19 Q3

Q3 quarterly report

Instone Real Estate Group AG

30 September 2019

OVERVIEW OF KEY FIGURES

In millions of euros

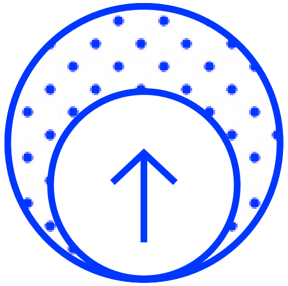
AS AT: 30/09/2019

		Q3 2019	Q3 2018
Performance indicators			
Volume of sales contracts		314.9	254.2
Volume of new permits		654.9	191.0
Project portfolio		5,384.1	3,620.3
Revenues adjusted		302.4	222.5
Key earnings figures			
Gross profit adjusted		98.9	59.7
Gross profit margin adjusted	In %	32.7	26.8
EBIT adjusted		56.7	20.6
EBIT margin adjusted	In %	18.8	9.3
EBT adjusted		49.4	13.8
EBT margin adjusted	In %	16.3	6.2
Consolidated earnings adjusted		46.7	– 1.7
Key liquidity figures			
Cash flow from operations		– 32.0	1.7
Free cash flow		– 65.7	– 0.4
Cash and cash equivalents		162.8	140.2

		30/09/2019	31/12/2018
Key balance sheet figures			
Total assets		915.2	686.6
Equity		285.8	246.9
Net financial debt		288.7	177.5
Debt-to-equity ratio		3.2	3.5
ROCE[1] adjusted	In %	18.2	12.7
Employees			
Number		362	311
FTE[2]		293.0	258.7

[1] Return on capital employed = EBIT / (2-year average equity + net debt).
[2] Full-time equivalent employees.

OVERVIEW Q3 2019



Instone Real Estate continues dynamic growth rate

Development of the growth region of the Northern Bavaria and consolidation of Germany-wide presence by acquiring companies

ADJUSTED REVENUE
increased by 35.9% to

€302.4 MILLION

Previous year: €222.5 million

ADJUSTED GROSS PROFIT MARGIN
of

32.7%

Previous year: 26.8%

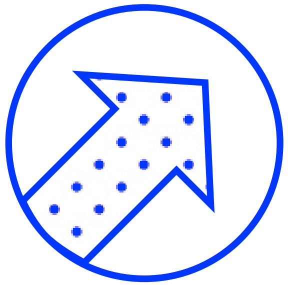
PROJECT PORTFOLIO
grew

€5.4 BILLION

ADJUSTED EBIT
increased significantly to

€56.7 MILLION

Previous year: €20.6 million



THE FORECAST
for the financial year 2019 significantly increased due to the acquisition and sale of a major project

BUSINESS MODEL

Instone Real Estate is one of Germany's leading residential developers and is listed on the SDAX. 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 of leasing and institutional investors. Over the course of more than 28 years, we have consequently realised more than one million square metres. We have 362 employees at nine locations across Germany. As at 30 September 2019, the project portfolio of Instone Real Estate included 52 development projects with an anticipated overall sales volume of approximately €5.4 billion and more than 12,000 units.

As at 30 September 2019, approximately 92% 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, Halle, Hamburg, Leipzig, Nuremberg, Munich and Stuttgart) with 8% 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 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.

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

CORPORATE STRATEGY AND MANAGEMENT

INSTONE GROUP STRATEGY

Instone Real Estate's strategy is based on 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 nationally to exploit the growth potential in the most important German metropolitan regions.

Due to its high level of value-added 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 level of value-added 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

In regional terms, Instone Real Estate has the attractive growth markets in Germany (North Rhine-Westphalia and Rhine-Main area, Baden-Württemberg and Bavaria, Saxony and northern Germany) in its sights. Instone Real Estate plans to maintain its focus and 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 trend towards urbanisation, the sustainable composition of households and the regionally diversified economic structure.

When marketing residential properties, Instone Real Estate relies on a diversified asset management strategy, including all relevant investor classes. The core of the strategy is the sale in individual sales to private owner-occupiers or private investors with the intention to lease and institutional investors.

Focus on land and real estate without development plans or building permits for the planned development at the time of acquisition

Instone Real Estate's acquisition strategy is to generate attractive margins from project developments and is characterized by a riskaverse approach. 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 only acquires land or real estate if the company believes it is likely that the required planning approvals will be granted within a reasonable period of time. Instone Real Estate will therefore not invest in land unless the company believes that the development plan and planning permissions will be granted within the appropriate time frame (no land speculation).

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 branches 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 high level of value-added.

FINANCIAL AND REAL ESTATE KEY PERFORMANCE INDICATORS

Important management key performance indicators

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

Additional key performance indicators

Instone Real Estate also uses the following KPIs for analysis and reporting: current offers for sale, project portfolio, volume of new permits, gross project profit and gross project profit margin. Further information on the key control indicators, in particular regarding their calculation, can be found on pages 39 – 40 in the 2018 annual report.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

CUMULATIVE FINANCIAL KEY FIGURES

In millions of euros

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues adjusted [1]	302.4	174.2	84.2	372.8	222.5	139.4	52.7
Gross profit adjusted [1]	98.9	58.5	27.1	106.4	59.7	36.4	19.0
Gross profit margin adjusted [1]	32.7%	33.6%	32.2%	28.5%	26.8%	26.1%	36.1%
EBIT adjusted [1]	56.7	32.3	15.7	49.6	20.6	11.9	8.1
EBT adjusted	49.4	28.4	14.7	41.5	13.8	7.3	5.1

[1] Financial performance indicators.

RESULTS OF OPERATIONS

As in previous years, the interim consolidated financial statements of Instone Real Estate Group AG for Q3 2019 include one-off effects from purchase price allocations due to an extension of the scope of consolidation in previous years. The ongoing amortisation of purchase price allocations is adjusted in the income figures.

This statement of the results of operations reflects the business impacted materially 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 cost 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 adjusted revenues less project costs.

→ Adjusted platform costs are the total of staff costs, other operating income, other operating expenses and depreciation and amortisation less indirect sales expenses allocated to project costs, adjusted for one-off and extraordinary effects.

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

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

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

→ Adjusted income taxes equate to income taxes adjusted for the tax effects of purchase price allocations and one-off events and special effects.

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

ADJUSTED RESULTS OF OPERATIONS

In millions of euros

	Q3 2019	Q3 2018	Change
Revenues adjusted	302.4	222.5	35.9%
Project costs adjusted	−203.5	−162.7	25.1%
Gross profit adjusted	**98.9**	**59.7**	**65.7%**
Gross profit margin adjusted	**32.7%**	**26.8%**	**0.0%**
Platform costs adjusted	−42.2	−39.1	7.9%
Earnings before interest and tax (EBIT) adjusted	**56.7**	**20.6**	**175.2%**
EBIT margin adjusted	**18.8%**	**9.3%**	**0.0%**
Investment and other results adjusted	0.0	0.0	0.0%
Financial result adjusted	−7.3	−6.7	9.0%
Earnings before tax (EBT) adjusted	**49.4**	**13.8**	**258.0%**
EBT margin adjusted	**16.3%**	**6.2%**	**0.0%**
Income taxes adjusted	−2.7	−15.5	−82.6%
Earnings after tax (EAT) adjusted	**46.7**	**−1.7**	**n/a**
EAT margin adjusted	**15.4%**	**−0.8%**	**0.0%**

Revenue

In the period from 1 January to 30 September 2019, the Instone Group increased its adjusted revenues by around 36% compared with the same period in the previous year. Adjusted revenues amounted to €302.4 million as at 30 September 2019 (previous year: €222.5 million). Significantly increased volume of sales contracts and the significant increase in construction progress in the third quarter of 2019 increased revenues to €128.2 million (previous year: €83.1 million). Revenues in the quarter under review came from ongoing projects at €271.3 million, with revenue recognition beginning in the first half of 2019. Of the projects with revenue recognition starting for the first time in the quarter under review, €12.7 million was attributable to projects with individual sales and €18.4 million to projects with global sales. The amortisation of the effects from purchase price allocations placed a burden of €6.0 million (previous year: €12.3 million) on the reported revenue.

REVENUE

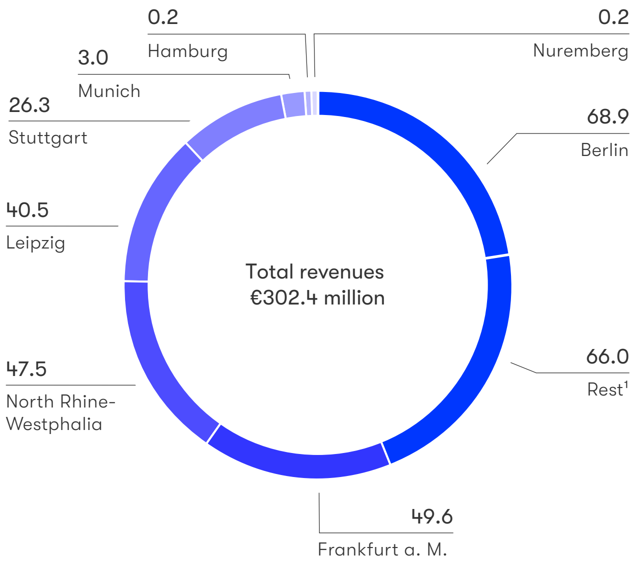
In millions of euros

	Q3 2019	Q3 2018	Change
Revenue	**296.4**	**210.2**	**41.0%**
+ effects from purchase price allocations	6.0	12.3	– 51.2%
Revenues adjusted	**302.4**	**222.5**	**35.9%**

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



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

Project costs

As at 30 September 2019, the adjusted project costs also increased significantly to €203.5 million (previous year: €162.7 million). The two main influencing factors are the increase in the cost of materials and the reduction of changes in inventories.

The increase in the cost of materials to €286.1 million (previous year: €185.2 million) is based on the increase in construction activities for project development and on the purchase of land, neutralised by changes in inventories in the project costs.

At the end of the third quarter of 2019, the changes in inventories were significantly higher at €86.8 million (previous year: €24.5 million).

Indirect sales expenses as at 30 September 2019 in the amount of €1.8 million (previous year: €1.3 million) were assigned to the project costs. The adjustment of the capitalised interest in the changes in inventories of €2.8 million (previous year: €0.7 million) weighed on project costs.

PROJECT COSTS

In millions of euros

	Q3 2019	Q3 2018	Change
Project costs	**203.9**	**162.7**	**25.3%**
+ effects from purchase price allocations	– 0.4	0.0	0.0%
Project costs adjusted	**203.5**	**162.7**	**25.1%**

Gross profit

Due to the increase in construction activities and the increase in revenues, the adjusted gross profit also rose to €98.9 million (previous year: €59.7 million).

GROSS PROFIT

In millions of euros

	Q3 2019	Q3 2018	Change
Gross profit	**92.5**	**47.4**	**95.1%**
+ effects from purchase price allocations	6.4	12.3	– 48.0%
Gross profit adjusted	**98.9**	**59.7**	**65.7%**
Gross profit margin adjusted	**32.7%**	**26.8%**	

The adjusted gross profit margin – calculated from the adjusted gross profit for the adjusted revenues – amounted to 32.7% (previous year: 26.8%). This is attributable to the progressive increase in the sales and performance of high-margin projects in the first nine months.

Platform costs

The adjusted platform costs increased slightly to €42.2 million (previous year: €39.1 million). In the quarter under review, one-off and extraordinary effects in the amount of €4.0 million were adjusted and removed from the platform costs. These effects are attributable to €2.4 million in expenses for the acquisition of S&P Stadtbau in the quarter under review and subsequent costs of €1.5 million from acquisitions in 2015.

PLATFORM COSTS

In millions of euros

	Q3 2019	Q3 2018	Change
Platform costs	**46.2**	**39.1**	**18.2%**
– One-off and extraordinary effects	– 4.0	0.0	0.0%
Platform costs adjusted	**42.2**	**39.1**	**7.9%**

At the end of the quarter under review, personnel expenses were €25.4 million (previous year: €22.6 million) – a slight increase compared with the previous year's level. This is mainly due to the higher number of employees, which currently stands at 362 (previous year: 321) and the corresponding increase in the FTE figure of 293.0 (previous year: 258.6). Other operating income increased to €2.4 million (previous year: €1.3 million). Other operating expenses increased to €22.0 million in the same period (previous year: €18.7 million). Depreciation and amortisation increased to €3.0 million (previous year: €0.4 million). The first-time application of IFRS 16 "Leases" essentially resulted in a change in the recognition of other operating expenses for ongoing lease payments to the depreciation of assets from rights of use. The effect of this depreciation in the quarter under review amounted to €2.3 million.

Earnings before interest and tax (EBIT)

Adjusted earnings before interest and tax rose to €56.7 million due to the positive business performance (previous year: €20.6 million).

EBIT

In millions of euros

	Q3 2019	Q3 2018	Change
EBIT	**46.3**	**8.3**	**457.8%**
+ effects from purchase price allocations	6.4	12.3	– 48.0%
+ One-off and extraordinary effects	4.0	0.0	0.0%
EBIT adjusted	**56.7**	**20.6**	**175.2%**
EBIT margin adjusted	**18.8%**	**9.3%**	**0.0%**

Investment and financial income

In the quarter under review, as in the same period of the previous year, no significant income was produced from investments in the Instone Group.

The financial result deteriorated in the quarter under review to – €10.1 million (previous year: – €7.4 million). The increase in interest expenses is mainly attributable to the increase in debt in the quarter under review.

The financial result adjusted for the interest from project financing capitalised in the changes in inventories before the start of sales in the amount of €2.8 million (previous year: €0.8 million) deteriorated to – €7.3 million (previous year: – €6.7 million).

Earnings before tax (EBT)

Due to the positive business performance and the improvement in the financing structure, adjusted earnings before tax increased significantly to €49.4 million (previous year: €13.8 million).

EBT

In millions of euros

	Q3 2019	Q3 2018	Change
EBT	**39.0**	**1.5**	**n/a**
+ effects from purchase price allocations	6.4	12.3	– 48.0%
+ One-off and extraordinary effects	4.0	0.0	0.0%
EBT adjusted	**49.4**	**13.8**	**258.0%**
EBT margin adjusted	**16.3%**	**6.2%**	**0.0%**

Income taxes

The tax rate for the first nine months of the current year amounted to around 5% (previous year: > 100%). The positive development was due on the one hand to the one-off tax effects from the previous year ceasing to apply, and on the other hand, to the approach to tax loss carryforwards from the parent company from previous years, which on the basis of the positive decision made by the annual general meeting in June 2019 could be used to conclude a control and profit transfer agreement with a subsidiary. This control and profit and transfer agreement was concluded on 11 September 2019 and with retroactive effect on 1 January 2019 following its registration on 13 September 2019.

Earnings after tax (EAT)

The adjusted earnings after tax of the Instone Group totalled €46.7 million (previous year: – €1.7 million). Before adjustment for the effects of purchase price allocations, earnings after tax amounted to €38.4 million (previous year: – €14.0 million).

EAT

In millions of euros

	Q3 2019	Q3 2018	Change
EAT	**38.4**	**– 14.0**	**n/a**
+ effects from purchase price allocations	4.4	12.3	– 64.2%
+ One-off and extraordinary effects	3.9	0.0	0.0%
EAT adjusted	**46.7**	**– 1.7**	**n/a**
EAT margin adjusted	**15.4%**	**– 0.8%**	

Minority interests

Non-controlling interests in the quarter under review amounted to €2.8 million (previous year: €2.4 million) and were mainly attributable to the subsidiary "Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG". The Instone Group holds a 70% stake in this company, while 30% of the shares are owned by third parties.

MINORITY INTERESTS

In millions of euros

	Q3 2019	Q3 2018	Change
Group interests	43.9	– 4.1	n/a
Non-controlling interests	2.8	2.4	16.7%
EAT adjusted	**46.7**	**– 1.7**	**n/a**

Earnings per share

The earnings per share improved significantly in the third quarter of 2019 to €1.19 (previous year: – €0.11). In the previous year, earnings per share were still weighed down by high negative one-off tax effects.

EARNINGS PER SHARE

In millions of euros

	Q3 2019	Q3 2018	Change
Group interests	43.9	– 4.1	n/a
Shares	36,989	36,989	0.0%
Earnings per share	**1.2**	**– 0.1**	**n/a**

NET ASSETS

CONDENSED STATEMENT OF FINANCIAL POSITION

In millions of euros

	30/09/2019	31/12/2018	Change
Fixed assets	21.3	2.8	660.7%
Inventories	547.8	404.4	35.5%
Contract assets	156.6	158.5	– 1.2%
Other receivables and assets	26.7	32.9	– 18.8%
Cash and cash equivalents	162.8	88.0	85.0%
Assets	**915.2**	**686.6**	**33.3%**
Equity	285.8	246.9	15.8%
Liabilities from corporate finance	171.7	66.1	159.8%
Liabilities from project financing	279.8	199.5	40.3%
Provisions and other liabilities	177.9	174.1	2.2%
Equity and liabilities	**915.2**	**686.6**	**33.3%**

The total assets of the Instone Group rose to €915.2 million as at 30 September 2019 (31 December 2018: €686.6 million). This was mainly attributable to the increase in inventories. A significant effect of the increase results from the acquisition of the company S&P Stadtbau GmbH with an increase in inventories and contract assets of €75.3 million. In addition, goodwill of €6.9 million has arisen, which results in showing of deferred taxes of €5.5 million. In addition, the increase was also owing to the first-time application of IFRS 16 due on 1 January 2019, on the basis of which leases are recognised as "assets from granted rights of use".

As at 30 September 2019 (quarterly reporting date) on the basis of the first-time application of IFRS 16 on 1 January 2019, assets from granted rights of use were recognised on the balance sheet in the non-current assets for the first time and amounted to €8.9 million (31 December 2018: €0.0 million). In future, these assets will be depreciated over the anticipated useful life taken from the lease agreement.

As at 30 September 2019, inventories had risen to €547.8 million (31 December 2018: €404.4 million). This increase results from the increased completion of work-in-progress in the quarter under review.

CONTRACT ASSETS

In millions of euros

	30/09/2019	31/12/2018	Change
Contract assets	459.9	466.9	– 1.5%
Payments received	– 310.0	– 318.1	– 2.5%
	149.9	**148.8**	**0.7%**
Receivables from costs to obtain a contract	6.8	9.7	– 29.9%
	156.7	**158.5**	**– 1.1%**

Receivables from customers for work-in-progress (contract assets) already sold and valued at the current completion level of development fell to €459.9 million as at 30 September 2019 (31 December 2018: €466.9 million) due to increased handovers. The advance payments received from customers amounted to €310.0 million as at 30 September 2019 (31 December 2018: €318.1 million). Capitalised direct sales costs fell to €6.8 million (31 December 2018: €9.7 million). The balance of these items resulted in a moderate reduction in contract assets to €156.7 million (31 December 2018: €158.5 million).

Cash and cash equivalents of €162.8 million (31 December 2018: €88.0 million) increased mainly as a result of the inflow of financing in the second and third quarters.

Long-term financial liabilities increased to €321.7 million as at 30 September 2019 (31 December 2018: €177.7 million). In the same period, current financial liabilities increased to €129.8 million (31 December 2018: €87.8 million). The increase in financial liabilities by a total of €185.9 million resulted from the utilisation of corporate financing in the third quarter and the financing of the increased completion of project developments.

Trade payables decreased slightly to €73.6 million (31 December 2018: €78.3 million).

Leasing liabilities in the amount of €8.5 million (31 December 2018: €0.0 million) were incurred as part of the first-time application of IFRS 16 in the period from 1 January to 30 September 2019.

As at 30 September 2019, the equity ratio was 31.2% (31 December 2018: 36.0%).

NET FINANCIAL DEBT AND DEBT-TO-EQUITY RATIO

In millions of euros

	30/09/2019	31/12/2018	Change
Non-current financial liabilities	321.7	177.7	81.0%
Current financial liabilities	129.8	87.8	47.8%
Financial liabilities	**451.5**	**265.5**	**70.1%**
– Cash and cash equivalents	– 162.8	– 88.0	85.0%
Net financial debt (NFD)	**288.7**	**177.5**	**62.6%**
EBIT adjusted (LTM[1])	85.7	49.6	72.8%
Depreciation and amortisation (LTM[1])	3.2	0.6	433.3%
EBITDA adjusted (LTM[1])	**88.9**	**50.2**	**77.1%**
Debt-to-equity ratio (NFS/EBITDA)	3.2	3.5	–

[1] LTM = last twelve months

As at 30 September 2019, the Instone Group was able to improve its debt-to-equity ratio compared with 31 December 2018. Despite the higher net debt, the leverage is only 3.2 times the EBITDA due to the increased profit and therefore represents solid debt sustainability for the Instone Group.

FINANCIAL POSITION

As a result of the expansion of our project volume, the liabilities from project financing increased in the first nine months of 2019 to €279.8 million (31 December 2018: €199.2 million). The overall financing framework available of €1,032.6 million (31/12/2018: €582.0 million), not only due to the conclusion of classic project financing, but also by further corporate financing in the first nine months of 2019. As at 30 September 2019, credit lines amounting to €701.6 million from project financing and €331.0 million from corporate financing are available. Instone Real Estate strives to continuously optimise its financing structure. In addition to major corporate financing, additional investors were also acquired at the time of the rescheduling of the existing promissory note loan from Instone Real Estate development GmbH to Instone Real Estate Group AG and existing business relationships were expanded.

The liabilities resulting from this financing as at 30 September 2019 increased to €451.2 million (31 December 2018: €265.2 million).

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

FINANCIAL LIABILITIES

In millions of euros

	Due by	Credit line	Utilisation Q3 2019	Interest rate conditions
Corporate finance				
Promissory note loans	31/08/2022	70.5	70.5	2.5%
Promissory note loans	31/08/2024	28.0	28.0	3.0%
Term loans	31/05/2021	200.0	75.0	5.0%
Overdraft facilities < 1 year	30/09/2020	32.5	0.0	1.75% to 3.47%
Overdraft facilities > 1 year	> 30/09/2020	0.0	0.0	–
		331.0	**173.5**	
Project-related financing				
Term < 1 year	30/09/2020	175.3	129.3	1.5% to 3.9%
Term > 1 and < 2 years	30/09/2021	277.6	56.7	1.75% to 4.5%
Term > 2 and < 3 years	30/09/2022	221.9	81.7	1.75% to 3.5%
Term > 3 years	> 30/09/2022	26.8	13.8	1.6%
		701.6	**281.5**	

CONDENSED STATEMENT OF CASH FLOWS

In millions of euros

	Q3 2019	Q3 2018	Change
Cash flow from operations	– 32.0	1.7	n/a
Cash flow from investing activities	– 33.7	2.1	n/a
Free cash flow	**– 65.7**	**3.8**	**n/a**
Cash flow from financing activities	140.5	75.8	85.4%
Cash change in cash and cash equivalents	**74.8**	**79.6**	**– 6.0%**
Cash and cash equivalents at the beginning of the period	88.0	73.6	19.6%
Cash and cash equivalents at the end of the period	**162.8**	**153.2**	**6.3%**

As at 30 September 2019, cash flow from financing activities amounted to €140.5 million – well above the previous year's level (previous year: €75.8 million). This includes incoming payments from new loans of €392.7 million and repayments for terminated loans of €246.4 million.

Cash flow from investment activities in the first nine months of 2019 at – €33.7 million (previous year: €2.1 million) was primarily influenced by the outflow of €31.8 million to the company acquisition.

Cash flow from operations of the Instone Group amounting to – €32.0 million in the quarter under review (previous year: €1.7 million) was mainly characterised by the increase in payment outflows. This is based on purchase price payments for properties already secured in previous years – mainly for the "City Prag", Stuttgart, "Rote Kaserne", Potsdam, "Gartenstadt", Dortmund, and the "Wiesbaden-Delkenheim" project in the first quarter as well as for the "Friedberger Landstraße" and "Idsteiner Straße" projects, both in Frankfurt am Main, in the second quarter and for the "Kösliner Weg", Hamburg, "Rothensburgsort", Hamburg and "Schäferlinde", Herrenberg projects in the third quarter – and the increase in completion of ongoing project developments.

As at 30 September 2019, financial resources increased to €162.8 million (31 December 2018: €88.0 million). This includes free funds amounting to €157.0 million (31 December 2018: €81.7 million) which are not used to secure existing project-related financing.

In addition to the cash loans from banks, as at 30 September 2019, we were also able to expand credit guarantee facilities to €278.1 million instead (31 December 2018: €185.2 million).

PROJECT BUSINESS AT A GLANCE

Volume of sales contracts

In the third quarter of 2019, continuous individual sales received additional impetus from the start of sales in the “Schulterblatt ‘Amanda’, Hamburg” project. As at 30 September 2019, we sold 386 residential units with a sales volume of €204.9 million in individual sales. At the same time, the first high-volume package sale was carried out on a number of institutional sales announced in 2019. The “Niederkasseler Lohweg” project in Düsseldorf, with its 221 units, was successfully sold to Wohnbau GmbH. In addition, several small properties which do not fit with the corporate strategy have been sold in the Leipzig region with a total value of approx. €14 million.

In total, we sold 670 residential units with a sales volume of €314.9 million in the first nine months. This means that we are above the level of the same period of the previous year (€254.2 million) and were also able to achieve a significant increase in marketing compared with the first half of 2019 (€131.8 million).

There were no cancelled transactions in the third quarter of 2019. The apartments of the seven customer purchase agreements, which had been reversed in the first quarter by mutual agreement, have been resold without exception.

REAL ESTATE KEY FIGURES

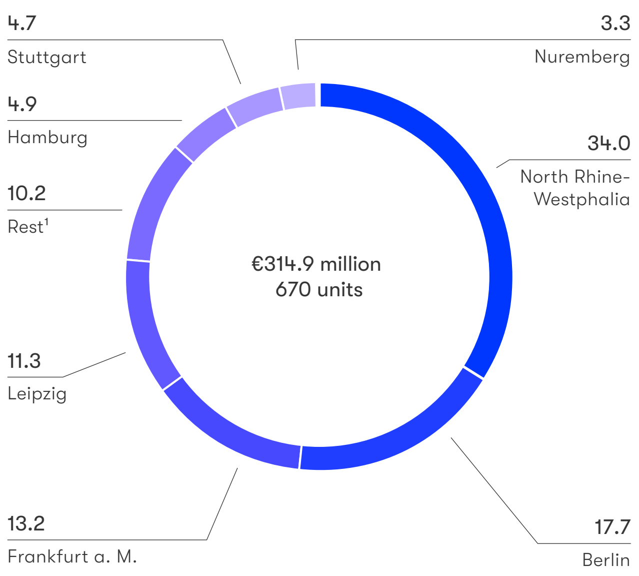
In millions of euros

		Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Volume of sales contracts		314.9	131.8	62.8	460.8	254.2	150.0	30.0
Volume of sales contracts	In units	670	290	170	1,033	574	329	56
Project portfolio (existing projects)		5,384.1	5,091.7	4,790.2	4,763.2	3,620.3	3,589.1	3,408.5
of which already sold		1,261.1	1,128.7	1,061.1	998.2	971.9	867.8	779.9
Project portfolio (existing projects)	In units	12,233	11,628	11,041	11,041	8,924	8,863	8,355
of which already sold	In units	2,944	2,684	2,564	2,395	2,283	2,038	1,849

Unless otherwise stated, the key figures are the cumulative values for the reporting year as at the respective reporting date.

MARKETING IN Q3 2019 BY REGION

In %



[1] Includes Wiesbaden, Mannheim and Hanover.

The realised volume of sales contracts as at 30 September 2019 mainly focuses on the most important metropolitan regions of Germany, which account for around 90%. Around 10% is attributable to the other prosperous, medium-sized cities (see the diagram on page 12 "Q3 2019 marketing by region").

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

REAL ESTATE BUSINESS KEY FIGURES – VOLUME OF SALES CONTRACTS TOP TEN

In millions of euros

		Volume	Units
Niederkasseler Lohweg	Düsseldorf	Not specified[1]	221
Quartier Stallschreiber Straße – Luisenpark	Berlin	55.1	100
St. Marienkrankenhaus	Frankfurt a. M.	40.5	42
Property Bonn, Schumanns Höhe	Bonn	26.6	61
Wiesbaden – Wohnen am Kurpark	Wiesbaden	23.4	34
Schulterblatt "Amanda"	Hamburg	15.3	67
Theaterfabrik	Leipzig	14.7	50
Schwarzwaldstraße	Herrenberg	14.7	36
Kantstr. 55 – 57 (Properties)	Leipzig	11.5	4
Marina Bricks	Regensburg	10.0[2]	20

[1] The two contracting parties agreed to keep the purchase price of the project secret.
[2] Compared with the accounting values resulting from the initial consolidation as at 1 September 2019, the property-specific key performance indicators are presented in a holistic manner both for the 2019 annual review and in the overall portfolio.

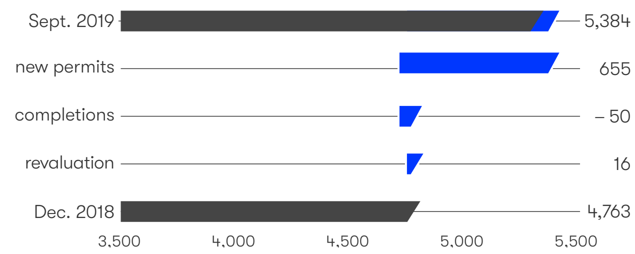
The successfull sale of the projects already being marketed reduced the offers for sale. At the same time, the supply was topped up with a total of 424 units and a volume of around €190 million due to the start of sales for the projects "Schulterblatt 'Amanda'", Hamburg and "Beethoven West, Augsburg" in the third quarter. In total, as at 30 September 2019, there are currently 756 units for sale with an expected sales volume of approx. €450 million.

In the third quarter of 2019, in addition to the growth in the new "Rosa-Luxembourg, Leipzig" project, with potential for around 330 apartments and an expected sales volume of approx. €110 million, the development platform for residential real estate of the S&P Stadtbau was acquired from the Sontowski & Partner Group. In addition to the ongoing business activities, six existing project developments were also taken over as part of the purchase and therefore the portfolio was expanded by around €300 million and approx. 1,000 residential units. Overall, and taking into account the

DEVELOPMENT OF THE PROJECT PORTFOLIO IN Q3 2019

VERSION: SEPTEMBER 2019

In millions of euros



completions listed below, there was an increase in the project portfolio of Instone Real Estate as at 30 September 2019 to 52 projects with an expected total sales volume of €5.4 billion. The solid basis for sustainable growth in the coming years is thus set and is expected to lead to adjusted revenues of more than €1 billion for the first time in the 2022 financial year.

NEW PERMITS IN Q3 2019

in millions of euros

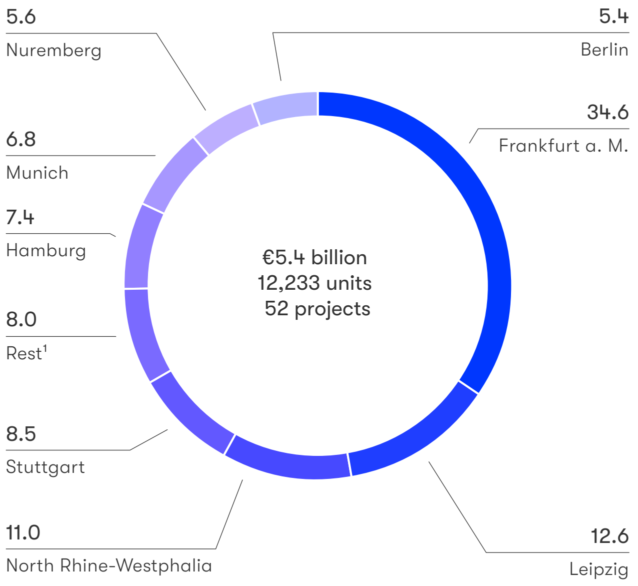
		Volume	Units
Rosa-Luxemburg	Leipzig	115.5	358
Marina Bricks	Regensburg	28.5	50
Schopenhauerstr., Eschenbach Optik	Nuremberg	64.7	101
Seetor	Nuremberg	103.2	199
Stephanstraße (student housing)	Nuremberg	64.7	461
Kitzmann (city centre development)	Erlangen	19.4	32
Station area (student housing)	Rosenheim	21.6	151

In 2019, two projects have been removed from the portfolio to date due to completion (– €50.4 million). There is also a further increase of around €16 million due to revaluations (see "Development of the project portfolio in Q3 2019").

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

PROJECT PORTFOLIO BY REGION

In %



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

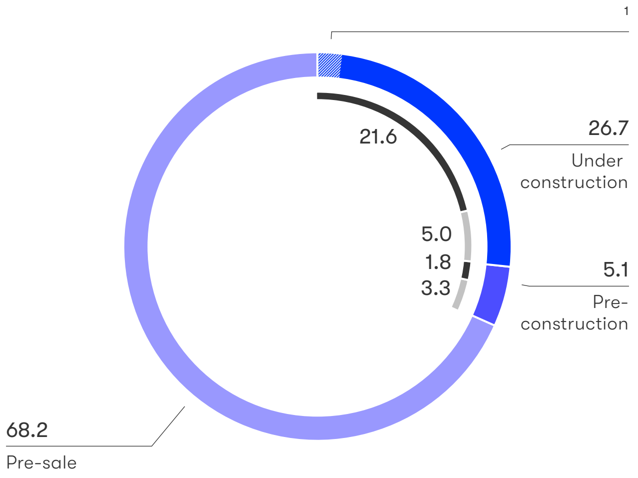
The majority – approximately 92% – of the anticipated overall sales volume from the project portfolio as at 30 September 2019 is located in the most important metropolitan regions of Germany: Berlin, Bonn, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig, Munich, Stuttgart and Nuremberg. Around 8% is located in other prosperous medium-class 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 below shows that as at 30 September 2019, we have already sold approximately 23% of the anticipated overall revenue volume in the project portfolio. In terms of the expected revenue volume, 74% of the "under construction" and "pre-construction" projects were sold as at 30 September 2019.

PROJECT PORTFOLIO BY GROUPS; BASIS: SALE PROCEEDS

In %



Internal sector:
■ Sold
■ Unsold
[1] 5.5% of the project portfolio has already been transferred.

Revenue

Adjusted revenues amounted to €302.4 million as at 30 September 2019. The following projects contributed in particular to the adjusted revenues in the period under review:

KEY PROJECT REVENUE REALISATION (ADJUSTED) Q3 2019

In millions of euros

		Revenue volume (adjusted)
Quartier Stallschreiber Straße – Luisenpark	Berlin	68.2
Wiesbaden – Wohnen am Kurpark	Wiesbaden	40.3
St. Marienkrankenhaus	Frankfurt a. M.	34.5
Heeresbäckerei	Leipzig	30.5
City-Prag – Wohnen im Theaterviertel	Stuttgart	24.6
MA Franklin	Mannheim	18.4
Niederkasseler Lohweg	Düsseldorf	18.4
Property Bonn, Schumanns Höhe	Bonn	15.1
Rebstock BF 1.2	Frankfurt a. M.	14.9
west.side	Bonn	12.4

The sustainable growth of Instone Real Estate is not only significant in the growing project portfolio – the projects already in the portfolio are also developing successfully. In the third quarter, construction started in four projects. The last phase of construction, with a total of 130 units and an expected volume of approx. €50 million, has now begun in the “Schumanns Höhe, Bonn” development. Work on the “west.side” development is also progressing successfully. In the third quarter, building work began on the 276 rental apartments sold to Bayrische Versorgungskammer at the end of 2018. In addition, revitalisation has begun of the former nurses’ residence in the “Marie” residential project, consisting of fully sold subsidised rental apartments, as has construction of the “Herrenberg, Schwarzwaldstraße” project, formed of 114 units.

Construction in projects already under construction is also progressing as expected. Instone has already celebrated the topping-out ceremony for three projects in 2019. In the third quarter, a further project will be added in the “Luisenpark” quarter in Berlin-Mitte with the third and final construction phase. More than 80% of the 235 apartments here have already been sold. The successful completion of the shell construction for “Schumanns Höhe” in Bonn was also celebrated for the second construction site with 34 rental apartments and a children’s day-care centre.

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

RISK AND OPPORTUNITIES REPORT

Estimates of opportunities and risks remain essentially unchanged

At Instone Real Estate, risk and opportunities management is a significant part of the Group-wide system of corporate governance. For a detailed overview of our risk and opportunities management processes and the risk and opportunities situation, please refer to the 2018 annual report, page 65 – 74, “Risk and opportunities report”.

There was no material change in the risk and opportunities situation in comparison to our presentation in the 2018 annual report. From today’s perspective, there are no identifiable risks that jeopardise the continued existence of the Instone Group.

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant reportable events after the quarterly reporting date.

OUTLOOK

We reviewed our forecast for business development in the 2019 financial year which we had published in the 2018 annual report and last confirmed in the 2019 half-yearly financial report in the course of the third quarter of 2019 and increased it based on positive developments in the project business. One of the main reasons for this was that the purchase agreement for a large plot in Frankfurt am Main, which was communicated towards the end of last year and concluded subject to a condition precedent, will take effect in the current financial year, according to the Management Board’s assessment. Another reason was that Instone Real Estate has already concluded a purchase agreement with an institutional investor for all of the more than 1,200 residential units projected on this plot in the form of a share deal[1] with an expected sales volume of around €600 million which, in the Management Board’s estimation, will also take effect in the current financial year. In this respect, we have raised our forecast for adjusted revenues to between €700 and €750 million and adjusted consolidated earnings before interest and taxes (EBIT) to between €110 and €125 million. Due to the lower margin share of the share deal, the expectation for the adjusted gross profit margin was reduced from around 28% to around 24% in the course of the forecast adjustment. Without taking into account the share deal, the expected adjusted gross profit margin for the 2019 financial year would remain unchanged at around 28%.

In comparison with the initial forecast for the 2019 financial year, we are maintaining our forecasts adjusted on 16 September 2019 and therefore continue to anticipate the following developments:

FORECAST FOR 2019
In millions of euros

		Current forecast	Initial forecast[2]
Revenues (adjusted)		700 to 750	500 to 550
Earnings before interest and tax (EBIT) (adjusted)		110 to 125	85 to 100
Sales volume		over 1,100	450 to 550
Gross profit margin (adjusted)	In %	Around 24	Around 28

[1] The revenue recognition as part of the adjusted earnings situation of the Instone Group, which is relevant for the forecast, will continue to reflect share deals and asset deals in the same way and in accordance with IFRS 15, irrespective of an expected decision of the IFRS IC to exempt share deals from the period-based revenue recognition under IFRS 15.

[2] See 2018 annual report, page 77.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

In thousands of euros

	01/01 – 30/09/2019	01/01 – 30/09/2018
Revenue	296,382	210,202
Changes in inventories	86,836	24,523
	383,218	**234,725**
Other operating income	2,388	1,263
Cost of materials	– 286,134	– 185,196
Staff costs	– 25,412	– 22,585
Other operating expenses	– 21,962	– 18,746
Depreciation and amortisation	– 2,956	– 391
Consolidated earnings from operating activities	**49,142**	**9,069**
Income from investments recognised at equity	– 2	– 2,178
Other income from investments	17	2,139
Financial income	1,429	1,017
Financial expenditure	– 11,816	– 8,379
Changes in securities classified as financial assets	262	– 104
Consolidated earnings before tax (EBT)	**39,032**	**1,563**
Income taxes	– 574	– 11,612
Consolidated earnings after tax (EAT)	**38,458**	**– 10,049**
Attributable to:		
Group interests	35,898	– 8,907
Non-controlling interests	2,559	– 1,142

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
ASSETS

In thousands of euros

	30/09/2019	31/12/2018
Non-current assets		
Goodwill	6,904	–
Intangible assets	161	155
Leased assets	8,926	–
Property, plant and equipment	2,046	1,995
Investments recognised at equity	684	236
Other investments	1,008	421
Financial receivables	450	–
Deferred tax liabilities	1,144	–
	21,324	**2,808**
Current assets		
Inventories	547,806	404,401
Financial receivables	–	65
Contract assets	156,648	158,489
Trade receivables	7,825	13,127
Other receivables and other assets	15,311	19,763
Income tax assets	3,468	–
Cash and cash equivalents	162,781	87,966
	893,839	**683,810**
TOTAL ASSETS	**915,163**	**686,617**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
LIABILITIES
In thousands of euros

	30/09/2019	31/12/2018
Equity		
Share capital	36,988	36,988
Capital reserves	198,899	198,899
Group retained earnings/loss carryforwards	46,828	6,826
Statement of changes in equity recognised in other comprehensive income	– 2,090	– 1,051
Equity attributable to shareholders	280,625	241,662
Non-controlling interests	5,187	5,206
	285,812	**246,868**
Non-current debts		
Provisions for pensions and similar obligations	5,517	3,967
Other provisions	5,883	4,548
Financial liabilities	321,701	177,745
Leasing liabilities	5,840	–
Deferred tax liabilities	34,930	32,184
	373,872	**218,443**
Current debts		
Other provisions	14,740	17,726
Financial liabilities	129,810	87,822
Leasing liabilities	3,121	–
Contract liabilities	8,453	6,633
Trade payables	73,604	78,342
Other liabilities	10,863	12,689
Income tax liabilities	14,889	18,095
	255,479	**221,306**
TOTAL EQUITY AND LIABILITIES	**915,163**	**686,617**

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

		01/01 – 30/09/2019	01/01 – 30/09/2018[1]
	Consolidated earnings after tax	**38,458**	**– 10,049**
±	Depreciation and amortisation/Write-downs of property, plant and equipment	612	391
±	Increase/decrease in provisions	– 158	– 29,133
±	Increase/decrease in deferred tax	– 1,453	3,034
±	Increase/decrease in equity carrying amounts	– 448	26
±	Interest expense/income	10,228	7,362
±	Income tax expense/income	4,544	8,578
±	Other non-cash income and expenses	– 6,139	43,223
±	Change in leased assets/leasing liabilities	35	13
±	Decrease/increase in inventories, contract assets, trade receivables and other assets not attributable to investing or financing activities	– 60,325	197,540
±	Increase/decrease in contract liabilities, trade payables and other liabilities not attributable to investing or financing activities	– 7,171	– 208,413
±	Income tax payments	– 10,201	– 10,914
=	**Operating cash flow**	**– 32,016**	**1,658**
+	Proceeds from disposals of property, plant and equipment	2	–
-	Outflows for investments in property, plant and equipment	– 626	– 626
+	Proceeds from disposals of intangible assets	–	155
-	Outflows for investments in intangible assets	– 43	–
-	Outflows for investments in financial assets	– 1,150	– 104
-	Outflows for acquisitions less acquired cash	– 31,848	–
+	Interest received	–	2,712
=	**Cash flow from investing activities (investing cash flow)**	**– 33,664**	**2,137**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros

	01/01 – 30/09/2019	01/01 – 30/09/2018[1]
+ Proceeds from additions to issued capital	–	150,694
± Increase/decrease from non-cash equity injections and other neutral changes in equity	–	– 9,104
± Proceeds from the taking out of shareholder loans/outflows from the repayment of shareholder loans	–	– 28,297
+ Inflows from the issuing of bonds and the taking out of (financial) loans	392,730	49,402
- Payments from the repayment of bonds and (financial) loans	– 246,374	– 82,700
- Interest paid	– 5,861	– 4,256
= Finance cash flow	**140,495**	**75,738**
Cash change in cash and cash equivalents	74,815	79,534
+ Cash and cash equivalents at the start of the period	87,966	73,624
= Cash and cash equivalents at the end of the period	**162,781**	**153,158**

[1] Previous year’s figure adjusted

CONTACT

Thomas Eisenlohr

Head of Investor Relations
Instone Real Estate Group AG
Grugaplatz 2 – 4, 45131 Essen, Germany

Telephone: +49 201 45355-365
Fax: +49 201 45355-904
Email: Thomas.Eisenlohr@instone.de

LEGAL NOTICE

Instone Real Estate Group AG

Grugaplatz 2 – 4
45131 Essen
Germany

Telephone: +49 201 45355-0
Fax: +49 201 45355-934
Email: info@instone.de

Management Board

Kruno Crepulja (Chairman/CEO),
Dr Foruhar Madjlessi,
Andreas Gräf,
Torsten Kracht

Chairman of the Supervisory Board

Stefan Brendgen

Commercial Register

Registered in the Commercial Register
of the Essen Local Court under HRB 29362

Sales tax ID number
DE 300512686

Concept, design and implementation

MPM Corporate Communication Solutions,
Mainz, Düsseldorf, Germany
mpm.de

FINANCIAL CALENDAR

26/11/2019	Publication of quarterly report as at 30 September 2019
19/03/2020	Publication of the annual report as at 31 December 2019
28/05/2020	Publication of the quarterly group statement as at 31 March 2020
09/06/2020	Annual General Meeting
27/08/2020	Publication of the group interim report as at 30 June 2020
26/11/2020	Publication of quarterly group statement as at 30 September 2020

Instone Real Estate Group AG

Grugaplatz 2 – 4
45131 Essen
Germany

Email: info@instone.de