in the amount of €315,590 (as of December 31, 2019). As of June 30, 2020, the parties were negotiating a settlement with respect to the outdoor sun shades. The court suggested a settlement of €200,000 to be paid by Instone Development to the plaintiff. While the management of Instone Development agreed to accept the settlement, management expects the homeowner association to refuse the settlement proposed by the court.
- Instone Development is the plaintiff in a pending court proceeding against the architectural office of Robert Witt before the Hannover District Court (*Landgericht Hannover*) claiming damages on the

grounds of inadequate planning services (especially the structural planning) of the property in Lönnsstraße, Hannover. While the aggregate amount in dispute was estimated to amount to €580,000 as of December 31, 2019, Instone Development made a provision in the amount of €10,000 (as of December 31, 2019). As of June 30, 2020, the parties were awaiting finalization of the expert opinion (*Sachverständigengutachten*).

- Instone Development is the defendant in a pending court proceeding initiated by ST77 Julian GmbH in September 2016. The plaintiff claims various material defects (*wesentliche Sachmängel*) relating to the property. While the aggregate amount in dispute was estimated to amount to approximately €470,120 as of December 31, 2019, Instone Development made a provision in the amount of €180,000 (as of December 31, 2019). The most recent hearing in this regard took place on March 15, 2019. Instone subsequently submitted a written statement (*Stellungnahme*) to the court. The parties were summoned to appear before the Berlin District Court (*Landgericht Berlin*) on July 24, 2020.

In addition to the material proceedings described above, the Company is subject to an ongoing sample audit by the German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung, e.V.*, “**FREP**”) with respect to its audited consolidated financial statements of the Company as of and for the financial year ended December 31, 2018. In July 2020, the FREP issued a preliminary statement claiming that the portion of the costs of its IPO relating to the shares sold by the selling shareholders, which the Company deducted from equity, should have been reported as an expense in the consolidated income statement. In addition, the FREP claims that the amount of the reimbursement by the selling shareholders does not properly reflect the allocation of new shares (issued by the Company) and existing shares (held by the selling shareholders) offered in the IPO and, consequently, should have been higher. Pursuant to the preliminary statement, the Company should have recorded this portion of the IPO costs in the income statement, which would have reduced, according to the calculation provided by FREP, the consolidated earnings before tax (EBT) by €7.9 million in financial year 2018.

The Company does not agree with the FREP’s preliminary statement and submitted a written response to this effect to the FREP on August 20, 2020. If the FREP’s conclusion does prove correct, Instone may be required to issue a correction notification (*Korrekturmeldung*) in the German Federal Gazette (*Bundesanzeiger*). In any case, the final assessment to be issued by the FREP will have no impact on the total amount of equity, liquidity or net liquidity in the 2018 consolidated financial statements or on the Company’s adjusted results of operations for 2018. Additionally, the error detection will have no effect on the 2019 consolidated financial statements of the Company.

Apart from the proceedings and the ongoing FREP sample audit described in this Section 11.7, Instone is not and has not been party to any governmental, legal or arbitration proceedings (including any pending or threatened proceedings) during the past twelve months, which may have, or have had in the recent past, significant effects on Instone’s financial position or profitability.

## **11.8 Intellectual Property**

Given the nature of Instone’s business, intellectual property rights are of no special significance to Instone. It does not depend on any patents or licenses.

Among others, the trademark “Instone Real Estate” has been registered on behalf of the Company with the German Patent and Trade Mark Office (*Deutsches Patent- und Markenamt (DPMA)*) under the register number 302016033028 and with the European Union Intellectual Property Office (EUIPO) under the filing number 016753097.

Furthermore, Instone predominantly uses the internet domain “instone.de”, which is registered in the Company’s name.

## **11.9 Insurance**

Instone has purchased various insurance policies to reduce operational risks, including, among others, a contractors’ all-risk insurance (*Bauleistungsversicherung*), which provides comprehensive coverage for all supplies and services for a property under construction up to an amount of €30 million per project. Insurance coverage under this special insurance includes, for example, unforeseen damage or destruction, loss through theft of insured parts of the building or water damage. In addition, Instone has concluded a fire insurance (*Feuerrohbauversicherung*) covering properties under construction up to a maximum indemnity amount of



€75 million. For projects that are still owned by Instone following completion, Instone concludes separate all risk building insurance policies (*Gebäudeversicherungen*) on the basis of a framework agreement.

Instone has also purchased third-party liability insurance (*Haftpflichtversicherung*) that provides coverage for personal injury and damage to property (*i.e.*, public and products liability, planning liability). Other operating insurance coverages include a criminal defense insurance covering lawyers' fees in connection with allegations of administrative or criminal offences, a fidelity insurance against damages and losses resulting from crimes committed by Instone's employees and an employee accident insurance.

The total coverage under the directors and officers ("**D&O**") insurance policy taken out by Instone for the current and future members of its Management Board, its Supervisory Board, and equivalent bodies of the Company and its subsidiaries, as well as for other managerial staff, amounts to €50 million per claim and in total per period of insurance.

Instone's insurance policies contain market-standard exclusions and deductibles. Instone believes that it has adequate insurance coverage against all material risks that are typically insured by similar companies in the residential real estate industry. Insurance cover is regularly verified and adjusted when necessary. However, it cannot be ruled out that Instone may incur losses that are not covered by existing policies or that exceed the coverage level stipulated in the relevant insurance contracts. Furthermore, it cannot be guaranteed that Instone will be able to maintain adequate insurance coverage at acceptable cost in the future.

## 12. REGULATORY AND LEGAL ENVIRONMENT

*Instone's real estate project portfolio and business activities are subject to a variety of civil and public laws and regulations in Germany. If Instone fails to comply with any of these laws and regulations, it may be subject to civil liability, administrative orders, fines or even criminal sanctions (see also section "1.3 Legal, Regulatory and Tax Risks".)*

*The following provides a brief overview of selected federal, state and municipal regulations that are applicable to Instone's project portfolio and business operations.*

### 12.1 Land-Use Regulations

#### 12.1.1 German Planning Law

Under German construction planning law (*Bauplanungsrecht*), formal urban planning is conducted by municipalities in accordance with the provisions of the German Building Code (*Baugesetzbuch*, "**BauGB**"). Municipalities prepare urban development plans (*Bauleitpläne*) in their own responsibility by means of a two-tiered approach consisting of zoning plans (*Flächennutzungsplan* or *vorbereitender Bauleitplan*) and land-use plans (*Bebauungsplan* or *verbindlicher Bauleitplan*). Municipal planning authorities have a considerable amount of discretion (*Planungsermessen*) in exercising their planning competence (*planerische Gestaltungsfreiheit*). They are, however, required by law to take into account private and public interests as well as to pursue a number of prescribed objectives, including sustainable urban development, the protection of natural resources and a socially fair use of soil serving the well-being of the community. All relevant private and public interests must be identified and evaluated by the planning authority before balancing them against and among each other (*Abwägung*). In addition, material effects on the environment must be identified by an environmental audit (*Umweltprüfung*) as well as described and evaluated in an environmental report (*Umweltbericht*). The results of the environmental audit shall be taken into account when balancing all relevant private and public interests.

In order to ensure compliance with their development plans, municipalities are granted preemptive rights with respect to property sales under certain conditions defined in the BauGB, which they may exercise for the benefit of the common good (*Wohl der Allgemeinheit*) on a case-by-case basis. Further, municipalities may issue development freezes (*Veränderungssperren*) regarding a future plan area (*Planbereich*) for the duration of a planning process.

Certain amendments to the BauGB and the German Building Use Ordinance (*Baunutzungsverordnung*) provide municipalities with enhanced freedom with regard to urban planning and thereby aim to address the current housing shortage in urban areas in many parts of Germany.

##### 12.1.1.1 Zoning Plans (Flächennutzungsplan)

On the first level, a municipality can issue a zoning plan that sets forth the basic classification of land uses according to urban development objectives and the needs of the municipality with respect to the entire municipal territory. Such zoning plans generally apply to the entire area of the municipality. Certain areas of a municipality may, however, be left out if the main characteristics of the zoning plan will not be affected thereby and a separate zoning plan for the relevant area is to be adopted at a later stage.

A zoning plan may set forth the specific future use of certain areas (*e.g.*, building areas and traffic areas), but generally does not create individual rights, in particular no building rights. The classification of land uses can be divided into several categories: areas designated for development, public and private infrastructure, traffic and transportation, and other uses (*e.g.*, areas for public utilities and green areas). With respect to areas designated for development, the zoning plan may further differentiate between residential building areas, mixed building areas, commercial building areas or special building areas.

As soon as possible (*i.e.*, once the zoning plan is sufficiently detailed), the municipality must issue a notification comprising the objectives, effects and alternatives of the plan and afford the public an opportunity to comment and express any concerns, which may include public hearings. Following the first round of such public participation, the municipality may amend the zoning plan. To proceed, the municipality has to formally disclose the (amended) draft zoning plan with a statement setting forth the underlying considerations with respect thereto. The zoning plan must then be announced publicly and displayed for one month to encourage the public to further participate in the planning process. Following the expiration of the one-month period, the council of the municipality adopts the zoning plan in a public meeting.

In addition to the public, municipalities must also involve public authorities and other bodies of public interest (*sonstige Träger öffentlicher Belange*) if their respective area of responsibility is affected by a zoning plan, and request such authorities to comment on the draft plan.

The final zoning plan must be submitted to the relevant higher authority for approval. This higher authority may, however, only examine the legality of the zoning plan, including its conclusion (*i.e.*, it may only deny its approval if the zoning plan was not prepared in compliance with applicable laws). Following its formal approval, the zoning plan is officially enacted by way of public announcement by the municipality.

#### 12.1.1.2 Land-Use Plan (Bebauungsplan)

On the second level, land-use plans may determine the use of land in designated areas. As a general rule, a land-use plan is developed from the descriptions in the applicable zoning plan and therefore has to comply with the zoning plan. In particular, a land-use plan establishes the legally binding rules with respect to matters such as the size of plots and the height, density and specific use of buildings erected on a plot and may also designate land as being reserved for public purposes, industrial use, mixed use, social housing, infrastructure, open spaces and protected areas.

In principle, there are three different types of land-use plans, which differ in their contents:

- Qualified land-use plans (*qualifizierte Bebauungspläne*) set forth the type and extent of use of buildings, the land areas which can be built on as well as local public traffic areas. Building projects in an area covered by a qualified land-use plan are generally permissible provided that they do not conflict with the stipulations of the applicable land-use plan. Municipalities may also designate urban planning areas (*urbane Stadtgebiete*). Due to higher limitations on noise emissions during the day, developers can only develop projects combining residential, work, local supply, education, cultural and recreational institutions in such areas.
- Land-use plans that do not include the above-mentioned minimum requirements only qualify as non-qualified land-use plans (*einfache Bebauungspläne*) and construction projects in these areas are required to meet additional criteria in order to be permissible (*e.g.*, the development of the property must be secured and natural conditions must be taken into account). The relevant criteria depend on whether the project is situated in an unplanned inner area (*unbeplanter Innenbereich*) which is also called a built-up area (*im Zusammenhang bebauter Ortsteil*) or an outlying area (*Außenbereich*). In case of unplanned inner areas, project developments are generally permissible if they are compatible with the existing buildings in the vicinity and permitted uses. In case of outlying areas, the construction of residential real estate is generally not permissible.
- German planning law also provides for a project-related land-use plan (*vorhabenbezogener Bebauungsplan*) which is of particular interest for real estate developers. The project-related land-use plan is used for particular building projects, including large-scale projects and mainly comprises three stages: At the initial stage, the real estate developer prepares a project and infrastructure development plan (*Vorhaben- und Erschließungsplan*) on its own responsibility and at its own expense. For this purpose, a planning or architect's office is usually commissioned which is responsible for drafting such plan in close collaboration with the municipality. This project and infrastructure development plan then becomes the subject of the project-related land-use plan on the basis of the resolution of the municipality. The real estate developer and the municipality enter into a so-called performance contract (*Durchführungsvertrag*) which provides for the preparation and/or implementation of the respective urban development measures by the municipality's contract partner at its own expense. The municipality passes the project-related land-use plan as by-law (*Satzung*) within the meaning of applicable German law. The performance contract entered into in connection with a project-related land-use plan is a special type of an urban development contract (*städtebaulicher Vertrag*) (for further information, see "12.2 Urban Development Contracts/Commitments").

The process of establishing a land-use plan basically follows the same procedures as for the zoning plan. The process of preparing a land-use plan is usually initiated by the relevant local council or planning committee or following an inquiry of local residents or an investor. As opposed to the zoning plan, the land-use plan does not require approval by a higher authority, whereas the land-use plan is based on the zoning plan for which such approval has already been obtained. However, the land-use plan additionally needs to be enacted as a municipal by-law which requires the municipality to publish the final land-use plan by way of public announcement and to display it for inspection by the public. As a municipal by-law, a land-use plan stipulates

legally binding provisions determining whether a building project is permissible, whereas a zoning plan has no direct binding legal effect.

Where no qualified land-use plan exists, the question whether a building project (including amendments to existing buildings) is permissible depends on whether the building project should be realized in unplanned inner areas (*unbeplanter Innenbereich*), which are also called built-up districts (*im Zusammenhang bebauter Ortsteil*), or in outlying areas (*Außenbereich*). In the first case, the permissibility basically depends on the building project's compatibility with the existing buildings in the vicinity and their specific use. Outside built-up districts, projects are only permissible subject to very narrowly defined requirements which are generally not met by buildings designated for residential use as outlying areas shall generally be kept clear of buildings of any kind, especially of residential buildings.

### **12.1.2 Special Urban Planning Zones**

Municipalities may designate special urban planning zones (*Gebiete des Besonderen Städtebaurechts*) in order to remediate specific planning deficiencies or facilitate specific urban developments. These planning zones are also regulated by the BauGB. The act provides for different types of special urban planning zones, for instance, such as restructuring areas (*Sanierungsgebiete*), conservation areas (*Erhaltungsgebiete*) or development areas (*Entwicklungsgebiete*). Properties (including hereditary building rights) located in special urban planning zones or areas which will be designated as such special urban planning zones may be subject to certain restrictions.

For instance, in restructuring areas, the sale and encumbrance of properties as well as the conclusion of a fixed term lease agreement exceeding one year or reconstruction and redevelopment measures are generally subject to special consent by the competent municipal authorities. Most importantly, such properties may only be sold at sales prices approved by the competent municipal authorities, and approval is generally only granted if the proposed price excludes any value gains from restructuring measures. Property owners may, however, negotiate the lifting of such limitations, which is usually granted in exchange for compensatory payments. Municipalities are also granted preemptive rights with respect to property sales, as well as the right to impose restrictions with regard to the construction of building projects or the demolition of buildings. Additionally, municipalities may annul existing rental and lease agreements in coordination with property owners.

In addition, the local municipality has preemptive rights for properties situated in conservation areas. While the seller and the municipality can agree on a waiver of such preemptive rights, the seller is usually required to agree not to terminate existing lease agreements or increase rent payments in return. Consequently, it is generally harder to market or otherwise profit from properties situated in conservation areas.

### **12.1.3 Building Permits**

Any construction, alteration, demolition or change in use of a building situated in Germany or parts of such building generally requires a building permit (*Baugenehmigung*). Such permit is only granted if the relevant project complies with the provisions of applicable planning laws, in particular the relevant land-use plan, as well as the respective state building regulations (*Bauordnungen der Länder*), which vary from federal state to federal state and provide, among other things, for different approval structures. The latter set forth various provisions such as permissible types of buildings and building materials, stability requirements, permissible insulation and heating installations, minimum required distances between buildings, fire safety requirements, minimum access and facilities for the fire services, limitations on hazardous and offensive substances and noise protection requirements, as well as mandatory parking spaces and facilities for disabled people.

Most German federal states ensure compliance with statutory requirements through public easements (*Baulasten*). For example, public easements ensure adherence to the minimum spacing prescribed by law. To obtain a building permit, the owner assumes such easements, requiring him to tolerate, perform or omit specific acts on the property, thereby restricting the future use of a property. The building authorities maintain registers of public easements (*Verzeichnisse öffentlicher Baulasten*). Once registered, public easements are binding on legal successors of the owner (*e.g.*, subsequent purchasers). A public easement may be cancelled only upon the consent of the local building authority. Public easements may restrict the use of a property and especially future modifications and, therefore, affect its commercial value. Unlike other federal states, Bavaria does not maintain a register of public easements. With respect to properties situated in Bavaria, similar legal effects can, however, be achieved by registering individual easements (*Dienstbarkeiten*) in the land register.

To obtain a building permit, owners must file a building application (*Bauantrag*) in writing with the competent municipal authority. Under certain circumstances (*e.g.*, if the construction project does not include special buildings (*Sonderbauten*) such as schools, hospitals or restaurants), a simplified permit procedure (*vereinfachtes Baugenehmigungsverfahren*) may be sufficient, while select projects do not require any building permit (*verfahrensfreie Bauvorhaben*). Such projects, however, still need to comply with the provisions of the construction planning laws and building laws. To obtain a building permit with respect to properties for which no land-use plan exists, the owner is often required to voluntarily commit itself (*Selbstverpflichtungserklärung*) to conduct certain urban planning and development activities.

#### **12.1.4 Protection of Listed Buildings**

Protection of listed buildings is generally regulated by the federal states through so-called heritage protection laws (*Denkmalschutzgesetze*) which apply with different degrees of limitations. In some federal states, a building is only deemed a listed building if specified in a list of listed buildings, whereas in most federal states the listing has no constitutive effect. If the building is under listed building protection, the owner is obligated to preserve (*erhalten*) the building using reasonable efforts. Partial or total demolition or any change in the appearance of a protected building generally requires the consent of the competent authority. In some federal states, such consent is also required for any change of purpose. In particular, changes to the room layout of a building or space allocation may be prohibited even if the layout or allocation in question does not meet contemporary market requirements. In some federal states, the owner of a protected building is further required to notify the competent authority of an intended sale of the property. In such case, some federal states reserve a preemptive right for the municipality.

As of the date of this Prospectus, a limited number of Instone's properties were subject to some form of protection of listed buildings. Some properties were subject to individual protection, meaning that parts of such properties (*e.g.*, roofs, facades, installations, etc.) are considered to be of cultural value and may only be altered, modernized or demolished with prior written approval from the competent authorities, if at all. Instone also has a number of properties that are subject to ensemble protection, whereby whole ensembles of buildings are considered of cultural value. Alterations to the appearance of such buildings may only be made with the prior written approval from the competent authorities. In addition, the modification (*e.g.*, construction, alteration or demolition) of properties adjacent to a listed building may require approval if such modification can affect the condition or appearance of the listed building (*Umgebungsschutz*).

#### **12.2 Urban Development Contracts/Commitments**

Competent municipal authorities may enter into agreements with individuals or with private or public companies regarding urban development measures (*städtebauliche Verträge*). For instance, a municipality may assign the development of local public infrastructure for land plots (*e.g.*, the construction of paved ways, utility supply lines, waste disposal, street lighting, park areas, etc.) to a third party by entering into an urban development contract (*Erschließungsvertrag*). Without such contract, the municipality would have to perform the respective urban development measures itself and also pre-finance all urban development expenses. While the municipality would be able to recover most of its development expenses from the owner of the respective property, it would ultimately have to bear a share of at least 10% of the development costs eligible for contribution (*beitragsfähiger Erschließungsaufwand*) under the BauGB as well as all non-contributory costs. However, if the municipality enters into an urban development contract with a third party all such costs may be imposed on the investor under the contract.

In such development measures (*städtebauliche Verträge*), municipalities may also obligate investors to adhere to certain thresholds for various usage types in the project developments or adhere to certain other requirements. The city of Frankfurt, for example, recently passed a resolution (*Baulandbeschluss für die Frankfurter Stadtentwicklung*) that stipulates certain guidelines for the municipality's planning and development activities and provides for certain binding commitments or deliverables of real estate developers, companies and private real estate owners in return for which such persons will then receive building rights including the relevant development or construction opportunities. The resolution of the city of Frankfurt prescribes, amongst others, that development measures relating to new projects exceeding a certain size must include a certain percentage of subsidized housing.

In addition, expenses or other expenditures associated with the provision of development measures such as, for example, expenses or other expenditures for municipal amenities (*e.g.*, expenses for kindergartens, children's playgrounds, hospitals, sewage plants, green areas) or for costs of urban planning may be contractually imposed upon investors (*Folgekostenvertrag*). In order for such expenses to be borne by a private investor, there

must be a direct link between the construction projects and the costs imposed. Instone is party to both development contracts and contracts imposing consequential costs on it.

To obtain a building permit with regard to land plots for which no land-use plan exists, Instone is often required to voluntarily commit itself (*Selbstverpflichtungserklärung*) to conduct certain urban planning and development activities.

### **12.3 Building Regulations**

German building laws and regulations of the German Federal States (*Bauordnungsrecht der Länder*) are very comprehensive and contain numerous provisions including, but not limited to, permissible types of buildings, building materials, statics, proper workmanship, stability, heating, minimum required distance from other buildings, fire safety, means of warning and escape in case of emergency, access and facilities for the fire service, hazardous and offensive substances, noise protection, parking spaces, ventilation and access and facilities for disabled people.

### **12.4 Standardized Agreements and Applicable German Law**

Standardized contract terms under German law have to comply with the rules of the German Civil Code (*Bürgerliches Gesetzbuch*, “**BGB**”) applying on general terms and conditions (*Allgemeine Geschäftsbedingungen*). This means that standardized contract terms are subject to a certain fairness control by the competent courts regarding their content and the way they are presented to the respective other contractual party. As a general rule, standardized terms are invalid if they are not transparent, unclear, unbalanced or inappropriately discriminatory.

#### **12.4.1 Fee Regulations for Architects and Engineers**

The German Fee Regulations for Architects and Engineers (*Honorarordnung für Architekten und Ingenieure*, “**HOAI**”) imposes mandatory fee rules (based on chargeable costs) on architects and engineers and their respective counterparties. The HOAI applies to contracts regarding certain planning services provided by architects and engineers in the construction industry. It does, however, not contain any provisions regulating the type of work to be provided under such contracts and/or the rights or obligations arising therefrom, *i.e.*, the services listed in the HOAI are only relevant for price-law purposes.

The HOAI divides the services covered by it into so-called scopes of work (*Leistungsbilder*) which include, among others, the planning of a building project, engineering structures and traffic systems, structural engineering as well as technical equipment. These scopes of work are again sub-divided into individual work phases. Services which are not typically provided by architects and engineers (*e.g.*, real estate agent services, designer services) and other services which may include such services covered by the HOAI (*e.g.*, construction services which include the provision of certain services under the HOAI) are, however, not covered by the HOAI. The application and amount of the mandatory fee rules provided by the HOAI therefore depends on the respective type, scope and difficulty of work to be provided as agreed upon in the underlying contract.

On July 4, 2019, the European Court of Justice ruled, that the provisions of the HOAI providing for minimum prices and maximum prices for architectural services violate European law. Consequently, these rules will no longer be applicable to standardized agreements with architects going forward, and may even be invalid for existing agreements. It is currently unclear how the German legislator will reflect the ruling of the European Court of Justice (*e.g.*, by abolishing the relevant provisions of the HOAI entirely) and how this will affect prices for architectural services in Germany going forward.

#### **12.4.2 German Construction Contract Procedures**

Part B of the German Construction Contract Procedures (*Vergabe- und Vertragsordnung für Bauleistungen*, “**VOB/B**”) has been introduced to complement the law on general terms and conditions set forth in the BGB. The VOB/B is not statutory German law but rather qualifies as general terms and conditions which need to be explicitly agreed upon in the relevant construction contract in order to become effective. The provisions of the VOB/B contain numerous regulations on contract law for work and services (*e.g.*, with respect to performance delays, claims for defects, limitation of defects claims or acceptance of works (*Abnahme*)) which differ from those in the BGB. If the VOB/B is incorporated into the construction contract without any changes and the counterparty is an entrepreneur (*i.e.*, not a consumer), the VOB/B is not subject to the fairness control review as provided for in the BGB. However, most construction contracts do not incorporate the VOB/B in its

entirety but also provide for provisions deviating from the VOB/B. Hence, in the vast majority of the cases, the agreed provisions relating to the VOB/B are subject to fairness control by the competent courts regarding their content and the way they are presented to the other contractual party. Provisions which do not stand up to such fairness control review are deemed ineffective and replaced by corresponding provisions of the BGB.

## 12.5 Regulations relating to Property Development, Construction and Sale of Real Estate

### 12.5.1 Permission Requirement according to GewO

Pursuant to the German Trade Regulation (*Gewerbeordnung*, “**GewO**”), a person seeking to prepare or to undertake commercial construction projects for his own account or for the account of third parties must obtain a permission from the competent governmental authority. Such permission is to be denied if there are grounds to believe that the applicant, or a person heading the operations or a branch office of the applicant, is not reliable or if the applicant’s financial situation is uncertain, in particular if insolvency proceedings have been initiated with respect to the applicant. A permission can also be withdrawn, in particular if the permission has been granted unlawfully (e.g., if the applicant provided information that was substantially incorrect or incomplete) or if revoking it is in the public interest (e.g., in case of substantial violations by the respective applicant).

### 12.5.2 Construction and Property Development Contracts

#### 12.5.2.1 Applicable Provisions in the BGB

The BGB differentiates, in particular, between construction contracts (*Bauverträge*), consumer construction contracts (*Verbraucherbauverträge*) as well as property development contracts (*Bauträgerverträge*).

In principle, a property development contract (*Bauträgervertrag*) is a mixed contract (*gemischter Vertrag*) covering both aspects of a sales contract (*Kaufvertrag*) and of a work contract (*Werkvertrag*). The newly applicable law now explicitly stipulates that the property development contract is a contract with respect to the construction (*Errichtung*) or reconstruction (*Umbau*) of a house or a comparable building and by which the developer is obliged to transfer ownership to the property to be developed. The BGB further includes additional provisions for consumer construction contracts, including property development contracts concluded with private purchasers, such as owner-occupiers and retail buy-to-let investors. Prior to entering into a property development with a private purchaser, the respective real estate developer is required to provide such purchaser with a written description of the building specifications (*Baubeschreibung*). Such description needs to be provided in good time before entering into the property development contract and also needs to fulfil the requirements set forth in the BGB. In addition, the developer has to inform the purchaser bindingly about the time of completion of the development project or, if such information is not possible at the conclusion of the contract, the estimated time needed for realizing the respective development project. Furthermore, the developer also needs to describe in detail the specifications of the building, which include, for instance, a general description of the building to be built, the type and extent of the services offered, general data on the building (including floor plans and information on square footage), potentially information on the energy, fire safety and sound proofing standard. Except where a consumer construction contract was notarized, the consumer has a statutory right to rescind the agreement within the statutory periods and the contractor is obliged to duly inform the consumer of such right. Aside from these provisions relating to property development and consumer construction contracts, general rules relating to sales contracts (*Kaufverträge*) and work contracts (*Werkverträge*) as well as the MaBV apply.

In the context of property development contracts (*Bauträgerverträge*), the BGB provides for additional requirements with respect to the issuance of certain sureties which were initially introduced by the FoSiG. In case the recipient of such works is a consumer and installment payments are requested, real estate developers are required to issue to the purchaser a surety with respect to 5% of the aggregate purchase price when the first installment payment under the relevant contract becomes due and payable (the “**FoSiG Surety**”). The purpose of the FoSiG Surety is to secure contractual performance in a timely and adequate manner and to protect purchasers from the consequences of an insolvency of the respective project developer. Real estate developers have to grant such surety either by (i) reducing the amount of the first installment payment by an amount corresponding to 5% of the aggregate purchase price or (ii) providing a guarantee or other promise of payment from a credit institution (or credit insurers authorized to conduct business within the scope of the BGB) in the corresponding amount.

### 12.5.2.2 German Real Estate Agent and Commercial Contractor Regulation

MaBV is applicable to, amongst others, property development contracts relating to the development and sale of residential properties to owner-occupiers (*Selbstnutzer*) and retail buy-to-let investors in Germany. The MaBV provides for certain regulations to be complied with by, *inter alia*, real estate developers in connection with the conclusion of property development contracts (*Bauträgerverträgen*). In particular, the MaBV provides for a staggered payment framework which entitles a real estate developer to significant fixed down payments in line with the completion of construction milestones, provides for respective collateralization of such down payments and imposes an obligation on the developer to separate funds received from purchasers from private assets. The real estate developer may request up to seven installment payments subject to specific construction progress to be included in the individual payment schedule agreed under the property development contract (*Bauträgervertrag*). Such installment payments may, however, only be requested if the amount of an installment payment corresponds to the actual value of the work performed by the real estate developer at the time such installment payment becomes due and payable.

The first construction milestone is the start of ground works (*Beginn der Erdarbeiten*). Upon the achievement of this milestone, the real estate developer is entitled to request the first installment in the amount of 30% of the agreed contractual sum in case ownership of a real property is to be transferred and 20% of the agreed contractual sum in case a hereditary building right is to be created or transferred. The second installment in the amount of 40% of the remaining agreed contractual sum is due and payable upon completion of the building shell (including carpentry work) (*Rohbaufertigstellung, einschließlich Zimmererarbeiten*). As a result, a total of 58% of the aggregate agreed contractual sum under the respective property development contract (*Bauträgervertrag*) is due and payable upon completion of the building shell if ownership of a real property is to be transferred. Further installments can be requested in up to seven partial payments in accordance with the following milestones set forth in the MaBV: installation of roof surfaces (*Herstellung der Dachflächen*), basic installation of heating systems, sanitary and electrical facilities (*Rohinstallation der Heizungs-, Sanitär- und Elektroanlagen*), window installation (*Fenstereinbau*), interior plaster work (*Innenputzarbeiten*), screed work (*Estricharbeiten*), tiling work in the sanitary area (*Fliesenarbeiten im Sanitärbereich*), readiness for occupancy and concurrently with the transfer of possession (*Bezugsfertigkeit und Zug um Zug gegen Besitzübergabe*), façade works (*Fassadenarbeiten*) and final completion (*vollständige Fertigstellung*).

However, a real estate developer must not request payment of the first installment from the purchaser unless the following conditions are met: (i) the underlying purchase contract is binding and all necessary approvals have been granted, the notary public has confirmed these requirements in writing and no cancellation rights have been granted to the purchaser, (ii) a priority notice (*Auflassungsvormerkung*) has been registered in the land register (*Grundbuch*) with respect to the respective purchaser's title of ownership, (iii) all mortgages have been subordinated to the purchaser's priority notice (*Auflassungsvormerkung*), and (iv) the building permit (*Baugenehmigung*) has been obtained (or it has been confirmed that a building permit is not required). In practice, real estate developers often face significant delays when dealing with the competent land register authorities. As a result, the process of registering of such priority notice (*Auflassungsvormerkung*) can be delayed significantly. In such case, the real estate developer can request installment payments subject to issuing to the purchaser a surety covering the respective pre-payment amount. Once either all of the above conditions are met or a corresponding MaBV Aval has been issued, the real estate developer is entitled to request the installment payments under the agreed payment schedule from the purchaser.

### **12.5.3 German Construction Site Ordinance**

The German Construction Site Ordinance (*Baustellenverordnung*), *inter alia*, imposes various duties on the developer operating a construction site to inform, coordinate and control the construction process. The developer may, however, choose to instruct a third party with fulfilling his obligations.

## **12.6 Regulations governing the Residential Real Estate Sector**

Since 2015, the federal states in Germany may invoke certain legal limitations on rents and rent increases (*Mietpreisbremse*) in areas with a tense housing market (*angespannter Wohnungsmarkt*). Under the relevant laws and regulations, rents for residential units may only be set within the range of the customary local rent (*ortsübliche Vergleichsmiete*), which is determined based on the relevant local rent index (*Mietspiegel*). In October 2019, the federal government of Germany decided to extend to term of the legal limitations on rents and rent increases from 2020 to 2025. In addition, the relevant period for the determination of the rent index was extended from four to six years. In new rental contracts, the rent may only exceed the customary local rent as defined based on the rent index by a maximum of 10%. Overpaid rent may be reclaimed by the tenant



retroactively for a period of two and a half years after conclusion of the rental contract. Newly built apartments remain exempt from the statutory limits (incl. apartments being used and leased for the first time after October 1, 2014).

In Berlin, a state law, which entered into force on February 23, 2020, provides for further limitations on rents and rent increases. The law, whose geographical scope is limited to the federal state of Berlin, (i) introduces rent caps, (ii) limits modernization levies and (iii) prohibits rent increases except for certain annual inflation-based increases after June 18, 2019 for five years in non-subsidized rental apartments in multi-family houses with an exemption for new residential buildings completed after January 1, 2014 (the “**Berlin Rent Cap**”). The limitations under the Berlin Rent Cap are calculated on the basis of the 2013 rent index (*Mietspiegel*) plus an additional 13.5% to reflect the increase of household income since then. The rent caps depend on the year of construction and the quality of the building and range from €6.45 to €9.80 per sqm per month. Frozen in-place rents will be subject to an annual inflation-based increase of 1.3% from 2022 onwards. Under the Berlin Rent Cap, tenants will be able to apply for a rent reduction under existing contracts, if their rent exceeds the relevant rent cap by more than 20%. New contracts may not exceed the relevant rent cap. Various lawsuits and legal proceedings challenging the Berlin Rent Cap have been threatened, initiated or are pending before various courts, including the German Federal Constitutional Court, and it is not entirely clear, whether the Berlin Rent Cap will be upheld.

There debate revolving around further legal measures and particularly as to how future increases of rents for residential real estate can be additionally limited is still ongoing in Germany. Numerous voices demand the extension of statutory provisions providing for limitations on rents and rent increases (*Mietpreisbremse*) for newly built residential units or the subsequent letting of such units. Various political parties, organizations and private initiatives endorse strict rent caps (*Mietobergrenze*) in other areas and federal states. Any implementation of such measures or comparable initiatives may further tighten the regulatory environment of the residential real estate sector. However, regulations governing the residential real estate sector generally only have a minor or indirect impact on Instone Group as the Company’s business model revolves around the development and sale of real property and does generally not include the leasing of real property.

Under the COVID-19 Mitigation Act, landlords were not allowed to terminate rental agreements for land or premises solely on the ground that the relevant tenant had failed to pay the rent due in the period from April 1, 2020 to June 30, 2020, if the failure of the tenant to pay the rent was caused by the effects of the COVID-19 pandemic, which had to be demonstrated to a satisfactory degree. Tenants must pay the outstanding rent by June 30, 2022 and landlords may demand statutory interest payments on the delayed rent payments. However, the impact on Instone Group of such legislation is limited as Instone Group’s business does generally not include the leasing of real property.

## **12.7 Regulations Relating to Environmental Damage and Contamination**

Instone’s residential real estate project portfolio is further subject to various rules and regulations relating to the remediation of environmental damage and contamination.

### **12.7.1 Soil Contamination and Disposal of Contaminated Material**

Under German law, liability for environmental contamination is mainly governed by the German Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*, “**BBodSchG**”). It applies to currently existing and future soil contaminations (*Altlasten*) and/or harmful soil alterations on soil functions that are able to emit hazards, considerable disadvantages or considerable nuisances for individuals or the general public, such as excessive compression or dehydration of the soil (*schädliche Bodenveränderungen*) (together “**Contamination**”). The ensuing remediation liability (*Sanierungsverantwortung*), without generally requiring involvement, fault or knowledge of such Contamination, lies with, among others, the actual polluter, the polluter’s universal successor, the current owner of the property, the party in actual control of the property and, if the title was transferred after March 1, 1999, the previous owner of the property if he knew or should have known about the Contamination. There is no general statutory ranking as to which of the aforementioned parties is primarily liable. Rather, this decision is made at the discretion of the competent local authority (*Bodenschutzbehörde*) guided by the principle of effective hazard prevention (*Prinzip effektiver Gefahrenabwehr*). Thus, the current owner of the contaminated property is usually the first party to be held responsible because the owner is generally in the best position to undertake the necessary remediation work. However, a former owner may be ordered to carry out remediation work, for example, if the current owner’s financial condition appears to be unsound. Other responsible parties may be required to indemnify the party that carried out the remediation work under a statutory provision. This provision can, however, be waived by way of

an express contractual agreement. Furthermore, as liability is not based on fault, the BBodSchG does not require the relevant local authority to prove negligence or intent on the part of the liable parties.

Administrative powers arising from the BBodSchG authorize the relevant local authority to require risk inspections, investigations, remedial measures and other measures necessary for the prevention of residual pollution or harmful changes in the soil.

Civil law liability for Contaminations can arise from contractual warranty provisions or statutory law. Warranty obligations can generally be waived or can be limited by contract. According to statutory provisions, the polluter can be held liable for damages or for the remediation of the Contamination and its consequences. Instone could be subject to such liability if a property that Instone currently owns or formerly owned is detrimentally affecting the property of one or more third parties. This civil liability exists irrespective of official action taken under the BBodSchG.

As soon as contaminated soil is excavated in the course of construction or remediation works, it no longer falls within the scope of the Federal Soil Protection Act. Instead, it may qualify as waste pursuant to the Waste Management Act (*Kreislaufwirtschaftsgesetz*), which may result in additional disposal costs.

### **12.7.2 Asbestos Regulation**

German law imposes obligations to remediate asbestos contamination under certain circumstances. Under the asbestos guidelines (*Asbest-Richtlinien*) of the German federal states, the standard for determining a remediation obligation is the presence of any health threat. The law distinguishes between friable asbestos, which is capable of releasing asbestos fibers into the air as it ages or breaks, and non-friable asbestos, from which asbestos fibers are usually not released and which therefore poses a limited risk to human health. Except in the event of structural alterations, there is generally no obligation to remove non friable asbestos under the asbestos guidelines.

Friable asbestos is generally found in construction materials that provide fire safety, noise abatement, moisture protection, heat insulation and thermal protection. The asbestos guidelines set out criteria used in assessing the urgency of remedying contamination, ranging from immediate action (including demolition, removal or coating of the asbestos) to risk assessments at intervals of no more than five years. The removal and disposal of asbestos containing materials requires specific safety measures and may trigger elevated costs.

### **12.7.3 Regulation Relating to Dichlorodiphenyltrichloroethane (“DDT”), Lindane, Polychlorinated Biphenyl (“PCB”) and Pentachlorophenol (“PCP”)**

DDT and Lindane are synthetic pesticides, which were used in wood preservatives. DDT is suspected to cause cancer and be genotoxic, while Lindane is suspected to harm the nervous system and may cause cancer. Since PCB may cause fetal damage in pregnant women and is suspected to have carcinogenic effects, its production was prohibited in Germany in 1983. However, PCB may still exist in buildings, such as in wood preservatives, synthetic materials, insulations or joints. PCP was used as a fungicide against mold and is also suspected to negatively affect human health.

Under various legal provisions, the owner of a building may be required to remedy PCB sources through the elimination or sealing of construction elements that contain PCB. In particular, remediation measures may become necessary if the PCB concentration in rooms that are designed for human use exceeds 300 nanograms per cubic meter of air. Moreover, the remediation of rooms or buildings may be required where DDT, PCP or Lindane concentrations exceed certain thresholds. The removal and disposal of DDT, Lindane, PCB and PCP containing materials may require specific safety measures and trigger elevated costs.

### **12.7.4 Protection of Groundwater and Maintenance of Sewage Systems**

Pursuant to the German Federal Water Management Act (*Wasserhaushaltsgesetz*), all sewage systems must be constructed, operated and maintained according to the generally accepted Rules of Technology (*anerkannte Regeln der Technik*) or, regarding sewage systems for wastewater treatment, state of the art (*Stand der Technik*). Property owners are required to check, among other things, the sewage system’s condition, operability, maintenance and the amount and quality of wastewater and the substances contained therein. In the case of deficiencies, property owners must repair the sewage system. The German Federal Water Management Act authorizes the German Federal Government (*Bundesregierung*), with approval of the German Federal Council (*Bundesrat*), to enact an ordinance specifying the above mentioned obligations concerning sewage

systems. Therefore, more detailed and specific requirements are set out in the Waste Water Ordinance (*Verordnung über Anforderungen an das Einleiten von Abwasser in Gewässer*). For a total of 53 sectors, appendices to the Waste Water Ordinance set uniform federal requirements for the discharge of waste water into water bodies. Waste water disposal of private households is a municipal responsibility.

### **12.7.5 War Ordinance**

In Germany, the federal states are responsible for the clearance of ordnance and other remnants of war. Substantial differences exist with respect to the organization, competencies and financing of clearance operations. Most federal states have installed public services charged with the clearance of war ordnance, while other federal states leave such clearance to private specialized firms. All federal states assume, and dispose of, the unexploded ordnance themselves. However, the extent to which a private investor or an owner of contaminated real estate incurs liabilities in connection with the clearing of remnants of war, including preparatory measures like the disposal of plants and layers of soil or preventive search measures, where the initial suspicions prove unfounded, varies from federal state to federal state.

### **12.8 Heritable Building Rights**

Heritable building rights under the Heritable Building Rights Act (*Erbbaurechtsgesetz*) make it possible to create ownership rights to buildings that are independent of the ownership of the land on which they are erected. While a heritable building right can be created for and held by the owner of the relevant land (*Eigentümererbaurecht*), for the most part heritable building rights are created by the conclusion of a heritable building right agreement between the owner of the property and the heritable building right owner. The heritable building right is effective with its registration in the land register for the relevant property (*Grundstücksgrundbuch*) as the most senior encumbrance of the relevant land. In addition to the provisions of the Heritable Building Rights Act, the legal relationship between the owner of a property and the heritable building right owner is governed by the heritable building rights agreement. A heritable building right is a right that is equivalent to real property ownership (*grundstücksgleiches Recht*) which is usually created for a fixed period of time. Hence, heritable building rights can be sold and transferred in the same way as real property and, depending on what is agreed in the heritable building right agreement, can also be mortgaged or made subject to other encumbrances (*e.g.*, for financing purposes).

Furthermore, a heritable building right may be extended or renewed. Otherwise, it expires upon the end of its term and the owner of the land also becomes the owner of any building on that land, possibly subject to compensation being payable by the land owner in this respect. In principle, a heritable building right cannot be terminated during its agreed term, which also holds true if the owner of the land becomes insolvent. Land subject to a heritable building right may, however, be recovered by its owner before the end of the agreed term of the heritable building right if a reversion of property (*Heimfall*) occurs. The conditions for a reversion of property (*Heimfall*) are largely subject to the freedom of contract between the parties.

### **12.9 Energy Saving Regulation**

Under the Energy Saving Act (*Energieeinsparungsgesetz*) and the Energy Saving Ordinance (*Energieeinsparverordnung*, “**EnEV**”), owners of buildings are subject to various energy efficiency requirements.

For instance, under the EnEV, owners are, in case of an intended sale or letting of a property, building or unit, obliged to provide potential purchasers with an energy certificate (*Energieausweis*), *i.e.*, a special certificate that discloses the property’s energy efficiency. The energy certificate must be handed over during the first viewing of the property at the latest. In case there is no inspection of the property and the other party does not request the energy certificate, it must nonetheless be handed over immediately after the conclusion of the sale and purchase or lease agreement. Further, real estate advertisements in commercial media must include specific information from the energy certificate. The energy certificate is generally valid for ten years.

The EnEV also includes various regulations regarding reconstruction works designed to improve energy efficiency. In general, the owner of a residential property must comply with various requirements under the EnEV in case of modification measures, such as modernization measures and expansions of existing properties, are carried out. Certain requirements, relating, for instance, to the insulation of ceilings and to boilers, must be complied with regardless of whether any modification measures are implemented. Also, the EnEV includes various energy saving requirements which must be complied with in case new buildings are erected or new installations are put into operation. Operators of cooling systems with cooling power in excess of twelve

kilowatt hours must regularly inspect their energy efficiency. Failure to comply with the EnEV can be sanctioned as an administrative offense. It may be expected that the EnEV and comparable regulations will be modified further and increase requirements on energy consumption by buildings, particularly in case of new buildings and modernizations.

The Renewable Energies Heat Act (*Eneuerbare Energien Wärmegesetz*) intends to reduce the primary energy demand (*Primärenergiebedarf*) in Germany. The act requires that part of the heat energy demand of newly constructed buildings must be covered with renewable energies.

## **12.10 Taxes, Charges and Fees**

### ***12.10.1 Public Improvement and Development Charges***

The owner of a property may be obliged to pay certain public charges related to the property. Development charges (*Erschließungsbeiträge*) are levied for the initial construction and improvement charges (*Ausbaubeiträge*) for the subsequent improvement of development installations (*Erschließungsanlagen*), e.g., public roads. Once the development charges have been fully paid, no further development charges can be imposed. Regarding improvement charges, they are incurred for each improvement of development installations. As a consequence, such charges may be imposed repeatedly in the future.

Both development and improvement charges may be levied on the owner of a property which benefits from initially constructed or improved development installations. However, some German federal states allow municipalities to divide their territory into sub-districts and levy improvement charges on all owners of properties in these sub-districts and not only on the owners of properties directly adjacent to the specific development installation that has been improved, so called recurring road charges (*wiederkehrende Straßenbeiträge*). Such improvement charges are levied on all owners on a periodic basis and cover the improvement costs occurring in the entire area. This system is intended to evenly distribute the costs amongst all owners in one sub-district as they are deemed to benefit mutually from the improvements regardless of the specific location. For example, municipalities in the State of Hesse can decide to levy such periodic improvement charges by law.

On the basis of municipal statutes, municipalities may also levy charges for the connection to the sewer network, i.e., charges for connecting buildings and properties to wastewater disposal or utility lines and for expanding and modifying such lines.

### ***12.10.2 German Income Tax Incentives with respect to Listed Buildings***

Current German income tax law allows purchasers to apply a special depreciation rate (*Sonderabschreibung*) on the portion of the purchase price that relates to the redevelopment of listed buildings. In particular, investors are entitled to depreciate 9% of their redevelopment costs over a period of eight years and additional 7% over a subsequent period of four years, resulting in the possibility to depreciate the total redevelopment costs over a period of twelve years in total. Investors occupying the property are entitled to depreciate 9% of their redevelopment costs over a period of ten years.

### ***12.10.3 Real Estate Transfer Tax***

Purchasers of real estate located in Germany are required to bear certain costs. It is market practice that the purchaser of real estate is required to pay RETT. While the statutory RETT framework falls within the competency of the federal lawmakers, the RETT tax rate is determined on the state level. Accordingly, RETT varies across Germany, currently ranging from 3.5% (Bavaria and Saxony) to 6.5% (e.g., North Rhine Westphalia), which is levied on the purchase value of the property in case of an asset deal.

Under current tax laws, the acquisition of a participation reaching or exceeding 95% in an entity that owns German real estate is subject to RETT; in such case, the tax basis is a special tax value which is supposed to reflect the property's fair market value. In the case of partnerships, RETT could be triggered even if a participation of less than 95% is acquired but where other partnership interests have been transferred in the last five consecutive years. Following the Act for the Implementation of the EU Directive on Mutual Assistance (*Amtshilferichtlinie-Umsetzungsgesetz*), RETT is now also triggered if an acquisition or transaction results in an entity holding an economic participation of at least 95% in an entity that owns a piece of German real estate property, regardless of whether this is held (partly) directly and/or (partly) indirectly. The economic participation shall equal the sum of direct or indirect participations in the respective entity's capital or assets. To determine

participations, the percentages of participations in the capital or assets of the entities are multiplied. Thus, RETT is triggered if the overall effective ownership, taking into account direct and indirect participation (economic ownership), is or exceeds 95% when accumulation is determined based on economic interest calculated on a look through basis.

The RETT regime is currently under discussion, with the proposed changes aiming to tighten the statutory RETT framework with regard to share deals. The most recent proposal provides for a reduction of the 95% threshold to 90% and an extension of the period after which transfers are exempt from RETT charges from five to ten years. In addition, RETT would be triggered irrespective of the number of acquirers if at least 90% of the shares in a corporation are transferred to new shareholders. While the draft bill introduced to the German parliament in September 2019 originally stipulated that the respective legislative changes shall come into force as of January 1, 2020, the political parties currently forming the German government announced in October 2019 that the intended changes to RETT will not come into force as of January 1, 2020. Instead, the draft bill was expected to be revised before being introduced to the German parliament again in the first six months of 2020. To date, the planned reform has not been implemented and it is still unclear if and to which extent such changes will enter into force with retroactive effect.

#### **12.10.4 Notary Costs and Land Registry Office Fees**

Furthermore, it is also market practice that the purchaser is required to bear additional costs such as notary fees and fees levied by the land registry office (*Grundbuchamt*). Such fees are generally calculated based on the value of the respective real estate.

#### **12.11 Restitution Rights and Transfer Approval**

Under the Law on the Settlement of Open Property Issues (*Gesetz zur Regelung offener Vermögensfragen*, “**VermG**”), former owners of assets that (i) were dispossessed either by the national socialist government between January 30, 1933 and May 8, 1945 or by the former German Democratic Republic or (ii) otherwise lost ownership of their respective assets without adequate compensation subject to the conditions and exceptions set out in the VermG can, generally, demand the restitution of such assets.

With regard to properties located in the former German Democratic Republic (*Deutsche Demokratische Republik*), the German Real Estate Transfer Ordinance (*Grundstücksverkehrsordnung*, “**GVO**”) generally requires owners of properties to obtain approval from the competent authorities prior to agreeing on the disposal and disposing of any properties or hereditary building rights, unless such agreement or disposal is exempted as set out in the GVO. Primarily, this is the case where an approval has been granted already for a prior completed transfer after September 28, 1990. If any restitution claims have been filed for a property or hereditary building right, such approval will not be granted before the claim has been settled.

## 13. SHAREHOLDER INFORMATION

### 13.1 Current Major Shareholders

As Instone's shares are not registered, Instone has no direct knowledge of the identity of, or the percentages of shares held by, all of its shareholders. Based on the voting rights notifications received by Instone in accordance with the German Securities Trading Act (*Wertpapierhandelsgesetz*, "WpHG"), the following persons hold more than 3% of the shares and/or more than 5% of instruments pursuant to Section 38 WpHG and/or an aggregate of more than 5% of the shares and instruments pursuant to Section 39 WpHG in the Company as of the date of this Prospectus:

<u>Name of Shareholder (ultimate controlling person)</u>	Immediately prior to the Offering (in %) <sup>(1)</sup>		
	Shareholdings <sup>(2)</sup>	Instruments <sup>(3)</sup>	Total
FMR LLC <sup>(4)</sup> .....	9.995	–	9.995
Bank of America Corporation <sup>(5)</sup> .....	0.46	8.01	8.47
Mandeep S. Manku <sup>(6)</sup> .....	–	7.56	7.56
Janus Henderson Group plc <sup>(7)</sup> .....	6.96	–	6.96
T. Rowe Price Group, Inc. <sup>(8)</sup> .....	6.10	–	6.10
Rye Bay Capital LLP <sup>(9)</sup> .....	0.78	4.50	5.28
Cohen & Steers, Inc. <sup>(10)</sup> .....	5.24	–	5.24
The Capital Group Companies, Inc. <sup>(11)</sup> .....	4.87	–	4.87
Morgan Stanley <sup>(12)</sup> .....	1.58	3.25	4.83
DWS Investment GmbH <sup>(13)</sup> .....	3.24	–	3.24
Allianz SE <sup>(14)</sup> .....	3.20	–	3.20
Amundi S.A. <sup>(15)</sup> .....	3.07	–	3.07
Union Investment Privatfonds GmbH <sup>(16)</sup> .....	3.001	–	3.001

<sup>(1)</sup> The percentage of voting rights and instruments is derived from the relevant shareholder notifications and has been calculated on the basis of the Company's total number of voting rights (as published pursuant to Section 41 WpHG) as of the date of the relevant shareholder notification.

<sup>(2)</sup> Includes direct and indirect shareholdings pursuant to Sections 33, 34 WpHG.

<sup>(3)</sup> Includes directly and indirectly held instruments pursuant to Section 38 WpHG.

<sup>(4)</sup> Based on a shareholding notification from FMR LLC published on January 8, 2020; the shares are indirectly held via Fidelity Management & Research Company LLC (9.995%).

<sup>(5)</sup> Based on a shareholding notification from Bank of America Corporation published on June 29, 2020; the shares and instruments are indirectly held with 8.44% held by Merrill Lynch International.

<sup>(6)</sup> Based on a shareholding notification from Mandeep S. Manku published on March 18, 2020. According to the notification, the instruments are indirectly held via Coltrane Master Fund, L.P. (7.56%) and Coltrane Asset Management, L.P. (7.56%).

<sup>(7)</sup> Based on a shareholding notification from Janus Henderson Group plc published on July 13, 2020; the shares are indirectly held with 4.99% indirectly held via Henderson Global Investors Limited.

<sup>(8)</sup> Based on a shareholding notification from T. Rowe Price International Funds, Inc. published on September 13, 2018; indirectly held via T. Rowe Price International Ltd. (6.10%).

<sup>(9)</sup> Based on a shareholding notification from Rye Bay Capital LLP published on March 28, 2018.

<sup>(10)</sup> Based on a shareholding notification from Cohen & Steers, Inc. published on July 17, 2020; the shares are indirectly held with 5.02% indirectly held via Cohen & Steers Capital Management, Inc.

<sup>(11)</sup> Based on a shareholding notification from The Capital Group Companies, Inc. published on October 16, 2019; the shares are indirectly held with 4.16% indirectly held via Capital International, Inc.

<sup>(12)</sup> Based on a shareholding notification from Morgan Stanley published May 19, 2020. According to the notification, the shares are indirectly held.

<sup>(13)</sup> Based on a shareholding notification from DWS Investment GmbH published on July 24, 2020; the shares are indirectly held with 3.04% held via Allianz Lebensversicherungs-Aktiengesellschaft.

<sup>(14)</sup> Based on a shareholding notification from Allianz SE published on July 24, 2020. According to the notification, the shares are indirectly held with 3.04% held via Allianz Lebensversicherungs-Aktiengesellschaft.

<sup>(15)</sup> Based on a shareholding notification from Amundi S.A. published on June 16, 2020; the shares are indirectly held via Amundi Asset S.A.S (3.07%).

<sup>(16)</sup> Based on a shareholding notification from Union Investment Privatfonds GmbH published on March 18, 2020. According to the notification, the shares are held indirectly.

### 13.2 Controlling Interest; Voting Rights

To the knowledge of the Company, the Company is not directly or indirectly owned or controlled by any shareholder or third person. All shares of the Company have the same voting rights.

## 14. GENERAL INFORMATION ON THE COMPANY AND INSTONE GROUP

### 14.1 Incorporation

The Company was formed as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*, (B.V.)), governed by the laws of the Netherlands, on April 16, 2014. Its legal name was “Formart Holding B.V.”.

Pursuant to a resolution of the Company’s shareholders’ meeting on June 9, 2017, and by means of a notarial deed of amendment, the Articles of Association were revised and the Company’s legal name was changed to “Instone Real Estate Group B.V.” The change in legal name was registered with the commercial register of the Dutch Chamber of Commerce (*Handelsregister van de Kamer van Koophandel*) on June 9, 2017.

On February 13, 2018, the ordinary shareholders’ meeting resolved upon the conversion of the Company’s legal form into a public company with limited liability (*naamloze vennootschap (N.V.)*), incorporated under the laws of the Netherlands (the “**N.V. Conversion**”). The N.V. Conversion was effected by a notarial deed of conversion and amendment of the Company’s Articles of Association that was recorded on the same day in accordance with the resolution of the ordinary shareholders’ meeting. The legal name of the Company then became “Instone Real Estate Group N.V.” and its commercial name remained unchanged. It remained registered with the commercial register of the Dutch Chamber of Commerce (*Handelsregister van de Kamer van Koophandel*) in the Netherlands under number 60490861.

On June 29, 2018, the ordinary shareholders’ meeting resolved upon the conversion of the Company from a *naamloze vennootschap* under Dutch law into a stock corporation under German law (*Aktiengesellschaft*) with the legal name Instone Real Estate Group AG (the “**AG Conversion**”). The AG Conversion included, amongst others, an amendment of the Articles of Association in order to make them suitable for a stock corporation under German law, the reappointment of members of the Supervisory Board and the Management Board and the appointment of a German auditor. The shareholders of the Company automatically became shareholders of Instone Real Estate Group AG. On August 28, 2018, the AG Conversion, including the change of the Company’s registered seat and legal name, were registered with the Commercial Register under docket number HRB 29362. The registered seat of the Company is at Grugaplatz 2-4, 45131 Essen, Germany.

### 14.2 Governing Law

As a company registered in Germany, the Company is subject to German law applicable to a German stock corporation (*Aktiengesellschaft*), in particular the AktG, which, *inter alia*, governs capital measures of the Company (e.g., capital increases and reductions) and the Company’s shareholders’ meetings, as well as other laws applicable to German stock corporations such as the German Transformation Act (*Umwandlungsgesetz*), the HGB, the WpHG and the German Securities and Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*, “**WpÜG**”).

### 14.3 Legal and Commercial Name

The Company’s legal name is Instone Real Estate Group AG. The Company is the holding company of Instone Group that primarily operates under the commercial name “Instone”.

### 14.4 Registration and Duration

The Company has its business address at Grugaplatz 2-4, 45131 Essen, Germany (telephone: +49 201 45355-0), holds the LEI 391200DINUIRPDZQHX03, and is registered with the Commercial Register of the local court of Essen, Germany, under docket number HRB 29362.

The Company’s website address is [www.instone.de](http://www.instone.de). Information on the Company’s website and information accessible via this website is neither part of, nor incorporated by reference into, this Prospectus.

The Company has been established for an unlimited duration.

### 14.5 History of Instone

Instone’s core residential development business originates from HOCHTIEF Construction AG’s (today HOCHTIEF Solutions AG) residential real estate development division “formart”. While the business division

“formart” was only established in 2008, HOCHTIEF group had been actively engaged in the residential real estate development business since 1991.

In August 2013, HOCHTIEF Solutions AG transferred its residential development division by means of a spin-off (*Ausgliederung zur Aufnahme*) under German law into a separate limited partnership, namely formart GmbH & Co. KG. While HOCHTIEF Solutions AG acted as limited partner (*Kommanditist*), a subsidiary of HOCHTIEF Solutions AG, formart Management GmbH, acted as general partner (*Komplementär*) of formart GmbH & Co. KG.

In October 2014, the Company (former Formart Holding B.V.) acquired a majority of HOCHTIEF Solutions AG’s limited partnership interests (*Kommanditanteil*) in formart GmbH & Co. KG as well as all of the outstanding shares of its general partner (*Komplementär*), formart Management GmbH. The Company, at that time a private limited liability company incorporated under the laws of the Netherlands, was formed in April 2014 and served as an acquisition vehicle for both Activum funds, Coöperatieve Activum III and Coöperatieve Formart. After the Company had acquired additional limited partnership interests from HOCHTIEF Solutions AG in several tranches based on various put and call option arrangements agreed upon in the original share purchase agreement, HOCHTIEF Solutions AG ceased to be a limited partner of formart GmbH & Co. KG in March 2017. As a result thereof, the Company became the sole limited partner.

In December 2015, the Company further acquired 94% of the outstanding share capital of former GRK-Holding GmbH (today Instone Real Estate Leipzig GmbH), a real estate developer specialized on the redevelopment of listed buildings for residential use. GRK-Holding GmbH was originally formed by Steffen Göpel, Wolfgang Reinhardt and Svend-Gunnar Kirmes in December 1995 under the legal name GRK Immobilien & Baubetreuungs GmbH. In July 2006, GRK Immobilien & Baubetreuungs GmbH was transformed into the legal form of a German stock corporation (*Aktiengesellschaft*) with the legal name GRK-Holding AG. Immediately prior to its acquisition by the Company, GRK-Holding AG was again transformed into a limited liability company under German law under the name GRK-Holding GmbH in November 2015. By resolution of the shareholders’ meeting in May 2017, its articles of association were amended and its legal name was changed to Instone Real Estate Leipzig GmbH. The Company in the meantime acquired the remaining 6% of the outstanding share capital of Instone Leipzig as part of a put option that was exercised in October 2019 and now holds 100% of the outstanding share capital of Instone Leipzig.

In June 2017, the Company’s legal name was changed to Instone Real Estate Group B.V. At the same time, formart GmbH & Co. KG’s legal name was changed to Instone Real Estate Development GmbH & Co. KG. Furthermore, its general partner, formart Management GmbH, also changed its legal name to Instone Real Estate Management GmbH in June 2017. Following the change of legal names, in August 2017, the Company transferred its shares in Instone Real Estate Management GmbH to Instone Real Estate Development GmbH. Following this transfer, Instone Real Estate Development GmbH & Co. KG was converted into a German private limited liability company under the legal name Instone Real Estate Development GmbH. After this conversion, Instone Real Estate Management GmbH, as the transferring entity, was merged with Instone Development, as the surviving company. The upstream merger became effective by registration with the competent commercial register in August 2017.

Based on Instone Group’s history and focus on the German residential real estate development market, the Company proposed to its ordinary shareholders’ meeting on June 29, 2018 to resolve upon the conversion of the Company into a German stock corporation (*Aktiengesellschaft*) named “Instone Real Estate Group AG”, governed by the laws of Germany, and to change its registered seat to Essen, Germany. The conversion of the Company into a German stock corporation (*Aktiengesellschaft*) was driven by the Company’s self-perception as a German business undertaking and the belief that the conversion will (i) reduce administrative effort of Instone triggered by the previous adherence to the legal framework of two jurisdictions, (ii) simplify Instone’s corporate and organizational structure, and (iii) increase customer and market perception of Instone in Germany as a German real estate development company.

In August 2019, the Company expanded its activities to the strongly growing region of northern Bavaria through a business acquisition by Instone Development, which entered into a binding agreement to acquire the residential property development activities of Sontowski & Partner Group that were pooled in S&P Stadtbau GmbH for a total consideration of €72.1 million (based on all outstanding equity and debts excluding transaction costs). The acquisition, consisting of several project companies and a development platform with 24 employees, led to the addition of six existing project developments to the Company’s existing business activities and an expansion of its portfolio by around €300 million.



In the course of the financial year 2019, the operational activities of Instone Leipzig (*i.e.*, primarily the redevelopment of listed buildings for residential use) were transferred to and merged into Instone Development, which now is primarily responsible for the operational activities of Instone Group.

#### 14.6 Group Structure

Instone Group's business is conducted by the Company and its various subsidiaries. The Company acts as strategic management holding while its direct subsidiary Instone Development is primarily responsible for the operating business. In the Company's consolidated financial statements for the financial year ended December 31, 2019, 27 companies were consolidated.

On December 10, 2013, Instone Development (at that time: formart GmbH & Co. KG) (as receiving entity) entered into a profit and loss transfer agreement (*Gewinnabführungsvertrag*) with its subsidiary formart Immobilien GmbH ("**formart Immobilien**") (as transferring entity) for an indefinite term (the "**Profit and Loss Transfer Agreement**"). The purpose of the Profit and Loss Transfer Agreement was to establish a tax group within the meaning of the German Corporate Income Tax Act and the German Trade Tax Act (*Organschaftsverhältnis im Sinne des Körperschaftsteuergesetzes und des Gewerbesteuergesetzes*). Under the agreement, formart Immobilien is obliged to transfer its entire profit to Instone Development. The Profit and Loss Transfer Agreement was registered with the commercial register (*Handelsregister*) on December 13, 2013. The Profit and Loss Transfer Agreement may be terminated subject to a three months' notice period with effect as of the end of the financial year of formart Immobilien. The right to terminate for good cause (*aus wichtigem Grund*) without notice and immediate effect as well as the termination by mutual consent remain unaffected. In case of termination of the Profit and Loss Transfer Agreement, Instone Development is obliged to provide security to the creditors of formart Immobilien pursuant to Section 303 AktG.

On the same day, Instone Development (at that time: formart GmbH & Co. KG) (as dominating entity) entered into a domination agreement (*Beherrschungsvertrag*) with its subsidiary formart Immobilien (as controlled entity) for an indefinite term (the "**Domination Agreement**") in order to establish a tax group within the meaning of the German Value Added Tax Act (*Organschaftsverhältnis im Sinne des Umsatzsteuergesetzes*). The Domination Agreement was registered with the commercial register (*Handelsregister*) on December 13, 2013. Under the Domination Agreement, Instone Development is obliged to compensate any balance sheet loss of formart Immobilien. With respect to the loss absorption, the provisions of the Profit and Loss Transfer Agreement apply accordingly. The Domination Agreement has been entered for an indefinite term and may be terminated subject to a three months' notice period to the end of the financial year of formart Immobilien. Otherwise, the Domination Agreement may be terminated subject to the same notice period with effect from the end of a financial year of formart Immobilien. However, the right to terminate for good cause (*aus wichtigem Grund*) without notice and immediate effect as well as the termination by mutual consent remain unaffected. In case of termination of the Domination Agreement, Instone Development is obliged to provide security to the creditors of formart Immobilien pursuant to Section 303 AktG.

On September 11, 2019 and with retroactive effect as of January 1, 2019, the Company (as controlling and receiving entity) entered into a domination and profit and loss transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*) with its subsidiary Instone Development (as controlled and transferring entity) for an indefinite term (the "**IRED-DPLTA**"). The purpose of the IRED-DPLTA was to facilitate the group control (*Vereinfachung der Konzernsteuerung*) of Instone Group and to establish a tax group within the meaning of the German Corporate Income Tax Act (*körperschaftsteuerliche Organschaft*). The IRED-DPLTA was registered with the Commercial Register on September 13, 2019. Under the IRED-DPLTA, Instone Development's management is subordinated to the control of the Company. Instone Development is obliged to transfer its entire profit to the Company. The Company is, in turn, obliged to compensate any balance sheet loss of Instone Development. The IRED-DPLTA may be terminated for the first time with effect as of the expiration of the financial year of Instone Development that ends at least five years after the beginning of the financial year of Instone Development, in which the IRED-DPLTA became effective (*i.e.*, the financial year 2019) subject to a three-month written notice period. In addition, the Company may terminate the IRED-DPLTA at any time after the aforementioned minimum term with two weeks prior written notice. However, the right to terminate the IRED-DPLTA for good cause (*aus wichtigem Grund*), for example, in case that the Company does not own the majority of voting rights in the Instone Development anymore, without notice and immediate effect as well as the termination by mutual consent remain unaffected. In case of termination of the IRED-DPLTA, the Company is obliged to provide security to the creditors of Instone Development pursuant to Section 303 AktG.

On June 9, 2020 and with retroactive effect as of January 1, 2020, the Company (as controlling and receiving entity) entered into another domination and profit and loss transfer agreement (*Beherrschungs- und*

*Gewinnabführungsvertrag*) with its subsidiary Instone Real Estate Property GmbH (as controlled and transferring entity) for an indefinite term (the “**IREP-DPLTA**”). The IREP-DPLTA and the IRED-DPLTA have substantially the same terms and the same purpose (*i.e.*, facilitate the group control (*Vereinfachung der Konzernsteuerung*) of Instone Group and to establish a tax group within the meaning of the German Corporate Income Tax Act (*körperschaftsteuerliche Organschaft*). The Company’s annual shareholders’ meeting and the Company as sole shareholder of Instone Real Estate Property GmbH approved the IREP-DPLTA on June 9, 2020. The IREP-DPLTA became effective upon registration with the commercial register on June 26, 2020.

#### **14.7 Auditor**

The Company appointed Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Schwannstraße 6, 40476 Düsseldorf, Germany, as the auditor of (i) the Company’s unconsolidated financial statements prepared in accordance with the German generally accepted accounting principles of the HGB as of and for the financial year ended December 31, 2019, and (ii) the Company’s consolidated financial statements prepared in accordance with IFRS and the additional requirements pursuant to Section 315e (1) HGB as of and for the financial years ended December 31, 2019 and December 31, 2018.

Deloitte has audited and issued unqualified independent auditor’s reports (*uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers*) with respect to the aforementioned unconsolidated financial statements of the Company as of and for the financial year ended December 31, 2019 and unqualified auditor’s reports (*uneingeschränkte Bestätigungsvermerke*) with respect to the aforementioned consolidated financial statements as of and for the years ended December 31, 2019 and December 31, 2018.

Deloitte is a member of the Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Rauchstraße 26, 10787 Berlin, Germany.

#### **14.8 Admission to Stock Exchange Trading**

The Company’s shares have been admitted to the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

#### **14.9 Announcements and Paying Agent**

Pursuant to Section 3.1 of the Articles of Association, the Company’s announcements are published in the German Federal Gazette (*Bundesanzeiger*).

Pursuant to Article 21 of the Prospectus Regulation, this Prospectus, as well as any supplements thereto, will be published on the Company’s website [www.instone.de](http://www.instone.de) under the “Investor Relations” section. Printed copies of this Prospectus are available from the Company free of charge during normal business hours at the following address: Instone Real Estate Group AG, Grugaplatz 2-4, 45131 Essen, Germany.

The paying agent is Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany.

#### **14.10 Designated Sponsors**

ODDO SEYDLER BANK AG, Schillerstraße 27-29, Frankfurt am Main, Germany, and MAINFIRST BANK AG, Kennedyallee 76, Frankfurt am Main, Germany, are acting as designated sponsors for the Company’s shares. Designated sponsors ensure, in particular, greater liquidity in the market for the shares by issuing fixed ask and bid prices.

## 15. SHARE CAPITAL OF THE COMPANY AND APPLICABLE REGULATIONS

### 15.1 Share Capital of the Company and Applicable Regulations

#### 15.1.1 Current Share Capital; Shares

As of the date of this Prospectus, the share capital of the Company amounts to €36,988,336.00 and is divided into 36,988,336 ordinary bearer shares with no-par value (*auf den Inhaber lautende Stückaktien*), each such share with a notional value of €1.00. The share capital has been fully paid up. The Company's shares were created pursuant to the laws of Germany.

All currently existing ordinary bearer shares with no-par value of the Company are held by the existing shareholders.

#### 15.1.2 Development of the Share Capital

The Company's legal predecessor was incorporated in the legal form of a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*, (B.V.)) on April 16, 2014 under the laws of the Netherlands with a share capital of €5,000.00, divided into 500 shares with a nominal value of €10.00 each.

On August 19, 2014, the Company's share capital was increased by €2,500.00 to €7,500.00 through the issuance of 250 shares with a nominal value of €10.00 each. On December 8, 2015, the shareholders' meeting resolved upon a share split dividing each share into ten new shares, resulting in a share capital of €7,500.00 divided into 7,500 shares with a nominal value of €1.00 each.

On December 8, 2015, the Company's share capital was increased by €886.00 to €8,386.00 through the issuance of 886 new shares in the course of the acquisition of Instone Leipzig.

On February 13, 2018, prior to the Company's conversion into a public company with limited liability (*naamloze vennootschap* (N.V.)), the Company's shareholders' meeting resolved upon a pre-conversion share capital increase to convert €41,930.00 of the Company's share premium into share capital of the Company. Subsequently, the share capital amounted to €50,316.00. On February 13, following the effectiveness of the conversion into a N.V., the Company's shareholders' meeting resolved upon an additional share capital increase to convert €29,938,020.00 of the Company's share premium into share capital of the Company resulting in a total share capital of €29,988,336.00. On February 13, following the Company's shareholders' meeting's resolution with respect to the private placement of the Company, the Company's share capital was further increased by €7,000,000.00 from €29,988,336.00 to €36,988,336.00.

On August 26, 2020, the Management Board resolved, with the approval of the Supervisory Board on the same day, on the Capital Increase for the purpose of creating the New Shares that are the subject of the Offering described in this Prospectus. In the course of the Capital Increase, the Company's share capital will be increased from €36,988,336.00 to €46,988,336.00 through the issue of 10,000,000 new ordinary bearer shares with no-par value against contributions in cash, each such share representing a notional value of €1.00 and carrying full dividend rights as of January 1, 2020, by utilizing the Authorized Capital 2018. The consummation of the Capital Increase is expected to be registered with the Commercial Register on or around September 15, 2020.

#### 15.1.3 Authorized Capital

Pursuant to Section 6 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the Company in the period until June 28, 2023 in an amount of up to €18,450,000.00, once or in several instances, by issuing up to 18,450,000 new no-par value bearer shares against contributions in cash and/or in kind.

The shareholders are generally to be granted subscription rights. The shares may be subscribed for in accordance with Section 186 para. 5 AktG by one or more credit institution(s) or one or several enterprise(s) operating pursuant to Section 53 para. 1 sentence 1 or Section 53b para. 1 sentence 1 or para. 7 of the German Banking Act (*Gesetz über das Kreditwesen*) with the obligation to offer such shares to the shareholders of the Company (so-called "indirect subscription right (*mittelbares Bezugsrecht*)"). However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the subscription rights of the shareholders for one or more capital increases from the Authorized Capital 2018:

- in order to exclude fractional amounts from subscription rights;
- if necessary, in order to grant holders of conversion or option rights or creditors of mandatory convertible bonds, which are, or are to be, issued by the Company or a wholly owned direct or indirect subsidiary, subscription rights to newly issued no-par value bearer shares of the Company to the extent they would be entitled thereto upon exercise of their conversion or option rights or upon fulfilment of any mandatory conversion;
- for the issuance of shares against cash contributions, if the issuing price of the new shares is not significantly below the market price of the shares already listed on a stock exchange within the meaning of Section 203 para. 1 and 2 and Section 186 para. 3 sentence 4 AktG and the calculated proportion of the share capital attributable to the new shares issued with an exclusion of subscription rights does not exceed a total of ten percent (10%) of the share capital, neither at the time when the authorization takes effect nor at the time when the authorized share capital is utilized. The amount of the share capital issued or to be issued to fulfil obligations under bonds with warrants or convertible bonds or profit-sharing rights with conversion rights or options shall be deducted from this figure to the extent these bonds have been issued with an exclusion of subscription rights during the term of this authorization in corresponding application of Section 186 para. 3 sentence 4 AktG. Further, own shares shall be deducted from this maximum threshold of ten percent (10%) that are sold during the term of this authorization with an exclusion of the subscription rights of the shareholders pursuant to Section 71 para. 1 no. 8 sentence 5, second part in connection with Section 186 para. 3 sentence 4 AktG;
- for the issuance of shares against contributions in kind, including for, but not limited to, the purpose of acquiring (also indirectly) businesses, parts of businesses or participations in businesses or other assets in connection with an acquisition project, real properties and real estate portfolios or for the fulfilment of convertible bonds or bonds with warrants as well as profit-sharing rights with conversion rights and options or a combination of these instruments that are issued against contribution in kind; or
- or to issue a share dividend under which shares of the Company are used (including partially or optionally) to satisfy shareholder dividend claims.

The Management Board is authorized, with the consent of the Supervisory Board, to determine further details of the share rights (including a deviation from Section 60 para. 2 no. 3 AktG with regard to dividend entitlement of the new shares) and the conditions for issuance of the shares. The Supervisory Board is authorized, after utilization of the Authorized Capital 2018 or after the expiry of the deadline for the utilization of the Authorized Capital 2018 to change the Articles of Association accordingly.

#### ***15.1.4 Conditional Capital***

Pursuant to Section 7 of the Articles of Association, the share capital of the company is conditionally increased by up to €3,698,833.00 by issuing up to 3,698,833 new ordinary bearer shares with no-par value with entitlement to dividends from the beginning of the financial year of their issue (the “**Conditional Capital 2019**”).

The conditional capital increase serves the granting of shares to holders or creditors of warrant bonds or convertible bonds, which are issued by the Company under the authorization of the Company’s ordinary shareholders’ meeting of June 13, 2019, its dependent or majority-owned company. The conditional capital increase will only be carried out to the extent that option or conversion rights under the aforementioned warrant bonds and convertible bonds are exercised or conversion obligations from such bonds are fulfilled and unless own shares or new shares from the authorized capital are used for servicing. The issue price of the new shares corresponds to the option or conversion price to be determined in accordance with the aforementioned authorization.

The Management Board is authorized to determine the further details of the implementation of the conditional capital increase.

#### ***15.1.5 Authorization to Issue Warrant-Linked or Convertible Bonds***

Pursuant to the resolution of the ordinary shareholders’ meeting of the Company on June 13, 2019, the Management Board is authorized, with effect from registration in the Commercial Register of the Conditional

Capital 2019 and subject to the consent of the Supervisory Board, to issue in one or more tranches in the period up to June 12, 2024 registered or bearer warrant-linked or convertible bonds in an aggregate nominal amount of up to €250.000.000,00 of limited or unlimited term (collectively “**Bonds**”) and to grant the holders or creditors of the Bonds option or conversion rights for up to €3,698,833.00 new shares of the Company with a pro rata amount of the registered share capital of up to €3,698,833.00 (the “**Bond Authorization**”), further subject to the terms and conditions of the respective warrant-linked or convertible bonds to be defined by the Management Board (the “**Terms and Conditions**”).

In addition to Euros, bonds may also be issued in a foreign legal currency, subject to the limitation to the corresponding equivalent value in Euros at the time of issuing the bond. Bonds may also be issued by companies which are controlled by the Company or in which it holds a majority interest. In such case, the Management Board is authorized, subject to the consent of the Supervisory Board, to assume on behalf of the Company the guarantee for the Bonds and to grant the holders of such Bonds option and/or conversion rights for shares of the Company and to effect further declarations and acts as are required for a successful issue. The issues of the Bonds may in each case be divided into partial bonds with equal entitlement amongst themselves.

The shareholders are entitled to a statutory subscription right for the Bonds, The shareholders are entitled to a statutory subscription right for the Bonds, which may also be subscribed by a bank or by an undertaking acting pursuant to Section 53 para. 1 sent. 1 or Section 53b para. 1 sent. 1 or para. 7 of the German Banking Act (financial institution) or a syndicate of such banks and/or financial institutions with the obligation to offer them indirectly to the shareholders for subscription within the meaning of Section 186 para. 5 sentence 1 AktG. The Management Board is however authorized, subject to the consent of the Supervisory Board to exclude the subscription right of the shareholders for Bonds, in full or in part, in the following cases:

- In order to exclude fractional amounts, resulting from the subscription ratio, from the statutory subscription right of the shareholders for the Bonds.
- If Bonds are issued against cash and the issue price is not substantially lower than the hypothetical market value of the Bonds calculated in accordance with recognized, in particular, actuarial methods. However, such authorization to exclude the subscription rights shall apply only provided that the shares issued to fulfill the option or conversion rights and/or in the case of fulfillment of the conversion obligation represents no more than 10% of the registered share capital. Decisive for the threshold of 10% is the registered share capital as of the date of the Bond Authorization. In the event that the registered share capital should be lower at the time when the Bond Authorization is exercised, such lower value shall be decisive. Such amount shall include the pro rata amount of the share capital (i) represented by shares which have been or will be issued during the term of the Bond Authorization until its exercise out of an authorized capital subject to exclusion of the subscription right pursuant to Section 186 para. 3 sentence 4 AktG, (ii) represented by treasury shares of the Company which have been or will be sold during the term of the Bond Authorization until its exercise on the basis of authorizations pursuant to Section 71 para. 1 no. 8 AktG subject to exclusion of the subscription right of the shareholders pursuant to Section 186 para. 3 sent. 4 AktG and (iii) represented by shares which have been or are to be issued to fulfill warrant-linked or convertible bonds to the extent that such bonds were issued during the term of this authorization until its exercise based on another authorization subject to the exclusion of the statutory subscription rights in analogous application of Section 186 para. 3 sent. 4 AktG.
- To the extent required to grant the holders of warrant-linked bonds or convertible bonds (or combinations of such instruments) issued by the Company or by companies which are controlled by it or in which it holds a majority interest, a subscription right in the scope to which they would be entitled after exercise of the rights and/or fulfillment of the obligations.

Under the Bond Authorization, the issue of Bonds subject to exclusion of subscription rights shall be permitted only if the sum of the new shares to be issued on the basis of such Bonds, together with new shares issued from an authorized capital or treasury shares sold by the Company during the term of the Bond Authorization until its exercise by exercising another authorization subject to the exclusion of subscription rights of the shareholders, and together with rights issued during the term of the Bond Authorization until its exercise by exercising another authorization subject to exclusion of subscription rights and enabling the conversion into or the subscription of shares of the Company or establishing an obligation for such conversion or subscription, nominally represents no more than 10% in aggregate of the registered share capital. What is decisive for calculating the threshold of 10% of the share capital is the registered share capital on the date when the Bond Authorization becomes effective. In the event that the registered share capital should be lower at the time when the Bond Authorization is exercised, such lower value shall be decisive.

If convertible bonds are issued, their holders shall be granted the right to convert their Bonds into new shares of the Company further subject to the Terms and Conditions. The conversion ratio shall be calculated by dividing the nominal amount of a Bond by the conversion price set for a new share of the Company. The conversion ratio may also be calculated by dividing the issue amount of a Bond that is below the nominal amount by the conversion price set for a new share of the Company. The conversion ratio may be rounded up or down to an integer; moreover, a supplemental payment to be made in cash may be stipulated. Lastly, it may be provided for fractional amounts to be combined and/or compensated in cash. The pro rata amount in the registered share capital of the shares of the Company to be issued per Bond shall not exceed the nominal amount of the Bond or an issue amount of the Bond that is below the nominal amount.

The Terms and Conditions may provide for the right of the Company to pay the holders of conversion rights, in the case of conversion, instead of shares of the Company the equivalent value in cash which, further subject to the Terms and Conditions, shall be equal to the arithmetic mean value of the closing prices of the share of the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) as determined in XETRA trading (or any comparable trading system substituting XETRA) for the last ten trading days preceding the notification of conversion.

The Terms and Conditions may moreover provide for the right of the Company to grant to the holders of the conversion rights, in the case of conversion, treasury shares of the Company or new shares out of an authorized capital. The Terms and Conditions may also provide for a conversion obligation at the end of the term or at another time.

The Terms and Conditions may provide for the right of the Company to grant the holders of the Bonds new shares or treasury shares of the Company wholly or partially in lieu of payment of a money amount owed. In each case the shares shall be included at a value which, further subject to the Terms and Conditions, shall be equal to the arithmetic mean value of the closing prices of the share of the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) as determined in XETRA trading (or any comparable trading system substituting XETRA) for the last ten trading days preceding the maturity of the money amount.

If warrant-linked bonds are issued, one or more warrants shall be attached to each partial bond which entitle the holder to subscribe shares of the Company further subject to the Terms and Conditions. The Terms and Conditions may provide for the option holders to be granted treasury shares of the Company or new shares out of an authorized capital. The pro rata amount in the registered share capital of the shares of the Company to be subscribed per warrant-linked Bond shall not exceed the exercise price of the warrant-linked Bond.

The warrant or conversion price for a share shall amount to at least 80% of the arithmetic mean value of the exchange prices of the shares of the Company as determined in the XETRA closing auction on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (or any comparable trading system substituting XETRA), (i) if the subscription right is excluded or no trading in subscription rights otherwise occurs, during the ten trading days preceding the adoption of the resolution by the Management Board on the issue of the Bonds or, otherwise, (ii) during the trading days on which subscription rights for Bonds are traded on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), with the exception of the last two trading days of trading in subscription rights. Without prejudice to Section 9 para. 1 AktG, the warrant or conversion price shall be reduced on the basis of an anti-dilution clause further subject to the Terms and Conditions by payment of an equivalent amount in cash on exercise of the conversion right or by reduction of the supplemental payment if the Company, during the warrant or conversion term, subject to the granting of a subscription right to its shareholders, increases the registered share capital or issues additional Bonds and/or grants or guarantees option or conversion rights and in this connection the holders of already existing option or conversion rights are not granted any subscription right to which they would be entitled after exercise of the option or conversion right. Instead of a payment in cash or a reduction in the supplemental payment, the conversion ratio may also, to the extent possible, be adjusted by dividing it by the reduced 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 case of capital reduction, share split or special dividend, the Terms and Conditions may also provide for a value-preserving adjustment of the warrant or conversion price.

The Management Board is authorized, subject to observance of the foregoing requirements, to stipulate the further details with regard to the issue and features of the Bonds and their terms and conditions, and/or to define the same in mutual agreement with the bodies of the Group companies issuing the Bonds, notably interest rate, issue price, term and denomination, subscription and/or conversion ratio, establishment of a conversion obligation, defining of a cash supplemental payment, compensation for or combining of fractional amounts, cash payment instead of delivery of shares, warrant and/or conversion price and the warrant and/or conversion period.

### 15.1.6 Authorization to purchase and sell Treasury Shares

Pursuant to the resolution of the ordinary shareholders' meeting from June 13, 2019, the Management Board is authorized, subject to the consent of the Supervisory Board, beginning with the end of the ordinary shareholders' meeting at June 13, 2019, up to June 12, 2024, to purchase treasury shares up to a total amount equal to no more than 10% of the registered share capital. Decisive for the threshold of 10% is the registered share capital on the date when this authorization becomes effective. If the registered share capital is lower at the time when this authorization is exercised, such lower value shall be decisive. The authorization can be practiced in whole or in part, once or several times. In this connection, the shares purchased on the basis of this authorization together with other shares of the Company which the Company has already purchased and still holds shall not exceed 10% of the respective registered share capital existing at any one time. The authorization may also be exercised by companies which are controlled by the Company or in which it holds a majority interest or by third parties for the account of the Company or companies controlled by it or in which it holds a majority interest. Finally, the Company may agree with one or more credit institutions or other companies meeting the requirements of Section 186 para. 5 sent 1 AktG that they will deliver to the Company within a predefined period a predetermined number of shares or a predetermined Euro equivalent in shares of the Company, whereby the price at which the Company acquires these shares shall in each case be 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) reported at the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) over a predetermined number of stock exchange trading days. The credit institutions or other companies meeting the requirements of Section 186 para. 5 sentence 1 AktG must undertake to purchase the shares to be delivered on the stock exchange at prices that lie within the range that would apply if the Company had directly acquired the shares via the stock exchange in accordance with this authorization.

The purchase shall be effected on the stock market or by way of public purchase offer to all shareholders of the Company. If the purchase of the shares is effected on the stock market, the purchase price (excluding ancillary purchasing costs) should meet the arithmetic mean of the share prices (closing auction prices of the shares of the Company in XETRA-Trading or on any comparable trading system substituting XETRA) at the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) within the last three stock exchange trading days prior to the purchase or the entering into an obligation to purchase by no more than 10% above or below this amount. If the purchase is effected via a public purchase offer, the Company may either publish a formal offer or publicly request shareholders to submit offers to sell. The offered purchase price (excluding ancillary purchasing costs) or the limits of the purchase price range per share determined by the Company (excluding ancillary purchasing costs) in each case may not be more than 10% higher or lower than the arithmetic mean value of the closing prices (closing prices of the share of the Company as determined in XETRA trading or on any comparable trading system substituting XETRA) on the Frankfurt am Main Stock Exchange for the last three trading days preceding the publication of the purchase offer or the request to submit offers. In the event of an adjustment of the offer, the day of publication of the purchase offer shall be the day of publication of the adjustment of the offer. If the Company publicly requests the submission of sales offers, the day of acceptance of the sales offers shall replace the day of publication of the purchase offer or the day of adjustment of the purchase offer.

The repurchase volume may be limited. To the extent the shares offered for purchase by the shareholders exceed the total amount of the Company's purchase offer, acceptance shall be in proportion to the number of shares tendered by each shareholder. In addition, it may also be provided that preferential acceptance is given for smaller numbers of up to 100 offered shares per shareholder and to avoid fractions of mathematical amounts rounding according to commercial principles. The purchase offer or request to submit offers may contain further terms and conditions. Any further tender rights of shareholders are excluded.

The authorization may be exercised for any purpose permitted by law, in particular, to pursue one or more of the objectives specified below. Trading in treasury shares is excluded.

The Management Board is authorized, subject to the consent of the Supervisory Board, to cancel the treasury shares purchased on the basis of this authorization pursuant to Section 71 para. 1 no. 8 AktG from circulation without adopting another resolution of the shareholders' meeting. The cancellation may be restricted to part of the shares purchased. The authorization to effect cancellation may be exercised more than once. As a general rule, the cancellation shall result in a capital reduction. In derogation from this, the Management Board may stipulate that the registered share capital remains unchanged and that instead the proportion of the remaining shares in the registered share capital be increased as a result of the cancellation pursuant to Section 8 para. 3 AktG. In this case the Management Board is authorized to adjust the corresponding number in the Articles of Association.

Furthermore, the Management Board is authorized, subject to the consent of the Supervisory Board, to use the shares purchased on the basis of this authorization by means other than by a sale via the stock market or an offer to all shareholders subject to full or partial exclusion of subscription rights of the shareholders as follows:

- (a) to exclude fractional amounts resulting from the subscription ratio from the statutory subscription right of the shareholders;
- (b) for sale against non-cash contribution, in particular – but without limitation – to acquire companies, divisions of companies or equity interests in companies;
- (c) for sale against cash payment provided that this takes place at a price that is not substantially lower than the market price of shares of the Company at the time of the sale (simplified exclusion of subscription rights pursuant to Section 186 para. 3 sentence 4, Section 71 para. 1 no. 8 sentence 5 half-sentence 2 AktG). This authorization shall be limited, subject to inclusion of other shares and warrant-linked or convertible bonds which have been issued or sold subject to the exclusion of subscription rights of the shareholders during the term of this authorization until its exercise in direct or analogous application of Section 186 para. 3 sent. 4 AktG, to a threshold of 10% in aggregate of the registered share capital. Decisive for the threshold of 10% is the registered share capital on the date when this authorization becomes effective. In the event that the registered share capital should be lower at the time when this authorization is exercised, such lower value shall be decisive;
- (d) to fulfill obligations of the Company arising from warrants and conversion options or the conversion obligations from warrant-linked or convertible bonds (or combinations of these instruments) which have been issued by the Company or by companies which are controlled by it or in which it holds a majority interest; and
- (e) to grant to holders of warrant-linked bonds or convertible bonds (or combinations of such instruments) issued by the Company or by companies which are controlled by it or in which the Company holds a majority interest, subscription rights in the scope to which they would be entitled after exercise of the rights or obligations under such instruments.

The authorizations under (a) to (e) may also be exercised by companies which are controlled by the Company or in which it holds a majority interest or by third parties for the account of the Company or companies controlled by it or in which it holds a majority interest.

## **15.2 General Provisions Governing a Liquidation of the Company**

Apart from liquidation as a result of insolvency proceedings, the Company may only be liquidated with a vote of 75% or more of the share capital represented at the vote. Furthermore, the commencement of insolvency proceedings regarding the assets of the Company, the rejection of insolvency proceedings for insufficient assets to cover the costs of the proceedings, a cancellation of the Company for lack of funds or the imposition of a final decision of the registry court about a material defect in the Articles of Association could lead to a cancellation of the Company. Pursuant to the COVID-19 Mitigation Act, the obligation of legal entities to file for insolvency pursuant to section 15a of the German Insolvency Code (*InsO*) and section 42 para. 2 BGB is suspended until September 30, 2020, but only if the insolvency is caused by the effects of the COVID-19 pandemic and if there is a prospect of remedying existing illiquidity. Pursuant to the AktG, in the event of the Company's liquidation, any assets remaining after all of the Company's liabilities have been settled will be distributed among the shareholders in proportion to their shareholdings. The AktG provides certain protections for creditors that must be observed in the event of liquidation.

## **15.3 Provisions Governing a Change in the Share Capital**

Under the AktG, a German stock corporation generally requires a general shareholders' meeting resolution passed by a majority of at least 75% of the share capital represented at the vote to increase its share capital, unless the articles of association of a company provide for a different majority requirement. Pursuant to Section 20.5 of the Company's Articles of Association, certain capital measures can be passed by a simple majority of votes and a simple majority of the capital represented at the time of the adoption of the resolution, unless a higher majority is required by mandatory law (*e.g.*, in case of capital increases with a dilutive effect without shareholders' subscription rights) or the Articles of Association, which particularly but not exclusively includes all resolutions of the shareholders' meeting regarding (i) capital increases with subscription rights of the shareholders against contributions (Section 182 para. 1 AktG); (ii) capital increases from reserves (Section 207 para. 2 AktG in connection with Section 182 para. 1 AktG); and (iii) the issuance of convertible



bonds, participating bonds and other instruments, to which the shareholders are entitled to subscription rights (Section 221 AktG).

The shareholders' meeting may also create authorized capital. This requires a resolution passed by a majority of at least 75% of the share capital represented at the vote, authorizing the Management Board to issue a specific number of shares within a period of no more than five years. The aggregate nominal amount of the new shares may not exceed 50% of the share capital existing at the time the authorization is granted (*i.e.*, at the time the authorized capital is registered with the commercial register (*Handelsregister*)).

In addition, the shareholders' meeting can create conditional capital through a resolution passed with a majority of at least 75% of the share capital represented at the vote, for the purposes of (i) granting exchange or subscription rights to holders of convertible bonds or other securities granting a right to subscribe for shares; (ii) preparing for a merger with other companies; or (iii) granting subscription rights to managers and employees of the Company or an affiliated company by way of an approval resolution or authorization resolution. The nominal amount of conditional capital may not exceed 10% of the share capital at the time the resolution is passed in cases where it is created to grant subscription rights to managers and employees, and may not exceed 50% in all other cases.

Resolutions to reduce the Company's share capital require a majority of at least 75% of the share capital represented at the vote.

## 15.4 General Provisions Governing Subscription Rights

In principle, Section 186 AktG grants to all shareholders the right to subscribe for new shares to be issued in a capital increase. The same applies to convertible bonds, bonds with warrants, profit participation rights and participating bonds. Subscription rights are freely transferable and may be traded on German stock exchanges for a prescribed period before the deadline for subscription expires. However, shareholders do not have a right to request admission to trading for subscription rights.

The general shareholders' meeting of a German stock corporation (*Aktiengesellschaft*) may, subject to a majority of at least 75% of the share capital represented at the vote, resolve to exclude subscription rights. It may also authorize the management board, subject to the approval by the supervisory board, to resolve to exclude subscription rights. Exclusion of shareholders' subscription rights also requires a report from the management board of the company that justifies and demonstrates that the company's interest in excluding subscription rights outweighs the interest of the shareholders being granted subscription rights.

Excluding shareholders' subscription rights when new shares are issued is specifically permissible where:

- the Company increases its share capital against cash contributions;
- the amount of the capital increase of the issued shares under exclusion of subscription rights does not exceed 10% of the outstanding share capital, both at the time when the authorization takes effect and at the time when it is authorized; and
- the price at which the new shares are issued is not materially lower than the stock exchange price of the Company's shares.

## 15.5 Squeeze-Out Proceedings

### 15.5.1 Squeeze-Out under Stock Corporation Law

Under Section 327a et seq. AktG, which governs the so-called "squeeze-out under stock corporation law", upon the request of a shareholder holding 95% of the share capital ("**Principal Shareholder**"), the shareholders' meeting of a German stock corporation may resolve to transfer the shares of minority shareholders to the Principal Shareholder against payment of adequate compensation in cash. The amount of the cash payment that must be offered to minority shareholders has to reflect "the circumstances of the Company" at the time the shareholders' meeting passes the resolution. The amount of the cash payment is based on the full value of the company, which is generally determined using the capitalized earnings method. The minority shareholders are entitled to file for an appraisal proceeding (*Spruchverfahren*), in the course of which the appropriateness of the cash payment is reviewed.

### **15.5.2 Squeeze-Out under Takeover Law**

Under Sections 39a and 39b WpÜG, in the case of a so-called “squeeze-out under takeover law”, an offeror holding at least 95% of the voting share capital of a target company (as defined in the WpÜG) after a takeover bid or mandatory offer, may, within three months of the expiry of the deadline for acceptances, petition the Regional Court (*Landgericht*) of Frankfurt am Main for a court to order to transfer the remaining voting shares to it against the payment of adequate compensation. A resolution passed by the shareholders’ meeting is not required. The consideration paid in connection with a takeover offer or a mandatory bid is considered adequate if the offeror has obtained at least 90% of the share capital that was subject to the offer based on the offer. The nature of the compensation must be the same as the consideration paid under the takeover bid or mandatory offer; a cash alternative must always be offered. In addition, after a takeover bid or mandatory offer, shareholders in a target company who have not accepted the offer may do so up to three months after the deadline for acceptances has expired, provided the offeror is entitled to petition for the transfer of the outstanding voting shares in accordance with Section 39a of the German Securities Acquisition and Takeover Act (Section 39c WpÜG). The provisions for a squeeze-out under stock corporation law cease to apply once an offeror has petitioned for a squeeze-out under takeover law, and only apply again when these proceedings have been definitively completed.

### **15.5.3 Squeeze-Out under Transformation Law**

In addition, under the provisions of Section 62 para. 5 of the German Reorganization and Transformation Act (*Umwandlungsgesetz*), within three months after the conclusion of a merger agreement, the shareholders’ meeting of a transferring company may pass a resolution pursuant to Section 327a para. 1 sentence 1 AktG, *i.e.*, a resolution on the transfer of the shares held by the remaining shareholders (minority interests) to the transferee company (Principal Shareholder) in exchange for an adequate cash settlement if the Principal Shareholder has at least 90% of the share capital. The result of this “squeeze-out under reorganization law” is the exclusion of the minority shareholders in the transferring company. The entitlement to consideration is based on the provisions of Section 327a et seq. AktG.

### **15.5.4 Integration**

Pursuant to Section 319 et seq. AktG, the shareholders’ meeting of a German stock corporation may vote for integration (*Eingliederung*) with another stock corporation that has its registered office in Germany, provided the prospective parent company holds at least 95% of the shares of the company to be integrated. The former shareholders of the integrated company are entitled to adequate compensation, which must generally be provided in the form of shares in the parent company. Where the compensation takes the form of own shares in the parent company, it is considered appropriate if the shares are issued in the same proportion as shares of the parent company would have been issued per share in the integrated company if a merger had taken place. Fractional amounts may be paid out in cash.

## **15.6 Shareholder Notification Requirements; Mandatory Takeover Bids; Directors’ Dealings**

Since the Company’s shares have been admitted to trading on the regulated market (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company, as a listed company, is subject to the provisions of the WpHG governing disclosure requirements for shareholdings and the provisions of the WpÜG governing takeover bids and mandatory offers, as well as the provisions of the MAR governing, *inter alia*, directors’ obligations to disclose transactions in the Company’s shares, debt instruments, related derivatives or other related financial instruments.

### **15.6.1 Notification Thresholds and Attribution Rules**

Pursuant to Section 33 para. 1 WpHG, anyone who acquires, sells or whose shareholding in any other way reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the total number of voting rights in the Company, as an issuer whose country of origin (*Herkunftsstaat*) is Germany, is required to notify the Company and BaFin at the same time.

All such notifications must be submitted without undue delay, and no later than within four trading days. The four-day notification period starts at the time the person or entity subject to the notification requirement has knowledge of or, in consideration of the circumstances, should have had knowledge of his proportion of voting rights reaching, exceeding or falling below the aforementioned thresholds. The WpHG contains a

conclusive presumption that the person or entity subject to the notification requirement has knowledge two trading days after such an event occurs. Moreover, a person or entity is deemed to already hold shares as of the point in time such person or entity has an unconditional and due claim of transfer related to such shares pursuant to Section 33 para. 3 WpHG. In the case that a threshold has been reached or crossed due to a change in the total number of voting rights, the notification period starts at the time the person or entity subject to the notification requirement has knowledge about such change or upon the publication of the revised total number of voting rights by the Company, at the latest.

In connection with these requirements, Section 34 WpHG contains various attribution rules. For example, voting rights attached to shares held by a subsidiary are attributed to its parent company. Similarly, voting rights attached to shares held by a third party for the account of a person or entity are attributed to such person or entity. Voting rights which a person or entity is able to exercise as a proxy according to such person's or entity's discretion are also attributed to such person or entity. Further, any coordination by a person or entity with a third party on the basis of an agreement or in any other way generally results in an attribution of the full amount of voting rights held by, or attributed to, the third party as well as to such person or entity. Such acting in concert generally requires a consultation on the exercise of voting rights or other efforts designed to effect a permanent and material change in the business strategy of the Company (e.g., fundamental changes to the Company's business model or a sale of a substantial part of the Company's assets). Accordingly, the exercise of voting rights does not necessarily have to be the subject of acting in concert. Coordination in individual cases, however, is not considered as acting in concert.

Similar obligations to notify the Company and the BaFin apply pursuant to Section 38 para. 1 WpHG to anyone who reaches, exceeds or falls below the aforementioned thresholds, except for the 3% threshold, by directly or indirectly holding instruments either (i) giving their holder the unconditional right or discretion to acquire already issued shares of the Company to which voting rights are attached or (ii) relating to such shares and having a similar economic effect, whether or not conferring a right to a physical settlement. Pursuant to Section 38 para. 2 WpHG, such instruments include, in particular, transferable securities, options, futures, swaps, forward rate agreements and contracts of difference.

In addition, anyone whose aggregate number of voting rights and instruments pursuant to Sections 33 para. 1 and 38 para. 1 WpHG reaches, exceeds or falls below the aforementioned thresholds, except for the 3% threshold, has to notify the Company and the BaFin pursuant to Section 39 para. 1 WpHG.

#### **15.6.2 Exceptions to Notification Requirements**

There are certain exceptions to the notice requirements. For example, a company is exempt from its notification obligation if its parent company, or if its parent company is itself a subsidiary, the parent's parent company, has filed a group notification pursuant to Section 37 para. 1 WpHG. Moreover, shares or instruments held by a credit institution or a credit securities services company with a registered seat in the EU or in a non-EU member state that is a party to the agreement in the EEA are not taken into account for determining the notification obligation or proportion of voting rights held, provided (i) they are held in such credit institution's or credit securities services company's trading book, (ii) they amount to no more than 5% of the voting shares, do not grant the right to acquire more than 5% of the voting shares, or do not have a similar economic effect and (iii) it is ensured that the voting rights held by them are not exercised or otherwise made use of.

#### **15.6.3 Fulfillment of Notification Requirements**

If any notification obligation is triggered, the notifying person or entity is required to fully complete the notification form set forth as an annex to the German Securities Trading and Insider List Regulation (*Wertpapierhandelsanzeige- und Insiderverzeichnisverordnung*). The notice may be submitted either in German or English, in writing or via fax. Irrespective of the event triggering the notification, the notice must include (i) the number and proportion of voting rights, (ii) the number and proportion of instruments and (iii) the aggregate number and proportion of voting rights and instruments held by, or attributed to, the notifying person or entity. In addition, the notice must include certain attribution details (e.g., the first name, surname and date of birth of the notifying individual or the legal name, seat and state of a notifying entity, the event triggering the notification, the date on which the threshold was reached or crossed and whether voting rights or instruments are attributed).

As a domestic issuer in Germany, the Company is required to publish such notices without undue delay, but no later than three trading days after receipt, via media outlets or outlets where it can be assumed that the notice will be disseminated in the entire European Union and in all member states of the EEA. Such publications

shall only be made in the English language. The Company is also required to transmit these publications to BaFin, specifying the time of publication and the media used and to the German Company Register (*Unternehmensregister*) for storage.

#### **15.6.4 Consequences of Violations of Notification Requirements**

If a shareholder fails to file a notice or provides false information with regard to shareholdings pursuant to Sections 33 and 34 WpHG, the rights attached to shares held by or attributed to such shareholder, particularly voting and dividend rights, do not exist for the duration of the failure. This does not apply to entitlements to dividend and liquidation gains if the notifications were not omitted willfully and have since been made. If the shareholder fails to disclose the correct proportion of voting rights held and the shareholder acted willfully or was grossly negligent, the rights attached to shares held by or attributed to such shareholder do not exist for a period of six months after such shareholder has correctly filed the necessary notification, except if the variation in the proportion of the voting rights notified in the preceding incorrect notification was less than 10% of the actual voting right proportion and no notification with respect to reaching, exceeding or falling below the aforementioned thresholds pursuant to Section 33 para. 1 WpHG was omitted. The same rules apply to shares held by a shareholder, if such shareholder fails to file a notice or provides false information with regard to holdings in instruments or aggregate holdings in shares and instruments pursuant to Sections 38 para. 1, 39 para. 1 WpHG. In addition, a fine may be imposed for failure to comply with notification obligations.

#### **15.6.5 Special Notification Requirements for More than 10% of the Voting Rights**

Pursuant to Section 43 WpHG, a shareholder who reaches or exceeds the threshold of 10% of the voting rights of the Company, or a higher threshold, is required to notify the Company within 20 trading days regarding the objective being pursued through the acquisition of such voting rights, as well as regarding the source of funds used for the purchase. Changes in those objectives must also be reported within 20 trading days. The Articles of Association have not made use of the option to release shareholders from this disclosure obligation. In calculating whether the 10% threshold has been reached, the aforementioned attribution rules apply. The Company is required to publish any notification pursuant to Section 43 WpHG without undue delay following the receipt of such notification, and in any event no later than within three trading days therefrom.

#### **15.6.6 Mandatory Offers**

Pursuant to the WpÜG, every person whose share of voting rights reaches or exceeds 30% of the voting shares of the Company is obligated to publish this fact on the internet and by means of an electronically operated system for disseminating financial information, unless an exemption from this obligation has been granted by the BaFin. If no exemption has been granted, this publication has to be made within seven calendar days and include the total amount of voting rights held by and attributed to such person and, subsequently, such person is further required to submit a mandatory public tender offer to all holders of shares in the Company. The WpÜG contains a series of provisions intended to ensure the attribution of shareholdings to the person who actually controls the voting rights attached to the shares, comparable to the attribution rules described above for shareholdings pursuant to Section 34 WpHG. If a bidder fails to give notice of reaching or exceeding the 30% threshold or fails to submit the mandatory tender offer, the bidder is barred from exercising the rights associated with these shares, including voting rights, for the duration of the delinquency. In case of willful failure to publish the notice of acquisition of control over another company or submission of a mandatory tender offer or willful failure to subsequently send those notices in a timely fashion, the bidder is also not entitled to dividends. A fine may also be imposed in case of non-compliance with the notification obligations described above.

#### **15.6.7 Managers' Transactions**

A person discharging managerial responsibilities within the meaning of Article 3 para. 1 no. 25 MAR (*i.e.*, the members of the Management Board and the Supervisory Board), must notify the Company and BaFin of transactions undertaken for their own account relating to the Company's shares or to financial instruments based on the Company's shares (subject to a €20,000.00 *de-minimis* exception per calendar year for all such transactions). This also applies to persons closely associated with a person discharging managerial responsibilities within the meaning of Article 3 para. 1 no. 26 MAR. Such notifications shall be made promptly and no later than three business days after the date of the relevant transaction. The Company shall ensure that such notifications are made public promptly and no later than three business days after the relevant transaction.

During a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report which the Company is required to make public according to (i) the rules of the trading venue

where the Company's shares are admitted to trading or (ii) national law, persons discharging managerial responsibilities are prohibited from conducting for their own account or for the account of a third party any transactions directly or indirectly relating to shares or debt instruments of the Company or to derivatives or other financial instruments linked to such securities.

### **15.7 Short Selling Regulation**

Pursuant to Regulation (EU) No. 236/2012 of the European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps (the "**Short Selling Regulation**"), the European Commission's delegated regulation for the purposes of detailing the Short Selling Regulation, and the German EU Short Selling Implementation Act (*EU-Leerverkaufs-Ausführungsgesetz*) of November 15, 2012, the short-selling of the Company's shares is only permitted under certain conditions. In addition, under the provisions of the Short Selling Regulation, significant net short-selling positions in the Company's shares must be reported to BaFin and published if they exceed a specific percentage. The reporting and publication process is detailed in the German Regulation on Net Short Positions (*Netto-Leerverkaufspositionsverordnung*) of December 17, 2012. The net short-selling positions are calculated by offsetting the short positions of a natural person or legal entity in the Company's shares with its long positions in such shares. The details are regulated in the Short Selling Regulation and the other regulations the European Commission enacted on short-selling. In certain situations described in the Short Selling Regulation, BaFin may restrict short-selling and comparable transactions.

## 16. DESCRIPTION OF THE GOVERNING BODIES OF THE COMPANY

### 16.1 Overview

The Company's governing bodies are the Management Board, the Supervisory Board and the shareholders' meeting. The powers and responsibilities of these corporate bodies are governed by the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association and the rules of procedure of the Management Board and the Supervisory Board.

The shareholders' meeting elects the members of the Supervisory Board, which in turn appoints the members of the Management Board. The Supervisory Board represents the Company in and out of court *vis-à-vis* the members of the Management Board. The Supervisory Board is responsible for the appointment of members of the Management Board, the conclusion of their service contracts and the revocation of appointments as well as for the change and termination of their service contracts.

Simultaneous membership in the Supervisory Board and the Management Board is not permitted under the AktG, as the Supervisory Board is tasked with supervising the management of the Company by the Management Board. In exceptional cases and for an interim period, a member of the Supervisory Board may, however, assume a vacant seat on the Management Board. During this period, such individual may not perform any duties pertaining to his position on the Supervisory Board. In addition, the duration of such stand-in arrangements may not exceed one year.

The Management Board is responsible for managing the Company in accordance with applicable law, the Articles of Association and its rules of procedure, including the schedule of responsibilities. Pursuant to the rules of procedure of the Management Board, the Management Board must obtain the prior consent of the Supervisory Board for certain transactions or measures. The Management Board represents the Company in dealings with third parties. As set out in the AktG, the Supervisory Board advises and oversees the Management Board's administration of the Company, but is itself generally not authorized to manage or represent the Company.

The Articles of Association may designate types of transactions that may only be conducted with the prior consent of the Supervisory Board. In addition, the Supervisory Board may itself determine that certain types of transactions are subject to its prior approval. Matters subject to the prior consent of the Supervisory Board or of a committee of the Supervisory Board pursuant to the Articles of Association or the rules of procedure of the Management Board currently include:

- the determination of general business policies and corporate structure as well as decisions on the use of the Authorized Capital 2018, including
  - the issue of shares;
  - the restriction or exclusion of subscription rights;
  - the determination of the further content of the share rights (including a profit participation of the new shares deviating from Section 60 para. 2 sentence 3 of the German Stock Corporation Act (*Aktiengesetz*)) and the conditions of the share issue;
- the expansion of business operations to new areas of business or significant changes to business operations, expansions or restrictions of existing areas of business of the Company (unless these have been submitted to the shareholders' meeting for approval);
- the annual planning, including financial and investment planning and the personnel development derived therefrom;
- the incorporation, acquisition, sale or dissolution of companies or parts of companies (including mergers, asset transfers and transformations) as well as the acquisition and sale of participations in companies (including changes in the shareholding quota) beyond the established investment plan; this does not include measures insofar as they concern project-related companies;
- the acquisition of real property, rights equivalent to real property and rights to land, hereditary building rights, if the value of the total revenues hereby projected exceeds €120,000,000.00 in individual cases;

- the conclusion of general (non-project-related) financing agreements as well as carrying out other general (non-project-related) financing measures of the Company with a volume of more than €20,000,000.00 or amendments to such existing agreements, if the amendments are equivalent to a new conclusion of such agreements;
- the conclusion of project-related financing agreements as well as undertaking other project-related financing measures of the Company with a volume of more than €80,000,000.00 in individual cases;
- the appointment or dismissal of the compliance officer;
- transactions, which involve a conflict of interest on the part of a member of the Management Board or a member of the Supervisory Board, which is of material importance to the Company and/or the Group and/or the Management Board member or Supervisory Board member concerned;
- transactions entered into with a shareholder of the Company who holds 3% or more of the issued share capital of the Company, to the extent that such transaction is of material importance for the Company and/or the shareholder concerned or if the relevant threshold pursuant to Section 111a para. 1 AktG is exceeded; and
- transactions entered into with a party related to the Company (within the meaning of Section 111a para. 1 sentence 2 AktG), subject to the provisions of Sections 111a, 111b AktG, in particular with members of the Management Board or Supervisory Board and including, but not limited to, granting of loans, guarantees or similar financing arrangements by the Company.

Each member of the Management Board and Supervisory Board owes a duty of loyalty, duty of legality and duty of care to the Company. In discharging these duties, each member of these bodies must consider a broad spectrum of interests, particularly those of the Company and its shareholders, employees and creditors. In addition, the Management Board must also take into consideration the shareholders' rights to equal treatment and equal access to information. If members of the Management Board or Supervisory Board breach their duties, they may be jointly and severally liable with the other members of the Management Board or the Supervisory Board to the Company for any damages the Company has incurred.

Under German law, shareholders generally have no right to directly assert claims against members of the Management Board or Supervisory Board, if they believe that such members have violated their duties to the Company (*i.e.*, only the Company has the right to enforce such claims against the members of the Management Board or Supervisory Board). With respect to claims against members of the Management Board, the Company is represented by the Supervisory Board, and with respect to claims against members of the Supervisory Board, the Company is represented by the Management Board. The German Federal Supreme Court (*Bundesgerichtshof*) has ruled that the Supervisory Board is generally required to assert claims against members of the Management Board if it is likely that such claims can be pursued and enforced successfully, unless significant interests of the Company conflict with the pursuit of such claims and outweigh the interests of the Company asserting such claims against members of the Management Board.

If either the Supervisory Board or the Management Board decides not to pursue claims of the Company against members of the respective other governing body for violations of their duties, such claims must nevertheless be asserted if the shareholders' meeting adopts a resolution to this effect with a simple majority of the votes validly cast. The shareholders' meeting may also appoint a special representative (*besonderer Vertreter*) to assert such claims. Shareholders whose aggregate shareholdings amount to 10% of the Company's share capital or a *pro rata* share of €1.0 million in the Company's share capital may also motion for the competent court to appoint such a special representative. If there are facts that justify the suspicion that the Company was harmed by dishonesty or a gross violation of laws or the Articles of Association, shareholders whose aggregate shareholdings amount to 1% of the Company's share capital or a *pro rata* share of €100,000.00 of the Company's share capital may under certain conditions assert claims of the Company against members of the Management Board or Supervisory Board in their own names. Yet such claims become inadmissible once the Company itself files a suit to assert such claims.

In addition, the Company's shareholders' meeting may appoint special auditors (*Sonderprüfer*) to audit transactions, particularly management transactions, with a simple majority of the votes validly cast. If the shareholders' meeting rejects a motion to appoint special auditors, the competent court shall appoint such special auditors upon a motion by shareholders whose aggregate shareholdings amount to 1% of the Company's share

capital or a *pro rata* share of €100,000.00 of the Company's share capital, if there are facts that justify the suspicion that the relevant occurrence involved acts of dishonesty or gross violations of the law or the Articles of Association. If the shareholders' meeting has resolved to appoint special auditors, the competent court shall appoint different special auditors upon a motion by shareholders whose aggregate shareholdings amount to 1% of the Company's share capital or a *pro rata* share of €100,000.00 of the Company's share capital, if such appointment appears necessary due to reasons concerning the original special auditors.

Via the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is also accessible via the website of the German Company Register (*Unternehmensregister*), shareholders and shareholder associations may solicit other shareholders to file a motion, jointly or by proxy, for the appointment of special auditors, for the appointment of a special representative, the convening of a shareholders' meeting or the exercise of voting rights in a shareholders' meeting.

The Company may only waive or settle claims for damages against members of the Management Board or Supervisory Board if at least three years have elapsed since such claims arose and if the shareholders' meeting has consented to such waiver or settlement by a simple majority vote, provided that a minority of the shareholders whose aggregate shareholdings amount to at least 10% of the Company's share capital does not object to such resolution in the minutes of the shareholders' meeting.

Under German law, neither individual shareholders nor other persons may use their influence on the Company to cause a member of the Management Board or the Supervisory Board to act in a manner that would be detrimental to the Company. Any person who uses his or her influence on the Company to cause a member of the Management Board or the Supervisory Board, an authorized representative (*Prokurist*) or an authorized agent (*Handlungsbevollmächtigter*) to act to the detriment of the Company or its shareholders may be liable to compensate the Company and the affected shareholders for the resulting losses. Moreover, in this context, the members of the Management Board and Supervisory Board are jointly and severally liable in addition to the person using his influence if such members acted in breach of their duty of care towards the Company.

## **16.2 Management Board**

### **16.2.1 Overview**

Pursuant to Section 8.1 of the Articles of Association, the Management Board consists of at least two members. The Supervisory Board determines the exact number of the members of the Management Board. The Supervisory Board may appoint members of the Management Board for a maximum term of up to five years. Reappointments are permissible. Pursuant to Section 84 para. 2 AktG and Section 8.2 of the Articles of Association, the Supervisory Board may appoint any member of the Management Board as chairman of the Management Board and any other member as deputy chairman.

The Supervisory Board may revoke the appointment of a member of the Management Board prior to the expiration of the relevant member's term for good cause (*wichtiger Grund*) (e.g., a gross breach of fiduciary duties, inability to properly manage the Company or if the Company's shareholders' meeting has passed a vote of no confidence with respect to such member, unless the vote of no confidence was clearly passed for arbitrary reasons).

Resolutions of the Management Board are generally passed in meetings, which take place at the Company's offices. In addition, resolutions may be passed independently of physical meetings via circular resolutions (in writing, orally, per telephone, email, facsimile or other common means of communication (particularly including video conference)).

The Management Board has a quorum, if all its members have been invited and at least half of its members (including the chairman or chief financial officer) are present at a meeting. In case that the Management Board consists of only two members, it has only a quorum, if all members of the Management Board are present. Resolutions of the Management Board are generally passed by a simple majority of the votes cast, unless statutory provisions or the rules of procedure provide otherwise. In case of a tie, the chairman has a deciding vote, if the Management Board consists of at least three members. A member of the Management Board may be represented by an authorized other member of the Management Board based on a power of attorney with limited scope.

Pursuant to Section 10 of the Articles of Association, the Company is represented vis-à-vis third parties and in court proceedings by two members of the Management Board or a member of the Management Board



jointly with any authorized representative (*Prokurist*). The Supervisory Board may authorize a single member of the Management Board to represent the Company alone vis-à-vis third parties.

Additional provisions regarding, inter alia, the composition of the Management Board, the duties of its members, the overall responsibility of the Management Board, the allocation of responsibilities for particular functions and the Management Board's internal organization are set forth in the rules of procedure of the Management Board, which were originally adopted by the Supervisory Board on August 10, 2018 (and last amended on April 30, 2020).

### 16.2.2 *Members of the Management Board*

At the date of this Prospectus, the Management Board is composed of the following members:

<u>Name</u>	<u>Date of birth</u>	<u>First Appointed</u>	<u>Appointed until</u>	<u>Responsibilities</u>
Kruno Crepulja	September 19, 1971	February 13, 2017	December 31, 2021	Chief Executive Officer (CEO)
Andreas Gräf	July 19, 1966	February 13, 2017	December 31, 2021	Chief Operating Officer (COO)
Dr. Foruhar Madjlessi	June 21, 1967	January 1, 2019	December 31, 2022	Chief Financial Officer (CFO)

The members of the Management Board can be reached at Grugaplatz 2-4, 45131 Essen, Germany.

The following description provides summaries of the *curricula vitae* of the current members of the Management Board and indicates their principal activities outside Instone Group to the extent those activities are significant with respect to Instone Group.

**Kruno Crepulja** is a construction engineer and has comprehensive experience as an engineer, site manager and project developer and looks back on 17 years of experience in managing large development companies. He began his career as a general contractor at JMP GmbH in 1996. From 1998 to 2008, he held various positions at Wilma Wohnen Süd GmbH, including head of project development from 2001 to 2002 and managing director (*Geschäftsführer*) from 2003 to 2008. In 2008, Mr. Crepulja joined the management team (as chairman) of HOCHTIEF Construction AG's (today Solutions AG) "formart" business unit until, in 2013, this business unit was contributed to a separate entity, formart GmbH & Co. KG (today Instone Real Estate Development GmbH). Following this reorganization, Mr. Crepulja was appointed Chief Executive Officer (CEO) and managing director (*Geschäftsführer*) of former formart GmbH & Co. KG's general partner, formart Management GmbH (following internal reorganizations both succeeded by Instone Real Estate Development GmbH), in 2013. At the same time, from 2008 to 2013, he was general manager of HOCHTIEF Solutions AG (previously HOCHTIEF Construction AG), where he managed, beginning in 2011, the segment Real Estate Solutions. In February 2017, Mr. Crepulja was appointed member of the Management Board and Chief Executive Officer (CEO) of the Company. As CEO, he is responsible for the areas of business development and strategy, procurement, IT, modular planning and construction, M&A, project service and business communication.

Alongside his office as managing director and CEO of the Company, Mr. Crepulja is not, and was not within the last five years, a member of any administrative, management or supervisory bodies of and/or a partner of companies or partnerships outside Instone.

**Andreas Gräf** began his career at HOCHTIEF Aktiengesellschaft, the former ultimate holding company of Instone Real Estate Development GmbH (previously formart GmbH & Co. KG) in 1987. He completed his vocational training as an industrial clerk at HOCHTIEF Aktiengesellschaft in 1990 and his subsequent occupational-accompanying studies with a degree in Construction Economics in 1992. During his time at HOCHTIEF Aktiengesellschaft, Mr. Gräf was responsible for establishing residential development as a standalone business model at HOCHTIEF group. From 1990 to 2008, he held various positions within HOCHTIEF Aktiengesellschaft and its subsidiary HOCHTIEF Construction AG (today HOCHTIEF Solutions AG), which include, amongst others, commercial project leader of various consortia (1990-2004), member of the management board for HOCHTIEF Aktiengesellschaft's Wuppertal branch (1996-1999) and member of the management board of HOCHTIEF Construction AG's Düsseldorf branch (2000-2002), member of the management board of the North Rhine-Westphalia branch of HOCHTIEF Construction AG (today HOCHTIEF Solutions AG) (2002-2007) and chairman of the management board of the North Rhine-Westphalia branch of HOCHTIEF Construction AG (today HOCHTIEF Solutions AG) (2007-2008). From 2008 to 2013, Mr. Gräf

was a member of the management team of HOCHTIEF Construction AG's (today HOCHTIEF Solutions AG) "formart" business unit until, in 2013, this business unit was contributed to a separate entity, formart GmbH & Co. KG (today Instone Real Estate Development GmbH). Following this reorganization, Mr. Gräf was appointed managing director (*Geschäftsführer*) of former formart GmbH & Co. KG's general partner, formart Management GmbH (following internal reorganizations both succeeded by Instone Real Estate Development GmbH), in 2013. In February 2017, Mr. Gräf was appointed member of the Management Board and Chief Operating Officer (COO) of the Company. As COO he is responsible for, amongst others, the areas of marketing, personal, product development and sales.

Alongside his office as managing director and COO of the Company, Andreas Gräf is not, and was not within the last five years, a member of any administrative, management or supervisory bodies of and/or a partner of companies or partnerships outside Instone.

**Foruhar Madjlessi** started his professional career in 1996 as an analyst in the investment banking division of Union Bank of Switzerland (UBS) in Frankfurt am Main, Germany. From 1998 to 2006, he worked at Merrill Lynch, where he was based at various locations (Frankfurt am Main, London, New York) and held the positions of director and head of equity capital markets Germany and Austria as well as head of corporate finance Germany and Austria. From 2007 to 2018, Mr. Madjlessi worked for Deutsche Bank in various positions, including, amongst others, the position of managing director and head of equity capital markets of the DACH region. He was also a member of the corporate finance DACH leadership forum and a member of the corporate banking & securities Germany executive committee. During his investment banking career, Mr. Madjlessi has advised on numerous private and public M&A transactions as well as financing transactions with a focus on equity capital markets measures. In January 2019, Mr. Madjlessi was appointed member of the Management Board and Chief Financial Officer (CFO) of the Company. As CFO, he is responsible for, amongst others, the areas of controlling, financing, investor relations, the Company's business services unit, process and risk management, legal and tax. Mr. Madjlessi graduated as industrial engineer (*Diplom Wirtschaftsingenieur*) from the University of Karlsruhe (TH) and holds a PhD in finance (*Dr. rer. pol.*).

Alongside his office as managing director and CFO of the Company, Foruhar Madjlessi is not, and was not within the last five years, a member of any administrative, management or supervisory bodies of and/or a partner of companies or partnerships outside Instone.

## **16.3 Supervisory Board**

### **16.3.1 Overview**

In accordance with Sections 95 and 96 AktG and Section 11.1 of the Articles of Association, the Supervisory Board comprises five members. All of the members are appointed by the Company's shareholders' meeting and represent the shareholders. Pursuant to Section 100 para. 5 AktG, the members of the Supervisory Board as a whole must be familiar with the industry in which the Company conducts its business.

According to Section 11.2 of the Articles of Association, members of the Supervisory Board may be elected for a maximum term lasting until the end of the shareholders' meeting which resolves on the discharge (*Entlastung*) of the relevant members of the Supervisory Board for the fourth financial year after the commencement of the term of office. The financial year in which the term of office commenced is not counted towards the aforementioned number of four years. For members of the Supervisory Board who leave office before the end of their term, a successor must be elected for the remaining term of the leaving member, unless the Company's shareholders' meeting specifies a different term for such successor. The same applies if a reelection becomes necessary due to a challenge of a previous election. Reelections of members of the Supervisory Board are permissible.

When electing members of the Supervisory Board, the shareholders' meeting may also appoint substitute members who replace any members of the Supervisory Board leaving their office before the end of their term. If a new vote to replace the leaving member is taken at the first or second shareholders' meeting of the Company after the vacancy arises, the term of office of such substitute members terminates at the end of said shareholders' meeting. Otherwise, the term of the relevant substitute member ends at the end of the term of office of the leaving member of the Supervisory Board. If a substitute member whose term of office was terminated due to the election of a successor was appointed as substitute member for several members of the Supervisory Board, its position as substitute member revives.

The Supervisory Board elects a chairman and a deputy chairman from amongst its members to serve for the duration of those members' terms, unless a shorter period is determined at the time of their respective election. If the chairman or his deputy leaves office before the end of his term, the Supervisory Board must hold a new election without undue delay.

Each member of the Supervisory Board and each substitute member may resign from office with or without good cause by giving written notice two weeks in advance to the Management Board and informing the chairman of the Supervisory Board. Resignation for good cause with immediate effect is permissible.

The Supervisory Board must hold at least two meetings in each calendar half-year. Meetings of the Supervisory Board are generally called at least five calendar days in advance by the chairman of the Supervisory Board, not taking into account the day on which the invitation is sent and the day of the meeting itself. Notice of meetings may be given in writing, by telefax or via electronic communication. In urgent cases, the chairman may shorten this period.

The Articles of Association and the rules of procedure of the Supervisory Board provide that resolutions of the Supervisory Board are generally passed in meetings. If all members of the Supervisory Board participate in a resolution, or, at the order of the chairman and further provided that at least half of the members of the Supervisory Board participate in a resolution, such resolution of the Supervisory Board may also be passed in writing, per telephone, email, facsimile or by equivalent means. Absent members of the Supervisory Board may also participate in the voting by submitting their votes in writing through another member of the Supervisory Board.

The Articles of Association provide that the Supervisory Board has a quorum if all members of the Supervisory Board have been duly invited and at least the half of the members of which the Supervisory Board consists participate in the vote. Any members who abstain from voting are considered present for purposes of calculating the quorum. Unless otherwise provided for by mandatory law or the Articles of Association, resolutions of the Supervisory Board are passed with a simple majority of the votes cast. If a vote by the Supervisory Board results in a tie, the chairman has two votes in case of a new voting on the same agenda item. Resolutions of the Supervisory Board are documented by the chairman and circulated to all members of the Supervisory Board.

A member of the Supervisory Board who has a conflict of interest must abstain from participating in the deliberation and the decision-making process with respect to the relevant matter. If any such member was nevertheless involved in the decision-making process, then such decision may be nullified.

The Supervisory Board may adopt rules of procedure and form committees in accordance with applicable laws and Section 17.2 of the Articles of Association. The Supervisory Board determines the composition, competences and procedures of such committees, if any. To the extent permitted by law and by the Articles of Association, the Supervisory Board may delegate any of its duties, decision-making powers and rights to the chairman, to any of the Supervisory Board member(s) or to any committee(s) established from amongst its members. The current version of the Supervisory Board's rules of procedure was adopted by resolution of the Supervisory Board on August 10, 2018 (and last amended on April 30, 2020).

### **16.3.2 Members of the Supervisory Board**

At the date of this Prospectus, the Supervisory Board is composed of the following five members:

<u>Name</u>	<u>Date of birth</u>	<u>First Appointed</u>	<u>Appointed until</u>	<u>Principal Occupation</u>
Stefan Brendgen (Chairman)	January 14, 1964	February 13, 2018	Ordinary shareholders' meeting 2022	Consultant
Dr. Jochen Scharpe (Deputy Chairman)	March 19, 1959	February 13, 2018	Ordinary shareholders' meeting 2022	Managing Director at AMCI GmbH
Marija Korsch	July 16, 1948	February 13, 2018	Ordinary shareholders' meeting 2022	Chairperson of the Supervisory Board at Aareal Bank AG
Dietmar P. Binkowska	July 31, 1961	April 3, 2019	Ordinary shareholders' meeting 2022	Independent Consultant
Thomas Hegel	April 25, 1956	April 3, 2019	Ordinary shareholders' meeting 2022	Lawyer and Independent Consultant

The members of the Supervisory Board can be reached at Grugaplatz 2-4, 45131 Essen, Germany.

The following description provides summaries of the *curricula vitae* of the current members of the Supervisory Board and indicates their principal activities outside Instone Group to the extent those activities are significant with respect to them.

**Stefan Brendgen** has more than 25 years of experience in the real estate development and investment industry in Germany and Europe. He graduated from the University of Cologne in 1990 with a degree in Economics. Mr. Brendgen started his career at Jones Lang Wootton Internationale Immobilien Consultants GmbH (today Jones Lang LaSalle) where he worked as a consultant from 1990 until 1994. In 1994, he became managing director of DTZ Immobilienberatung GmbH, a real estate consulting firm. In 1998, Mr. Brendgen co-founded the consulting firm Brendgen & Kulzer GmbH where he focused on real estate investment and asset management. In 1999, he joined Tishman Speyer Properties Deutschland GmbH, a subsidiary of the global developer and fund manager Tishman Speyer, as senior director and became the firm's Head of Germany in 2003. From January 2009 until March 2009, he was Chief Investment Officer (CIO) of Allianz Real Estate Germany GmbH before being appointed to the position of Chief Executive Officer (CEO), which he held until August 2014. From 2015 until 2017, Mr. Brendgen was chairman of the supervisory board of Triuva Kapitalverwaltungsgesellschaft mbH. He currently serves as chairman of the supervisory board of aamundo Asset Management GmbH & Co. KGaA, is a member of the supervisory board of HAHN-Immobilien-Beteiligungs AG, and also works as a consultant.

Alongside his office as a member of the Supervisory Board of the Company, Mr. Brendgen is, or was within the last five years, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies or partnerships outside Instone:

**Currently:**

- aamundo Asset Management KGaA (chairman of the supervisory board); and
- HAHN-Immobilien-Beteiligungs AG (member of the supervisory board).

**Previously:**

- Allianz Real Estate Germany GmbH (CEO);
- Allianz Suisse Immobilien AG (member of the management board);
- IVG Immobilien AG (member of the supervisory board);
- TRIUVA Kapitalverwaltungsgesellschaft mbH (chairman of the supervisory board); and
- Climeon AB, Sweden (member of the supervisory board).

**Dr. Jochen Scharpe** graduated from the University of Münster in 1984 with a degree in Economics and earned his doctorate in Economics from the University of Siegen in 1991. In 1989, he started his professional career with the accounting firm KPMG Peat Marwick GmbH in Frankfurt/Main in the areas of audit and corporate finance. From 1996 through 1999, Dr. Scharpe was a managing director of Eisenbahnimmobilienmanagement GmbH (today CA Immo Deutschland GmbH), and from 1999 to 2004 he was a managing director of Siemens Real Estate GmbH. Since 2004, Dr. Scharpe is a shareholder and managing director of AMCI GmbH and Re-Turn Immobilien GmbH. In addition, he served as chairman of the supervisory board of LEG NRW GmbH in the period from 2008 to 2014 and also as chairman of the supervisory board of LEG Wohnen NRW GmbH between 2010 and 2015. Further, he was appointed to the supervisory board of LEG Immobilien AG in 2013.

Alongside his office as a member of the Supervisory Board of the Company, Dr. Scharpe is, or was within the last five years, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies or partnerships outside Instone:

**Currently:**

- AMCI GmbH (managing director);
- FFIRE Immobilienverwaltung AG (deputy chairman of the supervisory board);

- LEG Immobilien AG (member of the supervisory board);
- Re-Turn Immobilien GmbH (managing director);
- ista Deutschland GmbH (customer advisory board); and
- H. H. Holding GmbH (advisory board).

**Previously:**

- GENEBA N.V. (member of the supervisory Board);
- GSW Immobilien AG (deputy chairman of the supervisory board);
- Jade Beteiligungs-Management GmbH (managing director);
- LEG NRW GmbH (chairman of the supervisory board); and
- LEG Wohnen NRW GmbH (chairman of the supervisory board).

**Marija Korsch** looks back on more than 40 years of experience in international banking and finance. She obtained a degree in Mathematics from St. Peters College, New Jersey, followed by a one-year post graduate course in economics and business at La Sapienza University of Rome, Italy. Ms. Korsch began her career in 1973 at European American Bank, New York, Los Angeles and San Francisco before joining Bankers Trust, New York. Having moved to Germany in 1981, she was responsible for the North American and Latin America business segments of Vereins- und Westbank AG, Hamburg from 1982 to 1987. From 1987 to 1993, Ms. Korsch was a Managing Director at Bankers Trust, Frankfurt, responsible for the bank's corporate finance and merchant banking activities in Germany, Austria and Switzerland. From 1993 to 1998 she was a member of the management board and thereafter Partner until 2008 of Bankhaus Metzler seel. Sohn & Co. AG, Frankfurt, responsible for the bank's corporate finance business.

Ms. Korsch has been a member of the supervisory board of Aareal Bank AG, Wiesbaden, since 2012 and serves as its chairperson since 2013. She also chairs the bank's executive and nomination committee and remuneration control committee, is deputy chair of its technology & innovation committee and further serves as a member of its risk committee and of its audit committee.

Ms. Korsch serves on the board of trustees of Städel Museum as well as the vice chairperson of the executive committee of the Society of Friends – Alte Oper Frankfurt and is the chairperson of the board of trustees of the Stiftung Centrale für private Fürsorge, Frankfurt. Ms. Korsch is also a member of the advisory boards of the IBF Institut für Bank- und Finanzgeschichte (*Institute for Banking and Finance History*) and the Frankfurt International School.

Alongside her office as a member of the Supervisory Board of the Company, Ms. Korsch is currently a member of the administrative, management or supervisory bodies of and/or a partner of the following companies or partnerships outside Instone within the last five years:

**Currently:**

- Aareal Bank AG (chairperson of the supervisory board);
- Just Software AG (member of the supervisory board);
- Nomura Financial Products GmbH (member of the supervisory board);
- FAZIT-Stiftung Gemeinnützige Verlagsgesellschaft mbH (member of the board of trustees);
- IBF Institute for Bank and Finance History and the Frankfurt International School (member of the supervisory board);
- Städel Museum Frankfurt am Main, Germany (member of the foundation council);
- Gesellschaft der Freunde der Alten Oper Frankfurt e. V. (deputy chairperson of the management board); and
- Stiftung Centrale für private Fürsorge, Frankfurt am Main (chairperson of the board of trustees).

**Dietmar P. Binkowska** obtained a business degree (*Diplom-Kaufmann*) after having completed his studies of economics at the universities of Wuppertal as well as Cologne. He subsequently absolved a two-year special training in credit and corporate banking at Deutsche Bank AG. From 1988 to 2005, he held different positions at Deutsche Bank AG. From 1995 to 1996, he was a member of the management and general partner at Privatbankhaus Schliep & Co. KG (a subsidiary of Bayerische Vereinsbank AG). From 1996 until 2002, Mr. Binkowska was a member of the management in the real estate and private customer sector at Bayerische Vereinsbank AG/HVB. From 2002 to 2003, he was as member of the management board for private customers at Commerzbank AG. From 2003 to 2007, Mr. Binkowska was deputy chairman of the management board of Stadtparkasse/Sparkasse Köln Bonn and from 2007 until 2008 chairman of the management board of Sparkasse Köln Bonn. From 2008 to 2014, he was chairman of the management board of NRW.BANK. He then went to IVG Immobilien AG, where he served as chairman of the supervisory board from 2014 to 2015. The following two years Mr. Binkowska held the position of chairman of the management board at IVG Immobilien AG. Since 2018 he has worked as an independent consultant.

Alongside his office as a member of the Supervisory Board of the Company, Mr. Binkowska was within the last five years a member of the administrative, management or supervisory bodies of and/or a partner in the following companies or partnerships outside Instone:

**Currently:**

- KATHREIN SE (member of the supervisory board).

**Previously:**

- IVG Immobilien AG (chairman of the management board); and
- IVG Immobilien AG (chairman of the supervisory board).

**Thomas Hegel** finished his law studies in 1987 and worked from 1987 to 1988 at the Federal Association of German Employers' Associations (*Bundesverband der Deutschen Arbeitgeberverbände*) in the department for labor law. From 1988 to 2002, Mr. Hegel held different positions at Deutsche Bau- und Grundstücks-AG, including head of the business units "institutional housing business" and "urban development/West". In 2002, he joined Corpus Asset Wohnen GmbH, where he served as managing director until 2004. From 2006 until 2009, Mr. Hegel was the managing director of LEG NRW GmbH and was its chief executive officer from 2009 to 2013. From 2013 to 2019, Mr. Hegel was chief executive officer at LEG Immobilien AG. Mr. Hegel has been and is currently practicing as a Lawyer since 1987.

Alongside his office as a member of the Supervisory Board of the Company, Mr. Hegel is or was, within the last five years, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies or partnerships outside Instone:

**Currently:**

- ZIA – Zentraler Immobilien Ausschuss e.V. (member of the executive committee); and
- LEG NRW Mieter-Stiftung (chairman of the board of trustees).

**Previously:**

- LEG Immobilien AG (chairman of the management board (CEO)); and
- GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. (member of the association board).

#### **16.4 Certain Information Regarding Members of the Management Board and the Supervisory Board**

In the last five years, no member of the Management Board or member of the Supervisory Board has been:

- convicted of fraudulent offenses; or

- associated with any bankruptcy, receivership, liquidation or companies put into administration, acting in its capacity as a member of any administrative, management or supervisory body; or
- the subject of any official public incriminations and/or sanctions pending or imposed by statutory or legal authorities, including designated professional bodies; or
- disqualified from acting as a member of the administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no conflicts of interest or potential conflicts of interest between the members of the Management Board and Supervisory Board with respect to their duties to the Company on the one hand and their private interests, membership in governing bodies of companies or other obligations on the other.

Dr. Madjlessi is entitled to a special contract termination right under his management service agreement in the event of an occurrence of change of control within the meaning of Section 16 AktG at the level of the Company. 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 para. 5 of the German Corporate Governance Code in its version of February 7, 2017. After two years, the severance payment will be reduced to two gross annual salaries, whereby the severance payment will be proportionally reduced in the case of a residual term of the employment contract of less than two years. Except for the aforementioned special contract termination of Dr. Madjlessi, none of the members of the Management Board or the Supervisory Board has entered into a service agreement with a company of Instone Group that provides for benefits upon termination of employment or office.

There are no family relationships between the members of the Management Board and members of the Supervisory Board, either amongst themselves or in relation to the members of the respective other body.

A D&O group insurance policy has been concluded for the members of the Management board and the members of the Supervisory Board with coverage in line with best market practice and a deductible in line with the respective provisions of the German Stock Corporation Act (*Aktiengesetz*) and the German Corporate Governance Code.

Certain (former and current) members of the Management Board and employees of Instone Group have acquired shares from certain former shareholders of the Company in connection with the restructuring of a previous management remuneration program in the context of the private placement of the Company's shares in February 2018. These (former and current) members of the Management Board and relevant employees of Instone Group entered into a lock-up agreement pursuant to which these shares are or were subject to certain transfer restrictions under which they may not be sold or be otherwise transferred, amongst others, without the consent of the relevant former shareholder and joint global coordinators involved in the private placement. The lock-up period under this agreement ended or will end incrementally in 12, 24 or 36 months after the date on which the relevant share acquisition was implemented with respect to one third of such shares. To the knowledge of the Management board, originally a total 435,531 shares of the Company were affected by such transfer and voting rights restrictions.

## **17. CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS**

*In accordance with IAS 24, transactions with persons or companies that are, inter alia, members of the same group as the Company or that are in control of or controlled by the Company must be disclosed unless they are already included as consolidated companies in the Company's audited consolidated financial statements. Control exists if a shareholder owns more than half of the voting rights in the Company or, by virtue of an agreement, has the power to control the financial and operating policies of the Company's management. The disclosure requirements under IAS 24 also extend to transactions with associated companies, including joint ventures, as well as transactions with persons who have significant influence over the Company's financial and operating policies, including close family members and intermediate entities. This includes the members of the Management Board and the Supervisory Board and close members of their families, as well as those entities over which the members of the Management Board and the Supervisory Board or their close family members are able to exercise a significant influence or in which they hold a significant share of the voting rights.*

*This section sets out details of transactions with related parties that the Company has entered into since the date of its last financial statements. Information on related-party transactions entered into by the Company in prior periods are set out in the notes to the Company's audited consolidated financial statements as of and for the financial years ended December 31, 2019 and 2018, which are included in this Prospectus in Section "19. Financial Information" on pages F-1 et seq.*

The Company has not entered into any relevant related party transactions since January 1, 2020.



## 18. TAXATION IN GERMANY

*Income received from the shares of the Company is subject to taxation. In particular, the tax laws of any jurisdiction with authority to impose taxes on the investor and the tax laws of the Company's state of incorporation, statutory seat and place of effective management, i.e., Germany, might have an impact on the income received from the shares of the Company.*

*Prospective shareholders are therefore advised to consult with their tax advisors regarding the tax implications of acquiring, holding or transferring shares and/or subscription rights of the Company and what procedures are necessary to secure the repayment of German withholding tax (Kapitalertragsteuer), if possible. Only qualified tax advisors are in a position to adequately consider the particular tax situation of individual shareholders.*

*The following section outlines certain key German tax principles that may be relevant with respect to the acquisition, holding or transfer of shares and/or subscription rights. It is important to note that the legal situation may change, possibly with retroactive effect. This summary is not and does not purport to be a comprehensive or exhaustive description of all German tax considerations that may be relevant to shareholders of the Company nor does it replace the need for individual shareholders of the Company to seek personal tax advice. In particular, this summary does not cover tax considerations that may be relevant to a shareholder that is a tax resident of a jurisdiction other than Germany. This presentation is based upon domestic German tax laws in effect as of the date of this Prospectus and the provisions of double taxation treaties currently in force between Germany and other countries.*

### 18.1 Taxation of Dividends – General

Shareholders are taxed in particular in connection with the holding of shares (taxation of dividend income), upon the sale or disposal of shares and/or subscription rights (taxation of capital gains) and the gratuitous transfer of shares and/or subscription rights (inheritance and gift tax).

#### 18.1.1 No Taxation in Case of Payments out of a Tax Recognized Contribution Account

In the future, the Company may pay dividends out of a tax recognized contribution account (*steuerliches Einlagekonto*). To the extent that the Company pays dividends from the tax-recognized contribution account (*steuerliches Einlagekonto*), the dividends are not subject to withholding tax, personal income tax or corporate income tax, as the case may be (in each case including the solidarity surcharge and church tax, if any). However, dividends paid out of a tax-recognized contribution account lower the acquisition costs of the shares, which may result in a higher amount of taxable capital gains upon the shareholder's sale of the shares. Special rules apply to the extent that dividends from the tax-recognized contribution account exceed the then lowered acquisition costs of the shares (the details are outlined below).

#### 18.1.2 Withholding Tax

Dividends distributed by the Company that are not paid out of the tax-recognized contribution account (*steuerliches Einlagekonto*) are subject to a deduction at source (withholding tax) at a 25% rate plus a solidarity surcharge of 5.5% on the amount of withholding tax (amounting in total to a rate of 26.375%) and church tax (*Kirchensteuer*), if applicable. The basis for determining the dividend withholding tax is the dividend approved for distribution by the Company's shareholders' meeting.

In general, dividend withholding tax is withheld regardless of whether and, if so, to what extent the shareholder must report the dividend for tax purposes and regardless of whether the shareholder is a resident of Germany or of a foreign country.

As the Company's shares are admitted to be held in collective safe custody (*Sammelverwahrung*) with a central securities depository (*Wertpapiersammelbank*) pursuant to Section 5 of the German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such central securities depository for collective safe custody in Germany, the Company is generally not responsible for withholding the withholding tax. Instead, one of the following entities in Germany is responsible and authorized to collect withholding tax and to remit it to the relevant tax authority for the account of the relevant shareholder: (i) a domestic bank or financial service institute, a domestic securities trading company or a domestic securities trading bank (including the domestic branches of foreign banks or financial service institutes) that holds the shares in custody or that manages such shares and that pays out or credits the shareholder's investment income or that pays the investment income to a

foreign entity or (ii) the central securities depository (*Wertpapiersammelbank*) holding the collective deposit shares in custody if it pays the investment income to a foreign entity or (iii) the Company itself if and to the extent shares held in collective safe custody (*girosammelverwahrt*) by the central securities depository (*Wertpapiersammelbank*) are treated as stock being held separately (*abgesetzte Bestände*) (each person within the meaning of (i) through (iii), a “**Dividend Paying Agent**”).

The Company assumes responsibility for the withholding of taxes on distributions at source, in accordance with statutory provisions. This means that the Company is released from liability for the violation of its legal obligation to withhold and transfer the taxes at source if it provides evidence that it has not breached its duties intentionally or grossly negligently.

Where dividends are distributed to a company resident in another member state of the European Union within the meaning of Article 2 of Council Directive 2011/96/EU of November 30, 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states, as amended (the “**Parent-Subsidiary Directive**”), withholding of the dividend withholding tax may not be required (withholding tax exemption) or may be refunded, each upon application and provided that additional requirements are met. This also applies to dividends distributed to a permanent establishment located in another member state of the European Union of such parent company or of a parent company that is tax resident in Germany, if the interest in the dividend-paying subsidiary is part of the respective permanent establishment’s business assets. An important prerequisite for the exemption from withholding at the source or a refund of withholding tax under the Parent-Subsidiary Directive is that the shareholder has directly held at least 10% of the Company’s registered share capital continuously for one year and that the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*), with its registered office in An der Kuppe 1, 53225 Bonn, Germany, has certified to the creditor of the dividends, based upon an application filed by such creditor on the officially prescribed form, that the prerequisites for exemption have been met.

The dividend withholding tax rate for dividends paid to shareholders without a tax residence in Germany will be reduced in accordance with any applicable double taxation treaty between Germany and the relevant shareholder’s country of residence, provided that the shares are neither held as part of the business assets of a permanent establishment or a fixed base in Germany nor as part of the business assets for which a permanent representative in Germany has been appointed. The reduction in the dividend withholding tax is generally obtained by applying to the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*), with its registered offices in An der Kuppe 1, 53225 Bonn, Germany, for a refund of the difference between the dividend withholding tax withheld, including the solidarity surcharge, and the amount of withholding tax actually owed under the applicable double taxation treaty, which usually amounts to between 5% and 15%. Depending on the applicable double taxation treaty, a reduced withholding tax rate may be applicable, if the shareholder has applied for an exemption from the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*). The applicable double taxation treaty may also provide for a full exemption from the German dividend withholding tax, if the relevant shareholder has directly held at least 10% of the Company’s registered share capital and if further prerequisites are met. Forms for the refund and exemption procedure may be obtained from the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*).

Corporations that are not tax residents in Germany will upon application receive a refund of two-fifths of the dividend withholding tax that was withheld and remitted to the tax authorities subject to certain requirements. This applies regardless of any further reduction or exemption provided for under the Parent-Subsidiary Directive or a double taxation treaty.

Foreign corporations will generally have to meet certain stringent substance criteria defined by statute in order to receive an exemption from, or (partial) refund of, German dividend withholding tax.

Pursuant to a special rule on the restriction of withholding tax credit, the aforementioned relief in accordance with applicable double taxation treaties as well as the credit of withholding tax described for shares held as private and as business assets (see “18.2 Taxation of Dividends of Shareholders with a Tax Residence in Germany”) is subject to the following three cumulative prerequisites: (i) the relevant shareholder must qualify as the beneficial owner of the shares in the Company for a minimum holding period of 45 consecutive days occurring within a period of 45 days prior and 45 days after the due date of the dividends; (ii) the shareholder has to bear at least 70% of the change in value risk related to the shares in the Company during the minimum holding period without being directly or indirectly hedged; and (iii) the shareholder is not required to fully or largely, directly or indirectly, transfer the dividends to third parties (the tests under (i) through (iii) together, the “**Minimum Risk Test**”).

Should any of the three prerequisites not be met, the following applies:

- As regards the taxation of dividends of shareholders with a tax residence in Germany, three-fifths of the withholding tax imposed on the dividends may not be credited against the shareholder's (corporate) income tax liability, but may, upon application, be deducted from the shareholder's tax base for the relevant assessment period. A shareholder that has received gross dividends without any deduction of withholding tax due to a tax exemption without qualifying for a full tax credit has to notify the competent local tax office accordingly and has to make a payment in the amount of the withholding tax deduction which was omitted. The special rule on the restriction of withholding tax credit does not apply to a shareholder whose overall dividend earnings within an assessment period do not exceed €20,000.00 or who has been the beneficial owner of the shares in the Company for at least one uninterrupted year upon receipt of the dividends.
- As regards the taxation of dividends of shareholders without a tax residence in Germany who have applied for a full or partial refund of the withholding tax pursuant to a double taxation treaty, no refund is available. This restriction does not apply to a shareholder (i) that directly holds at least 10% of the shares in the Company and that is subject to (corporate) income tax in the country of its tax residence without any exemptions or (ii) that has been the beneficial owner of the shares in the Company for at least one uninterrupted year upon receipt of the dividends or (iii) if the applicable tax rate pursuant to the applicable double taxation treaty is at least 15%.
- In addition to the aforementioned statutory provisions, the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) has published a decree outlining the treatment of transactions where the credit of withholding tax will be denied even when the statutory minimum tests described above are met, in order to prevent abuse. Shareholders of the Company should seek their own professional tax advice on the possibility of obtaining a tax credit or refund of withholding tax on dividends.

Prospective shareholders should seek their own professional advice as to whether they can obtain a tax credit or tax refund with respect to withholding taxes on dividends.

In the case of individual shareholders holding the shares in the Company as private assets, the Dividend Paying Agent which keeps or administrates the shares and pays or credits the capital income is required to create so-called pots for offsetting losses (*Verlustverrechnungstöpfe*) to allow for negative capital income to be set off against current and future positive capital income. A set off of negative capital income at one Dividend Paying Agent against positive capital income at another Dividend Paying Agent is only possible in the course of the income tax assessment at the level of the respective shareholder. In such case, the relevant shareholder has to apply for a certificate confirming the amount of losses not offset with the Dividend Paying Agent where the pot for offsetting losses exists. The application is irrevocable and must reach the Dividend Paying Agent until December 15 of the respective year, as otherwise the losses will be carried forward by the respective Dividend Paying Agent to the following year.

Withholding tax will not be withheld by a Dividend Paying Agent if the shareholder provides such Dividend Paying Agent with an application for exemption (*Freistellungsauftrag*) to the extent such shareholder's capital income does not exceed the annual lump sum allowance (*Sparerpauschbetrag*) of €801.00 (€1,602.00 for jointly filing individuals) as outlined on the application for exemption. Furthermore, no withholding tax will be levied if the shareholder provides the Dividend Paying Agent with a non-assessment certificate (*Nichtveranlagungsbescheinigung*) to be applied for with the competent tax office.

## **18.2 Taxation of Dividends of Shareholders with a Tax Residence in Germany**

### **18.2.1 Individuals who hold the Shares as Private Assets**

For individuals who are tax resident in Germany (generally, individuals whose domicile or usual residence is located in Germany) and who hold their shares in the Company as private assets, the withholding tax of 25% plus the solidarity surcharge of currently 5.5% thereon, resulting in a total tax rate of 26.375% (plus church tax, if any) will generally serve as a final tax (*i.e.*, once such tax has been deducted, the shareholder's income tax liability on the dividends will be settled, and he or she will no longer have to declare them on his or her annual tax return (the "**Flat Tax**")).

The purpose of the Flat Tax is to provide for separate and final taxation of capital investment income earned (*i.e.*, taxation that is irrespective of the individual's personal income tax rate). Shareholders may apply to have their capital investment income assessed in accordance with the general rules and with an individual's

personal income tax rate if this results in a lower tax burden. In this case, the base for taxation is the gross dividend income less the savers' allowance of €801.00 (€1,602.00 for jointly filing individuals). Subject to the Minimum Risk Test, any tax and solidarity surcharge already withheld is credited against the income tax and solidarity surcharge so determined, and any overpayment refunded. Income-related expenses cannot be deducted from capital gains in either case. The only possible deduction is the savers' allowance of €801.00 (€1,602.00 for jointly filing individuals) on all private capital income. Furthermore, dividend income can only be offset by losses from capital income, except for losses generated by the disposal of shares.

If the individual owns (i) at least 1% of the shares in the Company and is able to exercise by virtue of his or her professional activity (*berufliche Tätigkeit*) for the Company, a significant entrepreneurial influence on the business activity of the Company or (ii) at least 25% of the shares in the Company, the tax authorities may upon application allow for the dividends to be taxed under the partial-income method (see "18.2.2.2 *Sole Proprietors (Individuals)*").

Entities required to collect withholding taxes on capital investment income are required to likewise withhold the church tax on payments to shareholders who are subject to church tax, unless the shareholder objects in writing to the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) against the sharing of his or her private information regarding his or her affiliation with a religious denomination (*Sperrvermerk*). If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, the church tax on the dividends is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense. 26.375% of the church tax withheld on the dividends is, however, deducted from the withholding tax (including the solidarity surcharge) withheld. If no church taxes are withheld along with the withholding of the withholding tax, the shareholder who owes church tax is required to report his or her dividends in his or her income tax return. The church tax on the dividends will then be imposed during the assessment.

Contrary to the above, dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) and are paid to shareholders who are tax resident in Germany whose shares are held as private assets, do not form part of the shareholder's taxable income. If the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceeds the shareholder's acquisition costs, the German tax authorities take the view that negative acquisition costs will arise which may result in a higher capital gain in case of a disposal of the shares. This will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the disposal directly or indirectly held at least 1% of the share capital of the Company (a "**Qualified Participation**") and (ii) the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In case of a Qualified Participation, a dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) is considered a sale of the shares and is taxable as a capital gain, if and to the extent the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In this case the taxation corresponds to the taxation of capital gains of shareholders maintaining a Qualified Participation (see "18.4 *Taxation of Capital Gains*").

### 18.2.2 *Shares Held as Business Assets*

The Flat Tax does not apply to dividends from shares of the Company held as business assets of shareholders who are tax resident in Germany. In this case, the taxation is based on whether the shareholder is a corporation, an individual or a partnership. Subject to the Minimum Risk Test, the withholding tax withheld and paid to the tax authorities, including the solidarity surcharge, is credited against the income or corporate income tax and the solidarity surcharge of the shareholder, and any overpayment will be refunded.

Dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) and paid to shareholders who are tax resident in Germany and whose shares are held as business assets are generally fully tax-exempt in the hands of such shareholders. At the same time such dividend payments lead to a corresponding reduction of the acquisition costs/book value for the relevant shares. To the extent the dividend payments funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceed the acquisition costs/book value of the shares, a taxable capital gain should occur. The taxation of such gain corresponds to the taxation of shareholders whose shares are held as business assets (see "18.4 *Taxation of Capital Gains*"). As regards the application of the 95% exemption in case of a corporation, this is, however, not undisputed.

### 18.2.2.1 Corporations

Dividends received by corporations that are tax resident in Germany are generally exempt from corporate income tax and the solidarity surcharge. 5% of the dividends are, however, treated as a non-deductible business expenses and, as such, are subject to corporate income tax (plus the solidarity surcharge) with a total tax rate of 15.825%.

Portfolio dividends (*i.e.*, dividends earned on direct shareholdings in a distributing corporation equal to less than 10% of its share capital at the start of the respective calendar year) are fully taxed at the corporate income tax rate (plus solidarity surcharge thereon). The acquisition of a shareholding of at least 10% during a calendar year is deemed to have occurred at the beginning of the respective calendar year. Participations which a shareholder holds through a commercial partnership are only attributable to such shareholder on a *pro rata* basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Business expenses actually incurred and with a direct business relationship to the dividends may be fully deducted.

Any dividends (after deducting business expenses related to the dividends) are fully subject to trade tax, unless the corporation held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, entitling it to an intercorporate privilege for trade tax purposes. In such case, the aforementioned exemption of 95% of the dividend income applies analogously for trade tax purposes.

### 18.2.2.2 Sole Proprietors (Individuals)

If the shares in the Company are held as part of the business assets of a sole proprietor (individual) with his or her tax residence in Germany, 40% of any dividend is tax exempt (so-called partial income method). Only 60% of the expenses economically related to the dividends are tax deductible. The partial income method also applies when individuals hold the shares indirectly through a partnership (with the exception of individual investors who hold their shares through partnerships that are neither commercial partnerships nor deemed to be commercial partnerships). The partial income method does not, however, apply with respect to church tax (if applicable). If the shares are held as business assets of a domestic commercial permanent establishment, the full amount of the dividend income (after deducting business expenses that are economically related to the dividends) is also subject to trade tax, unless the respective shareholder held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. In the latter case, the net dividends (after deducting directly related expenses) are exempt from trade tax. Trade tax is, however, generally credited, in full or in part, as a lump sum against the relevant shareholder's personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder.

### 18.2.2.3 Partnerships

If a shareholder is a partnership, the personal income tax or corporate income tax, as the case may be, and the solidarity surcharge are levied at the level of each partner rather than at the level of the partnership. The taxation of each partner depends upon whether the partner is a corporation or an individual. If the partner is a corporation, dividends are generally 95% tax exempt. Dividends from an indirect shareholding representing less than 10% of the share capital for the relevant partner are, however, fully subject to taxation (see "18.2.2.1 Corporations"). If the partner is an individual and the shares are held as business assets of the partnership, only 60% of the dividend income is subject to income tax. In this case, the partial income method does not apply with respect to church tax, if applicable (see "18.2.2.2 Sole Proprietors (Individuals)").

In addition, if the shares are held as business assets of a domestic permanent establishment of an actual or presumed commercial partnership, the full amount of dividend income is generally also subject to trade tax at the level of the partnership. In the case of partners who are individuals, the trade tax that the partnership pays on the relevant partner's portion of the partnership's income is generally credited as a lump sum, in full or in part, against the individual's personal income tax liability depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder. If the partnership held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, the dividends (after deduction of business expenses economically related thereto) should generally not be subject to trade tax. In this case, trade tax should, however, be levied on 5% of the dividends to the extent they are attributable to the profit share of such corporate partners to whom at least 10% of the shares in the Company are attributable on a look-through basis, since this portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of the dividend income attributable to partners other than such specific corporate partners

(which includes individual partners and should, according to a literal reading of the law, also include corporate partners to whom, on a look-through basis, only portfolio participations are attributable) should not be subject to trade tax.

#### *18.2.2.4 Financial and Insurance Sector*

Special rules apply to companies operating in the financial and insurance sectors, as well as pension funds (see “18.5 *Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*”).

### **18.3 Taxation of Dividends of Shareholders without a Tax Residence in Germany**

Dividends paid to shareholders of the Company (individuals and corporations) without a tax residence in Germany are taxed in Germany, provided that the shares are held as part of the business assets of a permanent establishment or a fixed base in Germany or as part of the business assets for which a permanent representative in Germany has been appointed. Subject to the Minimum Risk Test, the withholding tax (including solidarity surcharge) withheld and remitted to the German tax authorities is credited against the respective shareholder’s personal income tax or corporate income tax liability, and any overpayment will be refunded. The same applies to the solidarity surcharge. These shareholders are essentially subject to the same rules applicable to tax resident shareholders, as discussed above.

In all other cases, the withholding of the dividend withholding tax discharges any tax liability of the shareholder in Germany. A refund or exemption is granted only as discussed with respect to dividend withholding tax (see “18.1.2 *Withholding Tax*”).

Dividend payments that are funded from the Company’s tax-recognized contribution account (*steuerliches Einlagekonto*) are generally not taxable in Germany.

### **18.4 Taxation of Capital Gains**

#### *18.4.1 Taxation of Capital Gains of Shareholders with a Tax Residence in Germany*

##### *18.4.1.1 Shares and Subscription Rights Held as Private Assets*

Gains on the sale or disposal of shares/subscription rights that are held as private assets by shareholders with a tax residence in Germany and which were acquired after December 31, 2008, are generally taxable regardless of the length of time held. The tax rate is generally a uniform 25% plus the current 5.5% solidarity surcharge thereon (resulting in an aggregate tax rate of 26.375%) as well as any church tax, if applicable.

The taxable capital gains are the difference between (i) the proceeds from the disposal of the shares/and subscription rights after deducting the direct sales costs and (ii) the acquisition costs of the shares/subscription rights. Under certain conditions, prior payments from the tax-recognized contribution account (*steuerliches Einlagekonto*) may lead to reduced acquisition costs of the shares/subscription rights held as private assets and, as a consequence, increase the taxable sales gain. Losses on the sale or disposal of shares can only be used to offset gains made on the sale or disposal of shares during the same year or in subsequent years. Losses from the sale of subscription rights can generally be offset against positive private capital investment income without restrictions (*i.e.*, including such from the disposal of shares) earned in the same year or earned in subsequent years.

In the view of tax authorities, the exercise of subscription rights is not considered as a sale of such subscription rights. Shares acquired as a consequence of the exercise of subscription rights are deemed to be acquired at a subscription price of €0 at the time of exercise of the subscription right provided that no additional cash amount is payable upon subscription of the shares (otherwise the acquisition costs equal the cash amount paid for new shares).

If the shares/subscription rights are held in custody or administered by a domestic bank or financial service institute, a domestic securities trading company or a domestic securities trading bank (including the domestic branches of foreign banks and financial service institutes), or if such entity or branch sells the shares/subscription rights and pays out or credits the capital gains (each, a “**Domestic Paying Agent**”), such Domestic Paying Agent withholds a withholding tax of 25% plus the current 5.5% solidarity surcharge thereon and any church tax, if applicable, and remits such taxes to the tax authority. In such a case, the tax on the capital gain will generally be discharged. If the shares/subscription rights were only held in custody or administered by

the respective Domestic Paying Agent continuously after acquisition, the amount of taxes withheld is generally based on the difference between the proceeds from the sale, after deducting expenses directly related to the sale, and the amount paid to acquire such shares/subscription rights. The withholding tax rate of 25% plus the current 5.5% solidarity surcharge thereon and any church tax, if applicable, will, however, be applied to 30% of the gross sales proceeds, if the shares/subscription rights were not administered by the same custodian bank since acquisition and the original cost of the shares/subscription rights cannot be verified or such verification is not admissible. In this case, the shareholder is entitled to, and in case the actual gain is higher than 30% of the gross proceeds required to, verify the original costs of the shares/subscription rights in his or her annual tax return. In any case, the acquisition costs for subscription rights granted by the Company are valued at €0 for purposes of this calculation.

Entities required to collect withholding taxes on capital investment income are also required to withhold the church tax for shareholders who are subject to church tax, unless the shareholder objects in writing to the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) against the sharing of his or her private information regarding his or her affiliation with a denomination (*Sperrvermerk*). If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, then the church tax on the capital gain is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense. However, 26.375% of the church tax withheld on the capital gain is deducted from the withholding tax (including the solidarity surcharge) withheld.

If withholding tax or, if applicable, church tax on capital gains is not withheld by a Domestic Paying Agent, the respective shareholder is required to declare the capital gains in his income tax return. The income tax and any applicable church tax on the capital gains will then be collected by way of assessment.

A shareholder/subscription rights holder may request that all of his or her items of capital investment income, along with his or her other taxable income, are subject to the progressive income tax rate instead of the uniform tax rate for private capital investment income if this lowers his or her tax burden. In such case, the base for taxation would be the gross income less the savers' allowance of €801.00 (€1,602.00 for jointly filing individuals). The prohibition on deducting income-related costs and the restrictions on offsetting losses also apply to tax assessments based on the progressive income tax rate. Any tax already withheld would be credited against the income tax so determined, and any overpayment refunded.

One exception to this rule is that a shareholder's capital gains are subject to the partial income method and not the Flat Tax. Consequently, 60% of the proceeds from the sale or disposal of shares are subject to the individual income tax rate, if the shareholder, or his or her legal predecessor in case of acquisition without consideration, has directly or indirectly held shares equal to at least 1% of the Company's share capital at any time during the previous five years. 60% of the expenses economically related to the proceeds from the sale or disposal of shares are tax-deductible.

The partial-income method should apply *mutatis mutandis* to gains or losses on sales of subscription rights. In the case of a Qualified Participation, the "total value method" (*Gesamtwertmethode*) is used to determine the acquisition costs of the subscription rights. This is based on the concept that the acquisition of the subscription rights was included in the acquisition of the old shares. Accordingly, the granting of the subscription rights results in a splitting off of part of the original acquisition costs for the old shares (*i.e.*, the acquisition costs of the old shares are reduced by the portion attributable to the subscription rights split off).

In the case of a Qualified Participation, withholding tax (including the solidarity surcharge) is also withheld by the Domestic Paying Agent. The tax withheld, however, is not treated as a final tax. Hence, the shareholder is required to declare the gains from the sale in his or her income tax return. The withholding tax (including solidarity surcharge) withheld and remitted to the German tax authorities is credited against the respective shareholder's personal income tax liability, and any overpayment will be refunded.

#### 18.4.1.2 Shares and Subscription Rights Held as Business Assets

The Flat Tax does not apply to proceeds from the sale or disposal of shares or subscription rights held as business assets by shareholders tax resident in Germany. If the shares/subscription rights form part of a shareholder's business assets, taxation of the capital gains realized will then depend upon whether the shareholder is a corporation, sole proprietor or partnership. Dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) reduce the original acquisition costs/book value. This may give rise to a higher taxable capital gain in case of a sale or disposal of shares. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain may arise.

1. **Corporations:** In general, capital gains earned from the sale or disposal of shares by corporations domiciled in Germany are exempt from corporate income tax (including the solidarity surcharge) and trade tax, irrespective of the stake represented by the shares and the length of time the shares are held. 5% of the capital gains are, however, treated as a non-deductible business expenses and, as such, are subject to corporate income tax (plus the solidarity surcharge thereon) and to trade tax. Losses from the sale of shares and any connected reductions in profit do not qualify as tax-deductible business expenses. Gains realized on the sale of subscription rights are subject in full to corporate income and trade tax. Losses from the sale of subscription rights and other reductions in profit reduce the taxable income. According to the view of the tax authorities, the exercise of subscription rights should not be treated as a sale of subscription rights.
  
2. **Sole proprietors (individuals):** If the shares of the Company were acquired after December 31, 2008 and form part of the business assets of a sole proprietor (individual) who is tax resident in Germany, 60% of the capital gains on their sale are subject to the individual's personal tax rate plus the solidarity surcharge thereon (partial income method). Correspondingly, only 60% of losses from such sales and 60% of expenses economically related to such sales are deductible. For church tax, if applicable, the partial income method does not apply. If the shares are held as business assets of a commercial permanent establishment located in Germany, 60% of the capital gains are also subject to trade tax. There are good arguments that the partial income method should also apply to capital gains or losses from the sale of subscription rights held as business assets by a sole proprietor. Otherwise, the entire capital gain would be subject to income tax (plus solidarity surcharge and plus church tax, if applicable) and trade tax. In this case, losses and other expenses in relation to subscription rights would be deductible in full. The trade tax is fully or partially credited as a lump sum against the shareholder's personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder. The tax authorities take the view that the exercise of subscription rights is not considered a taxable event. Upon application and provided that additional prerequisites are met, a sole proprietor can obtain a certain reduction of his personal income tax rate for profits not withdrawn from the business.
  
3. **Commercial partnerships:** If the shareholder is a partnership, personal income tax or corporate income tax, as the case may be, is assessed at the level of each partner rather than at the level of the partnership. The taxation of each partner depends upon whether the respective partner is a corporation or an individual. If the partner is a corporation, the tax principles applying to capital gains which are outlined in subsection 1 apply. If the partner is an individual, the tax principles applying to capital gains that are outlined in subsection 2 apply. Upon application and provided that additional prerequisites are met, an individual who is a partner may obtain a reduction of his or her personal income tax rate for profits not withdrawn from the partnership. In addition, capital gains from the sale or disposal of shares/subscription rights attributable to a permanent establishment maintained in Germany by an actual or presumed commercial partnership are subject to trade tax at the level of the partnership. In such case, generally only 60% of the gains from shares in this case are subject to trade tax to the extent the partners in the partnership are individuals (there are good arguments that this also applies in relation to subscription rights), while 5% are subject to trade tax to the extent the partners are corporations and shares are sold. Under the principles discussed above, losses on sales and other reductions in profit related to the shares sold are generally not deductible or are only partially deductible, or, in case of subscription rights, fully deductible, if the partner is a corporation. If the partner is an individual, the trade tax the partnership pays on his or her share of the partnership's income is generally credited as a lump sum, in full or in part, against his or her personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of the taxpayer.

Special rules apply to capital gains realized by companies operating in the financial and insurance sectors, as well as pension funds (see "*18.5 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

If a Domestic Paying Agent is involved, the proceeds from the sale or disposal of shares/subscription rights held as business assets are generally subject to the same withholding tax rate as those of shareholders whose shares/subscription rights are held as private assets (see "*18.4.1.1 Shares and Subscription Rights Held as Private Assets*"). The Domestic Paying Agent may, however, refrain from withholding the withholding tax if



(i) the shareholder is a corporation, association or estate with its tax residence in Germany, or (ii) the shares/subscription rights form part of the shareholder's domestic business assets, and the shareholder informs the Domestic Paying Agent of this on the officially prescribed form and meets certain additional prerequisites. If the Domestic Paying Agent nevertheless withholds taxes, the withholding tax withheld and remitted (including the solidarity surcharge and church tax, if applicable) will be credited against the relevant shareholder's income tax or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) and any excess amount will be refunded.

#### **18.4.2 Taxation of Capital Gains of Shareholders without a Tax Residence in Germany**

Capital gains realized by a shareholder without a tax residence in Germany are only subject to German income tax if the selling shareholder holds a Qualified Participation or if the shares/subscription rights form part of the business assets of a permanent establishment in Germany or of business assets for which a permanent representative is appointed.

Most double taxation treaties provide for an exemption from German taxes, and assign the right of taxation to the shareholder's country of tax residence in the former case. Some double taxation treaties may, however, grant Germany the right to tax capital gains if the value of the company is predominately determined by the direct or indirect holding of real estate situated in Germany.

#### **18.5 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds**

As an exception to the aforementioned rules, dividends paid to, and capital gains realized by, certain companies in the financial and insurance sector are fully taxable. This applies to dividends received on, as well as gains from the disposal of, shares/subscription rights in a trading portfolio within the meaning of Section 340e para. 3 of the German Commercial Code (*Handelsgesetzbuch*) of credit institutions and financial services institutions, and shares/subscription rights that are, upon acquisition of the shares, allocable to the current assets of a financial enterprise within the meaning of the German Banking Act (*Kreditwesengesetz*) that is directly or indirectly held by a credit institution or financial services institution to more than 50%. The same applies to shares/subscription rights held as investments by life insurance providers, health insurance providers and pension funds. If the shareholding at the beginning of the relevant assessment period is 15% or higher, the dividends may, subject to certain conditions, be fully exempted from trade tax. However, an exemption to the foregoing (*i.e.*, and thus a 95% effective tax exemption) applies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies.

#### **18.6 Potential Change in Law / Amendment of the Solidarity Surcharge Act**

Pursuant to a newly enacted bill, the solidarity surcharge shall be abolished for 90% of all tax-payers and reduced for an additional 6.5% of all taxpayers starting in calendar year 2021 depending on certain income thresholds. According to the amended law the solidarity surcharge shall remain in place for purposes of the withholding tax, the Flat Tax regime and corporate income tax.

Besides this, the coalition agreement between the German Christian Democratic and Christian Social Union, as well as with the German Social Democratic Party for the formation of a new German federal government provides that the Flat Tax regime shall be partially abolished for interest income as soon as the automatic information exchange on tax matters (*Automatischer Informationsaustausch in Steuerfragen*) is established. Instead, interest income shall be taxed by way of assessment on the basis of the individual taxpayer's progressive income tax rates of up to 45% (plus a 5.5% solidarity surcharge thereon, unless (partially) abolished or reduced in the future, and church tax, if applicable).

#### **18.7 Inheritance and Gift Tax**

The transfer of shares/subscription rights to another person by inheritance or gift is generally only subject to German inheritance or gift tax if:

1. the decedent, donor, heir, beneficiary or other transferee maintained his domicile or habitual abode in Germany, or had its place of management or registered offices in Germany at the time of the transfer, or is a German citizen who has spent no more than five consecutive years (this term is extended to ten years for German expatriates with residence in the United States) prior to the transfer outside Germany without maintaining a residence in Germany (special rules apply to

certain former German citizens who neither maintain their domicile nor have their habitual abode in Germany); or

2. the shares/subscription rights were held by the decedent or donor as part of business assets for which a permanent establishment was maintained in Germany or for which a permanent representative in Germany had been appointed; or
3. the decedent or donor, either individually or collectively with related parties, held, directly or indirectly, at least 10% of the Company's registered share capital at the time of the inheritance or gift.

The few German double taxation treaties relating to inheritance tax and gift tax currently in force usually provide that the German inheritance tax or gift tax can only be levied in the cases of (No. 1.) above, and also with certain restrictions in case of (No. 2.) above. Special provisions apply to certain German nationals living outside Germany and former German nationals.

The fair value of the shares represents the tax assessment base, which generally corresponds to the stock exchange price of the Company's shares. Depending on the degree of relationship between decedent or donor and recipient, different tax-free allowances and tax rates apply.

### **18.8 The Proposed Financial Transactions Tax**

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a directive for a common financial transaction tax in certain participating member states of the European Union, including Germany. Such directive could under, depending on the actual circumstances, apply to certain transactions in the Company's shares, including with respect to secondary market transactions. The issuance and subscription of shares should, however, be exempt. The Commission's Proposal remains subject to negotiations between the participating member states of the European Union and it is currently unclear in what form and when the Commission's Proposal will be implemented, if at all. Recently, the German Federal Minister of Finance has submitted a proposal to introduce a financial transaction tax, which has also not yet been adopted or implemented in Germany.

### **18.9 Other Taxes**

No German transfer tax, value-added tax, stamp duty or similar taxes are assessed on the purchase, sale or other transfer of shares/subscription rights of the Company. Provided that certain requirements are met, an entrepreneur may, however, opt for the payment of value-added tax on transactions that are otherwise tax-exempt. Net wealth tax is currently not imposed in Germany.

## 19. FINANCIAL INFORMATION

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**Unaudited Condensed Consolidated Interim Financial Statements of  
Instone Real Estate Group AG  
as of and for the six-month period ended June 30, 2020 (IFRS)**

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## CONDENSED CONSOLIDATED INCOME STATEMENT

	01/01 – 30/06/2020	01/01 – 30/06/2019
	In thousands of euros	
Revenue . . . . .	168,876	170,965
Changes in inventories . . . . .	54,349	48,358
	<u>223,226</u>	<u>219,323</u>
Other operating income . . . . .	4,599	2,614
Cost of materials . . . . .	– 162,150	– 160,503
Staff costs . . . . .	– 19,959	– 16,543
Other operating expenses . . . . .	– 13,597	– 11,999
Depreciation and amortisation . . . . .	– 2,028	– 1,989
<b>Consolidated earnings from operating activities . . . . .</b>	<b><u>30,090</u></b>	<b><u>30,902</u></b>
Share of results of joint ventures . . . . .	255	– 380
Other results from investments . . . . .	– 616	– 1,917
Finance income . . . . .	48	670
Finance costs . . . . .	– 11,958	– 6,198
Other financial result . . . . .	– 97	235
<b>Consolidated earnings before tax (EBT) . . . . .</b>	<b><u>17,722</u></b>	<b><u>23,311</u></b>
Income taxes . . . . .	– 4,693	– 373
<b>Consolidated earnings after tax (EAT) . . . . .</b>	<b><u>13,029</u></b>	<b><u>22,937</u></b>
<b>Attributable to:</b>		
Owners of the Company . . . . .	13,023	22,935
Non-controlling interests . . . . .	6	3

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<u>01/01– 30/06/2020</u>	<u>01/01– 30/06/2019</u>
	<u>In thousands</u>	<u>of euros</u>
<b>Consolidated earnings after tax</b> .....	<b>13,029</b>	<b>22,937</b>
<b>Items which are not reclassified into the consolidated earnings in future periods</b>		
Actuarial gains and losses .....	16	–1,974
Income tax effects .....	–5	644
<b>Income and expenses after tax recognised directly in equity</b> .....	<u><b>11</b></u>	<u><b>–1,330</b></u>
<b>Total comprehensive income for the financial year after tax</b> .....	<b>13,040</b>	<b>21,607</b>
<b>Attributable to:</b>		
Owners of the Company .....	13,034	21,605
Non-controlling interests .....	<u>6</u>	<u>3</u>
	<u><b>13,040</b></u>	<u><b>21,607</b></u>
<b>Basic and diluted earnings per share (in €)</b> .....	<b>0.35</b>	<b>0.62</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill . . . . .	6,056	6,056
Intangible assets . . . . .	97	115
Right of use assets . . . . .	8,319	9,675
Property, plant and equipment . . . . .	2,032	2,126
Interests in joint ventures . . . . .	934	678
Other investments . . . . .	2,245	1,145
Financial receivables . . . . .	0	450
Deferred tax . . . . .	50	161
	<u>19,733</u>	<u>20,406</u>
<b>Current assets</b>		
Inventories . . . . .	786,477	732,127
Financial receivables . . . . .	9,900	5
Contract assets . . . . .	202,950	219,019
Trade receivables . . . . .	2,884	8,278
Other receivables and other assets . . . . .	10,273	12,473
Income tax assets . . . . .	14,216	13,956
Cash and cash equivalents . . . . .	60,010	117,090
	<u>1,086,709</u>	<u>1,102,948</u>
<b>TOTAL ASSETS</b> . . . . .	<u><b>1,106,442</b></u>	<u><b>1,123,354</b></u>



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital . . . . .	36,988	36,988
Capital reserves . . . . .	198,899	198,899
Group retained earnings . . . . .	87,735	74,713
Accumulated reserves recognised in other comprehensive income . . . . .	-1,353	-1,364
Equity attributable to shareholders . . . . .	322,270	309,236
Non-controlling interests . . . . .	931	924
	<u><b>323,201</b></u>	<u><b>310,161</b></u>
<b>Non-current liabilities</b>		
Provisions for pensions and similar obligations . . . . .	4,150	3,940
Other provisions . . . . .	6,963	6,329
Financial liabilities . . . . .	253,644	451,586
Liabilities from net assets attributable to non-controlling interests . . . . .	9,738	9,504
Leasing liabilities . . . . .	5,898	6,836
Deferred tax . . . . .	12,972	11,965
	<u><b>293,364</b></u>	<u><b>490,161</b></u>
<b>Current liabilities</b>		
Other provisions . . . . .	22,636	22,967
Financial liabilities . . . . .	346,353	143,927
Leasing liabilities . . . . .	2,595	3,004
Contract liabilities . . . . .	22,721	23,292
Trade payables . . . . .	64,492	87,592
Other liabilities . . . . .	6,222	13,127
Income tax liabilities . . . . .	24,858	29,123
	<u><b>489,878</b></u>	<u><b>323,033</b></u>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<u><u><b>1,106,442</b></u></u>	<u><u><b>1,123,354</b></u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	01/01–30/06/2020	01/01–30/06/2019
	In thousands of euros	
<b>Consolidated earnings after tax</b> . . . . .	<b>13,029</b>	<b>22,937</b>
(+) Depreciation and amortisation/(–) reversal of impairments of property, plant and equipment . . . . .	423	402
(+) Profit/(–) loss on disposals of property, plant and equipment . . . . .	821	0
(+) Increase/(–) decrease in provisions . . . . .	511	–1,183
(+) Increase/(–) decrease in deferred tax . . . . .	1,118	–2,578
(+) Decrease/(–) increase in interests in joint ventures . . . . .	–255	–70
(+/-) Change in net assets attributable to non-controlling interests . . . . .	625	1,934
(+) Interest expenses/(–) interest income . . . . .	11,921	5,407
(+) Income tax expense/(–) income tax income . . . . .	2,591	2,981
(+) Other non-cash income/(–) expenses . . . . .	11	–328
(+/-) Change in leased assets/leasing liabilities . . . . .	–109	–26
(+/-) Change in net working capital <sup>(1)</sup> . . . . .	–61,407	–21,696
(+) Income tax payments/(–) income tax reimbursements . . . . .	–7,116	–6,310
<b>= Cash flow from operations</b> . . . . .	<b><u>–37,838</u></b>	<b><u>1,469</u></b>
(–) Outflows for investments in intangible assets . . . . .	0	–3
(+) Proceeds from disposals of property, plant and equipment . . . . .	7	2
(–) Outflows for investments in property, plant and equipment . . . . .	–1,139	–538
(+) Proceeds from disposals of investments . . . . .	450	560
(–) Outflows for investments in financial assets . . . . .	–10,995	0
(+) Interest received . . . . .	193	0
<b>= Cash flow from investing activities</b> . . . . .	<b><u>–11,484</u></b>	<b><u>21</u></b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

	<u>01/01–30/06/2020</u>	<u>01/01/–30/06/2019</u>
	<u>In thousands of euros</u>	
(–) Payments to minority shareholders . . . . .	–390	0
(+) Proceeds from loans and borrowings . . . . .	353,744	131,654
(–) Repayments of loans and borrowings . . . . .	–358,154	–117,297
(–) Interest paid . . . . .	<u>–2,957</u>	<u>–1,813</u>
<b>= Cash flow from financing activities . . . . .</b>	<b><u>–7,757</u></b>	<b><u>12,544</u></b>
Cash and cash equivalents at the beginning of the period . . . . .	117,090	87,965
(+/-) Change in cash and cash equivalents . . . . .	<u>–57,080</u>	<u>14,034</u>
<b>= Cash and cash equivalents at the end of the period . . . . .</b>	<b><u>60,010</u></b>	<b><u>101,999</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total	Share capital	Capital reserves	Group retained earnings	Accumulated reserves recognised in other comprehensive income	Equity attributable to shareholders	Non- controlling interests
	In thousands of euros						
<b>As at: 31 December 2018</b> . . . . .	<b>246,868</b>	<b>36,988</b>	<b>198,899</b>	<b>6,825</b>	<b>-1,051</b>	<b>241,662</b>	<b>5,206</b>
Effect of the first-time application of IFRS 16 . . . . .	-74	0	0	-74	0	-74	0
<b>As at: 1 January 2019</b> . . . . .	<b>246,794</b>	<b>36,988</b>	<b>198,899</b>	<b>6,751</b>	<b>-1,051</b>	<b>241,588</b>	<b>5,206</b>
Consolidated earnings after tax . . . . .	22,937	0	0	22,935	0	22,935	3
Changes in actuarial gains and losses . . . . .	-1,331	0	0	0	-1,331	-1,331	0
<b>Total comprehensive income</b> . . . . .	<b>21,607</b>	<b>0</b>	<b>0</b>	<b>22,935</b>	<b>-1,331</b>	<b>21,604</b>	<b>3</b>
Changes to the scope of consolidation . . . . .	912	0	0	0	0	0	912
Other . . . . .	-2,512	0	0	447	1	447	-2,959
	<b>-1,600</b>	<b>0</b>	<b>0</b>	<b>447</b>	<b>1</b>	<b>447</b>	<b>-2,047</b>
<b>As at: 30 June 2019</b> . . . . .	<b>266,801</b>	<b>36,988</b>	<b>198,899</b>	<b>30,133</b>	<b>-2,381</b>	<b>263,639</b>	<b>3,162</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

	<u>Total</u>	<u>Share capital</u>	<u>Capital reserves</u>	<u>Group retained earnings</u>	<u>Accumulated reserves recognised in other comprehensive income</u>	<u>Equity attributable to shareholders</u>	<u>Non- controlling interests</u>
	In thousands of euros						
<b>As at: 31 December 2019</b> . . . . .	<b>310,161</b>	<b>36,988</b>	<b>198,899</b>	<b>74,713</b>	<b>-1,363</b>	<b>309,236</b>	<b>924</b>
<b>As at: 1 January 2020</b> . . . . .	<b>310,161</b>	<b>36,988</b>	<b>198,899</b>	<b>74,713</b>	<b>-1,363</b>	<b>309,236</b>	<b>924</b>
Consolidated earnings after tax . . . . .	13,029	0	0	13,023	0	13,023	6
Changes in actuarial gains and losses . . . . .	11	0	0	0	11	11	0
<b>Total comprehensive income</b> . . . . .	<b>13,040</b>	<b>0</b>	<b>0</b>	<b>13,023</b>	<b>11</b>	<b>13,034</b>	<b>6</b>
<b>As at: 30 June 2020</b> . . . . .	<b>323,201</b>	<b>36,988</b>	<b>198,899</b>	<b>87,735</b>	<b>-1,353</b>	<b>322,271</b>	<b>931</b>

## **SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **BASIS OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

#### **Basis for preparing the condensed consolidated interim financial statements**

The condensed consolidated interim financial statements of Instone Real Estate and its subsidiaries as of 30 June 2020 and for the six months then ended have been prepared in accordance with the International Accounting Standard (IAS) 34 “Interim reporting” and the German Accounting Standard (DRS) 16 “Semi-annual financial reporting”

They should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s Annual Report for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they applied on the balance sheet date, in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union and the supplementary disclosures in accordance with Section 315e HGB.

The preparation of the interim report requires management to make a series of assumptions and estimates. This may lead to discrepancies between the values shown in the interim report and the actual values.

Various items from the condensed consolidated statement of financial position and the condensed consolidated income statement are combined into one item for a better overview. The condensed consolidated income statement is prepared according to the nature of expense method.

The condensed consolidated interim financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are stated in thousands of euros (€ thousand), unless otherwise indicated. Commercial rounding may lead to immaterial rounding differences in the totals.

#### **First-time application of accounting standards in the current financial year**

In recent years, the International Accounting Standards Board (IASB) has made various changes to existing IFRS and published new IFRS as well as Interpretations of the IFRS Interpretations Committee (IFRS IC). In addition, the IASB has published amendments to existing standards as part of the Annual Improvement Project (AIP). The primary aim of the collective standards is to clarify inconsistencies and formulations.

The changes to the accounting standards that came into effect on 1 January 2020 have no impact on these condensed consolidated interim financial statements.

#### **Scope of consolidation**

As at 30 June 2020, a total of 19 (31 December 2019: 25) domestic and two (31 December 2019: two) European foreign subsidiaries, in addition to Instone Real Estate Group AG, have been included and fully consolidated in the current condensed consolidated interim financial statements.

Six companies have been removed from the scope of consolidation as a result of mergers within the Group.

In total, six group entities (31 December 2019: six) had a low business volume or no business operation and were not consolidated for reasons of materiality. They are reported under other investments.

## **SEGMENT REPORTING**

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

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

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

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

### **Adjusted revenue**

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

### **Adjusted gross profit**

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

### **Adjusted earnings after tax**

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

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

### **Share deal effects**

The project companies Westville 2 GmbH, Westville 3 GmbH, Westville 4 GmbH and Westville 5 GmbH are commercially conceived as asset management companies and constitute a major project in Frankfurt am Main. Instone Real Estate has already sold these project companies in the form of a share deal with the obligation to build a residential complex. In the adjusted results of operations, the overall “Westville” project is managed in the same way as the other projects in the Instone Group, with revenue recognition over time per IFRS 15. These companies are valued and included in the consolidated financial statements in accordance with IAS 2. The effects from this different valuation are reflected in revenues for the six month period ended June 30, 2020 of €10,451 thousand (six month period ended June 30, 2019: €0 thousand), changes in inventories for the six month period ended June 30, 2020 of €–10,085 thousand (six month period ended June 30, 2019: €0 thousand) and income taxes for the six month period ended June 30, 2020 of €–58 thousand (six month period ended June 30, 2019: €0 thousand).

### **Effects from purchase price allocations**

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as at 30 June 2020 inventories and contract assets still included write-ups of €45,349 thousand (31 December 2019: €46,127 thousand) from purchase price allocations. The ongoing amortisation of these purchase price allocations on the basis of the progressive implementation of the projects included in these

initial consolidations is adjusted for internal reporting. The adjustment for the amortisation of purchase price allocations was attributable for the six month period ended June 30, 2020 as follows: €254 thousand (six month period ended June 30, 2019: €3,212 thousand) to sales revenues, €-191 thousand (six month period ended June 30, 2019: €-60 thousand) to the cost of materials, €524 thousand (six month period ended June 30, 2019: €0 thousand) to changes in inventories and €182 thousand (six month period ended June 30, 2019: €-1,006 thousand) to income taxes. Based on current estimates, the Instone Group expects these effects to expire in 2024.

#### **Reclassifications and one-off events and effects**

Indirect selling expenses for the six month period ended June 30, 2020 of €1,104 thousand (six month period ended June 30, 2019: €1,294 thousand) were allocated to project expenses as at 30 June 2020. The adjustment of the capitalised interest in the changes in inventories for the six month period ended June 30, 2020 of €3,110 thousand (six month period ended June 30, 2019: €2,195 thousand) burdened the project costs.



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

#### RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS

	Internal reporting	Share deal effects	Reclassifications	PPA	In thousands of euros	01/01–30/06/2020 (reported) IFRS reporting	01/01–30/06/2019 (adjusted) internal reporting	Reclassifications	PPA	01/01–30/06/2019 (reported)
<b>Revenue</b>	<b>179,581</b>	<b>-10,451</b>	<b>0</b>	<b>-254</b>	<b>168,876</b>	<b>174,177</b>	<b>174,177</b>	<b>0</b>	<b>-3,212</b>	<b>170,965</b>
<b>Project costs</b>	<b>-121,766</b>	<b>10,085</b>	<b>4,214</b>	<b>-333</b>	<b>-107,801</b>	<b>-115,695</b>	<b>-115,695</b>	<b>3,490</b>	<b>60</b>	<b>-112,144</b>
Cost of materials	-163,445	0	1,104	191	-162,150	-161,858	-161,858	1,294	60	-160,503
Changes in inventories	41,679	10,085	3,110	-524	54,349	46,163	46,163	2,195	0	48,358
<b>Gross profit</b>	<b>57,815</b>	<b>-366</b>	<b>4,214</b>	<b>-587</b>	<b>61,076</b>	<b>58,482</b>	<b>58,482</b>	<b>3,490</b>	<b>-3,152</b>	<b>58,820</b>
<b>Platform costs</b>	<b>-29,882</b>	<b>0</b>	<b>-1,104</b>	<b>0</b>	<b>-30,986</b>	<b>-26,166</b>	<b>-26,166</b>	<b>-1,752</b>	<b>0</b>	<b>-27,918</b>
Staff costs	-19,959	0	0	0	-19,959	-16,543	-16,543	0	0	-16,543
Other operating income	4,599	0	0	0	4,599	2,614	2,614	0	0	2,614
Other operating expenses	-12,493	0	-1,104	0	-13,597	-10,247	-10,247	-1,752	0	-11,999
Depreciation and amortisation	-2,028	0	0	0	-2,028	-1,989	-1,989	0	0	-1,989
Share of results of joint ventures	255	0	0	0	255	-380	-380	0	0	-380
<b>EBIT</b>	<b>28,189</b>	<b>-366</b>	<b>3,110</b>	<b>-587</b>	<b>30,345</b>	<b>31,937</b>	<b>31,937</b>	<b>1,738</b>	<b>-3,152</b>	<b>30,522</b>
Other results from investments	-616	0	0	0	-616	-2,375	-2,375	458	0	-1,917
Financial result	-8,897	0	-3,110	0	-12,007	-3,099	-3,099	-2,195	0	-5,294
<b>EBT</b>	<b>18,675</b>	<b>-366</b>	<b>0</b>	<b>-587</b>	<b>17,722</b>	<b>26,463</b>	<b>26,463</b>	<b>0</b>	<b>-3,152</b>	<b>23,311</b>
Taxes	-4,933	58	0	182	-4,693	-1,379	-1,379	0	1,006	-373
<b>EAT</b>	<b>13,742</b>	<b>-308</b>	<b>0</b>	<b>-405</b>	<b>13,029</b>	<b>25,083</b>	<b>25,083</b>	<b>0</b>	<b>-2,146</b>	<b>22,937</b>

## DISCLOSURES ABOUT THE CONSOLIDATED INCOME STATEMENT

### Revenue

Revenue is spread across the following regions:

#### REVENUE BY REGION

	<u>01/01–30/06/2020</u>	<u>01/01–30/06/2019</u>
	<u>In thousands of euros</u>	
Germany . . . . .	168,857	170,950
Rest of Europe . . . . .	20	14
	<u>168,876</u>	<u>170,965</u>

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

#### REVENUE BY REVENUE TYPE

	<u>01/01–30/06/2020</u>	<u>01/01–30/06/2019</u>
	<u>In thousands of euros</u>	
Revenue from building contracts		
Revenue recognised over time . . . . .	166,399	167,318
Revenue recognised at a point in time . . . . .	0	1,299
	<u>166,399</u>	<u>168,617</u>
Income from leases . . . . .	2,400	2,221
Other services . . . . .	78	127
	<u>168,876</u>	<u>170,965</u>

The total amount of unfulfilled or partly unfulfilled performance obligations as at the balance sheet date is €1,050,935 thousand (31 December 2019: €1,071,275 thousand).

### Depreciation and impairment

There was no impairment of right of use assets, property, plant and equipment or intangible assets.

#### DEPRECIATION AND AMORTISATION

	<u>01/01–30/06/2020</u>	<u>01/01–30/06/2019</u>
	<u>In thousands of euros</u>	
Right of use assets . . . . .	-1,605	-1,587
Property, plant and equipment . . . . .	-405	-377
Intangible assets . . . . .	-18	-25
	<u>-2,028</u>	<u>-1,989</u>

Income taxes

## INCOME TAXES

	<u>01/01–30/06/2020</u>	<u>01/01–30/06/2019</u>
	<u>In thousands of euros</u>	
<b>Current income tax</b>		
German trade tax . . . . .	-1,655	-1,640
Corporation tax . . . . .	<u>-937</u>	<u>-1,341</u>
	<u><b>-2,591</b></u>	<u><b>-2,981</b></u>
<b>Deferred tax</b>		
Deferred tax . . . . .	<u>-2,101</u>	<u>2,607</u>
	<u><b>-4,693</b></u>	<u><b>-373</b></u>

## DISCLOSURES ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Inventories

#### INVENTORIES

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
Work-in-progress . . . . .	786,400	732,051
Finished goods . . . . .	<u>77</u>	<u>77</u>
	<u><b>786,477</b></u>	<u><b>732,127</b></u>

Work-in-progress is subject to disposal restrictions due to project financing by banks amounting to €382,063 thousand (31 December 2019: €366,025 thousand).

Borrowing costs for the six-month period ended June 30, 2020 in the amount of €4,218 thousand (six month period ended June 30, 2019: €13,160 thousand) were capitalised as part of production costs recognised for inventories attributable to project-related financing based on individual agreements with external lenders.

As in the same period of the previous year, inventories were not subject to impairment. As in the same period of the previous year, reversals of impairment losses were not made in the period under review.

### Contract assets

The structure of contract assets is composed as follows:

#### CONTRACT ASSETS

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
Contract assets . . . . .	491,087	479,401
Payments received . . . . .	<u>-292,860</u>	<u>-266,923</u>
	<u><b>198,227</b></u>	<u><b>212,478</b></u>
Receivables from contract start-up costs . . . . .	<u>4,722</u>	<u>6,541</u>
	<u><b>202,950</b></u>	<u><b>219,019</b></u>

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

The cycle of contract assets is—equivalent to the project term—an average of three years.

The amortisation of the costs to obtain a contract for the six month period ended June 30, 2020 in the amount of €2,238 thousand (six month period ended June 30, 2019: €3,171 thousand) offsets the fulfilment of the underlying contracts with customers.

## Financial liabilities

### FINANCIAL LIABILITIES

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
Non-current		
Loans from banks . . . . .	253,644	451,586
	<b>253,644</b>	<b>451,586</b>
Current		
Loans from banks . . . . .	345,721	143,294
Loans from third parties . . . . .	633	633
	<b>346,353</b>	<b>143,927</b>
	<b><u>599,997</u></b>	<b><u>595,513</u></b>

### FINANCIAL LIABILITIES 2020

			<u>Non-cash changes</u>			
	<u>30/06/2020</u>	<u>1 January</u>	<u>Cash flows from financing activities</u>	<u>Changes to the scope of consolidation</u>	<u>Deferred interest</u>	<u>Amortisation from the valuation using the effective interest method</u>
	<u>In thousands of euros</u>					
Loans from banks . . . . .	599,364	594,881	-4,410	0	8,636	257
Loans from third parties . . . . .	633	633	0	0	0	0
	<b>599,997</b>	<b>595,513</b>	<b>-4,410</b>	<b>0</b>	<b>8,636</b>	<b>257</b>

### FINANCIAL LIABILITIES 2019

			<u>Non-cash changes</u>			
	<u>31/12/2019</u>	<u>1 January</u>	<u>Cash flows from financing activities</u>	<u>Changes to the scope of consolidation</u>	<u>Deferred interest</u>	<u>Amortisation from the valuation using the effective interest method</u>
	<u>In thousands of euros</u>					
Loans from banks . . . . .	594,881	265,239	276,042	41,578	13,756	-1,734
Loans from third parties . . . . .	633	327	305	0	0	0
	<b>595,513</b>	<b>265,566</b>	<b>276,348</b>	<b>41,578</b>	<b>13,756</b>	<b>-1,734</b>

Current and non-current loans from banks consisted of fixed and variable interest rate loans issued by various banks.

In accordance with the Group's policy, Instone Group's loans from banks are not the subject of contractual assurances and are instead secured by land charges.

## OTHER DISCLOSURES

### Disclosures about related persons and companies

Key related persons and companies include any material entities valued at equity and members of the Management Board and Supervisory Board.

## Relationships with associates

### RELATIONSHIPS WITH JOINT VENTURES/OTHER INVESTMENTS

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<u>In thousands of euros</u>	
<b>Receivables</b>		
Instone Real Estate Projektverwaltungs GmbH .....	0	5
	<b>0</b>	<b>5</b>
<b>Liabilities</b>		
Wohnpark Gießener Straße GmbH & Co. KG .....	485	485
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG .....	<u>148</u>	<u>148</u>
	<b><u>633</u></b>	<b><u>633</u></b>

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

These transactions are concluded under normal market conditions.

### Relationships with related persons

There were no material transactions between Instone Real Estate Group AG, Essen, Germany or a Group company and persons from the Management Board or related persons or companies during the reporting period. There are no conflicts of interest in terms of the participating members of the Management Board and the Supervisory Board.

### Further disclosures on financial instruments

The carrying amounts for individual classes of financial instruments and the carrying amounts for individual categories are shown below in accordance with IFRS 7:

With the financial instruments accounted for at amortised costs, the carrying amount largely corresponds to the fair value, due to the short remaining maturity.

## CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2020

	Carrying amount 30/06/2020	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9
	In thousands of euros			
<b>ASSETS</b>				
<b>Financial assets</b>				
<b>Financial receivables</b>				
Current	9,900	0	9,900	0
	<b>9,900</b>	<b>0</b>	<b>9,900</b>	<b>0</b>
Other investments	2,245	2,245	0	0
Contract assets	202,950	0	0	202,950
Trade receivables	2,884	0	2,884	0
Other receivables	10,273	0	10,273	0
Cash and cash equivalents	60,010	0	60,010	0
	<b>288,262</b>	<b>2,245</b>	<b>83,067</b>	<b>202,950</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Financial liabilities</b>				
<b>Financial liabilities</b>				
Non-current	253,644	0	253,644	0
Current	346,353	0	346,353	0
	<b>599,997</b>	<b>0</b>	<b>599,997</b>	<b>0</b>
Contract liabilities	22,721	0	0	22,721
Liabilities from net assets attributable to non-controlling interests	9,738	9,738	0	0
Trade payables	64,492	0	64,492	0
Other liabilities	6,222	0	6,222	0
	<b>703,170</b>	<b>9,738</b>	<b>670,711</b>	<b>22,721</b>

## CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2019

	Carrying amount 31/12/2019	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9
	In thousands of euros			
<b>ASSETS</b>				
<b>Financial assets</b>				
<b>Financial receivables</b>				
Non-current . . . . .	450	0	450	0
Current . . . . .	<u>5</u>	<u>0</u>	<u>5</u>	<u>0</u>
	<b><u>455</u></b>	<b><u>0</u></b>	<b><u>455</u></b>	<b><u>0</u></b>
Other investments . . . . .	1,145	1,145	0	0
Contract assets . . . . .	219,019	0	0	219,019
Trade receivables . . . . .	8,278	0	8,278	0
Other receivables . . . . .	12,473	0	12,473	0
Cash and cash equivalents . . . . .	<u>117,090</u>	<u>0</u>	<u>117,090</u>	<u>0</u>
	<b><u>358,460</u></b>	<b><u>1,145</u></b>	<b><u>138,296</u></b>	<b><u>219,019</u></b>
<b>EQUITY AND LIABILITIES</b>				
<b>Financial liabilities</b>				
<b>Financial liabilities</b>				
Non-current . . . . .	451,586	0	451,586	0
Current . . . . .	<u>143,927</u>	<u>0</u>	<u>143,927</u>	<u>0</u>
	<b><u>595,513</u></b>	<b><u>0</u></b>	<b><u>595,513</u></b>	<b><u>0</u></b>
Contract liabilities . . . . .	23,292	0	0	23,292
Liabilities from net assets attributable to non- controlling interests . . . . .	9,504	9,504	0	0
Trade payables . . . . .	87,592	0	87,592	0
Other liabilities . . . . .	<u>13,127</u>	<u>0</u>	<u>13,127</u>	<u>0</u>
	<b><u>729,028</u></b>	<b><u>9,504</u></b>	<b><u>696,232</u></b>	<b><u>23,292</u></b>

## **EVENTS AFTER THE BALANCE SHEET DATE**

On 11 August 2020, Instone Real Estate Group AG took out another promissory note loan for €100 million with a term of five years, which was paid out in August 2020. The newly procured funds were used to reduce existing short-term, high-interest corporate finance of €75 million. It also provides the Group with additional capital for further growth.

There were no other events of particular significance to report after the balance sheet date on 30 June 2020.

### **Information on preparation and approval**

The Management Board of Instone Real Estate Group AG prepared the interim consolidated financial statements on 26 August 2020 and approved them for forwarding to the Supervisory Board.

Essen, 26 August 2020

The Management Board

Kruno Crepulja

Dr. Foruhar Madjlessi

Andreas Gräf



*The following review report (Bescheinigung nach prüferischer Durchsicht) has been issued in German language on the German version of the condensed consolidated interim financial statements of Instone Real Estate Group Aktiengesellschaft as of and for the six-month period ended 30 June 2020 and the interim group management report. The interim group management report is not included in this Prospectus.*

## **Review Report**

To Instone Real Estate Group AG, Essen/Germany

We have reviewed the condensed consolidated interim financial statements—comprising the condensed consolidated statement of financial position as of 30 June 2020, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity as well as selected explanatory notes to the condensed consolidated interim financial statements—and the interim group management report for the six month period from 1 January to 30 June 2020 of Instone Real Estate Group AG, Essen/Germany, that are part of the half-year financial report under Section 115 German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the executive directors. Our responsibility is to express a conclusion on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and of the interim group management report in compliance with German Generally Accepted Standards for Reviews of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the review to obtain a certain level of assurance to preclude through critical evaluation that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and to analytical procedures applied to financial data and thus provides less assurance than an audit. Since, in accordance with our engagement, we have not performed an audit, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Instone Real Estate Group AG, Essen/Germany, are not prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Düsseldorf/Germany, 26 August 2020

### **Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

Signed: Prof. Dr. Holger Reichmann  
Wirtschaftsprüfer  
(German Public Auditor)

Signed: Michael Pfeiffer  
Wirtschaftsprüfer  
(German Public Auditor)

**Audited Consolidated Financial Statements of  
Instone Real Estate Group AG  
as of and for the financial year ended December 31, 2019 (IFRS)**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF  
AND FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019  
OF INSTONE REAL ESTATE GROUP AG, ESSEN**

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## CONSOLIDATED INCOME STATEMENT

	Note	2019	2018
In thousands of euros			
Revenue . . . . .	1	509,494	360,836
Changes in inventories . . . . .		277,270	57,026
		<b>786,765</b>	<b>417,862</b>
Other operating income . . . . .	2	7,717	2,675
Cost of materials . . . . .	3	-633,954	-320,353
Staff costs . . . . .	4	-37,336	-33,563
Other operating expenses . . . . .	5	-33,048	-27,926
Depreciation and amortisation . . . . .	6	-4,065	-587
<b>Consolidated earnings from operating activities . . . . .</b>		<b>86,079</b>	<b>38,108</b>
Share of results of joint ventures . . . . .	7	744	302
Other results from investments . . . . .	7	-5,734	-14
Finance income . . . . .	8	1,085	516
Finance costs . . . . .	8	-19,121	-8,946
Other financial result . . . . .	8	189	-386
<b>Consolidated earnings before tax (EBT) . . . . .</b>		<b>63,241</b>	<b>29,580</b>
Income taxes . . . . .	9	6,535	-20,547
<b>Consolidated earnings after tax (EAT) . . . . .</b>		<b>69,776</b>	<b>9,033</b>
<b>Attributable to:</b>			
Owners of the Company . . . . .		69,764	6,500
Non-controlling interests . . . . .		12	2,533

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>2019</b>	<b>2018</b>
	<b>In thousands</b>	<b>of euros</b>
<b>Consolidated earnings after tax</b> .....	<b>69,776</b>	<b>9,033</b>
<b>Items which are not reclassified into the consolidated earnings in future periods</b>		
Actuarial gains and losses .....	-465	-1,042
Income tax effects .....	152	340
<b>Income and expenses after tax recognised directly in equity</b> .....	<b>-313</b>	<b>-702</b>
<b>Total comprehensive income for the financial year after tax</b> .....	<b>69,463</b>	<b>8,331</b>
<b>Attributable to:</b>		
Owners of the Company .....	69,451	5,798
Non-controlling interests .....	12	2,533
	<b>69,463</b>	<b>8,331</b>
<b>Basic and diluted earnings per share (in €)</b> .....	<b>1.89</b>	<b>0.18</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31/12/2019	31/12/2018
		In thousands of euros	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill . . . . .	11	6,056	0
Intangible assets . . . . .	12	115	155
Right of use assets . . . . .	13	9,675	0
Property, plant and equipment . . . . .	14	2,126	1,995
Interests in joint ventures . . . . .	15	678	237
Other investments . . . . .	16	1,145	421
Financial receivables . . . . .	18	450	0
Deferred tax . . . . .	28	161	0
		<b>20,406</b>	<b>2,808</b>
<b>Current assets</b>			
Inventories . . . . .	17	732,127	404,400
Financial receivables . . . . .	18	5	65
Contract assets . . . . .	19	219,019	158,489
Trade receivables . . . . .	20	8,278	13,127
Other receivables and other assets . . . . .	21	12,473	18,766
Income tax assets . . . . .	22	13,956	997
Cash and cash equivalents . . . . .	23	117,090	87,965
		<b>1,102,948</b>	<b>683,809</b>
<b>TOTAL ASSETS</b> . . . . .		<b>1,123,354</b>	<b>686,617</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

	Note	31/12/2019	31/12/2018
In thousands of euros			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	24		
Share capital . . . . .		36,988	36,988
Capital reserves . . . . .		198,899	198,899
Group retained earnings . . . . .		74,713	6,825
Accumulated reserves recognised in other comprehensive income . . . . .		-1,364	-1,050
Equity attributable to shareholders . . . . .		309,236	241,662
Non-controlling interests . . . . .		924	5,206
		<b>310,161</b>	<b>246,868</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations . . . . .	25	3,940	3,967
Other provisions . . . . .	26	6,329	4,548
Financial liabilities . . . . .	27	451,586	177,744
Liabilities from net assets attributable to non-controlling interests . . . . .	29	9,504	0
Leasing liabilities . . . . .	30	6,836	0
Deferred tax . . . . .	28	11,965	32,184
		<b>490,161</b>	<b>218,443</b>
<b>Current liabilities</b>			
Other provisions . . . . .	26	22,967	17,726
Financial liabilities . . . . .	27	143,927	87,822
Leasing liabilities . . . . .	29	3,004	0
Contract liabilities . . . . .	31	23,292	6,633
Trade payables . . . . .	32	87,592	78,342
Other liabilities . . . . .	33	13,127	12,689
Income tax liabilities . . . . .	34	29,123	18,094
		<b>323,033</b>	<b>221,306</b>
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<b>1,123,354</b>	<b>686,617</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
	In thousands of euros	of euros
<b>Consolidated earnings after tax</b> .....	<b>69,776</b>	<b>9,033</b>
(+) Depreciation and amortisation/(-) reversal of impairments of property, plant and equipment .....	842	587
(+) Loss/(-) Profit from the disposal of intangible assets .....	8	0
(+) Profit/(-) Loss on disposals of property, plant and equipment .....	0	-576
(+) Increase/(-) Decrease in provisions .....	6,939	-28,430
(+) Increase/(-) Decrease in deferred tax .....	-25,877	24,515
(+) Decrease/(-) Increase in interests in joint ventures .....	-442	160
(+) Change in net assets attributable to non-controlling interests .....	5,751	0
(+) Interest expenses/(-) Interest income .....	17,970	8,417
(+) Income tax expense/(-) Income tax income .....	20,310	17,408
(+) Other non-cash income/(-) Expenses .....	-313	-14,155
(+/-) Change in net working capital <sup>(1)</sup> .....	-277,809	-50,898
(+) Income tax payments/(-) Income tax reimbursements .....	-22,240	-6,458
<b>= Cash flow from operations</b> .....	<b>-205,085</b>	<b>-40,396</b>
(+) Proceeds from disposals of intangible assets .....	0	182
(-) Outflows for investments in intangible assets .....	-3	0
(-) Outflows for investments in property, plant and equipment .....	-938	-1,114
(+) Proceeds from disposals of investments .....	0	661
(-) Outflows for investments in financial assets .....	-1,155	0
(-) Payments for acquisitions less cash and cash equivalents acquired .....	-31,848	0
(+) Interest received .....	1,556	758
<b>= Cash flow from investing activities</b> .....	<b>-32,389</b>	<b>487</b>

(1) Net working capital is composed of inventories, contractual assets and trade receivables less contractual liabilities and trade payables.



**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

	<b>2019</b>	<b>2018</b>
	<b>In thousands</b>	<b>of euros</b>
(+) Proceeds from additions to issued capital . . . . .	0	150,500
(-) Payments to minority shareholders . . . . .	-3,255	0
(-) Payments for transaction costs related to issued capital . . . . .	0	-9,252
(-) Repayment of shareholder loans . . . . .	0	-28,297
(+) Proceeds from loans and borrowings . . . . .	559,465	83,870
(-) Repayments of loans and borrowings . . . . .	-283,117	-135,468
(-) Interest paid . . . . .	-6,942	-7,102
<b>= Cash flow from financing activities . . . . .</b>	<b><u>266,151</u></b>	<b><u>54,251</u></b>
Cash and cash equivalents at the beginning of the period . . . . .	87,965	73,624
(+/-) Change in cash and cash equivalents . . . . .	28,676	14,341
(+/-) Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents . . . . .	448,0	0
<b>= Cash and cash equivalents at the end of the period . . . . .</b>	<b><u>117,090</u></b>	<b><u>87,965</u></b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

					Accumulated reserves recognised in other comprehensive income	Equity attributable to shareholders	Non- controlling interests
Note	Total	Share capital	Capital reserves	Group retained earnings			
In thousands of euros							
<b>As at: 01 January 2018</b>	<b>97,266</b>	<b>8</b>	<b>85,379</b>	<b>9,554</b>	<b>-348</b>	<b>94,593</b>	<b>2,673</b>
Consolidated earnings after tax	9,032	0	0	6,499	0	6,499	2,533
Changes in actuarial gains and losses	-702	0	0	0	-702	-702	0
<b>Total comprehensive income</b>	<b>8,330</b>	<b>0</b>	<b>0</b>	<b>6,499</b>	<b>-702</b>	<b>5,797</b>	<b>2,533</b>
Issue of shares	150,500	36,980	113,520	0	0	150,500	0
Changes to the scope of consolidation	24	0	0	24	0	24	0
Other	-9,252	0	0	-9,252	0	-9,252	0
	<b>141,272</b>	<b>36,980</b>	<b>113,520</b>	<b>-9,228</b>	<b>0</b>	<b>141,272</b>	<b>0</b>
<b>As at: 31 December 2018</b>	<b>246,868</b>	<b>36,988</b>	<b>198,899</b>	<b>6,825</b>	<b>-1,050</b>	<b>241,662</b>	<b>5,206</b>
Note	Total	Share capital	Capital reserves	Group retained earnings	Accumulated reserves recognised in other comprehensive income	Equity attributable to shareholders	Non- controlling interests
In thousands of euros							
<b>As at: 31 December 2018</b>	<b>246,868</b>	<b>36,988</b>	<b>198,899</b>	<b>6,825</b>	<b>-1,050</b>	<b>241,662</b>	<b>5,206</b>
Effect of the first-time application of IFRS 16	-74	0	0	-74	0	-74	0
<b>As at: 01 January 2019</b>	<b>246,794</b>	<b>36,988</b>	<b>198,899</b>	<b>6,751</b>	<b>-1,050</b>	<b>241,588</b>	<b>5,206</b>
Consolidated earnings after tax	69,776	0	0	69,764	0	69,764	12
Changes in actuarial gains and losses	-313	0	0	0	-313	-313	0
<b>Total comprehensive income</b>	<b>69,463</b>	<b>0</b>	<b>0</b>	<b>69,764</b>	<b>-313</b>	<b>69,451</b>	<b>12</b>
Changes to the scope of consolidation	912	0	0	0	0	0	912
Other <sup>(1)</sup>	-7,008	0	0	-1,802	0	-1,802	-5,206
	<b>-6,096</b>	<b>0</b>	<b>0</b>	<b>-1,802</b>	<b>0</b>	<b>-1,802</b>	<b>-4,294</b>
<b>As at: 31 December 2019</b>	<b>310,161</b>	<b>36,988</b>	<b>198,899</b>	<b>74,713</b>	<b>-1,363</b>	<b>309,236</b>	<b>924</b>

(1) thereof €3,255 thousand from the acquisition of company shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### General information about the Company

At the general meeting of 13 February 2018, it was decided that Instone Real Estate Group B.V., with its registered office in Amsterdam, the Netherlands and administrative headquarters at Baumstraße 25, 45128 Essen, Germany, would be converted into a stock corporation under Dutch law (naamloze vennootschap: N.V.), the company Instone Real Estate Group N.V.

The conversion became legally effective upon registration of Instone Real Estate Group N.V. under number 60490861 on 13 February 2018 at the Dutch Chamber of Commerce and Industry, registered ex officio at the Essen District Court under HRB 26426 on 14 May 2018.

The first Annual General Meeting held on 29 June 2018 resolved to convert the Company into a stock corporation under the laws of Germany. The cross border conversion was registered at the Essen District Court under HR B 29362 on 28 August 2018.

Since then, the Company has been trading under the name Instone Real Estate Group AG (hereinafter also referred to as the “Company”) at the address Grugaplatz 2-4, 45131 Essen, Germany. It is the top domestic parent company of the Instone Real Estate Group (hereinafter also referred to as “Instone Real Estate” or the “Instone Group”).

The Company holds interests in subsidiaries whose principal activities are the acquisition, development, construction, leasing, management and sale or other use of land and buildings, as well as participation in other companies active in the sector.

The consolidated financial statements and the combined management report were approved by the Management Board of Instone Real Estate Group AG on 13 March 2020.

#### Basis of the consolidated financial statements

The consolidated financial statements for Instone Real Estate as of 31 December 2019 were prepared on the balance sheet date on the basis of Section 315e(1) HGB in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they apply in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union.

Various items of the consolidated statement of financial position and the consolidated income statement are combined into one item for a better overview. These items are shown and explained separately in the Notes. The consolidated income statement is prepared according to the nature of expense method.

The consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are stated in thousands of euros (€ thousand) unless otherwise stated. Commercial rounding may lead to immaterial rounding differences in the totals.

The subsidiary financial statements included were prepared on the reporting date of the financial statements of Instone Real Estate Group AG.

#### First-time application of accounting standards in the current financial year

In recent years, the International Accounting Standards Board (IASB) has made various changes to existing IFRSs and published new IFRSs as well as Interpretations of the IFRS Interpretations Committee (IFRS IC). In addition, the IASB has published amendments to existing standards as part of the Annual Improvement Project (AIP). The primary aim of the collective standards is to clarify inconsistencies and formulations.

The following is an explanation of the accounting rules to be applied from the 2019 financial year onwards which are significant for Instone Real Estate as these had a material impact on these consolidated financial statements.

## IFRS 16 “Leases”

The first-time application of IFRS 16 was carried out in accordance with the transitional provisions of IFRS 16 using the modified retrospective approach. The comparative figures for the financial year 2018 were therefore not adjusted.

Since 1 January 2019, payment obligations from contracts that were previously qualified as operating leases have been discounted at the corresponding incremental borrowing rate of interest and recognised as a lease liability. Discounting is generally calculated using term and currency-specific incremental borrowing rates of interest, unless the interest rate underlying the lease payments is available. Each lease payment is divided into repayments and interest expenses. Interest expenses are recognised in profit or loss over the term of the lease. The right of use is amortised on a straight-line basis over the shorter of the term of the lease and the economic useful life of the leased item. At the time of the first application, the right of use asset of the leased item is equal to a retrospective valuation of the amount initially recognised taking into account the current interest rate. Initial direct costs are not included in the valuation of the right of use of the leased item at the time of first application. When exercising discretionary decision-making powers, the current state of knowledge is taken into account at the time of the first application. Instone Real Estate Group AG has made use of the option to exempt intangible assets from the scope of IFRS 16 and to separate individual leases that end in 2019 in accordance with the exemption regulations for short-term leases. Payments arising from leases with a term of no more than twelve months, starting after 31 December 2018, and leases in which the underlying asset of the lease agreement is of low value have been recognised as expenses in profit or loss at the time of payment in accordance with the option. In contracts that include lease components and non-lease components, these are separated, except in the case of insignificant asset classes. As part of the conversion to IFRS 16, as at 1 January 2019, right of use assets for the leased items in the amount of €8,652 thousand and leasing liabilities in the amount of €8,726 thousand were recognised. The following reconciles the operating leasing obligations as at 31 December 2018 to the opening balance sheet value of the leasing liabilities as at 1 January 2019:

## RECONCILIATION OF LEASES

	<u>01/01/2019</u>
	<u>In thousands of euros</u>
<b>Operating leases</b> . . . . .	<b>9,551</b>
Application simplification from short-term leases . . . . .	-63
Application simplification from low-value assets . . . . .	-183
Effects from discounting . . . . .	<u>-579</u>
<b>Leasing liabilities</b> . . . . .	<b><u>8,726</u></b>

The weighted average incremental borrowing interest rate, which was used to determine the leasing liabilities as at 1 January 2019, was 2.7%.

The right of use on the relevant leased item is recognised under a separate item. The right of use assets recognised relate to real estate, construction site equipment, passenger cars and construction site containers.

In the area of real estate, the Instone Group mainly leases offices and other office buildings. In addition, vehicles and other plant, property and office equipment are leased in the Instone Group. The additional right of use assets from IFRS 16 led to an increase in depreciation and amortisation in the amount of €3,220 thousand and an increase in interest expenses of €263 thousand due to the compounding of leasing liabilities for leases categorised as operating leases up to 2018. Other operating expenses, on the other hand, decreased by €2,878 thousand due to the elimination of leasing expenses as a result of the first-time application of IFRS 16.

The Instone Group also generates a small amount of income from leases through the acquisition of leased existing real estate that is intended for demolition or redevelopment. No long-term income is expected from these leases, as the aim of the Instone Group is to terminate the leases.

### **Accounting standards to be applied in the financial year**

The following standards that were to be newly applied from the 2019 financial year onwards had no impact on these consolidated financial statements, except for any additional disclosures in the Notes:

- Amendments to IFRS 9 “Financial Instruments”
- Amendments to IAS 19 “Employee Benefits”
- Amendments to IAS 28  
“Investments in Associates and Joint Ventures”
- IFRIC Interpretation 23  
“Uncertainty over Income Tax Treatments”
- Annual improvements to IFRS, cycle 2015-2017

### **Accounting standards and interpretations already published but not yet implemented**

In addition to the above-mentioned mandatory IFRSs, the IASB has published further amended IASs and IFRSs, but these only need to be applied at a later date. Several of these standards have already been transposed into EU law (“endorsement”). Voluntary early application of these standards is expressly permitted or recommended. Instone Real Estate does not make use of this option. These standards will be implemented in the consolidated financial statements at the time of mandatory adoption.

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

- Amendments to IAS 1, IAS 8 (1 January 2020)
- Amendments to IFRS 3 (1 January 2020)
- Amendments to IFRS 7, IFRS 9, IAS 39 (1 January 2020)
- IFRS 17 (1 January 2021)

With the exception of new or modified notes, the new and amended standards are not expected to have a significant impact on the consolidated financial statements.

### **Scope of consolidation**

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

In addition to Instone Real Estate Group AG, the consolidated financial statements of Instone Real Estate include all subsidiaries controlled by Instone Real Estate Group AG according to the acquisition method. A control relationship exists if Instone Real Estate as an investor has the continuing opportunity to determine the relevant activities of the subsidiary. Relevant activities are activities that significantly affect returns. Furthermore, Instone Real Estate AG must have an interest in the form of fluctuating returns and be able to influence them with the options and rights available to the Company for its own benefit. As a rule, a controlling relationship exists if the majority of the voting rights are held directly or indirectly. In group companies, a controlling relationship can also arise through contractual agreements.

Shares in joint ventures are recognised using the equity method. A company is classed as a joint venture if Instone Real Estate has a material influence of at least 20% and not more than 50% on the basis of voting rights or if there is a corresponding contractual agreement.

As at 31 December 2019, a total of 25 (previous year: 10) domestic and two (previous year: two) European foreign subsidiaries in addition to Instone Real Estate Group AG, have been included and fully consolidated in the current interim consolidated financial statements.

On 31 December 2019, as in the previous year, joint ventures were assessed using the equity method. The measurement using the equity method was based on the latest available annual financial statements.

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

Due to their overall minor importance, three companies (previous year: three) were not included in the consolidated financial statements using the equity method. These companies are of minor importance both

individually and as a whole for the presentation of the results of operations, net assets and financial position of Instone Real Estate.

A detailed overview of all shares directly or indirectly held by Instone Real Estate Group AG is provided in the list of shareholdings.

### **Business combinations**

Business combinations are accounted for at acquisition cost as soon as control is transferred to the Instone Group.

The consideration paid for the acquisition is measured at fair value. The same applies to the acquired identifiable net assets and debts. Goodwill is tested annually for impairment. All profits from acquisitions at prices below the market value are posted directly to income. Transaction costs are recognised when they arise, except when issuing bonds or equity securities.

The consideration paid does not include the amounts required to settle past relationship receivables. These amounts are always recognised in the income statement. Contingent considerations are recognised at their fair value at the acquisition date. If an obligation to make a contingent consideration that meets the requirements of the definition of a financial instrument is classified as equity, and it will not be revalued and recognised in equity. In other respects, a contingent consideration is valued at the fair value as of the respective balance sheet date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### **Acquisition of business activities of S&P Stadtbau GmbH**

With the purchase and assignment agreement of 15 August 2019, Instone Real Estate Development GmbH has acquired selected business activities of the Sontowski & Partner Stadtbau Group. InS&P Stadtbau GmbH, Instone Real Estate has acquired a real estate developer active in the fast-growing metropolitan region of Nuremberg, which establishes complex residential properties along the entire value-added chain, and thus complements Instone's previous activities in the major areas of Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich and Stuttgart.

As a result of the acquisition, 24 employees, including the previous management of the S&P Stadtbau GmbH, became part of Instone Real Estate, and six existing project developments in addition to the ongoing business activities, two of which were mixed-use neighbourhood developments, were added to the project portfolio. There, Instone Real Estate will undertake the development of the residential parts, while the S&P Group will continue to be responsible for the commercial components. A total of around 1,000 residential units with an expected total sales volume of €300,000 thousand are planned, which will be completed in the coming years.

On 31 August 2019, the Instone Group gained control of the company through the fulfilment of all contractual obligations and has included the company in the consolidated financial statements.

The fair value of the purchase consideration provided to acquire the business was €31,944 thousand.

The amounts recognised in the acquired assets and liabilities transferred at the time of acquisition are summarised below:

#### ACQUISITION STATEMENT FOR S&P STADTBAU TRANSACTION

	<u>31/08/2019</u> In thousands of euros
<b>Acquired assets and liabilities</b>	
Goodwill . . . . .	6,056
Financial assets . . . . .	19
Inventories . . . . .	71,103
Contract assets . . . . .	5,160
Financial receivables . . . . .	45
Other assets . . . . .	99
Liquid funds . . . . .	96
Deferred tax asset . . . . .	242
Other provisions . . . . .	-57
Financial liabilities . . . . .	-41,578
Liabilities . . . . .	-3,474
Other liabilities . . . . .	-27
Deferred tax liability . . . . .	-5,740
<b>Net assets</b> . . . . .	<u><b>31,944</b></u>
Cash and cash equivalents acquired . . . . .	-96
<b>Net outflow from acquisitions</b> . . . . .	<u><b>31,848</b></u>

After allocation of the purchase consideration to the acquired identifiable assets and liabilities at the time of acquisition, a remaining residual amount remained. This remaining amount is recorded as goodwill in the consolidated statement of financial position. Deferred tax liabilities in the amount of €5,726 thousand have been recognized and increased goodwill.

The receivables acquired have been recognised at their gross amount. The fair value corresponds to the gross amount. It is not assumed that parts of the receivables are expected to be uncollectible.

Due to the initial consolidation of S&P Stadtbau GmbH, in the period from 31 August 2019 to 31 December 2019, revenue of €1,853 thousand and earnings of €961 thousand were included in the consolidated statement of comprehensive income. If the company had already been acquired at the beginning of the financial year, revenues of €6,454 thousand and earnings before taxes of €-26 thousand would have been recognised in the consolidated statement of comprehensive income for the Instone Group.

#### Acquisition of non-controlling interests

Non-controlling interests are measured on the basis of their share, which at the time of acquisition is equal to the identifiable net assets of the acquirer. Changes in Group holdings in a subsidiary that do not result in a loss of control are treated as equity transactions.

On 10 October 2019, Instone Real Estate Group AG acquired the remaining 6% of the shares in Instone Real Estate Leipzig GmbH for €3,255 thousand as part of a put option and now owns 100% of the company. As a result, minority interests in equity decreased by €1,453 thousand.

#### Consolidation principles

The financial statements of the companies included in the scope of consolidation are prepared using standardised accounting principles. Inter-company balances, business transactions, income and expenses as well as profits and losses from intra-Group transactions are eliminated in full. Deferred taxes are deferred for temporary differences from consolidation measures. Consolidation adjustments are performed on impairment losses recorded for Group companies in their separate financial statements.

The same consolidation principles apply to shares in equity-accounted investees. These include both affiliated companies and joint ventures of the Instone Group.

The financial statements of all equity-accounted affiliated companies are prepared in accordance with standardised Group accounting principles.

### **Foreign currency translation**

All fully consolidated companies and equity-accounted affiliated companies prepare their separate financial statements in accordance with standardised Group accounting principles.

### **Accounting principles**

Assets and liabilities are recognised according to the historical cost principle. This excludes derivative financial instruments, securities and shares in associates which are recognised at fair value.

**Goodwill** from the acquisition of subsidiaries is recognised at cost and is not subject to scheduled depreciation, but is instead subject to an impairment test in accordance with IAS 36 once a year and, in addition, a further test if there exist indicators that point to a potential impairment. The goodwill accounted for in the Bavaria North branch is classified as an intangible asset with an indefinite useful life, as it has neither a product life cycle nor is it subject to technical, technological or commercial wear or other restrictions.

**Intangible assets** are measured at acquisition cost. These include software for commercial and technical applications only. Intangible assets are generally amortised on a straight-line basis over a period of three to five years. The useful life and depreciation methods are reviewed every year.

**Property, plant and equipment** are recognised at acquisition cost. These costs only include costs directly attributable to an item in property, plant and equipment. Property, plant and equipment is generally depreciated on a straight-line basis over a period of three to eight years. The useful life and depreciation methods are reviewed every year.

Impairment losses are recognised for tangible and intangible assets if their recoverable amount falls below their book value. If the reason for an earlier loss in value no longer exists, the asset is reversed at amortised cost.

Shares accounted for using the **equity method** are valued at acquisition cost and are recognised pro rata to the net assets in subsequent periods. The full book value is tested annually for impairment whereas withdrawals and other changes in equity are increased or decreased. Interests accounted for using the equity method are then impaired if their recoverable amount falls below their book value.

**Other financial assets** include investments and securities that fall exclusively in the valuation category “Affecting profit and loss at the fair value”. They are measured at their fair value.

**Other financial assets** include financial receivables, trade receivables and other receivables and are measured at amortised cost using the effective interest method (taking into account factors such as surcharges and rebates). Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

**Long-term loans** which are recognised in financial liabilities are carried at amortised cost. Interest-bearing loans at normal market rates are recognised at their face value.

Receivables and liabilities from individually negotiated customer contracts are listed under **contract assets** and **contract liabilities**. These receivables and liabilities are accounted for and measured in accordance with IFRS 15 “Revenue from Contracts with Customers”.

The Company’s customer contracts meet the criteria for identifying a contract under IFRS 15. For measurement purposes, the respective potentially separable performance obligations in the respective contracts are combined into a performance obligation as there is no individual benefit for the customer from separate performance obligations and the contracts do not provide for the transfer of separate benefit obligations. Subsequently agreed special requests of the customer are also added to the single performance obligation.

The contracts are generally regarded as fixed price contracts. Subsequent special requests are added to the fixed price. If the sale of several residential units in a contract is combined in multi-level marketing, a separate fixed price is agreed in the contract for each residential unit. In the case of investor distribution, contracts are always concluded with fixed prices listed separately if the performance obligation of the contract involves several buildings with separate construction phases. In addition to the generally agreed fixed price, the contracts involving investor distribution contain, in some cases, an adjustment clause at a fixed price on the basis of the constructed living space after final completion. The contracts for the sale of residential real estate are generally valued according to revenue recognition over time. In the case of contracts in individual sales, there is usually a



right of withdrawal up to a marketing quota of 30% of the residential units of a construction phase so that revenue recognition of the revenue at a period in time only begins after this quota has been reached. Otherwise, in the case of contracts in the area of structured sales or investor distribution, the revenue recognition over time begins directly upon effectiveness of the contract. The agreed fixed price is generally accepted as a basis for the expected revenues for all contracts, as the adjustment to the constructed living space is not clearly identifiable before completion in the case of investor contracts. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the compliance costs. For the calculation of the costs, a separate project account is kept for each phase of construction in which the costs are recorded and compared with the planned costs. In the case of contracts in individual sales and structure sales, the marketing quota of the construction section is included in the measurement in addition to the performance progress. The unsold portion of the construction stage is valued as inventories in accordance with IAS 2.

Contracts with individual and structured sales are generally concluded with a instalment payment plan in accordance with the Broker and Developer Regulations (Makler- und Bauträgerverordnung; MaBV). For contracts involving investor distribution, as a rule, instalment payment plans are also agreed based on the MaBV regulations.

In receivables and liabilities from contract assets, the advance payments received from customers against the contracts concluded are netted with the receivables from the performance of the contract. In principle, the settlement receivables exceed the advance payments received for the contract and the net value is recognised as a contract asset. In individual cases, advance payments received may exceed the settlement receivables so that the netted value is shown as a contract liability.

The additional contract costs incurred are also capitalised in the “Contract assets” item in the balance sheet. From the beginning of revenue recognition, the sales commissions incurred and capitalised so far are amortised in the income statement under cost of materials. Depreciation is measured at the fulfilment level so that contract costs remain capitalised on the part not yet fulfilled.

Receivables and liabilities arising from customer contracts are realised in one single business cycle of Instone Real Estate. Consequently, they are classified as current assets or liabilities, even if the realisation of the entire construction contract takes more than one year.

In principle, the contracts with customers in the Instone Group do not provide for redemption obligations and guarantees beyond the statutory framework.

**Deferred tax liabilities** arise due to temporary differences between the IFRS and tax statements of financial position of the various companies and as a result of the consolidation.

Deferred tax assets are also recognised for tax refund claims arising from the anticipated utilisation of existing tax loss carryforwards in subsequent years. Deferred tax liabilities must be capitalised if it can be assumed with sufficient certainty that the affiliated economic benefits can be claimed. Their amount is calculated on the basis of the tax rates which apply or are expected to apply at the time of adoption in the different countries. The German trade tax rates applicable to the various companies are taken as a basis within the Group. For all other purposes, deferred tax liabilities are measured on the basis of the tax regulations in force or enacted at the time of reporting. Deferred tax assets and liabilities are offset against each other for each company or tax group.

**Inventories** are assets that are in production (work-in-progress) and for which no sales contract has yet been concluded. They are valued at acquisition costs. The acquisition costs include the full production-related costs. Borrowing costs for inventories that are part of the qualifying assets are capitalised as cost components. If the recoverable amount is lower than the capitalised costs on a specific balance sheet date, the lower recoverable amount is used. If the recoverable amount from inventories increases as a result, the resulting gain must be recognised. This is done by increasing the inventory changes. For the purpose of commercial presentation, the inventories from the individual larger project development measures are split into several sub-project development measures. This split has no impact on the measurement. Within the Group, the respective overall project is recognised as a special measure in the current assets. The risks arising from individual sub-project units can be compensated by opportunities from other sub-projects. An impairment requirement beyond the carrying amount is taken into account by recognising a provision for contingent losses.

**Liquid funds** (cash and cash equivalents) are in the form of cash and bank balances recognised at nominal value.

**Provisions** are made for all legal and constructive liabilities to third parties existing on the closing date from transactions concluded in the past that are likely to result in the disposal of resources which can be reliably estimated.

Provisions are recognised at their anticipated settlement value and are not offset against reimbursement claims. All non-current provisions are recognised at their anticipated settlement value and discounted to the reporting date of the annual financial statements. Furthermore, all cost increases that count towards the settlement date are taken into account when calculating this amount.

In principle, provisions are released against the expense item for which they were made.

**Provisions for pensions and similar obligations** are recognised for defined benefit plans. These include obligations of the Company with respect to current and future benefits to eligible active and former employees and their survivors. These obligations largely relate to pension benefits. The individual commitments are determined on the basis of the length of service and the salaries of the employees. The measurement of provisions for defined benefit plans is based on the actuarial value of the respective obligation. This is determined using the projected unit credit method. This projected unit credit method not only includes pensions and accrued benefits known as of the reporting date but also wage increases and pension increases expected in the future. The calculation is based on actuarial reports using biometric calculation methods (primarily “Richttafeln 2018 G” (guideline tables) of Klaus Heubeck).

The provision is calculated on the basis of the actuarial present value of the obligation and the fair value of the plan assets required to settle the pension obligation. The service cost is included in staff costs. The net interest income is part of the financial income. Gains and losses from the revaluation of net liabilities or net assets are recognised in full in the period in which they arise. They are reported in equity, are not recognised in profit or loss and are not reported in the consolidated income statement. In subsequent years they are also not shown in the profits and losses.

Instone Real Estate makes no further commitments for defined contribution plans that would exceed the contributions paid to Special Funds. The contributions are recorded as staff costs.

All **other provisions** take into account all identifiable risks. They are recognised at the amount required on the basis of prudent business judgement to meet future payment obligations of the Group. In this context, the amount that appears most likely is used, taking into account the individual case.

**Non-derivative financial liabilities** (including trade payables) are carried at amortised cost using the effective interest rate method in accordance with IFRS 9. Initial measurement is at fair value including transaction costs. In the subsequent valuation, the surcharges are added or the discounts are deducted when the residual value remaining until maturity is calculated. The surcharge and/or discount is recognised in the net financial income over the term.

**Liabilities from net assets attributable to non-controlling interests** relate to the limited partner share of non-controlling interests. On addition to the Group, they are carried as liability at the present value of the repayment amount through other comprehensive income. Subsequent measurement is through profit and loss.

**Contingent liabilities** are potential obligations to third parties arising from events that have already taken place and that cannot be fully controlled by the Company, or existing obligations to third parties that are highly unlikely to lead to an outflow of resources or whose amount cannot be estimated with sufficient reliability. Contingent liabilities are not generally shown in the balance sheet.

**Income tax liabilities** include obligations to pay actual income taxes. Income tax liabilities are offset against the corresponding tax refund claims if they exist in the same jurisdiction and are identical in terms of their type and due date.

### **Estimates and assumptions**

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of the Group’s accounting policies, recognition and measurement. Estimates are based on past experience and other knowledge of the transactions to be posted. Actual amounts may differ from these estimates.

Estimates are particularly required for the measurement of and contract assets, the allocation of sales prices, the recognition and measurement of deferred tax assets, the allocation of trade payables and contract liabilities, the recognition of provisions for pensions and other provisions.

## **SEGMENT REPORTING**

Segment reporting in accordance with IFRS 8 is based on the management approach and thus corresponds to the management and reporting system that Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates its revenue and holds its assets mainly in Germany. In the 2019 financial year, the Instone Group achieved no more than 10% of total revenues reported from the revenues of one customer.

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

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

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

### **Adjusted revenue**

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

### **Adjusted gross profit**

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

### **Adjusted earnings before interest and tax (EBIT)**

Adjusted EBIT is calculated on the basis of the adjusted gross profit less the platform expenses, consisting of staff costs, other operating income and expenses and depreciation and amortisation, but also adjusted for the effects of purchase price allocations and share deals, as well as any one-off events and effects, if applicable.

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

#### **Share deal effects**

The project companies Westville 2 GmbH, Westville 3 GmbH, Westville 4 GmbH and Westville 5 GmbH are commercially conceived as asset management companies and represent a major project in Frankfurt am Main. Instone Real Estate has already sold these project companies in the form of a share deal with the obligation to build a residential complex. In the adjusted results of operations, the overall "Westville" project, is managed in the same way as the other projects in the Instone Group, with period-related revenue recognition in accordance with IFRS 15. These companies are valued and included in the consolidated financial statements in accordance with IAS 2. The effects from this different valuation can be found in the revenue of €220,801 thousand (previous year: €0 thousand), the changes in inventories of €-193,702 thousand (previous year: €0 thousand) and income taxes of €-4,289 thousand (previous year: €0 thousand).

#### **Effects from purchase price allocations**

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as of 31 December 2019 inventories and contract assets still included write-ups of €46,127 thousand (previous year: €39,409 thousand) from purchase price allocations. The ongoing amortisation of these purchase price allocations on the basis of the progressing implementation of the projects included in these initial consolidations is adjusted for the internal reporting. The adjustment for the amortisation of purchase price allocations was attributable as follows: €6,390 thousand (previous year: €11,936 thousand) to revenues, €20,984 thousand (previous year: €0 thousand) to the cost of materials, €-13,108 thousand (previous year:

€0 thousand) to changes in inventories and €-4,471 thousand (previous year: €-1,889 thousand) to income taxes. Based on current estimates, the Instone Group expects these effects to expire in 2024.

### Reclassifications and one-off events and effects

Indirect sales expenses allocated to the project expenses amounted to €3,084 thousand as at 31 December 2019 (previous year: €1,870 thousand). The adjustment of the capitalised interest in the changes in inventories of €3,248 thousand (previous year: €1,133 thousand) burdened the project costs. In the financial year, one-off effects in the amount of €4,669 thousand from the platform expenses were adjusted. These effects are attributable to expenses for the acquisition of the S&P Stadtbau GmbH in the third quarter of €2,517 thousand and subsequent costs of €2,152 thousand from a company acquisition in 2015.

In the following table, the differences arising from the valuation of the individual facts are reconciled from the adjusted results of operations to the consolidated reporting:

### RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS

	2019 (adjusted) internal reporting	Adjustment	2019 (reported) IFRS reporting	2018 (adjusted) internal reporting	Adjustment	2018 (reported) IFRS reporting
	In thousands of euros					
<b>Revenue</b> . . . . .	<b>736,685</b>	<b>-227,191</b>	<b>509,494</b>	<b>372,773</b>	<b>-11,936</b>	<b>360,836</b>
<b>Project costs</b> . . . . .	<b>-548,840</b>	<b>192,157</b>	<b>-356,684</b>	<b>-266,330</b>	<b>3,003</b>	<b>-263,327</b>
Cost of materials . . . . .	-616,054	-17,900	-633,954	-322,223	1,870	-320,353
Changes in inventories . . . . .	67,214	210,057	277,270	55,893	1,133	57,026
<b>Gross profit</b> . . . . .	<b>187,845</b>	<b>-35,034</b>	<b>152,811</b>	<b>106,443</b>	<b>-8,934</b>	<b>97,509</b>
<b>Platform costs</b> . . . . .	<b>-58,978</b>	<b>-7,753</b>	<b>-66,732</b>	<b>-56,870</b>	<b>-2,530</b>	<b>-59,401</b>
Staff costs . . . . .	-37,336	0	-37,336	-33,563	0	-33,563
Other operating income . . . . .	7,717	0	7,717	2,675	0	2,675
Other operating expenses . . . . .	-25,294	-7,753	-33,048	-25,396	-2,530	-27,926
Depreciation and amortisation . . . . .	-4,065	0	-4,065	-587	0	-587
<b>EBIT</b> . . . . .	<b>128,867</b>	<b>-42,788</b>	<b>86,079</b>	<b>49,572</b>	<b>-11,464</b>	<b>38,108</b>
Investment and other income . . . . .	-4,991	0	-4,991	-373	661	288
Financial result . . . . .	-16,083	-1,764	-17,847	-7,683	-1,133	-8,816
<b>EBT</b> . . . . .	<b>107,793</b>	<b>-44,552</b>	<b>63,241</b>	<b>41,516</b>	<b>-11,936</b>	<b>29,580</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 1 Revenues

Revenues are spread across the following regions:

#### REVENUES BY REGION

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Germany . . . . .	509,414	358,379
Rest of Europe . . . . .	81	2,457
	<u><b>509,494</b></u>	<u><b>360,836</b></u>

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

#### REVENUES BY REVENUE TYPE

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Revenue from building contracts		
revenue recognised over time . . . . .	482,916	321,918
revenue recognised at a point in time . . . . .	20,280	25,932
	<u><b>503,196</b></u>	<u><b>347,850</b></u>
Income from leases . . . . .	6,065	6,435
Other services . . . . .	233	6,551
	<u><b>509,494</b></u>	<u><b>360,836</b></u>

Due to the significant increase in market prices in the financial year, revenues from construction contracts rose significantly to €503,196 thousand and therefore made a significant contribution to the increase in total revenues.

The total amount of unfulfilled or partly unfulfilled performance obligations as at the balance sheet date is €1,071,275 thousand.

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

### 2 Other operating income

Other operating income is broken down as follows:

#### OTHER OPERATING INCOME

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Income from the reversal of provisions . . . . .	1,813	0
Income from released liabilities . . . . .	1,838	18
Income from the settlement of legal disputes . . . . .	1,356	0
Income from claims for compensation/insurance benefits . . . . .	46	139
Income from disposals of fixed assets . . . . .	1	20
Income from the write-up of receivables . . . . .	0	59
Income from rent and leases . . . . .	0	17
Remaining other operating income . . . . .	<u>2,663</u>	<u>2,422</u>
	<u><b>7,717</b></u>	<u><b>2,675</b></u>

Other remaining other income mainly includes cost allocations to subcontractors and items that are not included elsewhere.

### 3 Cost of materials

#### COST OF MATERIALS

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Cost of raw materials, consumables and supplies . . . . .	-371,461	-94,437
Expenses for purchased services . . . . .	-262,493	-225,916
	<u><b>-633,954</b></u>	<u><b>-320,353</b></u>

### 4 Staff costs

#### STAFF COSTS

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Wages and salaries . . . . .	-33,007	-29,740
Social security contributions and expenses for pensions . . . . .	-4,329	-3,823
	<u><b>-37,336</b></u>	<u><b>-33,563</b></u>

The contributions paid by the employer to the state-administered pension fund in the financial year amounted to €1,824 thousand (previous year: €1,709 thousand).

The pension expenses amount to €417 thousand (previous year: €411 thousand). They relate to pension entitlements earned in the financial year from defined benefit plans and payments to defined contribution plans.

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

#### EMPLOYEES

	<u>2019</u>	<u>2018</u>
	<u>Number (average)</u>	
<b>Germany</b>		
Berlin . . . . .	35	29
Erlangen . . . . .	10	0
Essen . . . . .	83	65
Frankfurt a. M. . . . .	47	41
Hamburg . . . . .	31	27
Cologne . . . . .	44	42
Leipzig . . . . .	45	52
Munich . . . . .	21	18
Stuttgart . . . . .	29	27
	<u><b>345</b></u>	<u><b>301</b></u>
<b>Rest of Europe</b> . . . . .	<u><b>2</b></u>	<u><b>2</b></u>
	<u><b>347</b></u>	<u><b>303</b></u>

## 5 Other operating expenses

Other operating expenses are divided as follows:

### OTHER OPERATING EXPENSES

	<u>2019</u>	<u>2018</u>
	<u>In thousands</u>	<u>of euros</u>
Other taxes . . . . .	-4,049	0
Court costs, attorneys' and notaries' fees . . . . .	-3,851	-2,387
Subsequent purchase price payments from company acquisitions . . . . .	-3,603	-661
Consulting/analysis expenses . . . . .	-3,152	-5,734
Commissions . . . . .	-3,084	-1,870
Costs for EDP and IT . . . . .	-1,782	-1,436
Change in warranty provisions . . . . .	-1,359	-457
Travel costs . . . . .	-1,205	-1,418
Insurances . . . . .	-1,027	-511
Changes in other provisions . . . . .	-958	-1,845
Leasing expenses including ancillary costs . . . . .	-921	-3,042
Auditing expenses . . . . .	-766	-323
Severance payments during the construction period . . . . .	-655	-599
General advertising costs . . . . .	-478	-444
Sundry other operating expenses . . . . .	-6,158	-7,200
	<u><b>-33,048</b></u>	<u><b>-27,926</b></u>

Other operating expenses include, among other things, Supervisory Board performance bonuses, legal costs, costs of postal/payment transactions, further education expenses and other expenses that are not recognised elsewhere.

## 6 Depreciation and amortisation

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

The depreciation of the leasing assets is divided into the following classes: Real estate €1,917 thousand, passenger cars €753 thousand and others €550 thousand euros.

### DEPRECIATION AND AMORTISATION

	<u>2019</u>	<u>2018</u>
	<u>In thousands</u>	<u>of euros</u>
Leased assets . . . . .	-3,220	0
Property, plant and equipment . . . . .	-801	-560
Intangible assets . . . . .	-43	-27
	<u><b>-4,065</b></u>	<u><b>-587</b></u>

## 7 Results from investments

The income from at-equity consolidated investments and other investment income result as follows:

### RESULTS FROM INVESTMENTS

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Results from interests in joint ventures</b>		
Wohnpark Gießener Straße GmbH & Co. KG . . . . .	378	123
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG . . . . .	64	-283
	<u>442</u>	<u>-160</u>
<b>Commercial law profit withdrawals from interests in joint ventures</b>		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG . . . . .	179	462
Wohnpark Gießener Straße GmbH & Co. KG . . . . .	123	0
	<u>302</u>	<u>462</u>
	<u>744</u>	<u>302</u>
<b>Other results from investments</b>		
Change in net assets attributable to non-controlling interests . . . . .	-5.751	0
Other income from investments . . . . .	17	-14
	<u>-5.734</u>	<u>-14</u>

## 8 Financial results

### FINANCIAL RESULTS

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Finance income</b>		
Interest and similar income . . . . .	1,085	516
	<u>1,085</u>	<u>516</u>
<b>Finance costs</b>		
Interest and similar expenses . . . . .	-19,055	-8,933
of which interest expenses from leases . . . . .	-263	0
Interest shares in allocations to provisions . . . . .	-66	-13
of which, net interest expenses from pension obligations . . . . .	-69	-83
	<u>-19,121</u>	<u>-8,946</u>
<b>Other financial result</b>		
Income from long-term securities (previous year: expenses) . . . . .	189	-386
	<u>189</u>	<u>-386</u>

The finance income consists mainly of interest income for cash investments and loans. Finance costs consist mainly of interest expenses for cash investments, interest-bearing securities and other loans.

In this financial year, interest income of €1,085 thousand (previous year: €516 thousand) for financial instruments that were not recognised at fair value in profit or loss was recognised; interest expenses for these financial instruments amounted to €-19,055 thousand (previous year: €-8,933 thousand).

The net interest expense from pension obligations of €-69 thousand (previous year: €-83 thousand) includes the interest payable annually on the net present value of the pension obligations of €-227 thousand (previous year: €-188 thousand). These amounts are recognised in interest income from plan assets amounting to €157 thousand (previous year: €104 thousand).



## 9 Income taxes

### INCOME TAXES

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
<b>Current income tax liabilities</b>		
German trade tax	-12,009	-8,732
Corporation tax	<u>-8,302</u>	<u>-8,676</u>
	<u><b>-20,310</b></u>	<u><b>-17,408</b></u>
<b>Deferred tax</b>		
Deferred tax	<u>26,845</u>	<u>-3,139</u>
	<u><b>6,535</b></u>	<u><b>-20,547</b></u>

The change in deferred tax assets recognised in other comprehensive income was €4,277 thousand.

For temporary differences in the amount of €4,504 thousand between the net assets of Group companies recognised in the consolidated financial statements and the tax basis of the interests in these Group companies (“Outside Basis Differences”) no deferred tax liability was recorded as no sale of affected investments is intended for an indefinite period.

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

### TAX RECONCILIATION

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Earnings before tax	63,241	29,580
Theoretical tax expenses	20,632	9,650
Deviation from the expected Group tax rate	-1,082	-598
Initial recognition of deferred tax assets not previously applied to loss carryforwards and interest carryforwards	-24,872	0
Use of loss and interest carryforwards, for which no deferred taxes have previously been capitalised	-523	0
Taxes relating to other periods	-2,138	-2,375
Non-tax-deductible expenses and permanent differences	5,788	299
Tax-free income	-798	339
Trade tax additions and reductions	-3,973	0
Changes in value and non-recognition of deferred taxes	231	12,444
Effects from partnerships	886	340
Other	-687	448
Effective tax expenses	-6,535	20,547
Effective tax rate	-10.33%	69.46%

The reconciliation is calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the different countries. A tax rate for the Group of 32.625% (previous year: 32.625%) has been used as the expected tax rate.

The first-time capitalisation from the recognition of tax loss carryforwards and interest carryforwards from the parent company from previous years was performed on the basis of the positive decision of the Annual General Meeting in June 2019 to conclude a domination and profit and loss transfer agreement with a subsidiary. This domination and profit and loss transfer agreement was concluded on 11 September 2019 with retroactive effect on 1 January 2019 following its registration in the commercial register on 13 September 2019.

## 10 Earnings per share

### EARNINGS PER SHARE

	<u>2019</u>	<u>2018</u>
Net result for the shareholders of Instone Real Estate Group AG (in thousands of euros)	69,764	6,500
Number of shares outstanding (in units)	36,988	36,988
Basic and diluted earnings per share (in €)	1.89	0.18

Basic and diluted earnings per share are calculated by dividing the proportion of net consolidated profit attributable to Instone shareholders by the weighted average number of outstanding shares. Treasury shares are not included in this calculation.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 11 Goodwill

Goodwill in the amount of €6,056 thousand (previous year: €0 thousand) is attributable in full to the Bavaria North branch of Instone Real Estate Development GmbH. Goodwill is not depreciated on schedule, but is subjected to an impairment test in accordance with IAS 36 once a year, and whenever certain indicators point to a potential impairment loss. Goodwill is fully non-tax-deductible.

The goodwill of fully consolidated companies, which was capitalised as part of the initial consolidation, has been allocated to cash-generating units at the branch level in order to carry out the impairment tests described below.

### GOODWILL

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Acquisition costs as at 1 January</b> .....	<b>0</b>	<b>0</b>
Changes to the scope of consolidation .....	<u>6,056</u>	<u>0</u>
<b>As of 31 December</b> .....	<u><b>6,056</b></u>	<u><b>0</b></u>

The annual impairment test of goodwill at the branch level is carried out at the Instone Group on 31 December of the financial year. As part of the impairment tests, the recoverable amount of a branch is compared with its carrying amount. The recoverable amount of the cash-generating unit Bavaria North is determined on the basis of the individual value in use of the associated project developments. This corresponds to the present value of future cash flows that are expected to be achieved from the group of cash-generating units. The value in use is calculated on the basis of a project valuation model (discounted cash flow method). The determination is based on project-based cash flow plans for the next four years, which are generally based on the project planning approved by the Management Board and valid at the time the impairment test is carried out over the development period. There was no assumption of cash flows beyond the planning period of the projects. Experience and expectations regarding future market development are included in this planning. The cost of capital rates are based on the concept of weighted average cost of capital (WACC). A post-tax calculation of the value in use is initially carried out by discounting the cash flows at a cost of capital rate calculated separately for each cash-generating unit after taxes. A perpetual annuity is not recognised.

The discount rates for the cash-generating unit Bavaria North, which are used as part of the impairment tests, are 5.4% after taxes and 8.0% before taxes.

A comparison of the recoverable amounts of the branch with their carrying amount resulted in a surplus of €8,492 thousand and there is therefore no need for devaluation for goodwill. The surplus would drop by around €2,599 thousand if WACC were one percentage point higher and decrease by €3,803 thousand in the case of one percent lower expected revenues.

### 12 Intangible assets

As in the previous year, intangible assets are not subject to any limitations on disposal.

### INTANGIBLE ASSETS

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Acquisition costs as at 1 January</b> .....	<b>200</b>	<b>18</b>
Additions .....	<u>3</u>	<u>182</u>
<b>As of 31 December</b> .....	<u><b>203</b></u>	<u><b>200</b></u>
<b>Accumulated depreciation as at 1 January</b> .....	<b>45</b>	<b>18</b>
Additions .....	<u>43</u>	<u>27</u>
<b>As of 31 December</b> .....	<u><b>88</b></u>	<u><b>45</b></u>
	<u><b>115</b></u>	<u><b>155</b></u>

### 13 Right of use assets

#### RIGHT OF USE ASSETS

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Acquisition costs as at 1 January (after conversion)</b> . . . . .	<b>8,652</b>	<b>0</b>
Additions . . . . .	4,243	0
Disposals . . . . .	-224	0
<b>As of 31 December</b> . . . . .	<b><u>12,671</u></b>	<b><u>0</u></b>
<b>Accumulated depreciation as at 1 January</b> . . . . .	<b>0</b>	<b>0</b>
Additions . . . . .	3,220	0
Disposals . . . . .	-224	0
<b>As of 31 December</b> . . . . .	<b><u>2,996</u></b>	<b><u>0</u></b>
	<b><u>9,675</u></b>	<b><u>0</u></b>

Leasing payments in the amount of €63 thousand from short-term leases and €183 thousand from leases based on low-value contracts are not included in leasing assets, for which the option was utilised in accordance with IFRS 16.5 to recognise these contracts in profit or loss. The leased assets are divided into the following classes as follows: Real estate €6,952 thousand, passenger cars €2.078 thousand and others €645 thousand.

### 14 Property, plant and equipment

The development of property, plant and equipment is as follows:

#### PROPERTY, PLANT AND EQUIPMENT

	<u>2019</u>	<u>2018</u>
	In thousands	of euros
<b>Acquisition costs as at 1 January</b> . . . . .	<b>2,614</b>	<b>2,342</b>
Additions . . . . .	938	1,114
Disposals . . . . .	-14	-842
<b>As of 31 December</b> . . . . .	<b><u>3,538</u></b>	<b><u>2,614</u></b>
<b>Accumulated depreciation as at 1 January</b> . . . . .	<b>619</b>	<b>744</b>
Additions . . . . .	799	560
Disposals . . . . .	-7	-685
<b>As of 31 December</b> . . . . .	<b><u>1,411</u></b>	<b><u>619</u></b>
	<b><u>2,126</u></b>	<b><u>1,995</u></b>

### 15 Interests in joint ventures

The summarised financial information about joint ventures is presented below.

#### JOINT VENTURES—NET ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	In thousands	of euros
Assets . . . . .	2,658	2,215
Liabilities . . . . .	-1,717	-1,561
	<b><u>941</u></b>	<b><u>654</u></b>

## JOINT VENTURES—RESULT

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Revenue . . . . .	0	6
Profit for the year . . . . .	884	604

### 16 Other investments

Other financial assets are broken down as shown below:

## OTHER INVESTMENTS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Interests in affiliated companies not included in the consolidated financial statements</b>		
Immobilien-gesellschaft C.S.C. S.à r.l. . . . .	31	31
Instone Real Estate Projektverwaltungs GmbH . . . . .	25	0
Instone Real Estate Erste Projekt GmbH . . . . .	25	0
Uferpalais Verwaltungsgesellschaft mbH . . . . .	22	22
Projekt Wilhelmstraße Wiesbaden Verwaltungsgesellschaft mbH . . . . .	18	18
Westville 1 GmbH . . . . .	<u>0</u>	<u>137</u>
	<b><u>121</u></b>	<b><u>208</u></b>
<b>Investments</b>		
Sportplatz RKP GmbH . . . . .	700	0
Parkhausfonds Objekt Flensburg GmbH & Co. KG . . . . .	149	149
Kleyer Beteiligungsgesellschaft mbH . . . . .	112	0
CONTUR Wohnbauentwicklung GmbH . . . . .	26	26
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH . . . . .	25	25
formart Wilma Verwaltungsgesellschaft mbH . . . . .	<u>13</u>	<u>13</u>
	<b><u>1,025</u></b>	<b><u>213</u></b>
	<b><u>1,145</u></b>	<b><u>421</u></b>

### 17 Inventories

## INVENTORIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Work-in-progress . . . . .	732,051	392,074
Finished goods . . . . .	<u>77</u>	<u>12,326</u>
	<b><u>732,127</u></b>	<b><u>404,400</u></b>

In accordance with IAS 2, inventories include assets that are intended for sale in the normal course of business (finished goods) or that are in the process of being produced for sale (work-in-progress).

Work-in-progress is subject to disposal restrictions due to project financing by banks amounting to €366,025 thousand (previous year: €339,462 thousand).

Borrowing costs of €13,160 thousand (previous year: €3,494 thousand) were capitalised as part of production costs recognised for inventories attributable to project-related financing based on individual agreements with external lenders.

It is expected that inventories of €565,027 thousand (previous year: €317,733 thousand) can only be realised after more than twelve months.

The inventories were subject to impairment of €1,138 thousand (previous year: €0 thousand). There was no reversal of impairment losses in the financial year as in the previous year.

## 18 Financial receivables

The financial receivables are as follows:

### FINANCIAL RECEIVABLES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Non-current</b>		
Other loans . . . . .	450	0
	<u>450</u>	<u>0</u>
<b>Current</b>		
Financial receivables from associated companies/other investments . . . . .	5	65
	<u>5</u>	<u>65</u>
	<u>455</u>	<u>65</u>

## 19 Contract assets

The structure of contract assets is composed as follows:

### CONTRACT ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Contract assets . . . . .	479,401	466,858
Payments received . . . . .	-266,923	-318,081
	<u>212,478</u>	<u>148,777</u>
Receivables from contract start-up costs . . . . .	6,541	9,712
	<u>219,019</u>	<u>158,489</u>

The change in contract assets is due to the increase in fulfilment of the underlying contracts with customers, with a simultaneous temporary drop in advance payments received from customers.

The cycle of contract assets is—equivalent to the project term—an average of three years.

The amortisation of the costs to obtain a contract in the amount of €3,171 thousand (previous year: €6,990 thousand) offsets to the fulfilment of the underlying contracts with customers.

## 20 Trade receivables

Trade receivables are comprised as shown below:

### TRADE RECEIVABLES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Trade receivables . . . . .	8,278	13,127
	<u>8,278</u>	<u>13,127</u>

## 21 Other receivables and other assets

The following table shows other current and non-current receivables and other assets.

### OTHER RECEIVABLES AND OTHER ASSETS

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>In thousands of euros</u>	
Upfront payments on land . . . . .	6,000	10,582
Receivable tax exemption Hochtief Solutions AG . . . . .	2,267	2,758
Loans and receivables . . . . .	1,872	905
Other tax assets . . . . .	1,066	3,213
Other current assets . . . . .	1,270	1,304
Receivables from employees . . . . .	0	4
	<u>12,473</u>	<u>18,766</u>

It is expected that, other than deposits, no other receivables or other assets can be realised after more than twelve months.

## 22 Income tax assets

### INCOME TAX ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Receivables from domestic and foreign tax authorities during the ordinary course of business . . . . .	13,956	997
	<u>13,956</u>	<u>997</u>

## 23 Cash and cash equivalents

### CASH AND CASH EQUIVALENTS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Bank balances . . . . .	117,076	87,958
Cash . . . . .	13	7
	<u>117,090</u>	<u>87,965</u>
of which, restricted . . . . .	8,042	6,320

The restrictions on the disposal of cash and cash equivalents result from project financing not yet completed by banks.

## 24 Equity

As of 31 December 2019, the Company's share capital amounts to €36,988 thousand (previous year: €36,988 thousand) and is fully paid up. It is divided into 36,988,336 no-par value shares.

The Annual General Meeting decided on 29 June 2018 to create an authorised capital. The Management Board is authorised to increase the share capital of the Company by up to €18,450 thousand in the period until 28 June 2023 through the issue of up to 18,450 thousand new shares.

The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen during the cross-border conversion of legal form on 28 August 2018. With regard to contingent capital, reference is made to the statements in the takeover law disclosures section of the combined management report.

As of 31 December 2019, the capital reserve remained unchanged at €198,899 thousand. (previous year: €198,899 thousand).

Retained earnings which were formed as part of Group equity, consist of the income generated by the companies flowing into the consolidated financial statements.

The accumulated other total comprehensive income from the Company's equity reflects the changes in equity of the actuarial gains and losses from defined benefit plans amounting to €-313 thousand (previous year: €-702 thousand).

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

#### INCOME TAX RELATED TO OTHER COMPREHENSIVE INCOME

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Amount before income taxes . . . . .	-465	-1,042
Income taxes . . . . .	<u>152</u>	<u>340</u>
	<u><b>-313</b></u>	<u><b>-702</b></u>

#### Non-controlling interests

The non-controlling interests of €912 thousand (previous year: €5,206 thousand) relate to KORE GmbH. In the previous year, there were also non-controlling interests in the companies Instone Real Estate Leipzig GmbH and GRK Beteiligung GmbH.

In the financial year no dividend (previous year: €0 euro) was distributed to non-controlling interests. The earnings after tax attributable to non-controlling interests amounts to €12 thousand (previous year: €2,496 thousand).

#### 25 Provisions for pensions and similar obligations

The existing pension plans of Instone Real Estate consist of both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company makes payments to a state or private pension scheme, either on a statutory, contractual or voluntary basis. The Company is not legally obliged to make any further payments. Under the defined benefit plans, the Company is required to pay the promised benefits to existing and former employees. A distinction is made between plans financed by provisions or by external financing.

The old-age provision at Instone Real Estate consists of a basic pension financed by the Group companies in the form of a modular defined contribution plan and an additional pension component linked to the economic success of the Company. In accordance with IAS 19, the corresponding commitments are recognised as liabilities from defined benefit plans.

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

#### LIABILITIES FROM DEFINED BENEFIT PLANS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Active employees, dependent on remuneration . . . . .	0	0
Active employees, not dependent on remuneration . . . . .	<u>6,713</u>	<u>5,966</u>
	<u><b>6,713</b></u>	<u><b>5,966</b></u>
Vested claims . . . . .	4,936	4,473
Ongoing pensions . . . . .	<u>950</u>	<u>819</u>
	<u><b>12,600</b></u>	<u><b>11,258</b></u>

The average remaining time in service of the eligible active employees was 15.6 years as at the balance sheet date (previous year: 12.4 years).

The pension obligations within the scope of employee stock option programs are financed by the purchase of interests in mutual funds. The obligations financed by Helaba Pension Trust e.V. account for approx. 64.6%

(previous year: approx. 60.0%) of the entire insurance coverage; overall, the coverage is 68.7% (previous year: 64.8%). The hedging of defined benefit obligations by plan assets is shown in the following table:

#### COVERAGE OF THE DEFINED BENEFIT OBLIGATION BY PLAN ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Pension obligations covered by funds . . . . .	11,726	10,434
Deferred Compensation covered by funds . . . . .	<u>873</u>	<u>824</u>
	<b><u>12,600</u></b>	<b><u>11,258</u></b>
Fair value of the fund assets . . . . .	-8,659	-7,291
	<b><u>3,940</u></b>	<b><u>3,967</u></b>

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

#### DEFINED BENEFIT OBLIGATION CASH VALUE

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
<b>Defined benefit obligation cash value on 1 January . . . . .</b>	<b><u>11,258</u></b>	<b><u>9,758</u></b>
Change in the scope of consolidation . . . . .	0	0
Current service cost . . . . .	455	435
Interest expense . . . . .	227	188
Actuarial gains (-)/actuarial losses (+) due to changes in demographic assumptions . . .	0	54
Actuarial gains (-)/actuarial losses (+) due to changes in financial assumptions . . . . .	744	536
Actuarial gains (-)/actuarial losses (+) due to changes in other assumptions . . . . .	-46	322
Transfer effects . . . . .	0	0
Pension payments . . . . .	<u>-38</u>	<u>-35</u>
<b>Defined benefit obligation cash value as of 31 December . . . . .</b>	<b><u>12,600</u></b>	<b><u>11,258</u></b>

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes into account the duration of the pension obligations for the Company. The underlying mortality data was taken from the statistics and experience published for each country. The 2018 G mortality tables of Klaus Heubeck were used for this purpose.

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

#### PLAN ASSETS

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
<b>Plan assets 1 January . . . . .</b>	<b><u>7,291</u></b>	<b><u>5,577</u></b>
Additions . . . . .	953	2,008
Interest income from plan assets (previous year: interest expense) . . . . .	415	-293
Income from plan assets not included in net interest income . . . . .	<u>0</u>	<u>-1</u>
<b>Plan assets as at 31 December . . . . .</b>	<b><u>8,659</u></b>	<b><u>7,291</u></b>



## COMPOSITION OF PLAN ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	In thousands of euros	
<b>Listing in an active market</b>		
CTA <sup>(1)</sup> assets . . . . .	8,144	6,753
DC <sup>(2)</sup> assets . . . . .	515	538
Current euro balances . . . . .	<u>1</u>	<u>0</u>
	<u><b>8,659</b></u>	<u><b>7,291</b></u>

(1) CTA = Contractual Trust Arrangement.

(2) DC = Deferred Compensation.

## FACTORS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	In %	
Discount factor . . . . .	1.62	2.02
Salary growth rates . . . . .	2.65	2.70
Pension adjustment: Commitments with adjustment guarantee . . . . .	1.00	2.00
Pension adjustment: Other commitments . . . . .	1.50	2.00

## Sensitivity analysis

The pension obligations of Instone Real Estate are subject to various risks. The main risks are due to general changes in interest rates and inflation rates. There are no unusual risks associated with the pension obligations.

Interest rate risk: The (mathematical) contributions are converted into benefits within the scope of a defined contribution pension plan using a table of fixed interest rates that are not dependent on actual market interest rates. Instone Real Estate therefore bears the risk arising from the general capital market interest rates with regard to determining benefits. Pension obligations have increased significantly in recent years due to the generally low interest rates on the capital market. The comparatively strong effect results from the relatively long duration of the obligations.

Inflation risk: According to legislation, the benefits of occupational pensions in Germany must be adjusted to inflation trends every three years. The 2000+ pension plan obligations in Germany under occupational pension schemes increase by 1% each year so there is little inflation risk during the retirement phase with regard to long-term pension commitments.

Longevity risk: As a retirement provision is granted for a lifetime, there is a risk that beneficiaries will live longer than originally anticipated, with Instone Real Estate bearing the corresponding risk. In general, this risk balances out across all beneficiaries and only has an impact if the overall lifetime is longer than originally thought.

The following sensitivity analysis shows the possible impact of the stated risks when changing the actuarial assumptions to the obligations under a defined benefit pension plan:

## SENSITIVITY ANALYSIS

	<u>31/12/2019</u>		<u>31/12/2018</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	In thousands of euros			
Discount factor + 0.50%/–0.50% . . . . .	–1,434	1,693	–1,278	1,506
Salary increases + 0.50%/–0.50% . . . . .	0	0	0	0
Pension growth rate + 0.25%/–0.25% . . . . .	229	–218	220	–209
Life expectancy + 1.00 year . . . . .	421		372	

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

- The current service cost for the following financial year is €499 thousand (previous year: €455 thousand).
- The contributions to defined contribution plans are expected to rise in financial year 2020 by the same proportion as in financial year 2019.

## 26 Other provisions

The other provisions are divided as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Non-current</b>		
Personnel provisions . . . . .	5,794	3,986
Provisions for impending losses . . . . .	356	0
Remaining other provisions . . . . .	<u>179</u>	<u>562</u>
	<b><u>6,329</u></b>	<b><u>4,548</u></b>
<b>Current</b>		
Personnel provisions . . . . .	52	32
Warranty obligations . . . . .	7,892	6,818
Provisions for impending losses . . . . .	7,223	0
Tax provisions . . . . .	2,212	2,758
Litigation risks . . . . .	4,073	3,573
Provisions for work still to be carried out . . . . .	0	2,258
Remaining other provisions . . . . .	<u>1,516</u>	<u>2,287</u>
	<b><u>22,967</u></b>	<b><u>17,726</u></b>
	<b><u>29,297</u></b>	<b><u>22,274</u></b>

The short-term and long-term provisions relating to staff primarily relate to provisions for special payments on the basis of a long-term incentive system, early retirement and anniversary commitments.

Other short-term provisions include, but are not limited to investment risks, compensation for damages and other contingent liabilities.

The provisions for impending losses were made for impending losses arising from construction services obligations to third parties.

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

### DEVELOPMENT OF OTHER PROVISIONS

	<u>31/12/2019</u>	<u>01/01/2019</u>	<u>Allocation</u>	<u>Liquidation</u>	<u>Rebooking</u>	<u>Consumption</u>
	<u>In thousands of euros</u>					
Personnel provisions . . . . .	5,847	4,018	2,343	-395	0	-120
Warranty obligations . . . . .	7,892	6,818	1,865	-210	0	-581
Provisions for impending losses . . . . .	7,579	0	8,213	0	-634	0
Tax provisions . . . . .	2,212	2,758	130	-600	733	-809
Litigation risks . . . . .	4,073	3,573	1,234	-319	0	-416
Provisions for work still to be carried out . . . . .	0	2,258	0	0	-1,843	-415
Other provisions . . . . .	<u>1,695</u>	<u>2,849</u>	<u>1,392</u>	<u>-1,925</u>	<u>-348</u>	<u>-273</u>
	<b><u>29,297</u></b>	<b><u>22,274</u></b>	<b><u>15,177</u></b>	<b><u>-3,449</u></b>	<b><u>-2,092</u></b>	<b><u>-2,614</u></b>

The personnel provisions include commitments to the employees in connection with long-term incentive plans. Provisions of €5,225 thousand (previous year: €3,114 thousand) have been recognised for these long-term incentive plans.

## 27 Financial liabilities

Current and non-current loans from banks consisted of fixed and variable interest rate loans extended by various banks. Loans from banks have a term of between one and four years (previous year: between one and five years). The interest rates are between 1.45% and 5.75% (previous year: 1.50% and 4.24%). The increase was largely from additional company financing of €180,204 thousand and project financing for ongoing projects of €434,289 thousand, which was countervailed by repayments of €284,851 thousand.

In accordance with the Group's policy, Instone Group's loans from banks are not the subject of contractual assurances and are instead secured by land charges.

## FINANCIAL LIABILITIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	In thousands of euros	
<b>Non-current</b>		
Loans from banks . . . . .	451,586	177,744
	<u>451,586</u>	<u>177,744</u>
<b>Current</b>		
Loans from banks . . . . .	143,294	87,495
Loans from third parties . . . . .	633	327
	<u>143,927</u>	<u>87,822</u>
	<u>595,513</u>	<u>265,566</u>

## FINANCIAL LIABILITIES 2019

	<u>31/12/2019</u>	<u>01/01/2019</u>	Non-cash changes			
			Cash flow from financing activities	Changes to the scope of consolidation	Deferred interest	Amortisation from the valuation using the effective interest method
	In thousands of euros					
Loans from banks . . . . .	594,881	265,239	276,042	41,578	13,756	-1,734
Loans from third parties . . . . .	633	327	305	0	0	0
	<u>595,513</u>	<u>265,566</u>	<u>276,348</u>	<u>41,578</u>	<u>13,756</u>	<u>-1,734</u>

## FINANCIAL LIABILITIES 2018

	<u>31/12/2018</u>	<u>01/01/2019</u>	Non-cash changes			
			Cash flow from financing activities	Changes to the scope of consolidation	Deferred interest	Amortisation from the valuation using the effective interest method
	In thousands of euros					
Loans from banks . . . . .	265,239	317,407	-51,477	0	-1,489	798
Loans from third parties . . . . .	327	448	-121	0	0	0
Loans from shareholders . . . . .	0	57,824	-57,824	0	0	0
	<u>265,566</u>	<u>375,679</u>	<u>-109,422</u>	<u>0</u>	<u>-1,489</u>	<u>798</u>

### 28 Deferred tax

Deferred tax liabilities are calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the various countries and for the different countries. Deferred tax assets and liabilities are offset against each other for each company or tax group. In other respects, deferred tax liabilities are calculated on the basis of the tax regulations in force or applying on the date of preparation of these financial statements.

Deferred tax assets that are recognised in tax refund claims arising from the expected utilisation of existing tax loss carryforwards in subsequent years and whose realisation appears sufficiently certain amount to €17,005 thousand (previous year: €4,898 thousand).

Deferred taxes were also applied to interest carryforwards in the amount of €6,659 thousand (previous year: €0 thousand).

There are tax loss carryforwards from our companies, for which no deferred taxes have been recognised: in Germany in the amount of €0 thousand (previous year: €55,339 thousand), while in Luxembourg, they amount to €19,245 thousand (previous year: €20,469 thousand) and in Austria €31,306 thousand (previous year: €30,802 thousand).

In principle, these losses and taxes carried forward within the individual countries can be offset against profits in subsequent years. According to our current assessment, we do not expect these loss carryforwards to be used.

Deferred tax assets and liabilities changed as follows:

## DEFERRED TAX

	31/12/2019		31/12/2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
	<b>In thousands of euros</b>			
Non-current assets . . . . .	1,952	4,717	149	964
Current assets . . . . .	111,991	150,769	97,235	132,676
<b>Non-current liabilities</b> . . . . .				
Pension provisions . . . . .	2,336	0	1,700	0
Other provisions . . . . .	1,846	0	232	0
Other non-current liabilities . . . . .	0	1,112	0	914
	<b>4,182</b>	<b>1,112</b>	<b>1,932</b>	<b>914</b>
<b>Current liabilities</b>				
Other provisions . . . . .	2,513	6,033	532	2,516
Other current liabilities . . . . .	20,299	13,774	4,615	967
	<b>22,812</b>	<b>19,808</b>	<b>5,147</b>	<b>3,483</b>
	<b>140,937</b>	<b>176,405</b>	<b>104,464</b>	<b>138,037</b>
Loss carryforwards . . . . .	23,664	0	1,389	0
Gross amount . . . . .	164,601	176,405	105,853	138,037
Offset . . . . .	-164,440	-164,440	-105,853	-105,853
	<b>161</b>	<b>11,965</b>	<b>0</b>	<b>32,184</b>

### 29 Liabilities from net assets attributable to non-controlling interests

Liabilities from net assets attributable to non-controlling interests of €9,504 thousand (previous year: €0 thousand) relate to non-controlling interests of Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG.

### 30 Leasing liabilities

The future minimum lease payments are as follows:

#### LEASING LIABILITIES

	31/12/2019	31/12/2018
	<b>In thousands of euros</b>	
Due in up to one year . . . . .	3,273	0
Due in one to five years . . . . .	5,785	0
Due in over five years . . . . .	1,559	0
	<b>10,617</b>	<b>0</b>

Instone Real Estate has concluded long-term contracts for commercial real estate and company vehicles as a tenant/lessee. The carrying amounts of the leasing liabilities as at 31 December 2019 amounted to €3,004 thousand of current liabilities and €6,836 thousand of non-current liabilities.

### 31 Contract liabilities

#### CONTRACT LIABILITIES

	31/12/2019	31/12/2018
	<b>In thousands of euros</b>	
Payments received . . . . .	52,099	19,900
Contract assets . . . . .	-28,807	-13,267
	<b>23,292</b>	<b>6,633</b>

The liabilities from contract assets rose in the financial year from €6,633 thousand on 1 January 2019 to €23,292 thousand as of 31 December 2019. This increase is attributable to the significant increase in advance payments received.

The cycle of contract liabilities is—equivalent to the project term—an average of three years.

In contrast to the liabilities arising from contract assets in the amount of €6,633 thousand as at 1 January 2019, in the financial year €4,923 thousand in revenues were generated through contract fulfilment.

### 32 Trade payables

#### TRADE PAYABLES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Trade payables . . . . .	87,592	78,342
	<u>87,592</u>	<u>78,342</u>

### 33 Other liabilities

#### OTHER LIABILITIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Liabilities from bonuses . . . . .	9,604	7,485
Liabilities to employees . . . . .	1,327	290
Liabilities from taxes . . . . .	592	2,352
Liabilities from the annual audit . . . . .	214	544
Liabilities from social security contributions . . . . .	6	7
Sundry other liabilities . . . . .	1,383	2,011
	<u>13,127</u>	<u>12,689</u>

### 34 Income tax liabilities

#### INCOME TAX LIABILITIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business . . . . .	29,123	18,094
	<u>29,123</u>	<u>18,094</u>

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Group's consolidated statement of cash flows distinguishes between cash flows from operating, investing and financing activities. All non-cash income and expenses and all income from the disposal of assets are eliminated as part of the cash flow from operations.

As of 31 December 2019, liquid funds consisted entirely of cash and cash equivalents of €117,090 thousand (previous year: €87,965 thousand), of which €8,042 thousand (previous year: €6,320 thousand) were subject to restrictions on disposal.

The total cash outflow for leases amounted to €3,442 thousand, of which with a repayment share of €3,176 thousand and interest share of €266 thousand.

## OTHER DISCLOSURES

### Disclosures about related persons and companies

Key related persons and companies include the material at-equity consolidated entities and shareholders. There were no material transactions with key related persons and companies which impacted the following items:

### Relationships with joint ventures

## RELATIONSHIPS WITH JOINT VENTURES/OTHER INVESTMENTS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Financial receivables</b>		
Instone Real Estate Projektverwaltungs GmbH . . . . .	5	0
Uferpalais Verwaltungsgesellschaft mbH . . . . .	<u>0</u>	<u>65</u>
	<u>5</u>	<u>65</u>
<b>Liabilities</b>		
Wohnpark Gießener Straße GmbH & Co. KG . . . . .	485	150
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG . . . . .	<u>148</u>	<u>178</u>
	<u>633</u>	<u>328</u>

The financial liabilities to Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG and Wohnpark Gießener Straße GmbH & Co. KG consist of interest-free loans and have a residual term of up to one year.

### Relationships with related persons

There were no material transactions between Instone Real Estate Group AG, Essen, Germany or a Group company and persons from the Management Board or related persons or companies during the reporting period. There are no conflicts of interest in terms of the participating members of the Management Board and the Supervisory Board.

### Remuneration of the Management Board

The remuneration of the Management Board members in 2019 was comprised of the following components:

#### Fixed remuneration

- The fixed remuneration is paid in equal monthly instalments.

#### Fringe benefits

- Fringe benefits consist of taxable monetary benefits, such as the private use of company cars or other benefits-in-kind.

### Components under a long-term incentive plan consisting of two components:

#### One-year variable remuneration (short term incentive (STI))

- The one-year variable remuneration in the form of an STI plan is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the

individual members of the Management Board. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

### Multi-year variable remuneration (long-term incentive (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 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. 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 interests calculated annually for the bonus year have a term of three years and are only paid out at the end of the respective term at the share price determined at that time. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

### Pension plan

- Some members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years. For a detailed description, please refer to the statements in the remuneration report section of the combined management report.

The following amounts were expensed for the members of the Management Board in the financial year:

### REMUNERATION OF THE MANAGEMENT BOARD

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Benefits due in the short term</b>		
Fixed remuneration	1,389	1,871
Variable remuneration	1,397	1,103
<b>Benefits after the end of the employment relationship</b>		
Pension expenses	95	401
<b>Benefits due in the long term</b>		
Variable remuneration	1,154	1,162
<b>Benefits on termination of the employment relationship</b>		
Severance payments	<u>0</u>	<u>1,500</u>
<b>Total emoluments</b>	<b><u>4,037</u></b>	<b><u>6,036</u></b>
<b>Expense for long-term cash-settled performance-based remuneration components recognised in the financial year</b>	<b>1,154</b>	<b>1,362</b>
<b>Liability for long-term cash-settled performance-based remuneration components recognised as at 31 December</b>	<b>2,516</b>	<b>1,362</b>

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

### Supervisory Board remuneration

The total remuneration of the Supervisory Board in financial year 2019 was €426 thousand (previous year: €406 thousand). Of which, €355 thousand (previous year: €343 thousand) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €71 thousand (previous year: €63 thousand).

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 credits.

### Transactions with members of the Supervisory Board

No reportable transactions took place with members of the Supervisory Board in the 2019 financial year.

### **Members of the Management Board**

The Management Board is comprised of the following three members:

#### **Kruno Crepulja**

- Chairman of the Management Board
- CEO of Instone Real Estate Group AG
- CEO of Instone Real Estate Development GmbH

#### **Dr Foruhar Madjlessi**

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

#### **Andreas Gräf**

- Member of the Management Board
- COO of Instone Real Estate Group AG
- COO of Instone Real Estate Development GmbH for the North Rhine-Westphalia and Rhine-Main branches

### **Former members of the Management Board as at 31 December 2019:**

#### **Torsten Kracht**

- Member of the Management Board
- CSO of Instone Real Estate Group AG
- Managing Director of Instone Real Estate Leipzig GmbH
- COO of Instone Real Estate Development GmbH for Saxony

### **Members of the Supervisory Board**

#### **Stefan Brendgen**, independent management consultant

In addition to his function as Chairman of the Supervisory Board of the Company, Mr Brendgen is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

- aamundo asset Management GmbH & Co. KGaA (Chairman of the Supervisory Board)
- Climeon AB (member of the Supervisory Board)
- HAHN-Immobilien-Beteiligungs AG (member of the Supervisory Board)

#### **Dr Jochen Scharpe**, Managing Director of AMCi and ReTurn Immobilien GmbH

In addition to his function as Deputy Chairman of the Supervisory Board of the Company, Dr Scharpe is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

- FFIRE AG (Deputy Chairman of the Supervisory Board)
- LEG Immobilien AG (member of the Supervisory Board)

#### **Marija Korsch**, Chairman of the Supervisory Board of Aareal Bank AG

In addition to her function as a member of the Supervisory Board of the Company, Ms Korsch is a member of the following other statutory supervisory boards and comparable domestic and foreign supervisory bodies of commercial enterprises:

- Aareal Bank AG  
(Chairperson of the Supervisory Board)



- Just Software AG  
(member of the Supervisory Board)
- Nomura Financial Products GmbH  
(member of the Supervisory Board)

**Dietmar P. Binkowska**, independent management consultant

Mr Binkowska is not a member of any other statutory supervisory boards or comparable domestic and foreign supervisory bodies of commercial enterprises in addition to his function as a member of the Supervisory Board of the Company.

**Thomas Hegel**, lawyer and independent consultant

Mr Hegel is not a member of any other statutory supervisory boards of comparable domestic or foreign supervisory bodies of commercial enterprises in addition to his function as a member of the Supervisory Board of the Company.

#### **Auditor's fee**

In the financial year the following total fees were expensed for the services of the auditor, "Deloitte GmbH Wirtschaftsprüfungsgesellschaft", Munich, Dusseldorf Office:

#### **AUDITOR'S FEE**

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Annual audit . . . . .	701	505
of which relating to previous years . . . . .	135	0
Other confirmation services . . . . .	111	145
Other services . . . . .	<u>0</u>	<u>7</u>
	<u><b>811</b></u>	<u><b>657</b></u>

In addition to the audit of the annual and consolidated financial statements, the auditors conducted an audit review pursuant to IDW PS 900 and an audit pursuant to IDW PS 850, which are reported within the audit services. In addition, the auditor provided other assurance services; these are audits pursuant to Section 16 MaBV, investigative actions pursuant to ISRS 4400 and audits pursuant to IDW PS 980 and IDW PS 981.

#### **Waiver of the disclosure of information and the preparation of the management report in accordance with Section 264(3) HGB**

Instone Real Estate Development GmbH, headquartered in Essen, Germany and registered in the Commercial Register of the Essen District Court under HRB 28401, complies with the requirements set out in Section 264(3) HGB and is therefore exempt from disclosure of information in its annual financial statements and the preparation of a management report.

#### **Reporting on financial instruments**

Financial instruments include financial assets and liabilities as well as contractual rights and obligations relating to the exchange and transfer of financial assets. There are no derivative financial instruments.

Financial assets mainly comprise cash and cash equivalents, receivables and other financial assets. Most of the financial liabilities are current liabilities which are measured at amortised cost.

The available financial instruments are shown in the balance sheet. The maximum loss or default risk equals the sum of the financial assets. Any risk identified for financial assets is recognised at its impairment charge.

#### **Risk management**

All of Instone Real Estate's financial activities are conducted on the basis of a Group-wide financial policy. There are also function-specific operational work instructions on topics such as the handling of collateral.

These guidelines contain the principles used to address the different types of financial risks.

Trading, controlling and billing are handled separately by the front and back office. This ensures effective risk management. The monitoring and billing of the external trading activities of the Front Office is carried out by a

separate and independent back office. Furthermore, the dual control principle must be maintained at least for all external trading activities. Internal powers to issue instructions are limited in number and amount, reviewed regularly (at least once a year) and adjusted if necessary.

The Instone Group considers the interests of shareholders, promissory note investors and the issuing banks in its financial management. Financial and non-financial covenants arise from the contractual conditions of the promissory note loan, the fixed term loan and the syndicated loan. The covenants include compliance with the debt ratio, the interest rate, equity and loan to value. The potential financial risks resulting from the contractual conditions were not considered to be significant as at the balance sheet date 31 December 2019. The loans are not secured and the Instone Group complied with all obligations in this regard in the financial year as well as in the previous year. For the subsequent periods, the Instone Group monitors the future development as part of Group-wide financial risk management and also continues to anticipate compliance with the contractual terms.

### Management of liquidity risk

Instone Real Estate uses largely centralised structures for pooling cash and cash equivalents at Group level to avoid, among other things, bottlenecks in cash flow at individual Group company level. The central liquidity position is calculated monthly and using a bottom-up method over a rolling twelve-month period. The liquidity planning is supplemented by monthly stress tests.

The following tables show the contractually agreed residual maturity of non-derivative financial liabilities with agreed repayment periods that apply to the Group. The tables are recorded on the basis of the non-discounted cash flows of the financial liabilities with the date which the Group can be asked to repay. The tables contain the cash flow from interest and principal receivable.

Interest payments for items with variable rates are uniformly translated using the last interest rate in effect before the key date.

The consolidated statement of financial position as at 31 December 2019 includes a promissory note loan issued in the financial year with a nominal value of €106,000 thousand and a fixed term loan concluded in the financial year of €75,000 thousand. These financial liabilities are accounted for at amortised cost using the effective interest rate method. Interest income and interest expenses as well as directly attributable transaction costs are allocated over the relevant subsequent periods through amortisation recognised in profit or loss.

The maximum payments listed in the following tables are compensated by contractually determined revenues in the same period, which are not shown here (e.g. trade receivables) which cover a significant part of the cash flows recognised.

### Maturity analysis of financial liabilities

The following table provides an overview of the contractual payments in terms of financial liabilities:

#### MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2019

	Carrying amount 31/12/2019	Cash outflows		
		2020	2021—2023	> 2023
		In thousands of euros		
Financial liabilities . . . . .	595,513	143,105	423,085	28,000
Trade payables . . . . .	87,592	87,592	0	0
Liabilities from net assets attributable to non-controlling interests . . . . .	9,504	0	0	9,504
Leasing liabilities . . . . .	10,617	3,273	5,785	1,559
	<b>703,226</b>	<b>233,970</b>	<b>428,870</b>	<b>39,063</b>

#### MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2018

	Carrying amounts	Cash outflows		
		2019	2020—2022	> 2022
		In thousands of euros		
Financial liabilities . . . . .	265,566	87,822	177,744	0
Trade payables . . . . .	78,342	78,342	0	0
	<b>343,908</b>	<b>166,164</b>	<b>177,744</b>	<b>0</b>

The liquidity of the Group is also secured on the basis of available cash, bank balances and unused credit lines.

The following table shows the most important liquidity instruments:

## LIQUIDITY INSTRUMENTS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Cash and cash equivalents . . . . .	117,090	87,965
of which cash . . . . .	13	7
of which, restricted . . . . .	8,042	6,320
Credit line – unused amount . . . . .	<u>334,236</u>	<u>345,344</u>
	<u><b>451,326</b></u>	<u><b>433,309</b></u>

### Control of default risks

Instone Real Estate is subject to certain default risks due to its operating activities and specific financing activities.

At Instone Real Estate, operational risks are managed through the continuous tracking of trade receivables at branch level. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

The maximum default risk from financial assets corresponds to their respective carrying amounts stated in the balance sheet. However, the de facto default risk is lower, as collateral has been provided in favour of Instone Real Estate. The maximum risk from financial guarantees is equal to the maximum amount that Instone Real Estate would have to pay. The maximum default risk from loan commitments is equal to the amount of the commitment. It is very unlikely that these financial guarantees and loan commitments will be used at the time of reporting.

Instone Real Estate accepts collateral to secure the fulfilment of the contract by subcontractors, the warranty obligations of the subcontractors and fee claims. These securities include, but are not limited to, warranty guarantees, contract performance guarantees, advance payments and payment guarantees. Instone Real Estate has corresponding guidelines for the acceptance of collateral. This includes, among other things, rules on contract structure, contract implementation and contract management for all contracts. The exact specifications vary and depend, for example, on the country, jurisdiction and current case law. With regard to default risks, Instone Real Estate checks the creditworthiness of the guaranteeing party for all accepted collateral. Instone Real Estate commissions external professionals (such as rating agencies) to assess their creditworthiness as far as possible. The fair value of accepted collateral is not disclosed, as it cannot usually be determined reliably.

The age structure of overdue financial assets is typical for the sector. The receipt of a payment depends on the order acceptance and invoice verification, which often take a relatively long time. The majority of these overdue non-impaired financial assets relate to receivables from public-sector clients with outstanding credit ratings. Contract assets are not subject to impairment.

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

### IMPAIRMENTS PURSUANT TO IFRS 9 IN 2019

	<u>Carrying amount</u>	<u>Non-overdue</u>	<u>Up to 30 days overdue</u>	<u>31 to 60 days overdue</u>	<u>61 to 90 days overdue</u>	<u>More than 90 days overdue</u>
	<u>In thousands of euros</u>					
Trade receivables (gross book value) . . . . .	10,530	4,310	3,376	165	121	2,558
Impairment provisions . . . . .	<u>-2,253</u>	<u>-43</u>	<u>-34</u>	<u>-2</u>	<u>-1</u>	<u>-2,173</u>
<b>Trade receivables (net book value) . . . . .</b>	<u><b>8,278</b></u>	<u><b>4,267</b></u>	<u><b>3,342</b></u>	<u><b>163</b></u>	<u><b>120</b></u>	<u><b>385</b></u>

## IMPAIRMENTS PURSUANT TO IFRS 9 IN 2018

	<u>Carrying amount</u>	<u>Non-overdue</u>	<u>Up to 30 days overdue</u>	<u>31 to 60 days overdue</u>	<u>61 to 90 days overdue</u>	<u>More than 90 days overdue</u>
	In thousands of euros					
Trade receivables (gross book value) . . . . .	14,987	8,227	4,154	24	69	2,513
Impairment provisions . . . . .	<u>-1,860</u>	<u>-82</u>	<u>-42</u>	<u>0</u>	<u>-1</u>	<u>-1,735</u>
<b>Trade receivables (net book value) . . . . .</b>	<b><u>13,127</u></b>	<b><u>8,145</u></b>	<b><u>4,112</u></b>	<b><u>24</u></b>	<b><u>68</u></b>	<b><u>778</u></b>

The ongoing changes in the 2019 financial year are based on allocations, dissolutions and utilisations and amount to €-393 thousand (previous year: €1,758 thousand) meaning that, as at 31 December 2019, there is an impairment loss on trade receivables of €2,253 thousand.

### Control of interest rate risks

The interest rate risk of Instone Real Estate is mainly related to current and non-current interest bearing financial assets and liabilities due to fluctuations in market interest rates. Depending on the situation on the market, this risk is countered by a mix of fixed income and variable interest rate financial instruments. The risk is not managed separately, as borrowed funds are usually repaid promptly using the payments made by the acquirers.

Changes in market interest rates for non-derivative financial instruments with a fixed interest rate are only recognised in profit or loss if they are shown at their fair value. For this reason, all financial instruments recognised at amortised cost are not subject to interest rate risks as defined by IFRS 9.

As part of a sensitivity analysis, we examined the effects of changes in market interest rates on Group earnings after tax over a range of 100 basis points. In the financial year, a hypothetical increase or decrease in market interest rates by 100 basis points (if the other variables remain constant) would result in higher or lower consolidated earnings after taxes of €-3,260 thousand or €2,708 thousand (previous year: €-1,408 thousand or €0 thousand).

### Control of the capital risk

Instone Real Estate manages its capital with the aim of ensuring that all Group companies continue to operate on a going concern basis. The Group keeps the cost of capital as low as possible. It achieves this by optimising the ratio of equity to debt on an as-needed basis.

The capital structure of the Group consists of current and non-current liabilities less the cash and cash equivalents reported in the balance sheet and in equity. The capital structure of the Group is reviewed regularly. The risk-adjusted capital costs are also taken into account.

The overall strategy for controlling the capital risk did not change in the financial year compared to the previous year.

### Further disclosures on financial instruments

The book values and fair values for individual classes of financial instruments and carrying amounts for each category are shown below in accordance with IFRS 7:

With the financial instruments accounted for at amortised costs, the book value largely corresponds to the fair value, due to the short remaining maturity.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS IN 2019

	Book value 31/12/2019	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9	Fair value 31/12/2019
	In thousands of euros				
<b>ASSETS</b>					
<b>Financial assets</b>					
<b>Financial receivables</b>					
Non-current . . . . .	450	0	450	0	450
Current . . . . .	5	0	5	0	5
	<u>455</u>	<u>0</u>	<u>455</u>	<u>0</u>	<u>455</u>
Other investments . . . . .	1,145	1,145	0	0	1,145
Contract assets . . . . .	219,019	0	0	219,019	219,019
Trade receivables . . . . .	8,278	0	8,278	0	8,278
Other receivables . . . . .	12,473	0	12,473	0	12,473
Cash and cash equivalents . . . . .	117,090	0	117,090	0	117,090
	<u>358,460</u>	<u>1,145</u>	<u>138,296</u>	<u>219,019</u>	<u>358,460</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Financial liabilities</b>					
<b>Financial liabilities</b>					
Non-current . . . . .	451,586	0	451,586	0	451,586
Current . . . . .	143,927	0	143,927	0	143,927
	<u>595,513</u>	<u>0</u>	<u>595,513</u>	<u>0</u>	<u>595,513</u>
Contract liabilities . . . . .	23,292	0	0	23,292	23,292
Liabilities from net assets attributable to non-controlling interests . . . . .	9,504	9,504	0	0	9,504
Trade payables . . . . .	87,592	0	87,592	0	87,592
Other liabilities . . . . .	13,127	0	13,127	0	13,127
	<u>729,028</u>	<u>9,504</u>	<u>696,232</u>	<u>23,292</u>	<u>729,028</u>

## CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS IN 2018

	Book value 31/12/2018	Fair value through profit and loss	At amortised costs	Not within the scope of application of IFRS 9	Fair value 31/12/2018
	In thousands of euros				
<b>ASSETS</b>					
<b>Financial assets</b>					
<b>Financial receivables</b>					
Non-current	0	0	0	0	0
Current	65	0	65	0	65
	<u>65</u>	<u>0</u>	<u>65</u>	<u>0</u>	<u>65</u>
Other investments	421	421	0	0	421
Contract assets	158,489	0	0	158,489	158,489
Trade receivables	13,127	0	13,127	0	13,127
Other receivables	7,488	0	7,488	0	7,488
Cash and cash equivalents	87,965	0	87,965	0	87,965
	<u>267,555</u>	<u>421</u>	<u>108,645</u>	<u>158,489</u>	<u>267,555</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Financial liabilities</b>					
<b>Financial liabilities</b>					
Non-current	177,744	0	177,744	0	177,744
Current	87,822	0	87,822	0	87,822
	<u>265,566</u>	<u>0</u>	<u>265,566</u>	<u>0</u>	<u>265,566</u>
Contract liabilities	6,633	0	0	6,633	6,633
Trade payables	78,342	0	78,342	0	78,342
Other liabilities	12,689	0	12,689	0	12,689
	<u>363,230</u>	<u>0</u>	<u>356,597</u>	<u>6,633</u>	<u>363,230</u>

### Net results from financial instruments

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

### NET RESULTS FROM FINANCIAL INSTRUMENTS

	31/12/2019	31/12/2018
	In thousands of euros	
Affecting profit and loss at the fair value	-135	228
At amortised costs	-65	-429
Liabilities at amortised cost	-19,054	-9,332
	<u>-19,254</u>	<u>-9,533</u>

The calculation of net results from financial instruments includes interest income and expense, impairments and reversals, income and expenses from currency translation, dividend income, capital gains and losses and other changes in the fair value of financial instruments recognised through profit or loss.

The changes due to impairment of trade receivables amounted to €—368 thousand in the financial year (previous year: €—1,768 thousand).

### Declaration of Conformity with the German Corporate Governance Code

In December 2019, the Management Board and Supervisory Board of Instone Real Estate Group AG issued the declaration of conformity for the financial year in accordance with Section 161 AktG.

The declaration of compliance was made permanently publicly available to the shareholders by a link on the Company's website at Instone Declaration of Compliance.

### **Other financial obligations**

As at 31 December 2019, there are no other financial obligations (previous year: €8,209 thousand). The obligations arising from rentals and leases are reported separately in the balance sheet in accordance with IFRS 16.

### **Events after the balance sheet date**

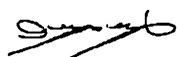
There were no events of particular significance to report after the balance sheet date on 31 December 2019.

### **Information on the preparation and approval**

The Management Board of Instone Real Estate Group AG has prepared the consolidated financial statements on 13 March 2020 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of reviewing the consolidated financial statements and deciding on their approval.

Essen, Germany, 13 March 2020

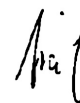
The Management Board



Kruno Crepulja



Dr Foruhar Madjlessi



Andreas Gräf

## LIST OF SHAREHOLDINGS

### LIST OF SHAREHOLDINGS AS AT 31/12/2019

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
<b>I. Affiliated companies included in the consolidated financial statements</b>			
Durst-Bau GmbH, Vienna, Austria	100.0	743	-102
formart Immobilien GmbH, Essen, Germany <sup>(1)</sup>	100.0	701	0
formart Luxemburg S.à r.l., Luxemburg, Luxemburg	100.0	1,966	1,222
Gartenhöfe GmbH, Leipzig, Germany	100.0	5,839	-9
GRK Beteiligung GmbH, Leipzig, Germany	100.0	-146	-146
Instone Real Estate Erste Projektbeteiligung GmbH & Co. KG, Essen, Germany	100.0	5	0
Instone Real Estate Development GmbH, Essen, Germany <sup>(2)</sup>	100.0	153,986	0
Instone Real Estate Landmark GmbH, Leipzig, Germany	100.0	-853	-853
Instone Real Estate Leipzig GmbH, Leipzig, Germany	100.0	31,069	29,939
Instone Real Estate Projekt Erlangen GmbH & Co. KG, Erlangen, Germany	100.0	7	-1
Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany	100.0	-91	-521
Instone Real Estate Projekt Schopenhauerstraße GmbH & Co. KG, Erlangen, Germany	100.0	120	4
Instone Real Estate Projekt Seetor GmbH, Erlangen, Germany	100.0	602	449
Instone Real Estate Projekt Stephanstraße GmbH & Co. KG, Erlangen, Germany	100.0	-38	-52
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany	100.0	29	-7
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany	100.0	-13	-16
Instone Real Estate Property GmbH, Essen, Germany	100.0	25	0
KORE GmbH, Dortmund, Germany	85.0	6,156	75
OPUS Beteiligung GmbH, Leipzig, Germany	100.0	-10	-10
Parkresidenz Leipzig GmbH, Leipzig, Germany	100.0	11,691	142
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt a. M., Germany	70.0	25,750	26,468
west.side GmbH, Cologne, Germany	100.0	812	337
Westville 1 GmbH, Frankfurt a. M., Germany	100.0	121	-4
Westville 2 GmbH, Frankfurt a. M., Germany	99.9	1	-24
Westville 3 GmbH, Frankfurt a. M., Germany	99.9	0	-25
Westville 4 GmbH, Frankfurt a. M., Germany	99.9	1	-24
Westville 5 GmbH, Frankfurt a. M., Germany	99.9	2	-23
<b>II. Investments recognised at equity</b>			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt a. M., Germany	50.0	160	160
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt a. M., Germany	50.0	782	782
<b>III. Other participations</b>			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany	50.0	34	-12
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany	50.0	44	2
Real Estate Company CSC Kirchberg S.à rl, Luxembourg, Luxembourg	100.0	42	10
Instone Real Estate Erste Projekt GmbH, Essen, Germany	100.0	25	0
Instone Real Estate Projektverwaltungs GmbH, Essen, Germany	100.0	25	-6
Kleyer Beteiligungsgesellschaft mbH, Frankfurt a. M., Germany	100.0	25	29
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany	6.0	2,998	95
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany	70.0	9	-8



	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany . . . . .	50.0	38	-10
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany . .	70.0	1	32

(1) Profit and loss transfer agreement with Instone Real Estate Development GmbH.

(2) Profit and loss transfer agreement with Instone Real Estate Group AG.

## LIST OF SHAREHOLDINGS AS AT 31/12/2018

	Share of capital in %	Equity in thousands of euros	Annual result in thousands of euros
<b>I. Affiliated companies included in the consolidated financial statements</b>			
Durst-Bau GmbH, Vienna, Austria . . . . .	100.0	845	284
formart Immobilien GmbH, Essen, Germany <sup>(1)</sup> . . . . .	100.0	701	23
formart Luxemburg S.à r.l., Luxembourg, Luxembourg <sup>(1)</sup> . .	100.0	1,976	1,262
Gartenhöfe GmbH, Leipzig, Germany . . . . .	100.0	5,848	363
GRK Beteiligung GmbH, Leipzig, Germany . . . . .	98.0	-468	-148
Instone Real Estate Development GmbH, Essen, Germany . .	100.0	178,571	7,909
Instone Real Estate Landmark GmbH, Leipzig, Germany . .	100.0	513	640
Instone Real Estate Leipzig GmbH, Leipzig, Germany . . . .	94.0	26,328	-2,129
OPUS Beteiligung GmbH, Leipzig, Germany . . . . .	100.0	-24	-12
Parkresidenz Leipzig GmbH, Leipzig, Germany . . . . .	100.0	11,549	2,887
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany . . . . .	70.0	13,935	9,192
west.side GmbH, Cologne, Germany . . . . .	100.0	8,009	7,509
<b>II. Investments recognised at equity</b>			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany . . . . .	50.0	358	358
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany . . . . .	50.0	271	246
<b>III. Other participations</b>			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany <sup>(2)</sup>	50.0	46	-72
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany . . . . .	50.0	42	2
Real Estate Company CSC Kirchberg S.à rl, Luxembourg, Luxembourg . . . . .	100.0	32	-6
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany <sup>(2)</sup> . . . . .	6.0	3,459	140
Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany . . . . .	70.0	16	-8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany <sup>(2)</sup> . . . . .	50.0	48	-7
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany . .	70.0	-31	-2
Westville 1 GmbH, Frankfurt am Main, Germany . . . . .	100.0	25	0

(1) Profit and loss transfer agreement.

(2) As at: 31 December 2017.

The following independent auditor's report has been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) in German language on the German version of the consolidated financial statements of Instone Real Estate Group Aktiengesellschaft for the financial year ended December 31, 2019 and the combined group management report, except for the sections in the combined management report which are excluded from the audit as stated in the auditor's report. The combined group management report is neither included nor incorporated by reference in this Prospectus.

## **INDEPENDENT AUDITOR'S REPORT**

To Instone Real Estate Group AG, Essen/Germany

### **REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT**

#### **Audit Opinions**

We have audited the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report on the parent and the Group of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" pursuant to Sections 289f and 315d German Commercial Code (HGB) of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

#### **Basis of the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

## **Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter we have determined concerning revenue recognition over time as well as the measurement of contract assets and of inventories.

Our presentation of this key audit matter has been structured as follows:

- a. description (including reference to corresponding information in the consolidated financial statements), and
- b. auditor's response.

### **Revenue Recognition Over Time Including Measurement of Contract Assets and Inventories**

- a. In the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2019, contract assets of kEUR 219,019, inventories amounting to kEUR 732,127, and revenue totalling kEUR 503,196 from the development of residential and multi-family buildings, the design of urban districts, the restoration of historic objects as well as publicly funded construction (development activities) in Germany are reported. Applying the provisions under IFRS 15 on revenue recognition, revenue for units under development is recognised over time. In doing so, the service provided including the pro rata result is reported according to the degree of completion under revenue. Except for restoration objects, revenue for these matters is principally reported if a marketing progress of 30% has been reached for the relevant project. As of this point, the contractual right to withdraw granted to both parties ceases to exist. In the case of restoration objects, the revenue is reported with the start of the construction activity.

The amount of the revenue recognised from a given construction project and the valuation of contract assets or inventories depend on the following parameters:

- the marketing progress,
- the degree of completion and actual costs incurred as at the balance sheet date, and
- the estimate of total revenue and total costs.

While the marketed part of the construction projects is reported under the item contract asset after netting with prepayments received or under contract liabilities, the non-marketed part of the construction projects is reported under inventories.

Revenue recognition and the measurement of contract assets and inventories is based to a substantial extent on estimates and assumptions made by the executive directors with respect to the total amount of costs, the accrual of costs as at the balance sheet date as well as the estimates of total revenue attributable to the respective project. The discretionary estimates made by the executive directors have a direct and, for the most part, significant effect on the amount of revenue recognised in the consolidated statement of profit and loss and the amount of the contract assets or inventories in the consolidated statement of financial position.

Against this background, we have determined this matter as a key audit matter.

Information on revenue recognition and on the measurement of contract assets and inventories is provided by the executive directors in section "Basis for the Consolidated Financial Statements" of the notes to the consolidated financial statements.

- b. In auditing revenue, contract assets and inventories, we examined the accounting principles applied in accordance with the provisions under IFRS 15, involving internal IFRS Advisory specialists. Within the scope of our audit, we included the material processes from the acceptance of projects (acquisition of the property) through to project management (construction activity and sale of individual dwelling) as well as the monthly cost accrual procedure, and examined the appropriateness and effectiveness of relevant internal control procedures. Applying the risk-based sampling method, we performed on-site visits to projects and, on the basis of the latter, we assessed the estimates and assumptions made by the executive directors as at the balance sheet date. We assessed the accrual of costs using appropriate evidence based on random sampling. In addition, we examined the accrual postings as at the balance sheet date for plausibility. We assessed the anticipated total revenue and total costs by involving internal Real Estate

Consulting specialists as well as their specialist and industry knowledge. We evaluated the relevant disclosures in the notes to the consolidated financial statements as to their completeness and accuracy.

### **Other Information**

The executive directors are responsible for the other information. The other information comprises

- the section “Statement on Corporate Governance and Corporate Governance Report” of the combined management report, which also includes the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB),
- the section “Sustainability report” of the combined management report,
- the corporate governance report pursuant to Number 3.10 of the German Corporate Governance Code,
- the executive directors’ confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### **Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s reliability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

### **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined

management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of the accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the shareholders' general meeting on 13 June 2019. We were engaged by the supervisory board on 10 October/25 November 2019. We have been the group auditor of Instone Real Estate Group AG, Essen/Germany, since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## **GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is Rolf Künemann.

Dusseldorf/Germany, 16 March 2020

### **Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft



Signed: Rolf Künemann  
Wirtschaftsprüfer  
[German Public Auditor]




Signed: Michael Pfeiffer  
Wirtschaftsprüfer  
[German Public Auditor]

## RESPONSIBILITY STATEMENT OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, we declare that the consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of Instone Group in accordance with the applicable accounting principles and that the management report of the Group, which is combined with the Company's management report, includes a true and fair view of the development, performance and results of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of Instone Group.

Essen, 13 March 2020

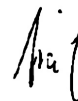
The Management Board



Kruno Crepulja



Dr. Foruhar Madjlessi



Andreas Gräf

**Audited Consolidated Financial Statements of  
Instone Real Estate Group AG  
as of and for the financial year ended December 31, 2018 (IFRS)**



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF  
AND FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018  
OF INSTONE REAL ESTATE GROUP AG, ESSEN**

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## CONSOLIDATED INCOME STATEMENT

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>2018</b>	<b>2017</b>
	<b>In thousands of euros</b>	
<b>Consolidated earnings after tax</b> .....	<b>9,033</b>	<b>-30,960</b>
<b>Items, which are not reclassified into the consolidated earnings in future periods</b>		
Actuarial gains and losses .....	-1,042	1,318
Income tax effect .....	340	-414
<b>Income and expenses after tax recognised directly in equity</b> .....	<b>-702</b>	<b>904</b>
<b>Total comprehensive income for the financial year after tax</b> .....	<b>8,331</b>	<b>-30,056</b>
<b>Attributable to:</b>		
Owners of the Company .....	5,798	-30,184
Non-controlling interests .....	2,533	129
	<b>8,331</b>	<b>-30,056</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION ASSETS (Continued)**

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2018	2017
	In thousands of euros	
<b>Consolidated earnings after tax</b> . . . . .	<b>9,033</b>	<b>-30,960</b>
± Depreciation and amortisation/reversal of impairments . . . . .	587	438
± Increase/decrease in provisions . . . . .	-28,430	12,539
± Increase/decrease in deferred tax . . . . .	24,515	-15,745
± Increase/Decrease in interests in joint ventures . . . . .	160	1,018
± Increase/decrease in other financial assets . . . . .	—	250
± Interest expense/income . . . . .	8,417	20,050
± Income tax expense/income . . . . .	17,408	15,065
± Other non-cash expenses/income . . . . .	-14,155	-3,913
± Profit/loss on disposals of property, plant and equipment . . . . .	-576	—
± Decrease/increase in inventories, contract assets, trade receivables and other assets not attributable to investment or financing activities . . . . .	132,235	-112,345
± Increase/decrease of contract liabilities, trade payables and other liabilities not attributable to investment or financing activities . . . . .	-183,133	83,365
± Income tax payments . . . . .	-6,458	-4,236
<b>= Cash flow from operations</b> . . . . .	<b>-40,397</b>	<b>-34,474</b>
– Outflows for investments in property, plant and equipment . . . . .	-1,114	-492
+ Proceeds from disposals of intangible assets . . . . .	182	0
+ Proceeds from disposals of investments . . . . .	661	—
– Outflows for investing in financial assets . . . . .	—	-22,839
+ Proceeds from the disposal of unconsolidated companies and other business units . . . . .	—	122
– Outflows from investments by unconsolidated companies and other business units . . . . .	—	-25
+ Interest received . . . . .	758	572
<b>= Cash flow from investing activities (investive cash flow)</b> . . . . .	<b>487</b>	<b>-22,662</b>
+ Proceeds from additions to issued capital . . . . .	150,500	—
– Payment of transaction costs related to issued capital . . . . .	-9,252	—
– Withdrawals by shareholders . . . . .	—	-650
– Repayment of shareholder loans . . . . .	-28,297	—
+ Inflows from the issuing of bonds and from (financial) loans . . . . .	83,870	33,572
– Outflows from the repayment of bonds and the repayment of (financial) loans . . . . .	-135,468	—
– Interest paid . . . . .	-7,102	-14,735
<b>= Cash flow from financing activities (finance cash flow)</b> . . . . .	<b>54,251</b>	<b>18,187</b>
Cash change in cash and cash equivalents . . . . .	14,341	-38,949
± Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents . . . . .	—	25
+ Cash and cash equivalents at the beginning of the period . . . . .	73,624	112,548
<b>= Cash and cash equivalents at the end of the period</b> . . . . .	<b>87,965</b>	<b>73,624</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Capital reserves	Accumulated profit	Accumulated reserves recognised in other comprehensive income	Equity attributable to shareholders	Non-controlling interests	Total
In thousands of euros								
<b>As of: 01 January 2017</b>		<b>8</b>	<b>37,395</b>	<b>-35,499</b>	<b>-1,252</b>	<b>652</b>	<b>2,032</b>	<b>2,684</b>
Consolidated earnings after tax		—	—	-31,088	—	-31,088	128	-30,959
Changes in actuarial gains and losses		—	—	—	904	904	—	904
<b>Total comprehensive income</b>		—	—	<b>-31,088</b>	<b>904</b>	<b>-30,184</b>	<b>128</b>	<b>-30,055</b>
Payment into the capital reserves		—	47,959	—	—	47,959	—	47,959
Changes to the scope of consolidation		—	25	—	—	25	—	25
Distributions to shareholders		—	—	—	—	—	-650	-650
Other		—	—	32,257	—	32,257	—	32,257
		<u>—</u>	<u>47,984</u>	<u>32,257</u>	<u>—</u>	<u>80,241</u>	<u>-650</u>	<u>79,591</u>
<b>As of: 31 December 2017</b>	22	<b>8</b>	<b>85,379</b>	<b>-34,329</b>	<b>-348</b>	<b>50,710</b>	<b>1,510</b>	<b>52,220</b>
Effect of first-time application of IFRS								
15 as of 01/01/2018		—	—	43,884	—	43,884	1,162	45,046
<b>As of: 01 January 2018</b>		<b>8</b>	<b>85,379</b>	<b>9,554</b>	<b>-348</b>	<b>94,593</b>	<b>2,673</b>	<b>97,266</b>
Consolidated earnings after tax		—	—	6,499	—	6,499	2,533	9,032
Changes in actuarial gains and losses		—	—	—	-702	-702	—	-702
<b>Total comprehensive income</b>		—	—	<b>6,499</b>	<b>-702</b>	<b>5,797</b>	<b>2,533</b>	<b>8,330</b>
Issue of shares		36,980	113,520	—	—	150,500	—	150,500
Changes to the scope of consolidation		—	—	24	—	24	—	24
Other		—	—	-9,252	—	-9,252	—	-9,252
		<u>36,980</u>	<u>113,520</u>	<u>-9,228</u>	<u>—</u>	<u>141,272</u>	<u>—</u>	<u>141,272</u>
<b>As of: 31 December 2018</b>	22	<b>36,988</b>	<b>198,899</b>	<b>6,825</b>	<b>-1,050</b>	<b>241,662</b>	<b>5,206</b>	<b>246,868</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### General information about the Company

At the general meeting of 13 February 2018, it was decided that Instone Real Estate Group B.V., with its registered office in Amsterdam, Netherlands and administrative headquarters at Baumstraße 25, 45128 Essen, Germany, would be converted into a stock corporation under Dutch law (naamloze vennootschap: N.V. [limited liability corporation]), the company Instone Real Estate Group N.V.

The conversion became legally effective upon registration of Instone Real Estate Group N.V. under number 60490861 on 13 February 2018 at the Dutch Chamber of Commerce and Industry, registered ex officio at the Essen District Court under HR B 26426 on 14 May 2018.

The first annual general meeting on 29 June 2018 in Amsterdam, the Netherlands, resolved to undertake a cross-border conversion to Essen, Germany, while preserving its legal identity. The transfer of the office was registered at the Essen District Court under HR B 29362 on 28 August 2018.

Since then, the Company has been trading under the name Instone Real Estate Group AG (hereinafter also referred to as the “Company”). It is the top domestic parent company of the Instone Real Estate Group (hereinafter also referred to as “Instone Real Estate” or the “Instone Group”).

The Company holds interests in subsidiaries whose principal activities are the acquisition, development, construction, leasing, management and sale or other use of land and buildings, as well as participation in other companies active in the sector.

The consolidated financial statements and the combined management report were approved by the Management Board of Instone Real Estate Group AG on 22 March 2019.

#### Basis of the consolidated financial statements

The consolidated financial statements for Instone Real Estate as of 31 December 2018 were prepared on the balance sheet date on the basis of Section 315e (1) HGB in compliance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they apply in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union.

Various items of the consolidated statement of financial position and the consolidated income statement are combined into one item for a better overview. These items are shown and explained separately in the Notes. The consolidated income statement is prepared according to the nature of expense method.

The consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are stated in thousands of euros (€ thousands) unless otherwise stated. Commercial rounding may lead to immaterial rounding differences in the totals.

The subsidiary financial statements included were prepared on the reporting date of the financial statements of Instone Real Estate Group AG.

#### First-time adoption of accounting standards in the current financial year

In recent years, the International Accounting Standards Board (IASB) has made various changes to existing IFRSs and published new IFRSs as well as Interpretations of the IFRS Interpretations Committee (IFRS IC). In addition, the IASB has published amendments to existing standards as part of the Annual Improvement Project (AIP). The primary aim of the collective standards is to clarify inconsistencies and formulations.

The following is an explanation of the accounting rules to be applied from the 2018 financial year onwards which are significant for Instone Real Estate as these had a material impact on these consolidated financial statements.

#### IFRS 9 Financial instruments

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



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

- Debt instruments, which are held as part of the business model, whose aim is the collection of the contractual payment flows and whose contractual payment flows are exclusively comprised of the payment of principal and interest on the outstanding principal amount, are valued during the subsequent periods at amortised costs;
- Debt instruments, which are held as part of the business model, whose aim is the collection of the contractual payment flows, as well as the sale of debt instruments and whose contractual payment flows are exclusively comprised of the payment of principal and interest on the outstanding principal amount, are valued during the subsequent periods not affecting income at the fair value in other earnings; and
- all other bonds and equity capital instruments will be valued in subsequent periods, recognised in profit or loss at the fair value.

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

- the Group can irrevocably decide to record the following changes to the fair value of an equity capital instrument, which is neither held for trading purposes nor constitutes conditional consideration as part of a company merger, in equity capital without affecting income; and
- the Group can irrevocably classify a bond, which fulfils the criteria for amortised costs or the fair value in other earnings, as recognised in profit and loss at the fair value, if this significantly reduces or eliminates valuation or recognition incongruence.

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

#### CHANGES TO IFRS 9/IAS 39 CLASSIFICATIONS

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

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

#### IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB published IFRS 15 “Revenue from Contracts with Customers”. The standard introduces an industry-independent and principle-based five-level accounting model for recognising revenue from contracts with customers. However, the standard has no impact on the collection of income arising in

connection with financial instruments in the regulatory area covered by IAS 39/IFRS 9. It also excludes the collection of income from leases falling within the scope of application of IAS 17/IFRS 16. According to IFRS 15, revenue is recognised at the amount of consideration that a company can expect in return for the transfer of goods or services to a customer (transaction price). Revenues are realised when the customer control over the goods or services is passed. IFRS 15 also contains presentation requirements. The new standard also requires the disclosure of a range of quantitative and qualitative information to enable potential users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The new revenue standard will replace all current revenue recognition requirements and related interpretations under IFRS. Either full retrospective adoption or modified retrospective adoption is required for financial years beginning on or after 1 January 2018.

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

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

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

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

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

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

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

**Overall effect from first-time adoption of IFRS 15:**

*Tax effects*

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

**Impact on cash flow and net financial assets**

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

**Impact on the consolidated statement of financial position**

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Adjustment to IFRS 15	01/01/2018	31/12/2017
In thousands of euros			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	—	1,598	1,598
Interest in joint ventures . . . . .	—	396	396
Other investments . . . . .	—	333	333
Financial receivables . . . . .	—	683	683
Other receivables . . . . .	—	1,022	1,022
	<u>—</u>	<u>4,032</u>	<u>4,032</u>
<b>Current assets</b>			
Inventories . . . . .	-308,466	350,978	659,444
Financial receivables . . . . .	—	32,360	32,360
Contract assets . . . . .	167,494	167,494	—
Trade receivables . . . . .	—	4,217	4,217
Other receivables and other assets . . . . .	—	15,452	15,452
Cash and cash equivalents . . . . .	—	73,624	73,624
	<u>-140,972</u>	<u>644,125</u>	<u>785,097</u>
<b>Total assets . . . . .</b>	<b><u>-140,972</u></b>	<b><u>648,157</u></b>	<b><u>789,129</u></b>
<b>LIABILITIES</b>			
<b>Equity</b>			
Share capital . . . . .	—	8	8
Capital reserves . . . . .	—	85,379	85,379
Group retained earnings . . . . .	43,884	9,555	-34,329
Accumulated reserves recognised in other comprehensive income . . . . .	—	-348	-348
<b>Equity attributable to shareholders . . . . .</b>	<b>43,884</b>	<b>94,594</b>	<b>50,710</b>
Non-controlling interests . . . . .	1,162	2,672	1,510
<b>Total equity . . . . .</b>	<b><u>45,046</u></b>	<b><u>97,266</u></b>	<b><u>52,220</u></b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations . . . . .	—	4,181	4,181
Other provisions . . . . .	—	1,330	1,330
Financial liabilities . . . . .	—	241,007	241,007
Deferred tax . . . . .	21,207	28,876	7,669
	<u>21,207</u>	<u>275,394</u>	<u>254,187</u>
<b>Current liabilities</b>			
Other provisions . . . . .	—	49,159	49,159
Financial liabilities . . . . .	—	134,672	134,672
Contract liabilities . . . . .	18,645	18,645	—
Trade payables . . . . .	-225,870	49,822	275,692
Other liabilities . . . . .	—	9,406	9,406
Income tax liabilities . . . . .	—	13,793	13,793
	<u>-207,225</u>	<u>275,497</u>	<u>482,722</u>
<b>Total equity and liabilities . . . . .</b>	<b><u>-140,972</u></b>	<b><u>648,157</u></b>	<b><u>789,129</u></b>

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

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

### ITEMS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

### ITEMS IN THE CONSOLIDATED INCOME STATEMENT

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

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

- Amendments to IAS 40  
“Investment Property”
- Amendments to IFRS 2  
“Share-based Payment”
- Amendments to IFRS 4  
“Insurance Contracts”
- IFRIC Interpretation 22  
“Foreign Currency Transactions and Advance Consideration”
- Annual improvements of the IFRS. 2014-2016 cycle:

### Accounting standards and interpretations already published but not yet implemented

In addition to the above-mentioned mandatory IFRSs, the IASB has published further amended IASs and IFRSs, but these only need to be applied at a later date. Several of these standards have already been transposed into EU law (“endorsement”). Voluntary early application of these standards is expressly permitted or recommended. Instone Real Estate does not make use of this option. These standards will be implemented in the consolidated financial statements at the time of mandatory adoption.

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

- Amendments to IFRS 9 (1 January 2019)  
“Financial instruments”
- IFRS 16 (1 January 2019)  
“Leases”

- IFRIC 23 (1 January 2019)  
“Uncertainties over Income Tax Treatments”
- Amendments to IAS 28 (1 January 2019)  
“Long-term Interests in Associates and Joint Ventures”

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

- IAS 1/IAS 8 (1 January 2020)
- Amendments to IAS 19  
(1 January 2019) “Employee Benefits”
- IFRS 3 (1 January 2020)
- IFRS 17 (01 January 2021)
- Annual improvements of the IFRS. 2015-2017 cycle  
(1 January 2019):  
Amendments to IAS 12  
“Income Taxes”  
Amendments to IAS 23  
“Borrowing Costs”  
Amendments to IFRS 3  
“Business Combinations”  
Amendments to IFRS 11  
“Joint Arrangements”

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

**IFRS 16 “Leases”**

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

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

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

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

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

**Scope of consolidation**

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

In addition to Instone Real Estate Group AG, the consolidated financial statements of Instone Real Estate include all significant subsidiaries controlled by Instone Real Estate Group AG according to the acquisition method. A control relationship exists if Instone Real Estate as an investor has the continuing opportunity to determine the relevant activities of the subsidiary. Significant activities are activities that significantly affect returns. Furthermore, Instone Real Estate AG must have an interest in these returns in the form of fluctuating returns and be able to influence them with the options and rights available to the Company for its own benefit. As a rule, a controlling relationship exists if the majority of the voting rights are held directly or indirectly. In Group companies, a controlling relationship can also arise through contractual agreements.

Significant interests in associates are accounted for using the equity method. A Company is an associate if Instone Real Estate has a material influence of at least 20% and not more than 50% on the basis of voting rights or if there is a corresponding contractual agreement.

As of 31 December 2018, in addition to the Instone Real Estate Group AG, a total of ten (previous year: 15) domestic and two (previous year: two) European foreign subsidiaries, in addition to Instone Real Estate Group AG, have been included and fully consolidated in the current consolidated financial statements.

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

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

Due to their overall minor importance, three (previous year: three) companies were not included in the consolidated financial statements using the equity method. These companies are of minor importance both individually and as a whole for the presentation of the results of operations, net assets and financial position of Instone Real Estate.

A detailed overview of all shares directly or indirectly held by Instone Real Estate Group AG is provided in the list of shareholdings (Page 142).

## **Mergers**

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

The consideration paid for the acquisition is generally measured at fair value. The same applies to the acquired identifiable net assets. Goodwill is tested annually for impairment. All profits from acquisitions at prices below the market value are charged directly to income. Transaction costs are recognised when they arise, except when issuing bonds or equity securities.

The consideration paid does not include the amounts required to settle past relationship receivables. These amounts are always recognised in the income statement. Contingent considerations are recognised at their fair value at the acquisition date. If an obligation to make a contingent consideration that meets the requirements of the definition of a financial instrument is classified as equity, and it will not be revalued and recognised in equity. In other respects, a contingent consideration is valued at the fair value as of the respective balance sheet date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## **Acquisition of non-controlling interests**

Non-controlling interests are measured on the basis of their share, which at the time of acquisition is equal to the identifiable net assets of the acquirer. Changes in Group holdings in a subsidiary that do not result in a loss of control are treated as equity transactions.

## **Segment reporting**

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

## **Principles of consolidation**

The financial statements of the companies included in the scope of consolidation are prepared using standardised accounting principles. Inter-company balances, business transactions, income and expenses as well

as profits and losses from intra-Group transactions are eliminated in full. Deferred taxes are deferred for temporary differences from consolidation measures. Impairment losses recorded for Group companies in their separate financial statements are reversed.

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

The financial statements of all equity-accounted affiliated companies are prepared in accordance with standardised Group accounting principles.

### **Foreign currency translation**

All fully consolidated companies and equity-accounted affiliated companies prepare their separate financial statements in accordance with standardised Group accounting principles.

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

### **Accounting principles**

Assets and liabilities are recognised according to the historical cost principle. This excludes derivative financial instruments, securities and shares in associates which are recognised at fair value.

**Goodwill** from the acquisition of subsidiaries is recognised at cost less accumulated impairment losses.

**Intangible assets** are measured at acquisition cost. These include software for commercial and technical applications only. Intangible assets are generally amortised on a straight-line basis over a period of three to five years. The useful life and depreciation methods are reviewed every year.

**Property, plant and equipment** are recognised at acquisition cost. These costs only include costs directly attributable to an item in property, plant and equipment. Property, plant and equipment is generally depreciated on a straight-line basis over a period of three to eight years. The useful life and depreciation methods are reviewed every year.

Impairment losses are recognised for tangible and intangible assets if their recoverable amount falls below their book value. If the reason for an earlier loss in value no longer exists, the asset is reversed at amortised cost.

Shares accorded for using to the **equity method** are valued at acquisition or production cost and are recognised pro rata to the net assets in subsequent periods. The full book value is tested annually for impairment whereas withdrawals and other changes in equity are increased or decreased. Interests accounted for using the equity method are then impaired if their recoverable amount falls below their book value.

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

**Other financial assets** are comprised of financial receivables, trade receivables and other receivables and are valued at amortised costs using the effective interest method (in consideration of factors, such as surcharges and discounts). Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

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

**Long-term loans** which are recognised in financial liabilities are carried at amortised cost. Interest-bearing loans at normal market rates are recognised at their face value.

Receivables and liabilities from individually negotiated customer contracts are listed under contract assets and contract liabilities. In principle, these receivables and liabilities are accounted for and measured in accordance with IFRS 15 “Revenue from Contracts with Customers”.

The Company's customer contracts typically meet the criteria for identifying a contract under IFRS 15. For measurement purposes, the respective potentially separable performance obligations in the respective contracts are combined into a performance obligation as there is no individual benefit for the customer from separate performance obligations and the contracts do not provide for the transfer of separate benefit obligations. Subsequently agreed special requests of the customer are also added to the single performance obligation.

The contracts are generally regarded as fixed price contracts. Subsequent special requests are added to the fixed price. If the sale of several residential units in a contract is combined in multi-level marketing, a separate fixed price is agreed in the contract for each residential unit. In the case of investor distribution, contracts are always concluded with fixed prices listed separately if the performance obligation of the contract involves several buildings with separate construction phases. The contracts for the sale of residential real estate are generally valued according to revenue recognition over time. In the case of contracts in individual sales, there is usually a right of withdrawal up to a marketing quota of 30% of the residential units of a construction phase so that revenue recognition of the revenue at a period in time only begins after this quota has been reached. Otherwise, in the case of contracts in the area of structured sales or investor distribution, the revenue recognition over time begins directly upon effectiveness of the contract. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the fulfilment costs. For the calculation of the costs, a separate project account is kept for each phase of construction in which the costs are recorded and compared with the planned costs. In the case of contracts in individual sales and structure sales, the marketing quota of the construction section is included in the measurement in addition to the performance progress. The unsold portion of the construction stage is valued as inventories in accordance with IAS 2.

In contract assets and contract liabilities, the advance payments received from customers against the contracts concluded are netted with the receivables from the performance of the contract. In principle, the settlement receivables exceed the advance payments received for the contract and the net value is recognised as a contract asset. In individual cases, advance payments received may exceed the settlement receivables so that the netted value is shown as a contract liability.

The additional contract costs incurred are also capitalised in the "Contract assets" item in the balance sheet. From the beginning of revenue recognition, the sales commissions incurred and capitalised so far are amortised in the income statement under cost of materials. Depreciation is measured at the fulfilment level so that contract costs remain capitalised on the part not yet fulfilled.

Receivables and liabilities arising from customer contracts are realised in one single business cycle of Instone Real Estate. Consequently, they are classified as current assets or liabilities, even if the realisation of the entire construction contract takes more than one year.

**Deferred tax liabilities** arise due to temporary differences between the IFRS and tax statements of financial position of the various companies and as a result of the consolidation.

Deferred tax assets are also recognised for tax refund claims arising from the anticipated utilisation of existing tax loss carryforwards in subsequent years. Deferred tax liabilities must be capitalised if it can be assumed with sufficient certainty that the affiliated economic benefits can be claimed. Their amount is calculated on the basis of the tax rates which apply or are expected to apply at the time of adoption in the different countries. The German trade tax rates applicable to the various companies are taken as a basis within the Group. For all other purposes, deferred tax liabilities are measured on the basis of the tax regulations in force or enacted at the time of reporting. Deferred tax assets and liabilities are offset against each other for each company or tax group.

**Inventories** are assets that are in production (work-in-progress) and for which no sales contract has yet been concluded. They are valued at acquisition costs. The acquisition costs include the full production-related costs. Borrowing costs for inventories that are part of the qualifying assets are capitalised as cost components. If the recoverable amount is lower than the capitalised costs on a specific balance sheet date, the lower recoverable amount is used. If the recoverable amount from inventories increases as a result, the resulting gain must be recognised. This is done by reducing the cost of materials. For the purpose of commercial presentation, the inventories from the individual larger project development measures are split into several sub-project development measures. This split has no impact on the measurement. Within the Group, the respective overall project is recognised as a special measure in the current assets. The risks arising from individual sub-project units can be compensated by opportunities from other sub-projects. An impairment requirement over and above the book value is taken into account by recognising a provision for impending losses.

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

**Provisions** are made for all legal and constructive liabilities to third parties existing on the closing date of transactions concluded in the past that are likely to result in the disposal of resources which can be reliably estimated.

Provisions are recognised at their anticipated settlement value and are not offset against reimbursement claims. All non-current provisions are recognised at their anticipated settlement value and discounted to the reporting date of the annual financial statements. Furthermore, all cost increases that count towards the settlement date are taken into account when calculating this amount.



In principle, provisions are released against the expense item for which they were made.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These include obligations of the Company with respect to current and future benefits to eligible active and former employees and their survivors. These obligations largely relate to pension benefits. The individual commitments are determined on the basis of the length of service and the salaries of the employees. The measurement of provisions for defined benefit plans is based on the actuarial present value of the respective obligation. This is determined using the projected unit credit method. This method of recurring single premiums not only includes pensions and accrued benefits known at the reporting date but also wage increases and pension increases expected in the future. The calculation is based on actuarial reports using biometric calculation methods (primarily "Richttafeln 2018 G" (guideline tables) of Klaus Heubeck).

The provision is calculated on the basis of the actuarial present value of the obligation and the fair value of the plan assets required to settle the pension obligation. The service cost is included in staff costs. The net interest income is part of the financial income. Gains and losses from the revaluation of net liabilities or net assets are recognised in full in the period in which they arise. They are reported in equity, are not recognised in profit or loss and are not reported in the consolidated income statement. In subsequent years they are also not shown in the profits and losses.

Instone Real Estate makes no further commitments for defined contribution plans that would exceed the contributions paid to Special Funds. The contributions are recorded as staff costs.

All **other provisions** take into account all identifiable risks. They are recognised at the amount required on the basis of prudent business judgement to meet future payment obligations of the Group. In this context, the amount that appears most likely is used, taking into account the individual case.

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

Non-derivative financial liabilities (including trade payables) are carried at amortised cost using the effective interest rate method in accordance with IFRS 9. Initial measurement is at fair value including transaction costs. In the subsequent valuation, the surcharges are added or the discounts are deducted when the residual value remaining until maturity is calculated. The premium or discount is recognised in the financial result over the term.

**Contingent liabilities** are potential obligations to third parties arising from events that have already taken place and that cannot be fully controlled by the Company, or existing obligations to third parties that are highly unlikely to lead to an outflow of resources or whose amount cannot be estimated with sufficient reliability. Contingent liabilities are not generally shown in the balance sheet. Income tax liabilities include obligations to pay actual income taxes.

**Income tax liabilities** are offset against the corresponding tax refund claims if they exist in the same jurisdiction and are identical in terms of their type and due date.

### **Estimations and assumptions**

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of the Group's accounting policies, recognition and measurement. Estimates are based on past experience and other knowledge of the transactions to be booked. The actual amounts may differ from these estimates.

Estimates are particularly required for the measurement of and contract assets, the allocation of sales prices, the recognition and measurement of deferred tax assets, the allocation of trade payables and contract liabilities, the recognition of provisions for pensions and other provisions.

### **Change of classification of items in the consolidated income statement**

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

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

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

#### RECLASSIFICATION TO THE COST OF MATERIALS

	<u>2017</u>
	<u>In thousands of euros</u>
Rent and maintenance expenses for project developments . . . . .	1,132
Insurance expenses for project developments . . . . .	385
Expenses for building permits and other government fees for project developments . . . . .	1,922
Other expenses for project developments . . . . .	2,596
Land tax expenses for project developments . . . . .	586
	<u><b>6,621</b></u>

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

#### RECLASSIFICATION TO OTHER OPERATING EXPENSES

	<u>2017</u>
	<u>In thousands of euros</u>
Expenses for office equipment . . . . .	28
Expenses for IT systems including software and hardware costs . . . . .	1,467
Warranty expenses not eligible for capitalisation . . . . .	1,894
Non-deductible input tax . . . . .	2,557
Other expenses not eligible for capitalisation for invoiced project developments . . . . .	2,846
	<u><b>8,792</b></u>

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

#### CONSOLIDATED INCOME STATEMENT

	<u>Adjusted in 2017</u>	<u>Adjustment</u>	<u>Reported in 2017</u>
	<u>In thousands of euros</u>		
Revenue . . . . .	199,700		199,700
Changes in inventories . . . . .	120,207		120,207
	<u><b>319,907</b></u>		<u><b>319,907</b></u>
Other operating income . . . . .	5,381		5,381
Cost of materials . . . . .	-242,647	2,171	-244,819
Staff costs . . . . .	-49,531		-49,531
Other operating expenses . . . . .	-43,644	-2,171	-41,473
Depreciation and amortisation . . . . .	-437		-437
<b>Consolidated earnings from operating activities . . . . .</b>	<u><b>-10,971</b></u>		<u><b>-10,971</b></u>
Share of results of joint ventures . . . . .	235		235
Other result from investments . . . . .	-61		-61
Finance income . . . . .	595		595
Finance costs . . . . .	-20,966		-20,966
Write-down securities classified as financial assets . . . . .	18		18
<b>Consolidated earnings before tax (EBT) . . . . .</b>	<u><b>-31,150</b></u>		<u><b>-31,150</b></u>
Income taxes . . . . .	190		190
<b>Consolidated earnings after tax (EAT) . . . . .</b>	<u><b>-30,960</b></u>		<u><b>-30,960</b></u>

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 1 Revenues

Revenues are spread across the following regions:

#### REVENUES BY REGION

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Germany . . . . .	358,379	196,723
Rest of Europe . . . . .	2,457	2,977
	<b><u>360,836</u></b>	<b><u>199,700</u></b>

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

#### REVENUES BY REVENUE TYPE

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Revenue from building contracts		
Revenue recognition at a point in time . . . . .	25,932	196,778
Revenue recognition over time . . . . .	328,167	
	<b><u>354,099</u></b>	<b><u>196,778</u></b>
Other services . . . . .	6,737	2,922
	<b><u>360,836</u></b>	<b><u>199,700</u></b>

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

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

The cycle of contract assets and contract liabilities is—equivalent to the project term—an average of three years.

### 2 Other operating income

Other operating income is broken down as follows:

#### OTHER OPERATING INCOME

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

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

### 3 Cost of materials

#### COST OF MATERIALS

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Cost of raw materials, consumables and supplies . . . . .	-94,437	-116,607
Expenses for purchased services . . . . .	-225,916	-126,040
	<u><b>-320,353</b></u>	<u><b>-242,647</b></u>

### 4 Staff costs

#### STAFF COSTS

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Wages and salaries . . . . .	-29,740	-23,683
Long-term incentives . . . . .	-	-22,414
Social security contributions and expenses for pensions . . . . .	-3,823	-3,434
	<u><b>-33,563</b></u>	<u><b>-49,531</b></u>

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

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

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

#### EMPLOYEES

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

## 5 Other operating expenses

### OTHER OPERATING EXPENSES

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

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

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

## 6 Depreciation and amortisation

### DEPRECIATION AND AMORTISATION

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Property, plant and equipment	-560	-437
Intangible assets	-27	-
	<u><b>-587</b></u>	<u><b>-437</b></u>

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

## 7 Share of results of joint ventures

Share results of joint ventures can be broken down as follows:

### SHARE OF RESULTS OF JOINT VENTURES

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
<b>Share of results of joint ventures</b>		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	-283	-991
Wohnpark Giessener Strasse GmbH & Co. KG	123	-2
TG Potsdam Projektentwicklungsgesellschaft mbH	-	-250
Wohnentwicklung Theresienstraße GmbH & Co. KG	-	0
	<u><b>-160</b></u>	<u><b>-1,243</b></u>
<b>Commercial law profit withdrawals from joint ventures</b>		
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG	462	1,478
	<u><b>462</b></u>	<u><b>1,478</b></u>
	<u><b>302</b></u>	<u><b>235</b></u>

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

## OTHER RESULTS FROM INVESTMENTS

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

## 8 Financial results

### FINANCIAL RESULTS

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

The finance income consists mainly of interest income for cash investments and loans. Finance costs consist mainly of interest expenses for cash investments, interest-bearing securities and other loans.

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

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

## 9 Income taxes

### INCOME TAXES

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Income taxes		
Corporate tax (domestic and foreign) . . . . .	-8,676	-7,411
German trade tax . . . . .	-8,732	-7,654
<b>Current income tax liabilities</b> . . . . .	<b>-17,408</b>	<b>-15,065</b>
Deferred tax . . . . .	-3,139	15,255
	<u><b>-20,547</b></u>	<u><b>190</b></u>

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

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

### INCOME TAXES

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
<b>Earnings before tax</b> . . . . .	<b>29,580</b>	<b>-31,150</b>
Theoretical tax expense (previous year: income) . . . . .	9,650	-7,787
Differences to foreign tax rates . . . . .	-18	-
Differences to domestic tax rates . . . . .	-580	-1,752
Taxes relating to other periods . . . . .	-2,375	-9,754
Non-tax-deductible joint ventures . . . . .	93	7,555
Tax-free income . . . . .	338	6,130
At equity valuation of joint ventures . . . . .	-	2,067
Changes in value and non-recognition of deferred taxes . . . . .	12,444	3,659
Effects from partnerships . . . . .	340	-1,031
Transaction-related special effect . . . . .	206	940
Other . . . . .	448	-217
<b>Current income taxes</b> . . . . .	<u><b>20,547</b></u>	<u><b>-190</b></u>

The reconciliation is calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the different countries. A tax rate for the Instone Group of 32.625% (previous year: 25.0%) has been used as the expected tax rate.

## 10 Earnings per share

Basic and diluted earnings per share are calculated by dividing the proportion of net consolidated profit attributable to Instone shareholders by the weighted average number of outstanding shares. Treasury shares are not included in this calculation.

### EARNINGS PER SHARE

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

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Non-controlling interests

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

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

### 11 Intangible assets

#### INTANGIBLE ASSETS

	<u>2018</u>	<u>2017</u>
	In thousands of euros	
<b>Acquisition costs</b>		
As of 1 January	18	18
Additions	<u>182</u>	–
As of 31 December	<u>200</u>	<u>18</u>
<b>Cumulative amortisation</b>		
As of 1 January	18	18
Additions	27	–
As of 31 December	<u>45</u>	<u>18</u>
Book values 31 December	<u>155</u>	<u>–</u>

### 12 Property, plant and equipment

#### PROPERTY, PLANT AND EQUIPMENT

	<u>2018</u>	<u>2017</u>
	In thousands of euros	
<b>Acquisition costs</b>		
As of 1 January	2,342	1,851
Additions	1,114	492
Disposals	<u>–842</u>	<u>–1</u>
As of 31 December	<u>2,614</u>	<u>2,342</u>
<b>Cumulative depreciation</b>		
As of 1 January	744	307
Additions	560	438
Disposals	<u>–685</u>	<u>–1</u>
As of 31 December	<u>619</u>	<u>744</u>
Book values 31 December	<u>1,995</u>	<u>1,598</u>



### 13 Interest in joint ventures

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

#### JOINT VENTURES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Assets . . . . .	2,215	3,805
Liabilities . . . . .	<u>-1,561</u>	<u>-2,759</u>
<b>Net assets</b> . . . . .	<b><u>654</u></b>	<b><u>1,046</u></b>
Revenue . . . . .	<u>6</u>	<u>1,088</u>
Profit for the year . . . . .	<b><u>604</u></b>	<b><u>918</u></b>

### 14 Other investments

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

#### OTHER INVESTMENTS

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

### 15 Inventories

In accordance with IAS 2, inventories include assets that are intended for sale in the normal course of business (finished goods) or that are in the process of being produced for sale (work-in-progress).

#### INVENTORIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Work-in-progress . . . . .	392,074	659,388
Finished goods . . . . .	<u>12,326</u>	<u>56</u>
	<b><u>404,400</u></b>	<b><u>659,444</u></b>

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

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

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

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

## 16 Financial receivables

### FINANCIAL RECEIVABLES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>in thousands of euros</u>	
Other loans . . . . .	–	<u>683</u>
<b>Non-current</b> . . . . .	<u>–</u>	<u><b>683</b></u>
Financial receivables from affiliated companies/Other participations . . . . .	65	–
Other financial receivables . . . . .	<u>–</u>	<u>32,360</u>
<b>Current</b> . . . . .	<u><b>65</b></u>	<u><b>32,360</b></u>
	<u><b>65</b></u>	<u><b>33,043</b></u>

## 17 Contract assets

The structure of contract assets is composed as follows:

### CONTRACT ASSETS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Contract assets . . . . .	466,858	–
Payments received . . . . .	–318,081	–
	<b>148,777</b>	–
Receivables from contract start-up costs . . . . .	<u>9,712</u>	–
	<u><b>158,489</b></u>	<u>–</u>

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

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

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

## 18 Trade receivables

### TRADE RECEIVABLES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Trade receivables . . . . .	<u>13,127</u>	<u>4,217</u>
	<u><b>13,127</b></u>	<u><b>4,217</b></u>

## 19 Other receivables and other assets

The following table shows other current and non-current receivables and other assets.

### OTHER RECEIVABLES AND OTHER ASSETS

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

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

## 20 Income tax assets

### INCOME TAX ASSETS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Receivables from domestic and foreign tax authorities during the ordinary course of business . . . . .	997	–
	<u><b>997</b></u>	<u><b>–</b></u>

## 21 Cash and cash equivalents

### CASH AND CASH EQUIVALENTS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Cash and cash equivalents . . . . .	87,965	73,624
of which, restricted . . . . .	6,320	14,903
Credit line – unused amount . . . . .	345,344	457,453
	<u><b>433,309</b></u>	<u><b>531,077</b></u>

## 22 Equity

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

The annual general meeting decided on 29 June 2018 to create new authorised capital. The Management Board is authorised to increase the share capital of the Company by up to €18,450 thousand in the period until 28 June 2023 through the issue of up to 18,450,000 new shares.

The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen during the cross-border change of legal form on 28 August 2018.

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

Retained earnings which were formed as part of Group equity, consist of the income generated by the companies flowing into the consolidated financial statements.

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

The accumulated other total comprehensive income from the Company's equity reflects the changes in equity of the actuarial gains and losses from defined benefit plans amounting to €-702 thousand (previous year: €904 thousand).

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

#### INCOME TAX RELATED TO OTHER COMPREHENSIVE INCOME

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Amount before income taxes . . . . .	-1,042	1,318
Income taxes . . . . .	<u>340</u>	<u>-414</u>
Amount after income taxes . . . . .	<u><u>-702</u></u>	<u><u>904</u></u>

#### 23 Provisions for pensions and similar obligations

The existing pension plans of Instone Real Estate consist of both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company makes payments to a state or private pension scheme, either on a statutory, contractual or voluntary basis. The Company is not legally obliged to make any further payments. Under the defined benefit plans, the Company is required to pay the promised benefits to existing and former employees, A distinction is made between plans financed by provisions or by external financing.

The old-age provision at Instone Real Estate consists of a basic pension financed by the Group companies in the form of a modular defined contribution plan and an additional pension component linked to the economic success of the Company. In accordance with IAS 19, the corresponding commitments are recognised as liabilities from defined benefit plans.

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

#### LIABILITIES FROM DEFINED BENEFIT PLANS

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

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

#### COMPOSITION OF PLAN ASSETS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Listing in an active market:		
CTA assets <sup>(1)</sup> . . . . .	6,753	5,013
DC assets <sup>(2)</sup> . . . . .	538	564
Current euro balances . . . . .	<u>0</u>	<u>0</u>
	<u><u>7,291</u></u>	<u><u>5,577</u></u>

(1) CTA = Contractual Trust Arrangement.

(2) DC = Deferred Compensation.

The pension obligations within the scope of employee stock option programs are financed by the purchase of interests in mutual funds. The obligations financed by Helaba Pension Trust e.V. account for approximately

60.0% (previous year: 51.3%) of total insurance cover. Total cover is 64.8% (previous year: 57.1%). The hedging of defined benefit obligations by plan assets is shown in the following table:

#### COVERAGE OF THE DEFINED BENEFIT OBLIGATION BY PLAN ASSETS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Pension obligations covered by funds . . . . .	10,434	8,943
Deferred Compensation covered by funds . . . . .	824	815
	11,258	9,758
Fair value of the fund assets . . . . .	<u>-7,291</u>	<u>-5,577</u>
	<u><b>3,967</b></u>	<u><b>4,181</b></u>

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

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes the duration of the pension obligations relevant to the Company into account. The underlying mortality data was taken from the statistics and experience published for each country. The 2018 G mortality tables of Klaus Heubeck were used for this purpose.

#### ACTUARIAL ASSUMPTIONS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In %</u>	
Discount factor . . . . .	2.02	1.93
Salary growth rates . . . . .	2.70	2.50
Pension growth rates . . . . .	2.00	1.30

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

#### PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

#### CHANGE IN PLAN ASSETS

	<u>2018</u>	<u>2017</u>
	<u>In thousands of euros</u>	
Plan assets on 1 January . . . . .	5,577	5,441
Additions . . . . .	2,008	0
Interest income from plan assets . . . . .	-293	136
Income from plan assets not included in net interest income . . . . .	<u>-1</u>	<u>0</u>
<b>Plan assets on 31 December . . . . .</b>	<u><b>7,291</b></u>	<u><b>5,577</b></u>

#### Sensitivity analysis

The pension obligations of Instone Real Estate are subject to various risks. The main risks are due to general changes in interest rates and inflation rates. There are no unusual risks associated with the pension obligations.

Interest rate risk: The (mathematical) contributions are converted into benefits within the scope of a defined contribution pension plan using a table of fixed interest rates that are not dependent on actual market interest rates. Instone Real Estate therefore bears the risk arising from the general capital market interest rates with

regard to determining benefits. Pension obligations have increased significantly in recent years due to the generally low interest rates on the capital market. The comparatively strong effect results from the relatively long duration of the obligations.

Inflation risk: According to legislation, the benefits of occupational pensions in Germany must be adjusted to inflation trends every three years. The 2000+ pension plan obligations in Germany under occupational pension schemes increase by 1% each year so there is little inflation risk during the retirement phase with regard to longterm pension commitments.

Longevity risk: As a retirement provision is granted for a lifetime, there is a risk that beneficiaries will live longer than originally anticipated, with Instone Real Estate bearing the corresponding risk. In general, this risk balances out across all beneficiaries and only has an impact if the overall lifetime is longer than originally thought.

The following sensitivity analysis shows the possible impact of the stated risks when changing the actuarial assumptions to the obligations under a defined benefit pension plan:

#### SENSITIVITY ANALYSIS

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

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

#### OBLIGATIONS RELATED TO DEFINED BENEFIT PENSION PLAN

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

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

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

## 24 Other provisions

### OTHER PROVISIONS

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

The short-term and long-term provisions relating to staff primarily relate to provisions for special payments on the basis of a long-term incentive system, early retirement and anniversary commitments.

Other short-term provisions include, but are not limited to investment risks, cases of compensation for damages and other contingent liabilities.

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

### DEVELOPMENT OF OTHER PROVISIONS

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

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

## 25 Financial liabilities

### FINANCIAL LIABILITIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
<b>Non-current</b>		
Loans from banks . . . . .	177,744	183,203
Liabilities to shareholders . . . . .	–	57,804
	<u>177,744</u>	<u>241,007</u>
<b>Current</b>		
Loans from banks . . . . .	87,495	134,205
Loans from third parties . . . . .	327	447
Loans from shareholders . . . . .	–	20
	<u>87,822</u>	<u>134,672</u>
	<u>265,566</u>	<u>375,679</u>

### FINANCIAL LIABILITIES 2018

	<u>31/12/2018</u>	<u>01/01/2018</u>	<u>Cash flows from financial activities</u>	<u>capitalised interest</u>	<u>Net changes in Amortisation measurement using the effective interest method</u>
	<u>In thousands of euros</u>				
Loans from banks . . . . .	265,239	317,407	–51,477	–1,489	798
Loans from shareholders . . . . .	–	57,824	–57,824	–	–
Loans from third parties . . . . .	327	448	–121	–	–
	<u>265,566</u>	<u>375,679</u>	<u>–109,422</u>	<u>–1,489</u>	<u>798</u>

### FINANCIAL LIABILITIES 2017

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

Current and non-current loans from banks consisted of fixed and variable interest rate loans extended by various banks. Loans from banks have a term of between one and four years (previous year: between one and five years). The interest rates are between 1.50% and 4.24% (previous year: 0.87% and 4.24%).

In accordance with the Group's policy, Instone Group's loans from banks are not the subject of contractual assurances and are instead secured by land charges.

## 26 Deferred tax

Deferred tax liabilities are calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the various countries and for the different countries. Deferred tax assets and liabilities are offset against each other for each company or tax group. In other respects, deferred tax liabilities are calculated on the basis of the tax regulations in force or applying on the date of preparation of these financial statements.

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



There are tax loss carry forwards from our companies, for which no deferred taxes have been recognised. In Germany, these amount to €55,339 thousand (previous year: €8,298 thousand), while in Luxembourg, they amount to €20,469 thousand (previous year: €21,802 thousand) and in Austria €30,802 thousand (previous year: €31,087 thousand).

In principle, these losses carried forward within the individual countries can be offset against profits in subsequent years. According to our current assessment, we do not expect these loss carryforwards to be used.

Deferred tax assets and liabilities changed as follows:

## DEFERRED TAX

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

## 27 Contract liabilities

### CONTRACT LIABILITIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	In thousands of euros	
Contract assets . . . . .	-13,267	—
Payments received . . . . .	<u>19,900</u>	<u>—</u>
<b>Contract liabilities . . . . .</b>	<u><b>6,633</b></u>	<u><b>—</b></u>

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

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

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

## 28 Trade payables

### TRADE PAYABLES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	In thousands of euros	
Trade payables . . . . .	78,342	45,340
Payments received . . . . .	<u>—</u>	<u>230,352</u>
	<u><b>78,342</b></u>	<u><b>275,692</b></u>

## 29 Other liabilities

### OTHER LIABILITIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
<b>Current</b>		
Liabilities from taxes (excluding income taxes) . . . . .	2,352	1,032
Liabilities to employees . . . . .	290	7,977
Liabilities under social security . . . . .	7	11
Sundry other liabilities . . . . .	<u>10,040</u>	<u>386</u>
	<u><b>12,689</b></u>	<u><b>9,406</b></u>

## 30 Income tax liabilities

### INCOME TAX LIABILITIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business . . . . .	<u>18,094</u>	<u>13,793</u>
	<u><b>18,094</b></u>	<u><b>13,793</b></u>

## **NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

The Group's consolidated statement of cash flows distinguishes between cash flows from operating, investing and financing activities. All non-cash income and expenses and all income from the disposal of assets are eliminated as part of the cash flow from operations.

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

## OTHER DISCLOSURES

### Disclosures about related persons and companies

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

#### Relationships with partners

##### RELATIONSHIPS WITH PARTNERS

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

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

#### Relationships with associates

##### RECEIVABLES FROM ASSOCIATES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Uferpalais Verwaltungsgesellschaft mbH . . . . .	65	65
Projektverwaltungsgesellschaft Mönchengladbach – Area of Sports mbH . . . . .	—	38
	<u>65</u>	<u>103</u>

##### LIABILITIES TO ASSOCIATES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG . . . . .	178	450
Wohnpark Gießener Straße GmbH & Co. KG . . . . .	150	—
	<u>328</u>	<u>450</u>

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

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

These transactions are concluded under normal market conditions.

## **Relationships with related persons**

There were no material transactions between Instone Real Estate Group AG, Essen, Germany or a Group company and persons from the Management Board or related persons or companies during the reporting period. There are no conflicts of interest in terms of the participating members of the Management Board and Supervisory Board.

## **Remuneration of the Management Board**

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

### **Fixed remuneration**

- The fixed remuneration is paid in equal monthly instalments.

### **Fringe benefits**

- The fringe benefits consist of taxable monetary benefits, such as the private use of company cars or other benefits in kind.

### **Components under a long-term incentive plan consisting of two components:**

#### **One-year variable remuneration (Short Term Incentive (STI))**

- The one-year variable remuneration in the form of an STI plan is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board. For a detailed description, please refer to the details in the remuneration report on page 89.

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

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

### **Pension plan**

- Some members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years. For a detailed description, please refer to the details in the Compensation Report on page 89.

The total remuneration granted to the members of the Management Board totalled €5.1 million for the 2018 financial year (min. €3.8 million, max.: €6.7 million) (previous year: €10.8 million). Of this, €1.2 million (previous year: €1.1 million) was attributable to fixed, non-performance-related components, €1.3 million (min: €0 million, max.: €2.9 million) (previous year: €9.9 million) was attributable to variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) to severance payments and €0.4 million (previous year: €-0.4 million) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The total remuneration received/earned by the members of the Management Board totalled €25.1 million for the financial year 2018 (previous year: €1.3 million). Of this, €1.2 million (previous year: €1.1 million) attributable to fixed, non-performance-related remuneration components, €21.3 million (previous year: €0.4 million) to variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) to severance payments and €0.4 million (previous year: €-0.4 million) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

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

### **Supervisory Board remuneration**

The total remuneration of the Supervisory Board in financial year 2018 was €406 thousand. Of which €343 thousand was remuneration for the work of the General Committee. Remuneration for work in committees amounted to €63 thousand.

In the 2018 financial year, the Companies of the Instone Group did not pay or grant any remuneration or other benefits to members of the Supervisory Board for services rendered in a personal capacity, in particular advisory and agency services. Nor were members of the Supervisory Board granted any advances or credits.

### **Transactions with members of the Supervisory Board**

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

### **Members of the Management Board**

The Management Board consists of the following four members:

#### **Kruno Crepulja**

- Chairman of the Management Board
- CEO of Instone Real Estate Group AG
- CEO of Instone Real Estate Development GmbH

#### **Dr. Foruhar Madjlessi**

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

#### **Andreas Gräf**

- Member of the Management Board
- COO of Instone Real Estate Group AG
- COO of Instone Real Estate Development GmbH for the North Rhine-Westphalia and Rhine-Main branches

#### **Torsten Kracht**

- Member of the Management Board
- CSO of Instone Real Estate Group AG
- Managing Director of Instone Real Estate Leipzig GmbH
- COO of Instone Real Estate Development GmbH for Saxony

### **Former members of the Management Board as of 31 December 2018:**

#### **Oliver Schmitt**

- Member of the Management Board
- CFO of Instone Real Estate Group AG
- CFO of Instone Real Estate Development GmbH until 31 December 2018

## **Members of the Supervisory Board**

The Supervisory Board consisted of five members from 13 February 2018 to 31 December 2018. With effect from 31 December 2018, two members have left the Supervisory Board meaning that the Supervisory Board now consists of the following three members.

**Stefan Brendgen**, born in 1964 in Mönchengladbach, acts as Chairman of the Supervisory Board and is Chairman of the Nomination Committee.

In addition to his function as a member of the Supervisory Board of the Company, Mr Brendgen is a member of management or supervisory bodies and/or partner in the following companies which do not belong to Instone Real Estate:

- aamundo asset Management GmbH & Co. KGaA (Chairman of the Supervisory Board)
- Climeon AB (member of the Supervisory Board)
- HAHN-Immobilien-Beteiligungs AG (member of the Supervisory Board)

**Dr Jochen Scharpe**, born in 1959 in Werdohl, Germany, is Deputy Chairman of the Supervisory Board and is Chairman of the audit committee.

In addition to his function as a member of the Supervisory Board of the Company, Dr Scharpe is a member of management or supervisory bodies and/or partner in the following companies which do not belong to Instone Real Estate:

- AMCi GmbH (Managing Director)
- FFIRE AG (Deputy Chairman of the Supervisory Board)
- LEG Immobilien AG (member of the Supervisory Board)
- ReTurn Immobilien GmbH (Managing Director)

**Marija Korsch**, born in 1948 in Zadar, Croatia, is a member of the Supervisory Board and Chairperson of the remuneration committee.

In addition to her role as a member of the Supervisory Board of the Company, Ms Korsch is a member of Management, management or supervisory bodies and/or partner in the following companies which do not belong to Instone Real Estate:

- Aareal Bank AG (Chairperson of the Supervisory Board)
- FAZIT Stiftung Gemeinnützige Verlagsgesellschaft mbH (member of the Board of Trustees)
- Just Software AG (member of the Supervisory Board)

## **Former members of the Supervisory Board as of 31 December 2018**

**Stefan Mohr**, born in 1967 in Frankfurt am Main, Germany, was Deputy Chairman of the Supervisory Board (left on 31 December 2018).

- Head of Corporate Real Estate at Activum SG Advisory GmbH

**Richard Wartenberg**, born in 1968 in Stuttgart, Germany, acted as a member of the Supervisory Board and was Chairman of the remuneration committee (left on 31 December 2018).

- Managing Director at Activum SG Advisory GmbH

### Fee payable to the auditor

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

### AUDITOR'S FEES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Audit services . . . . .	505	758
Other confirmation services . . . . .	145	362
Other services . . . . .	<u>7</u>	<u>52</u>
	<u><b>657</b></u>	<u><b>1,172</b></u>

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

### Waiver of the disclosure of information and the preparation of the management report in accordance with Section 264(3) HGB

Instone Real Estate Development GmbH, headquartered in Essen, Germany and registered in the Commercial Register of the Essen District Court under HRB 28401, complies with the requirements set out in Section 264(3) HGB and is therefore exempt from disclosure of information in its annual financial statements and the preparation of a management report.

### Reporting on financial instruments

Financial instruments include financial assets and liabilities as well as contractual rights and obligations relating to the exchange and transfer of financial assets. There are no derivative financial instruments.

Financial assets mainly comprise cash and cash equivalents, receivables and other financial assets. Most of the financial liabilities are current liabilities which are measured at amortised cost.

The available financial instruments are shown in the balance sheet. The maximum loss or default risk equals the sum of the financial assets. Any risk identified for financial assets is recognised at its impairment charge.

### Risk management

All of Instone Real Estate's financial activities are conducted on the basis of a Group-wide financial policy. There are also function-specific operational work instructions on topics such as the handling of collateral.

These guidelines contain the principles used to address the different types of financial risks.

Trading, controlling and billing are handled separately by the front and back office. This ensures effective risk management. The monitoring and billing of the external trading activities of the Front Office is carried out by a separate and independent back office. Furthermore, the dual control principle must be maintained for at least all external trading activities. Internal powers to issue instructions are limited in number and amount, reviewed regularly (at least once a year) and adjusted if necessary.

The Instone Group considers the interests of shareholders, promissory note investors and the issuing banks in its financial management. Financial and non-financial covenants are based on the contractual terms of the promissory notes. The financial ratios include compliance with the interest coverage ratio, the adjusted equity, the equity ratio and the loan-to-value. The potential financial risks resulting from the promissory notes were not considered to be significant as at the balance sheet date, 31 December 2018. The loan is not secured and the Group company Instone Real Estate Development GmbH has met all relevant obligations in the financial year as in the previous year. For the subsequent periods, the Instone Group monitors the future development as part of Groupwide financial risk management and also continues to anticipate compliance with the contractual terms.



## Management of liquidity risk

Instone Real Estate uses largely centralised structures for pooling cash and cash equivalents at Group level to avoid, among other things, bottlenecks in cash flow at individual Group company level. The central liquidity position is calculated monthly and using a bottom-up method over a rolling twelve-month period. The liquidity planning is supplemented by monthly stress tests.

The following tables show the contractually agreed residual maturity of non-derivative financial liabilities with agreed repayment periods that apply to the Group. The tables are recorded on the basis of the non-discounted cash flows of the financial liabilities with the date which the Group can be asked to repay. The tables contain the cash flow from interest and principal receivable.

Interest payments for items with variable rates are uniformly translated using the last interest rate in effect before the key date.

The consolidated statement of financial position as at 31 December 2018 included promissory notes issued by the Group company Instone Real Estate Development GmbH in the financial year 2017 for a nominal value of €66,900 thousand. The financial liability is accounted for at its amortised cost using the effective interest rate method. Interest income and interest expenses as well as directly attributable transaction costs are allocated over the relevant subsequent periods through amortisation recognised in profit or loss.

The maximum payments listed in the following tables are compensated by contractually determined revenues in the same period, which are not shown here (e.g. trade receivables), which cover a significant part of the cash flows recognised.

### Maturity analysis of financial liabilities

The following table provides an overview of the contractual payments in terms of financial liabilities:

#### 2018 CARRYING AMOUNTS

	Carrying amounts 31/12/2018	Cash outflows		
		2019	2020–2022	>2022
In thousands of euros				
<b>Non-derivative financial liabilities</b>				
Financial liabilities . . . . .	265,566	87,822	177,744	–
Trade payables . . . . .	78,342	78,342	–	–
	<u>343,908</u>	<u>166,164</u>	<u>177,744</u>	<u>–</u>

#### 2017 CARRYING AMOUNTS

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

The liquidity of the Group is also secured on the basis of available cash, bank balances and unused credit lines.

The following table shows the most important liquidity instruments:

### LIQUIDITY INSTRUMENTS

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

## Control of default risks

Instone Real Estate is subject to certain default risks due to its operating activities and specific financing activities.

At Instone Real Estate, operational risks are managed through the continuous tracking of trade receivables at branch level. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

The maximum default risk from financial assets corresponds to their respective book values stated in the balance sheet. However, the de facto default risk is lower, as collateral has been provided in favour of Instone Real Estate. The maximum risk from financial guarantees is equal to the maximum amount that Instone Real Estate would have to pay. The maximum default risk from loan commitments is equal to the amount of the commitment. It is very unlikely that these financial guarantees and loan commitments will be used at the time of reporting.

Instone Real Estate accepts collateral to secure the fulfilment of the contract by subcontractors, the warranty obligations of the subcontractors and fee claims. These securities include, but are not limited to, warranty guarantees, contract performance guarantees, advance payments and payment guarantees. Instone Real Estate has corresponding guidelines for the acceptance of collateral. This includes, among other things, rules on contract structure, contract implementation and contract management for all contracts. The exact specifications vary and depend, for example, on the country, jurisdiction and current case law. With regard to default risks, Instone Real Estate checks the creditworthiness of the guaranteeing party for all accepted collateral. Instone Real Estate commissions external professionals (such as rating agencies) to assess their creditworthiness as far as possible. The fair value of accepted collateral is not disclosed, as it cannot usually be determined reliably.

The age structure of overdue financial assets is typical for the sector. The receipt of a payment depends on the order acceptance and invoice verification, which often take a relatively long time.

The majority of these overdue non-impaired financial assets relate to receivables from public-sector clients with outstanding credit ratings.

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

### IMPAIRED FINANCIAL ASSETS

	Gross book value	Impairment provision matrix				More than 90 days overdue
		Non-overdue	Up to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	
In thousands of euros						
Trade receivables (gross book value) . . . . .	14,987	8,227	4,154	24	69	2,513
Impairment provisions . . . . .	<u>-1,860</u>	<u>-82</u>	<u>-42</u>	<u>-</u>	<u>-1</u>	<u>-1,735</u>
<b>Trade receivables (net book value) . . . . .</b>	<b><u>13,127</u></b>	<b><u>8,145</u></b>	<b><u>4,112</u></b>	<b><u>24</u></b>	<b><u>68</u></b>	<b><u>778</u></b>

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

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

### OVERDUE NON-IMPAIRED FINANCIAL ASSETS

	31/12/2017			
	Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days
In thousands of euros				
Trade receivables . . . . .	<u>3,588</u>	<u>42</u>	<u>22</u>	<u>459</u>
	<b><u>3,588</u></b>	<b><u>42</u></b>	<b><u>22</u></b>	<b><u>459</u></b>

### **Control of interest rate risks**

The interest rate risk of Instone Real Estate is mainly related to current and non-current interest bearing financial assets and liabilities due to fluctuations in market interest rates. Depending on the situation on the market, this risk is countered by a mix of fixed income and variable interest rate financial instruments. The risk is not managed separately, as borrowed funds are usually repaid promptly using the payments made by the acquirers.

Changes in market interest rates for non-derivative financial instruments with a fixed interest rate are only recognised in profit or loss if they are shown at their fair value. For this reason, all financial instruments recognised at amortised cost are not subject to interest rate risks as defined by IFRS 9.

As part of a sensitivity analysis, we examined the effects of changes in market interest rates on Group earnings after tax over a range of 100 basis points. In the financial year, a hypothetical increase/decrease in market interest rates by 100 basis points (if the other variables remain constant) would result in higher/lower earnings after taxes of €-1,408 thousand or €0 thousand (previous year: €-1,812 thousand or €+1,812 thousand) .

### **Control of the capital risk**

Instone Real Estate manages its capital with the aim of ensuring that all Group companies continue to operate on a going concern basis. The Group keeps the cost of capital as low as possible. It achieves this by optimising the ratio of equity to debt on an as-needed basis.

The capital structure of the Group consists of current and non-current liabilities less the cash and cash equivalents reported in the balance sheet and in equity. The capital structure of the Group is reviewed regularly. The risk-adjusted capital costs are also taken into account.

The overall strategy for controlling the capital risk did not change in the financial year compared to the previous year.

### **Further disclosures on financial instruments**

The book values and fair values for individual classes of financial instruments and carrying amounts for each category are shown below in accordance with IFRS 7:

With the financial instruments accounted for at amortised costs, the book value largely corresponds to the fair value, due to the short remaining maturity.

## 2018 CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

## 2017 CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

### Net result from financial instruments

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

#### NET INCOME GENERATED FROM FINANCIAL INSTRUMENTS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Affecting profit and loss at the fair value (previous year: Available for sale) . . . . .	228	400
At amortised costs (previous year: Loans and receivables) . . . . .	-429	571
Liabilities at amortised cost . . . . .	<u>-9,332</u>	<u>-20,408</u>
	<u><b>-9,533</b></u>	<u><b>-19,437</b></u>

The calculation of net income from financial instruments includes interest income and expense, impairments and reversals, income and expenses from currency translation, dividend income, capital gains and losses and other changes in the fair value of financial instruments recognised through profit or loss.

The changes due to impairment of trade receivables amounted to €-1,768 thousand in the financial year (previous year: €-2,712 thousand).

### Other financial obligations

The future minimum lease payments are as follows:

#### OTHER FINANCIAL OBLIGATIONS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>In thousands of euros</u>	
Due in up to one year . . . . .	2,647	2,749
Due in one to five years . . . . .	4,726	5,323
Due in over five years . . . . .	<u>836</u>	<u>1,406</u>
	<u><b>8,209</b></u>	<u><b>9,478</b></u>

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

### Declaration of Conformity with the German Corporate Governance Code

In December 2018, the Management Board and Supervisory Board of Instone Real Estate Group AG issued the declaration of conformity for the financial year in accordance with Section 161 AktG.

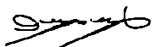
The declaration is published on the Company's website under **Instone Declaration of Compliance**.

### Information on the preparation and approval


The Management Board of Instone Real Estate Group AG has prepared the consolidated financial statements on 22 March 2019 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of reviewing the consolidated financial statements and deciding on their approval.

Essen, 22 March 2019

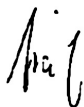
Management Board



Kruno Crepulja



Dr. Foruhar Madjlessi



Andreas Gräf



Torsten Kracht

**EVENTS AFTER THE BALANCE SHEET DATE**

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

## LIST OF SHAREHOLDINGS

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

	Shareholding in %	Equity In thousands of euros	Annual result In thousands of euros
<b>I. Affiliated companies included in the consolidated financial statements</b>			
Instone Real Estate Development GmbH, Essen, Germany . . .	100.0	178,571	7,909
Durst-Bau GmbH, Vienna, Austria . . . . .	100.0	845	284
formart Immobilien GmbH, Essen, Germany <sup>(1)</sup> . . . . .	100.0	701	23
formart Luxembourg S.à r.l., Luxembourg, Luxembourg . . .	100.0	1,976	1,262
Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt a. M., Germany . . . . .	70.0	13,935	9,192
west.side GmbH, Cologne, Germany . . . . .	100.0	8,009	7,509
Instone Real Estate Leipzig GmbH, Leipzig, Germany . . . .	94.0	26,328	-2,129
GRK Beteiligung GmbH, Leipzig, Germany . . . . .	98.0	-468	-148
Parkresidenz Leipzig GmbH, Leipzig, Germany . . . . .	100.0	11,549	2,887
OPUS Beteiligung GmbH, Leipzig, Germany . . . . .	100.0	-24	-12
Gartenhöfe GmbH, Leipzig, Germany . . . . .	100.0	5,848	363
Instone Real Estate Landmark GmbH, Leipzig, Germany . .	100.0	513	640
<b>II. Investments recognised at equity</b>			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt a. M., Germany . . . . .	50.0	383	358
Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt a. M., Germany . . . . .	50.0	271	246
<b>III. Other participations</b>			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany <sup>(2)</sup> . . . . .	50.0	46	-72
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany . . . . .	50.0	42	2
Immobilien-gesellschaft CSC Kirchberg S.à r.l., Luxembourg, Luxemburg . . . . .	100.0	32	-6
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany <sup>(2)</sup> . . . . .	6.0	3,459	140
Projekt Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany . . . . .	70.0	16	-8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany <sup>(2)</sup> . . . . .	50.0	48	-7
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany . .	70.0	-31	-2
Westville 1 GmbH, Frankfurt a. M., Germany . . . . .	100.0	25	—

(1) Profit and loss transfer agreement.

(2) As at: 31 December 2017.



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

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

(1) Profit and loss transfer agreement.

The following independent auditor's report has been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) in German language on the German version of the consolidated financial statements of Instone Real Estate Group Aktiengesellschaft for the financial year ended December 31, 2018 and the combined group management report, except for the sections in the combined management report which are excluded from the audit as stated in the auditor's report. The combined group management report is neither included nor incorporated by reference in this Prospectus.

## **INDEPENDENT AUDITOR'S REPORT**

To Instone Real Estate Group AG, Essen/Germany

### **REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT**

#### **Audit Opinions**

We have audited the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report on the parent and the Group of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) included in section "Corporate Governance Statement and Corporate Governance Report" of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

#### **Basis of the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

## **Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter we have determined concerning revenue recognition over time as well as the measurement of contract assets and of inventories.

Our presentation of this key audit matter has been structured as follows:

- a. description (including reference to corresponding information in the consolidated financial statements), and
- b. auditor's response.

### **Revenue Recognition Over Time Including Measurement of Contract Assets and Inventories**

- a. In the consolidated financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2018, contract assets of kEUR 158,489, inventories amounting to kEUR 404,400, and revenue totalling kEUR 354,099 from the development of residential and multi-family buildings, the design of urban districts, the restoration of historic objects as well as publicly funded construction (development activities) in Germany are reported. Applying the provisions under IFRS 15 on revenue recognition for the first time, revenue for all units sold is recognised over time. In doing so, the service provided including the pro rata result is reported according to the stage of completion under revenue. Except for restoration objects, revenue for these matters is principally reported if a marketing progress of 30% has been reached for the relevant project and/or a building permit has been granted. As of this point, the contractual right to withdraw granted to both parties ceases to exist. In the case of restoration objects, the revenue is reported with the start of the construction activity.

The amount of the revenue recognised from a given construction project depends on the following parameters:

- the volume of concluded sales contracts,
- the degree of completion and actual costs incurred as at the balance sheet date, and
- the estimate of total revenue and total costs.

While the marketed part of the construction projects is reported under the item contract asset after netting with prepayments received or under contractual obligations, the non-marketed part of the construction projects is reported under inventories.

Revenue recognition and the measurement of contract assets and inventories is based to a substantial extent on estimates and assumptions made by the executive directors with respect to the total amount of costs, the accrual of costs as at the balance sheet date as well as the estimates of total revenue attributable to the respective project. The discretionary estimates made by the executive directors have a direct and, for the most part, significant effect on the amount of revenue recognised in the consolidated statement of profit and loss and the amount of the contractual assets or inventories in the consolidated statement of financial position.

Against this background, we have determined this matter as a key audit matter.

Information on revenue recognition and on the measurement of contract assets and inventories is provided by the executive directors in section "Basis for the Consolidated Financial Statements" of the notes to the consolidated financial statements.

- b. In auditing revenue, contract assets and inventories, we examined the accounting principles applied in accordance with the provisions under IFRS 15, involving internal IFRS Advisory specialists. Within the scope of our audit, we included the material processes from the acceptance of projects (acquisition of the property) through to project management (construction activity and sale of individual dwelling) as well as the monthly cost accrual procedure, and examined the appropriateness of relevant internal control procedures. Applying the risk-based sampling method, we performed on-site visits to projects and, on the basis of the latter, we assessed the estimates and assumptions made by the executive directors as at the balance sheet date. We assessed the accrual of costs using appropriate evidence based on random sampling. In addition, we examined the accrual postings as at the balance sheet date for plausibility. We assessed the anticipated total revenue and total costs by involving internal Real Estate Consulting specialists as well as their specialist and industry knowledge. We evaluated the relevant disclosures in the notes to the consolidated financial statements as to their completeness and accuracy.

## **Other Information**

The executive directors are responsible for the other information. The other information comprises

- the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) included in section “Corporate Governance Statement and Corporate Governance Report” of the combined management report,
- the corporate governance report pursuant to Number 3.10 of the German Corporate Governance Code,
- the executive directors’ confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## **Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s reliability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

## **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future

development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of the accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the shareholders' general meeting on 29 June 2018. We were engaged by the supervisory board on 20 December 2018. We have been the group auditor of Instone Real Estate Group AG, Essen/Germany, since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## **GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is André Mathew.

Düsseldorf/Germany, 22 March 2019

### **Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft



(Rolf Künemann)  
Wirtschaftsprüfer  
[German Public Auditor]



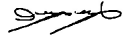
(André Mathew)  
Wirtschaftsprüfer  
[German Public Auditor]

## INSURANCE OF LEGAL REPRESENTATIVES

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

Essen, 22 March 2019

The Management Board



Kruno Crepulja



Dr. Foruhar Madjlessi



Andreas Gräf



Torsten Kracht

**Audited Unconsolidated Financial Statements of  
Instone Real Estate Group AG  
as of and for the financial year ended December 31, 2019 (HGB)**



## ANNUAL FINANCIAL STATEMENTS

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## STATEMENT OF FINANCIAL POSITION

### STATEMENT OF FINANCIAL POSITION ASSETS

	Note	31/12/2019	31/12/2018
In thousands of euros			
<b>A. Non-current assets</b>			
<b>Financial assets</b> . . . . .	1		
1. Shares in affiliated companies . . . . .		230,916	253,289
2. Loans to affiliated companies . . . . .		190,465	3,048
		<b>421,381</b>	<b>256,337</b>
<b>B. Current assets</b>			
<b>I. Receivables and other assets</b> . . . . .	2		
1. Trade receivables . . . . .		4	0
2. Receivables from affiliated companies . . . . .		26,949	136
3. Other assets . . . . .		14,195	2,832
		<b>41,148</b>	<b>2,968</b>
<b>II. Cash and cash equivalents</b>	3	<b>5,120</b>	<b>27,267</b>
<b>C. Deferred income</b> . . . . .		<b>18</b>	<b>0</b>
<b>D. Deferred tax assets</b> . . . . .	4	<b>27,685</b>	<b>0</b>
		<b>495,352</b>	<b>286,572</b>

## STATEMENT OF FINANCIAL POSITION

### EQUITY AND LIABILITIES

	Note	31/12/2019	31/12/2018
In thousands of euros			
<b>A. Equity</b>	5		
I. Subscribed capital . . . . .		36,988	36,988
Contingent capital: €3,698 thousand (prior year: €0 thousand) . . . . .			
II. Capital reserves . . . . .		198,874	198,874
III. Net retained profits (prior year: net accumulated losses) . . . . .		17,642	-24,404
		<u>253,504</u>	<u>211,458</u>
<b>B. Provisions</b>			
1. Provisions for pensions and similar obligations . . . . .	6	577	472
2. Tax provisions . . . . .	7	2,067	3,098
3. Other provisions . . . . .	7	6,903	4,480
		<u>9,547</u>	<u>8,050</u>
<b>C. Liabilities</b>			
1. Loans from banks			
of which with a remaining term of one year or less:			
€1,668 thousand (prior year: €0 thousand) . . . . .			
of which with a remaining term of more than one year:			
€181,000 thousand (prior year: €0 thousand) . . . . .	8	182,668	0
2. Trade payables			
of which with a remaining term of one year or less:			
€611 thousand (prior year: €1,771 thousand) . . . . .	9	611	1,771
3. Liabilities to affiliated companies			
of which with a remaining term of one year or less:			
€48,441 thousand (prior year: €29 thousand) . . . . .			
of which with a remaining term of more than one year:			
€0 thousand (prior year: €63,525 thousand) . . . . .	10	48,441	63,554
4. Other liabilities			
of which with a remaining term of one year or less:			
€581 thousand (prior year: €1,739 thousand) . . . . .			
of which taxes: €75 thousand (prior year: €989 thousand) . . . . .	11	581	1,739
		<u>232,301</u>	<u>67,064</u>
		<u>495,352</u>	<u>286,572</u>

## INCOME STATEMENT

### INCOME STATEMENT

	Note	2019	2018
		In thousands of euros	
1. Revenue	12	1,581	1,406
2. Other operating income	13	3,453	6,016
3. Staff costs			
3a. Wages and salaries	14	-5,106	-4,407
3b. Social security, post-employment and other employee benefit costs of which for old age pensions: €44 thousand (prior year: €398 thousand)	14	-132	-428
4. Other operating expenses	15	-10,289	-22,973
5. Income from investments of which from affiliated companies: €41,905 thousand (prior year: €0 thousand)	16	41,905	0
6. Income from profit transfer agreements	16	21,214	0
7. Income from other securities and loans held as financial assets of which from affiliated companies: €2,221 thousand (prior year: €52 thousand)	16	2,221	52
8. Other interest and similar income of which from affiliated companies: €70 thousand (prior year: €0 thousand)	16	116	140
9. Write-downs of financial assets of which from affiliated companies: €- 29,582 thousand (prior year: €0 thousand)	16	-29,582	0
10. Interest and similar expenses of which from affiliated companies: €- 4,740 thousand (prior year: €- 3,997 thousand) of which from interest on pension provisions: €80 thousand (prior year: €200 thousand)	16	-9,568	-4,639
11. Income taxes	17	26,233	419
<b>12. Net income after taxes/net income for the year (prior year: net loss for the year)</b>		<b><u>42,046</u></b>	<b><u>-24,414</u></b>
13. Accumulated losses brought forward (prior year: retained profits brought forward)		-24,404	10
<b>14. Net retained profits (prior year: net accumulated losses)</b>		<b><u>17,642</u></b>	<b><u>-24,404</u></b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### BASIC PRINCIPLES OF THE ANNUAL FINANCIAL STATEMENTS

#### General principles

Instone Real Estate Group AG (also referred to hereinafter as “the company”), Grugaplatz 2 – 4, 45131 Essen, Germany, is entered in the commercial register of the Local Court of Essen under the reference number HRB 29362. Instone Real Estate Group AG has been listed on the regulated market of the Frankfurt Stock Exchange since 15 February 2018 and has been included in the SDAX since 29 August 2019.

The company is the primary parent company of the Instone Group and serves as its management holding company. In this function, it is responsible for defining and pursuing the overall strategy and for implementing the company’s goals.

The company holds equity investments in subsidiaries whose primary activities lie in the acquisition, development, construction, leasing, management and sale or other use of land and buildings as well as in investment in other companies that are active in this sector.

Instone Real Estate Group AG is the fiscal entity parent for the corporation tax and trade tax purposes of Instone Real Estate Development GmbH as well as for income tax purposes for nearly all domestic companies.

The annual financial statements of Instone Real Estate Group AG are prepared in accordance with the currently applicable accounting rules for stock corporations under the German Commercial Code (Sections 242 et seq., 264 et seq. HGB) in consideration of the provisions specific to the legal form under the German Stock Corporation Act (AktG). As an exchange-listed company, the company constitutes a large stock company within the meaning of Section 264d HGB in conjunction with Section 267 (3) sentence 2 HGB.

The income statement is prepared using the nature of expense method set out in section 275 (2) HGB.

In order to improve clarity, certain items in the balance sheet and the income statement have been combined. These items are reported and explained separately in the Notes.

All amounts are specified in thousands of euros/“In EUR thousands” unless otherwise specified. For this reason, minor deviations may occur between figures in tables and their respective analysis in the text portion of the Notes as well as between totals in individual amounts in tables and the overall figures specified in the text portion.

As the parent company of the Instone Group, the company prepares consolidated financial statements in accordance with the International Financial Reporting Standards as adopted in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) HGB. The annual and consolidated financial statements are published in the German Federal Gazette. The consolidated financial statements are also accessible on the company’s website.

The management report has been combined with the management report of the consolidated financial statements for the Instone Group in application of Sections 315 (5) HGB in conjunction with Section 298 (2) HGB and is published together with it.

#### Accounting policies

**Financial assets** comprise of investments in affiliated companies and are measured at acquisition cost. Write-downs are made in the event of permanent impairment. Where the reasons for writedowns made in previous years no longer apply or only partially apply, the respective items are written back accordingly, provided that the write-back does not cause the carrying amount to exceed the cost of acquisition.

Non-interest-bearing and low-interest **loans** are carried at nominal value, and in the event of expected permanent impairment are carried at the lower of cost and market value.

**Receivables and other assets** are carried at acquisition cost. When measuring receivables and other assets, discernible risks are taken into account through appropriate write-downs. The amounts of such write-downs reflect the probability of default. As in the previous year, the receivables have a remaining duration of one year or less.

**Cash and cash equivalents** are reported at nominal value.

Expenses prior to the balance sheet date that represent spending for a specific period thereafter are carried on the assets side as **prepaid expenses**.

**Deferred taxes** result from temporary differences between the amounts recognised in the financial accounts and the tax accounts. In this context, the differences included for the company consist not only of those from the company's own balance sheet items, but also those which exist for fiscal entity subsidiaries in which Instone Real Estate Group AG has shareholdings as the fiscal entity parent.

Deferred tax claims are also carried for claims for tax refunds which arise from the expected utilisation of existing tax loss carryforwards in subsequent years. Deferred taxes are capitalised when it can be assumed with reasonable assurance that it will be possible to make use of the associated economic benefits. Deferred tax assets and liabilities are reported net. Their amount is determined based on the tax rates which apply at the time of realisation or which are expected to apply. For all other purposes, deferred taxes are measured on the basis of the tax provisions which are in effect or have been enacted as of the time of reporting.

**Equity** is carried at nominal amount.

**Provisions for pensions and similar obligations** comprise of obligations of the company in regard to current and future benefits for entitled active and former employees and their surviving dependants. These obligations mainly relate to pension benefits. The individual commitments are determined based on the length of service and the salaries of employees. The actuarial present value of the respective obligation is used to measure provisions for performance-based plans. This is determined using the projected unit credit procedure. This projected unit credit procedure includes not only pensions and accrued benefits that were known as of the reporting date, but also wage increases (2.65%; prior year: 2.70%), pension increases for commitments with an adjustment guarantee (1.00%; prior year: 2.00%), pension increases for other commitments (1.50%; prior year: 2.00%) and fluctuation probabilities (2.94%; prior year: 2.50%) which are expected in the future. The calculation is based on actuarial reports prepared on the basis of the biometric calculation methods from the 2018 G mortality tables by Professor Dr. Klaus Heubeck. The measurement of direct pension obligations takes place in accordance with the provisions of Section 253 (1) and (2) HGB.

The option pursuant to Section 253 (2) sentence 2 HGB has been exercised for the determination of the actuarial interest rate. Under this, pension provisions and comparable long-term liabilities may be discounted at a flat rate using the average market interest rate that would apply for an assumed remaining term of 15 years. The interest rate used to discount pension obligations is 2.71% (prior year: 3.21%). In accordance with Section 253 (6) sentence 3 HGB, the difference between the carrying amount of provisions for pension obligations based on the corresponding average market interest rate for the past ten financial years and the carrying amount based on the corresponding average market interest rate for the past seven years is to be determined each financial year.

The difference that results from the change of the annual average interest rate by extending the period from seven to ten years is determined as follows:

## PROVISIONS FOR PENSIONS

<u>Provision according to derivation on the basis of</u>	<u>2019</u>	<u>2018</u>
	<u>In euros</u>	
Use of the ten-year average interest rate . . . . .	1,636,227.00	1,368,783.00
Use of the seven-year average interest rate . . . . .	1,927,189.00	1,675,414.00
Difference in accordance with Section 253 (6) HGB . . . . .	290,962.00	306,631.00
Of which barred from distribution in accordance with Section 253 (6) sentence 1 HGB . . . . .	290,962.00	306,631.00

The obligations from pension commitments are primarily covered by assets that exclusively serve the purpose of fulfilling pension obligations and are inaccessible to other creditors. These include assets that have been deposited in a fiduciary account under the framework of a contractual trust arrangement, insurance policies pledged to employees and fund units acquired from deferred compensation. Measurement takes place at fair value. Depending on the type of assets used for coverage this is derived from stock exchange prices, bank statements and insurance notifications. If the fair value is more than the acquisition cost, there is a restriction on distribution. Under Section 246 (2) sentence 2 HGB, the fair value of the assets used for coverage must be offset against the covered pension obligations; the same applies for associated income and expenses.

**Tax provisions and other provisions** are recognised in accordance with prudent business judgement, using legal estimates as required. In this context, expected future price and cost increases are taken into consideration in the calculation of the settlement amounts of the other provisions. Provisions with a remaining duration of more than one year are discounted using the average market interest rate for the past seven years matching the maturity as determined and promulgated by the Bundesbank.

**Liabilities** are carried at settlement amount.

**Estimates and assumptions**

The preparation of the financial statements requires estimates and assessments that can have an effect on the application of the company's accounting principles, on recognition and on measurement. Estimates are based on past experience and other knowledge in regard to the transactions to be booked. The actual amounts may deviate from these estimates.

## NOTES ON THE STATEMENT OF FINANCIAL POSITION

### NON-CURRENT ASSETS

#### 1 Financial assets

The changes in financial assets are shown in the following overview.

#### STATEMENT OF CHANGES IN FINANCIAL ASSETS

	<u>2019</u>	<u>2018</u>
	In thousands of euros	
<b>Acquisition costs</b>		
<b>As of 1 January</b> .....	<b>253,289</b>	<b>252,504</b>
Additions .....	7,333	1,272
Disposals .....	-124	-487
<b>As of 31 December</b> .....	<b><u>260,498</u></b>	<b><u>253,289</u></b>
<b>Cumulative depreciation and amortisation</b>		
<b>As of 1 January</b> .....	<b>0</b>	<b>0</b>
Additions .....	-29,582	0
Disposals .....	0	0
<b>As of 31 December</b> .....	<b><u>-29,582</u></b>	<b><u>0</u></b>
<b>Carrying amounts as of 31 December</b> .....	<b><u>230,916</u></b>	<b><u>253,289</u></b>

Investments in affiliated companies are shown in the following table. The impairment test of significant investments during the financial year resulted in the requirement for a write-down on Instone Real Estate Leipzig GmbH by €29,582 thousand to €48,581 thousand.

#### SHARES IN AFFILIATED COMPANIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	In thousands of euros	
<b>Investments in affiliated companies, included in the consolidated financial statements</b>		
Instone Real Estate Development GmbH .....	181,821	181,821
Instone Real Estate Leipzig GmbH .....	48,581	71,190
Investments in other affiliated companies .....	514	140
	<b><u>230,916</u></b>	<b><u>253,151</u></b>
<b>Investments in affiliated companies, not included in the consolidated financial statements</b> .....	<b>0</b>	<b>138</b>
	<b><u>230,916</u></b>	<b><u>253,289</u></b>

Changes in loans to affiliated companies are shown in the following:

#### STATEMENT OF CHANGES IN LOANS TO AFFILIATED COMPANIES

	<u>2019</u>	<u>2018</u>
	In thousands of euros	
<b>Acquisition costs</b>		
<b>As of 1 January</b> .....	<b>3,048</b>	<b>0</b>
Additions .....	190,465	3,048
Reclassifications .....	-3,048	0
<b>As of 31 December</b> .....	<b><u>190,465</u></b>	<b><u>3,048</u></b>



Loans to affiliated companies are shown in the following overview.

## LOANS TO AFFILIATED COMPANIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Instone Real Estate Development GmbH .....	168,000	0
Westville 1 GmbH .....	22,465	0
Instone Real Estate Landmark GmbH .....	0	3,048
	<u>190,465</u>	<u>3,048</u>

## CURRENT ASSETS

### 2 Receivables and other assets

Receivables from affiliated companies are primarily attributable to a profit transfer agreement.

## RECEIVABLES FROM AFFILIATED COMPANIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Instone Real Estate Development GmbH .....	23,780	80
Instone Real Estate Landmark GmbH .....	3,111	0
Instone Real Estate Leipzig GmbH .....	57	56
Westville 1 GmbH .....	1	0
	<u>26,949</u>	<u>136</u>

Other assets contain the following items:

## OTHER ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Other assets</b>		
Receivables from tax authorities from creditable taxes .....	11,533	32
Receivable from Hochtief Solutions AG tax exemption .....	2,267	2,758
Input tax surplus .....	385	0
Coöperatieve Activum SG Fund III Investments U.A. ....	0	25
Coöperatieve Formart Investments U.A. ....	0	14
Coöperatieve Activum SG Fund V Investments U.A. ....	0	3
Miscellaneous .....	10	0
	<u>14,195</u>	<u>2,832</u>

The company has recognised a corresponding provision for the items relating to Hochtief Solutions AG.

### 3 Bank balances

Bank balances amounted to €5,120 thousand (prior year: €27,267 thousand). As in the previous year, these were not subject to any restrictions on disposal.

### 4 Deferred tax assets

## DEFERRED TAX ASSETS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Deferred tax assets .....	<u>27,685</u>	<u>0</u>
	<u>27,685</u>	<u>0</u>

## 5 Equity

The subscribed capital of the company remained unchanged at €36,988,336.00 as of 31 December 2019 and is fully paid up. It is divided into 36,988,336 no-par-value shares.

The Annual General Meeting passed a resolution on 29 June 2018 to create authorised capital. The Management Board is authorised to increase the share capital of the company by up to €18,450,000.00 by issuing up to 18,450,000 shares during the period until 28 June 2023. The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen during the cross-border conversion on 28 August 2018.

With effect from 28 June 2019, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer or registered warrant or convertible bonds with a total nominal value of up to €250 million with or without maturity restrictions on one or more occasions by 12 June 2024 and to grant the bearers or creditors of the bonds option or conversion rights to up to 3,698,833 new shares in the company with a proportional amount of the share capital of up to €3,698,833.00 (Contingent Capital).

Capital reserves remained unchanged at an amount of €198,873,822.19 as of 31 December 2019.

### Disclosures on amounts subject to restriction on distribution

The recognised provisions for pension obligations (before the deduction of corresponding coverage assets) were determined based on the corresponding average market interest rate for the past ten years. In the case of an average calculated based on seven financial years, the resulting obligations would have been €290,962.00 higher. This difference is subject to a restriction on distribution in accordance with Section 253 (6) HGB.

The recognised deferred tax assets of €27,684,549.29 are barred from distribution in accordance with Section 268 (8) HGB.

As such, a restriction on distribution applies for a total of €27,975,511.29.

## 6 Provisions for pensions and similar obligations

Liabilities from performance-based plans of Instone Real Estate are shown in the following table.

### PROVISIONS FOR PENSIONS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Settlement amount of pensions and similar obligations . . . . .	1,636	1,369
Fair value of assets used for coverage . . . . .	<u>-1,059</u>	<u>-897</u>
<b>Net amount of the provision for pensions and similar obligations . . . . .</b>	<b><u>577</u></b>	<b><u>472</u></b>
Acquisition costs of assets used for coverage . . . . .	<u>1,089</u>	<u>946</u>

The fair value of the assets used for coverage is allocated as follows:

### SECURITIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Listing on an active market</b>		
CTA <sup>(1)</sup> assets . . . . .	1,021	861
DC <sup>(2)</sup> assets . . . . .	<u>38</u>	<u>36</u>
	<b><u>1,059</u></b>	<b><u>897</u></b>

(1) CTA = Contractual trust arrangement.

(2) DC = Deferred compensation.

## 7 Tax provisions and other provisions

### PROVISIONS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
<b>Tax provisions</b> . . . . .	<b>2,067</b>	<b>3,098</b>
Provision for indirect personnel expenses . . . . .	2,456	1,792
Provision for stock option plans . . . . .	2,463	1,322
Provision for bonuses . . . . .	1,728	1,103
Provision for external costs of the annual financial statements . . . . .	191	143
Provision for outstanding holiday pay . . . . .	<u>65</u>	<u>120</u>
<b>Other provisions</b> . . . . .	<b><u>6,903</u></b>	<b><u>4,480</u></b>

## 8 Loans from banks

Loans from banks amount to €182,668 thousand (prior year: €0 thousand). The increase is due to a promissory note loan issued during the reporting year of €106,000 thousand with terms of three and five years as well as a fixed loan of €75,000 thousand with a term of two years.

## 9 Trade payables

As of the balance sheet date, there are liabilities of €611 thousand (prior year: €1,771 thousand).

### TRADE PAYABLES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Outstanding invoices . . . . .	0	1,510
Accounts payable . . . . .	<u>611</u>	<u>261</u>
	<b><u>611</u></b>	<b><u>1,771</u></b>

## 10 Liabilities to affiliated companies

### LIABILITIES TO AFFILIATED COMPANIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Instone Real Estate Leipzig GmbH . . . . .	46,643	48,556
Instone Real Estate Development GmbH . . . . .	<u>1,798</u>	<u>14,998</u>
	<b><u>48,441</u></b>	<b><u>63,554</u></b>

## 11 Other liabilities

Other liabilities of €581 thousand (prior year: €1,739 thousand) comprise tax liabilities (not including income tax) of €75 thousand (prior year: €988 thousand) and liabilities for Supervisory Board bonuses of €506 thousand (prior year: €751 thousand).

### OTHER LIABILITIES

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Tax liabilities (not including income tax) . . . . .	75	988
Liabilities from Supervisory Board bonuses . . . . .	<u>506</u>	<u>751</u>
	<b><u>581</u></b>	<b><u>1,739</u></b>

## NOTES ON THE INCOME STATEMENT

### 12 Revenues

The reported revenues of €1.581 thousand (prior year: €1.406 thousand) mainly concern revenues to affiliated companies. Of these amounts, €1,064 thousand was attributable to Instone Real Estate Development GmbH, €460 thousand to Instone Real Estate Leipzig GmbH, €50 thousand to Gartenhöfe GmbH and €7 thousand to other affiliated companies.

## REVENUES

	<u>2019</u>	<u>2018</u>
	<u>In thousands</u>	<u>of euros</u>
Income from other deliveries and services – Germany . . . . .	1,581	1,404
Income from other deliveries and services – other countries . . . . .	<u>0</u>	<u>2</u>
	<u><b>1,581</b></u>	<u><b>1,406</b></u>

### 13 Other operating income

Other operating income of €3,453 thousand (prior year: €6,016 thousand) comprises a book profit (€2,573 thousand) from the sale of investments in an affiliated company that was not included in the consolidated financial statements. In addition, €853 thousand income from reversal of provisions was also recognised.

## OTHER OPERATING INCOME

	<u>2019</u>	<u>2018</u>
	<u>In thousands</u>	<u>of euros</u>
Income from disposal of affiliated companies, not included in the consolidated financial statements . . . . .	2,573	0
Income from reversal of provisions . . . . .	853	430
Reimbursement of transaction costs . . . . .	0	5,584
Miscellaneous other income . . . . .	<u>27</u>	<u>2</u>
	<u><b>3,453</b></u>	<u><b>6,016</b></u>

### 14 Staff costs

Staff costs increased due to salary payments and additions to provisions of €5,106 thousand (prior year: €4,407 thousand) as well as social security benefits of €88 thousand and changed pension provisions of €44 thousand.

Approximately five employees were employed at the company on average over the year (prior year: approximately one employee).

## STAFF COSTS

	<u>2019</u>	<u>2018</u>
	<u>In thousands</u>	<u>of euros</u>
<b>Personnel expenses</b>		
Salaries . . . . .	-5,106	-4,407
	-5,106	-4,407
<b>Social security/post-employment costs</b>		
Social security costs . . . . .	-88	-30
Change in provisions for pensions . . . . .	<u>-44</u>	<u>-398</u>
	<u><b>-132</b></u>	<u><b>-428</b></u>
	<u><b>-5,238</b></u>	<u><b>-4,835</b></u>

### 15 Other operating expenses

Other operating expenses of €10,289 thousand (prior year: €22,973 thousand) comprise costs for consulting services (€4,687 thousand), commercial management (€1,533 thousand), additions to the provision for stock option plans for employees of other group companies (€958 thousand), insurance contributions (€788 thousand) and non-deductible input tax (€596 thousand). The remaining other operating expenses that are not recognised elsewhere primarily include expenses related to administration.

## OTHER OPERATING EXPENSES

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Consulting expenses . . . . .	-4,687	-11,155
Commercial management . . . . .	-1,533	-1,806
Additions to provision for stock option plans . . . . .	-958	-1,845
Insurance contributions . . . . .	-788	-845
Non-deductible input tax . . . . .	-596	-1,949
Write-down on receivables . . . . .	0	-1,062
Severance . . . . .	0	-1,500
Miscellaneous other operating expenses . . . . .	-1,727	-2,811
	<u><b>-10,289</b></u>	<u><b>-22,973</b></u>

### 16 Financial result

Income from investments consists of the dividend payment from Instone Real Estate Leipzig GmbH of €41,905 thousand (prior year: €0 thousand).

The income from profit transfer agreements of €21,214 thousand (prior year: €0 thousand) relates to the profit transfer from Instone Real Estate Development GmbH.

Of the income from other investments and long-term loans, €2,221 thousand (prior year: €0 thousand) relates to affiliated companies.

€70 thousand (prior year: €48 thousand) of other interest and similar income relates to affiliated companies. Income from discounting provisions for long-term incentive plans amounts to €43 thousand (prior year: €92 thousand).

Write-downs of financial assets relate to Instone Real Estate Leipzig GmbH in an amount of €29,582 thousand. There were no writedowns of financial assets in the prior year.

Of the interest and similar expenses, €4,740 thousand (prior year: €3,997 thousand) relates to affiliated companies and €31 thousand (prior year: €0 thousand) relates to discounting provisions for longterm incentive plans.

Net interest expenses from pension obligations of €-80 thousand (prior year: €-200 thousand) relate to the interest on the net present value of pension obligations to be paid annually of €-131 thousand (prior year: €-163 thousand). These amounts are offset against the interest income from plan assets of €51 thousand (prior year: expenses of €-37 thousand).

### 17 Income taxes

This item includes the following taxes:

#### INCOME TAXES

	<u>2019</u>	<u>2018</u>
	<u>In thousands of euros</u>	
Corporation tax . . . . .	-1,264	-629
Solidarity surcharge . . . . .	-70	-35
Trade income tax . . . . .	-118	-47
Deferred taxes . . . . .	27,685	1,130
	<u><b>26,233</b></u>	<u><b>419</b></u>

Deferred taxes are mainly recognised for tax-related losses and interest carried forward.

As in the prior year, deferred taxes are based on the combined income tax rate of currently 32.63%.

## **OTHER DISCLOSURES**

### **18 Members of the Management Board**

The Management Board consists of the following three members:

#### **Kruno Crepulja**

- Chairman of the Management Board
- CEO of Instone Real Estate Group AG
- CEO of Instone Real Estate Development GmbH

#### **Dr Foruhar Madjlessi**

- Member of the Management Board
- CFO of Instone Real Estate Group AG since 1 January 2019
- CFO of Instone Real Estate Development GmbH

#### **Andreas Gräf**

- Member of the Management Board
- COO of Instone Real Estate Group AG
- COO of Instone Real Estate Development GmbH for both the North Rhine-Westphalia and Rhine-Main branches

Member of the Management Board who retired 31 December 2019:

#### **Torsten Kracht**

- Member of the Management Board
- CSO of Instone Real Estate Group AG
- Managing Director of Instone Real Estate Leipzig GmbH
- COO of Instone Real Estate Development GmbH for Saxony

### **19 Members of the Supervisory Board**

**Stefan Brendgen**, independent management consultant

In addition to his role as the Chairman of the Supervisory Board of the company, Mr Brendgen is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- aamundo asset Management GmbH & Co. KGaA (Chairman of the Supervisory Board)
- Climeon AB (member of the Supervisory Board)
- HAHN-Immobilien-Beteiligungs AG (member of the Supervisory Board)

**Dr. Jochen Scharpe**, Managing Partner of AMCi and ReTurn Immobilien GmbH

In addition to his role as the Deputy Chairman of the Supervisory Board of the company, Dr Scharpe is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- FFIRE AG (Deputy Chairman of the Supervisory Board)
- LEG Immobilien AG (Member of the Supervisory Board)

**Marija Korsch**, Chairwoman of the Supervisory Board of Aareal Bank AG

In addition to her role as a member of the Supervisory Board of the company, Ms Korsch is a member of the following statutory supervisory boards and similar executive bodies of business enterprises in Germany and abroad:

- Aareal Bank AG (Chairwoman of the Supervisory Board)

- Just Software AG (member of the Supervisory Board)
- Nomura Financial Products GmbH (member of the Supervisory Board)

**Dietmar P. Binkowska**, independent management consultant

In addition to his role as a member of the Supervisory Board of the company, Mr Binkowska is not a member of any other statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad.

**Thomas Hegel**, attorney and independent consultant

In addition to his role as a member of the Supervisory Board of the company, Mr Binkowska is not a member of any other statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad.

## 20 Remuneration of the Management Board

The remuneration of the members of the Management Board in 2019 consisted of

### A fixed remuneration

- The fixed remuneration is paid out in equal monthly instalments

### Additional benefits

- The additional benefits consist of taxable non-cash benefits such as the private use of company cars or other benefits in kind.

### One component under the framework of a long-term incentive plan that consists of two elements:

#### One-year variable remuneration (STI)

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

#### Long-term variable remuneration (LTI)

- As a further component of the variable remuneration, there is a commitment to members of the Management Board in respect to multiple-year variable compensation in the form of an LTI bonus.
- Some members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years.

The total remuneration granted to the members of the Management Board totalled €3,375.0 (min.: €1,485 thousand, max.: €5,602 thousand) for the 2019 financial year (prior year: €5,111 thousand). Of this, €1,310 thousand (prior year: €1,158 thousand) was attributable to fixed, non-performance-related components, €1,890 thousand (min: €0 thousand, max.: €4,117 thousand) (prior year: €1,340 thousand) was attributable to variable, one-year and multi-year performance-related remuneration components, €79 thousand (prior year: €713 thousand) to performance-related benefits-in-kind and other services, €0 thousand (prior year: €1,500 thousand) for severance payments and €95 thousand (prior year: €401 thousand) on the pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The total remuneration received/earned by the members of the Management Board totalled €2,541 thousand for the financial year 2019 (prior year: €25,109 thousand). Of this amount, €1,310 thousand (prior year: €1,158 thousand) was allocated to fixed, non-performance related remuneration components, €1,056 thousand (prior year: €21,337 thousand) to variable, one-year and multi-year performance-related remuneration components, €79 thousand (prior year: €713 thousand) to non-performance related benefits- in-kind and other benefits, €0 thousand (prior year: €1,500 thousand) for severance payments and €95 thousand (prior year: €401 thousand) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The present value of pension commitments to active and former Management Board members amounts is €1,534 thousand (prior year: €1,369 thousand). Pension obligations to former Management Board members amount to €1,099 thousand (prior year: €1,029 thousand).

During the reporting year, no advances were paid to members of the Management Board and no loans were made.

## 21 Remuneration of the Supervisory Board

The total remuneration of the Supervisory Board in financial year 2019 was €426 thousand (prior year: €406 thousand). Of this amount, €355 thousand (prior year: €343 thousand) was remuneration for the work of the full Supervisory Board. Remuneration for work in committees amounted to €71 thousand (prior year: €63 thousand).

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 or agency services. Nor were members of the Supervisory Board granted any advances or credits.

For a detailed description of the remuneration of the Management Board and the Supervisory Board, please refer to the information in the remuneration report of the combined management report as of 31 December 2019.

## 22 Auditor's fees

In total, the following overall fees were recognised as expenses for the services of the auditor Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Düsseldorf Branch, for the financial year:

### AUDIT FEES

	31/12/2019	31/12/2018
	In thousands of euros	
Audits of financial statements . . . . .	338	105
Of which relating to previous years . . . . .	79	0
Other assurance or valuation services . . . . .	<u>76</u>	<u>105</u>
	<u><b>414</b></u>	<u><b>210</b></u>

The auditor performed other consulting services for the company such as investigative activities as per ISRS 4400, a review as per IDW PS 900 and audits as per IDW PS 980 and IDW PS 981. In addition, audit services, an audit as per IDW PS 850 and reviews as per Section 16 MaBV were performed for subsidiaries.

## 23 Significant events after the end of the financial year

There were no reportable events of particular significance after the balance sheet date on 31 December 2019.

## 24 Affiliated companies and investees

### SUBSIDIARIES, JOINT VENTURES AND OTHER EQUITY INVESTMENTS AS OF 31/12/2019

	Share of capita in %	Equity in thousands of euros	Net income for the year in thousands of euros
<b>I. Consolidated affiliated companies</b>			
Durst-Bau GmbH, Vienna, Austria . . . . .	100.0	743	-102
formart Immobilien GmbH, Essen, Germany <sup>(1)</sup> . . . . .	100.0	701	0
formart Luxemburg S.à r.l., Luxembourg, Luxembourg . . . . .	100.0	1,966	1,222
Gartenhöfe GmbH, Leipzig, Germany . . . . .	100.0	5,839	-9
GRK Beteiligung GmbH, Leipzig, Germany . . . . .	100.0	-146	-146
Instone Real Estate Development GmbH, Essen, Germany <sup>(1)</sup>	100.0	153,986	0
Instone Real Estate Erste Projektbeteiligungs GmbH & Co. KG, Essen, Germany . . . . .	100.0	5	0
Instone Real Estate Landmark GmbH, Leipzig, Germany . . . . .	100.0	-2,715	-853
Instone Real Estate Leipzig GmbH, Leipzig, Germany . . . . .	100.0	31,069	29,939
Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany . . . . .	100.0	29	-7
Instone Real Estate Projekt Erlangen GmbH & Co. KG, Erlangen, Germany . . . . .	100.0	7	-1
Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany . . . . .	100.0	-91	-521



	Share of capita in %	Equity in thousands of euros	Net income for the year in thousands of euros
Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany . . . . .	100.0	-13	-16
Instone Real Estate Projekt Schopenhauerstrasse GmbH, Erlangen, Germany . . . . .	100.0	120	4
Instone Real Estate Projekt Seetor GmbH, Erlangen, Germany	100.0	602	449
Instone Real Estate Projekt Stephanstrasse GmbH & Co. KG, Erlangen, Germany . . . . .	100.0	-38	-52
Instone Real Estate Property GmbH, Essen, Germany . . . . .	100.0	25	0
KORE GmbH, Frankfurt a. M., Germany . . . . .	85.0	6,156	75
OPUS Beteiligung GmbH, Leipzig, Germany . . . . .	100.0	-10	-10
Parkresidenz Leipzig GmbH, Leipzig, Germany . . . . .	100.0	11,691	142
Projekt Wilhelmstrasse Wiesbaden GmbH & Co. KG, Frankfurt a. M., Germany . . . . .	70.0	25,750	26,468
west.side gmbH, Cologne, Germany . . . . .	100.0	812	337
Westville 1 GmbH, Frankfurt a. M., Germany . . . . .	100.0	121	-4
Westville 2 GmbH, Frankfurt a. M., Germany . . . . .	99.9	1	-24
Westville 3 GmbH, Frankfurt a. M., Germany . . . . .	99.9	0	-25
Westville 4 GmbH, Frankfurt a. M., Germany . . . . .	99.9	1	-24
Westville 5 GmbH, Frankfurt a. M., Germany . . . . .	99.9	2	-23
<b>II. Joint ventures</b>			
Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt a. M., Germany . . . . .	50.0	160	127
Wohnpark Giessener Strasse GmbH & Co. KG, Frankfurt a. M., Germany . . . . .	50.0	782	756
<b>III. Other equity investments</b>			
CONTUR Wohnbauentwicklung GmbH, Cologne, Germany <sup>(2)</sup>	50.0	34	-12
formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany . . . . .	50.0	44	2
Immobilien-gesellschaft CSC Kirchberg S.à r.l., Luxembourg, Luxembourg . . . . .	100.0	42	10
Instone Real Estate Erste Projekt GmbH, Essen, Germany . . . . .	100.0	25	0
Instone Real Estate Projektverwaltungs GmbH, Essen, Germany . . . . .	100.0	25	-6
Kleyer Beteiligungsgesellschaft mbH, Frankfurt a. M., Germany <sup>(2)</sup> . . . . .	100.0	54	29
Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany <sup>(3)</sup> . . . . .	6.0	2,998	95
Projekt Wilhelmstrasse Wiesbaden Verwaltung GmbH, Cologne, Germany . . . . .	70.0	9	-8
Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany <sup>(2)</sup> . . . . .	50.0	38	-10
Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany . . . . .	70.0	1	32

(1) Profit transfer agreement.

(2) Annual financial statements, 31 December 2018.

(3) Annual financial statements, 30 June 2019.

## 25 Contingent liabilities

Obligations arising from guarantees and sureties amounted to €288,517 thousand (prior year: €2,000 thousand). These were issued to subsidiaries. To our knowledge, the respective economic circumstances of the companies in question can fulfil the underlying obligations in all cases; utilisation is not anticipated.

## 26 Other financial commitments

The minimum lease payments due in the future are as follows:

### OTHER FINANCIAL COMMITMENTS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>In thousands of euros</u>	
Due within one year . . . . .	72	46
Due within one to five years . . . . .	<u>107</u>	<u>88</u>
	<u><u>179</u></u>	<u><u>134</u></u>

## 27 Declaration of conformity with the German Corporate Governance Code


The Management Board and Supervisory Board of Instone Real Estate Group AG issued the declaration of conformity with the recommendations of the “Government Commission on the German Corporate Governance Code” for financial year 2019 in accordance with Section 161 AktG in December 2019.

The declaration of conformity has been made permanently publicly accessible to shareholders on the company website under Instone Declaration of Conformity.


The annual financial statements of Instone Real Estate Group AG report total net income for the year of €42,045,882.26. After deduction of the loss carried forward of €24,403,711.68, the Management Board and Supervisory Board propose carrying the remaining net retained profits of 17,642,170.58 forward.

Essen, 13 March 2020

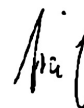
The Management Board



Kruno Crepulja



Dr Foruhar Madjlessi



Andreas Gräf

The following independent auditor's report has been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) in German language on the German version of the annual financial statements of Instone Real Estate Group Aktiengesellschaft for the financial year ended December 31, 2019 and the combined group management report, except for the sections in the combined management report which are excluded from the audit as stated in the auditor's report. The combined group management report is neither included nor incorporated by reference in this Prospectus.

## **INDEPENDENT AUDITOR'S REPORT**

To Instone Real Estate Group AG, Essen/Germany

### **REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT**

#### **Audit Opinions**

We have audited the annual financial statements of Instone Real Estate Group AG, Essen/Germany, which comprise the balance sheet as at 31 December 2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the combined management report on the Group and the Company of Instone Real Estate Group AG, Essen/Germany, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" pursuant to Sections 289f and 315d German Commercial Code (HGB) of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the sections "Sustainability report" and "Statement on Corporate Governance and Corporate Governance Report" referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

#### **Basis for the Audit Opinions**

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the combined management report.

#### **Key Audit Matters in the Audit of the Annual Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters

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

In the following we present the key audit matter we have determined in respect of the accounting for investments in associates.

Our presentation of these key audit matters has been structured as follows:

- a. description (including reference to corresponding information in the annual financial statements), and
- b. auditor's response.

### **Accounting for Investments in Associates**

- a. In the annual financial statements of Instone Real Estate Group AG, Essen/Germany, for the year ended 31 December 2019, investments in associates of kEUR 230,916 (46.5% of the balance sheet total) are reported. These are measured at acquisition cost or – where impairment is expected to be of permanent nature – at the lower of fair value.

The material construction projects of the Instone Group are accounted for on the part of the two associates Instone Real Estate Development GmbH, Essen/Germany, and Instone Real Estate Leipzig GmbH, Leipzig/Germany. As at the balance sheet date, the executive directors of Instone Real Estate Group AG, Essen/Germany, have examined the recoverability of these investments by performing internal business valuations. The fair value of the investments in these associates was established as the present value of the future cash flows using the discounted cash flow method. The underlying cash flows are based on the corporate planning, which includes the expectations of the executive directors of the two subsidiaries with regard to the future development of the projects. The cash flows are discounted on the basis of the weighted average costs of capital.

As regards the sundry investments in associates, the book value of the respective investment as at the balance sheet date is assessed by the executive directors as to indications of required writedowns. Should the analysis indicate that related write-downs might be required, a detailed business valuation will be performed on the basis of the corporate planning using the discounted cash flow method.

We classified the accounting for the investments in associates as a key audit matter since these are highly contingent on discretionary estimates and assumptions made by the executive directors.

The disclosures of the executive directors on the investments in associates are included in the “Accounting and Measurement Principles” section of the notes to the financial statements.

- b. In auditing the fair values of the investments in associates, we verified the business valuations performed using the discounted cash flow method as to their methodological approach and accuracy of the figures, involving our valuation specialists. In addition, we examined the determination of the costs of capital. We examined the underlying corporate planning with professional scepticism, cross-checking the parameters used with, inter alia, industry-specific market expectations, and conducted surveys among the executive directors on value drivers underlying the corporate planning.

### **Other Information**

The executive directors are responsible for the other information.

The other information comprises:

- the section “Statement on Corporate Governance and Corporate Governance Report” of the combined management report, which also includes the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB),
- the section “Sustainability report” of the combined management report and
- the executive directors’ confirmation regarding the annual financial statements and the combined management report pursuant to Section 264 (2) Sentence 3 and Section 289 (1) Sentence 5 German Commercial Code (HGB), respectively.

Our audit opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### **Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Combined Management Report**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

### **Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as auditor by the shareholders' general meeting on 13 June 2019. We were engaged by the supervisory board on 10 October/25 November 2019. We have been the auditor of Instone Real Estate Group AG, Essen/Germany, since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

**GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is Rolf Künemann.

Düsseldorf/Germany, 16 March 2020

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft



Signed: Rolf Künemann  
Wirtschaftsprüfer  
[German Public Auditor]



Signed: Michael Pfeiffer  
Wirtschaftsprüfer  
[German Public Auditor]

## RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development for the remaining months of the financial year.

Essen, 13 March 2020

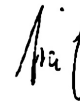
The Management Board



Kruno Crepulja



Dr Foruhar Madjlessi



Andreas Gräf



## 20. RECENT DEVELOPMENTS AND OUTLOOK

### 20.1 Recent Developments

On August 11, 2020, the Company entered into the Helaba Promissory Note Loan Agreement, *i.e.*, a promissory note loan agreement (*Schuldscheindarlehensvertrag*) with Landesbank Hessen-Thüringen Girozentrale as original lender for a loan amount of €100 million. The facility under the Helaba Promissory Note Loan Agreement had been made available for general corporate purposes and has a term of five years. The funds from the Helaba Promissory Note Loan Agreement were mainly utilized for the full repayment of the outstanding term loan under the Facility Agreement by August 21, 2020 and transferred to other institutional lenders afterwards. For further details please refer to sections “11.6.2.2 Helaba Promissory Note Loan (*Schuldscheindarlehen*)” and “11.6.1 Term Loan Facility Agreement”.

While the impact of the COVID-19 pandemic on the German project development market has been limited to date, Instone experienced a noticeable decline in demand in the first few months of the crisis. Such decline in demand began in early March and continued through the end of June when it began to recover, as evidenced by a strong improvement of Instone’s sales ratio (*i.e.*, the weekly number of units sold to private investors divided by the four week moving average of the number of units on offer), reaching pre-crisis levels in July 2020. Taking into account a package sale of 22 residential units of project Neckartalterrassen (Rottenburg) to an investor after June 30, 2020, Instone’s sales ratio would have even exceeded pre-crisis levels.

Following June 30, 2020, Instone’s management approved the acquisition of one additional project in Bavaria with an Expected Sales Volume of €65 million. In addition, Instone’s management approved the expansion of an existing project in Hamburg with an additional Expected Sales Volume of €50 million. With respect to both approvals granted by Instone’s management, the relevant acquisitions have not been completed as of the date of this Prospectus.

Except as described above, there have been no significant changes to Instone’s financial position between June 30, 2020 and the date of this Prospectus.

The pandemic spread of COVID-19 in recent months has affected all key economies worldwide, including all markets in continental Europe, disrupted public life and the operations of multiple businesses. With the initial wave of transmission of COVID-19 having passed its first peak in almost all EU member states, these countries, including Germany, are gradually, fully or partially, relaxing the measures implemented to prevent widespread transmission of the virus. Nevertheless, the economic repercussions of the COVID-19 pandemic are still extremely challenging for individuals and businesses, making it important for the German economy to recover quickly and to maintain people’s purchasing power. The pandemic has particularly affected GDP and the labor market but also the real estate market.

In the second quarter of 2020, Germany’s GDP continued to decline compared to the first quarter of 2020 after price, seasonal and calendar adjustments. Overall GDP declined by 10.1% compared to the first quarter of 2020, driven by the continued negative impact of the COVID-19 pandemic. This decline in GDP exceeds the largest quarter-on-quarter decrease of the 2008/2009 financial market and economic crisis (-4.7% in the first quarter of 2009). Compared to the first quarter of 2020, significant decreases were recorded in several areas, including imports and exports of goods and services, household final consumption expenditure and capital formation in machinery and equipment. To stabilize these decreases, general government further increased its final consumption expenditure during the crisis. Economic performance also fell considerably on a year-on-year basis, with GDP dropping 11.7% compared to the second quarter of 2019. The Federal Statistical Office (*Statistisches Bundesamt*) pointed out that the greater uncertainties caused by the COVID-19 pandemic may continue to lead to larger revisions than usual. (*Source: Destatis, Press Release No. 287*)

With regards to the German labor market, number of employed persons decreased in June 2020 by approximately 586,000 or 1.3% compared to June 2019. Compared to May 2020, however, the number of employed persons in June 2020 decreased by only 1,000, or 0.0% after adjustment for seasonal fluctuations, remaining nearly unchanged. In June 2020, the number of unemployed persons increased by 653,000 or 49.2% compared to June 2019. Adjusted for seasonal and irregular effects (trend cycle component), the number of unemployed persons in June 2020 stood at 1.75 million, representing an increase of 39,000, or 2.1%, compared to May 2020.

The year-on-year decline in the number of employed persons has stabilized at 1.3%, the same as the year-on-year decrease of June 2019 compared to June 2020 (-1.3%). Compared to February 2020, the month before the COVID-19 pandemic broke out in Germany, the number of employed persons decreased in June 2020 by 655,000, or 1.4%, after seasonal adjustments. It should be noted that according to the employment account and labor force survey

concepts, workers in short-term employment arrangements (*Kurzarbeit*) are not counted as unemployed persons but as persons in employment. (Source: Destatis, Press Release No. 284)

## 20.2 Outlook

Against the background of the given macroeconomic conditions and on the basis of Instone's project portfolio of approximately €5.7 billion as of June 30, 2020, the Company expects its business to develop overall positively in the financial years 2020 and 2021. The risks related to the COVID-19 pandemic, such as reduced demand by both private and institutional investors, delays in building rights or building permit approval processes with authorities for Instone's project developments, disruptions or delays in the operations of contractors or suppliers, or disruptions in their supply chains, the slowdown in construction activity or the shutdown of individual construction sites, have been taken into account by the Management Board in its assessment. Except for a noticeable decline in demand for residential housing in the initial months of the crisis, Instone has not yet experienced significant negative effects on its business due to the COVID-19 pandemic.

Assuming that the effects of the COVID-19 pandemic on the overall economic environment normalize as the year progresses, the Management Board expects a total of concluded customer sales contracts in the financial year 2020 in excess of €450 million. This forecast of concluded customer sales contracts is based on Instone's projects on the market as of June 30, 2020 with an aggregate Expected Sales Volume of approximately €273 million and additional retail and institutional sales in 2020. Instone's ability to achieve this volume of concluded customer sales contracts depends on its ability to start the sales process for relevant projects in the financial year 2020 in line with its scheduled timing, which Instone assumes will be possible. Based on its existing project portfolio, the Management Board further expects the Company's adjusted revenues for the financial year 2020 to be in the range of €470 million to €500 million. Based on the developments for the six-month period ended June 30, 2020, the Management Board expects that in the financial year 2020 Instone will have an adjusted gross profit margin of at least 28.0% and adjusted EAT in the range of €30 million to €35 million.

In financial year 2021, the Management Board expects a total of concluded customer sales contracts in excess of €800 million. Instone's ability to achieve this volume of concluded customer sales contracts will depend on its ability to start the sales process for relevant projects in the financial year 2021 in line with its scheduled timing, which, as of the date of this Prospectus, Instone assumes will be possible. Based on its existing project portfolio and acquisition pipeline, the Management Board further expects the Company's adjusted revenues for the financial year 2021 to be in the range of €900 million to €1.0 billion. Based on the projected profitability of its projects, the Management Board expects that in the financial year 2021 Instone will have an adjusted EAT of at least €90 million.

For further details please refer to section "9. Profit Forecast".