# RETHINKING HOUSING

INSTONE REAL ESTATE

**ANNUAL REPORT**

**2020**

# RETHINKING HOUSING

Like clothes and food, housing is an essential need of every human being. It is enshrined as a human right in the UN Sustainable Development Goals (SDGs), the European Social Charter and the German constitution. Demand for housing has been high for some time, and current construction activity is barely keeping pace. This poses major challenges to all players in the housing market. However, in itself, building homes is not enough to create attractive new living space. In our comprehensive report, find out how Instone Real Estate is facing up to these challenges and providing solutions.

**ADJUSTED EAT**

**€ 41.1 MILLION**

Previous year: €105.6 million

**ADJUSTED REVENUE**

**€ 480.1 MILLION**

Previous year: €736.7 million

**PROJECT PORTFOLIO**
with a gross development value (GDV) of

**€ 6.1 BILLION**

is a sound foundation for medium-term revenue planning

**ADJUSTED GROSS PROFIT MARGIN**
of 30.5% in line with our forecast of at least 28% for 2020

## Instone Real Estate strengthens equity base through capital increase

With our new product, we are creating affordable housing in and around major German cities. Our aim here is to significantly accelerate growth.

**~39%**

of the available project volume (GDV) already sold

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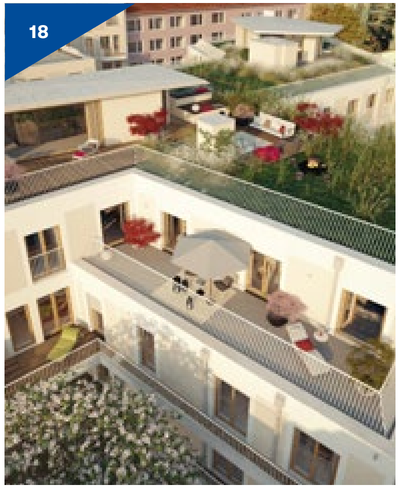


## Social involvement Inclusive residential quarters

Creating sustainable, high-quality, inclusive residential quarters with diversity




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INTERVIEW

# Sustained growth and lasting added value

**From left to right:**
**Kruno Crepulja**
Chairman of the Management Board/CEO
**Andreas Gräf**
Chief Operating Officer
**Dr Foruhar Madjlessi**
Chief Financial Officer

**Mr Crepulja, 2020 was dominated by the coronavirus pandemic. What is the Management Board's view of last year's events?**

**KRUNO CREPULJA**_To us, the most important thing about last year is that, fortunately, none of our employees fell seriously ill. The health of our staff and customers was our top priority throughout the entire year.

Of course, the crisis prompted short-term uncertainty on the market and curbed our business development. As well as triggering a temporary direct decline in revenue, the lockdown in spring set back the start of sales and construction. These factors had a tangible negative impact on the year as a whole.

On the other hand, the attractiveness of German residential properties as an asset class increased significantly again during the crisis – for private and institutional investors and owner-occupiers alike. Their stability and resilience are also apparent compared with other property segments, some of which were hit hard by the effects of the pandemic.

Despite the challenging situation, we launched a major new initiative with our newly developed, highly innovative product in the mid-range price segment. This enables us to further accelerate our growth in the next few years. So we have every reason to look ahead with optimism after a difficult time for us all.

**You mentioned your new product. What do you think it is that makes it special?**

**KRUNO CREPULJA_**It's no secret: with costs being so high at the moment, new-build apartments in attractive central locations tend to appeal to those in the top income brackets, apart from subsidised and price-controlled apartments. With our new product, we are putting affordable housing back in the middle of society, because we are also making it accessible to middle income brackets. Through standardisation in planning and cost benefits of serial construction, we are enabling construction costs that are well below the current market level. In doing so, we can provide people with a home at a very attractive price, particularly in locations in the immediate vicinity of major cities.

We are pursuing a future-oriented concept with a strong commitment to quality here. That is what we stand for at Instone Real Estate. We make savings where it doesn't hurt the customer, and in such a way that they don't even notice. As a result, we are taking a socially responsible stance too, as the lack of affordable housing is undoubtedly a social problem. In line with our identity, we want to be part of the solution.

**Overall, those sound like simple solutions to a major social issue.**

**ANDREAS GRÄF_**A simple solution born of conscientious development work. This new product is the result of teamwork by our specialists after around three years of development. For instance, out of several thousand possible floor plans, we ultimately identified a selection of apartment types with different numbers of rooms, all of which fulfil the following conditions: they use space extremely efficiently, suit every type of building and meet the requirements of the various state-specific construction laws. That is a complex task.

**"Even during the pandemic, Instone Real Estate is extremely well-placed to look to the future with optimism."**

**KRUNO CREPULJA**

Our advantage is that as a company, we are big enough to do development work of this kind, unlike our predominantly regional competitors. In addition, our management team has the requisite experience in standardisation. Our extensive expertise across the entire value chain is another key success factor here.

Unlike some other providers, we are also committed to the right solutions with our focus on modular planning. By contrast, modular construction is currently more of a niche solution, and is therefore inconsistent with a wide product range. Ultimately, various factors play into our hands.

**“Our extensive expertise and relevant experience are key factors for Instone Real Estate.”**

**ANDREAS GRÄF**

**Politicians have embarked on other ways of making housing affordable. What are your views on this?**

**ANDREAS GRÄF_**Measures such as the introduction of rent control and the rent cap are addressing only the symptoms and ignoring the root causes of the problem.

The shortage of apartments in Germany runs into hundreds of thousands, especially in the large metropolitan regions. In the long term, the only solution to the housing shortage is to build new homes. This requires more building land. Administrative staffing bottlenecks need to be resolved – partly in order to accelerate approval processes. It is essential to strengthen private investment in housing construction. Politicians have now recognised this. Here too, Instone Real Estate is more than willing to take responsibility as a potential partner.

**You mentioned extensive social responsibility. What role does environmental protection play here?**

**DR FORUHAR MADJLESSI_**Climate protection is one of the top priorities of today’s society. The German federal government has set out ambitious long-term targets for the next few decades in its Climate Action Plan. Improving energy efficiency in the buildings sector is a key factor in this. It’s clear that we are talking about a development path here. At Instone Real Estate, we have made sustainability a key pillar of our corporate strategy. We aim to be a pioneer in the sector in terms of environmental protection, too.

For instance, we are already exceeding the strict statutory requirements in many projects. With our new product, we will build solely in line with KfW 55 (or a higher energy standard). For our core product too, we are targeting a continuous increase in the portfolio share of apartments complying with energy standard KfW 55 (or better). So we are raising the bar yet again here. Indeed, we are going even further – along with operational efficiency, we aim to focus on $CO_2$ in production of our buildings. We are engaging in dialogue with our partners here.

**What overall contribution is Instone Real Estate making to sustainability?**

**DR. FORUHAR MADJLESSI_**We are at the start of a continuous development process here. To this end, we are pursuing a holistic strategy. As a starting point, we have set clear responsibilities, including at Management Board level. To illustrate how much this matters to us, the attainment of sustainability targets will also be an element of Management Board remuneration.

Overall, we take all dimensions into account with regard to sustainability. At Instone Real Estate, we are aware of our corporate and social responsibility as a housing developer. Acting in partnership with our stakeholders is another major aspect here. For instance, we support local authorities in the planning permission process. We firmly believe that the formation of partnerships and inter-council associations creates genuine added value for everyone involved, especially in large-scale projects. This is the only way to take all interests into account from the outset.

As far as environmental sustainability is concerned, for instance reduction of $CO_2$, our customers already benefit from much greater energy efficiency in operations than before. Energy-efficient production and use of sustainable materials such as wood are other relevant aspects. When planning our residential

**“We aim to be pioneers in the sector in terms of environmental protection. That's why sustainability is a key pillar of our corporate strategy.”**

**DR FORUHAR MADJLESSI**

quarters, we set targets that pay equal attention to housing construction and nature conservation. This includes conservation of endangered trees, habitats and biodiversity, for instance. Many of our projects are brownfield developments. By being repurposed for solely residential use, former industrial sites are significantly enhanced from a social and environmental perspective.

Therefore, along with urgently needed housing, we are keen to build nurseries and schools as well as enabling age-appropriate and inclusive housing and providing the requisite infrastructure.

You see, we are fulfilling our responsibilities across the board. That is why we have also set clear targets for the next few years in all dimensions. This is explained in detail in the sustainability chapter of this annual report on pages 41–81.

**How are your shareholders and investors adhering to this approach? Is ESG a relevant investment criterion?**

**DR FORUHAR MADJLESSI_**Yes, it certainly is. And the path is clearly set out: this issue will become increasingly relevant to investors, too. Our progress in this area is being followed very closely. In particular, our pioneering development work on our new product in the affordable housing sector is also regarded as hugely exciting here.

We also discussed our strategy with our shareholders in great depth in the context of our capital increase. They want to participate in our positive long-term business development and join us on this journey. We are delighted to receive such great support with this.

**You mentioned the capital increase. Why did you this in 2020 of all years?**

**DR FORUHAR MADJLESSI_**Mainly for two reasons: firstly, with our new solution, we have a product with vast potential for demand and growth. Our improved capital resources allow us to expand much more quickly in this area so we can offer much-needed housing for middle-income earners. In addition, fast scaling presents us with further potential to optimise in the direction of (partial) serial prefabrication of key components. This creates an extra competitive edge.

**“Investors too are focussing more strongly on ESG. Our new product is very interesting, also for them.”**

**DR. FORUHAR MADJLESSI**

## “We are more than willing to take responsibility as partners in order to strengthen housing construction, thus making housing affordable.”

ANDREAS GRÄF

Secondly, we see short-term opportunities in the acquisition of land. In our view, the competitive situation has temporarily eased to a certain extent during the pandemic. With our financial strength, we can generate a significant competitive edge here.

So we are enhancing our growth and competitiveness with this capital measure.

**You aim to achieve higher growth in secondary cities in the future. What makes these locations so attractive to you?**

KRUNO CREPULJA_The substantial price rises in recent years have seen the well-connected secondary cities in the commuter regions of economic hubs soar in popularity. We are perfectly placed with our new product for affordable housing construction in particular, as it is already proving profitable in smaller-scale projects. So the conditions for tapping into this growth potential are ideal. We are following our customers here.

For developers, these markets also have the advantage of much greater availability of space. However, it’s about identifying locations with good urban structures and connections. Some of the local markets where we operate are already showing more positive trends than the prime cities. This is also the case with regard to price development.

And we are making good progress here: three projects with our new product are already on the starting blocks. Construction is expected to start in Duisburg-Buchholz in mid-2021. We also plan to start construction in Düsseldorf-Unterbach in the second quarter of 2021 within the “Wohnen im Hochfeld” project. A third project is under way in Mönchengladbach-Lürrip. We must also point out here that all apartments in these projects meet the KfW 55 energy standard and, of course, are designed with accessibility in mind.

**Does this mean that the Top 7 cities and the large metropolitan regions that you previously focused on are no longer of interest?**

ANDREAS GRÄF_No, our strategy remains the same. There is no reason to change it. For our core product – individual development of houses, apartment buildings and rented apartments and renovation of listed properties – we are continuing to focus on city-centre locations in attractive metropolitan regions. The Top 7 cities in particular impress in terms of the pace of demographic and economic development. Overall, their growth rate is well above the German national average[1]. The surrounding area with good infrastructure connections also benefits from this. Overall, this generates consistently strong demand for housing in these regions, against a backdrop of scarce supply[2]. Of course, we intend to keep on taking the good long-term market opportunities that arise. However, our new product enables us to expand our business activities and thus tap into new target groups and markets.

1 Source: https://www.hwwi.org/fileadmin/hwwi/Publikationen/Partnerpublikationen/Berenberg/HWWI_Berenberg_Staedte-ranking_2019.pdf

2 The pace is picking up in parts of Eastern Germany | bulwiengesa.blog

**How is this expressed in figures – how do you rate the earnings prospects for 2021 and beyond?**

**DR FORUHAR MADJLESSI**_There are good reasons to believe that the structural growth for residential properties will continue for the foreseeable future given the current shortage of supply. The strong demand for housing, prompted by demographic and migration factors, combined with a lack of building land and low interest rates mean that the price trend is likely to remain positive. So the fundamental conditions for our business and implementation of our growth strategy remain very good indeed.

With our existing project portfolio, we have formed the basis for the long-term annual revenue volume of around a billion euros targeted at the time of the IPO. For 2021, we are targeting an increase in revenue to between €820 million and €900 million, and adjusted earnings after taxes to between €90 million and €95 million. With the additional growth from our promising new product, we expect a highly dynamic performance in the next few years. In the medium term, we envisage annual revenue of €1.6 billion to €1.7 billion. This is also reflected by a correspondingly strong expected increase in profits and dividends. In terms of financing, we have already secured this rise in revenue with our capital increase.

**Where do you see the biggest challenges for the sector in the next few years?**

**KRUNO CREPULJA**_The major challenges for the sector correspond to the big general issues of our time. It is our duty to meet the challenges of climate change. We need to meet the ambitious emissions targets while making housing affordable. We are about to embark on a development path, and we can only do this successfully with a social approach based on partnership.

Other equally important tasks are digitalisation and the question of how new technologies are changing companies. In my view, the sector is still at the beginning here. A digital pioneering role gives us the opportunity to optimise processes and exploit potential. However, another interesting question is how the two topics can be linked together, i.e. how digitalisation can become a driver of sustainability. There is no doubt that digital evolution provides lots of opportunities in the field of innovation. A willingness to embrace new things is required here. After all, digitalisation will completely transform the property markets in the future.

**"In the next few years, the property industry will be clearly focused on sustainability and digitalisation in particular."**

**KRUNO CREPULJA**

# SOCIAL INVOLVEMENT
## INCLUSIVE RESIDENTIAL QUARTERS

# Creating sustainable, high-quality, inclusive residential quarters with diversity

The aim of a diverse urban residential development is not only to create a sufficient quantity of housing that caters for different living situations, but also to bear in mind the functional mix of different use types such as office, retail, social facilities, meeting areas and greenery.

People need more than just a roof over their head – they also need residential quarters fit to live in, where they can extend their social networks, integrate their career prospects and gain access to education and development for their children. Living together in a residential quarter is not confined to four walls. Each set of surroundings helps to shape the residents' standard of living and quality of life, as well as their safety and their participation opportunities.

Neighbourhoods become stronger if social mixing is ensured and multigenerational living and inclusion are encouraged. This is supported by a wide variety of housing types and options, such as subsidised apartments, rented apartments, freehold apartments, housing for care-dependent people and owner-occupied homes. Participation in the context of civic

**1__Hard at work on the construction site**

**2__Part of the residential quarter in Luisenpark, Berlin**

**3__Our project team maps out the next steps**

involvement and competitions increases the acceptance, transparency and target group-specific (further) development of a residential quarter.

How does Instone Real Estate incorporate these key components of a sustainable residential quarter in its projects? The following examples show how essential it is to develop residential quarters with due attention to all sustainability aspects – social, environmental and economic – with partners in the public and private sectors.

**1__Visualisation of Schumanns Höhe, Bonn**

**2__Site plan of construction sites and properties at Schumanns Höhe, Bonn**

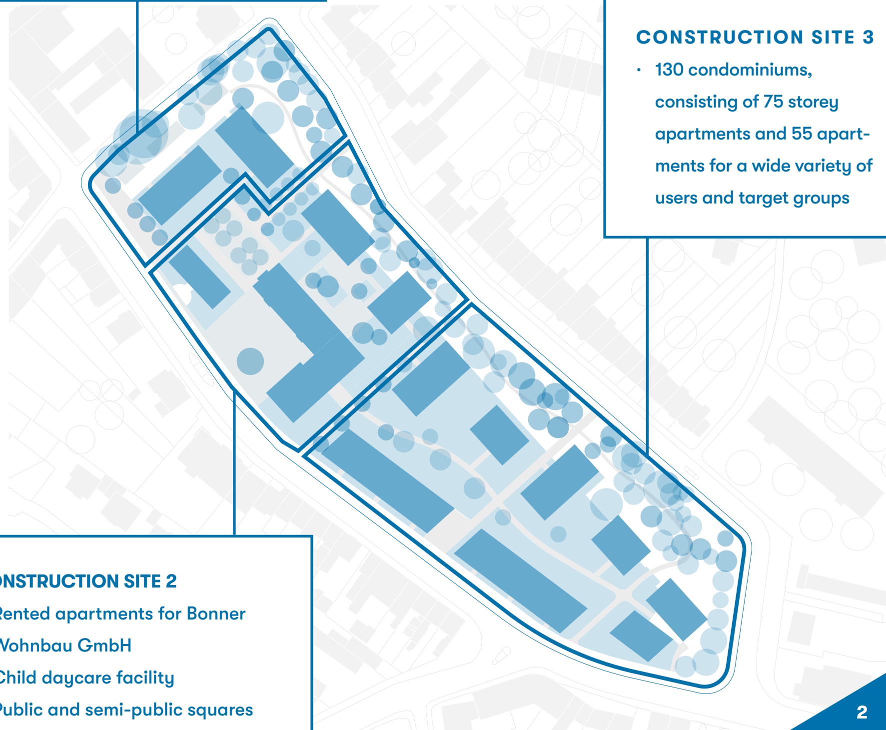

## SCHUMANNS HÖHE
## BONN

With “Schumanns Höhe” in Bonn-Endenich, we are constructing a future-oriented residential quarter with various types of housing for different stages of life. Completion is scheduled for the end of 2021. “Schumanns Höhe” contains around 240 rented and freehold apartments in total, and serves as a role model for Germany as a heterogeneous residential quarter. The homes range from conventional freehold apartments to multigenerational accommodation. We developed the “living for a long life” concept in tandem with the local authority, citizens and investors. Instone was also involved in creating residential care communities and devising the relevant underlying structures.

Accessibility of the outdoor facilities and residential buildings is a key element of this development. With an internal network of paths for pedestrians and residents, the quarter has an open design. In addition, we are creating two public meeting spaces. There is also the listed Robert Schumann house, which is a key focal point of the residential quarter. So as well as fulfilling our social duty of creating a sustainable residential quarter fit to live in, here at Instone Real Estate, we are supporting attainment of the climate goals, for instance by integrating car sharing options and e-charging stations.

**CONSTRUCTION SITE 1**

- “Residential care cluster” concept with care places in residential communities for all care categories
- Subsidised housing construction with the option of assisted living
- A daycare facility
- A mobile care service




**CONSTRUCTION SITE 3**

- 130 condominiums, consisting of 75 storey apartments and 55 apartments for a wide variety of users and target groups

**CONSTRUCTION SITE 2**

- Rented apartments for Bonner Wohnbau GmbH
- Child daycare facility
- Public and semi-public squares
- Communal spaces with individual play areas
- Multigenerational housing project with 24 rented and 20 freehold apartments in cooperation with the local association Verein Wahlverwandtschaften e.V.

## "LUISENPARK" RESIDENTIAL QUARTER BERLIN

With a total of 414 freehold apartments and 139 rented apartments, the "Luisenpark" residential quarter has been built where a section of the Berlin Wall once stood, in a central and highly popular residential location. The rented apartments were built for HOWOGE (state-owned housing association in Berlin) in line with the Berlin model of cooperative site development[1]. Instone Real Estate and HOWOGE were pioneers of the Berlin model with the "Luisenpark" residential quarter, and obtained planning permission in two years. This has resulted in housing for large swathes of the population in the city centre. The residential quarter has a car-free inner courtyard, spacious green areas, a dedicated nursery and underground parking spaces with e-mobility connections. The infrastructure has been expanded accordingly, with school extensions, connections to the local public transport network and meeting spaces such as play areas, playing fields and seats in the outdoor facilities in and around the residential quarter. In addition, the green roofs and the opportunity for urban gardening in the quarter are particularly appealing.

Another special feature of the quarter is that it was built where a stretch of the Berlin Wall once stood. A citizens' initiative used this as an opportunity to come to terms with the important history of this district. Appropriate commemorative plaques are now in place in the residential quarter.

The end result is an attractive, urban, sustainable quarter for various types of use and social levels, brought to life by the residents.

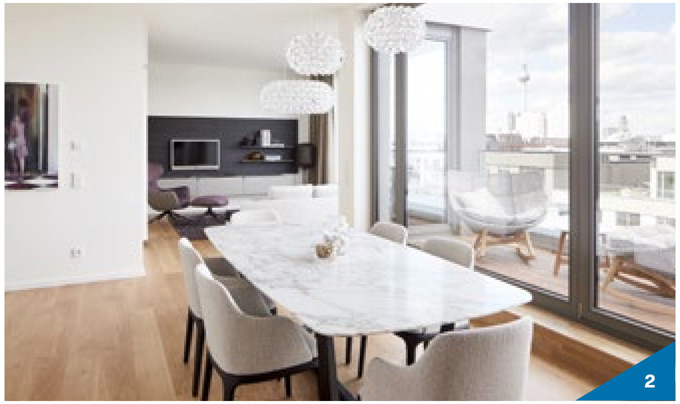
[1] www.stadtentwicklung.berlin.de/wohnen/wohnungsbau/de/vertraege/

**1__Attractive façade in the desirable Luisenpark, Berlin**

**2__The show apartment in Luisenpark is a dream home**

**"Instone Real Estate has the relevant expertise and experience, particularly in developing holistic residential quarters. In Luisenpark, Instone Real Estate has created a flagship quarter that shows how city-centre housing construction can work in Berlin."**

MICHAEL GROH
HEAD OF PROJECT DEVELOPMENT IN BERLIN



# COMMUNICATION
# NEIGHBOURHOOD

1__High-quality projects with intrinsic value are delivered with attention to detail

2__Cross-section of a family town house in the residential quarter on Schwarzwaldstrasse in Herrenberg

# Hand in hand – partnerships and reliable communication as success factors



A local presence and the fostering of long-term partnerships are essential to our project development business. Our proximity to our customers and partners means that we are available locally at all times. In addition, on account of our local links, we are involved in projects at an early stage, and can provide support in areas such as obtaining planning permission on the basis of our many years of expertise. In every project, we aim to be a partner with impressive expertise, trustworthiness and reliability – for the public sector, private apartment buyers or institutional investors with a long-term focus.

Our network and outstanding reliability give us a competitive edge. The reasons for this are obvious: when acquiring land, we can use our network of local authorities and landowners with whom we have successfully collaborated in the past, in order to achieve a sale outside of the usual bidding process. Our network of experts and our fruitful relationships with subcontractors enable us to secure construction capacity at an early stage and thus ensure cost certainty. And our network of previous buyers and interested parties – individual investors, institutional investors and owner-occupiers – is an essential basis for marketing our projects.

Instone Real Estate firmly believes that transparent, proactive communication consistently benefits everyone involved in the project. This also includes neighbourhood communication in the event of new construction plans: we are keen to keep neighbours and interested parties up to date with construction progress or potential restrictions through information events or dedicated construction site websites, for instance.

The following examples show how our partnership-based approach and targeted communication can have a positive impact on our projects and follow-up projects:

## BÜNTEKAMP HANOVER

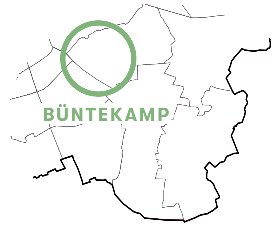
In 2014, when it was still known as formart, Instone Real Estate successfully developed a housing project with 184 residential units in Hanover-Kirchrode to the south of Lange-Feld-Strasse. As a result of our strong partnership-based collaboration and our consistently close ties with the city council and all local stakeholders, we have now secured a further project in the immediate vicinity. We are currently in the midst of the development plan proceedings and engaged in negotiations with the city council on the urban development agreement. In an overall construction project to the north of Lange-Feld-Strasse, a residential quarter development comprising 11 buildings with approx. 330 residential units. The project consists of public infrastructure and three housing sections. 30% of the residential units are subsidised rented apartments. The “Büntekamp” example impressively shows that as well as facilitating collaboration in a project, Instone Real Estate’s partnership-based approach can pay off in the longer term from a customer acquisition perspective.

**PROJECT PROFILE HANNOVER BÜNTEKAMP**

**11** BUILDINGS

**330** RESIDENTIAL UNITS

**30%** SUBSIDISED RENTED APARTMENTS




1__Green infrastructure – basis for attractive cities fit for the future

2__Panoramic view of the Büntekamp project in Hanover-Kirchrode

## HERRENBERG

Instone Real Estate has enjoyed similar success in Herrenberg in the Stuttgart region. Over time, we have secured four projects here, after impressing everyone involved in our first project "Quartier am Schillerplatz" with our reliable, flexible way of working. At an advanced stage of this project, the city council said it wanted to commit the most attractive building in the quarter with 1,200 m$^2$ of living space to social use. We gladly met this request by integrating a facility for assisted living for disabled people. On account of our good relationships with the city council, and because our expertise also extends to more complex projects, the opportunity to purchase a further site in Herrenberg – "Quartier an der Schwarzwaldstrasse" – arose in 2017. One requirement in the development plan proceedings was to hold an urban development competition, which we conducted transparently and with the involvement of the municipality and the local council. The 113 apartments and terraced houses with 20 subsidised residential units are currently under construction, and will be completed at the beginning of 2022.


We are now continuing the success story in Herrenberg with the purchase of two further plots of land where around 250 to 300 more residential units are being built: on the strength of past projects, Instone Real Estate reached agreement with the seller of a site on Schäferlinde. A compact, attractive residential quarter is to be constructed here as well – with a preceding change to the development on the basis of renewed, trust-based collaboration with the municipality of Herrenberg. The second site is adjacent to Schwarzwaldstrasse. It is of almost identical size, and marks a logical continuation of our current residential quarter development.

1__Schwarzwaldstrasse, Herrenberg: All the typical features of a holistic residential quarter within walking distance

2__The car-free residential district on Schwarzwaldstrasse in Herrenberg is leafy and tranquil

"The example of Herrenberg clearly shows that our concept of partnership-based collaboration based on trust and reliability is a relevant success factor in the development of our projects."

BIANCA REINHARDT WEITH,
COO BAVARIA AND BADEN WUERTTEMBERG

1__Residents of Rothenburgsort in Hamburg are surrounded by water, greenery and an abundance of culture

2__Attractive residential buildings in a lively residential quarter in Rothenburgsort_Copyright Lichtecht GmbH

## ROTHENBURGSORT HAMBURG

Instone Real Estate purchased a disused plot of land around the old customs house near HafenCity in the Hamburg district of Rothenburgsort in mid-2019. On the two sites with a total surface area of around 13,500 square metres, a holistic quarter with around 750 residential units and total floor space of 45,000 square metres is to be built in collaboration with the SAGA Group. These units will include privately financed and subsidised apartments, micro-apartments and a day nursery, a volunteer fire brigade and commercial space. The district was a popular residential area before the Second World War, but was completely destroyed by a bombing raid in 1943, and was subsequently mainly given over to commercial use. In recent years, Rothenburgsort has become more attractive again, with lots of new urban development projects. Even so, the change process involved many challenges in order to incorporate new residential quarters and the necessary infrastructure into existing structures. This makes it all the more important to involve neighbours and residents in planning from the outset – for instance via forms of dialogue. In Rothenburgsort, we invited discussion right from the sort, and welcomed concerns as well as suggestions. As a result, we gained valuable findings that were incorporated in the call to tender for the urban development competition. In addition, representatives of the district were given the opportunity to help determine the key points of the call to tender in a workshop.

### CONSTRUCTION-SITE COMMUNICATION

For Instone Real Estate, when it comes to construction-site communication, a website or a blog is a frequently used tool for keeping the local population and future residents constantly up to date.

We mainly work with locally based experts here. Examples include the construction blog ↗ **www.nordendplatz.de** for our “Marie” project in Frankfurt and the website ↗ **www.lindenpark.hamburg** for our “Amanda” project in Hamburg.

Instone Real Estate has now launched the district website ↗ https://rbo.hamburg/ in collaboration with urban future development GmbH. This information portal is intended to provide regular updates on the progress of the residential quarter development along with news and details of events, as well as introducing figures from the neighbourhood. Completion of the quarter is scheduled for late 2024/early 2025.

# DENSIFICATION
# CONVERSION

# Creative concepts for planning and building of highly complex housing projects

Space for housing construction is very scarce in the German metropolitan regions. However, as it is urgently needed in the cities in particular, we are becoming more and more creative and developing housing projects with increasing complexity. Along with the social aspects, it is important to reconcile urban development with architecture and functionality. This involves improving and augmenting the infrastructure, assessing the residential quarter's supply and disposal requirements in a holistic concept, taking various planning and construction processes into account with regard to different types of use while ensuring they are affordable, and integrating identity-forming building stock.

From densification in confined spaces and site development of new residential quarters to creation of the requisite infrastructure or conversion of former office or industrial locations, the projects set out below show the options already at our disposal.

## THERESE
## MUNICH

Divided into eight residential buildings, our "Therese" project shows how city-centre housing construction and successful, high-quality densification can work.

Planning of the buildings is geared towards the courtyard structure typical of the Maxvorstadt district. 118 residential units were built on the former production site of ARRI, and the extensive sealing of the inner courtyards was replaced by open spaces lawns and scattered paving between the buildings. Consequently, city-centre space was unsealed despite densification. In addition, large roof areas with extensive and intensive greenery provide new space to help protect the climate.

**1__High quality despite high density - the "Therese" project in central Munich**

**2__Attractive housing with a wide range of apartment sizes in "Therese"**

**"The revitalisation of the former Arri site through the Therese project goes to show how contemporary architecture can generate new impetus in an established quarter. This well-proportioned landmark is a welcome addition to the local architecture and provides housing in a densely built-up district."**

**PROF. (UNI. FLORENCE) ELISABETH MERK**
CITY OF MUNICH PLANNING DIRECTOR

**"With a mix of privately financed, price-controlled and publicly funded rented apartments, we are providing housing for all strata of the population. In addition, we are delighted to be able to continue the successful collaboration with such a highly professional partner in Instone Real Estate."**

JENS BRÄUTIGAM
MANAGING DIRECTOR OF
WOHNBAU GMBH

The narrow access roads coupled with the land development via a busy one-way street required individual, precisely coordinated construction site logistics. What is more, it was not possible to brace the bored pile wall on one of the adjacent sites. This resulted in complex and unconventional structural engineering measures. In carrying them out, we demonstrated our experience and many years of expertise. In April 2020, the Bavarian Chamber of Architects and the BFW state association of Bavaria jointly awarded the "2019 Prize for Quality in Housing Construction" to the project – a pleasing recognition of our work.

## NIEDERKASSELER LOHWEG (NKL) DÜSSELDORF

On a plot covering around 8,150 square metres, Instone Real Estate is constructing 221 apartments in Düsseldorf-Lörick for Bonner Wohnbau GmbH, including an approx. 60-metre high-rise residential building with 19 storeys. In line with the "Düsseldorf residential action plan"[1], publicly subsidised, price-controlled and privately financed rented residential units are under construction here. Given the distinctive location of the plot at the junction between the Seestern office site and the housing development in Lörick, a high-quality design concept was coordinated between Instone Real Estate and the urban planning department and the obligation to deliver was contractually agreed. As the site was being changed from office to residential use, many sustainability aspects were taken into account. For further details of these aspects and a presentation of the project, please refer to the sustainability section report page 79.

[1] www.duesseldorf.de/stadtplanungsamt/stadtentwicklung/handlungskonzept-wohnungsmarkt.html



1__Compact apartment layouts in the high-rise residential building in Niederkasseler Lohweg, Düsseldorf

2__Urban housing for families, young professionals and commuters is being built in Lörick

## Overview of key figures GRI 102-7

TABLE 001

In millions of euros

| | | 2020 | 2019 | Q4 2020 | Q4 2019 |
|---|---|---|---|---|---|
| **Performance indicators** | | | | | |
| Volume of sales contracts | | 464.4 | 1,403.1 | 246.0 | 1,088.2 |
| Volume of new approvals [1] | | 489.9 | 1,284.2 | 193.7 | 629.3 |
| Adjusted revenue | | 480.1 | 736.7 | 188.8 | 434.3 |
| | | | | | |
| **Key earnings figures** | | | | | |
| Adjusted gross profit | | 146.6 | 187.8 | 52.5 | 88.9 |
| Adjusted gross profit margin | In % | 30.5 | 25.5 | 27.8 | 20.5 |
| Adjusted EBIT | | 83.8 | 129.6 | 33.8 | 72.9 |
| Adjusted EBIT margin | In % | 17.5 | 17.6 | 17.9 | 16.8 |
| Adjusted EBT | | 59.4 | 107.8 | 25.0 | 61.7 |
| Adjusted EBT margin | In % | 12.4 | 14.6 | 13.2 | 14.2 |
| Adjusted EAT | | 41.1 | 105.6 | 16.2 | 62.2 |
| Adjusted EAT margin | In % | 8.6 | 14.3 | 8.6 | 14.3 |
| | | | | | |
| **Key liquidity figures** | | | | | |
| Cash flow from operations | | 119.9 | –205.1 | | |
| Cash flow from operations excluding new investment | | 225.0 | 123.7 | | |
| Free cash flow | | –64.2 | –237.5 | | |
| Cash and cash equivalents and term deposits [2] | | 232.0 | 117.1 | | |

[1] Excluding volume of approvals from joint ventures consolidated at equity

[2] Term deposits comprise investments of more than three months.

## Overview of key figures GRI 102-7

TABLE 001

In millions of euros

| | | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| **Performance indicators** | | | |
| Project portfolio | | 6,053.6 | 5,845.7 |
| | | | |
| **Key balance-sheet figures** | | | |
| Total assets | | 1,283.1 | 1,123.4 |
| Equity | | 521.0 | 310.2 |
| Net financial debt [1] | | 249.7 | 478.4 |
| Leverage | | 2.8 | 3.6 |
| Loan-to-cost [2] | In % | 25.7 | 50.3 |
| Adjusted ROCE [3] | In % | 10.3 | 22.8 |
| | | | |
| **Employees** | | | |
| Number | | 413.0 | 375.0 |
| FTE [4] | | 342.5 | 307.7 |

[1] Net debt = financial liabilities less cash and cash equivalents and term deposits

[2] Loan-to-cost = net debt/(inventories + contract assets)

[3] Return on capital employed = LTM adjusted EBIT/(four-quarter average equity + net debt)

[4] Full-time employees

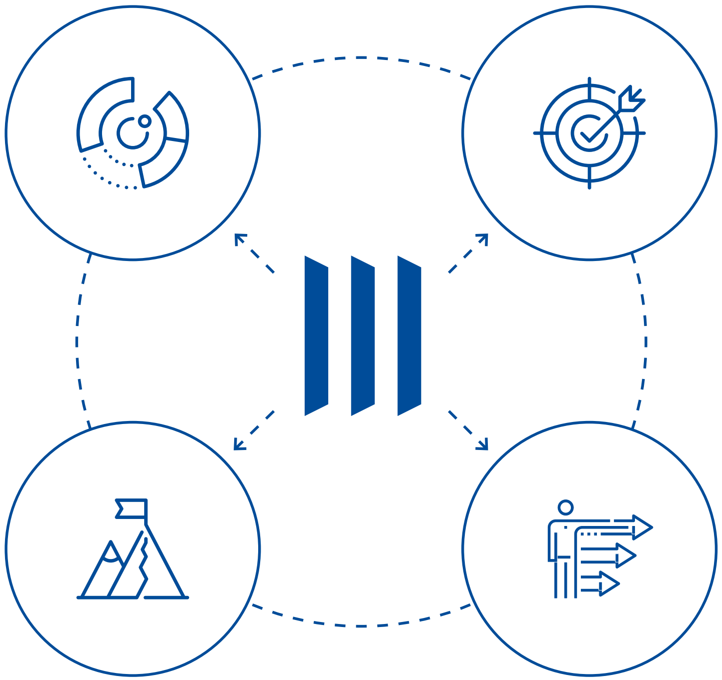
# Mission statement

## OUR VISION

**Developing real estate with passion**
Now and going forward, we are one of the largest developers of residential projects in Germany, delivering impressive properties of high quality and sustainable value. The foundation for our long-term success is our experience going back 30 years and our comprehensive expertise in the development of residential real estate in attractive locations.

## OUR MISSION

**Gain experience**
Instone Real Estate is a first mover in building a nationwide residential development platform in Germany. We are building on this basis and intend to continue our growth trajectory with the aim of creating housing in lively districts that is worth living in on a long-term basis.



## OUR AIM

**Successful player in the housing market**
With 413 employees and a professional management team, we are creating new residential housing in excellent locations throughout Germany, and will also tap into attractive B and C locations with a suitable new product. We are confident that our strategy and positioning will enable us to continue operating successfully on the housing market and to take advantage of suitable market opportunities in the long term.

## OUR VALUES

**Impressive success factors**
With our consistent focus on residential real estate, we have an efficient and coherent business model with clear structures. This is the reason why we are well placed to meet the challenges of modern residential construction and able to make the right decisions. As a result, in every project, we aim to be seen as a competent partner that wins over stakeholders through local presence, trust and reliability.

# TO OUR SHAREHOLDERS

# Letter to shareholders

*Dear Shareholders,*
*Dear Readers,*

The coronavirus pandemic has fundamentally changed society and our daily lives in the past financial year.

At the start of the COVID-19 outbreak in spring 2020 we quickly and decisively reacted to the new conditions unfamiliar to all of us at that time. The top priority from that point on was to safeguard the health of our employees, customers and suppliers. In a very short time we succeeded in transforming the way we work and shifting most of our staff, especially those working in the central service functions, to working remotely. Moreover, we instituted measures to protect our employees, particularly at construction sites, that sometimes greatly exceeded the legal requirements.

In making these changes we benefited from the active commitment and outstanding team spirit of our employees. The entire Management Board team is especially grateful to you for this – and for everything else we achieved together in the past financial year. Our early investments in our IT infrastructure and digitalisation of our processes also paid off in these unusual circumstances.

We additionally made temporary changes to the way we are implementing our business strategy. Due to the very high level of uncertainty regarding the further development and impact of the pandemic prevailing in spring, we decided to postpone the marketing of projects for the time being and to take steps to secure liquidity. The first step in this process was to refrain from further adding to our portfolio of projects. When the situation began to stabilise in summer, we quickly returned to growth mode, bolstering this effort with additional purchases.

Despite the historical downturn in German economic output in the first six months, we continued to successfully work on developing our strategic growth initiatives. Our innovative affordable housing product, with the first two projects heading for construction as early as 2021, now also enables us to target the mid-range price segment. This is a market segment with immense growth potential in the long term. Investors are already very interested in this product. We were able to sell the first project in Düsseldorf-Unterbach to a strategic investor at the end of 2020.

In addition, this promising growth potential has gained the confidence of the capital market. In September 2020 we successfully completed a capital increase, receiving net cash of around €175 million. We have earmarked these funds for uses including the accelerated expansion of our new business area.

German residential real estate is an asset class featuring a high degree of stability, making it one of the winners of this crisis. Even in a year that brought a sharp downturn in macroeconomic output, German residential real estate continued to see value growth. The continuing robust demand for residential space in large German metropolitan areas in the face of limited demand remains the structural driver of this development. Instone Real Estate is one of Germany's leading developers of residential real estate with a strong focus on attractive metropolitan areas and remains a major beneficiary of this sustainable growth trend.

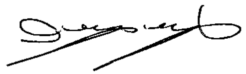
Our business model has proved largely stable in a difficult macroeconomic environment – nonetheless, the pandemic's impact left a short-term mark on our business performance for 2020. In particular, fewer sales in spring and the postponement of marketing had temporary negative effects on revenue in 2020.

With adjusted revenue of €480.1 million, we reached the targets we adjusted in the course of half-year financial reporting. On the earnings side, we were able even to outperform these targets with adjusted consolidated net income of €41.1 million. A high gross margin in comparison with the industry of 30.5% clearly underscores the quality of Instone Real Estate's project pipeline and our skill in executing projects. Based on the proposed distribution of €0.26 per share, we will also begin to pay a dividend as announced and enable our shareholders to directly participate in our Company's success. With a secured project portfolio totalling €6.1 billion as at 31 December 2020, we have built a strong foundation for future growth.

The effects of the second lockdown, which began in December, and the very high infection rates during the winter months continue to contribute to the uncertainties regarding future developments. In particular, with our projects it is anticipated there will be short-term delays in the approval processes.

Even giving due consideration to this uncertainty, we anticipate a significant upturn in growth for our Company in 2021. For 2021, we forecast adjusted revenue of €820 million to €900 million and adjusted consolidated net income after tax of €90 million to €95 million. Approximately 30% of this figure is expected to be distributed as a dividend.

At this point, we would like to express our heartfelt thanks to you, our shareholders, for the confidence you have shown in our Company. We will make every effort to ensure that our accelerated growth strategy continues to create substantial added value for you. GRI 102-14



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

# The Management Board

From left to right:

**Dr Foruhar Madjlessi**
Chief Financial Officer

**Andreas Gräf**
Chief Operating Officer

**Kruno Crepulja**
Chairman of the Management Board/CEO

# Management Board

## Management Board

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

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

Member of the Management Board since 13 February 2017; appointed until 31 December 2021

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

Dr Foruhar Madjlessi was appointed member of the Management Board/CFO of Instone Real Estate Group AG with effect of 1 January 2019. As a recognised capital market expert, he has extensive expertise in the field of corporate finance and an excellent personal network in the world of international investment. He was with Deutsche Bank AG for the past 12 years, most recently as Managing Director of the Equity Capital Markets (ECM) division for Germany, Austria and Switzerland (DACH). Prior to that, he was responsible for various functions for Merrill Lynch in Frankfurt/Main, London and New York.

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

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

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

Member of the Management Board since 13 February 2017; appointed until 31 December 2021.

# Supervisory Board report

*Dear Shareholders,*
*Dear Readers,*

Before I inform you about the work of the Supervisory Board and its committees in 2020, I would like to share a few observations about the past financial year.

We now reflect on a challenging financial year in which the coronavirus pandemic permanently affected our daily lives, our business and our work like no other event in recent decades.

The associated restrictions had an impact on our business processes in the year under review and brought considerable changes to our day-to-day operations at Instone Real Estate – whether on our construction sites, at our branches or in the course of the Management Board's and Supervisory Board's committee work. Despite all the adversity, the Management Board succeeded in steadily steering Instone Real Estate through the coronavirus pandemic and the resulting operational and economic upheaval and difficulties. In a very difficult macroeconomic environment dominated by uncertainty, we succeeded not only in securing liquidity for the course we had embarked upon, but also in reinforcing our foundation for further growth and investments by way of a successful capital increase and obtaining additional outside capital – a strong vote of confidence by our shareholders and our lenders for our management team and Instone Real Estate's business model. Our employees were the ones who made this possible, and I would like to thank them expressly for their extraordinary commitment, specifically under the difficult conditions of the coronavirus pandemic.

In the past financial year our Supervisory Board activities were driven besides the impact and consequences of the coronavirus pandemic on the Instone Group, especially by the rights issue approved in August and conducted very successfully in September. In addition, we focused on a number of corporate strategy issues such as the challenges of digital transformation for Instone's business and the enormous opportunities inherent in these key technologies. Another important issue for the Supervisory Board is the establishment of the Valuehome product, which was driven by the Management Board. This product uses standardisation and digitalisation to build high-quality, modern living units much more quickly at lower cost. This is a key topic in view of the urgent need for additional housing and the resulting societal challenges that also opens up new markets with substantial potential for Instone Real Estate. As in the prior year, the Supervisory Board additionally approved various large-scale property acquisitions and development projects, including the "Friedenauer Höhe" project in Berlin, which Instone Real Estate is building in conjunction with OFB Projektentwicklung and which is currently one of the largest real estate developments on the Berlin market. GRI 102-27

On behalf of the entire Supervisory Board, at this point I would like to thank you, our shareholders, for your confidence in our Company in the past financial year.

In the following, we will inform you about the work of the Supervisory Board and its committees in 2020.

The Supervisory Board fulfilled all the duties assigned to it by the law and the Articles of Association in the 2020 financial year. It monitored the Management Board's management of the Company and was available to advise the Management Board.

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

In the past financial year, the Supervisory Board held a total of 13 meetings and also met regularly without the presence of the Management Board, for instance when topics such as Management Board remuneration were discussed. In total, four resolutions were passed in writing. Due to the effects of the coronavirus pandemic, the majority of the meetings in 2020 were held virtually via video conferencing and with the use of an online boardroom. This allowed the Supervisory Board to continue its work without limitation throughout the coronavirus pandemic and manage the topics to be covered efficiently.

### Topics covered by the Supervisory Board and its committees

In its meeting on 29 January 2020, the Supervisory Board extensively reviewed the Company's planning and 2020 budget and after an in-depth discussion with the Management Board, approved these items.

On 13 February 2020 the Supervisory Board discussed a new project in Berlin presented by the Management Board and was able to tour the property on-site to obtain an overview of the planned project.

At the meeting on 28 February 2020, the Supervisory Board first reviewed another new project, this time in the Frankfurt/Main metropolitan area. Other topics covered at the meeting were the Company's digital transformation strategy and the lean management und lean construction activities pursued by the Management Board.

On 16 March 2020 the Supervisory Board meeting focused first on extensively discussing the audited annual financial statements and the consolidated financial statements, including the combined management report for the 2019 financial year, and then approving and adopting these. Moreover, the Supervisory Board reviewed the Report of the Supervisory Board to be presented to the Annual General Meeting. In the report of the Management Board to the Supervisory Board, the Management Board provided a detailed presentation of the current liquidity situation and planning, earnings performance, and the measures planned by the Management Board to deal with the effects of the coronavirus pandemic. Furthermore, the Supervisory Board discussed the Company's IT security plan.

On 30 April 2020 the Supervisory Board meeting concentrated on the agenda for and implementation of the 2020 Annual General Meeting as well as the resolutions by management to be proposed to the AGM. The Supervisory Board approved the Management Board's proposal to take advantage of simplified rules enacted by legislators to conduct the Annual General Meeting virtually. At this meeting the Supervisory Board also heard the regular report of the Management Board on the course of business, which focused on the effects of the coronavirus pandemic and the results of a stress test of the liquidity and funding situation performed in this context by the Management Board. Moreover, the Supervisory Board resolved to amend the Rules of Procedure of the Management Board and the Supervisory Board against the backdrop of implementation of the Second Shareholders' Rights Directive and the new version of the German Corporate Governance Code (GCGC). Without the presence of the Management Board, the Supervisory Board additionally approved the variable remuneration for the Management Board for financial year 2019 based on the recommendation of the Remuneration Committee.

In its meeting on 9 June 2020 the Supervisory Board focused on a follow-up discussion of the virtual AGM and deliberating on the Company's Corporate, Social and Responsibility (CSR) strategy.

On 1 July 2020 the Supervisory Board heard the regular report of the Management Board on the course of business, which concentrated on the current sales situation, the status of acquisition activities and cash flow in view of the coronavirus pandemic. The Supervisory Board additionally discussed in-depth the expansion of the Modular Planning and Construction business unit, in which Instone Real Estate is developing the Valuehome product, as presented by the Management Board.

In its meeting on 23 August 2020 the Supervisory Board extensively reviewed the rights issue proposed by the Management Board totalling 10 million no-par value shares and the planned use of the funds obtained from the capital increase. In this context, the Supervisory Board voted in favour of the steps decided by the Management Board for conducting a rights issue after an extensive discussion.

As early as 26 August 2020 the Supervisory Board again deliberated on the planned rights issue. At the meeting, it approved the resolutions subsequently proposed of the Management Board on conducting the capital increase, particularly including the use of authorised capital, determination of the subscription price and ratio and the necessary amendments to the Articles of Association, and signing of an underwriting agreement with the banks assisting with the issue.

On 3 September 2020 the Supervisory Board reviewed the “Friedenauer Höhe” project in Berlin. In addition, the Management Board reported on the feedback on the successful rights issue.

In its meeting on 15 October 2020, the Supervisory Board heard the regular report of the Management Board on the course of business. Furthermore, it discussed another new project in the Frankfurt/Main metropolitan area and the Management Board’s report on the investment of available liquidity, particularly the funds accruing to the Company from the capital increase. In addition to the personnel issues presented by the Management Board, including changes at the management levels below the Management Board and in connection with the Valuehome product, this meeting also focused on discussing and approving the reorganisation of the Company as a European public company (Societas Europaea – SE). The Chairman of the Audit Committee also reported on the work of the committee.

On 30 October 2020 the Supervisory Board meeting deliberated on the acquisition of a property for another development project in Hesse presented by the Management Board and voted in favour.

In its last meeting of the financial year on 8 December 2020 the Management Board gave its regular report on the course of business and presented the Company’s preliminary planning for the 2021 financial year to the Supervisory Board, which discussed this in-depth with the Management Board. In addition, the Supervisory Board deliberated on various governance issues, including the determination of new targets for gender quotas in the Management Board and Supervisory Board, and approved the Declaration of Conformity with the GCGC. The Supervisory Board also reviewed the personal targets of the Management Board members for financial year 2021 and the draft of an updated remuneration system for Management Board members to be presented to the 2021 AGM.

The four Supervisory Board resolutions passed in writing in the previous financial year related to an amendment of the Management Board’s organisational chart, the election of a deputy meeting chairman for the Annual General Meeting and obtaining a promissory note loan for Company financing in addition to approval for a property acquisition presented by the Management Board.
GRI 102-28

### Trusting cooperation between the Management Board and the Supervisory Board

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

As in the prior financial year, the Supervisory Board also discussed strategic issues and issues relating to innovation, such as the development of the Modular Planning and Construction unit and the significance of the digital transformation strategy, in addition to its meetings – this time in November, and strictly virtually due to the conditions dictated by the pandemic.

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

Business and transactions requiring the consent of the Supervisory Board pursuant to the Articles of Association and Rules of Procedure of the Management Board were submitted to the Supervisory Board for resolution by the Supervisory Board and discussed in detail with the Supervisory Board prior to the resolution. This was particularly the case for new projects acquired by the Management Board, financing measures in connection with the reorganisation of corporate financing and the utilisation of authorised capital for conducting the rights issue.

**Supervisory Board 2020/Overview of meeting participation**

| | Stefan Brendgen | Dr Jochen Scharpe | Marija Korsch | Dietmar P. Binkowska | Thomas Hegel | Written SB resolutions |
|---|---|---|---|---|---|---|
| **Supervisory Board meeting** | | | | | | |
| 29/01 | Yes | Yes | Yes | Yes | Yes | |
| 13/02 | Yes | Yes | Yes | Yes | Yes | |
| 28/02 | Yes | Yes | Yes | Yes | Yes | |
| 16/03 | Yes | Yes | No | Yes | Yes | |
| 30/04 | Yes | Yes | Yes | Yes | Yes | |
| 09/06 | Yes | Yes | No | Yes | Yes | |
| 01/07 | Yes | Yes | No | Yes | Yes | |
| 23/08 | No | Yes | Yes | Yes | Yes | |
| 26/08 | Yes | Yes | Yes | Yes | Yes | |
| 03/09 | Yes | Yes | Yes | No | Yes | |
| 15/10 | Yes | Yes | Yes | Yes | Yes | |
| 30/10 | Yes | Yes | Yes | Yes | Yes | |
| 08/12 | Yes | Yes | No | Yes | Yes | |
| **Total** | **12/13** | **13/13** | **9/13** | **12/13** | **13/13** | **4** |
| **Audit Committee** | | | | | | |
| 29/01 | Yes | Yes | | | Yes | |
| 16/03 | Yes | Yes | | | Yes | |
| 30/04 | Yes | Yes | | | Yes | |
| 01/07 | Yes | Yes | | | Yes | |
| 01/09 | Yes | Yes | | | Yes | |
| 07/12 | Yes | Yes | | | Yes | |
| **Total** | **6/6** | **6/6** | | | **6/6** | **2** |
| **Remuneration Committee** | | | | | | |
| 30/04 | Yes | | Yes | Yes | | |
| 08/12 | Yes | | No | Yes | | |
| **Total** | **2/2** | | **1/2** | **2/2** | | **0** |
| **Nomination Committee** | | | | | | |
| **Total** | **0/0** | **0/0** | | **0/0** | | **0** |

## Supervisory Board composition and meetings

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

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

## Members of the Supervisory Board during the period under review

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

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

→ Marija Korsch
(member since 13 February 2018)

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

→ Thomas Hegel
(member since 12 April 2019)

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

The list of individual attendance at meetings of the Supervisory Board and Supervisory Board committees is shown page 32 and can also be found on the ↗ Company's website.

## Supervisory Board committees

In order to streamline the work of the Supervisory Board, the Supervisory Board had three standing committees with various responsibilities in the 2020 financial year, each of which has three members in accordance with the Rules of Procedure of the Supervisory Board: the Nomination Committee, the Audit Committee and the Remuneration Committee. Other committees may be set up by the Supervisory Board as required. The committees prepare the deliberations and resolutions of the plenum in their areas of responsibility. In addition, they make decisions in the context of various tasks defined in the Rules of Procedure of the Supervisory Board, insofar as the Supervisory Board has delegated these tasks to the relevant committee in the Rules of Procedure.

### Audit Committee

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

The Audit Committee prepares the resolutions of the Supervisory Board relating to the annual financial statements and the consolidated financial statements. It is primarily responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements, as well as the preparation of their approval and adoption, and the preliminary examination of the profit appropriation proposal of the Management Board. Furthermore, the Audit Committee prepares the agreements with the auditor, in particular the appointment of the auditor, the determination of audit priorities and the fee agreement, as well as the engagement of the auditor by the Annual General Meeting. This also includes consideration of the necessary independence, whereby the Audit Committee takes appropriate action to ascertain and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee decides on the approval of contracts with external auditors with regard to additional advisory services, insofar as these agreements require approval of the Supervisory Board, and on the approval of transactions with related parties in accordance with Section 107 (3) Sentence 4 in conjunction with Section 111b (1) of the German Stock Corporation Act.

Members of the Audit Committee in financial year 2020 were:

- Dr Jochen Scharpe (Chairman)
- Stefan Brendgen
- Thomas Hegel

The Chairman of the Audit Committee is independent, has specialist knowledge and experience in the adoption of accounting principles and internal control procedures and thus fulfils the requirements of Section 100 (5) of the German Stock Corporation Act and the GCGC. In addition, the Chairman of the committee is also familiar with the principles and specifications and the procedure of the audit.

In the 2020 financial year, the Audit Committee held a total of six meetings and passed two written resolutions. Among the topics that the Audit Committee dealt with during the period under review were the accounting principles adopted by Instone Real Estate, preparation of the resolutions of the full Supervisory Board on the annual financial statements and consolidated financial statements for the financial year 2019 together with the combined management report, as well as on the proposal for the appointment of the auditor made to the Annual General Meeting. In addition, the Audit Committee's deliberations included the discussion of the financial reporting during the year, sustainability and CSR reporting, the discussion and approval of non-audit services by the auditor, the appointment of the auditor for the reorganisation of the Company into an SE and the auditor's audit priorities for the financial year 2020. In addition, the Audit Committee dealt intensively with the risk management system and the Company's internal audit activities. The preliminary planning for 2020 was also discussed by the Audit Committee during preparatory meetings prior to its presentation to the plenum.

### Nomination Committee

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

Members of the Nomination Committee in financial year 2020 were:

- Dietmar P. Binkowska (Chairman)
- Stefan Brendgen
- Dr Jochen Scharpe

In the previous financial year, the Nomination Committee held no meetings and passed no resolutions. The Chair of the Nomination Committee is independent.

### Remuneration Committee

The Remuneration Committee advises on the employment contracts of the members of the Management Board and prepares, among other things, the resolutions of the Supervisory Board on determining the personal targets of the individual members of the Management Board and, after the end of the relevant financial year, the degree to which targets were achieved.

Members of the Remuneration Committee in financial year 2020 were:

- Marija Korsch (Chairwoman)
- Stefan Brendgen
- Dietmar P. Binkowska

In the 2020 financial year, the Remuneration Committee met twice. In particular, the committee dealt with the preparation of the Supervisory Board resolution on determining the variable remuneration of members of the Management Board for the 2020 financial year, the personal targets of the members of the Management Board for the 2021 financial year and the draft for an updated Management Board remuneration system. The Chair of the Remuneration Committee is independent.

## Corporate governance and Declaration of Conformity

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

This concerns, for example, the Management Board's organisational chart, determination of gender quotas for the Management Board and Supervisory Board, and implementing the amendments to the German Stock Corporation Act through the Second Shareholders' Rights Directive.

In December 2020 the Management Board and Supervisory Board of Instone Real Estate Group AG issued a joint Declaration of Conformity with the recommendations of the German Corporate Governance Code in accordance with the provisions of Section 161 of the German Stock Corporation Act after in-depth deliberations. It is included in the Annual Report 2020 on p. 154 f and can also be found on the Company's website in the Investor Relations section under Instone Compliance Statement.

The Management Board and Supervisory Board also report in detail on the corporate governance of Instone Real Estate Group AG in the Corporate Governance Statement pursuant to Sections 289f, 315d of the German Commercial Code, which can be found on p. 154 f of this Annual Report. The declaration on corporate governance can also be found on the Company's website in the Investor Relations section.

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

## Personnel changes in the Management Board and Supervisory Board

In the 2020 financial year there were no personnel changes in the Management Board and Supervisory Board.

## Audit of annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, was elected as auditor of the annual financial statements and consolidated financial statements for the 2020 financial year by the Annual General Meeting of the Company and commissioned by the Supervisory Board. The focal points of the audit were discussed in detail with the auditor at the Audit Committee meeting on 1 September 2020 and established accordingly.

The consolidated financial statements for the 2020 financial year were prepared on the basis of the International Financial Reporting Standards (IFRSs) as adopted in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code.

The auditor provided its report and the documentation relating to the financial statements for the financial year 2020 to the members of the Audit Committee and Supervisory Board on 12 March 2021.

The report was discussed in detail at the Audit Committee meeting and the financial statements review meeting held by the plenary Supervisory Board on [12 March 2020]. The auditor was present at both meetings. The auditor provided detailed reports on the main findings of the audit at the meetings and answered all the questions posed by members of the Audit Committee and the plenum. In addition, the auditor provided information about services provided by it in addition to the auditing services. There was no evidence of bias on the part of the auditor.

Our company
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Shares
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The auditor issued an unqualified opinion on the annual and consolidated financial statements for 2020 and the combined management report on 12 March 2020. Following a detailed review of the annual financial statements, the consolidated financial statements and the combined management report as at 31 December 2020 by the Audit Committee, the latter recommended its approval to the plenum. Per the final result of its own examination, no objections were raised by the Supervisory Board. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements have therefore been adopted. The Supervisory Board examined in detail the proposal of the Management Board to the 2020 Annual General Meeting on the appropriation of the annual net profit and agreed, having considered the interests to be taken into account.

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

Essen, 12 March 2021

For the Supervisory Board

Stefan Brendgen
Chairman of the Supervisory Board

# Equity Story

## Top market position in the most desirable metropolitan areas:

As one of Germany's leading residential real estate developers, Instone Real Estate benefits from a combination of structurally high demand and low availability of housing.

Instone Real Estate is represented with operations throughout Germany focussing on attractive locations in Germany's most important metropolitan areas. The Company possesses a great deal of expertise in-house and covers the entire value chain – an important competitive factor. Value is generated by activities ranging from purchasing and developing property to planning and providing construction services to selling homes. This extensive expertise is also reflected in a gross margin of **30.5%**, which puts Instone Real Estate at the top of the industry.

## Product innovation in cost-effective construction holds promise of additional growth:

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

Developing this new business area is a material pillar of the growth strategy for which a sharp increase in revenue of **€1.6** to **1.7** billion has been forecast for the coming years.

## Current project portfolio secures revenue for the coming years:

The project portfolio secured as at 31 December 2020 with a gross development value of **€6.1 billion** offers a clear look at future income.

Of this €6.1 billion, projects totalling a sales volume of **€2.6 billion** are ready for or already in the construction phase. Of these, housing accounting for a sales volume of **€2.3 billion** were already sold as at 31 December 2020. This means that the forecast revenue for the coming years has already largely been secured. Instone Real Estate's shareholders also benefit from the prospect of an attractive dividend yield with considerable future growth potential. Based on the current earnings forecast for 2021, the dividend yield already amounts to **2.8%** based on the closing price for the 2020 financial year.

## Growth strategy underpinned by a strong balance sheet:

Strong balance sheet ratios build a solid foundation for sustainable growth. The low debt ratio as at the reporting date is reflected in the leverage ratio of **2.8 x** (net financial liabilities/EBITDA) and a loan-to-cost-ratio of **25.7%**.

## Experienced management:

A vital success factor for unlocking growth potential and minimising risks in the development business is our experienced management team. With a total of over 40 years of industry experience, Instone's Management Board has in-depth knowledge of the entire project development value chain, along with familiarity with the regional markets relevant to Instone Real Estate and a deep-rooted long-standing industry network.

# Shares

## Instone share price finishes year up slightly

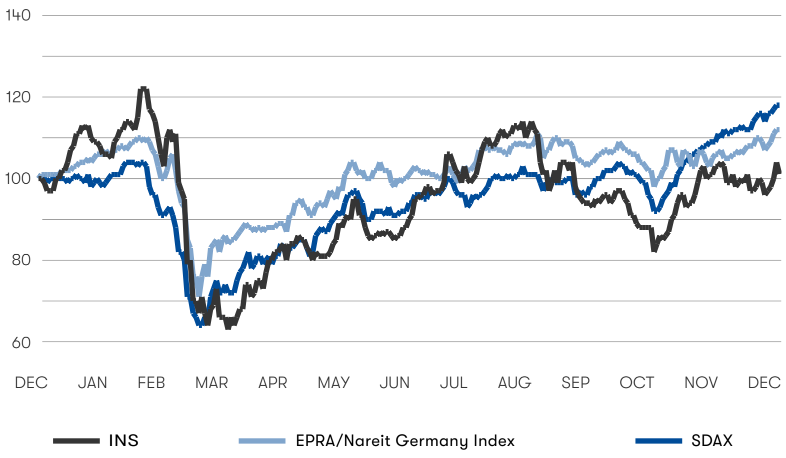
Stock markets across the globe experienced a very volatile 2020, which many international indices were ultimately able to close out at new highs, despite the seriousness of the coronavirus pandemic. In the first quarter, the German equities market reacted to the global spread of COVID-19 and the associated economic effects with a sharp downturn. The rapid and extensive emergency measures put in place by governments and central banks led to a fast reversal of share prices back up to pre-crisis levels. Although negative news during the latter part of the year, such as the second wave of the pandemic with a rapidly increasing number of infections, the return of hard lockdowns, and a downturn in various economic indicators, adversely affected the equities market at times, hope for a quick end to the pandemic as a result of the successful development of highly effective COVID-19 vaccines, their fast approval in some countries, and the immediate start of vaccination drives won out. This led to further increasing share prices at year-end, with the DAX up by a total of 3.5% and the SDAX even experiencing a gain of 18.0% year on year.

Instone's share prices was very volatile on the whole in this environment. After a very robust start to the year, Instone shares reached their high for the year of €25.43 on 20 February 2020[1]. Following a dive in share prices worldwide, Instone's share also gave up ground and hit its low for the year of €13.19 on 1 April 2020[1]. Starting in the second half of March, the stock markets stabilised once again and Instone Real Estate saw its share price rise disproportionately in the course of the summer compared to the SDAX. Investors thereby acknowledged the resilience of Instone's business model in times of crisis. The capital increase performed in September for the purpose of financing growth put pressure on our share price in technical terms, but this effect receded in parallel with the development of the market as a whole by the end of October. At the end of the year, Instone's share price again rose substantially, mainly due to positive business performance and growth prospects and was able to close out the year up slightly by 1.1%, taking into account the effect of the rights issue.

Chiefly due to the issue of new shares, Instone Real Estate's market capitalisation increased from €816 million in the previous year to €987 million at year-end 2020.

**Share price performance from 1 January 2020 to 31 December 2020** As at 31 Dec. 2020

Indexed, 31 Dec. 2019 = 100%

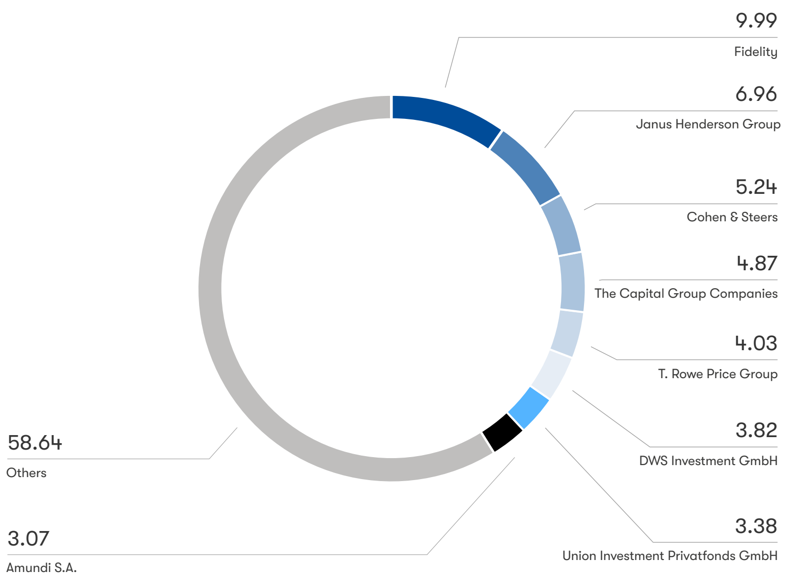



(Source: Deutsche Börse, EPRA)

[1] Historic prices adjusted for the effect of the rights issue.

**Major shareholders** As at 31 Dec. 2020

Share in %




(Source: Voting rights notices according to the German Securities Trading Act)

## 10.0 million new shares placed successfully

In September, 10.0 million new shares were placed at an issue price of €18.20 per share in the course of a rights issue. Less costs, the proceeds amounted to around €175.0 million. The vast majority of our shareholders exercised their subscription rights which underscores their confidence in the accelerated growth strategy we are pursuing. A total of less than 16% of all subscription rights were traded. The number of shares rose from 36,988,336 to 46,988,336. The new shares carry full dividend rights retroactively to 1 January 2020.

## Diversified shareholder structure with quality investors GRI 102-25

Our shareholder structure diversified further over the past year. The largest institutional investors include numerous well-known German and international asset managers and pension plans seeking longer-term growth prospects. According to Deutsche Börse's definition, 100% of Instone's shares remain in free float. GRI 102-5

## Extensive investor relations activities

Active and transparent communication with capital market participants is at the core of investor relations activities at Instone Real Estate. A key element here is the face-to-face dialogue conducted by the Management Board and Investor Relations department with investors and analysts.

Investor relations activities were also dominated by the coronavirus pandemic in the previous financial year. Nonetheless, we continued to take the opportunities we could to remain in close contact with capital market participants and share information on our business performance and strategy. From mid-March on, all roadshows and events were held virtually. These included the Annual General Meeting and Capital Markets Day. Other events such as site visits to construction projects with investors had to be cancelled due to travel restrictions. In total, the Management Board held 21 virtual roadshows in Europe and North America in the past year and participated in ten investor conferences. We also participated in a forum in Frankfurt/Main in the spring that was aimed primarily at private investors.

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

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

In addition, we were able to increase the number of research departments reporting on the Company. These now include Mainfirst, Credit Suisse and Commerzbank. A total of eight analysts now regularly prepare research on our shares. Currently, all these analysts have issued a buy recommendation for Instone's shares with a share price target of €30.00 (as at January 2021). The current ratings and share price targets can be found on our Investor Relations website.

In the financial year under review, the Management Board reported in regular conference calls on the current financials and operational developments at the end of each quarter. Recordings of the conference calls are available to all interested parties on our Investor Relations website. The vast majority of conversations with shareholders, financial analysts and institutional investors focused on the Company's performance in view of the coronavirus pandemic. Moreover, Instone Real Estate's accelerated growth strategy and the market launch of the new product also attracted the attention of investors.

Our product for the construction of affordable housing was also the core topic at our virtual Capital Markets Day on 25 June 2020 at which we hosted more than 40 participants. All current information about the Company such as presentations, financial reports, and press releases and ad hoc notifications can be found on ↗ Instone website in the Investor Relations section.

## Appropriation of profits

The Management Board and Supervisory Board will propose to the Annual General Meeting on 9 June 2021 that a dividend of €0.26 per no-par value share carrying dividend rights be paid. In addition, the Management Board continues to pursue its goal of distributing around 30% of the adjusted earnings after tax (EAT) to the shareholders in the long term.

## Basic information about the shares

| | |
|---|---|
| Initial listing | 15/02/2018 |
| Total number of shares | 46,988,336 |
| Registered capital | €46,988,336 |
| Free float | 100% |
| ISIN | DE000A2NBX80 |
| WKN | A2NBX8 |
| Ticker symbol | INS |
| Share type | No-par value bearer shares |
| Stock market | Frankfurt Stock Exchange |
| Market segment | Regulated Market (Prime Standard) |
| Indices | SDAX |
| Xetra closing price (31 December 2020) | €21.00 |
| Market capitalisation (31 December 2020) | €987 million |
| Xetra high (20 February 2020) [1] | €25.43 |
| Xetra low (1 April 2020) [1] | €13.19 |
| Average daily trading volume | €1.35 million |

[1] Historic prices adjusted for the effect of the rights issue.

# SUSTAINABILITY REPORT
## (UNAUDITED)

# Editorial/Foreword by the CFO

Instone Real Estate is a successful player in the German capital market and has positioned itself as a reliable partner in the real estate industry. In this context, our identity includes helping lead the way in the development of an environmentally sustainable economy featuring social responsibility and good corporate governance. We want to make a clear commitment to fulfilling our social responsibility with our projects and our general business activities.

Dr. Foruhar Madjlessi
CFO
Instone Real Estate

Instone Real Estate began reporting more extensively on sustainability based on the GRI Standards in its annual reports in 2019. In the past financial year we greatly expanded the information we provide, as evidenced by the following report. The focus of our work was developing and implementing a sustainability strategy and sustainability management system for our Company as well as putting into place the corresponding reporting systems.

GRI 101; 102-2; 102-54

In the area of sustainability, we set a material strategic target of significantly reducing $CO_2$ emissions in future. This will involve conducting a successive analysis of our environmental footprint, which is already at a good starting point, and improving it further.

**Dr Foruhar Madjlessi**
Chief Financial Officer

# Importance of sustainability at Instone Real Estate

## Sustainability vision

**We are committed to fulfilling our social responsibility: the environment, society and economy are the foundation of our business activities. They all carry equal weight and are taken into account in everything we do. As a company, we aim to achieve lasting business success while at the same time taking responsibility for people and the environment.**

From our perspective, doing business sustainably is the best way to achieve stable, lasting success. We are confident that the Group has therefore chosen a business model that is fit for the future, because the development of residential space plays a central role in a sustainable society that provides a liveable future for subsequent generations.

The Management Board of Instone Real Estate has made sustainability a key pillar of the corporate strategy.

Careful planning and consideration of investments and activities are essential in Instone projects. Defining sustainability targets usually requires greater human and financial resources, which we plan with care. In order to further advance the business model, Instone Real Estate continually invests in the development of its employees and projects. Another priority is communication targeted specifically at our Company's various stakeholders.

Quality is another integral component of sustainability, and therefore also of our sustainability strategy. After all, high-quality projects have a longer life and therefore contribute to protecting the climate. We construct our residential properties to last, which conserves valuable resources and in turn preserves the environment and climate. Quality is also a parameter relevant for facilitating and ensuring customer satisfaction. Currently, we collect information on customer satisfaction using surveys for the acceptance of individual projects. In future, this process will be digitalized and conducted on an ongoing basis. For Instone Real Estate, quality also means applying best-in-class standards to our processes and activities.

We will achieve our goals only when our customers are satisfied with our projects and services, and our employees feel comfortable at the Company, and are invested the Company's goals and actively participate in implementing them.

GRI 102-16; 102-19

Sustainability is an integrated element of all corporate activities.

## GUIDING PRINCIPLES FOR OUR BUSINESS POLICIES AND ACTIVITIES:

### Responsibility

Instone Real Estate is committed to fulfilling its environmental, social, and economic responsibility. This commitment forms the foundation of our business activities.

### Customers

Our customers are our main focus. We deliver them sustainable products and reliable quality.

### Environment

Environmental and climate protection and resource usage are factors evaluated and taken into account in all project developments and carefully considered in relation to climate action goals.

### Economy

Instone Real Estate strives to grow based on a strategy oriented towards long-term business success.

### Employees

Our employees are our Company's main asset. The cornerstones of Instone's corporate culture are trust and respect as well as working together to achieve the goals we have set.

### Projects

Our aspiration is to develop projects precisely tailored to meet the needs of our customers with environmentally, socially and economically sustainable qualities.

### Partners

We generate ideas and leading-edge processes to benefit sustainable corporate development through our collaboration with associations, start-ups, organisations, municipalities and other groups in society.

### Contractual partners

Instone Real Estate maintains long-standing, collaborative partnerships with its contractual partners based on a common set of values.

### Communication

Instone Real Estate maintains a continual dialogue with external stakeholders and employees, and regularly communicates its goals, achievements and activities in a transparent and truthful manner.

## Sustainability strategy

Instone Real Estate Group AG considers the integration of sustainable action into all business activities as a core component of meeting its responsibility to society and supporting global climate goals. We want to be perceived by our stakeholders as a company with a strong focus on sustainability that respects all the relevant criteria: Environmental (E), Social (S), Governance (G). GRI 101

## Activities in 2020

The focus of our work in 2020 was on developing and implementing a sustainability strategy and sustainability management system for our Company. We have already begun putting into place the corresponding reporting systems. This involves reviewing our business and risk strategies on an ongoing basis and updating them accordingly, as well as initiating and adapting the associated processes to guarantee seamless documentation and expansion of these systems.

Clear ESG goals.

## Targets

Incorporating ESG criteria and targets into incentives for the top management level (Management Board) will be agreed and implemented by the Supervisory Board and Management Board in 2022 by the latest and expanded to other levels in subsequent years. The auditability of the report will be pursued further. GRI 102-56

One of Instone Real Estate's material strategic goals in the area of sustainability is to support the climate targets for reducing $CO_2$ emissions set by the UNFCCC (United Nations Framework Convention on Climate Change) and the government of the Federal Republic of Germany. Instone Real Estate has committed to carbon neutrality in the medium to long term (2050). In the short to medium term (2030), for all our projects we are aiming to achieve a high energy efficiency standard equivalent to the current KfW 40 standard.

By expanding our product portfolio to include affordable housing construction, we are adding activities to meet our social and corporate responsibility for minimising the housing shortage. By 2030, Instone Real Estate aims to build every year more than 2,000 housing units in the area of affordable and subsidised housing.

In financial year 2021, we are striving to improve our existing ESG ratings and obtain our own external ESG rating, something we have initiated.

Our company

To our shareholders

Sustainability report (unaudited)

Editorial/Foreword by the CFO

Importance of sustainability at Instone Real Estate

Governance – Corporate governance at Instone Real Estate

Social – People at and with Instone Real Estate

Environment – Climate action and environmental protection at Instone Real Estate

Combined management report

Consolidated financial statements

All key factors are summarised in the following overview:

| | 2020 | 2019 | Targets | Status |
|---|---|---|---|---|
| **Environmental** | | | | |
| KfW 55 residential units in the portfolio | ~65% | n/a | By 2030, we aim to achieve a high energy efficiency standard for 100% of our projects, which is equivalent to today's KfW40 standard | ◐ |
| Parking spaces with charging stations | ~330 | n/a | We continually increase the number of charging stations in our projects in conjunction with municipalities and regional electric utilities. | ◐ |
| Powered with renewable energy* | ~13% | n/a | By 2030 we will increase the use of renewable energies to at least 40%. | ◐ |
| Brownfield developments (site area in m²) | 830,000 | 780,000 | We will continue to channel our high level of expertise into acquiring brownfield sites and transforming them into attractive neighbourhoods. | ◐ |
| **Social** | | | | |
| Diversity – percentage of women in management levels 1/2 | 25%/22% | 0%/22% | | ◐ |
| Employee satisfaction | 75% | n/a | The aim is to reach at least this level over the next few years and to improve on it. | ◐ |
| Employees subject to social insurance contributions | 413 | 375 | | ◐ |
| Of which subject to collective bargaining agreements | 259 | 186 | | ◐ |
| Of which not subject to collective bargaining agreements | 154 | 189 | | ◐ |
| State-subsidised/price-controlled residential units | 2,085/234<br>15%/2% | 1,404/266<br>12%/2% | | ◐ |
| Code of Conduct obligation | 100% | 100% | Target is maintaining a ratio of 100%. | ● |
| Daycare centre/school places | 1,690/1,300 | 1,555/n/a | | ◐ |
| **Governance** | | | | |
| Share of independent SB members | 100% | 100% | We intend the Supervisory Board to remain 100% independent. | ◐ |
| Total remuneration of the Supervisory Board | €462 thousand | €425.7 thousand | | ◐ |
| Variable Supervisory Board remuneration components (of total) | €0 | €0 | | ◐ |
| Total remuneration of the Management Board | €2,792 million | €2,803 million | | ◐ |
| Variable Management Board remuneration components | €1,540 million | €1,540 million | | ◐ |
| Ratio salary Management Board/employees** | 5.1x | 4.8x | | ◐ |
| Potential compliance incidents | 2 | 0 | The aim is to react at short notice and appropriately to potential compliance incidents. | ◐ |
| E-training – Compliance | 96% | 97% | Target is 100% completion of the course. | ◐ |
| E-training – Data protection | 96% | 97% | Target is 100% participation in the course. | ◐ |

* Geothermal, photovoltaic, pellet
** In relation to the fixed salary.

○ Started ◐ Ongoing ● Target achieved

In the 2019 Annual Report Instone Real Estate began to align its reporting with the GRI "Core" standards currently in place. We are continuing this method of reporting, expanding it considerably in the current Annual Report.

In addition, Instone Real Estate will commit to the United Nations' Sustainable Development Goals (SDGs) and report on the SDGs relevant to our Company for the first time. In the coming year, we will supplement this effort by instituting, expanding and validating this commitment with additional activities.

In this context, we have already modified our existing Code of Conduct to include compliance with human rights and child labour prohibitions based on the UN Charter.

We set up a separate sustainability section on our website at ↗ www.instone.de/sustainability to ensure a high degree of transparency with regard to ESG activities and changes. This section went live with the publication of the 2020 Annual Report. The Company will also add an information page to the intranet to increase employee engagement. It will feature progress reports on the Company's sustainability efforts on the one hand and an option for our employees to also contribute their ideas on the other. GRI 102-50; 102-52

## Materiality analysis

In 2020, we identified and prioritised Instone Real Estate's material topics for the first time for the purpose of preparing this Sustainability Report. During this process, the initial priority was to take into account the expectations of stakeholders within the Company and the requirements Instone Real Estate has set for itself to ensure long-term success. We have provided a qualitative description of the topics identified in this process in a stakeholder matrix. page 51

The topics presented in the matrix provide the basis for the materiality analysis, which represents the further development of our ESG topics and reporting according to GRI Standards. In the current financial year 2021, we will conduct targeted analyses (environment analysis and stakeholder analysis) to record various viewpoints, and prioritise the material topics and transpose them into a materiality matrix. Subsequently, we will update and supplement the stakeholder matrix based on the survey results. GRI 102-40

## Sustainable Development Goals

The United Nations General Assembly adopted 17 Sustainable Development Goals (SDGs) at the Sustainable Development Summit in New York on 25 September 2015. Instone Real Estate would like to make a positive contribution to attaining these goals. To this end, in the year under review, we first analysed the action areas relevant to the Company and assigned them a priority, then determined which material business activities of Instone Real Estate contribute to these. In the coming financial year, we will analyse and review which activities have tangible effects on the goals we have set and develop the corresponding activities.

In this context we must take into account the fact that not all the 17 SDGs are equally relevant for Instone Real Estate. As a medium-sized company whose project development activities are not global, Instone Real Estate can make a more significant contribution to some SDGs than others.


We want to make a contribution to achieving the SDGs; from 2021 we will develop specific measures to do so.

## Action areas

We prioritised the 17 UN Sustainable Development Goals as follows according to the degree of impact Instone Real Estate can have on them:

### Major influence

3 GOOD HEALTH AND WELL-BEING

- In 2020 e.g. COVID-19 measures for contractual partners, customers and employees that exceed the statutory requirements
- Provision of fresh fruit at our locations
- Promotion of sports programmes at our locations (not yet at all locations)
- Workplace and safety instructions
- Company doctor (e.g. occupational medical check-ups)
- Health insurance
- Low rate of accidents at/during work

8 DECENT WORK AND ECONOMIC GROWTH

- (Amended) Code of Conduct concerning compliance with human rights standards and child labour prohibitions
- Compliance with minimum wage guidelines and proof from sub-contractors
- Workplace design for our employees (e.g. office equipment, remote work option, etc.)

11 SUSTAINABLE CITIES AND COMMUNITIES

- Support for municipalities in sustainable land use planning for developing sustainable neighbourhoods
- Neighbourhood development projects such as Schönhofviertel
- Urban development concepts

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

- Amendment of company car policy → Promotion of hybrid and electric vehicles
- Works agreement on remote working
- Reduction in paper consumption by using digital alternatives
- Working with companies specialised in waste management and recycling during demolition activities
- Medium-term goal of $CO_2$ reduction

13 CLIMATE ACTION

- Creation of high-quality ecological areas to compensate for surface sealing
- Brownfield developments
- Promotion of biodiversity
- Relocation of flora and fauna

15 LIFE ON LAND

- Responsible stewardship of all resources
- Construction of appealing residential properties and/or neighbourhoods
- Contribution to social responsibility to ease the housing shortage
- Support for creating infrastructure

### Moderate influence

4 QUALITY EDUCATION · 5 GENDER EQUALITY · 6 CLEAN WATER AND SANITATION · 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS · 17 PARTNERSHIPS FOR THE GOALS

### Minor influence

1 NO POVERTY · 2 ZERO HUNGER · 7 AFFORDABLE AND CLEAN ENERGY · 10 REDUCED INEQUALITIES · 14 LIFE BELOW WATER

# GOVERNANCE

**2020: We plan to distribute a dividend for the first time. For 2021, we also want to distribute a dividend.**

In 2021 we will carry out a survey with selected external stakeholder groups and integrate the results in our stakeholder matrix

One general and three regional works councils ensure that the interests of employees are represented.

2021: Definition of the measures for the

**TOP 6**

priority SDG action areas.

**100%**

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

**2021 we will establish a digital customer satisfaction analysis conducted on an ongoing basis.**

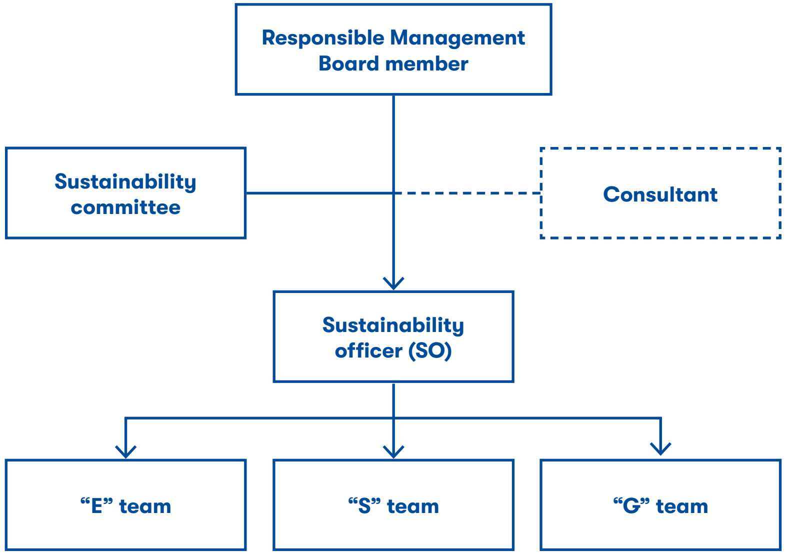
**In 2021, we are striving to obtain an external rating, something we have initiated.**

**ESG goals will be incorporated into the incentives for the Management Board by 2022 at the latest.**

# Governance – Corporate governance at Instone Real Estate

## Sustainability management

The Management Board member responsible for sustainability is our CFO, Dr Foruhar Madjlessi. We have also established a sustainability committee as a central point for consolidating and discussing all issues and initiating the activities relevant to this topic. GRI 102-20




## Stakeholders

The stakeholder groups relevant for our business activities are investors and shareholders, business partners (such as sub-contractors, suppliers, service providers), employees both current and future, legislators and government authorities, municipalities as well as customers and the public. By maintaining close contact with our stakeholders, we can document and review the issues and standards important to our stakeholders with regard to our sustainability targets and activities at an early stage and use these to derive new standards. This input helps us to develop Instone Real Estate's short-term and long-term goals.

We maintain a regular and open dialogue with our investors and shareholders. In order to integrate relevant social and economic stakeholder groups into the sustainability process and promote a continual exchange of ideas, we participate in various associations, such as the German Property Federation (ZIA), the Federal Association of Independent Real Estate and Housing Companies (BFW) and the ICG page 55. GRI 102-12

The relevant stakeholder groups are identified for each project or, at a higher level, for topics relevant to the Company.

Starting in the coming financial year, we will also conduct direct surveys of individual stakeholder groups to learn more about their aspirations and goals and incorporate this information into further project and company developments. These stakeholder groups will in any case include our shareholders and customers. The sustainability team will initiate this effort to identify current developments and new requirements at an early stage and integrate these into the sustainability process as needed. The results of these surveys will also be used to update our materiality matrix.

Within the Company we defined our material sustainability topics based on the employee survey and employee interviews at the various locations and in various departments. In future participation by our employees will continue to be a key component of our sustainability strategy and the associated communication strategy.

Our company
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We have noted growing demand among all stakeholder groups for sustainability activities on the part of our Company. Therefore, we will provide a steady stream of information in media including our Annual Report, the Instone website and our Company's intranet. At the same time, we will use these channels to collect suggestions from our stakeholders and incorporate these into our activities.
GRI 102-16; 102-21; 102-40

| Stakeholder group | Action areas and potential topics | Communication/dialogue format |
|---|---|---|
| Shareholders/lenders/institutional investors | · Sustainability strategy, continual improvement of status quo<br>· Including ESG criteria in the future orientation of the Company<br>· Compliance with EU regulations on funding security for projects<br>· Taking into account future $CO_2$ pricing | · Face-to-face discussions and conference calls<br>· Presentations<br>· Investor conferences, roadshows and property tours<br>· Press releases<br>· Annual General Meeting<br>· Annual reports/quarterly reports<br>· Exchange of data and information<br>· Sustainability report |
| Customers | · Acquiring long-standing and sustainable properties at an acceptable cost-benefit ratio<br>· Streamlined, service-oriented communication (good accessibility, fast reaction times)<br>· Connections to local public transportation, car sharing, charging stations<br>· Optimising operating costs | · Website – Company and projects<br>· Social media<br>· Direct conversations with customers<br>· Customer portal<br>· Customer management<br>· Sales events<br>· Real estate portals<br>· Showrooms<br>· Customer surveys<br>· Brochures, flyers, advertisements<br>· Brokers |
| Employees | · Clear sustainability strategy<br>· Communication of the ESG strategy and the associated responsibilities and information on the results<br>· Incorporation of ideas and implementation in the intranet and the sustainability committee<br>· Employee development<br>· Further education<br>· Raising awareness of environmental protection and climate action | · Communication and information via the intranet, informational events, Management Board livestream<br>· Employee surveys<br>· Employee discussions<br>· Code of Conduct<br>· Sustainability report<br>· Personnel development tailored to requirements |

| Stakeholder group | Action areas and potential topics | Communication/dialogue format |
|---|---|---|
| Contractual partners/suppliers | · Orders as part of the implementation of sustainability principles<br>· Easy documentation option<br>· Support for contractual partners towards joint progress on ESG issues<br>· Development of standards for selecting contractual partners based on ESG criteria<br>· Incorporation of ideas and processes for sustainable, alternative implementation options | · Functional tenders<br>· Negotiations<br>· Contract<br>· Code of Conduct<br>· Face-to-face discussions<br>· Master agreements |
| Government/municipalities/political sphere | · Viewing sustainability activities as an important component of social responsibility and incorporation into planning<br>· Creating mutually agreed compensatory measures<br>· Compliance with EU regulations and domestic law<br>· Improvement of sustainable infrastructure<br>· Improvement of energy efficiency of residential buildings<br>· Development of sustainable neighbourhoods and creation of an attractive housing mix | · Direct face-to-face discussions with municipalities and responsible authorities for realising construction projects<br>· Written exchange of information<br>· Work in associations<br>· Participation in joint discussion groups<br>· Participation in site-based events and initiatives |
| Society | · Making an active contribution to solving housing problems, creating affordable housing and good housing infrastructure<br>· Development of sustainable neighbourhoods and creation of an attractive housing mix | · Events<br>· Public participation<br>· Interviews/articles in daily and weekly newspapers<br>· Support for social/political initiatives<br>· Work in associations |

102-29; 102-42; 102-44

# Corporate governance, risk report and compliance

## Risk management

Risk management at Instone Real Estate aims to ensure the Group's successful future development and profitability for the long term. The key tool for achieving this goal is our risk management system (RMS) set up in accordance with IDW PS 981. This system is used to continually identify, document, assess, communicate and manage quantitative and qualitative risks. Risks are identified with a centralized software package in which all branches and departments locally document risks. The Group's risk manager evaluates the documented risks and determines Instone Real Estate's overall risk landscape. The RMS is designed to identify risks that could endanger the Company's existence as a going concern early on (early risk warning system). As at 31 December 2020 no risks were identified that endanger Instone Real Estate's existence as a going concern.

Environmental, social and economic parameters are considered and reconciled to the greatest extent possible in our business activities, particularly when we take investment decisions. Potential risks posed by our projects are tracked closely and discussed.

Additional information on the risk management system, how it is set up at Instone Real Estate and the risks we have identified is available in the management report on page 123 et seq.

## Compliance

At Instone Real Estate, compliance is an integral part of responsible corporate governance. We have laid down the ethical principles applicable to our business activities in our Code of Conduct. Our centralised compliance organisation acts is a key architect of our integrity-based corporate governance activities and corporate culture.

The primary goal of our Group-wide compliance management system is to prevent violations of applicable law and Company policies and to protect the Instone Group and its employees from inappropriate and illegal activity. We have therefore implemented a compliance management system that identifies and mitigates risks and ensures compliance with rules and regulations in the Company.

**Key performance indicators I** GRI 417-2 — TABLE 002

| | 2020 | 2019 |
|---|---|---|
| Confirmed corruption incidents and actions taken[1] | 0 | 0 |
| Legal proceedings for anticompetitive behaviour or price-fixing and monopoly practices[2] | 0 | 0 |
| Reported potential data protection breaches[3] | 0 | 1[3] |

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

Additional information on Instone Real Estate's compliance management system is available in the management report on page 131. GRI 406; 406-1; 102-17

## Corporate governance

We define corporate governance as the legal framework and the supplementary guidelines according to which we operate and monitor our Company and its business activities. As a German stock corporation (*Aktiengesellschaft*), Instone Real Estate Group AG has three governing bodies: the Annual General Meeting, which decides on general matters such as the appropriation of the distributable profit and election of Supervisory Board members, as well as the Management Board and Supervisory Board. The Management Board is independently responsible for managing the Company, while the Supervisory Board advises the Management Board and monitors its activities. Some actions taken by the Management Board require the approval of the Supervisory Board, which is additionally tasked with appointing Management Board members, and approving and adopting the annual and consolidated financial statements.

Detailed information on corporate governance and the principles of corporate governance at Instone Real Estate, particularly the cooperation between the Management Board and Supervisory Board, the composition of both Boards, and compliance with the recommendations of the German Corporate Governance Code (GCGC) by the Management Board and Supervisory Board of Instone Real Estate Group AG is available in the corporate governance statement included in the combined management report and presented on page 154 et seq. of the Annual Report. GRI 102-11

## Human rights

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

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

Although our Code of Conduct covers many different topics, it is possible that laws could be violated or duties could be breached. Our employees can report violations or suspected violations of the law, statute or Company guidelines and rules to their supervisors, the Compliance Officer, a whistle blower hotline or an online whistle blower portal see also page 164 in the combined management report. GRI 408; 408-1

# Active cooperation

## Associations and initiatives

As one of the largest German residential developers, Instone Real Estate is a member of numerous public and private organisations and associations, with our employees holding offices at many of these. For instance, the CEO of Instone Real Estate is Deputy Chairman of the residential real estate committee of the German Property Federation (ZIA e.V.) and there has launched an initiative of companies aiming to improve the industry's image and highlight the contribution to society actually made by the industry.

Other Management Board members and executives are involved in advocating for and further advancing social, political and building law issues in the interest of the entire real estate industry.

The goal is to bring our vision of fulfilling our social responsibility to life by creating long-term sustainable, liveable and affordable residential spaces. GRI 102-12, 102-13; 102-15

The memberships, collaborations and partnerships listed below represent part of our far-reaching network. GRI 415; 415-1

Our company

To our shareholders

Sustainability report (unaudited)

Editorial/Foreword by the CFO

Importance of sustainability at Instone Real Estate

Governance – Corporate governance at Instone Real Estate

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## Digital transformation of the Company

Digital transformation is well underway in the real estate industry and is permanently changing the value chain as well as the way we collaborate. Identifying, evaluating and implementing digital innovations are essential tasks for competitive companies.

Our Company's Digital Strategy & Project Office acts as a catalyst and central point of contact consolidating all digital transformation projects across Instone Real Estate.

The focus here is mainly on optimising our value-generating internal processes and improving the customer experience. The Office provides a wide range of services to facilitate the transformation process from transferring strategic business requirements into the digital project portfolio to designing and implementing digitalization projects and channelling project results into regular operations throughout Instone Real Estate.

### Examples

1. Customer Relationship Management (CRM) & Sales
2. Supplier Relationship Management (SRM)
3. Customer portal, including apartment layout
4. Lean management

## Cooperation Partners

### Supply chain

We are aware that there sustainability risks throughout our entire supply chain, including supply chain interruptions and quality- and site-related risks.

Our aim is to promote sustainability throughout the supply chain, increase transparency and therefore further minimise procurement risk. GRI 102-9; 102-10

Our suppliers can be subdivided into various categories:

→ Brokers who have access to our customers

→ Consultants who provide due diligence assistance during the purchase and sales processes

→ General contractors, construction companies and contract partners for individual trades operating at construction sites

→ Property management service providers

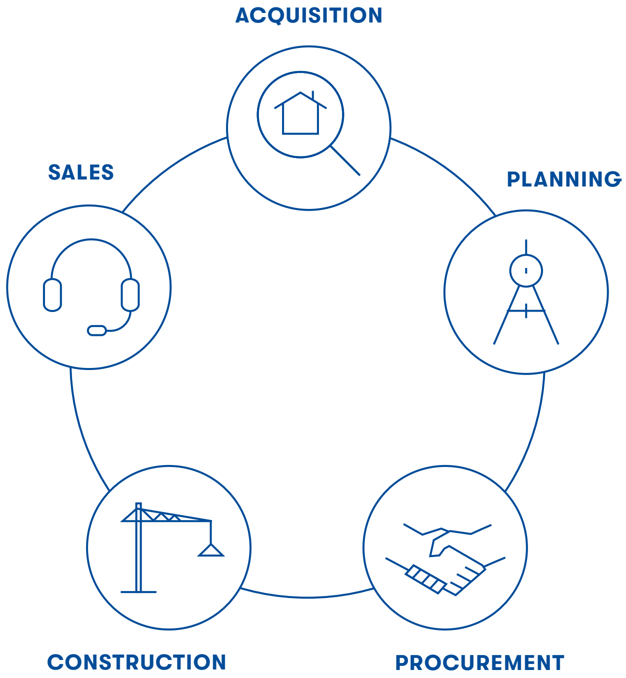
→ Planning teams comprising architects and design engineers.

Instone Real Estate procures most products and services directly at the locations of its properties (Germany) from companies in the relevant region page 57 GRI 102-6. Going forward Instone Real Estate will also integrate environmental and social aspects as material components of the supplier assessment process in purchasing. The first step is to include an obligation in new contracts with suppliers from 1 January 2021 onward stipulating that suppliers must provide us with all necessary information pursuant to the Supply Chain Act applicable in future. Furthermore we will expand our systems and survey suppliers on their principles and activities regarding criteria such as energy efficiency and $CO_2$ emissions as well as labour standards, safety, health and other topics.

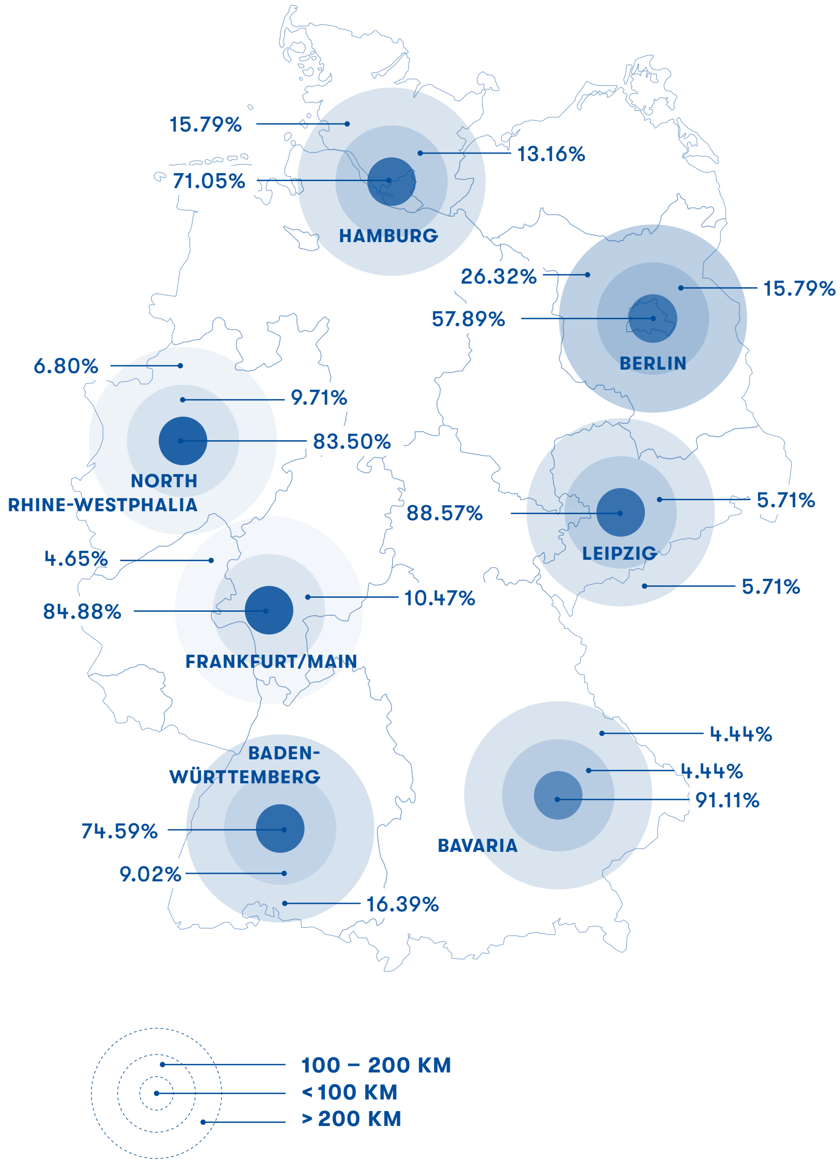
Going forward this information will be incorporated into our future assessment system to be developed for evaluating the integration and achievement of sustainability goals. GRI 204; 204-1

Instone Real Estate's existing Code of Conduct ↗ Code of Conduct for service providers and suppliers already makes our expectations clear to our suppliers. The Code of Conduct for employees of Instone Real Estate will complement this effort . ↗ Code of Conduct for the Company GRI 406; 406-1; 408

**Supply Chain**



## Supplier region




We obtain most of our services and products on a regional basis, at companies close to our locations. This contributes to sustainability in our supply chains.

# SOCIAL

**85%**

of employees recommend the Company to others. We intend to maintain and increase this figure.

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

**With more than 1,700 places in daycare centres and some 1,200 school places in our current project portfolio, we are assuming and will continue to assume responsibility for creating social infrastructure.**

**25%**

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

We wish to maintain a ratio of zero. To do this we are working continuously on occupational safety, and provide information on the subject.

**9.16%**

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

**In 2020, our employees invested an average of 4.5 hours in training. We ensure that all our employees can participate in all relevant further training.**

# Social – People at and with Instone Real Estate

Changes in the business, societal and technology spheres occur as part of a continual, dynamic process and constantly create new responsibilities for Instone Real Estate and its employees. The number of available professionals, the competition for talent and demographic change are currently among the main challenges companies face.

In addition to the issue of digital transformation and the resulting changes in workflows and structures, employee roles and functions and the demands of our stakeholders have changed as a result of the changing societal values. Topics such as remote work and flexible working hours as well as work-life balance have moved further to the forefront.

The channels for contacting stakeholders are considerably more diverse and therefore considerably more complex to document and track. Transparent and fair interaction and employee and stakeholder satisfaction are a valuable foundation for Instone Real Estate's success.

Instone Real Estate is ready to face these challenges, and very carefully observes individual developments and takes steps to counter these when necessary. We will not be able to achieve our Company's goals without the commitment of our employees, who help us implement them.

## Employees – Responsible social interaction

Instone Real Estate clearly defines the accountability and responsibilities of each employee as well as providing them with a high degree of autonomy independence and flexibility. Particularly important in this regard is our flat organisational structure that promotes teamwork both within and across sites and departments. The close collaborative relationships between our employees is a key factor in Instone Real Estate's successful business performance.

In 2020 Instone Real Estate had a total of 413 employees, 48 of whom worked part-time (student trainees not included). In line with our Company's continual growth, this figure is up around 10% (38 employees) from the prior year. A total of 43 employees worked under temporary contracts in 2020 (e.g. apprentices and trainees, participants in work-study programmes). Seven of them have since been hired. GRI 102-8

**Key performance indicators II** TABLE 003

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Total number of employees**[1] | **413** | **375** |
| **Total number of locations** | **9** | **9** |
| **Diversity of employees**[1] | | |
| Gender | | |
| Women | 170 | 161 |
| Men | 243 | 214 |
| Age groups | | |
| < 30 years | 70 | 87 |
| 30 – 50 years | 238 | 196 |
| > 50 years | 105 | 92 |

[1] Personnel disclosures, Instone Real Estate.

## Length of service/fluctuation

### Length of service

A total of 21% of employees have already worked at Instone Real Estate for more than ten years, while 14% have been with us for 15-plus years.

**Length of service** TABLE 004

| | Number of employees |
|---|---|
| <1 year | 78 |
| 1 – 5 years | 188 |
| 6 – 10 years | 66 |
| 11 – 15 years | 27 |
| >15 years | 54 |

These figures reveal a strong sense of identification with Instone Real Estate. The many years of experience of these employees gives our Company many advantages. In-depth knowledge of various aspects of construction planning law and other environmental, social, economic and legal topics is vital for assessing and selecting projects according to the necessary general parameters. When advising and assisting customers with our products and services, having a large number of customer relationship managers who have worked at our Company for many years is valuable: They know Instone Real Estate, our philosophy and our projects inside and out. Our co-workers who have spent a shorter time at the Company in turn bring valuable new ideas and perspectives to the table.

### Fluctuation rate

The fluctuation rate is an important indicator of how successful our in-house activities to promote employee satisfaction are.

**Left vs Joined** TABLE 005

(employees)

| | 2020 | 2019 |
|---|---|---|
| Joined | 88 | 70 |
| Left | 30 | 29 |
| Fluctuation rate (%)* | 9.16 | 10.22 |
| FTE ø | 327.6 | 283.9 |

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

In the past three years (two years), the fluctuation rate in terms of FTEs averaged 10.03% (9.69%). Calculated based on headcount, 7.57% of the Company's employees left in 2020 (as of 12/2020)[1]. GRI 401-1

**Employees' reasons for leaving** TABLE 006

| | 2020 | 2019 |
|---|---|---|
| Severance agreement | 6 | 11 |
| Termination by the employer | 3 | 3 |
| Termination by the employee | 21 | 15 |
| Termination of contract* | 5 | 0 |
| Other reasons | 0 | 0 |

* Expiring temporary contracts not included in the fluctuation rate.

### INTERVIEW RECRUITING JULIA FAESER

**How do you successfully recruit for Instone Real Estate?**

Julia Faeser is developing innovative measures related to recruiting.

Successful recruiting requires us to continually evaluate our search processes and get to know the expectations of our diverse target groups. For our individual recruiting processes, we use various channels, from social media to direct contact and target group-specific campaigns to job portals and our career page. The focus is always on exchanging information on a personal level with the candidate.

**What particular challenges did you experience in 2020?**

Due to the unusual situation, the recruiting process was shifted to the digital realm more than ever before. Initial conversations were held online, employment contracts were sent electronically and onboarding for new employees was conducted on various digital platforms. Attracting new employees was also a challenge.

**What do you expect from applicants and vice versa?**

It is important to us that applicants identify with the Company and our values. A key role is played here by the common understanding that we are successful as a team. Candidates in turn increasingly expect a transparent process, a personal contact and individual feedback on their applications.

**What is your outlook for 2021?**

The agenda for the next year focuses on further expanding our marketing to colleges and universities. It is also a central responsibility of ours to build our networks and use novel ways to recruit candidates for Instone Real Estate. We will continue to pursue and step up the use of digital approaches in this regard.

## Employee satisfaction

For Instone Real Estate, the dialogue between employee representatives and management is a key to our Company's success. Regular dialogue with employees and those representing their interests enables us to continually reflect on working conditions in the Company, discuss potential improvements and define the necessary measures. Digital transformation is changing our working environment and responsibilities of each individual. Instone's management considers this transformation both a challenge and at the same time an opportunity and wishes to shape this process along with its employees.

The Management Board/management values informing employees as early as possible about the Company's plans and developments and involving their representatives into change processes early on so that we can find the best solutions together.

All employees have the opportunity to obtain information on current issues and pose questions at regular video livestreams with the Management Board.

Employee surveys are the basis for identifying opportunities for improvement in many areas of the Company. We determine employee satisfaction by conducting structured, anonymous surveys. To date these have been performed at irregular intervals but in future will be conducted annually. All permanent employees are eligible to participate. In 2019/20 the response rate for the current survey was 70%. The previous survey was held immediately after the spin-off of the predecessor company of Instone Real Estate and is therefore not comparable.

The current survey comprises 15 main categories covers 94 individual aspects. The satisfaction of our employees with various aspects is queried on a four-point scale from "agree completely" to "do not agree" and recalculated as percentages. The Management Board of Instone Real Estate has made employee satisfaction a key performance indicator. The 2019/20 survey yielded a value of around 75%; connection to the Company earned a score of more than 85%. It is our declared goal to maintain and improve these scores. To this end; we will measure satisfaction once or twice per year in future. GRI 402; 402-1

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## Working time models, remuneration, benefits, target agreements

We develop suitable working time models with all employees that take into account personal and professional needs equally. Everyone benefits from flexible working time models, particularly the Company thanks to satisfied employees who are able to achieve work-life balance.

In terms of remuneration we also strive for equality in basic salary. The ratio of the basic salary and remuneration of women to men was as follows in 2020: It should be noted that here that a purely percentage comparison does not reflect age, experience, function or education. GRI 202-1; GRI 405-2

TABLE 007

| | |
|---|---|
| **1st management level** | |
| Men | 104.4% |
| Women | 86.9% |
| **2nd management level** | |
| Men | 105.7% |
| Women | 79.3% |
| **Employee** | |
| Men | 112.2% |
| Women | 83.5% |

Instone Real Estate is subject to collective bargaining agreements and therefore considerably exceeds the statutory minimum wage requirements in Germany. Of the 413 employees, 259 (63%) are bound by a collective wage agreement[2]. GRI 102-41 In addition to their basic salary, Instone Real Estate voluntarily offers its employees extensive additional benefits. These are calculated based on each employee's basic salary or agreed weekly number of hours and can include Company performance-based, employee performance-based or fixed amounts. Among other benefits, these include the option of an employer-supported pension. GRI 401-2

Moreover, our employees receive a statutory holiday entitlement as well as time in lieu, irrespective of their employment relationship (excluding the Management Board, Managing Directors and AG employees). Additional special leave is also granted in accordance with Section 616 of the German Civil Code. In 2020, 95 of these days off were used (2019: 40).

Personal and development goals are defined and their achievement is assessed in annual performance reviews between supervisors and employees. The basis of the target agreements with employees are the Company's strategic goals, which are measured using specified indicators. GRI 102-8; 404-3

**Days off in lieu** TABLE 008

| | 2020 | 2019 |
|---|---|---|
| Days off in lieu for educational leave | 0 | 2 |
| Days off in lieu for birth of a child | 19 | 4 |
| Days off in lieu for marriage | 15 | 7 |
| Days off in lieu due to death | 10 | 4 |
| Day off in lieu for house move | 51 | 21 |
| Individual days off in lieu | 0 | 2 |
| | **95** | **40** |

### Diversity

Gender equality is a given and something lived every day at Instone Real Estate. The percentage of women in the Company has risen almost continually over the years and in 2020 amounted to 41.2% (2019: 42.9%). As a result of internal restructuring and changes at management level, Bianca Reinhardt Weith was promoted from branch manager to Managing Director and COO responsible for Southern Germany at the end of 2020. In addition, Anna Rzymelka was promoted in the 2020 financial year to NRW Branch Manager NRW from within the Company with effect from 1 January 2021. GRI 202-2

We also consider diversity to include employing people from any nation. Instone employees from more than ten nations work at our branches and construction sites and if sub-contractors are included, this number increases considerably.

[2] The difference compared to the prior financial year results from the integration of employees from the Leipzig and Erlangen/Nuremberg location into IRE Development GmbH.

**Diversity ratio (management levels)** TABLE 009

| | Management Board | | 1st management level (Management Board) | | 2nd management level | |
|---|---|---|---|---|---|---|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Men | 3 | 100% | 3 | 75% | 18 | 78% |
| Women | 0 | 0% | 1 | 25% | 5 | 22% |
| Total | 3 | 100% | 4 | 100% | 23 | 100% |

It is also a given at Instone Real Estate to not discriminate against anyone on account of their religion, worldview, age, sexual orientation or disability. Pursuant to the German Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*), no incidents of discrimination were reported in 2020.

The issue of diversity is continually monitored by the three elected regional works councils and the General Works Council of Instone Real Estate. Critical issues are discussed with management or the Management Board. GRI 405; 409

Additional information on the topic of diversity can be found in the Corporate Governance section in the combined management report page 163. GRI 405-1

## Promotion of young talent and training and further education

### Promotion of young talent in the Company

It is important for us to invest in and promote young talent. For this reason, Instone Real Estate hires student trainees and interns (2020: 34, 2019: 37) on an ongoing basis to provide both sides the opportunity to learn together and get to know each other.

We hired seven of these student trainees and interns as permanent employees in 2020.

In 2020, Instone Real Estate supported five bachelor and master theses on Instone-specific topics, both financially and in terms of providing expert information (2019: eight bachelor and master theses).

43 of the 88 employees newly hired were under 30-years-old or just beginning their careers.

### CAROLIN NITSCHKE – FROM STUDENT TRAINEE TO PERMANENT JOB

Carolin Nitschke looks confidently into 2021.

A lot happened in 2020! Of course, anyone would immediately think of the coronavirus pandemic. Even setting that aside, it was very eventful year for me. I joined Instone Real Estate Development GmbH as a student trainee at the beginning of the year, leaving my home in the Bergisches Land region and moving to beautiful Cologne right in the middle of finishing up my master's degree studies in land use planning at TU Dortmund. From January to September I assisted the project development team with the "Dortmund Gartenstadt" and "Niederkasseler Lohweg" projects in Düsseldorf and obtained a lot of instructive insight into the Company. However, my studies were always the main focus – for both Instone Real Estate and for me. Somewhat later I was thinking over my future employer and decided Instone Real Estate was the way to go. Being involved in business development for a new product segment was the start of an exciting job that I had never dared to dream when starting my career. I was therefore able to seamlessly transition from my studies to a job and have been a permanent member of the team since October 2020. I look forward to continuing to be part of the Company and am excited to see what 2021 holds.

## Training and further education

Instone Real Estate generally provides business training (in 2020 no new apprentices started) and, as a rule, hires students in work-study programmes in real estate, civil engineering and industrial engineering.

In 2020 seven work-study students studying for their bachelor of arts or engineering completed their programmes and were hired as permanent employees.

## Further education opportunities

Personnel development at Instone Real Estate is systematically aligned with the skills and knowledge of employees and market requirements. However, most courses are taken as a result of the regular performance reviews conducted by supervisors and employees and their specific wishes. In 2020 a total of 1,786 hours (2019: 2,102 hours) of external training and further education courses were conducted; this corresponds to around 4.5 hours of further education per employee (2019: 5.6 hours).

Due to the coronavirus pandemic, some continuing education was transitioned to a virtual format during the financial year, but some had to be postponed.

The participants subsequently assess the quality of external and internal training. Our Human Resources department considers the results in selecting future training providers and conducting future training activities. GRI 404-1; 404-2

## Personnel development measures and concepts

**Personnel Development**

Motivated, satisfied and therefore productive employees are the most important factor in our success. Since Instone Real Estate operates in a dynamic market, employees are constantly required to meet higher standards. In order to meet these requirements, we support our employees by offering a range of training and further education opportunities. This gives not only personal and professional advantages to our employees but also unlocks a clear competitive advantage for the Company thanks to qualified and motivated employees. And ultimately, a solid catalogue of training and further education options is also a suitable way to attract highly qualified professionals.

## Special circumstances due to the coronavirus pandemic

Because Instone Real Estate greatly values the health of its customers, business partners and employees, we very closely observed the ongoing development of the coronavirus pandemic. We immediately implemented the guidelines of the federal and state governments as well as the advice and recommendations of health departments at our construction sites and branch offices. Personal contact and business travel were almost entirely halted and replaced thanks to our robust hardware and software architecture. In cases where personal contact was still required, we held meetings under the currently applicable hygiene and health standards. The majority of our employees worked and continue to work remotely. Construction workers have been divided into teams so that every stage of the construction process can continue. Instone customers have been able to reliably reach their contacts using the usual communication channels. We generally held conversations with and advised customers virtually, while the acceptance procedure was subject to physical distancing and a limited number of participants. As a result, we were able to keep all our operations running and meet all our contractual obligations.

## Occupational health management

We systematically promote the health of our employees. In addition to continually optimising our entire work environment and workplace quality, our employees also develop ideas for promoting health. For instance, employees have initiated running groups, yoga and pilates classes and canoe trips.

Sporting activities strengthen health and generate common spirit.

A fixed part of occupational health management at many sites is a weekly supply of fruit for all employees. At the sites, quiet zones, open discussion spaces and kitchens invite employees to take a break during their workday.

Instone Real Estate works in conjunction with the professional association for the construction industry, which provides the occupational physician. This is the equivalent of an occupational health service. Workplace walk-throughs and voluntary G37 computer workstation reviews are examples of measures conducted in the course of these efforts.

In addition, Instone Real Estate continues to offer all employees not subject to collective bargaining agreement the option of participating in the health check-up starting at the age of 40.

The rate of absence due to illness in 2020 remained at a comparatively low level of 2.72% (2019: 4.10%). This is why we are confident that our occupational health management and the measures we have taken to ensure a healthy workplace are on the right path. GRI 403-6

## Occupational safety

An integral part of our business activities is securing occupational safety and protecting the health of our employees. All potential emergency situations are systematically analysed to prevent possible workplace accidents. MPLUS Management GmbH has been commissioned to supervise these areas. In 2020 there were no reportable workplace accidents at Instone Real Estate; this results in a thousand-person quota of zero. On average, this figure was 2.85 per year for the past three years. GRI 403

**Thousand-person quota** TABLE 010

| | 2020 | 2019 |
|---|---|---|
| Number of occupational accidents subject to reporting | 0 | 2 |
| Thousand-person quota | 0 | 8.54 |

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

In addition to meeting the statutory requirements, such as regular tests of equipment by independent auditors, MPLUS on behalf of Instone Real Estate and the professional association for the construction industry as well as the responsible parties at the branches or construction sites provide ongoing training and instruction along with strictly defined codes of conduct to ensure the safety of employees, sub-contractors and customers. Instone's Occupational Safety Committee met once a quarter in 2020. GRI 416-1

In addition to securing the land with fencing and using security services to secure the construction site, Instone construction sites are also fitted with protective nets on scaffolds, covered footpaths and sign postage. The key aim here is to minimise safety risks. GRI 403-1; 403-2; 403-3; 403-4; 403-5; 403-7

## Working conditions

### Workplace design

#### MODERN WORKPLACES

At the end of October 2020 Instone Real Estate moved into new offices in the Marienberg Campus in Nuremberg. The Northern Bavaria branch has therefore expanded its premises compared to the previous location in Erlangen and is setting the stage for further personnel and project-based growth in the region in a modern office space.

According to Andreas Zeitler, Instone's Bavaria branch manager: "The move to Nuremberg enabled us to offer our employees around 800 square metres of attractive, modern work space situated in a green landscape and featuring excellent connections to public transportation. In addition, the space provides enough room for new employees who will expand our outstanding team in future."

## Work-life balance

When seeking jobs, an increasing number of workers place greater importance on meaningful work in companies that take their employees seriously and provide the greatest work-life balance. We therefore invest in many different activities not only for existing employees but to position our Company as an appealing employer to future employees.

In 2020, 32 employees (2019: 23 employees) were on parental leave, 19 of which were women and 13 of which were men. GRI 401-3

### Working time honour system and remote working

Instone Real Estate maintains an open and transparent corporate culture based on trust and personal responsibility. We therefore do not work within rigidly prescribed and restrictively managed working time models but instead offer all employees the option to decide their own working hours within the stipulated core working hours, depending on their duties and responsibilities.

Mobile work contributes to employee satisfaction.

During parental leave, all employees can continue to work a lower number of hours (no more than 30 hours per week) so that they can maintain professional and subject matter knowledge and personal contact with their colleagues. GRI 401-3

During the coronavirus pandemic, the topic of remote working gained importance. The Management Board, Human Resources department and the Works Council signed a works agreement on remote working at the start of the pandemic that offers a large number of employees an excellent opportunity to work remotely, even after the pandemic. To this end, the required technological solutions for remote and fully digital working are being optimised on an ongoing basis.

This additionally increases the satisfaction of employees. And finally, remote working solutions also make a material active contribution to environmental protection and climate action, because this permanently eliminates additional commuting to/from work.

### Insurance

Since 2013, we have arranged for a group accident insurance policy for our employees not subject to collective bargaining agreements and those subject to them with independent salary agreements. In 2020, 160 employees were insured under this policy.

## Projects – Responsible interaction and social responsibility

### Social and societal contributions

**Taking responsibility for society**

Instone Real Estate views itself as part of society and would like to make an active contribution to the positive development of society as a whole. Responsibility is a fixed component of our corporate culture and therefore rooted in the Group's day-to-day business. Instone Real Estate is aware of the impact it has on society and the environment, and aims to make a positive difference with its projects. This includes engaging via the media, services and the knowledge of our employees and financially where help and support is required outside the Company, for instance for the creation of a lively residential district.

As a good corporate citizen, Instone Real Estate also takes action especially in locations where the Company has projects. Organisations and initiatives that promote the neighbourhood, the development of social service facilities in an urban district or make infrastructure improvements are our preferred efforts to support. GRI 102-15; 413-2

### Infrastructure, schools, daycare centres, integrative approaches

Due to demographic shifts and social and environmental changes, holistic urban development is necessary to address the issues of affordability, development tailored to needs, and the creation of living space while striving to meet climate-related targets. Involving citizens and other stakeholders early on is essential for successful urban development. In this context we work closely with municipalities and local authorities and lend our knowledge to their efforts.

Our focus is on holistic neighbourhoods as early as the development stage. Diverse housing stock, various home sizes, integrative living and the integration of social service infrastructure such as daycare centres and meeting places as well as an expanded school and athletic field selection underscore this.

To ensure adequate transportation options, we additionally optimise connections to local public transportation together with municipalities and local authorities.

Particularly notable are the points outlined in the following table such as the creation of daycare centre places, school places, cycle parking, charging stations and green space, including play areas which all contribute to a sustainable and appealing neighbourhood:

TABLE 011

| | Total |
|---|---|
| Number of daycare centre places | 1,688 |
| Number of charging stations | 325 |
| Number of cycle parking spaces | ~14,200 |
| School places created | ~1,250 |
| Public spaces and green space (including playgrounds) | ~130,000 m² |

### SPORTPLATZ BULT

Instone Real Estate has built a daycare centre in Hanover with a total of 55 places, including 30 spots for children under three and 25 spots for children over three. Along with Mayor Lothar Pollähne, we were able to delight the children there. We thought up something unique for the festive opening: We wanted the Bobby Car track in the spacious outdoor space to be used right away, so we presented the operator with five Bobby Cars.

"Bult is very popular with families with young children due to its quiet location in nature, so daycare places are accordingly in high demand, The new daycare centre with its beautiful grounds is therefore a very welcome addition to the neighbourhood," Lea Lenze, Head of the Robert-Koch-Platz daycare centre, Maschseekinder gGmbH.

## LAGARDE, BAMBERG

A living neighbourhood emerges from a vision.

"Housing for all" was chosen as a motto for the multifaceted use of the future Lagarde Campus. A balanced selection is provided by companies including Instone Real Estate Group AG, which is contributing its many years of experience in residential district development and dealing with areas earmarked for redevelopment. Instone Real Estate is planning to construct 200 housing units on construction site 8 of the Lagarde Campus, most of which will be accessible. The units will range in size from around 40 to 120 square meters and therefore appeal to singles as well as families and residents of any age. The project also includes price-controlled and subsidised units. The structure and architecture of the new construction project are intended to be low-key, since the property is surrounded by historical buildings. In addition to modern design, the district is expected to include connections to the past. A neighbourhood square and division into several courtyards that provide meeting points as well as quiet spaces provide for a high quality of life. The residential development is not intended to stand alone but instead to reach out into the directly adjacent cultural district. Instone Real Estate will also construct commercial spaces of various sizes around the neighbourhood square so that local suppliers can provide everything needed for everyday life in cafés, bistros, offices and small shops. These will also ensure lively interaction among the residents. The motto here is "A neighbourhood for everyone!"

| **Project information** | |
|---|---|
| Number of housing units | 237 |
| Start of construction | 2020 |
| Completion | Expected in 2025 |
| Storeys | 5 – 6 |
| Unit size | approx. 40 – 110 m² |
| Number of rooms | 1 – 4 |
| Gross floor area [m²] | ~ 22,000 |
| Living space [m²] | ~ 17,700 |
| Social service facilities | Daycare centres |
| Special features | · Transportation concept with charging stations, car sharing, neighbourhood parking garage, cycle parking spaces<br>· Heating concept featuring photovoltaic, geothermal, background heating<br>· Open spaces with private courtyards including playground and public neighbourhood square |

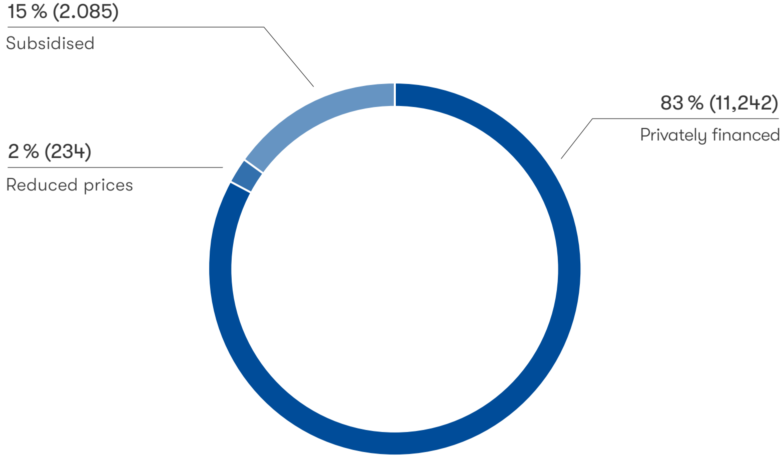
## Subsidised housing

In addition to the development of condominium units, Instone Real Estate also makes a major contribution to the development of subsidised and price-controlled housing.

As at 31 December 2020, approximately 2,300 of the 13,500 units of Instone's project portfolio (sold and unsold housing units of the 2020 project portfolio) were designed as price-controlled flats. This produces mixed neighbourhoods that are attractive to all population groups and income levels. GRI 203; 203-1

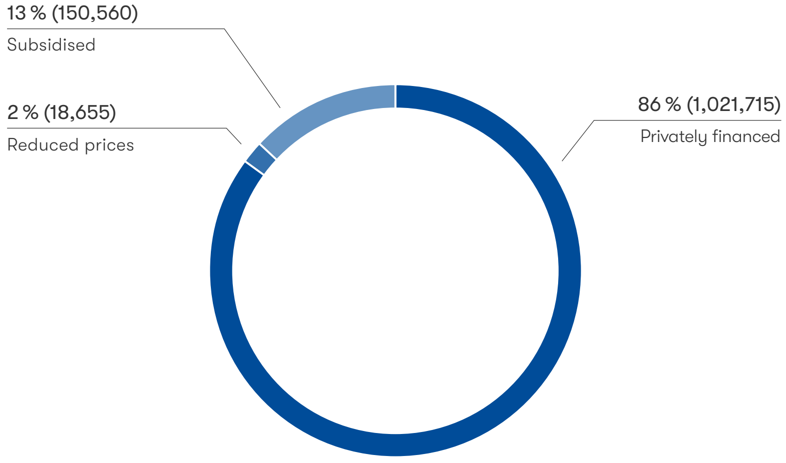
**RESIDENTIAL UNITS** GRI 203-2

Number




**HOUSING AREA** GRI 203-2

in m²




## Neighbourhood communication

Active neighbourhood communication creates transparency and prevents conflict. This enables us to identify potential conflicts associated with the planning and construction process and, during the construction phase, with irritants such as dust, noise, vibration, or road closures. Moreover, this gives us the opportunity to present our projects and promote integration into the neighbourhood. In many cases, neighbourhood communication also helps popularise projects and promote sales. GRI 413-1

Specific examples of neighbourhood communication are provided in the image section page 13.

## Social involvement

As one of Germany's leading real estate developers, we are confident that we will be able to successfully pursue our business model in future only if we act responsibly for the long term. In the 2020 reporting period, we further deliberated on defining specific activities and topics relating to our understanding of our social engagement and will continue to do so in 2021. Against this backdrop we would like to provide a glimpse of the responsibility we have taken for social projects in addition to our involvement in projects and neighbourhoods and the associated infrastructure such as daycare centre and school places. In 2020 Instone Real Estate financially supported the following projects, among others:

### 1. Camphill Brachenreuthe

The Camphill school communities on Lake Constance are private special education and advising centres with dormitories that focus on intellectual and physical development and motor skills. At its heart are more than 200 students who live and learn at three sites in Brachenreuthe, Bruckfelden and Föhrenbühl.

We donated to the Brachenreuthe location.

Verein [Association] Camphill Schulgemeinschaften is the sponsor of this facility and other initiatives and programmes for people with and without disabilities.

↗ Brachenreuthe – Camphill Schulgemeinschaften
camphill-schulgemeinschaften.de

### 2. Lebenshilfe Tübingen

Lebenshilfe Tübingen's work is based on the diversity of people, living situations and dreams. Interaction is the key to success: interaction among people from various segments of society, interaction among old and young people and, not least, interaction among people with and without disabilities. The objective pursued by Lebenshilfe Tübingen is to enable people with disabilities to lead independent and self-directed lives and to support their relatives and friends.

↗ Lebenshilfe Tübingen:
lebenshilfe-tuebingen.de

### 3. "HoffnungsBAUer" project/Habitat for Humanity

The "Die Hoffnungsbauer" ("Hope Builders") project brings construction and real estate companies together to help people in need. The participants in the Hoffnungsbauer project support the work of Habitat for Humanity Deutschland and help families in disaster areas and developing countries obtain a solid roof over their heads and access to sanitary facilities and clean water. ↗ www.hoffnungsbauer.de

### 4. Die Arche children's project in Berlin

Die Arche is involved in the fight against childhood poverty in Germany with a particular focus on children from socially disadvantaged backgrounds. Die Arche helps children and their parents with seemingly basic resources, such as free lunch, free homework help and tutoring, or conversation and advice.

↗ Die Arche – Christliches Kinder- und Jugendwerk
kinderprojekt-arche.de

### 5. Berliner Stadtmission "Aktion Kältebus"

Berliner Stadtmission (City Mission) strives to prevent cold-related deaths in Berlin with an outreach bus and emergency shelter during cold weather. From 1 November each year to 31 March of the following year, a team of outreach workers travels by bus in search of homeless people who are unable to seek out emergency shelter in cold weather by themselves. The "cold bus" team regularly visits the homeless population out on the street and, upon request, provides transport to a safe place to stay overnight.

↗ About Kältebus – Berliner Stadtmission
berliner-stadtmission.de

## Strategic initiative and new product segment

In 2020 we launched our first three affordable housing construction projects. Our new segment will set innovative standards at various levels of housing construction. Thanks to our completely revamped approach to project development, our product can create affordable living space in and around Germany's large cities and therefore provides concrete solutions to social issues concerning the urgent need for housing. This product enables us to make newly constructed housing affordable again for tenants in Germany with mid-level incomes.

The systematic digitalisation of the entire value chain with the help of cutting-edge planning methods allowed us to successfully define efficient and scalable processes, and optimise costs and scheduling – without wavering from our commitment to quality. Urban planning and architectural standards are as important as the focus on sustainable processes. Our innovative building planning complies with all 16 state building codes and the buildings additionally meet funding guidelines.

The projects are always based on the KfW 55 energy standard. They are primarily constructed in suburban areas of class A locations, high-demand class B locations, or within large Instone Real Estate residential districts.

Construction on the initial projects starts in 2021. Instone Real Estate aims for a further significant acceleration of the pace of growth with this segment in the coming years.

Affordable housing, high quality and sustainability combined under one roof

| Düsseldorfer Landstrasse, Duisburg | |
|---|---|
| Property | ~ 5,460 m² |
| Living space | ~ 6,500 m² |
| Housing units | 78 + 70 parking spaces + 165 cycle parking spaces |
| Type of use | Rental flats |
| Start of construction | 2021 |
| Completion | Expected in 2023 |

# ENVIRONMENT

**~65%**

of the living space in our current project portfolio conforms at least to energy standard KfW 55.

**In 2050 we are carbon neutral. We work continuously on improving the carbon footprint of the company.**

We are turning our brownfield properties from industrial sites into residential districts with around

**700,000 m²**

living space We will leverage our high level of expertise in this area for meeting climate targets by converting additional sites.

**Our current project portfolio features around 12,000 cycle parking spaces. We will continually increase this number.**

**100%**

By 2030, for all our projects we are aiming to achieve a high energy efficiency standard equivalent to the current KfW 40 standard.

**We are setting up a seamless reporting and documentation system for collecting information on relevant environmental topics in the coming years.**

**In relation to the planned operation of our properties, by 2030 we save some 50% of today's $CO_2$ emissions.**

**In future we will increase our use of sustainable raw materials.**

# Environment – Climate action and environmental protection at Instone Real Estate

Climate action and environmental protection are among the main challenges of the 21st century facing society and businesses. Housing and functioning infrastructure are some of the most basic human needs. However, a material percentage of $CO_2$ emissions stem from housing stock.

Instone Real Estate's business activities are therefore associated with a material impact on the environment, both direct and indirect. In future we will successively analyse and improve our environmental footprint. In terms of our own business activities, this includes issues such as the vehicle fleet, paper consumption and the energy usage of buildings used by Instone Real Estate itself.

A much larger lever, however, is the environmental footprint of the production and operation of the buildings we have constructed and the neighbourhoods in which they are situated, whose entire product and life cycle must be considered. The focus is on the $CO_2$ emitted, the waste generated during construction and operation, the use of fossil, non-renewable resources in the production of construction materials and bringing about improved biodiversity by way of appropriate compensatory measures as well as the implementation of smart waste disposal and recycling management.

## $CO_2$ status new construction

The construction sector is responsible for 38% of worldwide $CO_2$ emissions[3] and contributes accordingly to the resulting climate change. To reach the Paris Agreement goals on climate change, the sector needs to reduce emissions by a total of approximately 80%. Much of this is covered by the energy-related refurbishment of the building portfolio. However, more climate-friendly new construction will be another lever to achieve the targets. A comprehensive view must additionally include emissions from production, maintenance and disposal of the building structure.

Accordingly, the United Nations Framework Convention on Climate Change (UNFCCC) and the Germany government have set a goal of having a climate-neutral housing stock by 2050[4].

### Targets

Instone Real Estate will support reaching the goal of the UNFCCC and the Germany government.

Instone Real Estate pursues the goal of constructing climate-neutral buildings by 2050. The largest levers for this are reducing the energy used for the supply of heat and warm water to housing units and optimising the design of the building envelope. Another contributing factor will be changing electricity supply and efficiency, but this cannot be directly influenced by Instone Real Estate.

However, due to the German government's information on primary energy sources the goal formulated by the German government (BMWI 2015) includes only the emissions from the energy converted in a building. Accordingly, for instance, the emissions from the burning natural gas in a heating system is taken into account, but the production of district heating or electricity outside the building is not included. According to this logic, emissions from the production, maintenance and disposal of the building structure is assigned to the industrial sector. Conclusions about the achievement of climate goals is possible only after recalculation.

From a building user's perspective a carbon footprint that is as complete as possible is desirable. This includes all emissions generated during construction and use so that the personal carbon footprint or that of the company can be assessed.

[3] United Nations Environmental Program (UNEP), "Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector – UN report" (Nairobi, 16 November 2020), https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic.
[4] Deutsche Energie-Agentur GmbH (dena), publisher, "dena-Leitstudie Integrierte Energiewende. Impulse für die Gestaltung des Energiesystems bis 2050," July 2018, https://www.dena.de/fileadmin/dena/Dokumente/Pdf/9262_dena-Leitstudie_Integrierte_Energiewende_Ergebnisbericht.pdf. Fig. 89

For Germany, with reference to a time frame of approximately 50 years, $CO_2$ emissions break down in line with the GEG energy standard which has applied in Germany since 1 November 2020 and conventionally constructed residential buildings roughly as follows:

→ 1/3 construction, maintenance, disposal of building structure

→ 1/3 heating, drinking/hot water, auxiliary power

→ 1/3 household power

There is considerable potential. Potential reductions could stem from changing construction methods as well as optimising load-bearing structures, construction components and the selection of building materials in conventional construction.

The use of household power and electricity production cannot be influenced by the construction sector. The changes in power generation will likely only account for 10% to 20% of carbon emissions by 2050.[5] Therefore, electrical systems such as heat pumps will gain further prominence as a source of energy.

## Instone Real Estate climate targets

In the property sector Instone Real Estate would like to make an important contribution to reaching the climate goals set by the German government (which also correspond to the Paris Agreement), also further developing its portfolio in a responsible manner. With the reduction of $CO_2$ emissions, for future owners of the property, we create a long-term value and thus a financing incentive for investing in climate protection. At the same time, we address the key challenge of our time: making affordable and climate-friendly housing possible.

Reaching this goal requires Instone Real Estate to continue to develop projects while keeping an eye on reconciling profitability, the environment and social issues.

By reducing emissions we contribute to protecting the environment by improving energy efficiency in our buildings and improving access to fuels generating lower emissions. Our activities in this regard are focused particularly on the areas of the building shell we can influence and the generation of heating energy. We aim for a balanced cost-benefit ratio. After all, environmental measures have economic consequences for customers and investors, but in doing so we create long-term values.

Instone Real Estate is aware of its responsibility for complying with climate targets and is working on activities to implement its goal of building carbon-neutral residential buildings by 2050.

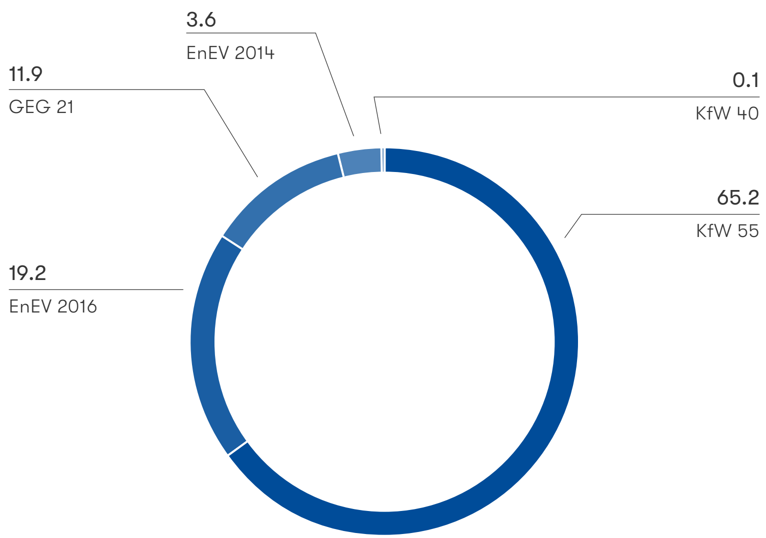
Initially, Instone Real Estate focussed on the planned operation of residential buildings. In doing so, we consider the project portfolio in financial year 2020, i.e. projects realised by Instone Real Estate in the residential segment.

Using our Company's reporting tool, the initial reporting structures for this purpose were initiated in 2020, also with the intention of evaluating the $CO_2$ emissions of our projects. Initially the focus is on the planned use of the building. Determining and reducing construction and raw material emissions will be future steps to obtain an overall view of the carbon footprint.

[5] Martin Pehnt et al, "7-03-17 Untersuchung zu Primärenergiefaktoren. Endbericht. Leistung gemäß Rahmenvertrag zur Beratung der Abteilung II des BMWi.," 23 April 2017, page 29

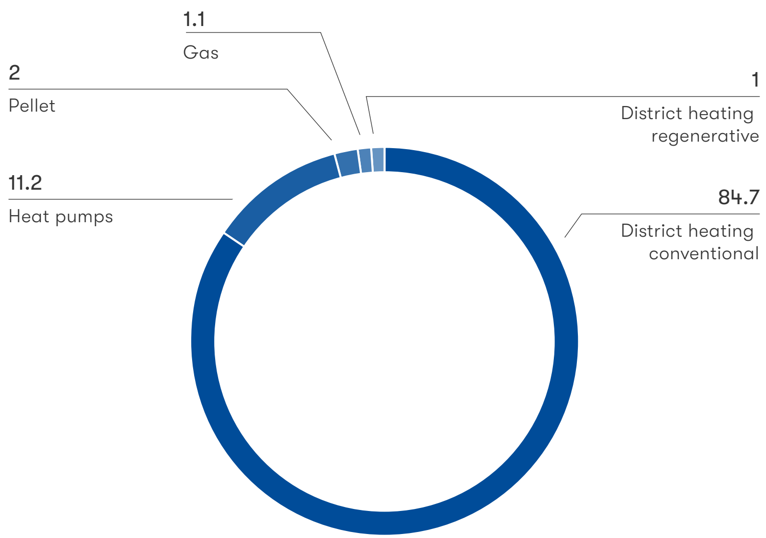
**Percentage distribution of energy standards in the current Instone Real Estate project portfolio 2020 based on area**

In %




**Percentage distribution of energy sources in the current Instone Real Estate project portfolio 2020 based on area**

In %




The two charts show the distribution of the energy standard and energy sources of the current Instone Real Estate project portfolio on the basis of living space.

By 2030, for our projects we are aiming to achieve a high energy efficiency standard equivalent to the current KfW 40 standard.

In addition to the energy standards, a reduction of the $CO_2$ emissions is essential to achieve the climate goals.

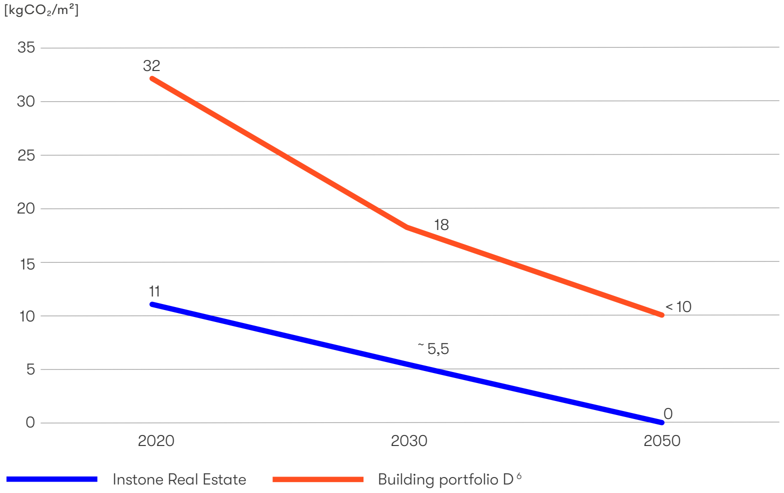
The Instone Real Estate project portfolio for the financial year currently has average $CO_2$ emissions (related to the planned building use) of roughly 11 kg $CO_2/m^2$ (average $CO_2$ emissions of all buildings in Germany 2019: 32 kg $CO_2/m^2$).[6] This already places us well below the German average.

By 2030, Instone Real Estate aims to reduce this figure by approximately 50% In comparison, the BMWI target for 2030 is ~ 18 kg $CO_2/m^2$.[6] To achieve this emissions reduction, when planning new buildings Instone Real Estate will continue to work at lowering final energy requirements and specific $CO_2$ emissions on the basis of selecting fuel sources. GRI 305

## Heat generation sources in the project portfolio

By 2030, the share of Instone Real Estate projects with a carbon-neutral energy source (such as heat pumps and geothermal systems) will rise to at least 40%. GRI 302; 305

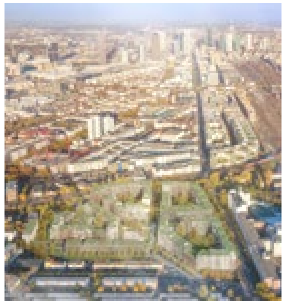
**Emissions: Comparison all Germany buildings – IRE project portfolio**




[6] Energieeffizienzstrategie Gebäude BMWi; https://www.bundesregierung.de/breg-en/issues/climate-action/klimafreundlich-wohnen-1674016; https://www.dena.de/fileadmin/dena/Publikationen/PDFs/2019/dena-GEBAEUDEREPORT_KOMPAKT_2019.pdf

## WESTVILLE, FRANKFURT/MAIN

### Implementation of an innovative energy concept



Visualisation of the Westville neighbourhood

On what used to be the territory of Avaya in the Kleyerstrasse in the Frankfurt Gallus district, Instone Real Estate is developing one of the largest new locations in Frankfurt. Even before construction started, the project was bought by aamundo Immobilien Group and Universal-Investment for the property specialists of the Bayerische Versorgungskammer (BVK). In line with the objectives of the city of Frankfurt, a mixed neighbourhood will be established which meets the highest claims on living together in the modern world, at the same time providing housing for many different stakeholder groups at a location designed for the future.

The neighbourhood consists of four apartment blocks with inner courtyards and two additional building segments. More than 3,000 people will move into the district over the next five years. The former industrial building on Kleyerstrasse 94 is being transformed into an attractive residential district with newly made roads, extensive green areas, including six play areas and meeting places for the new inhabitants. The plot is located on the south-west edge of the Frankfurter Gallus district which has developed into an attractive business and residential area over the last few years. The new development which has now been initiated will shape the strongly growing Gallus district on a sustained basis.

Certainly the energy concept is sustained. In coordination with the investor (BVK) and the municipal heat provider, an innovative energy concept was planned for the district. The waste heat originating in the neighbouring computer centre (xyz) will be deployed for heat generation for the whole neighbourhood using specially designed heat pump systems. In order to cope with heat variations or downtime, the heat provider secures the connection to Frankfurt district heating. This means that the future inhabitants can obtain heat on the basis of an attractive contracting model. At the same time, a sustained energy concept has been created for the owners.

| Project information | |
|---|---|
| Number of housing units | ~1,300, of which approx. 380 publicly funded |
| Start of construction | 2021 |
| Completion | Expected in 2025 |
| Storeys | 4–7 |
| Unit size | approx. 25–135 m² |
| Number of rooms | 1–5 |
| Land [m²] | ~51,000 |
| Living space [m²] | ~96,500 |
| Social service facilities | 3 day care centres, 6 playgrounds |
| Commercial | Restaurants, retail |
| Total investment in the energy concept [in € million] | ~8 |
| Investment in infrastructure [in € million] | ~8 (for traffic infrastructure)<br>~1.6 (for elementary school expansion) |
| Special features of Westville | · Heat generation via waste heat from computer centre<br>· Specially designed heat pumps<br>· Energy standard KfW 55 for all buildings<br>· Extensive green areas |

## Resource usage

### Energy consumption of properties used by Instone Real Estate

An energy audit in accordance with DIN EN 16247-1:2012 was carried out in 2016 by TÜV Rheinland. The new audit was begun by TÜV Rheinland in 2020 GRI 302-5. Due to the coronavirus pandemic and the prohibition against on-side walk-throughs, the audit could not be completed. This will be done once the pandemic has subsided. GRI 302-1

### Vehicle fleet

The Instone Real Estate vehicle fleet consists of 146 vehicles (vehicles from the Leipzig site have were recorded in contrast with the previous year). Average $CO_2$ emissions were 123 g/km (2019: 122 g/km) and average fuel consumption was 4.9L/100 km as at 31 December 2020. In future, these values will be permanently included in the reporting system. In financial year 2020 the company car policy was amended to promote the use of electric vehicles. The breakdown according to $CO_2$ emissions and type of fuel can be seen from the following charts. GRI 302-1; 305

**Fuel allocation of the fleet** TABLE 012

| Fuel | 2020 |
|---|---|
| Diesel | 61.65% (90) |
| Petrol | 31.51% (46) |
| Hybrid/electric | 6.85% (10) |

**$CO_2$ value of the fleet** TABLE 013

| $CO_2$ emissions | Number of vehicles in 2020 |
|---|---|
| < 101 g/km | 12 |
| 101 – 120 g/km | 41 |
| 121 – 140 g/km | 64 |
| 141 – 160 g/km | 20 |
| 161 – 200 g/km | 9 |

## Construction materials

In our construction projects, we use only materials that have corresponding approvals in Germany and that comply with the legal requirements. GRI 416-1; 301-1

## Waste and recycling management

In terms of waste reductions in construction work and the recycling of building materials, we work together with specialists. For every individual building project, we commission special companies to be responsible for rubbish management and to ensure that rubbish is sorted and not mixed and that it is recycled. If demolition is required on properties, corresponding plans are drawn up for the demolition. Waste removal is contractually agreed with the sub-contractors and the appropriate proof furnished. Recycled materials can sometimes be used to develop and/or construct the projects. Instone Real Estate is working on a Company-wide standardised analysis of the data. GRI 306; 301-2; 301-3; 306-2

## NIEDERKASSLER LOHWEG

**Niederkasseler Lohweg 20, Düsseldorf**

Before construction could begin on this project in summer 2020, an ageing seven-storey office building had to be demolished and removed, a process that included recycling and proper disposal of the building materials. The construction of the two-storey underground garage brought additional challenges: More than 50% of rainwater must be stored in underground containers to ensure compliance with the restriction on introducing rainwater into public canals. In the interest of encouraging sustainable transport, we also provide charging stations for around 10% of the parking spaces.

The planning of housing units and parking spaces in itself does not turn an office district into a lively neighbourhood.

| Project information | |
|---|---|
| Number of housing units | 221<br>(mix of subsidised, price-controlled and independently financed flats) |
| Start of construction | 2020 |
| Completion | Expected in 2023 |
| Residential high-rise | 60 m building height/19 storeys<br>3 additional buildings/5 – 8 storeys |
| Gross floor area [m²] | ~ 22,000 |
| Living space [m²] | ~ 16,500 |
| Commercial | No |
| Social service facilities | Daycare centre, 430 m² private playgrounds, upgrading of public playgrounds |
| Special features | · Nesting assistance for bats and common swifts<br>· Planting of new medium-height trees<br>· Design of a public neighbourhood square<br>· Installation of public underground recycling containers |

## Projects and the environment

### Brownfield projects

One of the major current debates in all construction projects, not just in housing, relates to the new natural surface sealing. Surface sealing or soil sealing means covering the natural soil floor revealed during construction work. The majority of Instone Real Estate projects are not carried out on greenfield sites, but instead on former industrial sites and areas earmarked for redevelopment that are reassigned to residential use.

Examples include the large-scale “Schönhofviertel” project in Frankfurt/Main being built in a joint venture with a total of around 2,000 housing units (around 2/3 rental flats and 1/3 freehold apartments) on the former Siemens campus. This will be the site of a sustainable neighbourhood which aims for DGNB Gold certification. This would be one of the first residential districts in Germany to obtain this certification.

When restoring historical monuments, we use the existing building material and convert listed buildings into housing. An example of this is the “Mühlenwerke Stahmeln” project in Leipzig page 80 f. GRI 304

**Brownfield developments 2020*** TABLE 014

| Projects | Site area | Living space |
|---|---|---|
| 30 | 833,746 m² | 699,650 m² |

* In relation to current projects.

As at 31 December 2020, approximately 30 projects from the current development portfolio are planned on areas which have already been sealed.

## Flora/fauna

In line with requirements, Instone Real Estate provides ecological compensation areas in each project that have at least the same biodiversity, but generally have significantly greater biodiversity. Instone Real Estate generally builds in urban areas in which there is no or very little wildlife. Measures are coordinated with the nature conservation authorities responsible when there is evidence that wild animals are present to relocate them or arrange for them to stay on-site. Although it is not the general rule, there are projects that occur on an area where there are indigenous animal or plant species that are on the Red List of the International Union for Conservation of Nature (IUCN) or on national lists of protected species.

One example is the "Parkresidenz" project in Leipzig, where sand lizards were found. With the help of the nature conservation authorities new locations for them are being created on the property and in ecological compensation areas.

Close cooperation with nature conservation authorities, landscape planners and nature protection associations, as well as the setting a sustainable catalogue of measures formed a basis for including biodiversity aspects in the planning of construction projects. Measures here are varied and range from considering bird breeding seasons and bat activities to planning the construction schedule and revising, mounting nesting boxes for certain species or promoting bee settlements to the building of green roofs for rainwater retention (for sewer relief).
GRI 304; 304-2; 304-3; 304-4

The sand lizard was named "Reptile of the year: 2020 and 2021"

## Historic preservation

A number of Instone Real Estate projects in Leipzig feature properties under heritage protection. This helps us meet climate targets because renovating existing buildings always pays off in terms of sustainability. Compared with new construction, renovations do not for the most part involve materials that trigger additional carbon emissions. Construction materials, production and planning processes and recycling options are generally more sustainable in cases of historical preservation than demolition and new construction. Green spaces and grounds surrounding listed buildings remain much more protected from development.

In addition to the above aspects, project development and the reuse of listed buildings has always been a way to conserve resources, because as a rule, regional and natural construction materials are used and a variety of energy types are possible.

### HISTORIC PRESERVATION

**MÜHLENWERKE STAHMELN**

The history of the imposing building complex in Northwest Leipzig listed as a heritage site began in 1486. After two fires in 1647 and 1875, the mill was rebuilt until the property came to have its current appearance in 1912 due to technical optimisation. The water-powered mill on the property remained in operation until 2012. The property is now home to an attractive residential complex with 68 freehold apartments and 7,510 m² of living space.

## HEERESBÄCKEREI LEIPZIG

The former army bakery in Leipzig was built from 1875 to 1877. It once served to feed 8,000 soldiers in the barracks surrounding it.

Heeresbäckerei Leipzig combines historical buildings with new construction. Around 350 flats are now situated on a property measuring approximately 36,000 square metres and feature total living space of some 32,000 square metres in twelve buildings.

## THEATERFABRIK LEIPZIG

The history of Leipzig-based Springer & Möller AG, which founded the paint factory, reaches back to 1895. However, production shut down in 1997. From 2003 to 2015 the property was again used for cultural purposes – as Theaterfabrik Sachsen with three stages and a theatre school. After that it stood empty and was for sale again after being put in receivership.

Theaterfabrik Leipzig, which is currently under construction, will provide around 75 new owners flats totalling around 6,300 square metres of living space they can live in or let as an investment.

# COMBINED MANAGEMENT REPORT

# Business model and organisational structure

Instone Real Estate is one of the leading developers of residential real estate in Germany. The share is listed on the SDAX of the Frankfurt Stock Exchange. The Instone-Group develops attractive residential buildings and apartment complexes and also operates in the publicly subsidised residential construction sector. It also works on contemporary urban planning and the refurbishment of listed buildings. These are marketed to owner-occupiers, retail buy-to-let investors and institutional investors. Over the course of 30 years, we have consequently completed more than one million square meters. The company employs 413 employees across nine locations in Germany. As at 31 December 2020, the project portfolio of Instone Real Estate included 52 development projects with an anticipated gross development value of approximately €6.1 billion, and 13,561 units.

As at 31 December 2020, approximately 89% of our portfolio (based on anticipated sales value after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart) and approximately 11% in other prosperous medium-sized cities. Well-connected suburbs and medium-sized cities in the metropolitan regions are becoming increasingly attractive and can thus help to meet the generally high demand for residential space.

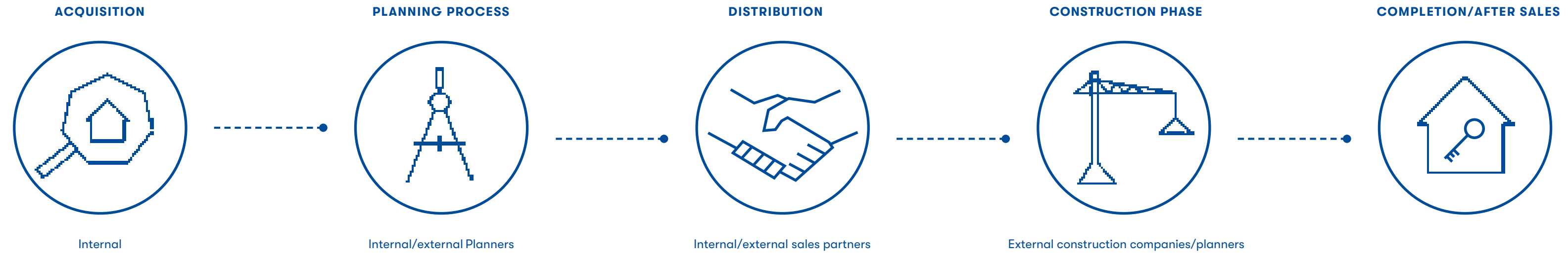
## Coverage of the entire value chain

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

The Instone Real Estate locations have their own on-site teams responsible for acquisition, planning, construction management, marketing and sales management, while strategic decisions are coordinated and implemented jointly with headquarters.


GRI 102-4

THE INSTONE REAL ESTATE VALUE CHAIN




Instone Real Estate has installed integrated risk management and uses reporting and planning tools to minimise risk in the development process. The German Broker and Developer Regulations (Makler- und Bauträgerverordnung, MaBV) give Instone Real Estate the option of contractually agreeing instalment payments on the basis of construction progress for residential units sold to owner-occupiers or retail buy-to-let investors. This significantly reduces both the financing risk and the capital commitment for our Group.

Over the past financial year, Instone Real Estate has continued to invest in more projects. We have acquired land and real estate with a projected gross development value of some €490 million after completion of development. In addition, as part of the formation or investment in companies consolidated at equity, we participated in other projects with an anticipated pro rata revenue volume of around €300 million.

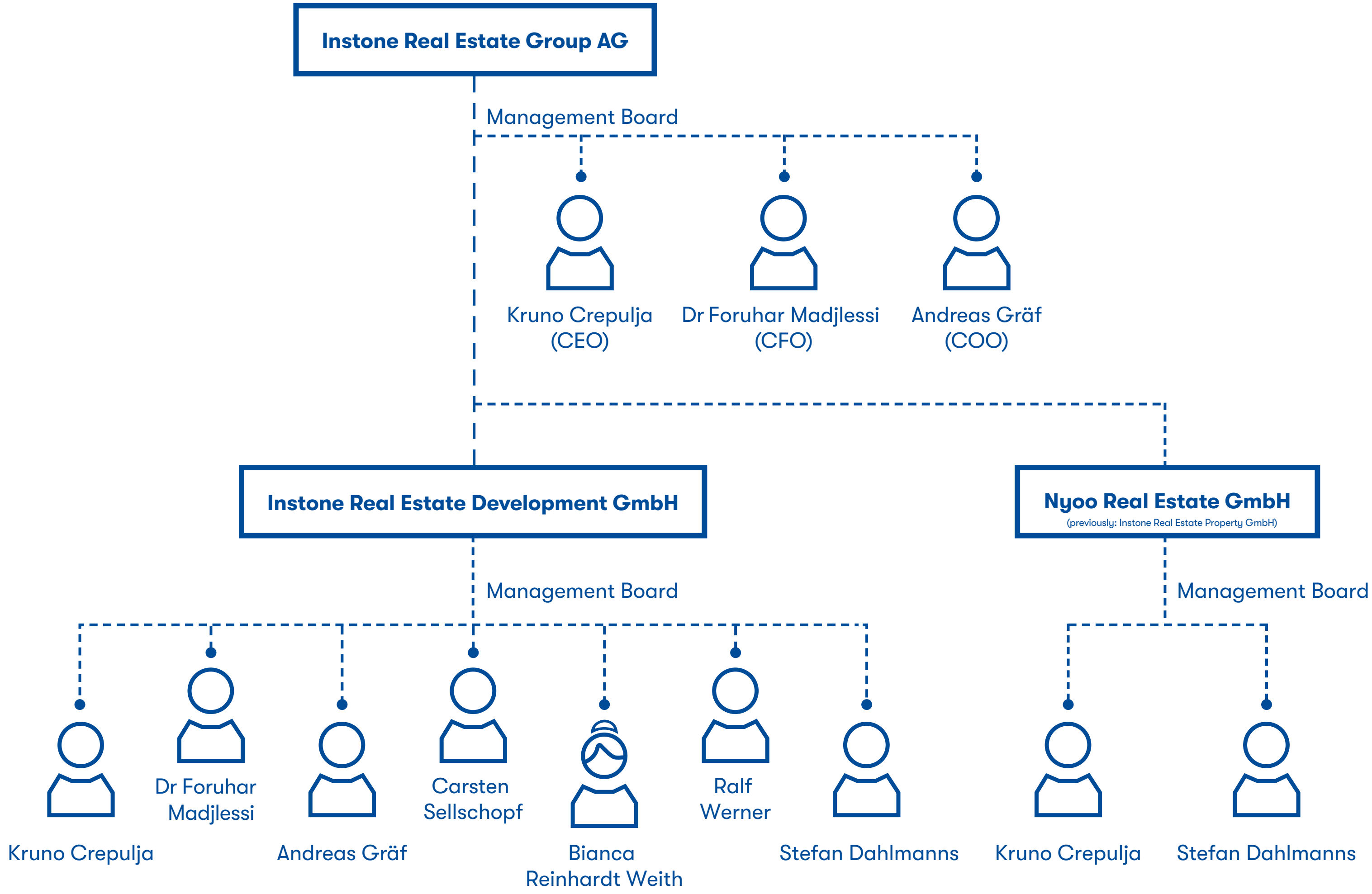
The activities of Instone Real Estate are supported by the persistently high demand for housing, driven by several factors, including a rising number of households and steadily increasing urbanization.

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

## Number of employees

The number of employees in the Instone-Group rose sharply once again in 2020. As at 31 December 2020, 413 employees were employed in our Group (previous year: 375 employees). GRI 102-8

## ORGANISATIONAL STRUCTURE OF INSTONE REAL ESTATE (as of 31 December 2020) GRI 102-18



# Market environment and regulatory conditions

## Market environment

Instone Real Estate is one of the few residential real estate developers that operate across Germany. The German residential real estate market is characterised by structurally high demand combined with low housing supply. With its traditional core product, the Group focuses on attractive locations in the key metropolitan areas. Around 89% of the anticipated gross development value of the project portfolio as at 31 December 2020 was located in Germany's most important metropolitan areas: Berlin, Bonn, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg. Around 11% is located in other prosperous medium-class cities. With the introduction of a complementary product to create affordable housing, Instone Real Estate is widening its radius to attractive B locations in the vicinity of the metropolitan regions which are becoming increasingly attractive. In addition, through the development of this innovative modularely planned product, Instone Real Estate is opening up a market in the mid-price segment, a market with immense growth potential that has scarcely been catered to until now.

Instone Real Estate has a leading position in the market in a highly fragmented competitive environment. There are few other project developers that operate across all of Germany and are therefore able to compete nationwide in the purchase of development projects. The competitive situation is instead characterised by smaller, regional or local project developers. This market structure means that very few companies have the human and financial resources, or the economies of scale, to develop a product with standardised planning to create affordable housing.

Further information on the development of the German residential real estate market over the past financial year can be found in the "Economic framework" section starting on page 95. GRI 102-15

## Political and regulatory framework

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

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

The obligations under the urban development contracts with local authorities are met by Instone Real Estate itself as an integral part of the value chain. This includes the creation within Instone Real Estate's current projects of some 1,690 child day-care places and affordable housing in locations with large shortages, amounting to 2,085 subsidised homes or 234 reduced-price homes.

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

## Berlin rent cap

The anticipated new legislation to cap rent on non-price-controlled homes for rent in apartment complexes in Berlin (excluding new-build properties) came into effect on 1 March 2020. The key content of the current draft bill includes the introduction of rent caps, a ban on raising rent for five years (rent freeze) and limiting modernisation fees. The second stage of the rent cap finally took effect from 23 November 2020. This requires landlords of existing tenants paying 20% more than the set upper rent limit to reduce the rent accordingly. The German Federal Constitutional Court is expected to reach a decision on the constitutionality of the rent cap during 2021.

After a period of uncertainty, however, the demand for residential property remains high and this continues to be reflected in a positive price trend. The legally watertight formulation of the exception to the rent cap for new builds that were ready for occupancy for the first time after 1 January 2014 also had a positive effect on the investment climate. Instone Real Estate is therefore not immediately affected and against this backdrop, it also further increased its involvement on the Berlin market by joining the large-scale "Friedenauer Höhe" project.

## Municipal land regulations

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

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

## Discussion of the ban on conversion ("German Act on the Modernisation of Land for Construction, Baulandmodernisierungsgesetz")

There are currently ongoing political debates on the plans to strengthen protections for tenants by introducing a conversion ban, or at least by making it more difficult to convert homes for rent into homes for sale. If this far-reaching legal restriction is introduced, it is likely to lead to a sustained reduction in supply for buyers of homes for sale. As a result, we expect the excess demand in the housing market and therefore the demand for Instone Real Estate products to continue to increase.

## Pre-emptive purchase rights of local authorities

An increase in the proportion of the pre-emptive purchase rights of local authorities exercised under the German Federal Building Code (Section 24 BauGB) can be observed in some areas. This could have a corresponding effect on Instone Real Estate's acquisition activities. The generally small financial leeway of many local authorities, which has been reinforced by the consequences of the coronavirus pandemic, significantly limits their acquisition potential.

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

# Strategy

As one of the leading developers of residential real estate in Germany, Instone Real Estate consistently pursues a strategy of profitable growth. This strategy takes advantage of the highly attractive opportunities in the German market while creating added value for all stakeholders. This particularly includes our customers, employees, shareholders, local authorities and the social environment where we operate. The strategy comprises the following key elements: GRI 103; GRI 103-1; GRI 103-2; GRI 103-3

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

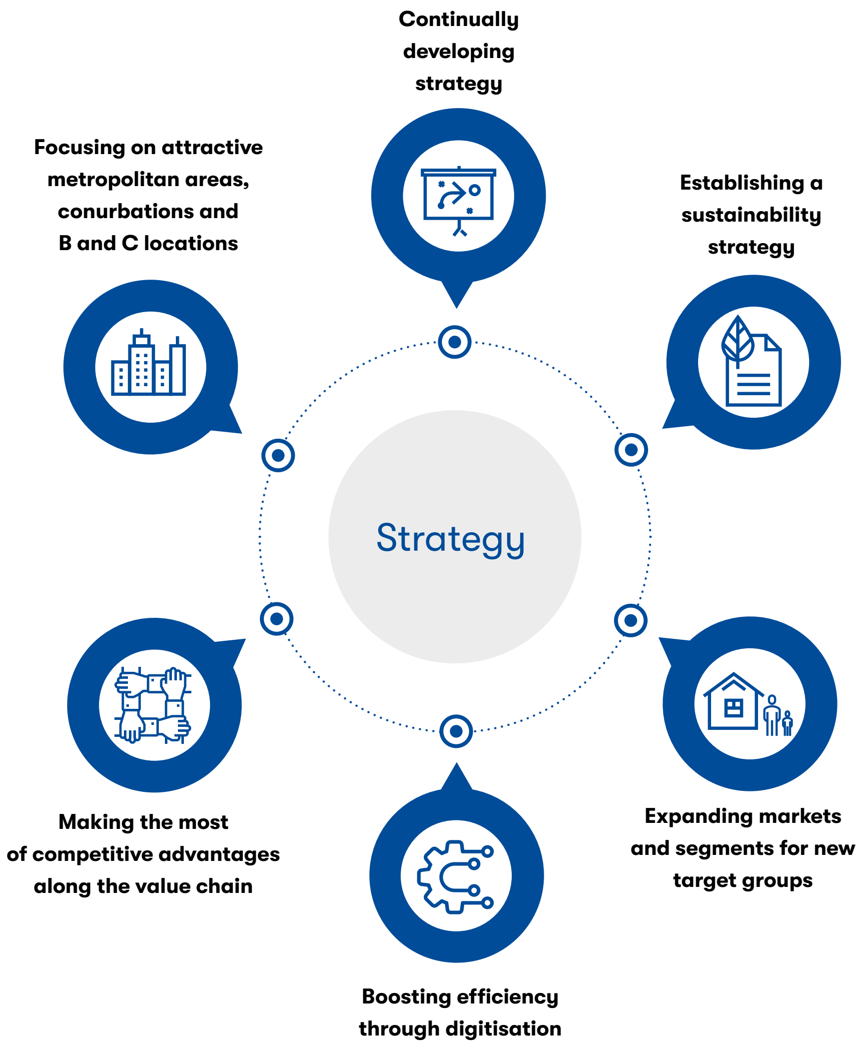
For our "traditional product", the individually planned and tailored development of homes for rent and homes for sale, we are focusing on inner-city locations in attractive metropolitan areas and medium-sized cities with structural surplus demand and strong demographic growth. In our projects, we also always focus on sustainable neighbourhood development and the integration of social aspects. One of our priorities is to build a large proportion of accessible homes. With regard to the project sizes, we concentrate on large projects with an average value of €100 million. Neighbourhood developments consist of a mix of residential units supplemented by other usage categories, such as offices, commercial spaces and community facilities, like child day-care centres. For a larger proportion of non-residential developments, we take on land development and include project partners for the commercial part.

## Growth through expansion of our innovative "Affordable housing" product

With our product to create affordable housing, we are supplementing our existing successful product range with high-quality, low-cost products based on modular planning. The cost advantages created by this product are allowing Instone Real Estate to tap into the mid-price market, which has barely been catered to until now. This means that Instone Real Estate can benefit from opportunities in B and C locations in the areas around the economic centres, which are becoming increasingly attractive. Thus we have developed a needs-oriented, custom-fit product for these regions. By combining modular planning, serial construction, product simplification and using digital sales channels, we can significantly reduce production costs and the duration of projects. This will enable us to address the high demand for homes for rent and homes for sale for medium income groups while making a valuable contribution to more affordable housing on the outskirts of metropolitan areas. The average project size in this segment is around €30–50 million. In 2020, we launched the first two pilot projects in Dusseldorf (Gerresheimer Landstraße) and Duisburg (Düsseldorfer Landstraße).

## Use of short-term market opportunities

The current market environment, still influenced by the effects of the coronavirus pandemic, offers many opportunities for Instone Real Estate to acquire additional land. Since the beginning of the pandemic there has been an increase in the supply of land suitable for residential real estate projects for various reasons, whereas the demand from potential buyers has been declining. We are applying our many years of experience and our procurement networks to exploit these opportunities and profit from the current market situation as best we can. Over the next 12 to 18 months, we will be expanding our project portfolio significantly in terms of both the traditional business and our new product for affordable housing. Instone Real Estate has created a good environment for this expansion on the basis of the 2020 capital increase.




## Using competitive advantages based on comprehensive expertise at all stages of the value chain

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

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

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

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

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

→ Direct access to subcontractors creates competitive advantages, especially when contractors are working at near-full capacity. This makes it possible to ensure building capacity early on and to provide a high level of cost transparency. In marketing and sales we maximise our access to any relevant target groups, such as owner-occupiers, capital investors and institutional investors.

## Exploiting efficiency gains through digitisation

For Instone Real Estate, digitisation is the key factor to further increases in efficiency, as well as being a key competitive advantage in a highly fragmented industry with comparatively little digitisation. Through continuously digitising and analysing all processes, we can routinely identify potential for improvement, and thus increase efficiency in the planning and building process in the long term. We have, for example, developed a customer portal including a configurator that allows our customers to carry out many of the process steps digitally. In the future, we intend to implement a fully integrated customer management platform that pools all of the marketing and sales processes together and further improves customer service. We even make use of digitisation in planning and building processes (BIM planning[1]), and that allows us to implement efficient project controlling and optimise the use of materials, time and labour.

[1] BIM: Building Information Modelling

## Implementing a sustainability strategy and sustainability management

Fair and responsible action with regard to economic, environmental and social sustainability is a core component of Instone Real Estate's strategy. In the 2020 financial year we developed a sustainability management framework, which included creating structures, such as appointing a sustainability officer and developing a sustainability strategy for the Instone-Group, as well as adopting clearly worded sustainability goals. The intention is to anchor this ESG strategy even more deeply into the corporate structure during the 2021 financial year. The sustainability reporting should be based on the GRI standards "Core" option and the UN Sustainable Development Goals. The required reporting systems are being continuously expanded. In the course of implementing the ESG strategy, we are aiming for an external ESG rating for 2021.

# Corporate management

## Instone-Group's Corporate Management system

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

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

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

→ Integrated management information system

→ Database-supported project management

→ Structured meeting system

→ Financial and real estate business key performance indicators

→ Group-wide risk management

### Integrated management information system

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

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

### Database-supported project management

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

### Structured meeting system

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

# Key performance indicators

## Financial and real estate business key performance indicators

### Important key performance indicators

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

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

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

#### Adjusted revenue

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

#### Adjusted gross profit margin

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

#### Adjusted earnings after tax

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

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

#### Volume of sales contracts

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

### Other important key performance indicators

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

#### Current offer for sale

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

#### Project portfolio

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

#### Volume of new approvals

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

#### Project gross profit or loss and project gross profit margin

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

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

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

# Economic conditions

## COVID-19 crisis leads to a marked decline in GDP

According to initial calculations by the Federal Statistical Office, the gross domestic product in Germany fell by 5.0% in 2020. The COVID-19 crisis thus put an end to the ten-year growth phase and sent the German economy into a deep recession. However, the Deutsche Bundesbank anticipates 3.0% growth again in 2021. In 2022, economic output is expected to increase by 4.5%.

The measures taken to contain the coronavirus pandemic have significantly weakened German economic output, particularly in the first half of 2020. The recovery process, which began in May, lost momentum in the course of the year. Following the start of the second lockdown in November, the economy had once again shrunk by the end of the year. Sectors like restaurants, events, tourism and air transport, but also high-street retail, remained subject to significant restrictions. In addition, companies around the world have been holding back investments. Export trade has also been severely affected by the coronavirus pandemic. Exports fell by 9.9% and imports by 8.6%.

Private consumer spending declined by 6.0% year-on-year adjusted for inflation, the sharpest decline on record. Although disposable incomes were supported by a series of policy measures, the lack of consumer opportunities resulting from infection control measures led to a historic increase in the savings ratio to 16.3% (previous year: 10.9%).

The construction industry, on the other hand, was able to hold its ground during the crisis and ended 2020 up by 1.4%. The mild winter and the substantial increase in building investment in the first quarter were contributing factors. Overall, building investment grew by 1.5% in 2020.

## Noticeable rise in the unemployment rate

According to information from the Federal Statistical Office, in 2020, the working population of Germany fell by an average of 477,000 to 44.8 million. The proportion of employees subject to social insurance contributions remained stable compared to the previous year. It is likely that total employment would have increased further without the pandemic. According to the Federal Employment Agency, the unemployment rate in Germany was 5.9% in 2020, a noticeable increase over the previous year's figure of 5.0%. The Bundesbank anticipates that it will increase further for 2021 to 6.4%. The core cities had an annual average unemployment rate of 7.0% in 2020, which was above the average for Germany as a whole. Munich recorded the lowest figure at 4.5%, and Berlin and Cologne once again recorded the highest at 9.6% and 9.2% respectively.

## Inflation rate well below the previous year

According to the Federal Statistical Office, the inflation rate was 0.5% in the reporting year, significantly below the previous year's figure of 1.4%. The decrease in average petroleum product prices in 2020 was a major factor, as was the temporary reduction in VAT in the second half of 2020, the underutilisation of macroeconomic capacity and subdued demand. For 2021, the Deutsche Bundesbank expects consumer prices to increase again, in particular because of the removal of the temporary German VAT cut in 1 January 2021 and the introduction of the nationwide emissions trading scheme for $CO_2$ pricing in the Transport and Heating sectors.

## Demand for real estate loans remains high

According to the German Bundesbank, in 2020, real estate loans to private households in Germany increased by around 3.5% with interest rates still very low and stable. In November 2020, the average interest rate on housing loans with interest rates initially fixed for more than ten years was 1.14%. The ECB's key interest rate remains unchanged at 0.0%.

TABLE 015

| Structural data for 2020 | Inhabitants in thousands[1] | Population development 2010 – 2020 in %[1] | GDP in millions of euros[2] | GDP per capita in euros[2] | Available income per capita in euros annually in 2020[1] | Unemployment rate in % (average for 2020)[3] |
|---|---|---|---|---|---|---|
| Berlin | 3,709 | 7.17 | 145,547 | 40,105 | 21,260 | 9.6 |
| Dusseldorf | 629 | 6.80 | 50,429 | 81,563 | 27,419 | 7.8 |
| Frankfurt a. M. | 771 | 13.46 | 70,639 | 94,190 | 26,372 | 6.7 |
| Hamburg | 1,868 | 4.55 | 118,912 | 64,771 | 25,562 | 7.6 |
| Cologne | 1,104 | 9.59 | 64,536 | 59,588 | 24,374 | 9.2 |
| Leipzig | 602 | 15.08 | 21,502 | 36,761 | 19,909 | 7.5 |
| Munich | 1,502 | 10.98 | 116,647 | 79,690 | 31,309 | 4.5 |
| Nuremberg | 522 | 3.30 | 31,374 | 60,711 | 24,312 | 5.4 |
| Stuttgart | 642 | 5.88 | 57,369 | 90,518 | 26,418 | 4.7 |
| **Core cities** | **11,348** | **7.97** | **676,956** | **67,544** | **25,215** | **7.0** |

[1] Forecast value for 2020/source: bulwiengesa AG
[2] As at 2018/source: Federal and State Statistical Offices
[3] Source: Federal Employment Agency

### Population figures in Germany stagnated for the first time since 2011

According to estimates by the Federal Statistical Office, Germany's population remained stable at 83.2 million people at the end of 2020. This means that, for the first time since 2011, the population did not increase. The main reason for this was lower net immigration due to the coronavirus pandemic and an increase in the number of deaths with slightly fewer births than in the previous year. According to estimates, net immigration in 2020 was between 180,000 and 240,000 people, which was significantly lower than the previous year's figure (327,060 people). The leading economic research institutes anticipate that around half of this drop in migration will be balanced out evenly over the coming years. Accordingly, the working age population (15 – 74 years) will initially increase slightly and then gradually decline in percentage terms from 2023 as a result of ageing.

### Above-average population development in the core cities

The core cities have grown at an above-average rate in recent years. According to figures published by bulwiengesa, the population there increased by around 9.2% from 2011 to 2019. The figure for Germany as a whole during the same period was 3.5%. The highest growth rates according to those figures were in Leipzig at 16.3% and Frankfurt am Main at 12.8%. At 5.5%, the city of Dusseldorf had the lowest increase of the core cities, but it is still above the national average. The growth forecast for the core cities remains positive. By 2030, the population is expected to increase by 5.3%.

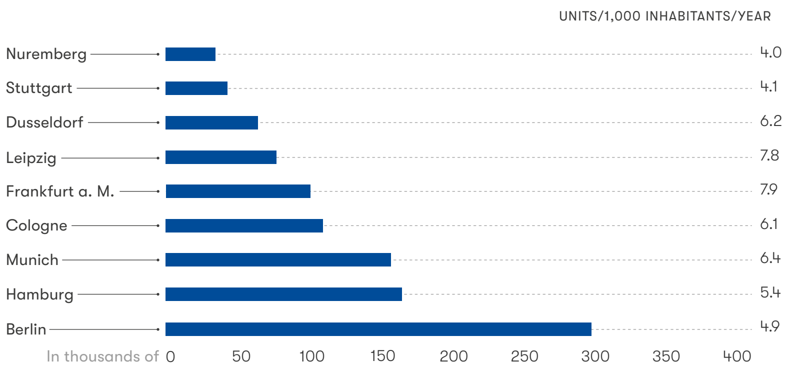
But the areas around the big cities have also been experiencing positive population development for years. The main reasons for this are increasing rents and purchase prices in the big cities and the desire for a quieter, more child-friendly environment. The COVID-19 crisis could further reinforce this trend as the growing acceptance of working from home leads to a need for more living space. Fewer days in the office could also encourage workers to take on longer commutes. In the second row, for example, cities that can be reached from the major cities by train in less than one hour are becoming increasingly attractive.

### Further increase in the number of households expected

In addition to the population figures, the trend in the number of households also constitutes a relevant key figure for the housing market. Numerous social trends are causing this figure to increase steadily. According to the Federal Statistical Office, while the population grew by only 3.5% between 2011 and 2019, the number of households increased by 5.1% over the same period. The proportion of single-person households rose from 40.2 % to 42.3%. The reasons for this include the increasing number of single people, due in part to an increase in life expectancy. It is currently 83.4 years for newborn girls and 78.6 years for boys, slightly higher than the previous calculations. The Federal Statistical Office expects a further increase in the proportion of single-person households to more than 45% by 2040, compared with around 42% in 2019.

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

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




[1] Reference year: 2019, replacement and additional demand excluding pent-up demand (source: State Statistical Offices with bulwiengesa forecasts)

## Still more permits than completions

From January to November 2020, the number of building permits in Germany increased by 3.9% compared to the previous year. According to the Federal Statistical Office, planning permission was granted for a total of 331,909 homes in the first eleven months of 2020 (Jan – Nov 2019: 319,532). Of these, 294,730, or around 89%, were for new builds (Jan – Nov 2019: 88%).

The number of completed homes rose by 2% in 2019 to 293,000, the highest figure since 2001. The positive trend in completed builds has therefore remained unbroken since 2011. The value has risen by around 60% overall, or 110,000 units since 2011. According to bulwiengesa, construction activity in the core cities has also expanded significantly in recent years. Whereas the total number of completed builds in 2011 was still less than 20,000 residential units, just under 44,000 units were completed in 2019. Growth was particularly significant in Berlin and Dusseldorf, where the figure more than quadrupled. Compared to 2018, however, the number of completed builds in the core cities fell by 4.2% for the first time since 2011. Only Berlin and Frankfurt am Main recorded increases in completions in 2019.

At the same time, however, the so-called construction surplus, the number of construction projects that have not yet been started or have not yet been completed, has increased further. The trend has persisted since 2008 and continued to do so in 2019, bringing the figure to 740,400, its highest level for Germany as a whole since 1998. In the core cities alone, the surplus increased by a factor of almost 14 from 2011 to 2019.

## Construction lagged behind demand

Despite the fact that construction has been increasing for years, completions are not sufficient to meet the demand for housing. According to calculations performed by bulwiengesa, in the core cities alone, more than 63,000 new homes will be needed each year until 2035. In contrast, only around 44,000 homes were completed in 2019. This means that only about 70% of the homes that are needed are currently being built. The coverage ratio is highest in Berlin at 94%, with Cologne trailing behind at 31%. According to the German Economic Institute, around 340,000 new homes are needed every year in Germany.

Due to persistently high capacity utilisation in the construction industry, the shortage of skilled workers in that industry and lengthy planning and approval processes, the trend is not expected to change suddenly in the coming years. However, there was a slight easing in the past financial year due to the significant expansion of capacity in the construction industry in recent years combined with reduced demand in other industries such as hotel and office construction caused by the coronavirus pandemic.

Furthermore, the marked easing of the burden on the housing market from the reduction of vacant properties can no longer be expected to continue as reserves of vacant properties are now almost entirely exhausted, particularly in growth regions with high demand. This is shown in the data from the current CBRE empirica vacancy index. The active market vacancy rate in growth regions was 1.9% at the end of 2019, having declined for the 13th year in a row (2006: 3.3%). The lowest rate observed was 0.2% in both Munich and Frankfurt am Main. The nationwide vacancy rate was unchanged compared to the previous year at 2.8%.

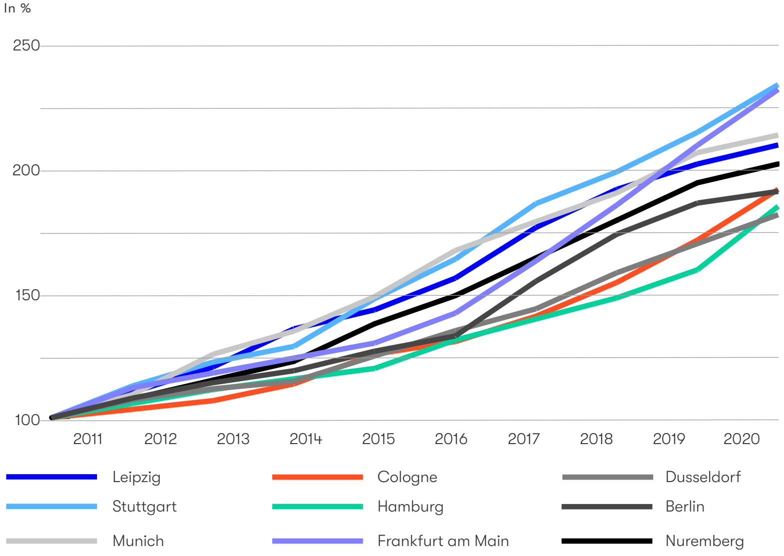
## Housing prices continue to rise despite the crisis

Despite the coronavirus pandemic, residential real estate prices in Germany have continued to rise, continuing their structural upward trend which has persisted for over ten years. According to information from the Association of German Pfandbrief Banks (VDP), owner-occupied residential property prices rose by 7.3% in the third quarter of 2020 compared to the same quarter in the previous year. Even since the start of the pandemic, prices have continued to rise by 4.0% compared to the first quarter of this year and by 2.1% compared to the second quarter. The German Economic Institute considers this robust trend to be due in part to the continuation of substantial surplus demand in many cities and districts. In addition, the COVID-19 crisis has also reinforced the value of personal living space, and therefore also the willingness to spend on housing.

In A cities, the increase in owner-occupied residential property prices was lower than the nationwide trend. According to the VDP index, prices in the top seven cities rose by 5.2% in the third quarter of 2020 compared to the same quarter in the previous year. This trend had already been observed before the pandemic and is mainly due to the existing high price level in the A cities and relocation to surrounding areas with the associated catch-up effects in those areas. The greatest price increase in A cities compared to the same quarter in the previous year was in Cologne at 6.2%; Stuttgart recorded the lowest growth at 4.0%.

Looking at the new build owner-occupied residential sector on its own, prices continue to rise sharply. Over the past year, the average price of new builds in the core cities rose by 7.4% to over €6,500 per square metre (previous year: around €6,100). Overall, prices have more than doubled since 2011.

**Average purchase prices in the core cities 2011 – 2020[1] (first occupation)**




[1] Forecast figure for 2020. Sales price development in the Core Cities (source: bulwiengesa AG).

Our company
To our shareholders
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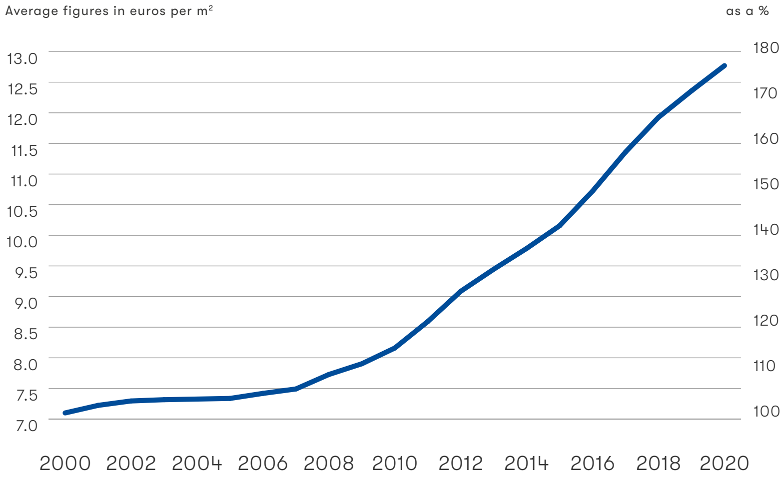
## Rent prices continue to show a positive trend

Rents have also continued to rise despite the coronavirus crisis and the recessionary economic environment. Here too, however, overall growth in the metropolitan areas is lower than the average for Germany as a whole. According to VDP, rents on new leases in Germany increased in the third quarter of 2020 by 3.4% compared to the same quarter in the previous year whereas the increase in A cities was just 1.8%. In addition to the above reasons, specific regulatory measures such as the rent cap in Berlin also had an effect. In contrast, rent on first-time rentals in new builds rose more sharply in the core cities. According to bulwiengesa, growth in this area in 2020 was 3.1% compared to the previous year. The average annual increase since 2011 was 4.3%.

**Bulwiengesa real estate index new build housing rents**

AS AT: 4TH QUARTER OF 2020

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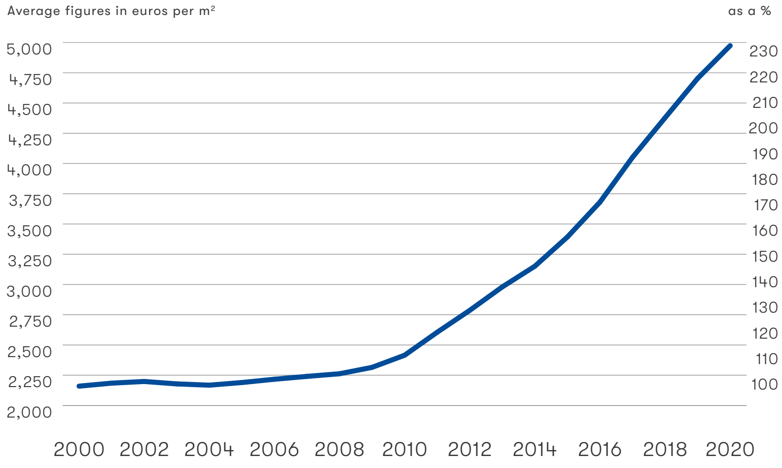
**Bulwiengesa real estate index price for new build residential units**

AS AT: 4TH QUARTER OF 2020

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## Residential properties in Germany are generally affordable

The trend towards increasingly high prices increasingly raises the question of the affordability of residential real estate for German households, and therefore the prospects for future price trends. According to the November 2020 IVD affordability index, the affordability of owner-occupied residential property in Germany decreased slightly compared to the previous year.[1] In the third quarter of 2020, the index for existing owner-occupied homes with a mid-range residential value stood at 199.9 on average across Germany, continuing to represent a relatively low burden of 12.5% on household budgets (Q2 2019: 11.4%). This means that owner-occupied residential property in Germany generally remains affordable. A higher index value indicates an increase in affordability. However, looking at newly built owner-occupied homes with a good residential value, the index is already at 105.3, representing an average burden on household budgets of 23.7%. The picture also varies by region: the affordability of owner-occupied residential property in medium-sized German towns has an index value of 150.8, significantly more than in the top seven cities where the index is at 68.1.

While interest rates on housing loans are at historically low levels, which significantly aids affordability, German household incomes have risen, but have not kept pace with the growth in property prices. Property prices have risen by an average of 6.6% per year since 2016, while nominal wages have risen by only 2.6% per year on average over the same period.

## Residential properties remain in demand

Despite rising prices and a moderately decreasing trend in affordability, investments in residential property will remain attractive in the coming months thanks to low interest rates, rising rents and a lack of alternative defensive forms of investment yielding suitable returns.

[1] Explanation of the German real estate association IVD affordability index: the basic index assumption is that a budgetary burden of 25% due to the acquisition of real estate is affordable. This figure was intended to ensure that the burden on housing, i.e. including ancillary housing costs and reserves, is below 35 – 40% of household income. A value of 100 is an exact budgetary burden of 25% as a result of financing costs. The current index value of 199.9 corresponds to a relatively low budgetary burden of 12.5%. The calculation of the affordability index is based on a number of assumptions that define an average property, an average buyer and average financing. This ensures that the affordability figures are comparable across space and time and that the affordability figures represent real transaction conditions. For example, a ratio of 25% is assumed based on the purchase price including incidental purchase costs.

# Overall statement on the financial year

## 2020 financial year strongly impacted by the coronavirus pandemic

The 2020 financial year for Instone Real Estate was negatively affected by the coronavirus pandemic. Due to the uncertain impact of the coronavirus pandemic and the associated lockdown measures on the Instone Real Estate project business, in May 2020 we had to reduce the targets set for the most important management key performance indicators in the 2020 financial year.Sales of homes to owner-occupiers and private investors saw a significant temporary decline. In addition, sales launches for new projects were postponed to the third quarter due to the restrictions. In terms of sales activities with institutional investors, ongoing negotiations were interrupted, which was associated with significant delays in the conclusion of contracts. The overall decline was mainly due to the lower sales in the second quarter, particularly due to delayed marketing starts, which could not be made up and therefore were unable make any contribution to further significant increases in revenue in the 2020 financial year. Nevertheless, the forecast adjusted in July was met in the project business thanks to the good business development and at Group level in the second half of 2020 despite the ongoing coronavirus pandemic.

In the second half of 2020, Instone Real Estate was also able to successfully carry out a capital increase from authorised capital with subscription rights for existing shareholders in return for cash deposits. The issue of 10 million shares increased the capital by gross income of €182.9 million. We will use the funds to finance property investments.

The increase in the project portfolio to €6,053.6 million (previous year: €5,845.7 million) resulted from additions of new project developments in the amount of €489.9 million, disposals of €371.3 million and revaluations of €89.2 million. Adjusted Group revenue declined by around 35% year-on-year to €480.1 million (previous year: €736.7 million) due to coronavirus and the exceptionally high contribution to earnings from the "Westville" project in the previous year. With a decrease of around 37%, adjusted earnings before interest and taxes (EBIT) declined to €83.8 million (previous year: €129.6 million). Adjusted consolidated earnings were significantly worse due to the impact of the coronavirus at €41.1 million (previous year: €105.6 million).

Operating cash flow excluding payments for land acquisitions increased due to the positive trend of net working capital to €225.0 million (previous year: €115.0 million). Additionally, Instone Real Estate has financially secured its growth strategy for the next three years with newly concluded credit agreements of approximately €319.8 million and the suggested capital increase of €182.9 million in the 2020 financial year.

## Comparison of actual and forecasted development

**Comparison of actual and forecasted development in 2020** TABLE 016

In millions of euros

| | | Actual 2020 | Adjusted forecast[1] | Initial forecast[2] |
|---|---|---|---|---|
| Revenues (adjusted) | | 480.1 | 470 to 500 | 600 to 650 |
| Earnings after tax (EAT) (adjusted) | | 41.1 | 30 to 35 | n/a |
| Volume of sales contracts | | 464.4 | greater than 450 | greater than 600 |
| Gross profit margin (adjusted) | In % | 30.5 | greater than 28 | around 26 – 27 |

[1] See Q2 2020 quarterly statement, page 22.

[2] See 2019 annual report, page 84.

# Results of operations, net assets and financial position

**Cumulative key financial performance indicators** TABLE 017

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| Revenue adjusted [1] | 480.1 | 736.7 | – 34.8% |
| Gross profit adjusted | 146.6 | 187.8 | – 21.9% |
| Gross profit margin adjusted [1] | 30.5% | 25.5% | |
| EBIT adjusted | 83.8 | 129.6 | – 35.3% |
| EBT adjusted | 59.4 | 107.8 | – 44.9% |
| EAT adjusted [1] | 41.1 | 105.6 | – 61.1% |

[1] Financial performance indicators.

## Results of operations

The presentation of the results of operations in the consolidated financial statements of Instone Real Estate Group AG for the 2020 financial year reflects this business which is largely impacted by the project developments of the Instone-Group. For this reason, the following adjustments have been made to the income statement.

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

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

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

To simplify the presentation of the results of operations, some items in the income statement are combined into new items.

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

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

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

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

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

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

→ The adjusted project costs include the cost of materials less changes in inventories, material-cost related other operating income (income opposed by a directly attributable item in cost of materials) indirect selling expenses and capitalised interest. It thus reflects the external costs allocated to the project developments. The adjustment other operating income after subtracting the cost of materials was carried out for the first time in the 2020 financial year, as the effects in the previous year were not significant.

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

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

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

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

→ Adjusted investment and financial result is the total of other income from investments, financial income, financial expenditure and write-downs on securities classified as financial assets less capitalised interest.

**Adjusted results of operations** TABLE 018

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| Revenues adjusted | 480.1 | 736.7 | –34.8% |
| Project costs adjusted | –333.5 | –548.8 | –39.2% |
| **Gross profit adjusted** | **146.6** | **187.8** | **–21.9%** |
| **Gross profit margin adjusted** | **30.5%** | **25.5%** | |
| Platform costs adjusted | –65.5 | –59.0 | 11.0% |
| Share of results of joint ventures adjusted | 2.7 | 0.7 | 285.7% |
| **Earnings before interest and tax (EBIT) (adjusted)**[1] | **83.8** | **129.6** | **–35.3%** |
| **EBIT margin adjusted** | **17.5%** | **17.6%** | |
| Income from investments adjusted | –1.2 | –5.7 | 78.9% |
| Financial result adjusted | –23.2 | –16.1 | –44.1% |
| **Earnings before tax (EBT) adjusted** | **59.4** | **107.8** | **–44.9%** |
| **EBT margin adjusted** | **12.4%** | **14.6%** | |
| Income taxes adjusted | –18.3 | –2.2 | n/a |
| **Earnings after tax (EAT) adjusted** | **41.1** | **105.6** | **–61.1%** |
| **EAT margin adjusted** | **8.6%** | **14.3%** | |

[1] Adjusted EBIT/EBITDA for the 2019 financial year was adjusted to adapt the calculation of the adjusted EBIT/EBITDA to the amended definition used from 1 January 2020

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

→ Adjusted income taxes correspond to income taxes adjusted for the tax effects of purchase price allocations as well as non-recurring effects.

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

## Revenue

Adjusted revenue decreased by around 35% to €480.1 million in the 2020 financial year (previous year: €736.7 million). The decline in revenues is due to the lower sales in the second quarter, particularly also due to delayed marketing starts, which will not be made up for and therefore cannot make any contribution to further revenue recognition. The previous year's figure also included the extraordinarily high revenue contribution of €220.8 million from the "Westville" project.

The amortisation of the effects from purchase price allocations resulted in a charge of €– 6.2 million (previous year: €6.4 million) on the reported revenue. The separate valuation of share deals ("Westville" project) increased the adjusted revenue by €28.3 million (previous year: €220.8 million). In addition, of the reported revenue, €6.4 million (previous year: €0.0 million) was adjusted as a non-recurring effect of the clarification of revenue recognition to be applied in previous years.

**Revenue** TABLE 019

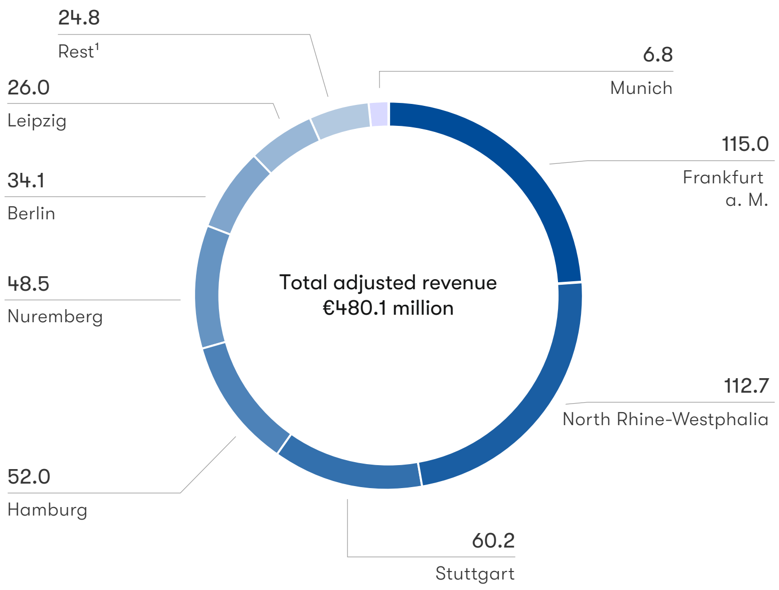
In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Revenue** | **464.4** | **509.5** | **– 8.9%** |
| + effects from purchase price allocations | – 6.2 | 6.4 | n/a |
| + non-recurring effects | – 6.4 | 0.0 | 0.0% |
| + effects from share deals | 28.3 | 220.8 | – 87.2% |
| **Revenues adjusted** | **480.1** | **736.7** | **– 34.8%** |

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

**Adjusted revenue by regions**

In millions of euros




[1] Includes Wiesbaden (€10.6 million), Mannheim (€14.0 million), among others

## Project costs

The adjusted project costs, significantly affected by the cost of materials and the changes in inventories, also fell in the financial year to €333.5 million (previous year: €548.8 million). Reduced purchases of land plots and the continuation of construction activities at the same level as the previous year led to a reduction of the cost of materials to €362.2 million (previous year: €634.0 million). The changes in inventories essentially decreased for the same reasons to €45.0 million (previous year: €277.3 million).

As at 31 December 2020, €1.5 million of other operating income was reclassified as project costs. Indirect sales expenses allocated to the project costs amounted to €2.4 million as at 31 December 2020 (previous year: €3.1 million). The adjustment of the capitalised interest in the changes in inventories of €3.1 million (previous year: €3.2 million) added to the project costs. Effects from the amortisation of purchase price allocations reduced adjusted project costs by €9.0 million (previous year: €7.9 million). Due to the separate valuation of share deals, project costs again increased by €25.5 million (previous year: €193.7 million). The reported changes in inventories were adjusted by €4.2 million (previous year: €0.0 million) as a non-recurring effect based on a clarification of the inventory valuation to be applied in previous years.

**Project costs** TABLE 020

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Project costs** | **317.2** | **356.7** | **–11.1%** |
| + effects from purchase price allocations | –9.0 | –7.9 | 13.9% |
| + effects from reclassifications | 4.0 | 6.3 | –36.5% |
| + non-recurring effects | –4.2 | 0.0 | 0.0% |
| + effects from share deals | 25.5 | 193.7 | –86.8% |
| **Project costs adjusted** | **333.5** | **548.8** | **–39.2%** |

## Gross profit

Due to the decline in revenue in the financial year, the adjusted gross profit of €146.6 million remained below the previous year's value (previous year: €187.8 million).

**Gross profit** TABLE 021

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Gross profit** | **147.2** | **152.8** | **–3.7%** |
| + effects from purchase price allocations | 2.9 | 14.3 | –79.7% |
| + effects from reclassifications | –4.0 | –6.3 | –36.5% |
| + non-recurring effects | –2.2 | 0.0 | 0.0% |
| + effects from share deals | 2.8 | 27.1 | –89.7% |
| **Gross profit adjusted** | **146.6** | **187.8** | **–21.9%** |

The adjusted gross profit margin – calculated from the adjusted gross profit relating to the adjusted revenue – amounted to 30.5% (previous year: 25.5%). The adjusted gross profit margin improved significantly in the financial year compared with the previous year. The reasons for the improvement are, on the one hand, no noteworthy effects from the coronavirus pandemic on the realisation of ongoing project business while maintaining price stability at a continued high level, and on the other hand, the significant influence of the low-margin "Westville" project in the previous year.

## Platform costs

The adjusted platform costs increased to €65.5 million (previous year: €59.0 million). In the financial year, indirect distribution costs of €2.4 million and material-cost related other operating income in the amount of €1.5 million were reclassified as project costs.

**Platform costs** TABLE 022

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Platform costs** | **66.5** | **66.7** | **–0.3%** |
| + effects from reclassifications | –0.9 | –3.1 | –71.0% |
| + non-recurring effects | 0.0 | –4.7 | –100.0% |
| **Platform costs adjusted** | **65.5** | **59.0** | **11.0%** |

At €42.1 million, staff costs were slightly higher at the end of the 2020 financial year compared to the previous year's level (previous year: €37.3 million). This was mainly due to the higher number of employees of 413 (previous year: 375) and the corresponding increase in the FTE figure of 342.5 (previous year: 307.7). Other operating income declined to €5.7 million (previous year: €7.7 million), mainly due to lower income from settlements in connection with legal disputes GRI 102-8. Other operating expenses fell in the period under review to €26.1 million (previous year: €33.0 million) due to expenses from subsequent acquisition costs for company acquisitions recorded in the previous year. This effect has not been repeated in the period under review. Depreciation and amortisation was €4.1 million (previous year: €4.1 million), the same as last year.

## Share of results of joint ventures

The adjusted shares of results of joint ventures of €2.7 million (previous year: €0.7 million) were attributable to subsidiaries with projects completed in previous years.

## Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax decreased to €83.8 million (previous year: €128.9 million), mainly due to a lack of revenue due to the coronavirus, the exceptionally high contribution to earnings from the "Westville" project in the previous year and the investments already made in the further planned expansion of the platform in the 2020 financial year.

**EBIT** TABLE 023

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **EBIT** | **83.4** | **86.8** | **–3.9%** |
| + effects from purchase price allocations | 2.9 | 14.3 | –79.7% |
| + effects from reclassifications | –3.1 | –3.2 | –3.1% |
| + non-recurring effects | –2.2 | 4.7 | n/a |
| + effects from share deals | 2.8 | 27.1 | –89.7% |
| **EBIT adjusted** | **83.8** | **129.6** | **–35.3%** |
| **EBIT margin adjusted** | **17.5%** | **17.6%** | |

## Investment and financial result

The negative adjusted result from investments in the financial year of € 1.2 million (previous year: €5.8 million) is due to a change in the entitlements to profits of minority shareholders in project-specific limited partnership companies.

The financial result decreased in the financial year to €–26.3 million (previous year: € –17.8 million). The expected increase in interest expenses is essentially attributable to the increase in debt to finance investments in land since 2019.

The financial result adjusted for the interest from project financing capitalised in the changes in inventories before the sales launch amounted to €3.1 million (previous year: € 3.2 million) decreased to €– 23.2 million (previous year: €– 16.1 million).

## Earnings before tax (EBT)

Due to the decline in demand as a result of the coronavirus, the exceptionally high contribution to earnings from the "Westville" project in the previous year and the increase in financing expenses for new investments, adjusted earnings before tax remained significantly below the amount from the same period in the previous year at €59.4 million (previous year: €107.8 million).

**EBT** TABLE 024

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **EBT** | **55.9** | **63.2** | **– 11.6%** |
| + effects from purchase price allocations | 2.9 | 14.3 | – 79.7% |
| + non-recurring effects | – 2.2 | 3.2 | n/a |
| + effects from share deals | 2.8 | 27.1 | – 89.7% |
| **EBT adjusted** | **59.4** | **107.8** | **– 44.9%** |
| **EBT margin adjusted** | **12.4%** | **14.6%** | |

## Income taxes

The tax rate in the adjusted results of operations in financial year 2020 was 30.8% (previous-year period: approximately 2%). Tax expenses could be harmonised to a tax rate of around 31%, compared with strong fluctuations in previous years as a result of the conclusion of the control and profit transfer agreement in the second half of 2019. Non-recurring tax effects from previous periods resulted in a temporary increase in the reporting period and were eliminated in the adjusted results of operations. In the previous-year period, the tax rate was positively influenced by a non-recurring effect from the first-time use of loss carryforwards.

Due to the effects mentioned above, income taxes in the reported earnings amounted to an expense of €22.2 million (previous year: income of €6.5 million).

## Earnings after tax (EAT)

The adjusted earnings after tax of the Instone-Group totalled €41.1 million (previous year: €105.6 million) as a result of the aforementioned effects and the increase in tax expenses. Before adjustment for effects from purchase price allocations as well as effects from share deals, reported earnings after tax were €33.7 million (previous-year period: €69.8 million).

**EAT** TABLE 025

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **EAT** | **33.7** | **69.8** | **– 51.7%** |
| + effects from purchase price allocations | 2.0 | 9.8 | – 79.6% |
| + non-recurring effects | 3.0 | 3.2 | – 6.3% |
| + effects from share deals | 2.4 | 22.8 | – 89.5% |
| **EAT adjusted** | **41.1** | **105.6** | **– 61.1%** |
| **EAT margin adjusted** | **8.6%** | **14.3%** | |

## Earnings after tax and after minority interests

Non-controlling interests in the earnings after tax amounted to €0.0 million (previous year: €2.5 million). Non-controlling interests in the adjusted earnings after tax amounted to €0.0 million (previous year: €2.9 million).

**Earnings after tax and after minority interests** TABLE 026

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| **EAT after minority interests** | **33.7** | **69.8** | **– 51.7%** |
| + effects from purchase price allocations | 2.0 | 9.8 | – 79.6% |
| + non-recurring effects | 3.0 | 3.2 | – 6.3% |
| + effects from share deals | 2.4 | 22.8 | – 89.5% |
| **EAT adjusted after minority interests** | **41.1** | **105.6** | **– 61.1%** |

## Earnings per share

At €0.99 (previous-year period: €2.69), adjusted earnings per share in 2020 remained significantly lower than in the same period in the previous year. As a result of the capital increase, 10 million new shares were issued in the financial year. Due to the higher number of shares, adjusted earnings per share fell slightly by €0.12 (previous year: €0.17).

**Earnings per share** TABLE 027

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| Shares (in thousand units)[1] | 41,553.5 | 39,299.6 | 5.7% |
| | | | |
| Owners of the Company | 33.7 | 69.8 | n/a |
| Earnings per share (in euro) | 0.81 | 1.78 | n/a |
| | | | |
| Owners of the Company adjusted | 41.1 | 105.6 | n/a |
| Earnings per share adjusted (in euro) | 0.99 | 2.69 | n/a |

[1] Average weighted number of shares as at 31 December 2020, previous year adjusted due to the issue of bonus shares

## Net assets

**Condensed statement of financial position[1]** TABLE 028

In millions of euros

| | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Non-current assets | 52.9 | 20.4 | 159.3% |
| Inventories | 777.8 | 732.1 | 6.2% |
| Contract assets | 194.2 | 219.0 | –11.3% |
| Other receivables and assets | 26.3 | 34.7 | –24.2% |
| Cash and cash equivalents and term deposits | 232.0 | 117.1 | 98.1% |
| **Assets** | **1,283.1** | **1,123.4** | **14.2%** |
| Equity | 521.0 | 310.2 | 68.0% |
| Liabilities from corporate finance | 207.2 | 180.8 | 14.6% |
| Liabilities from project financing | 274.5 | 414.7 | –33.8% |
| Provisions and other liabilities | 280.4 | 217.8 | 28.8% |
| **Equity and liabilities** | **1,283.1** | **1,123.4** | **14.2%** |

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

As at 31 December 2020, the Instone-Group's total assets rose to €1,283.1 million (previous year: €1,123.4 million). This was mainly attributable to the increase in inventories.

As at 31 December 2020, inventories rose to €777.8 million (previous year: €732.1 million). This increase in inventories is mainly the result of the purchase of new land for future residential project developments. As at 31 December 2020, acquisition costs and incidental acquisition costs for land amounting to €589.0 million (previous year: €548.9 million) were included in the inventories.

Receivables from customers for work-in-progress (contract assets) already sold and valued at the current completion level of development rose to €573.1 million as at 31 December 2020 (previous year: €479.4 million) due to the increased completion of work-in-progress. As at 31 December 2020, advance payments from customers amounted to €383.5 million (previous year: €266.9 million). The capitalised direct distribution costs decreased to €4.6 million (previous year: €6.5 million). The balance of these items results in a decrease in the contract assets to €194.2 million (previous year: €219.0 million). This is due to the fact that payments received rose more sharply in relation to construction progress.

**Contract assets** TABLE 029

In millions of euros

| | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Contract assets (gross) | 573.1 | 479.4 | 19.5% |
| Payments received | –383.5 | –266.9 | 43.7% |
| | **189.6** | **212.5** | **–10.8%** |
| Capitalised costs to obtain a contract | 4.6 | 6.5 | –29.2% |
| **Contract assets (net)** | **194.2** | **219.0** | **–11.3%** |

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015 as well as the business activities of S&P Stadtbau GmbH in the 2019 financial year, as at 31 December 2020 inventories and contract assets still included write-ups of €43.0 million (previous year: €46.0 million) from purchase price allocations. Based on current estimates, the Instone-Group expects these effects to expire in 2024.

Trade receivables in the financial year decreased to €1.1 million (previous year: €8.3 million). Receivables are essentially the result of customer security deposits retained.

The shares accounted for using the equity method, which also include participations in project companies, rose in the 2020 financial year from €0.7 million to €10.9 million due to the purchase of shares in joint ventures.

Non-current financial receivables amounting to €21.5 million (previous year: €0.5 million) include loans to joint ventures and increased in the financial year as a result of the financing associated with the purchase of shares.

Other current receivables and other assets decreased from €12.5 million to €12.1 million in 2020. As at 31 December 2020, other receivables are recognised that relate to a tax exemption of €1.4 million (previous year: €2.3 million) by Hochtief Solutions AG, Essen, and capitalised tax receivables of €1.0 million (previous year: €1.1 million), as well as advance payments made on investments amounting to €1.8 million (previous year: €0). Prepayments on land for which the transfer of benefits and encumbrances took place after the respective balance sheet date remained at the same level as in the previous year at €6.0 million (previous year: €6.0 million). In addition, processing fees for loans already paid amounting to €0.8 million (previous year: €1.9 million) which were distributed over the entire term, are recognised under other receivables and other assets.

Cash and cash equivalents and term deposits of €232.0 million (31 December 2019: €117.1 million) increased mainly as a result of the inflow from the capital increase and the positive inflow of cash from operations. Financing arrangements were also repaid in the period under review and a loan was extended to a minority shareholder of a Group company. For more information, please refer to the Group's consolidated statement of cash flows. page 111 et seq. As at the reporting date, the term deposits amounted to a total of €145.0 million (31 December 2019: €0.0 million) and have a term of more than three months.

Non-current provisions for pensions and similar obligations increased slightly by €0.8 million to €4.7 million in 2020. The defined benefit obligation for pension obligations amounting to €14.2 million (previous year: €12.6 million) was offset by plan assets of €9.5 million (previous year: €8.7 million). Plan assets amounting to €8.9 million (previous year: €8.2 million) were placed in a trust account with Helaba Pension Trust e. V., Frankfurt am Main whereas €0.5 million (previous year: €0.5 million) was invested in a trust account with European Bank for Financial Services GmbH (ebase®), Aschheim, Germany. At €1.0 million, the increase in plan assets on the trust account at Helaba Pension Trust resulted from a contribution made in the financial year. This contrasts with the decrease in value of the plan assets caused by the current financial market situation.
GRI 201-3

The remaining other non-current provisions for the financial year fell from €6.3 million to €5.0 million in 2020. For the most part, provisions for long-term incentive plans amounting to €3.3 million and other non-current personnel provisions amounting to €0.6 million are included in this item.

The other current provisions for the financial year increased slightly by €1.1 million in 2020, from €23.0 million (as at 31 December 2019) to €24.1 million. Project-related provisions for work still to be carried out, impending losses, and warranty and litigation risks in financial year 2020 were €17.5 million (previous year: €19.2 million).

Non-current financial liabilities decreased to €313.7 million as at 31 December 2020 (31 December 2019: €451.6 million). In the same period, current financial liabilities rose to €168.0 million (31 December 2019: €143.9 million). In the past financial year, we have repaid short-term corporate finance of €75.0 million and acquired new long-term corporate financing of €100 million on improved terms. Furthermore, project financing in the amount of €111.1 million, reported as non-current as at 31 December 2019, was reclassified as at 31 December 2020 as current financial liabilities, as these will be repaid within one year with the scheduled completion of the projects.

Liabilities from net assets attributable to non-controlling interests of €10.3 million (previous year: €9.5 million) related to minority interests in "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG".

Lease liabilities in the amount of €10.7 million (previous year: €9.8 million) increased as at 31 December 2020 due to the conclusion of new contracts for long-term leases.

Trade payables fell during the financial year to €68.9 million (previous year: €87.6 million) and essentially comprise the services provided by contractors.

Other liabilities in the amount of €88.7 million (previous year: €13.1 million) essentially include advance payments received for work-in-progress.

Deferred tax liabilities as of 31 December 2020 amounted to €22.9 million (previous year: €12.0 million). This figure also included deferred tax liabilities of €14.0 million (previous year: €14.9 million), which were formed on the basis of the write-ups from the first-time consolidation of Group companies in 2014, 2015 and 2019.

Income tax liabilities fell from €29.1 million as at 31 December 2019 to €14.4 million as at 31 December 2020 due to the lower taxable profits from the domestic Group companies.

The equity ratio as at 31 December 2020 was 40.6% (previous year: 27.6%). The capital increase improved the equity ratio by 13.8 percentage points.

**Net financial debt and debt-to-equity ratio** TABLE 030

In millions of euros

| | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Non-current financial liabilities | 313.7 | 451.6 | –30.5% |
| Current financial liabilities | 168.0 | 143.9 | 16.7% |
| **Financial liabilities** | **481.7** | **595.5** | **–19.1%** |
| – Cash and cash equivalents and term deposits | –232.0 | –117.1 | 98.1% |
| **Net financial debt (NFD)** | **249.7** | **478.4** | **–47.8%** |
| | | | |
| Inventories and contract assets | 971.9 | 951.1 | 2.2% |
| **Loan-to-cost [1]** | **25.7%** | **50.3%** | |
| | | | |
| EBIT adjusted (LTM [2]) | 83.8 | 129.6 | –35.3% |
| Depreciation and amortisation (LTM [2]) | 4.1 | 4.1 | 0.0% |
| **EBITDA adjusted (LTM [2])** | **87.9** | **133.7** | **–34.3%** |
| Leverage (NFD/EBITDA) adjusted (LTM [2]) | 2.8 | 3.6 | |

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

[2] LTM = last twelve months.

Leverage has decreased compared with the previous year's value. The proportionally stronger decline in net debt due to income from the capital increase and the lower result have reduced the leverage to 2.8 times the adjusted EBITDA. At the same time, the ratio of net debt to balance sheet inventories and contract assets improved to 25.7% (previous year: 50.3%).

## Financial position

In the 2020 financial year, the use of lines of corporate finance rose to €206.0 million (31 December 2019: €181.0 million). Utilisation of lines of project financing decreased to €275.9 million (31 December 2019: €416.9 million). The overall financing framework of 798.7 million now (31 December 2019: €994.7 million) reduced overall in the financial year due to higher liquidations of terminated financing compared with the conclusion of new classic project financing and other corporate finance. As at 31 December 2020, there were credit lines available amounting to €473.7 million (31 December 2019: €667.2 million) from project financing and €325.0 million (31 December 2019: €327.5 million) from corporate finance. These corporate finance agreements contain financial ratios that are described in the "Other disclosures" section of the notes to the consolidated financial statements.

In the 2020 financial year, the liabilities from corporate finance rose to €206.9 million (31 December 2019: €180.8 million). Liabilities from project financing decreased to €274.5 million (31 December 2019: €414.7 million). Recognised total liabilities from financing operations thus fell to €481.5 million on the reporting date (previous year: €594.9 million). The current project financing included in this is comprised of option agreements for extension.

The individual project financing of Instone Real Estate was negotiated with various financial institutions and is subject to different conditions. In general, the loans are subject to variable interest rates. Different amounts and frequencies have been agreed for the use of funds from loans with fixed interest or fixed term. The interest rates for 2020 were at the previous year's level.

Short-term funds needed for project-related payments can be obtained by means of overdraft facilities agreed with individual banks. To compensate for interest payments, all payments already received which the buyers of our properties pay into separately managed collective accounts for the purchase price payment are credited to these current account facilities. If necessary, these overdrafts can be converted into fixed-interest or fixed-term loans.

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

**Financial liabilities** TABLE 031

In millions of euros

| | Due by | Credit line | Utilisation as at 31/12/2020 | Interest rate conditions |
|---|---|---|---|---|
| **Corporate finance** | | | | |
| Promissory note loan | 31/08/2022 | 78.0 | 78.0 | 2.50% to 3.10% |
| Promissory note loan | 31/08/2024 | 28.0 | 28.0 | 3.00% |
| Promissory note loan | 31/08/2025 | 100.0 | 100.0 | 4.00% |
| Syndicated loan | 31/12/2023 | 94.0 | 0.0 | 2.85% |
| Current account loans <1 year | 31/12/2021 | 5.0 | 0.0 | 2.00% |
| Current account loans >1 and <2 years | 31/12/2022 | 10.0 | 0.0 | 2.85% |
| Current account loans >2 and <3 years | 31/12/2023 | 10.0 | 0.0 | 2.85% |
| | | **325.0** | **206.0** | |
| **Project financing** | | | | |
| Term <1 year | 31/12/2021 | 203.7 | 166.6 | 1.45% to 2.25% |
| Term >1 and <2 years | 31/12/2022 | 190.9 | 94.7 | 1.60% to 2.25% |
| Term >2 and <3 years | 31/12/2023 | 79.2 | 14.7 | 2.25% to 2.38% |
| | | **473.7** | **275.9** | |

**Condensed statement of cash flows** TABLE 032

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| Cash flow from operations | 119.9 | –205.1 | n/a |
| Cash flow from investing activities | –184.1 | –32.4 | 468.2% |
| **Free cash flow** | **–64.2** | **–237.5** | **73.0%** |
| Cash flow from financing activities | 34.2 | 266.2 | –87.2% |
| **Cash change in cash and cash equivalents** | **–30.0** | **28.7** | **n/a** |
| Cash and cash equivalents at the beginning of the period | 117.1 | 88.0 | 33.1% |
| Other changes in cash and cash equivalents | 0.0 | 0.4 | –100.0% |
| **Cash and cash equivalents at the end of the period** | **87.0** | **117.1** | **–25.7%** |

Cash flow from operations in the Instone-Group in the amount of €119.9 million in the 2020 financial year (previous year: €–205.1 million) was essentially due to the increased payment flows from customer payments for current projects with simultaneous purchase price payments and land acquisition taxes for land plots totalling €105.1 million (previous-year period: €328.8 million). This mainly related to the "Eslarner Straße", Nuremberg, "Philipp-Reis-Straße", Heusenstamm, "Aukamm", Wiesbaden, "Büntekamp", Hanover, "Neckar.Au Viertel", Rottenburg, and "Westville", Frankfurt am Main projects.

In the 2020 financial year, the Instone-Group was able to achieve a positive overall cash flow from operations and thus strengthen its position in terms of cash and cash equivalents. The operating cash flow, adjusted for payments for land in the period under review was distinctly positive at €225.0 million (previous year: €123.7 million). This underpins the sustained positive return flows of liquidity to the Instone-Group from the current residential property developments, in spite of the restrictions due to the coronavirus crisis in the second, third and fourth quarters of 2020.

**Cash flow from operations** TABLE 033

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| EBITDA adjusted | 87.9 | 133.7 | –34.3% |
| Other non-cash items | –3.8 | –38.8 | 90.2% |
| Taxes paid | –11.4 | –22.2 | 48.6% |
| Change in working capital | 47.2 | –277.8 | n/a |
| **Cash flow from operations** | **119.9** | **–205.1** | **n/a** |
| Payments for land | 105.1 | 328.8 | –68.0% |
| **Cash flow from operations without new investments** | **225.0** | **123.7** | **81.9%** |

Depreciation on non-current assets of €4.1 million (previous year: €0.8 million), expenses from deferred taxes of €13.0 million (previous year: €–25.9 million), the increased revaluation of investments valued at equity by €2.7 million (previous year: reduction of €0.4 million), expenses from the investment result of minority interests of €1.2 million (previous year: €5.8 million), expenses for interest of €26.3 million (previous year: €18.0 million) as well as expenses for income taxes amounting to €9.3 million (previous year: €20.3 million) in the financial year did not affect cash.

The decrease in provisions by €0.8 million (previous year: increase of €6.9 million) was also a non-cash item. Non-cash expenses and income reduced the cash flow from operations in financial year 2020 by €0.0 million (previous year: €0.3 million).

Cash flow from investing activities amounted to €– 184.1 million in the financial year (previous year: €– 32.4 million). This was mainly influenced by the short-term financial assets in terms of free liquidity in the amount of €145.0 million, the extension of a loan to the minority shareholders of a Group company in the amount of €9.9 million and the scheduled purchase of shares in joint ventures in the amount of €2.9 million as well as the granting of loans to joint ventures in the amount of €24.4 million.

The cash flow from financing activities as at 31 December 2020 was at €34.2 million (previous year: €266.2 million). It was essentially influenced by the net inflow from the capital increase of €175.0 million and the repayment of loans in the amount of €124.6 million. This includes payments received from new loans taken out in the amount of €266.5 million and repayments for terminated loans in the amount of €391.1 million.

As at 31 December 2020, financial resources decreased to €87.0 million (previous year: €117.1 million). This includes free cash amounting to €78.7 million (previous year: €109.0 million) which was not used to hedge existing project financing.

In addition to cash loans from banks, as at 31 December 2020 the guarantee facilities of the credit insurers were also maintained at €272.4 million now (previous year: €275.5 million).

# Project business at a glance

**Real estate business key performance indicators** TABLE 034

In millions of euros

| | | 2020 | 2019 |
|---|---|---|---|
| Volume of sales contracts | | 464.4 | 1,403.1 |
| Volume of sales contracts | In units | 1,292 | 2,733 |
| Project portfolio (existing projects) | | 6,053.6 | 5,845.7 |
| of which already sold | | 2,328.8 | 2,174.0 |
| Project portfolio (existing projects) | In units | 13,561 | 13,715 |
| of which already sold | In units | 5,381 | 4,814 |

## Volume of sales contracts

The volume of sales contracts is a material component of our Group's economic earning potential. That is why, against the backdrop of the coronavirus pandemic in 2020, much of our additional commitment focused on the sales process. This resulted in a marketing success of €464.4 million and 1,292 units in the 2020 financial year. This slightly exceeded the expected value of at least €450 million communicated in the 2020 semi-annual report, which already included the impact of the coronavirus. The detailed analysis of the marketing success in 2020 clearly shows that our product continues to be very well received by the market. The coronavirus-related failure to achieve the originally planned sales volume is therefore primarily not the result of the existing portfolio sales process, but instead of delayed remarketing in certain phases of the sales.

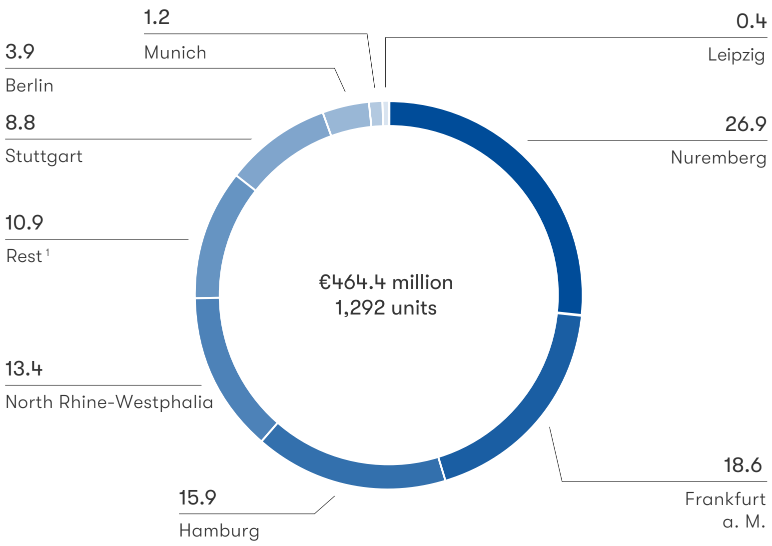
In addition to coronavirus-related effects, the sale in 2019 of one of the largest German residential projects "Westville" in the Gallus district of Frankfurt am Main, with more than 1,200 residential units, means that the figures for financial years 2019 and 2020 can only be reliably compared to a limited extent.

In the fourth quarter, the volume of sales contracts was again significantly increased by more than half compared with the first nine months of 2020. In total, some 708 units were sold with a volume of €246.0 million. This is due, among other things, to the successful sale of our individual sales projects which was already evident at the beginning of the second half of the year. In the last three months, 169 units with a volume of approximately €115 million were sold here. The fact that our product has been well received by the market despite the coronavirus situation is also reflected in the gross development value for 2020 for the individual sales projects of €285 million and 449 units. Compared with the previous year, the volume was only slightly lower than the 2019 figure (€300 million and 526 residential units). In addition, there was also a stronger increase in declarations of interest from institutional investors at the end of the first half of the year, meaning that institutional sales were successfully completed in the second half of 2020. In our "Wohnen im Hochfeld" project in Dusseldorf, the successful cooperation with LEG Immobilien AG was continued through a purchase agreement for a further construction phase with a total of 66 residential units. At the end of 2019, LEG Immobilien AG had already acquired a construction phase with 104 residential units in the urban district development in Unterbach. In addition, we were able to sell around 460 student apartments in the "Stephanstraße" project in Nuremberg to a leading European real estate and asset manager. Further successful contracts were concluded with a view to the realisation of a project in Wiesbaden and the sale of individual properties in the district. In addition, planned real estate sales with a sales volume of around €21 million took place in Hamburg and Leipzig.

The volume of sales contracts realised as at 31 December 2020 is concentrated almost exclusively in the most important metropolitan regions in Germany, accounting for approximately 89% of the total. Around 11% is located in other prosperous medium-class cities. Graphic

**Marketing in 2020 by region**

In %




[1] Mainly includes Wiesbaden.

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

**Real estate business key performance indicators – volume of sales contracts** TABLE 035

In millions of euros

| | | Volume | units |
|---|---|---|---|
| Stephanstraße | Nuremberg | n/a | 464 |
| St. Marienkrankenhaus | Frankfurt a. M. | 57.9 | 47 |
| Schulterblatt "Amanda" | Hamburg | 53.2 | 71 |
| Wohnen im Hochfeld Unterbach | Dusseldorf | 40.7 | 99 |
| Wiesbaden-Delkenheim, Lange Seegewann | Wiesbaden | n/a | n/a |
| Carlina Park, Schopenhauerstraße | Nuremberg | 31.7 | 66 |
| Westville [1] | Frankfurt a. M. | 25.5 | 303 |
| Schwarzwaldstraße | Herrenberg | 21.9 | 47 |
| Schumanns Höhe | Bonn | 20.2 | 51 |
| Seetor City Campus | Nuremberg | 20.0 | 34 |

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

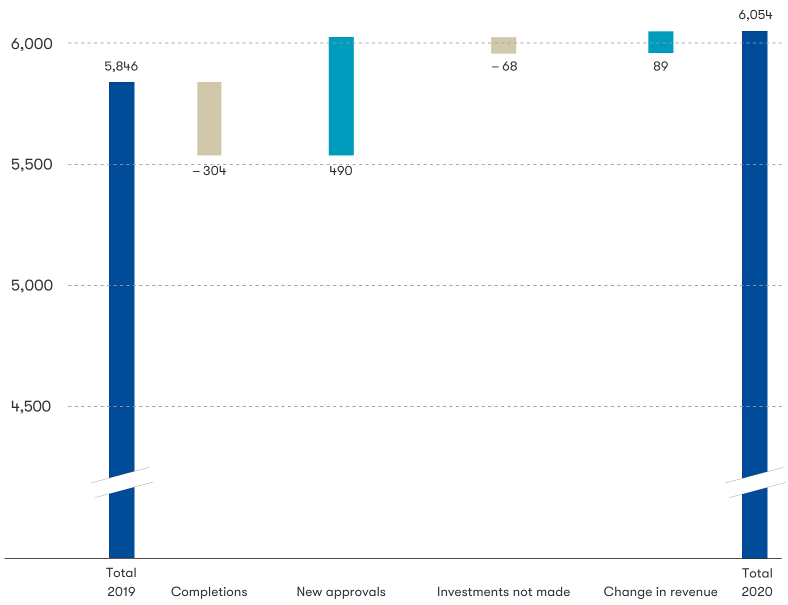
As at 31 December 2020, the portfolio for sale on the market amounted to a total of 345 units with expected revenue of approximately €228 million. Compared with 30 September 2020 (€202 million and 259 units), the portfolio on offer on the market was topped up by sales launches on three projects with an expected volume of €138 million and 253 units. In addition, the good sales in the projects in unit sales reduced the portfolio on offer.

In total, six projects with a total volume of €266 million and 482 units were launched for individual sales in the 2020 financial year. The sales launch for the "Seetor City Campus" and "Carlina Park" projects took place in Nuremberg with a total of approximately 300 units. In addition, sales of the first construction phases of the "Wohnen im Hochfeld" project in Dusseldorf, the "Neckar.Au Viertel" project in Rottenburg and the "Fontane Gärten" project in Berlin began, each with a total of around 180 residential units and an expected volume of sales contracts of €91 million. This topped up the portfolio on offer in the market during the year. In comparison with the marketing portfolio at the beginning of

2020, at 618 residential units and an expected revenue volume of approximately €340 million, the good sales of the projects in the sales phase, combined with the postponement of various sales starts in 2021 due to the coronavirus, led to a smaller portfolio on offer in the market at the end of 2020.

**Development of project portfolio as at 31/12/2020**

In millions of euros




As at the end of the 2020 financial year, Instone Real Estate's project portfolio comprised 52 projects from which we currently anticipate total revenue of €6,053.6 million, slightly above the figure as at 30 September 2020 (€5,937.5 million). A positive trend is also evident when comparing that value with the previous year's figure (€5,845.7 million). The increase is due to the successful acquisition of four new projects and a further investment in an additional plot of land for an existing project. The lower volume of new approvals totalling around €490 million compared with the previous year (€1.3 million) is due in particular to an initial reluctance on the part of the Management Board with regard to new project purchases that would have an effect on liquidity for the 2020 financial year due to the coronavirus pandemic. In addition, the volume of new approvals was significantly influenced in 2019 by the acquisition of the residential real estate development platform from the Sontowski & Partner Group with a portfolio of €300 million. The following projects were acquired in 2020:

**New approvals in 2020** TABLE 036

In millions of euros

| | | Volume | units |
|---|---|---|---|
| Heusenstamm | Heusenstamm | 148.9 | 341 |
| Heide Süd | Halle | 38.0 | 151 |
| Boxdorf | Nuremberg | 59.2 | 125 |
| Büntekamp III (extension) | Hanover | 50.1 | 72 |
| Maintal | Maintal | 193.7 | 482 |
| **Total** | | **489.9** | **1,171** |

In addition, as part of the formation or investment in companies consolidated at equity, we participated in other projects with an anticipated pro rata revenue volume of around €300 million.

The successful further growth of our project portfolios, even during the coronavirus pandemic, demonstrates the resilience and stability of our business model and lays a firm foundation for us to achieve our objectives in the coming years. It also provides a solid basis for tapping the new potential of the launch of our innovative new product, "valuehome", announced in 2020.

In addition, already realised and expected revenue increases of approximately €89 million can also be seen in existing projects due to planning consolidations and changes to sales concepts. This shows the revenue potential of the projects already in the portfolio.

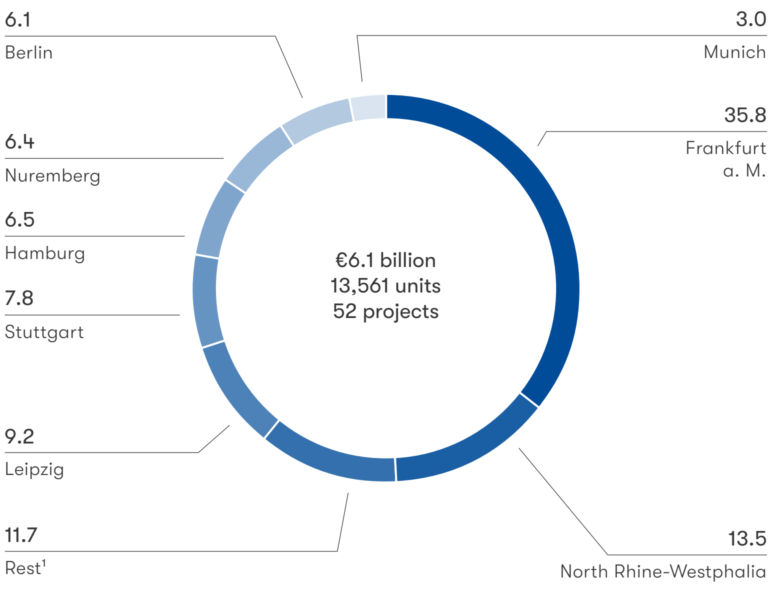
In the course of the 2020 financial year, a total of five projects with a total revenue volume of around €304 million exited from the portfolio due to the completion and handover of a sold property. In Frankfurt, the "Rebstock" project was completed and handed over to its investor. In addition, construction was completed in the individual sales projects "Wohnen am Kurpark", Wiesbaden, "Heeresbäckerei", Leipzig and "T. Kontor", Leipzig, and the residential units were handed over to their new owners.

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

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

**Project portfolio by region**

In %

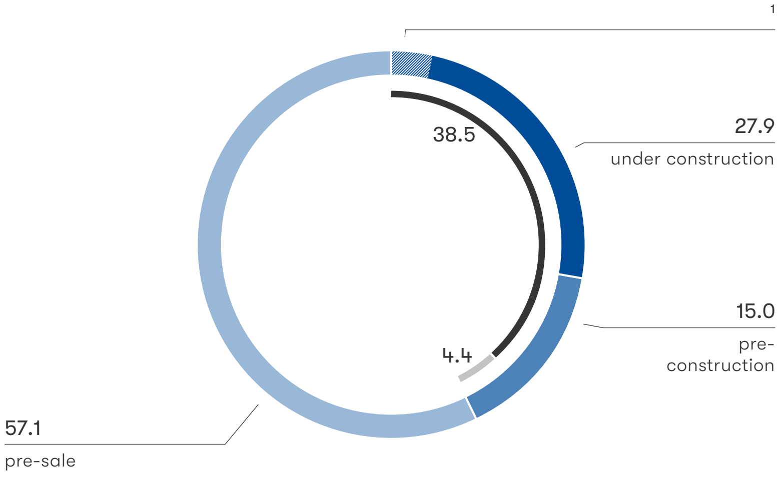



[1] Includes Wiesbaden, Mannheim, Hanover, Potsdam, Bamberg.

The majority – approximately 88% – of anticipated overall volume of revenue from the project portfolio as at 31 December 2020 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart. Around 12% is attributable to other prosperous medium-sized cities.

**Project portfolio by groups; Basis: expected revenues**

In %




Internal sector:
Sold
Unsold
[1] 6.6% of the project portfolio has already been transferred.

Based on the continuous growth of our project portfolio in recent years, the majority of our ongoing projects are in the "pre-sale" stage of development. In the under construction category (27.9%), the successful start of construction is reflected in a further three projects in the fourth quarter. The resulting reduction in the "pre-construction" category (15.0%) was only partially offset by various sales launches and institutional sales (pre-sale 57.1%). The ongoing consolidation in the individual project phases of the overall portfolio is also reflected in the comparison with the portfolio as at 31 December 2019 in the "under construction" (21.5%) and "pre-construction" (21.7%) categories.

In addition, the preceding diagram shows that, as at 31 December 2020, we have already sold approximately 38.5% of the anticipated overall revenue volume of the project portfolio. In terms of the anticipated revenue volume, approximately 90% of the "under construction" and "pre-construction" projects were sold as at 31 December 2020.

## Adjusted revenue

For the 2020 financial year, adjusted revenue amounted to €480.1 million. This is a lower figure compared with the same period of the previous year (€736.7 million). The target range of €470 million to €500 million was therefore met. This was mainly due to the adjusted revenue of the projects listed below:

**Key projects revenue recognition (adjusted) 2020** TABLE 037

In millions of euros

| | | Revenue volume (adjusted) |
|---|---|---|
| St. Marienkrankenhaus | Frankfurt a. M. | 74.5 |
| west.side | Bonn | 45.3 |
| Schumanns Höhe | Bonn | 36.4 |
| Schulterblatt "Amanda" | Hamburg | 34.9 |
| Quartier Stallschreiberstraße – Luisenpark | Berlin | 32.9 |
| Westville | Frankfurt a. M. | 28.3 |
| City-Prag – Wohnen im Theaterviertel | Stuttgart | 20.9 |
| Schwarzwaldstraße | Herrenberg | 20.5 |
| Essener Straße | Hamburg | 17.0 |
| Wohnen im Hochfeld Unterbach | Dusseldorf | 16.8 |

The successful revenue recognition results not only from the marketing progress, but also shows a further development in the construction progress of the projects in our portfolio. In view of this, a total of nine projects were launched in the 2020 financial year:

**Construction starts in 2020** TABLE 038

| | | |
|---|---|---|
| Stephanstraße | Nuremberg | around 465 residential units |
| Schorndorf, S'LEDERER | Schorndorf | around 230 residential units |
| Niederkasseler Lohweg | Dusseldorf | around 220 residential units |
| Seetor City Campus | Nuremberg | around 200 residential units |
| Wohnen im Hochfeld Unterbach | Dusseldorf | around 170 residential units |
| Schulterblatt "Amanda" | Hamburg | around 165 residential units |
| west.side MW3 | Bonn | around 140 residential units |
| Carlina Park, Schopenhauerstraße | Nuremberg | around 100 residential units |
| Neckar.Au Viertel | Rottenburg | around 65 residential units |

In addition, the projects that are already in the construction phase are also progressing according to plan. The continuous production process was ensured due to sufficient staffing on our construction sites. Isolated effects of the coronavirus pandemic were identified at an early stage, meaning that there was no significant impact on health or the construction process. Taking into account the current coronavirus regulations, we were also able to celebrate the completion of the shell construction on various construction sites even in 2020. For the following projects, there was either a virtual topping-out ceremony or a small-scale event:

**Topping-out ceremonies in 2020** TABLE 039

| | | |
|---|---|---|
| St. Marienkrankenhaus | Frankfurt | around 180 residential units |
| Theaterfabrik | Leipzig | around 75 residential units |
| Marina Bricks | Regensburg | around 50 residential units |
| Friedrich-Ebert-Straße | Leipzig | around 15 residential units |

The handover processes for the projects already completed also went forward according to plan in 2020.

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

# Instone Real Estate Group AG

## Operations

Instone Real Estate Group AG is the Instone-Group's strategic management holding. Instone Real Estate Group AG owns all shares in Instone Real Estate Development GmbH, all of the interests in Instone Real Estate Leipzig GmbH and Nyoo Real Estate GmbH and all or almost all shares in the other operating subsidiaries of the Instone-Group.

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

## Control system, future development and risk situation

As a holding company, Instone Real Estate Group AG acts directly with control functions and services for the operating activities of the subsidiaries and depends indirectly on the results and the economic performance of its subsidiaries. The management system, expected development and opportunities and risks of the Instone-Group are reported in detail in the "Strategy" page 84, "Corporate management" page 92, "Risk and opportunities report" page 123 and "Outlook" page 139 sections of this Combined Management Report.

## 2020 business performance

The business performance and situation of Instone Real Estate Group AG is largely determined by the business development and success of the Instone-Group. This is described in detail in the "Project business at a glance" page 115 and "Results of operations, net assets and financial position" page 103 section of this Combined Management Report.

## Results of operations

**Condensed income statement** TABLE 040

In millions of euros

| | 2020 | 2019 | Change |
|---|---|---|---|
| Revenue | 0.9 | 1.6 | –40.8% |
| Other operating income | 0.7 | 3.5 | –80.4% |
| Staff costs | –4.0 | –5.2 | –23.7% |
| Other operating expenses | –16.6 | –10.3 | 61.8% |
| Financial result | 10.2 | 26.3 | –61.3% |
| Taxes on earnings | –6,9 | 26.2 | n/a |
| **Earnings after tax** | **–15,8** | **42.0** | **n/a** |

The reported revenue of Instone Real Estate Group AG in the amount of €1.0 million (previous year: €1.6 million) resulted mainly from the provision of services to affiliated companies.

Other operating income declined to €0.6 million (previous year: €3.5 million) and includes, in particular, income from passing on expenses to affiliated companies.

Staff costs fell in the year under review to €4.0 million (previous year: €5.2 million) due to lower additions to the provisions for long-term and short-term incentive plans in the amount of €1.6 million (previous year: €3.1 million).

At €16.6 million, other operating expenses were above the previous year's level of €10.3 million and mainly comprise expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.5 million. In addition, they include consulting expenses in connection with the conclusion of corporate finance in the amount of €1.0 million and further ongoing expenses for organisational consulting and services in the amount of €3.2 million. In the financial year, consulting costs and acquisition fees in connection with the capital increase in the amount of €8.2 million were also incurred.

The changes in the financial result by €16.1 million to €10.2 million (previous year: €26.3 million) were essentially made up as follows:

- No income from investments was generated in the financial year (previous year: €41.9 million).
- Income from profit and loss transfer agreements amounted to €20.1 million (previous year: €21.2 million).
- Income from loans amounted to €9.5 million (previous year: €2.2 million).
- On the other hand, write-downs on financial assets amounting to €8.4 million (previous year: €29.6 million) were performed.
- Expenses from the assumption of losses amounted to €0.1 million (previous year: €0).
- Interest and similar expenses increased to €10.9 million (previous year: €9.6 million). This was due to the utilisation of corporate finance in the financial year.

Taxes on income and earnings amounted to €– 6.9 million (previous year: €26.2 million).

In the period under review, there was a total net loss of €15.8 million (previous year: net profit of €42.0 million).

## Net assets

**Condensed statement of financial position** TABLE 041

In millions of euros

| | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Financial assets | 223.6 | 230.9 | – 3.2% |
| Loans and receivables from affiliated companies | 300.0 | 217.4 | 38.0% |
| Other receivables and other assets | 3.3 | 14.2 | – 76.6% |
| Bank balances | 141.8 | 5.1 | n/a |
| Deferred tax assets | 23.0 | 27.7 | – 16.8% |
| **Assets** | **691.8** | **495.4** | **39.7%** |
| | | | |
| Equity | 420.6 | 253.5 | 65.9% |
| Provisions | 11.6 | 9.5 | 21.2% |
| Loans from banks | 208.9 | 182.7 | 14.3% |
| Liabilities to affiliated companies | 50.0 | 48.4 | 3.3% |
| Other liabilities | 0.7 | 1.2 | – 37.3% |
| **Equity and liabilities** | **691.8** | **495.4** | **39.7%** |

As at year-end, the total assets of Instone Real Estate Group AG increased to €691.8 million (previous year: €495.4 million). This was mainly attributable to the capital increase of €182.9 million, the utilisation of corporate finance in the amount of €26.2 million, but also to the increase in loans to subsidiaries by €77.7 million.

Financial assets mainly included the investment book values of Instone Real Estate Development GmbH, Essen amounting to €181.8 million (previous year: €181.8 million) and Instone Real Estate Leipzig GmbH, Leipzig amounting to €41.3 million (previous year: €48.6 million).

Loans, receivables and other assets amounting to €303.3 million (previous year: €231.6 million) include loans to affiliated companies amounting to €268.1 million (previous year: 190.5 million) and ongoing receivables from affiliated companies based on profit and loss transfer agreements. Other assets amounting to €3.2 million (previous year: €14.1 million), in particular, include receivables from tax refund claims and receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement results from the exemption from property transfer tax expenses in connection with the acquisition of the Company, for which a corresponding provision exists.

Due to the first-time recognition of the assertion of loss carryforwards in financial year 2019, deferred tax assets are still reported in the amount of €23.0 million (previous year: €27.7 million) as at the reporting date.

The equity ratio on the balance sheet date was 60.8% (previous year: 51.2%).

Provisions increased to €11.6 million in the financial year (previous year: €9.5 million) and in particular related to tax provisions and personnel provisions for premium commitments to the Company's own employees and employees of Group companies.

The liabilities essentially consist of loan liabilities to credit institutions and other lenders amounting to €208.9 million (previous year: €182.7 million) and those to affiliated companies in the amount of €50.0 million (previous year: €48.4 million). Loans from banks result from the strategic alignment of financial management, which includes corporate finance taken by the Group's parent company and its use in the Group companies.

## Financial position

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

## Employees

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

# Risk and Opportunities Report

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

## Risk management system

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

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

We are continuously working to optimise the risk management system together with our independent partners. As a German stock corporation listed on the Frankfurt Stock Exchange, Instone Real Estate is subject to the appropriate regulatory framework. As a result, the Management Board and the Supervisory Board are also obliged to issue an annual declaration on the extent to which the recommendations of the German Corporate Governance Code (GCGC) have been observed. All applicable internal guidelines, Rules of Procedure and measures designed to ensure a Group-wide standardised and structured approach to risk management are reviewed internally on a regular basis. For example, we will also continue to evaluate all applicable internal regulations in 2020. This review and evaluation process is a continuous, ongoing process. In 2020, we completely revised some of the Company's guidelines in this context. GRI 102-11

### Responsibilities

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

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

## Risk management process

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

The risk management system of Instone Real Estate ensures the early identification, assessment, management and monitoring of all material risks. In particular, this also includes risks that exist beyond the financial risks processed in controlling which can endanger not only net assets and financial position, but also intangible assets such as the reputation of the Company. Project risks are identified and evaluated in particular as part of the project controlling process. Project controlling uses central database-assisted software whose data and evaluations are used for close coordination at project and company level on the project status and the potential risks arising from the projects. Potential dangers that may affect the Company's value or development are thereby recognised early. This takes environmental and company-specific early warning indicators into account and also includes the regional knowledge and perceptions of our employees around the country.

## Risk assessment

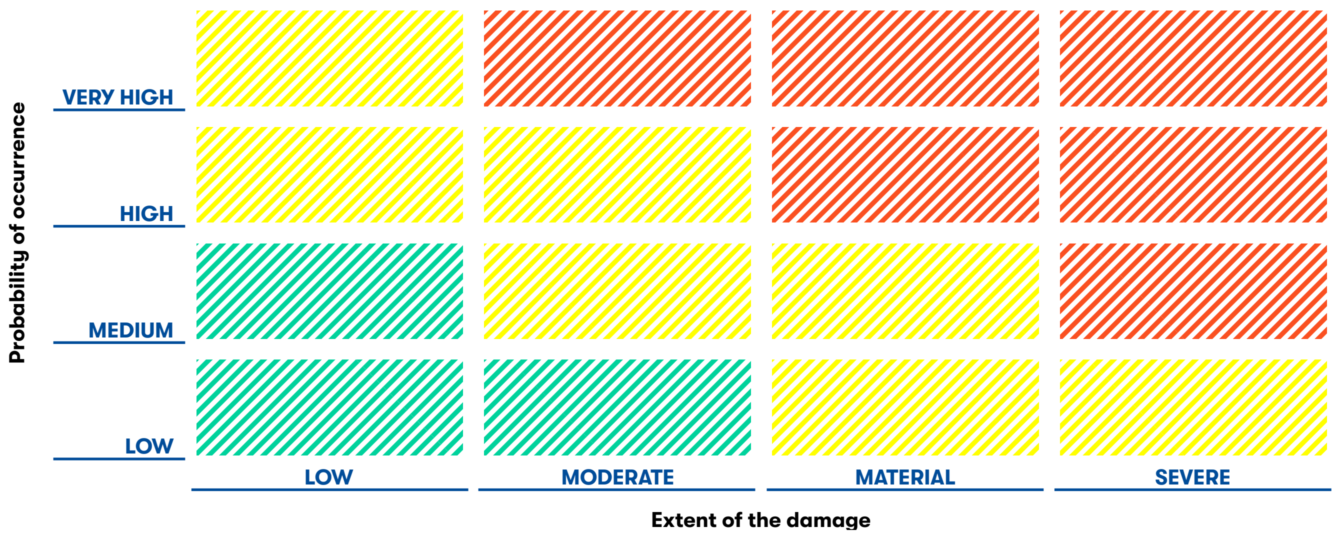
Risk managers regularly identify or update all risks within their area of responsibility with their employees as part of a systematic process. These are subdivided into the six risk categories "general business risks", "compliance risks", "financial risks", "IT and communication risks", "project business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

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

| Probability of occurrence | In % | Damage impact | EBT in thousands of euros | Liquidity in thousands of euros |
|---|---|---|---|---|
| Low | <10 | Low | <4,000 | <3,000 |
| Medium | >=10<br><25 | Moderate | >=4,000<br><10,000 | >=3,000<br><9,000 |
| High | >=25<br><50 | Material | >=10,000<br><20,000 | >=9,000<br><15,000 |
| Very high | >=50<br><100 | Severe | >=20,000<br><40,000 | >=15,000<br><30,000 |

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

## Risk assessment matrix




### Monitoring the risk management system

The risk management system is subject to regular updates and further development, and in particular, to adjusting to changes in the Company and/or the Instone-Group too. The risk policy describes the core elements of the risk management system and defines the various responsibilities. This is amended continuously as necessary. Due to the changes to the IDW PS 340, which are to be applied in the 2021 financial year, Instone Real Estate will align the risk management system to meet the new requirements in the 2021 financial year.

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

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

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

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Foundations of the Group
Economic report
Risk and opportunities report
Outlook
Remuneration report
Takeover law disclosures
Corporate governance statement (unaudited)
Other disclosures
Consolidated financial statements

## Reporting

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

## Internal Control System (ICS)

The Internal Control System (ICS) is linked to risk management system as a sub-element. The ICS regulates the avoidance or limitation of risks by means of control measures. These ensure the accuracy and reliability of accounting and compliance with legal requirements which are relevant to the Company. In addition, it ensures the effectiveness and profitability of the business activities. The focus is on the prevention and detection of asset misappropriation and the protection of the Company's own assets.

The ICS is the responsibility of the Management Board. The Management Board is responsible for set up, monitoring, effectiveness testing and development.

The objective of the accounting-related ICS for the purposes of the relevant regulations is to guarantee legally compliant and correct financial reporting. To this end, the ICS is embedded in the finance and accounting departments as well as in the process and risk management departments. The finance and accounting department is responsible for guidelines for the adoption of accounting regulations and for the content and timing of the financial reporting process.

From an organisational viewpoint, work on financial statements for all companies included in the consolidated financial statements is carried out by the parent company. All companies and branches included in the consolidated financial statements are located in an SAP environment. The entire Group is subject to uniform accounting/valuation requirements, accounting principles, allocations, processes and process controls. The central control elements are the internal approval processes, the four-eyes principle and the requirement for functional separation. Instone Real Estate has an authorisation concept that is adapted to the relevant job profile of employees.

## Internal Audit

The Internal Audit Department prepares a risk-oriented audit schedule annually based on an analysis of all material business processes. After approval by the Management Board, the Internal Audit Department independently and autonomously checks the compliance with the legal requirements and Group-wide guidelines for the control system. This evaluates the functionality and effectiveness of the internal control and risk management system and identifies possible optimisation potential for minimising risks in process execution and the control environment. Individual audit reports are provided to the Management Board and the audited business unit. This allows the Management Board to make timely adjustments to processes and to further develop the ICS that is already in place. The implementation of the jointly agreed measures will also be the subject of follow-up audits. The Management Board and the Audit Committee receive an annual report from the Internal Audit Department.

## Current risk assessment

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

The main risk categories and their sub-categories at Instone Real Estate are described below in a compressed risk assessment. The description is based on the risk inventory as at 31 December 2020. The greatest risks in the risk sub-categories are explicitly mentioned in the descriptions. Risk sub-categories are divided into "relevant" and "not relevant". Risk subcategories are assessed as relevant if they have a share of more than 5% in the assessed overall risk situation or if at least one risk falls within the area of "material" or "severe".

Instone Real Estate did not identify any material individual risks as at 31 December 2020. Risks are assessed as material individual risks if they have a severe effect and have at least a moderate probability that they will occur.

The risk situation has changed compared with the previous year. As a result of the coronavirus pandemic, new risks were documented and, in some cases, had to be reassessed. Unlike the previous year, the "market developments" risk sub-category is now assessed as relevant due to the effects of the coronavirus pandemic.

## General business risks

### Global/national economy

Instone Real Estate is heavily dependent on the German residential real estate market which is impacted by various macroeconomic and general factors, such as economic, demographic and political developments. Britain's exit from the EU and the currently rampant coronavirus pandemic have created political and economic uncertainty in Europe. Disadvantageous global and European developments in politics and the economy could have negative effects on the export-oriented German economy as a whole and may in particular lead to a higher unemployment rate, lower per capita purchasing power and increasing economic uncertainty. Such factors could significantly reduce or delay the demand for residential real estate. In addition, demographic and socioeconomic trends in the key Instone Real Estate markets could have a significant impact on residential property demand. Although the population in the most important conurbations in Germany increased between 2008 and 2020 as a result of increasing urbanisation and a generally growing population in Germany, this trend could reverse or at least slow down.

The trend did not reverse in 2020, but there was a significantly lower level of immigration from abroad among the population. This is certainly due to the coronavirus pandemic. Not taking immigration into account, a shrinking and ageing population is to be expected in Germany. Lower levels of immigration and an ageing population, which would slow down the urbanisation trend, could in turn reduce demand, especially in Instone Real Estate's key markets. However, based on the sales figures, Instone Real Estate did not register a fundamental reduction, but rather a shift, in the continued demand for housing in the 2020 financial year. This could change in the course of the 2021 financial year due to further measures to tackle the coronavirus and declining purchasing power.

Instone Real Estate has a broad base in order to better respond to possible changes in the market. Instone Real Estate is represented in the core cities of Germany – where it provides real estate in various price segments, ranging from publicly funded, to high-end, residential constructions – as well as prosperous medium-sized cities. The project portfolio includes new construction projects as well as the renovation of listed buildings. The projects were subdivided into different phases so that the requirements of the market could be met in each Section. Sales also serve various customer groups such as owner-occupiers, investors and institutional investors. Despite this diversification and other measures, the impact of the remaining risk arising from the global and national economies is considered to be relevant.

## Regulatory risks

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

Housing is a contentious political issue and as such, cities and local authorities have become increasingly involved in the development planning process. In many regions, urban development contracts are commonly used as part of the development planning process. Instone Real Estate may encounter inconsistencies with local authorities and/or regulators in connection with its activities, resulting in administrative proceedings and unfavourable decrees, directives or enactments. These could in turn lead to financial losses and delays in the completion of development projects and have a negative impact on the Instone Real Estate brand.

Instone Real Estate is committed to real estate interest groups such as the German Central Real Estate Committee (ZIA) in order to contribute its many years of experience from a wide variety of projects. Furthermore, we examine possible regulatory adjustment risks when acquiring land and take this into account in the contract or when determining the purchase price.

Due to the potentially severe impact of regulatory risks, Instone Real Estate considers them to be relevant as they cannot be fully ruled out during the duration of the project.

## Market developments

As at 31 December 2020, approximately 88% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations and metropolitan areas in Germany (Berlin, Bonn, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich, Nuremberg and Stuttgart) and approximately 12% in other prosperous medium-sized cities. Positive population and household trends are key factors in the currently attractive real estate market. In recent years, increased demand for housing in conurbations and large cities has been observed. If growth in the conurbations changes, this would be a risk for the core markets. Instone Real Estate is also looking into project opportunities outside the core cities to counteract such a development.

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

The coronavirus pandemic has had a significant impact on the market environment of Instone Real Estate starting with the second quarter of 2020 at the latest. While the situation stabilised in the middle of the year, new restrictions were adopted by the German federal and state governments at the end of the financial year which could lead to a further deterioration of the environment for residential properties. Instone Real Estate is currently working on the assumption that the dynamic sales price increases of recent years will not continue over the coming months. We are closely monitoring market developments so we can react to any changes that may occur.

As Instone Real Estate would be directly affected by a change in the market, the effects arising from the market development risks are considered to be relevant.

### Staff

Due to global health risks such as the current coronavirus pandemic, important employees could become ill at the same time and for an extended period. Instone Real Estate responded to the coronavirus pandemic early on and introduced appropriate hygiene and protective measures in its branches and on its construction sites to protect employees and contractors. In the 2020 financial year, this ensured that there were no significant interruptions of business at our branches or on our construction sites.

The ongoing development from a market that favours employers to one that favours employees given the demographic change and the changing values of the younger generations, is causing the shortage of skilled workers to worsen. This overarching problem leads to the greater challenge of attracting specialists to the Instone Real Estate. Digitisation offers an opportunity which can make a significant contribution to building up a wider sphere of activities and a qualified network of specialists. The flexible adjustment of the requirements profile plays a key role in this so that future vacant positions can be filled adequately. Instone Real Estate relies on the values of responsibility, trust, perspectives and freedom to set itself up in a good position for the future as part of life phase-oriented personnel development. Various recruiting tools are used to create the possibility of carrying out recruitment among specific target groups. This individualisation of the processes creates space for a direct dialogue between Instone Real Estate and the potential candidates. This has the positive side effect of being able to build a personal relationship.

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

Due to its streamlined business structure, Instone Real Estate cannot rule out vacancies in positions requiring highly specialised and individual expertise due to absences, such as sick leave, termination of contract or holidays. This may lead to a risk in certain situations. Instone Real Estate attempts to counteract this risk by appointing new staff and issuing substitution regulations, in some cases also with the support of external partners. We encourage discussions among colleagues in order to share this expertise and factual knowledge between several colleagues.

Instone Real Estate was able to increase its workforce in 2020 and has thus positioned itself well for further corporate growth and any potential employee turnover.

Overall, we consider the impact of personnel risks to be relevant despite the measures implemented.

### Customer satisfaction/demand

The residential real estate market served by Instone Real Estate is subject to changing trends, demands and customer preferences. These parameters may vary during the several years of project development and to a large extent these are beyond the influence of Instone Real Estate. For example, targeted buyers may develop preferences for other micro-sites, neighbourhoods, specific property designs (such as apartment buildings, micro single-family homes or detached houses), or may be otherwise influenced by macroeconomic, socio-economic or employment trends, resulting in a concentration of demand in particular areas.

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

### Reputation

To some extent, Instone Real Estate's business and growth strategy partly depends on preserving the integrity of the brand and reputation of Instone Real Estate as a reliable partner and a quality provider.

Instone Real Estate's reputation can be damaged by a number of factors and events that Instone Real Estate may have no influence over. These include unethical or illegal behaviour by employees or business associates, working conditions, incidents on construction sites, extensive or significant construction defects and associated claims for damages, an inability to provide the services requested by customers, negative reports in the (social) media, as well as threatened or actual litigation. In addition, the discussion about regulatory issues, such as the affordability of housing, the rent cap and sustainability issues, may all impact the reputation of Instone Real Estate.

Instone Real Estate may also encounter inconsistencies with local authorities and/or regulators in connection with its activities, resulting in administrative proceedings and unfavourable decrees, directives or enactments that could lead to financial losses and delays in the completion of development projects.

With the involvement of external partners, Instone Real Estate has coordinated and developed a communication strategy and steps to take for various potential events. Reports in the (social) media are monitored constantly in order to be able to respond in the short term to relevant reports.

Incorrect or poor communication with the capital market (analysts and investors) means that Instone Real Estate may risk failing to meet the expectations of the capital market. This could lead to a lasting loss of reputation that could have an impact on the valuation of the Company.

The Company's aim is to be informed at all times about the current business and market developments within the Group through regular coordination of the specialist departments. This information policy forms the basis for external communication. There is a continuous exchange with the capital market (investors and analysts).

Despite the established risk communication, Instone Real Estate considers the impact of potential reputational risk to be relevant.

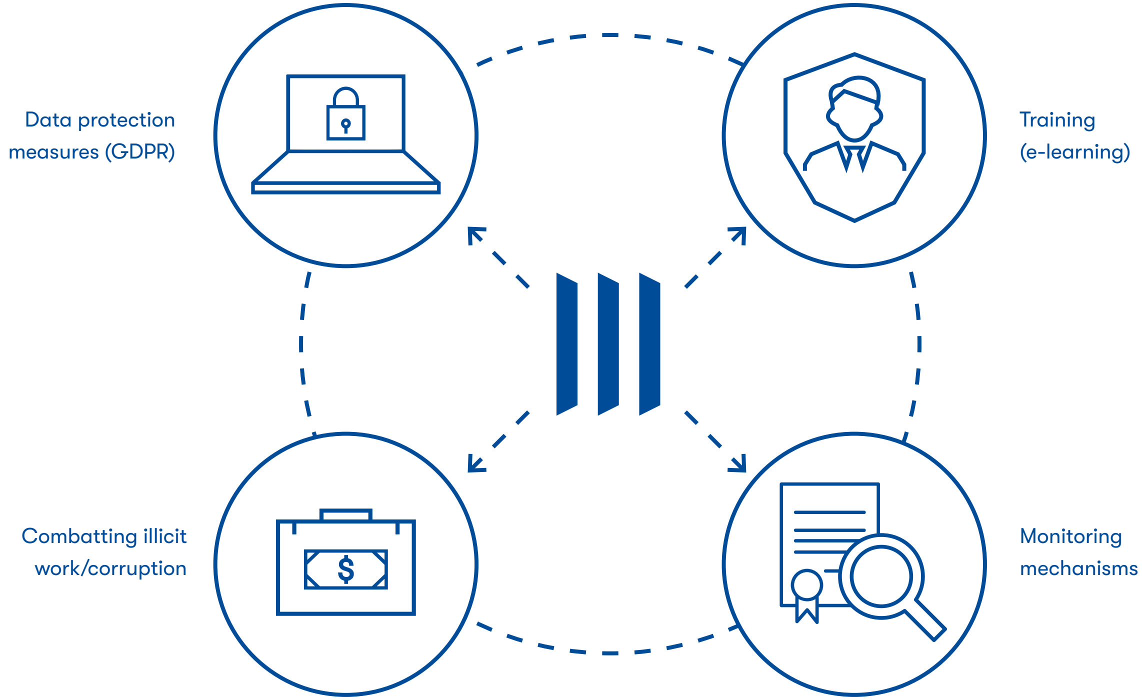
### Competition

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

Nevertheless, Instone Real Estate is one of the leading project developers with expertise in urban district development and complex building law. With its established branch structure focusing on the core cities, Instone Real Estate has continued its strategy of intensive and regionally adapted market development. Instone Real Estate achieves very good networking in the markets thanks to its regional structure. This enables us to achieve our targeted acquisition volume and gives Instone Real Estate access to interesting projects.

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

## Compliance responsibilities




### Compliance and data protection

The real estate and construction sectors are subject to various laws and regulations, which relate to compliance with price-fixing and data protection law and paying the minimum wage in addition to measures to combat illegal work, bribery and corruption as well as anti-money laundering, among other things. Instone Real Estate depends on all employees complying with the applicable laws and compliance guidelines issued by Instone Real Estate. The internal Group-wide compliance guidelines and procedures for further expanding compliance are kept constantly up-to-date and revised as necessary. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

With the help of our compliance and risk management procedures and monitoring mechanisms, we seek to detect and prevent any violations of the law and unethical behaviour, including corruption. Instone Real Estate is constantly working on improving the compliance management system and providing supportive information to all employees. An anonymous whistle-blower system is available to employees to report abuses.

In the 2020 financial year, there were no legal proceedings due to anti-competitive behaviour, price-fixing or monopoly practices. In addition, there were individual indications of possible compliance cases. These compliance suspicions were carefully investigated and responded to. Instone Real Estate is not aware of any allegations of corruption at this time, so no risks have arisen in this area. GRI 206-1; 205; 205-3

New rules on data protection must be observed in accordance with the General Data Protection Regulation (DSGVO) which came into force on 24 May 2016 and has been applicable since 25 May 2018. The sanctions for non-compliance are considerable. Instone Real Estate has appointed an external Data Protection Officer who is available as a contact person for all employees. Instone Real Estate provides its employees with annual training and information material from the external Data Protection Officer. The IT landscape of Instone Real Estate has been adapted to current legislation. The technical and organisational measures taken to protect data are regularly reviewed to ensure they are up-to-date and offer little scope for cyber attacks. A possible data breach or non-compliance would have significant consequences. GRI 418; 418-1; 417-2; 417-3; 419

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

## Financial risks

### Banking partners

Assets not covered by deposit insurance may be at risk and existing financing may not be continued due to the potential illiquidity of one of our banking partners. This would result in a possible liquidity shortage, which would prevent new acquisitions and may even stop liabilities from being serviced.

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

### Financing structure

In principle, financial covenants are agreed in the corporate financing contracts. Failure to comply with the financial covenants may involve the risks of more stringent financing conditions and extraordinary terminations of financing. This would trigger the repayment of the financing provided. If the financing cannot be recovered from existing liquidity or other sources of financing, lenders may also require the liquidation of pre-existing collateral. In the event of terminations and the associated premature repayment of the financing, refinancing would only be possible under worse conditions. The covenant requirements are continuously monitored and forecast at Instone Real Estate. Instone Real Estate believes that there is comfortable leeway as regards this covenant.

Due to continuous monitoring, the probability of the risk of a financial covenant being violated is very low. Based on corporate planning, there are also no indications that the financial covenants cannot be serviced in the future. Nevertheless, non-compliance with the financial covenants would have a severe impact on the Company so we consider this risk to be relevant.

### Accounting

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

In relation to the accounting process, Instone Real Estate has an internal control system (ICS) page 86. The ICS aims to reduce potential risks of an unintentional failure to comply to a minimum.

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

### Liquidity

The solvency of the Company is monitored on an ongoing basis by continuously updating the liquidity forecast. The liquidity forecast structures anticipated cash flows in monthly time windows according to their origin so that the level of risk and probability can be identified in a targeted way and quantified. The respective specialist departments provide planned figures for higher-level cash flows. The resilience and feasibility of investment projects or strategic management decisions can be analysed with the help of scenario analyses in the overall context of the company-wide liquidity forecast.

Each company must maintain a minimum level of liquidity to ensure stable liquidity. As far as economically reasonable, debt financing is generally concluded for projects.

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

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

### Tax

Regular tax audits may reveal tax risks that might reach a relevant level when they occur. The audit procedures of Instone Real Estate have been completed for 2011 to 2013.

The current tax audit for Instone Real Estate for 2014 to 2016 is expected to be completed in September 2021. The basis for the conservative tax declaration is provided by accounting which uses the described ICS. The ICS aims to ensure the accuracy of the disclosures.

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

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

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

### Interest

The projects are mostly financed through a mix of bank loans and equity. The current low interest rate levels allow Instone Real Estate to finance projects efficiently. At present, we do not foresee a noticeable rise in interest rates. For new projects which usually run over several years, we are factoring in an interest-rate buffer for the future. To achieve the best possible financing security for the projects, banks are requested to promptly state the financing terms in the form of term sheets. The resulting financing conditions, in particular, the equity capital to be invested, the amount of borrowed funds available, any processing commission – if this is not passed on to the interest margin – and also the interest margin to be secured for the term of the financing, are then included in the profitability analysis for the projects. Given the current market environment and the inclusion of an interest rate buffer, Instone Real Estate does not consider the potential impact of an interest rate increase to be relevant in the short term.

Instone Real Estate assumes that the ECB will slowly increase the key interest rate from the end of 2021 at the earliest and has taken this into account in its planning.

## Project business risks

Project risks are recorded, evaluated and summarised in reports. Based on this information, meetings are held monthly in the project team and in forecast and result discussions with the Management Board. The risks associated with approved projects or upcoming acquisitions and their respective mitigations are discussed and determined during these meetings.

The various levels of management are granted clearly-defined decision-making powers, including those relating to project management. For example, each new project (this also applies to the approval of the initiation of sales) is approved by the Management Board and, in the case of larger projects, also by the Supervisory Board. If projects run the risk of deviating from key approved parameters, this must be explained and discussed with the Management Board within the scope of the monthly forecast and result meetings

**Selecting business partners, engaging contractors and awarding contracts**

Instone Real Estate relies on the provision of construction and other services by external suppliers and contractors for the realisation of its development projects. Such outsourced services in particular include architectural and engineering services as well as all construction services. There is strong demand and a shortage of spare capacity throughout the entire value chain due to the increased volume of construction throughout Germany.

Should Instone Real Estate be unable to find qualified and reliable contractors for its development projects, this could hamper its ability to complete projects on time within the stipulated limit and in the due quality.

As part of its corporate strategy, Instone Real Estate relies on its regional and partially cross-regional networks to engage qualified and reliable contractors, most of whom have long-standing relationships with Instone Real Estate, with a correspondingly long-term lead. In addition to maintaining a consistently high quality, these measures also serve to ensure the sustainable safeguarding of resources on the market.

Instone Real Estate has also set out guidelines indicating the evidence to be provided by contractual partners in order to prove their qualifications and reliability.

Furthermore, a lack of cost certainty in projects due to late subcontracting to subcontractors may lead to projects or individual sections of projects being implemented inefficiently. Cost increases due to short-term contracts and the resulting insufficient market penetration may have a negative impact on project results.

The implementation standards of our projects are subject to continuous development in order to adapt them to current state-of-the-art technology and the requirements of our customers. In order to achieve a high degree of cost certainty for the individual projects, the Project Services department carries out cost calculations for all branches on basis of the direct costs on partial services at the latest at the start of sales of our projects and can draw on the cost parameters and experience from the all Instone Real Estate projects. For the continuous verification of our cost approach, we regularly create post-calculations based on the actual costs incurred per project and transfer the knowledge gained from this to the ongoing calculation process.

Furthermore, we also reduce cost risks by agreeing long-term partnerships with our contractors and by awarding contracts to contractors as early as possible for the most important contract work (structural work, building envelope and technical building equipment).

Instone Real Estate assesses the potential impact of the risks to be relevant and protects against this in each individual case at the earliest possible opportunity.

**Approval process**

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

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

**Project implementation/construction**

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

The refurbishment of listed buildings involves special risks associated with the essence of the building. This may lead to risks in terms of costs and time delays. These specific cost and deadline risks are part of our project planning and costing. Our branch office in Leipzig, which has many years of experience in the renovation of listed buildings, can transfer the experience of already successfully developed projects to the new projects, thus reducing or eliminating unexpected risks. As at 31 December 2020, there were no significant restrictions on our construction sites during the construction phase due to the coronavirus pandemic. However, there is a risk that new decrees issued by the German Federal Government or by the individual state governments could tighten restrictions again. This would restrict Instone Real Estate's ability to complete construction and thus to receive payments linked to construction activity. To protect employees and contractors, we have introduced appropriate hygiene and protective measures on our construction sites. At the same time, these measures allow us to react to possible infections on our construction sites. Another possible risk is that our contractors could get into difficulties. For Instone Real Estate, this would mean delays at our construction sites. So far, this is not foreseeable. For this, we are staying in close contact with our contractors who we subject to a creditworthiness check as a matter of principle prior to commissioning.

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

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

**Marketing/sales**

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

Our risk management ensures that the planned revenues and schedules for each project are analysed and scrutinised critically by the Management Board during the approval and sales release processes. We use our pre-sale quota to test the project development concept and planned sales prices for market acceptance. If the concept is not accepted or, for example, if sales expectations are not achievable, the project will be re-adjusted and rechecked. At the same time, this approach enables us to identify and implement opportunities in sales.

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

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

#### Other project risks

Other risks affecting our projects, for example, as a result of vandalism or fire, are insured accordingly (in particular, with liability insurance, construction insurance and fire protection insurance during the construction phase). We have also taken out additional group-wide insurances to reduce potential losses for Instone Real Estate.

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

### IT and communication risks

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

Instone Real Estate has implemented extensive data security measures and is constantly working to keep pace with developments and meet the needs of the IT industry. To ensure this, Instone Real Estate relies on specialist service providers and renowned manufacturers. In addition, the legal requirements, for example, from the European General Data Protection Regulation, are taken into account when designing IT systems.

Instone Real Estate's server infrastructure also has complete server redundancy and is protected against viruses and malware using multi-level and continuously updated defence systems. Multi-level data storage systems allow the complete recovery of all data. Furthermore, as part of its digitisation strategy, Instone Real Estate is increasingly mirroring or relocating applications and data to Microsoft cloud data centres in the EU in order to further optimise the data security/redundancy and functionality of its IT systems. The measures taken ensure a minimum risk of failure and a high level of data security. Instone Real Estate does not consider the potential impact of IT and communication risks to be relevant due to the IT concepts that it has implemented.

### Legal risks

#### Litigation

Instone Real Estate was exposed to several legal disputes during the 2020 financial year. The individual branches are responsible for the legal disputes and appoint local law firms in advance to defend against potential claims by third parties or to enforce claims. The majority of these claims relate to defects and the warranty rights of Instone Real Estate customers. Instone Real Estate has largely set aside provisions for litigation. The remaining potential impact of the risk is not considered to be relevant.

#### Liability and insurance

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

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

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

## Opportunities Report

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

- → persistently high demand for housing
- → Rising population in conurbations
- → Expansion of demand to the outskirts of the conurbations
- → Low financing costs for Instone Real Estate and purchasers of real estate
- → Positive trend in construction costs. A recession-related decline in construction demand and a reduction in capacity utilisation for our contractors could result in a drop in project costs for individual projects.
- → Only a few investment alternatives in the low interest rate environment

Furthermore, we see an opportunity in the area of land acquisitions due to the effects of the coronavirus pandemic. There is a chance that new plots of land will come onto the market at attractive prices. This could be the case, for example, if the previously planned usage of the land (e.g. commercial) is no longer attractive and the land then becomes available for residential construction development. This situation may also result in lower competition for plots of land.

Through the successfully implemented capital increase in the third quarter of 2020, Instone Real Estate has additional financial resources available to take advantage of these opportunities to an even greater extent. Instone Real Estate is one of the largest German project developers in residential real estate and is represented nationwide in the most in-demand conurbations in Germany. The majority of other German residential developers only have a local presence. They have very good networks in the market environment, but their potential project volume is generally smaller than the size of our projects.

Local housing project developers are direct competitors for Instone Real Estate due to their local networking. Project developers represented nationwide are further competitors. A marked intensification of competition is notable here as more and more players are pushing into the high-yield residential construction market, especially in the metropolitan areas. Nevertheless we see advantages for Instone Real Estate due to its supra-regional presence with competence in urban district development and complex building law creation as well as good networking in the target regions.

With its established branch structure focusing on the core cities, Instone Real Estate has continued its strategy of intensive and regionally adapted market development. Instone Real Estate achieves very good networking in the markets thanks to its regional structure. This enables us to realise our targeted acquisition volume and gives Instone Real Estate access to interesting projects.

Due to Instone Real Estate's many years of experience, acquired and newly acquired land offers opportunities for the extended utilisation of land in terms of gross floor area (GFA), site occupancy ratio (SOR) and floor area ratio (FAR).

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

Instone Real Estate considers itself to be very well positioned and has continued to grow at a higher rate than the market average. The branches have established themselves in the market at their respective locations and are perceived to be competent partners. This trend reflects the quality of our real estate, our sales skills and our resistance to cyclical fluctuations.

## Overall assessment of the risk and opportunities situation by the Management Board

There have been several changes in the overall assessment of the risk situation for Instone Real Estate in the 2020 financial year compared with the previous year as a result of the coronavirus pandemic. From today's perspective, the Management Board of Instone Real Estate does not consider there to be any risks that the Company will be unable to adequately counteract or which risk jeopardising the continued existence of the Group's income from operations, net assets and/or financial position. In our opinion, our business model and our diversified financing instruments provide the best possible insulation from economic fluctuations.

Overall, this results in a risk profile that is normal for this business segment, in particular in light of the current coronavirus pandemic. An early analysis of the risks and a pro-active approach allow us to react in good time and mitigate the corresponding potential impact. We believe the remaining risks have no material impact on the continuation of Instone Real Estate as a going concern. The risk situation was taken into account in the forecast.

In addition to the effects of the coronavirus pandemic, none of the above risks had a material impact on Instone Real Estate in the 2020 financial year. We will continue to fully identify and exploit the opportunities that are available to us.

# Outlook

## General economic and industry economic conditions

In its forecast for 2021, published in December 2020, the Deutsche Bundesbank anticipates a strong recovery in macroeconomic performance following the slump in the past financial year (2020: –5.0%). The bank expects a 3.0% real increase in gross domestic product in the coming year. The Bundesbank believes that private consumption will be a key motivating force behind this increase. This is provided that the pandemic is contained as expected by the new vaccines and the anticipated easing of lockdown measures begins again in the spring, allowing greater use to be made of consumer opportunities. In view of the continuing high level of uncertainty due to the coronavirus pandemic, the forecast accordingly assumes that economic performance in Germany will not return to pre-crisis levels until 2022.

The labour market proved comparatively robust in 2020, despite the slump in economic performance. The Bundesagentur für Arbeit (German Federal Employment Agency) reports an increase in the average unemployment rate year-on-year from 5.0% to 5.9%. The main reasons for the relatively moderate increase were the extensive use of short-time work as a labour market tool to bridge losses of working hours and an economic recovery that began during the year. The intensification of pandemic restrictions in the winter months had a detrimental effect on the recovery of the labour market.

The German residential real estate market has also proved to be highly crisis-resistant in a recessionary macroeconomic environment. The performance of rents and residential real estate prices in Germany continued to increase overall. Continued high demand for housing combined with comparatively low supply, the stabilising effects of state support measures on the labour market, among others, and extremely low interest rates underpinned the performance of property prices.

Based on current expected macroeconomic performance, which is subject to above-average uncertainty because of the pandemic, we expect the German residential real estate market to continue to perform positively for the forecast period to the end of 2021.

The structural increase in single-person and two-person households, domestic migration from rural to metropolitan areas within Germany and immigration from abroad – though this was somewhat lower in 2020 because of the coronavirus pandemic, and population figures in fact stagnated for the first time since 2011 – are driving a stable growth in demand for housing in the metropolitan areas, and therefore in Instone Real Estate's core regions.

In recent years, the annual volume of completed new builds has increased (2019: 293,000 residential units), but has remained significantly lower than the annual demand estimated by the German Economic Institute (IW), for example, at around 340,000 residential units. The excess demand has therefore continued to grow and the existing shortage in the core markets has further intensified.

## Outlook for the Instone-Group

The development of the macroeconomic and industry environment has a significant effect on the forecasts presented below. An important prerequisite is also to achieve significant milestones in our projects. The focus is particularly on the planned start of sales and achieving the planned sale deadlines as well as the expected start and scheduled progress of our construction projects.

Any deviation in the assumptions regarding the development of the macroeconomic environment for this industry or any changes in political factors or the risks and opportunities already described in the section "Risk and opportunities report" page 123 of this combined management report or any changes to the project schedule may cause the actual business performance to deviate from the forecasts.

The effects of the second lockdown currently in force due to COVID-19 are likely to be reflected in our projects due to short-term delays in approval processes. Any prolonging of the pandemic restrictions or even a tightening of those restrictions could, in the current environment of great uncertainty, also have a temporary negative effect on the granting of planning permission, building activities or sales, and thus on the Group's net assets, financial position and results of operations.

Based on the assumptions made and taking due account of the current uncertainties, we expect a significant increase in the volume of sales contracts in 2021 to €900 million.

We also expect a significant increase in adjusted revenue in 2021 to between €820 million and €900 million.

For the gross profit margin, we assume 26 – 27%.

Adjusted consolidated earnings after tax are forecast to increase to between €90 and €95 million.

Adjusted consolidated earnings after tax also form the basis for determining the distribution ratio. The target figure for the expected payout ratio is 30% of adjusted consolidated earnings.

**Forecast of key management performance indicators for 2021** TABLE 042

In millions of euros

| | | 2021 outlook |
|---|---|---|
| Revenues (adjusted) | | 820 to 900 |
| Gross profit margin (adjusted) | In % | approximately 26 to 27 |
| Consolidated earnings after tax (adjusted) | | 90 to 95 |
| Volume of sales contracts | | greater than 900 |

# Remuneration report

This Remuneration Report is part of the Combined Management Report of Instone Real Estate Group AG. In accordance with the legal requirements and the recommendations of the German Corporate Governance Code (GCGC) in the version dated 16 December 2019, it explains the principles and structure of the compensation system for the Management Board and Supervisory Board of Instone Real Estate Group AG and also discloses the remuneration of individual Management Board and Supervisory Board members for the performance of their duties in the Company and its subsidiaries in the 2020 financial year. It also takes into account the requirements of German Accounting Standard No. 17 (Deutscher Rechnungslegungsstandard, GAS) and the HGB.

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

## Remuneration of the Management Board

### Remuneration system

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

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

This remuneration system had already been discussed by the Annual General Meeting of former Instone Real Estate Group N.V. on 29 June 2018 prior to the change of legal form to a German stock corporation. The Supervisory Board has addressed the issue in 2020 in line with its responsibility regarding the appropriate remuneration of the Management Board and will continue to do so in future.

### Updating the remuneration system

The Supervisory Board is currently developing an updated remuneration system for the members of the Management Board that complies with the requirements of the German Stock Corporation Act (Aktiengesetz) in the version implementing the Shareholders' Rights Directive of 12 December 2019 (Federal Law Gazette (BGBl.) Part I 2019, No. 50 of 19 December 2019) (SRD II) and takes into account the recommendations of the GCGC as adopted on 16 December 2019 and which entered into force on 20 March 2020. In accordance with the statutory requirements, this updated remuneration system is to be submitted to the 2021 Annual General Meeting for approval.

Since the updated remuneration system has not yet come into effect, the following presentation only takes into account the status of the remuneration system up to and including the closing date of 31 December 2020. A detailed description of the main features of the updated remuneration system will be published in connection with the 2021 Annual General Meeting. GRI 102-35; 105-36

### Basic features of the remuneration system for the Management Board

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

Supervisory Board in accordance with its supervisory responsibilities and following the adoption of the described updated remuneration system.

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

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

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

## Non-performance related emoluments

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

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

## Performance-based emoluments

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

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

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

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

[1] Adjusted return on capital employed (ROCE) = adjusted EBIT in relation to a two-year average of equity plus net debt.

If the targets derived from the business plan prepared by the Management Board for the financial year and approved by the Supervisory Board are fully achieved, the target achievement is 100%. The achievements of the weighted targets (adjusted EBT, adjusted ROCE and personal targets) are added together to give the overall target achievement.

The target figures are derived from the annual budget and are determined by the Supervisory Board. At the end of the respective bonus year, the Supervisory Board determines the achievement of the objectives in relation to the personal and company-related targets. The amount is paid in the month following the audited annual financial statements. If the target achievement is less than 80%, the targets are considered to have been missed and there is no entitlement to the variable remuneration component (target lower limit). The one-year variable remuneration is limited in its total amount to the amount corresponding to a target achievement of 150% (target upper limit).

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

### Multi-year variable remuneration

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

Any LTI bonus depends on the achievement of corporate goals during the bonus year. The assessment bases used are the projected and actual values specified for adjusted earnings before tax (EBT). To determine the goals achieved, the projected EBT figure is set in relation to the actual EBT figure. The projected figure is derived from the business plan for the financial year.

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

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

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

The virtual shares used annually to calculate the bonus year have a term of three years and are only paid out at the end of the respective term at the average closing price of Instone Real Estate shares over the last 20 trading days of the respective term, as determined at that time, plus any dividend that may have been distributed.

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

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

If the employment contract of a member of the Management Board is terminated before the end of the term of the LTI bonus and no other prerequisites for a “bad leaver case” exist, the entitlement to the LTI bonus exists on a pro rata basis (so-called “good leaver case”).

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

### Pension commitments

Two members of the Management Board have a company pension plan in the form of individual contractual pension agreements which are valid after reaching the minimum pensionable age of 65 years. The two members of the Management Board entitled to the pension provision are credited with the pension component for the duration of the pension commitment as part of this company pension provision model. This will be credited from the time they reach the age of 65 with a specific monthly payment amount, and will cumulatively reflect the respective pension entitlement under the company pension scheme. The respective amount of the monthly pension component is calculated on the basis of the monthly non-performance-related cash remuneration of the members of the Management Board entitled to the benefit, multiplied by an age factor, which maps an appropriate interest rate, and another fixed amount to be determined annually. The necessary provisions for the pension components and the resulting pension obligations are calculated annually in actuarial terms. The amount of the credited pension components decreases with the progressive duration of the pension agreements with otherwise unchanged fixed non-performance-related emoluments. Surviving dependents receive 60% or 55% of the pension. GRI 201-3

The following overview shows the contributions (allocations) to the pension plan attributed to the individual Management Board members and the corresponding itemised cash values under the IFRSs and HGB.

**Pension commitments** TABLE 043

In thousands of euros

| | | 2020 | Allocation | 2019 |
|---|---|---|---|---|
| Kruno Crepulja (CEO) | German Commercial Code (HGB) | 286.9 | 67.4 | 219.5 |
| | IFRS | 379.9 | 81.4 | 298.5 |
| Andreas Gräf (COO) | German Commercial Code (HGB) | 261.5 | 46.4 | 215.2 |
| | IFRS | 332.4 | 52.4 | 279.9 |
| | **German Commercial Code (HGB)** | **548.4** | **113.8** | **434.7** |
| | **IFRS** | **712.3** | **133.9** | **578.4** |

The pension obligations and the corresponding cash values in individualised form according to IFRS and HGB to former members of the Management Board are shown in the following overview.

**Pension commitments of former members of the Management Board** TABLE 044

In thousands of euros

| | | 2020 | Allocation | 2019 |
|---|---|---|---|---|
| Pension commitments of former members of the Management Board | German Commercial Code (HGB) | 1,219.0 | 119.8 | 1,099.2 |
| | IFRS | 1,496.8 | 118.2 | 1,378.7 |

## Remuneration of Management Board members in the 2020 financial year

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

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

## Benefits granted in accordance with GCGC GRI 102-38; 102-39

### Benefits granted in the financial year

TABLE 045

In thousands of euros

| | Kruno Crepulja CEO | | | | Dr. Foruhar Madjlessi CFO | | | | Andreas Gräf CEO | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2020 (min.) | 2020 (max.) | 2019 | 2020 | 2020 (min.) | 2020 (max.) | 2019 | 2020 | 2020 (min.) | 2020 (max.) | 2019 |
| **Non-performance related emoluments** | | | | | | | | | | | | |
| Fixed remuneration | 450 | 450 | 450 | 450 | 360 | 360 | 360 | 360 | 300 | 300 | 300 | 300 |
| Benefits-in-kind and other additional remuneration | 26 | 26 | 26 | 26 | 14 | 14 | 14 | 16 | 16 | 16 | 16 | 16 |
| | **476** | **476** | **476** | **476** | **374** | **374** | **374** | **376** | **316** | **316** | **316** | **316** |
| **Performance-based emoluments** | | | | | | | | | | | | |
| Short-term Incentive | 250 | 0 | 375 | 250 | 300 | 0 | 450 | 300 | 260 | 0 | 390 | 260 |
| Multi-year assessment basis (Long-term Incentive) | | | | | | | | | | | | |
| Performance Share Plan (01/01/2019 – 31/12/2022) | 0 | 0 | 0 | 300 | 0 | 0 | 0 | 250 | 0 | 0 | 0 | 180 |
| Performance Share Plan (01/01/2020 – 31/12/2023) | 300 | 0 | 618 | 0 | 250 | 0 | 515 | 0 | 180 | 0 | 371 | 0 |
| | **550** | **0** | **993** | **550** | **550** | **0** | **965** | **550** | **440** | **0** | **761** | **440** |
| **Remuneration for old-age provision** | | | | | | | | | | | | |
| Pension expenses | 55 | 55 | 55 | 68 | 0 | 0 | 0 | 0 | 30 | 30 | 30 | 27 |
| | | | | | | | | | | | | |
| **Total emoluments** | **1,082** | **532** | **1,524** | **1,094** | **924** | **374** | **1,339** | **926** | **786** | **346** | **1,106** | **783** |
| | | | | | | | | | | | | |
| **Reconciliation to total remuneration within the meaning of Sections 285 no. 9a and 314 (1) no. 6a HGB in conjunction with GAS 17** | | | | | | | | | | | | |
| Less pension expenses | – 55 | | | – 68 | 0 | | | 0 | – 30 | | | – 27 |
| Plus obligation figure retirement | 67 | | | 61 | 0 | | | 0 | 46 | | | 33 |
| **Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17** | **1,094** | | | **1,087** | **924** | | | **926** | **803** | | | **789** |

The total remuneration granted to the members of the Management Board totalled €2.8 million for the 2020 financial year (min. €1.3 million, max.: €4.0 million) (previous year: €3.4 million). Of this, €1.1 million (previous year: €1.3 million) was attributable to fixed, non-performance-related remuneration components, €1.5 million (min.: €0.0 million, max.: €2.7 million) (previous year: €1.9 million) to variable, one-year and multi-year performance-related remuneration components, €0.1 million (previous year: €0.1 million) to non-performance-related, non-cash benefits and other benefits, and €0.1 million (previous year: €0.1 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

## Inflow according to the GCGC

**Grants received/earned in the financial year** TABLE 046

In thousands of euros

| | Kruno Crepulja | | Dr. Foruhar Madjlessi | | Andreas Gräf | |
|---|---|---|---|---|---|---|
| | CEO | | CFO | | COO | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Non-performance related emoluments** | | | | | | |
| Fixed remuneration | 450 | 450 | 360 | 360 | 300 | 300 |
| Benefits-in-kind and other additional remuneration | 26 | 26 | 14 | 16 | 16 | 16 |
| Severance payments | 0 | 0 | 0 | 0 | 0 | 0 |
| | **476** | **476** | **374** | **376** | **316** | **316** |
| **Performance-based emoluments** | | | | | | |
| Short-term Incentive | 361 | 359 | 434 | 0 | 375 | 374 |
| | **361** | **359** | **434** | **0** | **375** | **374** |
| **Remuneration for old-age provision** | | | | | | |
| Pension expenses | 55 | 68 | 0 | 0 | 30 | 27 |
| **Total emoluments** | **892** | **903** | **808** | **376** | **721** | **717** |

The total remuneration received/earned by the members of the Management Board totalled €2.4 million for the 2020 financial year (previous year: €2.5 million). Of this, €1.1 million (previous year: €1.3 million) was attributable to fixed, non-performance-related remuneration components, €1.2 million (previous year: €1.1 million) to variable, one-year and multi-year performance-related remuneration components, €0.1 million (previous year: €0.1 million) to non-performance-related, non-cash benefits and other benefits, and €0.1 million (previous year: €0.1 million) to pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

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

## Supervisory Board remuneration

### Remuneration system

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

Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of €60,000.00. The Chairman of the Supervisory Board receives twice the remuneration and the Deputy Chairman one and a half times this amount. Members of the Audit Committee receive an additional lump-sum remuneration of €15,000.00 while members of the Remuneration and Nomination Committee each receive an additional €1,500.00 for each financial year in return for their work on these committees. The respective committee chair receives twice the remuneration. Reasonable out-of-pocket expenses are also reimbursed to the members of the Supervisory Board by the Company. The Company has also included the members of the Supervisory Board in the D&O group insurance for corporate bodies. No performance-related remuneration is paid for Supervisory Board members.

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

### Remuneration of the members of the Supervisory Board during the 2020 financial year

The total remuneration of the Supervisory Board during the 2020 financial year was €462,000 (previous year: €425,700). Of this, €390,000.00 (previous year €354,900.00) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €72,000 (previous year: €70,800).
The following table shows the individual emoluments of the members of the Supervisory Board for the 2020 financial year.

**Supervisory Board remuneration** TABLE 047

In thousands of euros

| | Remuneration in 2020 | | |
|---|---|---|---|
| | Role General Committee | Role Committees | Remuneration Total |
| Stephan Brendgen | 120.0 | 18.0 | 138.0 |
| Dr. Jochen Scharpe | 90.0 | 31.5 | 121.5 |
| Marija Korsch | 60.0 | 3.0 | 63.0 |
| Dietmar P. Binkowska | 60.0 | 4.5 | 64.5 |
| Thomas Hegel | 60.0 | 15.0 | 75.0 |
| **Total remuneration** | **390.0** | **72.0** | **462.0** |

In the 2020 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.

# Takeover law disclosures

The legal acquisition disclosures are shown below in accordance with Sections 315a and 289a HGB:

## 1 Composition of the subscribed capital

As at 31 December 2020, the subscribed capital (registered capital) of Instone Real Estate Group AG amounted to €46,988,336.00. It is divided into 46,988,336 no-par-value bearer shares. The registered capital is fully paid up. All shares in the Company have the same rights and obligations. Each share carries one vote and an entitlement to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As at 31 December 2020, the Company did not hold any of its own shares.

## 2 Restrictions affecting voting rights and the transfer of shares

To the knowledge of the Management Board, members of the Management Board and members of the extended management acquired shares from former direct sole shareholders in the 2018 financial year in connection with the restructuring of a management remuneration programme even before the IPO and with the IPO itself. According to this restriction, these shares may not be sold or otherwise transferred, inter alia, without the consent of the former direct sole shareholders. The transfer and voting restrictions will end 12, 24 or 36 months after the date on which the respective share acquisition was concluded with the former direct sole shareholders for one third of the shares acquired during the acquisition of shares. As far as the Management Board is aware, the aforementioned transfer restriction affects a total of 435,531 shares in the Company.

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

In connection with the capital increase with subscription rights carried out in September 2020, the Company has undertaken, inter alia, in a market standard lock-up agreement not to acquire or sell Company shares from the capital increase with subscription rights during a lock-up period of six months after the admission of the shares on 16 September 2020. There are customary exceptions to this rule, such as in the case of a purchase of treasury shares for the purpose of carrying out an employee stock option program or where the purchaser of the shares is subject to the same restrictions as the Company.

## 3 Direct or indirect investments in the capital amounting to more than 10% of the voting rights

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

## 4 Shares with special rights conferring control powers

There are no shares with special rights which confer control powers.

## 5 Type of voting rights control when employees have shareholdings in the capital and do not directly exercise their control rights

There are no employee investments in the Company's capital in which the employees do not directly exercise their own control rights.

## 6 Appointment and dismissal of members of the Management Board; amendments to the rules of procedure

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

Pursuant to Section 179 (1) 1 AktG, the amendment of the Company's Rules of Procedure is made by resolution of the Annual General Meeting. Resolutions of the Annual General Meeting are passed in accordance with Section 20.4 of the Company's Articles of Association by a simple majority of the votes cast, unless statutory legislation or the Articles of Association require a larger majority. If the statutory legislation requires a capital majority in addition to the majority of votes, the simple majority of the registered capital represented when passing the resolution is sufficient, unless the statutory legislation or Company's Articles of Association stipulate otherwise. According to Section 20.5 of the Company's Rules of Procedure, resolutions that can be passed with a simple majority of votes and capital pursuant to Section 20.4 of the Rules of Procedure, in particular, but not exclusively, include all resolutions of the Annual General Meeting regarding capital increases with shareholders' subscription rights against contributions (Section 182 (1) AktG), capital increases from Company funds (Section 207 (2) AktG in conjunction with Section 182 (1) AktG) and the issue of convertible bonds, participating bonds and other instruments to which shareholders have a subscription right (Section 221 AktG). According to Section 20.6 of the Articles of Association, the dismissal of members of the Supervisory Board who have been elected without being bound by an election proposal requires a majority of at least three quarters of the votes cast. According to this provision of the Articles of Association, this also applies to the amendment of Section 20.6 of the Articles of Association themselves. Finally, pursuant to Section 17.3 of the Articles of Association, the Supervisory Board is entitled to make amendments and additions to the Articles of Association which only affect the wording.

## 7 Powers of the Management Board to issue or repurchase shares

### 7.1

According to Section 6.1 of the rules of procedure, the Management Board is authorised to increase the Company's registered capital, with the approval of the Supervisory Board, in the period up to 28 June 2023 by up to a total of €8.45 million by issuing up to a total of 8,450,000 new no-par-value bearer shares against cash contributions and/or contributions in kind (2018 Authorised Capital) and, according to Section 6.2 of the Articles of Association and with the approval of the Supervisory Board, to exclude shareholders' subscription rights under certain conditions and within predefined limits. The authorised capital became effective upon the registration of the Company in the commercial register of the Local Court of Essen (HRB 29362) during the cross-border conversion on 28 August 2018. The authorisation originally provided for in the 2018 authorised capital for the issue of 18,450,000 new no-par-value bearer shares in return for cash and/or non-cash contributions was utilised in connection with the capital increase with subscription rights in September 2020 by issuing 10,000,000 no-par-value shares.

### 7.2

The Management Board was authorised by the Annual General Meeting with effect from 28 June 2019, with the consent of the Supervisory Board, to issue bearer or registered bonds with warrants or convertible bonds with a total nominal value of up to €250 million with or without a limited term (hereinafter jointly referred to as **"Bonds"**) on one or more occasions up to 12 June 2024 and to grant the holders or creditors of the bonds option or conversion rights for up to 3,698,833 new shares in the Company with a proportionate total amount of the registered capital of up to €3,698,833.00 in accordance with the respective option or convertible bond conditions to be determined by the Management Board (hereinafter jointly referred to as **"Conditions"**).

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Foundations of the Group
Economic report
Risk and opportunities report
Outlook
Remuneration report
Takeover law disclosures
Corporate governance statement (unaudited)
Other disclosures
Consolidated financial statements

In addition to euros, the Bonds may also be issued in a foreign legal currency, limited to the corresponding euro equivalent. Furthermore, they may also be issued by companies dependent on the Company or majority-owned by the Company; in this case, the Management Board is authorised, with the approval of the Supervisory Board, to assume the guarantee for the Bonds on behalf of the Company and to grant the holders of such Bonds option or conversion rights to shares in the Company and to make further declarations required for a successful issue and to take actions. Issues of bonds can be divided into sub-bonds with equal rights.

The Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to bonds (i) in order to exclude fractional amounts resulting from the subscription ratio from shareholders' subscription rights to the bonds, (ii) in order to issue bonds against cash payment, provided that this is done at an issue price that is in line with the recognised issue price, however, this authorisation to exclude subscription rights only applies to the extent that the shares issued or to be issued to service the option or conversion rights or to fulfil the conversion obligation do not account for more than 10% of the registered capital. The registered capital figure on the effective date of this authorisation is decisive when calculating this limit. If the registered capital is lower at the time the authorisation pursuant to number (ii) is exercised, this lower figure shall be used. This amount shall include the pro rata amount of the registered capital, (x) which is attributable to shares that have been or will be issued during the term of this authorisation until its utilisation from authorised capital to the exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the AktG, (y) which is attributable to treasury shares in the Company that have been or will be sold on the basis of authorisations pursuant to Section 71 (1) no. 8 of the AktG during the term of this authorisation until its utilisation to the exclusion of the subscription right of shareholders pursuant to Section 186 (3) sentence 4 AktG, and (z) which is attributable to shares that are or will be issued to service warrant or convertible bonds issued or to be issued during the term of this authorisation until its utilisation on the basis of another authorisation in similar application of Section 186 (3) sentence 4 AktG to the exclusion of the subscription right. Finally, the Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to bonds (iii) to the extent necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds (or combinations of these instruments) issued by the Company or by dependent companies or companies in which the Company holds a majority interest to the extent to which they would be entitled after exercising their rights or fulfilling their obligations. Under the authorisation referred to in (iii), bonds may only be issued with the exclusion of subscription rights if the total of the new shares to be issued on the basis of such bonds, together with new shares from authorised capital or treasury shares of the Company, which are issued or sold by the Company during the term of this authorisation until it is exercised by utilising another authorisation with the exclusion of shareholders' subscription rights, and, together with rights issued during the term of this authorisation until it is exercised by exercising another authorisation under exclusion of subscription rights and which enable or oblige the conversion into or subscription to shares of the Company, no more than 10% of the registered capital is arithmetically allotted. The basis for calculating the 10% limit of the registered capital is the registered capital figure at the time of effective date of this authorisation. If the registered capital figure is lower at the time the authorisation is exercised, this lower figure shall be used.

In the case of convertible bonds, the holders shall have the right to exchange their bonds for new shares in the Company in accordance with the specific conditions. The conversion ratio is calculated by dividing the nominal value of a bond by the fixed conversion price for a new share in the Company. The conversion ratio may also be calculated by dividing the issue amount of a bond below the nominal amount by the fixed conversion price for a new share in the Company. The conversion ratio can be rounded up or down to a whole number; in addition, an amount to be paid in cash can be set. Finally, it can be stipulated that fractions can be combined and/or compensated for in cash. The proportionate amount of the registered capital represented by the shares of the Company to be issued per bond may not exceed the nominal amount of the bond or an issue price of the bond that is lower than the nominal amount.

The conditions may provide for the right of the Company to pay the holders of the conversion right the equivalent value in cash instead of the shares in the Company in the event of conversion; the value in cash is to be calculated in accordance with the specific conditions and shall correspond to the arithmetic mean of the closing prices of the share in the Company on the Frankfurt Stock Exchange in Xetra (or a comparable successor system) during the last ten trading days before the conversion was declared. The conditions may also provide for the right of the Company to grant the holders of the conversion right treasury shares in the Company or new shares from an authorised capital in the event of conversion. The conditions may also provide for a conversion obligation at the end of the term or at another time.

The conditions may provide for the right of the Company to grant the creditors of the bonds, in whole or in part, new shares or treasury shares in the Company in lieu of the payment of a due amount of money. The shares are credited with a value which, in accordance with the specific conditions, is based on the arithmetic mean of the closing prices of the shares in the Company on the Frankfurt Stock Exchange in Xetra (or a comparable successor system) during the last ten exchange trading days before the sum is due.

When issuing warrant bonds, one or more warrants shall be attached to each partial bond, entitling the holder to purchase shares in the Company in accordance with the conditions. The conditions may stipulate that those entitled to exercise the warrant bonds are either granted treasury shares in the Company or new shares from authorised capital. The proportional amount of the registered capital in the shares of the Company to be acquired per warrant bond may not exceed the exercise price of the warrant bond.

The warrant or conversion price for a share must be at least 80% of the arithmetic mean of the stock exchange prices of the Company's shares in the Xetra closing auction on the Frankfurt Stock Exchange (or a comparable successor system), and indeed, (i) if the subscription right is excluded or subscription rights trading does not take place for another reason during the ten exchange trading days before the day that the resolution is passed by the Management Board on the issue of the bonds or otherwise, (ii) during the exchange trading days on which subscription rights to bonds are traded on the Frankfurt Stock Exchange, with the exception of the last two exchange trading days of the subscription right trading.

The option and conversion price will then be reduced, without prejudice to Section 9 (1) AktG, on the basis of an antidilution clause in accordance with more detailed provisions of the terms and conditions by payment of a corresponding amount in cash when the conversion right is exercised or by reduction of the additional payment, if, during the option or conversion period, the Company increases the registered capital or issues further bonds or grants or guarantees option or conversion rights while granting subscription rights to its shareholders, and the holders of existing option or conversion rights are not granted subscription rights to the extent to which they would be entitled after exercising their option or conversion rights.

Instead of a payment in cash or a reduction of the additional payment, the exchange ratio may also be adjusted, as far as possible, by dividing by the reduced conversion price. The conditions may also provide for a value-preserving adjustment of the option or conversion price even for other measures taken by the Company that may lead to a dilution of the value of the option or conversion rights, as well as in the event of a capital reduction, a stock split or a special dividend.

Subject to compliance with the above provisions, the Management Board is authorised to determine the further details of the issue and terms of the Bonds and their conditions or to determine them in agreement with the corporate bodies of the Group Company issuing the Bonds, in particular the interest rate, issue price, term and denomination, subscription or exchange ratio, creation of a conversion obligation, determination of an additional cash payment, compensation for or combination of fractional amounts, cash payment instead of delivery of shares, option or conversion price and the option or conversion period.

Until now, the Management Board has not made use of its authorisation to issue warrants or convertible bonds.

### 7.3

By resolution of the Annual General Meeting on 13 June 2019, the Management Board was authorised, with the consent of the Supervisory Board, to acquire treasury shares from the end of this Annual General Meeting until 12 June 2024 up to a total of 10% of the registered capital of €36,988,336 or the lower share capital figure at the time the authorisation is exercised, by being able to exercise the authorisation in full or in partial amounts, once or several times. However, the shares acquired on the basis of the authorisation, together with other shares in the Company that the Company has already acquired and still owns, may not account for more than 10% of the existing registered capital at any time. The authorisation may also be exercised by dependent companies or companies in which the Company holds a majority stake or by third parties for the account of the Company or by its dependent companies or companies in which the Company holds a majority stake. On the basis of the authorisation, the Company may also agree with one or more banks or other companies meeting the requirements of Section 186 (5) sentence 1 AktG that they will deliver to the Company a predetermined number of shares or a predetermined euro equivalent of shares in the Company within a predefined period, whereby the price at which the Company acquires these shares must in each case show a discount to the arithmetic mean of the volume-weighted average prices of the Company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange over a previously determined number of trading days. The banks or other companies meeting the requirements of Section 186 (5) sentence 1 AktG must undertake to purchase the shares to be delivered on the stock market at prices that are within the range that would apply if the shares were purchased directly on the stock exchange by the Company itself under this authorisation.

The purchase must be made via the stock market or by means of a public offer directed at all shareholders in the Company. If the purchase of the shares is made on the stock market, the purchase price (excluding incidental acquisition costs) must be no more than 10% above or below the arithmetic mean value of the share prices (final auction prices of the Instone Real Estate Group AG shares in Xetra or a comparable successor system) on the stock exchange in Frankfurt am Main on the last three exchange trading days before the acquisition or the undertaking of an obligation to purchase. In the case of a purchase via a public offer, the Company may either publish a formal offer or publicly request the submission of offers for sale. The purchase price offered (excluding incidental acquisition costs) or the limit values of the purchase price range per share set by the Company (excluding incidental acquisition costs) must be no more than 10% above or below the arithmetic mean value of the share prices (final auction prices of the Instone Real Estate Group AG share in Xetra or a comparable successor system) on the stock exchange in Frankfurt am Main on the last three exchange trading days before the publication of the purchase offer or the invitation to tender. In the event of an amendment of an offer, the date of publication of the offer adjustment shall replace the date of publication of the purchase offer. If the Company publicly solicits the submission of offers to sell, the day of acceptance of the offers to sell shall take the place of the day of publication of the offer to buy or of the adjustment of the offer to buy. The repurchase volume may be limited. If the shares tendered or offered for purchase by the shareholders exceed the total amount of the Company's purchase offer, acceptance shall be in proportion to the respective shares tendered or offered. However, it may be stipulated that small quantities of up to 100 offered shares per shareholder are accepted preferentially and that rounding according to commercial principles will be carried out to avoid fractional amounts. The purchase offer or the invitation to tender may stipulate further conditions. Any further rights of shareholders to tender shares are excluded.

The Management Board may exercise the authorisation for any legally permissible purpose, in particular to pursue one or more of the objectives listed below, although trading in treasury shares is prohibited.

The Management Board is hereby authorised, with the consent of the Supervisory Board, to redeem the treasury shares acquired on the basis of the authorisation pursuant to Section 71 (1) no. 8 AktG without a further resolution by the Annual General Meeting, whereby the authorisation may be exercised several times and the redemption may be limited to a portion of the acquired shares.

The Management Board is also authorised, with the consent of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation in a way other than by sale on the stock market or by an offer to all shareholders, with the full or partial exclusion of shareholders' subscription rights, (i) to exclude fractional amounts resulting from the subscription ratio from shareholders' subscription rights, (ii) to sell them for non-cash consideration, in particular – but without limitation – to acquire companies, parts of companies or investments in companies, (iii) to sell them for cash, insofar as this is carried out at a price that is not significantly lower than the stock market value of the Company's shares at the time of the sale (simplified exclusion of subscription rights in accordance with Sections 186 (3) sentence 4, 71 (1) No. 8 sentence 5 half-sentence 2 of the German Stock Corporation Act), whereby this authorisation, including other shares and option or convertible bonds that were issued or sold during the term of this authorisation up to the time of its utilisation under exclusion of the shareholders' subscription rights in direct or analogous application of Section 186 (3) Sentence 4 of the German Stock Corporation Act, is limited to a total of no more than 10% of the Company's registered capital. The basis for calculating the 10% limit is the registered capital figure at the time of effective date of this authorisation. If the registered capital is lower at the time the authorisation is exercised in accordance with number (iii), this lower value shall be used. Furthermore, the Management Board is authorised to use the treasury shares acquired on the basis of this authorisation under the conditions described above, (iv) to fulfil obligations of the Company arising from conversion and option rights or conversion obligations from convertible bonds or bonds with warrants (or combinations of these instruments) issued by the Company or by dependent or majority-owned companies of the Company, and (v) to grant subscription rights to holders of convertible bonds or bonds with warrants (or combinations of these instruments) issued by the Company or by dependent or majority-owned companies of the Company to the extent to which they would be entitled after exercising the rights or obligations arising from the aforementioned instruments.

The authorisations pursuant to numbers (i) to (v) may also be exercised by dependent companies or companies in which the Company holds a majority stake or by third parties for the account of the Company or its dependent companies or companies in which the Company holds a majority stake.

Until now, the Management Board has not made use of its authorisation to purchase treasury shares.

## 8 Key agreements reached by the Company in the event of a change of control following a takeover bid, and the consequent effects

Individual contracts of corporate financing of the Company provide for a special termination right of the other party in the event of a change of control (partly defined as the acquisition of a majority interest by voting rights or equity interest, partly defined as holding more than 30% of the voting rights in the Company). In addition, as at the balance sheet date, there were no other key agreements by Instone Real Estate Group AG with third parties or Group companies that would take effect, change or terminate in the event of a takeover bid.

Dr Foruhar Madjlessi, member of the Management Board since 1 January 2019, is entitled to a special contract termination right in the event of a change of control. According to this agreement, a change of control occurs if a majority participation in the Company within the meaning of Section 16 AktG occurs.

## 9 Company compensation agreements that have been entered into with the members of the Management Board or employees in the event of a takeover bid

In the event that the special termination right described above is exercised by Dr Madjlessi, Dr Madjlessi is entitled to a severance payment of three gross annual remunerations. After he has been employed for two years, the severance payment will be reduced to two gross annual salaries, reducing the severance payment proportionately in the case of a residual employment contract term of less than two years.

# Corporate governance statement (unaudited)

In this report, Instone Real Estate Group AG (hereinafter also: the Company) provides information about the Company's corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) on the principles of corporate governance and Section 161 of the German Stock Corporation Act (AktG) and in accordance with the German Corporate Governance Code (GCGC). In addition to the Declaration of Compliance with the GCGC, the corporate governance statement also contains information about corporate governance, and the composition and working methods of the Management Board and Supervisory Board, as well as the Supervisory Board committees. GRI 102 – 32

## Implementation of the GCGC

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

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the Code as amended on 16 December 2019 and, in accordance with Section 161 AktG for the third time after the cross-border change of legal form to a German stock corporation, submitted their Declaration of Compliance with the recommendations of the Code in December 2020 and commented on the few exceptions.

The statement and any further declarations of compliance since the IPO are published on the Company's website under ↗Instone compliance statement.

## Declaration of Compliance

The Management Board and Supervisory Board of Instone Real Estate Group AG (the "Company") are required pursuant to Section 161 (1) of the German Stock Corporation Act (AktG) to issue an annual Declaration of Compliance stating that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official Section of the Federal Gazette have been and are being complied with or which recommendations have not been or are not being complied with and why not. The Management Board and Supervisory board issued a Declaration of Compliance for the first time in December 2018.

The Company's Management Board and Supervisory Board declare that since submitting the last Declaration of Compliance in December 2019, they have complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version last published in the official part of the Federal Gazette on 20 March 2020 and dated 16 December 2019 ("2020 GCGC") and will also do so in future, with the following exceptions:

According to Recommendation F.2 of the 2020 GCGC, mandatory financial information to be disclosed during the year should be made publicly available within 45 days of the end of the reporting period. The Company complies with the publication of interim reports in accordance with legal requirements (making half-yearly financial reports available within three months of the end of the reporting period) and with the requirements of the Exchange Rules of the Frankfurt Stock Exchange for the Prime Standard (making half-yearly financial reports available within three months and making quarterly financial reports or communications available within two months of the end of the period under review). The Management Board and Supervisory Board consider these to be appropriate. Publication within the shorter deadline recommended by the 2020 GCGC would currently require the use of significant additional financial and human resources that, in the opinion of the Management Board and Supervisory Board, are disproportionate to the shareholders' need for information.

Section G.I. of the 2020 GCGC contains new recommendations on the remuneration of the Management Board compared with the previous version. In accordance with the new recommendations of the 2020 GCGC, the Supervisory Board is currently preparing an updated remuneration system which is to be proposed to the 2021 Annual General Meeting for resolution. The current remuneration system therefore does not currently fully comply with the following recommendations of the GCGC: G.1 (Definition of the remuneration system), G.2 (Definition of the actual total remuneration), G.6 (Predominance of the variable remuneration from achieving long-term objectives), G.7 (Definition of performance-based criteria for the upcoming financial year), G.10 (Availability of long-term variable amounts granted after four years) and G.11 (Possibility of withholding or reclaiming variable remuneration).

Furthermore, since the last statement of compliance was submitted in December 2019, the Company has complied with all the recommendations of the version of the German Corporate Governance Code of 7 February 2017 ("2017 GCGC") published by the Federal Ministry of Justice in the official section of the Federal Gazette on 24 April 2017 until the entry into force of the 2020 GCGC, with the following exceptions:

Section 4.2.3 (2) sentence 6 of 2017 GCGC recommended that there is a maximum limit for the remuneration of the members of the Management Board as a whole and with regard to their variable remuneration components. The current remuneration system of the Management Board, which was already set before the first listing on the stock exchange and therefore before the recommendations of the 2017 GCGC applied, limits any material remuneration elements individually to an amount, i.e. the fixed remuneration, the variable remuneration components assessed on a one-year and multi-year basis, and the pension commitments. However, there is no maximum limit set for fringe benefits that are part of the remuneration (essentially the use of a company car and the payment of premiums for accident insurance with standard services and the reimbursement of expenses and travel costs). As a result, no total maximum limit has been defined. The Management Board and the Supervisory Board did not believe that the lack of a limited amount of fringe benefits and the resulting lack of a total maximum limit against the backdrop of setting maximum limits for all relatively significant remuneration components constituted a material deviation from the recommendation of the 2017 Code. As a precaution, the Management Board and Supervisory Board nevertheless declared a deviation from Section 4.2.3(2) sentence 6 of the 2017 GCGC.

Section 7.1.2 of the 2017 GCGC recommended making mandatory interim financial information publicly available within 45 days of the end of the reporting period. The Company complied with the publication of interim reports in accordance with the legal requirements (making half-yearly financial reports available within three months of the end of the reporting period) and with the requirements of the Exchange Rules of the Frankfurt Stock Exchange for the Prime Standard (making half-yearly financial reports available within three months and making quarterly financial reports or communications available within two months of the end of the period under review). The Management Board and Supervisory Board considered these to be appropriate. Publication within the shorter deadline recommended by the 2017 GCGC would have required the use of significant additional financial and human resources that, in the opinion of the Management Board and Supervisory Board, would have been disproportionate to the shareholders' need for information.

Essen, December 2020

The Management Board

The Supervisory Board

## Corporate governance practices

The management of Instone Real Estate Group AG is largely determined by the provisions of the German Stock Corporation Act (AktG) and is also focussed on the requirements of the German Corporate Governance Code. In addition, the Management Board has laid down basic values for lawful and ethical conduct in a Group-wide Code of Conduct. This specifies existing duties and responsibilities and derives various codes of conduct on the basis of the law or existing official instructions. The Code of Conduct offers Instone-Group employees orientation and assistance in their day-to-day work while at the same time providing binding requirements for the actions of all employees. Instone Real Estate Group AG is expressly committed to the values reflected in the Code of Conduct.

## Working methods of the Management Board and Supervisory Board

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

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

Both the Management Board and the Supervisory Board each have their own Rules of Procedure which include detailed regulations about the respective activities of the Boards and the internal organisation, as well as for the collaboration between the Management Board and the Supervisory Board which go beyond the provisions of stock corporation law. GRI 102-18

## Management Board

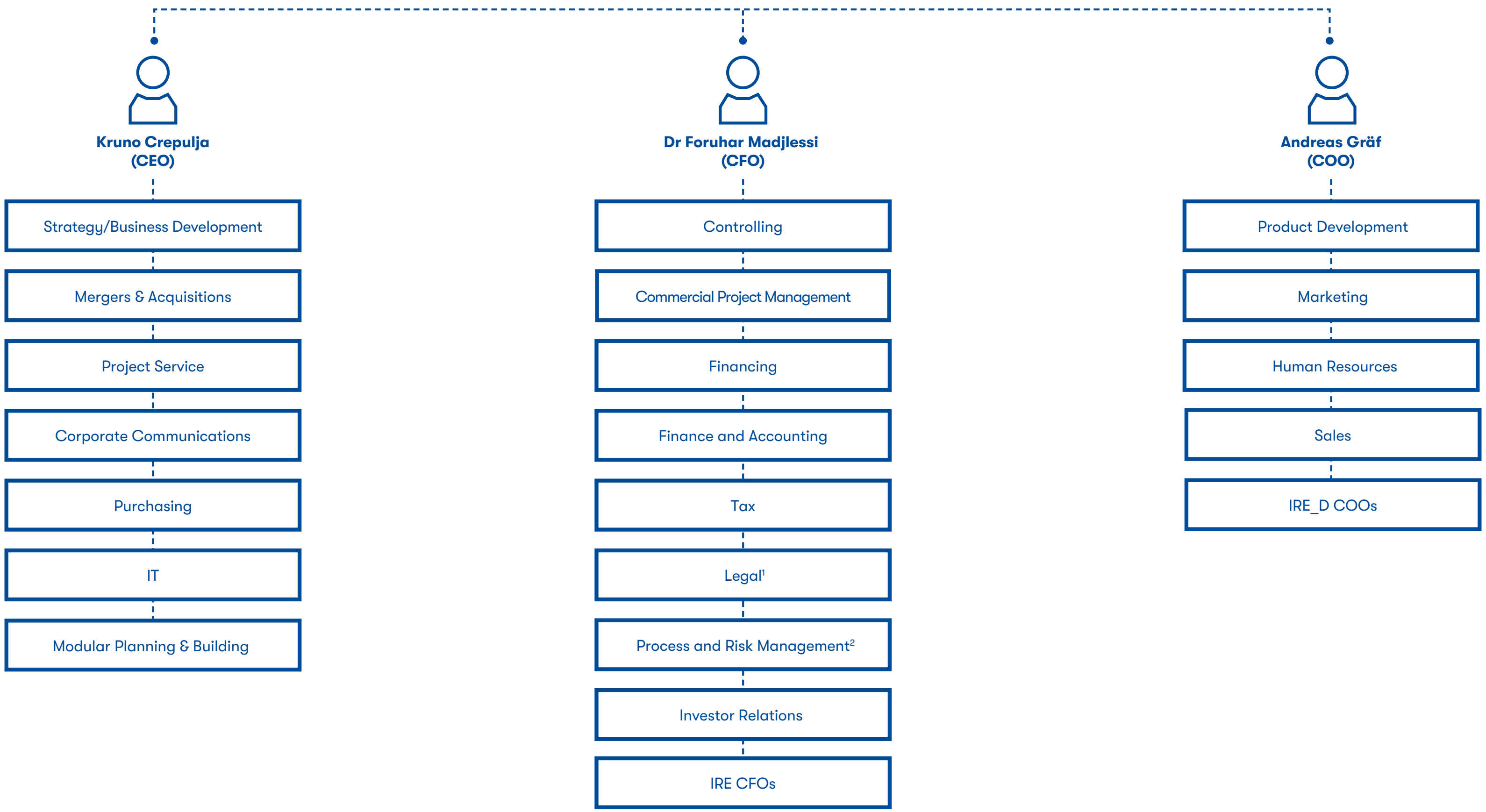
The Management Board manages the Company on its own responsibility in accordance with the statutory provisions, the Articles of Association and the Rules of Procedure for the Management Board. It is committed to acting in the Company's best interests. The Management Board develops the strategic direction of the Company, coordinates this with the Supervisory Board and ensures its implementation. It also bears responsibility for appropriate risk management and controlling as well as regular, timely and comprehensive reporting to the Supervisory Board.

The Management Board performs the management function as a collegial body. Irrespective of the overall responsibility for the management, the individual members of the Management Board are responsible for the departments assigned to them in accordance with the legislation, the Articles of Association and the Rules of Procedure for the Management Board, and are personally responsible in the context of Board of Management resolutions. The work of the Management Board, including the allocation of responsibilities, is governed by the Rules of Procedure for the Management Board, which were adopted by the Supervisory Board and last amended in the 2020 financial year on 30 April 2020. GRI 102-18

The organisational chart defined for the Management Board is shown on the following page.

The Rules of Procedure for the Board of Management also specify when a resolution is required to be passed by the entire Management Board and for which matters a Management Board resolution always requires the participation of the Chair of the Management Board and/or the Chief Financial Officer. Management Board meetings are held biweekly when possible, but at least once a month, under the direction of the Chairman of the Management Board. Occasionally, individual members of the Management Board also participate by telephone or video conference, and board meetings were regularly held virtually in the past financial year due to the impact of the coronavirus pandemic. The Rules of Procedure for the Management Board also allow resolutions to be passed outside of meetings. Resolutions are passed by a simple majority of the votes cast unless the law provides otherwise.

## Instone Real Estate Group AG – organisational chart




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

In accordance with the general representation rules of the Articles of Association, the Company is represented by two members of the Management Board or by one member of the Management Board together with an authorised representative.

In addition to certain approval reservations contained in the Articles of Association, the Supervisory Board has set out certain other transactions and measures of fundamental importance in the Rules of Procedure for the Management Board which require its prior approval. These include, for example, the adoption of the annual planning, larger land acquisitions and the conclusion and amendment of certain financing agreements, as well as the implementation of certain corporate law measures. Transactions between the Company or one of its subsidiaries and members of the Management Board or related parties also require the approval of the Supervisory Board Audit Committee and must comply with the usual market conditions.

The Management Board informs the Supervisory Board regularly and comprehensively as well as promptly, and when appropriate, and in accordance with the legislation, the Articles of Association and the principles of information defined in the Rules of Procedure for the Management Board, in particular with regard to any issues that are relevant to strategy, planning and business development, the risk situation, risk management and compliance relevant to the Company as well as the ongoing projects and the financing situation of the Company. The Chair of the Management Board and the Chair of the Supervisory Board are also in regular communication.

## Supervisory Board

The Supervisory Board advises and monitors the Management Board. It works closely with the Management Board for the benefit of the Company and is involved in all decisions of fundamental importance.

Its rights and duties are determined by the statutory provisions, the Articles of Association, the Rules of Procedure for the Supervisory Board of 30 April 2020 and the Rules of Procedure for the Management Board. It appoints and dismisses the members of the Management Board, represents the Company when dealing with them and, together with the Management Board, ensures long-term succession planning.

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

Members of the Supervisory Board are selected in light of their respective knowledge, abilities and professional aptitude as well as their skills profile. According to the targets for the skills profile of members of the Supervisory Board, this in particular includes the following knowledge, skills and professional experience required for the members of the Supervisory Board as a whole:

→ Experience in managing or supervising medium-sized or large companies or complex organisations

→ Members as a whole must be familiar with the real estate sector and the project development industry

→ In-depth knowledge about finance, accounting treatments, accounting, law and compliance in the General Committee as a whole

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

→ Experience with capital market instruments and bank financing

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

The Company has complied with the individual recommendations in section C.1 of the GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the corporate governance statement. In the 2020 financial year, the members of the Supervisory Board fulfilled the overall competence profile. GRI 102-22; 102-24

## Target figures for the proportion of women

The "German law for the equal participation of women and men in management positions in the private sector and in the public sector" obliges Instone Real Estate Group AG to set target figures for the proportion of women on the Supervisory Board, the Management Board and the first two management levels below the Management Board.

Following the Company's change of legal form into a stock corporation (Aktiengesellschaft) under German law, the Supervisory Board therefore set a target for the proportion of women in the Supervisory Board of 20% for the first time in financial year 2018. The Supervisory Board reviewed this target again in December 2020 and continues to use this target following this review. The proportion of women on the Supervisory Board is currently 20%, so that the target is met.

For the Management Board of Instone Real Estate Group AG, the target figure for the proportion of women set by the Supervisory Board for the period up to 30 November 2020 was 0%. This was due not least to the fact that the Supervisory Board, taking into account the existing circumstances, in particular the current appointment term of members of the Management Board, was not able to set a higher quota. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will also continue to respect diversity in the future. Nevertheless, the Supervisory Board is convinced that a position is to be filled primarily on the basis of qualification and competence – irrespective of gender. The Company has met the targets during the period under review. The Supervisory Board intends to continue to maintain the previous target proportion after reviewing the definition of the target figure and in the light of the reasons outlined above.

Both targets confirmed for the Management Board and the Supervisory Board in December 2020 are valid for five years until December 2025 according to the guidelines of the Supervisory Board. At the end of this period, it will reassess the target.

The Board of Management had set a minimum target rate of 0% on 18 December 2018 for the proportion of women on the first management level below the Management Board, which at the time of the first appointment by the Management Board consisted of the members of the Managing Directors of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH. The minimum proportion was exceeded due to the appointment of Ms. Reinhardt Weith as a member of the Management Board of Instone Real Estate Development GmbH, meaning that by the end of the two-year implementation period envisaged by the Board on 18 December 2020, the actual proportion of women was 25%. In December 2020, the Management Board therefore decided in its second review to set the target proportion at 25% in future (without taking into account dual mandates). Due to the largely completed relocation of the operating business from Instone Real Estate Leipzig GmbH to Instone Real Estate Development GmbH, the first management level will in future consist of the members of the Management Board of Instone Real Estate Development GmbH and Nyoo Real Estate GmbH.

At the second management level below the Management Board which, at the time of the first appointment by the Management Board, consisted of the authorized representatives (Prokuristen) of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Board of Management had set the minimum proportion at 25% on 18 December 2018 with a deadline for implementation of 18 December 2020. At this time, the proportion of women at this management level was 17%. In the meantime, the Management Board has succeeded in further increasing this proportion to around 22% in 2019 and is significantly closer to achieving its self-imposed target. At the time of the review on 18 December 2020, the proportion of women at the second management level was slightly below the self-imposed target of 25%, at around 19%. This was mainly due to the appointment of Ms Reinhardt Weith as a member of the Management Board of Instone Real Estate Development GmbH and thus the admission of a female executive to the first management level. In December 2020, following the review of compliance with the targets, the Management Board decided that the target figure for the second management level is to be 30% in future, with the second management level consisting of the division heads, branch managers, commercial managers and department heads of the Instone-Group in order to take into account the further development of the Instone-Group since December 2018. This target was around 22% as at 1 January 2020. The Management Board has set implementation deadlines of five years, ending in December 2025, for the achievement of the targets at the first and second management levels.

The Management Board promotes the achievement of goals through long-term staff planning and development. This includes, for example, the targeted support of female employees through training and further education measures as well as separate work time models to promote equal opportunities in order to increase the number of women in management positions. In line with the practice adopted since the IPO, the Management Board has also determined, in accordance with Section A.1 of the GCGC, that diversity should also be respected and promoted for management appointments within the Company. The Management Board believes that diversity includes – but is not limited to – age, gender, international background, education and professional experience. Notwithstanding, the appointment and promotion of senior management positions in the Company and the underlying selection decisions will continue to be substantially based on specific qualifications. The Management Board will therefore continue to select managers based on their professional ability and aptitude for the specific roles in this management role, regardless of their background, gender or other non-performance characteristics.

## Composition of the Management Board and Supervisory Board

According to the Company's Articles of Association, the Management Board consists of at least two persons. The number of members is determined by the Supervisory Board. In the 2020 financial year, the Management Board consisted of three members with equal rights, each responsible for the departments assigned to them.

Together with the Management Board, the Supervisory Board ensures long-term succession planning for appointments to the Management Board. The long-term succession planning of Instone Real Estate Group AG is based on the corporate strategy, and takes into account the duration of the employment contracts of members of the Management Board and the standard age limit of 65 years laid down by the Supervisory Board for the members of the Management Board. The Supervisory Board has decided to negotiate an extension of an expiring contract at the latest six months before the expiry of an employment contract, in principle together with the Management Board, and/or, if necessary, to initiate their succession by another suitable candidate. The Supervisory Board shall draft a job profile for vacant positions on the Management Board or for external candidates for positions to be filled, taking into account the diversity concept of the Company. In doing so, the Supervisory Board shall ensure that the knowledge, skills and experience of the candidates are in line with the requirements of the position to be filled and that they are balanced across the Management Board as a whole. In addition, the Management Board reports regularly on the appointment and succession planning at the other management levels below the Management Board.

According to the Articles of Association, the Supervisory Board consists of five members. It is not subject to employee co-determination. All members are elected as shareholder representatives by the Company's Annual General Meeting. All members of the Supervisory Board are independent in accordance with the recommendations of the GCGC.

Details of the members of the Management Board and the Supervisory Board can be found in the notes to the consolidated financial statements of Instone Real Estate Group AG in accordance with Section 285 No. 10 of the German Commercial Code (HGB). page 210 f.

## Collaboration between the Management Board and Supervisory Board

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

Both Boards also hold an annual joint strategy meeting, at which the respective members exchange views openly on the strategic direction of the company and initiatives of the Management Board. The Management Board also discusses the status of the strategy implementation with the Supervisory Board at regular intervals. The Chair of the Supervisory Board and the Chair of the Audit Committee regularly liaise with the Management Board between meetings and discuss questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The Chair of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessing the financial position and performance as well as for managing the Company and its Group companies. The Chair of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary. In addition, the Management Board reports to the Supervisory Board regularly and as required by law, by the Articles of Association and by the Management Board's Rules of Procedure, which contain comprehensive provisions for the reports and information to be submitted. GRI 102-30; 102-31

The Articles of Association and the Rules of Procedure for the Management Board also stipulate that fundamentally significant measures and legal transactions must be subject to approval by the Supervisory Board.

Transactions by members of the Management Board and related parties require the approval of the Supervisory Board Audit Committee. The assumption of ancillary activities outside the Company – in particular, the performance of supervisory board mandates and mandates in comparable supervisory bodies of commercial enterprises – requires the approval of the Supervisory Board.

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

## Supervisory Board committee

In the 2020 financial year, the Supervisory Board had at its disposal three committees: the Nomination Committee, the Audit Committee and the Remuneration Committee. Further committees can be formed as required. The tasks and responsibilities and the personnel composition of the committees are set out below:
GRI 102-18; 102-22

### Nomination Committee

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

Members of the Nomination Committee in the 2020 financial year were:

- → Dietmar P. Binkowska (Chair)
- → Stefan Brendgen
- → Dr Jochen Scharpe

### Audit committee

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

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

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Foundations of the Group
Economic report
Risk and opportunities report
Outlook
Remuneration report
Takeover law disclosures
Corporate governance statement (unaudited)
Other disclosures
Consolidated financial statements

The following members were members of the Audit Committee in financial year 2020:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Brendgen

→ Thomas Hegel

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

### Remuneration committee

The Remuneration Committee advises on the employment contracts of the members of the Management Board and prepares resolutions of the Supervisory Board.

In the 2020 financial year, the Remuneration Committee consisted of the following members:

→ Marija Korsch (Chair)

→ Stefan Brendgen

→ Dietmar P. Binkowska

The Chair of the Remuneration Committee is independent within the meaning of the recommendations of the Code.

## Management Board committees

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual departments allocated to individual members of the Management Board.

## Annual General Meeting and shareholders

The shareholders of Instone Real Estate Group AG assert their rights at the Annual General Meeting and exercise their voting rights. Each share in the Company grants one vote.

As a rule, the Annual General Meeting takes place annually within the first eight months of the financial year. By way of derogation from this, the Management Board may, with the approval of the Supervisory Board, decide to hold the 2021 Annual General Meeting during the financial year and also as a purely virtual Annual General Meeting without the physical presence of the shareholders and their representatives on the basis of the special regulation of Section 1(5) of the German law on company, cooperative, association, foundation and housing property law measures to combat the effects of the coronavirus pandemic. The agenda for the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the Company’s website under ↗ Instone AGM.

Fundamental decisions are made at the Annual General Meeting. These include resolutions on the appropriation of any profits, the discharge of the Management Board and Supervisory Boards, the election of Supervisory Board members and the selection of the auditor, amendments to the Articles of Association as well as capital measures. The Annual General Meeting offers the Management Board and the Supervisory Board the opportunity to liaise directly with the shareholders and discuss the further development of the Company.

Instone Real Estate Group AG provides its shareholders with a proxy who is bound to follow shareholders’ instructions and who can also be contacted during the Annual General Meeting in order to allow shareholders to personally exercise their rights. The invitation to the Annual General Meeting explains how instructions can be issued prior to the Annual General Meeting. Shareholders also remain free to be represented at the Annual General Meeting by a proxy of their choice.

## 2020 Annual General Meeting

With the consent of the Supervisory Board, the Management Board made use of the option provided by the German law on company, cooperative, association, foundation and housing property law measures to combat the effects of the coronavirus pandemic with regard to the 2020 Annual General Meeting. The Annual General Meeting of Instone Real Estate Group AG took place on 9 June 2020 in Essen and was held as a virtual annual general meeting without the physical presence of the shareholders on the basis of the official regulations in force at that time to protect against the health risks associated with the SARS-CoV-2 coronavirus. The shareholders were able to follow the Annual General Meeting via a live stream and cast their votes by postal vote or via a proxy. The shareholders present at the meeting represented 63.90% of the registered capital. All agenda items were agreed with a large majority.

## Further aspects of corporate governance

### Diversity GRI 405-1

Instone Real Estate Group AG places great value on diversity, both with regard to its administrative bodies and its employees as a whole, and sees diversity as one of the company's strengths. Diversity is therefore an important element for Instone Real Estate Group AG for sustainable corporate success.

Given this, the Supervisory Board determined in 2018 and confirmed once again in the 2020 financial year that attention will continue to be paid to diversity with regard to the composition of the Management Board in the future. The Supervisory Board has also set a target for the proportion of women on the Management Board and a standard retirement age for Management Board members at the age of 65. In the interests of complementary cooperation within the Supervisory Board, the selection of candidates for the Supervisory Board should also be based on sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience. The target for the proportion of women on the Supervisory Board is currently 20%.

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as at 31 December 2020 complies with the described diversity concepts. The members of the Management Board have a range of different professional qualifications and, inter alia, many years of experience in international corporations. Dr Foruhar Madjlessi has been a member of the Management Board since 1 January 2019 and brings with him many years of international experience and specialist expertise in capital markets and corporate finance. Furthermore, none of the members of the Management Board has reached the age of 65, and one of the Management Board members has not yet reached the age of 50. The Supervisory Board continues to remain diverse as at 31 December 2020.

→ Above all, the Chairman of the audit committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. The members of the Supervisory Board have experience, knowledge and skills of managing or supervising medium-sized or large companies, particularly in the areas of capital markets, real estate, management and supervision, and thus contribute to the diverse composition of the Supervisory Board. In addition, the Supervisory Board has one female member, so that the self-imposed target figure of 20% for the proportion of women as at 31 December 2020 was also achieved. None of the Supervisory Board members – all of whom are over 50 years of age – had reached the age of 70 when they were elected.

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

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

### Compliance management system

Compliance at Instone Real Estate is a significant part of successful and responsible corporate governance.

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

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

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

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

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

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

We consistently follow all instructions within the scope of the legal options, pursue their clarification without compromise and impose sanctions appropriate to the offence and degree of blame. In addition, there were individual indications of possible compliance cases in the 2020 financial year. We have carefully investigated these suspicions regarding compliance cases and have responded to them. Within the scope of the ongoing development of the compliance management system, and when dealing with legal issues, the Management Board and compliance officer at the Group level can be given legal advice if required.

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

No significant fines were imposed against Instone Real Estate in the 2020 reporting year due to non-compliance with laws and regulations in the social and economic sphere. GRI 102-34; 419-1

# Preparation

In this document, the terms "we", "us", "our", "Instone Real Estate", "Instone-Group" and the "Company" refer to Instone Real Estate Group AG and its subsidiaries accordingly. Instone Real Estate Group AG has been domiciled at Grugaplatz 2–4, 45131 Essen, Germany since 28 August 2018. It is the top level domestic parent company of the Instone-Group.

This report concerns the financial year ending 31 December 2020. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2020.

# Forward-looking statements

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

The forward-looking statements in this report are subject to risks and uncertainties as they relate to future events. They are based on the best judgement of the Company's current estimates and assumptions. These forward-looking statements are based on assumptions and other factors and are subject to uncertainties, the occurrence or non-occurrence of which may cause the actual results, including the net assets, financial position and results of operations of Instone Real Estate, to be materially different or more negative than those expressly or implicitly assumed or described in these statements. These statements can be found in various parts of this report, in particular in the "Outlook" section, as well as in places where statements are made regarding intentions, opinions or current expectations of the Company regarding its future financial position or operating results, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment in which Instone Real Estate operates.

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

Furthermore, it should be noted that all forward-looking statements are made only as of the date of this report and that the Company accepts no obligation to update such statements or adapt them to current events or trends, except as required by law. Details of certain factors that could affect the actual development of the matters described in the forward-looking statements of the Company are included in the "Outlook" section of this report.

# CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated income statement GRI 201-1

**CONSOLIDATED INCOME STATEMENT** TABLE 048

In thousands of euros

| | Note | 2020 | 2019 |
|---|---|---|---|
| Revenue | 1 | 464,390 | 509,494 |
| Changes in inventories | | 44,974 | 277,270 |
| | | **509,365** | **786,765** |
| | | | |
| Other operating income | 2 | 5,756 | 7,717 |
| Cost of materials | 3 | – 362,189 | – 633,954 |
| Staff costs | 4 | – 42,060 | – 37,336 |
| Other operating expenses | 5 | – 26,071 | – 33,048 |
| Depreciation and amortisation | 6 | – 4,080 | – 4,065 |
| **Consolidated earnings from operating activities** | | **80,722** | **86,079** |
| | | | |
| Share of results of joint ventures | 7 | 2,721 | 744 |
| Other results from investments | 7 | – 1,207 | – 5,734 |
| Finance income | 8 | 346 | 1,085 |
| Finance costs | 8 | – 26,327 | – 19,121 |
| Other financial result | 8 | – 324 | 189 |
| **Consolidated earnings before tax (EBT)** | | **55,931** | **63,241** |
| | | | |
| Income taxes | 9 | – 22,245 | 6,535 |
| **Consolidated earnings after tax (EAT)** | | **33,686** | **69,776** |
| | | | |
| **Attributable to:** | | | |
| Group interests | | 33,673 | 69,764 |
| Non-controlling interests | | 14 | 12 |
| | | | |
| **Basic and diluted earnings per share (in euros)**[1] | | **0.81** | **1.78** |

[1] The weighted average number of shares was adjusted retroactively due to the issuing of new shares with subscription rights in the 2020 financial year.

# Consolidated statement of comprehensive income GRI 201-1

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** TABLE 049

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Consolidated earnings after tax** | **33,686** | **69,776** |
| | | |
| **Items which are not reclassified into the consolidated earnings in future periods** | | |
| Actuarial gains and losses | –1,326 | –465 |
| Income tax effects | 610 | 152 |
| | | |
| **Income and expenses after tax recognised directly in equity** | **–716** | **–313** |
| | | |
| **Total comprehensive income for the financial year after tax** | **32,970** | **69,463** |
| | | |
| **Attributable to:** | | |
| Group interests | 32,956 | 69,451 |
| Non-controlling interests | 14 | 12 |
| | **32,970** | **69,463** |

# Consolidated statement of financial position

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** TABLE 050

In thousands of euros

| | Note | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 11 | 6,056 | 6,056 |
| Intangible assets | 12 | 932 | 115 |
| Right of use assets | 13 | 10,535 | 9,675 |
| Property, plant and equipment | 14 | 2,273 | 2,126 |
| Interests in joint ventures | 15 | 10,871 | 678 |
| Other investments | 16 | 445 | 1,145 |
| Financial receivables | 18 | 21,467 | 450 |
| Deferred tax | 28 | 297 | 161 |
| | | **52,876** | **20,406** |
| **Current assets** | | | |
| Inventories | 17 | 777,761 | 732,127 |
| Financial receivables | 18 | 155,750 | 5 |
| Contract assets | 19 | 194,158 | 219,019 |
| Trade receivables | 20 | 1,080 | 8,278 |
| Other receivables and other assets | 21 | 12,065 | 12,473 |
| Income tax assets | 22 | 2,359 | 13,956 |
| Cash and cash equivalents | 23 | 87,044 | 117,090 |
| | | **1,230,218** | **1,102,948** |
| **TOTAL ASSETS** | | **1,283,093** | **1,123,354** |

# Consolidated statement of financial position (continued)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** TABLE 050

In thousands of euros

| | Note | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 24 | | |
| Share capital | | 46,988 | 36,988 |
| Capital reserves | | 358,983 | 198,899 |
| Group retained earnings/loss carryforwards | | 115,544 | 74,713 |
| Accumulated reserves recognised in other comprehensive income | | – 2,080 | – 1,364 |
| Equity attributable to shareholders | | 519,435 | 309,236 |
| Non-controlling interests | | 1,598 | 924 |
| | | **521,033** | **310,161** |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | 25 | 4,718 | 3,940 |
| Other provisions | 26 | 4,971 | 6,329 |
| Financial liabilities | 27 | 313,665 | 451,586 |
| Liabilities from net assets attributable to non-controlling interests | 29 | 10,337 | 9,504 |
| Leasing liabilities | 30 | 7,704 | 6,836 |
| Other liabilities | 32 | 4,977 | 0 |
| Deferred tax | 28 | 22,941 | 11,965 |
| | | **369,313** | **490,161** |
| **Current liabilities** | | | |
| Other provisions | 26 | 24,141 | 22,967 |
| Financial liabilities | 27 | 168,037 | 143,927 |
| Leasing liabilities | 29 | 3,036 | 3,004 |
| Contract liabilities | 31 | 25,554 | 23,292 |
| Trade payables | 32 | 68,895 | 87,592 |
| Other liabilities | 33 | 88,726 | 13,127 |
| Income tax liabilities | 34 | 14,359 | 29,123 |
| | | **392,748** | **323,033** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,283,093** | **1,123,354** |

# Consolidated statement of cash flows

**CONSOLIDATED STATEMENT OF CASH FLOWS** TABLE 051

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Consolidated earnings after tax** | **33,686** | **69,776** |
| (+) Depreciation and amortisation/(–) write-ups of non-current assets | 4,080 | 842 |
| (+) Loss/(–) profit from the disposal of intangible assets | 0 | 8 |
| (+) Profit/(–) loss on disposals of property, plant and equipment | 31 | 0 |
| (+) Increase/(–) decrease in provisions | – 759 | 6,939 |
| (+) Current income tax expense/(–) current income tax income | 9,251 | 20,310 |
| (+) Deferred income tax expense/(–) deferred income tax income | 12,994 | – 25,877 |
| (+) Expenses/(–) income from equity carrying amounts | – 2,721 | – 442 |
| (+) Loss/(–) profit from results from investments in minority interests | 1,224 | 5,751 |
| (+) Interest expenses/(–) interest income | 26,304 | 17,970 |
| (+) Other non-cash income/(–) expenses | 0 | – 313 |
| (+/–) Change in net working capital[1] | 47,174 | – 277,809 |
| (+) Income tax reimbursements/(–) income tax payments | – 11,388 | – 22,240 |
| **= Cash flow from operations** | **119,877** | **– 205,085** |
| | | |
| (–) Outflows for investments in intangible assets | – 853 | – 3 |
| (–) Outflows for investments in property, plant and equipment | – 1,069 | – 938 |
| (–) Outflows for investments in financial assets | – 34,727 | – 1,155 |
| (–) Outflows for investments in unconsolidated companies and other companies | – 2,914 | 0 |
| (–) Payments for acquisitions less cash and cash equivalents acquired GRI 201-1 | 0 | – 31,848 |
| (–) Disbursements due to financial investments within the scope of short-term financial planning | – 145,000 | 0 |
| (+) Interest received | 0 | 1,556 |
| (+) Dividends received | 442 | 0 |
| **= Cash flow from investing activities** | **– 184,121** | **– 32,389** |

# Consolidated statement of cash flows (continued)

**CONSOLIDATED STATEMENT OF CASH FLOWS** TABLE 051

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| (+) Proceeds from additions to issued capital | 182,885 | 0 |
| (–) Payments for transaction costs of the equity injection | – 7,864 | 0 |
| (–) Payments to minority shareholders | – 390 | – 3,255 |
| (+) Proceeds from loans and borrowings | 266,501 | 559,465 |
| (–) Repayments of loans and borrowings | – 391,148 | – 283,117 |
| (–) Payments from lessees to repay liabilities from lease agreements | – 3,131 | 0 |
| (–) Interest paid | – 12,654 | – 6,942 |
| **= Cash flow from financing activities** | **34,199** | **266,151** |
| | | |
| Cash and cash equivalents at the beginning of the period | 117,090 | 87,965 |
| (+/–) Change in cash and cash equivalents | – 30,046 | 28,677 |
| (+/–) Exchange rate, scope of consolidation and valuation-related changes in cash and cash equivalents | 0 | 448 |
| **= Cash and Cash equivalents at the end of the period** | **87,044** | **117,090** |

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

# Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TABLE 052

In thousands of euros

| | Note | Total | Share capital | Capital reserves | Group retained earnings/loss carryforwards | Accumulated reserves recognised in other comprehensive income | Equity attributable to shareholders | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|
| **As at: 31 December 2018** | | **246,868** | **36,988** | **198,899** | **6,825** | **–1,050** | **241,662** | **5,206** |
| Effect of the first-time application of IFRS 16 | | –74 | 0 | 0 | –74 | 0 | –74 | 0 |
| **As at: 01 January 2019** | | **246,794** | **36,988** | **198,899** | **6,751** | **–1,050** | **241,588** | **5,206** |
| 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 |
| **Total comprehensive income** | | **69,463** | **0** | **0** | **69,764** | **–313** | **69,451** | **12** |
| Changes to the scope of consolidation | | 912 | 0 | 0 | 0 | 0 | 0 | 912 |
| Other neutral changes | | –7,008 | 0 | 0 | –1,802 | 0 | –1,802 | –5,206 |
| | | **–6,096** | **0** | **0** | **–1,802** | **0** | **–1,802** | **–4,294** |
| **As at: 31 December 2019** | 24 | **310,161** | **36,988** | **198,899** | **74,713** | **–1,363** | **309,236** | **924** |
| **As at: 01 January 2020** | | **310,161** | **36,988** | **198,899** | **74,713** | **–1,363** | **309,236** | **924** |
| Consolidated earnings after tax | | 33,686 | 0 | 0 | 33,673 | 0 | 33,673 | 14 |
| Changes in actuarial gains and losses | | –716 | 0 | 0 | 0 | –716 | –716 | 0 |
| **Total comprehensive income** | | **32,970** | **0** | **0** | **33,673** | **–716** | **32,956** | **14** |
| Capital increase | | 182,885 | 10,000 | 172,885 | 0 | 0 | 182,885 | 0 |
| Transaction costs less tax effect | | –5,643 | 0 | 0 | –5,643 | 0 | –5,643 | 0 |
| Other neutral changes | | 660 | 0 | –12,802 | 12,802 | 0 | 0 | 660 |
| | | **177,902** | **10,000** | **160,084** | **7,158** | **0** | **177,242** | **660** |
| **As at: 31 December 2020** | 24 | **521,033** | **46,988** | **358,983** | **115,544** | **–2,080** | **519,435** | **1,598** |

# Notes to the consolidated financial statements

## Basis of the consolidated financial statements

### General information about the Company

Instone Real Estate Group AG (hereinafter referred to as the "Company") has been domiciled at Grugaplatz 2 – 4, 45131 Essen, Germany since 28 August 2018. It is the top parent company of the Instone Real Estate Group (hereinafter also referred to as "Instone Real Estate" or the "Instone-Group").

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 10 March 2021.

### Basis of the consolidated financial statements GRI 102-46; 102-47

The consolidated financial statements for Instone Real Estate as at 31 December 2020 were prepared on the reporting date on the basis of Section 315e(1) HGB in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related Interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) as they apply in accordance with Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union.

Various items of the consolidated statement of financial position and the consolidated income statement are combined into one item for a better overview. These items are shown and explained separately in the Notes. The consolidated income statement is prepared according to the nature of expense method.

The consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Group. All amounts are 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 GRI 102-48; 102-49

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 following standards that were to be newly applied from the 2020 financial year onwards had no impact on these consolidated financial statements, except for any additional disclosures in the Notes:

→ Amendments to IFRS 3
"Business Combinations"

→ Amendments to IFRS 16
"Leases"

→ Amendments to IAS 1 and IAS 8
"Presentation of financial statements" and "Accounting policies, changes in accounting estimates and errors"

→ Amendments to IFRS 7, IFRS 9 and IAS 39 "Financial instruments: disclosures", "Financial instruments" and "Financial instruments: recognition and measurement"

### 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 IFRS 4, IFRS 7, IFRS 9, IFRS 16, IAS 39 (1 January 2021)

→ Amendments to IFRS 3 (1 January 2022)

→ Amendments to IAS 16 (1 January 2022)

→ Amendments to IAS 37 (1 January 2022)

→ Annual improvements to IFRSs, 2018-2020 cycle (1 January 2022)

→ IFRS 17 (01 January 2023)

→ IAS 1 (01 January 2023)

With the exception of new or modified notes, the new and amended standards are not expected to have a material impact on the consolidated financial statements.

## Scope of consolidation GRI 102-48

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. Significant activities are activities that significantly affect returns. Furthermore, Instone Real Estate Group 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 joint venture is established if the Instone Real Estate Group AG jointly conducts activities together with third parties on the basis of a contractual obligation. Decisions on significant activities are made unanimously among the partners. The partners have rights to the net assets of the joint venture.

As at 31 December 2020, a total of 18 (previous year: 25) 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.

On 31 December 2020, seven joint ventures (previous year: two) were valued using the equity method. The measurement using the equity method was based on the latest available annual financial statements.

In total, six subsidiaries (previous year: six) had a low business volume or no business operation and were not consolidated on grounds of materiality. They are recognised at acquisition cost under other financial assets.

Due to their overall minor importance, five 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. page 150 et seq.

## Business combinations GRI 102-48

Business combinations are accounted for at acquisition cost as soon as control is transferred to the Instone-Group.

The consideration paid for the acquisition is measured at fair value. The same applies to the acquired identifiable net assets and debts. The resulting goodwill is subjected to an impairment test annually. All profits from acquisitions at prices below the market value are posted directly to income. Transaction costs are recognised when they arise, except when issuing bonds or equity securities.

The consideration paid does not include the amounts required to settle past relationship receivables. These amounts are always recognised in the income statement. Contingent considerations are recognised at their fair value at the acquisition date. If an obligation to make a contingent consideration that meets the requirements of the definition of a financial instrument is classified as equity, and it will not be revalued and recognised in equity. In other respects, a contingent consideration is valued at the fair value as 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.

## Consolidation principles GRI 102-46

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 the joint ventures of the Instone-Group.

The financial statements of all equity-accounted affiliated companies are prepared in accordance with standardised Group accounting principles.

## Foreign currency translation

All fully consolidated companies and equity-accounted affiliated companies prepare their separate financial statements in accordance with standardised Group accounting principles.

## Accounting principles GRI 102-46

Assets and liabilities are recognised according to the historical cost principle. This excludes derivative financial instruments, securities and shares in associates which are recognised at fair value.

**Goodwill** from the acquisition of subsidiaries is recognised at cost and is not subject to scheduled depreciation, but is instead subject to an impairment test in accordance with IAS 36 once a year and, in addition, a further test if there exist indicators that point to a potential impairment. The goodwill accounted for in the Bavaria North branch as a cash-generating unit, is classified as an intangible asset with an indefinite useful life, as it has neither a product life cycle nor is it subject to technical, technological or commercial wear or other restrictions.

The annual impairment test of goodwill is carried out at the Instone-Group on 31 December of the financial year. As part of the impairment tests, the recoverable amount of a branch is compared with the carrying amount. The recoverable amount of the cash-generating unit is determined on the basis of the individual value in use of the allocated project developments. This corresponds to the present value of future cash flows that are expected to be achieved from the group of cash-generating units. The value in use is calculated on the basis of a project valuation model (discounted cash flow method). The determination is based on project-based cash flow plans for the next four years, which are generally based on the project planning approved by the Management Board and valid at the time the impairment test is carried out over the development period. There was no assumption of cash flows beyond the planning period of the projects. Experience and expectations regarding future market development are included in this planning. 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 carried out by discounting the cash flows at a cost of capital rate calculated separately for each cash-generating unit after tax. A perpetual annuity is not recognised.

Acquired **intangible assets** are recognised at amortised cost. These include software for commercial and technical applications only. Intangible assets are generally amortised on a straight-line basis over a period of three to five years. Internally-generated intangible assets include in-house software and are recognised at production costs less scheduled depreciation and amortisation over a useful life of three years. The useful life and depreciation methods are reviewed every year.

**Property, plant and equipment** are recognised at acquisition cost. These costs only include costs directly attributable to an item in property, plant and equipment. Property, plant and equipment is generally depreciated on a straight-line basis over a period of three to eight years. The useful life and depreciation methods are reviewed every year.

Impairment losses are recognised for tangible and intangible assets if their recoverable amount falls below their book value. If the reason for an earlier loss in value no longer exists, the asset is reversed at amortised cost.

**Leases** are recognised in accordance with the provisions of IFRS 16. At the time of provision of the leased property, the right of use is recognised as an asset and the associated payment obligation is recognised as a leasing liability in the statement of financial position. The right of use is amortised on a straight-line basis over the shorter of the term of the lease and the economic useful life of the leased asset. Payment obligations are discounted using the appropriate marginal cost of capital rate. Discounting is generally calculated using term and currency-specific marginal borrowing cost of capital rates, unless the interest rate underlying the lease payments is available. Each lease payment is divided into repayments and interest expenses. Interest expenses are recognised in profit or loss over the term of the lease.

This accounting does not include short-term leases with a term of no more than twelve months and leases where the asset underlying the lease agreement is of low value (less than €5 thousand). Such agreements are recorded in profit or loss at the time of payment. In addition, rights of use of intangible assets are excluded from the scope of application. These are separated in contracts that include lease components and non-lease components, except in the case of insignificant asset classes.

The Instone-Group also generates a small amount of income from leases through the acquisition of leased existing real estate that is intended for demolition or redevelopment. No long-term income is expected from these leases, as the aim of the Instone-Group is to terminate the leases.

Shares accounted for using the **equity method** are valued at acquisition cost and are recognised pro rata to the net assets in subsequent periods. The full book value is tested annually for impairment 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 investments** include investments and securities that fall exclusively in the valuation category "Affecting profit and loss at the fair value". They are measured at their fair value.

**Other investments** include financial receivables, trade receivables and other receivables and are measured at amortised cost using the effective interest method (taking into account factors such as surcharges and rebates). Non-interest-bearing or low-interest loans are recognised at their discounted amount using a current market interest rate. Impairment losses are recognised if there is an expected loss on the basis of the credit risk. Instone Real Estate uses the simplified value reduction model of IFRS 9 on all trade receivables, as well as contract assets and therefore records the expected losses over the total term.

**Long-term loans** which are recognised in financial liabilities are carried at amortised cost. Interest-bearing loans at normal market rates are recognised at their face value.

**Deferred tax liabilities** arise due to temporary differences between the IFRS and tax 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 group of companies.

**Inventories** are assets that are in production (work-in-progress) and for which no sales contract has yet been concluded. They are valued at acquisition 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 changes in inventories. For the purpose of commercial presentation, the inventories from the individual larger project development measures are split into several sub-project development measures. This split has no impact on the measurement. Within the Group, the respective overall project is recognised as a special measure in the current assets. The risks arising from individual sub-project units can be compensated by opportunities from other sub-projects. An impairment requirement beyond the carrying amount is taken into account by recognising a provision for contingent losses.

Receivables and liabilities from individually negotiated customer contracts are listed under **contract assets** and **contract liabilities**. These receivables and liabilities are accounted for and measured in accordance with IFRS 15 "Revenue from Contracts with Customers".

The Company's customer contracts meet the criteria for identifying a contract under IFRS 15. For measurement purposes, the respective potentially separable performance obligations in the respective contracts are combined into a performance obligation as there is no individual benefit for the customer from separate performance obligations and the contracts do not provide for the transfer of separate benefit obligations. Subsequently agreed special requests of the customer are also added to the single performance obligation.

The contracts are generally regarded as fixed price contracts. Subsequent special requests are added to the fixed price. If the sale of several residential units in a contract is combined in multi-level marketing, a separate fixed price is agreed in the contract for each residential unit. In the case of investor distribution, contracts are always concluded with fixed prices listed separately if the performance obligation of the contract involves several buildings with separate construction phases. In addition to the generally agreed fixed price, the contracts involving investor distribution contain, in some cases, an adjustment clause at a fixed price on the basis of the constructed living space after final completion. The contracts for the sale of residential real estate are generally valued according to revenue recognition over time. In the case of contracts in individual sales, there is usually a right of withdrawal up to a marketing quota of 30% of the residential units of a construction phase so that revenue recognition of the revenue at a period in time only begins after this quota has been reached. Otherwise, in the case of contracts in the area of structured sales or investor distribution, the revenue recognition over time begins directly upon effectiveness of the contract. The agreed fixed price is generally accepted as a basis for the expected revenues for all contracts, as the adjustment to the constructed living space is not clearly identifiable before completion in the case of investor contracts. Performance progress is determined according to the input-oriented cost-to-cost method on the basis of the performance status of the compliance costs. 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 an instalment payment plan in accordance with the Broker and Developer Regulations (Makler- und Bauträgerverordnung; MaBV). As a rule, for contracts involving investor distribution, instalment payment plans are also agreed based on the MaBV regulations.

In receivables and liabilities from contract assets, the advance payments received from customers against the contracts concluded are netted with the receivables from the performance of the contract. In principle, the settlement receivables exceed the advance payments received for the contract and the net value is recognised as a contract asset. In individual cases, advance payments received may exceed the settlement receivables so that the netted value is shown as a contract liability.

The additional contract costs incurred are also capitalised in the "Contract assets" item in the balance sheet. From the beginning of revenue recognition, the sales commissions incurred and capitalised so far are amortised in the income statement under cost of materials. Depreciation is measured at the fulfilment 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.

**Liquid funds** (cash and cash equivalents) are in the form of cash and bank balances. They also include all capital investments with a residual maturity at the acquisition date of up to three months. Cash and cash equivalents are valued at their nominal value.

**Provisions** are made for all legal and constructive liabilities to third parties existing on the closing date from transactions concluded in the past that are likely to result in the disposal of resources which can be reliably estimated.

Provisions are recognised at their anticipated settlement value and are not offset against reimbursement claims. All non-current provisions are recognised at their anticipated settlement value and discounted to the reporting date of the annual financial statements. Furthermore, all cost increases that count towards the settlement date are taken into account when calculating this amount.

**Provisions for pensions and similar obligations** are recognised for defined benefit plans. These include obligations of the Company with respect to current and future benefits to eligible active and former employees and their survivors. These obligations largely relate to pension benefits. The individual commitments are determined on the basis of the length of service and the salaries of the employees. The measurement of provisions for defined benefit plans is based on the actuarial 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 the “Richttafeln 2018 G” (guideline tables) of Klaus Heubeck).

The provision is calculated on the basis of the actuarial present value of the obligation and the fair value of the plan assets required to settle the pension obligation. The service cost is included in staff costs. The net interest income is part of the financial income. Gains and losses from the revaluation of net liabilities or net assets are recognised in full in the period in which they arise. They are reported in equity, are not recognised in profit or loss and are not reported in the consolidated income statement. In subsequent years they are also not shown in the profits and losses.

Instone Real Estate makes no further commitments for defined contribution plans that would exceed the contributions paid to Special Funds. The contributions are recorded as staff costs.

All **other provisions** take into account all identifiable risks. They are recognised at the amount required 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.

**Liabilities from net assets attributable to non-controlling interests** relate to the limited partner share of minority shareholders. On addition to the Group, they are carried as liability at the present value of the repayment amount through other comprehensive income. Subsequent measurement is through profit and loss.

**Income tax liabilities** include obligations to pay actual income taxes. Income tax liabilities are offset against the corresponding tax refund claims if they exist in the same jurisdiction and are identical in terms of their type and due date.

**Contingent liabilities** are potential obligations to third parties arising from events that have already taken place and that cannot be fully controlled by the Company, or existing obligations to third parties that are unlikely to lead to an outflow of resources or whose amount cannot be estimated with sufficient reliability. Contingent liabilities are not generally shown in the balance sheet.

### Estimates and assumptions

The preparation of the consolidated financial statements requires estimates and assumptions that may affect the application of the Group's accounting policies, 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 inventories and contract assets, the allocation of purchase prices, the effectiveness of sales contracts, the granting of pending approvals, the recognition and measurement of deferred tax assets, the allocation of trade payables and contract liabilities, the recognition of provisions for pensions and other provisions.

## Segment reporting

Operating segment reporting in accordance with IFRS 8 is based on the management approach and thus corresponds to the management and reporting system that Instone Real Estate uses for its segments. Instone Real Estate operates in only one business segment and one geographical segment and generates revenue and holds assets mainly in Germany. In the 2020 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 single business segment differs from the figures in IFRS accounting. In its internal reporting, Instone Real Estate focuses in particular on the development of housing projects. For this reason, Instone Real Estate conducts segment reporting for this one business segment.

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

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

### Adjusted revenue

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

**Adjusted gross profit**

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

**Adjusted earnings after tax**

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

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 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 measurement are reflected in revenues of €28,304 thousand (previous year: €220,801 thousand) changes in inventories of €-25,490 thousand (previous year: €-193,702 thousand) and income taxes of €-445 thousand (previous year: €-4,289 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 2020 financial year, as of 31 December 2020 inventories and contract assets still included write-ups of €43,013 thousand (previous year: €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 €-6,183 thousand (previous year: €6,390 thousand) to revenue, at €-264 thousand (previous year: €20,984 thousand) to the cost of materials, at €9,297 thousand (previous year: €-13,108 thousand) to changes in inventories and at €-842 thousand (previous year: €-4,471 thousand) to income taxes. Based on current estimates, the Instone-Group expects these effects to expire in 2024.

### Reclassifications and non-recurring effects

In the financial year, material-costs related other operating income (income opposed by a directly attributable item in cost of materials) in the amount of €1,486 thousand (previous year: €0 thousand) was reclassified as a cost of materials. Indirect sales expenses allocated to the project expenses amounted to €2,393 thousand as at 31 December 2020 (previous year: €3,084 thousand). The adjustment of the capitalised interest in the changes in inventories of €3,105 thousand (previous year: €3,248 thousand) burdened the project costs. In the financial year, revenue was adjusted by €6,365 thousand and changes in inventories were adjusted by €4,163 thousand based on a correction of the measurement methods as a knock-on effect from the previous year. An adjustment was also made for tax effects of €5,249 thousand as a knock-on effect from the previous year. In the previous year, non-recurring effects in the amount of €4,669 thousand from platform costs were adjusted. Of these effects, €2,517 thousand related to expenses for the acquisition of S&P Stadtbau in the third quarter 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 data are carried over from the adjusted results of operations to the consolidated reporting:

## RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS IN 2020

TABLE 053

In thousands of euros

| | Adjusted results of operations | Share deal effects | Non-recurring effects | Reclassifications | PPA | Reported results of operations |
|---|---|---|---|---|---|---|
| **Revenue** | **480,146** | **–28,304** | **6,365** | **0** | **6,183** | **464,390** |
| **Project costs** | **–333,509** | **25,490** | **–4,163** | **4,001** | **–9,033** | **–317,214** |
| Cost of materials | –365,420 | 2,061 | 0 | 907 | 264 | –362,189 |
| Changes in inventories | 31,912 | 23,429 | –4,163 | 3,093 | –9,297 | 44,974 |
| **Gross profit** | **146,637** | **–2,814** | **2,202** | **4,001** | **–2,850** | **147,176** |
| **Platform costs** | **–65,547** | **0** | **0** | **–907** | **0** | **–66,454** |
| Staff costs | –42,060 | 0 | 0 | 0 | 0 | –42,060 |
| Other operating income | 4,270 | 0 | 0 | 1,486 | 0 | 5,756 |
| Other operating expenses | –23,677 | 0 | 0 | –2,393 | 0 | –26,071 |
| Depreciation and amortisation | –4,080 | 0 | 0 | 0 | 0 | –4,080 |
| Share of results of joint ventures | 2,721 | 0 | 0 | 0 | 0 | 2,721 |
| **EBIT** | **83,811** | **–2,814** | **2,202** | **3,093** | **–2,850** | **83,443** |
| Other results from investments | –1,207 | 0 | 0 | 0 | 0 | –1,207 |
| Financial result | –23,211 | 0 | 0 | –3,093 | 0 | –26,304 |
| **EBT** | **59,393** | **–2,814** | **2,202** | **0** | **–2,850** | **55,931** |
| Tax | –18,283 | 445 | –5,249 | 0 | 842 | –22,245 |
| **EAT** | **41,110** | **–2,368** | **–3,047** | **0** | **–2,008** | **33,686** |

## RECONCILIATION OF ADJUSTED RESULTS OF OPERATIONS IN 2019

TABLE 054

In thousands of euros

| | Adjusted results of operations | Share deal effects | Non-recurring effects | Reclassifications | PPA | Reported results of operations |
|---|---|---|---|---|---|---|
| **Revenue** | **736,685** | **–220,801** | **0** | **0** | **–6,390** | **509,494** |
| **Project costs** | **–548,840** | **193,702** | **0** | **6,332** | **–7,877** | **–356,684** |
| Cost of materials | –616,054 | 0 | 0 | 3,084 | –20,984 | –633,954 |
| Changes in inventories | 67,214 | 193,702 | 0 | 3,248 | 13,108 | 277,270 |
| **Gross profit** | **187,845** | **–27,100** | **0** | **6,332** | **–14,266** | **152,811** |
| **Platform costs** | **–58,978** | **0** | **0** | **–7,753** | **0** | **–66,732** |
| Staff costs | –37,336 | 0 | 0 | 0 | 0 | –37,336 |
| Other operating income | 7,717 | 0 | 0 | 0 | 0 | 7,717 |
| Other operating expenses | –25,294 | 0 | 0 | –7,753 | 0 | –33,048 |
| Depreciation and amortisation | –4,065 | 0 | 0 | 0 | 0 | –4,065 |
| Share of results of joint ventures | 744 | 0 | 0 | 0 | 0 | 744 |
| **EBIT** | **129,610** | **–27,100** | **0** | **–1,422** | **–14,266** | **86,823** |
| Other results from investments | –5,734 | 0 | 0 | 0 | 0 | –5,734 |
| Financial result | –16,083 | 0 | 0 | –1,764 | 0 | –17,847 |
| **EBT** | **107,793** | **–27,100** | **0** | **–3,186** | **–14,266** | **63,241** |
| Tax | –2,224 | 4,289 | 0 | 0 | 4,471 | 6,535 |
| **EAT** | **105,569** | **–22,811** | **0** | **–3,186** | **–9,796** | **69,776** |

## Notes to the consolidated income statement

### 1 Revenue

Revenue is spread across the following regions:

**REVENUE BY REGION GRI** GRI 201-1 — TABLE 055

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Germany | 464,310 | 509,414 |
| Rest of Europe | 80 | 81 |
| | **464,390** | **509,494** |

The composition of revenue by revenue type is shown in the following table:

**REVENUE BY REVENUE TYPE** GRI 201-1 — TABLE 056

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Revenue from building contracts | | |
| Revenue recognised over time | 436,709 | 482,916 |
| Revenue recognised at a point in time | 22,636 | 20,280 |
| | **459,346** | **503,196** |
| Income from leases | 4,784 | 6,065 |
| Other services | 261 | 233 |
| | **464,390** | **509,494** |

Revenues from construction contracts declined in the financial year to €459,346 thousand as a result of the reduced demand in the second quarter of 2020 as a result of the coronavirus.

The total amount of unfulfilled or partly unfulfilled performance obligations as at the balance sheet date is €1,036,967 thousand.

The cycle of contract assets and contract liabilities is – analogous to the project term – an average of three years.

### 2 Other operating income

Other operating income is broken down as follows:

**OTHER OPERATING INCOME** — TABLE 057

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Income from the reversal of provisions | 2,056 | 1,813 |
| Income from released liabilities | 347 | 1,838 |
| Income from disposals of fixed assets | 83 | 1 |
| Income from the write-up of receivables | 18 | 0 |
| Income from the settlement of legal disputes | 0 | 1,356 |
| Income from insurance claims | 0 | 46 |
| Remaining other operating income | 3,251 | 2,663 |
| | **5,756** | **7,717** |

Other remaining other income mainly includes cost allocations to subcontractors and items that are not included elsewhere.

### 3 Cost of materials

**COST OF MATERIALS** GRI 201-1 — TABLE 058

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Cost of raw materials, consumables and supplies | – 131,340 | – 371,461 |
| Expenses for purchased services | – 230,849 | – 262,493 |
| | **– 362,189** | **– 633,954** |

## 4 Staff costs

**STAFF COSTS** GRI 201-1 — TABLE 059

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | –37,096 | –33,007 |
| Social security contributions and expenses for pensions | –4,963 | –4,329 |
| | **–42,060** | **–37,336** |

The contributions paid by the employer to the state-administered pension fund in the financial year amounted to €2,173 thousand (previous year: €1,824 thousand).

Pension expenses amounted to €388 thousand (previous year: €417 thousand). They relate to pension entitlements earned in the financial year from defined benefit plans and payments to defined contribution plans. GRI 201-3

The average number of employees can be broken down as follows:

**EMPLOYEES** — TABLE 060

Number (average)

| | 2020 | 2019 |
|---|---|---|
| **Germany** | | |
| Berlin | 34 | 35 |
| Essen | 97 | 83 |
| Frankfurt a. M. | 51 | 47 |
| Hamburg | 31 | 31 |
| Cologne | 58 | 44 |
| Leipzig | 44 | 45 |
| Munich | 21 | 21 |
| Nuremberg | 27 | 10 |
| Stuttgart | 32 | 29 |
| | **395** | **345** |
| **Rest of Europe** | | |
| Austria | 1 | 1 |
| Luxembourg | 1 | 1 |
| | **2** | **2** |
| | **397** | **347** |

## 5 Other operating expenses

Other operating expenses are broken down as follows:

**OTHER OPERATING EXPENSES** GRI 201-1 — TABLE 061

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Consulting/analysis expenses | – 4,661 | – 3,152 |
| Court costs, attorneys' and notaries' fees | – 3,196 | – 3,851 |
| Commissions | – 2,393 | – 3,084 |
| Other taxes | – 2,347 | – 4,049 |
| Costs for EDP and IT | – 1,814 | – 1,782 |
| Leasing expenses including ancillary costs | – 1,384 | – 921 |
| Auditing expenses | – 886 | – 766 |
| Travel costs | – 753 | – 1,205 |
| Third-party services | – 662 | – 123 |
| Change in warranty provisions | – 598 | – 1,359 |
| Supervisory Board bonuses | – 462 | – 388 |
| Severance payments during the construction period | – 448 | – 655 |
| Costs of postal/payment transactions, telecommunications costs | – 376 | – 364 |
| Insurances | – 374 | – 1,027 |
| Litigation costs | – 338 | – 380 |
| Restructuring and adjustment costs | – 332 | – 210 |
| Further education expenses | – 320 | – 323 |
| General advertising costs | – 230 | – 478 |
| Subsequent purchase price payments from company acquisitions | 0 | – 3,603 |
| Sundry other operating expenses | – 4,498 | – 5,330 |
| | **– 26,071** | **– 33,048** |

Other operating expenses include, among other things, recruitment costs, hospitality costs, contributions to associations, office supplies and other expenses that are not recognised elsewhere.

## 6 Depreciation and impairment

As in the previous year, there was no impairment on goodwill, intangible assets or property, plant and equipment.

The depreciation of the leasing assets is divided into the following classes: Real estate €1,797 thousand (previous year: €1,917 thousand) passenger cars €916 thousand (previous year: €753 thousand) and other €439 thousand (previous year: €550 thousand).

**DEPRECIATION AND AMORTISATION** — TABLE 062

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| Right of use assets | – 3,153 | – 3,220 |
| Property, plant and equipment | – 891 | – 801 |
| Intangible assets | – 36 | – 43 |
| | **– 4,080** | **– 4,065** |

## 7 Results from investments

The income from at-equity consolidated investments and other investment income resulted as follows:

**RESULTS FROM INVESTMENTS** TABLE 063

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Share of results of joint ventures** | | |
| Wohnpark Gießener Straße GmbH & Co. KG | 243 | 557 |
| Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG | – 4 | 187 |
| FHP Friedenauer Höhe Erste GmbH & Co. KG | 229 | 0 |
| FHP Friedenauer Höhe Dritte GmbH & Co. KG | 645 | 0 |
| FHP Friedenauer Höhe Sechste GmbH & Co. KG | 1,106 | 0 |
| FHP Friedenauer Höhe Vierte GmbH & Co. KG | 487 | 0 |
| Wohnpark Heusenstamm GmbH & Co. KG | 14 | 0 |
| | **2,721** | **744** |
| **Other results from investments** | | |
| Change in net assets attributable to non-controlling interests | – 1,224 | – 5,751 |
| Other income from investments | 17 | 17 |
| | **– 1,207** | **– 5,734** |

## 8 Financial result

**FINANCIAL RESULT** TABLE 064

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Finance income** | | |
| Interest and similar income | 346 | 1,085 |
| | **346** | **1,085** |
| **Finance costs** | | |
| Interest and similar expenses | – 26,271 | – 19,055 |
| of which interest expenses from leases | – 227 | – 263 |
| Interest shares in allocations to provisions | – 55 | – 66 |
| of which, net interest expenses from pension obligations | – 47 | – 69 |
| | **– 26,327** | **– 19,121** |
| **Other financial result** | | |
| Income from long-term securities (previous year: expenses) | – 324 | 189 |
| | **– 324** | **189** |

The financial income consists mainly of interest income for cash investments and loans. Financial expenses consist mainly of interest expenses for cash investments, interest-bearing securities and other loans.

In this financial year, interest income of €346 thousand (previous year: €1,085 thousand) was reported for financial instruments that were not recognised at fair value in profit or loss; interest expenses for these financial instruments amounted to €– 23,306 thousand (previous year: €– 19,055 thousand).

The net interest expense from pension obligations of €– 47 thousand (previous year: €– 69 thousand) includes the interest calculated annually on the net present value of the pension obligations in the amount of €– 203 thousand (previous year: €– 227 thousand). These amounts are recognised in interest income from plan assets amounting to €156 thousand (previous year: €157 thousand). GRI 201-3

## 9 Income taxes

**INCOME TAXES** TABLE 065

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Current income tax** | | |
| German trade tax | –4,950 | –12,009 |
| Corporation tax | –4,301 | –8,302 |
| | **–9,251** | **–20,310** |
| **Deferred tax** | | |
| Deferred tax | –12,994 | 26,845 |
| | **–22,245** | **6,535** |

The change in deferred tax liabilities recognised in other comprehensive income was €2,154 thousand (previous year: €4,277 thousand). The change in current tax liabilities recognised in other comprehensive income was €1,029 thousand (previous year: €0 thousand).

For temporary differences in the amount of €6,366 thousand (previous year: €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 was intended for an indefinite period.

The reconciliation of notional income tax liabilities to recognised income taxes is as follows:

**TAX RECONCILIATION** TABLE 066

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Earnings before tax** | **55,931** | **63,241** |
| | | |
| Theoretical tax expenses 31.32% (previous year: 32.625%) | 17,518 | 20,632 |
| | | |
| Deviation from the expected Group tax rate | 142 | –1,082 |
| Tax effect from changes in tax rates | 870 | 0 |
| Initial recognition of deferred tax assets not previously applied to loss carryforwards and interest carryforwards | 0 | –24,872 |
| Use of loss and interest carryforwards, for which no deferred taxes have previously been capitalised | –69 | –523 |
| Income taxes from other periods | 5,058 | –2,138 |
| Non-tax-deductible expenses and permanent differences | –1,719 | 5,788 |
| Tax-free income | 0 | –798 |
| Trade tax additions and reductions | 236 | –3,973 |
| Changes in value and non-recognition of deferred taxes | 0 | 231 |
| Effects from partnerships | 0 | 886 |
| Other effects | 209 | –687 |
| **Effective tax expenses** | **22,245** | **–6,535** |
| Effective tax rate | 39.77% | –10.33% |

The reconciliation is calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the different countries. A tax rate for the Instone-Group of 31.320% (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** TABLE 067

| | 2020 | 2019 |
|---|---|---|
| Net result for the shareholders of Instone Real Estate Group AG (in thousands of euros) | 33,673 | 69,764 |
| Weighted average number of shares (in units) | 41,553,540 | 39,299,574 |
| Basic and diluted earnings per share (in €) | 0.81 | 1.78 |

Basic and diluted earnings per share are calculated by dividing the proportion of net consolidated profit attributable to Instone Real Estate shareholders by the weighted average number of outstanding shares. The weighted average quantity of shares and basic and diluted earnings per share for the previous year were adjusted retroactively due to the issue of new shares with subscription rights in the 2020 financial year.

## Notes to the consolidated statement of financial position

### 11 Goodwill

Goodwill in the amount of €6,056 thousand (previous year: €6,056 thousand) is attributable in full to the Bavaria North branch of Instone Real Estate Development GmbH. Goodwill is not depreciated 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 the relevant branch as cash-generating units in order to carry out impairment tests.

**GOODWILL** TABLE 068

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Acquisition costs as at 1 January** | **6,056** | **0** |
| Changes to the scope of consolidation | 0 | 6,056 |
| **As of 31 December** | **6,056** | **6,056** |

The discount rates for the cash-generating unit Bavaria North, which are used as part of the impairment tests, are 5.75% after taxes (previous year: 5.4%) and before tax at 8.4% (previous year: 8.0%).

A comparison of the recoverable amounts of the branch with their carrying amount resulted in a surplus and there is therefore no need for a devaluation for goodwill. A sensitivity analysis of key parameters also did not lead to any deviating results.

### 12 Intangible assets

As in the previous year, intangible assets are not subject to any limitations on disposal. They include €853 thousand capitalised development costs, the production of which had not yet been completed as at the balance sheet date, and €80 thousand concessions and industrial property rights. The impairment of the capitalized development costs was confirmed using an impairment test as at 31 December 2020.

**INTANGIBLE ASSETS** TABLE 069

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Acquisition costs as at 1 January** | **203** | **200** |
| Additions | 853 | 3 |
| **As of 31 December** | **1,056** | **203** |
| | | |
| **Accumulated depreciation as at 1 January** | **88** | **45** |
| Additions | 36 | 43 |
| **As of 31 December** | **124** | **88** |
| | **932** | **115** |

## 13 Right of use assets

The right of use assets recognised relate to real estate, construction site equipment, passenger cars and construction site containers. In the area of real estate, the Instone-Group mainly leases offices and other office buildings. In addition, vehicles and other plant, property and office equipment are leased in the Instone-Group.

**RIGHT OF USE ASSETS** TABLE 070

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Acquisition costs as at 1 January** | **12,671** | **8,652** |
| Additions | 4,085 | 4,243 |
| Disposals | – 2,261 | – 224 |
| **As of 31 December** | **14,495** | **12,671** |
| | | |
| **Accumulated depreciation as at 1 January** | **2,996** | **0** |
| Additions | 3,153 | 3,220 |
| Disposals | – 2,189 | – 224 |
| **As of 31 December** | **3,961** | **2,996** |
| | **10,535** | **9,675** |

Leasing payments in the amount of €112 thousand (previous year: €63 thousand) from short-term leases and €52 thousand (previous year: €183 thousand) from leases based on low-value contracts are not included in right-of-use assets, for which the option was utilised in accordance with IFRS 16.5 to recognise these contracts in profit or loss. The right-of-use assets are divided into the following classes as follows: Real estate €7,711 thousand, (previous year: €6,952 thousand), Passenger cars €2,109 thousand (previous year: €2,078 thousand) and other €715 thousand (previous year: €645 thousand).

## 14 Property, plant and equipment

The development of property, plant and equipment is as follows:

**PROPERTY, PLANT AND EQUIPMENT** TABLE 071

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Acquisition costs as at 1 January** | **3,538** | **2,614** |
| Additions | 1,069 | 938 |
| Disposals | – 522 | – 14 |
| **As of 31 December** | **4,085** | **3,538** |
| | | |
| **Accumulated depreciation as at 1 January** | **1,411** | **619** |
| Additions | 891 | 799 |
| Disposals | – 491 | – 7 |
| **As of 31 December** | **1,812** | **1,411** |
| | **2,273** | **2,127** |

## 15 Interests in joint ventures

The summarised financial information about joint ventures is presented below.

**MATERIAL JOINT VENTURES** TABLE 043

In thousands of euros

| | 31/12/2020 | 31/12/2020 | 31/12/2020 | 31/12/2020 | 31/12/2020 | 31/12/2020 |
|---|---|---|---|---|---|---|
| **Financial information on material joint ventures** | | **FHP Friedenauer Höhe Erste GmbH & Co. KG** | **FHP Friedenauer Höhe Dritte GmbH & Co. KG** | **FHP Friedenauer Höhe Sechste GmbH & Co. KG** | **FHP Friedenauer Höhe Vierte GmbH & Co. KG** | **Wohnpark Heusenstamm GmbH & Co. KG** |
| Current assets | 124,126 | 22,208 | 28,079 | 46,219 | 36,329 | 11,690 |
| of which cash and cash equivalents | 1,614 | 320 | 372 | 552 | 370 | 0 |
| Non-current liabilities | 115,252 | 19,666 | 24,043 | 39,685 | 31,858 | 0 |
| of which financial liabilities (excluding trade payables) | 115,252 | 19,666 | 24,043 | 39,685 | 31,858 | 0 |
| Current liabilities | 2,699 | 419 | 623 | 803 | 775 | 79 |
| **Net assets** | **6,175** | **2,123** | **3,413** | **5,732** | **3,695** | **11,611** |
| | | | | | | |
| Revenue | 167 | 0 | 0 | 0 | 0 | 167 |
| Interest income | 5,930 | 563 | 1,542 | 2,635 | 1,190 | 0 |
| Interest expenses | – 2,379 | – 398 | – 504 | – 837 | – 639 | 0 |
| Income taxes | – 1,396 | – 168 | – 335 | – 574 | – 317 | 0 |
| **Profit for the year/ total comprehensive income** | **5,020** | **458** | **1,290** | **2,213** | **1,002** | **57** |
| | | | | | | |
| **Derivation of the financial information presented on the equity carrying amount in the consolidated financial statements** | | | | | | |
| Owners of the Company | | 50.0% | 50.0% | 50.0% | 50.0% | 25.1% |
| Carrying amount on acquisition | 7,900 | 833 | 1,062 | 1,760 | 1,347 | 2,900 |
| Pro rata profit for the year | 2,496 | 229 | 645 | 1,106 | 501 | 14 |
| **Carrying amount at the end of the financial year** | **10,396** | **1,061** | **1,707** | **2,866** | **1,848** | **2,914** |

**IMMATERIAL JOINT VENTURES** TABLE 073

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Net assets** | | |
| Assets | 1,922 | 2,658 |
| Liabilities | –1,387 | –1,717 |
| | **535** | **941** |
| **Earnings** | | |
| Profit for the year | 486 | 884 |

## 16 Other investments

Other financial assets are broken down as shown below:

**OTHER INVESTMENTS** TABLE 074

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Subsidiaries not included in the consolidated financial statements** | | |
| Immobiliengesellschaft C.S.C. S.à r.l. | 31 | 31 |
| Instone Real Estate Projektverwaltungs GmbH | 25 | 25 |
| Instone Real Estate Erste Projekt GmbH | 25 | 25 |
| Uferpalais Verwaltungsgesellschaft mbH | 22 | 22 |
| Projekt Wilhelmstraße Wiesbaden Verwaltungsgesellschaft mbH | 18 | 18 |
| Kleyer Beteiligungsgesellschaft mbH | 112 | 112 |
| | **233** | **233** |
| **Other investments** | | |
| BEYOUTOPE GmbH (formerly: Sportplatz RKP GmbH | 0 | 700 |
| Parkhausfonds Objekt Flensburg GmbH & Co. KG | 149 | 149 |
| CONTUR Wohnbauentwicklung GmbH | 26 | 26 |
| Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH | 25 | 25 |
| TG Potsdam Projektentwickklungsgesellchaft mbH | 0 | 0 |
| formart Wilma Verwaltungsgesellschaft mbH | 13 | 13 |
| | **213** | **913** |

## 17 Inventories

**INVENTORIES** TABLE 075

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Work-in-progress | 777,705 | 732,051 |
| Finished goods | 56 | 77 |
| | **777,761** | **732,127** |

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 €313,056 thousand (previous year: €366,025 thousand).

Borrowing costs of €14,347 thousand(previous year: €13,160 thousand) were capitalised as part of production costs recognised for inventories attributable to project financing based on individual agreements with external lenders.

It is expected that inventories of €497,341 thousand (previous year: €565,027 thousand)can only be realised after more than twelve months.

The inventories were subject to impairment of €7,464 thousand (previous year: €1,138 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** TABLE 076

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Non-current** | | |
| Loans to joint ventures/other investments | 21,467 | 0 |
| Other loans | 0 | 450 |
| | **21,467** | **450** |
| **Current** | | |
| Financial receivables from joint ventures/other investments | 2 | 5 |
| Short-term term deposits | 145,000 | 0 |
| Other financial receivables | 10,748 | 0 |
| | **155,750** | **5** |
| | **177,217** | **455** |

Non-current financial receivables increased in the financial year due to the granting of loans to newly acquired joint ventures in the financial year.

As at the balance sheet date, current financial receivables increased mainly as a result of term deposits due to the cash inflow from the capital increase in the third quarter of the 2020 financial year and through loans granted to the co-shareholder of project companies.

## 19 Contract assets

The structure of contract assets is composed as follows:

**CONTRACT ASSETS** TABLE 077

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Contract assets | 573,066 | 479,401 |
| Payments received | –383,546 | –266,923 |
| | **189,520** | **212,478** |
| Receivables from costs to obtain a contract | 4,638 | 6,541 |
| | **194,158** | **219,019** |

The change in contract assets is due to the increase in fulfilment of the underlying contracts with customers, with a simultaneous temporary increase in advance payments received from customers.

The cycle of contract assets is – equivalent to the project term – an average of three years.

The amortisation of the costs to obtain a contract in the amount of €8,165 thousand (previous year: €3,171 thousand) offsets the fulfilment of the underlying contracts with customers.

## 20 Trade receivables

Trade receivables are comprised as shown below:

**TRADE RECEIVABLES** TABLE 078

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Trade receivables | 1,080 | 8,278 |
| | **1,080** | **8,278** |

## 21 Other receivables and other assets

The following table shows other current and non-current receivables and other assets.

**OTHER RECEIVABLES AND OTHER ASSETS** TABLE 079

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Upfront payments on land | 6,000 | 6,000 |
| Advance payments on investments | 1,800 | 0 |
| Receivable tax exemption Hochtief Solutions AG | 1,419 | 2,267 |
| Other tax assets | 1,025 | 1,066 |
| Loans and receivables | 809 | 1,312 |
| Deposits given | 388 | 559 |
| Other receivables and other assets | 623 | 1,270 |
| | **12,065** | **12,473** |

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** TABLE 080

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Receivables from domestic and foreign tax authorities during the ordinary course of business | 2,359 | 13,956 |
| | **2,359** | **13,956** |

## 23 Cash and cash equivalents

**CASH AND CASH EQUIVALENTS** TABLE 081

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Bank balances | 87,032 | 117,076 |
| Cash | 12 | 13 |
| | **87,044** | **117,090** |
| of which, restricted | 8,362 | 8,042 |

The restrictions on the disposal of cash and cash equivalents result from project financing not yet completed by banks.

## 24 Equity

The registered capital of the Company as at 31 December 2020 was €46,988 thousand (previous year: €36,988 thousand) and is fully paid up. It is divided into 46,988,336 no-par-value shares. The arithmetical value of the shares is €1.00.

In September 2020, the registered capital was increased by €10,000,000 through the issue of 10,000,000 shares as part of a capital increase with subscription rights in return for cash contributions. The subscription price per share was €18.20. All shares are fully entitled to dividends from 1 January 2020. The transaction costs less the tax effect in connection with this capital increase amounted to €5,643 thousand and were offset against the capital reserves.

The Annual General Meeting decided on 29 June 2018 to create an authorised capital. The Management Board is authorized to increase the registered 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 newshares. The authorised capital as at 31 December 2020 was €8,450,000. This corresponds to 8,450,000 no-par-value 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. page 148

As of 31 December 2020, following the capital increase and a withdrawal decided for the financial year, capital reserves amounted to €358,983 thousand (previous year: €198,899 thousand).

Retained earnings/loss carryforwards which were formed as part of Group equity, consist of the income generated by the companies flowing into the consolidated financial statements.

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 €–716 thousand (previous year: €–313 thousand).

The income tax effects recognised directly in equity can be broken down as follows:

**EQUITY** TABLE 082

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Amount before income taxes | –1,043 | –465 |
| Income taxes | 327 | 152 |
| | **–716** | **–313** |

### Non-controlling interests

The non-controlling interests of €1,598 thousand (previous year: €912 thousand) mainly related to KORE GmbH. In the financial year no dividend (previous year: €0 thousand)was distributed to non-controlling interests. The earnings after tax attributable to non-controlling interests amounts to €14 thousand (previous year: €12 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. GRI 201-3

The liabilities from defined benefit plans of Instone Real Estate are as follows:

**LIABILITIES FROM DEFINED BENEFIT PLANS** TABLE 083

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Active employees, not dependent on remuneration | 7,620 | 6,713 |
| Vested claims | 5,292 | 4,936 |
| Ongoing pensions | 1,260 | 950 |
| | **14,172** | **12,600** |

The average remaining time in service of the eligible active employees was 14.73 years as at the balance sheet date (previous year: 15.46 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. 63.1% (previous year: approx. 64.6%) of the entire insurance coverage; overall, the coverage is 66.7% (previous year: 68.7%). The hedging of defined benefit obligations by plan assets is shown in the following table:

### COVERAGE OF THE DEFINED BENEFIT OBLIGATION BY PLAN ASSETS

TABLE 084

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Pension obligations covered by funds | 13,322 | 11,726 |
| Deferred Compensation covered by funds | 849 | 873 |
| | **14,172** | **12,600** |
| Fair value of the fund assets | – 9,454 | – 8,659 |
| | **4,718** | **3,940** |

The amount of the pension provisions depends on the actuarial assumptions, which also include estimates. The actuarial assumptions underlying the calculation are shown below.

### DEFINED BENEFIT OBLIGATION CASH VALUE

TABLE 085

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Defined benefit obligation cash value on 1 January** | **12,600** | **11,258** |
| Current service cost | 499 | 455 |
| Interest expense | 203 | 227 |
| Actuarial gains (–)/actuarial losses (+) due to changes in demographic assumptions | – 1 | 0 |
| Actuarial gains (–)/actuarial losses (+) due to changes in financial assumptions | 1,105 | 744 |
| Actuarial gains (–)/actuarial losses (+) due to changes in other assumptions | – 124 | – 46 |
| Pension payments | – 111 | – 38 |
| **Defined benefit obligation cash value as at 31 December** | **14,172** | **12,600** |

The discount factors are derived from the so-called Mercer Pension Discount Yield Curve (MPDYC) approach, which takes into account the duration of the pension obligations for the Company. The underlying mortality data was taken from the statistics and experience published for each country. The 2018 G mortality tables of Klaus Heubeck were used for this purpose.

The cash value of the defined benefit obligation and the fair value of the plan assets have the following changes:

**PLAN ASSETS** TABLE 086

In thousands of euros

| | 2020 | 2019 |
|---|---|---|
| **Plan assets 1 January** | **8,659** | **7,291** |
| Additions | 1,000 | 953 |
| Interest income from plan assets | 99 | 415 |
| Income from plan assets not included in net interest income | –304 | 0 |
| **Plan assets as at 31 December** | **9,454** | **8,659** |

**COMPOSITION OF PLAN ASSETS** TABLE 087

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Listing in an active market** | | |
| CTA[1] assets | 8,947 | 8,145 |
| DC[2] assets | 507 | 515 |
| | **9,454** | **8,659** |

[1] CTA = Contractual Trust Arrangement
[2] DC = Deferred Compensation

**FACTORS** TABLE 088

In %

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Discount factor | 1.29 | 1.62 |
| Salary growth rates | 3.00 | 2.65 |
| Pension adjustment: Commitments with adjustment guarantee | 1.00 | 1.00 |
| Pension adjustment: Other commitments | 1.50 | 1.50 |

**Sensitivity analysis**

The pension obligations of Instone Real Estate are subject to various risks. The main risks are due to general changes in interest rates and inflation rates. There are no unusual risks associated with the pension obligations.

Interest rate risk: The (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** TABLE 089

In thousands of euros

| | 31/12/2020 | | 31/12/2019 | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| Discount factor +0.50%/–0.50% | –1.629 | 1.926 | –1.434 | 1.693 |
| Pension growth rate +0.25%/–0.25% | 254 | –241 | 229 | –218 |
| Life expectancy +1.00 year/–1.00 year | 500 | –504 | 421 | 0 |

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: €499 thousand).

→ The contributions to defined contribution plans are expected to rise in financial year 2021 by the same proportion as in financial year 2020.

## 26 Other provisions

The other provisions are divided as follows:

**OTHER PROVISIONS** TABLE 090

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Non-current** | | |
| Personnel provisions | 3,880 | 5,794 |
| Provisions for impending losses | 0 | 356 |
| Remaining other provisions | 1,091 | 179 |
| | **4,971** | **6,329** |
| **Current** | | |
| Personnel provisions | 2,538 | 52 |
| Warranty obligations | 8,473 | 7,892 |
| Provisions for impending losses | 6,247 | 7,223 |
| Tax provisions | 1,412 | 2,212 |
| Litigation risks | 2,782 | 4,073 |
| Remaining other provisions | 2,690 | 1,516 |
| | **24,141** | **22,967** |
| | **29,112** | **29,297** |

The short-term and long-term provisions relating to employees primarily relate to provisions for special payments on the basis of a long-term incentive system and early retirement.

Other short-term provisions include, but are not limited to investment risks, compensation for damages and other contingent liabilities.

The provisions for impending losses were made for impending losses arising from construction services obligations to third parties.

The development of other provisions can be seen in the following table:

**DEVELOPMENT OF OTHER PROVISIONS** TABLE 091

In thousands of euros

| | 31/12/2020 | 01/01/2020 | Allocation | Liquidation | Rebooking | Consumption |
|---|---|---|---|---|---|---|
| Personnel provisions | 6,418 | 5,846 | 849 | –123 | 0 | –155 |
| Warranty obligations | 8,473 | 7,892 | 1,062 | –481 | 0 | 0 |
| Provisions for impending losses | 6,247 | 7,579 | 0 | 0 | –356 | –976 |
| Tax provisions | 1,412 | 2,212 | 0 | 0 | –262 | –537 |
| Litigation risks | 2,782 | 4,073 | 466 | –1,468 | 0 | –289 |
| Other provisions | 3,781 | 1,695 | 2,682 | –855 | 356 | –98 |
| | **29,112** | **29,297** | **5,060** | **–2,927** | **–262** | **–2,055** |

The personnel provisions include commitments to the employees in connection with long-term incentive plans. Provisions of €6,874 thousand (previous year: €5,225 thousand)were recognised for these long-term incentive plans. In the 2020 financial year, expenses in the amount of €1,867 thousand (previous year: €2,640 thousand) were incurred in this context.

## 27 Financial liabilities

Current and non-current loans from banks consisted of fixed and variable interest rate loans issued by various banks. Loans from banks have a term of between one and four years (previous year: between one and four years). The interest rates are between 1.45% and 4.00% (previous year: 1.45% and 5.75%). The decrease resulted essentially from the repayments of project financing for ongoing projects in the amount of €401,520 thousand, which are offset by the utilisation of financing in the amount of €275,645 thousand.

In accordance with the Group's policy, Instone Group's loans from banks are not the subject of contractual assurances and are instead secured by land charges.

**FINANCIAL LIABILITIES** TABLE 092

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Non-current** | | |
| Loans from banks | 213,620 | 451,586 |
| Loans from third parties | 100,045 | 0 |
| | **313,665** | **451,586** |
| **Current** | | |
| Loans from banks | 167,849 | 143,294 |
| Loans from third parties | 188 | 633 |
| | **168,037** | **143,927** |
| | **481,701** | **595,513** |

**FINANCIAL LIABILITIES 2020** TABLE 093

In thousands of euros

| | | | | Non-cash changes | | |
|---|---|---|---|---|---|---|
| | 31/12/2020 | 01/01/2020 | Cash flow from financing activities | Changes to the scope of consolidation | Deferred interest | Amortisation from the measurement using the effective interest method |
| Loans from banks | 381,469 | 594,881 | – 225,698 | 0 | 12,807 | – 521 |
| Loans from third parties | 100,233 | 633 | 99,600 | 0 | 0 | 0 |
| | **481,701** | **595,513** | **– 126,098** | **0** | **12,807** | **– 521** |

**FINANCIAL LIABILITIES 2019** TABLE 094

In thousands of euros

| | | | | Non-cash changes | | |
|---|---|---|---|---|---|---|
| | 31/12/2019 | 01/01/2019 | Cash flow from financing activities | Changes to the scope of consolidation | Deferred interest | Amortisation from the measurement using the effective interest method |
| 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 |
| | **595,513** | **265,566** | **276,348** | **41,578** | **13,756** | **– 1,734** |

## 28 Deferred tax

Deferred tax liabilities are calculated on the basis of the tax rates applicable or expected to apply at the time of implementation in the various countries and for the different countries. Deferred tax assets and liabilities are offset against each other for each company or group of companies. In other respects, deferred tax liabilities are calculated on the basis of the tax regulations in force or applying on the date of preparation of these financial statements.

Deferred tax assets that are recognised in tax refund claims arising from the expected utilisation of existing tax loss carryforwards in subsequent years and whose realisation appears sufficiently certain amounted to €12,202 thousand (previous year: €17,005 thousand).

Deferred taxes were also applied to interest carryforwards in the amount of €4,939 thousand (previous year: €6,659 thousand).

There are tax loss carryforwards from our companies, for which no deferred taxes have been recognised: in Luxembourg in the amount of €18,999 thousand (previous year: €19,245 thousand)and in Austria €31,537 thousand (previous year: €31,306 thousand).

In principle, these losses and taxes carried forward within the individual countries can be offset against profits in subsequent years. According to our current assessment, we do not expect these loss carryforwards to be used.

Deferred tax assets and liabilities changed as follows:

**DEFERRED TAX** TABLE 095

In thousands of euros

| | 31/12/2020 | | 31/12/2019 | |
|---|---|---|---|---|
| | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| Non-current assets | 2,353 | 4,891 | 1,952 | 4,717 |
| Current assets | 180,194 | 218,965 | 111,991 | 150,769 |
| | **182,547** | **223,856** | **113,943** | **155,486** |
| **Non-current liabilities** | | | | |
| Pension provisions | 2,706 | 0 | 2,336 | 0 |
| Other provisions | 2,322 | 0 | 1,846 | 0 |
| Other non-current debts | 0 | 2,307 | 0 | 1,112 |
| | **5,028** | **2,307** | **4,182** | **1,112** |
| **Current liabilities** | | | | |
| Other provisions | 1,957 | 4,886 | 2,513 | 6,033 |
| Other current debts | 19,179 | 17,448 | 20,299 | 13,774 |
| | **21,135** | **22,333** | **22,812** | **19,808** |
| | **208,710** | **248,496** | **140,937** | **176,405** |
| Loss carryforwards | 17,141 | 0 | 23,664 | 0 |
| Gross amount | 225,851 | 248,496 | 164,601 | 176,405 |
| Offset | – 225,555 | – 225,555 | – 164,440 | – 164,440 |
| | **297** | **22,941** | **161** | **11,965** |

In addition to the deferred taxes recognised in profit or loss, deferred tax assets were recognised in other comprehensive income for actuarial losses in the amount of €610 thousand (previous year: €116 thousand).

Income taxes recorded directly in equity amount to €2,573 thousand (previous year: €0 thousand) of which €1,544 thousand was attributable to deferred taxes.

## 29 Liabilities from net assets attributable to non-controlling interests

Liabilities from net assets attributable to non-controlling interests of €10,337 thousand (previous year: €9,504 thousand) related to non-controlling interests of Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG.

## 30 Leasing liabilities

**LEASING LIABILITIES** TABLE 096

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Due in up to one year | 3,036 | 3,273 |
| Due in one to five years | 6,855 | 5,785 |
| Due in over five years | 848 | 1,559 |
| | **10,739** | **10,617** |

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 2020 amounted to €3,036 thousand (previous year: €3,273 thousand) of current liabilities and €7,704 thousand (previous year: €7,344 thousand) of non-current liabilities.

## 31 Contract liabilities

**CONTRACT LIABILITIES** TABLE 097

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Payments received | 76,584 | 52,099 |
| Contract assets | – 51,030 | – 28,807 |
| | **25,554** | **23,292** |

Contract liabilities rose in the financial year from €23,292 thousand on 1 January 2020 to €25,554 thousandas at 31 December 2020. This increase is attributable to the significant increase in advance payments received.

The cycle of contract liabilities is – analogous to the project term – an average of three years.

In contrast to contract liabilities in the amount of €23,292 thousand as at 1 January 2020, €12,191 thousandin revenue was generated in the financial year through contract fulfilment.

## 32 Trade payables

**TRADE PAYABLES** TABLE 098

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Trade payables | 68,895 | 87,592 |
| | **68,895** | **87,592** |

## 33 Other liabilities

**OTHER LIABILITIES** TABLE 099

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **non-current** | | |
| Liabilities from the acquisition of joint ventures | 4,977 | 0 |
| | **4,977** | **0** |
| **current** | | |
| Advance payments received on inventories | 77,701 | 0 |
| Liabilities from bonuses | 8,363 | 9,604 |
| Liabilities from other taxes | 812 | 592 |
| Liabilities to employees | 282 | 1,327 |
| Liabilities from social security contributions | 13 | 6 |
| Liabilities from the annual audit | 0 | 214 |
| Sundry other liabilities | 1,555 | 1,383 |
| | **88,726** | **13,127** |
| | **93,702** | **13,127** |

## 34 Income tax liabilities

**INCOME TAX LIABILITIES** TABLE 100

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Liabilities towards domestic and foreign tax authorities as part of the ordinary course of business | 14,359 | 29,123 |
| | **14,359** | **29,123** |

## 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 2020, cash and cash equivalents consisted entirely of liquid funds of €87,044 thousand (previous year: €117,090 thousand), of which €8,362 thousand (previous year: €8,042 thousand) were subject to restrictions on disposal.

The total cash outflows for leases amounted to €3,358 thousand, (previous year: €3,442 thousand) of which with a repayment share of €3,131 thousand (previous year: €3,176 thousandand interest share of €227 thousand (previous year: €266 thousand).

# Other disclosures

## Disclosures about related persons and companies

Key related persons and companies include the material joint ventures. The material transactions with key related persons and companies are shown below:

### Relationships with joint ventures GRI 102-25

**RELATIONSHIPS WITH JOINT VENTURES/ OTHER INVESTMENTS** TABLE 101

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Receivables** | | |
| FHP Friedenauer Höhe Dritte GmbH & Co. KG | 4,410 | 0 |
| FHP Friedenauer Höhe Erste GmbH & Co. KG | 3,783 | 0 |
| FHP Friedenauer Höhe Sechste GmbH & Co. KG | 7,532 | |
| FHP Friedenauer Höhe Vierte GmbH & Co. KG | 5,742 | |
| Instone Real Estate Projektverwaltungs GmbH | 0 | 5 |
| | **21,467** | **5** |
| **Liabilities** | | |
| Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG | 81 | 148 |
| Wohnpark Gießener Straße GmbH & Co. KG | 107 | 485 |
| | **188** | **633** |

The financial receivables from the four project companies FHP Friedenauer Höhe Dritte GmbH & Co. KG, FHP Friedenauer Höhe Erste GmbH & Co. KG, FHP Friedenauer Höhe Sechste GmbH & Co. KG and FHP Friedenauer Höhe Vierte GmbH & Co. KG consist of interest-free loans with residual maturities of between four and seven years. 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. GRI 102-25

### Remuneration of the Management Board

The remuneration of the Management Board members in 2020 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 multi-year variable compensation in the form of an LTI bonus. Any LTI bonus depends on the achievement of corporate goals during the bonus year. The 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 Real Estate 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. page 141

### 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. page 141

The following amounts were expensed for the members of the Management Board in the financial year:

**REMUNERATION OF THE MANAGEMENT BOARD** TABLE 102

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Benefits due in the short term** | | |
| Fixed remuneration | 1,167 | 1,389 |
| Variable remuneration | 1,170 | 1,397 |
| **Benefits after the end of the employment relationship** | | |
| Pension expenses | 85 | 95 |
| **Benefits due in the long term** | | |
| Variable remuneration | 668 | 1,154 |
| **Benefits on termination of the employment relationship** | | |
| **Total emoluments** | **3,090** | **4,035** |
| | | |
| **Expenses recognised in the financial year for share-based remuneration components due in the long term with cash settlement** | **668** | **1,154** |
| | | |
| **Liability recognised as of 31 December for share-based remuneration components due in the long term with cash settlement** | **2,747** | **2,516** |

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 2020 was €462 thousand (previous year: €426 thousand). Of which, €390 thousand (previous year: €355 thousand) was remuneration for work on the General Committee. Remuneration for work in committees amounted to €72 thousand (previous year: €71 thousand).

In the 2020 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 2020 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

→ Managing Director/CEO of Instone Real Estate Development GmbH

**Dr Foruhar Madjlessi**

→ Member of the Management Board/CFO of Instone Real Estate Group AG

→ Managing Director/CFO of Instone Real Estate Development GmbH

**Andreas Gräf**

→ Member of the Management Board/COO of Instone Real Estate Group AG

→ Managing Director/COO of Instone Real Estate Development GmbH for Saxony

## Members of the Supervisory Board GRI 102-22; 102-23; 102-25

**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)

→ aamundo Holding AG (Chairman 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 Immobilienverwaltung 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 a member of the following 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.

→ Kathrein SE (member of the Supervisory Board)

**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

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Dusseldorf branch, has been the group auditor of Instone Real Estate Group AG, Essen/Germany, since the 2018 financial year. The auditor responsible for the audit has been Dr Holger Reichmann since 2020 due to an internal rotation at Deloitte.

The following total fees were recorded as an expense for the financial year for the services of the auditor, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Dusseldorf Office:

**AUDITOR'S FEE** TABLE 103

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Annual audit | 847 | 701 |
| of which relating to previous years | 209 | 135 |
| Other confirmation services | 600 | 110 |
| | **1,447** | **811** |

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, pursuant to IDW PS 981 and covenant reporting. In addition, an audit in accordance with IDW PS 910 was carried out in financial year 2020.

## Use of exemption options in accordance with Section 264(3) HGB

Instone Real Estate Development GmbH, headquartered in Essen, Germany and registered in the Commercial Register of the Essen District Court under HRB 28401, complies with the requirements set out in Section 264(3) HGB and is therefore exempt from disclosure of information in its annual financial statements and the preparation of a management report. Instone Real Estate Leipzig GmbH, with its registered office in Leipzig and registered in the Commercial Register of the Leipzig District Court under HRB 31977, complies with the requirements set out in Section 264(3) HGB and waives disclosure and auditing of its annual financial statements as at 31 December 2020.

## 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 material as at the balance sheet date 31 December 2020. The loans are not secured and the Instone-Group complied with all obligations in this regard in the financial year as well as in the previous year. For the subsequent periods, the Instone-Group monitors the future development as part of Group-wide financial risk management and also continues to anticipate compliance with the contractual terms. This assessment remains unchanged in light of the economic effects of the coronavirus pandemic.

## 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 2020 includes promissory note loans issued in the financial year with a nominal value of €100 million and the promissory note loans issued in the 2019 financial year with a nominal value of €106 million. 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 2020** TABLE 104

In thousands of euros

| | Carrying amount 31/12/2020 | Cash outflows 2021 | 2022-2025 | > 2025 |
|---|---|---|---|---|
| Financial liabilities | 481,701 | 177,128 | 337,459 | 0 |
| Trade payables | 68,895 | 68,895 | 0 | 0 |
| Liabilities from net assets attributable to non-controlling interests | 10,337 | 0 | 0 | 10,337 |
| Leasing liabilities | 10,739 | 3,727 | 8,354 | 870 |
| | **571,673** | **249,750** | **345,813** | **11,207** |

**MATURITY ANALYSIS OF FINANCIAL LIABILITIES IN 2019** TABLE 105

In thousands of euros

| | Carrying amount 31/12/2019 | Cash outflows 2020 | 2021-2024 | > 2024 |
|---|---|---|---|---|
| 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 |
| | **703,226** | **233,970** | **428,870** | **39,063** |

The liquidity of the Group is also secured on the basis of available cash, bank balances and unused credit lines.

The following table shows the most important liquidity instruments:

**LIQUIDITY INSTRUMENTS** TABLE 106

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Cash and cash equivalents | 87,044 | 117,090 |
| of which cash | 12 | 13 |
| of which, restricted | 8,362 | 8,042 |
| Credit line - unused amount | 284,533 | 334,236 |
| | **371,577** | **451,326** |

## 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 2020** TABLE 107

In thousands of euros

| | Carrying amount | Non-overdue | Up to 30 days overdue | 31 to 60 days overdue | 61 to 90 days overdue | More than 90 days overdue |
|---|---|---|---|---|---|---|
| Trade receivables (gross book value) | 3,007 | 99 | 379 | 57 | 77 | 2,395 |
| Impairment provisions | –1,927 | –1 | –4 | –1 | –1 | –1,921 |
| **Trade receivables (net book value)** | **1,080** | **98** | **375** | **56** | **76** | **474** |

**IMPAIRMENTS PURSUANT TO IFRS 9 IN 2019** TABLE 108

In thousands of euros

| | Carrying amount | Non-overdue | Up to 30 days overdue | 31 to 60 days overdue | 61 to 90 days overdue | More than 90 days overdue |
|---|---|---|---|---|---|---|
| Trade receivables (gross book value) | 10,530 | 4,310 | 3,376 | 165 | 121 | 2,558 |
| Impairment provisions | –2,253 | –43 | –34 | –2 | –1 | –2,173 |
| **Trade receivables (net book value)** | **8,278** | **4,267** | **3,342** | **163** | **120** | **385** |

The ongoing changes in the 2020 financial year are based on additions, disposals and utilisations and amount to €326 thousand(previous year: €–393 thousand), meaning that, as at 31 December 2020, there is an impairment loss on trade receivables of €1,927 thousand.

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Consolidated financial statements
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of cash flows
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## 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 (provided other variables remain constant) would result in higher or lower consolidated earnings after tax of €–2,015 thousand or €1,840 thousand (previous year: €–3,260 thousand or €2,708 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 carrying amounts for individual categories are shown below in accordance with IFRS 7:

**CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2020** TABLE 109

In thousands of euros

| | Carrying amount 31/12/2020 | Fair value through profit and loss | At amortised costs | Not within the scope of application of IFRS 9 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Financial assets** | | | | |
| **Financial receivables** | | | | |
| Non-current | 21,467 | 21,467 | 0 | 0 |
| Current | 155,750 | 0 | 155,750 | 0 |
| | **177,217** | **21,467** | **155,750** | **0** |
| Other investments | 445 | 445 | 0 | 0 |
| Contract assets | 194,158 | 0 | 0 | 194,158 |
| Trade receivables | 1,080 | 0 | 1,080 | 0 |
| Other receivables and other assets | 12,065 | 0 | 10,265 | 1,800 |
| Cash and cash equivalents | 87,044 | 0 | 87,044 | 0 |
| | **472,009** | **21,912** | **254,139** | **195,958** |
| **EQUITY AND LIABILITIES** | | | | |
| **Financial liabilities** | | | | |
| **Financial liabilities** | | | | |
| Non-current | 313,665 | 0 | 313,665 | 0 |
| Current | 168,037 | 0 | 168,037 | 0 |
| | **481,701** | **0** | **481,701** | **0** |
| Contract liabilities | 25,554 | 0 | 0 | 25,554 |
| Liabilities from net assets attributable to non-controlling interests | 10,337 | 10,337 | 0 | 0 |
| Trade payables | 68,894 | 0 | 68,894 | 0 |
| Other liabilities | 93,703 | 0 | 93,703 | 0 |
| | **680,190** | **10,337** | **644,299** | **25,554** |

## CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS IN 2019

TABLE 110

In thousands of euros

| | Carrying amount 31/12/2019 | Fair value through profit and loss | At amortised costs | Not within the scope of application of IFRS 9 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Financial assets** | | | | |
| **Financial receivables** | | | | |
| Non-current | 450 | 0 | 450 | 0 |
| Current | 5 | 0 | 5 | 0 |
| | **455** | **0** | **455** | **0** |
| 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 and other assets | 12,473 | 0 | 12,473 | 0 |
| Cash and cash equivalents | 117,090 | 0 | 117,090 | 0 |
| | **358,460** | **1,145** | **138,296** | **219,019** |
| **EQUITY AND LIABILITIES** | | | | |
| **Financial liabilities** | | | | |
| **Financial liabilities** | | | | |
| Non-current | 451,586 | 0 | 451,586 | 0 |
| Current | 143,927 | 0 | 143,927 | 0 |
| | **595,513** | **0** | **595,513** | **0** |
| 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 | 13,127 | 0 | 13,127 | 0 |
| | **729,028** | **9,504** | **696,232** | **23,292** |

With the short-term financial instruments accounted for at amortised costs, the carrying amount corresponds to the fair value, due to the short remaining term to maturity. In the case of non-current financial liabilities, the carrying amount of a part corresponds to the fair value due to the variable interest rate. As at 31 December 2020, a fair value was determined for fixed-interest non-current liabilities that exceeds the carrying amount by €11,311 thousand (31 December 2019: €0 thousand). Non-current fixed-interest liabilities fall under fair value, income hierarchy level 2. The fair value was determined using a cash value method using company-specific current interest rates derived from the market. Non-current financial receivables, if they are interest-free or low in interest rates, are recognised at their fair value. These bonds fall under fair value hierarchy level 2 and were determined using a cash value method taking into account current market interest rates.

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Consolidated financial statements
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of cash flows
Consolidated statement of changes in equity
Notes to the consolidated financial statements
Other information
Glossary

## Net results from financial instruments

The following table shows the net results from financial instruments according to the categories in IFRS 9:

**NET RESULTS FROM FINANCIAL INSTRUMENTS** TABLE 111

In thousands of euros

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Fair value through profit and loss | – 2,595 | – 135 |
| Assets at amortised cost | – 2,968 | – 65 |
| Liabilities at amortised cost | – 26,270 | – 19,054 |
| | **– 31,833** | **– 19,254** |

The calculation of net results from financial instruments includes interest income and expenses, impairments and reversals, income and expenses from currency translation, dividend income, capital gains and losses and other changes in the fair value of financial instruments recognised through profit or loss.

The changes due to impairment of trade receivables amounted to €– 310 thousand in the financial year(previous year: €– 368 thousand).

## Declaration of Conformity with the German Corporate Governance Code

In December 2020, 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 under the ↗ Instone Compliance Statement.

## Other financial obligations

As at 31 December 2020, €165 thousand (previous year: €246 thousand) other financial obligations. The non-current obligations arising from rentals and leases are reported separately in the balance sheet in accordance with IFRS 16.

## Events after the balance sheet date

There were no events of particular significance to report after the closing date of the statement of financial position on 31 December 2020.

## Disclosures on preparation and approval

The Management Board of Instone Real Estate Group AG has prepared the consolidated financial statements on 10 March 2021 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, 10 March 2021

The Management Board

Kruno Crepulja Dr Foruhar Madjlessi Andreas Gräf

## List of shareholdings

**LIST OF SHAREHOLDINGS AS AT 31/12/2020** GRI 102-45

TABLE 112

| | Share of capital in % | Equity in thousands of euros | Earnings in thousands of euros |
|---|---|---|---|
| **I. Subsidiaries included in the consolidated financial statements** | | | |
| Durst-Bau GmbH, Vienna, Austria | 100.0 | 512 | – 231 |
| formart Immobilien GmbH, Essen, Germany [1] | 100.0 | 701 | 0 |
| formart Luxemburg S.à r.l., Luxemburg, Luxemburg | 100.0 | 929 | 216 |
| Gartenhöfe GmbH, Leipzig, Germany | 100.0 | 5,950 | 130 |
| Instone Real Estate Development GmbH, Essen, Germany [2] | 100.0 | 153,986 | 0 |
| Instone Real Estate Landmark GmbH, Leipzig, Germany | 100.0 | – 1,233 | – 380 |
| Instone Real Estate Leipzig GmbH, Leipzig, Germany | 100.0 | 35,541 | 3,481 |
| Instone Real Estate Projekt Erlangen GmbH & Co. KG, Erlangen, Germany | 100.0 | – 28 | – 35 |
| Instone Real Estate Projekt MarinaBricks GmbH, Erlangen, Germany | 100.0 | – 318 | – 227 |
| Instone Real Estate Projekt Rosenheim GmbH & Co. KG, Erlangen, Germany | 100.0 | – 56 | – 43 |
| Instone Real Estate Projektbeteiligungs GmbH, Erlangen, Germany | 100.0 | 57 | 29 |
| KORE GmbH, Dortmund, Germany | 85.0 | 6,246 | 90 |
| Nyoo Real Estate GmbH (formerly: Instone Real Estate Property GmbH), Essen, Germany [2] | 100.0 | 25 | 0 |
| Projekt am Sonnenberg Wiesbaden GmbH (formerly: Instone Real Estate Erste Projektbeteiligungs GmbH & Co. KG, Essen, Germany | 100.0 | 487 | – 543 |
| Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main, Germany | 70.0 | 17,360 | 10,008 |
| Westville 1 GmbH, Essen, Germany | 100.0 | 170 | 49 |
| Westville 2 GmbH, Essen, Germany | 99.9 | 10 | – 15 |
| Westville 3 GmbH, Essen, Germany | 99.9 | 11 | – 14 |
| Westville 4 GmbH, Essen, Germany | 99.9 | 11 | – 14 |
| Westville 5 GmbH, Essen, Germany | 99.9 | 11 | – 14 |

## LIST OF SHAREHOLDINGS AS AT 31/12/2020 GRI 102-45

TABLE 112

| | Share of capital in % | Equity in thousands of euros | Earnings in thousands of euros |
|---|---|---|---|
| **II. Interests in joint ventures** | | | |
| FHP Friedenauer Höhe Dritte GmbH & Co. KG, Berlin, Germany | 50.0 | – 889 | – 612 |
| FHP Friedenauer Höhe Erste GmbH & Co. KG, Berlin, Germany | 50.0 | – 557 | – 338 |
| FHP Friedenauer Höhe Sechste GmbH & Co. KG, Berlin, Germany | 50.0 | – 2,230 | – 1,043 |
| FHP Friedenauer Höhe Vierte GmbH & Co. KG, Berlin, Germany | 50.0 | – 947 | – 620 |
| Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany | 50.0 | 24 | – 8 |
| Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany | 50.0 | 511 | 486 |
| Wohnpark Heusenstamm GmbH & Co. KG, Hamburg, Germany | 25.1 | 3,785 | 57 |
| **III. Other participations** | | | |
| BEYOUTOPE GmbH (formerly: Sportplatz RKP GmbH), Hanover, Germany [4] | 0.02 | 256 | 2 |
| CONTUR Wohnbauentwicklung GmbH, Cologne, Germany | 50.0 | 11 | – 11 |
| FHP Friedenauer Höhe Verwaltungs GmbH, Berlin, Germany | 50.0 | 23 | – 2 |
| formart Wilma Verwaltungsgesellschaft mbH, Kriftel, Germany | 50.0 | 46 | 2 |
| Real Estate Company CSC Kirchberg S.à rl, Luxembourg, Luxembourg | 100.0 | 73 | 30 |
| Instone Real Estate Erste Projekt GmbH, Essen, Germany | 100.0 | 23 | – 2 |
| Instone Real Estate Projektverwaltungs GmbH, Essen, Germany | 100.0 | 6 | – 14 |
| Kleyer Beteiligungsgesellschaft mbH, Frankfurt a. M., Germany | 100.0 | 145 | 0 |
| Parkhausfonds Objekt Flensburg GmbH & Co. KG, Stuttgart, Germany [3] | 6.0 | 2,979 | 122 |
| Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany | 70.0 | 0 | – 8 |
| Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany | 50.0 | 34 | 8 |
| TG Potsdam Projektentwickklungsgesellchaft mbH, Munich, Germany [5] | 10.0 | – 712 | – 236 |
| Uferpalais Verwaltungsgesellschaft mbH, Essen, Germany | 70.0 | – 11 | – 12 |

[1] Profit and loss transfer agreement with Instone Real Estate Development GmbH.
[2] Profit and loss transfer agreement with Instone Real Estate Group AG.
[3] Balance sheet date 30/06/2020.
[4] Annual financial statements 31/12/2019.
[5] Annual financial statements 31/12/2015.

## LIST OF SHAREHOLDINGS AS AT 31/12/2019

TABLE 113

| | Share of capital in % | Equity in thousands of euros | Earnings in thousands of euros |
|---|---|---|---|
| **I. Subsidiaries included in the consolidated financial statements** | | | |
| Durst-Bau GmbH, Vienna, Austria | 100.0 | 743 | – 102 |
| formart Immobilien GmbH, Essen, Germany[1] | 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 Development GmbH, Essen, Germany[2] | 100.0 | 153,986 | 0 |
| Instone Real Estate Erste Projektbeteiligung GmbH & Co. KG, Essen, Germany | 100.0 | 5 | 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 Rosenheim GmbH & Co. KG, Erlangen, Germany | 100.0 | – 13 | – 16 |
| 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 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 am Main, Germany | 70.0 | 25,750 | 26,468 |
| west.side GmbH, Cologne, Germany | 100.0 | 812 | 337 |
| Westville 1 GmbH, Essen, Germany | 100.0 | 121 | – 4 |
| Westville 2 GmbH, Essen, Germany | 99.9 | 1 | – 24 |
| Westville 3 GmbH, Essen, Germany | 99.9 | 0 | – 25 |
| Westville 4 GmbH, Essen, Germany | 99.9 | 1 | – 24 |
| Westville 5 GmbH, Essen, Germany | 99.9 | 2 | – 23 |

## LIST OF SHAREHOLDINGS AS AT 31/12/2019

TABLE 113

| | Share of capital in % | Equity in thousands of euros | Earnings in thousands of euros |
|---|---|---|---|
| **II. Interests in joint ventures** | | | |
| Projektentwicklungsgesellschaft Holbeinviertel mbH & Co. KG, Frankfurt am Main, Germany | 50.0 | 160 | 160 |
| Wohnpark Gießener Straße GmbH & Co. KG, Frankfurt am Main, Germany | 50.0 | 782 | 782 |
| **III. Other participations** | | | |
| 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[3] | 6.0 | 2,998 | 95 |
| Project Wilhelmstraße Wiesbaden Verwaltung GmbH, Cologne, Germany | 70.0 | 9 | –8 |
| Projektverwaltungsgesellschaft SEVERINS WOHNEN mbH, Cologne, Germany | 50.0 | 38 | –10 |
| Sportplatz RKP GmbH, Hanover, Germany[4] | 0.02 | 253 | 43 |
| TG Potsdam Projektentwickklungsgesellchaft mbH, Hanover, Germany[5] | 10.0 | –476 | –136 |

[1] Profit and loss transfer agreement with Instone Real Estate Development GmbH.
[2] Profit and loss transfer agreement with Instone Real Estate Group AG.
[3] Balance sheet date 30/06/2019.
[4] Annual financial statements 31/12/2018.
[5] Annual financial statements 31/12/2014.

# INDEPENDENT AUDITOR'S REPORT

GRI 102-56

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 2020, 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 2020 to 31 December 2020, 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 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section "Corporate Governance Statement" of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, 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 corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section "Corporate Governance Statement".

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

### Basis of the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

## Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. 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 2020, contract assets of kEUR 194,158, inventories amounting to kEUR 777,761, and revenue totalling kEUR 459,346 from the development of residential and multi-family buildings, the design of urban districts, the restoration of historic objects as well as publicly funded construction (development activities) in Germany are reported. Applying the provisions under IFRS 15 on revenue recognition, revenue for units under development is recognised over time. In doing so, the service provided including the pro rata result is reported according to the degree of completion under revenue. Except for restoration objects, revenue for these matters is principally reported if a marketing progress of 30% has been reached for the relevant project. As of this point, the contractual right to withdraw granted to both parties ceases to exist. In the case of restoration objects, the revenue is reported with the start of the construction activity.

The amount of the revenue recognised from a given construction project and the valuation of contract assets or inventories depend on the following parameters:

→ the marketing progress,

→ the degree of completion and actual costs incurred as at the balance sheet date, and

→ the estimate of total revenue and total costs.

While the marketed part of the construction projects is reported under the item contract asset after netting with prepayments received or under contract liabilities, the non-marketed part of the construction projects is reported under inventories.

Revenue recognition and the measurement of contract assets and inventories is based to a substantial extent on estimates and assumptions made by the executive directors with respect to the total amount of costs, the accrual of costs as at the balance sheet date as well as the estimates of total revenue attributable to the respective project. The discretionary estimates made by the executive directors have a direct and, for the most part, significant effect on the amount of revenue recognised in the consolidated statement of profit and loss and the amount of the contract assets or inventories in the consolidated statement of financial position.

Against this background, we have determined this matter as a key audit matter.

Information on revenue recognition and on the measurement of contract assets and inventories is provided by the executive directors in section "Basis for the Consolidated Financial Statements" of the notes to the consolidated financial statements.

b) In auditing revenue, contract assets and inventories, we examined the accounting principles applied in accordance with the provisions under IFRS 15, involving internal IFRS Advisory specialists. Within the scope of our audit, we included the material processes from the acceptance of projects (acquisition of the property) through to project management (construction activity and sale of individual dwelling) as well as the monthly cost accrual procedure, and examined the appropriateness and effectiveness of relevant internal control procedures. Applying the risk-based sampling method, we performed on-site visits to projects and, on the basis of the latter, we assessed the estimates and assumptions made by the executive directors as at the balance sheet date. We assessed the accrual of costs using appropriate evidence based on random sampling. In addition, we examined the accrual postings as at the balance sheet date for plausibility. We assessed the anticipated total revenue and total costs by involving internal Real Estate Consulting specialists as well as their specialist and industry knowledge. We evaluated the relevant disclosures in the notes to the consolidated financial statements as to their completeness and accuracy.

## Other Information

The executive directors and the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board
- the section “Corporate Governance Statement” of the combined management report, which also includes the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance,
- the 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 the audited disclosures included in the combined management report and our auditor’s report.

The supervisory board is responsible for the report of the supervisory board. The executive directors and the supervisory board are responsible for content of the corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) and further information on corporate governance included in section “Corporate Governance Statement” of the combined management report. The executive directors are responsible for the remaining other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited disclosures included in the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's reliability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

→ identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

→ obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

→ evaluate the appropriateness of the accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

→ conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides

- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3b) HGB

#### Audit Opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the combined management report (hereafter referred to as "ESEF files") prepared for publication, contained in the accompanying file, which has the SHA-256 value 09B0F9BB216B73B087007AE5CDDD4727C3FBB7F214EA0BE941FB65BF55419584, meet, in all material respects, the requirements concerning the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordance with the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the combined management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the combined management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 January to 31 December 2020 contained in the above "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report", we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

**Basis for the Audit Opinion**

We conducted our audit of the electronic files of the consolidated financial statements and of the combined management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section "Auditor's Responsibilities for the Audit of the ESEF Files". Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

**Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files**

The executive directors of the parent are responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive directors of the parent are also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

**Auditor's Responsibilities for the Audit of the ESEF Files**

Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- → identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- → obtain an understanding of internal control relevant to the audit of the ESEF files in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- → assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date as to the technical specification of this file.

- → evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- → evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the shareholders' general meeting on 9 June 2020. We were engaged by the supervisory board on 22 October 2020. 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 Prof. Dr. Holger Reichmann.

Düsseldorf/Germany, 11 March 2021

**Deloitte GmbH**
Wirtschaftsprüfungsgesellschaft

Signed: Prof. Dr. Holger Reichmann
Wirtschaftsprüfer
[German Public Auditor]

Signed: Michael Pfeiffer
Wirtschaftsprüfer
[German Public Auditor]

Our company
To our shareholders
Sustainability report (unaudited)
Combined management report
Consolidated financial statements
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of cash flows
Consolidated statement of changes in equity
Notes to the Consolidated financial statements
Other information
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# Insurance of legal representatives

To the best of our knowledge, we declare that the consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of Instone Group in accordance with the applicable accounting principles and that the management report of the Group, which is combined with the Company's management report, includes a true and fair view of the development, performance and results of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of Instone Group.

Essen, 10 March 2021

The Management Board

Kruno Crepulja    Dr Foruhar Madjlessi    Andreas Gräf

# Contact

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GRI 102-53

# About us

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GRI 102-1; 102-3

**Management Board**

Kruno Crepulja
(Chairman of the Management Board/CEO),
Dr Foruhar Madjlessi,
Andreas Gräf

**Chairman of the Supervisory Board**

Stefan Brendgen

**Commercial Register**

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

Sales tax ID number
DE 300512686

**Concept, design and implementation**

MPM Corporate Communication Solutions,
Mainz
www.mpm.de

# Financial calendar

| | |
|---|---|
| 18/03/2021 | Publication of annual report for the year ending 31 December 2020 |
| 20/05/2021 | Publication of the quarterly statement as of 31 March 2021 |
| 09/06/2021 | Annual General Meeting |
| 26/08/2021 | Publication of the semi-annual report as at 30 June 2021 |
| 18/11/2021 | Publication of the quarterly report as at 30 September 2021 |

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GRI 102-55

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# Glossary

### A/core cities:

A cities: Refers to the metropolitan cities of Berlin, Hamburg, Munich, Cologne, Stuttgart, Frankfurt am Main and Dusseldorf which are considered in the real estate industry to be the seven most desirable locations in Germany.

Core cities: Instone Real Estate also ranks Leipzig as an A city; all these A cities are together referred to as core cities. In light of its size and proximity to Nuremberg, Erlangen – the new Instone Real Estatee location – will also be ranked as a core city in future, although this is not yet reflected throughout this year's Annual Report due to the lack of availability of some data. Wherever it has been possible to include Erlangen/Nuremberg, explicit mention is made in this report.

### Anticipated items:

Deferred items in the balance sheet that reflect that expenses or income incurred during the year under review do not result in income or expenditure until the following year.

### Realignment of boundaries (boundary areas):

When realigning boundaries, scattered plots are grouped into a larger plot and surrounding plots are assigned to a central plot to increase the usability of the land.

### Asset deal:

In an asset deal, the assets held in a company or just a single asset are purchased, and the individual assets are transferred.

### Instone Real Estate affordable housing:

An entirely new approach to project development through systematic digitalization along the value chain creates affordable housing as a product. With this product, new builds can also be made affordable for middle-income buyers in Germany.

### Brownfield developments:

Project developments on former industrial sites and conversion areas that have been reclassified for residential utilisation and therefore do not require additional sealed surfaces. On the contrary, existing areas are upgraded or improved.

### Contractual Trust Arrangement (CTA):

Pension trust company

### Deferred compensation:

Deferred compensation; pension commitment within the company pension scheme - financed by a waiver of remuneration of the employee

### Divestment:

Release of restricted capital in longer-term assets by selling them

### Duration:

Term of commitment of the capital invested in fixed income securities

### EBIT:

Earnings before interest and tax

### EBITDA:

Earnings before interest, tax, depreciation and amortisation

### Equity method:

Accounting method for long-term investments in a company that participates in the voting capital of another company (the participation book value is constantly adjusted to the development of the equity of the company in which the investment has been made)

### Euribor:

Abbreviation for the reference interest rate Euro Interbank Offered Rate

### Family offices:

Companies or departments of banks managing large private assets.

### Subsidised residential space:

Homes for rent that have been created or modernised with the provision of subsidies from state budgets or development banks and whose occupancy and rent levels have been regulated for a certain period of time (social commitment).

### Investor development:

Project developments for own stock or developments at the risk, and on behalf, of third parties

### Purchasing Power Index:

Regional purchasing power level per inhabitant or household compared to the national average (with a standard value of 100)

### Conversion (conversion areas):

Conversion or change of use

### Mezzanine financing:

Financing with hybrid capital, which includes both equity and debt financing

### Prosperous medium-sized cities:

These cities include the following for Instone Real Estate: Darmstadt, Dresden, Freiburg im Breisgau, Hanover, Heidelberg, Heilbronn, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm, Wiesbaden.

### POC method:

Percentage of completion method

### Share deal:

In a share deal, purchasers acquire a company by buying all or almost all of the shares of a partnership or corporation.

### Thousand-person rate:

Reportable accidents at work per 1,000 full-time workers

### Trading development:

The project development process takes place at the own expense of the project developer. The marketing risk is borne by the project developer itself.

### Target areas:

In addition to the core cities, Nuremberg/Erlangen and prosperous medium-sized cities, Instone Real Estate's target areas also include, for example: Aachen, Augsburg, Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, Regensburg and the Rhine-Main region.

### Affordable living

Concentration on B and C locations in and around the conurbations covered by the eight Instone Real Estate offices. Costs and project lengths are reduced by combining modular planning, lean management and lean construction, product simplification, reduced civil engineering and the deployment of digital sales channels. This is the way Instone Real Estate addresses the strong demand for housing, whether for rental or for sale, for low and medium income groups.

### Zoning and development planning processes

According to Section 1 (2) of the German Building Code [Baugesetzbuch, BauGB], a zoning plan is a preparatory urban land-use plan for part of a city, and is governed by Sections 5 et seq. BauGB. It regulates the available and probable space requirements for the individual utilisation options, such as housing, work, leisure and traffic.

A development plan is a binding, urban land-use plan. A development plan regulates how and what may be built on plots of land and the resulting utilisation of the areas to be left free of buildings.

### GRI

GRI standards constitute global best practice for public disclosures about various economic, environmental and social impacts. The modular, interlinked GRI standards are supposed to be primarily used as a template for compiling a sustainability report focusing on significant topics. The three universal standards are used by any organisation that publishes a sustainability report.

### IFRS 15

International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers"

IFRS 15 regulates when and the extent to which a company reporting in accordance with IFRSs must recognise revenue. Companies preparing the financial statements are also required to provide users of financial statements with more informative, relevant disclosures. The standard offers a single, principle-based, five-step model that can be applied to all contracts with customers.

### IFRS 16

International Financial Reporting Standard (IFRS) 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation and disclosure requirements for leases in financial statements for companies reporting in line with IFRS. The lessee uses a single accounting model according to which all assets and liabilities arising from leases (with a few exceptions) are reported in the statement of financial position. The lessor continues to distinguish between finance and operating leases for accounting purposes.

## FTE

Full-time equivalent (FTE) is a key indicator used in staff planning. One FTE is equivalent to the time worked by one full-time employee. The standard used to convert an FTE into working hours is the average number of working hours per work day.

## ICS

The Internal Control System (IKS), a system of technical and organisational rules for the methodological management and controls in the company with respect to compliance with regulations and preventing losses.

## ROCE

Return on Capital Employed (ROCE) is an indicator which measures how efficiently and profitably a company employs the capital it uses. The Instone-Group calculates ROCE as follows:

ROCE = EBIT/(two-year average equity + net debt).

## B and C cities/add cities

B cities: Major cities of national and regional importance

C cities: key German cities of regional and, to a limited extent, national importance that significantly impact the surrounding regions

Instone Real Estate use the generic term “add cities” for these attractive cities.

## MaBV

The Makler- und Bauträgerverordnung (MaBV) is a legal regulation derived from the Gewerbeordnung (German Trade Regulation Act) which, in German trade law, primarily provides specifications for the protection of the real estate purchaser when drafting and concluding a property development contract.

## Individual sale

In an individual sale, an owner-occupied apartment only changes owners once after completion, when it is sold by Instone Real Estate directly to the customer. Individual sales are managed either by commissioned sales agents or by Instone Real Estate.

## Capital market sales

Form of selling characterised by a multi-level agency organisation. The agent sells Instone Real Estate developments to capital investors.

## Investor sales

Projects are sold to investors via Instone Real Estate key account holders.

## WACC

Weighted average cost of capital. The average is calculated from the cost of equity and the cost of debt and weighted with their share of total capital.

MULTI-YEAR OVERVIEW

In millions of euros

| | | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **Key liquidity figures** | | | | |
| Cash flow from operations | | 119.9 | – 205.1 | – 40.4 |
| Cash flow from operations without new investments | | 225.0 | 123.7 | 32.1 |
| Free cash flow | | – 64.2 | – 237.5 | – 39.9 |
| Cash and cash equivalents and term deposits [1] | | 232.0 | 117.1 | 88.0 |
| **Key balance sheet figures** | | | | |
| Total assets | | 1,283.1 | 1,123.4 | 686.6 |
| Inventories | | 777.8 | 732.1 | 404.4 |
| Contract assets | | 194.2 | 219.0 | 158.5 |
| Equity | | 521.0 | 310.2 | 246.9 |
| Financial liabilities | | 481.7 | 595.5 | 265.6 |
| of which from corporate finance | | 207.2 | 180.8 | 66.1 |
| of which from project financing | | 274.5 | 414.7 | 199.5 |
| Net financial debt [2] | | 249.7 | 478.4 | 177.5 |
| Leverage | | 2.8 | 3.6 | 3.5 |
| Loan-to-cost [3] | In % | 25.7 | 50.3 | n/a |
| ROCE [4] adjusted | In % | 10.3 | 22.8 | 11.9 |
| **Employees** | | | | |
| Quantity | | 413 | 375 | 311 |
| FTE [5] | | 342.5 | 307,7 | 258.7 |

In millions of euros

| | | MULTI-YEAR OVERVIEW 2020 | 2019 | 2018 | QUARTERLY COMPARISON Q4 2020 | Q4 2019 |
|---|---|---|---|---|---|---|
| **REAL ESTATE BUSINESS KEY PERFORMANCE INDICATORS** | | | | | | |
| Volume of sales contracts | | 464.4 | 1,403.1 | 460.8 | 246.0 | 1,088.2 |
| Volume of sales contracts | In units | 1,292 | 2,733 | 1,033 | 708 | 2,063 |
| Project portfolio (existing projects) | | 6,053.6 | 5,845.7 | 4,763.2 | 6,053.6 | 5,845.7 |
| of which already sold | | 2,328.8 | 2,174.0 | 998.2 | 2,328.8 | 2,174.0 |
| Project portfolio (existing projects) | In units | 13,561 | 13,715 | 11,041 | 13,561 | 13,715 |
| of which already sold | In units | 5,381 | 4,814 | 2,395 | 5,381 | 4,814 |
| Volume of new approvals [6] | | 489.9 | 1,284.2 | 1,298.0 | 193.7 | 629.3 |
| Volume of new approvals | In units | 1,171 | 3,857 | 3,314 | 482 | 1,648 |
| **Adjusted results of operations** | | | | | | |
| Revenues adjusted | | 480.1 | 736.7 | 372.8 | 188.8 | 434.3 |
| Project costs adjusted | | – 333.5 | – 548.8 | – 266.3 | – 136.3 | – 345.3 |
| **Gross profit adjusted** | | **146.6** | **187.8** | **106.4** | **52.5** | **88.9** |
| **Gross profit margin adjusted** | | **30.5%** | **25.5%** | **28.5%** | **27.8%** | **20.5%** |
| Platform costs adjusted | | – 65.5 | – 59.0 | – 56.9 | – 20.7 | – 16.8 |
| Share of results of joint ventures adjusted | | 2.7 | 0.7 | 0.0 | 2.0 | 0.7 |
| **Earnings before interest and tax (EBIT) adjusted** | | **83.8** | **129.6** | **49.6** | **33.8** | **72.9** |
| **EBIT margin adjusted** | | **17.5%** | **17.6%** | **13.7%** | **17.9%** | **16.8%** |
| Income from investments adjusted | | – 1.2 | – 5.7 | – 0.4 | 0.0 | – 2.4 |
| Financial result adjusted | | – 23.2 | – 16.1 | – 7.7 | – 8.9 | – 8.8 |
| **Earnings before tax (EBT) adjusted** | | **59.4** | **107.8** | **41.5** | **25.0** | **61.7** |
| **EBT margin adjusted** | | **12.4%** | **14.6%** | **11.5%** | **13.2%** | **14.2%** |
| Income taxes adjusted | | – 18.3 | – 2.2 | – 22.4 | – 8.7 | 0.5 |
| **Earnings after tax (EAT) adjusted** | | **41.1** | **105.6** | **19.1** | **16.2** | **62.2** |
| **EAT margin adjusted** | | **8.6%** | **14.3%** | **5.1%** | **8.6%** | **14.3%** |
| Earnings per share (adjusted) | In euros | 0.99 | 2.69 | 0.44 | 0.39 | 1.57 |
| Dividend per share [7] | In euros | 0.26 | | | | |
| Dividends paid [7] | | 12.2 | | | | |

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

[2] Net financial debt = financial liabilities less cash and cash equivalents and term deposits.

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

[4] Return on capital employed = LTM EBIT adjusted/(four-quarter average equity + net financial debt).

[5] Full-time equivalent employees.

[6] Excluding volume of approvals from joint ventures consolidated at equity.

[7] Current financial year: proposed dividend/proposed distribution.

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