COMBINED MANAGEMENT REPORT

PREPARATION

In this document, the terms "we", "us", "our", "Instone Real Estate", "Instone Group" and "Company" refer to Instone Real Estate Group AG (formerly: formart Holding B.V., then: Instone Real Estate Group B.V., then: Instone Real Estate Group N.V., now: Instone Real Estate Group AG) and correspondingly to its subsidiaries.

In the financial year ending 31 December 2017, we were a limited liability company under Dutch law (besloten vennootschap met beperkte aansprakelijkheid), Instone Real Estate Group B.V. On 13 January 2018, we were converted into a Dutch stock corporation (naamloze vennootschap) and renamed Instone Real Estate Group N.V. This took place in connection with the private placement of our shares (the "Placement") and admission for listing and trading on the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the corresponding market with additional admission requirements (Prime Standard) (the "Listing"). On 28 August 2018, we were transformed into a stock corporation under German law through an identity-preserving, cross-border conversion of legal form and have since then been trading as Instone Real Estate Group AG.

This report concerns the financial year ending 31 December 2018. Unless stated otherwise, all financial and other information disclosed in this report is as of 31 December 2018.

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 judgment 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 as those expressly or implicitly assumed or described in these statements. These statements can be found in various parts of this report, in particular in the section "Forecast report, outlook for the Instone Group", as well as in places where statements regarding intentions, opinions or current expectations of the Company regarding its future financial position or operating results, plans, liquidity, business prospects, growth, strategy and profitability, as well as the economic and regulatory environment in which Instone Real Estate operates.

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

Furthermore, it should be noted that all forward-looking statements are made only as at the date of this report and that the Company accepts no obligation to update such statements or adapt them to current events or trends, except as required by law. Details of certain factors that could affect the actual development of the matters described in the forward-looking statements of the Company are included in the "Forecast report, macroeconomic and sector-specific environment" section of this report.

BUSINESS MODEL AND ORGANISATIONAL STRUCTURE

Instone Real Estate is one of Germany's leading residential developers and is listed on the Prime Standard of the Frankfurt Stock Exchange. Instone Real Estate develops attractive residential and apartment buildings and publicly subsidised residential construction, designs modern city districts and refurbishes listed buildings. These are mainly marketed to owner-occupiers, private investors with the intention to lease and institutional investors. Over the course of 28 years, we have consequently realised more than one million square meters. We have 311 employees at eight locations across Germany. As of 31 December 2018, the project portfolio of Instone Real Estate included 45 development projects with an anticipated overall sales volume of approximately €4.8 billion and more than 11,000 units.

As of 31 December 2018, approximately 90% of our portfolio (based on anticipated sales volume after completion of development) was located in the most important conurbations in Germany (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Halle, Leipzig, Munich and Stuttgart) and 10% in other prosperous medium-sized cities.

COVERAGE OF THE ENTIRE VALUE CHAIN

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

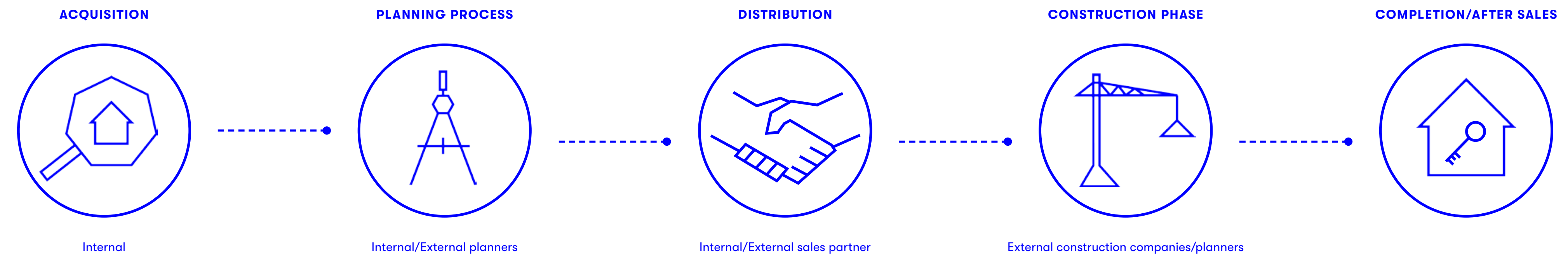
Each Instone Real Estate location has on-site teams responsible for acquisition, planning, building, marketing, and sales management while strategic decisions are coordinated and implemented jointly with headquarters.

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

The number of newly acquired and ongoing projects shows the continuous investing activities which have taken place in the past financial year, including the acquisition of land and real estate with an anticipated total sales volume of €1,300 million after completion of development.

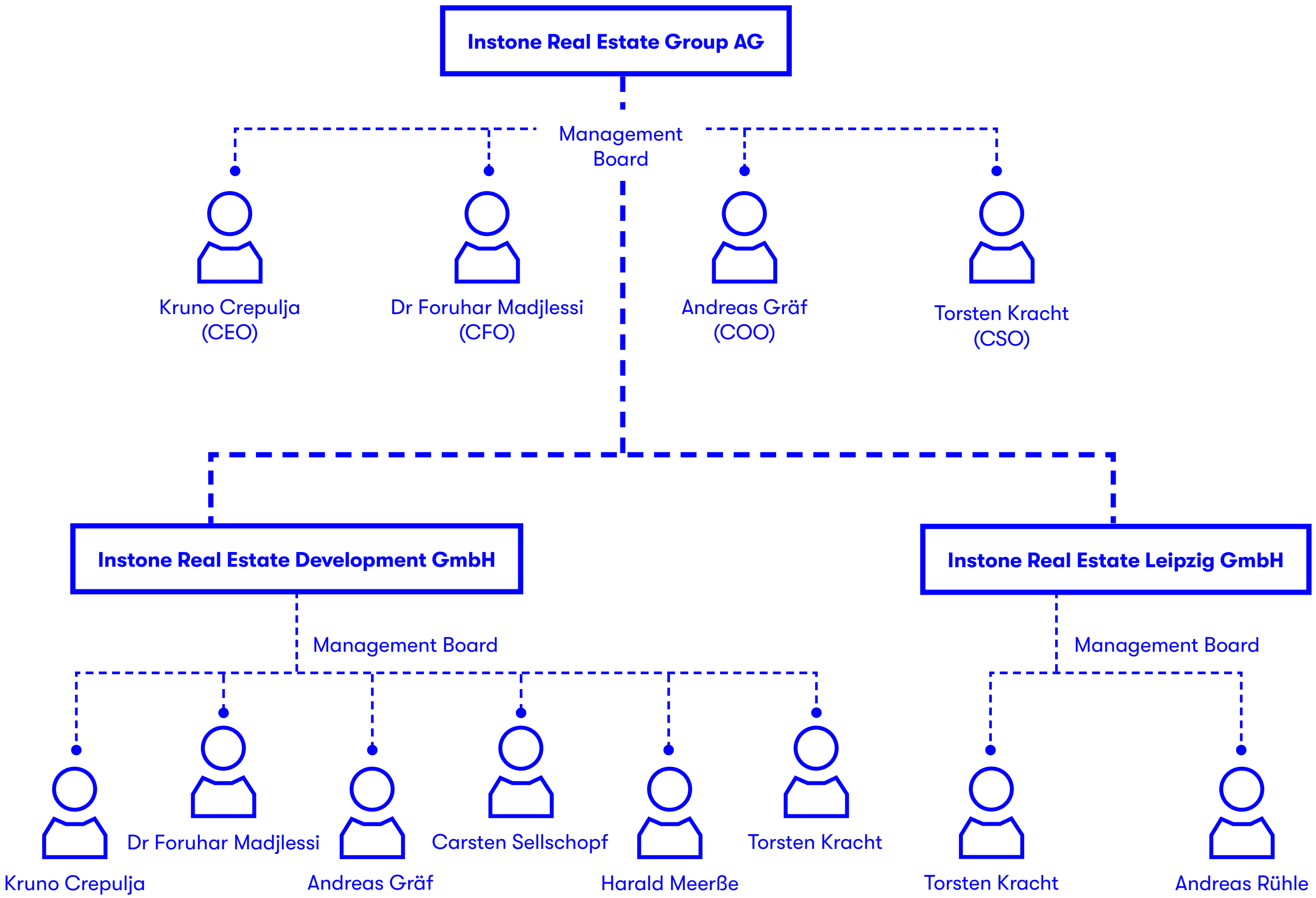
Instone Real Estate's activities are supported by the continued high demand for housing.

THE INSTONE VALUE CHAIN



Instone Real Estate has been listed as a Dutch stock corporation (Instone Real Estate Group N.V.) on the Prime Standard of the German Stock Exchange since 15 February 2018. In August 2018, the company successfully completed its transformation into a stock corporation under German law, as resolved by the Annual General Meeting at the end of June. The change of legal form became effective upon entry in the commercial register on 28 August 2018. Instone Real Estate Group AG acts as a strategic management holding while the two subsidiaries, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, are responsible for the operating project business.

ORGANISATIONAL STRUCTURE OF INSTONE REAL ESTATE



CORPORATE STRATEGY AND MANAGEMENT

INSTONE GROUP STRATEGY

Instone Real Estate's strategy is the development and sale of profitable residential property projects in regions with sustainable population growth and an associated high demand for housing. The company has an attractive project portfolio and plans to expand it in the future. At the same time, Instone Real Estate is well positioned regionally and nationwide to exploit the growth potential in the most important German metropolitan regions. Due to its high value-added depth and extensive experience in the development of areas and the conversion of areas with previously different uses, Instone Real Estate is in a position to become involved in projects at an early stage of development and successfully develop projects as an ideal partner for real estate sellers. The high value-added depth also enables the Company to manage important cost and time factors efficiently. Moreover, Instone Real Estate has an excellent network of service providers and contractors, thus ensuring access to the necessary resources. All of these factors are key competitive advantages for the Company.

Maintaining and expanding the competitive position in the German residential real estate development sector with a continuous focus on the most important conurbations in Germany

The exclusive focus of Instone Real Estate on modern mid-level and high-end urban residential real estate and its location in major metropolitan areas and other prosperous medium-sized cities in Germany has historically been an important factor in the Company's success. In regional terms, Instone Real Estate has targeted the attractive growth markets in Germany (North Rhine-Westphalia and the Rhine-Main region, Baden-Wurttemberg and Bavaria, Saxony, and Northern Germany), which are managed by four regional managers and seven branches.

Instone Real Estate plans to focus on the urban growth regions of Germany (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart) as well as other prosperous medium-sized cities (Aachen, Augsburg, Dresden, Freiburg, Hanover, Heidelberg, Karlsruhe, Mainz, Mannheim, Potsdam, Ulm and Wiesbaden) and to further strengthen its presence at these locations. These metropolitan areas and prosperous, medium-sized cities are showing strong demographic growth which is being further intensified by the urbanisation trend, the sustainable composition of households and the regionally diversified economic structure.

In addition to the above-mentioned core markets, Instone Real Estate is exploring the following attractive high-demand areas and plans to invest if profitable opportunities arise: Baden-Baden, Erfurt, Ingolstadt, Halle, Kiel, Nuremberg, the Rhine-Main area around Frankfurt, Regensburg, the western Ruhr area and Wurzburg.

When marketing residential properties, Instone Real Estate relies on a diversified asset management strategy, including all relevant investor classes. Sales to private owner-occupiers in individual sales forms the core of our marketing strategy. Instone Real Estate also uses its marketing strategy to market to private investors and institutional investors. The Instone Group uses different sales organisations (brokers, structure sales and direct contact), depending on the project.

Focus on land and real estate without approved land use or development plans at the time of acquisition for development as residential real estate

Instone Real Estate's acquisition strategy is to generate attractive margins from project developments without taking disproportionate risks. To this end, Instone Real Estate focuses primarily on the acquisition of land or real estate without land-use plans or planning permission for residential development purposes. Instone Real Estate believes that such land or real estate typically offers more added value and is less competitive than land or property with a fully-approved land-use plan and approved planning. To manage its regulatory risk, Instone Real Estate relies on its know-how and experience to ensure that all open planning issues are investigated in detail, and only acquires land or real estate if Instone Real Estate deems it likely that the required planning permission can be granted in a timely manner – usually after preliminary discussions with the local building authority. Instone Real Estate will therefore not invest in a property unless Instone Real Estate believes that the development plan and planning permission will be granted within the appropriate time frame (no property speculation). In the past, Instone Real Estate has been able to look back on great success in the development of land and real estate with no development plans or planning permission for residential development at the time of acquisition.

Instone Real Estate plans to continuously identify opportunities for the acquisition of land or real estate in key German metropolitan areas in accordance with its acquisition criteria and will remain close to local markets through its eight locations established for this purpose. The focus is on real estate markets in the major German cities, including other major and liquid markets that may be of interest to retail and institutional investors.

In addition to using the gross profit margin as a financial criterion and the certainty of obtaining construction rights in a timely manner, the acquisition criteria may differ depending on the region and the individual project. The strategies may differ correspondingly. In general, Instone Real Estate focuses on more complex projects where the Company can leverage its network of regional offices, combined with the industry expertise of its employees, and its deep value chain.

MANAGEMENT SYSTEM OF THE INSTONE GROUP

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

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

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

→ Integrated management information system,

→ Database-supported project management,

→ Structured meeting system,

→ Financial and real estate key performance indicators.

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 completely 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 management 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.

FINANCIAL AND REAL ESTATE KEY PERFORMANCE INDICATORS

Important management 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, adjusted earnings before interest and tax (EBIT) as a financial performance indicator and the key volume of sales contracts figure in the real estate industry as a non-financial performance indicator.

By adopting IFRS 15[1] and the associated revenue recognition over-time, the adjusted revenue represents a sufficient indicator for the measurement of the company performance so an additional consideration of the operating performance is not required.

[1] IFRS (International Financial Reporting Standards) "Income from Contracts with Customers".

The addition of the KPI adjusted gross profit margin puts a stronger focus on the earnings potential of projects.

As the EBT is heavily influenced by fluctuations in the financial result, it is being replaced by adjusted EBIT as a key performance indicator to focus on earnings before tax, depreciation and amortisation.

In the future, the volume of new permits as a key real estate figure will no longer represent a key performance indicator for the Instone Group as it is not possible to forecast new approvals due to the strong dependence on external influences.

Adjusted revenue, adjusted gross profit margin and adjusted EBIT

The key figure for the performance of the Instone Group is revenue adjusted for the effects of purchase price allocations.

The adjusted gross profit margin is used to manage and analyse the project-based company performance and is determined on the basis of the revenues less the cost of materials, changes in inventories, indirect distribution costs and capitalised interest, but excluding effects from purchase price allocations. The adjusted gross profit margin reflects the operating result after deducting all external costs directly attributed to the projects.

The adjusted EBIT is derived from the adjusted gross profit or loss and corresponds to the operating earnings before interest and tax, but additionally adjusted for the effects of pruchase price allocations and, if necessary, one-off events and extraordinary effects.

Volume of sales contracts

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

Other important key figures

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

Current offer for sale

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

Project portfolio

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

Volume of new permits

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

Project gross profit or loss and project gross profit margin

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

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

The calculation of the project gross profit margin for a period corresponds to the adjusted gross profit derived from the income statement.

SUSTAINABILITY

FAIR AND RESPONSIBLE BEHAVIOUR

For Instone Real Estate, fair and responsible behaviour towards employees, customers, investors, business partners and the public forms the basis for a sustainably successful company.

Our principles and values as summarised in the Code of Conduct underpin the entrepreneurial behaviour of Instone Real Estate. We value a trusting and sustained cooperation with our partners and our mutual adherence to contracts and obligations.

In the financial year, Instone Real Estate further built on its compliance to comply with national and international laws and regulations. This includes the introduction and establishment of a compliance process tailored to the purpose of the Company, in accordance with the regulations. Among other things, this includes annual training for all employees in compliance and a compliance management system for documentation. Whistle-blowers can report potential violations internally or anonymously externally. The reported incident is then verified independently. The strategic goal is to avoid compliance cases, corruption, bribery and anti-competitive behaviour.

The transparency of our business processes is also reviewed as part of an audit. In the 2018 financial year, this was carried out with the support of an external service provider. The existing risk management system has also been further developed to enable the timely detection of risks, the assessment of risks and the fastest possible response to the emergence of risks.

During the course of the introduction of the new regulations on data protection (General Data Protection Regulation, GDPR) in May 2018, the main processes and tools have been reviewed with our data protection officer and adjusted for compliance with the General Data Protection Regulation. The protection of our employee, customer and business partner data is therefore guaranteed by Instone Real Estate Group AG.

ENSURING THE SATISFACTION AND SECURITY OF OUR INVESTORS AND CUSTOMERS

Instone Real Estate's main goal is satisfied customers who can live well and safely in attractive neighbourhoods. The high level of customer satisfaction achieved by Instone Real Estate reduces long-term costs in the areas of customer and project management and after-sales.

Customer satisfaction also guarantees income, promoting the reputation of the Company and ensuring that investors and the public gain access to new investment and acquisition opportunities.

Instone Real Estate achieves this customer satisfaction through a variety of measures such as:

→ Good and structured preliminary planning,

→ Targeted sales,

→ Approaching customer groups in the correct way,

→ Good customer support,

→ Excellent standard facilities in the purchased property,

→ Very good construction quality combined with the ability to customise the property to be purchased using a special request catalogue for the property,

→ Point of contact at Instone Real Estate, along with the use of a project-specific customer portal and configurator in the future.

Sustainable security for the investors and customers of Instone Real Estate is ensured through consistent processes, adherence to the promised timetables and a financially solid company and therefore a financially secure project and project portfolio.

RESPONSIBLE TREATMENT OF OUR EMPLOYEES

Instone Real Estate's employees are critical to ensuring the Company's long-term success. They are highly motivated and committed and create a bridge between the Company, customers and the public within projects. Instone Real Estate helps to create an attractive work environment in order to support and sustain this commitment.

Issues such as employment, education and training, diversity and equal opportunities are essential. Trust and fair treatment encourage productivity and innovation.

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

→ Health measures,

→ Professional development and promotion – internal and external further education,

→ Flexible organisation of working hours,

→ Employee benefits,

→ Bonus rules,

→ Modern and digital infrastructure,

→ Staff events.

Instone Real Estate increased its workforce by approximately 4% in 2018 and has thus positioned itself well for further corporate growth and any potential employee turnover. According to the report of the Federal Employment Agency (July 2018), the staff turnover rate across all sectors was 32.8% in 2017 within Germany and, according to German Economic Institute (iwd), the rate was 29.3% for the "real estate, freelance scientific and technical services" industry group.[1]

[1] www.iwd.de/artikel/fluktuation-starke-wirtschaft-fuehrt-zu-mehr-jobwechseln-401583/

Instone Real Estate is tackling the proven shortage of skilled workers by increasing its recruitment activities. During the financial year, a career website ↗ Instone Career was newly developed for this purpose. The search for jobs is becoming increasingly digital and Instone Real Estate needs to be able to fully present its business and employees to potential candidates. On the new career website, our corporate and employee values are described in both company and job profiles along with direct feedback from existing employees in the form of short films.

Instone Real Estate is committed to the sustainable responsibility of helping young people get started with their careers. Instone Real Estate has therefore also become active in university marketing and presented the Company and its career-entry opportunities at career fairs in 2018. Lectures and other accompanying measures implemented by executives and employees have helped graduates to learn more about challenges in the world of work.

Recruitment will be sustainably expanded, not only through the Company website, but also via social media channels such as XING, Twitter and LinkedIn. Additional recruiting measures were initiated in this area during the second half of the financial year.

Talent management and competence development round off the recruiting measures.

For more information, see the "Employees" section on page 44.

ENERGY-EFFICIENT LIVING AND RESPONSIBLE USE OF MATERIALS

In residential construction, the responsible use of materials and the topic of energy efficiency are essential long-term factors for our Company, our partners and customers. Instone Real Estate's aim is to develop housing projects that are not only designed to be as environmentally friendly as possible, but will also help their residents to save energy for many generations to come. We often use areas that have already been developed in the past. This enables us to use resources carefully.

Instone Real Estate properties comply with the stringent requirements of the German Energy Saving Ordinance (Energieeinsparverordnung) as standard.

When contracting other companies, for example in construction, we also make sure that our partner companies along the supply chain meet our high technical and environmental standards in addition to standards relating to employment – such as paying the minimum wage and adhering to safety regulations.

DEMONSTRATING SOCIAL COMMITMENT

In addition to the main business, the development of residential units, Instone Real Estate's projects also contribute to the operation of socially funded or reduced-price residential construction within the context of urban district development. In these projects, we coordinate closely with public sector partners and are familiar with the differently weighted programmes in the project markets we work in. This also leads to diverse cooperation with social housing investors for residential construction.

Due to the many different programmes in the municipalities, Instone Real Estate also has ideal lines of communication with its partners in terms of the respective interests of the municipality in the socially funded area.

We are also involved in interest groups in the real estate industry (such as Zentraler Immobilienausschuss e. V. and Bundesverband freier Immobilien- und Wohnungsunternehmen e. V.), which discuss the necessary legal issues with the state and federal authorities.

Instone Real Estate's services meet the challenges of society as a whole, such as the creation and provision of housing in metropolitan areas.

We support sustainable and liveable urban district development, boost the quality of life, promote historical buildings and preserve historical monuments while also tackling the issues of the future.

DIVERSITY AND EQUAL OPPORTUNITIES

The proportion of male employees was 58% at the end of 2018 (previous year: 56%), while women made up 42% (previous year: 44%) of our workforce. The proportion of women is 16.67% in the second management tier. The average age was 41.29 years – a balanced mix where our apprentices and working students can benefit from the experience of our long-standing employees. The average length of service in the financial year was 7.57 years, which once again confirms that Instone Real Estate offers long-term prospects as an employer.

We gave one dual student and three working students permanent employment during 2018.

KEY FIGURES

	2018	2017
Total number of employees[1]	311	299
Total number of locations	8	8
Diversity of employees[1]		
Gender		
women	131	133
men	180	166
Age groups		
< 30 years	59	65
30 - 50 years	163	157
> 50 years	89	77
Confirmed corruption incidents and actions taken[2]	0	0
Legal proceedings for anti-competitive behaviour or anti-trust and monopoly practices[3]	0	0

[1] Personnel disclosures, Instone Real Estate.
[2] Compliance disclosures, Instone Real Estate.
[3] Risk management disclosures, Instone Real Estate.

EMPLOYEES

EMPLOYEES

Including the employees of foreign subsidiaries, 311 people were employed in the Instone Group as of 31 December 2018 (previous year: 299 employees).

At the end of 2018, one employee was working for us at each of our international locations in Luxembourg and Austria.

PERSPECTIVES AND FREEDOM

Further training opens up new perspectives. This is an integral part of Instone Real Estate's human resources development. In addition to compulsory training in data protection and compliance, every employee receives €1,600 per year for tailored professional training.

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

COOPERATIONS WITH UNIVERSITIES

Promoting young talent is a special interest of ours. In addition to the employment of working students, trainees and apprentices, we are therefore increasingly working with colleges and universities. We supported seven master theses both financially and with our expertise in 2018. This cooperation will be stepped up further next year and will develop into a university concept especially created for this purpose.

Employees and management are also involved as lecturers at various universities.

For more information about our employees, see the Sustainability section on page 41.

ECONOMIC CONDITIONS

GOOD GENERAL CONDITIONS FOR OUR BUSINESS GROWTH

bulwiengesa's Frühjahrsgutachten der Immobilienweisen (real estate spring report) and Projektentwicklerstudie 2018 (project developer study) still assume high demand in the conurbations with level price increase dynamics. Instone Real Estate expects cost and revenue increases to compensate

SOCIO-ECONOMIC DEVELOPMENTS IN INSTONE TARGET CITIES

Due to moderate inflation and ongoing economic growth, but above all, low interest rates, conditions for real estate investments were positive in the past financial year – and will remain so in the coming years. Although the consumer prices index in Germany rose slightly during the financial year, it was still only just above 2%.[1]

↗ [1] www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Preise/Verbraucherpreisindizes/Verbraucherpreisindizes.html

From 2008 to 2018, the average number of people employed at Instone Real Estate offices increased by 9.7%, with Frankfurt am Main at around 18%.[2]In comparison to other European countries, the decline in growth was only moderate. A further increase in population of around 5% is forecast for Instone Real Estate locations by 2035.[2]

The German labour market has developed very positively in recent years. For example, the number of people liable to pay social security contributions in the Instone Real Estate locations increased by an average of 25% between 2008 and 2018.[2] This is above average compared to other EU states (~ 2.7%)[3]. This trend is likely to continue in light of the economic situation.[3]

↗ [2] Key Figures_Forecasts_2023, bulwiengesa AG.
↗ [3] Eurostat Data Explorer Employees 2008–2018.

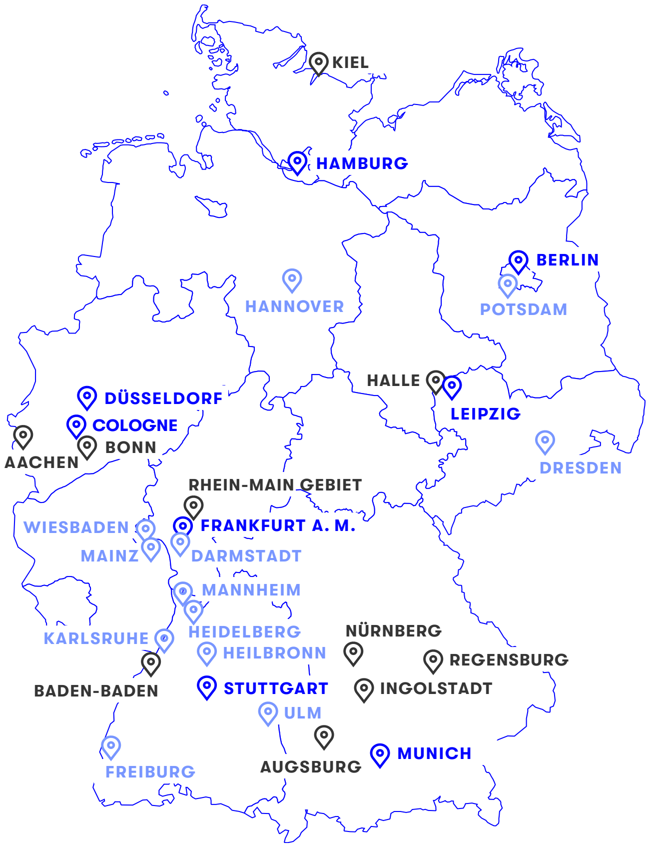
The unemployment rate in Germany has also fallen by 4.3%[4] since 2008. In December 2018, the unemployment rate of around 4.9%[4] was well below the EU average (6.7%).[5] A further increase in the number of persons in employment and a decrease in unemployment in Germany are expected by 2019.

↗ [4] www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Arbeitsmarkt/Arbeitsmarkt.html
↗ [5] www.de.statista.com/statistik/daten/studie/160142/umfrage/arbeitslosenquote-in-den-eu-laendern/

In summary, Germany continues to be a strong, growing and future-proof business location with good general conditions for housing investments. The purchasing power per capita in Instone Real Estate locations has increased on average by around 16% over the past decade.[6] According to initial calculations by the Federal Statistical Office (Destatis), the price-adjusted gross domestic product (GDP) in 2018 was 1.5% higher than in the previous year. The German economy has therefore grown for the ninth consecutive year.[7]

↗ [6] KPIs for core cities, bulwiengesa AG.
↗ [7] www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2019/01/PD19_018_811.html

INSTONE REAL ESTATE TARGET CITIES



■ A cities:
■ Prosperous medium-sized cities:
■ attractive target areas:

Structural data 2017	Inhabitants in thousands	Inhabitants 2007-2017 in %	GDP in millions of euros	GDP per capita in euros	Available income per capita in euros annually	Unemployment rate in % (July 2018)
Berlin	3,591	11.2	118	32,976	20,195	8.1
Düsseldorf	614	6.8	46	74,963	26,292	6.7
Frankfurt a. M.	739	15.4	63	85,861	22,799	5.4
Hamburg	1,817	8.1	105	57,803	25,012	6.3
Cologne	1,085	9.9	59	54,581	22,328	7.8
Munich	1,465	13.6	102	69,428	28,995	3.6
Stuttgart	633	10.4	49	77,817	25,784	4.1
Top locations	**9,944**	**10.8**	**543**	**54,618**	**23,530**	**6.5**

Source: Feri, Bulwiengesa, DZ BANK Research Forecast

POSITIVE SOCIO-DEMOGRAPHIC DEVELOPMENT IN OUR TARGET CITIES

The Instone Real Estate target cities (see table above) have seen a significant increase in employment over the last decade. The A cities, in particular, have a wide range of job opportunities so a further increase in employment figures can be expected in the future.

Besides the employment figures, population growth in the cities has also developed positively. While the A cities will continue to grow in the future, slight falls in population figures are also expected in some of Instone Real Estate's smaller target cities.

The growth in the attractive A cities is on the one hand due to high immigration rates and on the other hand by a steadily increasing birth rate. Although demographic change has led to an aging population in recent years, the number of children has increased due to the rising birth rate in the cities.

Despite the high birth rates, single and couple households dominate the household structure. This trend will continue.[8]

[8] Project Developer Study 2018, bulwiengesa AG.

Incomes, and consequently, the purchasing power of households are rising significantly due to the prosperity of the German economy.[9]

[9] www.gfk.com/de/insights/press-release/deutsche-haben-2019-rund-763-euro-mehr-zur-verfuegung/

INCREASED CONSTRUCTION ACTIVITY IN RECENT YEARS NOT REDUCING LACK OF AVAILABILITY

In our target cities, an average of around 3.4% of apartments were vacant in 2011.[10] If we pick out individual Instone Real Estate project locations, such as Munich, for example, the vacancy rate is virtually zero at present. Nevertheless, this has not led to a significant improvement in the supply situation in recent years.

[10] KPIs for core cities, bulwiengesa AG.

In 2018 (up to and including November 2018), building permits at Instone Real Estate locations increased by 41% year-on-year, and construction completions were up 15%.[11]

[11] KPIs for core cities, bulwiengesa AG.

Our housing stock in the target cities is characterised by a high proportion of three and four-room apartments. Small units with only one room are the least common type of housing. Growth has been recorded in all housing categories since 2011, with one-bedroom apartments having the highest percentage growth with a continued trend towards micro apartments. The number of building permits has risen sharply since 2011. The proportion of permits alone increased by 41% on average between 2017 and 2018 for residential units in the apartment segment in A cities.[12]

[12] KPIs for core cities, buliwengesa AG.

On the other hand, the number of building completions has not developed quite as dynamically, resulting in a significant excess of approvals over the past ten years. It can therefore be assumed that completion figures will increase further in the future. In both urban categories, the focus has predominantly been on the construction of residential units in apartment buildings over the past few years. These have increased by 15% on average in the A cities from 2017 to 2018.[13]

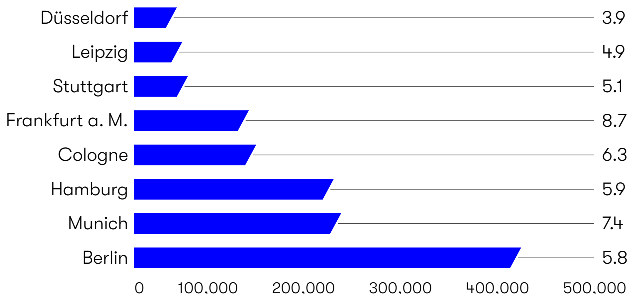
[13] KPIs for core cities, buliwengesa AG.

By 2035, bulwiengesa AG forecasts annual housing demand of approximately 65,000 apartments for the A cities and 19,400 apartments for the other target cities.[14] Further projections also confirm this and go so far as to assume a gap of approximately 67,500 apartments per annum. The annual demand for new constructions clearly exceeds the current completion figures so no excess supply can be assumed in the medium term.[15]

[14] Page 29, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

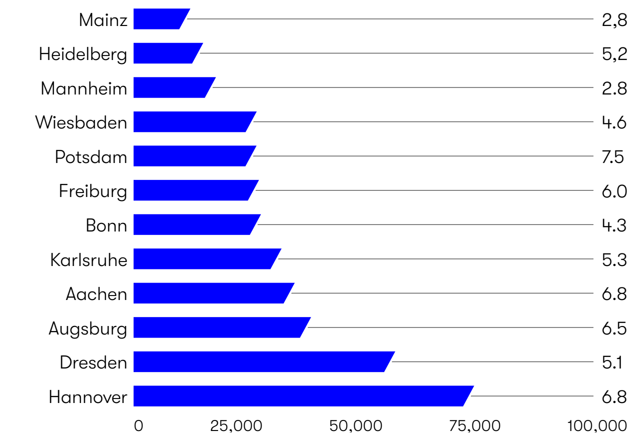
[15] KPIs for core cities, buliwengesa AG.

HOUSING DEMAND FORECAST UNTIL 2035 IN THE 8 A CITIES



Housing demand forecast A cities (source: bulwiengesa AG)

HOUSING DEMAND FORECAST UNTIL 2035 IN THE 12 TARGET CITIES



Housing demand forecast further target cities considered (source: bulwiengesa AG)

The supply structure of the A cities is currently dictated by rental housing. This is due to political regulations and support programmes. Residential units make up approximately 45% of the supply while houses only representing slightly less than 4% of the supply. The picture is similar in the other cities. The house segment is small in both of the urban categories. The construction of new housing units dominates in the area of residential project developments. Approximately 10% of the market involves conversions.[16]

[16] Page 30, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

The development volume of residential projects under construction and planning in the A cities is about 11.3 million m² (Trading / Investor Developments).[17] Proportionally more residential units tend to be built in the smaller target cities.[18]

[17] Table on page 11 of the Project Developer Study (Projektentwicklerstudie) 2018, bulwiengesa AG.

[18] page 31/32, Potenzialanalyse Deutscher Wohnungsmarkt/Potential Analysis German Housing Market, bulwiengesa AG.

Rising purchase and rental prices in the target cities

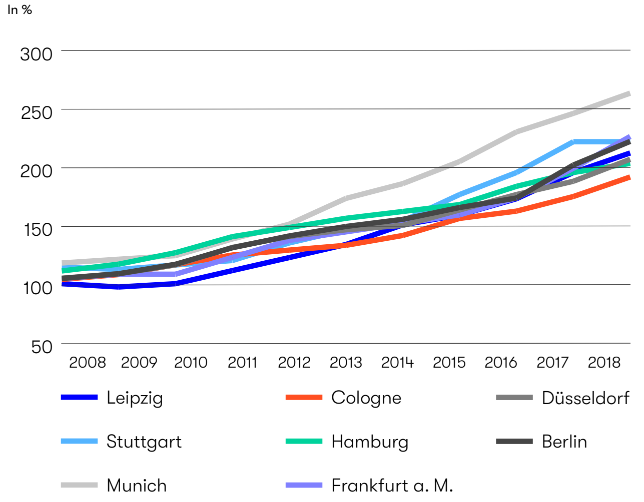
Rents in the A cities and in the other target cities have been rising steadily since 2008. At 50.5%, the rent increase is higher in the A cities compared to other cities. The current average rent in Germany is €11.60 per m². [19]

[19] Real Estate Index, bulwiengesa AG.

The average sale prices for new residential units in Germany have risen continuously since 2008 and have developed more dynamically than rents with an increase of around 90%. bulwiengesa AG forecasts the continued positive development of sales and rental prices for the target cities, both on average and in the prime locations.[20]

[20] Real Estate Index, bulwiengesa AG.

AVERAGE SALES PRICES IN THE 8 A CITIES 2008 – 2017[1] (FIRST OCCUPATION)



[1] Forecast figure for 2017.
Sales price development in the A cities (source: bulwiengesa AG)

STRONG INTEREST IN NEW BUILDING INVESTMENTS, INCLUDING FROM INSTITUTIONAL INVESTORS

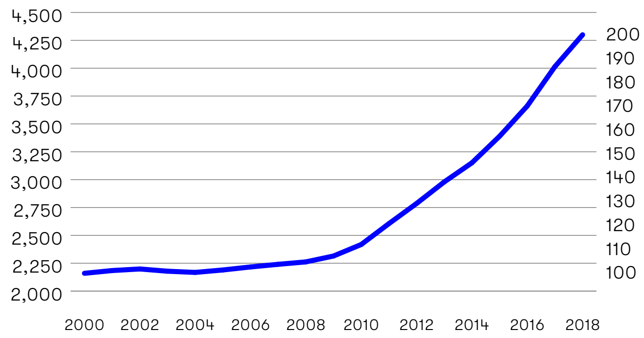
There has been sustained interest in new construction investments from institutional investors for a number of years. Traditional rental apartments continue to have the highest share of transaction activity. The main buyers are institutional investors. Pension funds and insurance companies in particular acquire residential real estate, although indirect acquisition via special funds has also increased the investments of institutional investors. The character of the residential real estate which offers low-fluctuation returns, but also only a low likelihood of short-term increases in value therefore, suggests that there will be sustained demand. Investors value stable, non-cyclical income.[21]

[21] Analysis of Outlook for Real Estate Market, Savills, December 2018

BULWIENGESA REAL ESTATE INDEX NEW BUILD RESIDENTIAL UNITS

AS OF: 1ST QUARTER 2018

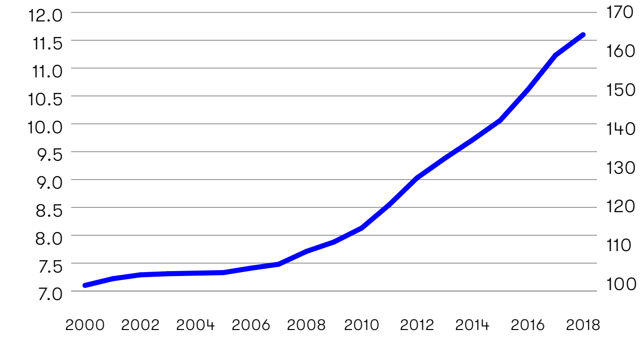
Average values in euros per m² — In %



BULWIENGESA REAL ESTATE INDEX NEW BUILD APARTMENT RENTS

AS OF: 1ST QUARTER 2018

Average values in euros per m² — In %



OVERVIEW OF BUSINESS PERFORMANCE

Volume of sales contracts

We had forecast a positive marketing trend for the fourth quarter in the quarterly statement of September 2018. This was in particular confirmed by the successful sale of the "Stuttgart, Prague city – Living in the Theater District" project. In the 2018 period under review, we sold 1,033 residential units with a volume of revenue contracts of €460.8 million. This puts us below the forecast value for 2018 (~ €500 million). Targeted adjustments of sale prices according to the positive market development resulted in the generation of higher total revenues for projects in distribution. These price approaches led to a minor impact on the speed of sales in 2018.

Meanwhile, the projected total sales volume of projects until completion has been maintained at the same level. Year-on-year, however, the sales volume in 2018 has risen significantly by over €100 million. No customer sales contracts were cancelled during the period under review.

At 87%, the marketing volume realised in 2018 is mainly focused on the most important metropolitan regions in Germany. Of this, 13% is located in other prosperous medium-sized cities (see "2018 marketing by region").

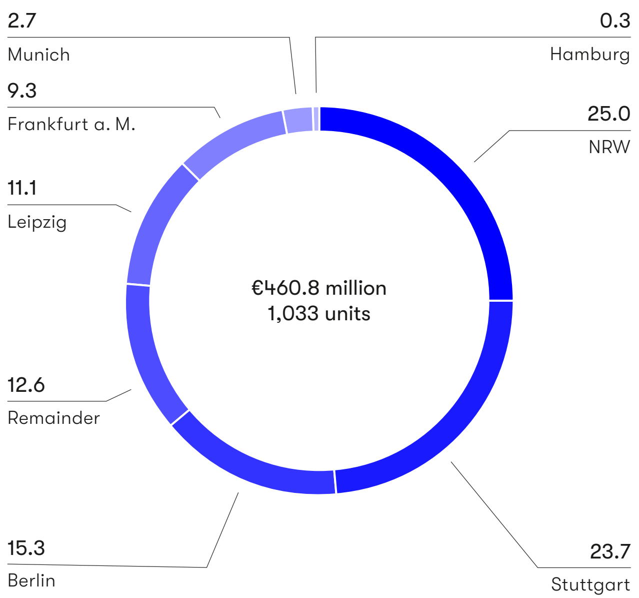
REAL ESTATE KEY FIGURES

In millions of euros

		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Volume of sales contracts		460.8	254.2	150.0	30.0	358.1	299.7	211.2	90.8
Volume of sales contracts	In units	1,033	574	329	56	826	716	527	193
Project portfolio (existing projects)		4,763.2	3,620.3	3,589.1	3,408.5	3,410.0	3,374.8	3,039.8	unchanged
Project portfolio (existing projects)	In units	11,041	8,924	8,863	8,355	8,390	8,042	7,675	unchanged

MARKETING IN 2018 BY REGION

In %



FORECAST / ACTUAL COMPARISON OF CONTROL KPIS

In millions of euros

	2018 ACTUAL (December 2018)	2018 Outlook (June 2018)	2018 Outlook (December 2017)
Volume of sales contracts	460.8	~ 500	> 500
Sales (adjusted)	372.8	370 – 400	unchanged
Operating performance (adjusted)	429.8	> 500	> 500
EBT (adjusted)	41.5	32 – 37	25 – 30

The following projects essentially contributed to successful marketing in the financial year:

TOP 10 PROJECTS 2018 MARKETING VOLUME

In millions of euros

		Volume in 2018	Units in 2018
Prague city – Living in the Theater District	Stuttgart	109.3	251 units
west.side	Bonn	102.2	276 units
Quartier Stallschreiber Straße – Luisenpark	Berlin	69.6	139 units
St. Marienkrankenhaus	Frankfurt a. M.	41.6	48 units
Wiesbaden – Wohnen am Kurpark	Wiesbaden	29.9	43 units
MA Franklin	Mannheim	27.3	77 units
T.Kontor	Leipzig	25.4	96 units
Property Bonn, Schumanns Höhe	Bonn	12.3	38 units
Theresienstraße	Munich	10.1	2 units
Heeresbäckerei	Leipzig	7.3	21 units

As of 31 December 2018, there are currently 557 units offered for sale on the market with an anticipated revenue volume of €369.4 million. The following are our five projects with the largest number of properties currently on the market:

TOP 5 PROJECTS CURRENTLY ON THE MARKET

In millions of euros

		Volume in 2018	Units in 2018
St. Marienkrankenhaus	Frankfurt a. M.	149.9	134 units
Quartier Stallschreiber Straße – Luisenpark	Berlin	85.6	140 units
Property Bonn, Schumanns Höhe	Bonn	54.8	146 units
Wiesbaden – Wohnen am Kurpark	Wiesbaden	35.0	50 units
Theaterfabrik	Leipzig	14.5	51 units

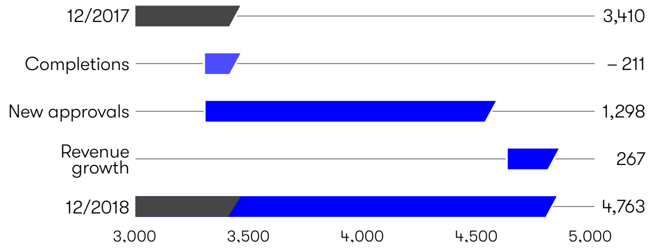
The increase in the number of properties for sale in 2018 was partly influenced by the sales launch of the "St. Marienkrankenhaus" project in Frankfurt am Main, with the sale of around 180 units and an anticipated revenue volume of approximately €190 million. The urban residential project "Schumann's Höhe" in Bonn was also launched at the end of 2018 with the sale of the approximately 180 residential units. The two Leipzig projects "Theaterfabrik" and "T.Kontor" also initiated the sale of approximately 75 and 95 units respectively.

At the end of 2018, the project portfolio of Instone Real Estate included 45 projects and forms a solid foundation for our mid-term sales planning with a currently anticipated overall sales volume of €4,763.2 million. The significant increase of €1,353.2 million

DEVELOPMENT OF PROJECT PORTFOLIO DURING THE COURSE OF 2018

AS OF: DECEMBER 2018

In millions of euros



compared to the end of 2017 (€3,410.0 million) allowed us to make significant progress, building on two pillars of our success. Since the beginning of 2018, we have acquired several projects – including a large-scale project which has already been announced and is still subject to a condition precedent – with a combined volume of around €1,300 million and expected housing units of 3,300. The medium-term target volume for new permits of €900 to 1,000 million has therefore been exceeded. Furthermore, the revenue forecasts of existing projects have been increased by €267 million on the basis of planning confirmations and implemented and anticipated market price adjustments. This underpins Instone Real Estate's growth strategy and underlines the revenue potential within the project portfolio. As shown in the diagram ("Development of project portfolio during the course of 2018"), the project portfolio was reduced by €211.4 million as a result of the successful completion of projects in 2018.

On the basis of 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 – results in an anticipated project gross profit margin on the profit portfolio of more than 25% as at the reporting date.

The following acquisitions resulted in the above-mentioned volume of new permits in 2018:

NEW APPROVALS 2018

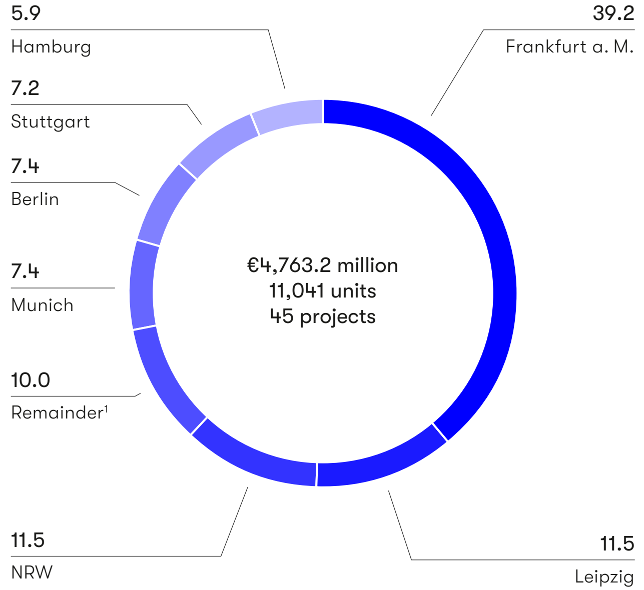
In millions of euros

		Revenue volume	Units
Semmelweisstraße 9	Leipzig	66.0	210 units
Sportplatz Bult	Hanover	115.8	281 units
Rottenburg, Neckartalterrassen	Rottenburg	105.2	364 units
Augsburg, Beethoven	Augsburg	134.8	396 units
Kösliner Weg	Norderstedt-Garstedt	101.9	286 units
Rote Kaserne West	Potsdam	46.9	114 units
Gallus	Frankfurt a. M.	38.7	69 units
Gartenstadtquartier Dortmund	Dortmund	97.2	247 units
Major project		> 500[1]	1,347 units

[1] Based on investment volume.

PROJECT PORTFOLIO BY REGION

In %



[1] Includes Wiesbaden, Ulm, Mannheim, Hanover and Potsdam

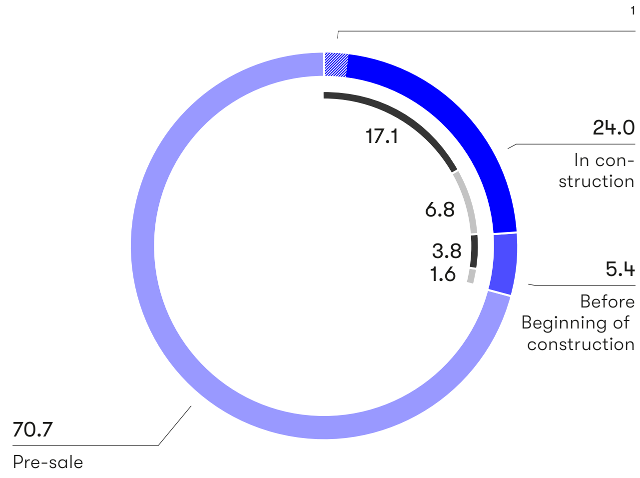
The majority – approximately 90% – of anticipated overall volume of revenue from the project portfolio as at 31 December 2018 is located in the most important metropolitan regions of Germany: Berlin, Cologne, Dusseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart (including Herrenberg and Rottenburg). 10% is located in other prosperous medium-sized cities (see "Project portfolio by region").

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.

The diagram shows that at the end of 2018, we have already sold approximately 21% of the anticipated overall revenue volume in the project portfolio.

PROJECT PORTFOLIO BY GROUPS; BASIS: REVENUE VOLUME

In %



Inner circle:
- Sold
- Unsold

[1] 2.1% of the project portfolio has already been handed over.

Revenue

Adjusted full-year revenue of €372.8 million in 2018 are within the forecast target range of €370 to €400 million. The slower speed of sales described in the marketing development explains the shortfall in the mean revenue forecast for 2018 of €385 million.

The following projects in particular contributed to the adjusted revenue in 2018:

TOP 10 PROJECTS REVENUE RECOGNITION (ADJUSTED) 2018

In millions of euros

		Revenue (adjusted) in 2018
Quartier Stallschreiber Straße – Luisenpark	Berlin	74.7
Heeresbäckerei	Leipzig	61.5
Theresienstraße	Munich	29.5
Wiesbaden – Wohnen am Kurpark	Wiesbaden	28.5
St. Marienkrankenhaus	Frankfurt a. M.	25.0
west.side	Bonn	22.9
MA Franklin	Mannheim	21.8
New Center Altona (NMA)	Hamburg	20.7
Wohnen am Safranberg	Ulm	13.8
T.Kontor	Leipzig	10.5

Instone Real Estate is continuing on its growth trajectory and the projects in its portfolio are developing successfully. Several projects entered the construction phase during the period under review.

MA Franklin	Mannheim	around 200 residential units
Heeresbäckerei, last construction	Leipzig	around 30 residential units
Quartier Stallschreiber Straße – Luisenpark	Berlin	around 235 residential units
St. Marienkrankenhaus	Frankfurt a. M.	around 235 residential units
T.Kontor	Leipzig	96 residential units
west.side, MW/rental apartments 2	Bonn	158 rental apartments

Alongside the continued successful marketing development and the start of construction work in the financial year under review, the realisation of projects under construction is also progressing. A total of seven topping-out ceremonies were held in 2018, representing around 1,200 new residential units:

Neue Mitte Altona (NMA), 3rd construction	Hamburg	111 residential units
Theresienstraße	Munich	117 residential units
Safranberg Ensemble	Ulm	120 residential units
Heeresbäckerei	Leipzig	347 residential units
Quartier Stallschreiberstraße, Luisenpark	Berlin	319 residential units
MA Franklin	Mannheim	201 residential units

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

Operating performance

The adjusted consolidated operating performance for 2018 is around €430 million. Undershooting the forecast value by more than €500 million can mainly be explained by the time lag of capitalisable land values (later transfer of ownership, benefits and burdens).

Earnings before tax

At €41.5 million, the forecast of €32 to 37 million for adjusted consolidated earnings before tax was clearly exceeded in 2018. This is mainly attributable to the improvement in the project gross profit margin and the significantly improved financial result due to the optimisation of the financing structure in the Instone Group.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

As in previous years, the consolidated financial statements of Instone Real Estate Group AG for 2018 include one-off effects from purchase price allocations due to an extension of the scope of consolidation in previous years. The Group company formart GmbH & Co. KG, Essen which operates today as Instone Real Estate Development GmbH, was consolidated for the first time on 1 October 2014. This merger led to the group constitution of the Instone Real Estate Group AG. GRK-Holding GmbH, Leipzig, equally a Group company and operating today as Instone Real Estate Leipzig GmbH, was consolidated for the first time on 31 December 2015.

The first-time adoption of International Financial Reporting Standard 15 (IFRS 15) “Revenue from Contracts with Customers” also had a material impact on the net assets and results of operations of the Instone Group in the financial year.

The first-time application of IFRS 15 was implemented by the Instone Group using the modified retrospective method in such a way that the accumulated differences between the measurement of not yet fully completed contracts according to the current and the new standard were recognised directly in equity against retained earnings as at 1 January 2018. The previous year’s figures in this annual report were not adjusted during the adoption of this method and are therefore not comparable with the current figures for the financial year.

From 1 January 2018, in the Instone Group contracts with customers are to be valued on the basis of revenue recognition over time, taking the settlement status into account, according to the definitions of IFRS 15 Revenue from Contracts with Customers. In contrast to this, prior to 1 January 2018 these contracts with customers were accounted for at the point in time of the full completion of the service with revenue recognition at a point in time.

Based on the first-time application of IFRS 15 using the modified retrospective method and the associated measurement of ongoing contracts after period-related revenue recognition, neutral changes amounting to €45.0 million were added to equity.

FINANCIAL KEY FIGURES

In millions of euros

	2018	2017	Change
Revenues	360.8	199.7	80.7%
Revenues adjusted	372.8	201.4	85.1%
Operating performance	417.9	319.9	30.6%
Operating performance adjusted	429.8	343.0	25.3%
Gross profit	94.4	59.1	59.7%
Gross profit adjusted	106.4	82.2	29.4%
EBIT	37.6	– 10.7	> 100%
EBIT adjusted	49.6	12.4	> 100%
EBT	29.5	– 31.2	> 100%
EBT adjusted	41.5	– 8.1	> 100%
Gross profit margin adjusted	28.5%	40.8%	–
EBIT margin adjusted	13.7%	6.2%	–
EBT margin adjusted	11.5%	– 4.1%	–

RESULTS OF OPERATIONS

The results of operations of the Instone Group were greatly impacted by the first-time application of IFRS 15 in the financial year. On the basis of this first-time application, the overall picture of the results of operations has changed considerably and the results of operations for the financial year cannot be compared with the results of operations of the previous year.

In order to take account of the changed overall results of operations, the Instone Group has chosen the following presentation of its results of operations.

ADJUSTED RESULTS OF OPERATIONS

In millions of euros

	2018	2017	Change
Revenue	372.8	201.4	85.1%
Project costs	– 266.3	– 119.2	> 100%
Gross profit	**106.4**	**82.2**	**29.4%**
Platform costs	– 56.9	– 69.8	– 18.5%
Earnings before interest and tax (EBIT)	**49.6**	**12.4**	**> 100%**
Investment and other results	– 0.4	0.2	<– 100%
Financial result	– 7.7	– 20.6	– 62.6%
Earnings before tax (EBT)	**41.5**	**– 8.1**	**> 100%**
Income taxes	– 22.4	– 6.8	> 100%
Earnings after tax (EAT)	**19.1**	**– 14.8**	**> 100%**

This statement of the results of operations reflects the significant business impacted by Instone Group project developments.

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

→ Adjusted revenues are revenues adjusted for the effects of purchase price allocations

→ The project expenses item includes the cost of materials reduced by changes in inventories, indirect sales expenses and capitalised interest and thus reflects the external costs allocated to the project developments,

→ Adjusted gross profit is the result of adjusted revenues less project expenses,

→ Adjusted platform cost is the total of staff costs, other operating income, other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project expenses,

→ Adjusted earnings before interest and tax is adjusted gross profit reduced by the adjusted platform costs,

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

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

→ Adjusted income taxes correspond to the income taxes adjusted by tax effects from purchase price allocations,

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

Revenue

The change in adjusted revenues of €171.4 million to €372.8 million (previous year: €201.4 million) includes €128.7 million from the revenue recognition over time for apartments that have already been sold, but are not yet fully completed in accordance with IFRS 15. Without the establishment of the new standard, these sales revenues would have been recognised as changes in inventories amounting to only €115.3 million. The increase in construction activity for these apartments will no longer lead to an increase in inventory, but will be recognised directly in revenue.

REVENUES

In millions of euros

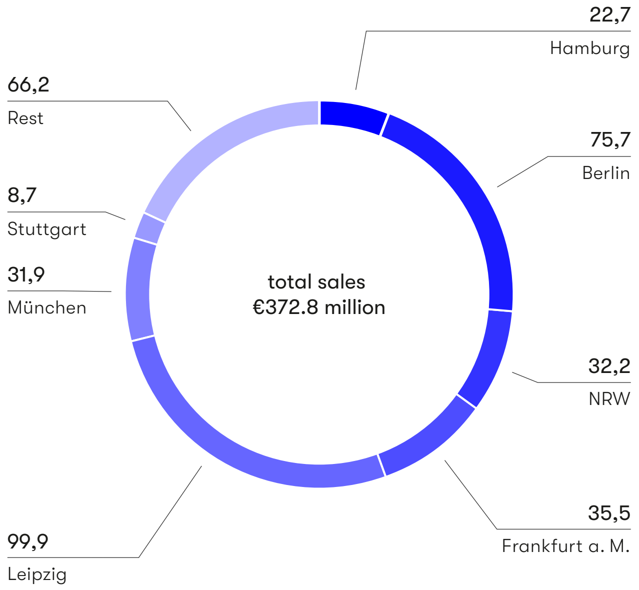
	2018	2017	Change
Revenues	360.8	199.7	80.7%
+ Effects from purchase price allocations	12.0	1.7	> 100%
Revenues adjusted	**372.8**	**201.4**	**85.1%**

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015, inventories and contract assets as at 31 December 2018 still included write-ups of €39.4 million (previous year: €56.5 million) from purchase price allocations. The change year-on-year had a negative effect on revenues.

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

REVENUE BY REGION

In millions of euros



Project costs

Project expenses increased to €266.3 million compared to the previous year's €119.2 million due to the following factors.

The increase in construction activities for project developments and the purchase of land for new project developments led to an increase in the cost of materials to €320.4 million (adjusted previous year: €242.6 million). In the financial year, the direct selling expenses were allocated to the cost of materials in line with the fulfilment status of the underlying sales contract on the basis of the first-time application of IFRS 15. The allocation of project-related costs from other operating expenses to cost of materials was also adjusted to improve traceability. The previous year's figures have been adjusted accordingly.

The changes in inventories of €57.0 million in the financial year were significantly lower than the changes in inventories adjusted for the effects of purchase price allocations of €21.4 million in the previous year at €141.6 million.

Indirect selling expenses of €1.9 million (previous year: €18.4 million) were allocated to project expenses in the financial year. Capitalised interest on changes in inventories of €1.1 million (previous year: €- 0.3 million) was charged to project expenses.

PROJECT COSTS

In millions of euros

	2018	2017	Change
Project costs	**266.3**	140.6	89.4%
+ Effects from purchase price allocations	0.0	– 21.4	– 100.0%
Project expenses adjusted	**266.3**	**119.2**	**> 100.0%**

Gross profit

Adjusted gross profit or loss also increased significantly to €106.4 million as a result of the increase in construction activities and the increase in revenues (previous year: €82.2 million).

GROSS PROFIT

In millions of euros

	2018	2017	Change
Gross profit	94.4	59.1	59.7%
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
Gross profit adjusted	**106.4**	**82.2**	**29.4%**

The adjusted gross profit margin – calculated from the adjusted gross profit for the adjusted revenues – amounts to 28.5% (previous year: 40.8%).

Platform costs

Staff costs fell by €15.9 million in 2018 to €33.6 million (previous year: €49.5 million). This reduction was primarily due to liabilities for special payments related to a long-term incentive plan in the previous year, which did not accrue during the 2018 financial year.

Other operating income of €2.7 million (previous year: €5.4 million) mainly comprised income from the reduction of flat-rated individual value adjustments, insurance reimbursements and litigation settlements.

Other operating expenses of €27.9 million (adjusted previous year: €43.6 million) fell by €15.7 million. On the basis of the first-time application of IFRS 15, direct selling expenses were no longer allocated to other operating expenses in the financial year. Instead, they were recognised as cost of materials in the financial year or capitalised as a separate asset after measurement of the settlement status. In the previous year, €15.6 million of direct selling expenses was included in other operating expenses. During the financial year, the allocation of project-related costs from other operating expenses to the cost of materials was also adjusted. The previous year's figures have been adjusted accordingly. The fundamental increase in other operating expenses year-on-year is mainly attributable to the increase in fees for management consultancy by €3.5 million to €5.7 million as well as warranty and litigation costs by €0.6 million to €2.5 million, and expenses for severance payments by €1.1 million to €1.8 million. In total, other operating expenses include special expenses of €5.1 million from expenses indirectly connected to the going public of €2.0 million, expenses in connection with the audit of a company transaction of €1.6 million and expenses for the severance of a member of the Management Board of €1.5 million.

Depreciation and amortisation increased insignificantly to €0.6 million (previous year: €0.4 million).

Earnings before interest and tax (EBIT)

Adjusted consolidated earnings before interest and tax rose sharply to €49.6 million during the financial year due to the positive business performance and the change in the valuation method according to IFRS 15 (previous year: €12.4 million).

EBIT

In millions of euros

	2018	2017	Change
EBIT	37.6	– 10.7	> 100%
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
EBIT adjusted	**49.6**	**12.4**	**> 100%**

Adjusted earnings before interest and tax would have increased by €5.1 million to €54.7 million, in addition to the one-off expenses described above.

Investment and financial result

In 2018, the result from investments measured at equity amounting to €0.3 million (previous year: €0.2 million) mainly included the profit share of proceeds from the project development company Holbeinviertel mbH & Co KG, Frankfurt am Main.

Other income includes subsequent expenses for the acquisition of Instone Real Estate Leipzig GmbH in 2015 amounting to €0.7 million.

The financial result in 2018 improved to €- 8.8 million (previous year: €- 20.4 million). A key factor here was the decline in interest expense by €11.7 million due to the significant improvement in the Instone Group's financing structure. In the previous year, interest expenses for shareholder loans amounting to €6.6 million were included. These shareholder loans were able to be repaid in February 2018.

The financial result adjusted by the capitalised interest on changes in inventories of €1.1 million (previous year: €– 0.3 million) improved to €– 7.7 million (previous year: €– 20.7 million).

Earnings before tax (EBT)

As of 31 December 2018, the adjusted earnings before tax increased to €41.5 million (previous year: €– 8.1 million) due to positive business development, improvement in the financing structure and the effects of the first-time application of IFRS 15.

EBT

In millions of euros

	2018	2017	Change
EBT	**29.5**	**– 31.2**	**> 100%**
+ Effects from purchase price allocations	12.0	23.1	– 48.1%
EBT adjusted	**41.5**	**– 8.1**	**> 100%**

Income taxes

In the 2018 financial year, an adjusted income tax expense of €22.4 million (previous year: €6.8 million) was charged to consolidated income. Excluding the adjustment of the tax effects from purchase price allocations, income tax expense was only €20.5 million (previous year: €0.2 million).

Deferred tax assets in the amount of €9.8 million were reversed in the financial year, which led to an increase in the tax rate in the Instone Group, as no income was offset by the deferred tax expense in the Group company concerned.

Further explanations regarding the income tax expenses can be found in the notes to the consolidated income statement.

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €19.1 million (previous year: €– 14.8 million). Before adjustment for the effects of purchase price allocations, earnings after taxes totalled €9.0 million (previous year: €– 31.0 million).

OTHER KEY FINANCIAL FIGURES

In 2018, the volume of sales contracts increased to €460.8 million (previous year: €359.1 million), while the number of sales agreements for residential units rose correspondingly to 1,033 (previous year: 826).

The number of internal new approvals reached a volume of €1,298 million in 2018 (previous year: €506.1 million). In total, the project portfolio as of 31 December 2018 increased to €4,763.2 million, based on an anticipated total sales volume (previous year: €3,410.0 million).

Further explanations about the development of the key performance indicators (KPIs) are provided in the section “Overview of Business Performance” (page 49).

NET ASSETS

The total assets of Instone Real Estate amounted to €686.6 million at the end of 2018 (previous year: €789.1 million). This was mainly due to the first-time application of IFRS 15 as of 1 January 2018, as a result of which liabilities from advance payments received are reported netted against the corresponding contract assets. As of 31 December 2018, advance payments received in the amount of €318.1 million were offset on the assets side. In the previous year, advance payments received amounting to €230.4 million were shown as a liability on the liabilities side.

Inventories mainly comprise the unsold, work-in-progress from ongoing project developments which are valued at production cost and whose proportion fell to €392.1 million in 2018 (previous year: €659.4 million). This decline is attributable to the change in the reporting of sold, unpaid work-in-progress as contract assets in accordance with IFRS 15. The finished products were valued at €12.3 million (previous year: €0.1 million).

As a result of the first-time application of IFRS 15, the item contract assets has been added to the balance sheet as of 31 December 2018. The contract assets of €158.5 million (previous year: €0.0 million) include receivables from customers for work-in-progress already sold valued at the current fulfilment of development, amounting to €466.9 million (previous year: €0.0 million), offset against advance payments already received from customers amounting to €318.1 million (previous year: €0.0 million). Likewise, the contract assets item shows not yet realised direct selling expenses amounting to €9.7 million, taking the fulfilment into account.

Due to the first-time consolidation of Instone Real Estate Development GmbH in 2014 and Instone Real Estate Leipzig GmbH in 2015, inventories and contract assets as at 31 December 2018 still included write-ups of €39.4 million (previous year: €56.5 million) from purchase price allocations. Based on current estimates, the Instone Group expects these effects to expire in 2022.

Trade receivables rose in the financial year to €13.1 million (previous year: €4.2 million) by handing over apartments to investors with residual payments still owed and by asserting a debtor warrant from the sale of land in Luxembourg.

The interests accounted for using the equity method, which also include investments in project companies, decreased in the 2018 financial year from €0.4 million to €0.2 million.

In the previous year, non-current financial receivables included a loan from the Group Company west.side GmbH, Bonn to the co-shareholder Dresdner Handel und Beratungsgesellschaft mbH, Dresden, with a value of €0.7 million. The Group company Instone Real Estate Development GmbH acquired the shares of the co-shareholder in west.side GmbH in the 2018 financial year. The loan was taken over as a corporate loan during the course of this acquisition.

Current financial receivables amounting to €0.1 million (previous year: €32.4 million) include receivables from joint ventures. In the previous year, these mainly related to receivables from former shareholders, which were fully repaid during the financial year.

Other current receivables and other assets increased from €15.5 million to €18.8 million in 2018. As of 31 December 2018, other receivables are included relating to a tax exemption of €2.8 million through Hochtief Solutions AG, Essen and capitalised tax receivables amounting to €3.2 million. Advance payments on land for which the transfer of benefits and encumbrances took place after the balance sheet date rose from €2.3 million to €10.6 million. In addition, processing fees for loans already paid amounting to €0.9 million (previous year: €2.5 million), which were distributed over the entire term, are recognised under other receivables and other assets.

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2018	2017	Change
Non-current assets	2.8	4.0	– 30.0%
Current assets	683.8	785.1	– 12.9%
Assets	**686.6**	**789.1**	**– 13.0%**
Equity	246.9	52.2	> 100%
Non-current liabilities	218.4	254.2	– 14.1%
Current liabilities	221.3	482.7	– 54.2%
Equity and liabilities	**686.6**	**789.1**	**– 13.0%**

Cash and cash equivalents increased from €73.6 million in 2017 to €88.0 million in the 2018 financial year. In connection with the successful going public 2018, the capital increase led to an increase in cash-on-hand. The increase was offset by cash outflows for the repayment of liabilities to former shareholders of Instone Real Estate Group AG amounting to €57.8 million. Further cash outflows were used for investments in new land for project development. For more information, please refer to the Group's consolidated statement of cash flows.

Non-current provisions for pensions and similar obligations fell slightly in 2018 by €0.2 million to €4.0 million. The defined benefit obligation for pension obligations amounting to €11.3 million (previous year: €9.8 million) were offset by plan assets of €7.3 million (previous year: €5.6 million). Plan assets amounting to €6.8 million (previous year: €5.0 million) were placed in a trust account with Helaba Pension Trust e. V., Frankfurt am Main while €0.5 million (previous year: €0.6 million) was invested in a trust account with European Bank for Financial Services GmbH (ebase®), Aschheim, Germany. The increase in the plan assets in the trust account at Helaba Pension Trust at €2.0 million results from a contribution made during the financial year. This contrasts with the decrease in value of the plan assets caused by the current financial market situation.

The remaining other non-current provisions for the financial year rose from €1.3 million to €4.5 million in 2018. For the most part, provisions for long-term incentive plans amounting to €3.1 million and other non-current personnel provisions amounting to €0.8 million are included in this item.

Other current provisions for the financial year decreased by €31.5 million in 2018 from €49.2 million (as of 31 December 2017) to €17.7 million. The main reason for this reduction was the use of special payments in connection with a long-term incentive plan, which was disbursed in the amount of €29.5 million in the financial year. Other current provisions amounting to €17.7 million mainly comprised project-related provisions for work still to be carried out as well as warranty and litigation risks.

Non-current financial liabilities for the financial year fell by €177.7 million (previous year: €241.0 million). In connection with the successful going public in 2018, €57.8 million in liabilities to former shareholders of Instone Real Estate Group AG was repaid. Non-current financial liabilities to banks for project-related financing declined moderately during the financial year.

Current financial liabilities fell to €87.8 million (previous year: €134.7 million). The decrease of €46.9 million in current financial liabilities in 2018 was mainly due to the utilisation of the option to repay short-term bank loans.

Trade payables decreased to €78.3 million in 2018 (previous year: €275.7 million). This was primarily due to the reclassification of prepayments received for work-in-progress sold, taking into account the regulations of IFRS 15. As of 31 December 2018, these amounted to €318.1 million (previous year: €230.4 million).

The first-time application of IFRS 15 and the associated revenue recognition over time of sales contracts to customers has resulted in a deferred valuation difference in work-in-progress sold. This was the main reason for the increase in deferred tax liabilities as at 31 December 2018 to €32.2 million (previous year: €7.7 million). This figure also included deferred tax liabilities of €13.7 million (previous year: €17.2 million), which were formed on the basis of the write-ups from the first-time consolidation of Group companies in 2014 and 2015.

Income tax liabilities increased from €13.8 million as of 31 December 2017 to €18.1 million as of 31 December 2018. This was the result of income taxes for the increased profits of the German Group companies.

The equity ratio as of 31 December 2018 was 36.0% (previous year: 6.6%). The significant increase in 2018 was primarily due to the issue of new shares in connection with the initial listing of the Company on the Frankfurt Stock Exchange amounting to €150.5 million which took place on 15 February 2018. In addition, neutral changes amounting to €45.0 million were added to equity on the basis of the first-time application of IFRS 15. In contrast to these positive effects, equity was burdened by the neutral offsetting of costs amounting to €9.3 million in connection with the conversion of the Company into a stock corporation (Aktiengesellschaft) and the listing of the Company on the Frankfurt Stock Exchange in February 2018. The positive total comprehensive income of €9.0 million in the financial year was transferred to equity. Non-controlling interests included in the total comprehensive income increased by €2.5 million compared to the previous year.

NET FINANCIAL DEBT AND DEBT RATIO

In millions of euros

	2018	2017	Change
Non-current financial liabilities	177.7	241.0	– 26.3%
Current financial liabilities	87.8	134.7	34.8%
Financial liabilities	**265.5**	**375.7**	**– 29.3%**
– Cash and cash equivalents	– 88.0	– 73.6	19.6%
Net financial debt (NFD)	**177.5**	**302.1**	**– 41.2%**
EBIT adjusted	49.6	12.4	> 100%
Depreciation and amortization	0.6	0.4	50.0%
EBITDA adjusted	**50.2**	**12.8**	**> 100%**
Leverage ratio (NFD / EBITDA)	3.5	23.6	–

FINANCIAL POSITION

CONDENSED STATEMENT OF CASH FLOWS

In millions of euros

	2018	2017	Change
Cash flow from operations	– 40.4	– 34.5	– 17.1%
Cash flow from investing activities	0.5	– 22.7	> 100%
Free cash flow	**– 39.9**	**– 57.2**	**30.2%**
Cash flow from inancing activities	54.3	18.2	> 100%
Cash change in cash and cash equivalents	**14.4**	**– 39.0**	**> 100%**
Cash and cash equivalents at the beginning of the period	73.6	112.5	– 34.5%
Cash and cash equivalents at the end of the period	**88.0**	**73.6**	**19.6%**

In 2018, Instone Real Estate continued to expand its project development business and invested further in land. The utilisation of options for the repayment of bank loans reduced the liabilities from financing to €199.2 million (previous year: €250.5 million). As a result, the financing framework fell to €582.0 million (previous year: €664.6 million).

During the placement of the promissory note in 2017 by Instone Real Estate Development GmbH, we were also able to raise additional credit lines with banks. The maturities of the individual credit lines are as follows:

MATURITY PROFILE PROMISSORY NOTE

In millions of euros

	2018
Due on 31/12/2020	47.0
Due on 31/12/2022	19.9

Total financial liabilities to banks fell to €265.2 million (previous year: €317.4 million). The cash inflows from our project developments led to a constant reduction in this item and provided sufficient flexibility to raise additional debt – to acquire new land, for example.

The capitalisation of the Instone Group as of 31 December 2018 was characterised by an equity ratio of 36.0% (previous year: 6.6%).

Cash flow from financing activities increased in 2018 from €18.2 million to €54.3 million, mainly due to the inflow of €150.5 million from the issue of the new shares as well as incoming payments from newly acquired loans of €83.9 million. Loans from former shareholders amounting to €57.8 million were repaid in the financial year while at the same time loans granted to former shareholders amounting to €29.5 million were repaid by the former shareholders. Repayments for project-related loans amounting to €135.5 million were also made.

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

MATURITY PROFILE OF PROJECT-RELATED FINANCING

In millions of euros

	2018	2017
Due on 31/12/2019	86.7	134.2
(2017: due on 31/12/2018)		
Due on 31/12/2020	36.4	61.7
(2017: due on 31/12/2019)		
Due on 31/12/2021	64.3	10.3
(2017: due on 31/12/2020)		

The individual project-related financing of Instone Real Estate was negotiated with various financial institutions and is subject to different conditions. In general, the loans are subject to variable interest rates. Different amounts and frequencies have been agreed for the use of funds from loans with fixed interest or fixed term. The interest rates for 2018 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 sales price payment are credited to these current account facilities. If necessary, these overdrafts can be converted into fixed-interest or fixed-term loans.

The cash flow from investing activities was not significant in the financial year. The cash inflow in the financial year amounted to €0.5 million (previous year: cash outflow of €22.7 million).

In the financial year, €1.1 million was invested in property, plant and equipment (previous year: €0.5 million). The investments mainly related to technical equipment and other office equipment. This was offset by received interest amounting to €0.8 million and proceeds from the disposal of fixed assets amounting to €0.8 million.

The cash flow from Instone Group operations of €-40.4 million in the financial year (previous year: €-34.5 million), resulted from the increase in cash outflows due to new investments in land for project developments.

The decline in inventories for work-in-progress and the increase in receivables resulted in a total cash inflow of €132.2 million in the financial year. Adjusted for the netting of advance payments received in the financial year, the total cash outflow was €98.2 million. Cash inflows from advance payments totalling €87.7 million had a positive effect on the cash flow from operations in the financial year.

The decline in liabilities by €183.1 million resulted primarily from offsetting advance payments received against assets. Adjusted by the offsetting of advance payments received in the financial year, this resulted in an increase of €47.3 million.

The following overview shows the effect of the reclassification on 1 January 2018 of liabilities from advance payments received in an aggregated form for clarity.

CONDENSED STATEMENT OF CASH FLOWS FROM OPERATIONS
In millions of euros

	Adjusted in 2018	Reclassification according to IFRS 15	Reported in 2018
Consolidated earnings and other non-cash income/expenses	17.0		17.0
Decrease/increase of inventories, trade receivables and other assets not attributable to investment or financing activities	– 98.2	– 230.4	132.2
Increase/decrease of trade payables and other liabilities not attributable to investing or financing activities	47.3	230.4	– 183.1
Income tax payments	– 6.5		– 6.5
Cash flow from operations	**– 40.4**	**0.0**	**– 40.4**

Depreciation on fixed assets of €0.6 million (previous year: €0.4 million), the increase in deferred tax liabilities by €24.5 million compared to €-15.7 million in 2017, the lower revaluation of investments valued at equity by €0.2 million (previous year: +€1.0 million), expenses for interest of €8.4 million (previous year: €20.1 million) as well as expenses for income taxes amounting to €17.4 million (previous year: €15.1 million) in the financial year did not affect cash.

The decrease in provisions by €28.4 million compared to the increase of €12.5 million in 2017 affected cash in the cash flow from operations in the amount of €29.5 million. The remaining increase in provisions in the amount of €1.1 million did not affect cash. The cash outflow from the provision of €29.5 million was offset by inflows from the repayment of loans to former shareholders in the same amount in the financing cash flow.

Non-cash expenses and income in connection with the consolidation of the subsidiaries and the formation of valuation reserves reduced the cash flow from operations by €-14.2 million in the 2018 financial year (previous year: €-3.9 million).

As of 31 December 2018, cash and cash equivalents had risen from €73.6 million (previous year) to €88.0 million. This includes free funds amounting to €81.7 million which do not serve to secure project-related financing, and amounted to €58.7 million in the previous year.

Following the successful extension of the guarantee facilities by renowned credit insurance companies, financing for the Instone Group was further secured and diversified. As at 31 December 2018, credit guarantee facilities amounting to €185.2 million were available (previous year: €185.2 million). Of this, an amount of €105.8 million was used (previous year: €99.4 million). This will provide the Instone Group with the flexibility to make further investments in the 2019 financial year. Guarantee ceilings from project-related financing agreements were completely cancelled (previous year: €15.0 million). Bank guarantees from other banks amounted to €0.5 million as of 31 December 2018 (previous year: €1.4 million) from a guarantee facility amounting to €0.5 million (previous year: €1.7 million).

FINANCIAL POSITION OF THE 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 interests in Instone Real Estate Development GmbH as well as 94% of the interests in Instone Real Estate Leipzig GmbH and therefore almost all interests in the subsidiaries of the Instone Group as a whole.

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.

CONTROL SYSTEM, FUTURE DEVELOPMENT AND RISK SITUATION

As a non-operating holding company, Instone Real Estate Group AG is indirectly dependent on the results and financial performance of its subsidiaries. The management system, expected development and opportunities and risks of the Instone Group are reported in detail in the "Corporate strategy and management" (page 38), "Risk and opportunities report" (page 65) and "Forecast report" (page 75) sections of this Combined Management Report.

BUSINESS PERFORMANCE 2018

The business performance and situation of Instone Real Estate Group AG is largely determined by the business development and success of the Instone Group. This is described in detail in the sections "Overview of Business Performance" (page 49) and "Results of Operations, Net Assets and Financial Position" (page 53) of this Combined Management Report.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT

In millions of euros

	2018	2017	Change
Sales revenue	1.4	0.2	> 100%
Other operating income	6.0	0.0	> 100%
Staff costs	– 4.8	– 8.7	44.8%
Other operating expenses	– 23.0	– 12.0	91.7%
Income from investments	0.0	22.6	– 100%
Income from other securities and loans of the financial assets	0.0	0.0	–
Other interest and similar income	0.1	0.0	–
Depreciation on financial assets	0.0	0.0	–
Interest and similar expenses	– 4.6	– 17.3	73.4%
Taxes on earnings	0.4	– 3.5	<– 100%
Earnings after taxes	**– 24.4**	**– 18.7**	**30.5%**

Instone Real Estate Group AG itself does not carry out operating activities. The reported sales revenues of €1.4 million (previous year: €0.2 million) result mainly from the provision of services to affiliated companies.

Other operating income rose to €6.0 million (previous year: €0.0 million) and mainly includes the passing on of costs to former shareholders in connection with the Company's change of legal form into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange.

Staff costs fell to €4.8 million (previous year: €8.7 million) due to a lower allocation to provisions for long-term and short-term incentive plans amounting to €2.4 million (previous year: €8.0 million). In contrast, payments made in the financial year for special payments amounting to €0.6 million and the increase in the number of employees had an impact on salaries.

At €23.0 million, other operating expenses far exceeded the previous year's level of €11.0 million and mainly include consultancy fees in connection with the Company's change of legal form into a German stock corporation amounting to €0.9 million and listing of the Company on the Frankfurt Stock Exchange amounting to €9.3 million as well as advice on possible acquisition transactions amounting to €1.5 million. Expenses from the assumption of costs and the receipt of services from affiliated companies amounting to €1.8 million as well as severance payments of €1.5 million paid to severed employees are also included in other operating expenses.

The changes in the financial result by €- 9.8 million to €- 4.5 million are essentially made up as follows:

→ No income from participations was generated in the financial year (previous year: €22.6 million).

→ Interest and similar expenses fell to €4.6 million (previous year: €17.3 million). This results from the repayment of the shareholder loan and part of the loans from affiliated companies using the cash inflow by issuing new shares in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange.

Taxes on income and earnings were €- 0.4 million, well below the previous year's figure of €- 3.4 million. This is the result of the tax determination according to the IFRS standards in the previous year.

In the period under review, there was a total net loss of €24.4 million (previous year: totalnet loss of €18.7 million).

NET ASSETS

At the end of the year, the balance sheet total of Instone Real Estate Group AG declined by approximately 2% to €286.6 million. This is in particular due to the repayment of shareholder loans on the one hand and the receipt of claims against the shareholders on the other.

Financial assets mainly include the investment book values of Instone Real Estate Development GmbH, Essen, amounting to €181.8 million and Instone Real Estate Leipzig GmbH, Leipzig, amounting to €71.2 million.

Loans, receivables and other assets amounting to €6.0 million (previous year: €34.8 million) include loans to affiliated companies amounting to €3.2 million (previous year: €29.5 million). Other assets amounting to €2.8 million (previous year: €5.3 million), in particular the receivables from the former shareholder of the subsidiary Instone Real Estate Development GmbH. This requirement results from the exemption of property transfer tax expenses in connection with the acquisition of the Company.

Due to the issue of new shares in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange in February 2018, equity capital amounted to €211.5 million (previous year: €73.0 million) increased. The equity ratio on the balance sheet date was 73.8% (previous year: 25.0%).

Provisions totalled €8.1 million in the financial year (previous year: €31.9 million) and in particular relate 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 affiliated companies amounting to €63.6 million (previous year: €166.6 million).

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	2018	2017	Change
Financial assets	253.3	252.5	0.3%
Loans and receivables from affiliated companies and shareholders	3.2	29.5	– 89.2%
Remaining receivables and other assets	2.8	5.3	– 47.2%
Bank balances	27.3	4.4	> 100%
Assets	**286.6**	**291.7**	**– 1.7%**
Equity	211.5	73.0	> 100%
Provisions	8.1	31.9	– 74.6%
Liabilities to affiliated companies and shareholders	63.5	166.6	– 61.9%
Other liabilities	3.5	20.2	– 82.7%
Equity and Liabilities	**286.6**	**291.7**	**– 1.7%**

FINANCIAL POSITION

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

On 13 February 2018, Instone Real Estate Group AG placed a total of 19,900,000 shares with institutional investors. Of which, 7,000,000 new shares were placed from a capital increase and 12,900,000 existing shares from the ownership of former shareholders, including additional shares from a surplus allocation option.

The net proceeds (proceeds from the issue less costs) for Instone Real Estate Group AG from the placement of these new shares amount to €141.2 million. The company used €55.2 million of the net proceeds to fully repay an existing shareholder loan. The remaining net proceeds, amounting to €86.0 million, were made available to the Group companies by Instone Real Estate Group AG in the form of intercompany loans for the acquisition and development of new residential projects.

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

Instone Real Estate Group AG paid special premiums to Group employees during the financial year in connection with the conversion of the Company into a stock corporation and the listing of the Company on the Frankfurt Stock Exchange. At the same time, the Company was reimbursed by the former sole shareholder for these payments, resulting in a balanced payment balance.

EMPLOYEES

At the end of the year, six members of staff were employed at Instone Real Estate Group AG (previous year: 4).

REPORT PURSUANT TO SECTION 312 AKTG ON RELATIONS WITH AFFILIATED ENTERPRISES

The Company was indirectly dependent on Mr Saul Goldstein within the meaning of Section 17 (1) of the German Stock Corporation Act (AktG) from the time of its change of legal form into a German stock corporation on 28 August 2018 until the sale of the investment still held in Instone Real Estate by its shareholders Coöperatieve Formart Investments U.A., Coöperatieve Activum SG Fund III Investments U.A. and Coöperatieve Activum SG Fund V Investments U.A. on 13 September 2018, and a control agreement did not exist. The Management Board of Instone Real Estate Group AG was therefore required to prepare a report for this period on relationships with affiliated companies in accordance with Section 312 AktG. The reportable relationships with the controlling company as well as with its affiliated companies have been recorded in this report.

The final statement of the report reads as follows:

We declare that the Company has not been adversely affected as a result of the measure being taken as listed in the report on the relationships with affiliated companies during the period under review from 28 August 2018 to 13 September 2018 according to the circumstances which were known to us at the time when the measure was taken. Furthermore, we declare that in the period under review, no further reportable legal transactions were concluded or measures taken or omitted within the meaning of Section 312 AktG on the basis of the circumstances known to us.

EVENTS AFTER THE BALANCE SHEET DATE

The significant reportable events after the balance sheet date of 31 December 2018 affecting the Instone Group's financial prospects are disclosed in the notes to the consolidated financial statements.

RISK AND OPPORTUNITIES REPORT

The risk management of Instone Real Estate is geared towards securing the long-term success and profitability of the Group. The key instrument for achieving this goal is our risk management system. The risk management system only identifies, evaluates and manages risks while opportunities are considered separately.

The further development of the risk management system was supported in 2018 by an externally commissioned audit. Its purpose is the continuous improvement of business processes with the aim of minimising risk and creating added value for the organisation. The audit department supports the Management Board and Supervisory Board with their control, management and steering functions by carrying out independent, internal audit mandates.

RISK MANAGEMENT SYSTEM

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

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

Together with independent partners, we are continuously working to optimise the system. Instone Real Estate is subject to the appropriate regulatory framework as a stock corporation listed on the Frankfurt Stock Exchange and also voluntarily complies with the German Corporate Governance Code (GCGC). All applicable internal guidelines, rules of procedure and measures designed to ensure a Group-wide standardised and structured approach to risk management are reviewed internally on a regular basis. For example, we will also continue to evaluate all applicable internal regulations in 2018. This review and evaluation process is a continuous, ongoing process. We also completely overhauled several company policies in 2018. The decision-making procedures which are valid for the entire Group have been further developed for the Management Board of Instone Real Estate Group AG on the basis of the rules of procedure and taking into consideration the applicable legislation and relevant case law. These regulate essential procedures and decision-making processes throughout the Group which require approval.

Responsibilities

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

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

Risk management process

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

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

Risk assessment

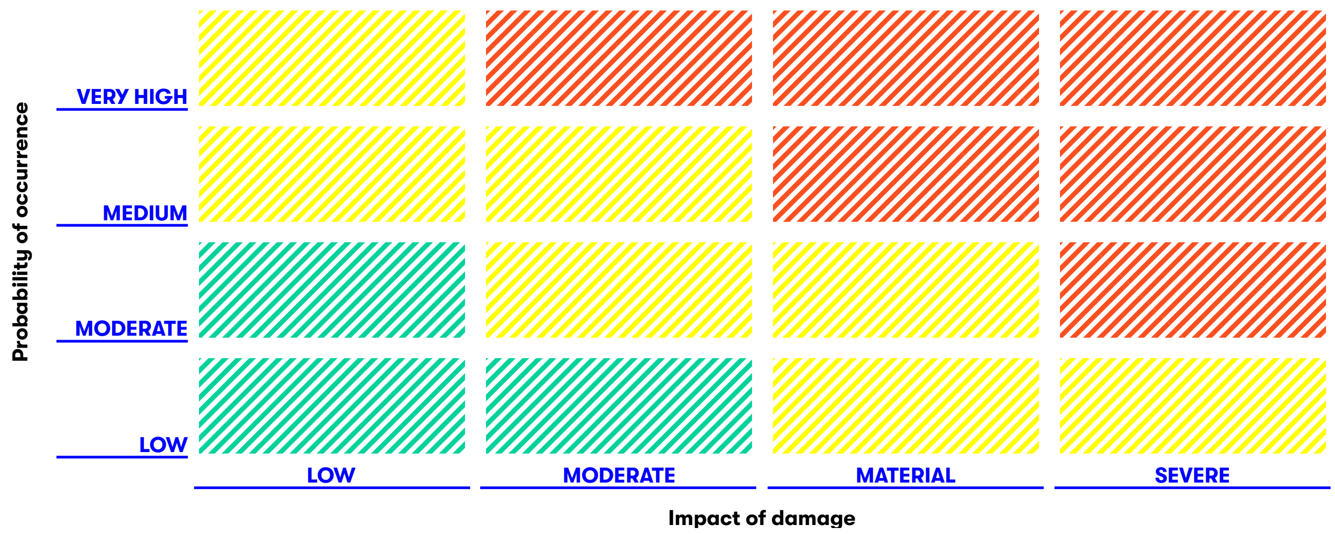
Risk managers regularly identify or update all risks within their area of responsibility with their employees as part of a systematic process. These are subdivided into the six risk categories “general business risks”, “compliance risks”, “financial risks”, “IT and communication risks”, “project business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

Risks are documented as net risks, and the damage impact is thereby already reduced by the impact of the effective measures implemented. The goal is to control every risk with the help of measures. Countermeasures serve to avoid, reduce or transfer risks.

Probability of occurrence	In %	Impact of damage	EBT In thousands of euros	Liquidity In thousands of euros
Low	< 10	Low	< 4,000	< 1,000
Medium	>= 10 < 25	Moderate	>= 4,000 < 10,000	>= 1,000 < 3,000
High	>= 25 < 50	Material	>= 10,000 < 20,000	>= 3,000 < 5,000
Very high	>= 50 < 100	Severe	>= 20,000 < 40,000	>= 5,000 < 10,000

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

RISK ASSESSMENT MATRIX



Monitoring the risk management system

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

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

→ Documentation and communication of rules for the risk management process at Instone Real Estate,

→ Further development of existing risk management regulations,

→ A point of contact for all base risk management issues at Instone Real Estate,

→ Critical scrutiny of the reported risk situation as well as discussion and critical reflection in the event of uncertainties regarding reported or unreported risks,

→ Discussion, coordination and follow-up of countermeasures,

→ Reporting to the Management Board about material risks and their development.

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

Reporting

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

Internal Control System (ICS)

The Internal Control System (ICS) is linked to risk management system as a sub-element. The ICS regulates the avoidance or limitation of risks by means of control measures. This ensures the correctness and reliability of accounting and compliance with legal requirements relevant to the Company. This also ensures that the effectiveness and efficiency of the operations are safeguarded. The focus is on the prevention and detection asset misappropriation and the protection of the Company's own assets.

The ICS is the responsibility of the Management Board. The Management Board is responsible for setting it up, monitoring it, 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 the process and risk management departments. The finance and accounting department is responsible for the guidelines for the adoption of accounting regulations and 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, procedures and process controls. The central control elements are the internal approval processes, the four-eyes principle and the requirement for functional separation. Instone Real Estate has an authorisation concept that is adapted to the relevant job profile of the employees.

The external auditing department prepares a risk-oriented audit plan in cooperation with the Process and Risk Management department and checks whether the legal framework and Group-wide guidelines are being applied to the entire control and risk management system. This ensures that the functionality and effectiveness of the defined controls are monitored. The audit report is made available to the Management Board. This allows the Board to eliminate any errors and further improve the development of the ICS.

CURRENT RISK ASSESSMENT

The following section outlines the risks that are of particular relevance from the Group's point of view and their countermeasures. A risk is considered relevant if it is in the yellow or red area of the risk matrix (see Figure on page 66). The following risk assessment provides a condensed assessment of the risk categories and their sub-risk categories. Several individual risks are discussed in more detail.

General business risks

Global/national economy

Instone Real Estate is heavily dependent on the German residential real estate market which is influenced by various macroeconomic and general factors such as economic, demographic and political developments. Britain's imminent exit from the EU and a potential trade war with the United States have created political and economic uncertainty in Europe. Disadvantageous global and European developments in politics and the economy could have negative effects on the export-oriented German economy as a whole and may in particular lead to a higher unemployment rate, lower per capita purchasing power and increasing economic uncertainty. Such factors could significantly reduce or delay the demand for residential real estate. In addition, demographic and socioeconomic trends in the key Instone Real Estate markets could have a significant impact on residential property demand. Although the population in the most important conurbations in Germany increased between 2008 and 2018 as a result of increasing urbanisation and a generally growing population in Germany, this trend could reverse or at least slow down.

Without taking immigration into account, a shrinking and ageing population is to be expected in Germany. Lower levels of immigration and an ageing population, which would slow down the urbanisation trend, could in turn reduce demand, especially in Instone Real Estate's key markets. However, Instone Real Estate was unable to record a change in the continued demand for housing in the 2018 financial year.

Instone Real Estate has a broad base in order to better respond to possible changes in the market. Instone Real Estate is represented in the A cities of Germany where it provides real estate in various price segments, from publicly funded to high-end residential constructions as well as in prosperous medium-sized cities. The project portfolio includes new construction projects as well as the renovation of listed buildings. The projects are subdivided into different phases so that the requirements of the market can 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 industry is subject to various legal framework conditions. Changes to these conditions may lead to disadvantages for the real estate industry and thus for Instone Real Estate. These may include, but are not limited to, legislative changes or amendments to construction regulations (such as the Energy Saving Ordinance), as well as regulatory intervention in the real estate market, for example through rent brakes or subsidised housing quotas.

Instone Real Estate is involved in 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 sales price.

Due to the potentially serious impact of regulatory risks, and as these cannot be fully ruled out during the duration of the project, Instone Real Estate considers them to be relevant.

Market risks

The project portfolio of Instone Real Estate is mainly based in the most important conurbations in Germany (Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich and Stuttgart), where over 90% of real estate (measured by anticipated overall revenue volume) is located.

Positive population and household development are key factors in the currently attractive real estate market. In recent years, increased demand for housing in conurbations and large cities has been observed. If growth in the conurbations changes, this would be a risk for the core markets. Instone Real Estate is also looking into project opportunities outside the eight A 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 positive development of the entire housing market continued once again in the 2018 financial year. Instone Real Estate continues to see demand for residential neighbourhoods at a stable high level. The impact of the market risks is not considered to be relevant in the medium term.

Personnel risks

A further aggravation of the shortage of skilled labour is foreseeable and is already noticeable. Demographic change and a shift in values among the younger generation represent risks faced by Instone Real Estate.

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. In 2018, a new recruiting portal was published on our website, specifically adapted to the new media world and the needs of applicants. Social media is also used as a platform for recruiting.

Our employees are the flagship of the entire Group and represent our link to our customers and business partners. By deliberately targeting and developing qualified personnel, we can place highly skilled employees in the positions that best fit their profile. This enables us to effectively promote the image of the Instone Real Estate brand and retain sufficient qualified personnel.

Due to our streamlined business structure, we cannot rule out vacancies in positions requiring highly specialised and individual expertise due to absences (such as sick leave, termination 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. Instone Real Estate encourages discussions among colleagues in order to share this expertise and factual knowledge between several colleagues.

Instone Real Estate was able to increase its workforce in 2018 and has thus positioned itself well for further corporate growth and any potential employee turnover.

Overall, we do not consider the impact of personnel risks resulting from the implemented measures to be of any relevance.

Customer satisfaction/demand

The residential real estate market served by Instone Real Estate is subject to changing trends, demands and customer preferences. These parameters may vary during the several years of project development and to a large extent these are beyond the influence of Instone Real Estate. For example, targeted buyers may develop preferences for other micro-sites, neighbourhoods, specific property designs (such as apartment buildings, micro single-family homes or detached houses), or may otherwise be influenced by macroeconomic, socio-economic or employment trends, resulting in a concentration of demand in particular areas.

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

Reputation

To some extent, Instone Real Estate's business and growth strategy depends on preserving the integrity of the brand and reputation of Instone Real Estate as a quality provider.

Instone Real Estate's reputation could be harmed by a number of factors and events that Instone Real Estate may have no influence over, such as unethical or illegal behaviour by employees or business associates, working conditions, construction site accidents, extensive or significant construction defects and associated claims for damages, the inability to provide the services requested by customers, negative reports in the (social) media, as well as imminent or actual litigation. 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 a communication strategy for various possible events. Reports in the (social) media are constantly monitored in order to be able to respond in the short term to relevant reports. 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 other residential real estate developers to acquire attractive development properties which are typically limited in availability and in high demand.

Nevertheless, Instone Real Estate is one of the leading project developers with expertise in urban district development and complex building law. With its established branch structure which focuses on the eight A 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.

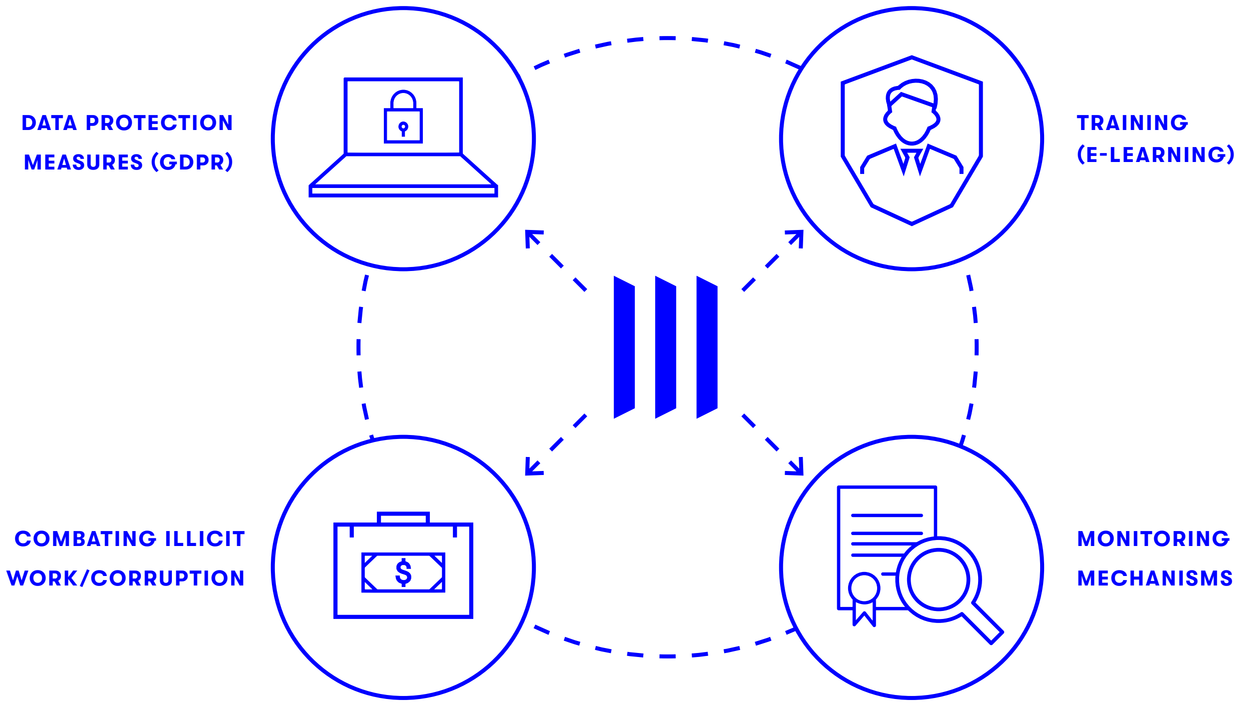
Compliance

The real estate and construction sectors are subject to various laws and regulations, which relate, among other things, to compliance with antitrust and data protection law and the payment of the minimum wage and measures to combat illegal work, bribery and corruption and anti-money laundering. Instone Real Estate depends on all its employees complying with the applicable laws and compliance guidelines issued by Instone Real Estate. In the 2018 financial year, Instone Real Estate revised a series of guidelines regarding Group-wide compliance policies and procedures to further increase compliance. All Instone Real Estate employees and business partners are required to comply with the Code of Conduct.

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

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 in accordance with current legislation. The technical organisational measures taken to protect data are regularly reviewed to ensure they are up-to-date and offer little scope for attacks. A potential data breach or non-compliance would have significant consequences. Despite the measures implemented, there remains a residual risk. We consider the impact of these risks arising from compliance to be relevant.

COMPLIANCE TASKS



Financial risks

Banking partners

Assets not covered by deposit insurance may be at risk and existing financing may not be continued due to the potential illiquidity of one of our banking partners. This would result in a possible liquidity shortage which would prevent new acquisitions and may even stop liabilities from being serviced.

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

Financing structure

Financial covenants have been established in various financing agreements. Failure to comply may entail the risk of extraordinary termination. In addition to compulsory redemptions, lenders may also require the liquidation of pre-existing collateral. Refinancing would be feasible if conditions deteriorated. The covenant requirements are continuously monitored and forecast and have comfortable leeway. There are no insights to suggest that the financial covenants cannot be met in the future.

The probability of occurrence of this risk is very low due to the implemented measures. However, we consider these to be relevant as the occurrence of the risk would have serious consequences.

Capital market

Incorrect or poor communication with the capital market (analysts and investors) means that Instone Real Estate risks failing to meet the expectations of the capital market. This could lead to a lasting loss of reputation. This may affect the valuation of the Company.

The Company’s aim is to be informed at all times about the current business and market developments within the Group through regular coordination of the specialist departments. This information policy forms the basis for external communication. There is a regular exchange with the capital market (investors and analysts).

Instone Real Estate considers the impact of capital market risks 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.

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

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

Liquidity

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

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

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

Tax risks

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 fiscal tax audit of Instone Real Estate for 2014 to 2016 is expected to begin in March 2019. The basis for the conservative tax declaration is provided by accounting which uses the described ICS. The ICS aims to ensure the accuracy of the disclosures.

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

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

Interest

The projects are financed by bank loans and proportional equity. The current low level of interest rates allows us to effectively finance the project costs. At present, a noticeable rise in interest rates is not foreseeable in the short term. For new projects which usually run over several years, we are using the precautionary principle and calculating higher interest rates for the future. In order to achieve the highest possible interest rate security for our projects, we ask the banks to provide us at an early stage with their financing terms – in the form of a term sheet – or the fully prepared financing contracts for the specific project. The resulting financing conditions, in particular, the interest rate, is then included in the profitability analyses for the projects. Given the current market environment and internal processes, Instone Real Estate does not consider the potential impact of this risk to be relevant in the short to medium term.

Project 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.

Business partner selection and contractor engagement

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 construction services. There is strong demand and a shortage of spare capacity due to the increased volume of construction.

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 with the required quality.

As part of its corporate strategy, Instone Real Estate relies on its regional networks to engage qualified and reliable contractors, most of whom have long-standing relationships with Instone Real Estate.

Instone Real Estate has also defined guidelines indicating the evidence to be provided by contractual partners in order to prove their qualifications and reliability. Despite the measures taken, the potential impact of this risk is considered to be relevant.

Risks from approval procedures

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

Project implementation / construction

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

The refurbishment of listed buildings involves special risks associated with the fabric of the building. This can may lead to risks in terms of costs and time delays. These specific cost and deadline risks are part of our project planning and costing. Our branch office in Leipzig, which has many years of experience in the renovation of listed buildings, can transfer the experience of already successfully developed projects to the new projects, thus reducing or eliminating unexpected risks.

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

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

Sales

Our risk management ensures that the planned sales 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 if sales expectations are not achievable, the project will be readjusted and rechecked. At the same time, this approach enables us to identify and implement opportunities in sales.

Instone Real Estate does not consider the potential impact of the risk to be relevant as long as relevant risks from the global and national economy do not come into play.

Contract awarding risks

The execution standards of our projects are subject to continuous further development in order to bring them up-to-date technically and so they meet customer requirements. In order to achieve a high level of cost certainty for the individual projects, the Project Service department performs cost calculations for all branches and can draw on the experience gained from all Instone Real Estate projects. We also regularly create post-calculations based on our collective project experience in order to continuously verify our cost approach.

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.

Instone Real Estate considers the potential impact of the risks in the area of contract awarding to be relevant.

Other project risks

Other risks affecting our projects, such as vandalism or fire, are insured accordingly (in particular, with liability insurance, construction insurance and fire protection insurance during the construction phase). We have also taken out additional group-wide insurance to reduce potential losses for Instone Real Estate.

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

IT and communication risks

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

Instone Real Estate has implemented extensive data security measures and is constantly working to keep pace with developments and meet the needs of the IT industry. To ensure this, Instone Real Estate relies on specialist service providers. The server infrastructure is also completely redundant 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. 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 2018 financial year. The individual branches are responsible for the legal disputes and appoint local law firms in advance to defend against potential claims by third parties or to enforce claims. The majority of these claims relate to defects and the warranty rights of Instone Real Estate customers. Instone Real Estate has largely set aside provisions for litigation. The remaining potential impact of the risk is not considered to be relevant.

Liability and insurance

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

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

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

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

In the overall assessment of the risk situation for Instone Real Estate in the 2018 financial year, there were no material changes compared to the previous year. From today's perspective, the Management Board of Instone Real Estate does not consider there to be any risks that the Company is unable to adequately counteract or which could jeopardise the continued existence of the Group's income from operations, net assets and/or financial position. Both our business model and our diversified financing instruments provide extensive independence from economic fluctuations.

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

None of the aforementioned risks had a material impact on Instone Real Estate in the 2018 financial year.

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 in the commuter belts of conurbations,
- → Low financing costs for Instone Real Estate and purchasers of real estate,
- → Only a few investment alternatives in the low interest rate environment.

Instone Real Estate is one of the largest German project developers in residential real estate and is represented nationwide in the most in-demand conurbations. The majority of other German residential developers only have a local presence. They have very good networks in the market environment, but their potential project volume is generally smaller than the size of our projects. The project volume of Instone Real Estate has risen from €3.4 billion to €4.8 billion since the going public.

Local housing project developers are direct competitors for Instone Real Estate due to the 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, Instone Real Estate has advantages due to its nationwide presence with expertise in urban district development and the complex process of obtaining of planning permission, as well as good networking in the target regions.

With its established branch structure which focuses on the eight A 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 the Company's many years of experience, acquired and newly acquired real estate 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 is 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 ECONOMIC AND SECTOR-SPECIFIC FRAMEWORK CONDITIONS

The Federal Ministry for Economic Affairs and Energy released the economic forecast for 2019 in autumn 2018. The gross domestic product (price-adjusted) has increased by 1.8% in the forecast for 2019.[1] The German economy is continuing to grow, but this growth is being dampened by a difficult external environment (including Brexit) and additional one-off effects (such as the diesel discussion in the automotive industry). The labour market continues to develop positively. Business demand for workers remains very high in many sectors, such as the real estate industry. Furthermore, the average unemployment rate of 4.8% will again fall by up to 1% by the end of 2018.[2]

[1] www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html
[2] https://www.bmwi.de/Redaktion/DE/Schlaglichter-der-Wirtschaftspolitik/2019/01/onlinemagazin-schlaglichter-01-19.html

Housing construction is increasing, but will not continue to meet the demand for housing even if studies such as the Spring Report are warning real estate companies of a stagnation or downturn. The residential sub-market continues to grow. High demand coupled with limited supply at the same time allow sale prices and rents to rise further.

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

There are no signs of a slowdown in the housing markets, so the continued buoyancy of apartment rents in the forecast period until 2019 is expected to continue. However, we assume that there will be a decline in the growth momentum of the first-occupation rents in our field of operation as the higher number of completions will improve the supply of more expensive new-build apartments.

Over the past decade, the population of Instone Real Estate's top locations has grown between approx. 5% (in Düsseldorf) and 18% (in Frankfurt am Main). This is the reason why around one million more people live there today than in 2008. In fact, only 146,500 apartments have been completed at Instone Real Estate's top locations in the past five years. The gap between demand and supply also continues to grow.

The resources in the construction industry are already highly utilised and are thus a key factor in successful development. A major difference is the lack of 'manpower' and the much higher capacity utilisation of the construction industry. This is clear from the capacity utilisation calculated by the ifo Institute, which is currently at almost 80%, 15% higher than 20 years ago.

The fact that residential construction still has room to grow is also indicated by the growing surplus of building permits compared to construction completions. At the top eight locations of Instone Real Estate, the gap is around 67,500 residential units in the last five years. (Cumulatively since 2014, around 214,000 apartments have been approved, but only about 146,500 units have been built).[3]

[3] KPIs for core cities, bulwiengesa AG.

While prices may rise more slowly in the future, the uptrend is not expected to end in the coming years. The German real estate market remains interesting for investors – especially at a time of rising inflation and continuing low interest rates.[4]

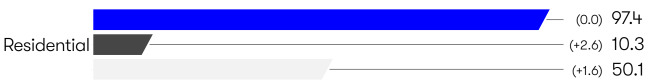
[4] www.deutsche-bank.de/pk/lp/jahresausblick-2019/immobilien-deutschland-boomt-weiter.html

THE REAL ESTATE INDUSTRY AND INSTONE REAL ESTATE ARE LOOKING FORWARD TO 2019 WITH CONFIDENCE

The IW ImmobilienScout24 Index tracks the business situation of large real estate companies and project developers on a quarterly basis. The values are based on the proportion of the net positive versus negative responses.

IW-IMMOBILIENSCOUT24-INDEX AS OF: 4TH QUARTER 2018

In %



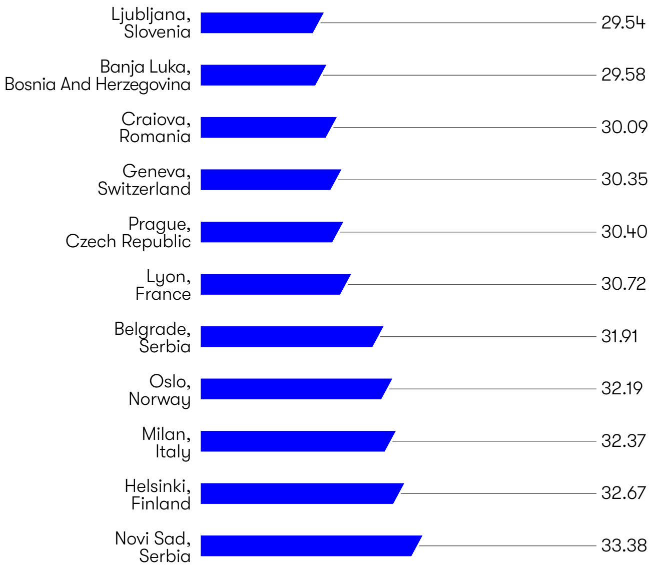
Position Expectations Business climate

The IW ImmobilienScout24 index was developed jointly by ImmobilienScout24 commercial properties and the IW.

The index shows that Germany continues to be an attractive housing market compared to its European neighbours. This is also shown in the following Figure, which shows how high the percentage of rent is in each city.

RENT RATIO IN THE CITY CENTRE AS OF: JANUARY 2019

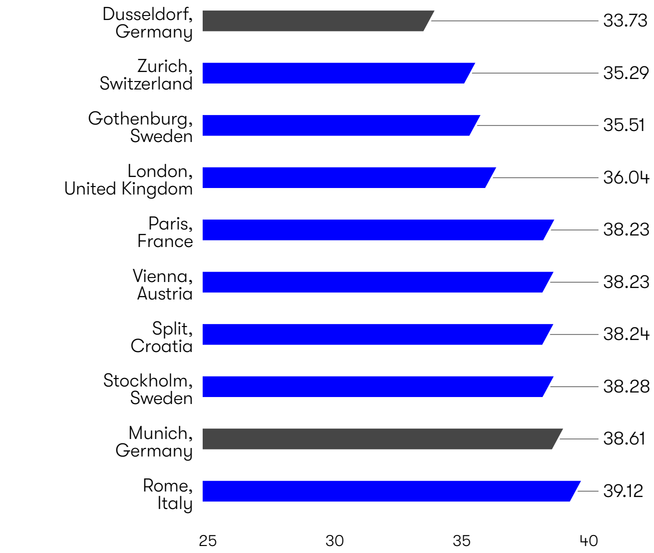
In %



Source: numbeo

RENT RATIO IN THE CITY CENTRE AS OF: JANUARY 2019

In %



Source: numbeo

OUTLOOK FOR THE INSTONE GROUP

For 2019, the economic research institutes expect strong economic growth to continue and forecast a further increase of 1.8% in the above gross domestic product (price adjusted). In spite of increasing construction activity, this will not come close to meeting the demand for housing. As a result, a general upward trend in sales prices and rents can be expected in the next few years due to the scarce supply. Overall, the outlook for the market factors relevant to our business, as described in detail in the chapter "General economic and industry-specific conditions" (page 75), thus anticipates a highly positive trend.

The forecast macroeconomic and industry-specific environment as well as assumptions regarding the development of construction costs and selling prices on the real estate market have a significant influence on the forecasts presented below. The achievement of significant milestones in our projects is also an important prerequisite. The announced initiation of planned sales, the achievement of the planned sale deadlines and the expected commencement and progress of our construction projects are particularly in focus.

Any change in the economic and political factors, the opportunities and risks already described in the chapter "Risk and Opportunities Report" (page 65) of this Combined Management Report and changes to the project schedule may cause the actual business development to deviate from the forecasts.

Against the backdrop of the positive macroeconomic outlook we have described and on the basis of our well-filled project portfolio of around €4.8 billion as of 31 December 2018, Instone expects business to continue to develop successfully during the 2019 financial year.

Our outlook for the volume of sales contracts in 2019 is €450 million to €550 million. This forecast is based on the current market offer of €369 million and further projects to be sold in 2019.

We also anticipate a significant adjusted increase in revenue to between €500 million and €550 million for the 2019 financial year.

Based on the projected profitability of our projects, we expect an adjusted gross profit margin of around 28%. The resulting adjusted consolidated earnings before interest and tax will range between €85 million and €100 million.

OVERALL STATEMENT BY THE MANAGEMENT BOARD ON FUTURE TRENDS

In general, the Management Board of the Instone Group expects revenue and earnings-based growth to continue in the 2019 financial year and is aiming to further improve its position in the German housing development market.

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 of 31 December 2018, the subscribed capital (share capital) of Instone Real Estate Group AG amounted to €36,988,336.00. It is divided into 36,988,336 no-par-value bearer shares. The share capital is fully paid up. All shares in the Company have the same rights and obligations. Each share carries one vote and entitles to the same share of profits. The rights and duties arising from the shares are defined in the statutory provisions. As of 31 December 2018, the Company did not hold any of its own shares.

2 RESTRICTIONS AFFECTING VOTING RIGHTS AND THE TRANSFER OF SHARES

A total of 435,531 shares in the Company are subject to a standard contractual transfer restriction. These are shares which members of the Management Board and members of the extended management acquired from former direct sole shareholders in connection with the restructuring of a management remuneration programme even before the going public. 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 restrictions on transfer and voting rights end for one third of the shares acquired as part of the acquisition after the expiry of 12 months, respectively 24 months and 36 months after the date on which the respective share purchase was agreed with the former direct sole shareholders.

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

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

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

4 SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL POWERS

There are no shares with special rights conferring control powers.

5 TYPE OF VOTING RIGHTS CONTROL WHEN EMPLOYEES HAVE SHAREHOLDINGS IN THE CAPITAL AND DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS

There are no employee shareholdings in the Company's capital in which the employees do not directly exercise their own control rights.

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

The appointment and dismissal of members of the Management Board of the Company occur in accordance with the provisions of Sections 84 and 85 of the 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, so long as statutory legislation or the Articles of Association do not require a larger majority. If the statutory legislation requires a capital majority in addition to the majority of votes, the simple majority of the share capital represented when passing the resolution is sufficient, unless the provisions or Company's rules of procedure require 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 rules of procedure, 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 rules of procedure itself. Finally, pursuant to Section 17.3 of the rules of procedure, the Supervisory Board is entitled to make amendments and additions to the rules of procedure that only affect the wording.

7 POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES

The Management Board is not authorised to buy back shares in the Company.

According to Section 6.1 of the rules of procedure, the Management Board is authorised to increase the Company's share capital, with the approval of the Supervisory Board, in the period up to 28 June 2023 by up to a total of €18,450 thousand by issuing up to a total of 18,450,000 new no-par value bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2018) and, according to Section 6.2 of the rules of procedure 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.

8 KEY AGREEMENTS REACHED BY THE COMPANY IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID, AND THE CONSEQUENT EFFECTS

As of the balance sheet date, there were no key agreements by Instone Real Estate Group AG with third parties or Group companies that would take effect, change or terminate in the event of a takeover bid.

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

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

CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

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

IMPLEMENTATION OF THE GCGC

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

The Management Board and Supervisory Board have carefully considered the fulfilment of the GCGC requirements. In doing so, they have taken into account the Code as amended on 7 February 2017 and for the first time submitted their Declaration of Conformity with the recommendations of the Code in December 2018 in accordance with Section 161 AktG and commented on the few exceptions.

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

DECLARATION OF CONFORMITY

Pursuant to Section 161 (1) AktG, the Management Board and Supervisory Board of a listed stock corporation must annually declare that the recommendations of the Code have been and will be complied with and which recommendations have or will not be complied with, providing reasons. This requirement is applicable to the Management Board and Supervisory Board for the first time on 28 August 2018 as this was when the Company's cross-border change of legal form into a German stock corporation was registered in the commercial register of the Company. In December 2018, the Management Board and the Supervisory Board of the Company issued the following joint declaration of conformity pursuant to Section 161 AktG:

Declaration of Conformity according to Section 161 AktG

On 28 August 2018, Instone Real Estate Group AG changed its legal form from a Dutch stock corporation (naamloze vennootschap (N.V.)) to a stock corporation under German law ("change of legal form"). Since 28 August 2018, the Company (as a stock corporation listed at this point on the regulated market of the Frankfurt Stock Exchange) has been subject to the obligation under Section 161 (1) AktG to submit an annual Declaration of Conformity that the recommendations made by the "Government Commission on the German Corporate Governance Code", as announced by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and will be complied with and which recommendations have not or will not be complied with, providing reasons.

The Management Board and Supervisory Board declare that since 28 August 2018, the Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version last published in the official part of the Federal Gazette dated 7 February 2017 (the "Code"), with the following exceptions:

1. Adherence to the recommendation in Section 4.2.2 of the Code to set the total remuneration of Management Board members in relation to the remuneration of senior management and the relevant workforce. Within the context of the appointment of the Management Board position in November 2018, the Supervisory Board did not consider this aspect to be relevant in this case.

2. The recommendations

   a. in Section 5.1.2 (2) 3 of the Code to establish an age limit for members of the Management Board,

   b. in Section 5.4.1 (2) 2 of the Code to establish an age limit for Supervisory Board members,

   c. in Section 5.4.1 (2) 2 of the Code to set a regular limit for the duration of membership of the Supervisory Board,

   d. in Section 5.4.1 (2) 1 of the Code to establish a competence profile for the Supervisory Board overall,

were not applicable until the change of legal form and were implemented through appropriate resolutions passed on 18 December 2018. The Company has therefore complied with the Code recommendations listed in Section 2 above since this date.

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

With the exception of the aforementioned deviation, explained in Section 3, from Section 7.1.2 of the Code (i.e. mandatory interim financial information publicly available within 45 days of the end of the reporting period), the Company will follow the recommendations of the Code in the future.

Essen, Germany, in December 2018

The Management Board

The Supervisory Board

CORPORATE GOVERNANCE PRACTICES

The management of Instone Real Estate Group AG is largely determined by the provisions of the German Stock Corporation Act (AktG) and is also geared towards the requirements of the German Corporate Governance Code. In addition, the Management Board has laid down base 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 the employees of the Instone Group 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

As a stock corporation in accordance with the German Stock Corporation Act (Aktiengesetz) with headquarters in Essen, Germany, Instone Real Estate Group AG 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, while the Supervisory Board provides advice and supervision.

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

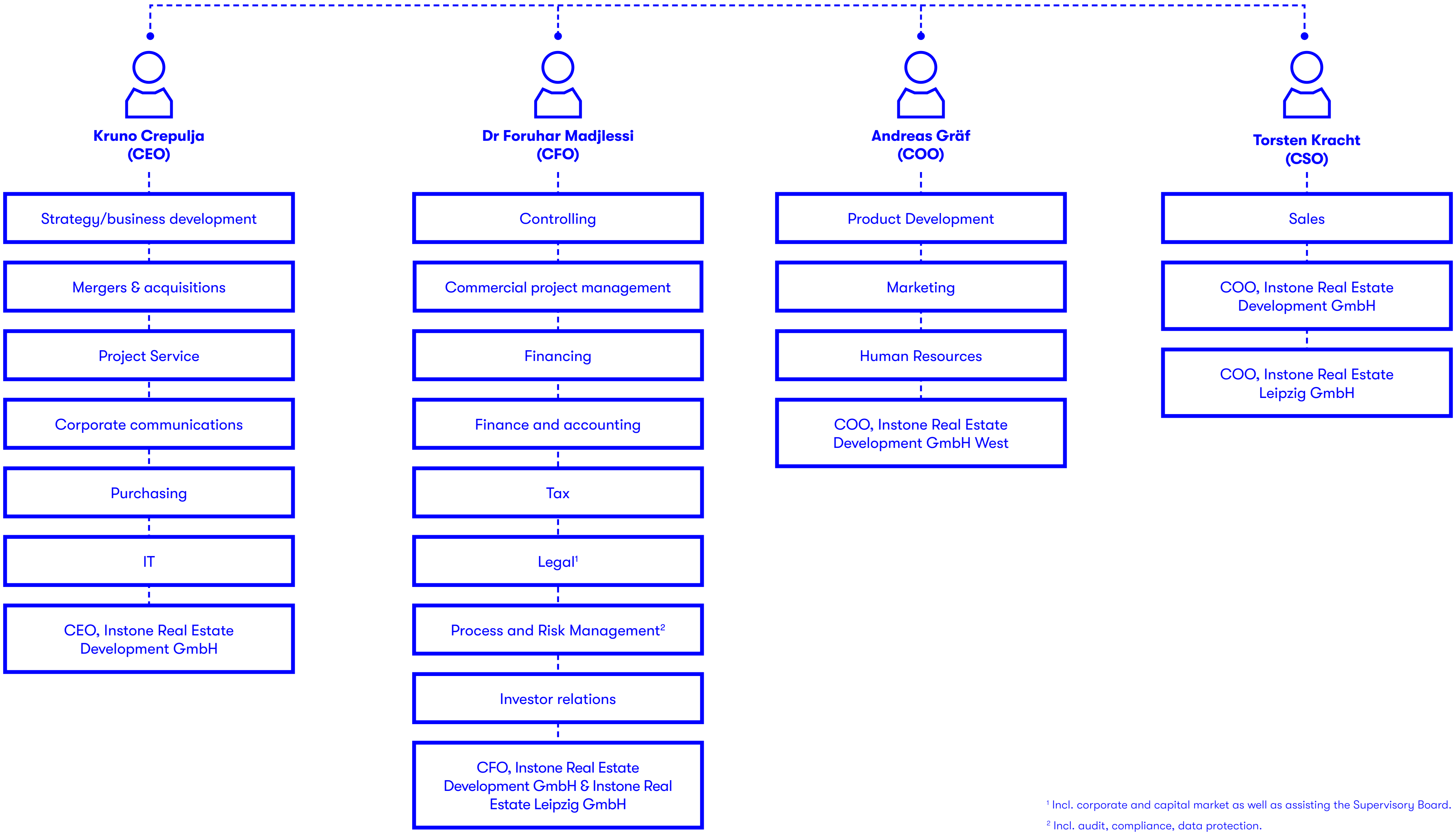
MANAGEMENT BOARD

The Management Board manages the Company on its own responsibility in accordance with the statutory provisions, the rules of procedure 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 law, the Articles of Association and the Rules of Procedure for the Management Board, and are personally responsible in the context of the 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 2018 financial year on 10 August 2018.

Accordingly, the distribution of business was as follows:

INSTONE REAL ESTATE GROUP AG – ORGANISATIONAL CHART



[1] Incl. corporate and capital market as well as assisting the Supervisory Board.

[2] Incl. audit, compliance, data protection.

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

In accordance with the general representation rules of the rules of procedure, the Company is represented by two members of the Management Board or one member of the Management Board together with an authorised representative.

In addition to certain approval reservations contained in the rules of procedure, the Supervisory Board has defined certain other transactions and measures of fundamental importance in the Rules of Procedure for the Management Board which require its prior approval. These include, for example, the adoption of the annual plan, larger land acquisitions and the conclusion and amendment of certain financing agreements, as well as the implementation of certain corporate law measures. Accordingly, transactions between the Company or one of its subsidiaries and members of the Management Board or related parties require the approval of the Supervisory Board and must comply with customary market conditions.

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

The work of the Supervisory Board takes place both in plenary sessions and in committees. The work of the committees aims to further increase the efficiency of the Supervisory Board's work. The committee chairmen 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 within six calendar months. Otherwise, it holds meetings as required in the interests of the Company.

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 skills profile, this in particular includes the following knowledge, skills and professional experience as required for the members of the Supervisory Board as a whole:

→ Experience in managing or supervising medium-sized or large companies or complex organisations;

→ The members as a whole must be familiar with the real estate sector and the project development industry;

→ In-depth knowledge about finance, accounting treatments, accounting, law and compliance in the Board as a whole;

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

→ Experience with capital market instruments and bank financing.

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

The Company has complied with the individual recommendations in Section 5.4.1 (2) and (3) GCGC relating to the determination of specific objectives for the composition of the Supervisory Board under certain criteria, the consideration of these objectives in the Supervisory Board's proposals and the publication of these objectives and their implementation status in the Corporate Governance Report. In the 2018 financial year, the members of the Supervisory Board fulfilled the overall competence profile.

PROPORTION OF WOMEN

At its meeting on 18 December 2018, the Supervisory Board set the target for the proportion of women on the Supervisory Board at its current level of 20%. For the Management Board of Instone Real Estate Group AG, the Supervisory Board has set the target for the proportion of women to 0% by 30 November 2020. This decision was guided by the Supervisory Board's conviction that a position should mainly be filled on the basis of qualifications and competence – regardless of gender.

Notwithstanding, the Supervisory Board was not able to set a higher quota for the period up to 30 November 2020 due to existing circumstances. Nonetheless, the Supervisory Board has determined that the composition of the Management Board will continue to respect diversity. The Company has met the targets during the period under review.

At its meeting on 18 December 2018, the Management Board set the target quota to 0% as the minimum proportion of women at the first management level below the Management Board, i.e. at the level of the board of directors of Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH. This matches the actual quota so that the minimum size was met during the period under review. At the second board of directors level below the board of directors, i.e. at the level of the authorised representatives of the Company, Instone Real Estate Development GmbH and Instone Real Estate Leipzig GmbH, the Management Board set the minimum proportion of women at 25%. At this time, the proportion of women at this management level was 17% and the target has therefore not yet been reached. The Management Board has set a deadline of two years as the implementation deadline for achieving the target values. The Board facilitates the achievement of goals through long-term planning. This includes, for example, the targeted support of female staff through training and further education measures as well as separate working 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 going public, the Management Board has also determined, with regard to section 4.1.5 of the Code, that diversity should also be respected and promoted for appointment of Management Functions 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 materially 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 lineage, gender, or other non-performance characteristics.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

According to the Company's rules of procedure, the Management Board consists of at least two persons. The number of members is determined by the Supervisory Board. In the financial year 2018, the Management Board consisted of four members with equal rights, each responsible for the departments assigned to them. Mr Oliver Schmitt left the Management Board as of 31 December 2018. Dr Foruhar Madjlessi joined the Management Board on 1 January 2019.

According to the rules of procedure, 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. Supervisory Board members Stefan Mohr and Richard Wartenberg resigned from office as of 31 December 2018.

Details of the members of the Management Board and the Supervisory Board can be found on page 133 in the notes to the consolidated financial statements of Instone Real Estate Group AG in accordance with Section 285 No. 10 HGB.

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.

The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Chairman of the Supervisory Board regularly liaises with the Management Board between meetings and discusses questions of strategy, planning, business development, risk situation, risk management and compliance with the Management Board. The Chairman of the Supervisory Board is informed by the Management Board without delay about important events which are of material importance for the assessment of the situation and development as well as for the management of the Company and its Group companies. The Chairman of the Supervisory Board then informs the Supervisory Board and convenes an extraordinary Supervisory Board meeting if necessary.

According to the rules of procedure and Rules of Procedure for the Management Board, are subject to prior approval of the Supervisory Board in certain transactions of fundamental importance.

The members of the Management Board must promptly disclose any conflicts of interest to the Supervisory Board and their Management Board colleagues. Transactions with the Company by members of the Management Board and related parties also require the approval of the Supervisory Board, as does assumption of ancillary activities outside the Company.

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

SUPERVISORY BOARD COMMITTEES

In the 2018 financial year, the Supervisory Board had etablished three committees: the nomination committee, the audit committee and the remuneration committee. Other committees can be formed as needed.

Nomination committee

The nomination committee advises on key topics and prepares resolutions of the Supervisory Board by proposing suitable candidates to the Supervisory Board for its nominations to the annual general meeting.

Members of the nomination committee in the 2018 financial year were:

→ Stefan Brendgen (Chairman)

→ Richard Wartenberg (Deputy Chairman)

→ Marija Korsch

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

As of 31 December 2018, the audit committee consisted of the following members:

→ Dr Jochen Scharpe (Chairman)

→ Stefan Mohr (Deputy Chairman)

→ Stefan Brendgen

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) AktG. The members of the audit committee have accounting and auditing expertise and the composition of the committee complies with all independence requirements within the meaning of the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors or members of the supervisory boards of listed companies and management/supervisory board committees (2005/162/EC) as well as within the meaning of the recommendations of the GCGC.

Remuneration committee

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

As of 31 December 2018, the remuneration committee consisted of the following members:

→ Richard Wartenberg (Chairman)

→ Stefan Brendgen (Deputy Chairman)

→ Marija Korsch

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. It performs the management function as a collegial body – but with individual department allocation to the individual members of the Management Board.

ANNUAL GENERAL MEETING AND SHAREHOLDERS

The shareholders of Instone Real Estate Group AG assert their rights at the annual general meeting and exercise their voting rights. Each share in the Company grants one vote.

The annual general meeting takes place annually within the first eight months of the financial year. The agenda for the annual general meeting and the reports and documents required for the annual general meeting are published on the Company's website ↗ Instone AGM.

Fundamental decisions are made at the annual general meeting. These include resolutions on any appropriation of profits, the discharge of the Management and Supervisory Boards, the election of Supervisory Board members and selection of the auditor, amendments to the rules of procedure and capital measures. The annual general meeting offers the Management Board and Supervisory Board the opportunity to liaise directly with the shareholders and exchange views on the further development of the Company.

Instone Real Estate Group AG provides its shareholders with a proxy who is bound to follow shareholders' instructions and who can also be contacted during the annual general meeting in order to facilitate the personal exercise of their rights. The invitation to the annual general meeting explains how instructions can be issued prior to the annual general meeting. Shareholders also remain free to be represented at the annual general meeting by a proxy of their choice.

FURTHER ASPECTS OF CORPORATE GOVERNANCE

Diversity

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

According to the self-assessment of the Supervisory Board, the composition of the Supervisory Board and the Management Board as of 31 December 2018 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 also been a member of the Management Board since 1 January 2019 and brings with him many years of international experience and specialist expertise in capital markets and corporate finance. Furthermore, none of the members of the Management Board has reached the age of 65. The Supervisory Board also had many members as of 31 December 2018. Above all, the Chairman of the audit committee meets the requirements for specialist knowledge and experience in the areas of accounting and auditing. Several members have experience in managing or supervising medium-sized or large companies. The Supervisory Board also has a female member, which means that the self-imposed target for the proportion of women of 20% as of 31 December 2018 has also been reached and was even exceeded following the departure of Mr Mohr and Mr Wartenberg. No member of the Supervisory Board had reached the age of 70 at the time of election.

Reportable securities and shares of the Management Board and Supervisory Board

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

Compliance management system

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

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

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

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

The ultimate goal of the Group-wide compliance management system is to prevent violations of applicable laws and internal policies and to protect the Instone Group and its employees from inappropriate and unlawful conduct. We have therefore implemented a compliance management system that identifies risks, reduces them and ensures compliance within the Company. All activities are in accordance with the legal requirements and our guidelines and internal regulations. The Compliance Officer at Group level is responsible for the 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 reliable information about laws and codes of conduct. Participation in the training events is mandatory and is reviewed and documented. In the financial year, the topics related primarily to anti-corruption, data protection and competition and antitrust law.

Despite the best prevention measures, companies may still be subject to infringements and breaches of duty. Our employees have their supervisors, compliance officers and a whistle-blower hotline at their disposal to report violations and suspicions of violations of rights, legislation and internal policies and regulations. Calls to the whistle-blower hotline connect to an external law firm and are shared anonymously with the Company.

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

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

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 the German Corporate Governance Code (GCGC) in the version dated of February 2017, it explains the principles and structure of the compensation system for the Management Board and Supervisory Board of Instone Real Estate Group AG and also discloses the remuneration of individual Management Board and Supervisory Board members for the performance of their duties in the Company and its subsidiaries in the 2018 financial year. It also takes into account the requirements of German Accounting Standard No. 17 (Deutscher Rechnungslegungsstandard, GAS) and the HGB.

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

REMUNERATION OF THE MANAGEMENT BOARD

Remuneration system

Responsibility for determining the total remuneration of the individual members of the Management Board and the regular review of the remuneration system lies with the Supervisory Board of Instone Real Estate Group AG. The Supervisory Board has also set up a Compensation Committee which, in accordance with the Supervisory Board's rules of procedure, is mainly 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. In this form, it has been in existence 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 going public 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 will continue to address the topic in line with its responsibility regarding the appropriate remuneration of the Management Board.

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 compliance with 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, success and future prospects. Further criteria for determining the remuneration are the respective tasks and the personal performance of the individual members of the Management Board. The structure and appropriateness of the Management Board's remuneration is subject to the Supervisory Board's regular review in accordance with its supervisory responsibilities.

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

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 remuneration

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 remuneration (STI)

The short-term variable remuneration in the form of the STI is based on the economic performance or productivity of the Instone Group in the underlying financial year and the personal targets set for the individual members of the Management Board. 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 2-year average of equity plus net debt

If the targets derived from the annual budget are fully achieved, the target achievement is 100%. The target achievements of the weighted targets (adjusted EBT, adjusted ROCE and personal targets) are added together to give the overall target achievement.

The target values are derived from the annual budget and are determined by the Supervisory Board. At the end of the respective bonus year, the Supervisory Board determines the achievement of the objectives in relation to the personal and company-related targets.

The amount is paid in the month following the audited annual financial statements. If the target achievement is less than 80%, the targets are considered to have been missed and there is no entitlement to the variable remuneration component (target lower limit). The one-year variable remuneration is limited in its total amount to the amount corresponding to a target achievement of 150% (target upper limit).

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

Multiple year variable remuneration (STI)

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

Any LTI bonus depends on the achievement of business-related 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 value is set in relation to the actual EBT value. The projected value is determined by the Supervisory Board in the business plan and can be found in this plan.

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 the Instone share 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 plus any dividend that may have been distributed.

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

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

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

The following overview shows the contributions (allocations) to the pension plan attributed to the individual Management Board members and the corresponding cash values in individualised form according to IFRS and HGB.

PENSION COMMITMENTS

In thousands of euros

		2018	Allocation	2017
Kruno Crepulja (CEO)	HGB	158	48	110
	IFRS	222	39	183
Oliver Schmitt (CFO, resigned: 31/12/2018)	HGB	1,029	457	571
	IFRS	1,331	505	826
Andreas Gräf (COO)	HGB	182	55	127
	IFRS	245	51	194
	HGB	**1,369**	**561**	**808**
	IFRS	**1,798**	**595**	**1,203**

Remuneration of Management Board members in the 2018 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

GRANTS AWARDED IN THE FINANCIAL YEAR (PART 1)

In thousands of euros

	Kruno Crepulja				Oliver Schmitt			
	CEO				CFO			
					Resigned: 31/12/2018			
	2018	**2018 (min.)**	**2018 (max.)**	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**	**2017**
Non-performance related remuneration								
Fixed remuneration	421	421	421	353	261	261	261	305
Benefits-in-kind and other additional remuneration	24	24	24	64	650	650	650	61
Severance	0	0	0	0	1,500	1,500	1,500	0
	445	**445**	**445**	**417**	**2,411**	**2,411**	**2,411**	**366**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	250	0	375	137	0	0	0	103
Multi-year assessment basis (Long-term Incentive)								
Performance share plan (01/01/2018 - 31/12/2021)	300	0	900	3,804	0	0	0	2,160
	550	**0**	**1,275**	**3,940**	**0**	**0**	**0**	**2,262**
Remuneration for old-age provision								
Pension expenses	26	26	26	– 40	341	341	341	– 277
Total emoluments	**1,021**	**471**	**1,746**	**4,317**	**2,752**	**2,752**	**2,752**	**2,351**
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	– 26			40	– 341			277
Plus obligation value retirement	48			22	457			59
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**1,043**			**4,380**	**2,869**			**2,687**

GRANTS AWARDED IN THE FINANCIAL YEAR (PART 2)

In thousands of euros

	Andreas Gräf				Torsten Kracht			
	COO				CSO			
	2018	2018 (Min.)	2018 (Max.)	2017	2018	2018 (Min.)	2018 (Max.)	2017
Non-performance related remuneration								
Fixed remuneration	285	285	285	292	191	191	191	148
Benefits-in-kind and other additional remuneration	15	15	15	48	23	23	23	11
Severance	0	0	0	0	0	0	0	0
	300	**300**	**300**	**340**	**215**	**215**	**215**	**159**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	260	0	390	118	225	0	338	140
Multi-year assessment basis (Long-term Incentive)								
Performance share plan (01/01/2018 - 31/12/2021)	180	0	540	2,139	125	0	375	1,306
	440	**0**	**930**	**2,257**	**350**	**0**	**712**	**1,446**
Remuneration for old-age provision								
Pension expenses	34	34	34	– 53	0	0	0	0
Total emoluments	**774**	**334**	**1,264**	**2,544**	**565**	**215**	**927**	**1,606**
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	– 34			53	0			0
Plus obligation value retirement	55			19	0			0
Total remuneration within the meaning of Sections 285 no. 9a and 314 (1) No. 6a HGB in conjunction with GAS 17	**796**			**2,617**	**565**			**1,606**

The total remuneration granted to the members of the Management Board totalled €5.1 million for the 2018 financial year (min. €3.8 million, max.: €6.7 million) (previous year: €10.8 million). Of this, €1.2 million (previous year: €1.1 million) was attributable to fixed, non-performance-related components, €1.3 million (min: €0 million, max. €2.9 million) (previous year: €9.9 million) was attributable to variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) for severance payments and €0.4 million (previous year: €-0.4 million) on the pension expenses under IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

Inflow according to the GCGC

INFLOW OF GRANTS IN THE FINANCIAL YEAR

in thousands of euros

	Kruno Crepulja		Oliver Schmitt		Andreas Gräf		Torsten Kracht	
	CEO		CFO		COO		CSO	
			Resigned: 31/12/2018					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-performance related remuneration								
Fixed remuneration	421	353	261	305	285	292	191	148
Benefits-in-kind and other additional remuneration	24	64	650	61	15	48	23	11
Severance	0	0	1,500	0	0	0	0	0
	445	**417**	**2,411**	**366**	**300**	**340**	**215**	**159**
Performance-based emoluments								
One-year assessment basis (short-term incentive)	175	153	140	122	140	141	140	0
Multi-year assessment basis (long-term Incentive)								
Performance share plan (01/01/2015 - 31/12/2018)	8,349	0	5,102	0	5,379	0	1,912	0
	8,524	**153**	**5,242**	**122**	**5,519**	**141**	**2,052**	**0**
Remuneration for old-age provision								
Pension expenses	26	– 40	341	– 277	34	– 53	0	0
Total emoluments	**8,995**	**529**	**7,994**	**211**	**5,854**	**427**	**2,266**	**159**

The total remuneration received/earned by the members of the Management Board totalled €25.1 million for the financial year 2018 (previous year: €1.3 million). Of this amount, €1.2 million (previous year: €1.1 million) was allocated to fixed, non-performance related remuneration components, €21.3 million (previous year: €0.4 million) to variable, one-year and multi-year performance-related remuneration components, €0.7 million (previous year: €0.2 million) to performance-related benefits-in-kind and other services, €1.5 million (previous year: €0 million) for severance payments and €0.4 million (previous year: €- 0.4 million) to pension expenses in accordance with IFRS. The value of fringe benefits was measured at the amount determined for tax purposes.

The members of the Management Board have reinvested 70% of the inflow of the variable, multi-year, performance-related remuneration component in the form of share purchases.

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

REMUNERATION OF THE SUPERVISORY BOARD

Remuneration system

The remuneration of the Supervisory Board is set out in Section 13 of Instone Real Estate Group AG's rules of procedure 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 nominations committee each receive an additional €1,500.00 for each financial year in return for their work on these committees. The respective committee chairman receives twice the remuneration. Reasonable out-of-pocket expenses are also reimbursed to the members of the Supervisory Board by the Company. The Company has also included the members of the Supervisory Board in D&O group insurance for corporate bodies. No performance-related remuneration is paid for Supervisory Board members.

If a member of the Supervisory Board does not belong to the Supervisory Board or 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 2018 financial year

The total remuneration of the Supervisory Board in financial year 2018 was €406.3 thousand. Of this amount, €343.0 thousand was remuneration for the work of the full Supervisory Board. Remuneration for work in committees amounted to €63.3 thousand. thousand. The following table shows the individual emoluments of the members of the Supervisory Board for the 2018 financial year.

In the 2018 financial year, the Companies of the Instone Group did not pay or grant any remuneration or other benefits to members of the Supervisory Board for services rendered in a personal capacity, in particular advisory and agency services. Nor were members of the Supervisory Board granted any advances or credits.

SUPERVISORY BOARD REMUNERATION

In thousands of euros

	Remuneration pro rata from 13/02/2018 to 31/12/2018			Remuneration entitlement 2018		
	Role General Committee Remuneration	Role Committees Remuneration	Total Remuneration	Role General Committee Remuneration	Role Committees Remuneration	Total Remuneration
Stephan Brendgen	105.5	17.1	122.7	120.0	19.5	139.5
Stefan Mohr	79.2	13.2	92.3	90.0	15.0	105.0
Marija Korsch	52.8	2.6	55.4	60.0	3.0	63.0
Dr Jochen Scharpe	52.8	26.4	79.2	60.0	30.0	90.0
Richard Wartenberg	52.8	4.0	56.7	60.0	4.5	64.5