Deutsche Wohnen

CON SIS TEN CY

Positioned perfectly.

Annual Report 2014

GOALS

2014

FFO I

210 EUR m

Cost savings through synergies

10 EUR m

Optimising the financing structure

Value enhancing portfolio strategy

RESULTS

2014

FFO I

217.6 EUR m

Cost savings through synergies

12 EUR m

Rating BBB+ interest rate

2.5 %

Asset value

+953 EUR m

DEUTSCHE WOHNEN

Profile

Deutsche Wohnen is one of the largest publicly listed residential property companies in Germany and Europe. Our business focus is on managing and developing our residential property portfolio that is mainly located in German metropolitan regions. Here we benefit from the dynamic market development and the continuing high demand for housing. Currently our portfolio comprises more than 149,000 residential and commercial units with a total asset value of about EUR 10 billion.

GROUP
KEY FIGURES OF THE DEUTSCHE WOHNEN AG

Profit and loss statement		2014	2013	Change
Earnings from Residential Property Management	EUR m	505.8	292.3	73.0 %
Earnings from Disposals	EUR m	52.4	23.0	127.8 %
Earnings from Nursing and Assisted Living	EUR m	16.3	13.2	23.5 %
Corporate expenses	EUR m	– 90.5	– 52.9	71.1 %
EBITDA	EUR m	454.5	252.9	79.7 %
EBT (adjusted)	EUR m	283.3	131.9	114.8 %
EBT (as reported)	EUR m	1,021.5	217.9	368.8 %
Group profit (after taxes)	EUR m	889.3	212.7	318.1 %
Group profit (after taxes)[1]	EUR per share	2.97	1.21	145.5 %
FFO I	EUR m	217.6	114.5	90.0 %
FFO I[1]	EUR per share	0.76	0.65	16.9 %
FFO II	EUR m	270.0	137.5	96.4 %
FFO II[1]	EUR per share	0.94	0.78	20.5 %

Balance sheet		31/12/2014	31/12/2013	Change
Investment properties	EUR m	9,611.0	8,937.1	673.9
Current assets	EUR m	882.9	401.2[5]	481.7
Equity	EUR m	4,876.1	3,944.3	931.8
Net financial liabilities	EUR m	5,131.3	5,215.3[5]	– 84.0
Loan-to-Value Ratio (LTV)	in %	51.0	57.4[5]	– 6.4 pp.
Total assets	EUR m	11,446.2	10,127.0[5]	1,319.2

Share		31/12/2014	31/12/2013	Change
Share price (closing price)	EUR per share	19.58	14.04	39.5 %
Number of shares	m	294.26	286.22	8.0
Market capitalisation	EUR bn	5.8	4.0	45 %

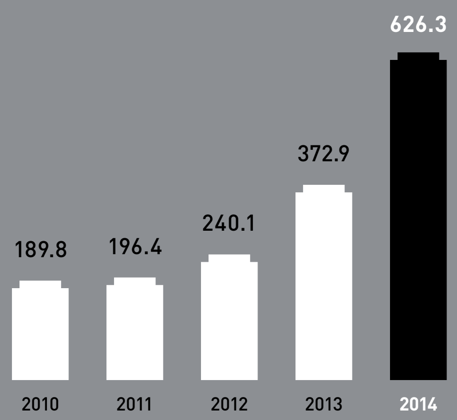
Net Asset Value (NAV)		31/12/2014	31/12/2013	Change
EPRA NAV	EUR m	5,326.0	4,153.0[5]	1,173.0
EPRA NAV	EUR per share	18.10[2]	14.51[3),5]	24.7 %

Fair values		31/12/2014	31/12/2013	Change
Fair value of real estate property[4]	EUR m	9,785	8,881	904.0
Fair value per sqm residential and commercial area[4]	EUR per sqm	1,062	944	12.5 %

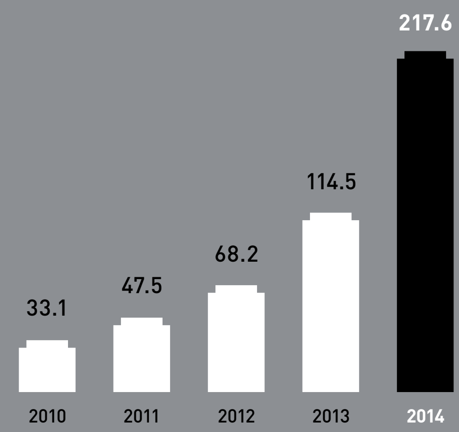
[1] Based on average number of around 287,83 Mio. issued shares in 2014 and around 175,27 Mio. in 2013
[2] Based on about 294,26 Mio. issued shares as at reporting date
[3] Based on about 286,22 Mio. issued shares as at reporting date
[4] Only comprises residential and commercial buildings
[5] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

DEVELOPMENT
DEUTSCHE WOHNEN

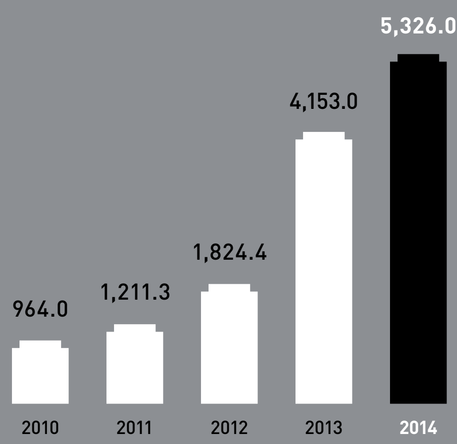
CURRENT GROSS RENTAL INCOME
EUR m



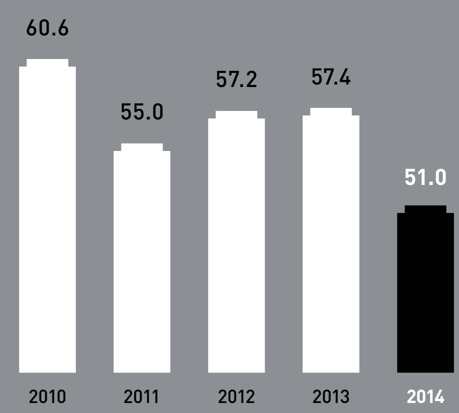
FFO I
EUR m



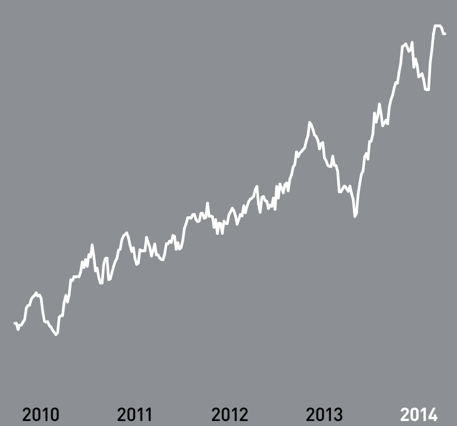
EPRA NET ASSET VALUE (EPRA NAV)
EUR m



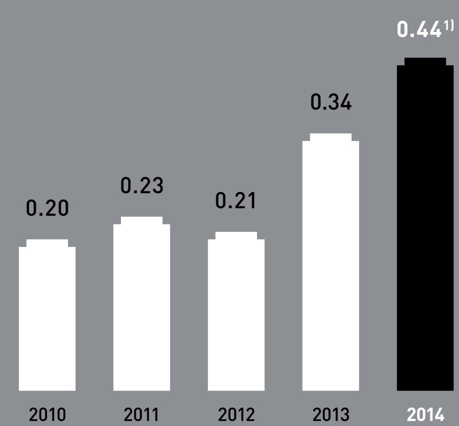
LOAN-TO-VALUE RATIO (LTV)
%



PERFORMANCE OF THE SHARE
EUR



DIVIDEND PER SHARE
EUR



[1] Subject to the approval of the Annual General Meeting

LETTER
TO OUR SHAREHOLDERS

Dear Sir or Madam,
Dear Shareholders,

Deutsche Wohnen has now fully established itself in its new dimension. Over the last year as well, we continued on our consistent path of profitable and sustainable growth. The integration of GSW Immobilien AG went very well – in part even better and more quickly than planned – with the result that our sound foundations have once again been strengthened significantly. Today, with more than 149,000 residential and commercial units with a total value of around EUR 10 billion, we are one of the leading publicly listed property companies – not only in Germany but in Europe too.

We have exceeded the targets we set for 2014 and have strengthened our market position considerably.

Further improvements to all important key figures. In the financial year 2014 we were able to improve our important key figures significantly. The consolidated result was EUR 889.3 million, raising it EUR 676.6 million above the figure for the previous year. Thanks to strong earnings from Disposals and the fact that GSW has been consolidated for a full year now, adjusted earnings before taxes rose by 115 % to EUR 283.3 million. There was also a substantial increase in Funds from Operations without disposals by 90 % to EUR 217.6 million. Against the background of the excellent development of our portfolio, EPRA NAV rose significantly from EUR 14.51 to EUR 18.10 per share. In addition, we were able to make use of favourable market conditions in order to optimise our financing structure. Accordingly, we reduced the average rate of interest from 3.4 % to 2.5 % and increased our free cash flow at the same time. We were able to lower our Loan-to-Value Ratio to 51 % and, in doing so, to further strengthen our position on the financing markets.

Attractive overall conditions have given a boost to our segment earnings.

The key operating figures paint a similar picture. Earnings from Residential Property Management rose by EUR 213.5 million to EUR 505.8 million. What contributed to this result was not only the takeover of GSW but also the positive development of the rental property market with higher new-letting rents and a lower vacancy rate. At the same time, costs were lower than forecast because it was possible to implement savings more quickly than planned. Earnings from Disposals also rose by 128 % to EUR 52.4 million thanks to the attractive overall conditions. Finally, the segment Nursing and Assisted Living made a contribution to earnings of EUR 16.3 million – EUR 1.3 million more than forecast.

Andreas Segal
Chief Financial Officer (CFO)

Michael Zahn
Chief Executive Officer (CEO)

Lars Wittan
Chief Investment Officer (CIO)

Focus on quality is paying off. Dear shareholders, all these key figures show that we have been very successful with the investment and expansion strategy that we embarked on in 2008. Today, around 87 % of our portfolio is located in German growth regions with positive development prospects – 73 % of our overall holdings in the particularly attractive region of Greater Berlin. Thanks to our size, the quality of our property portfolio, our focus on German metropolitan regions and a high level of efficiency, we are perfectly positioned in the market. This is also proved by the current valuation of our portfolio, which has increased in value by EUR 953 million.

The economies of scale, which we were able to generate in the course of integrating GSW, further strengthen our position as one of the most efficient residential property companies in Germany. We want to make targeted acquisitions of property portfolios in future as well in order to achieve focused and value-enhancing growth. In addition, we initiated two new build projects for the first time – in Potsdam and Berlin – for the purpose of meeting the high demand for good and affordable housing in the city.

However, it is not just the quality of our property portfolio that is decisive – a further key factor in our success are our employees. As a responsible employer, we acknowledge this fact by adopting an extensive range of measures. For we know that we can only continue to pursue our growth strategy successfully for the good of all our stakeholders if our employees are content and highly motivated. At this point our considerable thanks are due to our employees for their excellent work over the past months and years.

EUR MILLION

953

Our value-enhancing portfolio strategy is paying off – with an increase in the value of our holdings of EUR 953 million.

Deutsche Wohnen – a sought-after partner on the capital markets. Our sustainable growth over recent years has also further strengthened our position on the capital market. With our current free float market capitalisation, we are one of the seven largest property companies in Europe today. Last year alone, the Deutsche Wohnen share rose by 39.5 % and, in so doing, outperformed its benchmark, the EPRA Germany Index. In the new year too, our share price continued upwards and rose by a further 25 % to EUR 24.44 as at 3 March 2015.

EUR
0.44

For the financial year 2014 we are planning to pay out a dividend of EUR 0.44 per share.

Furthermore, our shareholders will profit from the success of the company in the form of a dividend. For the financial year 2014, the dividend is planned to be EUR 0.44 per share – subject to the approval of the Annual General Meeting. At the same time, we are ensuring that sufficient capital remains in the company for the purpose of maintaining and enhancing the value of our portfolio.

In November 2014, we were also very pleased to be given for the first time two long-term issuer ratings by the rating agencies Standard & Poor's (BBB+) and Moody's (Baa1). These ratings will further increase our financial flexibility.

Continuing our growth strategy with great consistency. "CONSISTENCY" is the title of our annual report this year meaning, in particular, the great consistency with which we implement our strategy, and work to achieve our goals. We will continue to do this in the future – indeed, in the current financial year we have already taken some new steps in this direction.

For example, in February 2015 we announced a voluntary, public takeover offer for conwert Immobilien Invest SE. This transaction underlines the consistent portfolio and acquisition strategy as well as the price discipline of Deutsche Wohnen because it is not possible to increase the offer that has been made for the conwert shares. Already in recent years we have demonstrated on many occasions our wide-ranging ability in regard to acquisitions.

We like to thank our employees for their high level of commitment.

In the financial year 2015 our focus in Residential Property Management will be on investing in the quality of our holdings. For the next four years we have put together a modernisation programme of approximately EUR 280 million. The programme will, for the most part, be targeted at Core+ regions. In this way, we want to generate further value potential. For the financial year 2015 we are assuming that general market conditions will continue to be favourable. In our basic scenario – assuming no further acquisitions or opportunistic disposals – we forecast a rise in FFO I to at least EUR 250 million.

Dear shareholders, we thank you for your ongoing support. Let us continue together on the path we have set out on! **CONSISTENCY: Positioned perfectly.** →

Frankfurt/Main and Berlin, March 2015

Best regards

Michael Zahn
Chief Executive Officer

Andreas Segal
Member of the
Management Board

Lars Wittan
Member of the
Management Board

CON SIS TEN CY

Positioned perfectly.

FOCUSED.STRONG. ADVANCED.

The value of staying consistent

As steel guarantees the statics of a building, consistency guarantees the resilience of our business model. Only a building supported by solid steel beams is stable. We are strengthening the stability of our company with solid consistency in the realisation of our strategy and goals.

The consequent focus on quality and concentration of our holdings, the strong financial power and our progressive corporate culture are the steel beams of our future.
CONSISTENCY means:

VALUES
CAN ONLY BE
PRESERVED
BY CHANGE.

RICHARD LÖWENTHAL

● CONSISTENCY

/ Goal Awareness / Permanence / Steadiness / Duration

FOCUSED

BY MAKING TARGETED INVESTMENTS IN THE QUALITY OF OUR HOLDINGS AND BY FOCUSING OUR PORTFOLIO ON CORE+ REGIONS WE HAVE CONSIDERABLY STRENGTHENED THE FOUNDATIONS OF OUR COMPANY.

FOCUSED: INVESTMENTS

As part of its portfolio strategy Deutsche Wohnen aims not only to grow but to grow sustainably. Against the background of our focused Core+ strategy, we are investing intensively in these regions by making acquisitions and by carrying out comprehensive modernisation work. At the same time, we are disposing of holdings in structurally weak areas or scattered locations. In this way, we are improving the quality and value of our portfolio in the long term.

Trend towards metropolitan regions continues

The appeal of German cities and conurbations remains high. Whilst average population numbers in Germany are stagnating, metropolitan regions continue to experience marked rates of growth. Because housing is in short supply and house building remains limited, an imbalance between supply and demand has developed over the years. Admittedly, house building has gained in momentum again in recent years, but, in the medium term, it cannot meet demand in the low and medium price segments. As a result, market rents have risen significantly over the past few years – in Berlin, our most important market, by 20.6% since 2011.[1]

The transaction market in the metropolitan regions is also developing dynamically. Particularly in Berlin, Hamburg and Munich, prices for owner-occupied flats have risen considerably – for example in Berlin by 65% since 2010. However, with a median purchase price of EUR 2,770 per sqm, Germany's capital city continues to lag a long way behind Munich (EUR 5,280 per sqm), Hamburg (3,570 per sqm) or Frankfurt/Main (3,540 per sqm).[2]

[1] NAI apollo: Residential Market Report Germany 2014
[2] JLL Residential City Profiles Berlin, Munich, Hamburg, Frankfurt, 1st half-year 2014

STEFAN DEGEN

Managing Director of
Deutsche Wohnen Construction and Facilities GmbH

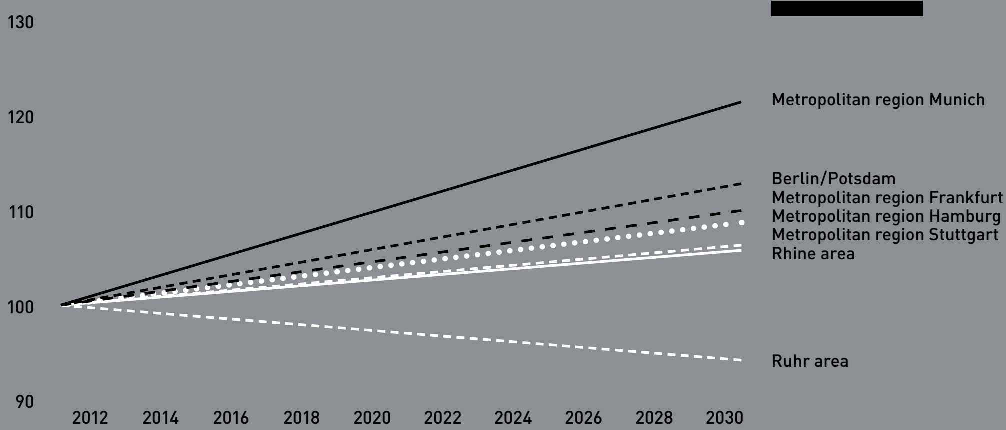
IMPROVING HOUSING QUALITY

Targeted investments lead to a sustainable improvement in the value of our properties connected with an improved housing quality and energy efficiency. We are highly skilled, and actively involve our external partners and local authorities in the construction and refurbishment process.

POPULATION DEVELOPMENT

in German metropolitan areas (indexed)

Source: Federal Statistical Office; Cologne Institute for Economic Research, 2013

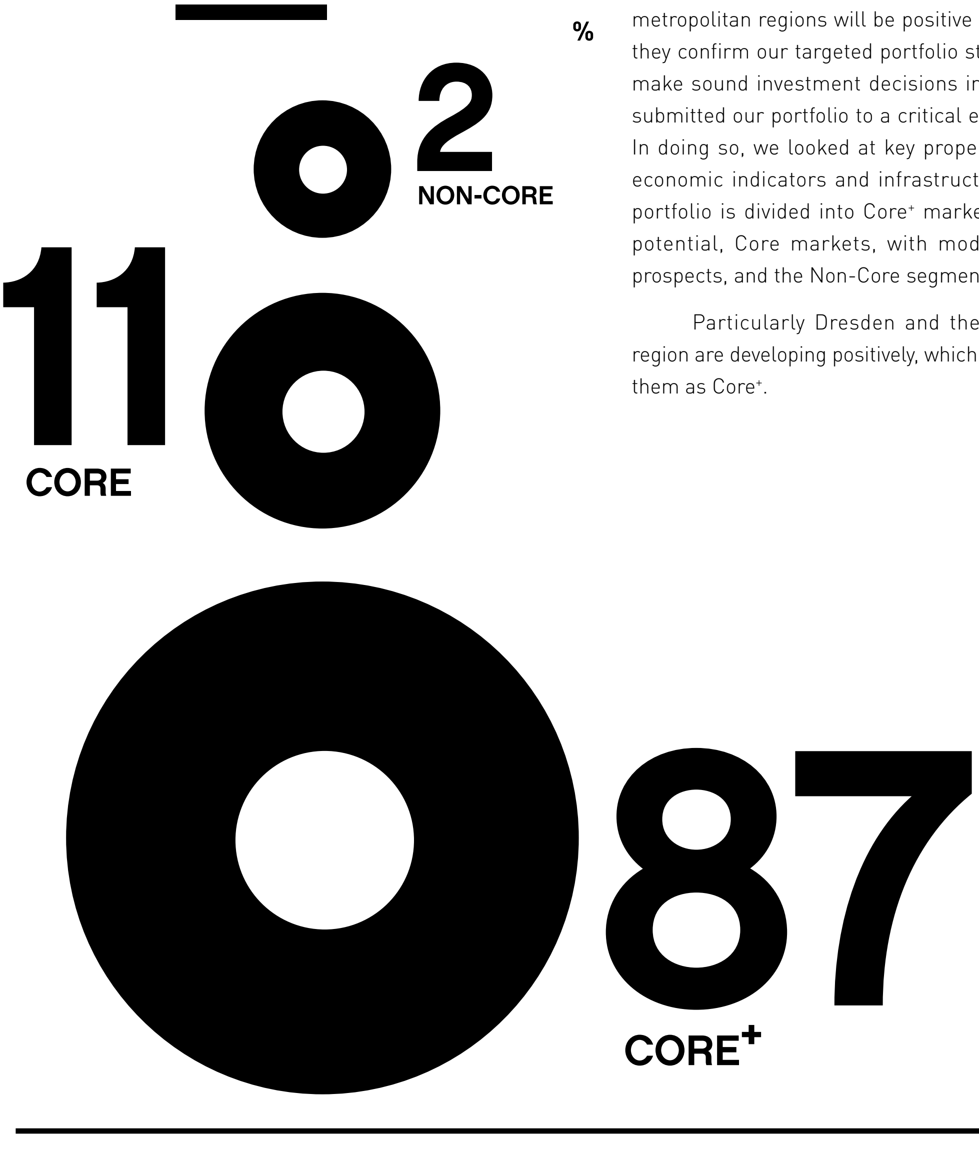



Mollstrasse
Berlin-Mitte
OUR FOUNDATION
/ STRONGER

HOUSING PORTFOLIO

with excellent development prospects

PORTFOLIO STRUCTURE



Demographic forecasts assume that the trend towards metropolitan regions will be positive in the long term as well, so they confirm our targeted portfolio strategy. So that we can also make sound investment decisions in the future, we once again submitted our portfolio to a critical evaluation in recent months. In doing so, we looked at key property market figures, macro-economic indicators and infrastructural data. Accordingly, our portfolio is divided into Core+ markets, with significant growth potential, Core markets, with moderate future development prospects, and the Non-Core segment with a downside risk.

Particularly Dresden and the Mannheim/Ludwigshafen region are developing positively, which has caused us to re-classify them as Core+.

+953

THE VALUE OF OUR HOLDINGS, AS DETERMINED BY THE ANNUAL PORTFOLIO VALUATION, INCREASED CONSIDERABLY BY EUR 953 MILLION TO APPROX. EUR 10 BILLION.

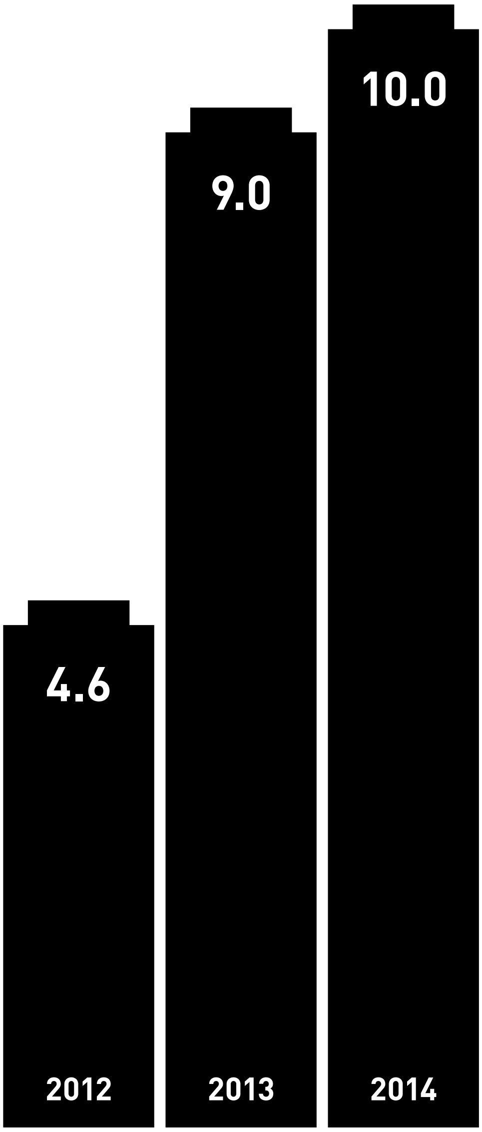
Onkel-Tom-Strasse
Berlin-Zehlendorf

Strategic acquisitions are paying off

Since 2010 the growth record of Deutsche Wohnen has been impressive. Encompassing 115,000 units with a transaction volume of more than EUR 6.5 billion we have made substantial acquisitions over the last few years. Today, around 87 % of our holdings are located in Core+ regions with good prospects for the future. In all of this, we anticipated the fantastic development prospects of Berlin at an early stage and have been able to significantly expand our holdings in this city to more than 108,000 units.

The fact that we correctly evaluated the potential of our acquisitions can be seen from the impressive development in value which they have undergone. The holdings which we acquired between 2010 and the end of 2013 made up around three quarters of our lettings earnings in 2014. Moreover, these holdings have risen significantly in value by almost EUR 600 million. Last year, we essentially strengthened the core regions of Berlin, Dresden and Rhine-Main and acquired around 3,000 residential and commercial units there.

PORTFOLIO VALUE
EUR billion



Clear increase in valuation of our portfolio underlines its high quality

The excellent development of the Deutsche Wohnen portfolio with its clear focus on Core+ regions is reflected in the current valuation of our properties. The increase in value of our holdings, as determined by the annual portfolio valuation, is EUR 953 million. Significant increases in value can be seen above all in Greater Berlin, with an increase of EUR 819 million, and the Rhine-Main region, with an increase of EUR 73 million. Against the background of this positive development, we are assuming that our portfolio will have above-average growth potential in future as well.

Increasing value through extensive modernisation programme

Deutsche Wohnen has decided to implement an extensive modernisation programme over the next four years with a value of EUR 280 million. Many of the modernisation measures are intended to be carried out in the Core+ regions and will affect a total of 17,000 units. In Berlin alone it is planned to spend an additional EUR 200 million and, by so doing, to achieve further increases in value.

In the financial year just ended the main focus of investments was to continue with projects that have been running for some years now in listed 1930s residential estates in Berlin. For example, we have been carrying out extensive modernisation work in several stages on the approximately 800 units in the Waldsiedlung in Zehlendorf since 2007. The complete refurbishment of the historic estate in Elstal (near Berlin) is also making good progress. Because this estate has developed in such an outstanding way, we will be carrying out roof conversions on the buildings as well.

In Berlin-Treptow, Rixdorfer Strasse and Baumschulenweg, we are modernising two further 1930s estates. We are investing around EUR 21 million in these holdings, which consist of more than 900 residential units. The modernisation work includes refurbishing the facades and adding heat insulation to them. We have also installed new heating and hot water systems using energy-efficient condensing boiler technology.

Weinkampswende
Hanover

Deutsche Wohnen embarks on new build projects for the first time

In addition to making investments in its holdings, Deutsche Wohnen also started two new build projects in 2014 for the first time in order to meet the increasing demand for good-quality, affordable housing in urban locations.

In doing so, we are consciously acting in the tradition of Classic Modernism, represented by Bruno Taut and Martin Wagner amongst others, who proved with their world heritage site workers' estates of the 1920s and 1930s that good-quality building is possible even in times of acute housing shortages. We still own a large part of these holdings today. Now we are seeking to re-connect with this tradition and to enhance it with what we know today. We build with the greatest possible energy efficiency, thus achieving stable operating expenses for tenants and buyers over the long term. By achieving high standards in our project development processes, considerably we speed up the approvals procedure and, therefore, the building project itself.

Pilot project in Potsdam-Babelsberg

We have already made a successful start on our first project in Potsdam-Babelsberg, and laid the foundation stone in May 2014. On the 10,000 sqm plot of a railway workers' residential complex from 1928 we are adding further buildings with great care – something that makes sense in a city-centre location. In addition to the existing 90 flats, we are building 103 units for rental, of which 23 will be barrier-free and 12 in the form of terraced houses. The entire residential complex will be supplied in future with district heating and will meet the energy standard KfW 70. By actively involving the administration authorities of the city and all other parties involved in the planning process in a spirit of partnership, we succeeded in speeding up the approvals procedure markedly. As a result, it will be possible for tenants to move into the new flats already from 2016.

New build in Berlin: the city quarter "Westend"

We are also planning a sustainable residential quarter with a total of 600 contemporary city apartments in Berlin-Charlottenburg, on the site of the former "Britensiedlung" (British Estate). These plans involve replacing the existing buildings (200 units), which are in an extremely poor condition. In an international architectural competition the design of the Copenhagen-based firm Vandkunsten won the day. The Danish architects were able to show very convincingly how it is possible to give a contemporary interpretation to the tradition of Taut and Wagner. In addition to having an outstanding urban development concept and a high standard of architectural quality, the design gave consideration to the criteria for ecological-sustainable building in accordance with the federal evaluation system for sustainable building and the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB). Accordingly, the existing trees on the site will be protected and the new buildings will be built to be energy-efficient, with the use of solar energy and of materials that are as natural as possible. Currently, we are at the planning stage with the local borough. Construction work on the project is planned to start in 2017.

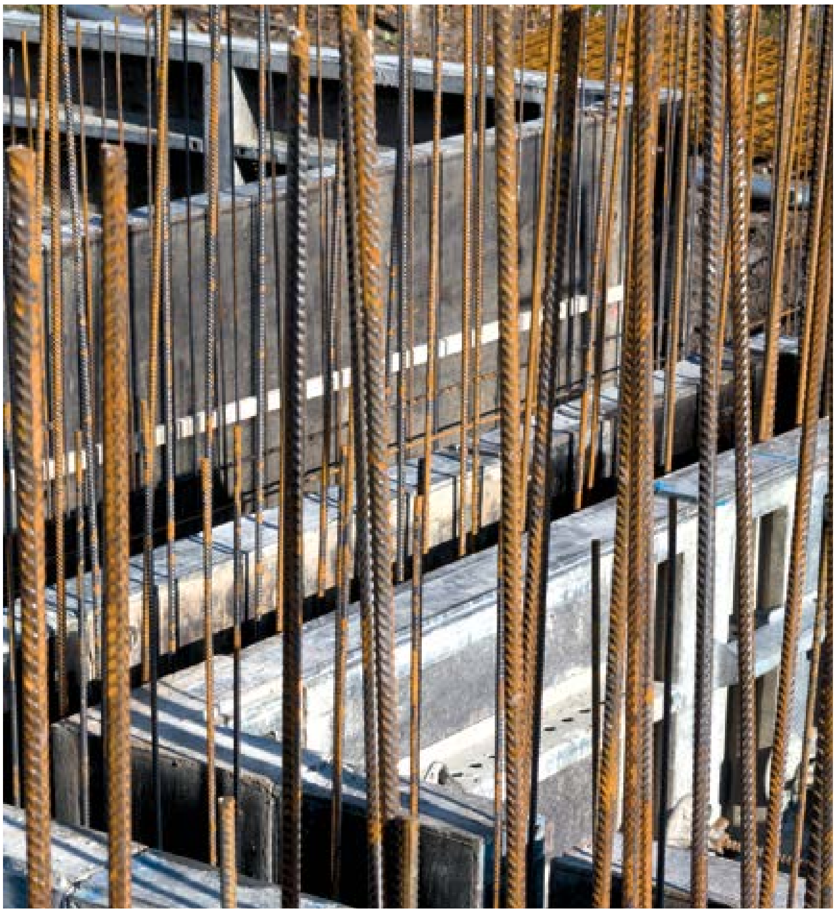
703

CONTEMPORARY NEWLY BUILT RESIDENTIAL UNITS

SELECTED INVESTMENT PROJECTS

103

Newly built flats arise in Potsdam-Babelsberg. The foundation stone was laid in May 2014.

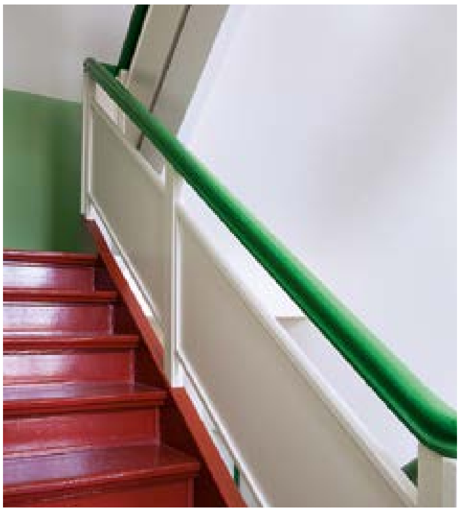


KfW 70

The whole residential complex will in future be supplied with district heating and meets the energy standard KfW 70.

900

residential units in Berlin-Treptow will be restored as a listed building.



EUR 20 MILLION

for the refurbishment of the Elstal estate.

Schulstrasse Elstal

STRONG

DEUTSCHE WOHNEN PUT ITSELF IN AN EXCELLENT POSITION TO BE ABLE TO ACT FLEXIBLY ON THE CAPITAL MARKET.

Deutsche Wohnen / STRONG

STRONG: FINANCIAL POSITION

Deutsche Wohnen has positioned itself very successfully within the real estate sector in recent years. We have been able to convince the capital market with our focused and targeted portfolio strategy linked with our high quality standards. Our shares are traded with a high premium on their EPRA NAV.

Significant increase in EPRA NAV compared to previous year

The outstanding development of our portfolio has risen substantially the EPRA Net Asset Value (NAV), i.e. the intrinsic value of the company, by 25 % over the last three years; it was EUR 18.10 per share as at the reporting date. This means that the shareholder value of Deutsche Wohnen has risen markedly so that our shareholders are participating directly in this impressive rise in value.

Deutsche Wohnen is given ratings by Moody's and S&P

In November 2014 Deutsche Wohnen was given two long-term issuer ratings by the rating agencies Moody's and Standard & Poor's for the first time. With these two ratings, both with stable prospects, of Baa1 from Moody's and BBB+ from Standard & Poor's, we are amongst the highest-rated real estate companies in Europe. Thereby Deutsche Wohnen will be able to act with much greater flexibility in future on the international financial markets.

18.10

EUR per share
EPRA Net Asset Value

ANDY HERRMANN

Managing Director Financing

RELIABLE PARTNER

We have an extensive network of banking partners at our disposal and have exceptionally good access to the capital markets. We have established a reputation as a reliable partner and continue to convince investors with the high quality of our portfolio.

Betckestrasse
Berlin-Spandau

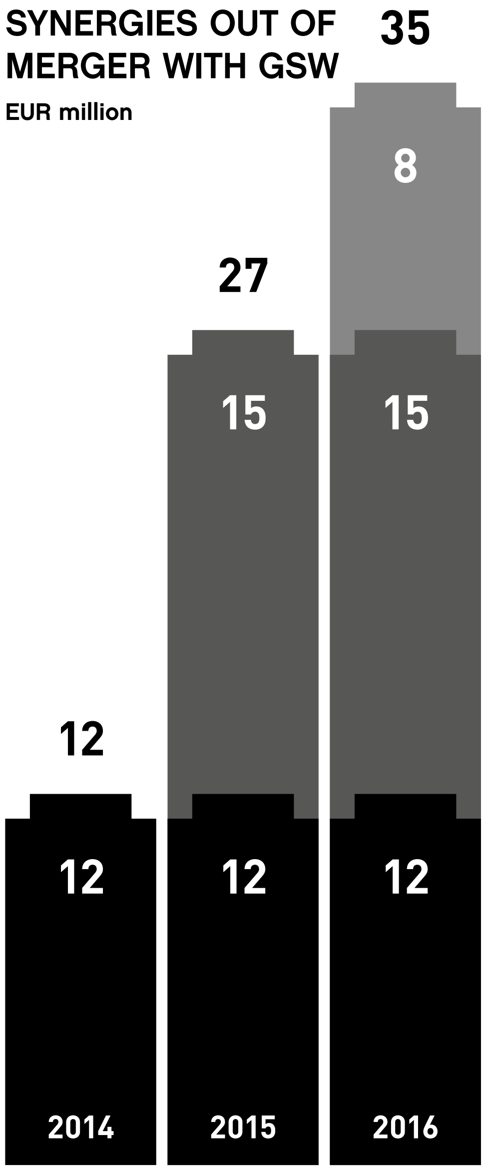
OUR PERFORMANCE / BETTER

COST ADVANTAGES

by portfolio concentration

SYNERGIES OUT OF MERGER WITH GSW

EUR million



■ Synergies 2016 p.a.
■ Synergies 2015 p.a.
■ Synergies 2014 p.a.

Successful merger with GSW leads to higher synergies

The integration of GSW, which was acquired in December 2013, is making good progress. In September 2014, the domination agreement between Deutsche Wohnen and GSW, which an overwhelming majority of our shareholders had voted in favour of at the Annual General Meeting in June 2014, was entered into the Commercial Register. Already as at the end of 2014 all the holding functions had been taken over by Deutsche Wohnen AG. The process of merging the two companies will be complete to a large extent by the middle of this year when the migration of data has taken place.

Overall, we are expecting synergies of around EUR 35 million per annum from this merger. Moreover, this figure is around EUR 10 million higher than the sum originally planned. Together with the approximately EUR 45 million of synergies per annum arising from both the refinancing measures we adopted and the restructuring of our Disposals segment, the total savings, which will increase Funds from Operations (FFO), will amount to around EUR 80 million per annum before tax.

Cost ratio further reduced

Deutsche Wohnen is – even after its merger with GSW – one of the most efficient companies in the residential real estate sector. The high concentration of our portfolio on urban growth areas gives us clear cost advantages in comparison to our competitors. Accordingly, we are planning to further reduce our cost ratio as part of the ongoing integration of GSW.

90

SIGNIFICANT INCREASE OF FFO I BY 90 %

Karl-Schurz-Strasse
Magdeburg

FFO I almost doubled

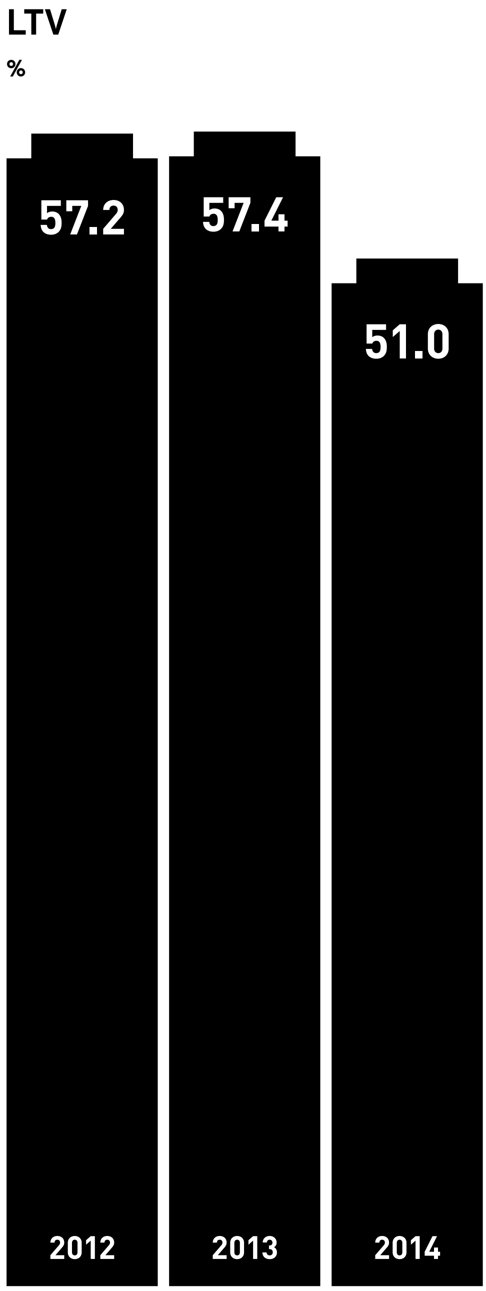
Funds from Operations (FFO I) has increased significantly in recent years. Having been at EUR 68.2 million in 2012 and EUR 114.5 million in 2013, it was EUR 217.6 million in the financial year 2014. Thereby FFO I per share increased over a period of three years by 41 % to EUR 0.76 in 2014. The development of earnings from Disposals, reflected by the FFO II, has been similar. Here too we were able to achieve a significant increase of 34 % to EUR 0.94 per share. However, especially in Berlin, prices for property are developing much more dynamically than rents. In the rental market there are, to some extent, already the first signs of regressive acquisition yields.

Significant savings through refinancing

In September 2014 Deutsche Wohnen was able to successfully place a further convertible bond on the market in a total nominal amount of EUR 400 million and with a term running to September 2021. The bond will earn interest of 0.875 % per annum and this coupon will be due for payment every six months. At the time when the bond was issued the conversion premium on the reference price – which was already showing a premium of 22.1 % on the NAV – was 27.5 %.

41 %

**INCREASE IN FFO I PER SHARE –
FROM EUR 0.54 IN 2012 TO EUR 0.76 IN 2014**



2.5

THE AVERAGE RATE OF INTEREST FOR OUR ENTIRE CREDIT PORTFOLIO HAS FALLEN FROM AROUND 3.4% TO AROUND 2.5% P.A.

In October 2014, credit agreements in a total amount of EUR 1.36 billion were concluded with two German banks. Taking into account the convertible bond, the average rate of interest for the total volume of these financing measures is 1.5%, which represents an interest saving of around EUR 39 million per annum. In addition, we will be saving EUR 23 million on repayments on capital in future. As a result, the free cash flow of the company will rise by a total of EUR 62 million per annum. Overall, the average rate of interest for our entire credit portfolio has fallen from around 3.4% to around 2.5% per annum, and the annual rate of repayment will decrease from around 1.6% to around 1.1%.

There has been a clear fall in the Loan-to-Value Ratio of Deutsche Wohnen from 57% to 51% – not least because the value of the company has risen. This development puts us in an even better position when it comes to an evaluation of the company by rating agencies and future financing options.

Corporate Free Cash Flow evidence of sustainable dividend policy

We also want our shareholders to participate in the strengthened earnings power and the success of our company. For the financial year 2014 we increased the pay-out ratio for our dividend payment to 60 % of FFO I. Therefore, the dividend will more than double from EUR 0.21 in 2012 to EUR 0.44 in 2014 – assuming that this is approved by the Annual General Meeting.

In order to be able to show the free cash flow and the dividend capability of Deutsche Wohnen with greater transparency, we are presenting a new key figure – Corporate Free Cash Flow (CFCF, before one-off costs). The CFCF is based on FFO I and the cash flow from disposals, taking into account value-enhancing modernisation measures (Capex – capital expenditure) and routine repayments on capital. Against the background of the refinancing measures and the positive development of the company's business, the Corporate Free Cash Flow will improve significantly in 2015.

0.44

WE INTEND A DIVIDEND PAYOUT OF EUR 0.44 PER SHARE FOR THE FINANCIAL YEAR 2014.

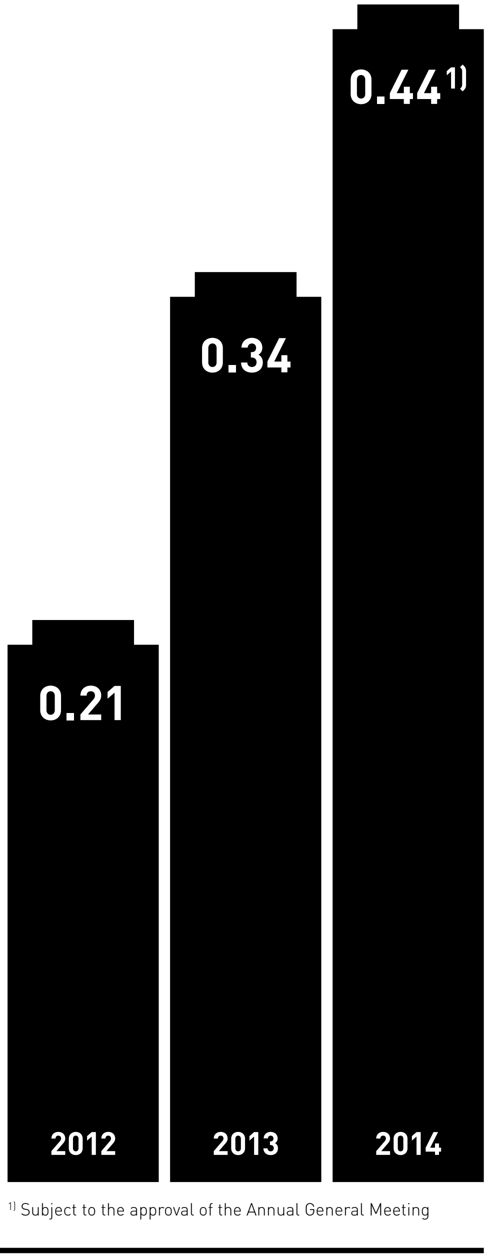
Calculation of the Corporate Free Cash Flow

EUR m	2013	2014
FFO I [1]	114.5	217.6
FFO disposals	23.0	52.4
FFO II	**137.5**	**270.0**
+ Δ CF disposals [2]	49.9	83.0
- Regular amortisation	– 51.5	– 81.0
- Capex	– 26.8	– 64.1
Corporate Free Cash Flow	**109.1**	**207.9**
Per share in EUR	0.62	0.72

[1] After minorities (guaranteed dividend x no. of remaining GSW shares)
[2] IFRS carrying amount ./. loan sum granted

DIVIDEND PER SHARE

EUR



[1] Subject to the approval of the Annual General Meeting

AD VAN CE D

THE SPECIALIST SKILLS AND THE COMMITMENT OF OUR EMPLOYEES ARE AN IMPORTANT COMPONENT OF OUR COMPANY'S SUCCESS AND MAKE A SUBSTANTIAL CONTRIBUTION TO THE EFFICIENCY OF OUR BUSINESS PROCESSES.

ADVANCED: CORPORATE CULTURE

Deutsche Wohnen attaches great importance to quality – not only in terms of its portfolio but also with regard to its employees. With targeted measures we support the professional development of our employees and invest in creating an attractive working environment. By doing so, we can meet our commitment to professional standards and ensure the enduringly high quality of our work.

Employees are decisive for the success of the company

Deutsche Wohnen has established itself in the property sector as an attractive employer over the past few years. Moreover, against the background of demographic change, we have extended our human resources management and have strengthened both recruitment and professional development. Thereby we are aiming both to acquire new, qualified employees and to retain and give further development opportunities to existing employees. As a performance-oriented company, we depend on highly qualified staff. With their know-how and skills, they make a substantial contribution to the success of the company.

Professional development measures are agreed individually

By offering a wide range of opportunities for professional development, we invest in the qualification of our employees. With special training courses and seminars, we support our staff in accordance with their individual needs and abilities. Our professional development programmes cover technical topics on the one hand, for example in the field of the real estate industry, and cross-disciplinary areas like communications training or the support and supervision of trainees on the other hand.

Since 2010, we have been offering regular programmes for senior executives to enable them to further develop their knowledge and social skills. These programmes are accompanied, where appropriate, by corresponding coaching support for senior executives or for their entire team.

DENNIS REKITTKE

Portfolio Manager

QUALIFIED STAFF

During my training I was able to get to know all areas of the real estate industry and was given very good preparation for my job today as a portfolio manager. In order to gain a deeper understanding of my field, I decided to study for a Bachelor of Arts in Real Estate Management, and just recently I completed this degree successfully.

Rodelbergweg
Berlin-Treptow

OUR RESPONSIBILITY / BIGGER

OUR EMPLOYEES

are a key to success

Senior executives often come from within our own ranks

In order to ensure that it has enough young talent for the future, Deutsche Wohnen trains its own management assistants in real estate. Approximately 58 trainees are currently working for us. Alongside their theoretical training, the trainees gain experience in all areas of a property company and are usually taken on by the company after they have successfully completed their traineeship. Many former trainees have gone on to make a career within the Deutsche Wohnen Group. For example, around 17% of our senior executives today completed their original training with us. In this way, we manage to combine theoretical knowledge and internal know-how very successfully.

In order to expand our junior staff development programme, from this year we will be offering training as assistant manager for dialogue marketing (accredited by the IHK – German Chamber of Commerce and Industry) and a dual course of studies (theoretical and vocational) in Technical Facility Management, leading to a Bachelor of Engineering.

Attractive working environment contributes to employee motivation

We offer our employees attractive conditions for their daily work. We campaign for a healthy lifestyle within our employees and create incentives with the help of health days and a bonus system for sports activities. In addition, we offer mothers and fathers in the company flexible working hours models so that they can combine their work and family life more easily. A parent-child room for short-term childcare is also provided. We like to express our appreciation of our staff with special benefits like vouchers for weddings or the birth of a child, and our condolences by offering special leave for bereavement.

A positive attitude to the company and a high level of professional commitment are very important to us. By having flat hierarchies, we encourage our staff to share in the process of generating new ideas and designing new processes. Thereby we also benefit from the good mix among our staff of young and old as well as of new employees and employees with many years of experience. The average age in the Group is 42 years. The percentage of women is high at 67% – and this is true of senior positions in the company as well.

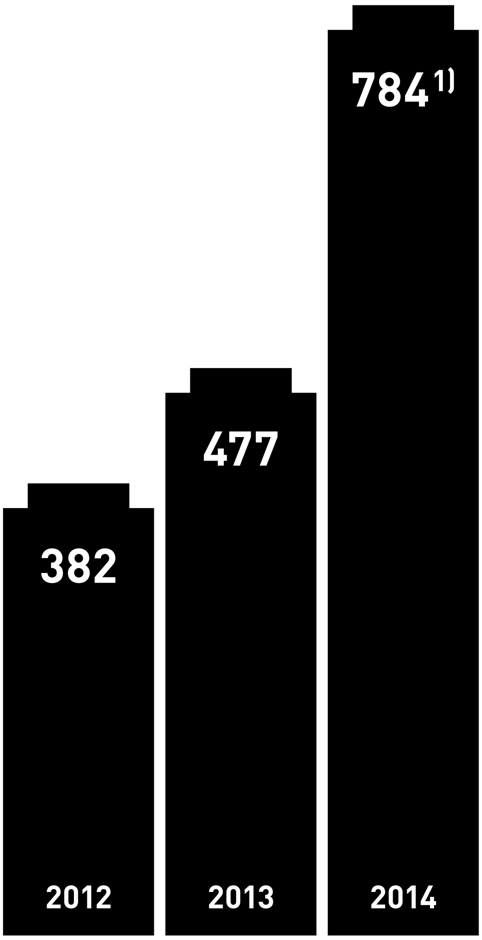
PERCENTAGE OF WOMEN IN LEADING POSITIONS

48%

New colleagues are accompanied and supported in a structured way

It is our aim to maintain and further develop in future our high standards with regard to performance and quality in all areas of Deutsche Wohnen. As part of the integration of GSW we have been joined by a large number of new colleagues. One of our key challenges in the coming year is to incorporate these colleagues – and further new ones as well – into our structures and to develop a joint corporate culture. In order to support our senior staff and their new colleagues in managing the process of integration in technical, social and organisational terms in the best way possible, we developed an induction concept in 2014 that will be implemented from this year in all areas of Deutsche Wohnen. Furthermore, we intend to introduce structured appraisal interviews in 2015 and to expand our strategic human resource development.

EMPLOYEES
NUMBER

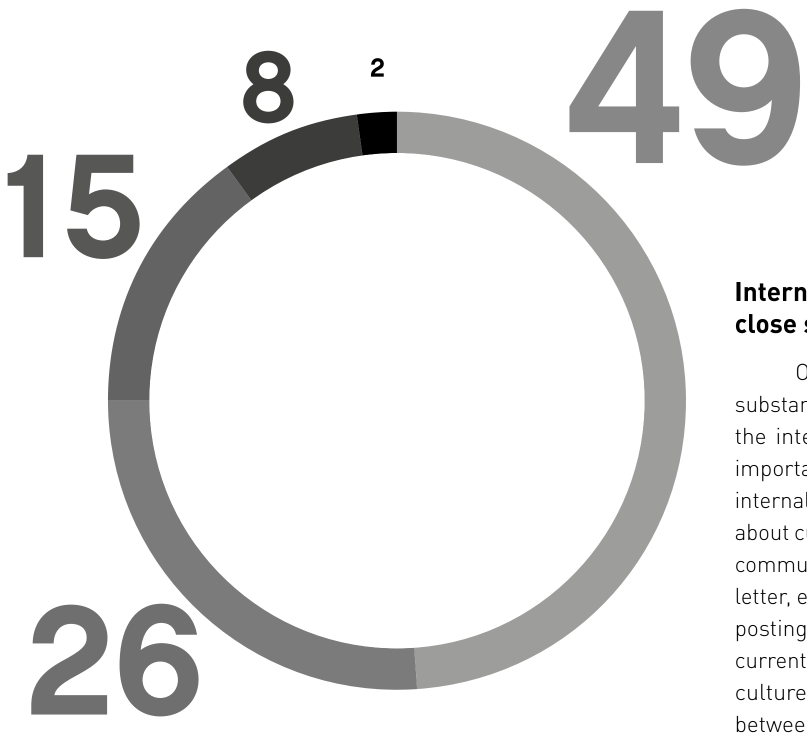


[1)] Incl. GSW

Good performance is rewarded appropriately

Our employees work at a level that is demanding, and their remuneration is appropriate both to the market and to their performance. Since the success of Deutsche Wohnen is substantially attributable to the work of our employees, we have awarded a bonus totalling EUR 2 million because of the positive development of our business in 2014. In this way, our employees benefit directly from the success of the company and are motivated to help the company to move forward in future as well.

Our employees bring in a high level of commitment and dedication. Together we make Deutsche Wohnen one of the most successful real estate companies in Europe.



COMPOSITION OF EMPLOYEES

New jobs in the Deutsche Wohnen Group because of growth since 2008	49 %
GSW	26 %
GEHAG/ESG	15 %
Deutsche Wohnen before 2008	8 %
Other acquisitions	2 %

Internal communication provides close support to change processes

Over recent years, Deutsche Wohnen has undergone substantial change and has grown significantly. In this process, the integration of new and existing employees is especially important. For this reason, we have continuously expanded our internal communication so that we can inform all our employees about current issues and developments. This structured internal communication is achieved with the help of our own staff newsletter, employee meetings, letters from the Management Board, postings on our intranet and employee information regarding current topics sent by email. Consistent with our open corporate culture, we support the exchange of ideas and experiences between different specialist departments. Cross-disciplinary company events add in this respect too. Our focus group, which is made up of employees from various departments and regions, takes up concerns of the staff and makes corresponding proposals to the Management Board. With this mix of communication tools we would like to reach our employees at different levels and to make it easier for everyone to identify with the company. The fact that we are already achieving some success in this respect is shown by the results of our staff survey last year, according to which most of our employees are satisfied or indeed very satisfied with Deutsche Wohnen as an employer.

On-going process of striking a balance between the interests of the capital market and those of our employees

As a company that is oriented to the capital market, Deutsche Wohnen finds itself in the midst of various and sometimes conflicting interests. However, the profitability of the company is of crucial importance for all our stakeholders. So transparent communication regarding our business model and our strategic direction is all the more important for developing mutual understanding. Our employees carry out their work with a clear awareness of the need for the company to be economically efficient, and this pays off for our shareholders. With our high levels of expertise and commitment, we are continuously enhancing the value of the company and, by doing so, are equipped to meet new challenges in the best possible way.

POSI TIONED PER FECT LY.

//// DIVERSIFIED BUSINESS MODEL WITH FOCUS ON ATTRACTIVE METROPOLITAN REGIONS

//// BEST-IN-CLASS PORTFOLIO QUALITY WITH HIGHEST RENTAL GROWTH IN PEER GROUP

//// PROVEN TRACK RECORD IN ACQUISITIONS AND CAPITAL MARKET TRANSACTIONS

//// MARKET LEADER IN COST EFFICIENCY

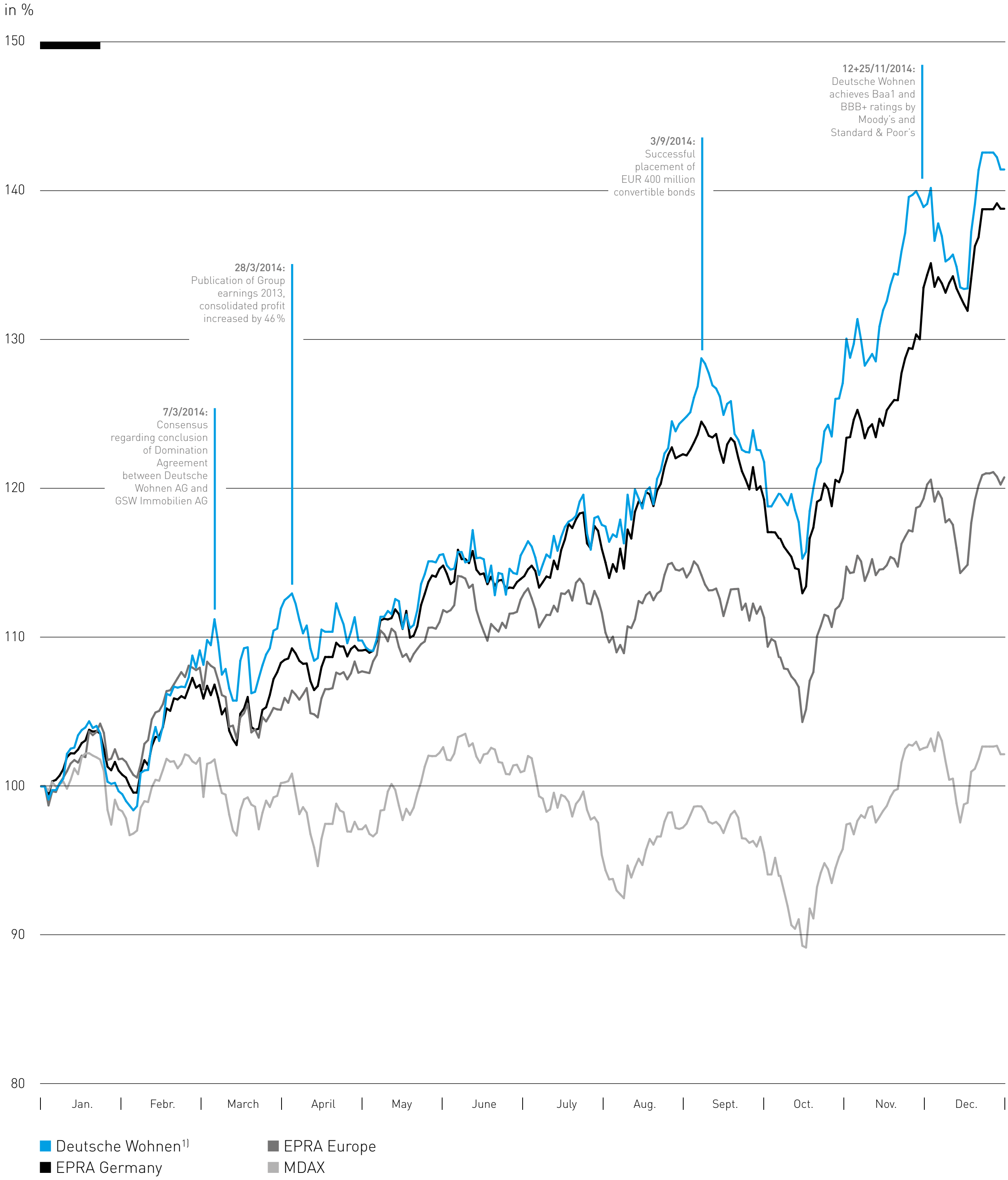
//// LEADING GERMAN REAL ESTATE COMPANY WITH MARKET CAPITALISATION OF EUR 7.1 BILLION

//// EXCELLENTLY POSITIONED FOR FURTHER GROWTH

CONTENTS

THE SHARE

Share price performance in 2014 (indexed)



[1] Adjusted for the dividend payment in 2014

Volatile development in the German capital market

In 2014, solid economic data for the US and the announcement by the US Federal Reserve of its intention to bring about a cautious reversal of its low key interest rate policy led to a rise in share prices on the US stock markets. By contrast, the European stock markets were adversely affected by disappointing economic growth in the Eurozone and the crisis in Ukraine. Furthermore, the end of the US Federal Reserve's bond-buying programme, as well as the devaluation of the Russian rouble, among other things, put a strain on the stock markets over the course of 2014. On the other hand, positive momentum was generated by the ECB twice lowering its key interest rate, and by speculation as to ECB bond purchases, the lowering of key interest rates in China, the broadening of the Bank of Japan's expansive monetary policy and buoyant M&A activity.

For the German DAX and MDAX share indices 2014 was a very volatile year. Moderate rises in share prices in the first half of the year were followed by a strong decline in October, which, however, was possible to reverse, with the DAX attaining a new all-time high of 10,087 points at the beginning of December and closing the year at 9,806 points, 2.7% higher than at the same time one year earlier. The performance of the MDAX, on which the Deutsche Wohnen share is listed, was largely in line with that of the DAX, increasing only slightly by 2.2% over the course of 2014 and closing at 16,935 points after having peaked at 17,184 points – an historical all-time high – just a few days earlier on 5 December 2014.

The real estate indices EPRA Europe and EPRA Germany outperformed the DAX and the MDAX in 2014: the EPRA Europe index ended the year at approximately 1,934 points, which corresponds to an increase of 21.3% over the year, and the EPRA Germany index closed at 753 points, having risen by approximately 40%.

Deutsche Wohnen share outperforms industry benchmark

The price of the Deutsche Wohnen share rose by 39.5% in 2014, thus outperforming the EPRA Germany benchmark index. After falling to a low of EUR 13.52[1] on 4 February 2014 and reaching a high of EUR 19.74 on 23 December 2014, the Deutsche Wohnen share price closed at EUR 19.58 at the end of the year (previous year: EUR 14.04). The high demand for real estate shares in 2014 was also reflected in the improved performance of the real estate indices as compared to the leading German indices, the DAX and the MDAX.

The positive development of the Deutsche Wohnen share price continued beyond the end of the financial year: on 3 March 2015, it was EUR 24.44.

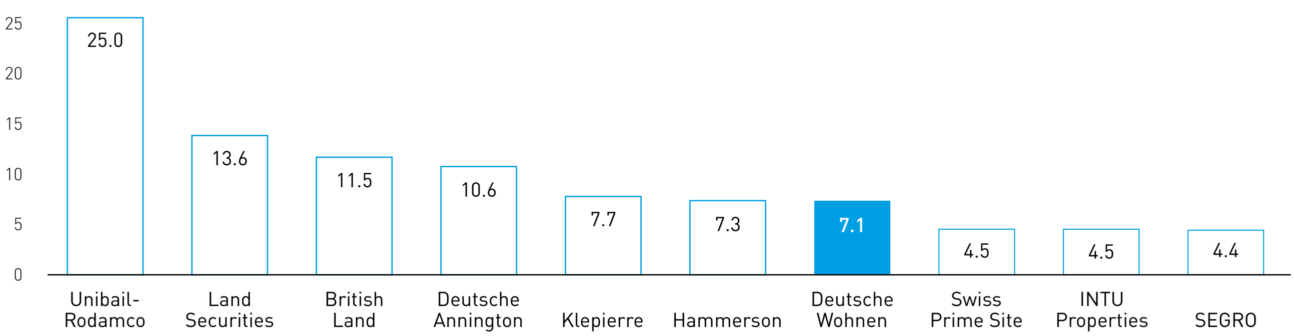
Significant increase in market capitalisation and trading volume

The market capitalisation of Deutsche Wohnen AG increased by approximately 45% over the course of the year, amounting to approximately EUR 5.8 billion at the end of 2014. Therefore the market capitalisation of our company has nearly tripled within the last two years. Currently Deutsche Wohnen AG is on the basis of its free float market capitalisation the second largest publicly listed real estate company in Germany and in seventh position in Europe.[2]

[1] Adjusted for the dividend payment in 2014
[2] According to freefloat market capitalisation EPRA Europe as at 27/2/2015

Market capitalisation of Deutsche Wohnen in European comparison

EUR billion [1]



[1] Freefloat market capitalisation EPRA Europe analysis as at 27/2/2015

Key figures – bearer share	2014	2013
Number of issued shares in m	around 294.3	around 286.22
Closing price at the end of the year [1] in EUR	19.58	14.04 (13.74) [3]
Market capitalisation in EUR bn	around 5.8	around 4.0
Highest share price during year [1] in EUR	19.74	15.76 (15.22) [3]
Lowest share price during year [1] in EUR	13.81 (13.52) [3]	12.42 (12.16) [3]
Average daily traded volume on Xetra [2]	547,701	519,289

Source: Bloomberg, as at 8/1/2015
[1] Xetra closing price
[2] Traded shares
[3] Price in parenthesis adjusted for possible capital increases and dividend payments

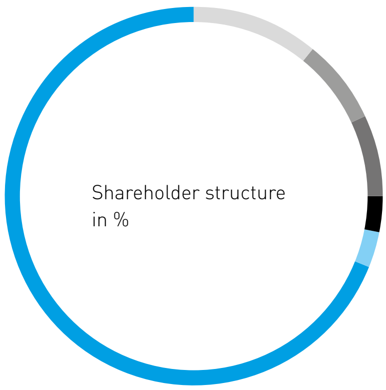
The development of the share's liquidity in the financial year 2014 was also positive: the average volume of the traded shares on the trading platform Xetra increased once more by approximately 5 % as compared to the previous year, a significant increase of more than 50 % already having been recorded in the previous year. The average daily Xetra trading turnover increased from approximately EUR 7 million in 2013 to almost EUR 9 million in 2014. This reinforced the position of the Deutsche Wohnen share on the MDAX. The share achieved a ranking of 6 and 17 among the total of 50 MDAX companies on the basis of its free float market capitalisation and trading volume, respectively, at the year end 2014.

Stable shareholder structure of Deutsche Wohnen AG

Five institutional investors currently hold approximately 31 % of the Deutsche Wohnen shares. The approximate remaining 69 % of the shares are held by both national and international institutional investors and by private shareholders whose shareholdings do not exceed the statutory reporting threshold of 3 %. According to the Deutsche Börse (German stock exchange) 93.07 % of our shares are currently in free float. [3]

Shareholders [1]

Sun Life Financial Inc. [2]/MFS	9.94 %
BlackRock, Inc. [2, 3]	7.38 %
Norges Bank (Central Bank of Norway) [3]	6.72 %
APG Asset Management N.V.	3.01 %
The Capital Group Companies, Inc. [4]	3.00 %
Other	69.95 %



[1] Based on the latest WpHG notifications received from above-stated shareholders; as at 3/3/2015
[2] Attributed voting rights according to sec. 22, para. 1 sent. 1 no. 6 WpHG in conjunction with sec. 22 para. 1 sent. 2 WpHG
[3] Attributed voting rights according to sec. 22 para. 1 sent. 1 no. 1 WpHG
[4] Attributed voting rights according to sec. 22 para. 1 sent. 1 no. 6 WpHG in conjunction with sec. 22 para. 1 sent. 2 and sent. 3 WpHG

[3] Deutsche Börse, Stock Report January 2015

Analyst ratings predominantly neutral

A total of 22 analysts are currently[4] following the development of Deutsche Wohnen AG.

The target price estimates currently[4] range between EUR 17.50 and EUR 28.00 per share, with 16 analysts valuing the share at EUR 20.00 and above. The consensus of all of the analyst estimates, at EUR 21.90, is currently[4] higher than the closing share price of EUR 19.58 at the end of 2014.

Following its strong performance in 2014, which has also continued in recent months, the majority of the analysts have assigned the Deutsche Wohnen share a neutral rating:

Rating	Number
Buy/kaufen/overweight	4
Equal weight/halten/hold/neutral	13
Sell/underperform/verkaufen	5

Status: 3/3/2015

Annual General Meeting 2014

The Annual General Meeting 2014 of Deutsche Wohnen AG was held in Berlin on 11 June 2014. Approximately 67% of the company's entire issued share capital was represented. The shareholders approved all of the agenda items with the requisite majority of the votes cast. The Annual General Meeting resolved almost unanimously in favour of the payment of a dividend in the amount of EUR 0.34 per registered or bearer share entitled to dividends for the financial year 2013, which corresponds to a total amount of approximately EUR 57.4 million and a share of the FFO I generated in 2013 of approximately 50%. This results in a dividend yield of 2.4% in relation to the volume-weighted average share price for 2013 of EUR 13.98.

Furthermore, new authorised capital 2014 was created, enabling the issued capital of the company to be increased by up to EUR 85 million by means of the issuance of no-par value bearer shares, each representing a share of the issued capital in the amount of EUR 1.00, against cash contributions and/or contributions in kind.

The conclusion of a domination agreement between Deutsche Wohnen AG and its subsidiary GSW Immobilien AG also met with considerable approval from the shareholders. Furthermore, the Annual General Meeting resolved almost unanimously in favour of the conversion of all of the existing Deutsche Wohnen registered shares into bearer shares, together with the corresponding amendments to the Articles of Association.

Following the payment of the dividend and with effect from 12 June 2014, the shares[5] issued in connection with the GSW Immobilien AG takeover were merged with the remaining Deutsche Wohnen shares[6]. After the implementation of the resolution adopted by the Annual General Meeting for the conversion of all other remaining registered shares into bearer shares the company has had only one bearer share with effect from 5 September 2014.

Settlement offer to shareholders of GSW Immobilien AG

With the settlement offer Deutsche Wohnen AG undertook, upon request by minority shareholders of GSW Immobilien AG, to acquire three shares of GSW Immobilien AG in exchange for seven shares in Deutsche Wohnen AG, each representing a notional value of EUR 1.00 in the share capital of Deutsche Wohnen AG. In view of the appraisal proceedings which are currently pending, minority shareholders of GSW Immobilien AG may still submit their shares for exchange in accordance with the aforementioned offer; in addition a court order or the terms of an amicable settlement could result in the stipulation of a larger settlement and/or a larger amount of compensation. Thus, minority shareholders of GSW Immobilien AG may, to the extent permitted by the relevant statutory provisions, be able to demand supplementation of their settlement or compensation payments. In light of this, a further issuance of shares is possible.

[4] Status: 3/3/2015
[5] DE000A1X3R56
[6] DE000A0HN5C6

Continued intensive pursuit of Investor Relations measures

Intensive communication with our shareholders, with analysts and with potential investors was once again high on our agenda in the financial year 2014 and we successfully provided market participants with a comprehensive and transparent insight into our strategy and our prospects for future development. We actively sought dialogue with investors, in particular by participating in global conferences and roadshows.

Accordingly, we attended numerous national and international banking conferences in 2014, including: Kempen & Co. seminar in Amsterdam, UBS Best of Germany Conference and Bank of America Merrill Lynch Global Real Estate Conference in New York, as well as the EPRA Annual Conference, Berenberg Mid Cap Conference and UBS European Real Estate Conference in London. In addition, Deutsche Wohnen conducted a number of roadshows. The company intends to attend further banking conferences and roadshows in 2015. Further details can be found in our financial calendar on 148, a regularly updated online version of which can also be found at www.ir.deutsche-wohnen.com.

We hold telephone conferences along with the publication of our annual report and of each of our interim reports, during which investors and analysts are given the opportunity to put their questions directly to the Management Board. The conferences are broadcast live as webcasts, which are subsequently available for downloading on the Investor Relations page of our website. Here current financial reports and company presentations can also be accessed at all times and an overview of all our current activities based on our financial calendar may be found.

For Deutsche Wohnen, Investor Relations means prompt and transparent reporting, an active and regular dialogue with our shareholders and with potential investors, together with the expansion of our existing network of national and international contacts. Our Investor Relations department will continue to promote and expand these measures in the future.

Key share data	
Type of share	Ordinary share
Stock markets	Xetra, Frankfurt/Main, Stuttgart [1], Munich [1], Hamburg [1], Hanover [1], Dusseldorf [1], Berlin [1]
Admission segment	Prime Standard
Major indices	MDAX, EPRA/NAREIT, GPR250, GPR100
Number of issued shares	294,259,979
ISIN	DE000A0HN5C6
WKN	A0HN5C
Bloomberg ticker symbol	DWNI

[1] Open market trading

CORPORATE GOVERNANCE REPORT

Corporate Governance stands for a responsible and long-term value-driven management and control of companies. The corporate governance and corporate culture of the Deutsche Wohnen Group comply with statutory requirements and – with a few exceptions – the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board of Deutsche Wohnen AG feel obligated to pursue good Corporate Governance; all areas of business are orientated towards this purpose. Our focus is on values such as competence, transparency and sustainability.

Declaration of Compliance

The Management Board and Supervisory Board were also careful to meet the standards of the German Corporate Governance Code in 2014. In doing so, they took account of the amendments to the Code contained in the version as at 24 June 2014 and published in the German Federal Gazette (Bundesanzeiger) on 30 September 2014, and in December 2014, in accordance with sec. 161 of the German Stock Corporation Act (AktG), they submitted their declaration of compliance for the financial year 2014 with the recommendations of the Code and outlined in detail the position they held in the few instances of deviations from the Code. The declaration is available for inspection by shareholders and interested parties on our website at www.ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

General management structure with three bodies

Deutsche Wohnen AG, registered in Frankfurt/Main, is subject to the provisions of the German stock corporation law and capital market legislation and the provisions of its Articles of Association. With its two bodies, the Management Board and the Supervisory Board, the company has a two-tier management and supervisory structure. Above, there is the Annual General Meeting at which the shareholders are involved in fundamental decisions concerning the company. Together, these three organs are obligated to act in the best interests of the shareholders and for the benefit of the company.

The Management Board works in the best interests of the company

The Management Board manages the company and conducts the enterprise's business under its own responsibility. In this task it is bound by the goal of sustainable value creation in the company's interests. The members of the Management Board are appointed by the Supervisory Board. The age limit for members of the Management Board has been set by the Supervisory Board at the legal retirement age. The selection of members of the Management Board is based on the knowledge, skills and professional experience required for the fulfilment of the tasks of the Management Board.

In the financial year 2014, the Management Board consisted since the appointment of Mr Andreas Segal as further member on 31 January 2014 of three members and has a Chairperson. The work of the Management Board is governed in detail by the by-laws, which, among other things, provide for a division of tasks according to functional aspects.

The Management Board develops the strategic direction of the company, agrees this with the Supervisory Board, and ensures its implementation. It also bears the responsibility for appropriate risk management and control within the company as well as regular, timely and comprehensive reporting to the Supervisory Board. The approval of the Supervisory Board is intended for certain transactions and activities of the Management Board.

The members of the Management Board must immediately disclose any conflict of interest to the Supervisory Board and their colleagues on the Management Board. Significant business transactions between members of the Management Board, as well as parties closely related to them, and the company require the approval of the Supervisory Board. Equally, the acquisition of secondary employment outside the company requires such approval, too.

D&O group insurance policies have been concluded for the members of the Management Board and the Supervisory Board. Since 1 July 2010, these include a deductible that meets the requirements of sec. 93 para. 2 of the German Stock Corporation Act (AktG).

The Supervisory Board advises and monitors the Management Board

The Supervisory Board consists of six members. It is not subject to any employee participation requirements. All members are elected by the Annual General Meeting as representatives of the shareholders. Their term of office is generally five years in accordance with statutory provisions and the Articles of Association. The selection of members of the Supervisory Board is based, in particular, on the knowledge, skills and professional experience that are required for the fulfilment of their tasks. Only persons who at the time of appointment have not yet completed their 73rd year of life should be proposed for election as a member of the Supervisory Board.

The Supervisory Board advises and monitors the Management Board on its management of the company on a regular basis within the framework established by law, the Articles of Association and the by-laws. It works closely with the Management Board for the benefit of the company and is involved in decisions of fundamental importance to the company.

The Supervisory Board has by-laws; its work takes place both in plenary sessions and in committees. The work of the committees is intended to increase the efficiency of the work of the Supervisory Board. The committee chairperson reports regularly to the Supervisory Board on the work of their committee. Currently there are four committees:

- The Executive Committee is responsible for liaising with the Management Board and providing ongoing advice. It also prepares the meetings of the Supervisory Board, insofar as this is appropriate with regard to the scope and importance of items to be discussed. In accordance with the resolutions of the full Supervisory Board the Executive Committee is responsible for the conclusion and the content of the contracts for members of the Management Board. It is also responsible for giving advice and – insofar as this is permitted – making decisions about urgent issues.

- The Nomination Committee proposes suitable candidates to the Supervisory Board for it to recommend to the Annual General Meeting.

- The Audit Committee is responsible for the preliminary examination of the documentation for the annual financial statements and the consolidated financial statement, the preparation of the adoption or approval of these reports and the preparation of the Management Board's proposal on the utilisation of the profits by the Management Board. The committee discusses the principles of compliance, risk assessment, risk management and the adequacy and effectiveness of the internal control system with the Management Board. The responsibilities of the Audit Committee also include the preparation of the appointment of the auditors by the Annual General Meeting, which among other things includes an examination of the auditor's required independence, the subsequent appointment of the auditing contract and the determination of the audit priorities. The members of the Audit Committee have expertise in accounting and auditing regulations and the composition of the committee meets all stipulations for independence within the meaning of the EU recommendation on the role of Supervisory Board members (OJ EC 2005 No. L 52, 25 February 2005, p.1) and of the recommendation of the German Corporate Governance Code.

- The Acquisition Committee prepares the decisions of the Supervisory Board on corporate and/or portfolio acquisitions.

Important decisions are made at the Annual General Meeting

In line with the opportunities provided by the Articles of Association, the shareholders exercise their rights at the Annual General Meeting and exercise their voting rights. Each share carries one vote.

The Annual General Meeting is held annually during the first eight months of the financial year. The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the website of Deutsche Wohnen AG.

Fundamental resolutions are passed at the General Meetings including those relating to the appropriation of profits, formal approval of the actions of the Management Board and the Supervisory Board, the selection of members of the Supervisory Board and the auditors, amendments to the articles of association and measures which affect the capital structure of the company. The General Meeting provides a good opportunity to the Management Board and Supervisory Board to communicate directly with shareholders and to discuss and coordinate with them about the further development of the company.

In order to make it easier to personally exercise their rights, Deutsche Wohnen AG provides its shareholders with a proxy who is bound by the instructions given to him by the shareholders and who can also be reached during the General Meeting. It is explained in the invitation to the General Meeting how instructions may be given in advance of the General Meeting. In addition, shareholders are at liberty to be represented at the General Meeting by a proxy of their choice.

Remuneration of the Management Board

The remuneration system of the Management Board is the subject of regular consultations, review and redesign at the plenary sessions of the Supervisory Board.

The Management Board contracts of Deutsche Wohnen AG contain fixed and variable components. The variable component for all members of the Management Board is adjusted to the requirements of sec. 87 para. 1 sent. 3 of the German Stock Corporation Act (AktG). It is tied to the achievement of the company's economic goals and is primarily based on multi-year assessment criteria. The variable remuneration may only be claimed if there has been a corresponding positive development in the business. In this way, the compensation structure is aligned to sustainable business development and the incentive and risk effects of the variable remuneration will continue to be optimised.

The detailed remuneration report of Deutsche Wohnen AG for the financial year 2014 can be found on the company's website at www.ir.deutsche-wohnen.com/websites/deuwo/English/8460/report-on-compensation.html.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board has been established by the General Meeting in sec. 6 para. 6 of the Articles of Association. Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of EUR 30,000. The Chairman of the Supervisory Board receives double the standard remuneration; the Deputy Chairman receives one and a half times the standard remuneration. Each member of the Supervisory Board additionally receives lump sum remuneration in the amount of EUR 5,000 per financial year in return for his or her membership of the Supervisory Board's Audit Committee. Furthermore, each member of the Executive Committee and the Acquisition Committee receives an attendance fee in the amount of EUR 1,000 for each committee meeting personally attended by such member. Cash expenses are reimbursed. In addition, the company can, at its expense, include the members of the Supervisory Board in a D&O group insurance for executive bodies and managers, and has done so. A deductible payable by the members of the Supervisory Board was agreed for this in accordance with the requirements of sec. 93 para. 2 of the German Stock Corporation Act (AktG).

No performance-based remuneration for members of the Supervisory Board is paid. The remuneration report contains disclosure of the remuneration of the individual members of the Supervisory Board.

Directors' Dealings and shareholdings subject to mandatory disclosure

The members of the Management Board and the Supervisory Board of Deutsche Wohnen AG and their closely related parties are obligated in accordance with sec. 15a of the German Securities Trading Act (WpHG) to disclose without delay transactions in shares of Deutsche Wohnen AG or related financial instruments. The company will publish these transactions immediately after they have been reported to it. In the financial year 2014, the following transactions of this nature have been reported to Deutsche Wohnen AG: sales of 10,000 shares by the Chairman of the Supervisory Board, Uwe E. Flach and sales of 7,500 shares by his wife; the purchase of 8,500 shares by the Chief Executive Officer Michael Zahn and purchases of 5,210 shares by the member of the Management Board Lars Wittan.

As at 31 December 2014, the Supervisory Board member Uwe E. Flach held 2,500 shares and his wife 2,500 shares in Deutsche Wohnen AG respectively. As at that date, the wife of the Deputy Chairman of the Supervisory Board, Dr Andreas Kretschmer, held 4,705 shares, and the Supervisory Board member Dr h.c. Wolfgang Clement and his wife together held 1,000 shares. The Chief Executive Officer Michael Zahn held as at 31 December 2014 8,500 shares and the member of the Management Board Lars Wittan held 5,210 shares. The member of the Management Board Andreas Segal directly and indirectly held 40,098 shares. The other members of the Supervisory Board held no shares in Deutsche Wohnen AG as at 31 December 2014.

Thus, the total holdings of the aforementioned groups of individuals of shares of Deutsche Wohnen AG as at 31 December 2014 amounted to about 0.02 % of the approximately 294.26 million issued shares by the company.

Compliance as an important management task

Deutsche Wohnen AG has appointed a Compliance Officer in order to ensure compliance with the standards of conduct and norms prescribed by the German Corporate Governance Code and the relevant statutory provisions. The Compliance Officer manages, among other things, the company's list of insiders and informs management, employees and business partners about the relevant legal framework and the consequences of violations of insider regulations.

Adequate opportunity and risk management

To deal responsibly with opportunities and risks is elementary for Deutsche Wohnen AG. This is ensured by a comprehensive opportunity and risk management system, which identifies and monitors the major opportunities and risks. This system is continuously being developed and adapted to changing conditions.

Detailed information is available in the Management Report: The risk management system of Deutsche Wohnen AG is presented in the risk report from 76, corporate strategic opportunities are described in the Management Report on 81 and the information on the consolidated accounts can be found in the notes from 96.

Committed to transparency

As part of ongoing Investor Relations activities all events that are important to the shareholders, investors and analysts are published at the beginning of the year for the duration of each financial year in the financial calendar. The financial calendar, which is updated regularly, can also be viewed on the company's website at www.ir.deutsche-wohnen.com/websites/deuwo/English/7000/financial-calendar.html.

The company informs shareholders, analysts and journalists according to uniform criteria. The information is transparent and consistent for all capital market participants. Ad hoc statements and press releases, as well as presentations of press and analysts conferences and roadshows are immediately available on our website.

Insider information (ad hoc publicity), voting rights notifications and directors' dealings are disclosed by Deutsche Wohnen AG without delay in accordance with statutory provisions.

Accounting

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was reselected as the auditor at the Annual General Meeting 2014. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has provided an advance statement that no business, financial, personal or other relationships exist between the auditor, its executive bodies and audit leaders on the one hand, and the company or members of its executive bodies on the other, which could give rise to doubts as to its independence.

Deutsche Wohnen AG is committed to abide by the publication deadlines prescribed by the German Corporate Governance Code of 90 days after the end of the financial year for the consolidated financial statement and 45 days after the end of the reporting period for interim reports. Although these deadlines were also met in the financial year 2014, due to the time needed to carefully prepare financial statements and company reports, no binding commitment can yet be given that these publication deadlines will be met.

Further information

Further information about the activities of the Supervisory Board and its committees and its cooperation with the Management Board can be found in the report of the Supervisory Board.

Frankfurt/Main, March 2015

Supervisory Board Management Board

REPORT OF THE SUPERVISORY BOARD

Uwe E. Flach
Chairman of the Supervisory Board

Dear Shareholders,

Deutsche Wohnen AG also performed very well in the financial year 2014, further improving its earnings figures. Particularly should be emphasised: the successfully advancing integration of GSW Immobilien AG, the further optimisation of the portfolio and the capital structure through the issuance of a convertible bond as well as the focused prematurely refinancing of a portion of the liabilities to banks.

The company's sustainable success was also reflected in the performance of its share price and in its ratings.

Trusting cooperation with the Management Board

In the financial year 2014, the Supervisory Board has taken great care in its exercising of the duties it is obliged to perform under law, the articles of association, the German Corporate Governance Code and the by-laws. It has regularly advised the Management Board on the management of the company and overseen its activities. In addition, it was directly and promptly included in all decisions of fundamental importance to the company.

The Management Board informed the Supervisory Board regularly, promptly and fully, verbally and in writing, on the business policy, corporate planning and strategy, the company's situation, including the opportunities and risks, the state of business and risk management. Discrepancies between actual and planned development were explained in full. The Management Board agreed major business transactions with the Supervisory Board.

The Chairman of the Supervisory Board and other members of the Supervisory Board were in regular contact with the Management Board and discussed important issues also outside of the meetings of the Supervisory Board and its committees. These concerned, for example, the strategic direction of the company, performance and risk management.

Meetings of the Supervisory Board

In the financial year 2014, the Supervisory Board discussed the company's current performance, individual significant events and measures requiring its approval in nine meetings, three of which were held by way of telephone conferences. At the meetings, the Supervisory Board granted the requested approval, where necessary, and always after careful consideration and extensive discussion. In the year under review, Mr Hünlein was unable to personally attend two of the meetings and Mr Clement, Dr Stetter and Mr Wisser were each unable to personally attend one of the meetings. Apart from this, all of the members of the Supervisory Board were always present.

The Supervisory Board's activities in the year under review focused on the business planning and performance of Deutsche Wohnen AG, the company's corporate strategy, the integration of the acquisitions as well as capital measures. The business development in the segments Residential Property Management, Disposals, Nursing and Assisted Living, as well as the financial and liquidity position of the Group were subject of regular and intense discussion. The Supervisory Board's activities additionally focused on the review of and provision of advice in respect of the internal control and risk management system of the Deutsche Wohnen Group.

At its meeting of 31 January 2014, the Supervisory Board dealt, in particular, with the adoption of the 2014 Business Plan and the planning of the integration with regard to the takeover of GSW Immobilien AG as well as it also appointed Mr Andreas Segal as a further member of the Management Board of Deutsche Wohnen AG.

At the meeting of 18 February 2014 (telephone conference), the preparation and structure of a possible domination agreement between Deutsche Wohnen AG and GSW Immobilien AG was discussed in depth.

At the meeting of 20 March 2014, the Supervisory Board dealt mainly with the reports of the Audit and Executive Committees, the annual financial statements 2013 and matters relating to the Management Board, in particular the determination of the Management Board bonuses for the financial year 2013. Representatives of the auditing company were present in the discussions relating to the annual financial statements 2013, explaining items and approaches adopted in the annual financial statements of the company and the Group. Further core issues comprised the progress report on the integration, the agenda for the Ordinary Annual General Meeting, the adoption of the report of the Supervisory Board, the Corporate Governance Report and the company's risk management.

The main focus of the meeting of 28 April 2014 (telephone conference) was on the adoption of a resolution on the conclusion of a domination agreement with GSW Immobilien AG, the agenda and the proposed resolutions for the Ordinary Annual General Meeting and the remuneration system for the members of the Management Board.

The subjects of the meeting of the Supervisory Board of 6 May 2014 comprised of, in particular, the company's performance in the first quarter of 2014, acquisition projects and reports on the progress of the integration of GSW Immobilien AG as well as the status of the preparations for the Annual General Meeting.

The meeting of 4 August 2014 mainly served to discuss the company's current performance on the basis of the 2014 half-year report and the financing strategy.

At the meeting of 2 September 2014 (telephone conference) were, in particular, the adoption of the basic resolution in favour of the issuance of a convertible bond and the handling of matters relating to the Management Board (granting of approval for the assumption of a mandate) discussed.

The core content of the meeting of 3 November 2014 involved reports from the committees, the current performance of the company, including the progress of the integration of GSW Immobilien AG, matters relating to the Management Board (in particular the implementation of the Stock Option Programme 2014) and the Supervisory Board, revisions of the rules of procedure of the Management Board and the Supervisory Board, namely the catalogue of transactions which are subject to approval, as well as the adoption of a resolution for the disposal of a majority shareholding in KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH and the discussion of considerations with regard to a portfolio disposal.

At its meeting of 18 December 2014, the Supervisory Board dealt, in particular, with the adoption of the Business Plan 2015, acquisitions, the adoption of a resolution for a portfolio disposal and the German Corporate Governance Code, and also adopted the Declaration of Compliance to be submitted jointly with the Management Board.

Efficient work in four committees of the Supervisory Board

In order to efficiently perform its duties, the Supervisory Board has formed committees and continuously evaluated their needs and activities in the year under review.

Specifically, there existed the following four committees in the year under review:

- The Executive Committee,
- The Nomination Committee,
- The Audit Committee,
- The Acquisition Committee.

Their duties are represented in detail in the Corporate Governance Report on 40.

In principle, the resolutions of the Supervisory Board and the topics to be discussed at the Supervisory Board plenary are prepared in the committees. Where permitted by law, each committee has been transferred decision-making powers in individual cases through the articles of association or through resolutions of the Supervisory Board. The Chairmen of the committees regularly and fully reported on the contents and results of committee meetings to the meetings of the Supervisory Board.

The Executive Committee met eight times in the year under review: on 24 and 28 January, 7 and 14 March, 14 and 30 April, 3 September and 20 October. The subjects of these meetings were, in particular, consultations and the adoption of resolutions on matters relating to the Management Board (contractual matters, remuneration issues, the introduction of a stock option programme and the extension of terms of office) and also in connection with capital measures (the issuance of a convertible bond).

In the reporting year, the Nomination Committee developed a proposal for the appointment of a candidate for election to the Supervisory Board and, on 25 April, recommended by way of resolution this nomination to the Supervisory Board to be proposed to the Annual General Meeting.

The Audit Committee met on four occasions during the year under review, where it dealt with the relevant items of the Supervisory Board's work. These included, in particular, the preliminary examination of the annual financial statements, the consolidated financial statements and interim reports of Deutsche Wohnen AG and a discussion of the risk management system. It made to the Supervisory Board a recommendation for the appointment of the auditing company for the financial year 2014, collected a declaration of independence from this party, and monitored its activities. The members of the Audit Committee have expertise and experience in the application of accounting principles and internal control procedures. The committee Chairman, Dr Andreas Kretschmer, meets all the stipulations of sec. 100 para. 5 of the German Stock Corporation Act (AktG).

The Acquisition Committee did not meet in the year under review.

Corporate Governance

The Supervisory Board has continuously observed and discussed the further development of the company's own Corporate Governance Standards. Comprehensive information on corporate governance in the company, including the structure and amount of remuneration paid to the Supervisory Board and Management Board can be found from 39 in this report.

The Management Board and Supervisory Board have discussed the requirements of the version of the German Corporate Governance Code applicable for the year under review and the implementation of these requirements. They adopted their updated joint declaration of compliance in accordance with sec. 161 of the German Stock Corporation Act (AktG) in December 2014 and have made it permanently accessible to the public on the company website. The declaration of compliance can be viewed at: www.ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

Annual and consolidated financial statements discussed in detail

The annual financial statements of Deutsche Wohnen as at 31 December 2014 and the consolidated financial statements along with the management reports of the company and the Group that were prepared by the Management Board were examined by the auditing company that was appointed by the Annual General Meeting of 11 June 2014 and commissioned by the Supervisory Board, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and provided with the unqualified audit opinion.

The annual financial statements of Deutsche Wohnen AG and the consolidated financial statements, the reports on the situation of Deutsche Wohnen AG and the Group as well as the reports of the auditing company were made available to all members of the Supervisory Board immediately following their preparation. The auditing company took part in the meeting of the Audit Committee held on 19 March 2015, for the purposes of preparing for the meeting of the Supervisory Board for the review of the financial statements. It reported on the substantial results of its audit and provided additional information. The results of the audit of the company's annual financial statements, the consolidated financial statements and the management reports of the company and the Group were agreed by the Audit Committee following extensive discussion.

At the meeting of the Supervisory Board on 20 March 2015 the Chairman of the Audit Committee gave a full report on the annual financial statements and the audit. In addition, the auditing company explained the main findings of its audit and was available to provide information and answers to further questions from the Supervisory Board. The Supervisory Board has carefully examined the annual financial statements, the management report, the consolidated financial statement, the proposal for the utilisation of net profit and the audit reports. There have been no objections. The Supervisory Board then approved the recommendation of the Audit Committee in accordance with the annual financial statements and consolidated financial statement produced by the Management Board as at 31 December 2014. The annual financial statements are thereby adopted.

The adopted annual financial statements indicate a net profit. The Supervisory Board endorses the Management Board's proposal regarding the utilisation of net profits. The agenda of the Annual General Meeting will therefore include the adoption of a resolution on the distribution of a dividend in the amount of EUR 0.44 for each share entitled to the dividend.

Changes to the Supervisory Board and Management Board

Dr Michael Leinwand resigned as a member of the Supervisory Board effective from the end of the Annual General Meeting on 11 June 2014. Mr Claus Wisser was appointed as a new member of the Supervisory Board by the Annual General Meeting upon the recommendation of the Nomination Committee.

The number of members of the Management Board was increased to three on 31 January 2014 through the appointment of Mr Andreas Segal as further member of the Management Board (CFO).

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and the employees of Deutsche Wohnen AG and all of the Group companies for their dedicated work and constructive cooperation over the past year.

Frankfurt/Main, March 2015

On behalf of the Supervisory Board

Uwe E. Flach

COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

MANAGEMENT BOARD

as at March 2015

Michael Zahn
Chief Executive Officer

Andreas Segal
Member of the Management Board

Lars Wittan
Member of the Management Board

SUPERVISORY BOARD

as at March 2015

Uwe E. Flach
Chairman, Frankfurt/Main

Dr. rer. pol. Andreas Kretschmer
Deputy Chairman, Dusseldorf

Dr. h.c. Wolfgang Clement
Bonn

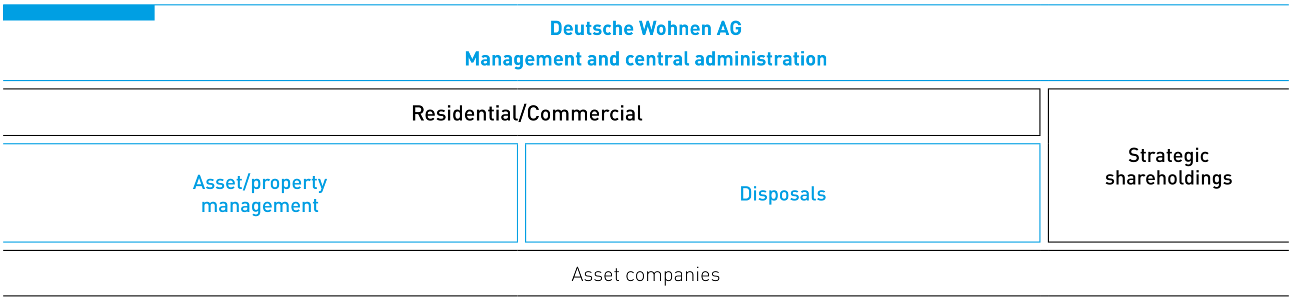
Matthias Hünlein
Oberursel

Dr. Florian Stetter
Erding

Claus Wisser
Frankfurt/Main

FUNDAMENTALS OF THE GROUP

BUSINESS MODEL OF THE GROUP



Deutsche Wohnen AG together with its subsidiaries (hereinafter referred to as "Deutsche Wohnen" or the "Group") is currently one of the ten largest publicly listed real estate companies in Europe measured by market capitalisation. The company is listed on the MDAX stock index of the German stock exchange. Its real estate holdings comprise about 149,000 residential and commercial units as well as nursing care facilities with approximately 2,200 nursing places and apartments, with a total fair value of approximately EUR 10 billion. Our investment focus is on residential properties in German metropolitan areas and conurbations. We believe that the expansion of the portfolio to include nursing and commercial properties in these markets represents a further option for growth due to the dynamic development discernible. Fundamental economic growth, population influx and demographic development within German metropolitan areas provide a sound basis for the achievement of reliable cash flows with further potential for growth from the letting and leasing of properties, and for the utilisation of opportunities for the creation of value.

An organisational distinction is made between management and asset companies: The management companies are allocated to the respective segments, with Deutsche Wohnen AG assuming a traditional holding company function – comprising the areas of Portfolio Management, Corporate Finance, Finance, Human Resources, Investor Relations, Corporate Communication and Legal/Compliance.

Asset/property management

The management of our holdings is largely undertaken by our wholly owned subsidiaries. All activities related to the management and administration of residential property, the management of rental contracts and tenant support are consolidated within Deutsche Wohnen Management GmbH (DWM) and Deutsche Wohnen Immobilien Management GmbH (DWI), while Deutsche Wohnen Construction and Facilities GmbH (DWCF) is responsible for the technical maintenance and development of our holdings. This arrangement has in the past enabled us to realise potential for rent increases and keep the vacancy rate at a very low level. With strategic shareholdings, as well as collaboration with qualified system providers, we achieve to manage our residential properties with an above-average level of efficiency.

Disposals

The disposal of properties is managed by Deutsche Wohnen Corporate Real Estate GmbH. We continuously release large amounts of capital, especially in the privatisation context in our strategic core and growth regions, and thereby strengthen our internal financing capacity. Opportunistic disposals of properties in our Core+ and Core regions, in the context of sales to institutional investors, are also possible in the current positive market environment.

Strategic shareholdings

In addition to its core business activities, Deutsche Wohnen also operates within the scope of strategic shareholdings.

Under the brand KATHARINENHOF® and on the basis of a shareholding model, we manage retirement and nursing homes for senior citizens, which provide full in-patient care with the aim of maintaining the residents the active, independent lifestyle to the greatest possible degree, as well as a comprehensive range of services tailored to the needs of senior citizens in the form of assisted living accommodation. At the beginning of the financial year 2015, the Nursing and Assisted Living business became part of a shareholding structure, with 51 % of the shares being sold to KH Beteiligungs GmbH. Deutsche Wohnen remains the holder of 49 % of the shares in KATHARINENHOF® and the owner of the nursing properties.

Other business areas in which we currently operate via strategic shareholdings include: procurement of technical services in the facility management context, insurance policies and energy services.

GROUP STRATEGY

Deutsche Wohnen regards itself as a portfolio manager focusing on residential property with a clear orientation towards German metropolitan areas; approximately 87 % of our holdings are located in these Core+ regions. The markets are centres of high residential density characterised by dynamic development of economic parameters such as economic power, income, innovative capacity and competitive strength. Approximately 11 % of our holdings are located in markets with moderately rising rents and stable rent development forecasts.

Due to the size and quality of our property portfolio, our focus on attractive German metropolitan areas and the efficiency of our real estate platform with highly-trained and qualified employees, we consider ourselves to be ideally placed in the market to benefit to the optimum degree from the growth in German metropolitan areas and to bring about a sustained increase in the value of our holdings.

Deutsche Wohnen has in the past repeatedly demonstrated its competence in the context of the acquisition and integration of portfolios and thereby consistently achieved its related goals in both quantitative and qualitative terms. As a result of the consolidation with GSW, we have generated economies of scale and strengthened Deutsche Wohnen's position as one of Germany's most efficient residential property companies. Deutsche Wohnen intends to achieve continued value-enhancing and focused growth in the future by means of the selective acquisition of further property portfolios.

Focus on core competencies

In order to maintain the persistently high quality and efficiency of our organisational structures and work processes, our core competencies as regards the management and development of our property portfolio as well as the privatisation of residential units are implemented by our own employees. Here we are highly professional, possess considerable know-how and are thus able to ensure the generation of continuous cash flows by our main businesses.

Transfer of knowledge through strategic shareholdings

We operate through strategic shareholdings with a view to realising greater potential for value creation. Focusing on selected professional partners and pooling services places us in a position to use economies of scale, and additionally accords us the maximum degree of transparency and some insights into the relevant markets, which in turn helps us to ensure the quality of our operations and the transfer of knowledge in the business area in question.

Our competitive advantages

Deutsche Wohnen will further maintain its strong market position by focusing on the pursuit of a sustainable growth strategy.

Focus

Deutsche Wohnen has pursued a clear investment strategy since 2008. Since then our portfolio focuses primarily on growth markets. Today, approximately 98 % of our portfolio is located in major cities and conurbations in Germany, and 73 % of our overall holdings in Greater Berlin alone.

Quality and efficiency

By the concentration of our holdings on selected locations we achieve considerable economies of scale in the procurement context and in the management of our properties, making us one of the most efficient companies in the German residential property sector. Our costs in relation to vacancies and payment defaults are consistently low. Our rate of investment has been for years considerably higher than the industry average. Our expenditure on maintenance and modernisation flows directly into growth markets with a view to realising existing potential for the creation of value. Our employees possess a high level of professional expertise and contribute greatly towards the efficient implementation of work processes.

Flexibility

Our organisational structure is highly flexible. Properties are primarily held by special purpose entities while the core processes relating to property management are implemented by wholly owned subsidiaries. Deutsche Wohnen furthermore uses strategic shareholdings to gain access to lucrative business areas involving a property element, which enables us to act opportunistically and flexibly yet without diverting the focus away from our primary business.

Capital market viability/financing

Deutsche Wohnen's successful course for growth in recent years has further strengthened its position on the capital market; today, it is among the six largest European real estate companies – on the basis of free float market capitalisation – and has gained in importance in all of the major indices.

The Deutsche Wohnen share is currently being traded at an appreciable premium. Our dividend policy adopts a restrained and sustainable approach and ensures that the company retains the necessary means for maintaining and increasing the value of our portfolio.

We have made use of the favourable market environment in order to carry out substantial optimisation of our financing structure. The lowering of the average interest rate for our loan portfolio to approximately 2.5 % p.a., while at the same time extending the terms of the loans, has the effect of significantly strengthening our company's cash flow. The Loan-to-Value Ratio (LTV) is likewise an important element in our financing strategy; it was greatly reduced in 2014 and is also expected to amount to approximately 50 % over the medium term.

We have consistently improved our competitive position for securing capital resources in recent years. In November of last year, Deutsche Wohnen for the first time received two long-term issuer ratings from the rating agencies S&P (BBB+) and Moody's (Baa1). We intend to further consolidate our market position in the future by continuously pursuing a solid investment and dividend policy.

Sustainability

As a sustainably managed company, we are bracing ourselves to tackle future opportunities and risks presented by global challenges, and to take on responsibility for environmental and social issues and for our employees. We believe that sustainable action will secure the future viability of the Deutsche Wohnen Group and also benefit our stakeholders. This means that cost savings cannot be permitted to impair the working processes and working environment of our employees. The same applies to our properties – we will not waive a clear and focused investment strategy in favour of short-term improvements in results.

With regard to our strategic portfolio orientation, we refer to the statements contained in the "Property portfolio" chapter starting on 54 of this Annual Report.

GROUP CONTROL

All of Deutsche Wohnen's business activities are aimed at continually improving the Group's profitability.

Our sustainable dividend policy ensures that the quality of our portfolio is maintained, and we strive to permanently keep our debt at a reasonable level for this asset class.

The management of the company occurs at several levels:

At the holding level, all earnings and payment flows are aggregated and evaluated in terms of the key figures FFO, NAV and LTV on a quarterly basis. At the same time, the Investor Relations department applies a benchmark across our principal peers on a quarterly basis. This SWOT analysis serves for the validation of Deutsche Wohnen in comparison to its relevant competitors.

In the Residential Property Management segment, developments in the rent per square metre and the vacancy rate, differentiated in accordance with defined portfolios and/or regions, are the parameters for management. This also includes the scope of and earnings from new lettings and the development of letting-related costs, such as maintenance costs, costs relating to the marketing of properties to let, operating costs and rental losses. All parameters are evaluated and compared to detailed budget estimates on a monthly basis. Measures can be derived and strategies developed on this basis to realise rent increase potentials while controlling developments in expenses, and thus constantly improving the operating results.

The Disposals segment is managed by monitoring the disposal prices per square metre and the margin as the difference between the carrying amount and the disposal price. In the process, the ascertained values are compared to the target figures and also the market and adjusted where necessary.

Other operational expenses, such as staff expenses, general and administration expenses, and non-operational indicators, such as finance expenses and taxes, are also part of the central planning and controlling system and of the monthly report to the Management Board. Current developments are also highlighted and compared to the target figures.

Considerable weight is attributed to finance expenses in this context, as they have significant impact on Group earnings and cash flow performance. The Corporate Finance department of Deutsche Wohnen AG (holding company) is responsible for the management of finance expenses. Active and ongoing management of the credit portfolio and the hedging rate, together with constant monitoring of the market, aims at a continuous optimisation of the financial results. In addition, the department is responsible for spreading risks by expanding the debt capital portfolio to include new bank partners and insurance companies or alternative financial products.

In the Nursing segment, we primarily generate internal growth by increasing nursing care charges and occupancy rates in residential nursing home facilities. Reporting to the Management Board with respect to this segment also takes place on a monthly basis.

In order to measure the cash flow generated from operating business activities and compare this to target figures, we use as indicator the Funds from Operations before disposals (FFO I), with the consolidated profit/loss for the period constituting the starting value for determining the FFO, which is increased or decreased to reflect any depreciation and amortisation, one-off items, non-cash finance expenses or income, and tax expenses or income.

Using regular reporting, the Management Board and specialist departments are able to evaluate the economic development of the Group in a timely manner and compare it with the figures from the previous month and year, as well as with the target figures. In addition, the expected development is determined on the basis of an updated forecast. In this manner, opportunities as well as negative trends can be identified at short notice and corresponding measures can be taken to make use of or counteract these opportunities or trends.

PROPERTY PORTFOLIO

Portfolio overview

Deutsche Wohnen manages one of the largest property portfolios in Germany, with its real estate holdings comprising approximately 149,000 residential and commercial units generating annualised yearly rent of more than EUR 625 million. Our portfolio focuses on conurbations and metropolitan areas – the so-called Core+ regions – in which 87 % of our residential holdings are located, while a further 11 % of our residential units are located in stable Core markets and only 2 % in weaker Non-Core markets. At the end of the year, the average net cold rent amounted to EUR 5.69 per sqm, with an average vacancy rate of 2.2 %.

With approximately 107,000 residential units and approximately 1,600 commercial units located there, Greater Berlin plays a major role in our portfolio, representing approximately 73 % of our total holdings: Deutsche Wohnen is thus the largest private residential property company operating in the capital city.

Our portfolio is managed on the basis of the regional and strategic clustering of our property holdings. Regional clustering in Core+, Core and Non-Core segments is effected using a scoring model which evaluates the attractiveness and future prospects of the locations on the basis of macroeconomic and property-specific data, for example population- and household-related developments, local job markets, purchasing power and infrastructure data.

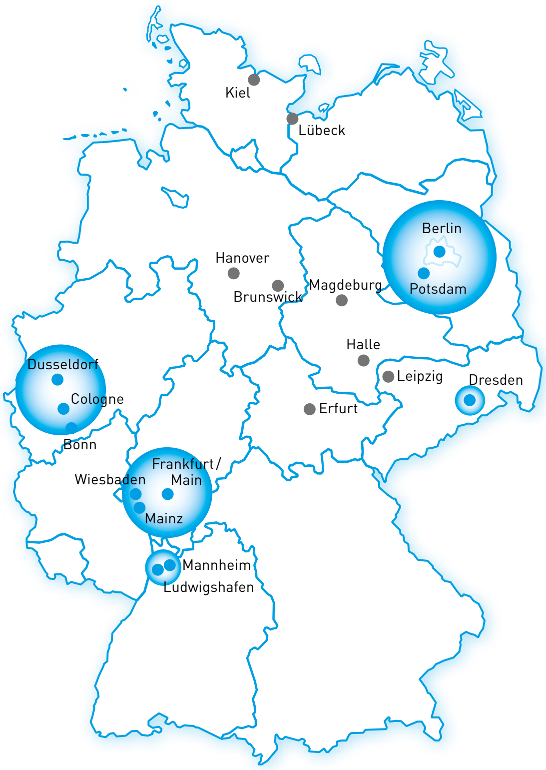
On the basis of this analysis, approximately 9,700 residential units from the Core segment were reclassified as Core+ properties in 2014. This reclassification related primarily to the Dresden and Mannheim/Ludwigshafen regions. Approximately 1,600 units from the Core category were reclassified as Non-Core properties.

	31/12/2014						
Property portfolio	Residential units number	Area sqm k	Share of total portfolio in %	In-place rent[1] EUR/sqm	Vacancy in %	Rent potential[2] in %	Commercial units number
Strategic core and growth regions	**143,614**	**8,714**	**98**	**5.71**	**2.1**	**20.0**	**2,021**
Core+	127,798	7,716	87	5.76	2.0	22.7	1,884
Greater Berlin	106,798	6,419	73	5.67	2.0	21.2	1,597
Rhine-Main	9,320	563	6	7.10	2.0	23.5	187
Mannheim/Ludwigshafen	4,811	300	3	5.59	1.0	21.8	42
Rhineland	4,701	304	3	5.80	2.4	25.0	42
Dresden	2,168	131	1	4.98	1.1	20.9	16
Core	15,816	998	11	5.33	3.3	8.9	137
Hanover/Brunswick	8,860	579	6	5.42	3.0	13.3	82
Magdeburg	2,101	124	1	5.23	3.2	3.2	25
Kiel/Lübeck	2,025	130	1	5.11	4.6	11.8	6
Halle/Leipzig	1,684	98	1	5.17	3.5	2.0	12
Erfurt	619	34	0	5.88	3.1	2.4	12
Other	527	33	0	4.97	3.5	11.0	0
Non-Core	**3,491**	**232**	**2**	**4.87**	**7.2**	**2.7**	**42**
Total	**147,105**	**8,946**	**100**	**5.69**	**2.2**	**19.6**	**2,063**

[1] Contractually owed rent for rented residential units divided by rental area
[2] New letting rent for properties in the letting portfolio in comparison to the in-place rent for properties in the letting portfolio

CORE+ **87** %

CORE **11** %



We base our corresponding investment strategies on the strategic clustering of our properties, allocating these for the strategic core and growth regions to one of the following fields of activity: "Operate", "Develop" and "Dispose". With regard to the cluster "Operate", our activities are focused on new lettings and the realisation of rent potentials in line with market rents. The properties are in good to very good condition and generate corresponding cash flows on the basis of regular maintenance measures. The "Operate" holdings constitute – with a share of 76 % – the bulk of our portfolio. Properties in particularly promising locations whose fixtures and fittings and conditions are of below-average standard are allocated to the "Develop" cluster (share of total portfolio: 12 %). We will be investing to a greater extent in comprehensive modernisation measures for these properties in the next few years, with a view to raising their current value potential.

The properties in the "Dispose" segment (share of total portfolio: 10 %) are offered for sale in the privatisation and block sale context. These disposals largely comprise privatisation involving high margins, block sales for portfolio streamlining purposes in Non-Core regions and opportunistic disposals in Core and Core+ regions intended to selectively make use of market opportunities.

	31/12/2014					
Residential	Residential units number	Area sqm k	Share of total portfolio in %	In-place rent[1] EUR/sqm	Vacancy in %	Rent potential[2] in %
Strategic core and growth regions	**143,614**	**8,714**	**98**	**5.71**	**2.1**	**20.0**
Core+	127,798	7,716	87	5.76	2.0	22.7
Operate	98,065	5,888	67	5.85	1.4	22.0
Develop	17,060	970	12	5.49	2.8	27.2
Dispose	12,673	858	9	5.45	5.2	–
Core	15,816	998	11	5.33	3.3	8.9
Operate	13,920	870	9	5.34	3.1	8.9
Dispose	1,896	128	1	5.28	4.8	–
Non-Core	**3,491**	**232**	**2**	**4.87**	**7.2**	**2.7**
Total	**147,105**	**8,946**	**100**	**5.69**	**2.2**	**19.6**

[1] Contractually owed rent for rented residential units divided by rental area
[2] New letting rent for properties in the letting portfolio in comparison to the in-place rent for properties in the letting portfolio

Portfolio development

Acquisitions and disposals

In 2014, Deutsche Wohnen selectively acquired smaller portfolios comprising a total of approximately 3,100 residential units in the Rhine-Main region (650), Berlin (1,950) and Dresden (500) for a gross purchase price of EUR 278 million. All of these portfolios are located within our Core+ markets, which are characterised by a dynamic increase in demand and above-average rent increases.

	2014
Residential units	3,100
Acquisition price in EUR m	278
Acquisition price in EUR/sqm	1,228
Rent in EUR/sqm	5.54
Annual rent in EUR m	15.1
Vacancy (residential/commercial)	4.1 %

Of the approximately 3,100 notarised residential units we acquired ownership of approximately 940 in the financial year 2014.

As regards disposals, we were able to make use of the great demand for owner-occupied residential units and accordingly increase our earnings from disposals. In the past financial year a total of 4,115 residential units were sold with a transfer of risks and rewards, thereof 2,016 units in the privatisation context and 2,099 units in the context of institutional sales. Thereby, 1,538 residential units from Non-Core holdings were sold. Deutsche Wohnen will continue to withdraw from dispersed/scattered locations and declining markets in the future, intending to further reduce its current Non-Core holdings in the amount of 3,491 units.

A larger portfolio comprising approximately 5,700 residential units was sold by way of opportunistic block sale. These residential units were holdings of GSW which were overrepresented both in terms of their construction year and the city district in which they were located. The transfer of risks and rewards is planned for 1 April 2015.

Further details of our segment earnings from disposals can be found on 68 of the Management Report.

Operational development

The following overview shows the development of the in-place rents as well as the vacancy rates on a like-for-like comparison, i.e. only for residential holdings that were consistently managed by the company in the past twelve months.

Like-for-like	Residential units number	In-place rent[1] EUR/sqm 31/12/2014	In-place rent[1] EUR/sqm 31/12/2013	Development in %	Vacancy in % 31/12/2014	Vacancy in % 31/12/2013	Development in %
Strategic core and growth regions[2]	**135,401**	**5.71**	**5.57**	**2.5**	**1.9**	**2.0**	**–4.9**
Core+	121,445	5.76	5.62	2.5	1.7	1.7	0.8
Greater Berlin	102,319	5.67	5.53	2.5	1.8	1.7	6.6
Rhine-Main	7,991	7.18	7.02	2.3	1.6	2.2	–25.7
Mannheim/Ludwigshafen	4,530	5.58	5.49	1.8	0.6	1.2	–48.3
Rhineland	4,437	5.75	5.58	3.0	1.7	1.8	–8.0
Dresden	2,168	4.98	4.89	1.8	1.1	1.6	–30.1
Core	13,956	5.34	5.18	3.1	3.1	4.2	–26.3
Hanover/Brunswick	8,104	5.38	5.17	4.0	2.8	3.9	–27.7
Magdeburg	2,099	5.23	5.19	0.7	3.0	6.4	–52.7
Kiel/Lübeck	1,129	5.23	5.15	1.6	4.0	4.3	–7.1
Halle/Leipzig	1,606	5.19	5.11	1.6	3.6	3.8	–4.7
Erfurt	610	5.89	5.53	6.6	2.8	1.0	192.2
Other	408	5.27	5.24	0.6	4.0	3.3	20.7

[1] Contractually owed rent for rented residential units divided by rental area
[2] Without individual privatisation

Like-for-like rental growth for the properties in our letting portfolio located in strategic core and growth regions, at 2.5 %, was lower than in the previous year, in line with expectations. This was largely influenced by the rent index for Berlin, which has resulted in an above-average rise in rents in 2013. In the reporting year annualised rent increases in the amount of EUR 14.8 million were realised in the strategic core and growth regions (previous year: EUR 17.5 million).

The new letting rent in the Core+ segment (non-rent restricted letting units) was approximately 22.7 % higher than the in-place rent as at the reporting date, which represents an increase of three percentage points over the previous year.

On a like-for-like basis the vacancy rate for the overall portfolio increased slightly to 2.2 % as a result of a larger number of disposal-related vacancies for privatisation holdings. In the strategic core and growth regions the vacancy rate could be reduced from 2.0 % to 1.9 % due to increased letting activity in our Core markets.

	31/12/2014			31/12/2013
Residential	New letting rent [1] EUR/sqm	In-place rent [2] EUR/sqm	Rent potential [3] in %	Rent potential [3] in %
Core+ (letting portfolio)	**7.11**	**5.80**	**22.7**	**19.6**
Greater Berlin	6.92	5.71	21.2	17.2
Rhine-Main	8.79	7.12	23.5	28.5
Mannheim/Ludwigshafen	6.81	5.59	21.8	19.0
Rhineland	7.19	5.75	25.0	23.6
Dresden	6.02	4.98	20.9	9.3

[1] Contractually owed rent from newly concluded rental agreements in non-rent restricted units, which became effective in 2014
[2] Contractually owed rent for rented residential units divided by rental area
[3] New letting rent for properties in the letting portfolio in comparison to the in-place rent for properties in the letting portfolio

Portfolio investments

In the financial year 2014, our expenditure on maintenance and modernisation amounted to approximately EUR 153 million or nearly EUR 17 per sqm (previous year: EUR 15 per sqm), with approximately EUR 89 million or just under two thirds of that amount being attributable to maintenance expenses and one third to modernisation expenses. Due to the complexities involved in budgeting for major projects spanning a number of years, our modernisation expenses are subject to fluctuation from one year to the next.

The following table illustrates the maintenance expenses as well as the capitalised modernisation expenses (capex – capital expenditures) for the last financial year in comparison to the previous year:

EUR m	2014	2013
Maintenance	**88.8**	**59.4**
in EUR per sqm	9.59[1]	10.36[2]
Modernisation	**64.1**	**26.8**
in EUR per sqm	6.92[1]	4.67[2]

[1] Taking into account the average floor space on a quarterly basis in the relevant period
[2] Taking into account the average floor space on a quarterly basis in the relevant period; as at 30/6/2013 excluding floor space pertaining to companies that were consolidated for the first time as at 30/6/2013; GSW floor space only included for one month in the 4th quarter 2013

In addition to ongoing repair costs, expenditure on maintenance primarily comprises tenant turnover-related expenses with an average of EUR 3,359 per residential unit being invested in the new letting context in 2014. The corresponding increase in rents resulted in a return of approximately 17 %.

Portfolio valuation

The sustained positive performance of our Core+ markets is reflected in an increase in the value of our property portfolio in the total amount of EUR 953 million as at the reporting date. Approximately EUR 279 million of this amount result from improvements in the operating performance with regard to the portfolio and the corresponding increase in cash flows. Furthermore, the rent and price levels in our Core+ markets, in which the majority of our holdings are located, have once more risen in an above-average degree. The adjustment of the valuation parameters for market performance and sustained vacancies resulted in an increase in value of EUR 117 million, with a further such increase in value (EUR 557 million) being attributable to the adjustment of the discount and capitalisation interest rates intended to properly account for the positive developments in prices/market performance. The valuation result was confirmed by an external report from CB Richard Ellis. The following table shows significant key valuation figures relating to the property holdings as at 31 December 2014:

Fair value	31/12/2014 Fair value EUR m	 Fair value EUR/sqm	 Multiple in-place rent	 Multiple market rent
Strategic core and growth regions	**9,635**	**1,074**	**15.6**	**13.3**
Core+	8,819	1,108	16.0	13.5
Greater Berlin	7,273	1,101	16.1	13.5
Rhine-Main	845	1,405	16.5	14.1
Mannheim/Ludwigshafen	282	904	13.4	12.7
Rhineland	304	983	14.1	12.5
Dresden	115	872	14.8	12.2
Core	817	803	12.7	11.5
Hanover/Brunswick	491	828	12.9	11.5
Magdeburg	97	768	12.5	11.7
Kiel/Lübeck	95	729	12.3	10.7
Halle/Leipzig	77	765	12.6	11.6
Erfurt	34	990	14.0	13.2
Other	23	692	11.9	10.8
Non-Core	**150**	**621**	**11.6**	**10.3**
Total	**9,785**	**1,062**	**15.5**	**13.3**

The significant increases in value relate to the Core+ segment in the amount of EUR 922 million above all Greater Berlin in the amount of approximately EUR 819 million and the Rhine-Main region in the amount of approximately EUR 73 million.

Fair value	31/12/2014 Fair value EUR m	 Multiple in-place-rent	31/12/2013 Fair value EUR m	 Multiple in-place-rent
Strategic core and growth regions	**9,635**	**15.6**	**8,679**	**14.2**
Core+	8,819	16.0	7,885	14.4
Core	817	12.7	794	12.7
Non-Core	**150**	**11.6**	**202**	**11.5**
Total	**9,785**	**15.5**	**8,881**	**14.2**

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Macroeconomic development

Global economy

According to the Annual Report of the German Council of Economic Experts, the development of the global economy in the first half of 2014 fell short of expectations. This was particularly due to the ongoing economic downturn in the Eurozone as well as somewhat subdued growth in the emerging markets as compared to the previous years, while the global monetary policy of the central banks remained expansive. In the Eurozone, Germany recorded solid growth, and other European countries such as Portugal, Spain and Greece exhibited initial signs of recovery and stabilisation. The German Council of Economic Experts in its report estimates global economic growth in 2014 at 2.6 %, and anticipates a growth rate of approximately 2.9 % in 2015.[1]

In its Winter Baselines 2014/2015, the German Institute for Economic Research (DIW Berlin) also affirms this positive trend, despite a weak performance in the first half of 2014, and refers to a slight picking up of the pace in the global economy as at the end of the year 2014. According to the DIW Berlin, this development was above all due to falling unemployment rates, rising wages and low rates of inflation in the industrial nations in particular. These factors in turn serve to bolster private consumption. The DIW Berlin therefore projects growth of 3.4 % for the global economy in 2014 and even of 3.8 % in 2015.[2]

Development in Germany

After a weak performance in the first six months of the year, the German economy stabilised again towards the end of 2014 and embarked on an upward trajectory, above all bolstered by strong domestic demand,[3] for which the DIW Berlin projects growth of 1.5 % in 2014 and 1.4 % in 2015. According to calculations of the Federal Statistical Office, the price-adjusted gross domestic product increased by 1.6 % in 2014, with this increase being greater than the average growth rate for the past ten years of 1.2 %.[4]

Against a background of moderately rising prices – with the rate of inflation in Germany for 2014 being 0.9 % and that for 2015 being projected at 0.7 % – the strong German domestic economy may largely be attributed to consumption by private households, bolstered by the continued rise in employment figures and generally favourable developments with regard to income, in particular.[5] Thus, the number of gainfully employed persons increased by 371,000 to 42.7 million in 2014, reaching a new high for the eighth consecutive year.[6] In addition, German exporters benefited from increased imports resulting from a significant rise in demand in the US and Asia and more moderate developments in this regard in the Eurozone.[7]

For the fourth consecutive time, the Federal Statistical Office expects rising population numbers in Germany. It estimates that just under 81.1 million individuals were residing in the Federal Republic of Germany as at the end of 2014, approximately 300,000 more than at the beginning of the year. This increase is attributable to the high net immigration from abroad, which the Federal Statistical Office estimates as at least 470,000 individuals in 2014 – the highest level since 1993. This is counterbalanced somewhat by the fall in the birth rate reflected in an estimated 190,000 to 215,000 fewer births.[8]

[1] German Council of Economic Experts – Annual Report 2014/15, published in November 2014
[2] DIW Berlin – Winter Baselines 2014 – Weekly Report 51+52 2014

[3] Federal Statistical Office, press release, dated 15/1/2015 – 16/15 in conjunction with DIW – Winter Baselines 2014 – Weekly Report 51+52 2014 in conjunction with German Council of Economic Experts – Annual Report 2014/15, published in November 2014
[4] Federal Statistical Office, press release, dated 15/1/2015 – 16/15 in conjunction with press release, dated 13/2/2015 – 48/15
[5] DIW – Winter Baselines 2014/15 – Weekly Report 51+52 2014 in conjunction with Federal Statistical Office, press release, dated 16/1/2015 – 17/15
[6] Federal Statistical Office, press release, dated 5/1/2015 – 1/15 in conjunction with Statistical Office for Berlin-Brandenburg, press release no. 24, dated 27/1/2015
[7] DIW Berlin – Winter Baselines 2014/15 – Weekly Report 51+52 2014
[8] Federal Statistical Office, press release, dated 21/1/2015 – 24/15 in conjunction with Federal Institute for Building, Urban Affairs and Spatial Research (BBSR), Housing Shortages in Conurbations, June 2014

German residential property market

According to current estimates of the Urban Land Institute, Germany is the largest investment market for residential property in Europe. Demand for rental properties in the country's seven largest cities remains high, however the proportion of available income represented by rents remains relatively low.[9]

The residential property market in German metropolitan areas and in the more rural areas varies from one region to another.[10] Major and university cities, whose populations are growing as a result of an influx of new residents, are experiencing considerable housing shortages, which in turn are resulting in perceptible rent and price increases.[11] According to the F+B rent index, the customary local reference rents for our holdings increased by 1.7 % to EUR 6.28 per sqm in the first half of 2014 (first half of 2013: EUR 6.21 per sqm/+ 1.3 %). The in-place rents in major cities such as Stuttgart, Munich, Frankfurt/Main or Hamburg are significantly higher than the national average.[12]

While conurbations and metropolitan areas are experiencing steady population growth and an upturn in new construction activity, the situation beyond these regions is very different: Many rural areas are experiencing a decline in population and weak or falling demand for housing, resulting in rising vacancy rates and stagnation of residential rents and prices.

A further trend is apparent in the increase in the number of households: Since 1991, the number of private households in Germany has risen by 4.7 million to 39.9 million in 2013. While in 1991 just under 34 % of all households in Germany were single-person households, this share had risen to just under 41 % by 2013, with the average household size consequently falling from 2.27 in 1991 to 2.02 in 2013.[13] Furthermore, the favourable job market situation prevailing in Germany has encouraged an influx of immigrants from abroad, particularly as a result of the granting of full freedom of movement for workers from Romania and Bulgaria in 2014.[14] The demand for living space in Germany is likely to increase further as a result of these trends. In its household forecast the Federal Statistical Office anticipates that the number of households will continue to grow to more than 41 million by 2030, while the average size of households will decrease to 1.9 inhabitants. In particular, the number of single-person households and their proportion in the total number of households is expected to increase to over 43 %.[15] Above all in metropolitan areas and in many university cities, the demand for living space is set to rise in tandem with an increase in the number of households, the trend towards single-person households and higher expectations as regards living space.[16]

In addition, the uncertainty in the capital and financial markets is making apartments increasingly attractive as alternative investment in the context of retirement provisions and private wealth formation. Furthermore, stable economic growth, higher incomes and historically low interest rates are encouraging many individuals to purchase property, resulting in greater demand for real estate.[17] Residential property was once again one of the most popular forms of investment in the German real estate market in 2014, as is evidenced by the persistently high transaction volume for that year. According to analyses conducted by CBRE, approximately 226,000 residential units with a total value of EUR 13.3 billion changed hands in 2014; this was the second-highest volume since 2007, only just under 3 % less than the record level reached in 2013.[18]

Despite this rise in demand on the purchase and rental side, there was initially little new construction in previous years. With an all-time low of only 160,000 new builds being reached in 2009; however, housing construction is now once more on the rise. Building permits for approximately 270,000 residential units were issued in 2013 – which represents an increase of approximately 13 % over the previous year – while the number of completed construction projects increased by approximately 7 % to approximately 215,000 in the same year. This increase in new builds has been most apparent in markets evidencing higher demand for residential units. However, this response to the rising demand in the form of increased new builds has been somewhat delayed and it remains unclear whether the rate of construction will be able to keep pace with that demand, particularly in those regions experiencing dynamic growth. The projections of the Federal Institute for Building, Urban Affairs and Spatial Research (Bundesinstitut für Bau-, Stadt- und Raumforschung – BBSR) indicate that demand for new builds in Germany is expected to amount to approximately 250,000 residential units per year.[19]

[9] Urban Land Institute and PwC, Emerging Trends in Real Estate Europe 2015
[10] BBSR, Market Trends Relating to Small-Scale Housing in Major Cities, September 2014
[11] BBSR, Market Trends Relating to Small-Scale Housing in Major Cities, September 2014
[12] F+B Rent Index 2014, reporting date: 1/7/2014
[13] Federal Statistical Office, Households 2013, website, accessed on 13/1/2015
[14] Federal Statistical Office, press release, dated 21/1/2015 – 24/15
[15] Federal Statistical Office, Projections relating to Households by 2030, website, accessed on 23/1/2015
[16] BBSR, Housing Shortages in Conurbations, June 2014 in conjunction with Federal Association of German Housing and Real Estate Enterprises (GdW), Housing Data and Trends 2014/2015, November 2014
[17] BBSR, Housing Shortages in Conurbations, June 2014 in conjunction with BBSR, Strengthening Home Ownership, August 2013 in conjunction with GdW, Housing Data and Trends 2014/2015, November 2014
[18] CBRE, press release, dated 7/1/2015 in conjunction with Jones Lang LaSalle (JLL), press briefing dated 8/1/2015
[19] BBSR, Strengthening Home Ownership, August 2013 in conjunction with Housing Shortages in Conurbations, June 2014 in conjunction with Market Trends Relating to Small-Scale Housing in Major Cities, September 2014

Core+ regions

Greater Berlin

With more than 3.5 million inhabitants[20] and a working population of almost 1.8 million[21], Berlin is not only the capital of Germany but also the country's largest city. Greater Berlin comprises the city of Berlin and the surrounding areas, including the city of Potsdam.

Berlin as an economic and scientific location

The positive economic trend in Berlin continues. Tourism remains the major growth driver here, with the city ranking third behind London and Paris in this regard.[22] The number of people visiting Berlin in November 2014 was approximately 9 % higher than in the same month of the previous year.[23] The information, communications and health care industries continue to experience dynamic growth and the digital media sector in Berlin is reinforcing the city's image as a growing metropolis. In addition, Berlin has the most new company formations per capita in the country – recording an increase of approximately 31,600 in the first nine months of 2014.[24] In the first half of 2014, Berlin's gross domestic product increased by 1.2 % as compared to the equivalent period of the previous year[25], with growth in the amount of 1.7 % being expected in 2015.[26] Companies such as Deutsche Bahn, the Berliner Verkehrsbetriebe (public transport utility), Siemens, Zalando and Axel Springer have their headquarters in Berlin and are also among the largest and most important employers in the national capital. Further important employers are active in the health care sector – with the well-respected Charité ranking second and Vivantes Netzwerk für Gesundheit ranking third among the largest employers in Berlin, these two companies together employing a total of more than 31,000 employees.[27]

The growth of the Berlin economy is also reflected in the positive development of the job market: In 2014, the number of gainfully employed persons in Berlin increased by 1.7 % to 1.8 million on a year-on-year comparison – the highest level since 2000. Berlin is experiencing the greatest growth in employment figures of all federal states since 2012, once more outperforming the national average of 0.9 %.[28] This considerable rise in recruitment primarily relates to the service sector, which is responsible for approximately 84 % of Berlin's economic performance and is growing at a steady pace, with new jobs being created first and foremost in the health care/social services, information / communications, education and retail sectors, in addition to the financial sector.[29] As a result of the positive employment figures, the unemployment rate in 2014, at 11.1 %, was once more lower than in the previous year (11.7 %) and also the lowest since 1994.[30]

In the third quarter of 2014, the average gross monthly wages of employees in Berlin, including special payments, increased by 2.1 % as compared to the same period of the previous year, thereby outpacing the rise in consumer prices (+ 0.7 %)[31] and resulting in an increase in purchasing power of 3.1 % to EUR 20,517 per capita, which nonetheless remains below the national average of EUR 21,879 per capita.[32]

Due to its geographical location, convenient transport routes and the range of specialised courses offered at its universities, Berlin is an important player in the development of international economic relations. Additionally, with its numerous universities, colleges and research institutes, the German capital has an excellent reputation as a location for science and research.[33]

The very positive economic situation in Berlin is also affecting the surrounding areas, most particularly in Potsdam, the state capital of Brandenburg, which has had a positive migration balance for a number of years. At the end of September 2014, the city had a total of 163,668 residents.[34] The forecasts up to 2030 anticipate that population will grow steadily, with the number of residents set to increase by 14 % to approximately 178,800.[35]

[20] Statistical Office for Berlin-Brandenburg, press release no. 30, dated 12/2/2015
[21] Statistical Office for Berlin-Brandenburg, press release no. 24, dated 27/1/2015
[22] Berlin Senate Administration for Economic Affairs, Technology and Research, press release, dated 7/1/2015 in conjunction with CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[23] Statistical Office for Berlin-Brandenburg, press release no. 10, dated 13/1/2015
[24] Berlin Senate Administration for Economic Affairs, Technology and Research, Market Report: on the Economic Situation in Berlin 3rd Quarter 2014 dated, 27/11/2014
[25] Statistical Office for Berlin-Brandenburg, press release no. 272, dated 30/9/2014
[26] Berlin Senate Administration for Economic Affairs, press release, dated 7/1/2015
[27] Chamber of Commerce and Industry of Berlin (IHK Berlin), The Berlin Economy in Figures, 2014 Edition
[28] Statistical Office for Berlin-Brandenburg, press release no. 24, dated 27/1/2015
[29] Berlin Senate Administration for Economic Affairs, Technology and Research, Market Report: The Economic Situation in Berlin 3rd Quarter 2014, dated 27/11/2014 in conjunction with Statistical Office for Berlin-Brandenburg, press release no. 24, dated 27/1/2015
[30] Federal Employment Agency, prepared on 16/1/2015; http://www.pub.arbeitsagentur.de/hst/services/statistik/000000/html/start/karten/aloq_land_jahr.html
[31] Statistical Office for Berlin-Brandenburg, press release no. 13, dated 20/1/2015
[32] MB – Research GmbH, Purchasing Power in Germany in 2014
[33] CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[34] State Capital Potsdam, Statistics and Elections, last updated: 31/12/2014
[35] State Capital Potsdam, Statistics and Elections 4/2012, Population Forecasts Potsdam 2011-2030

Residential property market in Berlin

The Berlin residential property market stands out as one of the most attractive growth regions in Germany and is characterised by sustained high demand for living space in the face of a relatively low level of new construction. This is supported by the findings of a recent study conducted by the Urban Land Institute and PwC, according to which investors have awarded Berlin the top rank in Europe as the location offering the best investment opportunities on the basis of excellent fundamentals and favourable prices on an international comparison.[36]

According to the most recent reports published by the Statistical Office for Berlin-Brandenburg, population growth in Berlin lasting for about ten years now continues: At the end of 2014, the city had over 3.5 million residents – about 44,700 more than at the beginning of the year –, primarily due to an increased influx of new residents.[37] The number of households contributing towards demand is a key indicator for the residential property market. Since 2007, the number of single-person households in Berlin has increased by 1.8 % to approximately 1.05 million, such that more than half of all households were single-person households in 2013, with elderly and young individuals in particular tending to live alone. There were on average 1.77 individuals per household in 2013, with a total of approximately 1.93 million private households.[38] This trend is also expected to continue in the future.[39] According to estimates of the Senate Department for Urban Development and the Environment, the number of households in Berlin is set to increase by approximately 120,000 or 5.9 % by 2025, with a large proportion of these new households being single-person households.[40]

At only 16 %, Berlin has the lowest rate of home ownership of all major cities and federal states in Germany, the national average being approximately 44 %.[41] The proportion of the total number of residential units represented by rental properties is therefore also highest in Berlin.[42]

However, there is insufficient supply to match the increase in demand for living space. Although approximately 4,650 new residential units were constructed in 2013, representing an increase of 10.5 % over the previous year, only 2,329 of these were residential units in multi-storey buildings.[43] After increasing by 40 % in the equivalent period of the previous year, the number of issued building permits once more rose significantly by 75.2 % in the first nine months of 2014 [44], however this is still insufficient to meet the rising demand for living space as a result of population growth,[45] assuming an increase in the amount of approximately 25,250 households in 2014, based on an average of 1.77 persons per household.[46]

This notwithstanding, insufficient amount of new construction is due not to a lack of suitable construction sites but to the fact that the price for new residential units in Berlin in the first half of 2014 was approximately EUR 10.50 per sqm and thus approximately one third higher than for existing residential units.[47] Not even the proportion of properties currently standing vacant can be viewed as constituting reserves of supply given that, at 2 % of all properties, this is below the fluctuation reserve threshold.[48]

The logical consequence of such an imbalance of supply and demand is an increase in rents and purchase prices. The rents for existing properties in Berlin have increased on a continuous basis over the past few years, with the net cold rent in the capital city rising by approximately 23 % between 2005 and 2013, in accordance with the rent index.[49]

According to the Residential City Report for Berlin published by Jones Lang LaSalle, not only the in-place rents but also the new letting rents have increased – by approximately 44 % since 2004 and averaging EUR 8.65 per sqm in the first half of 2014, having risen significantly by 7.7 % as compared to the equivalent period of the previous year. The purchase prices for owner-occupied residential units have developed in a similar manner, rising by 13 % in the first half of 2014 and averaging EUR 2,770 per sqm, or as much as EUR 3,700 per sqm in the case of new builds – which represents a price increase of 4.5 % as compared to the equivalent period of the previous year.[50] By way of comparison, the rate of

[36] Urban Land Institute and PwC, Emerging Trends in Real Estate Europe 2015 in conjunction with CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[37] Statistical Office for Berlin-Brandenburg, press release no. 30, dated 12/2/2015
[38] IBB Residential Property Market Report 2013, dated 28/2/2014 in conjuction with Statistical Office for Berlin-Brandenburg, Compact Berlin Statistics 2014 in conjunction with Statistical Office Berlin-Brandenburg, press release no. 345, dated 17/12/2014
[39] CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[40] Statistical Office for Berlin-Brandenburg, Compact Berlin Statistics 2014 in conjunction with IBB, Residential Property Market Report 2013, dated 28/2/2014
[41] Association of Residential Property Enterprises in Berlin-Brandenburg (BBU) Market Monitor 2014 in conjunction with CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[42] BBU Market Monitor 2014

[43] Statistical Office for Berlin-Brandenburg, press release no. 122, dated 12/5/2014
[44] Statistical Office for Berlin-Brandenburg, press release no. 305, dated 10/11/2014
[45] CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[46] Statistical Office for Berlin-Brandenburg, press release no. 30, dated 12/2/2015
[47] JLL Residential City Profile Berlin – 1st half year 2014 in conjunction with F+B Rent Index 2014
[48] CBRE Residential City Report Berlin Q3 2014 in conjunction with IBB Residential Property Market Report 2013 in conjunction with BBU Market Monitor 2014
[49] IBB, Residential Property Market Report 2013
[50] JLL Residential City Profile Berlin – 1st half year 2014 in conjunction with CBRE Residential City Report Berlin Q3 2014

inflation rose by 2.2 % in 2013 and by 0.8 % in 2014.[51] Berlin is a market, which greatly captures the interest of national and international investors as compared to other major cities, not least due to the aforementioned developments and its persistently moderate rent levels as compared to other major cities.[52] The metropolitan area, which in 2014 accounted for approximately EUR 2.5 billion or approximately 19 % of total transaction volume, is one of the top investment locations for residential property in Germany.[53]

Rhine-Main metropolitan area including Frankfurt/Main

With approximately 5.5 million inhabitants, a workforce of more than 2 million wage earners required to make social insurance contributions and a gross domestic product of more than EUR 72,500 per member of the workforce, the Rhine-Main metropolitan area including Frankfurt/Main is one of the most significant economic regions in Germany. The region's prominent position at the international level is due to its role as a financial markets centre, consulting and trade fair location, transport hub and research and development centre for the chemical and pharmaceutical industries.[54]

Frankfurt / Main as an economic location

Frankfurt/Main is the most important city within the Rhine-Main metropolitan area. With around 693,340 inhabitants [55], it is the largest city in the state of Hessen and the fifth largest city in Germany.

This major city along the River Main is one of the world's major transport hubs, with its international airport – the third largest in Europe in terms of passenger numbers – offering optimum connections to the most important worldwide destinations, while its Main Railway Station, again one of the largest in Europe, and the motorways and arterial roads of its road network directly link Frankfurt to the European transport network.[56] As the home of the European Central Bank and the Frankfurt Stock Exchange, the city is a major international player in the monetary and currency policy arena and the most important financial and trading centre in Germany.[57]

The above-average purchasing power of the population of the city of Frankfurt/Main amounts to EUR 25,115 per inhabitant, the national average being EUR 21,879.[58]

Residential property market in Frankfurt/Main

The steady rise in the population figures for Frankfurt/Main since 2002 demonstrates the region's attractiveness as a place to live and work. The number of inhabitants increased by approximately 9 %, or approximately 56,600 inhabitants, between 2007 and 2013, while the increase in the number of households was even greater: In 2013, there were 10.2 %, or approximately 36,420, more households in Frankfurt/Main than in 2007. As was the case in other major cities, there was a clear predominance of single-person households in Frankfurt/Main in 2013 (54.2 %) due to a preference for individualised living spaces.[59] As a result of the growing population and an insufficient number of completed construction projects (2013: 3,156 residential units),[60] there is a demand excess. Although both the number of issued building permits and the number of completed construction projects in 2013 were at their highest levels in two decades, this increased construction is insufficient to meet the growing demand for living space.[61]

The rent index for Frankfurt indicates an average net cold rent of EUR 7.90 per sqm for the first half of 2014, with rents for existing rentals thus being 26 % higher than the national average of EUR 6.28 per sqm,[62] while average rents for new rentals evidenced only moderate growth of 1.0 % to EUR 12.05 per sqm in the first half of 2014. New builds are the most expensive residential units on the market, costing an average of EUR 13.20 per sqm, which represents an above-average increase of 2.3 % as compared to the equivalent period of the previous year. The increase in purchase prices for owner-occupied residential units in the first half of 2014 outstripped that recorded in the rental context, averaging at EUR 3,540 per sqm – an increase of 11.7 %. Given the persistently favourable financing climate, the great demand for living space and the current slow pace of new construction, the prices for owner-occupied residential units are likely to continue to rise, however the current dynamic development of prices in Frankfurt could well ease off in the foreseeable future.[63]

[51] Statistical Office for Berlin-Brandenburg, press release no. 2, dated 6/1/2014 and no. 2, dated 5/1/2015
[52] Emerging Trends in Real Estate Europe 2015, Urban Land Institute and PwC in conjunction with CBRE, press release, dated 7/1/2015 in conjunction with CBRE/Berlin Hyp, Residential Property Market Report Berlin 2015
[53] CBRE, press release, dated 7/1/2015 in conjunction with Jones Lang LaSalle (JLL), press release, dated 8/1/2015
[54] City of Frankfurt/Main, website, accessed on 20/1/2015; http://www.frankfurt.de/sixcms/detail.php?id=stadtfrankfurt_eval01.c.125162.de
[55] City of Frankfurt/Main (last updated: 30/12/2013), Statistik.aktuell (current statistics), edition 05/2014
[56] City of Frankfurt/Main, website, accessed on 3/2/2015; http://www.frankfurt.de/sixcms/detail.php?id=2556771&_ffmpar%5B_id_inhalt%5D=3890777
[57] Frankfurt/Rhine-Main metropolitan area, website, accessed on 3/2/2015; http://www.metropolregion-frankfurtrheinmain.de/Wirtschaft/Leitbranchen
[58] MB – Research GmbH, Purchasing Power in Germany in 2014
[59] Population, Statistical Yearbook Frankfurt/Main 2010 in conjunction with Population, Statistical Yearbook Frankfurt/Main 2014
[60] Data and Facts – Regional Authority Frankfurt/Rhein-Main: Regional Monitoring 2014
[61] JLL Residential City Profile Frankfurt – 1st half year 2014 in conjunction with Chamber of Commerce and Industry (IHK), Residential Property Market Report, 2014 edition
[62] F+B Rent Index 2014
[63] IHK, Residential Property Market Report Frankfurt/Main, 2014 edition in conjunction with JLL Residential City Profile Frankfurt – 1st half year 2014

Rhineland region including Dusseldorf

The focus of our core region Rhineland is the city of Dusseldorf. As the state capital of North Rhine-Westphalia with approximately 597,100 residents in December 2013 [64] and approximately 216,700 wage earners required to make social insurance contributions,[65] it is a very strong economic location within this region. Dusseldorf's gross domestic product amounted to approximately EUR 41.5 billion in 2013.[66]

Dusseldorf as an economic location

Dusseldorf has a significant infrastructure and economic structure in place, in which many internationally active corporate groups are represented, with these coming from the advisory and consultancy services and the trade sector, in particular.

All in all, there are more than 1,760 consultancy firms based in Dusseldorf, including McKinsey and the Boston Consulting Group, which makes the city the top location in Germany for consultancy firms. In addition, Dusseldorf is one of the most important trade centres, with approximately 4,100 retailers, 2,140 wholesalers and export trading firms, and a total sales area of just under 1 million square metre. Numerous major national and international groups have their registered offices here, for example Metro, Vodafone, Rheinmetall, Salzgitter Mannesmann, C&A and Peek & Cloppenburg. The DAX-listed groups Henkel and E.ON are also based in Dusseldorf.[67]

At the same time, the city is a large and attractive sales market. The purchasing power in Dusseldorf of EUR 25,971 per capita is significantly greater than the national average.[68]

Residential property market in Dusseldorf

According to recent population forecasts of the State Office for Information and Technology for North-Rhine Westphalia, the population growth, which has been experienced since 2000, is set to continue, with the number of inhabitants projected to increase to approximately 623,600 by 2030, also resulting in greater demand for living space.[69]

Rental prices in Dusseldorf also continue to rise: According to the rent index, the in-place rents have increased by approximately 6.8 % to EUR 7.66 per sqm as compared to the previous year, and are thus approximately 22 % higher than the national average.[70] In the first half of 2014, quoted rents increased by approximately 2.3 % as compared to the first half of 2013, averaging EUR 9.50 per sqm, a development which clearly demonstrates the dynamic nature of the market.[71]

Core regions

Hanover, the state capital of Lower Saxony, currently has approximately 524,450 inhabitants.[72] Brunswick has 249,485 [73] inhabitants and Magdeburg, the state capital of Saxony-Anhalt, has approximately 234,746 inhabitants.[74] The purchasing power of Hanover and Brunswick is higher than the national average at EUR 22,833 and EUR 23,439 per capita, respectively, while Magdeburg's purchasing power is EUR 18,777 per capita.[75]

Economic location

The aforementioned cities are located at the centre of Germany, and as such are within easy reach of conurbations such as Berlin, the Rhine-Main region or Southern Germany, with motorway, railway and airport links in place. The region's geographical location offers logistical advantages which attract companies such as DHL, DB Schenker, UPS and Hermes, and the automobile industry – with players such as Volkswagen – has historically also had a strong presence in the region. Moreover, Hanover and Magdeburg are also the seats of their respective state governments.

Brunswick, which is close to Hanover and the second largest city in Lower Saxony, has developed into an important economic and research location within Europe. It has the highest proportion of research and development employees in Germany, with scientific organisations and research institutes working closely with locally based companies and the represented industries ranging from biotechnology to transportation technology. Reputable companies such as Volkswagen Financial Service, Siemens and Intel have based themselves in Brunswick.[76]

[64] Statistical and Electoral Office for the State Capital Dusseldorf, Statistical Yearbook 2014, 112th year
[65] Statistical and Electoral Office for the State Capital Dusseldorf, last updated: 31/3/2015, website, accessed on 4/2/2015
[66] Statistical and Electoral Office for the State Capital Dusseldorf, Statistical Yearbook 2014, 112th year
[67] Location Profile for Dusseldorf, State Capital Dusseldorf (last updated: 4/7/2012) in conjunction with the City of Dusseldorf, website, accessed on 4/2/2015
[68] MB – Research GmbH, Purchasing Power in Germany in 2014
[69] State Office for Information and Technology for North-Rhine Westphalia, Population Forecasts up to 2030
[70] F+B Rent Index 2014, Dusseldorf, reporting date: 1/7/2014
[71] JLL Residential City Profile Dusseldorf – 1st half year 2014
[72] State Capital Hanover, Papers on Urban Development Volume 120, Population Forecasts 2014 to 2025/2030 for the Hanover Region, the State Capital Hanover and Surrounding Municipalities
[73] City of Brunswick, Department of Urban Development and Statistics, Current urban development research 02/2015, dated 12/1/2015
[74] State Capital Magdeburg, Statistical Office, November 2014
[75] MB – Research GmbH, Purchasing Power in Germany in 2014
[76] Brunswick, website, accessed on 4/2/2015

Machinery and plant engineering has traditionally been an important sector of industry in Magdeburg, and logistics, health care and environmental technology are further sustainable economic focal points in this region. In addition to these sectors of industry, a number of universities and colleges also add to the attractiveness of the Magdeburg location, as part of a regional network of companies and research institutes – such as the Fraunhofer Institute or the Max-Planck Institute for Dynamics – for research and innovation.[77)]

Residential property market

The residential property market in Hanover is also being positively influenced by demographic developments. The population of the state capital Hanover is expected to increase by 19,200 or 3.7 % by 2030.[78)] At the same time, the persistently low vacancy rate of less than 2 % has resulted in housing shortages. After a lull between 2008 and 2011, during which only approximately 350 residential units were being completed per year, construction of new housing has now resumed, with a total of approximately 1,640 residential units being completed in 2012 and 2013 and approximately 8,000 additional properties expected to be built by 2025.[79)]

According to the rent index, in-place rents have increased by just under 6 % over the past four years, from EUR 5.82 per sqm in 2011 to EUR 6.17 per sqm in 2015.[80)] The prime rents charged for newly developed properties and re-lettings in 2014 were EUR 13.50 per sqm and EUR 9.80 per sqm, respectively. The price of existing owner-occupied residential units increased by an average of approximately 4.6 %, with the average price for newly builds in good locations and with high-quality fixtures and fittings being approximately EUR 3,170 per sqm.[81)]

The population of the city of Brunswick is projected to grow by approximately 2.5 % to more than 255,000 inhabitants by 2030, with the number of households and the demand for residential units being expected to rise as a result.[82)] According to the rent index, the average net cold rent for existing rentals rose from EUR 5.17 per sqm in 2010 to EUR 5.59 per sqm in 2014 – which represents an increase of approximately 8 % over the past four years.[83)]

Magdeburg's appeal and the resulting high rate of migration to the state capital mean that, unlike the more rural areas of Saxony-Anhalt, it is expected to experience favourable population growth.[84)] Quoted rents have increased by approximately 11 % since the second half of 2009 to EUR 5.60 per sqm as at the end of the first half of 2014. Thereby the rise in rental prices in Magdeburg is below the national average for the past five years (15.1 %), with some room for improvement.[85)]

77) State Capital Magdeburg, website, accessed on 4/2/2015
78) State Capital Hanover, Papers on Urban Development Volume 120, Population Forecasts 2014 to 2025/2030 for the Hanover Region, the State Capital Hanover and Surrounding Municipalities
79) Hanover Region, Property Market Report 2014 in connection with State Capital Hanover – Department of Urban Planning and Development, Papers on Urban Development, Volume 118: Analysis of Residential Property Vacancies in 2012 and 2013, November 2013
80) State Capital Hanover – Department of Urban Planning and Development, Papers on Urban Development, Volume 117: Analysis of Price Data for Rental Residential Units and Properties 2012, June 2013 in conjunction with City of Hanover – Hanover Rent Index 2011-2015
81) Region Hanover, Real Estate Market Report 2014
82) City of Brunswick, Department of Urban Development and Statistics, Current urban development research 07/2013, dated 27/6/2013
83) City of Brunswick, Rent Index 2014, website, accessed on 3/2/2015; https://ratsinfo.braunschweig.de/index.php?site=fulltext&action=openblob_treffer_to&type=pdf&id=9048&idx=0&source=Beschluss&&showto=1&db_database=0
84) State Capital Magdeburg, Statistical Office, Demographic Report Magdeburg 2012
85) Immobilien Scout 24, Property Report 2014: An Overview of Germany's Most Important Property Markets

MANAGEMENT BOARD ANALYSIS OF BUSINESS OPERATIONS

Overall, the financial year 2014 was very successful for Deutsche Wohnen. For example, we improved our profit/loss for the period by EUR 676.6 million, thereby increasing it more than threefold. The main drivers of this increase were, among other things, the significant valuation gains due to the concentration of our properties in Core+ regions evidencing correspondingly dynamic growth in demand. In addition, good progress was made as regards the integration of GSW, and our efforts to lower costs and adapt our processes started to bear fruit.

This enabled us to once again raise the overall value of the company to the extent that the EPRA NAV amounted to EUR 18.10 per share as at the reporting date (+ 25 % as compared to the previous year).

Operationally, we achieved or even exceeded our targets in lettings, disposals and nursing. We concluded the financial year 2014 with FFO I in the amount of EUR 217.6 million, thereby being considerably ahead of the forecast of EUR 210 million. Reasons are improved earnings from lettings and lower interest expenses.

The actual earnings from lettings in the amount of EUR 506 million slightly exceeded the forecast of EUR 500 million. The persistently positive development of the market resulted in higher new letting rents and a lower vacancy rate. Management costs were also slightly lower than projected because of initial cost reduction measures having been implemented faster.

Earnings from Disposals, at EUR 52 million, also exceeded our expectations. Demand for owner-occupied residential units on the part of private and institutional buyers remains high. We made considerable progress in the streamlining of our Non-Core holdings, in particular. Sales prices also increased in 2014.

In the Nursing and Assisted Living segment, our earnings of EUR 15 million likewise exceeded our projections, by EUR 1.3 million. Our acquisitions could be integrated more successfully and more quickly than initially expected, while the utilisation ratio of individual facilities was improved.

Through refinancing the amount of approximately EUR 1.76 billion we were able to greatly optimise our financing structure and cash flow profile and lower our average interest rate to approximately 2.5 % p. a. The Loan-to-Value Ratio (LTV) of the Deutsche Wohnen Group fell considerably to 51 %.

NOTES ON THE FINANCIAL PERFORMANCE AND POSITION

Financial performance

The following overview shows the business performance of the individual segments as well as other items in the consolidated profit and loss statement for the financial year 2014 compared to 2013:

EUR m	2014	2013
Earnings from Residential Property Management	505.8	292.3
Earnings from Disposals	52.4	23.0
Earnings from Nursing and Assisted Living	16.3	13.2
Corporate expenses	– 90.5	– 52.9
Other operating expenses/income	– 29.5	– 22.7
Operating result (EBITDA)	**454.5**	**252.9**
Depreciation and amortisation	– 6.1	– 5.5
Fair value adjustments of investment properties	952.7	101.3
Gains/losses from companies valuated at equity	– 0.5	0.0
Financial result	– 379.1	– 130.8
Profit before taxes	**1,021.5**	**217.9**
Current taxes	– 16.9	– 13.8
Deferred taxes	– 115.3	8.6
Profit/loss for the period	**889.3**	**212.7**

Overall, Deutsche Wohnen ended the financial year 2014 with a consolidated profit/loss for the period in the amount of EUR 889.3 million (+ EUR 676.6 million compared to 2013).

In 2014, we again profited from the strong demand for living space in conurbations and metropolitan areas caused by a continuous migratory influx and rising numbers of households. We were, therefore, able to increase rents and further advance the disposals business. The accretive acquisitions contributed to this development – especially the acquisition of the GSW Group, which was included in the consolidated financial statement 2013 for one month only. In addition, the persistently high level of demand coexistent with supply shortages, low interest rates and the high degree of liquidity in the market in general exerting pressure to invest.

Real estate property, particularly in conurbations, is considered to provide a "safe haven" in this regard, lowering the required return on investments and thus increasing value – a situation that has resulted in an appreciation in the value of our real estate assets, particularly in Berlin.

The adjusted earnings before taxes could be improved by EUR 151.4 million, or around 115 %, due primarily to the consolidation of GSW for the entire year and greater earnings from disposals.

EUR m	2014	2013
Profit before taxes	1,021.5	**217.9**
Restructuring- and reorganisation expenditures	15.2	0.0
Gains/losses from the valuation of properties	– 952.7	– 100.9
Gains/losses from fair value adjustments of derivative financial instruments and the convertible bonds	111.5	– 10.6
Transaction costs and non-recurring financing expenses	87.8	27.7
Other non-recurring income	0.0	– 2.2
Adjusted earnings before taxes	283.3	**131.9**

The restructuring costs relate to the integration of GSW and the associated staff cutbacks. In 2014, a social compensation plan and reconciliation of interests with regard to the dissolution of the holding was agreed upon with the works council.

The transaction costs and non-recurring financing expenses in 2014 were particularly due to the refinancing of loans in the amount of EUR 1.4 billion. The transaction costs in 2013 largely comprised non-recurring costs in relation to the public takeover of GSW Immobilien AG and associated financing expenses.

Earnings from Residential Property Management

The following overview shows portfolio key figures as at the reporting dates:

	31/12/2014	31/12/2013
Residential and commercial units	149,168	152,365
Residential and commercial space in sqm k	9,229	9,423
Fair value per sqm residential and commercial space in EUR	1,062	944
In-place rent residential per sqm in EUR	5.69	5.54
Like-for-like rent increases in core and growth regions (letting portfolio) in %	2.5	3.3
Residential vacancy rate in %	2.2	2.4
Maintenance costs per sqm and year in EUR	9.59[1]	10.36[2]
Capital expenditure per sqm and year in EUR	6.92[1]	4.67[2]

[1] With consideration of the average floor space on a quarterly basis in the relevant period
[2] With consideration of the average floor space on a quarterly basis in the relevant period; GSW floor space for the 4th quarter 2013 only included for one month

An overview of the portfolio as at 31 December 2014 can be found on 54 of the chapter "Property portfolio".

Earnings from Residential Property Management increased by EUR 213.5 million, primarily as a result of the takeover of GSW.

EUR m	2014	2013
Current gross rental income	626.3	**372.9**
Non-recoverable operating costs	– 13.8	– 9.6
Rental loss	– 8.9	– 4.9
Maintenance	– 88.8	– 59.4
Other	– 9.0	– 6.7
Earnings from Residential Property Management	505.8	**292.3**
Staff and general and administration expenses	– 45.2	– 28.3
Operating results (Net Operating Income – NOI)	460.6	**264.0**
NOI margin in %	73.5	70.8
NOI in EUR per sqm and month[1]	4.14	3.84
Change in %	7.8	

[1] With consideration of the average floor space on a quarterly basis in the relevant period; in case of major acquisitions within a quarter the average floor space has been adjusted

With regard to the changes in in-place rents and capital expenditures, we refer to our "Portfolio disclosure" from 56.

Losses arising from non-recoverable operating costs and rental loss total 3.6 % based on current gross rental income.

Other costs largely comprise expenditure on marketing, ground rent and costs in relation to third-party administrative activities.

Earnings from Disposals

In the Disposals business segment, we sold a total of 4,115 residential units (previous year: 3,499).

EUR m	2014	2013
Sales proceeds	257.4	169.6
Cost of sales	– 12.1	– 10.3
Net sales proceeds	**245.3**	**159.3**
Carrying amounts of assets sold	– 192.9	– 136.3
Earnings from Disposals	**52.4**	**23.0**

Earnings from Disposals increased from the high level of the previous year by around 128 % to EUR 52.4 million, not least due to continually beneficial framework conditions. Real estate – above all in conurbations – continues to be considered an attractive investment and an opportunity for hedging against inflation. In addition, our sales activities are being bolstered by persistently low interest rates.

In the following, the key figures and earnings are shown divided according to residential unit privatisation and institutional disposals:

Privatisations

EUR m	2014	2013
Sales proceeds	**160.5**	**100.7**
Average sales price per sqm	1,181	1,171
Volume in residential units	2,016	1,342
Cost of sales	– 10.5	– 8.7
Net sales proceeds	**150.0**	**92.0**
Carrying amounts of assets sold	– 111.8	– 68.6
Gross margin in %	43.6	46.8
Earnings	**38.2**	**23.4**
+ Carrying amounts	111.8	68.6
./. Loan repayment	– 58.6	– 39.9
Liquidity contribution	**91.4**	**52.1**

A total of 2,016 residential units were privatised in the reporting period. The gross margin remains high at 44 % (previous year: approximately 47 %).

Institutional sales

EUR m	2014	2013
Sales proceeds	**96.9**	**68.9**
Average sales price per sqm	734	492
Volume in residential units	2,099	2,157
Cost of sales	– 1.6	– 1.6
Net sales proceeds	**95.3**	**67.3**
Carrying amounts of assets sold	– 81.1	– 67.7
Gross margin in %	19.5	1.8
Earnings	**14.2**	**– 0.4**
+ Carrying amounts	81.1	67.7
./. Loan repayment	– 51.3	– 46.5
Liquidity contribution	**44.0**	**20.8**

Institutional sales once more focused on the streamlining of holdings in structurally weak regions. The proceeds amounted to EUR 96.9 million (previous year: EUR 68.9 million). We were therefore able to dispose of 1,538 residential units in our Non-Core regions and further improve our portfolio structure.

Earnings from Nursing and Assisted Living

The Nursing and Assisted Living business segment is operated by the KATHARINENHOF® Group. Within the framework of its focused growth strategy, KATHARINENHOF® pursues its aim to consolidate its core regions with acquisitions or to develop new regions with a correspondingly economically viable number of nursing places.

Nursing and Assisted Living	Facilities number	Places number	Income EUR m	ø Occupancy in % 2014	ø Occupancy in % 2013
Berlin	7	847	29.4	94.6	94.5
Brandenburg	5	595	17.7	97.2	98.0
Saxony	7	475	12.9	100.0	100.0
Lower-Saxony	1	131	4.8	99.8	99.3
Rhineland-Palatinate	1	126	3.5	80.8	80.3
Total	21	2,174	68.2	96.1	96.1

Of the 21 properties, 18 are owned by Deutsche Wohnen as at 31 December 2014 with a fair value of EUR 144.8 million.

The quality of the service at all these facilities is above the industry average, which is reflected in the ratings granted by the MDK (Medical Service of the Health Insurance Industry): KATHARINENHOF® facilities were awarded very good ratings between 1.0 and 1.2 in all 82 categories. We therefore achieved third position on the list.[86] Our high occupancy rates, which have been above average for years, show that our ambitious nursing and assisted living concept is bearing fruit. The average occupancy rate in the year under review was unchanged at 96.1 %.

Against the background of demographic change and the very good experience that we have gained over the past years, we intend to continue to expand this segment. Accordingly, we are planning to expand our capacities to 4,000 to 5,000 places in the next four to five years. The investment criteria are comparable to those for the residential asset class: we are scouting for the right location at a reasonable price.

The earnings for the Nursing and Assisted Living segment in the past financial year are as follows:

EUR m	2014	2013
Income		
Nursing	55.4	52.0
Living	6.0	3.0
Other	6.8	4.9
	68.2	**59.9**
Costs		
Nursing and corporate expenses	–18.6	–16.4
Staf expenses	–33.3	–30.3
	–51.9	**–46.7**
Segment earnings	16.3	**13.2**
Attributable current interest	–3.8	–3.6
Segment earnings after interest expenses	12.5	**9.6**

The segment Nursing and Assisted Living contributed to the Group earnings of Deutsche Wohnen in 2014 with an EBITDA amounting to EUR 16.3 million. After deducting the current interest rate expenses, the earnings before taxes amounted to EUR 12.5 million. The EBITDA margin in relation to the fair value of the facilities amounted to 11 %.

[86] Avivre Consult GmbH, Analyses of the MDK Ratings by Operator, October 2013

Corporate expenses

Corporate expenses include all of the staff expenses and general and administration expenses, excluding the segment Nursing and Assisted Living.

EUR m	2014	2013
Staff expenses	–56.9	–31.8
General and administration expenses	–33.6	–17.7
Property management by third parties	0.0	–3.4
Corporate expenses	**–90.5**	**–52.9**

In 2014 in connection with the integration of GSW first successes were achieved. The corporate expenses in the amount of EUR 102.2 million incurred in 2013 on a pro forma basis (i.e. taking account of GSW over a twelve-month period) were reduced by more than EUR 10 million. The cost ratio decreased against the previous year (on a pro forma basis) from 17.3% to 14.4% in relation to the current gross rental income. We are continuing to pursue our objective of lowering this ratio to approximately 12% by 2016.

In addition, we paid a bonus (included in staff expenses) in the total amount of approximately EUR 2.0 million to our employees in 2014 in acknowledgement of their outstanding achievements at the operational level and in the context of the integration.

Other operating expenses/income

The following table shows the other operating expenses/income for the financial year 2014 with the previous year's figures for comparison:

EUR m	2014	2013
Integration costs	–15.2	0.0
Transaction costs	–2.8	–19.1
Deconsolidation of Facilita	–2.8	0.0
Other expenses/income	–8.7	–3.6
Other operating expenses/income	**–29.5**	**–22.7**

Financial result

The financial result is made up as follows:

EUR m	2014	2013
Current interest expenses	183.4	122.0
Accrued interest on liabilities and pensions	3.0	11.8
Transaction-related interests expenditures	82.2	8.6
Fair value adjustment of derivative financial instruments and the convertible bonds	111.5	–10.6
	380.1	**131.8**
Interest income	–1.0	–1.0
Financial result	**379.1**	**130.8**

The absolute increase in current interest expenses compared to the previous year is due to the takeover of GSW.

Non-cash accrued interest affects low-interest-bearing loans, liabilities from taxes and employee benefit liabilities.

The transaction-related interest expenditures primarily comprise prepayment penalties or redemption payments with regard to interest rate swaps in the context of refinancing in the amount of EUR 77.4 million.

After interest expenses, the cash flow from the portfolio increased by almost EUR 135.4 million, as shown in the following table:

EUR m	2014	2013
NOI from lettings	460.6	264.0
Current interest expenses excluding Nursing and Assisted Living)	–179.6	–118.4
Cash flow from portfolio after current interest expenses	**281.0**	**145.6**
Interest cover ratio	**2.6**	**2.2**

The interest cover ratio (NOI relative to the current interest expenses) could once more be improved to 2.6 due to the rising operative results from Residential Property Management and scaling effects respectively, as well as low interest rates in the financing context.

Current taxes and deferred taxes

The current taxes for the financial year 2014 in the amount of EUR 16.9 million comprise current income taxes in the amount of EUR 16.5 million and non-cash tax expenses in the amount of EUR 0.4 million arising out of the capital increase.

The deferred taxes amounted to EUR 115.3 million.

Financial position

Selected key figures of the consolidated balance sheet:

	31/12/2014		31/12/2013	
	EUR m	in %	EUR m	in %
Investment properties	9,611.0	84	8,937.1	88
Other non-current assets	952.3	8	788.7[1]	8
Total of non-current assets	**10,563.3**	**92**	**9,725.8**	**96**
Current assets	486.5	5	204.8[1]	2
Cash and cash equivalents	396.4	3	196.4	2
Total of current assets	**882.9**	**8**	**401.2**	**4**
Total assets	11,446.2	100	**10,127.0**	**100**
Equity	**4,876.1**	**43**	**3,944.3**	**39**
Financial liabilities	4,779.0	42	5,161.5[1]	51
Convertible bonds	748.7	7	250.2	2
Tax liabilities	46.1	0	74.4[1]	1
Liabilities to limited partners in funds	6.3	0	4.0	0
Employee benefit liabilities	67.7	1	55.3	1
Other liabilities	922.3	7	637.3[1]	6
Total liabilities	**6,570.1**	**57**	**6,182.7**	**61**
Total equity and liabilities	11,446.2	100	**10,127.0**	**100**

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

Our total assets increased, primarily as a result of the appreciation in value of our real estate holdings. The equity ratio rose to 43 %.

The investment properties continue to represent the largest asset item. With regard to the revaluation, we refer to the chapter "Property portfolio" on 58.

Equity increased, largely as a result of the group profit in the amount of EUR 889.3 million. Furthermore, new shares were issued in the context of the settlement offer made pursuant to the domination agreement, with the payment of a dividend for the financial year 2013 having a countervailing effect.

The development in the EPRA NAV (undiluted) is shown in the following table:

EUR m	31/12/2014	31/12/2013
Equity (before non-controlling interests)	4,692.9	3,777.8
Fair values of derivative financial instruments	144.9	156.5
Deferred taxes	488.2	218.7[1]
EPRA NAV I (undiluted)	**5,326.0**	**4,153.0[1]**
Number of shares (in m)	294.26	286.22
EPRA NAV I (undiluted) in EUR per share	**18.10**	**14.51[1]**
EPRA NAV I (undiluted)	5,326.0	4,153.0[1]
Effects from the conversion of the convertible bond 2013 (WKN A1YCR0 issued 22/11/2013)	301.4	248.6
EPRA NAV II (diluted)	**5,627.4**	**4,401.6**
Number of shares (in m) diluted	307.88	299.55
EPRA NAV II (diluted) in EUR per share	**18.28**	**14.69**
EPRA NAV II (diluted)	5,627.4	
Effects from the conversion of the convertible bond 2014 (WKN A12UDH issued 8/9/2014)	441.7	
EPRA NAV III (diluted)	**6,069.1**	
Number of shares (in m) diluted	325.97	
EPRA NAV III (diluted) in EUR per share	**18.62**	

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

The EPRA NAV (undiluted) per share increased in the year under review by 25% from EUR 14.51 per share to EUR 18.10 per share. Considering the dilution from the convertible bond 2013 with a total issue size of EUR 250 million, which is with a conversion price of EUR 18.3605 "in the money" as at the reporting date, the diluted EPRA NAV is EUR 18.28 per share. If the conversion of the convertible bond 2014 with a total issue size of EUR 400 million was considered as well, which is with a conversion price of EUR 22.1016 "out of the money" as at the reporting date, the diluted EPRA NAV would be EUR 18.62 per share.

The EPRA NAV adjusted for goodwill is commensurate with the Adjusted NAV:

EUR m	31/12/2014	31/12/2013
EPRA NAV I (undiluted)	5,326.0	4,153.0
Goodwill GSW	–535.1	–535.1[1]
Adjusted NAV I (undiluted)	**4,790.9**	**3,617.9**
Adjusted NAV I (undiluted) in EUR per share	**16.28**	**12.64**

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

Financing

Deutsche Wohnen has concluded financing agreements with Berlin Hyp and Landesbank Hessen-Thüringen ("Helaba") totalling EUR 1.36 billion. The loans for the refinancing of existing loans were disbursed at the end of the year, and Deutsche Wohnen has thus successfully concluded its financing in the amount of EUR 1.76 billion for the purpose of improving its financing structure and cash flow profile. That process started with the issue of a convertible bond in the amount of EUR 400 million at the beginning of September 2014.

The refinancing measures comprise loans agreed upon with Berlin Hyp and Helaba in the amount of EUR 710 million and EUR 650 million, respectively, having an average term of eight years and no contractual amortisations. The interest rates were fixed at around 1.9 % p. a. for approximately 70 % of the nominal amount of the loans; the remaining 30 % of the loans are at a variable interest rate based on the Euribor plus margin. Taking the convertible bond into consideration, this means an average interest rate of less than 1.5 % p. a. for the EUR 1.76 billion total financing volume.

In September 2014, Deutsche Wohnen placed a convertible bond with a term until 2021 and a volume of EUR 400 million with institutional investors. It is subject to interest of 0.875 % p. a. and an initial conversion price of EUR 22.1016. The bond conditions also state that Deutsche Wohnen may fulfil conversion claims on the part of creditors by issuing shares, making cash payments or a combination thereof if the conversion right is exercised. This highlights the flexibility in the management of our capital structure associated with this.

The financing has also resulted in improvements in a number of key figures of the Group. For example, the average term of the group's loans has increased from approximately seven and a half to nine years, the average interest rate has fallen from approximately 3.4 % to approximately 2.5 % p. a., and the annual repayment rate has fallen from 1.6 % to approximately 1.1 %, while the group's hedge ratio is now approximately 85 %.

The Group's Loan-to-Value Ratio (LTV) developed as follows:

EUR m	31/12/2014	31/12/2013
Financial liabilities	4,779.0	5,161.5[1]
Convertible bonds	748.7	250.2
	5,527.7	**5,411.7**
Cash and cash equivalents	−396.4	−196.4
Net financial liabilities	**5,131.3**	**5,215.3**
Investment properties	9,611.0	8,937.1
Non-current assets held for sale	392.9	57.5
Land and buildings held for sale	58.1	97.1
	10,062.0	**9,091.7**
Loan-to-Value Ratio in %	**51.0**	**57.4**[1]

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

The prolongation structure of the following years excluding the convertible bonds is as follows:

EUR m	2015	2016	2017	2018	as of 2019
Prolongations	89.2	44.8	70.2	703.2	3,980.8

The fall in tax liabilities is mostly due to the dissolution of the remaining EK-02-holdings in the amount of EUR 38 million.

Consolidated statement of cash flows

The most important cash flows are shown in the following:

EUR m	31/12/2014	31/12/2013
Net cash flows from operating activities before EK-02 payments	227.9	71.5
EK-02 payments	–38.5	–10.4
Net cash flows from operating activities after EK-02 payments	**189.4**	**61.1**
Net cash flows from investing activities	37.3	–655.1
Net cash flows from financing activities	–26.7	699.8
Net change in cash and cash equivalents	**200.0**	**105.8**
Opening balance cash and cash equivalents	196.4	90.6
Closing balance cash and cash equivalents	396.4	**196.4**

Deutsche Wohnen was again able to meet its financial obligations in full at all times in 2014. EUR 16.9 million of the cash and cash equivalents were restricted in use.

The improvement in operating performance is also reflected in operating cash flow.

Net cash flows from investing activities largely comprise sales proceeds in the amount of EUR 261.3 million and expenditure on investments in its own property portfolio.

Net cash flows from financing activities were influenced by early refinancing of loans in the total amount of approximately EUR 1.4 billion. Therefore non-recurring payments in the amount of EUR 101 million were made. The Group reduced the amount of its loans by a total of EUR 1.8 billion through repayments, disposals and refinancing. The placement of the convertible bond generated additional funds for the Group in the amount of EUR 400 million. The dividend for the financial year 2013 in the amount of EUR 57.4 million resulted in corresponding payments in the second quarter of 2014. In addition, the Group realised EUR 103.1 million from the disposal of approximately 5% of the shares in GSW, a necessary measure in order to prevent triggering any liability for property transfer tax by the conclusion of the domination agreement.

Funds from Operations (FFO)

The key figure of funds from operations without disposals (FFO I), which is decisive for us, rose significantly by around 90% in comparison to the previous year because of acquisitions and owing to operative improvements in our holdings:

EUR m	2014	2013
Profit/loss for the period	**889.3**	**212.7**
Earnings from Disposals	–52.4	–23.0
Depreciation and amortisation	6.1	5.5
Gains/losses from the valuation of properties	–952.7	–100.9
Gains/losses from fair value adjustments of derivative financial instruments and the convertible bonds	111.5	–10.6
Non-cash financial expenses	3.0	11.8
Deferred taxes	115.3	–8.6
Tax benefit from capital increase costs	0.4	2.5
Transaction costs and non-recurring financing expenses	87.8	27.7
Other non-recurring income	0.0	–2.2
Restructuring costs	15.2	0.0
Subtotal before FFO I allocated to non-controlling interests	**223.5**	**114.9**
FFO I allocated to non-controlling interests	–5.9	–0.4
FFO I	217.6	**114.5**
FFO I per share in EUR	0.76	**0.65**
Average number of issued shares in million	287.8	175.3
FFO II	270.0	**137.5**
FFO II per share in EUR	0.94	**0.78**
Average number of issued shares in million	287.8	175.3

NON-FINANCIAL KEY FIGURES

Employees

Deutsche Wohnen had 784[1] employees as at 31 December 2014 (31 December 2013: 799).

Employees	31/12/2014	31/12/2013
Deutsche Wohnen	784	799
Trainees: Deutsche Wohnen[2]	58	65
KATHARINENHOF®[3]	1,435	1,400
Trainees: KATHARINENHOF®	72	72

[1] All employees incl. those on maternity/parental leave, temporary staff and marginal employees excl. trainees
[2] In case of GSW, including university students in cooperative education
[3] As at the beginning of the financial year 2015, the Nursing and Assisted Living business became part of a shareholding structure under the KATHARINENHOF® brand name, with 51 % of the shares being sold to KH Beteiligungs GmbH. Deutsche Wohnen remains the holder of 49 % of the shares in KATHARINENHOF®

Our growth trajectory and targeted recruitment endeavours have enabled us to bolster our ranks, particularly in terms of the quality of our staff, in the past years. The attractive working conditions prevailing within the Group and its impressive growth prospects have enabled Deutsche Wohnen to attract specialists and top industry experts to join its management team.

In addition to the recruitment and retention of motivated and high-performing employees, Deutsche Wohnen attaches great importance to encouraging such employees to obtain further qualifications and to nurturing talents and junior employees. Personnel development and talent management are being viewed as strategic measures for encouraging employee loyalty. Deutsche Wohnen also continues to offer young individuals the opportunity to gain a foothold in the real estate industry every year – in the form of training for such careers as management assistant in real estate and also, since 2015, for the first time assistant manager for dialogue marketing (accredited by the IHK – Chamber of Industry and Commerce), as well as in the area of technical facility management (Bachelor of Engineering) by way of dual course of studies, thereby covering a sizeable proportion of our own future requirements for highly accomplished staff.

An important component for the success of Deutsche Wohnen's long-term sustainable growth strategy is its market- and performance-based remuneration system, which encourages both senior executives and all other employees to focus on the attainment of corporate targets and ensures that our employees are remunerated in accordance with their performance and in line with the market. This remuneration policy is subjected to periodic benchmarking in line with the regional employment markets and to regular internal review and adjustment. To reward the high motivation and because of the positive development of our business in 2014 we have paid an incentive bonus to our employees in the total amount of approximately EUR 2 million.

Flat hierarchies mean that our employees are assigned high-responsibility tasks and are provided with manifold opportunities for personal development as well as interesting prospects. We have in the past been able to fill numerous management positions with individuals from our own ranks, with 52 % of participants in our management programmes progressing on to higher positions.

Through the annual participation in corporate challenges and bike races in Berlin and Frankfurt/Main and through the instigation of "healthy" and "fruit only" days we actively support the health of our employees.

Further information on our human resources strategy can be found on 26 of this annual report.

Sustainability

With its business model Deutsche Wohnen pursues the goal of long-term value creation. This comprises a systematic sustainability management and transparent reporting procedures. In October 2014, we published our second sustainability report, thereby reinforcing our commitment to transparency in the long term. Under the heading "Committed to Quality", the report highlights Deutsche Wohnen's economic, ecological and social achievements in the financial year 2013.

Our sustainability reporting, which commenced in 2012, serves as a means of monitoring our progress and potential for improvement, for example further sustainability criteria were added to our property holdings database in the reporting year.

The report complies with the international standards of the Global Reporting Initiative (GRI) and the industry-specific requirements imposed by the European Public Real Estate Association (EPRA), having attained the Application Level B and been officially audited by the GRI. As well as a printed publication, an online document and a magazine version of the report are available for download on our website at: www.deutsche-wohnen.com/html/en/sustainability.php.

EVENTS AFTER THE REPORTING DATE

With effect from 1 January 2015, 51 % of the shares in KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH were sold to KH Beteiligungs GmbH; however, the company will continue to be included in Deutsche Wohnen's consolidated financial statements on the basis of company-law agreements. The segment earnings will be reduced by approximately EUR 2 million as a result of the share thereof which is now attributable to the third-party purchaser.

On 15 February 2015, Deutsche Wohnen submitted a voluntary public takeover offer for the acquisition of a controlling interest in accordance with the Austrian Takeover Act (öÜbG) with regard to all outstanding shares in conwert Immobilien Invest SE not held by conwert itself. Deutsche Wohnen intends to pay a tender price of EUR 11.50 in cash per conwert share. The takeover bid will also comprise conwert's convertible bonds. In addition to submitting the tender offer to the shareholders of conwert, Deutsche Wohnen will also be submitting an anticipatory mandatory offer pursuant to sec. 22 ff. of the Austrian Takeover Act (öÜbG) for all outstanding shares of ECO Business-Immobilien AG not held by conwert, and intends to pay a cash offer price of EUR 6.35 per ECO share.

The transaction will be financed by means of a bridge financing from the participating banks in the amount of approximately EUR 900 million, as well as available liquid funds. The utilised bridge financing will be fully refinanced over the course of 2015 by a capital increase.

The takeover offer is conditional upon, among other things, the obtaining of approval from the antitrust authorities in Germany and Austria as well as the attainment of the statutory minimum acceptance ratio of 50 % + one share of the shares forming the subject matter of the bid. If the minimum acceptance ratio will not be reached, costs will arise in an amount of approximately EUR 10 million.

We are not aware of any other significant events after the reporting date.

RISK AND OPPORTUNITY REPORT

RISK MANAGEMENT

Deutsche Wohnen AG continually examines any opportunities that arise to secure the continued development and growth of the Group. The utilisation of such opportunities may also entail exposure to certain risks, in which case the awareness, assessment and management of all of the important aspects of those risks will be of crucial importance. Only in this way is it possible to address risks in a professional manner. For this purpose, a central risk management system is in place within Deutsche Wohnen, which ensures the identification, measurement, management and monitoring of all material risks to which the Group is exposed. A central component of this system is detailed reporting, which is continuously monitored and developed. It creates a link to identified risk areas on the basis of relevant key operating figures and financial data. Particular emphasis is placed on the key figures relating to changes in rentals and privatisations, cash flow, liquidity and balance sheet items.

As a result of intensive communication at the management level of the Group, all decision-makers are constantly aware of all relevant developments within the company. Divergent developments or emerging risks that could potentially threaten the continued operations of the Group are thereby identified at an early stage, and appropriate remedial action is taken.

The information from risk management is documented on a quarterly basis. The Supervisory Board receives comprehensive information on all relevant issues and developments of the Group at each of its meetings. In addition, the internal risk management guidelines are updated as required.

With regard to (Group) accounting procedures, the risk management system sees itself as part of the of internal control system.

The main features of our existing internal control and risk management system with regard to the (Group) accounting procedures may be summarised as follows:

- Deutsche Wohnen is characterised by a clear organisational, corporate, controlling and monitoring structure.
- There are Group-wide harmonised planning, reporting, controlling and early warning systems and processes, which facilitate the comprehensive analysis and management of performance-related risk factors and risks that threaten continued operations.
- The functions in all areas of the financial reporting process (e.g. financial accounting and controlling) are clearly assigned.
- The IT systems used for accounting purposes are protected against unauthorised access.
- Primarily standardised software is used in the area of financial systems.
- Adequate internal guidelines (e. g. including a Group-wide risk management policy) have been established and are adjusted as necessary.
- The departments involved in the (Group) accounting procedures meet the quantitative and qualitative requirements.
- The completeness and accuracy of (Group) accounting data is regularly monitored through random sampling and plausibility tests using both manual and software measures.
- Significant (Group) accounting-related processes are subject to regular audits. The existing Group-wide risk management system is continuously adapted to current trends and continually checked for its functionality.
- We consistently subject all (Group) accounting-related procedures to a system of dual control.
- The Supervisory Board deals, among other things, with significant issues of (Group) accounting, risk management, commissioning the audit and the main focus of the audit.

The internal control and risk management system with regard to the accounting procedures, the essential features of which are described above, ensures that business-related issues are properly recorded, processed and recognised in the balance sheet, and included as such in the external accounts.

The clear organisational, corporate, control and monitoring structure, as well as the sufficient resources within the accounting system in staff and material expenses, provide the foundation for the efficient work of the areas involved in the accounting process. Clear statutory and internal regulations and guidelines ensure uniform and proper accounting procedures.

The internal control and risk management system ensures that the accounts at Deutsche Wohnen AG and all of the companies included in the consolidated financial statement are uniform and in line with the legal and statutory regulations and internal guidelines.

RISK REPORT

Strategic risks

Risks due to a failure to recognise trends: Not recognising market developments and trends can lead to risks affecting the viability of the Group as a going concern. To minimise these risks, all divisions are regularly reminded to closely observe developments in their sectors and promptly inform risk management of any changes. Risk management will then take appropriate action.

Legal and corporate law risks

Legal risks which could potentially result in losses for the company, may under some circumstances arise from non-compliance with statutory regulations, the non-implementation of new or amended legislation, the lack of comprehensive regulations in concluded contracts or insufficient management of insurance arrangements.

Orders to cease construction work and incomplete building permits could also have a negative effect leading to unplanned costs and construction delays. The clearing of contamination and the implementation of amendments to statutory provisions may result in increased costs.

Corporate law risks: Further risks may arise out of future mergers or ones that have already taken place. In order to counteract these risks, the Management Board orders all necessary analyses in specific cases, in order to gain an overall picture and to get ideas on how the identified risks can be dealt with. In addition, the Management Board takes detailed advice from the internal "Legal/Compliance" department as well as from external legal advisers from renowned law firms before the start of substantive negotiations. The Management Board is aware that strategic external growth should not be pursued under all circumstances.

IT risks

Deutsche Wohnen AG uses SAP IT applications Group-wide.

Generally, there is a fundamental risk of a total failure of this application, which could lead to significant disruptions to business operations. As a result, we have been contractually agreed upon the provision of functioning operational, maintenance and administration processes, as well as of effective monitoring mechanisms, with our IT service provider. This is designed to prevent such a system failure and any possible associated data losses.

Staff risks

A decisive factor in our commercial success is our staff with their knowledge and special skills. However, there is still a danger that Deutsche Wohnen may not be able to keep the most qualified and suitable employees in the company. We counteract this by providing a stimulating work environment and financial and non-financial incentives. We believe that Deutsche Wohnen is one of the most attractive employers in its sector.

Market risks

Market risks may arise in the lettings market if the economic situation in Germany deteriorates, causing market rents to stagnate or fall. In a stagnant or shrinking economy there may also be increased unemployment, which will limit the financial resources of tenants. In addition, a decline in net disposable income – whether because of unemployment, tax increases, tax adjustments or increases in service charges – can lead to fewer new lettings, lower new-letting rents and rising vacancy rates, and thus have a negative effect on the business operations of Deutsche Wohnen.

If the economic situation in Germany should deteriorate, there is also a risk that jobs will be cut. This could lead to a loss of regular income for tenants, who would therefore be unable to pay rents or pay rents on time. Management considers the probability of occurrence of this risk to be low. It can be averted in advance through close contact with the tenants and early recognition of financial problems. Tenants can then be offered smaller and more affordable apartments from Deutsche Wohnen's diversified portfolio.

In addition, an overall economic downturn can lead to a declining interest in acquiring property. In the areas of both individual privatisation and block sales there would be a risk that investments would be postponed by potential buyers and that therefore the disposal plans of Deutsche Wohnen will be delayed.

Property risks

Property risks may arise at the level of the individual properties, the portfolio and the location of the property.

At the level of the individual property this comprises, in particular, maintenance failures, structural damage, inadequate fire protection or wear and tear by the tenant. Furthermore, risks may arise from contamination including wartime contamination, pollutants in soil and harmful substances in building materials as well as from possible breaches of building requirements. At the portfolio level, risks appear as a result of a concentration in the structure of the holdings. Such risks may include increased maintenance and refurbishment costs and an increased difficulty in letting units.

Financial risks

With a variety of interests and a complex ownership structure, increased transparency and greater management input are needed to avoid a negative impact on the Group's business operations. In addition, there is an increasing dependence on the commercial trade and tax environment. Inadequate planning and management and a lack of effective controlling of the investment proceeds could result in lower revenues.

Fundamental changes in tax conditions can lead to financial risks. For example, Deutsche Wohnen has generated deferred tax assets amounting to EUR 276.5 million in loss carry-forwards. Should the use of loss carry-forwards be limited in time or even denied entirely, the corresponding amount would occur as expenditure from depreciation and amortisation of this deferred tax assets.

In case of some subsidiaries, the external auditing of the data for past years has not yet been concluded and it is therefore possible that additional amounts of tax will be payable.

Deutsche Wohnen is subject to the rules relating to interest caps limiting the deduction for tax purposes of interest expenses in determining income, and the possibility that the application of these rules could in the future result in an additional tax burden cannot be excluded.

Furthermore, changes in our shareholder and organisational structure could result in liability to pay property transfer tax or the loss of tax loss carry-forwards.

The Deutsche Wohnen Group is subject to employee benefit liabilities arising out of the company's pension scheme in the form of pension commitments, in respect of which provisions in the amount of EUR 67,7 million were established as at 31 December 2014. However, the actual amount of these liabilities cannot be calculated in full ahead of time and involves a considerable degree of uncertainty, with the result that the actual amount of the employee benefit liabilities may exceed the amount of the established pension provisions. In addition, some subsidiaries/Group companies are members of the Pension Institution of the Federal Republic and the Federal States (Versorgungsanstalt des Bundes und der Länder – VBL) and changes in the structure of the VBL or a withdrawal from the institution could give rise to significant claims for payment of equivalent amounts.

Among the financial risks, Deutsche Wohnen includes delayed cash flows from revenues and loans and unforeseen expenses, leading to liquidity problems. Furthermore, fluctuations in the valuation of property (IAS 40) due to negative developments in the property market and of derivatives can result in annual adjustments in the profit and loss statement.

Financial market risks and risks arising out of financial instruments

Following the successful refinancing and restructuring of the loan portfolio in 2014, Deutsche Wohnen will not be subject to any significant refinancing liabilities until 2018.

Generally, banks may no longer be able or willing to extend expiring loans. It is possible that refinancing will become more costly and that future contract negotiations will take more time to complete.

Furthermore, in the loan agreements there are financial covenants, which could lead to extraordinary termination by the banks if the terms of these covenants are not met. At Deutsche Wohnen these are key financial figures which relate to the debt servicing ability (Debt Service Cover Ratio (DSCR)/ Interest Service Cover Ratio (ISCR)) and the debt ratio in relation to the rental income (multiplier).

The significant risks to the Group arising from financial instruments comprise interest-related cash flow, liquidity and default risks. The company management prepares and reviews risk management guidelines for each of these risks. **Default risks,** or the risk that a partner will not be able to meet its payment obligations, are managed by using credit lines and control processes. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The **risk of liquidity** shortfalls is reviewed daily by using a liquidity planning tool. Deutsche Wohnen seeks to ensure that sufficient funds are available to meet future obligations at all times. The **interest rate risk** to which the Group is exposed is mainly derived from non-current financial liabilities with floating interest rates and is largely hedged through interest rate derivatives. Please refer to our information in the notes on the consolidated financial statements from 96.

Investment risks

The selection and planning of major repair work can lead to an incorrect allocation of investment funds. It is also possible that additional units acquired will not meet revenue expectations. This could have a negative impact on the business operations of the Group. Moreover, incomplete information in due diligence reports and evaluations as well as non-transparent procurement decisions and the failure to comply with procurement rules (e.g. in the use of public funds with the result of repayment) all entail risk.

Other risk factors that are directly related to investments by the company are exceeding the budgeted costs, the failure to meet deadlines, and shortfalls in the standard of fixtures and fittings. This may require additional work on the part of the company. Similarly, delays in the start-up of operations, loss of rent (rent reductions under certain circumstances) or an inadequate correction of deficiencies can lead to increased expenses. We use external and internal experts, as well as ongoing project monitoring, to minimise these risks.

General acquisition and integration risks

Every acquisition is reviewed in detail by us. In the process, a legal, financial and technical due diligence is conducted, and external specialists are consulted. This procedure is a standardised process of Deutsche Wohnen in order to recognise and assess risks with regard to acquisitions. We are continuing our growth strategy with acquisitions in existing as well as new regions. In doing so, we are expecting synergy effects and cost savings. Nonetheless, we cannot rule out the possibility that these goals cannot be achieved fully or only in part or at a later time. The development of the acquired holdings is additionally dependent on a number of factors: the rents to be expected, the possible reduction of vacancies, the cost of repair measures, the intended privatisations, the disposal of non-strategic units as well as the costs of the integration process. The integration of new holdings requires a reorganisation of administration and management as well as of internal structures and processes. These factors may deviate from our assessments and lead to failure to achieve the forecast results or to increased risks.

Risks related to the takeover of GSW Immobilien AG

The integration of the two corporate groups commenced upon the closing of the takeover offer in November 2013, and is likely to be completed in the financial year 2015 and requires considerable human and financial resources. The completion of the successful integration of the companies presupposes the successful consolidation of the two workforces, the merging of different corporate cultures, the harmonisation of the IT systems and the creation of joint processes for the integrated Group.

Related to the takeover of GSW Immobilien AG is also the acquisition of the goodwill of the company which is subject to annual impairment tests.

On 30 April 2014, a domination agreement was concluded between Deutsche Wohnen AG, as the controlling company, and GSW Immobilien AG, as the controlled company, and entered into force upon its registration in the commercial register on 4 September 2014.

Pursuant to this agreement, Deutsche Wohnen AG is obligated to assume any losses incurred by GSW and has furthermore undertaken, upon request by minority shareholders of GSW to acquire their GSW shares in exchange for shares of Deutsche Wohnen in the ratio of 3:7 (settlement offer), guaranteeing to pay any minority shareholders of GSW not accepting this offer a fair compensation in the form of an annual guaranteed dividend of EUR 1.66 gross per share over the term of the domination agreement.

Motions brought by individual shareholders of GSW for the initiation of appraisal proceedings pursuant to sec. 1 no. 1 of the German Act on Appraisal Proceedings (Spruchverfahrensgesetz) for the review of the reasonableness of the settlement offer and the compensation payment are currently pending before the courts. Should a court order or the terms of an amicable settlement result in the stipulation of a higher settlement and/or a higher amount of compensation, minority shareholders of GSW are entitled to supplementation of their settlement or compensation payments at the expense of Deutsche Wohnen.

Political and regulatory risks

Regulatory interventions in tenancy law could affect the financial position of a residential property company.

The existing legislation proposed by the Federal Government for the moderation of rent increases in fraught residential property markets provides for, for example, the restriction of rent increases upon a re-letting of living space to a maximum of 10% above the customary local reference rent.

Given that no legislation has definitively been adopted in this regard to date and the application of the legislation in specific cases will be a matter for the governments of the individual federal states, its impact cannot yet be gauged or sufficiently quantified.

The consolidated financial statement 2013 is currently being audited by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V. – FREP).

OPPORTUNITIES FOR FUTURE DEVELOPMENT

In 2014, Deutsche Wohnen further strengthened its competitive position and once more demonstrated its integration ability.

The Deutsche Wohnen residential property portfolio exhibits considerable potential for growth, particularly in its Core+ regions, with Berlin, Dusseldorf and the Rhine-Main region on the top ranks in a comparison of Germany's major cities.

Our position in the capital markets has once again improved considerably: As at the reporting date, we had a market capitalisation of more than EUR 5.8 billion. This corresponds to an increase of approximately 45% as compared to the previous year.

Our financing structure is more than solid: We have secured financing for the long term and have an appropriate Loan-to-Value Ratio (LTV), which has consistently fallen in the past few years. Our business model is accepted by our banking partners and our credit rating has improved steadily over the course of time.

In addition, we received two long-term issuer ratings from the international rating agencies Standard & Poor's and Moody's for the first time in November 2014. With these ratings of BBB+ from Standard & Poor's and Baa1 from Moody's, each with stable outlook, Deutsche Wohnen is one of the best rated real estate companies in Europe. The issuer ratings accord us a greater degree of financial flexibility.

The favourable access to the equity and debt capital markets, together with the very low rates of interest at present, provides us good opportunities for financing our future growth.

The concentration of our portfolio on growth markets to date – together with further improvements in efficiency and potential for development – will also give us a decisive competitive edge over our competitors in the future.

OVERVIEW OF OUR RISK POSITION

Of all of the risks described in the foregoing, we consider financial risk as well as political and regulatory risk to be the more considerable. There were no significant changes in the overall risk position in the financial year 2014 as compared to previous years. In view of the countermeasures taken in this regard, we consider our overall risk exposure to be moderate and manageable. In our view, we are not currently exposed to any specific risks that pose a threat to the company's continued existence.

FORECAST

GENERAL ECONOMIC CONDITIONS

After the global economy failed to perform in line with expectations in 2014, the German Council of Economic Experts anticipates a slight upturn in worldwide growth in 2015. While the United States and the United Kingdom are expected to record an increase in their gross domestic product of 3.1 % and 2.6 % respectively, experts are forecasting more restrained growth within the Eurozone, which is expected to experience an increase in gross domestic product of 1.0 % and a rate of inflation of 0.7 %, such that the German Council of Economic Experts considers a descent into deflation to be unlikely.[87]

The German economy is also expected to experience only moderate growth in 2015. The gross domestic product is set to increase, in line with projections, by 1.0 % while the rate of inflation, at 1.3 %, is likely to be higher than in the previous year. As in previous years, positive momentum is expected to come from private consumption bolstered by the persistently favourable situation on the job market as well as rising actual wages. The German Council of Economic Experts anticipates that the export business will experience little growth.[88]

RESIDENTIAL PROPERTY MARKET

In line with the ongoing trend towards metropolitan areas and conurbations, demand for housing in such regions remains high. Although there are signs of increased construction of new housing, this is inadequate to keep pace with the considerable population growth. The BBSR currently anticipates the lower limit for the required amount of new housing at approximately 250,000 residential units per year, or at least 1 million residential units over four years, with the total required amount of new housing being affected not only by demand in quantitative terms but also by qualitative factors such as personal preference, an increase in living space and construction of replacement buildings.[89]

As a result of the significant rent developments in the past few years and increasing ancillary residential costs, rents in major German cities are projected to rise at a slower pace in 2015. In addition, a consequential shunning of such locations in favour of city districts where prices are lower or surrounding areas is to be expected.[90]

Favourable financing terms and low rates of return for alternative capital investments furthermore encourage the purchase of residential units.[91]

FORECAST FOR THE FINANCIAL YEAR 2015

In our plan for the financial year 2015, we have assumed that legal and fiscal framework conditions will not change. The potential effects of rent control or other regulatory measures have not been taken into consideration in the plan.

We are also expecting the company to continue positively; we do not currently see any risks that could pose a threat to the company's existence. Overall, we anticipate a favourable environment for the 2015 forecast period.

Our forecasts are based on the business projections derived from our planning instruments and appropriately take account of possible risks and opportunities associated with our future development. Nevertheless, some risks and opportunities associated with the future development remain, as is shown in the risk and opportunity report.

In addition, our projections reflect assumptions as regards developments both in the economy as a whole and in the residential property market.

We anticipate an FFO I in the amount of at least EUR 250 million for the financial year 2015, including the most recent acquisitions. This represents a basic scenario, i.e. without further acquisitions and opportunistic sales as well as without the announced takeover of the conwert group.

[87] German Council of Economic Experts – Annual Report 2014/15, published in November 2014
[88] German Council of Economic Experts – Annual Report 2014/15, published in November 2014
[89] DG Hyp, Real Estate Market Germany 2014/2015; Commerce, Office and Living: Good Prospects – Waning Dynamism, October 2014 in conjunction with BBSR, Housing Shortages in Conurbations, June 2014

[90] DG Hyp, Real Estate Market Germany 2014/2015; Commerce, Office and Living: Good Prospects – Waning Dynamism, October 2014
[91] German Council of Economic Experts – Annual Report 2014/15, published in November 2014

For the individual business segments we are planning the financial year 2015 as follows:

For the segment Residential Property Management, we intend to continue focusing on conurbations and on further enhancing the quality of our properties through investment. As part of our re-evaluation of our portfolio, we have launched a four-year refurbishment programme in the amount of approximately EUR 280 million, with these funds earmarked for investment in the Core+ regions for the purpose of generating further potential for value. Ongoing maintenance measures are set to remain at the previous year's level, namely between EUR 9 and EUR 10 per sqm. Overall, we expect to realise segment earnings of approximately EUR 500 million.

Our Disposals segment will continue to focus on privatisation measures and the disposal of the portfolio holdings in our Non-Core regions. Disposals from within the strategic core and growth regions will be decided depending on the situation and the opportunities. The projections with regard to Earnings from Disposals are based on the experiences of previous years. So we are expecting a contribution to earnings of about EUR 45 million; accordingly the FFO II forecast is approximately EUR 295 million.

For the segment Nursing and Assisted Living we expect the contribution towards overall earnings to amount to approximately EUR 14 million in the wake of the disposal of a company share and the associated share of the overall earnings.

Interest expenses are likely to fall by approximately EUR 40 million against the background of the refinancing as at the end of the financial year. We anticipate current interest expenses in the amount of approximately EUR 140 million and a Loan-to-Value Ratio of approximately 50 % by the end of the year.

REMUNERATION REPORT

The remuneration report describes the principles underlying the system of remuneration for the members of the Management Board of Deutsche Wohnen AG and explains the composition and amount of the income of the individual members.

SYSTEM OF REMUNERATION

The remuneration system for the Management Board and the total remuneration of the individual members of the Management Board are determined by the Supervisory Board and are subject to regular review. The remuneration is regulated in the German Stock Corporation Act (AktG) and is supplemented by the regulations of the German Corporate Governance Code (GCGC).

Criteria for the appropriateness of the remuneration paid to members of the Management Board are the responsibilities of the individual member, his/her personal performance, the economic situation, the success and future prospects of the company, the extent to which the amount of his/her remuneration is customary among his/her peers and the remuneration structures within the company. The remuneration system as a whole is geared towards the sustainable development of the company.

The contracts of all of the members of the Management Board provide for the payment of compensation in the event that their term of office ends early for reasons other than termination for good cause. The amount of this payment is limited to a maximum of two years' remuneration (settlement cap) and will not constitute remuneration for more than the residual term of the employment contract. The contracts also provide for the payment of compensation in the event of an early termination of the term of office as a result of a change of control, in which case the amount of the payment is limited, in line with sec. 4.3.2 of the GCGC, to a maximum of three years' remuneration and will not constitute remuneration for more than the residual term of the employment contract.

In addition to fixed remuneration, the members of the Management Board receive variable short-term and variable long-term remuneration, which may be withheld in the event of the non-attainment of targets and are also subject to an upper limit. The members of the Management Board, moreover, receive benefits in kind in the form of insurance premiums and personal use of means of communication and company vehicles. The contracts also provide for the Supervisory Board being able to approve bonuses in the event of extraordinary developments, the amount of which is limited. No pension arrangements have been made.

The variable short-term remuneration component – short-term incentive (STI) – is orientated towards short-term company targets, which are agreed annually in a target agreement between the Management Board and the Supervisory Board. The level of target attainment is determined after the respective financial year has ended. All claims to remuneration will be forfeited if the level of target attainment is lower than 75 %, with the upper limit in this regard being 125 %.

The variable long-term remuneration component – long-term incentive (LTI) – was revised in 2014.

Original long-term incentive (PSU Plan)

The PSU Plan is based on the provisions of the Deutsche Wohnen executive participation programme, the "Performance Share Unit Plan" (PSU Plan). According to this, the amount of the LTI depends on the development of the key figures of Funds from Operations (FFO), Net Asset Value (NAV) and the share price of Deutsche Wohnen AG within a four-year performance period.

A new performance period began each year as part of the PSU Plan. At the start of this period, a base value was agreed for each member of the Management Board in accordance with the contractual remuneration commitments stated in their contracts of employment. An entitlement for payment of the remuneration component only exists after the expiry of the relevant performance period, i.e. after four years. The amount of the payment entitlement is dependent on the development of the key figures for FFO, NAV and the share price of Deutsche Wohnen during the performance period. In the event of extremely positive developments, there was a cap (three times the base value) on the maximum amount to be paid out. A negative development reduced the amount of the initial base value and the amount to be paid up to the total loss of the payment right.

New long-term incentive: Stock option programme (Aktienoptionsprogramm – AOP)

The introduction of the stock option programme 2014 ("AOP 2014") is to allow the members of the Management Board, who shape and implement the company's strategy and thus bear major responsibility for its performance, to partake in the company's financial risks and opportunities.

However, in order to safeguard the shareholders' interest in the sustainable enhancement of the value of the company, the stock options may only be exercised where defined performance targets are reached at the end of the waiting period. The stock options may only be exercised if and to the extent that the following performance targets are reached: Increase of the (i) Adjusted NAV per share, (ii) FFO I (without disposals) per share and (iii) the Share price development. They take into consideration both the relative performance of the company's share compared to a group of publicly listed German competitors as well as the absolute performance of the industry-specific corporate metrics NAV per share and FFO per share. This is intended to encourage the beneficiaries of the programme to act in furtherance of the goal of attaining positive sustainable performance on the part of the company.

In accordance with sec. 193 para. 2 sent. 4 of the German Stock Corporation Act (AktG), the waiting period for a tranche of stock options will in each case commence on the date of issue and end four years after that date. The period for the exercise of the options is three years. Stock options that are not or cannot be exercised by the end of the relevant seven-year term will expire or be forfeited without replacement or compensation.

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The members of the Management Board have been granted the following remuneration:

	Michael Zahn Chief Executive Officer since 1/9/2007				Lars Wittan Member of the Management Board since 1/10/2011				Andreas Segal Member of the Management Board since 31/1/2014			
EUR k	2013	2014	2014 (Min.)	2014 (Max.)	2013	2014	2014 (Min.)	2014 (Max.)	2013	2014	2014 (Min.)	2014 (Max.)
Fixed remuneration	450	731	731	731	250	344	344	344	0	386	386	386
Supplementary payments	27	28	28	28	24	25	25	25	0	30	30	30
Total fixed	**477**	**759**	**759**	**759**	**274**	**369**	**369**	**369**	**0**	**416**	**416**	**416**
Short-term incentive	476	500	0	625	238	240	0	300	0	240	0	300
short-term due	309	500	0	625	155	240	0	300	0	240	0	300
long-term due	167	0	0	0	83	0	0	0	0	0	0	0
Long Term incentive	150	750	0	1,125	100	260	0	390	0	260	0	390
PSU 2013	150	0	0	0	100	0	0	0	0	0	0	0
AOP 2014	0	750	0	1,125	0	260	0	390	0	260	0	390
Total variable	**626**	**1,250**	**0**	**1,750**	**338**	**500**	**0**	**690**	**0**	**500**	**0**	**690**
Special remuneration	900	0	0	0	600	0	0	0	0	0	0	0
Total amount	**2,003**	**2,009**	**759**	**2,509**	**1,212**	**869**	**369**	**1,059**	**0**	**916**	**416**	**1,106**

The special remuneration was granted in 2013 for the successful acquisition of GSW Immobilien AG. Payment of 50 % of the sum was made in 2013. With respect to the second part, the Management Board has committed itself to fully invest the net amount in shares of Deutsche Wohnen AG. Half of the second part of the sum was paid out in 2014 and then invested in shares. The payment of the second half of this part of the sum is dependent on achieving the synergy potential of EUR 25 million per year.

As at the reporting date the entitlements of the Management Board resulting from the former LTI in the period 2011 to 2013 have a value of EUR 2.8 million (Michael Zahn: EUR 1.35 million, Helmut Ullrich: EUR 0.75 million and Lars Wittan: EUR 0.74 million).

The following amounts were paid to the members of the Management Board in the financial year 2014:

	Michael Zahn Chief Executive Officer since 1/9/2007		Lars Wittan Member of the Management Board since 1/10/2011		Andreas Segal Member of the Management Board since 31/1/2014	
EUR k	2013	2014	2013	2014	2013	2014
Fixed remuneration	450	731	250	344	0	386
Supplementary payments	27	28	24	25	0	30
Total fixed	**477**	**759**	**274**	**369**	**0**	**416**
Short-term incentive	300	309	150	155	0	0
short-term due	300	309	150	155	0	0
long-term due	0	0	0	0	0	0
Long Term incentive	0	0	0	0	0	0
Total variable	**300**	**309**	**150**	**155**	**0**	**0**
Special remuneration	450	294	300	178	0	0
Total amount	**1,227**	**1,362**	**724**	**702**	**0**	**416**

The PSU Plan 2010 and the withheld part of the short-term variable remuneration in the total amount of EUR 0.4 million was paid out to the former member of the Management Board Helmut Ullrich in 2014. No loans or advances were granted to members of the Management Board of Deutsche Wohnen AG in the financial year 2014.

TAKEOVER-RELEVANT INFORMATION

pursuant to sec. 289 para. 4 and sec. 315 para. 4 of the German Commercial Code (HGB)

ISSUED CAPITAL AND SHARES

The registered capital of Deutsche Wohnen AG as at 31 December 2014 amounted to EUR 294,259,979.00 (previous year: EUR 286,216,731.00) and is divided into 294,259,979 no-par value bearer shares with a notional share of the registered capital of EUR 1.00 per share. By way of implementation of a resolution of the Annual General Meeting to that effect, all remaining registered shares were converted into bearer shares as at 5 September 2014 with the result that Deutsche Wohnen AG now only has bearer shares.

All shares carry the same rights and obligations. Every share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profit amongst shareholders. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sec. 12, 53a ff., 118 ff. and 186 AktG. There are no shares with special rights conferring powers of control.

In the event of capital increases, the new shares are issued as bearer shares.

SHARES OF THE CAPITAL REPRESENTING MORE THAN 10 % OF THE VOTING RIGHTS

Pursuant to sec. 21 para. 1 of the German Securities Trading Act (WpHG), any shareholder whose shareholding reaches, exceeds or falls below of the thresholds of 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % or 75 % of the voting rights of a publicly listed company must inform that company and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) accordingly without delay. On 6 December 2013, Sun Life Financial Inc., Toronto/Canada, informed Deutsche Wohnen AG that its shareholding exceeded the threshold of 10 % of the voting rights in the company. At that time, and on the basis of the total number of voting rights at that time of 286,216,731, Sun Life Financial Inc. held 11.05 % of the voting rights attributable to the company pursuant to sec. 22 para. 1 sent. 1 no. 6 of the WpHG in conjunction with sec. 22 para. 1 sent 2 of the WpHG, in particular through the following companies, each of which has itself notified the company of a share of the voting rights exceeding the 10 % threshold attributable to it: Sun Life Global Investments Inc., Toronto/Canada, Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc., Wellesley Hills/USA, Sun Life Financial (U.S.) Holdings, Inc., Wellesley Hills/USA, Sun Life Financial (U.S.) Investments LLC, Wellesley Hills/USA, Sun Life of Canada (U.S.) Financial Services Holdings, Inc., Boston/USA and Massachusetts Financial Services Company (MFS), Boston/USA.

POWERS OF THE MANAGEMENT BOARD TO ISSUE OR BUY BACK SHARES

Authorised capital

By resolution of the Annual General Meeting held on 11 June 2014, which was entered into the commercial register on 6 August 2014, the Management Board has been authorised to increase the company's registered capital, with the consent of the Supervisory Board, by up to EUR 85 million once or several times in the period until 10 July 2017 by means of the issuance of up to 85 million new bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2014/I). Shareholders are to be granted subscription rights in principle within the scope of the authorised capital. However, in certain cases, the Management Board is entitled to exclude the subscription rights of shareholders with the agreement of the Supervisory Board and subject to the conditions of the Articles of Association. The Authorised Capital 2013/I was cancelled upon the registration of the Authorised Capital 2014/I.

Contingent capital

By resolution of the Annual General Meeting held on 11 June 2014, the Contingent Capital 2013/I in the amount of EUR 24,113,286.00 was cancelled, with a partial amount of EUR 16,075,714.00 remaining. This contingent capital serves the issuance of shares to the owners of convertible bonds with a total nominal value of EUR 250 million issued by Deutsche Wohnen AG on 22 November 2013 pursuant to the authorisation of the Annual General Meeting of 28 May 2013. It will only be exercised insofar as conversion rights arising out of the aforementioned convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

A resolution of the Annual General Meeting held on 11 June 2014 authorised the contingent increase of the registered capital by up to a further EUR 50 million by means of the issuance of up to 50 million new no-par value bearer shares with dividend rights (Contingent Capital 2014/I).

The contingent capital increase serves the issuance of shares to the owners or creditors of convertible bonds or bonds with warrants and/or profit participation rights with option or conversion rights that are issued before 10 June 2019 by Deutsche Wohnen AG, or companies which are controlled or majority owned by Deutsche Wohnen AG, on the basis of the authorising resolution adopted by the Annual General Meeting held on 11 June 2014. It will only be exercised insofar as conversion or option rights arising out of the aforementioned convertible bonds, bonds with warrants or profit participation rights are exercised, or insofar as conversion obligations are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

The Management Board has been authorised by a resolution of the Annual General Meeting held on 11 June 2014 to issue no-par value convertible and/or warrant bearer bonds and/or profit participation rights with option or conversion rights (or a combination of these instruments) in the nominal amount of up to EUR 950 million, and to grant the creditors thereof conversion or option rights for Deutsche Wohnen AG shares representing a share of the issued capital of up to EUR 50 million. On the basis of this authorisation, Deutsche Wohnen AG on 8 September 2014 issued a convertible bond with a total nominal value of EUR 400 million entitling the holders thereof to convert it into up to 25 million Deutsche Wohnen AG shares. The Contingent Capital 2014/I accordingly remained in the amount of EUR 25 million following the issuance.

A resolution of the Annual General Meeting held on 11 June 2014 authorised the contingent increase of the registered capital by up to a further EUR 15 million by means of the issuance of up to 15 million new no-par value bearer shares (Contingent Capital 2014/II). The contingent capital increase serves the granting of compensation in the form of shares in the company to the external shareholders of GSW Immobilien AG (GSW) in accordance with the provisions of the domination agreement between the company and GSW dated 30 April 2014 at the exchange ratio specified in clause 5 para. 1 of the domination agreement (seven no-par value shares of Deutsche Wohnen AG in exchange for three no-par value shares of GSW Immobilien AG) or at an adjusted exchange ratio pursuant to clause 5 para. 4 or clause 5 para. 5 of the domination agreement. To the extent that this is necessary pursuant to clause 5 para. 2 of the domination agreement, the company will pay compensation for fractional shares in cash.

As at 31 December 2014, EUR 8,043,248.00 of this Contingent Capital 2014/II had been used – by means of the issuance of 8,043,248 new no-par value bearer shares with a corresponding increase of the registered capital – with EUR 6,956,752.00 remaining. Individual shareholders of GSW have brought motions for the initiation of appraisal proceedings for the review by the court of the appropriateness of the settlement offer and the compensation. Therefore, in accordance with sec. 305 para. 4 sent. 3 of the German Companies Act (AktG), GSW shareholders can exchange their GSW shares for Deutsche Wohnen shares on the basis of the terms of the offer or of the decision of the legal review procedure or of an amicable agreement reached on this matter until up to two months after publication of the final decision of the legal review procedure in the Federal Gazette. If a higher level of compensation and/or a higher settlement is decided upon by the court, then, subject to statutory provisions, minority shareholders of GSW Immobilien AG can demand an addition to the compensation or settlement they have already received. In light of this, an issuance of shares remains a possibility.

Furthermore, the contingent increase of the registered capital by up to EUR 12,879,752.00 by means of the issuance of up to 12,879,752 new no-par value bearer shares, each representing a share of the registered capital of EUR 1.00 has been authorised (Contingent Capital 2014/III). This contingent capital serves solely the purpose of the issuance of share options to the members of the Management Board of the company and to selected executives of the company and affiliated companies in accordance with the more specific provisions of the authorising resolution adopted by the Annual General Meeting held on 11 June 2014. The contingent capital increase will only be implemented insofar as holders of share options exercise their subscription rights with regard to shares of the company and the company does not issue own shares for the purposes of upholding those subscription rights. Any new shares issued as a result of the exercise of share options will be entitled to dividends for the first financial year with regard to which, at the time of their issuance, no resolution had yet been adopted by the Annual General Meeting as to the use of the net profit, to the extent legally and effectively permissible. Alternatively, the new shares will be entitled to dividends as of the financial year in which they accrue.

Acquisition of own shares

The acquisition of own shares is authorised pursuant to sec. 71 ff. of the German Stock Corporation Act (AktG) and also, as of the balance sheet date, by the Annual General Meeting held on 11 June 2014 (agenda item 14). By resolution of the Annual General Meeting held on 11 June 2014, the Management Board is authorised, with the consent of the Supervisory Board and subject to compliance with the principle of equal treatment under sec. 53a German Stock Corporation Act (AktG), to purchase and use the company's shares prior to 10 June 2019 up to a total of 10% of the company's outstanding share capital at the time the resolution is passed, or at the time the authorisation is used if this figure is lower. Shares acquired using this authorisation together with other treasury shares the company has previously acquired and still holds or are attributable to it under sec. 71a ff. German Stock Corporation Act (AktG) may not at any time exceed 10% of the Company's share capital.

The authorisation may not be used for the purposes of trading in own shares.

As at the balance sheet date, the company did not have any own shares.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Members of the Management Board are appointed and dismissed pursuant to sec. 84 and sec. 85 of the German Stock Corporation Act (AktG). The Supervisory Board appoints members of the Management Board for a maximum of five years. A reappointment or an extension of the term of office are both permitted for a maximum of five years. The Articles of Association of Deutsche Wohnen AG additionally stipulate in sec. 5 that the Management Board has to consist of at least two members and that otherwise the Supervisory Board determines the number of Management Board members. It may appoint deputy members of the Management Board and nominate a member of the Management Board as Chief Executive Offices or Spokesperson of the Management Board.

According to sec. 119 para. 1 no. 5 of the German Stock Corporation Act (AktG), the Annual General Meeting decides on changes to the Articles of Association. Pursuant to sec. 10 para. 5 of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association which affect the version only. Pursuant to sec. 10 para. 3 of the Articles of Association, the resolutions of the Annual General Meeting are passed by a simple majority of votes and, if a majority of shares is required, by a simple majority of capital, unless otherwise prescribed by law or the Articles of Association.

CHANGE-OF-CONTROL CLAUSES AND COMPENSATION AGREEMENTS IN THE EVENT OF A TAKEOVER OFFER

The essential agreements of Deutsche Wohnen AG and its Group companies, which are subject to a change of control, relate to financing arrangements. As is customary in such cases, these entitle the lender to terminate the financing arrangement and demand early payment of the redemption amount in the event of a change of control.

The employment contracts of the members of the Management Board likewise contain provisions applicable in the event of a change of control. In the event of premature termination of their employment due to a change of control of the company, the members of the Management Board will receive benefits in accordance with the requirements of sec. 4.2.3 of the German Corporate Governance Code and with the limitation on the cap on remuneration prescribed in therein in each case.

CORPORATE MANAGEMENT

We have published the information according to sec. 289 a of the German Commercial Code (HGB) on our website www.deutsche-wohnen.com.

CONSOLIDATED BALANCE SHEET

as at 31 December 2014

EUR k	Notes	31/12/2014	31/12/2013
ASSETS			
Investment properties	D.1	9,610,999	8,937,118
Property, plant and equipment	D.3	25,940	26,818
Intangible assets	D.4	546,074	547,122[1]
Derivative financial instruments	D.7	41	2,656
Other non-current assets		28,574	21,749
Deferred tax assets	D.16	351,678	190,370[1]
Non-current assets		**10,563,306**	**9,725,833**
Land and buildings held for sale	D.5	58,055	97,124
Other inventories		3,481	3,294
Trade receivables	D.6	17,704	29,784
Income tax receivables		4,032	2,771[1]
Derivative financial instruments	D.7	13	77
Other current assets		10,316	14,171[1]
Cash and cash equivalents	D.8	396,398	196,423
Subtotal current assets		**489,999**	**343,644**
Non-current assets held for sale	C.10	392,911	57,544
Current assets		**882,910**	**401,188**
Total assets		**11,446,216**	**10,127,021**

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

EUR k	Notes	31/12/2014	31/12/2013
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company			
Issued share capital	D.9	294,260	286,217
Capital reserve	D.9	2,735,911	2,601,804
Retained earnings	D.9	1,662,702	889,762
		4,692,873	**3,777,783**
Non-controlling interests	D.9	183,192	166,492
Total equity		**4,876,065**	**3,944,275**
Non-current financial liabilities	D.10	4,509,319	4,903,262
Convertible bonds	D.11	747,424	247,937
Employee benefit liabilities	D.12	67,655	55,300
Tax liabilities	D.15	0	27,937
Derivative financial instruments	D.7	126,418	124,795
Other provisions	D.14	17,209	6,458
Deferred tax liabilities	D.16	557,896	288,906[1]
Total non-current liabilities		**6,025,921**	**5,654,595**
Current financial liabilities	D.10	263,676	258,208[1]
Convertible bonds	D.11	1,234	2,244
Trade payables		137,987	120,641
Liabilities to limited partners in funds	D.13	6,287	4,004
Other provisions	D.14	19,217	12,502[1]
Derivative financial instruments	D.7	18,543	34,458
Tax liabilities	D.15	46,120	46,440[1]
Other liabilities		45,123	49,654[1]
Subtotal current liabilities		**538,187**	**528,151**
Financial liabilities regarding non-current assets held for sale	C.10	6,043	0
Total current liabilities		**544,230**	**528,151**
Total equity and liabilities		**11,446,216**	**10,127,021**

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the period from 1 January to 31 December 2014

EUR k	Notes	2014	2013
Income from Residential Property Management	E.1	626,260	372,929
Expenses from Residential Property Management	E.2	– 120,446	– 80,628
Earnings from Residential Property Management		**505,814**	**292,301**
Sales proceeds		257,420	169,661
Cost of sales		– 12,096	– 10,327
Carrying amounts of assets sold		– 192,947	– 136,315
Earnings from Disposals	E.3	**52,377**	**23,019**
Income from Nursing and Assisted Living		68,243	59,935
Expenses from Nursing and Assisted Living		– 51,896	– 46,737
Earnings from Nursing and Assisted Living	E.4	**16,347**	**13,198**
Corporate expenses	E.5	– 90,515	– 52,858
Other expenses/income		– 29,610	– 22,720
Subtotal		**454,413**	**252,940**
Gains from the fair value adjustments of investment properties	D.1	952,667	101,287
Depreciation and amortisation	D.3/4	– 6,092	– 5,509
Earnings before interest and taxes (EBIT)		**1,400,988**	**348,718**
Finance income		953	954
Gains/losses from fair value adjustments of derivative financial instruments and convertible bonds	D.7	– 111,523	10,634
Gains/losses from companies valuated at equity	B.5	– 457	0
Finance expense	E.7	– 268,532	– 142,392
Profit before taxes		**1,021,429**	**217,914**
Income taxes	E.8	– 132,177	– 5,201
Profit for the period		**889,252**	**212,713**
Thereof attributable to:			
Shareholders of the parent company		855,907	212,411
Non-controlling interests		33,345	302
		889,252	**212,713**
Earnings per share			
Basic in EUR		2.97	1.21
Diluted in EUR		2.97	1.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2014

EUR k	2014	2013
Profit of the period	**889,252**	**212,713**
Other comprehensive income		
Items reclassified as expense at a later stage		
Net gain/loss from derivative financial instruments	1,605	53,389
Income tax effects	2,856	– 16,612
	4,461	**36,777**
Items not reclassified as expense at a later stage		
Actuarial losses/gains in pensions and impacts of caps for assets	– 13,138	757
Income tax effects	5,084	– 202
	– 8,054	**555**
Other comprehensive income after taxes	**– 3,593**	**37,332**
Total comprehensive income, net of tax	**885,659**	**250,045**
Thereof attributable to:		
Shareholders of the parent company	852,613	249,735
Non-controlling interests	33,046	310

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2014

EUR k	Notes	2014	2013
Operating activities			
Profit/loss for the period		889,252	212,713
Finance income		– 953	– 954
Finance expense		268,532	142,392
Gains/losses from companies valuated at equity		457	0
Income taxes		132,177	5,201
Profit/loss for the period before interest and taxes		**1,289,465**	**359,352**
Non-cash expenses/income			
Fair value adjustment of investment properties	D.1	– 952,667	– 101,287
Depreciation and amortisation	D.3/4	6,092	5,509
Fair value adjustment of derivative financial instruments and convertible bonds	D.7	111,523	– 10,634
Other non-cash operating expenses/income	G	– 42,477	– 42,965
Change in net working capital			
Change in receivables, inventories and other current assets		14,763	12,717
Change in operating liabilities		12,211	– 11,749
Net operating cash flows		**438,910**	**210,943**
Interest paid		– 203,058	– 132,791
Interest received		953	954
Taxes paid/received excluding EK-02-payments		– 8,861	– 7,586
Net cash flows from operating activities before EK-02-payments		**227,944**	**71,520**
EK-02-payments	D.15	– 38,535	– 10,421
Net cash flow from operating activities		**189,409**	**61,099**
Investing activities			
Sales proceeds	G	261,254	184,124
Payments for investments		– 220,392	– 771,820
Payments for the purchase of the convertible bond of GSW		0	– 213,087
Proceeds from sale of non-controlling interests		872	1,347
Proceeds from acquisition of companies		0	145,722
Payments from sale of companies		– 4,334	0
Payments to limited partners in funds	D.13	– 53	– 1,341
Net cash flows from investing activities		**37,347**	**– 655,055**
Financing activities			
Proceeds from borrowings	D.10	1,413,583	640,379
Repayment of borrowings	D.10	– 1,781,665	– 331,037
Proceeds from the issuance of convertible bonds	D.11	400,000	250,000
Payments from the repayment of convertible bonds	D.11	– 1,911	0
One-off financing costs	E.7	– 101,188	– 12,979
Proceeds from the sale of non-controlling interests		103,089	0
Proceeds from the capital increase	D.9	0	195,100
Costs of the capital increase	D.8	– 1,261	– 7,896
Dividend paid	H	– 57,428	– 33,759
Net cash flows from financing activities		**– 26,781**	**699,808**
Net change in cash and cash equivalents		**199,975**	**105,852**
Opening balance of cash and cash equivalents		**196,423**	**90,571**
Closing balance of cash and cash equivalents		**396,398**	**196,423**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2014

			Retained earnings					
EUR k	Issued share capital	Capital reserves	Pensions	Reserves for cash flow hedge	Other reserves	Subtotal	Non-controlling interests	Equity
Equity as at 1 January 2013	**146,143**	**859,251**	**– 6,724**	**– 101,213**	**711,868**	**1,609,324**	**346**	**1,609,670**
Profit/loss for the period					212,713	212,713		212,713
Thereof non-controlling interests					– 302	– 302	302	0
Other comprehensive income after tax			555	36,777		37,332		37,332
Thereof non-controlling interests			– 8	0		– 8	8	0
Total comprehensive income, net of taxes			**547**	**36,777**	**212,411**	**249,735**	**310**	**250,045**
Capital increase	140,074	1,817,778				1,957,852		1,957,852
Costs of capital increase less tax effects		– 5,370				– 5,370		– 5,370
Transfer from the capital reserve		– 69,855			69,855	0	0	0
Change non-controlling interests						0	165,836	165,836
Dividend paid					– 33,759	– 33,759	0	– 33,759
Equity as at 31 December 2013	**286,217**	**2,601,804**	**– 6,177**	**– 64,436**	**960,375**	**3,777,782**	**166,492**	**3,944,274**
Equity as at 1 January 2014	**286,217**	**2,601,804**	**– 6,177**	**– 64,436**	**960,375**	**3,777,782**	**166,492**	**3,944,274**
Profit/loss for the period					889,252	889,252		889,252
Thereof non-controlling interests					– 33,345	– 33,345	33,345	0
Other comprehensive income after tax			– 8,054	4,461		– 3,593		– 3,593
Thereof non-controlling interests			15	284		299	– 299	0
Total comprehensive income, net of taxes			**– 8,039**	**4,745**	**855,907**	**852,613**	**33,046**	**885,659**
Capital increase	8,043	133,596				141,639		141,639
Costs of capital increase, less tax effects		– 857				– 857		– 857
Capital contribution relating to the remuneration of the Management Board		1,368				1,368		1,368
Change non-controlling interests					– 16,758	– 16,758	– 16,345	– 33,103
Dividend paid					– 57,428	– 57,428		– 57,428
Others					– 5,487	– 5,487		– 5,487
Equity as at 31 December 2014	**294,260**	**2,735,911**	**– 14,216**	**– 59,691**	**1,736,609**	**4,692,872**	**183,193**	**4,876,065**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year as at 31 December 2014

A GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE DEUTSCHE WOHNEN GROUP

1 The Deutsche Wohnen Group

The consolidated financial statements of Deutsche Wohnen AG ("Deutsche Wohnen") as at 31 December 2014 were prepared by the Management Board on 3 March 2015. The Supervisory Board is scheduled to approve the consolidated financial statements at its meeting on 20 March 2015. Deutsche Wohnen AG is a publicly listed real estate company based in and operating across Germany with its registered office at Pfaffenwiese 300, Frankfurt/Main, and is registered in the commercial register of the Frankfurt/Main District Court under number HRB 42388.

The business activities of Deutsche Wohnen AG are limited to its role as the holding company for the companies in the Group. These comprise, in particular, Asset Management, Corporate Finance, Investor Relations, Communication and Human Resources. The operating subsidiaries focus on residential property management and disposals relating to properties, as well as on the division Nursing and Assisted Living.

The consolidated financial statement is presented in Euros. Unless stated otherwise, figures are rounded to the nearest thousand (EUR k) or the nearest million (EUR m) EUR. For arithmetical reasons, there may be rounding differences between tables and references and the exact mathematical figures.

2 Consolidated financial statements

The consolidated financial statements of Deutsche Wohnen and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the commercial law provisions additionally applicable pursuant to sec. 315a para. 1 of the German Commercial Code (HGB).

The consolidated financial statements have been prepared on a historical cost basis. This excludes, in particular, investment properties, the convertible bonds and derivative financial instruments, which are measured at fair value.

The consolidated financial statements comprise the financial statements of Deutsche Wohnen and its subsidiaries as at 31 December of each financial year. The financial statements for the subsidiaries are prepared using consistent accounting and valuation methods as at the same reporting date as the financial statements of the parent company.

3 Application of IFRS in the financial year

With the exception of new and revised standards and interpretations, the same accounting and valuation methods were applied to the consolidated financial statements for the past financial year as were used for the consolidated financial statements as at 31 December 2013.

First-time application in the financial year 2014:

The new standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", as well as amendments to IAS 27 "Separate Financial Statements" and amendments to IAS 28 "Investments in Associates and Joint Ventures" have been obligatorily applicable since 1 January 2014. IFRS 10 replaces the current regulations on consolidated financial statements (parts of IAS 27 "Consolidated and Separate Financial Statements") and special purpose entities (SIC-12 "Consolidation – Special Purpose Entities"), taking the criterion of control as the basis for consolidation. The following criteria must be cumulatively met in order for the existence of control to be established: power of control; variable returns; and the possibility of exercising influence over the variable returns through the exercise of the power of control. This will not have any significant effect on the financial position or financial performance of Deutsche Wohnen. IFRS 12 imposes greater disclosure obligations from the financial year 2014 onwards.

Furthermore, there were no material changes arising from the first-time application of the IFRS standards or IFRIC interpretations in the financial year 2014.

The following shows IFRS standards which have already been published but do not have to be applied yet:

IFRIC 21 "Levies" was transposed into European law in June 2014. IFRIC 21 governs the reporting on the balance sheet of government levies not constituting income taxes within the meaning of IAS 12 and clarifies when these obligations are to be recognised. It is mandatorily applicable to financial years beginning after 17 June 2014. Deutsche Wohnen expects this application to have an effect on its quarterly financial statements.

In addition, the amendment to IAS 19, which supplements an option to report performance-based pension commitments in which employees participate on the balance sheet, is applicable to financial years beginning from 1 July 2014 onwards. On Deutsche Wohnen this does not have any effects.

In May 2014, the IASB published IFRS 15 "Revenue from Contracts with Customers", a new standard relating to the realisation of revenues, pursuant to which revenues will be realised upon the customer's attaining of the power of disposal over the contracted goods and services. Furthermore, the revenues will be valued at the amount of consideration which the company expects to receive. IFRS 15 will replace the content of, for example, IAS 18 and IAS 11. The new standard will most likely be applicable from 1 January 2017 onwards. The endorsement thereof remains outstanding. At present, Deutsche Wohnen examines the effects on its reporting methodology.

The IASB published the final version of IFRS 9 "Financial Instruments" in July 2014. The new standard is obligatorily applicable from 1 January 2018 onwards and replaces IAS 39. The new provisions largely comprise the clear classification of financial instruments in accordance with the business model and the reporting on the balance sheet of expected losses on assets. Furthermore, it contains new provisions on hedge accounting, which in the future will be in line with the risk management system of the company concerned. The previous ranges of effectiveness between 80 % and 125 % will be replaced by proof of effectiveness in quantitative and qualitative terms. The endorsement of IFRS 9 is as yet still outstanding. Deutsche Wohnen expects it to induce fundamental changes in reporting on the balance sheet of financial instruments.

A standard amending IAS 1 and containing proposals for the improvement of disclosure in the Notes was published in December 2014 with a view to emphasising the concept of the materiality of disclosure to a considerably greater extent. The standard will be applicable to reporting periods from 1 January 2016 onwards. Deutsche Wohnen does not expect it to have any material effect on its reporting methodology.

The IASB and the IFRS IC issued further statements and amendments to standards during the reporting year, which will not have any significant effect on the consolidated financial statements.

4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require considerable adjustments to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies and valuation methods, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements. However, this excludes decisions involving estimates. Insofar as statements regarding discretionary decisions in the context of individual rules had to be made, an explanation was provided for the corresponding items.

Operating lease commitments – Group as lessor

The Group has entered into leases to rent on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Estimates and assumptions

The most important assumptions concerning the future and other key sources of uncertainty concerning estimates at the reporting date that have significant risk of necessitating a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

Fair value of investment properties and properties held for sale

The fair value of investment properties was determined internally by a portfolio valuation as at 31 December 2014. The properties are clustered on the basis of their location and property quality. Assumptions regarding the development of rents, vacancies, vacancy losses, maintenance costs, and discount rates are made on the basis of these clusters. These valuation assumptions are subject to uncertainties due to their long-term nature that may lead to either positive or negative value adjustments in the future. The carrying amount of the investment properties and properties held for sale amount to approximately EUR 10.0 billion (previous year: EUR 8.9 billion).

Value of goodwill arising out of the acquisition of GSW

The value of the goodwill arising out of the acquisition of GSW was determined as at 31 December 2014 on the basis of a discounted cash flow projection derived from key real estate-related figures. The carrying amount of the goodwill arising out of the acquisition of GSW amounted to EUR 535.1 million (previous year: EUR 535.1 million) as at the balance sheet date. The following assumptions underlying the calculation of the value in use of the reporting units entail some uncertainty as to the accuracy of the estimates:

- Projected inflow of funds: The projections are based on historical empirical figures and take account of expected market growth for this specific sector on the basis of the location of the real estate portfolio in question. To the extent that the inflow of funds is reduced by 27 % (previous year: 4.0 %) in the past planning year, the value in use will be commensurate with the attainable amount.

- Discount rate: The discount rate for the reporting units is determined on the basis of average weighted capital costs in line with industry standards. To the extent that the discount rate is increased to 5.00 % (previous year: 5.64 %), the value in use will be commensurate with the attainable amount.

- Growth rate: Growth rates are based on published industry-related market research. To the extent that the growth rate is reduced to 0.16 % (previous year: 0.83 %), the value in use will be commensurate with the attainable amount.

Pensions and other post-employment benefits

Expenses relating to post-employment defined benefit plans are determined on the basis of actuarial calculations. The actuarial calculations are made on the basis of assumptions regarding discount rates, future wage and salary increases, mortality and future pension increases. Such estimates are subject to significant uncertainty due to the long-term nature of these plans. The employee benefit liability from pensions obligations as at 31 December 2014 amounted to EUR 67.7 million (previous year: EUR 55.3 million).

B BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

1 Basis of consolidation

The consolidated financial statements comprise Deutsche Wohnen AG and the subsidiaries it controls from the time of their acquisition, being the date on which the Group obtains control. They continue to be consolidated until the date when such control ceases. The composition of Deutsche Wohnen can be seen in the list of shareholdings attached as Appendix 1.

In 2014, the basis of consolidation changed as follows:

- In total, 98 companies (previous year: 98) were integrated by means of full consolidation (Appendix 1).

- An indirect shareholding involving real estate assets was fully consolidated in the financial year on the grounds that GSW had acquired control thereof. The resultant effects on the balance sheet are immaterial. The transaction in question does not constitute a business combination within the meaning of IFRS 3. Furthermore, two insignificant companies that to date were not consolidated are now part of the group of consolidated companies.

- Majority shareholdings of 51 % in two companies which to date have been fully consolidated, GIM Immobilienmanagement GmbH and Facilita Berlin GmbH, were sold to partners outside of the Group. Both companies will continue to be operated by way of a joint venture and have thus been excluded from the basis of consolidation. The deconsolidated earnings of Facilita Berlin GmbH amounted to approximately EUR – 2.8 million.

- A previously fully consolidated company has been excluded from the basis of consolidation due to internal group merger.

- No company acquisitions occurred in the financial year 2014.

2 Consolidation methods

The financial statements for the subsidiaries are prepared using consistent accounting and valuation methods as at the same reporting date as the financial statements of the parent company. Subsidiaries are fully included in the consolidation from the time of acquisition, being the date on which the Group obtains control. They continue to be consolidated until the date when such control ceases.

Consolidation of capital is made in accordance with the acquisition method. The acquisition costs arising in the context of the acquisition of companies and businesses are offset against the fair value of the acquired assets and liabilities at the time of the acquisition on a pro rata basis. A difference in a positive amount resulting from this offsetting is recognised under assets as goodwill. Negative differences are immediately recognised in the consolidated profit and loss statement. The date of the acquisition represents the date at which control over the assets and financial and operating activities of the acquired company or business is transferred to the Group. Differential amounts arising out of disposals and acquisitions of shares of non-controlling shareholders are offset within equity.

All intra-Group balances, transactions, revenues, expenses, and gains and losses from intra-Group transactions which are included in the carrying amount of the assets are eliminated in full.

Joint ventures and associated companies are consolidated in accordance with the equity method pursuant to IAS 28, with the shareholding in question initially being reported at cost on the balance sheet and the recorded carrying amount thereafter being carried forward by means of pro rata changes in the equity of the associate or joint venture concerned.

Non-controlling interests (minority interests) represent the share of the profits and net assets not attributable to the shareholders of the parent company of the Group. Non-controlling interests (minority interests) are shown separately in the consolidated profit and loss statement and on the consolidated balance sheet. The disclosure in the consolidated balance sheet is made within equity, separate from the equity attributable to the shareholders of the parent company.

3 Domination agreement concluded with GSW and change in shareholding quota

The domination agreement concluded on 30 April 2014 between Deutsche Wohnen, as the controlling company, and GSW, as the controlled company, was entered into the commercial register of the local court of Charlottenburg in Berlin on 4 September 2014. The vast majority of the shareholders of the two companies had already voted in favour of the conclusion of the agreement at the Annual General Meetings held on 11 June 2014 and on 18 June 2014.

Pursuant to the domination agreement, Deutsche Wohnen AG has undertaken – upon request by minority shareholders of GSW Immobilien AG – to acquire three shares of GSW Immobilien AG in exchange for seven shares in Deutsche Wohnen AG each representing a notional value of EUR 1.00 in the share capital of Deutsche Wohnen AG. As at 31 December 2014, 3,447,111 GSW shares had been acquired.

The shareholding in GSW Immobilien AG amounted to 93.085 % as at the reporting date (previous year: 92.02 %).

Deutsche Wohnen AG guarantees the minority shareholders of GSW Immobilien AG, who do not accept the settlement offer as fair compensation for the duration of the domination agreement, a fixed annual payment in the form of a guaranteed dividend. The guaranteed dividend per each no-par value bearer share of GSW per financial year amounts to EUR 1.40 (derived from a gross amount of EUR 1.66 less any corporate income tax and any solidarity surcharge at the prevailing rate for the relevant financial year).

4 Allocation of purchase price for GSW

The allocation of the purchase price for the acquisition of GSW as at 30 November 2013 was undertaken on a provisional basis in the consolidated financial statements of Deutsche Wohnen AG as at 31 December 2013, given that only publicly accessible information on the acquired assets and liabilities was available and the acquisition occurred around the balance sheet date.

Pursuant to IFRS 3.45, new findings not becoming known until after the implementation of the company acquisition may be taken into account in the context of the allocation of the purchase price within a period of twelve months following the time of the acquisition ("valuation period"). Any adjustments are made retrospectively on the acquisition date.

The following new findings not taken into account in the context of the initial allocation of the purchase price emerged over the course of the integration of GSW into the Deutsche Wohnen Group and are adjusted retrospectively in the reporting period:

- The current financial liabilities acquired from GSW comprised accrued interest in the amount of approximately EUR 6.9 million not taken into account at its attributable fair value in the valuation of the loans. Had it been taken into account, this would have resulted in a correspondingly larger amount of current financial liabilities in the allocation of the purchase price.

- Furthermore, other financial liabilities comprised accrued liabilities arising out of the valuation of low-interest development loans in the amount of approximately EUR 5.3 million which will be amortised on a pro rata basis over the residual terms of the loans. However, these do not constitute assets to be taken into account pursuant to IFRS 3 in the allocation of the purchase price; had this been the case, this would have resulted in a smaller amount of other financial liabilities.

- Moreover, greater deconstruction obligations than originally estimated have arisen as the result of an agreement concluded with the owner of the GSW administrative building, which will entail the reserves being increased by EUR 2.8 million.

- Completed and ongoing external audits relating to previous financial years give rise to potential risks in the amount of EUR 13.2 million relating to an increase in other assets (EUR 0.6 million), an increase in tax liabilities (EUR 11.8 million) and in other liabilities (EUR 2.0 million). In addition, the processing of the findings of the external audits resulted in a reduction in loss carry-forwards from approximately EUR 0.7 billion to approximately EUR 0.2 billion, what resulted in a reduction in deferred tax assets.

- In May 2014, the IFRIC held that, with regard to the reporting on the balance sheet of deferred tax assets relating to loss carry-forwards, in cases of historical loss regard is to be had to the German system of minimum taxation. This provision has been mandatory and retrospectively applicable since 2014 and its application results in a surplus of deferred tax liabilities in the amount of EUR 26.0 million on the part of GSW with retrospective effect from the acquisition date.

All of the retrospective adjustments made to the balance sheet items together have the effect of increasing the goodwill of GSW by EUR 43.5 million. This results in an adjusted goodwill in the amount of EUR 535.1 million.

Taking into account the new findings, the allocation of the purchase price to the acquired assets and liabilities is as follows:

GSW EUR m	30/11/2013 Pre-adjustment	30/11/2013 Post-adjustment	Change
Investment properties	3,376.9	3,376.9	
Goodwill	491.6	535.1	+ 43.5
Other non-current assets	9.6	9.6	
Current assets	42.7	43.3	+ 0.6
Thereof receivables from rental activities	11.0	11.0	
Thereof other receivables	12.8	12.8	
Thereof tax receivables	0.8	0.8	
Thereof other assets	18.2	18.8	+ 0.6
Liquid funds	145.2	145.2	
Acquired assets	**4,066.0**	**4,110.1**	**+ 44.1**
Acquired non-controlling interests	**– 0.4**	**– 0.4**	
Non-current liabilities	– 1,882.4	– 1,885.1	– 2.8
Thereof loans	– 1,809.6	– 1,809.6	
Thereof provisions	– 7.2	– 10.0	– 2.8
Thereof liabilities arising out of derivatives	– 64.7	– 64.7	
Thereof other liabilities	– 1.0	– 1.0	
Current liabilities	– 361.4	– 402.5	– 41.1
Thereof loans	– 69.8	– 76.7	– 6.9
Thereof convertible bonds	– 215.3	– 215.3	
Thereof trade payables	– 41.6	– 41.6	
Thereof tax liabilities	– 0.2	– 12.0	– 11.8
Thereof other liabilities	– 34.3	– 31.0	+ 3.3
Thereof deferred tax liabilities	0	– 26.0	– 26.0
Acquired liabilities	**– 2,243.8**	**– 2,288.3**	**– 44.1**
Net assets at 100 %	**1,821.8**	**1,821.8**	
Non-controlling interests	– 163.1	– 163.1	
Acquisition costs for 91.05 % shareholding	**1,658.7**	**1,658.7**	

The adjustment with regard to the allocation of the purchase price as at 30 November 2013 also resulted in adjustments to the balance sheet of Deutsche Wohnen as at 31 December 2013. These are as follows:

ASSETS EUR m	31/12/2013 Pre-adjustment	31/12/2013 Post-adjustment	Change
Investment properties	8,937.1	8,937.1	
Property, plant and equipment	26.8	26.8	
Intangible assets	503.7	547.1	43.5
Derivative financial instruments	2.7	2.7	
Other non-current assets	21.7	21.7	
Deferred tax assets	280.5	190.4	−90.1
Non-current assets	**9,772.5**	**9,725.8**	**−46.7**
Land and buildings held for sale	97.1	97.1	
Other inventories	3.3	3.3	
Trade receivables	29.8	29.8	
Income tax receivables	2.6	2.6	
Derivative financial instruments	0.1	0.1	
Other current assets	13.7	14.2	0.6
Cash and cash equivalents	196.4	196.4	
Subtotal current assets	**343.0**	**343.6**	**0.6**
Non-current assets held for sale	57.5	57.5	
Current assets	**400.6**	**401.2**	**0.6**
Total assets	**10,173.1**	**10,127.0**	**−46.1**

EQUITY AND LIABILITIES EUR m	31/12/2013 Pre-adjustment	31/12/2013 Post-adjustment	Change
Equity attributable to shareholders of the parent company			
Issued share capital	286.2	286.2	
Capital reserve	2,601.8	2,601.8	
Retained earnings	889.8	889.8	
	3,777.8	**3,777.8**	**0.0**
Non-controlling interests	166.5	166.5	
Total equity	**3,944.3**	**3,944.3**	**0.0**
Non-current financial liabilities	4,903.3	4,903.3	
Convertible bonds	247.9	247.9	
Employee benefit liabilities	55.3	55.3	
Liabilities to limited partners in funds	0.0	0.0	
Tax liabilities	27.9	27.9	
Derivative financial instruments	124.8	124.8	
Other provisions	6.5	6.5	
Deferred tax liabilities	353.1	288.9	– 64.2
Total non-current liabilities	**5,718.8**	**5,654.6**	**– 64.2**
Current financial liabilities	251.3	258.2	6.9
Convertible bonds	2.2	2.2	
Trade payables	120.6	120.6	
Liabilities to limited partners in funds	4.0	4.0	
Other provisions	9.8	12.5	2.8
Derivative financial instruments	34.5	34.5	
Tax liabilities	34.7	46.4	11.8
Other liabilities	53.0	49.7	– 3.3
Subtotal current liabilities	**510.1**	**528.2**	**18.1**
Financial liabilities arising in connection with non-current assets held for sale	0.0	0.0	
Total current liabilities	**510.1**	**528.2**	**18.1**
Total equity and liabilities	**10,173.1**	**10,127.0**	**– 46.1**

The adjusted balance sheet items as at 31 December 2013 are identified as such on the consolidated balance sheet.

5 Disclosure of shares in other companies

Deutsche Wohnen largely determines the character of its shares on the basis of the size of the shareholding in question and whether it exercises control within the meaning of IFRS 10.

Companies, over which Deutsche Wohnen exercises control, are classified as subsidiaries and fully consolidated.

Companies jointly owned and controlled by Deutsche Wohnen and partners outside of the Group are classified in accordance with the criteria stipulated by IFRS 11. Companies over whose business operations Deutsche Wohnen exercises significant influence are classified as associated companies. Both joint ventures and associated companies are reported on the balance sheet in accordance with the equity method pursuant to IAS 28.

Deutsche Wohnen furthermore has interests in companies which constitute only minority shareholdings or which, as a result of limited voting rights, do not confer control over those companies. These are reported as financial instruments (AfS) on the balance sheet at amortised cost in accordance with IAS 39, since the fair value can not be reliably determined.

The list of Deutsche Wohnen's shareholdings as at 31 December 2014 can be found in Appendix 1. IFRS 12 requires the provision of the following supplementary disclosure in this regard:

Shares in subsidiaries

At the reporting date, Deutsche Wohnen AG had 97 subsidiaries (previous year: 101). Access to the assets and liabilities of these subsidiaries is not subject to any restrictions.

Parties outside of the Group hold minority shareholdings in some of the subsidiaries, which, however, only involve earnings entitlements. These are reported as minority interests in the consolidated financial statements. In the reporting year no significant distributions have been made to minority shareholders. As at 31 December 2014, the percentage of non-controlling interests in GSW Immobilien AG amounted to 7.9 %.

For the major subsidiary with minority interests the following summarized financial information emerges:

EUR m	GSW Group
Non-current assets	4,626.8
Current assets	22.6
Cash and cash equivalents	86.9
Non-current liabilities	–1,887.5
Current liabilities	–349.9
Net assets	**2,498.9**
Income from Residential Property Management	250.9
Profit for the period	**452.5**
Other comprehensive income	24.2
Cash flows	16.2

For the companies of the Group Deutsche Wohnen AG granted guarantees, securities and other collateral towards third parties. The resultant risk exposure for Deutsche Wohnen amounts to a total of at most EUR 1,124 million.

Shares in joint arrangements and associated companies

At the reporting date, Deutsche Wohnen had holdings in seven joint ventures and one associated company, with these companies being jointly managed by Deutsche Wohnen and an external partner company. The shareholdings are reported on the balance sheet in accordance with the equity method; no quoted market prices are available.

The joint ventures are currently deemed to be immaterial, generating annual earnings in the total amount of EUR 0.4 million in the financial year 2014 and being reported on the balance sheet at a total carrying amount of EUR 4.3 million. The at-equity valuation of the joint ventures results in a valuation loss of EUR 0.5 million.

Deutsche Wohnen is not subject to any material financial obligations or guarantees/securities relating to the joint ventures or associates.

Shares in non-consolidated structured companies

Deutsche Wohnen holds shares in 19 non-consolidated structured companies which are deemed to be immaterial within the Group. These generally relate to shareholdings in other property companies. No major obligations exist in relation to these companies. Deutsche Wohnen's total risk exposure regarding these shareholdings is commensurate with their carrying amounts. The carrying amounts of the non-consolidated companies amounted to approximately EUR 14.9 million as at 31 December 2014 (previous year: EUR 13.9 million).

C ACCOUNTING POLICIES AND VALUATION METHODS

1 Assessment of the fair value

The fair value is the price which would be received for the disposal of an asset or paid for the transfer of a liability in the context of an orderly business transaction between market participants on the assessment date. The assessment of the attributable fair value is based on the presumption that the business transaction in the context of which the asset is sold or the liability is transferred occurs in either:

- the primary market for the asset or liability in question, or
- where no primary market exists, the most advantageous market for the asset or liability in question.

The Group must have access to the primary or most advantageous market. The fair value of an asset or a liability is determined by reference to the assumptions on which the market participants would base their pricing of the asset or liability, assuming that the market participants would thereby be acting in their own best economic interests.

The Group applies valuation techniques which are appropriate in the individual circumstances and for which sufficient data is available for the carrying out of a valuation of fair value. In this context, it is necessary to apply observable input factors to the greatest possible extent and minimise the application of non-observable input factors.

All assets and liabilities, whose fair value is determined or reported in the financial statements, are classified in accordance with the following fair value hierarchy, based on the input parameter at the lowest level which is of overall significance for the valuation at fair value:

- Level 1 – (Unamended) prices quoted in active markets for identical assets or liabilities.

- Level 2 – Valuation procedure pursuant to which the input parameter at the lowest level is of overall significance for the valuation at fair value which can be directly or indirectly observed in the market.

- Level 3 – Valuation procedure pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at fair value cannot be observed in the market.

In the case of assets and liabilities which are recognised in the financial statements on a recurring basis, the Group will decide whether the levels within the hierarchy have been reached by carrying out a review of the classification (on the basis of the input parameter at the lowest level which is of overall significance for the valuation at fair value) at the end of each reporting period.

2 Investment properties

Investment properties are properties that are held to generate rental income or for the purposes of generating value and which are not used by the company itself or held for sale in the course of normal business activities. Investment properties include land with residential and commercial buildings, undeveloped land and land with leasehold rights of third parties.

Investment properties are measured initially at cost including transaction costs. Subsequent to the initial recognition, investment properties are measured at fair value. Gains or losses arising from adjustments are included in the profit and loss statement.

Internal valuations of the residential and commercial buildings were carried out as at 31 December 2014 and 31 December 2013. The portfolio was also evaluated by CB Richard Ellis GmbH, Frankfurt/Main, as at 31 December 2014 and 31 December 2013, and the total value was confirmed. Value deviations for individual properties are no larger than +/– 10 % where an absolute materiality threshold of +/– EUR 250 k is exceeded. The total valuation by CB Richard Ellis deviated by approximately – 0.2 % (previous year: – 0.16 %) from the internal valuation.

Investment properties are derecognised when either they have been sold or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses from the permanent withdrawal from use or disposal of investment properties are recognised in the year of their withdrawal from use or disposal.

Properties are transferred from the investment properties portfolio if there is a change of use caused by the company either starting to use the property itself or by the commencement of development with an intention to dispose.

3 Property, plant and equipment

Property, plant and equipment are stated at cost net of cumulative scheduled depreciation and amortisation and cumulative impairment losses. Subsequent acquisition costs are recognised insofar as it is likely that a future economic benefit from the property, plant and equipment will accrue for Deutsche Wohnen.

Scheduled straight-line depreciation and amortisation is based on the estimated useful life of the asset. The useful life of buildings is 50 years. The useful life of fixed assets is four to ten years.

Impairment tests regarding the carrying amounts of property, plant and equipment are performed as soon as there are indications that the carrying amount of an asset exceeds its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising when the asset is de-recognised is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and is included in the consolidated profit and loss statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each financial year and adjusted if appropriate.

4 Intangible assets

Deutsche Wohnen only recognises acquired intangible assets on the balance sheet. These are measured on initial recognition at cost. No economic or legal restrictions are currently in place with respect to the use of the intangible assets.

Intangible assets with a certain useful life are amortised on a straight-line basis over their respective useful lives. Their useful lives are between three and five years.

Intangible assets with an uncertain useful life, including goodwill in particular, are not amortised on a scheduled basis.

5 Borrowing costs

Interest on borrowings is recognised as an expense in the period in which it arises. There were no effects from the application of IAS 23 (revised), as the relevant assets (properties) were already recognised at fair value.

6 Impairment of non-financial assets

The non-financial assets consist mainly of property, plant and equipment, intangible assets and inventories. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the following: an asset's or cash-generating unit's fair value less disposal costs and its value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is depreciated to its recoverable amount.

Goodwill acquired in the context of the acquisition of companies and businesses and intangible assets with uncertain useful lives are subjected to an impairment review at least once a year. For impairment testing purposes, these assets are attributed to those cash-generating units which are expected to benefit from the synergies resulting from the acquisitions of the companies and businesses. These cash generating units represent the lowest level at which these assets are monitored for corporate management purposes. After gaining control of the GSW Group a corresponding cash generating unit exists in the rental activities of the GSW Group.

The impairment test is carried out by determining the carrying amount of the cash generating units based on estimated future cash flows which have been derived from actual values and projected for a three-year period with a customary growth rate. The carrying amounts of the cash generating units are, however, essentially determined by the end value which will be dependent on the projected cash flow in the third year of the medium-term planning as well as the growth rate of the cash flows thereafter and the discount rate. After the three-year period, the cash flows are extrapolated using a growth rate of 1.0 % (previous year: 1.0 %), which does not exceed the presumed average market or industry growth rate.

A discount rate, based on the Group's weighted capital cost rate, 4.03 % (previous year: 5,4 %) before taxes is used to determine the present value.

Impairment losses are recognised in the profit and loss statement in those expense categories consistent with the function of the impaired asset within the company.

For all assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of scheduled depreciation and amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss statement. There is no revaluation of any unscheduled depreciation and amortisation of goodwill.

7 Financial assets

Financial assets within the scope of IAS 39 are classified by Deutsche Wohnen

- as financial assets at their fair value through profit or loss,
- as loans and receivables,
- as available-for-sale financial assets, or
- as derivative financial instruments designed as hedging instruments in an effective hedge.

Financial assets are recognised initially at fair value. In the case of financial assets which are not classified as having been valued at fair value, transaction costs which are directly attributable to the acquisition of the asset are taken into account. Financial assets are assigned to the valuation categories upon initial recognition. If permitted and necessary, reclassifications are made at the end of the financial year.

Other than derivative financial instruments with and without a hedging context, Deutsche Wohnen has not to date recognised any financial assets held for trading purposes or financial assets held to maturity on the balance sheet.

The receivables and other assets recognised on the consolidated balance sheet of the Deutsche Wohnen Group are allocated to the category "loans and receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently valued at amortised cost using the effective interest method less impairment. Gains and losses are recognised in profit/loss for the period when the loans and receivables are derecognised or impaired or when amortised.

Impairment of receivables from rental activities is made on the basis of empirical values. Reasonable individual impairments are made for other receivables and assets.

Interest rate hedging transactions are valued at fair value on the basis of a mark-to-market method, regardless of whether they are classified as an effective or non-effective hedging instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to receive cash flows from the financial asset have expired.

8 Inventories

Inventories comprise land and buildings held for sale and other inventories. Land and buildings held for sale are sold in the normal course of business, so it may exceed a period of twelve months.

The initial valuation is made at cost. At the reporting date, the inventories are valued at the lower value of cost or cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs up to completion and the estimated costs necessary to make the sale.

9 Cash and cash equivalents

Cash and cash equivalents on the consolidated balance sheet comprise cash on hand and cash at bank.

10 Non-current assets held for sale

Deutsche Wohnen Group recognises investment properties and their associated financial liabilities as assets held for sale if notarised sales contracts are present as at the reporting date but the transfer of ownership will take place at a later date. Properties held for sale are measured at fair value.

11 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified by Deutsche Wohnen either

- as other financial liabilities that are carried at amortised cost,
- as financial liabilities which are reported on the balance sheet at fair value, or
- as derivative financial liabilities that meet the requirements of an effective hedging transaction.

Financial liabilities

Loans and borrowings are initially recognised at fair value less the transaction costs directly associated with the loan. After initial recognition, the interest-bearing loans are subsequently valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Convertible bond

Convertible bonds which, in the event of a conversion by creditors, can be serviced by the company either in cash or in the form of shares and for which a market price can be determined on the basis of share prices are valued at their fair value, this being conform to the nominal value, when recognised for the first time. The transaction costs arising in connection with the issuance are reported as finance expenses. The convertible bond is thereafter valued at its market price on the relevant reporting date. Gains and losses arising as a result of the market valuation are recognised in the profit and loss statement (financial liabilities, which are valued at fair value).

Trade payables and other liabilities

Liabilities are initially recognised at fair value. After initial recognition, they are valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Liabilities to limited partners in funds

In accordance with IAS 32 (revised 2003), the termination rights of a limited partner are a decisive criteria for the distinction between equity and debt capital. Financial instruments granting the owner (here: limited partner) the right to return the instrument to the issuer in return for payments of money constitute a financial liability. Due to the termination rights of the limited partners, the limited partnership interests and the "net assets of shareholders" are recognised as debt capital. In accordance with IAS 32.35 (revised 2003), the profit shares of the limited partners are consequently recognised as a finance expense.

The net assets of the limited partners must be recognised at the fair value of any possible repayment amount at the end of the financial year. Value increases are recognised as finance expenses and impairments as finance income in the consolidated profit and loss statement. The amount of the repayment obligation depends on the articles of association.

Within Deutsche Wohnen, there are liabilities to limited partners in funds of EUR 6.3 million (previous year: EUR 4.0 million).

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the profit and loss statement.

12 Pensions and other post-employment benefits

Employee benefit liabilities are recognised for commitments (pensions, invalidity, surviving spouse pensions and surviving dependant benefits) for pensions and ongoing benefits to eligible active and former employees and their surviving dependants. In total, there are pension commitments for 834 employees (thereof 325 active staff and 509 withdrawn and retired employees), with pension payments on the basis of the period of employment and the salary level at retirement age (previous year: 840 employees, thereof 333 active staff and 507 retired employees).

Expenses for benefits granted as part of defined contribution plans are determined using the projected unit credit method. Actuarial gains and losses are recognised with an earnings-neutral effect in the consolidated statement of comprehensive income.

On the basis of statutory provisions, Deutsche Wohnen pays contributions to state pension insurance funds from defined contribution plans. These current contributions are shown as social security contributions within staff expenses. Payment of the contributions does not constitute any further obligations for the Group.

There is also a pension plan drawn up in accordance with the regulations governing public sector supplementary pensions. It is based on membership of a Group company in the Bayerische Versorgungskammer (hereinafter BVK) – the supplementary pension fund of Bavaria – and in the Versorgungsanstalt des Bundes und der Länder (hereinafter VBL) – the supplementary pension fund of the Federal Republic and the Federal States. The supplementary pension comprises a partial or full reduced earnings capacity pension plus an age-related pension as a full pension or surviving dependant's pension. The charge levied by the BVK and the VBL is determined by the employees' compensation, which is used to calculate the supplementary pension contribution. In case of structural changes or an exit from the VBL significant countervalue claims may arise.

The BVK and the VBL each therefore represent a defined benefit plan of several employers that, in accordance with IAS 19.30 (a), is accounted for as a defined contribution plan because the BVK has not provided sufficient information to account for the plan as a defined benefit plan.

No specific information is known regarding any overfunding or underfunding of the plan or the related future effects on the Deutsche Wohnen Group. In future, increasing/decreasing payments of premiums by Deutsche Wohnen to the BVK and the VBL may result from possible excess or deficient cover.

13 Provisions

Provisions are recognised when the Group has a present obligation (statutory or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss statement net of any reimbursement. If the impact of the interest rate is significant, provisions are discounted at an interest rate before tax that reflects the specific risks of the liability. In the case of discounting, the increase in provisions due over time is recognised as a finance expense.

14 Lease

Leasing transactions are differentiated between finance leases and operating leases. Contractual provisions that transfer all significant risks and rewards associated with the ownership of an asset to the lessee are reported as finance leases. The lessee recognises the leased asset as an asset and the corresponding obligations are recognised as liabilities. All other leasing transactions are reported as operating leases. Payments from operating leases are principally recorded in linear form over the contractual period as income (from the point of view of the lessor) or expense (from the point of view of the lessee).

15 Revenue and expenses recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In addition, the following criteria have to be met when recognising revenue:

Rental income

Rental income is recognised monthly over the period of the leases in accordance with the tenancy agreement.

Disposal of property

Revenue is recognised when the significant risks and rewards associated with the ownership of the disposed property have been transferred to the purchaser.

Services

Revenue is recognised in accordance with the delivery of the service.

As part of the long-term performance-based remuneration there are share-based remuneration components which are settled through funds. The remuneration components to be expensed over the vesting period correspond to the fair value of the equity-based remuneration on the reporting date. The determination of fair values is based on generally accepted valuation methodologies. Liabilities are accounted for in a corresponding amount.

16 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. In the case of a grant related to an expense item, it is recognised as planned income over the period necessary to match the grant on a systematic basis to the expenses that it is intended to compensate.

Deutsche Wohnen has received government grants in the form of disbursement subsidies, disbursement loans and subsidised-interest loans.

Disbursement subsidies, in the form of rent subsidies, are recognised in the profit and loss statement of the period in which the rent is earned. They are recognised as income from Residential Property Management.

Disbursement loans and subsidised-interest loans are property loans and are recognised as financial liabilities. In comparison with loans made under market conditions, both offer advantages such as lower interest rates or interest-free and redemption-free periods. The loans are valued at fair value and are subsequently carried at amortised cost. However, they are to be viewed in context with rent restrictions concerning the properties, which were taken into account when determining the fair value.

Furthermore, Deutsche Wohnen received investment subsidies in the amount of EUR 0.9 million (previous year: EUR 1.3 million) and offset these against the acquisition costs.

17 Taxes

Current income tax assets and liabilities

Current income tax assets and liabilities for the current period and for previous periods are valued at the amount expected to be recovered or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those which apply as at the reporting date.

Deferred taxes

Deferred tax is created using the balance sheet-oriented liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences that are subject to tax, with the following exception: In respect of taxable temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognised.

Deferred tax assets are recognised for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The following exceptions apply:

- Deferred tax assets from deductible temporary differences which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the business transaction, affect neither the profit/loss for the period for commercial law purposes nor taxable profit/loss may not be recognised.

- Deferred tax assets from taxable temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount for deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that apply or have been announced as at the reporting date.

Deferred taxes relating to items that are recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the consolidated profit and loss statement. Deferred tax assets that are recognised in and off the profit and loss statement are allocated on the basis of a reasonable pro rata proportion (IAS 12.63c).

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

18 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge against interest rate risks. These derivatives are initially measured at fair value when the corresponding agreement is entered into and are subsequently reported at fair value. Derivative financial instruments are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. The valuation is carried out using the mark-to-market method.

Deutsche Wohnen recognises concluded interest rate swaps on the basis of the hedge accounting regulations of IAS 39. In addition to documentation of the hedging correlation between the hedge and the underlying item, one requirement for hedge accounting is proof of the effectiveness of the hedging correlation between the hedge and the underlying item. If an effective correlation exists, the effective part of the value adjustment of the hedge is directly recognised in equity without affecting earnings. The non-effective part is recognised in the profit and loss statement. As far as the requirements for hedge accounting existed, the fair values of the hedging instruments were classified as current or non-current assets/liabilities. Deutsche Wohnen tested the effectiveness of the concluded interest hedges on a prospective (critical terms method) and a retrospective basis. In the case of derivative financial instruments which do not meet the criteria for hedge accounting, gains or losses from changes in fair value are immediately recognised in the profit or loss statement.

Deutsche Wohnen only hedges cash flows which relate to future interest expenses.

19 Share-based remuneration

The Management Board of Deutsche Wohnen has been receiving share-based remuneration in the form of subscription rights (stock options) since the financial year 2014. The stock option programme is fundamentally an option plan implemented using equity instruments. The option plan provides only for the possibility of implementing the stock option programme by using Deutsche Wohnen shares.

The expenses incurred as a result of the issuance of the stock options are valued at fair value of the granted stock options at the time of their granting and calculated using generally recognised option pricing models. The expenses resulting from the issuance of the stock options are reported, together with a corresponding increase in equity (capital reserve), over the period in which the conditions for performance are met (so-called vesting period), which will end upon the employee in question irrevocably becoming a beneficiary of the programme. The amount of the cumulated expenses arising out of the granting of the equity instruments reported on every balance sheet date until the granting of the equity instruments reflects the expired portion of the vesting period and the number of the equity instruments which, at the Group's best estimate, will actually be exercisable upon the expiration of the vesting period. The amount charged or credited to the profit and loss statement reflects the changes in the cumulated expenses recognised at the beginning and at the end of the reporting period.

The diluting effect of the outstanding share options will be taken into account as an additional dilution in the calculation of the earnings per share to the extent that the issuance of the options and the terms underlying results in a dilution for accounting purposes of the shares of the existing shareholders.

D NOTES TO THE CONSOLIDATED BALANCE SHEET

1 Investment properties

Investment properties are recognised at fair value. Fair value developed as follows during the financial year:

EUR m	31/12/2014	31/12/2013
Start of period	**8,937.1**	**4,614.6**
Acquisitions	139.7	902.4
Other additions	70.1	26.3
Additions by way of company acquisitions	0.0	3,436.5
Disposals	–95.7	–86.5
Fair value adjustment	952.7	101.3
Transfer	–392.9	–57.5
End of period	**9,611.0**	**8,937.1**

The transfer includes the properties reclassified as non-current assets for disposal in the current financial year.

The valuation (Level 3 of the Fair Value Hierarchy – valuation on the basis of valuation models) as at 31 December 2014 and as at 31 December 2013 was completed in accordance with the following principles, which were developed in the context of the internal periodic valuation:

Valuation on the basis of defined clusters:

- Derivation of annual rent increases and target vacancies based on the location and physical characteristics of the properties,
- Derivation of capitalisation rates and discount rates.

Derivation of the valuation based on individual properties:

- Determination of the market rent as at the reporting date,
- Development of rent per sqm of lettable area based on market rent and in-place rent,
- Development of costs (maintenance, administration, rental loss and non-recoverable operating costs, ground rent (if applicable)),
- Determination of cash flows from annual proceeds and payments and the terminal value at the end of year ten, based on the recurring cash flow expected in year eleven or an expected sales price less sales expenses,
- Calculation of a fair value based on the administrative unit as at the reporting date.

The capitalisation rate and the discount rate were derived from the property-specific risk assessments.

A review of the valuation by an independent third party takes place on every balance sheet date. The valuation methods used for the internal valuation and for the valuation by a third party are therefore the same.

The following overview summarises the valuation parameters applied with respect to the individual clusters, and indicates all of the sub-clusters within the main Core+, Core and Non-Core clusters having an overall share of the total property value of at least 10 %. Sub-clusters which do not reach this threshold are reported on a consolidated basis. The stated figures are based on the "corridors" present in the individual cluster and the weighted average (in brackets):

			Core+	Core	Non-Core
31 December 2014	**Berlin**	**Other**	**Total**	**Total**	**Total**
Carrying amount (EUR m)	6,757	1,856	8,613	850	149
Carrying amount (EUR/sqm)	1,106	1,129	1,111	803	621
Share of carrying amount (%)	70.3	19.3	89.6	8.8	1.6
In-place rent (EUR/sqm)	5.66	6.14	5.75	5.32	4.82
Rent increases p.a. (%)	2.2	1.64	2.06	0.74	0.32
Vacancy rate (%)	1.7	2.3	1.9	3.7	4.4
Multiplier	16.2	15.3	16.0	12.8	11.6
Discount factor (%)	6.2	6.4	6.2	6.6	7.2
Capitalisation factor (%)	5.1	5.3	5.2	5.6	6.0

			Core+	Core	Non-Core
31 December 2013	**Berlin**	**Other**	**Total**	**Total**	**Total**
Carrying amount (EUR m)	6,266	1,132	7,398	1,414	125
Carrying amount (EUR/sqm)	969	1.188	997	784	576
Share of carrying amount (%)	70.2	12.6	82.7	15.7	1.6
In-place rent (EUR/sqm)	5.53	6.52	5.65	5.20	4.82
Rent increases p.a. (%)	2.0	1.7	1.9	1.1	0.7
Vacancy rate (%)	1.9	2.7	2.0	3.6	4.9
Multiplier	14.4	15.3	14.6	12.9	11.1
Discount factor (%)	6.6	6.6	6.6	6.8	7.7
Capitalisation factor (%)	5.5	5.5	5.5	5.8	6.5

An adjustment of the key valuation parameters (rent increase 20 % lower than projected; increase in the discount rate of 0.1 %; increase in the capitalisation rate of 0.1 %) results in the following non-cumulated fair value adjustments on the basis of the carrying amount of the properties.

			Core+	Core	Non-Core
31 December 2014	**Berlin**	**Other**	**Total**	**Total**	**Total**
Rent increases (%)	–3.46	–2.60	–3.29	–1.41	–0.50
Discount factor (%)	–0.92	–0.75	–0.88	–0.68	–0.50
Capitalisation factor (%)	–1.42	–1.09	–1.35	–1.05	–1.16

			Core+	Core	Non-Core
31 December 2013	**Berlin**	**Other**	**Total**	**Total**	**Total**
Rent increases (%)	–3.61	–3.62	–3.62	–2.39	–1.46
Discount factor (%)	–0.75	–0.72	–0.74	–0.72	–0.73
Capitalisation factor (%)	–1.07	–1.09	–1.07	–0.94	–0.73

The investment properties serve as collateral for the loans. There are also agreements in individual cases according to which the condition of the properties may not deteriorate or the average minimum investments have been determined on a square-metre basis.

2 Lease commitments

The tenancy agreements which Deutsche Wohnen has concluded with its tenants are classified as operating leases in accordance with IFRS. Accordingly, the Group acts as lessor in a diverse range of operating lease agreements (tenancies) for investment properties from which it obtains the largest part of its income and revenues.

The rental income generated from this amounted to EUR 626.3 million (previous year: EUR 372.9 million). The expenses directly associated with the investment properties amounted to EUR 120.4 million (previous year: EUR 80.6 million).

From existing operating lease agreements with third parties (assumed statutory cancellation period: three months) and from the current property portfolio, Deutsche Wohnen will receive minimum lease payments in the amount of approximately EUR 155 million in 2015 (previous year: EUR 154 million).

In context of Assisted Living and Nursing Services, Deutsche Wohnen will receive additional minimum lease payments in 2015 in the amount of approximately EUR 61 million (previous year: EUR 63 million), in one to five years approximately EUR 244 million (previous year: EUR 252 million), and in more than five years approximately EUR 305 million (previous year: EUR 315 million). This is based on an assumption of a remaining lease of five years after the fifth year. The tenancy agreements are for an indefinite period and end upon the death of the tenant or upon a possible termination by the landlord in the event of a default of payments.

Deutsche Wohnen is partly subject to restrictions with regards to rental increases related to certain preferential tenants and in relation to grants in the form of subsidised-interest loans or investment subsidies. Additionally, we must comply with legal obligations when privatising residential units.

3 Property, plant and equipment

Land and buildings, technical facilities and plant and equipment classified under IAS 16 are reported in this item. They developed as follows during the financial year:

EUR m	31/12/2014	31/12/2013
Cost		
Start of period	39.5	30.3
Additions	3.5	6.6
Additions and reductions by way of company acquisitions	-0.1	3.0
Disposals	-1.8	-0.4
End of period	**41.1**	**39.5**
Cumulative depreciation and amortisation		
Start of period	12.7	10.0
Additions	3.7	2.7
Disposals	-1.2	0.0
End of period	**15.2**	**12.7**
Net carrying amounts	**25.9**	**26.8**

The land and buildings included in property, plant and equipment (EUR 12.4 million, previous year: EUR 13.1 million) are mainly property-secured.

4 Intangible assets

Intangible assets developed as follows:

EUR m	31/12/2014	31/12/2013
Cost		
Start of period	555.7	9.1
Additions	1.5	0.7
Additions and reductions by way of company acquisitions	−0.3	545.9[1]
Thereof goodwill	–	535.1[1]
Disposals	–	0.0
End of period	**556.9**	**555.7**[1]
Cumulative depreciation and amortisation		
Start of period	8.6	5.8
Additions	2.3	2.8
Disposals	−0.1	0.0
End of period	**10.8**	**8.6**
Net carrying amounts	**546.1**	**547.1**[1]
Thereof goodwill	535.1	535.1[1]

[1] Adjustment of the figures for the provisional allocation of the purchase price for GSW

The adjustment with regard to the provisional allocation of the purchase price for GSW resulted in changes in the goodwill of GSW, which has been retrospectively adjusted in the figures for the previous year.

The impairment testing gave no rise to depreciation and amortisation of goodwill in the financial year 2014.

Other intangible assets primarily include an acquired customer base and software licences.

5 Land and buildings held for sale

The decrease in land and buildings held for sale is largely due to the disposal of residential units acquired in previous years for selling purposes. In the financial year 2014, proceeds were realised in the amount of EUR 58.1 million (previous year: EUR 36.4 million). The proceeds were partly offset by carrying amounts of assets sold in the amount of EUR 39.7 million (previous year: EUR 25.4 million).

6 Trade receivables

Receivables are made up as follows:

EUR m	31/12/2014	31/12/2013
Receivables from rental activities	13.1	21.8
Receivables from the disposal of land	3.3	5.8
Other trade receivables	1.3	2.2
	17.7	**29.8**

Receivables from rental activities are interest-free and are in principle overdue. Impairments are made based on the age structure and/or according to whether the tenants are active or former tenants. There have been write-downs formed of almost all overdue receivables.

In the financial year 2014, rent receivables in the amount of EUR 4.9 million (previous year: EUR 3.4 million) were depreciated and amortised or impaired. The impairment of receivables as at 31 December 2014 amounted to EUR 25.2 million (previous year: EUR 25.8 million).

Receivables from the disposal of land are interest-free and are in principle due for payment between 1 and 90 days.

The receivables from the sale of land are fully recoverable and only overdue to a very minor extent.

Other receivables are interest-free and are in principle due for payment between 1 and 90 days.

7 Derivative financial instruments

Deutsche Wohnen concluded several interest hedging transactions in a nominal amount of EUR 2.0 billion (previous year: EUR 3.0 billion). The cash flows from the underlying transactions, which are secured in the scope of the cash flow hedge accounting, will be realised in the years from 2015 to 2025. The strike rates are between 0.60 % and 4.95 % (previous year: between 0.60 % and 4.95 %). The accumulated fair value of these transactions as at 31 December 2014 amounted to EUR 145.0 million (previous year: EUR 156.5 million).

There are no significant default risks as the interest rate swaps were concluded with banks having good credit ratings. If the interest rate level changes, the fair value changes accordingly. Income and expenses are recognised in equity for the effective part of a hedge, while the non-effective part is recognised within current earnings. If the interest rate level should rise/fall by 50 base points, the attributable fair value of the interest rate swap will rise/fall by approximately EUR 48 million (previous year: EUR 60 million).

8 Cash and cash equivalents

The cash and cash equivalents in the amount of EUR 396.4 million (previous year: EUR 196.4 million) mainly consist of cash at bank and cash on hand. Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate. As at the reporting date, the Deutsche Wohnen Group had cash and cash equivalents amounting to EUR 16.9 million (previous year: EUR 39.0 million) which was restricted in use. This primarily relates to cash collateral and accounts for incoming purchase price payments for sold properties.

9 Equity

Please refer to the consolidated statement of changes in equity for the development of equity.

Issued share capital

As at 31 December 2014, the issued capital of Deutsche Wohnen AG amounted to approximately EUR 294.26 million (previous year: EUR 286.22 million) divided into 294.26 million no-par value shares, each representing a notional share of the issued capital of EUR 1.00. By way of implementation of a resolution adopted by the Annual General Meeting to that effect, all remaining registered shares were converted into bearer shares as at 5 September 2014 with the result that Deutsche Wohnen AG now only has bearer shares.

All shares carry the same rights and obligations. Every share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profits amongst shareholders. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sec. 12, 53 ff., 118 ff. and 186. There are no shares with special rights conferring powers of control.

The Management Board of Deutsche Wohnen AG is not aware of any restrictions which affect the voting rights or transfer of shares.

In the event of capital increases the new shares are issued as bearer shares.

By resolution of the Annual General Meeting held on 11 June 2014, which was entered into the commercial register on 6 August 2014, the Management Board has been authorised to increase the company's issued capital, with the consent of the Supervisory Board, by up to EUR 85 million once or several times during the period until 10 July 2017 by means of the issuance of up to 85 million new ordinary bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2014/I). Shareholders must in principle be granted subscription rights within the scope of the authorised capital. However, in certain cases, the Management Board is entitled to exclude the subscription rights of shareholders with the agreement of the Supervisory Board and subject to the conditions of the Articles of Association. The Authorised Capital 2013/I was cancelled upon the registration of the Authorised Capital 2014/I.

The issued capital is contingently increased by a total of up to approximately EUR 85.91 million by means of the issuance of up to approximately EUR 85.91 million no-par value bearer shares with dividend rights generally from the start of the financial year of their issuance (Contingent Capital 2013, Contingent Capital 2014/I, Contingent Capital 2014/II and Contingent Capital 2014/III).

A resolution adopted at the Annual General Meeting held on 11 June 2014 authorised the Management Board to issue no-par value convertible and/or option bonds and/or profit participation rights with option or conversion rights (or a combination of these instruments) in the nominal value of up to EUR 950 million, and to grant its creditors conversion or option rights for shares in Deutsche Wohnen AG representing a share of the issued capital of up to EUR 50 million. On the basis of this authorisation, Deutsche Wohnen AG issued on 8 September 2014 a convertible bond with a total nominal value of EUR 400 million entitling the holders thereof to convert it into up to 25 million Deutsche Wohnen AG shares. The Contingent Capital 2014/I accordingly remains in the amount of EUR 25 million following the issuance.

The acquisition of own shares is authorised pursuant to sec. 71 ff. of the German Stock Corporation Act (AktG) and also, as at the balance sheet date, by the Annual General Meeting held on 11 June 2014 (TOP 14). By resolution of the Annual General Meeting held on 11 June 2014, the Management Board is authorised, with the consent of the Supervisory Board and subject to compliance with the principle of equal treatment (sec. 53a of the German Stock Corporation Act (AktG)), to purchase and use own shares of the company in the total amount of up to 10% of the share capital existing at the time of the adoption of the resolution or – where this amount is lower – at the time of the exercise of the authorisation in accordance with the issued stipulations until 10 June 2019. Shares acquired using this authorisation together with other shares of the company previously acquired and still held by the company or other shares attributable to the company pursuant to sec. 71a ff. of the German Stock Corporation Act (AktG) may not at any time exceed 10% of the issued capital of the company.

The authorisation may not be used for the purposes of trading in own shares.

As at the balance sheet date, the company did not have any own shares.

Capital reserve

There were no withdrawals from the capital reserve in 2014 (previous year: EUR 69.9 million).

The capital reserve increased by EUR 133.6 million in 2014 (previous year: EUR 1,818 million). This is the result of premiums on new bearer shares created by Deutsche Wohnen for the fulfilment of the settlement offer made to the GSW shareholders in connection with the conclusion of the domination agreement. The costs incurred due to the capital increase in the amount of EUR 1.3 million (previous year: EUR 7.9 million) and the income tax effects related to these costs in the amount of EUR 0.4 million (previous year: EUR 2.5 million) were offset against the premium payments.

Furthermore, the capital reserve increased by EUR 1.37 million in the financial year as a result of the share-based remuneration to the members of the Management Board.

Retained earnings

Retained earnings comprise the revenue reserve of Deutsche Wohnen and the accumulated profit/loss carried forward.

The statutory reserve is mandatory for German publicly listed companies. In accordance with sec. 150 para. 2 of the German Stock Corporation Act (AktG), an amount equivalent to 5% of the profit for the financial year is to be retained. The statutory reserve has a cap of 10% of the issued capital. In accordance with sec. 272 para. 2 nos. 1–3 of the German Commercial Code (HGB), any existing capital reserve is to be taken into account and the provisions required for the statutory reserve are reduced accordingly. This is measured on the basis of the issued share capital which exists and is legally effective at the reporting date and which is to be reported in this amount on the respective annual balance sheet. The statutory reserve remains unchanged at EUR 1.0 million.

Non-controlling interests

The share of non-controlling interests largely relates to the shares of third parties in the earnings of the fully-consolidated holding companies not wholly owned by Deutsche Wohnen.

10 Financial liabilities

The company has taken on bank loans particularly to finance property and company transactions and property acquisitions.

Deutsche Wohnen refinanced its material liabilities falling due in 2015 – 2017 in the fourth quarter of 2014. For this purpose new bank loans with a nominal volume of EUR 1,360.0 million and also funds arising from the convertible bond placed in September 2014 were used. The transaction costs relating to the new bank loans in the amount of EUR 9.6 million were deducted from the loan-related liabilities and will be spread over the term of the loans and recognised using the effective interest method.

Overall, the financial liabilities decreased mainly as a result of the refinancing as well as ongoing loan repayments.

The financial liabilities are hedged at approximately 84% (previous year: approximately 88%) at a fixed rate and/or through interest rate swaps. The average rate of interest was approximately 2.7% (previous year: approximately 3.5%).

The loan renewal structure based on current outstanding liability is as follows:

EUR m	Carrying amount 31/12/2014	Nominal value 31/12/2014	2014	2015	2016	2017	2018	≥ 2019
Loan renewal structure 2014	**4,779.0**	**4,888.2**	**0**	**89.2**	**44.8**	**70.2**	**703.2**	**3,980.8**
Loan renewal structure 2013	5,161.5	5,253.9	110.4	367.9	502.6	851.8	732.0	2,689.2

The liabilities are almost entirely secured by property as collateral.

11 Convertible bonds

In September 2014, Deutsche Wohnen AG issued convertible bonds with a term expiring in 2021 and a total nominal value of EUR 400 million. These are divided into partial bonds each having a nominal value of EUR 100,000. The convertible bonds may initially be converted into approximately 18.01 million new or existing no-par value bearer shares of Deutsche Wohnen AG. The convertible bonds bear a coupon for interest of 0.875 % p. a. falling due on a semi-annual basis. The initial conversion price is EUR 22.1016.

The costs in the amount of EUR 3.6 million incurred in connection with the issuance of the convertible bonds have been recognised in the consolidated profit and loss statement.

The two outstanding Deutsche Wohnen convertible bonds are reported on the balance sheet at fair value on the basis of their market price plus accrued interest in the total amount of EUR 748.7 million.

The remaining portion (in the nominal amount of EUR 1.9 million) of the convertible bond issued by GSW Immobilien AG originally in the nominal amount of EUR 182.9 million was repaid in full in the financial year 2014.

In the previous year Deutsche Wohnen AG already placed a convertible bond with a total nominal value of EUR 250 million and an interest coupon of 0.5 % p.a. falling due on a semi-annual basis.

12 Employee benefit liabilities

The company's pension scheme consists of defined benefit and defined contribution plans. The average term of the obligations is approximately 14.9 years (previous year: 13.5 years); payments from pension benefit plans for 2015 are expected in the value of EUR 3.7 million (less payments on plan assets) (previous year: EUR 3.5 million).

Employee benefit liabilities are determined using the projected unit credit method in accordance with IAS 19. Future obligations are measured using actuarial methods that conservatively estimate the relevant parameters.

The level of pension obligations (defined benefit obligation of the pension commitments) was calculated in accordance with actuarial methods on the basis of an external expert report and the following factors:

in %	31/12/2014	31/12/2013
Discount rate	1.96	3.50
Future salary increases	2.50	2.50
Future pension increases	1.75	1.75
Increase in the contribution assessment ceiling	2.25	2.25
Mortality tables	R 05G	R 05G

The trend in salaries includes expected future salary increases that are estimated annually, depending, among other things, on the inflation rate and the length of service in the company.

The employee benefit liabilities taken over in the scope of the BauBeCon acquisition are financed through the ufba – Unterstützungskasse zur Förderung der betrieblichen Altersversorgung e.V. (Assistance Fund for the Promotion of Company Pension Plans inc. soc.) and recognised on the balance sheet as plan assets. The valuation applied an interest charge in the amount of 1.96 %.

The following summary shows the financing status of the Group's pension plans, which is at the same time equivalent to the balance sheet posting:

EUR m	31/12/2014	31/12/2013
Present value of employee benefit liabilities	75.4	63.3
Less fair value of the plan assets	– 7.8	– 8.0
	67.7	**55.3**

The following table shows the development of the present value of the performance-oriented liabilities and the attributed fair value of the plan assets:

EUR m	31/12/2014	31/12/2013
Opening balance employee benefit liabilities	63.3	62.5
Pension payments	– 3.5	– 3.5
Additions by way of company acquisitions	–	2.2
Interest cost	2.1	2.1
Service cost	0.3	0.3
Adjustments to the pension fund	0.1	0.2
Actuarial gains/losses	13.1	– 0.5
Closing balance employee benefit liabilities	**75.4**	**63.3**
Thereof pension plans with financing from plan assets	11.3	9.1
Thereof pension plans without financing from plan assets	64.1	54.2
Opening balance plan assets	8.0	8.0
Interest income from plan assets	0.3	0.3
Contributions to plan assets	0.0	0.4
Pension payments from plan assets	– 0.4	– 0.8
Actuarial losses	0.0	0.0
Closing balance plan assets	**7.8**	**8.0**

The pension expenses are made up as follows:

EUR m	31/12/2014	31/12/2013
Interest cost	– 1.8	– 1.8
Service cost	– 0.3	– 0.3
Adjustments to the pension fund	– 0.1	– 0.2
	– 2.2	**– 2.3**

Pension commitments include old-age, disability, surviving spouse and surviving dependant pensions. They are based on the last fixed annual gross salary. Different benefit plans apply depending on the employee's position in the company.

The pro rata interest expenses are recognised as "interest expenses" in the profit and loss statement, whilst current pension payments, service expenses and adjustments to current pensions are recognised as "staff expenses".

Expenses for defined contribution plans in the total amount of EUR 8.2 million (previous year: EUR 4.8 million) were incurred. Therefore, total expenses for pension plans (defined benefit and defined contribution) amounted to EUR 8.6 million (previous year: EUR 5.2 million). For 2015, based on the current number of employees, the expenses will total approximately EUR 7.1 million.

An increase in the interest rate of 0.25 % would result in a decrease in employee benefit liabilities of 4.0 %, and a rise in future salary increases of 0.5 % would result in an increase in employee benefit liabilities of 0.4 %.

The sensitivity calculations are based on the average term of the pension liabilities determined as at 31 December 2014 . They were carried out for each of the actuarial parameters classified as significant with a view to demonstrating the effect on the present value of the employee benefit liabilities calculated as at 31 December 2014 on a separate basis. Given that the sensitivity analyses are based on the average term of the expected pension liabilities and consequently do not take account of the expected payment dates, they provide only approximate information or indications of future trends.

We do not currently consider any further changes to the relevant actuarial parameters, which could lead to a major adjustment of the carrying amounts of the reserves for employee benefit liabilities during the next year, to be likely.

There exist provisions for commitments in case of occupational disability in favour of the members of the Management Board in an amount of EUR 4 k, which are recognised in the employee benefit liabilities as well.

13 Liabilities to limited partners in funds

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB 14 a put option relating to their limited partnership interests from 2005 to 2019. Under these agreements, the Group is obliged to acquire the interests initially (in 2005) at 105% of the paid-in capital upon request. From 2005, the agreed purchase price for the interest increases by five percentage points per annum. Outstanding dividend payments are taken into account for limited partnership interests that are offered to us. The disposals of shares effected in the financial year 2014 did not involve put options.

Liabilities developed as follows during the financial year:

EUR m	31/12/2014	31/12/2013
Opening balance liabilities	**4.0**	**5.1**
Payment for tender	–0.1	–1.3
Disposals of shares	2.4	0.0
Reversal	–0.2	0.0
Accrued interest	0.2	0.2
Closing balance liabilities	**6.3**	**4.0**

The liabilities to limited partners in funds as at 31 December 2014 in the full amount (previous year: EUR 4.0 million) were reported as short-term, because the payments for the remaining tenders are expected in 2015.

14 Other provisions

The other provisions are made up as follows:

EUR m	Revitalisation	Restructuring	Other	Total
Start of period	5.2	0.2	13.6[1]	19.0
Changes in the basis of consolidation	0.0	–2.0	–0.1	–2.1
Utilisation	0.0	–0.1	–0.6	–0.7
Reversal	0.0	–0.0	–1.3	–1.3
Changes in disclosure[2]			8.2	8.2
Additions	0.3	9.1	3.9	13.3
End of period	**5.5**	**7.2**	**23.7**	**36.4**
Thereof non-current	4.9	0.2	12.1	17.2
Thereof current	0.6	7.0	11.6	19.2

[1] Change in previous year's figures as a result of the adjustment to the allocation of the purchase price for GSW with retroactive effect as at 30/11/2013
[2] Addition not recognised in equity as a result of changes in disclosure (previously: liabilities)

The provision for revitalisation (EUR 5.5 million, previous year: EUR 5.2 million) relates to the privatisation agreement between the federal State of Berlin and GEHAG. In accordance with this agreement, GEHAG is obligated to invest an original total of EUR 25,565 k in the improvement of housing conditions. There are no regulations in the agreement regarding the time period. As in the previous year, the calculation assumes a period until 2017 and an interest rate of 2.99%. The additions are related to the interest accrued for the provision.

The provision for restructuring measures primarily comprises obligations arising out of the social compensation plan arrangements in relation to GSW Immobilien AG.

The other provisions (EUR 23.7 million, previous year: EUR 13.6 million) mainly comprise dismantling obligations for the GSW administration building (EUR 7.8 million) and other third party obligations.

15 Tax liabilities

Current and non-current tax liabilities (EUR 46.1 million, previous year: EUR 74.3 million) primarily comprise provisions for current taxes and for possible tax-related risks arising in connection with external audits conducted with regard to GSW. In the previous year, a major portion of the provisions comprised the present value of the compensation paid for the EK-02 holdings (previous year: EUR 38.1 million) in the Deutsche Wohnen Group, which was paid back in full in the financial year 2014.

16 Deferred taxes

The deferred taxes comprise the following:

EUR m	31/12/2014	31/12/2013	Change
Deferred tax assets			
Properties	5.2	8.3	–3.2
Pensions	7.6	5.5	2.1
Loss carry-forwards	276.5	121.2[1]	155.3
Interest rate swaps	40.3	43.2	–2.9
Loans	2.1	2.0	0.1
Other	20.1	10.1[1]	10.0
	351.7	**190.4**	**161.3**
Deferred tax liabilities			
Loans	26.9	19.6[1]	–7.3
Properties	510.5	246.8[1]	–263.7
Other	20.6	22.6[1]	2.0
	557.9	**288.9**	**–269.0**
Deferred taxes (net)	**–206.2**	**–98.6**	**–107.7**
Thereof:			
Recognised directly in other comprehensive income	7.6	–16.8	
Company acquisitions	–	–1.8	
Recognised in profit/loss	–115.3	8.6	
	–107.7	**–10.0**	

[1] Adjusted number for previous year

The actuarial gains and losses from pensions and the changes in the current market value of the effective hedges are recognised directly in equity not affecting net income. The resulting deferred taxes are likewise recognised without effects on the results and amount to EUR 5.0 million (previous year: EUR –0.2 million) for actuarial gains and losses, as well as EUR 2.9 million (previous year: EUR –16.6 million) for the changes in the fair value of the effective hedging transactions. Further amounts without an effect on earnings amount to EUR –0.2 million (previous year: EUR 2.5 million).

The Deutsche Wohnen Group has corporation tax loss carry-forwards in the amount of EUR 1.4 billion (previous year: EUR 1.7 billion) and trade tax loss carry-forwards in the amount of EUR 1.1 billion (previous year: EUR 1.5 billion). The corporation tax loss carry-forward that was not capitalised amounts to approximately EUR 0.4 billion (previous year: EUR 0.8 billion) and the trade tax loss carry-forward to approximately EUR 0.3 billion (previous year: EUR 0.7 billion). In general, loss carry-forwards do not expire.

E NOTES TO THE CONSOLIDATED PROFIT AND LOSS STATEMENT

The consolidated profit and loss statement is prepared using the total cost method.

1 Income from Residential Property Management

The income from Residential Property Management is made up as follows:

EUR m	2014	2013
Potential gross rental income	640.4	384.3
Subsidies	7.1	2.4
	647.5	386.7
Vacancy loss	– 21.2	– 13.8
	626.3	372.9

2 Expenses from Residential Property Management

The expenses from Residential Property Management are made up as follows:

EUR m	2014	2013
Maintenance costs	88.8	59.4
Non-recoverable operating expenses	13.8	9.6
Rental loss	8.9	4.9
Other expenses	9.0	6.7
	120.5	80.6

3 Earnings from Disposals

The earnings from Disposals include sales proceeds, costs of sale and carrying amounts of assets sold of investment properties and land and buildings held for sale.

4 Earnings from Nursing and Assisted Living

The earnings from Nursing and Assisted Living comprise the following:

EUR m	2014	2013
Income for Nursing and Assisted Living	68.2	59.9
Nursing and corporate expenses	– 18.6	– 16.4
Staff expenses	– 33.3	– 30.3
	16.3	13.2

5 Corporate expenses

The corporate expenses are made up as follows:

EUR m	2014	2013
Staff expenses	56.9	31.8
General and administration expenses		
IT costs	9.0	4.5
Building costs	8.7	2.4
Legal, consultancy and audit costs	5.7	3.8
Communication costs	2.1	1.7
Printing and telecommunication costs	2.2	1.6
Travel expenses	1.2	0.9
Insurance	0.5	0.4
Other	4.2	2.4
	33.6	17.7
Property management	0.0	3.4
	90.5	52.9

The Deutsche Wohnen Group employed on average 2,339 employees in the financial year (previous year: 1,840 employees):

Numbers	Employees 2014	Employees 2013
Residential (including holding company)	990	588
Nursing and Assisted Living	1,349	1,252
	2,339	1,840

Following the disposal of 51 % of the shares in KATHARINENHOF® GmbH as well as in Facility Berlin GmbH and the closing of the holding functions of the GSW, the average number of employees in the Group fell to approximately 760 from 1 January 2015.

6 Share-based remuneration

The stock option programm launched in 2014 provides for the issuance of a maximum of 12,879,752 subscription rights to the members of the Management Board of Deutsche Wohnen AG and to selected executives of the Deutsche Wohnen Group under the following conditions:

The subscription rights will be issued to beneficiaries in annual tranches until the expiration of four years from the date of the registration of the contingent capital in the commercial register, but at least until the expiration of 16 weeks after the closing of the ordinary Annual General Meeting in 2018. The amount of the annual tranches will be determined by dividing the target amount of the variable remuneration for the beneficiary in question by a reference value, which will be commensurate with the arithmetic mean of the closing price for the Deutsche Wohnen share 30 days prior to the issuance of the share options concerned.

The subscription rights may be exercised for the first time after the expiration of four years (waiting period) and thereafter within three years (exercise period) and will expire upon the expiration of the relevant period.

The subscription rights may only be exercised if the following conditions are met:

- The service contract concluded with the beneficiary is not terminated during the waiting period on grounds for which the latter is responsible (sec. 626 para. 1 of the German Civil Code (BGB)) and
- The performance targets "Adjusted NAV per share" (40% weighting), "FFO I per share" (40% weighting) and "Share price development" (20% weighting) are attained.

The performance targets for each individual tranche of the share options relate to the development of the (i) Adjusted NAV per share, (ii) FFO I (without disposals) per share and (iii) Share price development, as compared to the EPRA/NAREIT Germany Index, calculated in accordance with the following provisions.

Within each of the aforementioned performance targets there is a minimum target that must be achieved so that half of the stock options based on this performance target can be exercised, as well as a maximum target that, when achieved, renders all stock options based on this performance target eligible for exercise within the framework of the weighting of the performance target.

The minimum target is reached at 75% of target achievement and the maximum target at 150% of target achievement. The individual minimum and maximum targets are set by the company on the basis of its four-year-projections prior to the issuance of the annual tranche of stock options. Subject to special arrangements for termination of the service or employment relationship of the person eligible before the expiration of the holding period, the number of stock options that can be exercised per tranche equals the number of all stock options of the respective tranche multiplied by the percentage rate calculated from the sum of the percentage rates based on achieving one or several performance targets on the basis of the conditions noted above that is divided by 150%, and taking into consideration the above weighting of the performance targets, so that a difference in achieving the performance targets is compensated in favour of the person eligible. This compensation also holds true if the minimum targets have not been reached.

At the end of the waiting period the number of allocable subscription rights per eligible person is calculated. When acquiring the shares (exercise of the issued subscription rights), the eligible person must pay EUR 1.00 per share. The shares acquired following the exercise of the options will have full voting rights and entitlement to dividends.

A total of 112,322 stock options were assigned in the past financial year.

When calculating the value of the stock options issued, it was assumed that the performance targets "Adjusted NAV per share" and "FFO I (without disposals) per share" will have been met 100% by the end of the waiting period. With regard to meeting the target "Share price development", the value for the subscription rights was calculated pro rata on the basis of a risk-free interest rate of 1.75% and an expected dividend return of 2.4%. The distribution of the stock option value calculated for the subscription rights over the vesting period was calculated in consideration of the special contractual provisions that exist for the termination of the service or employment relationship of the persons eligible.

The expenses relating to the stock option programme as reported in the consolidated financial statements amount to EUR 1.37 million.

7 Finance expenses

The finance expenses are made up as follows:

EUR m	2014	2013
Current interest expenses	183.4	122.0
Accrued interest on liabilities and pensions	3.0	11.8
Non-recurring expenses in connection with the refinancing	82.2	8.6
	268.6	**142.4**

8 Income taxes

Companies resident in Germany that have the legal form of a corporation are subject to German corporation tax in the amount of 15 % (previous year: 15 %) and a solidarity surcharge in the amount of 5.5 % of the corporation tax levied. These entities are also subject to trade tax, the amount of which depends on the tax rates set by local authorities. Companies in the legal form of a partnership are only subject to trade tax. The profit less trade tax is assigned to the partners for corporation tax purposes. Limited use of corporation and trade tax loss carry-forwards is to be taken into account from the assessment period 2004 onwards. As a result, a positive tax assessment basis up to EUR 1 million may be reduced by an existing loss carry-forward without limitation; amounts in excess thereof may at most be reduced to 60 % by an existing loss carry-forward.

The anticipated nominal income tax rate for 2014 for the Group's parent company Deutsche Wohnen AG is 30.18% (previous year: 31.93 %).

The income tax expense/benefit comprises the following:

EUR m	2014	2013
Current tax expense	**−16.5**	**−11.3**
Tax expense from capital increase costs	**−0.4**	**−2.5**
Deferred tax expense		
Properties	−266.8	−52.3
Loss carry-forwards	155.3	58.2
Loans and convertible bonds	−1.0	7.7
Other provisions	−2.1	−0.6
Interest rate swaps	−4.7	−4.3
Pensions	−2.9	−0.5
Other	6.7	0.3
	−115.3	**8.6**
	−132.2	**−5.2**

The reconciliation of tax expense/benefit is provided in the following overview:

EUR m	2014	2013
Consolidated accounting profit before taxes	1,021.4	217.9
Applicable tax rate in %	30.18	31.93
Resulting tax expense/benefit	**−308.3**	**−69.6**
Permanent effect of expenses not deductible for tax purposes and trade tax corrections	−3.2	−7.0
Changes in unrecognised deferred taxes and loss carry-forwards	184.2	73.8
Income tax expenses from other periods	−2.3	−1.5
Other effects	−2.6	−0.9
	−132.2	**−5.2**

Current income tax expenses in the financial year 2014 include expenses from other periods in an amount of EUR 2.3 million (previous year: EUR 1.5 million).

F SEGMENT REPORTING

Deutsche Wohnen reports by business segments on the basis of the information provided to the decision makers of the Deutsche Wohnen Group. Segment information is not reported by geographical region as the property and, therefore, all operational activities are in Germany.

Deutsche Wohnen focuses on the following three main segments in the context of its business activities:

1 Residential Property Management

Deutsche Wohnen's core business activity is the management of residential properties in the context of an active asset management. Asset management includes the modernisation and maintenance of the property portfolio of Deutsche Wohnen, the management of tenancy agreements, support for tenants and the marketing of residential units. The focus of property management is on the optimisation of rental income. Therefore, rental increase potential is examined continuously in the course of ongoing maintenance, tenant turnover is used as an opportunity to create value, and services are purchased based on best-available prices for real savings and passed on to the tenant.

2 Disposals

The Disposals segment is another pillar of the Deutsche Wohnen Group's operating activities. Privatisation can either take place as individual privatisation, i. e. by selling an individual residential unit (e. g. to a tenant), or it takes place as block sales.

The Disposals segment includes all aspects of the preparation and execution of the sale of residential units from our property portfolio as part of the ongoing portfolio optimisation and streamlining process.

In addition, the privatisation of residential property can take place in connection with the future acquisition of portfolios for the purpose of portfolio streamlining as well as for financing purposes.

Certain residential units, particularly in Rhineland-Palatinate, and individual properties of the GEHAG Group as well as the BauBeCon Group are subject to privatisation restrictions due to the acquisition agreements. Against the background of these obligations, the Group is partly bound by certain specifications (e.g. sale to tenants, general social conditions) when making privatisation decisions. These restrictions also forbid to some extent the disposal of the properties in question for a specified period of time.

3 Nursing and Assisted Living

The Nursing and Assisted Living segment is operated by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH (KATHARINENHOF®) and its subsidiaries, and comprises the marketing and management of nursing and residential care homes as well as services for the care of the senior citizens who live in these homes.

Inter-company transactions primarily concern agency agreements which are carried out in accordance with the usual market conditions.

The segment reporting is attached to the notes to the consolidated financial statements as Appendix 2.

The reconciliation of the segment assets to the consolidated balance sheet is illustrated in the following table:

EUR m	31/12/2014	31/12/2013
Segment assets	11,090.5	9,933.9[1)]
Deferred taxes	351.7	190.4[1)]
Income tax receivables	4.0	2.7[1)]
	11,446.2	**10,127.0**

[1)] Change in numbers for the previous year because of a change in allocation of the purchase price of GSW retroactively as at 30/11/2013

G NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows shows how the Group's cash and cash equivalents have changed during the financial year due to the inflow and outflow of funds. In accordance with IAS 7 ("Cash Flow Statements"), a distinction is made between cash flows from operating and from investing and financing activities. Other non-cash operating income and expenses mainly include carrying profits from disposals (2014: EUR 64.5 million; previous year: EUR 33.3 million). In total, Deutsche Wohnen received EUR 261.3 million (previous year: EUR 184.1 million) from property disposals. Payments for investments include payments for modernisation and acquisition of investment properties and land and buildings held for sale.

As at the reporting date, the Group had a total of EUR 16.9 million (previous year: EUR 39.0 million) which were restricted in use. This relates to the cash and cash equivalents of DB 14 as well as liquidity to purchase collection accounts, which may be used only for special repayments on loans. A maturity of up to three months results from the contractual conditions of these cash and cash equivalents.

The Group has funds amounting to EUR 10 million (previous year: EUR 140 million) at its disposal from existing financing commitments which have not been utilised as at the reporting date.

Cash flows from investing and financing activities are determined when payments are made. The cash flow from operating activities in contrast is indirectly derived from the Group's profit/loss.

H EARNINGS PER SHARE

In order to calculate the basic earnings per share, the consolidated earnings are divided by the weighted number of shares outstanding in the financial year.

The diluted and undiluted earnings amount to:

EUR m	2014	2013
Consolidated earnings for the calculation of undiluted earnings	855.9	212.4
./. Interest from the convertible bond (after taxes)	0.9	0.1
./. Valuation effect resulting from convertible bond (after taxes)	38.5	0.0
Adjusted consolidated earnings for the calculation of diluted earnings	**895.3**	**212.5**

The average number of issued shares (diluted and undiluted) amounts to:

Shares k	2014	2013
Shares issued at start of period	286,217	146,143
Addition of issued shares in the relevant financial year	8,043	140,074
Shares issued at end of period	**294,260**	**286,217**
Average of shares issued, undiluted	**287,830**	**175,273**
Diluting number of shares due to exercise of conversion rights	13,616	1,534
Average of shares issued, diluted	**301,446**	**176,807**

The earnings per share for continuing operations amount to:

EUR	2014	2013
Earnings per share		
Basic	2.97	1.21
Diluted	2.97	1.20

In the year 2014, a dividend was distributed for the financial year 2013 amounting to EUR 57.4 million or EUR 0.34 per share. A dividend in the amount of EUR 0.44 per share is planned for 2014. Based on the number of issued shares as at 31 December 2014 this corresponds to a dividend payment of overall EUR 129.5 million.

I OTHER DISCLOSURES

1 Risk management

General information on risk management

The risk management system (RMS) is an instrument for achieving the main aim of the company to sustainably guarantee the profitability of Deutsche Wohnen, which mainly concentrates on the management and development of its own property portfolio. It provides the foundation for active risk control and serves as a basis for information for the Management Board and the Supervisory Board regarding the current risk situation of the company.

Risk management is an ongoing process which is divided into the following phases:

- Establishing standards
- Risk identification and analysis
- Risk management
- Reporting
- Risk controlling

Risks are monitored in a professional and timely manner in accordance with the risk management guidelines established by management. The risk management guidelines establish the roles and responsibilities, set the basic principles of the RMS and define the framework for the evaluation and management of risks. Risk is proactively managed by using risk early warning systems.

The measures relating to financial risk management are described below:

The main financial instruments used by the Group – with the exception of derivative financial instruments – are bank loans and cash and cash equivalents. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which result directly from its business activities.

The Group also carries out derivative transactions in the form of interest rate swaps. The purpose of these derivative financial instruments is to manage interest rate risks that result from the Group's business activities and its sources of finance. There has been no trading of interest rate swaps, nor will there be any in the future.

The following table illustrates the classification of the financial instruments into appropriate classes in accordance with IFRS 7.6 together with their allocation to valuation categories in accordance with IAS 39:

EUR m	Valuation category in accordance with IAS 39	Amortised costs		Fair value recog-nised in profit/loss	No valuation category acc. to IAS 39	No financial instru-ments acc. to IAS 32/ out of scope IFRS 7	Total balance sheet items
		Carrying amount	Fair value	Carrying amount	Carrying amount	Carrying amount	31/12/2014
ASSETS							
Trade receivables	(2)	17.7	17.7	0.0	0.0	0.0	17.7
Other non-current assets							
Securities (at cost)	(1)	0.3	n/a	0.0	0.0	0.0	0.3
Financial assets and loans receivable	(1)	24.0	n/a	0.0	0.0	4.3	28.3
Other assets							
Other financial assets	(2)	9.5	9.5	0.0	0.0	0.0	9.5
Other remaining assets	–	0.0	0.0	0.0	0.0	0.9	0.9
Derivative financial instruments	(3)	0.0	0.0	0.1	0.0	0.0	0.1
Cash and cash equivalents	(2)	396.4	396.4	0.0	0.0	0.0	396.4
Total		**447.9**	**423.6**	**0.1**	**0.0**	**5.2**	**453.1**
EQUITY AND LIABILITIES							
Financial liabilities	(4)	4,773.0	4,773.0	0.0	0.0	0.0	4,773.0
Convertible bonds	(5)	0.0	0.0	748.7	0.0	0.0	748.7
Liabilities to limited partners in funds	(5)	0.0	0.0	6.3	0.0	0.0	6.3
Trade payables	(4)	112.8	112.8	0.0	0.0	25.2	138.0
Other liabilities							
Liabilities from finance leases	–	0.0	0.0	0.0	1.2	0.0	1.2
Other financial liabilities	(4)	34.9	29.3	0.0	0.0	0.0	34.9
Other remaining liabilities	-	0.0	0.0	0.0	0.0	9.1	9.1
Derivative financial instruments	(5)	0.0	0.0	51.1	93.9	0.0	145.0
Financial liabilities held for sale (IFRS 5)	(4)	6.0	6.0	0.0	0.0	0.0	6.0
Total		**4,926.7**	**4,921.1**	**806.1**	**95.1**	**34.3**	**5,862.1**

(1) Financial assets available for disposal
(2) Loans and receivables
(3) Financial assets assessed at fair value and recognised in profit/loss
(4) Financial liabilities carried at amortised cost
(5) Liabilities assessed at fair value and recognised in profit/loss

EUR m	Valuation category in accordance with IAS 39	Amortised costs		Fair value recog-nised in profit/loss	No valuation category acc. to IAS 39	No financial instru-ments acc. to IAS 32/ out of scope IFRS 7	Total balance sheet items
		Carrying amount	Fair value	Carrying amount	Carrying amount	Carrying amount	31/12/2013
ASSETS							
Trade receivables	(2)	29.8	29.8	0.0	0.0	0.0	29.8
Other non-current assets							
Securities (at cost)	(1)	0.3	n/a	0.0	0.0	0.0	0.3
Financial assets and loans receivable	(1)	21.4	n/a	0.0	0.0	0.0	21.4
Other assets							
Other financial assets	(2)	14.2	14.2	0.0	0.0	0.0	14.2
Other remaining assets	–	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	(3)	0.0	0.0	2.7	0.0	0.0	2.7
Cash and cash equivalents	(2)	196.4	196.4	0.0	0.0	0.0	196.4
Total		**262.1**	**240.4**	**2.7**	**0.0**	**0.0**	**264.8**
EQUITY AND LIABILITIES							
Financial liabilities	(4)	5,161.5	5,161.5	0.0	0.0	0.0	5,161.5
Convertible bonds	(5)	0.0	0.0	250.2	0.0	0.0	250.2
Liabilities to limited partners in funds	(5)	0.0	0.0	4.0	0.0	0.0	4.0
Trade payables	(4)	120.6	120.6	0.0	0.0	0.0	120.6
Other liabilities							
Liabilities from finance leases	–	0.0	0.0	0.0	0.0	0.0	0.0
Other financial liabilities	(4)	49.7	49.7	0.0	0.0	0.0	49.7
Other remaining liabilities	–	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	(5)	0.0	0.0	57.5	101.8	0.0	159.3
Financial liabilities held for sale (IFRS 5)	(4)	0.0	0.0	0.0	0.0	0.0	0.0
Total		**5,331.8**	**5,331.8**	**311.7**	**101.8**	**0.0**	**5,745.3**

(1) Financial assets available for disposal
(2) Loans and receivables
(3) Financial assets assessed at fair value and recognised in profit/loss
(4) Financial liabilities carried at amortised cost
(5) Liabilities assessed at fair value and recognised in profit/loss

The fair value of financial assets and liabilities for the purposes of valuation or the explanatory notes – with the exception of the convertible bonds – was determined on the basis of Level 2 of the Fair Value Hierarchy (recognised valuation methods, using observed market parameters, in particular market interest rates). The fair value of convertible bonds is determined by means of the market price (Level 1 of the Fair Value Hierarchy).

The following table shows the contractual, undiscounted payments:

EUR m	Carrying amount 31/12/2014	2015	2016	2017	≥ 2018
Financial liabilities	4,773.0	275.8	99.6	121.5	4,397.5
Convertible bonds	748.7	1.2			747.5
Liabilities to limited partners in funds[1]	6.3	6.5			
Trade payables and other liabilities	112.8	112.8			
Other liabilities					
Liabilities from finance lease	1.2	1.2			
Other financial liabilities	34.9	34.9			
Financial liabilities held for sale (IFRS 5)	6.0	6.0			
Total	**5,682.8**	**438.3**	**99.6**	**121.5**	**5,145.0**

	31/12/2013	2014	2015	2016	≥ 2017
Financial liabilities	5,161.5[2]	261.7[2]	447.5	553.9	3,997.7
Convertible bonds	250.2	1.9			247.8
Liabilities to limited partners in funds[1]	4.0	4.2			
Trade payables and other liabilities	120.6	120.6			
Other liabilities					
Other financial liabilities	49.7	49.7			
Financial liabilities held for sale (IFRS 5)	0.0	0.0			
Total	**5,586.0**	**438.1**	**447.5**	**553.9**	**4,245.5**

[1] The actual payments depend on the extent to which the limited partners exercise their options to tender their shares, making payment estimates uncertain

[2] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

The profits and losses from financial assets and liabilities are as follows:

EUR m	Interest expenses/ income	Impairment	Fair value	Net loss
2014				
Loans and receivables		4.9		4.9
Liabilities carried at amortised cost	182.7			182.7
Liabilities carried at fair value and recognised in profit/loss	2.5		99.6	102.1
Derivative financial instruments			12.5	12.5
	185.2	4.9	112.2	302.2
2013				
Loans and receivables		3.4		3.4
Liabilities carried at amortised cost	129.1			129.1
Liabilities carried at fair value and recognised in profit/loss	0.3		– 2.2	– 1.9
Derivative financial instruments			– 8.4	– 8.4
	129.4	**3.4**	**– 10.6**	**122.2**

The significant risks to the Group arising from financial instruments comprise interest-related cash flow risks, liquidity risks, default risks and market price risks. Company management prepares and reviews risk management guidelines for each of these risks, as outlined below:

Default risk

Default risks, or the risk that a partner will not be able to meet its obligations, are managed by using exposure limits and control processes. If appropriate, the company is provided with collateral. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The maximum default risk is the carrying amount of the financial assets as reported in the balance sheet.

Liquidity risk

The Group reviews the risk of liquidity shortfalls daily by using a liquidity planning tool. This tool takes into account the inflows and outflows of cash from the operating activities and payments relating to financial liabilities.

Deutsche Wohnen seeks to ensure that sufficient liquidity is available to meet future obligations at all times. Deutsche Wohnen currently has a debt capital ratio of approximately 57 % (previous year: 61 %), and a Loan-to-Value Ratio of 51.0 % (previous year: 57.4 %).

Interest-related cash flow risks

The interest rate risk to which the Group is exposed is mainly derived from non-current financial liabilities with floating interest rates.

The Group's interest expenses are managed by a combination of fixed-interest and floating-rate debt capital. To make this combination cost-efficient, the Group concludes interest rate swaps at specified intervals by which it exchanges the difference between the fixed-interest and floating-rate amounts as determined on the basis of an agreed nominal value with the contractual partner. These interest rate swaps hedge the underlying debt capital. Accordingly, interest rate risk only exists for floating-rate financial liabilities that are not hedged by interest rate swaps. Applied to these financial liabilities and the convertible bonds, an increase/reduction of 1 % in the interest rate at the reporting date would have led to an increase/reduction in the interest expenses of EUR 7.9 million (previous year: EUR 6.4 million). Applied to the Group equity, an interest adjustment in the same amount would have led to an increase/reduction of approximately EUR 96 million (previous year: approximately EUR 120 million).

Market risks

The financial instruments of Deutsche Wohnen that are not reported at fair value are primarily cash and cash equivalents, trade receivables, other current assets, financial liabilities, trade payables and other liabilities.

The carrying amount of cash and cash equivalents is very close to their fair value due to the short-term nature of these financial instruments. For receivables and liabilities which are based on usual trade credit conditions, the carrying amount based on the historical cost is also very close to the fair value.

Fair value risks can primarily result from fixed-interest loans. A significant proportion of Deutsche Wohnen's liabilities to banks is fixed-interest liabilities and interest hedged, so that the impact from fluctuations in interest rates can be estimated for the medium term.

2 Capital management

The primary aim of the Group's capital management is to ensure that it maintains a high credit rating and a good equity ratio to support its business activities and to maximise shareholder value.

Management of the capital structure takes into account liabilities to banks and other creditors, and cash and cash equivalents.

The key figures for capital management are:

- The equity/debt capital ratio and the leverage ratio

  The Group aims to achieve an equity ratio of 40 %. Future investments will therefore be based on balanced financing, amongst other things. The equity ratio amounted to 43 % as at the reporting date (previous year: 39 %)

- Loan-to-Value Ratio

  The ratio of financial liabilities compared to the value of investment properties is defined as the Loan-to-Value Ratio.

EUR m	31/12/2014	31/12/2013
Financial liabilities	4,779.0	5,161.5
Convertible bonds	748.7	250.2
	5,527.7	**5,411.7**
Cash and cash equivalents	– 396.4	– 196.4
Net financial liabilities	5,131.3	**5,215.3**
Investment properties	9,611.0	8,937.1
Non-current assets held for sale	392.9	57.5
Land and buildings held for sale	58.1	97.1
	10,062.0	**9,091.7**
Loan-to-Value Ratio	51.0 %	**57.4 %**

3 Hedging

As at 31 December 2014 and 31 December 2013, there were various interest hedges, through which variable interest rate conditions can be exchanged for fixed interest rate conditions. The non-effective part thereof – whose value change is shown in the consolidated profit and loss statement – amounts to EUR – 11.8 million (previous year: revenue of EUR 8.4 million).

4 Events after the balance sheet date

With effect from 1 January 2015, 51% of the shares in KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH were sold to KH Beteiligungs GmbH; however, the company will continue to be included in Deutsche Wohnen's consolidated financial statements on the basis of company-law agreements. The segment earnings will be reduced by approximately EUR 2 million as a result of the share thereof which is now attributable to the third-party purchaser.

On 15 February 2015, Deutsche Wohnen submitted a voluntary public takeover offer for the acquisition of a controlling interest in accordance with the Austrian Takeover Act (öÜbG) with regard to all of the outstanding shares in conwert Immobilien Invest SE not held by conwert itself. Deutsche Wohnen intends to pay a tender price of EUR 11.50 in cash per conwert share. The takeover bid will also comprise conwert's convertible bonds.

In addition to submitting the tender offer to the shareholders of conwert, Deutsche Wohnen will also be submitting an anticipatory mandatory offer pursuant to sec. 22 ff. of the Austrian Takeover Act (öÜbG) for all outstanding shares of ECO Business-Immobilien AG not held by conwert, and intends to pay a cash offer price of EUR 6.35 per ECO share.

The transaction will be financed by means of bridge financing from the participating banks in the amount of approximately EUR 900 million, as well as available liquid funds. The utilised bridge financing will be fully refinanced over the course of 2015 by a capital increase.

The takeover offer is conditional upon, among other things, the obtaining of approval from the antitrust authorities in Germany and Austria as well as the attainment of the statutory minimum acceptance ratio of 50 % + one share of the shares forming the subject matter of the bid. If the minimum acceptance ratio will not be reached, costs will arise in an amount of approximately EUR 10 million.

We are not aware of any other significant events after the reporting date.

5 Commitments and contingencies

Hereditary building rights contracts result in annual financial commitments of EUR 1.9 million (previous year: EUR 1.9 million).

Other financial commitments relating to agency agreements concerning IT services amount to a total of EUR 19.9 million (previous year: EUR 16.5 million).

Other service contracts result in annual financial commitments of EUR 5.7 million (previous year: EUR 6.6 million).

In addition, current liabilities arise from the acquisition of several property portfolios in an amount of EUR 166.5 million.

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a development and redevelopment agency (sec. 158 and 167 of the German Federal Building Code [BauGB]). Rhein-Pfalz Wohnen GmbH performs the duties bestowed upon it by local authorities as their trustee.

The GSW subgroup has undertaken guarantees, primarily towards banks, and land charges entered into the land register arising from building obligations in the total amount of EUR 17.1 million.

6 Obligations arising out of lease commitments

Lease agreements result in payments for up to one year in the amount of EUR 5.4 million (previous year: EUR 9.0 million), for one to five years in the amount of EUR 6.5 million (previous year: EUR 13.2 million), and for more than five years in the amount of EUR 3.9 million (previous year: EUR 5.2 million).

7 Auditors' services

The auditor of Deutsche Wohnen AG and the Group is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The following net expenses were incurred in the year under review:

EUR k	2014	2013
Audit	510	666
Other certification and valuation services	236	598
Reimbursement of insurance premiums	0	0
Tax advice	252	316
	998	**1,581**

8 Related party disclosures

Companies and persons who have the possibility of controlling or exercising a significant influence on the financial and business policies of the Deutsche Wohnen Group are considered to be related parties. Existing control relationships were taken into account when defining the significant influence that the Deutsche Wohnen Group's related parties have on its financial and business policies.

Related companies
The affiliated companies, jointly controlled entities and affiliated companies included in the consolidated financial statements are to be considered related companies.

Transactions with related companies
Service and cash management agreements exist within the Group. Services between the companies are eliminated on consolidation.

Related parties

The following persons are to be considered related parties:

Name	Memberships in supervisory boards and other executive bodies within the meaning of sec. 125 para. 1 sent. 5 of the German Stock Corporation Act (AktG)
Michael Zahn, Economist Chief Executive Officer	TLG Immobilien AG, Berlin (Chairman of the Supervisory Board since 5/9/2014) Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board) GEHAG GmbH, Berlin (Chairman of the Supervisory Board) KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin (Chairman of the Supervisory Board until 31/12/2014) G+D Gesellschaft für Energiemanagement GmbH, Magdeburg (Chairman of the Advisory Board) Funk Schadensmanagement GmbH, Berlin (Chairman of the Advisory Board)
Lars Wittan, Degree in business administration (Dipl.-Betriebswirt) Member of the Management Board	KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin (Deputy Chairman of the Supervisory Board until 31/12/2014) Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Member of the Supervisory Board)
Andreas Segal, Lawyer Member of the Management Board since 31/1/2014	None

Members of the Supervisory Board of Deutsche Wohnen AG

The Supervisory Board is composed of the following members:

Name	Occupation	Memberships in supervisory boards and other executive bodies within the meaning of sec. 125 para. 1 sent. 5 of the German Stock Corporation Act (AktG)
Uwe E. Flach Chairman	Senior Advisor Oaktree GmbH, Frankfurt/Main	DZ Bank AG, Frankfurt/Main (Member of the Advisory Board) Deutsche Office AG, Cologne (Deputy Chairman of the Supervisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014, Chairman of the Supervisory Board since 15/1/2014)
Dr. Andreas Kretschmer Deputy Chairman	Managing Director Ärzteversorgung Westfalen-Lippe Einrichtung der Ärztekammer Westfalen-Lippe – KöR –, Münster	BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board) Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014, Deputy Chairman of the Supervisory Board since 15/1/2014)
Matthias Hünlein	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	A.A.A. Aktiengesellschaft Allgemeine Anlagenverwaltung, Frankfurt/Main (Member of the Supervisory Board until 14/10/2014) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014)
Dr. Florian Stetter	Chairman of the Management Board Rockhedge Asset Management AG, Krefeld	CalCon Deutschland AG, Munich (Member of the Supervisory Board) ENOVO s.r.o., Bratislava, Slovak Republic (Managing Partner)
Dr. Michael Leinwand until 11/6/2014	Chief Investment Officer Zürich Beteiligungs-AG, Frankfurt/Main	Bizerba GmbH & Co. KG, Balingen
Claus Wisser since 11/6/2014	Managing Director Claus Wisser Vermögens-verwaltungs GmbH, Frankfurt/Main	AVECO Holding AG, Frankfurt/Main (Chairman of the Supervisory Board) DFV Deutsche Familienversicherung AG, Frankfurt/Main (Member of the Supervisory Board)
Dr. Wolfgang Clement	Publicist and Company Consultant Former Federal Minister (Bundesminister a.D.) Former State Prime Minister (Ministerpräsident a.D.),	Daldrup & Söhne AG, Grünwald (Chairman of the Supervisory Board) DIS Deutscher Industrie Service AG, Dusseldorf (Member of the Supervisory Board) Peter Dussmann-Stiftung, Berlin (Member of the Board of Trustees) Dussmann Stiftung & Co. KGaA, Berlin (Chairman of the Supervisory Board) Landau Media Monitoring AG & Co. KG, Berlin (Member of the Supervisory Board) RWE Power AG, Essen (Member of the Supervisory Board)

Transactions with related parties

In 2014 there were no transactions with related parties.

9 Remuneration of the Management Board and Supervisory Board

The remuneration for the Management Board is composed of the following:

EUR k	Michael Zahn Chief Executive Officer since 1/9/2007		Lars Wittan Member of the Management Board since 1/10/2011		Andreas Segal Member of the Management Board since 31/1/2014	
	2013	2014	2013	2014	2013	2014
Fixed remuneration	450	731	250	344	0	386
Supplementary payments	27	28	24	25	0	30
Total fixed	**477**	**759**	**274**	**369**	**0**	**416**
Short-term incentive	476	500	238	240	0	240
short-term due	309	500	155	240	0	240
long-term due	167	0	83	0	0	0
Long-term incentive	150	750	100	260	0	260
PSU 2013	150	0	100	0	0	0
AOP 2014	0	750	0	260	0	260
Total variable	**626**	**1,250**	**338**	**500**	**0**	**500**
Special remuneration	900	0	600	0	0	0
Total amount	**2,003**	**2,009**	**1,212**	**869**	**0**	**916**

The special remuneration was granted in 2013 for the successful acquisition of GSW Immobilien AG. Payment of 50 % of the sum was made in 2013. With respect to the second part, the Management Board have committed itself to fully invest the net amount in the shares of Deutsche Wohnen AG. Half of the second part of the sum was paid out in 2014 and then invested in shares. The payment of the second half of this part of the sum is dependent on achieving the synergy potential of EUR 25 million per year.

There is no employee benefit liability for current or retired members of the Management Board or Supervisory Board.

Each member of the Supervisory Board receives a fixed remuneration of EUR 30 k; the Chairman of the Supervisory Board receives double that amount and the Deputy Chairman of the Supervisory Board receives one and a half times that amount as remuneration. A Supervisory Board member receives lump-sum remuneration in the amount of EUR 5 k per financial year for membership of the Audit Committee, and a member of the General and the Acquisition Committee receives a fee in the amount of EUR 1 k for each attendance of a meeting of the committee in person. Supervisory Board remuneration for the financial year amounted to EUR 240 k net without value added tax.

Mr Flach receives EUR 65 k net (previous year: EUR 65 k), Dr Kretschmer receives EUR 50 k net (previous year: EUR 50 k), Dr Stetter receives EUR 35 k net (previous year: EUR 35 k), Mr Hünlein and Mr Clement each receive EUR 30 k net (previous year: EUR 30 k) and Mr Leinwand EUR 13.3 k (previous year: EUR 30 k) and Mr Wisser EUR 16.8 k net on a pro rata temporis basis.

10 Corporate governance

The Management Board and the Supervisory Board submitted a declaration of conformity with the German Corporate Governance Code in accordance with sec. 161 of the German Stock Corporation Act (AktG) and have made it permanently available to the shareholders online at www.deutsche-wohnen.com.

Frankfurt/Main, 3 March 2015

Michael Zahn Chief Executive Officer	Andreas Segal Member of the Management Board	Lars Wittan Member of the Management Board

APPENDIX 1 TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SHAREHOLDINGS[1)]

as at 31 December 2014

Company and registered office	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
SUBSIDIARIES, FULLY CONSOLIDATED				
AGG Auguste-Viktoria-Allee Grundstücks GmbH, Berlin	100.00	25.0	0.0	2014
Algarobo Holding B.V., Baarn, Netherlands	100.00	8,672.7	–811.8	2014
Aufbau-Gesellschaft der GEHAG mit beschränkter Haftung, Berlin	100.00	4,488.6	1,049.6	2014
BauBeCon Assets GmbH, Berlin	100.00	29,630.7	1,954.6	2014
BauBeCon BIO GmbH, Berlin	100.00	8,626.5	0.0	2014
BauBeCon Immobilien GmbH, Berlin	100.00	356,240.3	19,316.4	2014
BauBeCon Wohnwert GmbH, Berlin	100.00	26,710.2	0.0	2014
DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	89.52	30,183.5	828.0	2013
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100.00	25.0	0.0	2014
Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100.00	1,025.0	0.0	2014
Deutsche Wohnen Beteiligungsverwaltungs GmbH & Co. KG, Berlin	100.00[3)]	20.0	12.4	2014
Deutsche Wohnen Construction and Facilities GmbH, Berlin (formerly: Deutsche Wohnen Service Braunschweig GmbH, Berlin)	100.00[2)]	275.0	175.6	2014
Deutsche Wohnen Corporate Real Estate GmbH, Berlin	100.00[2)]	25.0	0.0	2014
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100.00	423,479.9	–1,412.2	2014
Deutsche Wohnen Dresden I GmbH, Berlin (formerly: arsago wohnen XIII GmbH, Pöcking)	100.00	4,045.8	896.5	2014
Deutsche Wohnen Dresden II GmbH, Berlin (formerly: arsago wohnen XIV GmbH, Pöcking)	100.00	2,484.8	750.3	2014
Deutsche Wohnen Energy GmbH, Berlin (formerly: Kristensen Energy GmbH, Berlin)	100.00[2)]	25.0	34.9	2014
Deutsche Wohnen Fondsbeteiligungs GmbH, Berlin	100.00[2)]	25.0	0.0	2014
Deutsche Wohnen Immobilien Management GmbH, Berlin (formerly: Deutsche Wohnen Service GmbH, Berlin)	100.00[2)]	832.5	400.4	2014
Deutsche Wohnen Management GmbH, Berlin	100.00[2)]	25.0	0.0	2014
Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100.00[2)]	25.6	0.0	2014
Deutsche Wohnen Reisholz GmbH, Berlin	100.00[2)]	3,563.5	244.8	2014
Deutsche Wohnen Service Center GmbH, Berlin (formerly: Deutsche Wohnen Service Hannover GmbH, Berlin)	100.00	79.7	3.4	2014
Deutsche Wohnen Service Magdeburg GmbH, Berlin	100.00	289.9	–46.8	2014
Deutsche Wohnen Service Merseburg GmbH, Merseburg (formerly: Kristensen Service GmbH, Merseburg)	100.00	106.6	3.9	2014
Deutsche Wohnen Zweite Fondsbeteiligungs GmbH, Berlin	100.00[2)]	25.2	0.0	2014
DWRE Alpha GmbH, Berlin (formerly: Kristensen Real Estate Alpha GmbH, Berlin)	100.00	317.6	–9.4	2014
DWRE Braunschweig GmbH, Berlin (formerly: Kristensen Real Estate Braunschweig GmbH, Berlin)	100.00	16,325.2	0.0	2014
DWRE Dresden GmbH, Berlin (formerly: Kristensen Real Estate Dresden GmbH, Berlin)	100.00	25.0	110.3	2014
DWRE Erfurt GmbH, Berlin (formerly: Kristensen Real Estate Erfurt GmbH, Berlin)	100.00	880.2	0.0	2014
DWRE Halle GmbH, Berlin (formerly: Kristensen Real Estate Halle GmbH, Berlin)	100.00	25.0	0.0	2014
DWRE Hennigsdorf GmbH, Berlin (formerly: Kristensen Real Estate Hennigsdorf GmbH, Berlin)	100.00	1,085.3	0.0	2014
DWRE Leipzig GmbH, Berlin (formerly: Kristensen Real Estate Leipzig GmbH, Berlin)	100.00	25.0	98.8	2014
DWRE Merseburg GmbH, Berlin (formerly: Kristensen Real Estate Merseburg GmbH, Berlin)	100.00	1,068.4	0.0	2014
Eisenbahn-Siedlungs-Gesellschaft Berlin mit beschränkter Haftung, Berlin	94.90	11,889.8	0.0	2014
Fortimo GmbH, Berlin	100.00	6,127.2	0.0	2014

Company and registered office	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Gehag Acquisition Co. GmbH, Berlin	100.00	428,439.7	–908.0	2014
GEHAG Beteiligungs GmbH & Co. KG, Berlin	100.00[3]	21,912.1	404.7	2014
GEHAG Dritte Beteiligungs GmbH, Berlin	100.00	378.8	0.0	2014
GEHAG Erste Beteiligungs GmbH, Berlin	100.00	45.0	0.0	2014
GEHAG Erwerbs GmbH & Co. KG, Berlin	99.99[3]	20,406.7	613.6	2014
GEHAG GmbH, Berlin	100.00	1,089,354.9	65,624.0	2014
GEHAG Grundbesitz I GmbH, Berlin (formerly: Erste V-B-S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin)	100.00	26.0	0.0	2014
GEHAG Grundbesitz II GmbH, Berlin (formerly: Dritte V-B-S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin)	100.00	25.0	0.0	2014
GEHAG Grundbesitz III GmbH, Berlin (formerly: Vierte V-B-S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin)	100.00	–28.9	247.2	2014
GEHAG Vierte Beteiligung SE, Berlin (formerly: GEHAG Vierte Beteiligung SE, Amsterdam, Netherlands)	100.00	20,220.5	0.0	2014
GEHAG Zweite Beteiligungs GmbH, Berlin	100.00	17,431.5	12,945.7	2014
GGR Wohnparks Alte Hellersdorfer Straße GmbH, Berlin	100.00	5,703.6	251.7	2014
GGR Wohnparks Kastanienallee GmbH, Berlin	100.00	21,277.5	1,675.7	2014
GGR Wohnparks Nord Leipziger Tor GmbH, Berlin	100.00	6,680.3	0.0	2014
GGR Wohnparks Süd Leipziger Tor GmbH, Berlin	100.00	3,390.2	0.0	2014
Grundstücksgesellschaft Karower Damm mbH, Berlin	100.00	1,099.3	0.0	2014
GSW Acquisition 3 GmbH, Berlin	100.00	77,684.0	2,228.0	2014
GSW Berliner Asset Invest Verwaltungs-GmbH, Berlin	100.00	20.0	–2.0	2014
GSW Corona GmbH, Berlin	100.00	3,072.0	14,588.0	2014
GSW Fonds Weinmeisterhornweg 170–178 GbR, Berlin	50.88	–5,702.0	1,969.0	2014
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100.00	522.0	232.0	2014
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100.00	90,256.0	0.0	2014
GSW Immobilien AG, Berlin	93.08	1,111,595.1	3,630.8	2014
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.00	453.0	–37.0	2014
GSW Pegasus GmbH, Berlin	100.00	2,747.0	13,596.0	2014
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.44	–22,970.0	3,066.0	2014
GSW Wohnwert GmbH, Berlin (formerly: Wohnwert-Versicherungs Agentur GmbH, Berlin)	100.00	26.0	0.0	2014
Hamnes Investments B.V., Baarn, Netherlands	100.00	7,736.2	578.8	2014
Haus und Heim Wohnungsbau-GmbH, Berlin	100.00	2,798.7	0.0	2014
HESIONE Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main	100.00	64.8	10.1	2014
Holzmindener Straße/Tempelhofer Weg Grundstücks GmbH, Berlin	100.00	25.0	0.0	2014
Intermetro GmbH, Berlin (formerly: Intermetro B.V., Baarn, Netherlands)	100.00	8,216.7	573.5	2014
KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin	100.00	1,950.0	0.0	2014
KATHARINENHOF Service GmbH, Berlin	100.00	25.0	0.0	2014
Larry Berlin I S.à r.l., Luxembourg	94.80	2,527.8	259.2	2014
Larry Berlin II S.à r.l., Luxembourg	94.80	6,038.2	403.2	2014
Larry Berlin Lichtenberg S.à r.l., Luxembourg	94.80	8,141.2	577.4	2014
Larry Condo Holdco S.à r.l., Luxembourg	94.80	10,267.7	5,926.7	2014
Larry Condo S.à r.l., Luxembourg	94.80	10,948.1	2,083.3	2014
Larry I Targetco (Berlin) GmbH, Berlin	100.00	77,039.3	–9.2	2014
Larry II Berlin Hellersdorf S.à r.l., Luxembourg	94.80	7,246.0	736.7	2014
Larry II Berlin Marzahn S.à r.l., Luxembourg	94.80	12,205.5	558.2	2014
Larry II Greater Berlin S.à r.l., Luxembourg	94.80	6,347.4	418.5	2014
Larry II Potsdam S.à r.l., Luxembourg	94.80	3,628.8	661.4	2014
Larry II Targetco (Berlin) GmbH, Berlin	100.00	70,861.1	–8.4	2014
LebensWerk GmbH, Berlin	100.00	457.1	0.0	2014
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	99.99[3]	5,759.6	1,413.5	2014

[1] Waiver according to sec. 264 para. 3 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements
[2] Waiver according to sec. 264b of the German Commercial Code (HGB) due to inclusion in the consolidated financial statements of Deutsche Wohnen AG
[3] No possibility of control because control opportunity contractually excluded
[4] Subgroup consolidated financial statements according to Danish law in Danish Krone, numbers converted into EUR
[5] Additionally, the company is indirectly involved in a working group

Company and registered office	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Marienfelder Allee 212–220 Grundstücksgesellschaft b.R., Berlin	94.00	6.373.7	–280.1	2014
Rhein-Main Wohnen GmbH, Frankfurt/Main	100.00	513,965.8	–9,223.4	2014
Rhein-Mosel Wohnen GmbH, Mainz	100.00	175,854.8	7,124.6	2014
Rhein-Pfalz Wohnen GmbH, Mainz	100.00	296,726.3	169,625.1	2014
RMW Projekt GmbH, Frankfurt/Main	100.00	16,238.3	0.0	2014
Seniorenresidenz "Am Lunapark" GmbH, Leipzig	100.00	102.3	0.0	2014
SGG Scharnweberstraße Grundstücks GmbH, Berlin	100.00	25.0	0.0	2014
Sophienstraße Aachen Vermögensverwaltungsgesellschaft mbH, Berlin	100.00	2,193.0	0.0	2014
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100.00	2,220.0	–348.0	2014
Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	463.4	237.8	2014
Wohnanlage Leonberger Ring GmbH, Berlin	100.00	25.0	0.0	2014
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin	94.90	–214.0	–140.0	2014
Zisa Verwaltungs GmbH, Berlin	100.00	25.0	0.0	2014
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100.00	24.0	–1.0	2014
JOINT VENTURES, CONSOLIDATED AT EQUITY				
B&O Deutsche Service GmbH, Berlin	49.00	k. A.	k. A.	k. A.
FACILITA Berlin GmbH, Berlin	100.00	2,037.0	1,056.0	2014
Funk Schadensmanagement GmbH, Berlin	49.00	k. A.	k. A.	k. A.
G+D Gesellschaft für Energiemanagement mbH, Magdeburg	49.00	987.9	–12.1	2013
GIM Immobilien Management GmbH, Berlin (formerly: GEHAG Immobilien Management GmbH, Berlin)	49.00	98.5	0.0	2013
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.30	178.0	95.0	2013
SIWOGE 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50.00	4,571.0	53.0	2013
ASSOCIATED COMPANIES, CONSOLIDATED AT EQUITY				
Zisa Beteiligungs GmbH, Berlin	49.00	9.0	–13.0	2012
SHAREHOLDINGS, NOT CONSOLIDATED				
AVUS Immobilien Treuhand GmbH & Co. KG, Berlin	100.00	410.9	–17.7	2013
DCM GmbH & Co. Renditefonds 506 KG, Munich	99.00[4]	0.0	0.0	2012
DCM GmbH & Co. Renditefonds 507 KG, Munich	99.00[4]	9.0	0.0	2012
DCM GmbH & Co. Renditefonds 508 KG, Munich	99.00[4]	141.0	0.0	2012
DCM GmbH & Co. Renditefonds 510 KG, Munich	99.00[4]	247.0	0.0	2012
GbR Fernheizung Gropiusstadt, Berlin	45.59	534.7	–117.1	2014
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgemeinschaft Am Brosepark KG i.L., Berlin	5.00	–1,015.0	–114.0	2013
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgemeinschaft Gudvanger Straße KG i.L., Berlin	5.60	–4,533.0	1,077.0	2013
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgemeinschaft Köpenicker Landstraße KG i.L., Berlin	5.68	–1,390.0	442.0	2013
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgemeinschaft Neue Krugallee KG i.L., Berlin	5.91	-645.0	89.0	2013
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgemeinschaft Ostseestr. KG i.L., Berlin	7.81	–3,702.0	412.0	2013
IMMEO Berlin 67. GmbH, Essen	6.00	–3,304.9	–1,797.5	2013
IMMEO Berlin 78. GmbH, Essen	6.00	–384.8	–116.0	2013
IMMEO Berlin 79. GmbH, Essen	6.00	–921.6	–356.4	2013
IMMEO Berlin I S.à r.l., Luxembourg (formerly: JP Residential I S.A., Luxembourg)	5.10	8,677.0	–4,664.6	2013
IMMEO Berlin V S.à r.l., Luxembourg (formerly: JP Residential V S.à r.l., Luxembourg)	5.60	15,988.2	–4,884.4	2013
IMMEO Dansk L ApS, Denmark (formerly: Det Tyske Ejendomsselskab P/S, Denmark)	5.10[5]	172,005.3	10,066.4	2013
IMMEO Dresden GmbH, Austria (formerly: SIGNA Real Estate Capital Partners Dresden Holding AG, Austria)	5.11	6,913.5	–4,828.8	2013
STRABAG Residential Property Services GmbH , Berlin	0.49	247.0	0.0	2012

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APPENDIX 2
TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED SEGMENT REPORTING

for the financial year 2014

EUR m	External revenue		Internal revenue		Total revenue	
	2014	2013	2014	2013	2014	2013
Segments						
Residential Property Management	626.3	372.9	5.7	5.2	632.0	378.1
Disposals	257.4	169.7	4.3	4.0	261.7	173.7
Nursing and Assisted Living	68.2	59.9	0.0	0.0	68.2	59.9
Reconciliation with consolidated financial statement						
Central functions and other operational activities	7.4	1.3	48.6	49.2	56.0	50.5
Consolidations and other reconciliations	–7.4	–1.3	–58.6	–58.4	–66.0	–59.7
	951.9	**602.5**	0.0	**0.0**	951.9	**602.5**

EUR m	Segment earnings		Assets		Depreciation and amortisation	
	2014	2013	31/12/2014	31/12/2013	2014	2013
Segments						
Residential Property Management	505.8	292.3	10,167.4	9,010.7[1]	–1.5	0.0
Disposals	52.4	23.0	457.1	162.9	–0.1	0.0
Nursing and Assisted Living	16.3	13.2	14.3	15.5	–2.0	–1.9
Reconciliation with consolidated financial statement						
Central functions and other operational activities	–120.0	–75.6	451.7	744.8[1]	–2.5	–3.6
Consolidations and other reconciliations	–0.1	0.0	0.0	0.0	0.0	0.0
	454.4	**252.9**	11,090.5	**9,933.9**	–6.1	**–5.5**

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first-time consolidation of GSW Immobilien AG retroactively as at 30/11/2013

INDEPENDENT AUDITORS' REPORT

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by the Deutsche Wohnen AG, Frankfurt/Main, comprising the balance sheet, the profit and loss statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the financial year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, 10 March 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Christoph Wehner	Gunnar Glöckner
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements as at 31 December 2014 give a true and fair view of the net assets, financial and earnings position of the Group and the Group's management report gives a true and fair view of the development of the business including the business result and the position of the Group and describes the main opportunities and risks associated with the Group's expected future development."

Frankfurt/Main, 3 March 2015

Michael Zahn Chief Executive Officer	Andreas Segal Member of the Management Board	Lars Wittan Member of the Management Board

GLOSSARY

Cost ratio
Staff expenses and general and administration expenses in relation to the current gross rental income.

Current gross rental income
The current gross rent corresponds to the sum of the contractually agreed net cold rent payments for the areas let of the respective properties for the period under review or as of the reporting date in EUR million. On a per sqm basis, this is called "in-place rent".

D&O (directors and officers) Group insurance
Personal liability insurance that provides general cover to corporate bodies for damages incurred due to neglect of duty.

EBIT
Earnings before interest and taxes.

EBITDA
Earning before interests, taxes, depreciation and amortisation.

EBT
Earnings before Taxes. The company discloses an adjusted EBT as well: EBT (as reported) is adjusted for the result of fair value adjustment of investment properties, the result of fair value adjustments to derivative financial instruments and other one-off effects.

Fair value
Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties which do not depend on each other.

FFO
Funds from Operations: From the company's point of view, an essential operational figure for property companies geared towards liquidity derived from the Group's profit and loss statement. Based on the net result for the period (profit/loss), adjustments for depreciation and amortisation, one-off effects as well as non-cash financial expenses/income and non-cash tax expenses/income, not affecting liquidity, are made. The FFO II (incl. disposals) is adjusted for the earnings from disposals to determine the FFO I (without disposals).

Financial Covenants
Agreements contained in some financing contracts in which the borrower promises to comply with certain key financial figures specified in the additional agreement for the term of the credit agreement.

In-place rent (per sqm)
Contractually owed net cold rent from the rented units (current gross rental income) divided by the rented area.

LTV ratio
Loan-to-Value Ratio: Quantifies the ratio between the sum of the net financial liabilities and the value of the investment properties plus the non-current assets held for sale and the land and buildings held for sale.

Modernisation measures
Typical modernisation measures are the renovation of the bathrooms, the installation of new in-house supply pipes and windows, the reconditioning or retrofitting of balconies, as well as the implementation of energy saving measures such as the installation of insulating glass windows and thermal insulation measures.

Multiple in-place rent
Net present value divided by the current gross rental income as at December of the business year multiplied by 12.

Multiple market rent
Net present value divided by the market rent as at December of the business year multiplied by 12.

Net asset value (NAV)
Indicates the net asset value or intrinsic/inherent value of a property company. The EPRA NAV is calculated based on equity (before minorities) adjusted for the effect of the exercise of options, convertibles and other equity interests as well as adjustments of the market value of derivative financial instruments and deferred taxes (net of assets and liabilities), i. e. the adjustment of balance sheet items that have no impact on the Group's long-term performance.

For the Adjusted NAV the EPRA NAV is adjusted for the goodwill accrued in the context of the initial consolidation of the GSW Immobilien AG.

Net cold rent
Contractually agreed rent payments; additional expenses (e. g. trash collection, water, janitor) and heating costs are not included.

Net operating income (NOI)
The Net operating income represents the operating earnings from Residential Property Management after deduction of incurred personnel and G&A costs in this business segment.

New-letting rent
Deutsche Wohnen determines the new-letting rent by calculating the actual average agreed monthly net cold rent payments per sqm based on the new leases for units not subject to rent controls for the respective properties during the financial year.

Potential gross rental income
The potential gross rental income is the sum of current gross rental income and vacancy loss.

Vacancy loss
The vacancy loss corresponds to the sum of the respective last contractually agreed net cold rent payments for the areas that are not rented but are lettable for the review period or as of the reporting date of the referred properties.

Vacancy rate
The vacancy rate quantifies the ratio between the vacancy loss and the potential gross rental income as of the respective reporting date.

QUARTERLY OVERVIEW

for the financial year 2014

Profit and loss statement		Q1	Q2	Q3	Q4	2014
Earnings from Residential Property Management	EUR m	131.7	128.0	126.2	119.9	505.8
Earnings from Disposals	EUR m	15.8	9.8	13.2	13.6	52.4
Earnings from Nursing and Assisted Living	EUR m	4.2	4.1	4.1	3.9	16.3
Corporate expenses	EUR m	– 22.8	– 23.0	– 21.0	– 23.7	– 90.5
EBITDA	EUR m	124.5	115.8	111.3	102.9	454.5
EBT (adjusted)	EUR m	73.1	68.1	68.1	74.0	283.3
EBT (as reported)	EUR m	54.2	59.3	56.0	852.0	1,021.5
Group profit (after taxes)	EUR m	45.5	49.1	50.3	744.4	889.3
FFO (without disposals)	EUR m	59.1	55.1	52.1	51.3	217.6
FFO (incl. disposals)	EUR m	74.4	64.6	66.1	64.9	270.0

Balance sheet		31/3	30/6	30/9	31/12	31/12
Investment properties	EUR m	8,907.8	8,888.1	8,882.5	9,611.0	9,611.0
Current assets	EUR m	351.8	350.1	759.5	882.9	882.9
Equity	EUR m	3,977.8	3,954.5	4,094.2	4,876.1	4,876.1
Net financial liabilities	EUR m	5,108.4	5,060.4	4,916.2	5,131.3	5,131.3
Loan-to-Value Ratio (LTV)	%	56.5	56.2	54.7	51.0	51.0
Total assets	EUR m	10,094.1	10,080.5	10,493.6	11,446.2	11,446.2

Net Asset Value (NAV)		31/3	30/6	30/9	31/12	31/12
EPRA Net Asset Value	EUR m	4,070.0	4,063.3	4,146.7	5,326.0	5,326.0

Fair values		31/3	30/6	30/9	31/12	31/12
Fair value of real estate properties[1]	EUR m	8,823	8,792	8,750	9,785	9,785
Fair value per sqm residential and commercial area[1]	EUR per sqm	947	949	952	1,062	1,062

[1] Only comprises residential and commercial buildings

MULTI-YEAR OVERVIEW

for the financial years 2012 – 2014

Profit and loss statement		2012	2013	2014
Earnings from Residential Property Management	EUR m	194.4	292.3	505.8
Earnings from Disposals	EUR m	19.9	23.0	52.4
Earnings from Nursing and Assisted Living	EUR m	9.9	13.2	16.3
Corporate expenses	EUR m	– 40.4	– 52.9	– 90.5
EBITDA	EUR m	196.5	252.9	454.5
EBT (adjusted)	EUR m	78.5	131.9	283.3
EBT (as reported)	EUR m	205.6	217.9	1,021.5
Group profit (after taxes)	EUR m	145.5	212.7	889.3
FFO (without disposals)	EUR m	68.2	114.5	217.6
FFO (incl. disposals)	EUR m	88.1	137.5	270.0

Balance sheet		31/12/2012	31/12/2013	31/12/2014
Investment properties	EUR m	4,614.6	8,937.1	9,611.0
Current assets	EUR m	188.5	401.2[1]	882.9
Equity	EUR m	1,609.7	3,944.3	4,876.1
Net financial liabilities	EUR m	2,678.0	5,215.3[1]	5,131.3
Loan-to-Value Ratio (LTV)	in %	57.2	57.4[1]	51.0
Total assets	EUR m	4,907.9	10,127.0[1]	11,446.2

Net Asset Value (NAV)		31/12/2012	31/12/2013	31/12/2014
EPRA Net Asset Value	EUR m	1,824.4	4,153.0[1]	5,326.0

Fair values		31/12/2012	31/12/2013	31/12/2014
Fair value of real estate properties[2]	EUR m	4,320	8,881	9,785
Fair value per sqm residential and commercial area[2]	EUR per sqm	950	944	1,062

[1] Change in numbers for the previous year because of a change in allocation of the purchase price (PPA) for first time consolidation of GSW Immobilien AG retroactively as at 30/11/2013
[2] Only comprises residential and commercial buildings

FINANCIAL CALENDAR 2015

26/03/2015	Publication of Consolidated/Annual Financial Statements 2014 – Annual Report 2014
27/03/2015	Commerzbank German Residential Property Forum, London
13/04/2015	Roadshow, Amsterdam
14 – 15/04/2015	Roadshow, London
20/05/2015	Publication of Interim Report as at 31 March 2015/1st quarter
03 – 04/06/2015	Kempen & Co. European Property Seminar, Amsterdam
12/06/2015	Annual General Meeting 2015, Frankfurt/Main
17 – 18/06/2015	Deutsche Bank dbAccess German, Swiss & Austrian Conference, Berlin
13/08/2015	Publication of Interim Report as at 30 June 2015/half-year
08 – 10/09/2015	EPRA Annual Conference, Berlin
16 – 17/09/2015	Bank of America Merrill Lynch Global Real Estate Conference, New York
21 – 23/09/2015	Berenberg/Goldman Sachs German Corporate Conference, Munich
05 – 07/10/2015	Expo Real, Munich
13/11/2015	Publication of Interim Report as at 30 September 2015/1st – 3rd quarter
30/11 – 01/12/2015	Berenberg Mid Cap Conference, London
02 – 03/12/2015	UBS European Real Estate Conference, London

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