JOINT REPORT

of the Management Board of
Instone Real Estate Group AG, Essen

and

the Managing Directors of
Instone Real Estate Development GmbH, Essen

pursuant to section 293a German Stock Corporation Act (AktG)
on the

draft of the Domination and Profit Transfer Agreement
between

Instone Real Estate Group AG, Essen
and
Instone Real Estate Development GmbH, Essen

INSTONE REAL ESTATE

1. INTRODUCTION

Instone Real Estate AG, registered with the commercial register of the Local Court of Essen under HRB 29362, (hereinafter „Instone AG“) and Instone Real Estate Development GmbH, registered with the commercial court of the Local Court of Essen under HRB 28401, (hereinafter „Subsidiary Company“) have generally agreed upon the conclusion of a Domination and Profit Transfer Agreement according to the draft presented to the General Meeting of Instone AG on 13 June 2019 for resolution (hereinafter „Agreement“). The Agreement provides that the Subsidiary Company puts the management of its company under the control of Instone AG and transfers its whole profit to Instone AG. In return, Instone AG undertakes to adjust any annual deficit.

The Agreement will be presented to the General Meeting of Instone AG on 13 June 2019 for approval. The Board of Directors of Instone AG and the Management Board of the Subsidiary Company jointly issue the following report in accordance with section 293a German Stock Corporation Act (AktG).

2. PARTIES TO THE AGREEMENT

2.1 Instone Real Estate Group AG

Instone AG is a listed stock corporation under German law and the holding company of the Instone group. It came into existence in 2018 by cross-border change of legal form of Instone Real Estate Group N.V. Instone group is one of the leading nationally active developers of residential property in Germany.

The share capital of Instone AG amounts to EUR 36,988,336.00 and is divided into 36,988,336 no-par value bearer shares, each with a calculated share of the share capital in the amount of EUR 1.00. The purpose of the company is the acquisition, development, construction, rental, management, sale or other utilization of properties and buildings as well as the participation in other companies active in the industry. The financial year of Instone AG is the calendar year.

The Management Board of Instone AG currently consists of the following members: Kruno Crepulja (Chairman), Dr. Foruhar Madjlessi, Andreas Gräf and Torsten Kracht. Instone AG is legally represented by two members of the Management Board or by one member of the Management Board acting jointly with an authorized representative (Prokurist). The Supervisory Board of Instone AG currently consists of the following five members: Stefan Brendgen (Chairman), Dr. Jochen Scharpe (Deputy Chairman), Marja Korsch, Dietmar P. Binkowska and Thomas Hegel. All members of the Supervisory Board are elected by the Annual General Meeting.

2.2 Instone Real Estate Development GmbH

(a) The Subsidiary Company came into existence in 2017 by change of legal form of Instone Real Estate Development GmbH & Co. KG. Its share capital amounts to EUR 70,100,100.00. All shares in the Subsidiary Company are wholly and directly held by Instone AG. The purpose of the company is the acquisition, land and building development, management and sale or other utilization of properties and buildings as well as the participation in other companies active on this area of business. The financial year of the Subsidiary Company is the calendar year.

Managing Directors of the Subsidiary Company are all members of the Management Board of Instone AG as well as Harald Meerße and Carsten Sellschopf. The Subsidiary Company is legally represented by two Managing Directors or by one Managing Director acting jointly with an authorized representative (Prokurist).

(b) The Subsidiary Company is one of the operational lead companies with the Instone group. Its present business goes back to the residential property development business department of HOCHTIEF Solutions AG under the brand „formart“ which was acquired by Instone Real Estate Group B.V. (today Instone AG) via the Subsidiary Company in 2014, at that time operating as formart GmbH & Co. KG. Together with other companies of the Instone group, the Subsidiary Company developes modern, urban apartment buildings, complex residential districts and apartment houses in the most important metropolitan areas of Germany (Berlin, Bonn, Cologne, Düsseldorf, Frankfurt a. M., Hamburg, Munich, Leipzig and Stuttgart). At the time this report was signed, the product portfolio consisted of 30 development projects with an expected total turnover after finalization of more than EUR 3,551.7 million. The business activity covers, except for the actual construction, the whole development and value chain and consists of property acquisition, property development, concept planning, construction management, marketing and sales.

During the last three financial years, the Subsidiary Company generated annual net profits of EUR 29,530,382.42 (2016, operating as Real Estate Development GmbH & Co. KG), EUR 23,785,677.53 (2017) and EUR 13,825,803.28 (2018) based on annual statements according to the German Commercial Code (HGB).

3. EXPLANATION OF THE LEGAL AND ECONOMIC REASONS FOR THE CONCLUSION OF THE AGREEMENT AND THE CONSEQUENCES OF THE DOMINATION AND PROFIT TRANSFER AGREEMENT

3.1 The Agreement establishes a fiscal unit for corporate and trade tax purposes between Instone AG and the Subsidiary Company as of the beginning of the financial year during which the Agreement comes into effect (expected for 2019) and strengthens the organizational integration of the Subsidiary Company into Instone AG which is necessary for the already existing fiscal unit for sales tax purposes. The conclusion of a profit transfer agreement for at least five full years is a mandatory legal requirement for the establishment of a fiscal unit for corporate and trade tax purposes. The fiscal unit for sales tax requires, inter alia, an organizational integration of the Subsidiary Company into Instone AG. Even though this has already been ensured by other measures, it will be strengthened by the conclusion of the Agreement.

The fiscal unit established or consolidated by the Agreement results in the direct attribution of profits and losses of the Subsidiary Company as controlled company to Instone AG as parent company for tax purposes. Therefore, positive and negative results can be offset for taxation on the level of Instone AG. Depending on the tax situation of the involved companies, this can result in tax advantages. Without the Agreement, such a broad and complete offsetting of tax results would not be possible. Furthermore, the establishment of a fiscal unit avoids taxes which would otherwise be incurred on the distribution of profits of the Subsidiary Company to Instone AG.

3.1 There is no economically reasonable alternative to the conclusion of the Agreement. According to section 14 (1) sentence 1 in conjunction with section 17 (1) German Corporation Tax Act (KStG), the conclusion of the Agreement is a mandatory requirement for the establishment of a fiscal unit between the Subsidiary Company as controlled company and Instone AG as parent company for corporate and trade tax purposes; therefore, according tax advantages can only be realized by concluding the Agreement.

3.3 An overall assessment of the Agreement shows its advantageousness for both Instone AG and the Subsidiary Company.

4. EXPLANATION OF THE DOMINATION AND PROFIT TRANSFER AGREEMENT

4.1 The Agreement constitutes an inter-company agreement pursuant to section 291 (1) sentence 1 German Stock Corporation Act (AktG). It must be made in writing, but does not need to be notarized. In order to become effective, the Agreement has to be approved by the General Meeting of Instone AG as well as the Shareholders' Meeting of the Subsidiary Company and to be registered with the commercial register of the Subsidiary Company. The resolution to be approved by the General Meeting of Instone AG on 13th June 2019 requires a majority of three quarters of the share capital represented at the adoption of the resolution.

Pursuant to various financing contracts, the Subsidiary Company's distribution of profits to Instone AG is restricted, or the conclusion of an inter-company agreement without prior approval by the respective lender might under certain circumstances lead to an extraordinary termination right. Against this background, the Agreement shall only be concluded and the Management Board of Instone AG will only approve the conclusion of the Agreement at the shareholders' meeting of the Subsidiary Company and work towards the subsequent application for registration with the commercial register of the Subsidiary Company as soon as the Management Board ascertains that either the respective loans have been fully replaced, or the respective lenders have approved the conclusion of the Agreement, or, in the view of the Management Board and the Supervisory Board of Instone AG, the conclusion of the Agreement does not entail any financial disadvantages for the company, notwithstanding the previous requirements. If none of these conditions is met until 31st December 2019, the Agreement will not be concluded and the approval resolution presented to the General Meeting of Instone AG for adoption will become definitely ineffective. However, if one of the conditions is timely met, the Agreement will be concluded without undue delay and the Management Board will approve the conclusion of the Agreement at the shareholders' meeting of the Subsidiary Company without undue delay and subsequently work towards the application for registration with the commercial register of the Subsidiary Company without undue delay.

4.2 The individual provisions of the Agreement are explained as follows:

(a) Pursuant to Article 1, the Subsidiary Company puts the management of its company under the control of Instone Real Estate Group AG which is entitled to issue instructions to the Managing Directors of the Subsidiary Company. The Managing Directors of the Subsidiary Company are obliged to comply with such instructions, even if they are disadvantageous for the Subsidiary Company, as long as they serve the interests of Instone AG or companies affiliated with the parties. Regardless of the right of instruction, management and representation of the Subsidiary Company are still incumbent upon its Managing Directors. Besides or instead of issuing instructions, Instone AG may determine that certain business transactions or certain types of business of the Subsidiary Company require its approval.

(b) In Article 2.1, the Subsidiary Company undertakes to transfer its whole profit to Instone AG in accordance with section 301 German Stock Corporation Act (AktG), as amended. Subject to establishing or dissolving revenue reserves pursuant to Article 2.2 and 2.3, the annual net profit without the distribution of profit, reduced by any losses carried forward from the previous year and any amount that must not be distributed according to legal provisions (particularly section 268 (8) German Commercial Code (HGB)), shall be transferred. This obligation to transfer profits is mandatory requirement for the establishment of a fiscal unit for tax purposes (section 14 (1) sentence 1 in conjunction with section 17 (1) German Corporation Tax Act (KStG)).

The transfer of amounts to other revenue reserves is, for the duration of the agreement, only allowed with consent of Instone AG and as far as permitted by commercial law and reasonable from a commercial evaluation; the accumulation of statutory reserves is permitted (Article 2.2). For the duration of the agreement, only revenue reserves which have been established during its term may be terminated and transferred as profit; the transfer of capital and revenue reserves which have been generated prior to the Agreement is excluded (Article 2.3).

Instone AG may request a transfer of profit by the Subsidiary Company during the course of the year, if and to the extent permitted by law (Article 2.4). Provided that the Agreement does not end prior to the end of a financial year of the Subsidiary Company, the entitlement to the transfer of profit arises at the end of its financial year. Such claim becomes due at this date and bears interest as of this date at the rate of the statutory interest. The obligation to transfer profit applies with retroactive effect to the beginning of the financial year during which the Agreement comes into effect by registration with the commercial register of the Subsidiary Company.

(c) Pursuant to Article 3, Instone AG is obliged to assume any loss of the Subsidiary Company in accordance with section 302 German Stock Corporation Act (AktG), as amended. Therefore, Instone AG must compensate any annual deficit which would occur otherwise – i. e. without consideration of the obligation to assume loss –, as long as it is not compensated by dissolution of other revenue reserves which have been generated in the course of the Agreement. Just as the transfer of profit, the assumption of loss is a mandatory legal requirement for establishing a fiscal unit for corporate and trade tax purposes. Provided that the Agreement does not end prior to the end of a financial year of the Subsidiary Company, the entitlement to the transfer of profit arises at the end of its financial year. Such claim becomes due at this date and bears interest as of this date on at the rate of the statutory interest. The obligation to assume loss applies with retroactive effect to the beginning of the financial year during which the Agreement comes into effect by registration with the commercial register of the Subsidiary Company.

(d) Article 4.1 makes clear that the Agreement requires the registration with the commercial register of the Subsidiary Company to become effective. This follows from section 294 (2) German Stock Corporation Act (AktG) which is correspondingly applicable. The registration, in turn, requires approval of both the General Meeting of Instone AG and the Shareholders' Meeting of the Subsidiary Company.

The agreement is concluded for an indefinite period. It can be ordinarily terminated with a notice period of three months to the end of a financial year of the Subsidiary Company, for the first time, however, to the end of the financial year of the Subsidiary Company which ends at least five full years after the beginning of the financial year of the Subsidiary Company during which the agreement comes into effect. This minimum term is another requirement for recognition of a fiscal unit for corporate and trade tax purposes (Article 4.2).

However, the right of extraordinary termination due to important reason – even before the end of the minimum term – remains unaffected. An important reason is particularly given in case of insolvency, merger, demerger or liquidation of Instone AG or the Subsidiary Company; furthermore, if Instone AG does not directly hold the majority of voting rights following out of its shares in the Subsidiary Company any more due to transfer or contribution of shares, or if an external shareholder holds an interest in the Subsidiary Company due to transfer or contribution of shares for the first time according to section 307 German Stock Corporation Act (AktG). In case of a transfer or contribution of shares, Instone AG may also terminate the agreement from the date of the conclusion of the promissory contract on transfer or contribution of shares in the Subsidiary Company with effect as of the date of the transfer of the shares or an earlier date. In any case, the termination must be made in writing according to Article 4.4 (section 126 German Civil Code (BGB)).

(e) In order to ensure the tax recognition of the Agreement, sections 14 and 17 German Corporate Tax Act (KStG), as amended, shall be considered for its interpretation (Article 5.1). Article 5.2 contains a usual severability clause which allows for continuance of the contract, should provisions of this agreement be or become wholly or partially invalid or unenforceable or should the agreement contain a gap. If the Agreement requires a declaration to be made in written form, Article 5.3 determines in the interest of legal certainty that the regarding declaration must be personally signed and submitted as an original. The electronic form (section 126a German Civil Code (BGB)) is not sufficient. Pursuant to Article 5.4, place of performance and place of jurisdiction for both parties is Essen.

4.3 Since Instone AG is directly sole shareholder of the Subsidiary Company, the Agreement must not contain any provisions for compensation (section 304 German Stock Corporation Act (AktG)) or indemnity (section 305 German Stock Corporation Act (AktG)). For the same reason, a formal review by one or more competent auditors according to section 293b (1) German Stock Corporation Act (AktG) is dispensable.

Essen, 16 April 2019

Instone Real Estate Group AG

Crepulja
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Crepulja, (Chairman of the Management Board)

Madjlessi
....
Dr. Madjlessi, (Member of the Management Board)

Gräf
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Gräf, (Member of the Management Board)

Kracht
....
Kracht, (Member of the Management Board)

Essen, 25 April 2019

Instone Real Estate Development GmbH

Crepulja
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Crepulja, (Managing Director)

Madjlessi
....
Dr. Madjlessi, (Managing Director)

Gräf
....
Gräf, (Managing Director)

Kracht
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Kracht, (Managing Director)

Meerße
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Meerße, (Managing Director)

Sellschopf
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Sellschopf, (Managing Director)

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