

Report of the Management Board on Agenda Item 16 (Passing of a resolution concerning the authorization to issue stock options to Members of the Management Board of Deutsche Wohnen AG and to selected executives of Deutsche Wohnen AG and affiliated companies, the creation of Conditional Capital 2014/III to service stock options and the corresponding amendments to the Articles of Association)

With regard to Agenda Item 16 the Management Board and the Supervisory Board recommend authorizing the Management Board, for up to four years after the Conditional Capital 2014/III takes effect through entry in the commercial register, but at least until the end of 16 weeks after the closing of the ordinary General Shareholders Meeting 2018, to grant to Members of the Management Board of the company and selected executives of the Company and affiliated companies up to 12,879,752 subscription rights to 12,879,752 no-par value bearer shares of the Company. Due to the assigned purpose of the new conditional capital, the shareholders are not entitled to subscription rights for the new shares if the conditional capital is used, in accordance with provisions of the German Stock Corporation Act (*AktG*). In the following, the Management Board reports on the reasons for the creation of the Conditional Capital 2014/III.

The Management Board and the Supervisory Board are in agreement that stock options at the Company and its affiliated companies will comprise part of the long-term variable compensation. They act as sustainable incentives for Members of the Management Board as well as selected executives. The introduction of the stock options program 2014 (“**AOP 2014**”) is to allow those persons who shape and implement the Company’s strategy and thus bear major responsibility for the Company’s growth to participate in the Company’s risks and opportunities. A sustainable and long-term increase in the value of the Company can be achieved only through continuous motivation management of the Company and its affiliated companies. The granting of stock options as part of the performance-based compensation ensures and encourages this motivation, boosts the eligible persons’ identification with the Company, and intensifies their loyalty to the Company.

The content of AOP 2014 is described under Agenda Item 16. Some additional details on AOP 2014 are provided below.

The feature of AOP 2014 of Deutsche Wohnen AG is that shares issued for the exercising of stock options are used as a performance-based cash bonus, which would otherwise be paid out as variable long-term cash compensation. Depending on whether the performance targets have been achieved, the persons eligible receive a specific number of shares when they exercise their subscription rights

In order to raise the incentive for increasing the long-term value of the Company in the interest of all shareholders, the proposal calls for a holding period for exercising subscription rights and the possibility of exercising the stock options over a period of three years. In accordance with Section 193 paragraph 2 number 4 German Stock Corporation Act (*AktG*), the holding period of a tranche of stock options begins with the issue day and terminates with the end of the fourth anniversary of the issue day. Stock options that have not been exercised by the end of the resulting seven-year term, or which could not be exercised, lapse without replacement or compensation.

In the interest of shareholders in the long-term growth of the Company, stock option rights may be exercised only if demanding performance targets have been achieved by the end of the holding period. Stock options can be exercised only if and to the extent the following performance targets have been achieved: Increase of the (i) “adjusted NAV per share”, (ii) “FFO (not including sales) of the share” and (iii) share price. In the view of the Management Board and Supervisory Board, these differentiated performance targets are in line with the expectations of the capital market. They take into consideration the relative performance of the Company’s shares compared to the competition in the form of German listed companies in the EPRA/NAREIT Germany Index, as well as the absolute performance of the industry-specific corporate metrics of NAV and FFO. As the Persons Eligible for Subscription have a claim on the issue of shares of the Company following the exercising of the stock options, the performance incentive also applies to an absolute increase in the Company value as reflected in the share price of Deutsche Wohnen. Subscribed shares may therefore be sold by the Persons Eligible For Subscription without the need to observe upper limits on the total value of the shares.

The issuing of annual tranches over the next four years and the specific conditions for the stock options, in particular the holding period and term as well as the blackout periods, will result in AOP 2014 being linked to the sustainable development of the Company. Via the blackout periods, during which stock options may not be exercised, periods of time during which eligible persons could typically have access to insider information are excluded for exercising options – such exercise prohibition is also mandated under capital market laws.

As the performance targets have a multi-year basis, AOP 2014 complies with legal requirements set by the German Stock Corporation Act (*AktG*) and the German Corporate Governance Code (*DCGK*) regarding variable compensation. The variable compensation component participates in positive as well as, if one or several performance targets are not met, in negative developments during the assessment period. This purpose of this is to motivate the eligible persons to direct their actions toward achieving the goal of long-growth for the Company. In accordance with Section 87 paragraph 1 sentence 3 clause 2 German Stock Corporation Act (*AktG*), the au-

thorization also allows the Supervisory Board to partly or wholly limit the content and the size of the subscription rights granted to the Management Board if there are extraordinary, unforeseen developments.

AOP 2014 is also meant to consistently supplement the existing compensation components of the eligible persons with a variable compensation based on a multi-year basis, thereby ensuring there is an adequate, competitive overall compensation with various incentives for the Members of the Management Board and selected executives of the Company and of the affiliated companies. Thus AOP 2014 is also a key element of the compensation system that the Supervisory Board has decided and which is shown in the compensation report and under Agenda Item 7 on the compensation of Members of the Management Board and which is proposed to the General Shareholders Meeting for approval under Agenda Item 7.