» ANNUAL GENERAL MEETING 2017

Deutsche Wohnen AG
Frankfurt/Main

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Annual General Meeting of Deutsche Wohnen AG,
on Friday, 2 June 2017, at 10:00 a.m. (CEST)

at Kap Europa, Osloer Straße 5, 60327 Frankfurt/Main

Management Board report on Agenda Item 8 (Resolution on the creation of Authorized Capital 2017 with the possibility to exclude subscription rights and cancel the existing authorized capital, as well as the associated amendment to the Articles of Association)

With regard to Agenda Item 8 of the Annual General Meeting on June 2, 2017, the Management Board and the Supervisory Board propose to cancel the partially unutilized Authorized Capital 2015 and replace this with a new authorized capital (Authorized Capital 2017). Pursuant to Section 203 para. 2 sentence 2, in conjunction with Section 186 para. 4 sentence 2 AktG, the Management Board shall provide this report on Agenda Item 8 concerning the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares:

By means of a resolution of the Annual General Meeting on June 12, 2015, the Management Board was authorized, with the consent of the Supervisory Board, to increase the share capital of the Company, on one or several occasions during the period until June 11, 2018, by up to EUR 100,000,000.00, by issuing up to 100,000,000 new, no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2015).

With partial use of this authorization, the Company in February 2017 increased its share capital against cash contributions and excluding shareholders' subscription rights pursuant to Section 186 para. 3 sentence 4 AktG by EUR 17,174,110.00 from EUR 337,480,450.00 to EUR 354,654,560.00. This corresponds to a pro rata amount of the Company's share capital of approximately 5.1% of the share capital, based both on the effective date and on the date on which the Authorized Capital 2015 was utilized.

The Management Board was also authorized by resolution of the Annual General Meeting on June 12, 2015, with the consent of the Supervisory Board until June 11, 2020, to issue one or multiple convertible bearer bonds, bonds with warrants, participation rights and/or participating bonds (or a combination of these instruments) with a nominal value of up to EUR 1,500,000,000.00 with or without restrictions on maturity. On February 27, 2017, the Company, by means of a private placement, issued a convertible bond with a total nominal value of EUR 800,000,000.00 against cash contributions and with the exclusion of shareholders' subscription rights pursuant to Section 186 para. 3 sentence 4 AktG. These were initially convertible into approximately 16.5 million new or existing bearer shares of Deutsche Wohnen AG. This corresponds to a pro rata amount of the Company's share capital of just under 4.9% of the share capital, based both on the date on which the authorization became effective and on the date on which the authorization was exercised.

Pursuant to Article 4a para. 2 (iii) of the Articles of Association of the Company, when accounting for the restrictions set out by Section 186 para. 3 sentence 4 AktG, inter alia, shares shall be included that were issued to service bonds carrying conversion or option rights, or conversion or option obligations, or are to be issued based on the conversion price prevailing at the time of the resolution of the Management Board on the utilization of the Authorized Capital 2015, insofar as these bonds were issued, as specified by Section 186 para. 3 sentence 4 AktG, during the period of this authorization, with the exclusion of subscription rights. Accordingly, the authorization to exercise the Authorized Capital 2015 against cash contributions and exclusion of subscription rights pursuant to Article 4a para. 2 (iii) of the Articles of Association was almost fully utilized.

In order for the Company to remain flexible in the future to increase its equity capital as necessary (including issuing new shares against cash contributions and with the exclusion of subscription rights), the existing Authorized Capital 2015 is to be canceled, a new authorized capital is to be resolved and the Articles of Association are to be amended accordingly. The new authorized capital under item 8 a) of the agenda to the Annual General Meeting on June 2, 2017, shall authorize the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital, on one or several occasions during the period until June 1, 2020, by up to EUR 110,000,000.00, by issuing up to 110,000,000 new no-par value bearer shares in return for contributions in cash and/or in kind (Authorized Capital 2017).

The Authorized Capital 2017 will enable the Company to continue to raise the capital it needs for its further development on the capital markets in the short term by issuing new shares, and to be flexible enough to benefit from a favorable market environment in order to fulfill any future financing requirements quickly. As decisions regarding the fulfillment of any future capital requirements generally have to be taken at short notice, it is important that the Company is not restricted by the frequency of the Annual General Meetings or by the long notice period required for convening an Extraordinary General Meeting. Legislators have made accommodations for this situation in the form of the “Authorized Capital”.

Upon utilization of the Authorized Capital 2017 for the issuance of shares against contributions in cash, shareholders shall have subscription rights in principle (Section 203 para. 1 sentence 1, in conjunction with Section 186 para. 1 AktG), although indirect subscription rights within the meaning of Section 186 para. 5 AktG shall also suffice. According to the law, the issuance of shares with the granting of such an indirect subscription right is not deemed to be an exclusion of subscription rights. Shareholders are ultimately granted the same subscription rights as with a direct subscription. For settlement-related reasons, only one or several banks are involved in the transaction.

The Management Board shall, however, be authorized, with the consent of the Supervisory Board, to exclude subscription rights in certain cases.

(i) The Management Board shall, with the consent of the Supervisory Board, be able to exclude subscription rights for fractional amounts. The aim of this exclusion of subscription rights is to simplify the process of issuing new shares with basic subscription rights to shareholders, as this makes a technically feasible subscription ratio possible. The value of the fractional amounts is usually low per shareholder; therefore, the potential dilutive effect is likewise considered to be low. On the other hand, the cost of issuing shares without such an exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and easier to carry out. The fractions of new shares excluded from the shareholders' subscription rights shall be realized either by sale on the stock exchange or in any other manner so as to best further the Company's interests. The Management Board and Supervisory Board deem the potential exclusion of subscription rights as factually justified for these reasons and reasonable in consideration of shareholder interests.

(ii) The Management Board shall also be able to exclude subscription rights, with the consent of the Supervisory Board, insofar as this is necessary to grant the holders or creditors of convertible bonds, bonds with warrants, participation rights and/or participating bonds (or combinations of these instruments) (bonds). The terms and conditions of issuance for bonds with conversion or option rights or conversion or option obligations often contain a dilution protection provision, which grants the holders or creditors a subscription right to new shares in the event of subsequent share issues and certain other measures. They will thus be treated as though they were already shareholders. In order to be able to provide the bonds with such dilution protection, shareholders' subscription rights must be excluded from these shares. This facilitates the placement of the bonds and thus fulfills the shareholders' interests in the Company having an optimum financial structure. Furthermore, the exclusion of subscription rights also has the advantage for the holders or creditors of bonds that, in the case of the authorization being exercised, the option or conversion price for the holders or creditors of already existing bonds does not have to be discounted in accordance with the respective terms and conditions of the bonds.

(iii) Subscription rights can also be excluded in the event of cash capital increases, if the shares are issued at a price that is not significantly lower than the market price and such an increase in capital does not exceed 10% of the share capital (simplified exclusion of subscription rights in accordance with Section 186 para. 3 sentence 4 AktG).

The authorization enables the Company to respond flexibly to any favorable capital market situations that arise and to flexibly place new shares at very short notice, i.e., without having to offer subscriptions for at least two weeks. The exclusion of subscription rights allows for an extremely quick response and placement close to the market price, i.e., without the usual discount for issuing subscriptions. This lays the foundations for achieving the highest possible disposal amount and for increasing equity as much as possible. The authorization for the simplified exclusion of subscription rights is objectively justified not least by the fact that an increased cash inflow can often be generated.

Such a capital increase must not exceed 10% of the share capital that exists on the date on which the authorization becomes effective or on the date on which it is exercised. The resolution proposal also provides for a deduction clause. The restriction to a maximum of 10% of the share capital, to which this exclusion of subscription rights relates, shall include shares that were issued to service bonds with conversion or option rights or conversion or option obligations pursuant to Section 221 para. 4 sentence 2, in conjunction with Section 186 para. 3 sentence 4 AktG, during the term of this authorization, with the exclusion of subscription rights, or which are to be issued based on the conversion price prevailing at the time of the resolution of the Management Board concerning the utilization of the Authorized Capital 2017, insofar as these bonds were issued, as specified by Section 186 para. 3 sentence 4 AktG, during the period of this authorization, with the exclusion of subscription rights. The sale of treasury shares shall also be included, insofar as they are sold within the term of this authorization based on an authorization pursuant to Section 71 para. 1 No. 8 sentence 5 clause 2, in conjunction with Section 186 para. 3 sentence 4 AktG, with the exclusion of subscription rights.

The simplified exclusion of subscription rights strictly specifies that the issue price of the new shares may not be significantly lower than the market price. Any discount on the prevailing market price or the volume-weighted market price during an appropriate period prior to the final fixing of the issue amount shall, with the exception of special circumstances in individual cases, presumably be no more than approx. 5% of the relevant market price. This also takes into account the shareholders' protection requirement in terms of a dilution of the value of their shareholding. Fixing the issue price close to the market price ensures that the value of a subscription right to the new shares is very low, to all intents and purposes. Shareholders have the option to maintain their relative shareholding by acquiring the requisite number of shares on the stock exchange.

(iv) Shareholders' subscription rights are also to be excluded for shares designated to be issued to employees of the Company and/or its affiliates, and in particular as part of the stock option program described under Agenda Item 16 of the Company's Annual General Meeting on June 11, 2014, whereby the pro rata amount of the new shares issued from the share capital must not exceed a total of 5% of the share capital of the Company, either on the date the resolution for this authorization is passed by the Annual General Meeting, or on the date on which this authorization is exercised. The issue of employee shares shall give employees a stake in the Company and allow them to participate in its success, thus helping to increase employee loyalty to the Company. The shares issued in accordance with this authorization, together with treasury shares of the Company and Company shares from conditional capital issued to employees or executive bodies of the Company or its affiliates, must not exceed a pro rata amount of 5% of the share capital, either at the date on which the resolution for this authorization is passed by the Annual General Meeting, or the date on which this authorization is exercised.

(v) Subscription rights can also be excluded for capital increases against contributions in kind. The Company should also be able to continue to make acquisitions, in particular of companies, parts of companies, participations or other assets (in particular real estate portfolios and shares in real estate companies), and respond to acquisition and merger offers, to strengthen its competitiveness, and increase the profitability and value of the Company. Furthermore, the exclusion of subscription rights shall also be used to service conversion or option rights, or conversion or option obligations, arising from bonds issued against contributions in kind.

Experience shows that shareholders of attractive acquisition targets will sometimes have a strong interest – e.g. in order to maintain a certain influence over the contribution in kind – in acquiring no-par value shares in the Company as compensation. The option to use other means of payment, rather than just cash, but also shares, or exclusively shares, also has the advantage – from the perspective of achieving an optimum financing structure – where new shares can be used as acquisition currency, of protecting the Company's liquidity, avoiding borrowing, and allowing the seller to participate in future share performance. This results in an improvement in the Company's competitive position in terms of acquisitions.

The option to use Company shares as acquisition currency thus gives the Company the necessary scope to seize such acquisition opportunities quickly and flexibly, and allows the Company to acquire even larger entities in return for shares. It should also be possible, in some circumstances, to acquire assets and commodities (in particular, real estate portfolios and shares in real estate companies) in return for shares. In both cases, it must be possible to exclude shareholders' subscription rights. Given that such acquisitions often have to be made at short notice, it is important that these decisions are not generally resolved at Annual General Meetings, which are held just once a year. This requires an authorized capital, which the Management Board is able to access quickly with the consent of the Supervisory Board.

The same applies to the servicing of conversion or option rights, or conversion or option obligations, arising from bonds, which are likewise issued for the purpose of acquiring companies, parts of companies, participations in companies, or other assets, based on the authorization under Agenda Item 9 of the Annual General Meeting on June 2, 2017, with the exclusion of shareholders' subscription rights. New shares are issued against contributions in kind, either in the form of the bond to be provided or the contribution in kind made on the bond. This increases the Company's flexibility with respect to servicing the conversion or option rights, or conversion or option obligations. Offering bonds instead of or in addition to granting shares or cash contributions can be an attractive alternative, which increases the Company's competitive position in terms of acquisitions, due to the additional flexibility of bonds. The shareholders are protected by the subscription right allocated to them upon issue of the bonds with conversion or option rights, or conversion or option obligations.

Instances in which subscription rights can be excluded for bonds carrying conversion or option rights or conversion or option obligations are detailed in the report on Agenda Item 9. When opportunities arise to merge with other companies or to acquire companies, parts of companies, participations in companies, or other assets, the Management Board shall carefully check in each case whether it should make use of the authorization to increase capital by granting new shares. This also includes, in particular, reviewing the valuation ratio between the company and the investment made in the company or other assets, as well as the setting of the issue price for new shares and the other terms of share issuance. The Management Board shall use the authorized capital only if it is confident that the merger with or acquisition of the company or part of the company or the acquisition of a shareholding in return for the granting of new shares is in the best interests of the Company and its shareholders. The Supervisory Board shall only grant its required consent if it is of the same opinion.

The aforementioned authorizations for excluding subscription rights may not, in sum, exceed 20% of the share capital, either at the date on which the authorization becomes effective or the date on which such authorization is exercised. This 20% limit shall also include treasury shares sold during the term of this authorization, with the exclusion of subscription rights, as well as those shares issued to service bonds (including participation rights) carrying conversion or option rights or a conversion obligation (or a combination of these instruments), provided the bonds or participation rights were issued during the term of this authorization, with the exclusion of shareholders' subscription rights. Furthermore, the above-mentioned 20% restriction shall also include those shares issued from conditional capital to service stock option rights, provided that the stock option rights are granted during the term of this authorization. This restriction also limits any potential dilution of voting rights of shareholders excluded from subscription rights. In consideration of all of these circumstances, the authorization to exclude subscription rights within the outlined limits is necessary, commensurate, appropriate and in the interest of the Company.

If, during the course of a financial year, the Management Board exercises one of the aforementioned authorizations to exclude subscription rights as part of a capital increase from the Authorized Capital 2017, the Management Board shall report on this matter at the next Annual General Meeting.