Report of the Management Board on Agenda Item 9 (Passing of a resolution on the authorization to issue convertible and/or warrant-linked bonds and/or convertible or warrant-linked participation rights, and creation of new Conditional Capital 2014/I)

Regarding Agenda Item 9 of the General Shareholders Meeting held on June 11, 2014, the Management Board and Supervisory Board propose the partial cancellation of the existing authorizations to issue convertible and/or warrant-linked bonds and convertible or warrant-linked participation rights (or a combination of these instruments) and the corresponding Conditional Capital 2013 and the creation of a new authorization and new Conditional Capital 2014/I. In accordance with Section 221 paragraph 4 sentence 2 in conjunction with Section 186 paragraph 4 sentence 2 German Stock Corporation Act (*AktG*), the Management Board provides the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares in Agenda Item 9 of the General Shareholders Meeting:

Through a resolution passed by the General Shareholders Meeting held on May 28, 2013, the Management Board was authorized, subject to the approval of the Supervisory Board, to issue convertible and/or warrant-linked bonds and/or convertible or warrant-linked participation rights (or a combination of these instruments) (hereinafter: "Bonds") with a total nominal value of up to EUR 850,000,000.00 with or without a limitation on maturities in one or more tranches up to May 27, 2018. The Conditional Capital 2013 amounting to EUR 40,189,000.00 was created to service the Bonds (Section 4b paragraph 1 of the Articles of Association).

In partial exercising of this authorization, the Company issued a convertible bond with a total nominal value of EUR 250,000.000.00 in a private placement on November 22, 2013 under the simplified exclusion of subscription rights; this bond can be converted into up to 16,075,714 new shares with no-par value, to be created on the basis of the Conditional Capital 2013, each with a proportionate value of EUR 1.00 of the Company's share capital. As a result, the authorization granted by the General Shareholders Meeting on May 28, 2013 can no longer be used flexibly. In particular the possibility for a simplified exclusion of subscription rights has mostly been exhausted. In light of this, the Management Board and Supervisory Board consider it appropriate to cancel the existing 2013 authorization and existing Conditional Capital 2013 to the extent that they had not yet been utilized and replace it by a new authorization and a new conditional capital.

In view of the fact that the following resolution is to cancel the 2013 authorization insofar as it has not been exercised, and that no further Bonds may therefore be issued under the authorization from this point in time, the existing Conditional Capital 2013 must only be reserved up to an amount of EUR 16,075,714.00 for securing the conversion rights of the convertible bond issued on November 22, 2013. An amount of EUR 24,113,286.00 of the Conditional Capital 2013 can therefore be cancelled and the Articles of Association can be changed accordingly.

In order to make use of the spectrum of possible capital market instruments that securitize conversion or option rights, it seems appropriate to set the permissible issue volume at EUR 950,000,000.00 in the authorization. The conditional capital, which is used to fulfill the conversion and option rights, will amount to EUR 50,000,000.00. This ensures that this authorization limit can be fully used. The number of shares that are needed to fulfill option or conversion rights from a bond with a particular issue volume generally depends on the stock market price of Deutsche Wohnen AG shares at the time at which the bond is issued. If sufficient conditional capital is available, the possibility of making use of the full authorization limit for the issue of convertible or warrant-linked bonds is assured.

Adequate capital is a key basis for the development of the Company. By issuing convertible and warrant-linked bonds (or a combination of these instruments), the Company can make use of attractive financing options to acquire capital at low interest rates depending on the market situation. Through the issue of convertible or warrant-linked participation rights the interest rate can, for example, also be linked to the Company's current dividend. The generated conversion and option premiums accrue to the Company. Practice shows that some financing instruments can only be placed through the granting of option and/or conversion rights.

In principle, shareholders are to be granted a subscription right to the Bonds when warrant-linked and convertible bonds and warrant-linked and convertible participation rights are issued (Section 221 paragraph 4 in conjunction with Section 186 paragraph 1 German Stock Corporation Act (*AktG*)). The Management Board can make use of the option to issue Bonds to one or more credit institutions with the obligation to offer shareholders the Bonds in line with their subscription right (so-called indirect subscription right pursuant to Section 186 paragraph 5 German Stock Corporation Act (*AktG*)). This is not a limitation of the subscription rights of shareholders. Shareholders are ultimately granted the same subscription rights as with a direct subscription. For technical settlement-related reasons only, one or several credit institutions are involved in the transaction.

(i) However, the Management Board shall be able to exclude subscription rights for fractional amounts with the consent of the Supervisory Board. The aim of this exclusion of subscription rights is to simplify the process of issuing new shares with general shareholders' subscription rights, as this makes a technically feasible subscription ratio possible. The fractional amount is normally low for each shareholder, therefore the potential dilutive effect is likewise considered to be low. On the other hand, the cost of issuing shares without such exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and can be carried out more easily. The Management Board and Supervisory Board deem the potential exclusion of subscription rights as objectively justified for these reasons and reasonable in consideration of shareholder interests.

(ii) The Management Board shall also be authorized to exclude the subscription rights of shareholders, subject to the approval of the Supervisory Board, in order to grant bearers of conversion or option rights or holders of mandatorily convertible bonds (or holders of mandatorily convertible participation rights) a subscription right to the extent to which they would be entitled after exercising the conversion or option rights or upon fulfillment of a conversion obligation. This offers the possibility of granting the bearers of option and/or conversion rights or the holders of mandatorily convertible bonds (or the holders of mandatorily convertible participation rights) which already exist at this time a subscription right as dilution protection instead of reducing the option or conversion price. It meets the current market standards to provide Bonds with such dilution protection.

(iii) Pursuant to Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) applied accordingly, the Management Board shall also be authorized, subject to the approval of the Supervisory Board, to exclude this subscription right for an issue against cash if the issue price of the Bonds is not significantly lower than their market value. This may be appropriate in order to quickly exploit favorable stock market situations and place a bond quickly and flexibly on the market at attractive conditions. Since the stock markets can be volatile, achievement of an issue result that is as advantageous as possible increasingly depends on the ability to react quickly to market developments. Favorable conditions that are as close to the market as possible can generally only be established if the Company is not tied to these for an excessively long offer period. For subscription rights issues, a not insignificant security discount is generally necessary to ensure the chances of success of the issue for the entire offer period. Although Section 186 paragraph 2 German Stock Corporation Act (*AktG*) permits publication of the subscription price (and therefore the terms and conditions of this bond for option and convertible bonds) up to the third-last day of the subscription period, in view of the volatility of the stock markets there is even then a market risk for several days that leads to security discounts in setting bond terms and conditions and therefore conditions that are not close to the market. In addition, when a subscription right is granted, an alternative placing with third parties is more difficult and/or incurs additional expense due to the uncertainty that the rights will be exercised (subscription behavior). Finally, when granting a subscription right the Company cannot react quickly to a change in the market conditions due to the length of the subscription period, and this can lead to the Company raising capital at less favorable conditions.

The interests of the shareholders are protected because the Bonds are not issued significantly below the market value. The market value must be calculated according to recognized principles of financial mathematics. In pricing the bond, the Management Board will keep the discount on the market value as low as possible taking into account the situation on the capital market. This means that the calculated value of a subscription right will be low enough that the shareholders may not suffer any appreciable economic disadvantage due to the exclusion of the subscription right.

Setting the conditions in line with the market and therefore avoiding an appreciable value dilution can also be achieved if the Management Board carries out a bookbuilding process. In this process, investors are asked to submit purchase applications on the basis of provisional bond terms and conditions and to specify, for example, the interest rate deemed to be in line with the market and/or other economic components. After the end of the bookbuilding period, the conditions that were previously still pending, such as the interest rate, are set in accordance with supply and demand on the market on the basis of the purchase applications submitted by investors. In this way, the total value of the Bonds is set in line with the market. By using this kind of bookbuilding process, the Management Board can ensure there is no appreciable dilution of the share value as a result of the exclusion of subscription rights.

The shareholders also have the opportunity to maintain their share in the Company's share capital at virtually the same conditions through acquisition on a stock exchange. In this way, their financial interests are adequately protected. The authorization to exclude subscription rights pursuant to Section 221 paragraph 4 sentence 2 in conjunction with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) applies only to Bonds with rights to shares that do not represent an amount of more than 10 % of the share capital, neither with respect to the date on which the authorization becomes effective nor the date on which such authorization is exercised.

This restriction shall also include treasury shares insofar as they are sold within the term of this authorization under exclusion of subscription rights in accordance with Section 71 paragraph 1 number 8 sentence 5 clause 2 in conjunction with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*). Furthermore, this restriction also includes shares that are issued within the term of this authorization from authorized capital under exclusion of subscription rights pursuant to Section 203 paragraph 2 sentence 2 in conjunction with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*). This inclusion is in the interests of shareholders, in order to ensure the smallest possible dilution of their shareholding.

(iv) Bonds can also be issued against contributions in kind, provided that this is in the interests of the Company. In such cases, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders, provided that the value of the asset in kind is commensurate with the theoretical market value of the Bonds calculated using recognized principles of financial mathematics. This opens up the possibility of also using Bonds as acquisition currency in appropriate individual cases, for example in connection with the acquisition of companies, participations in companies or other assets. It has been shown in practice that it is frequently necessary in negotiations to provide the consideration not in cash but also, or exclusively, in another form. The possibility of offering Bonds as a consideration therefore creates an advantage in the competition for attractive acquisition objects and the necessary scope to exploit upcoming opportunities to purchase (even larger) companies, participations in companies or other assets while preserving liquidity. This can also be reasonable from the perspective of an optimal financing structure. The Management Board will check carefully in each individual case whether it will use the authorization to issue convertible or warrant-linked bonds (or participation rights) against contributions in kind under exclusion of subscription rights. It will only do this if it is in the interests of the Company and therefore its shareholders.

The proposed conditional capital is used to service the conversion or option rights issued with Bonds or meet conversion obligations into shares in the Company. The conversion or option rights and/or conversion obligations could instead also be serviced by the provision of treasury shares or shares from authorized capital or by other means of compensation.

The aforementioned authorizations for the exclusion of subscription rights are limited to an amount which may not, in sum, exceed 20 % of the share capital, neither with respect to the date on which the authorization becomes effective nor the date on which such authorization is exercised. This 20 % limit also includes treasury shares that are sold within the term of this authorization under exclusion of subscription rights and shares that have been issued during the term of this authorization from the Authorized Capital 2014 under exclusion of the subscription rights of the shareholders. To the extent that during the term of the authorization to exclude shareholders' subscription rights described in the preceding paragraphs 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. This restriction ensures that there is limited potential for shareholders excluded from subscription rights having their voting rights diluted. In consideration of all of these circumstances, the authorization to exclude subscription rights within the outlined limits is necessary, commensurate, appropriate and required in the interest of the Company.

If the Management Board uses any of the aforementioned authorizations to exclude subscription rights during one financial year as part of an issue of warrant-linked or convertible bonds or convertible or warrant-linked participation rights from the Conditional Capital 2014/I, it will report on this at the following General Shareholders Meeting.