

Report of the Management Board on Agenda Item 14 (Passing of a resolution concerning the authorization to acquire and use own shares, including authorization to retire treasury shares acquired and reduce capital)

In accordance with Section 71 paragraph 1 number 8 sentence 5 in conjunction with Section 186 paragraph 4 sentence 2 German Stock Corporation Act (*AktG*), the Management Board provides the following report of the reasons for the authorization to exclude shareholders' subscription rights when selling treasury shares acquired concerning Agenda Item 14 of the agenda of the General Shareholders Meeting:

Regarding Agenda Item 14, the Management Board and Supervisory Board propose authorizing the Company to acquire the Company's own shares before June 10, 2019 to the extent of up to 10 % of the share capital at the time the resolution is passed by the General Shareholders Meeting or the authorization is used, where this is lower. This authorization aims to make it possible to buy back shares and use the shares acquired. Assuming the share capital on the day of the General Shareholders Meeting is unchanged from the day the 2013 financial statements were issued, the Company would be able to acquire a maximum of 28,621,673 own shares. It will be possible for own shares to be acquired by the Company itself, dependent enterprises or enterprises in which the Company has a majority shareholding (Group companies) or by third parties acting for the account of the Company or Group companies.

Own shares may be acquired on the stock exchange or by a public bid. All acquisitions must comply with the principle of the equal treatment of shareholders as specified in Section 53a German Stock Corporation Act (*AktG*). The proposed acquisition via the stock exchange or by public bid complies with this obligation. If the number of shares offered in a public bid exceeds the intended acquisition volume, acquisitions shall be proportionate to the shares offered by each shareholder. However, priority may be given to smaller numbers of up to 100 shares, regardless of the number of shares offered by a shareholder. Where a shareholder offers to sell shares to the Company at a fixed price that is above the purchase price set by the Company, these will not be taken into account.

- (i) The proposed authorization allows treasury shares acquired to be retired or re-sold via the stock market or by a public offering to all shareholders without any further resolution by the General Shareholders Meeting. Where treasury shares are retired this generally results in the Company's share capital being reduced. However, the Management Board is also authorized to retire treasury shares without reducing the share capital, in accordance with Section 237 paragraph 3 number 3 German Stock Corporation Act (*AktG*). This would result in the remaining shares having a proportionally larger interest in the share capital in accordance with Section 8 paragraph 3 German Stock Corpora-

tion Act (*AktG*) (arithmetic nominal value). Both methods of disposal mentioned comply with the principle of equal treatment of shareholders required in company law.

- (ii) Agenda Item 16 will see the General Shareholders Meeting vote on an authorization to issue stock options to members of the Management Board of Deutsche Wohnen AG and selected executives of Deutsche Wohnen AG and affiliates in order to introduce a stock options program (“**AOP 2014**”). AOP 2014 seeks to provide a focused incentive to program participants and shall also encourage their loyalty to Deutsche Wohnen Group. During the term of the program up to 12,879,752 stock options on up to 12,879,752 non-par value bearer shares in the Company will be granted to program participants. The intention is that the Company should be able to use treasury shares to service stock options in issue, in addition to shares from Conditional Capital 2014/III being submitted for approval under Agenda Item 16 and from Authorized Capital 2014 being submitted for approval under Agenda Item 8. This authorization is limited to a proportionate amount of 5 % of the share capital at the time the resolution is passed or the authorization is used, where this is lower. Transferring treasury shares instead of using conditional or authorized capital that may be available can make good business sense, as it avoids the cost and effort and associated dilution effect involved with a capital increase and the admission of new shares. It is therefore in the interests of the Company and its shareholders to exclude subscription rights.
- (iii) In addition, subject to the approval of the Supervisory Board, it will be possible for the Management Board to offer and transfer treasury shares as consideration as part of mergers or when acquiring companies, branches, divisions or participations. The authorization proposed seeks to put Deutsche Wohnen AG in a stronger position when competing for interesting acquisition objects and to allow it to react quickly and flexibly to acquisition opportunities that arise without harming liquidity. The proposed exclusion of shareholders’ subscription rights takes account of this. The decision whether to use treasury shares or shares from an authorized capital in each individual case is taken by the Management Board, which is guided solely by the interests of the shareholders and the Company. The Management Board will ensure that shareholders’ interests are protected when setting the exchange ratio. The Management Board will take account of the stock market price of Deutsche Wohnen shares, but the intention is not to have an automatic link to a stock market price, mainly so that what has been achieved in negotiations cannot be put at risk as a result of fluctuations in the stock market price.
- (iv) The intention is that the treasury shares acquired can also, subject to the approval of the Supervisory Board, be sold for cash to third parties under exclusion of shareholders’ subscription rights, provided the price per share is not significantly lower than the stock

exchange price at the time of sale. This authorization makes use of the option for simplified exclusion of subscription rights permitted in Section 71 paragraph 1 number 8 German Stock Corporation Act (*AktG*) in corresponding application of Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*). This will allow the Management Board to seize favorable market opportunities quickly and flexibly and to obtain the best possible re-sale price by fixing the price close to the market, regularly leading to a strengthening of equity or opening up to a new shareholder base. The authorization is subject to the condition that shares issued under exclusion of subscription rights may not in total exceed 10 % of the share capital, neither at the time the resolution is passed nor when the authorization is used. This limit includes shares issued from authorized capital under exclusion of subscription rights in accordance with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) during the term of the authorization to re-sell. It also includes shares issued to service convertible or warrant-linked bonds and convertible or warrant-linked participation rights to the extent these bonds were issued up to that time during the term of this authorization under Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) applied accordingly. This ensures appropriate protection of shareholders' ownership and voting rights when treasury shares are sold. Shareholders have the option of maintaining their ownership interest on comparable terms by purchasing shares in the market.

- (v) The Company will also be able to use treasury shares to service obligations or options to purchase Deutsche Wohnen shares from or in connection with convertible or warrant-linked bonds issued by the Company or one of its subsidiaries. For this purpose shareholders' subscription rights must be excluded. When treasury shares are sold in a public offering to all shareholders, the same applies to the ability to grant creditors of such instruments the same right to subscribe to shares as they would have enjoyed if conversion or option rights had already been exercised (dilution protection). This authorization too is subject to the condition that shares issued under the exclusion of subscription rights may not in total exceed 10 % of the share capital, neither at the time the resolution is passed nor when the authorization is used. This limit includes shares issued from authorized capital under the exclusion of subscription rights in accordance with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) during the term of the authorization to re-sell. It also includes shares issued to service convertible or warrant-linked bonds or convertible or warrant-linked participation rights to the extent these bonds are issued up to that time during the term of this authorization under Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) applied accordingly.
- (vi) Under the AOP 2014 submitted to the General Shareholders Meeting for approval under Agenda Item 16, in the event that stock options granted to members of the Compa-

ny's Management Board are to be serviced, the Supervisory Board will decide whether treasury shares are to be provided under this authorization. The intention is that the Company should be able to use treasury shares to service stock options granted to members of the Company's Management Board as well as shares from Conditional Capital 2014/III, which is also being submitted for approval under Agenda Item 16. This authorization is limited to a proportionate amount of 5 % of the share capital at the time the resolution is passed by the General Shareholders Meeting or the authorization used, where this is lower. Transferring treasury shares instead of using conditional or authorized capital that may be available can make good business sense, as it avoids the cost and effort and associated dilution effect involved with a capital increase and the admission of new shares. It is therefore in the interests of the Company and its shareholders to exclude subscription rights.

- (vii) The Management Board compensation system submitted to the General Shareholders Meeting for approval under Agenda Item 7 gives the Supervisory Board the ability to grant the Management Board equivalent rights to purchase shares in the Company in other ways than via stock options under AOP 2014. The intention is that these alternative purchase rights will be serviced by granting treasury shares. Therefore, also to this extent, shareholders' subscription rights have to be excluded. For these alternative purchase rights too, by potentially granting Management Board members equity-based instruments part of the compensation can be deferred, thus increasing loyalty to the Company by allowing the Management Board to share in the sustainable increase in the value of the Company. Variable components of compensation can also be an incentive to manage the Company in a sustainable manner for the long term. For the purchase rights granted by the Supervisory Board instead of AOP 2014 the minimum holding period is four years. As these shares can only be sold after the end of the holding period, members of the Management Board are exposed to both the positive and the negative performance of the stock price throughout the four year holding period. The members of the Management Board may therefore experience both a bonus and a malus effect. The same applies to the extent stock promises with a holding period are promised or transferred to members of the Management Board as part of their equity-based compensation. These arrangements respect both the objectives of the Act on the Appropriateness of Management Board Compensation (*VorstAG*) and the requirements of the German Corporate Governance Code. The details of the compensation of members of the Management Board are set by the Supervisory Board. These include the arrangements for the vesting of stock promised to a member of the Management Board in place of part of the variable compensation (bonus) due, as well as arrangements for the treatment of stock promises in special cases such as retirement, professional disability or death

where, for example, a cash settlement may be due on the day of departure. The decision on the respective arrangements and type of service is taken by the Supervisory Board in respect of the shares applied for Management Board remuneration and by the Management Board in respect of the remaining shares. In doing so these bodies are guided solely by the interests of the shareholders and the Company.

The authorizations under ii) to vii) above to exclude subscription rights are restricted to an amount that does not, in total, exceed 20 % of the share capital, neither at the time the General Shareholders Meeting grants the authorizations nor when they are used. Included in this limit are those shares issued to service convertible or warrant-linked bonds and/or convertible or warrant-linked participation (or a combination of these instruments), provided the bonds or participation rights are issued using the authorization in Agenda Item 9 of the General Shareholders Meeting of June 11, 2014 under the exclusion of shareholders' subscription rights, as well as those shares issued using the authorization in Agenda Item 8 of the General Shareholders Meeting of June 11, 2014 under the exclusion of shareholders' subscription rights during the term of that authorization. To the extent that during the term of the authorization to exclude shareholders' subscription rights described under (ii) to (vii) above rights are established to subscribe to shares of Deutsche Wohnen AG in exchange for shares of GSW Immobilien AG through the entry into force of the domination agreement between Deutsche Wohnen AG and GSW Immobilien AG concluded on April 30, 2014, the number of these shares of Deutsche Wohnen AG will also be included in the above-mentioned 20 % limit. In addition, the following shares are also to be included in this 20 % limit: the shares from the conditional capital that are issued to service stock option rights, if the stock option rights are granted during the term of this authorization on the basis of the authorization under Agenda Item 16 of the General Shareholders Meeting of the Company on June 11, 2014. In addition to the cap on the acquisition of own shares at 10 % of the current share capital (equivalent to 28,621,673 shares) this means a further restriction on the ability to use treasury shares, providing additional protection for shareholders against dilution.

The authorizations under ii), vi) and vii) above are limited in total to a proportionate amount of 5 % of the share capital at the time the resolution on this authorization is passed by the General Shareholders Meeting or the authorization is used, where this is lower. Shares issued from authorized or conditional capital to employees or corporate bodies of the Company or its affiliates during the term of this authorization are included in this 5 % limit.

In accordance with Section 71 paragraph 3 sentence 1 German Stock Corporation Act (*AktG*), the Management Board will report on any use made of these authorizations at subsequent General Shareholders Meetings.