

» LETTER TO OUR SHAREHOLDERS

Frankfurt/Main and Berlin, March 2016

**Dear Sir or Madam,
Dear Shareholders,**

We have just been through what was perhaps the most turbulent year in the history of Deutsche Wohnen. On the one hand, we were taken up with various transactions that required the deployment of considerable resources – on the other hand, we consistently drove our business operations forward and, in so doing, achieved excellent results. Consequently, with the above-average rent potential of our high-quality portfolio, our successful Disposals segment and our value-creating acquisitions we are better placed today than ever before.

Key figures reach record level

This is also shown by the outstanding figures from the financial year 2015: Last year we were able once again to achieve marked increases in all our key figures and even to surpass our own forecasts. The consolidated result was EUR 1,206.6 million thereby EUR 317.3 million, or a good third, higher than the figure for the previous year. This increase is mainly attributable to the gains from the revaluation of our properties. Adjusted earnings before taxes rose by 36% to EUR 384.4 million. In particular, improved earnings from disposals, reduced administrative costs following the complete integration of GSW, and lower financing expenses due to the successful refinancing measures of the past two years contributed to this increase. Thanks to acquisitions and operational improvements in our existing holdings, FFO I (Funds from Operations without disposals), which is a very significant figure for us, rose markedly by 39% to EUR 303.0 million or by 25% to EUR 0.94 per share. Against the background of the excellent development of our portfolio, we were able to significantly improve EPRA NAV (undiluted) by 29% from EUR 17.86 to EUR 23.01 per share.

Not all M&A goals achieved

However, 2015 was also characterised by transaction plans that did not come to fruition. Despite the initial support by major individual shareholders, we were unable to acquire the Austrian firm conwert Immobilien Invest SE at an acceptable price. In September, we then announced our intention of a friendly merger with LEG Immobilien AG. Here too we were in close contact with our investors. However, it was not clear at the start if we would achieve the necessary majority. Moreover, our plans were disrupted by the hostile takeover bid of Vonovia SE in October 2015,

which scuppered our takeover of LEG. Together with the Supervisory Board we opposed this hostile takeover and the unattractive conditions being offered by Vonovia. Our shareholders took the same view – because on 12 February 2016 Vonovia was forced to announce that it had missed the minimum acceptance threshold of 50% of the share capital by a long way. At this point, we would like to express our very sincere thanks to our shareholders for your support and trust. Our intensive dialogue with you was decisive and an important source of guidance. We will do everything we can to continue to justify your trust in our company in future.

Sustainable business model remains our strong foundation

Ladies and gentlemen, the good news is that even in a challenging environment our investment and growth strategy, which is designed to run over the long term, is successful.

Last year we acquired around 22,000 residential units in a variety of transactions. As at the end of 2015, our portfolio comprises more than 148,000 residential and commercial units with a fair value of approximately EUR 12 billion. In the financial year 2015 alone, the annual portfolio valuation produced an increase in value of EUR 1.7 billion, which was mainly attributable to higher valuations in Greater Berlin.

The areas of modernisation and new building are also contributing successfully to the organic growth of Deutsche Wohnen. For example, we have now expanded the modernisation programme for EUR 280 million that we started in 2014 to EUR 400 million and have extended the programme's duration beyond 2018. We also started a new build project again for the first time in 20 years. This project in Potsdam is based on a holistic and sustainable planning approach and has now been brought to a successful conclusion. Further new build projects are already being planned.

We were able to further optimise our financing conditions and to make use of the continuing low-interest environment to comprehensively refinance loans of approximately EUR 1.3 billion. At the same time, we succeeded in further diversifying our financing sources. As a result of these refinancing efforts, our average rate of interest fell from 2.5% to 1.8% p.a. As at the end of 2015, we had reduced our Loan-to-Value Ratio significantly to approximately 38%.

With this sustainable financing structure, Deutsche Wohnen is excellently positioned in the market. This is also shown by the fact that our long-term company ratings – which were only given to us in the previous year – were increased by the rating agencies S&P and Moody's to A- and A3 respectively. This makes us one of the most highly rated companies in the European real estate sector and underlines our conservative investment profile.

Employees contribute significantly to success

Our outstanding operating result would not have been possible in this demanding financial year without our committed employees and their exemplary work. Our senior management team was also very goal-oriented in its work and was a great support to us. At this point, we would like to express our sincere thanks for the high level of commitment of all our employees, their tireless efforts and their hard work on behalf of the company – even in turbulent times.

Capital markets recognise the success of the company

In 2015, the Deutsche Wohnen share price developed positively once again: Within one year the share price increased by 31% and, in doing so, was also able to outperform the positive trends of industry benchmarks like EPRA Germany. Subject to approval by the Annual General Meeting, our shareholders will also profit from a dividend of EUR 0.54 per share, which is a good 20% higher than the dividend for the previous year. Furthermore, against the background of the consistently positive development of our business, we intend to increase the pay-out ratio for the dividend payable for the financial year 2016 from its current level of 60% to 65% of FFO I.

Continuing our sustainable growth strategy

Ladies and gentlemen, we will continue our long-term growth strategy in the financial year 2016 as well. We want to make further targeted acquisitions and, by so doing, to take advantage of opportunities in our growth markets. Moreover, our focus will continue to be on the acquisition of concentrated portfolios in these German markets.

Following the eventful financial year of 2015, we are very pleased to continue the success story of Deutsche Wohnen in the coming year as well. At the same time, we will always keep in mind the claim made by this annual report, namely “Perfect is not enough”. It is and remains our ambition never to rest on our achievements but to better ourselves continuously – in everything we do.

Best regards



Michael Zahn
Chief Executive Officer (CEO)



Lars Wittan
Chief Investment Officer (CIO)