» 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

Report of the Management Board on the partial utilization of Authorized Capital 2015 against cash contributions excluding shareholders' subscription rights in February 2017

On the basis of a resolution of the Management Board of February 21, 2017, and a resolution of principle of the Executive Committee of the Supervisory Board of February 21, 2017, that was authorized by the decision of principle of the Supervisory Board on February 16, 2017, the Authorized Capital 2015 was used partially by a volume of EUR 17,174,110.00 in February 2017. In the process of the share capital increase against contributions in kind – entered in the commercial register on February 23, 2017 –, the subscription rights of the existing shareholder were excluded. In the course of the capital increase, the Company's share capital was increased from EUR 337,480,450.00 by EUR 17,174,110.00 to EUR 354,654,560.00. The volume of the capital increase using authorized capital under exclusion of subscription rights corresponds to a pro rata amount of 5.1% of the Company's share capital with regards both to the share capital on the effective date of the Authorized Capital 2015 on July 14, 2015, and the share capital on the date of the utilization of the Authorized Capital 2015. The volume restriction on share capital increases against contributions in kind under exclusion of subscription rights as provided in the Authorized Capital 2015 was adhered to, even against the backdrop of the simultaneous issue of convertible bonds in February 2017. The convertible bonds were initially convertible into 16.5 million new or existing no-par value bearer shares of Deutsche Wohnen AG. This corresponds to a pro rata amount of 4.9% of the share capital with regards to both the effective date and the time of the utilization of the authorization to issue convertible bonds granted on June 12, 2015.

The new shares were subscribed by Deutsche Bank Aktiengesellschaft, Goldman Sachs International, UBS Limited, and BNP Paribas. Deutsche Bank Aktiengesellschaft, Goldman Sachs International, UBS Limited, BNP Paribas were obliged to offer and transfer shares to institutional investors including existing investors within a private placement using the method of accelerated bookbuilding. The new shares were issuant pursuant to a Management Board resolution of February 21, 2017, at a price of EUR 31.75. The Executive Committee of the Supervisory Board has agreed to this resolution regarding the placement price being fixed with the resolution from February 21, 2017. The difference between the minimum issue price of EUR 1.00 and the placement price of the new shares (issue price pursuant to Section 186 para. 3 sentence 4 AktG) minus fees and costs was treated as an additional voluntary contribution to the Company's equity capital.

The new shares were admitted to trading on February 24, 2017, and included in the existing quotation of the Company's shares in the Prime Standard Segment with additional post-admission duties of the regulated market of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) on February 27, 2017. The gross placement proceeds from the capital increase amounted to EUR 545 million. The proceeds shall be used for the most part to finance a repurchase offer regarding the convertible bonds issued on November 22, 2013, that are due in 2020. The remaining proceeds shall be used together with the proceeds of the issue of the Convertible Bonds 2017 primarily to finance future acquisitions, the acquisition of the Pegasus Pflegeheim portfolio already announced in the third quarter of 2016, as well as to acquire additional smaller portfolios.

In the determination of the price, the requirements of Section 203 para. 1 and Section 186 para. 3 sentence 4 of the AktG were adhered to as required by the Authorized Capital 2015 for the exclusion of subscription rights in a capital increase against cash contributions of up to 10% of the share capital. According to these requirements, the price for new shares must not be set significantly below the stock exchange price of the Company's shares.

The set offer price per share of EUR 31.75 corresponds to a discount of 2.1% on the XETRA closing price of the Company's shares on February 21, 2017. Therefore, the discount falls in the accepted range for insignificant discounts to the stock exchange price.

The exclusion of subscription rights uses the opportunity provided by Section 203 para. 1 and Section 186 para. 3 sentence 4 of the AktG to exclude subscription rights for companies traded on stock exchanges in cash capital increases. The exclusion of subscription rights was necessary at the time of the partial utilization of the Authorized Capital 2015 to make short-term use of the favorable market situation and to maximize proceeds, in the view of the Management Board and the committee on capital-related measures of the Supervisory Board, by setting a price close to market prices. As a subscription period of two weeks is otherwise required by law (Section 186 para. 1 sentence 2 AktG), granting subscription rights would have prohibited a short-term reaction to the then-current market situation.

In addition, when granting subscription rights, the final subscription price has to be disclosed three days before the conclusion of the subscription period at the latest (Section 186 para. 2 sentence 2 AktG). Because of the longer period of time between price determination and the execution of the capital increase, stock market volatility leads to a higher risk of price changes compared to an issue without subscription right. A successful placement in a capital increase transaction with subscription rights would have necessitated an adequate discount to the then-current stock exchange price thereby leading to offer conditions prospectively not close to market. For the aforementioned reasons, the exclusion of subscription rights was in the best interest of the Company. The interests of the existing shareholders were adequately accounted for by fixing the offer price close to the then-current stock exchange price, and by limiting the volume of the capital increase to 5.1% of the share capital on the effective date of the Authorized Capital 2015. In consideration of the liquidity of the Company's share capital, the existing shareholders can maintain their relative shareholdings in the Company by purchasing additional shares over the stock exchange at comparable prices. By issuing new shares at a price close to the then-current stock exchange price, it was ensured that the capital increase would not lead to a significant economic dilution of the existing shareholders.

Pursuant to the authorization in Section 4a of the Articles of Association of the Company, the issue of new shares with profit participation started at January 1, 2016. Therefore, the new shares had the same profit participation rights attached as old shares. Accordingly, it is unnecessary to assign a new securities number for the new shares until the date of the Annual General Meeting. Thus, a prospective low stock liquidity when trading under a special securities number leading to an aggravated marketability and possibly discount was avoided. For this reason, tying the profit participation rights of the new shares to the beginning of the fiscal year 2016 was in the best interest of the Company.

In light of the abovementioned considerations, subscription rights – taking the requirements of the Authorized Capital 2015 into account – were excluded and objectively justified.