DEUTSCHE WOHNEN » INSIGHTS – OUTLOOK » OUR ANNUAL REPORT 2008

INSIGHTS – OUTLOOK » OUR ANNUAL REPORT 2008

LOOKING TO THE FUTURE

» COMPETITIVE FOR TOMORROW

On the path to becoming a modern service company, we successfully concluded the reorganization and integration of our company. The improvements in quality achieved by us and the risk-oriented revaluation of our portfolio, as well as our efficient and competitive cost structure are testament to our success in 2008. We have thus created a stable foundation for continued and sustained profitability in our operations in the marketplace for the coming years.

Operational figures Deutsche Wohnen AG Annual Financial Statement		12/31/2008
Balance sheet		
Fixed assets	EUR m	291.3
Current assets	EUR m	423.3
Equity	EUR m	296.5
Dept capital	EUR m	415.0
Total assets	EUR m	714.6
Profit and loss statement		01/01–12/31/2008
Earnings before and after tax	EUR m	–80.3
Balance sheet profit	EUR m	0,0

Operational figures Deutsche Wohnen AG Consolidated Financial Statement		
Result from rental business	EUR m	147.8
Result from privatization business	EUR m	13.2
Administration expenses	EUR m	–38.9
Non-core businesses	EUR m	8.5
EBITDA	EUR m	130.6
EBIT	EUR m	–147.7
EBT	EUR m	–328.8
Profit after tax EUR per share	EUR m	–255.9
Profit after taxes	EUR per share	–9.69
FFO EUR per share	EUR m	26.1
FFO	EUR per share	0.99

Operational figures Deutsche Wohnen AG Consolidated Balance Sheet		
Investment Properties	EUR m	2,900.7
Current assets	EUR m	110.4
Equity	EUR m	649.3
Financial liabilities	EUR m	2.089.2
Total assets	EUR m	3,126.7

Share		
Share price as of 12/31/2008	EUR	9.49
Number of shares	Mio.	26.4
Market capitalization as of 12/31/2008	EUR m	250.5
Most important stock exchange Xetra		Xetra
Indices		SDAX, EPRA, MSCI (each only company shares)
ISIN (bearer shares)		DE000A0HN5C6/DWNI
Price earnings ratio		–0.98

Net Asset Value		
Net Asset value Group	EUR m	646.3
Net Asset value per share	EUR per share	24.48

Market value		
Fair value properties	EUR m	2,900.7
Fair value per m² residential space	EUR per m²	881.0

› Our highlights in 2008 ‹

STRATEGY AND PORTFOLIO VALUE

» Profitable sale of the cable business
» Classification and revaluation of the residential property portfolio

OPERATIONAL GOALS EXCEEDED

LEASING
» Increase of rents in own property holdings by 4.1 %
» Rent level in the core portfolio 12.8 % below market level
» Reduction of vacancy rates in the core portfolio by 19 %

SALE
» 17 % gross profit from sold residential property
» Average selling price of the property EUR 978/m^2
» Inflow of liquidity in the amount of EUR 149.7 million

INVESTMENTS
» Total investments of EUR 58.1 million in the property portfolio
» Investments per m^2 in the amount of EUR 18.26

NURSING HOMES
» Increase of EBITDA by 12.9 %
» Increase of the occupancy rate to 97 %

NEW STRUCTURE
» Successful and early finalisation of the integration
» Implementation of a new IT platform

PORTFOLIO STRATEGY

Three main approaches characterize our future business model:

INTERNAL GROWTH: EXPLOITATION OF RENT DEVELOPMENT POTENTIALS

We plan to raise rents in our portfolio by 3–4% each year. We achieve this by making consistent use of adjustments to the rent index through targeted modernization measures that can be allocated to tenants and through a reduction in the vacancy rate. In Berlin, we have been achieving average annual increases of 3–4% for around three years now. We expect similar growth this year as well. Market conditions and the property/location-based characteristics of our portfolio open up opportunities to enjoy continued above-average growth.

VALUE-DRIVEN PRIVATIZATION

We have laid a sustainable foundation for our privatization business involving the sale particularly of residential properties to occupants desirous of becoming owners. The earlier volume and liquidity-driven sales strategy is no longer a priority. Rather, our properties are to be sold at least at fair value as part of a continuous concentration of our portfolio.

EXTERNAL GROWTH: FOCUS ON LARGE AREAS OF HIGH POPULATION DENSITY

Our strategy aims to concentrate our portfolio holdings in areas of high population density in Germany that show extensive rent development potential. Deutsche Wohnen has acquired another high-growth location through the purchase of the Berlin housing stock. Along with the Rhine-Main region, home to the Frankfurt/Wiesbaden/Mainz centres, a large part of the portfolio is already located in the strategically targeted high population density centres.

THE NEW ORGANIZATIONAL STRUCTURE

DEUTSCHE WOHNEN AG

MANAGEMENT AND CENTRAL UNITS

RESIDENTIAL

Property Management	
Key figures	
Personnel costs	12 EUR m
G&A	6 EUR m
Employees	239
Apartments	50,489
Costs per Ap.	357 EUR

Asset Management	
Key figures	
Personnel costs	2.9 EUR m
G&A	1.9 EUR m
Employees	35
Net Income	145.3 EUR m
Int. Broker Fee	3.3 %

NURSING HOMES

Key figures	
Turnover	33.1 EUR m
Personnel costs	18.9 EUR m
EBITDA	8.7 EUR m
Employees	938

The reorganization of the group brought about by the takeover of the Berlin-based GEHAG group is reflected in the above diagram.

Today, Deutsche Wohnen AG functions as a holding company where all centralized enterprise functions are mapped. Besides the Management Board and Management Board committees (IR, PR, Marketing), these include the Human Resources, IT/Organization and Legal as well as Financial, Treasury and Controlling divisions.

Daily operational activities are organized by lines of business. Senior housing complexes are entirely operated by the Group subsidiary KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs GmbH.

The management of the residential portfolio is represented as a profit centre. The Group subsidiary Deutsche Wohnen Management GmbH leases, manages, and organizes the maintenance of the housing stock (property management). All transactional business, the purchase and sale of individual residential properties and portfolios (asset management) will be consolidated under another group subsidiary.

With this new structure, we have created a significantly higher level of transparency, efficiency and flexibility. The restructuring of business processes and the reorganization of IT architecture rounds out the integration process in both organizations.

The high level of achievement of targets in the past financial year demonstrates the quality and efficiency of our employees and also clearly shows that the reorganization of business processes has been a success.

We have thus visibly exceeded our own goals and have been able to establish ourselves faster than expected. Today's cost structure is considerably more competitive while also offering higher quality at the same time.

› We are more than satisfied with what we have jointly achieved. ‹

Michael Zahn
Chairman of the
Management Board









INSIGHTS – PROSPECTS
OUR ANNUAL REPORT 2008

› Income effects have been fully achieved. ‹

Michael Zahn
Chairman of the Management Board

PROS-PECTS

INTERVIEW WITH OUR EXECUTIVE COMMITTEE

2008, a year of restructuring and reorganization for the company, has come to an end. In the interview below, our executive committee presents the positive results that have brought in these innovations and the opportunities they offer for the future.

INTERVIEW WITH OUR EXECUTIVE COMMITTEE

Mr. Zahn, when we spoke to you last year and discussed your expectations for 2008, you spoke primarily of the completion of integration and the optimization of the cost structure. With the year behind us, how would you look back at it?

We can look back at a very successful year and are more than satisfied with what we have achieved in conjunction with our employees. Reorganization and integration are complete, income effects have been fully achieved and are now manifest. Today, Deutsche Wohnen is a pioneer on the basis of its cost structure. It is delivering outstanding results showing that our employees are highly qualified and considerably goal-oriented. Our framework conditions today are more like those of a modern service company, since we have been able to get rid of a lot of excess baggage.

Mr. Wittan, as Deutsche Wohnen's Manager of Controlling, you nevertheless have had to post numbers deeply in the red at the end of the year. What were the reasons?

The negative result can be mainly attributed to special effects and one-off charges. With the revaluation of our housing portfolio, we have reassessed the risk profile on the asset side and are thus very soundly positioned. The valuation is due to economic distortions alone and is path-breaking in matters of transparency.

You are talking about transparency?

Mr. Wittan: Yes. For us, transparency in reporting is of intrinsic value – as the English say "Transparency is value". Our reporting must be self-explanatory. This makes decisions more transparent for third parties and not a matter of speculation. Over time, we have set standards with our strategic clustering, operational reporting and portfolio valuation.

Dr. (Ms.) Wolff, you are responsible for Property Management, the management of the entire portfolio. How do you cope with the balancing act of generating returns and also satisfying tenants' requirements?

For us, ease of servicing and economic success are not only not mutually exclusive but in fact mutually determined. Results such as those of the past financial year can be achieved only by satisfying tenants' requirements and maintaining a high-quality inventory.

Does that mean that the focus is on the tenant as customer?

Dr. Wolff: That is correct. The integration process that was completed would have no added value if we had lost ground in matters of service quality. Besides a distinctly improved cost structure, we have been able to institute significantly improved business processes. By grouping Property Management into a profit centre, we have fewer levels of hierarchy and faster channels of decision-making. At the same time we have greatly reduced the number of interfaces. Today, all central business processes have been relocated to Berlin and Frankfurt with considerably greater transparency in channels of decision-making. The market front was strengthened and supplemented in a targeted manner, and we now have the required agility to react successfully to the market.

With the setup of a central service level, we will be able to support our customers nationwide in future.

› Shares of Deutsche Wohnen have gained in value since the start of the year. ‹

Helmut Ullrich
Chief Financial Officer

› The revaluation of our residential property portfolio puts us on a very sound footing. ‹

Lars Wittan
Finance

» Increase in value through sustained organic growth «

Mr. Klinck, you are responsible for corporate development, and for the sale and purchase of property among other things. What role will the sales result play in the corporate development of the company?

In the coming years, the sales result will contribute significantly to Deutsche Wohnen AG's internal growth. The planned annual sales volume of around EUR 50 million in retail sales will take care of the refinancing for modernization measures, among other things, after sales costs have been deducted. The resulting increase in value of our property portfolio will be reflected positively in the running management result and thus ensure sustained organic growth.

In addition, we are planning the sale of fully developed properties in our core regions of Berlin and Western Germany with an annual sales volume of around EUR 70 million. With an average loan to value ratio of around 70 %, we will generate additional liquidity of around EUR 20 million that can be used to boost our NAV or distribute dividends.

How is Deutsche Wohnen going to carry out property purchases?

Mr. Klinck: The real estate and marketing expertise of our team and our experience in the numerous property transactions we have conducted are factors for our success in future purchases. Deutsche Wohnen AG's current capitalization is prompting us to consider alternate transaction models.

Mr. Ullrich, share price developments were anything but satisfactory in the past year for Deutsche Wohnen. What do you have to say about the capital markets?

Shares of Deutsche Wohnen have been severely impacted by the financial crisis, as have all other financial shares. This is a matter of great regret.

We are seeing the first signs of recovery since the beginning of the year. Shares of Deutsche Wohnen have rallied during this period and frequently post a better showing than the sector as a whole. We see in this a confirmation of our work. Our performance carries conviction, in contrast to others. Management has inspired confidence. A clear indicator is our acquisition of new investors. Over the last few months, we were able to attract three new long-term investors as major shareholders in Deutsche Wohnen.

What are the effects of the financial crisis on your daily business?

Mr. Ullrich: The housing market is less susceptible to economic fluctuations since long-term trends are decisive in this market unlike in the demand for commercial and retail trade properties. Our finances are sound. We were able to arrange new lines of credit early on, even before the financial crisis broke out, and therefore created more leeway for action for ourselves. What has also paid off is that the majority of our loans are long-term loans. The comparatively manageable refinancing requirement of EUR 160 million by 2011 is a genuine "asset" in these times. However, it is difficult to avoid the effects of economic developments, which must be viewed realistically.

› The sales result in the coming years will contribute substantially to Deutsche Wohnen AG's internal growth. ‹

Gerald Klinck
Corporate Development

› Ease of servicing and economic success are mutually determined. ‹

Dr. Kathrin Wolff
Property Management

Mr. Zahn, how do you perceive the future of the company after the revamping and reorganization?

The primary focus of our efforts will be the ongoing improvement of results and enhancements to the quality of our portfolio – "We must sweat our assets". That is the call of duty. The "cure", though, lies in substantially strengthening the equity base, improving the financial structure and scaling the business model. We are in the right sector in the right regions. We have the right management and the right shareholder structure. We are confident that we will find opportunities in the current market environment and exploit these to the company's advantage. There are also preliminary signs that the capital and financial markets will be able to provide the required instruments during the course of the year.

Finally, what does your Executive Committee stand for?

Mr. Zahn: In the spirit of communications, transparency and the achievement of targets, the Board of Directors has taken a decision to create a senior management team from key corporate areas. With Ms. Dr. Wolff and Mr. Klinck, the managers in charge of Property Management and Asset Management respectively are directly involved in the decision-making process. Mr. Wittan, manager in charge of Finance, will evaluate decisions for their effects on the earnings, financial and asset position of the company.

› Making a mark is possible only if quality is guaranteed. ‹

Marc Zimmerling
Leasing

AT EYE-LEVEL

OUR EMPLOYEES

Innovations resulting from the merger of GEHAG and Deutsche Wohnen meant changes for our employees as well. The restructuring of working conditions and employment relationships in 2008 allowed us to put in place a flexible framework for a competitive workplace and performance-oriented remuneration. These new employment relationships will enable us to continue to meet both future market demands as well as employee requirements.

MOTIVATION, COMMITMENT AND QUALIFICATION FORM THE BASIS

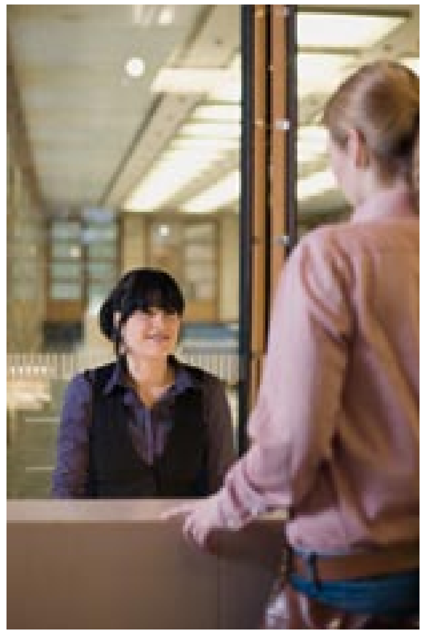
A decisive factor in the success of Deutsche Wohnen is our employees. Their motivation, commitment, and last but not least their qualification, form the basis for our successful business development and the future growth of the company.

In a constantly changing market environment, it is important to cultivate a lively and open corporate culture. Our employees are highly qualified for their jobs in a real estate company and have undergone real estate training for the most part.

It is not qualifications alone that can provide for innovative approaches to problem solving. The balanced mix of male and female employees, which is an integral part of our corporate culture, also plays a role. As of the reporting date, there are 40 % men and 60 % women employed throughout the group of companies. 49 % of management positions are held by women.

› Planning for housing is planning for the future. ‹

Kerstin Pötzsch
Leasing



» Driving changes, enabling development «

COMPLETION OF RESTRUCTURING

For our employees, 2008 was marked by the implementation of structural and personnel measures necessitated by the merger between GEHAG and Deutsche Wohnen. The earlier structures have been abandoned and today, employees are working within the framework of new and competitive working conditions.

The various framework conditions under labour law from the past decades, characterized by three different wage packages and numerous works agreements, have been done away with. Today's employment relationships are not subject to tariff commitments or limitations under privatization contracts. Rather, the more flexible framework conditions put in place should be able to meet market demands on the one hand and employees' requirements for fair, performance-oriented remuneration on the other.

The new workforce consists of 81 % of the personnel from Deutsche Wohnen and the GEHAG group. 19 % of positions were filled by bringing in external specialists. The target structure and associated human resources measures were already implemented by July 1, 2008. The termination of employment relationships was unavoidable. For employees who left the company, socially acceptable solutions were found in conjunction with the Works Councils. It must be emphasized that there were very few legal disputes, most of which have been concluded as of date.

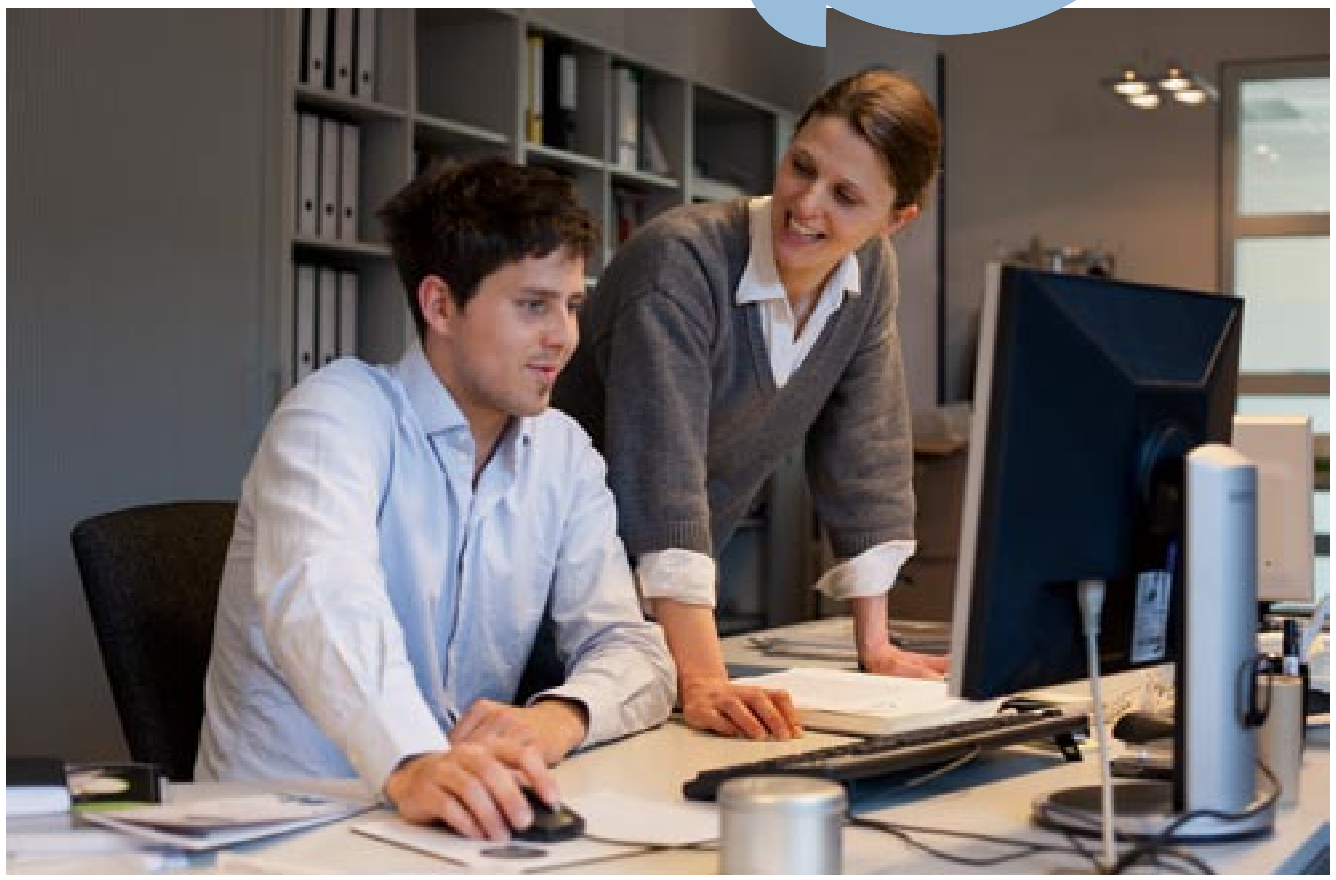
A TRADITION OF PROMOTING OUR JUNIOR PERSONNEL

TRAINING

Both Deutsche Wohnen as well as GEHAG have placed great emphasis over the past few years on the promotion of their own junior personnel. In keeping with this tradition, Deutsche Wohnen is currently training 35 young individuals to become property administrators. All trainees over the past year, as in previous years, were offered continued employment within Deutsche Wohnen after successful conclusion of training.

› Pass on opportunities along with qualifications. ‹

Alexandra Decker
Marketing



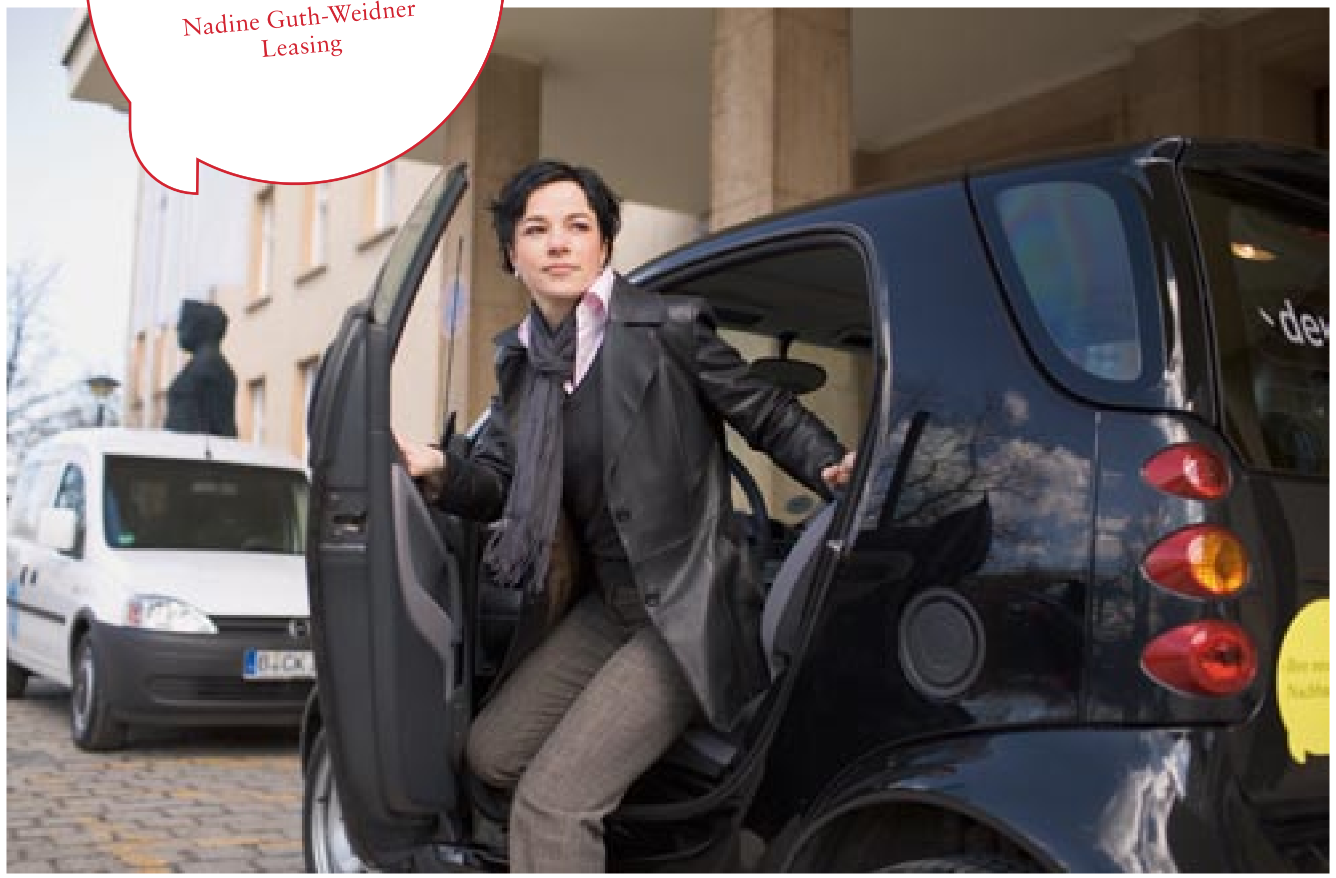
THANKS TO OUR WORKFORCE

The changes at Deutsche Wohnen over the past year would not have been possible without the tireless commitment and investment of time and ideas by our employees. Despite the high burden of integration, our strategic businesses have met with a high degree of success.

The Management Board would like to explicitly express its gratitude. A company is only as good as its employees - we are convinced of a successful future in conjunction with our employees.

› Flexibility makes for good customer support. ‹

Nadine Guth-Weidner
Leasing



PANO-RAMA

OUR PORTFOLIO

Our core business is the maintenance of our housing portfolio. Our growth and management strategies are based on a diversified location-specific and property-specific valuation of our portfolio. Our portfolio revaluation on December 31, 2008 will also help in efficient property utilization planning in future.

» Core Stock Cluster A «

Hufeisensiedlung,
UNESCO world heritage, Berlin

Alt Griesheim, Frankfurt/Main

» Sales Stock «

An den Mühlwegen, Mainz

Goebensiedlung, Koblenz

OUR HOLDINGS AT A GLANCE

	Residential				Commercial		Parking
	Units	Area Tm²	Rents EUR/m²	Vacancy rate %	Units	Area Tm²	Units
Core portfolio	33,792	2,038	5.23	3.9	401	69	8,050
Berlin	22,758	1,369	5.02	2.9	289	38	1,853
Frankfurt/Main	3,661	217	6.68	3.9	49	16	1,843
Rhine-Main	3,285	203	5.76	8.5	55	14	1,945
Rheintal-Süd	4,088	249	4.72	4.7	8	1	2,409
Disposal	14,076	884	4.75	11.3	63	6	5,237
Single Privatisation	5,017	334	5.19	11.7	16	2	1,855
Bloc sales	9,059	550	4.48	10.9	47	4	3,382
Own properties*	47,868	2,922	5.09	5.9	464	75	13,287
DB 14	2,621	179	5.41	5.5	31	8	2,624
Own properties incl. DB 14	50,489	3,101	5.10	5.9	495	83	15,911

* not incl. North Hessen

Weiße Stadt, UNESCO world heritage, Berlin

» Core Stock Cluster B «

DEVELOPMENT AND UTILIZATION – STRATEGIC STANDPOINTS

Our daily operations are focused on our housing portfolio, which is divided into strategic clusters. The group manages a total of 50,489 residential units, 495 commercial units and 15,911 garages/parking spaces. Deutsche Wohnen holds 32.6% share of DB 14's stock which is to be fully consolidated on the basis of extensive guarantee undertakings in respect of the fund.

Deutsche Wohnen's core business activity is the management and growth of our proprietary housing stock. Different development and utilization strategies are developed for premises through specific valuations based on their locational and property characteristics.

Premises with high sustainable market potential and an efficient management structure are identified and tagged as so-called core stock, by far the most important partial portfolio.

In this partial portfolio the main focus of business activities is to continually adjust rents to market levels and reduce vacancy costs. To this end, we differentiate between cluster A and cluster B. Cluster A contains properties that gain in value through increases in rent and reductions in vacancy levels. By contrast, cluster B requires investments before market levels can be fully exploited.

The disposal portfolio includes the so-called divided stock (5,017 residential units) that is to be sold to tenants/self occupants, and another 9,059 residential units in markets the group wishes to withdraw from.

Völklinger Weg, Frankfurt/Main

Moltkestraße, Mainz

PORTFOLIO VALUATION

We carried out an internal portfolio valuation on December 31, 2008. This valuation was extensively reviewed by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft within the framework of the audit of the group's consolidated financial statements.

The valuation was performed on the basis of homogeneous clusters which are distinguished by the location and quality of the units under management and consequently by their respective risk.

Cluster	Location characteristic	Property characteristic
AA	Good location	Good property
AB	Good location	Normal property
AC	Good location	Simple property
BA	Normal location	Good property
BB	Normal location	Normal property
BC	Normal location	Simple property
CA	Simple location	Good property
CB	Simple location	Normal property
CC	Simple location	Simple property

These clusters were then classified by regions as follows: Berlin, Brandenburg, Rhine-Main/Rheintal-Süd, the rest of Rhineland-Palatinate, and the remaining stock.

The following principles were applied in the valuation.

Based on the cluster:

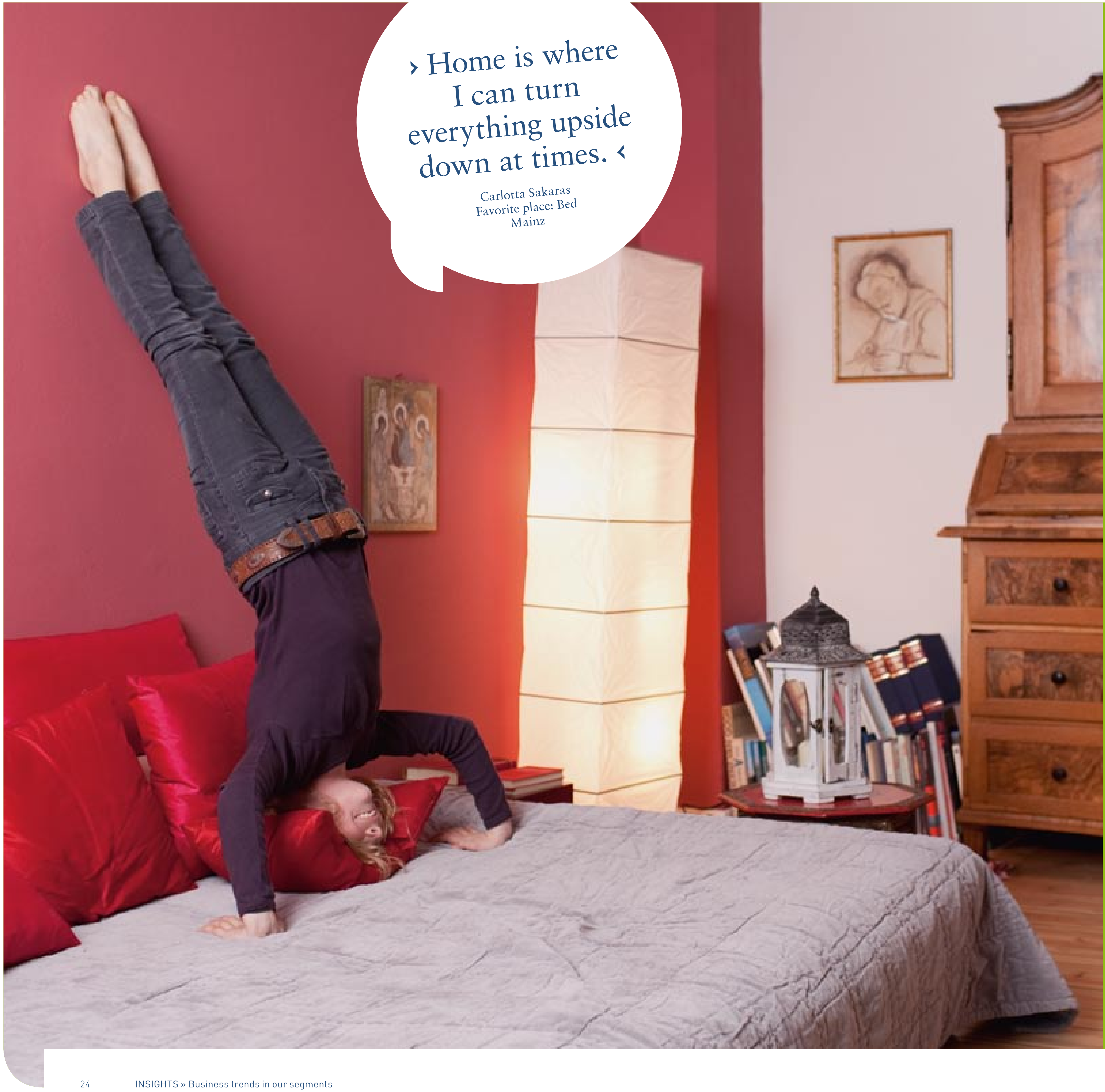
» Derivation of annual rates of increase in rent (–0.25% to 2.20%),
» Derivation of target vacancy levels over a period of 1 to 4.5 years (2% to 11%),
» Derivation of capitalization and discount rates.

Based on the property:

» Determination of the market rent as of the reporting date,
» Development of rent per m² of rental area relating to the adjustment of market rent and actual rent,
» Development of costs (maintenance, administration, risk of default of rent payments, non-recoverable operating costs, ground rent as far as relevant),
» Evaluation of cash flow from annual proceeds and payments and the terminal value at the end of year 10, based on the stabilized cash flow expected in year 11, or an expected sales price less sales expenses,
» Calculation of a fair value based on the administrative unit as of the reporting date.

The capitalization and discount rates were derived based on a risk free interest rate (10-year average of net yields of federal bonds: 3%) and real estate-specific risk estimates. Discount rates between 6.1% and 8.35% were used. That weighted average of the discount rates comes to 6.79%. The capitalization rates lie between 4.75% and 7.5%. A discount rate shift of 0.1% causes a value adjustment of EUR 49 million.

This yields an average value of EUR 881 per m² and a target rent multiplier of 13.7 as of December 31, 2008 or a multiplier of 10.9 based on the target rent in 2018.



IN-SIGHTS

BUSINESS TRENDS IN OUR SEGMENTS

Maintenance, modernization and the associated increases in value constitute our main business activities. In addition, we are able to maintain the quality of our portfolio and its strategic growth through efficient management of cluster A and B and through careful privatization.

VALUE CREATION THROUGH VALUE ENHANCEMENT

RESIDENTIAL PROPERTY MANAGEMENT

In the past financial year, average rents in the core stock of cluster A increased to EUR 5.31 per m² further reducing the difference from market rents.

	Rents		Vacancy Rate		Market Rents	Potential
	12/31/2008	12/31/2007	12/31/2008	12/31/2007		
	EUR/m²	EUR/m²	%	%	EUR/m²	%
Total	5.23	5.09	3.9	4.8	5.90	12.8
Cluster A	5.31	5.18	3.4	4.2	5.80	9.2
Cluster B	4.72	4.50	7.1	9.3	6.10	29.2

Currently achievable market rents are EUR 5.90 per m², our current average rents are just under 13% below these currently achievable market rents, and just under 30% in Cluster B. The rent development process needs to be accelerated through targeted modernization measures.

The vacancy rate of the partial portfolio was restored to under 4% over the past financial year. In cluster A, buildings that are currently under lease, the vacancy rate went down considerably by 19% to the present 3.4%. In cluster B, average rents increased by 4.9% to EUR 4.72 per m² both through targeted and partly apportionable investments and a reduction in vacancy rate from 9.3% to 7.1% (–24%).

For the overall portfolio, we achieved rent revenues and other revenues of EUR 210.3 million for the group in the reporting period (as compared to EUR 144.6 million over the same period in the preceding year). After deducting vacancy costs and outstanding receivables, revenues stand at EUR 195.2 million (as compared to EUR 132.2 million in the preceding year).

Of special significance to the maintenance of portfolio quality and therefore to the leasing result are continuous selective maintenance measures optimized for results as well as individual modernizations. In 2008, maintenance that affected results amounted to EUR 11.57 per m² or EUR 36.8 million. In addition, the inventory was intrinsically improved through targeted modernization measures amounting to EUR 21.3 million, so that we invested a total of EUR 18.26 per m² in the inventory.

The result from leasing stands at EUR 147.8 million in financial year 2008:

	EUR m
Estimated rent income	208.9
Income shortfalls	– 15.1
Reduced rent	– 1.9
Net cold rent	191.9
Earnings from operating costs	– 3.4
Net rents	188.5
Maintenance	– 36.8
Other income and expenses	– 3.9
	147.8

CAREFUL PRIVATIZATION, GREATER SUSTAINABILITY

DISINVESTMENTS

The business segment Disinvestments handles a portfolio of around 14,100 residential units that are to be sold to tenants, self occupants and capital investors through individual privatization or through block sales as part of a portfolio reorganization.

With a transaction volume of EUR 119.7 million (1,798 residential units) and sales expenses of EUR 4.2 million (3.5 %), the division generated a contribution margin of EUR 115.5 million. Taking book values into account, this results in a profit of EUR 13.2 million:

	Units	Sales proceeds	Costs	Book values	Result	Average sales price
	Number	EUR m	EUR m	EUR m	EUR m	EUR/m²
Individual sales	573	61.0	–3.6	–45.1	12.3	1,378
Bloc sales	1,225	58.7	–0.6	–57.2	0.9	741
	1,798	119.7	–4.2	–102.3	13.2	978

In the past financial year, Deutsche Wohnen was able to sell 573 residential units to tenants/self occupants at an average price of EUR 1,378 per m². These sales prices are 35 % above current book values.

Further, 1,225 units were sold to predominantly institutional investors during the reporting period. Here, the negative effects of the financial crisis have prevented a better result particularly in the second half of the year. The average sales price realized was EUR 741 per m², slightly (2 %) above book values.

NURSING HOMES

The business segment Senior Housing is operated by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH. It focuses mainly on the operation of high-quality fully stationary care facilities predominantly in Berlin and the new German states. This division manages a total of just under 1,500 beds and is therefore one of the larger private providers in Germany. With an occupancy rate of 97 % in the core markets, high in comparison with the sector average, and the adoption of new homes, turnover increased to EUR 33.1 million.

OUR EARNINGS POSITION AT A GLANCE

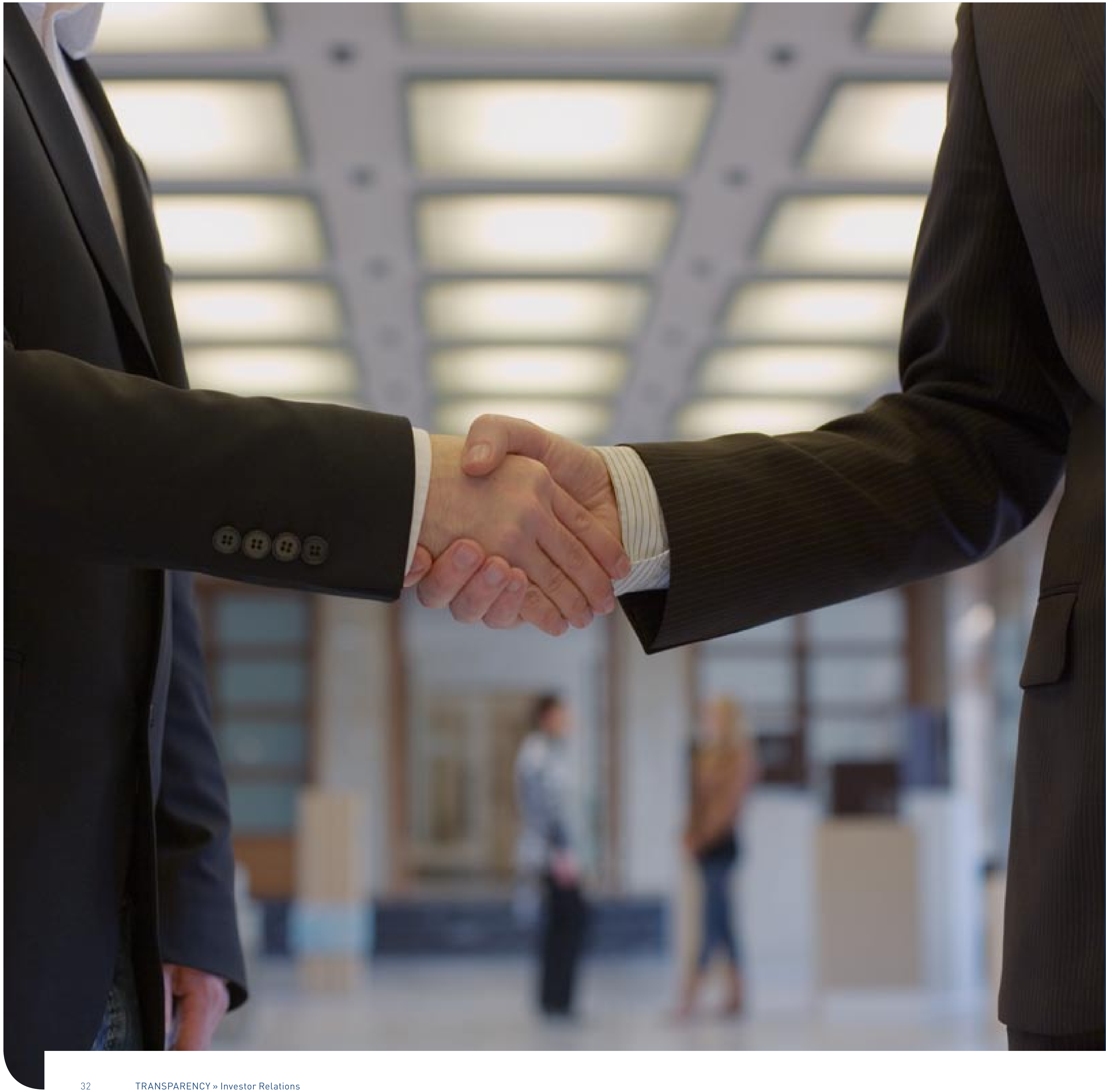
Financial position of Deutsche Wohnen Group broken down by business segment		
Estimated rent income	EUR m	208.9
Income shortfalls	EUR m	– 15.1
Reduced rent	EUR m	– 1.9
Net cold rent	EUR m	191.9
Earnings from operating costs	EUR m	– 3.4
Net rents	EUR m	188.5
Maintenance	EUR m	– 36.8
Other income and expenses	EUR m	– 3.9
Result from rental business	**EUR m**	**147.8**
Revenue from sales	EUR m	119.7
Sales expenses	EUR m	– 4.2
Carrying amount debit	EUR m	– 102.3
Result from privatization business	**EUR m**	**13.2**
Employee expenses	EUR m	– 24.4
General and administration expenses	EUR m	– 14.5
Administration expenses	**EUR m**	**– 38.9**
Nursing homes	EUR m	8.7
Miscellaneous	EUR m	– 0.2
Other business segments	**EUR m**	**8.5**
EBITDA	**EUR m**	**130.6**
Depreciation	EUR m	– 1.8
Result from property valuation at attributable current market value	EUR m	– 276.5
EBIT	**EUR m**	**– 147.7**
Financial earnings	EUR m	– 124.8
EBT	**EUR m**	**– 272.5**
Result from the mark to market valuation of derivative financial instruments	EUR m	– 32.2
Restructuring costs	EUR m	– 24.1
Tax	EUR m	56.5
Result from businesses to be continued	**EUR m**	**– 272.3**
Result from businesses to be discontinued	EUR m	16.4
Result after tax	**EUR m**	**– 255.9**
Result after tax	EUR per share	– 9.69
FFO	EUR m	26.1
FFO	EUR per share	0.99

› This is where I meet all authors in the world. ‹

Julia Kohler
Favorite place: Sofa
Frankfurt / Main

› Dance, laugh, play music: Our sofa is the stage. ‹

Clavis family
Favorite place: Living room
Berlin-Zehlendorf



TRANS-
PARENCY

INVESTOR RELATIONS

Transparency in providing information about the company, its development and its specifics. That's how we present our position in the financial sector. We provide transparent and balanced information through close contact with analysts and the reports on our web site www.deutsche-wohnen.com.

MARKET CONTACT POINT

The Investor Relations division is the central contact point in the Deutsche Wohnen group for investors, potential investors, private shareholders, analysts and the entire financial community. The goal of Investor Relations is to transparently communicate Deutsche Wohnen's business model, its corporate development and its specific characteristics to the market and create acceptance and confidence.

The most important medium for providing fair, real-time information to all interest groups is the Internet. Reports published by Deutsche Wohnen can be found on its website www.deutsche-wohnen.com. In addition, we have showcased Deutsche Wohnen in various conferences in 2008, interacted with existing and potential investors through roadshows and conference calls, and maintained close contact with analysts.

STOCK MARKETS

For stock markets in general and real estate shares in particular, 2008 was a year of strong volatility with a downward trend in quoted prices by and large. The real estate crisis in the United States of America that took hold in the second half of 2007 continued to balloon outwards with increasing severity and finally affected the real economy. Even concerted interest rate reductions by large central banks worldwide have been unable to contain the effects of the crisis. The bad numbers from the real economy were discounted on the stock exchanges which in part led to panic sales. Sales were further exacerbated by short sellers speculating on prices falling further. Under these conditions, none of the major German indices closed the year with gains: DAX, MDAX and SDAX lost 40 %, 43 % and 46 % respectively. The losses were even greater for real estate equities, which are now quoting below their intrinsic value without exception. The EPRA Europe Index, which tracks price developments in the 50 largest real estate stocks in Europe, lost a full 51 % in 2008. EPRA Germany, the German sub-index, lost as much as 61 %. While it has regained 30 % from its lowest point, it could take a while to recover from the losses.

SHARE PRICE DEVELOPMENT

Deutsche Wohnen shares were also unable to disengage from these trends in the equity markets. While they traded in positive territory at the start of the year unlike the indices, they were compelled to fall in line with the downward trend after announcement of the cancellation of dividends in February. A visibly worsening mood in the financial markets, a financial crisis rapidly gaining ground, negative comments from analysts and a lack of transactions provided the backdrop for trading in Deutsche Wohnen shares in 2008. From its previous year closing price of EUR 21.10, the share lost 55 % of its value and closed the year at EUR 9.49.

The Deutsche Wohnen bearer share is a component of the German selection index SDAX and is continuously traded. Three designated sponsors continually ensure sufficient liquidity and fungibility of the shares. In 2008, an average of 103,002 shares were traded daily on the electronic trading system XETRA.

COVERAGE

Currently, shares of Deutsche Wohnen are on the regular watch-lists of nine analysts. Sufficient coverage of the company by analysts is of great significance to Deutsche Wohnen since this gives us increased visibility, draws the attention of possible investors to the share and allows existing investors to obtain a "second opinion". For this reason, we constantly strive to bring in more analysts.

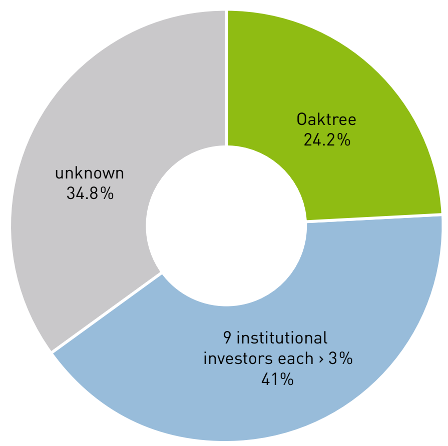
» Stability through longterm investors «

SHAREHOLDER STRUCTURE

Funds advised by financial investor Oaktree Capital Management, L.P. continue to be the largest shareholders of Deutsche Wohnen AG, holding around 24 % of the shares. In 2008, we gained a new major shareholder, Asset Value Investors Ltd., London, holding around 10 % of the shares. In addition, seven other institutional investors hold blocks of shares of between 3 % and 6 %, three of which we gained only recently.

We are in close contact with our controlling shareholders and fully understand their objectives and their requirements from an investment. We are pleased to have a stable base of investors, 65 % of which are long-term (see pie chart). Our main focus during road shows and conferences is meeting long-term institutional investors inclined to real estate investments.

The support of major shareholders is not only desirable but necessary for us to meet our goals for 2009 and beyond.



FAR-SIGHTED-NESS

CORPORATE GOVERNANCE

The Management Board and the Supervisory Board of Deutsche Wohnen declare their full support for the principles of good corporate governance. The management and governance of the Deutsche Wohnen group strictly adheres to the framework conditions laid down in the German Corporate Governance Code. Both internal regulations and control mechanisms as well as external market monitoring authorities ensure responsible business management, enabling us to meet the legitimate demands of our shareholders.

MANAGEMENT BY COLLABORATION

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Management Board and the Supervisory Board of Deutsche Wohnen AG work in close collaboration and consult each other at regular intervals to define and implement the company's strategic alignment. The Management Board regularly informs the Supervisory Board on all issues related to planning, business development, the risk situation, risk management and compliance of relevance to the company in a comprehensive and timely fashion. The Management Board provided the Supervisory Board regular reports on business development. Departures from plans and objectives were discussed in detail. Approvals were obtained from the Supervisory Board for any transactions requiring approval in accordance with the articles of incorporation.

MANAGEMENT BOARD

The Management Board of Deutsche Wohnen AG, consisting of two members, is responsible for the management of the company and is committed to acting in the best interests of the company. Its chief responsibilities include increasing corporate value with lasting effect, and the furtherance, coordination and implementation of the company's strategic alignment. In addition, the Management Board ensures compliance with legal provisions and internal corporate guidelines and works towards ensuring compliance by group companies as well. The Management Board is also responsible for the continued development of risk management and risk controlling. During the reporting year, the Supervisory Board fixed an age limit for members of the Management Board. With this regulation, the company is in compliance with yet another recommendation of the German Corporate Governance Code.

SUPERVISORY BOARD

In accordance with § 7 Para. 1 of the articles of incorporation, the Supervisory Board consists of six members. It is not subject to employee participation. Members are elected as shareholder representatives in the annual general meeting. It is the task of the Supervisory Board to regularly advise and supervise the Management Board in the management of the company. The Supervisory Board is involved in all decisions of fundamental importance to the company.

Committees were formed for an efficient structuring of the work of the Supervisory Board. There were four committees at the beginning of the year under review:

» The Presidential Committee continually advises the Management Board and negotiates Management Board contracts. In addition, the Presidential Committee is responsible for advising and passing resolutions in especially pressing matters.

» The Acquisition Committee is responsible for preparing resolutions on portfolio acquisitions for the Supervisory Board.

» The Audit Committee is concerned, in particular, with issues such as accounting, risk management and compliance, required auditor independence, awarding audit contracts to auditors, determining core audit areas and the fee agreement.

» The Integration Committee advised the Management Board on the integration of the GEHAG group with the Deutsche Wohnen group and drew up Supervisory Board resolutions during the integration process. It was disbanded after successful completion of its tasks.

MANAGEMENT THROUGH DISCLOSURE

Two new committees were formed in financial year 2008:

» The "Capital Markets and Communications" Committee advises on the development of the share price and the shareholder structure of the company, other important capital market issues and the company's communications policy.

» The Nomination Committee set up during the year in review based on a recommendation in the German Corporate Governance Code prepares Supervisory Board nominations for the annual general meeting. The committee was not required to prepare nominations for the ordinary annual general meeting in 2008 since the proposed individuals had already been judicially appointed as Supervisory Board members for a fixed period and there was consensus regarding their proposed candidature in the full assembly.

DIRECTOR'S DEALINGS

Members of the Management Board and the Supervisory Board and affiliated individuals are obligated under § 15a Wertpapierhandelsgesetz (German Securities Trading Law) to disclose transactions in shares of Deutsche Wohnen AG or related financial instruments. Deutsche Wohnen AG publishes these transactions as soon as it receives information. Deutsche Wohnen AG was notified of the following transactions in financial year 2008:

Date of transaction	Name	Function	Type and venue of transaction	Number of shares	Market rate / price EUR	Total volume EUR
04/21/2008	Uwe E. Flach	Member of Supervisory Board	Purchase of shares through Xetra	2,000	16.59	33,180.00
04/23/2008	Dr. Florian Stetter	Member of Supervisory Board	Purchase of shares through Xetra	3,207	15.90	50,991.30
06/03/2008	Uwe E. Flach	Member of Supervisory Board	Purchase of shares through Xetra	2,000	15.00	30,000.00
07/01/2008	Helmut Ullrich	Member of Management Board	Purchase of shares through Xetra	2,000	8.29	16,574.00
10/17/2008	Silvia Kretschmer	Wife of Deputy Chairman of Supervisory Board	Purchase of shares through Xetra	700	8.19	5,733.00
12/10/2008	Helmut Ullrich	Member of Management Board	Sale of shares through Xetra	1,122	5.21	5,845.62
12/10/2008	Helmut Ullrich	Member of Management Board	Sale of shares through Xetra	878	5.20	4,565.60
12/11/2008	Helmut Ullrich	Member of Management Board	Purchase of shares through Xetra	2,500	5.39	13,475.00

MANAGEMENT THROUGH REASONABLENESS

SHAREHOLDINGS BY THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

On December 31, 2008, Chief Financial Officer Helmut Ullrich held 4,500 shares of Deutsche Wohnen AG. This corresponded to approximately 0.017 % of the 26.4 million shares issued. Members of the Supervisory Board Uwe E. Flach and Dr. Florian Stetter held 4,000 and 3,207 shares of Deutsche Wohnen AG respectively as of December 31, 2008, corresponding to a share of around 0.015 and 0.012 % of the 26.4 million shares issued. The spouse of the Deputy Chairman of the Supervisory Board Dr. Andreas Kretschmer held 1,163 shares of Deutsche Wohnen AG on December 31, 2008, corresponding to approximately 0.004 % of the 26.4 million shares issued. Other members of the Supervisory Board and the Chairman of the Management Board Michael Zahn did not hold any shares of Deutsche Wohnen AG on December 31, 2008.

COMPENSATION REPORT

Management Board Remuneration

The Supervisory Board determines the total remuneration package and remuneration structure for members of the Management Board and regularly reviews its reasonableness. The Presidential Committee is responsible for the conclusion and the contents of service agreements with members of the Management Board within the framework of Supervisory Board resolutions. The remuneration for a Management Board depends on a company's size, its sector and alignment, its economic and financial position, the responsibilities of the respective members of the Management Board as well as the remuneration amount and the remuneration structure for Management Boards in comparable companies. Remuneration is designed to be competitive in international and national comparison and to offer incentives for the active and successful discharge of duties.

Management Board remuneration is performance-oriented. It includes both performance-related and performance-independent components as well as components with a long-term incentive effect and risk elements.

Success-independent components are the fixed allowance (base salary) and fringe benefits. The base salary is a salary paid monthly. Fringe benefits primarily include the use of a company car, reimbursement for travel expenses and contributions toward insurance policy premiums.

The annual bonus and a share-based remuneration component are performance-related components that the Management Board is entitled to.

The annual bonus is determined by the Supervisory Board at its discretion on the basis of the company's business development. The bonus amount is fixed by the degree to which advance targets have been met or exceeded.

In respect of the share-based remuneration components, the ordinary annual general meeting in 2008 passed a resolution setting up the Performance Share Program under which members of the Management Board and other executive officers can be granted subscription rights to shares. Subscription rights under the Performance Share Program were not granted in the year under review, however, and share-based remuneration components have therefore yet to be implemented.

The objectives of the Performance Share Program are to ensure that the interests of the Management Board and the executives of Deutsche Wohnen AG and its companies are always aligned with the interests of shareholders in increasing corporate value over the long-time. At the same time, it commits the Management Board and

MANAGEMENT THROUGH THE PERFORMANCE SHARE PROGRAM

executive officers of the company to the Deutsche Wohnen group through a variable remuneration component with a long-term incentive effect and risk elements based on shares.

Under the Performance Share Program, participating executive officers are entitled to variable remuneration if performance targets are met, to be paid in shares of Deutsche Wohnen AG. This variable remuneration is based on subscription rights granted that can be exercised after a period between two to four years, to be fixed separately in the individual case. It is the Supervisory Board that grants subscription rights to members of the Management Board. The performance target for every individual annual tranche is a price increase of 20 % compared to the average price of ordinary shares of the company calculated over a specific time period before the issue date (initial rate). However, the initial rate in the case of subscription rights for which the date of issue is prior to June 18, 2010 shall be at least EUR 24. In contrast to a stock option program, shares will not be issued upon achievement of performance targets at an issue price that corresponds to the exchange price of the company's shares at the time the subscription rights are granted, but at a price of EUR 1. Thus there is no special economic advantage to participants as compared to a stock option program (and accordingly no greater dilution effect for shareholders). It is true that the full value of the subscribed shares (minus the subscription price of EUR 1 alone) accrues to participants and not just the difference between the exchange price at the time subscription rights (plus mark-up if any) are granted and the exchange price at the time of exercise as happens in a stock option program. However, a subscription right within the meaning of the Performance Share Program does not conversely entitle to subscription for one share per right as is normal, but only to a fraction thereof, namely the quotient of the price difference and the share price at the time of exercise. As a result, the advantage accruing to the entitled party per subscription right corresponds to the price difference, as is customary. No subscription rights have been granted yet to members of the Management Board under the Performance Share Program in financial year 2008. Remuneration for members of the Management Board of Deutsche Wohnen AG for financial year 2008 is broken down individually as shown in the following table:

	Fixed Compensation	Variable Compensation	Total
	k EUR	k EUR	k EUR
Michael Zahn	300	200	500
Helmut Ullrich	300	200	500
	600	400	1,000

There were no pension accruals for active or retiring Members of the Management Board or Supervisory Board. No loans were made to members of the Management Board of Deutsche Wohnen AG in financial year 2008.

MANAGEMENT BY INDEPENDENCE

REMUNERATION OF THE SUPERVISORY BOARD

The ordinary annual general meeting of 2008 redefined remuneration for the Supervisory Board. The applicable regulation defines a fixed remuneration of EUR k 20 each financial year for every ordinary member of the Supervisory Board. The Chairman of the Supervisory Board shall receive twice, and a deputy chairman one and a half times the remuneration of an ordinary member. Remuneration will be prorated if a financial year covers less than twelve months. Members of the Supervisory Board will be reimbursed for out-of-pocket expenses and purchase tax owed by them for their work on the Supervisory Board.

At variance with the recommendations of the German Corporate Governance Code, the articles of incorporation do not prescribe any performance-oriented remuneration. Deutsche Wohnen AG finds it preferable to have a fixed remuneration for the Supervisory Board in view of its monitoring function in order to guarantee the required independence in the Board's supervisory function. The German Corporate Governance Code recommends that chairmanship and membership in committees of the Supervisory Board should be taken into account in defining remuneration for the Supervisory Board, but this recommendation has not been adopted since the existing remuneration sufficiently compensates for these responsibilities, in the view of the company. Finally, the company chooses and has chosen not to provide individual particulars in the corporate governance report regarding the remuneration paid to members of the Supervisory Board or advantages granted to them for services personally rendered, at variance with the recommendation of the German Corporate Governance Code. Deutsche Wohnen AG is of the view that there would be no additional recognition obtained by providing individual details.

The remuneration of the Supervisory Board for financial year 2008 is EUR k 150 (2007: EUR k 79). No remuneration was paid to members of the Supervisory Board in financial year 2008 for services provided personally outside of Supervisory Board activities, especially advisory and agency services. No loans were made to members of the Supervisory Board of Deutsche Wohnen AG in financial year 2008.

MISCELLANEOUS

A group insurance policy for directors and officers is available to members of the Management Board and the Supervisory Board. The policy does not include a deductible, at variance with the recommendations of the German Corporate Governance Code. In the company's assessment, a deductible is not the norm internationally in most cases, and liability risks associated with a deductible could negatively impact Deutsche Wohnen's objectives particularly in attracting suitable individuals for the Management Board and the Supervisory Board. Furthermore, the group insurance policy is a policy for a variety of executive officers and it would be inappropriate to differentiate between members of the Supervisory Board and the Management Board and other executive officers.

MANAGEMENT BY AUDIT

ACCOUNTING AND AUDIT

The auditor of the annual and consolidated annual financial statements for financial year 2008 is the auditing and tax consulting firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft. The auditor has reviewed Deutsche Wohnen AG's annual and consolidated annual financial statements as well as the summarized management report and has granted an unqualified audit opinion on February 13, 2009 and March 13, 2009 respectively.

Before the selection of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft in the annual general meeting, the Audit Committee obtained a statement from the proposed auditor that there were no business, financial, personal or other relationships between the auditor, its executive bodies and head auditors on the one hand and the company and members of its executive bodies on the other that could call its independence into question.

RELATIONS WITH OUR SHAREHOLDERS

Shareholders safeguard their rights in the annual general meeting and exercise their right to vote. In the ordinary annual general meeting on June 17, 2008, 61.25% of the voting capital was represented, a significant increase in comparison to the preceding year. Shareholders have the option of voting in the annual general meeting either themselves, through an authorized third party or through a company proxy bound by instructions. At this time, the possibility of a live broadcast of the annual general meeting using modern communication media such as the Internet, as set out in the articles of incorporation, is not being considered.

All dates of importance to our shareholders are published in a financial calendar sufficiently in advance as part of normal Investor Relations activity. This calendar can be downloaded from Deutsche Wohnen AG's website at www.deutsche-wohnen.com. A summary of the main information published in financial year 2008 can be found in the annual document in accordance with § 10 WpPG (Wertpapier-Prospektgesetz (German Sales Prospectus Act)), which is also available on the website.

The company treats all shareholders equally with respect to information. New information provided to financial analysts and comparable addressees is also made available to shareholders immediately. All information is promptly uploaded to our website www.deutsche-wohnen.com.

Insider information (ad hoc disclosure), voting notifications as well as security transactions by members of the Management Board and the Supervisory Board and affiliated persons (Director's Dealings) are promptly published by Deutsche Wohnen AG in accordance with statutory regulations.

MANAGEMENT BY STANDARDS

COMPLIANCE OFFICER

Deutsche Wohnen has appointed a compliance officer for this division to oversee compliance with statutory provisions and the standards and norms of conduct specified in the German Corporate Governance Code. This officer maintains an insider directory and informs management, employees and business partners of relevant legal framework conditions as well as the consequences of violation of the rules against insider trading. The Management Board and the Supervisory Board were informed by the compliance officer of the latest developments in corporate governance in the year under review, in particular the new provisions of the German Corporate Governance Code in its version dated June 6, 2008, and comprehensively took up the implementation of the recommendations by the company. On the basis of these discussions, the Management Board and the Supervisory Board issue a joint updated compliance statement under § 161 AktG (Aktiengesetz = German Stock Corporation Act) in December 2008 whose exact wording is published on the web site of the company at **www.deutsche-wohnen.com** and available for download.

COMPLIANCE STATEMENT

The Management Board and the Supervisory Board of Deutsche Wohnen declare in accordance with § 161 Aktiengesetz:

"Since the last compliance statement in December 2007, Deutsche Wohnen AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code (in its version dated June 14, 2007, and from August 8, 2008 its version dated June 6, 2008) with the following exceptions:

- » A directors and officers group insurance policy without deductible is available for members of the Management Board and the Supervisory Board (Code Item 3.8 Sentence 4).
- » An age limit was fixed for members of the Supervisory Board in December 2008 (Code Item 5.1.2 Sentence 6).
- » A Nomination Committee of the Supervisory Board consisting exclusively of shareholder representatives to be set up to propose suitable candidates for nomination to the Supervisory Board in the annual general meeting was not set up (Code Item 5.3.3).
- » The articles of incorporation lay down fixed remuneration for members of the Supervisory Board and not performance-based remuneration. Chairmanship and membership in committees of the Supervisory Board are not taken into account in arriving at remuneration. Details of remuneration paid to Supervisory Board members or advantages granted to them for services rendered in a personal capacity have not been included in the corporate governance report (Code Item 5.4.6).
- » Consolidated annual financial statements and interim reports were publicly available within statutorily fixed periods and not within 90 days from the end of the financial year or 45 days after end of the reporting period (Code Item 7.1.2 Sentence 4). It is not possible to publish these earlier due to the need for due care in preparing the financial statements and company reports.

Deutsche Wohnen will comply with the recommendations of the Government Commission on the German Corporate Governance Code (in its version dated June 6, 2008) in future with the following exceptions:

- » A directors and officers group insurance policy without deductible is available for members of the Management Board and the Supervisory Board (Code Item 3.8 Sentence 4).
- » The articles of incorporation lay down fixed remuneration for members of the Supervisory Board and not performance-based remuneration. Chairmanship and membership in committees of the Supervisory Board are not taken into account in arriving at remuneration. Details of remuneration paid to Supervisory Board members or advantages granted to them for services rendered in a personal capacity have not been included in the corporate governance report (Code Item 5.4.6).
- » Consolidated annual financial statements and interim reports are publicly available within statutorily fixed periods and not within 90 days from the end of the financial year or 45 days after end of the reporting period (Code Item 7.1.2 Sentence 4. It is not possible to publish these earlier due to the need for due care in preparing the financial statements and company reports."

Frankfurt / Main, December 2008

The Management Board
The Supervisory Board

IN FOCUS

REPORT OF OUR SUPERVISORY BOARD

Financial year 2008 was characterized by the far-reaching reorganization of Deutsche Wohnen AG initiated in connection with the acquisition of the GEHAG group in 2007 – the restructuring of the entire group, the rightsizing and reduction of personnel as well as the migration of IT systems due to the introduction of SAP, all of which required considerable effort by employees and executive bodies of the company. The Supervisory Board and its committees have supported the Management Board in the above through constant discussion as well as through supervision and council.

TARGETED PLANNING THROUGH LONG-TERM COUNCIL

» In readiness for robust changes «

MANAGEMENT SUPERVISION

The Supervisory Board took up its responsibilities under the law and under the articles of incorporation with diligence. It regularly advised the Management Board in the management of the company and supervised its work. The Supervisory Board was directly involved in all decisions of fundamental importance to the company at an early stage. The Management Board reported to the Supervisory Board both in writing as well as verbally regularly and comprehensively and in a timely fashion on corporate planning and strategy, the position of the company, the workings of the business, the risk position and risk management. Besides business, liquidity and financial planning, integration and restructuring were also major focus areas. The Management Board coordinated strategic decisions with the Supervisory Board. Departures of the course of business from plans and targets were comprehensively explained and discussed.

Apart from meetings of the Supervisory Board and its committees, the Chairman of the Supervisory Board and other members of the Supervisory Board were in regular touch with the Management Board to stay apprised of essential business transactions and to support the Management Board in an advisory capacity.

MEETINGS OF THE SUPERVISORY BOARD

In financial year 2008, the Supervisory Board held six regular meetings of the Supervisory Board, including the constituent meeting after the annual general meeting of 2008. All members of the Supervisory Board attended more than half of the meetings in the year under review. In individual cases, the Supervisory Board passed resolutions by correspondence in consultation with the Chairman of the Supervisory Board on matters that had for the most part already been discussed by the Supervisory Board.

The key points of discussions by the Supervisory Board in the year under review were the restructuring of the group, business planning, the migration of the IT systems and the introduction of SAP, and preparations required at the group level to deal with the intense changes occurring in the economic environment. Other usual items of discussion were business development in leasing and sales, sales projects, and the group's financial and liquidity position.

In the meeting on January 10, 2008, the Supervisory Board focused on medium term planning for 2008 to 2010, liquidity planning and the restructuring of the group. Based on planning documents provided in advance, there were detailed discussions on the progress of the group in an economic environment in which storm clouds were seen to be rapidly gathering. The Supervisory Board requested the Management Board to continue its planning in respect of specific targets discussed. The Management Board also reported on a procedure of the German Inspectorate for Accounting involving the consolidation of the DB 14 property fund in the annual financial statements for 2006.

In the meeting on January 10, 2008, remuneration for the Supervisory Board, which requires a resolution by the annual general meeting, was also discussed. The corporate governance report provides details of the remuneration package for the Management Board and the Supervisory Board.

The main focus of the meeting on April 8, 2008 were the annual and consolidated annual financial statements as of December 31, 2007, the proposal for the appropriation of profits and the proposed agenda for the annual general meeting. Representatives of the auditors of the company were present and commented on the items and estimates in the company and group consolidated financial statements. The creation of a remuneration program for the Supervisory Boards and executive officers of the group with a long-term incentive component was discussed within the framework of the agenda. Share-based models and comparable configurations were discussed and the Presidential Committee was tasked to formulate a proposed resolution. Other topics discussed in the meeting were the implementation of the early risk detection system, the project status for the sale of AKF Telekabel TV und Datennetz GmbH, the status of the rightsizing and the updated plans for 2008 – 2010. The full assembly of the Supervisory Board subsequently approved the final version of the agenda for the annual general meeting in writing by way of circular.

The meeting on June 17, 2008 held directly before the annual general meeting discussed the sale of AKF Telekabel TV und Datennetz GmbH. The Management Board informed the Supervisory Board that an expert opinion had been commissioned on the EK02 compulsory taxation newly introduced by the Jahressteuergesetz (Tax Amendment Act) of 2008. The Supervisory Board also took the opportunity to prepare for the subsequent annual general meeting.

Following the annual general meeting held on June 17, 2008, the Supervisory Board met again and reconstituted itself after the chairman Mr. Hermann T. Dambach and member Mr. Uwe E. Flach were elected to the Supervisory Board.

In the meeting on September 15, 2008, developments in the financial year were discussed in detail and the Management Board commented on the half-year results. The discussions included strategic topics such as future goals in respect of the group's core real estate stock, including medium term purchases and sales of core stock. In addition, an important topic in business development was the progress of restructuring which had proceeded at a faster pace than planned. The Management Board also reported on developments in Investor Relations and the further measures planned for capital market communications. The Supervisory Board sought information on important provisions in the draft act for the Modernisierung des Bilanzrechts (Modernization of Accounting Rules in Germany) and its ramifications for issues of compliance.

On December 15, 2008, the Management Board provided the Supervisory Board a detailed report on the status of the SAP introduction and internal and external auditing measures taken and yet to be taken for the IT migration. The Supervisory Board discussed the forecast for 2008 and the strategy and plans for financial year 2009 based on planning documents. The Supervisory Board discussed the status of compliance in the group based on the draft compliance statement submitted and resolved to issue the compliance statement in its published form. The Supervisory Board sought information on the status of group financing and the effects of the financial crisis.

EFFICIENCY THROUGH COMMITTEES

» Professional preparations, qualified decisions «

COMMITTEES OF THE SUPERVISORY BOARD

In order to discharge its duties efficiently, the Supervisory Board has set up committees and regularly assesses their needs and their work during the year under review. Accordingly, the Supervisory Board passed a resolution in the year under review to disband the Integration Committee since its responsibilities had come to an end, to set up a new committee for capital markets and communications and to set up a new Nomination Committee.

The following committees existed in the year under review:

- Presidential Committee
- Acquisition Committee
- Audit Committee
- Steering Committee (also called "Integration Committee", till September 15, 2008)
- "Capital Markets and Communications" Committee (from September 15, 2008)
- Nomination Committee (from December 15, 2008)

The general duties of the committees include preparing resolutions of the Supervisory Board and groundwork on topics to be dealt with by the full assembly of the Supervisory Board. Individual committees may power of decision in particular cases if legally permissible. The chairmen of the committees reported regularly in detail on the subject matter and outcomes of committee meetings in Supervisory Board meetings.

The **Presidential Committee** discusses urgent matters and passes resolutions for the same, and determines the contents of and concludes service agreements with members of the Management Board subject to resolutions by the Supervisory Board to the extent legally permissible. It also advises the Management Board on an ongoing basis.

The Presidential Committee did not meet in the year under review. Issues were punctually submitted by the Management Board in each case for resolution by the Supervisory Board, and resolutions could be passed in the full assembly, sometimes through correspondence.

The **Acquisition Committee** is responsible for preparing resolutions on portfolio acquisitions for the Supervisory Board. This committee did not meet in the year under review.

The **Audit Committee** held four meetings in the year under review. It deals with issues of accounting, risk management and auditing, particularly the independence of the auditor, the issuing of the audit mandate to the auditor, the fee agreement and the determination of focus areas for the audit. In the presence of representatives of the company and group auditor as well as the Management Board, the Audit Committee primarily discussed the annual and consolidated annual financial statements and the risk management system. In addition, the audit committee had in-depth discussions with the Management Board on the quarterly results to be published and on the interim reports. It recommended an auditor for financial year 2008 to the Supervisory Board, and oversaw the independence of the auditor. A statement of independence was obtained from the auditor. It also took up the procedure of the German Inspectorate for Accounting that was concluded in consultation with the inspectorate.

The newly established **"Capital Markets and Communications" Committee** held one meeting in the year under review in which it discussed share price development, shareholder structure and current company activity on the capital markets with the help of a comprehensive presentation. The Committee presented the status of the company's communications policy based on an analysis of past events and publications by management and discussed the future communications strategy.

The **Nomination Committee** which is responsible for proposing nominations for the election of members to the Supervisory Board was set up by the Supervisory Board in the year under review and has not met thus far. The nomination committee was not required to meet for the election of judicially appointed members of the Supervisory Board Mr. Hermann T. Dambach and Mr. Uwe E. Flach in the annual general meeting on June 17, 2008 since the full assembly unanimously agreed that the members of the Supervisory Board be proposed as candidates in the annual general meeting.

The **Integration Committee** held five meetings during the course of which it advised the Management Board on the integration of the GEHAG group into the Deutsche Wohnen group, and the Supervisory Board in preparing resolutions within the scope of the integration process and the restructuring of group companies. It was disbanded after successful completion of its tasks.

» Future development and implementation «

CORPORATE GOVERNANCE

The Supervisory Board continually monitored and discussed the development of corporate governance standards within the company. The Annual Report 2008 contains detailed information about corporate governance in the company and the remuneration amounts and the remuneration structure for the Supervisory Board and the Management Board.

The Management Board and the Supervisory Board discussed the requirements of the German Corporate Governance Code and its implementation in detail in the meeting on December 15, 2008. In December 2008, the Management Board and the Supervisory Board issued an updated joint compliance statement in accordance with § 161 of the Aktiengesetz. The latest version of the compliance statement is available to shareholders at all times at www.deutsche-wohnen.com.

There exists a consulting agreement between Deutsche Wohnen and the Oaktree group, whose German Managing Director is the Chairman of the Management Board Mr. Hermann T. Dambach, which has been approved by the Supervisory Board with an abstention by Mr. Hermann T. Dambach in accordance with § 114 AktG.

A member of the Management Board informed the Supervisory Board in its meeting on June 17, 2008 that a residential property belonging to the GEHAG GmbH that was up for sale had been acquired at list price.

AUDIT OF THE ANNUAL AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The annual general meeting on June 17, 2008 selected Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as auditor for financial year 2008. The auditor reviewed the annual financial statements, the consolidated financial statements, the summarized management report and the group management report, and has provided an unqualified audit opinion. The reports and financial statements were sent to all members of the Supervisory Board in due time. They were extensively discussed by the Audit Committee in its meeting on March 24, 2009 and by the Supervisory Board in its meeting on March 31, 2009. The auditor provided the Audit Committee as well as the full assembly of the Supervisory Board a detailed report on the essential results of the audit and was available for questions and additional information.

The chairman of the Audit Committee provided the Supervisory Board a comprehensive report on the annual financial statements and the audit in its meeting on March 31, 2009. For its part, the Supervisory Board independently reviewed the annual financial statements, the consolidated financial statements, the management report and the group management report, and approved the annual financial and consolidated annual financial statements prepared by the Management Board on the basis of its own review and in accordance with the recommendation of the Audit Committee. "Mainly as a result of the real estate valuation, the established annual financial statements present a significant annual deficit which was compensated by borrowing from the capital surplus taking the profit carried forward into account. Thus there is no balance sheet profit and the annual general meeting cannot propose any dividend. After extensive discussions with the Management Board, the Supervisory Board stated that in the view of the Management Board and in view of the current financial market situation, available cash and cash items should be used primarily for investments and debt redemption and not to pay dividend."

CHANGES IN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Chairman of the Supervisory Board Mr. Hermann T. Dambach and member of the Supervisory Board Mr. Uwe E. Flach who were members of the Supervisory Board by judicial appointment were elected to the Supervisory Board in the annual general meeting on June 17, 2008. Mr. Hermann T. Dambach was once again elected Chairman of the Supervisory Board by the Supervisory Board in the meeting on June 17, 2008 after the annual general meeting. Dr. rer. pol. Andreas Kretschmer was confirmed as the Deputy Chairman of the Supervisory Board.

In its meeting on December 15, 2008, the Supervisory Board named the spokesman for the Management Board Mr. Michael Zahn as the chairman of the Management Board in recognition of his services to the company.

Our supervisory board:
Uwe E. Flach, Dr. Andreas Kretschmer (Vice Chairman), Hermann T. Dambach (Chairman),
Dr. Florian Stetter und Matthias Hünlein (from left to right) and Jens Bernhardt (not pictured)

The Supervisory Board expresses its gratitude and appreciation to the Members of the Management Board and the employees of all group companies of the Deutsche Wohnen group for their services in the year under review.

Frankfurt / Main, April 2009

For the Supervisory Board

Hermann T. Dambach

OVER-VIEW

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
ASSETS

Deutsche Wohnen AG, Frankfurt/Main Balance Sheet at 12/31/2008	12/31/2008		12/31/2007
	EUR	EUR	EUR
Assets			
A. Fixed Assets			
I. Intangible assets			
1. Concessions, commercial proprietary rights and similar rights, as well as licences to such rights and values	477,873.47		0.00
2. Advance payments made	3,995,058.71		0.00
		4,472,932.18	
II. Tangible assets			
Property, plant and equipment		510,439.98	0.00
III. Financial assets			
Holdings in affiliated companies		286,312,676.03	286,262,676.03
		291,296,048.19	286,262,676.03
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	422,866,922.23		458,527,486.70
2. Other assets	238,495.85		148,212.64
		423,105,418.08	458,675,699.34
II. Cash			
Cash deposits in banks		161,816.50	1,832,241.45
		423,267,234.58	460,507,940.79
Total Assets		714,563,282.77	746,770,616.82

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
LIABILITIES

Deutsche Wohnen AG, Frankfurt/Main Balance Sheet at 12/31/2008	12/31/2008		12/31/2007
	EUR	EUR	EUR
Liabilities			
A. Equity			
I. Subscribed capital		26,400,000.00	26,400,000.00
II. Capital reserve		269,078,575.95	348,922,970.37
III. Revenue reserves			
legal reserve		1,022,583.76	1,022,583.76
IV. Balance sheet profit		0.00	433,019.55
		296,501,159.71	376,778,573.68
B. Provisions			
1. Pension plan		22,557.00	0.00
2. Miscellaneous provisions		3,008,817.00	1,683,234.04
		3,031,374.00	1,683,234.04
C. Liabilities			
1. Convertible bonds	0.00		24,339,156.05
2. Liabilities towards banks	331,362,212.44		338,964,158.73
3. Trade payables	0.00		796,983.97
4. Liabilities towards affiliated companies	79,876,665.82		91,772.55
5. Miscellaneous liabilities	3,791,870.80		4,116,737.80
		415,030,749.06	368,308,809.10
Total Liabilities		714,563,282.77	746,770,616.82

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
PROFIT AND LOSS STATEMENT

Deutsche Wohnen AG, Frankfurt/Main Profit and Loss Statement 2008	2008	2007
	EUR	EUR
1. Turnover	11,752,619.69	0.00
2. Other operating revenue	1,152,891.53	19,193,544.00
3. Personnel expenses a) Wages and salaries EUR 4,472,604.92 (previous year: EUR 3.726.921,15) b) Social security contributions and pension plan expenses and benefits EUR 426.377,49 (previous year: EUR 6.266,88) of these pension plan EUR 196.101,28 (previous year: EUR 1.656,58)	5,094,256.64	3,733,188.03
4. Depreciation of intangible and fixed assets	104,508.67	0.00
5. Other operating expenses	15,716,252.01	5,097,227.90
6. Earnings from holdings of these from affiliated companies EUR 8.602.004,91 (previous year: EUR 5.710.644,30)	8,602,004.91	5,710,644.30
7. Other interests and similar earnings of these from affiliated companies EUR 7.594.535,21 (previous year: EUR 1.888.361,93)	7,733,747.00	1,913,691.39
8. Interests and similar expenses	20,532,219.07	17,950,510.72
9. Earnings from shifting of profits	616,293.83	396,066.51
10. Expenses incurred in transfer of losses	68,687,477.57	0.00
11. Results of normal operating activities	–80,277,156.97	433,019.55
12. Other taxes	257.00	0.00
13. Annual shortfall (prev. year Annual surplus)	–80,277,413.97	433,019.55
14. Retained earnings	433,019.55	0.00
15. Capital reserve draw down	79,844,394.42	0.00
16. Balance sheet profit	0.00	433,019.55

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

DEUTSCHE WOHNEN AG, FRANKFURT/MAIN

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

Deutsche Wohnen AG is a listed corporation whose registered office is in Germany.

The accompanying annual financial statements were prepared in accordance with the accounting requirements of the German Commercial Code (Handelsgesetzbuch, HGB) and the supplementary provisions of the German Corporations Act (Aktiengesetz, AktG). The profit and loss statement is classified using the total cost (nature of expense) format.

Through the reorganisation of the Deutsche Wohnen Group in the financial year 2008, Deutsche Wohnen AG performs original holding functions. As a result, also employees especially from the areas personnel, accounting/controlling, legal and investor relations are employed in addition to the Management Board. As of the reporting date, Deutsche Wohnen AG has 78 employees. Consequently, a comparison to the previous year is only possible in a limited way.

II. ACCOUNTING POLICIES

The accounting policies were retained basically unchanged to the previous year, with the exception that the balancing method was adapted with respect to the interest rate swap. Within a Micro Hedge, the interest rate swap as hedging and a variable interest rate loan as underlying transaction are considered one valuation unit. Thus balancing in the annual financial statements of the Group does not take place.

Fixed assets
Acquired intangible assets are reported in the balance sheet at cost and devaluated according to their useful life through scheduled amortisation (four years; linear method).

The tangible assets are recognised at cost and/or production costs and are devaluated through scheduled depreciation.

Shares in affiliated companies are generally valuated at cost or, in the event of permanent impairment, at the lower fair value. The list of shareholdings in accordance with § 285 No. 11 German Commercial Code (HGB) is included as Annex 1 in the Notes.

Current assets
Receivables are generally recognised at their nominal amount. Uncollectible receivables are written off.

Pension provisions
Pension provisions are reported in tax allowed amounts. The partial values determined according to actuarial principles pursuant to § 6a of the German Income Tax Act (EStG) are based on an interest rate for accounting purposes of 6%, using actuarial tables 2005 G.

Other provisions
Provisions are recognised to take account of identifiable risks and uncertain obligations. They are carried in the amount deemed necessary as of the balance sheet date on the basis of prudent business judgment.

Liabilities
Liabilities are recognised at the amount repayable.

III. BALANCE SHEET DISCLOSURES

(1) Fixed assets

The development of the single items of the fixed assets is represented in the assets analysis, stating the depreciation of the financial year.

(2) Receivables and other assets

Receivables from affiliated companies principally comprise receivables from cash management agreements from subsidiaries within Deutsche Wohnen Group totalling EUR 422.9 million (previous year: EUR 458.6 million). As in the previous year, other assets mainly comprise tax refund claims. All receivables and other assets have a residual maturity of less than one year.

(3) Equity

Subscribed capital

The registered capital amounts to EUR 26.4 million and is divided into 26.4 million no-par shares with a notional share of EUR 1 per share.

The company shares are registered or bearer shares. If the shares are issued as registered shares, the registered shareholders are entitled to request - in writing or in text form (§ 126b German Civil Law Code (BGB)) – from the Management Board, that the registered shares for which they are listed in the company's share register are converted into bearer shares. The conversion requires the consent of the Management Board.

When capital increases take place, the new shares are issued as bearer shares.

The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital on one or several occasions in the period until August 9, 2011 by up to an aggregate of EUR 3.6 million of authorised capital by issuing up to 3.6 million new ordinary bearer shares against cash or non-cash contributions (authorised capital). The original authorised capital amounted to EUR 10 million.

The share capital is contingently increased by up to a further EUR 10 million with the issue of no-par value bearer shares carrying profit participation rights from the beginning of the financial year in which they were issued (contingent capital I). The contingent capital increase serves to grant shares to creditors or holders of bonds with options or convertible bonds, or profit participation rights with conversion or subscription rights, which in accordance with the authorisation of the Annual General Meeting on August 10, 2006, will be issued by the company or by a company which is 100% directly or indirectly affiliated with the company during the period until August 9, 2011, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with options or convertible bonds or participation rights are exercised or the conversion obligations from such bonds are met and if own shares are not used for this purpose.

The share capital is contingently increased by up to a further EUR 2.7 million with the issue of 2.7 million new no-par value bearer shares carrying profit participation rights from the beginning of the financial year in which they were issued (contingent capital II). The contingent capital increase serves to grant shares to creditors or holders of bonds with options or convertible bonds, or profit participation rights with conversion or subscription rights, which, in accordance with the authorisation of the Annual General Meeting on June 17, 2008, will be issued by the company or by a company which is controlled or majority-owned by the company during the period until June 16, 2013, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with options or convertible bonds and/or participation rights with option or conversion rights are exercised or conversion obligations from such bonds are fulfilled, and insofar as own shares are not used for this purpose.

The share capital is contingently increased by up to EUR k 100 with the issue of up to 100,000 no-par bearer shares (contingent capital III). The contingent increase in capital is only implemented so far as the owners of the subscription rights exercise these subscription rights, which are granted on the authority of the decision taken on item 12 of the agenda of the Annual General Meeting on June 17, 2008 regarding persons entitled to new shares. The new shares participate in profit sharing from the beginning of the financial year in which they originate through exercising the subscription rights.

The Management Board is empowered by the decision taken by the Annual General Meeting on June 21, 2007 to acquire, in observance of the Act on Equal Rights (§ 53a German Corporations Act (Aktiengesetz)), own shares of the company of up to 10% of the total existing registered capital of the company until December 20, 2008.

Capital reserves

The creation of the capital reserves was resolved by the Extraordinary Annual General Meeting in 1999. Capital reserves amounted to EUR 269.1 million as of the balance sheet date. In the past financial year, EUR 79.8 million were taken from capital reserves in order to create leveled out balance sheet profit.

Revenue reserves

Revenue reserves comprise three components.

The legal reserve is mandatory for listed companies. In accordance with § 150 paragraph (2) of the German Corporations Act (AktG), an amount of 5% of the profit for the financial year is to be retained. The legal reserve has an upper limit of 10% of the registered capital.

In the process, existing capital reserves are to be considered in accordance with § 272 paragraph (2) No. 1–3 of the German Commercial Code (HGB) in a manner which reduces the required provision to the legal reserve correspondingly This is valuated on the basis of the registered capital which exists and is legally effective on the balance sheet date and which is to be reported in this amount in the respective annual balance sheet. The legal reserve remains unchanged at EUR 1 million.

(4) Other provisions

The other provisions include essentially provisions for bonuses, profit sharing bonuses, special payments in the amount of EUR 0.9 million, for invoices not yet received in the amount of EUR 1 million, and provisions for leave/flexitime not taken in the amount of EUR 0.5 million.

(5) Convertible bonds

Convertible bonds were issued as part of the purchase price in the GEHAG transaction. The nominal value is EUR 25 million. Deutsche Wohnen AG has issued in total 500 convertible bonds with a nominal value of EUR k 50 each. Their term is three years to July 31, 2010. Repayment is at 9% of the nominal value at the end of the term. The initial conversion price is EUR 45 per share. For balance sheet purposes, the convertible bonds are to be split into components of equity capital and borrowed capital. The equity capital component is reported in the capital reserves.

In the financial year 2008, the convertible bond was transferred to a wholly owned subsidiary of Deutsche Wohnen AG. Consideration was given in form of a receivables settlement.

(6) Liabilities

	Balance	residual term up to one year	up to five years	more than five years
	k EUR	k EUR	k EUR	k EUR
1. Liabilities towards banks	331,362	64,109	41,692	225,561
2. Liabilities towards affiliated companies	79,877	79,877	0	0
3. Other liabilities	3,792	3,792	0	0

For the liabilities to banks, the subsidiaries provided collateral by way of property liens in the amount of EUR 140 million to cover liabilities of Deutsche Wohnen AG.

Other liabilities relate primarily to a residual liability to Hoechst AG, Frankfurt/Main, totalling EUR 3.6 million.

IV. NOTES ON THE PROFIT AND LOSS

(7) Other operating income

Other operating income includes essentially income from the liquidation of provisions (EUR k 1,067). In the previous year, income from the disposal of financial assets amounted to EUR 19.2 million.

(8) Other operating expenses

Other operating expenses include mainly consulting and audit costs totalling EUR 4.5 million, administration expenses totalling EUR 4 million, services received from other Group companies totalling EUR 1.1 million, expenses for Investor Relations totalling EUR 1 million, expenses for advertising totalling EUR 0.7 million, travel costs totalling EUR 0.5 million, and rents totalling EUR 0.4 million.

V. DERIVATIVE FINANCIAL INSTRUMENTS

Deutsche Wohnen AG has concluded an interest rate swap of EUR 78 million to hedge cash-flow risks from variable interest loans. The negative market value as of the balance sheet date is EUR 7.2 million and was calculated on a mark-to-market basis. Compared to the previous year, the balancing of the interest rate swaps was changed so that no more provisions are set up, since the interest rate swaps and the underlying transaction are valuation units. The market value of the interest rate swaps as of 31 December, 2008 is EUR – 7.2 million. Thus the annual profits would have been charged by that amount.

VI. CONTINGENCIES

As of the reporting date, two corporate guarantees totalling EUR 1.21 million had been issued for Rhein-Pfalz Wohnen GmbH and Deutsche Wohnen Management- und Servicegesellschaft mbH for the benefit of R+V Versicherung AG, Wiesbaden.

A control agreement exists between Deutsche Wohnen AG as controlling company and Rhein-Pfalz Wohnen GmbH as controlled company.

VII. OTHER FINANCIAL OBLIGATIONS

These result from the service agreements entered into in 2008 in the amount of EUR 7.08 million.

OTHER DISCLOSURES

Management Board

In the financial year 2008, the Management Board comprised the following members:

Name	Tenure	Memberships in supervisory boards and other supervisory committees in the sense of the § 125 par. 1 s. 3 of the German Stock Corporation Act (AktG)
Michael Zahn, economist, Chairman of the Management Board	from September 1, 2007	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin, Chairman of the Supervisory Board (since April 7, 2008) Sanierungs- und Gewerbebau-AG, Aachen, Chairman of the Supervisory Board
Helmut Ullrich, lawyer, Chief Financial Officer	from August 1, 2007	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin, (since April 7, 2008)

The total remuneration of the Management Board of Deutsche Wohnen AG comprises the following for the financial year January 1 to December 31, 2008:

Management Board Remuneration	Fixed Remuneration	Variable Remuneration	Total Remuneration
	k EUR	k EUR	k EUR
Michael Zahn	300	200	500
Helmut Ullrich	300	200	500
	600	400	1,000

Supervisory Board

The Supervisory Board is composed as follows:

Name	Tenure	Profession	Membership of Supervisory Boards and other supervisory committees as per § 125 Para. 1 P. 3 Corporations Act (AktG)
Hermann T. Dambach, Chairman	from June 17, 2008	Chief Executive Officer Oaktree GmbH, Frankfurt/Main	GEHAG GmbH, Berlin Nordenia International AG, Greven Sanierungs- und Gewerbebau-AG, Aachen Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH, Berlin (until April 7,2008) R&R Ice Cream Ltd., North Yorkshire, Great Britain German ACORN Real Estate, Cologne (Vice- Chairman of the Supervisory Board)
Dr. Andreas Kretschmer, Vice Chairman		Chief Executive Officer Ärzteversorgung Westfalen-Lippe Subsidiary of the Ärztekammer Westfalen-Lippe - KöR -, Münster	BIOCEUTICALS Arzneimittel (Pharmaceuticals) AG, Bad Vilbel IVG Institutional Funds GmbH, Wiesbaden Private Life Biomed AG, Hamburg Biofrontera AG, Leverkusen TRITON, St. Helier/Jersey GEHAG GmbH, Berlin
Jens Bernhardt		Director, Bernhardt Advisory GmbH, Bad Homburg	GEHAG GmbH, Berlin
Uwe E. Flach	from June 17, 2008	Senior Advisor OCM GmbH	Nordenia International AG, Greven (Chairman of the Supervisory Board) STADA Arzneimittel AG, Bad Vilbel Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH, Berlin (Chairman of the Supervisory Board until April 7, 2008) Haus und Heim Wohnungsbau-AG, Berlin (Chairman of the Supervisory Board) Andreae-Noris Zahn AG (ANZAG), Frankfurt/Main (until February 12, 2008) GEHAG GmbH, Berlin, (Chairman of the Supervisory Board) German ACORN Real Estate, Köln (Chairman of the Supervisory Board) Versatel AG, since February 11, 2009
Matthias Hünlein		Managing Director Tishman Speyer, Frankfurt/Main	A.A.A. Aktiengesellschaft Allgemeine Anlagenverwaltung, Frankfurt/Main
Hans-Werner Jacob	until January 3, 2008	Executive Officer Deutsche Bank AG, Frankfurt/Main	GEHAG GmbH, Berlin
Dr. Florian Stetter		Managing Director Tishman Speyer, Frankfurt/Main	GEHAG GmbH, Berlin

The Supervisory Board compensation was adjusted in the Annual General Meeting on June 17, 2008. Accordingly, each Member of the Supervisory Board receives a fixed compensation of EUR k 20, the Chairman of the Supervisory Board double that amount, and a Vice Chairman one and a half times the amount of the compensation. The compensation granted to the Supervisory Board in the financial year amounts to EUR k 150, i. e. EUR k 175 with value added tax. Furthermore, expenses in the amount of EUR k 19 were reimbursed to the members of the Supervisory Board.

Shareholdings with duty of disclosure § 160 German Corporations Act (AktG)

Cohen & Steers, Inc., New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on February 28, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HNC) exceeded the threshold of 3% of the voting rights with shares on February 25, 2008 and now amounts to 3.09% (which corresponds to 815,188 voting rights). These voting rights are to be assigned to Cohen & Steers, Inc. in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG) in conjunction with clause 2.

Cohen & Steers Capital Management, Inc., New York, NY 10017, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on April 11, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3 % of the voting rights with shares on April 3, 2008 and now amounts to 3.06% (which corresponds to 807,544 voting rights). 3.06% of the voting rights (which corresponds to 807,544 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG).

Julius Baer American Inc., 330 Madison Avenue, New York, NY 10017, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act [WpHG] on June 3, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) fell below the threshold of 3% of the voting rights with shares on May 27, 2008 and now amounts to 2.26% (which corresponds to 596,259 voting rights). 2.26% of the voting rights (which corresponds to 596,259 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG) along with § 22 paragraph 1, clause 2 of the Securities Trading Act (WpHG).

Julius Baer Investment Management LLC, 330 Madison Avenue, New York, NY 10017, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on June 3, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt am Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) fell below the threshold of 3% of the voting rights with shares on May 27, 2008 and now amounts to 2.26% (which corresponds to 596,259 voting rights). 2.26% of the voting rights (which corresponds to 596,259 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG).

Julius Bär Holding AG, Bahnhofstraße 36, 8001 Zurich, Switzerland, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on June 3, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) fell below the threshold of 3% of the voting rights with shares May 27, 2008 and now amounts to 2.38% (which corresponds to 629,259 voting rights). 2.38% of the voting rights (which corresponds to 629,259 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG) along with § 22 paragraph 1 of the Securities Trading Act (WpHG).

First Eagle Overseas Fund, New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on June 9, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3% of the voting rights with shares on June 4, 2008 and now amounts to 3.07% (which corresponds to 811,610 voting rights).

Arnhold and Bleichroeder Advisers LLC, New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on June 26, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt am Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3% and 5% of the voting rights with shares on June 25, 2008 and now amounts to 5.12% (which corresponds to 1,351,910 voting rights). 4.26% of the voting rights (which corresponds to 1,125,610 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act [WpHG] from First Eagle Overseas Fund.

British Empire Securities and General Trust PLC, London, Great Britain, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on June 27, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 5% of the voting rights with shares on June 25, 2008 and now amounts to 5.19% (which corresponds to 1,370,698 voting rights).

Cohen & Steers Capital Management, Inc., New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on July 3, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt am Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) fell below the threshold of 3% of the voting rights with shares on June 30, 2008 and now amounts to 2.76% (which corresponds to 728,340 voting rights). 2.76% of the voting rights (which corresponds to 728,340 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG).

First Eagle Overseas Fund, New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on July 3, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 5% of the voting rights with shares on July 3, 2008 and now amounts to 5.24% (which corresponds to 1,383,380 voting rights).

Cohen & Steers Inc., New York, USA, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on July 14, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) fell below the threshold of 3% of the voting rights with shares on July 9, 2008 and now amounts to 2.989% (which corresponds to 788,986 voting rights). 2,989% of the voting rights (which corresponds to 788,986 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 6 of the Securities Trading Act (WpHG) along with § 22 paragraph 1, clause 2 of the Securities Trading Act (WpHG).

Correcting their notification from November 13, 2007, published on December 4, 2007, British Empire Securities and General Trust PLC, London, Great Britain, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on September 30, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3% of the voting rights with shares on November 13, 2007 and now amounts to 3.51% (which corresponds to 926,339 voting rights).

Asset Value Investors Ltd, London, Great Britain, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG), that its share of the voting rights in our company exceeded the threshold of 10% on September 17, 2008 and as of that day amounts to 10.01% (2,643,696 voting rights). Of these, 10.01% (2,643,696 voting rights) are to be assigned to it in accordance with § 22 paragraph 1 clause 1 No. 6 of the Securities Trading Act (WpHG). In the process, voting rights from the following shareholder, whose share of the voting rights in Deutsche Wohnen AG is 3% or more, are assigned to it: British Empire and General Trust PLC.

Akelius Apartments Ltd., Nicosia, Cyprus, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on December 11, 2008 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3% of the voting rights with shares on December 8, 2008 and now amounts to 3.83% (which corresponds to 1,010,564 voting rights).

Akelius University Foundation, Nassau, Bahamas, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on January 7, 2009 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 3% of the voting rights with shares on December 8, 2008 and now amounts to 3.83% (which corresponds to 1,010,564 voting rights). 3.83% of the voting rights (which corresponds to 1,010,564 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 1 of the Securities Trading Act (WpHG) from Akelius Apartments Ltd.

Akelius Apartments Ltd., Nicosia, Cyprus, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on January 23, 2009 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt/Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 5% of the voting rights with shares on January 21, 2009 and now amounts to 5.09% (which corresponds to 1,344,265 voting rights).

Akelius University Foundation, Nassau, Bahamas, notified us in accordance with § 21 paragraph 1 of the Securities Trading Act (WpHG) on January 23, 2009 that its share of the voting rights in Deutsche Wohnen AG, Frankfurt am Main, Germany (ISIN: DE000A0HN5C6, WKN: A0HN5C) exceeded the threshold of 5% of the voting rights with shares on January 21, 2009 and now amounts to 5.09% (which corresponds to 1,344,265 voting rights). 5.09% of the voting rights (which corresponds to 1,344,265 voting rights) are to be assigned to the company in accordance with § 22 paragraph 1, clause 1, No. 1 of the Securities Trading Act (WpHG) from Akelius Apartments Ltd.

Auditor's fee

The fees of the auditors Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft recognised as expenses in the financial year amount to EUR k 483 for the audit and EUR k 263 for other services. The other services resulted from the project-accompanying audit in connection with the SAP migration.

Employees

The average number of employees in the reporting year was 55.

Consolidated annual financial statements

The Company is the Group parent and prepares consolidated annual financial statements which are filed with the commercial register of Frankfurt/Main Local Court (Reg. No. HRB 42388).

Corporate Governance

The Board of Directors and the Supervisory Board have issued the declaration of conformity with the German Corporate Governance Code required in accordance with § 161 German Corporations Act (AktG), which has been made permanently available to shareholders online under www.deutsche-wohnen.com.

Frankfurt/Main, February 13, 2009

Deutsche Wohnen AG

Michael Zahn Chairman of the Management Board	Helmut Ullrich Chief Financial Officer

AUDITOR'S OPINION

We have audited the annual financial statements consisting of the balance sheet, profit and loss statement and the explanatory notes to the consolidated annual financial statements, taking into account the bookkeeping and the financial report on the position of the Deutsche Wohnen AG Group, Frankfurt/Main, for the financial year of January 1 to December 31, 2008. The bookkeeping and the preparation of the annual financial statements and the financial report for the company and the Group in accordance with the regulations of German Commercial Law are the responsibility of the legal representatives of the company. It is our task to issue an assessment of the annual financial statements including the bookkeeping and the financial report for the company and the Group on the basis of the audit carried out.

We have carried out our audit of the consolidated annual financial statements in accordance with § 317 of the German Commercial Code (HGB), taking into account the established German principles for proper and orderly reporting relating to audits of annual financial statements of the Institute of German Auditors (Institut der Wirtschaftsprüfer, IDW). The audit is to be planned and implemented in a manner that inaccuracies and breaches, which can have a significant impact on the presentation of the view of the revenue, financial and asset position conveyed by the consolidated annual financial statements – also taking into account the principles of proper and orderly bookkeeping - and by the financial report for the company and the Group, are recognised with sufficient reliability. When determining the audit procedures, the knowledge of the business activity and of the economic and legal environment of the company, as well as the expectations regarding possible errors are taken into account. In the course of the audit, the effectiveness of the internal control system relating to accounting standards and the evidence for the information in the bookkeeping, the annual financial statements and the financial report for the company and the Group are assessed primarily on the basis of random checks.

The audit includes the assessment of the applied accounting principles and the essential assessments of the legal representatives, as well as the consideration of the overall view of the annual financial statements and of the financial report for the company and the Group. We are of the view that our audit constitutes a sufficiently firm basis for our assessment.

Our audit has not resulted in any objections.

According to our assessment – based on the knowledge obtained during the audit – the annual financial statements take into account the statutory regulations and convey a view of the revenue, financial and asset position of the Group, which corresponds with the actual circumstances, taking into account the principles of proper and orderly bookkeeping. The management report for the company and the Group is consistent with the annual financial statements, conveys overall an appropriate view of the position of the company and presents the opportunities and risks related to its future development appropriately.

Eschborn/Frankfurt/Main, February 13, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Ewald Völker Auditor	Gregor Enzenhofer Auditor

ASSURANCE OF THE LEGAL REPRESENTATIVES

"We assure to the best of our knowledge that in accordance with the applicable financial accounting principles the annual financial statements convey a view of the revenue, financial and asset position of the company, which corresponds with the actual circumstances, and that in the financial report the business performance including the financial result and the position of the company is portrayed in such a manner that the significant opportunities and risks of the company's likely development are depicted."

Frankfurt/Main, February 13, 2009

Deutsche Wohnen AG

Michael Zahn Chairman of the Management Board	Helmut Ullrich Chief Financial Officer

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
DEVELOPMENT OF THE FIXED ASSETS 2008

	Acquisition and Production Costs				
	01/01/2008	Acquisitions	Divestitures	Repostings	12/31/2008
	EUR	EUR	EUR	EUR	EUR
I. Intangible assets					
1. Concessions, commercial proprietary rights and similar rights and values, as well as licences to such rights and values	0.00	518,488.39	0.00	0.00	518,488.39
2. Advance payments made	0.00	3,995,058.71	0.00	0.00	3,995,058.71
	0.00	4,513,547.10	0.00	0.00	4,513,547.10
II. Tangible assets					
Other investments, operational and business equipment	0.00	574,333.73	0.00	0.00	574,333.73
	0.00	574,333.73	0.00	0.00	574,333.73
III. Financial assets					
Holdings in affiliated companies	286,262,676.03	50,000.00	0.00	0.00	286,312,676.03
	286,262,676.03	50,000.00	0.00	0.00	286,312,676.03
	286,262,676.03	5,137,880.83	0.00	0.00	291,400,556.86

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
DEVELOPMENT OF THE FIXED ASSETS 2008

	Cumulative Depreciation					Book Values	
	01/01/2008	Acquisitions	Divestitures	Repostings	12/31/2008	12/31/2008	12/31/2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets							
1. Concessions, commercial proprietary rights and similar rights and values, as well as licences to such rights and values	0.00	40,614.92	0.00	0,00	40,614.92	477,873.47	0.00
2. Advance payments made	0.00	0,00	0.00	0,00	0,00	3,995,058.71	0.00
	0.00	40,614.92	0.00	0,00	40,614.92	4,472,932.18	0.00
II. Tangible assets							
Other investments, operational and business equipment	0.00	63,893.75	0.00	0,00	63,893.75	510,439.98	0.00
	0.00	63,893.75	0.00	0,00	63,893.75	510,439.98	0.00
III. Financial assets							
Holdings in affiliated companies	0.00	0.00	0.00	0,00	0.00	286,312,676.03	286,262,676.03
	0.00	0.00	0.00	0,00	0.00	286,312,676.03	286,262,676.03
	0.00	104,508.67	0.00	0,00	104,508.67	291,296,048.19	286,262,676.03

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
ASSETS

Deutsche Wohnen AG, Frankfurt / Main Consolidated financial statement as at December 31, 2008		2008	2007
	Appendix	k EUR	k EUR
Assets			
Investment properties	D.1	2,900,673	3,271,205
Fixed assets	D.2	17,745	27,948
Intangible assets	D.3	4,652	370
Other non-current assets		198	168
Holdings in affiliated companies	D.4	495	435
Deferred tax asset	D.16	92,559	86,614
Non-current assets		3,016,322	3,386,740
Land and buildings held for sale	D.5	19,355	21,887
Other inventories		1,908	1,725
Trade receivables	D.6	21,202	18,562
Derivative financial instruments	D.7	0	32,231
Income tax receivables		5,479	2,879
Other assets		2,796	3,907
Payment instruments	D.8	41,974	47,874
Subtotal current assets		92,714	129,065
Non-current assets held for sale	C.10	17,696	4,597
Current assets		110,410	133,662
Total Assets		3,126,732	3,520,402

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG
LIABILITIES

Deutsche Wohnen AG, Frankfurt / Main Consolidated financial statement as at December 31, 2008		2008	2007
	Apppendix	k EUR	k EUR
Liabilities			
Equity allocated to shareholders of the parent company			
Subscribed capital	D.9	26,400	26,400
Capital reserve	D.9	269,677	349,521
Accumulated consolidated earnings	D.9	352,913	559,902
		648,990	935,823
Minortiy interest		302	302
Total equity		649,292	936,125
Non-current financial liabilities	D.10	1,991,077	2,034,087
Convertible bonds	D.11	25,430	24,339
Pension obligations	D.12	39,300	41,562
Liabilities towards fund limited liability partners	D.13	48,006	46,631
Tax liabilities	D.15	60,652	68,126
Derivative financial instruments	D.7	49,349	0
Other provisions	D.14	12,506	11,375
Deferred tax liabilities	D.16	71,660	135,835
Total non-current liabilities		2,297,979	2,361,955
Current financial liabilities	D.10	98,096	145,468
Trade receivables		22,800	25,420
Other provisions	D.14	10,296	9,440
Derivative financial instruments	D.7	0	3,804
Tax liabilities	D.15	21,629	13,739
Other liabilities		26,640	24,451
Total current liabilities		179,461	222,322
Total Liabilities		3,126,732	3,520,402

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

PROFIT AND LOSS STATEMENT

Deutsche Wohnen AG, Frankfurt / Main Consolidated profit and loss statement for the period January 1 to December 31, 2008		2008	2007
		k EUR	k EUR
Turnover	E.18	315,512	204,354
Result from property privatization			
Sales proceeds		119,710	58,501
Carrying amounts of assets disposed		– 102,301	– 53,215
		17,409	5,285
Other operating income		11,423	6,291
Profit from company merger		0	64,099
Total income		344,344	280,030*
Expenses for trade payables	E.19	– 139,085	– 96,914
Personnel expenses	E.20	– 43,541	– 31,729
Other operating expenses	E.21	– 31,222	– 27,268
Restructuring and reorganization expenses	E.22	– 24,092	– 9,989
Expenses in connection with listings brochure	E.23	0	– 1,810
Total expenses		– 237,940	– 167,710
Interim result		106,404	112,320*

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

PROFIT AND LOSS STATEMENT

Deutsche Wohnen AG, Frankfurt / Main Consolidated profit and loss statement for the period January 1 to December 31, 2008		2008	2007
		k EUR	k EUR
Result from fair value adjustment of investment property	D.1	– 276,528	30,948*
Depreciations	D.2 / 3	– 1,794	– 1,689
Result from affiliated companies	D.4	60	18
Earnings before interest and taxes (EBIT)		– 171,859	141,596
Financial income		2,540	4,736
Result of market value adjustment of derivative financial instruments	D.7	– 32,197	– 7,845
Financial expenses	E.24	– 127,281	– 72,739
Earnings before taxes		– 328,797	65,749
Income taxes	E.25	56,471	– 35,963
Result of continuing business areas		– 272,326	29,786
Result of discontinued business areas		16,421	0
Result for the period		– 255,905	29,786
Of these allocated to:			
Shareholders of parent company		– 255,905	29,786
Minority interests		0	0
		– 255,905	29,786

* In comparison to the previous year, the result from the fair value adjustments of the investment property is reported according to the interim result and not according to the earnings. The marked items have therefore changed; originally they reported the following values: total earnings k EUR 310,978, interim result k EUR 143,268.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

CASH FLOW STATEMENT

Deutsche Wohnen AG, Frankfurt/Main Group cash flow statement for the period from January 1 to December 31, 2008		2008	2007
	Appendix	k EUR	k EUR
Operating activity			
Result for the period before tax and interest from divisions to be continued		–204,056	133,751
Result for the period after tax from abandoned divisions		16,421	0
Non-cash expenses/income			
Non-cash Earnings from merger		0	–64,099
Fair Value adjustment of investment property	D.1	276,528	–30,948
Depreciations		1,794	1,689
Adjustment of interest rate swaps	D.7	32,197	7,845
Other non-cash expenses/earnings		–17,246	2,160
Changes in the net working capital			
Changes in receivables, inventories and others current assets		–5,248	45,099
Changes in the operating liabilities		–1,345	–43,023
Operating cash flow		99,045	52,475
Interest paid		–109,577	–62,472
Interest received		2,540	1,396
Taxes paid		–2,350	–1,878
Cash flow from operating activity		–10,342	–10,479

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

CASH FLOW STATEMENT

Deutsche Wohnen AG, Frankfurt/Main Group cash flow statement for the period from January 1 to December 31, 2008		2008	2007
	Appendix	k EUR	k EUR
Investment activity			
Proceeds from sales		104,684	96,397
Payments for investments		–28,578	–165,452
Other payments		0	–497
Payments for the purchase of a receivable as part of the acquisition of subsidiaries		0	–78,000
Proceeds from the sale of subsidiaries		18,770	0
Payments for the acquisition of subsidiaries less purchased cash		0	–146,261
Payments in connection with DB 14		–6,117	–5,195
Cash flow from investment activity		88,759	–299,007
Financing activity			
Proceeds from loans taken up		82,032	380,989
Redemption of loans		–166,348	–39,545
Payout to shareholders		0	–17,600
Cash flow from financing activity		–84,316	323,844
Net changes of cash		–5,900	14,358
Cash at the start of the period		47,874	33,516
Cash at the end of the period		41,974	47,874

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

STATEMENT OF CHANGES IN EQUITY

Deutsche Wohnen AG, Frankfurt/Main
Consolidated statement of changes in group equity as at December 31, 2008

	Shares	Registered capital	Capital reserve
	k each	k EUR	k EUR
Appendix	D.9	D.9	D.9
Equity as at December 31, 2006	20,000	20,000	170,755
Results recognized directly in equity			
Results for the period			
Total consolidated result in financial year		0	0
Issuance of 6,400,000 shares in connection with the GEHAG transaction	6,400	6,400	177,664
Equity part of the convertible bonds issued in connection with the GEHAG transaction			1,102
Acquisition of minority interests through company acquisitions			
Payouts			
Equity as at December 31, 2007	26,400	26,400	349,521
Results recognized directly in equity			
Result for the period			
Total consolidated result in financial year		0	0
Capital reserve draw down			–79,844
Equity as at December 31, 2008	26,400	26,400	269,677

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

STATEMENT OF CHANGES IN EQUITY

Deutsche Wohnen AG, Frankfurt/Main
Consolidated statement of changes in equity as at December 31, 2008

	Accumulated consolidated result	Total	Minority interests	Equity
	k EUR	k EUR	k EUR	k EUR
Appendix	D.9		B	
Equity as at December 31, 2006	545,666	736,421	0	736,421
Results recognized directly in equity	2,050	2,050		2,050
Results for the period	29,786	29,786	0	29,786
Total consolidated result in financial year		31,836	0	31,836
Issuance of 6,400,000 shares in connection with the GEHAG transaction	0	184,064		184,064
Equity part of the convertible bonds issued in connection with the GEHAG transaction	0	1,102		1,102
Acquisition of minority interests through company acquisitions			302	302
Payouts	–17,600	–17,600		–17,600
Equity as at December 31, 2007	559,902	935,823	302	936,125
Results recognized directly in equity	–30,929	–30,929		–30,929
Result for the period	–255,905	–255,905		–255,905
Total consolidated result in financial year	–286,834	–286,834	0	–286,834
Capital reserve draw down	79,844	0		0
Equity as at December 31, 2008	352,912	648,989	302	649,292

Statement of changes in equity
(Statement of Recognised Income and Expense – SORIE)

	k EUR	k EUR
Result included directly in equity December 31, 2006		–156
Net result from actuarial profits and losses		2,050
Result included directly in equity December 31, 2007		1,894
Net result from actuarial profits and losses	321	
Net result from cashflow hedging	–31,250	–30,929
Result included directly in equity December 31, 2008		–29,035

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2008

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

1 The Deutsche Wohnen Group

(1) The consolidated annual financial statements of Deutsche Wohnen AG ("Deutsche Wohnen") as of December 31, 2008 were prepared by the Management Board on March 13, 2009. The Supervisory Board approved the consolidated annual financial statements in its meeting on March 31, 2009. Deutsche Wohnen AG is a nationally operating property company based in Germany whose registered office is located at Pfaffenwiese 300, Frankfurt/Main, and is registered in the commercial register of the Frankfurt/Main Local Court under the number HRB 42388.

(2) Deutsche Wohnen AG's business activities are restricted to its role as the holding company for the companies included in the Group. This includes especially Asset Management, Legal, Personnel, Financing/Controlling/Accounting, as well as Communication/Marketing and Investor Relations. The operations of the subsidiaries focus on residential property management and housing privatisation of the property which is mainly located in Berlin and in the Rhine-Main/Rhineland Palatinate area.

(3) The consolidated annual financial statements have been prepared in Euros. Unless otherwise stated, all figures are rounded to thousand (EUR k). Slight mathematical rounding differences may be reflected in the tables and references. The consolidated annual financial statements as of December 31, 2007 serve as comparison period. We also inform that the GEHAG Group was only included with five months in the consolidated annual financial statements of Deutsche Wohnen in the financial year 2007, which limits comparability.

2 Consolidated annual financial statements

(4) The consolidated annual financial statements of Deutsche Wohnen and its subsidiaries were prepared in line with the International Financial Reporting Standards (IFRS) as they apply in the EU.

(5) The consolidated annual financial statements have generally been prepared using the historical cost approach, with the exception of in particular investment property and derivatives, which are valued at fair value.

(6) The consolidated annual financial statements comprise the annual financial statements of Deutsche Wohnen and its subsidiaries as of December 31 of a given financial year. The annual financial statements of the subsidiaries are prepared using standard accounting policies as of the same balance sheet date as the annual financial statements of the parent company.

3 Application of IFRS in the financial year

(7) The IASB and the IFRIC have published standards and interpretations listed in the following that were already applied to EU law in the context of the comitology procedure, but were not yet obligatory to apply in the financial year 2008. Deutsche Wohnen does not apply these standards and interpretations early. Deutsche Wohnen has examined the effects from the future application of these standards and interpretations and assumes that no effects arise for the consolidated annual financial statements, since either no corresponding circumstances exist or the existing balancing practice already corresponds to the status of the new standards and interpretations. The application of the new standards and interpretations will lead to additional notes.

» IFRS 8 Operating segments

(8) IFRS 8 was published in November 2006 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. IFRS 8 requires a company to report information concerning the business segments of a company and replaces the obligation according to IAS 14 to determine primary and secondary segment reporting formats for a company. IFRS 8 follows the so-called management approach, according to which segment reporting complies only with finance information that is used by the decision makers of the company for the internal control of the company. The internal reporting and organisational structures, as well as such financial figures as are consulted for the decision-making concerning the allocation of resources and the valuation of the profitability, are decisive during this process.

» IAS 23 Borrowing costs

(9) The revised standard IAS 23 was published in March 2007 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. The standard cancels the previous option rights and requires borrowing costs which can be attributed to a qualified asset to be capitalised. An asset is defined as a qualified asset, when a considerable time period is required in order to put it in its intended condition for use or sale. The standard provides for a prospective application of the new regulation.

» IAS 1 Presentation of the annual financial statements

(10) The revised standard IAS 1 was published in September 2007 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. The revision of the standard includes essential changes regarding the presentation and reporting of financial information in the annual financial statements. In future, only business transactions with the shareholders in their capacity as shareholders may be reported in the statement of changes in equity. The other changes of equity are to be reported in the presentation of the result for the aggregate period, which can be drawn up either in the form of a single list or in the form of two lists, a profit and loss statement and a presentation of the result for the aggregate period. In addition, the standard provides for a company to include a balance sheet at the beginning of the earliest comparison period in its annual financial statements, if it retroactively uses an accounting method or retroactively adapts or reclassifies items in the annual financial statements.

» Revisions to IFRS 1 and IAS 27 – Costs of purchase of a share in a subsidiary, jointly-run company or affiliated company

(11) The revisions to IFRS 1 and IAS 27 were published in May 2008 and are to be applied for the first time in the reporting period beginning on or after January 1, 2009. The revisions to IFRS 1 let a company determine the costs of purchase of shares in subsidiaries, jointly-run companies and affiliated companies in its IFRS opening balance sheet, while also using amounts reported according to previously applied financial reporting standards or using the fair value as a replacement for costs of purchase (deemed cost). The revisions to IAS 27 concern only the separate individual annual financial statements of a parent company and stipulate especially that all dividends from subsidiaries, jointly-run companies and affiliated companies are recognised in the profit and loss statement of the separate individual annual financial statements. The temporary provisions basically provide for a prospective application.

» Revisions to IFRS 2 – Exercise conditions and annulments

(12) The revision to IFRS 2 was published in January 2008 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. On the one hand, the reforms clarify the concept of the exercise conditions, and on the other hand regulate the balancing process for terminating share-based payment plans by the employees. The temporary regulations provide for a retrospective application of the new regulation.

» Revisions to IAS 32 and IAS 1 – Terminable financial instruments and obligations arising from liquidation

(13) The revisions to IFRS 32 and IAS 1 were published in February 2008 and are to be applied for the first time in the reporting period beginning on or after January 1, 2009. Derogation is introduced according to which terminable financial instruments are to be classified as equity insofar as certain criteria are fulfilled. Furthermore, information regarding these financial instruments is mandatory.

» Improvements of the IFRS 2008

(14) The revisions from the improvement project 2008 were published in May 2008 and – with the exception of IFRS 5 (here starting July 1, 2009) - are to be applied for

the first time in the reporting period beginning on or after January 1, 2009. In the context of the improvement project 2008, a variety of both material revisions affecting the balancing process and the valuation and purely editorial revisions were issued. The latter concern for example the revision of single definitions and formulations in order to guarantee the conformity with the other IFRS.

» IFRIC 13 Customer loyalty programs

(15) The IFRIC interpretation 13 was published in June 2007 and is to be applied for the first time in the reporting period beginning on or after July 1, 2008. According to this interpretation, awards granted to customers are to be shown in the balance sheet as a turnover separately from the transaction in line with which they were granted. Therefore, a part of the fair value of the service received will be allocated to the granted customer awards and shown as a liability. The turnover is recognised in the period in which the granted customer awards will be exercised or are due.

» IFRIC 14 IAS 19 – The limitation of a performance-oriented asset, minimum allocation obligations and their interaction

(16) The IFRIC interpretation 14 was published in July 2007 and is to be applied at the latest with the beginning of the first financial year after December 31, 2008. This interpretation gives guidelines for determining the maximum amount of the surplus from a performance-oriented plan that may be activated as an asset according to IAS 19 Payments to employees.

(17) The IASB and the IFRIC have published standards and interpretations listed in the following that were not yet obligatory to apply in the financial year 2008. These standards and interpretations have not yet been accredited by the EU and are not applied by the Group.

» IFRS 1 Initial application of the IFRS

(18) The revised standard IFRS 1 was published in November 2008 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. The revision of the standard includes only editorial changes and a restructuring of the standard. The revision does not result in changes of the balancing and valuation regulations for first-time users of IFRS.

» IFRS 3 Business mergers

(19) The revised standard IFRS 3 was published in January 2008 and is to be applied for the first time in the reporting period beginning on or after July 1, 2009. The standard was subject to a comprehensive revision as part of the convergence project of IASB and FASB. The important amendments concern in particular the introduction of an option when evaluating minority interests between recognition with the identifiable net assets on a pro-rata basis (so-called purchased-goodwill method) and the so-called full-goodwill method, according to which all of the goodwill, including the share attributable to the minority interests of the acquired business, is to be recognised. Furthermore, the revaluation of pre-existing shareholdings recognised in the profit and loss statement when control is obtained for the first time (successive business acquisition), the mandatory consideration of an exchange value – which is linked to the occurrence of future events – at the time of the acquisition, and the recognition of transaction costs in the profit and loss statement are to be highlighted. The temporary provisions provide for prospective application of the new regulation. There are no amendments for assets and liabilities which relate to business mergers before application of the new standard for the first time.

» IAS 27 Consolidated and separate annual financial statements in accordance with IFRS

(20) The revised standard IAS 27 was published in January 2008 and is to be applied for the first time in the reporting period beginning on or after July 1, 2009. The revisions concern primarily the accounting of shares over which the company has no controlling influence (minority interests), which are in future to share in full the losses of the Group, and of transactions which result in the loss of control in a subsidiary and the impact of which is to be recognised in the profit and loss statement. The impact from the sale of shares which do not result in the loss of control is, on the other hand, to be recognised directly in equity. The temporary provisions basically provide for a prospective application. There are thus no amendments for assets and liabilities which relate to such transactions before application of the new standard for the first time.

» Revisions to IAS 39 – Qualifying underlying transactions

(21) The revisions to IAS 39 were published in July 2008 and are to be applied retrospectively for the first time in the reporting period beginning on or after July 1, 2009. The revisions specify how the principles contained in IAS 39 for the mapping of hedging relations are to be applied to the designation of a one-sided risk in an underlying transaction as well as to the designation of inflation risks as underlying transaction. They make clear that it is permissible to designate only a part of the changes of the fair value or the cash flow fluctuations of a financial instrument as underlying transaction.

» IFRIC 12 Service concession arrangements

(22) The IFRIC interpretation 12 was published in November 2006 and is on principle to be applied for the first time in the reporting period beginning on or after January 1, 2008. This interpretation has so far not been included in EU law. The interpretation regulates the balance-sheet treatment of obligations assumed in the context of service concessions and rights obtained in the annual financial statements of the owner of the concession.

» IFRIC 15 Agreements on the construction of property

(23) The IFRIC interpretation 15 was published in July 2008 and is to be applied for the first time in the reporting period beginning on or after January 1, 2009. This interpretation gives guidelines regarding the time and scope of the income realisation from projects for the construction of property.

» IFRIC 16 Hedging of net investments in a foreign business

(24) The IFRIC interpretation 16 was published in July 2008 and is to be applied for the first time in the reporting period beginning on or after October 1, 2008. IFRIC 16 gives guidelines for the identification of foreign-currency risks, which can be hedged in the context of the hedging of a net investment, for the determination which Group company can hold the hedging instruments for the hedging of the net investment, and for the determination of the foreign-currency profit or loss, which in case of the sale of the foreign business is to be reclassified from the equity into the profit and loss statement. This interpretation is to be applied prospectively.

» IFRIC 17 Dividends in kind to shareholders

(25) The IFRIC interpretation 17 was published in November 2008 and is to be applied for the first time in the reporting period beginning on or after July 1, 2009. This interpretation gives guidelines regarding the balancing process and valuation of obligations that include a distribution of dividends in kind to the shareholders. The interpretation comments especially on the time, the valuation and the identification of these obligations. According to it, such an obligation is to be applied and valuated against the fair value, if the company can no longer evade this obligation. The application of the obligation and any change to the fair value of the asset concerned are to be reported in the equity. Recognition in the profit and loss statement in the amount of the difference between the fair value and of the book value of the asset does not take place until the moment of the transfer of this asset to the shareholders. This interpretation is to be applied prospectively.

» IFRIC 18 Transfer of customers assets

(26) The IFRIC interpretation 18 was published in January 2009 and is to be applied for the first time in the reporting period beginning on or after 01 July, 2009. This interpretation gives guidelines regarding the balancing process of agreements, through which a company receives tangible assets or cash and cash equivalents from a customer, which the company must use to connect the customer for example to a supply network and / or to grant the customer continuous access to the supply with goods or services. The interpretation comments specifically on the recognition criteria of customer contributions and the time as well as the scope of the income realisation from such business transactions. This interpretation is to be applied prospectively.

4 Material judgments, estimates and assumptions

(27) In the preparation of the consolidated annual financial statements, discretionary judgments, estimates and assumptions are made by the management, which have an impact on the level of income, expenses, assets, and liabilities reported on the balance sheet date and on the reporting of contingent liabilities. Due to the uncertainty associated with these assumptions and estimates, results might emerge which in future would lead to considerable adjustments being made to the book value of the assets or liabilities concerned.

Discretionary judgments

(28) The management made the following discretionary judgments in applying the accounting policies, which materially affected the amounts in the annual financial statements. This does not include decisions involving estimates.

» **Obligations under operating leases – Group as lessor**
(29) The Group has concluded lease agreements to rent its investment property. It was determined – based on an analysis of the contract terms and condi-

tions – that all significant risks and rewards of the properties leased under operating leases remain with the Group, which therefore reports these contracts as operating leases. The book value of the investment property amounts to EUR 2,900.7 million (previous year: EUR 3,271.2 million).

Estimates and assumptions

(30) The key predictive assumptions and other significant sources of uncertainty which existed for estimates as of the reporting date - which indicate that there is a considerable risk that a significant adjustment of carrying amounts of assets and liabilities will be necessary in the coming financial year - are explained in the following:

» Fair value of investment property

(31) The fair value of investment property was established on December 31, 2008, on the basis of a portfolio assessment conducted internally by Deutsche Wohnen. The properties are divided into clusters dependent upon their location and their quality. On the basis of these clusters, assumptions are made on the development of rent, vacancy rates, income shortfalls, maintenance expenses, and discount rates. These valuation assumptions are subject to uncertainties due to their long-term nature which could in future result in positive or negative changes in value. Due to the financial crisis, risks exist at present with respect to the valuation of investment property. The global crisis of the financial system has caused a high degree of uncertainty in the European real-estate market. In this environment, it is possible that the fair values are subject to volatility. The book value of the investment property amounts to EUR 2,900.7 million (previous year: EUR 3,271.2 million).

» Current deferred taxes

(32) Deutsche Wohnen reports higher deferred tax assets than deferred tax liabilities in the balance sheet. This surplus results essentially from the fair-value valuation of the property assets realised on December 31, 2008 and takes into account the tax effect resulting from it and not deferred tax assets from accumulated losses brought forward, unless they are subject to deferred tax liabilities. In future, the realisation of the deferred tax assets takes place through fiscal depreciation and additional fiscal outflows in sales. Currently deferred tax assets amount to EUR 92.6 million (previous year: EUR 86.6 million).

» Minority interests

(33)The minority interests (in Eisenbahn-Siedlungsgesellschaft mbH, Berlin) have been calculated based on the regulations in the articles of the company. In accordance with this, the minority partner is, in the case of a distribution, only entitled to a dividend in the amount of 4 % of the capital he holds.

» Pensions and other post-employment benefits

(34)The expense from post-employment defined benefit plans is determined based on actuarial calculations. The actuarial valuation is based on assumptions relating to discount rates, future wage and salary increases, mortality rates, and future pension increases. Such estimates are subject to considerable uncertainty because of the long-term nature of these plans. As of December 31, 2008, the pension provisions amount to EUR 39.3 million (previous year: EUR 41.6 million).

» Liabilities to Fund limited partners

(35) The limited partners of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co.KG, Eschborn (from here on "DB 14"), have the opportunity to tender their shares until 2019. For the valuation of the liability it is assumed that the shares will be fully tendered. As of December 31, 2008, the liability amounts to EUR 48 million (previous year: EUR 46.6 million).

5 Changes in accounting policies

(36) Deutsche Wohnen basically applied the same accounting policies as in the previous year.

Since the requirements for Hedge Accounting for all existing hedging instruments were fulfilled as of December 31, 2008, current market values of hedging instruments (interest rate swaps) amounting to EUR 49.3 million (previous year: EUR 0 million) are reported as noncurrent liabilities. No noncurrent assets result from the fair-value valuation of the hedging instruments in 2008 and 2007. The statement does not represent a change of the accounting policies, but rather results on basis of the now existing documentation of hedging correlations between underlying transactions (variably interest-bearing loan) and hedging (interest rate swaps).

B CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

1 Consolidated companies

(37) The consolidated annual financial statements include Deutsche Wohnen AG and the subsidiaries under its control from the time of acquisition, i. e. from the time that the Group took control. Inclusion in the consolidated annual financial statements ends as soon as the parent company no longer has control. The composition of Deutsche Wohnen is in accordance with the list of shareholdings attached as Appendix 1.

Changes in the consolidated companies

Changes in 2008 / Discontinued division

(38) With purchase contract from June 13 / 18, 2008, the shares in AKF – Telekabel TV und Datennetze GmbH and its subsidiaries (in the following "AKF Group") were sold at a cash purchase price of EUR 19.9 million. Effective date of the transfer was July 3, 2008. A profit contribution of EUR 16.4 million before and after taxes resulted from the deconsolidation of the AKF Group. Altogether, the AKF Group had an income in the amount of EUR 4.5 million and expenses in the amount of EUR 5 million, so that a profit before and after taxes (profit and loss transfer agreement) of EUR – 0.5 million resulted in the financial year 2008.

With the sale, cash and cash equivalents in the amount of EUR 0.2 million were divested. Furthermore, tangible assets in the amount of EUR 12.8 million, current assets in the amount of EUR 1.1 million, financial liabilities in the amount of EUR 9.9 million, and current liabilities in the amount of EUR 1.6 million were divested. Only insignificant cash flows were earned from the discontinued division.

Summary of the changes in 2007

(39) Through various associated, individual transactions, Deutsche Wohnen acquired the majority of shares in the GEHAG Group from the previous shareholders on August 9, 2007. The total cost of the acquisition was EUR 371 million.

(40) As a result, the Deutsche Wohnen Group holds 99.99 % of the shares in the GEHAG Group. The following shows the purchase price breakdown.

The fair values determined for the assets and liabilities which could be identified at the time of the acquisition and the corresponding book values directly before the time of the acquisition were as follows:

	Fair value as of the time of acquisition	Previous book value
	k EUR	k EUR
Investment property	1,790,248	1,790,248
Tangible assets	25,773	25,773
Intangible assets	198	198
Affiliated companies	417	417
Deferred tax assets	64,884	55,265
Derivative financial instruments	36,272	36,272
Other assets	36,120	36,120
Cash and cash equivalents	15,617	15,617
	1,969,529	1,959,910
Financial liabilities	1,120,957	1,156,674
Pensions provisions	39,686	39,686
Deferred tax liabilities	64,133	53,418
Liabilities to shareholders	78,000	78,000
Other liabilities	231,712	184,653
	1,534,488	1,512,431
Net asset position	435,041	
Negative consolidation difference	– 64,099	
Acquisition costs	370,942	

The difference between the fair value of the other liabilities and the book value is based on the EK02 taxation (EUR 47.1 million) within the GEHAG Group, which has already been taken into account.

The acquisition costs are composed as follows:

Acquisition costs	
	k EUR
Contribution agreement from July 2, 2007	
Issuance of 6,400,000 shares at fair value Current market value (closing share price 28.76 EUR/share at the time of acquisition)	184,064
Convertible bond	25,000
	209,064
Share purchase agreement from July 2, 2007	
Cash purchase price	179,145
Correction by EK02 guarantee	– 25,000
	154,145
Ancillary costs of acquisition	7,733
	370,942

(41) The issue of the convertible bond was reported at fair value. The borrowed capital component totalled EUR 23.9 million at the time of the acquisition.

(42) The amount of the negative consolidation difference is attributable – amongst other things – to the development of the share price between the time of the signing of the purchase contract and the actual effective date of the transfer. Between July 2, 2007 and August 9, 2007, the share price dropped from around EUR 39/share to around EUR 29/share. With the number of shares issued, this corresponds to a reduction in the purchase price of approximately EUR 64 million.

(43) With the acquisition of the company, cash and cash equivalents totalling EUR k 15,617 were acquired. The net purchase price to be paid concerning the acquisition of the GEHAG Group is calculated as follows:

Net purchase price	
	k EUR
Purchase price	154,145
Ancillary costs of acquisition	7,733
Acquired cash and cash equivalents	– 15,617
	146,261

(44) From the acquisition of the GEHAG Group results a minority share of EUR k 302. This corresponds to the share of the Land Berlin in the amount of 0.0004 % and minority interests of other subsidiaries.

(45) Since the time of the acquisition, the GEHAG Group has contributed EUR 112.9 million to revenue and EUR – 16.6 million to result. If the merger had already taken place at the beginning of the year 2007, the revenue would have amounted to EUR 210.4 million and result for 2007 to EUR 248.8 million.

2 Consolidation methods

(46) The annual financial statements of the subsidiaries are prepared using standard accounting policies as of the same balance sheet date as the annual financial statements of the parent company. Subsidiaries are fully consolidated from the time of the acquisition, i. e. from the time when the Group had control. Inclusion in the consolidated annual financial statements ends as soon as the parent company no longer has control.

(47) The capital consolidation takes place according to the acquisition method (IFRS 3); this nets the cost of the acquisition at the time of the acquisition with the net assets corresponding to the amount of the shareholding, assessed at fair value. If the share of net assets acquired exceeds the cost of acquisition of the shareholding, the amount of the cost of acquisition and the amount of the net assets are reviewed again in accordance with IFRS 3. The income-related difference remaining after this is immediately recognised in profit or loss.

(48) All intercompany balances, transactions, revenues, expenses, profits and losses from intercompany transactions which are included in the carrying amount of assets are eliminated in full.

(49) Minority interests represent the share of the profit and net assets which are not to be assigned to the Group. Minority interests are reported separately in the Group's profit and loss statement and in the consolidated balance sheet. This is reported in the consolidated balance sheet under equity, separate from the equity allocated to the shareholders of the parent company.

C ACCOUNTING POLICIES

1 Investment property

(50) Investment property is property held to earn rentals or for capital appreciation and not for owner occupancy or for sale as part of normal business activities. The investment property includes land with residential and commercial buildings, land without buildings and land with heritable third-party building rights.

(51) At initial recognition, investment property is valuated using the cost method including incidental costs. After initial recognition, the investment property is valuated at fair value. Profits or losses from the adjustment are recognised in the consolidated profit as income or expense. Prepayments or assets under construction related to investment property are valuated using the cost method and reported under investment property.

(52) An internal valuation took place as of December 31, 2008.

(53) The valuation had the following procedure: The properties were assigned to clusters. Homogeneous groups (clusters) were formed, which differed from each other in respect to the location and quality of the administrative units and therefore their respective risk.

(54) The cluster formation was in line with the following schema:

Cluster	Location quality	Property quality
AA	Good location	Good property
AB	Good location	Normal property
AC	Good location	Basic property
BA	Normal location	Good property
BB	Normal location	Normal property
BC	Normal location	Basic property
CA	Basic location	Good property
CB	Basic location	Normal property
CC	Basic location	Basic property

Furthermore, these clusters were organised according to the regions Berlin, Brandenburg, Rhine-Main/Rhine Valley South, remaining Rhineland-Palatinate, and remainder.

(55) An investment property is derecognised on its sale or permanent withdrawal from use and when no future economic benefits are expected from its disposal. Profits or losses arising from the retirement or disposal of investment property are recognised in the profit and loss statement in the year the property was retired or disposed of.

(56) A property is transferred from the stock of investment property when there is a change in its utilisation which is due to the start of owner occupancy or the commencement of the selling process.

(57) When an investment property is transferred to the stock of owner-occupied property, the cost of the property for the following valuation corresponds with the fair value at the time of the change of utilisation.

2 Tangible assets

(58) Tangible assets are recognised at acquisition or manufacturing cost less accumulated, scheduled depreciation and accumulated impairment losses. Subsequent costs are only recognised if it is probable that a future economic benefit associated with the tangible assets will flow to the company.

(59) Tangible assets are subsequently valuated at amortised cost. The straight-line depreciation or depreciation by usage is based on the estimated useful life of the assets. The useful life of land and buildings is 50 years. For moveable assets the useful life is four to ten years.

(60) The book values of tangible assets are checked for impairment as soon as there are indications that the book value of an asset exceeds its recoverable amount.

(61) A tangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Profits or losses relating to the asset's disposal are recognised in the profit or loss calculation as the difference between the net disposal proceeds and the book value of the asset when the item is derecognised.

(62) Net book values related to the assets, useful lives and depreciation methods are reviewed at the end of each financial year and adjusted where necessary.

3 Intangible assets

(63) Only purchased intangible assets are reported in Deutsche Wohnen. These are valuated at cost and systematically amortised using the straight-line method over the respective useful life of the asset. The useful life is between three to five years.

4 Shares in affiliated companies

(64) Shares in affiliated companies are reported in accordance with the equity method. An affiliated company is a company in which the Group has a significant influence and which is neither a subsidiary nor a joint venture.

(65) In accordance with the equity method, shares in affiliated companies are recognised in the balance sheet at cost, including changes of the Group's share in the net assets of the company that take place after the acquisition. With the application of the equity method, the Group establishes whether it is necessary to consider an additional impairment loss with respect to the net investment of the Group in the affiliated company. The profit and loss statement includes the share of the Group in the profits of the affiliated company. The balance sheet date and the accounting policies for similar business transactions and events of the affiliated company are consistent with those of the Group.

5 Borrowing costs

(66) Borrowing costs are recognised as an expense in the period in which it is incurred.

6 Impairment of non-financial assets

The Group examines on each balance sheet date whether there are indications that an asset could be impaired. If there are such indications or if an annual examination of the impairment of an asset is necessary, the Group makes an estimate of the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the two amounts – the fair value of an asset or a cash-generating unit less selling costs and utility value. The recoverable amount is to be determined for each individual asset, unless an asset does not produce any cash flows that are largely independent of those of other assets or other groups of assets. If the book value exceeds its recoverable amount, the asset is impaired and is depreciated to its recoverable amount.

(67) Impairment losses are recognised in profit or loss in the expense categories which correspond with the function of the impaired asset in the company.

(68) Assets are examined as of every balance sheet date to determine whether the indications for a previously recognised impairment loss no longer exist or have lessened. If such indications exist, the Group makes an estimate of the recoverable amount. A previously registered impairment loss is only reversed if since its last entry there has been a change in the estimates, which were drawn upon for the determination of the recoverable amount. If this is the case, the book value of the asset is increased to its recoverable amount. This amount, however, may not exceed the book value which would result from a scheduled depreciation if no impairment loss were registered for the asset in previous years. An upward revaluation is registered in the profit for the period.

7 Financial assets

(69) Financial assets in terms of IAS 39 are classified by Deutsche Wohnen either

- » as financial assets, which are valuated in the profit or loss at fair value,
- » as loans and receivables,
- » as available-for-sale financial assets, or
- » as derivative financial instruments that fulfil the requirements of an effective hedging.

(70) At initial recognition, financial assets are valuated at fair value. In the case of other financial investments than those, which are classified as valuated at fair value on the profit and loss account, transaction costs which are to be assigned directly to the acquisition of the asset are also considered. The financial assets are designated to valuation categories at initial recognition. Reclassifications are made at the end of the financial year, provided that they are permitted and necessary.

(71) All purchases and sales of financial assets which are customary for the market are recognised in the balance sheet at the trade date, i.e. at the day when the Group made the commitment to purchase or sell the asset. Purchases and sales which are customary for the market are purchases and sales of financial assets, which specify delivery of the assets within a period determined by market regulations or conventions.

(72) Except for derivatives (interest rate swaps), no financial assets held for commercial purposes and financial investments held until final maturity have so far been reported in the Deutsche Wohnen Group.

(73) The receivables and other assets recognised in 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 listed in an active market. After initial recognition, loans and receivables are subsequently valuated at amortised cost using the effective interest method, less impairment. Profits and losses are recognised in the profit and loss for the period when the loans and receivables were derecognised or impaired, or when amortisation takes place.

(74) Impairment of receivables from rental activities is recorded on the basis of empirical values. For other receivables and assets, appropriate value adjustments are made on a case-by-case basis.

(75) The interest rate swaps are valuated at fair value on the basis of a mark-to-market method, independently of whether they are classified as non-effective or effective hedging instruments.

(76) A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised if one of the three following conditions is met:

- » The contractual rights to the cash flow from a financial asset have expired.
- » The Group retains the contractual rights to draw cash flows from financial assets, but assumes a contractual obligation to pay the cash flow without any significant delay to a third party as part of an agreement which meets the conditions in IAS 39.19 ("pass-through arrangement").
- » The Group has transferred its contractual rights to cash flow from a financial asset and has
  a) essentially transferred all of the risks and opportunities which are associated with the ownership of the financial asset, or has
  (b) essentially neither transferred nor retained all of the risks and opportunities which are associated with the ownership of the financial asset, but has transferred the authority to dispose the asset.

(77) If the Group transfers its contractual rights to cash flow from an asset and essentially neither transfers nor retains all of the risks and opportunities which are associated with the ownership of the financial asset and also retains the authority to dispose the transferred asset, the Group continues to recognize the transferred asset within the scope of its ongoing commitment.

8 Inventories

(78) Inventories include land held for sale with finished and unfinished buildings, work in progress and other inventories.

(79) The initial valuation is at acquisition or manufacturing cost. As of the balance sheet date, the valuation is at the lower value of the two figures – acquisition cost or net realizable value. The net realizable value is the estimated recoverable sales proceeds related to regular business operations, less the estimated costs to completion and the estimated necessary cost of sales.

9 Cash and cash equivalents

(80) Cash and cash equivalents in the balance sheet comprise cash in hand, bank balances and current investments with original maturities of less than three months.

10 Assets held for sale

(81) The Deutsche Wohnen Group reports investment property as assets held for sale where notarial purchase contracts exist on the balance sheet date, but the transfer of ownership is taking place later. The valuation is at the lower value of the two amounts - the book value or the fair value, less selling costs. In the case of owner-occupied property (IAS 16), depreciation is discontinued from the date of reclassification. The property is allocated to the housing privatisation segment.

11 Financial liabilities

(82) Financial liabilities in terms of IAS 39 are classified by Deutsche Wohnen either

- » as other financial liabilities, valuated at amortised cost, or
- » as derivative financial liabilities that fulfil the requirements of an effective hedging.

Financial liabilities

(83) At initial recognition, loans are valuated at fair value, less the transaction costs which are directly associated with the borrowing. After initial recognition, the interest loans are subsequently valuated at amortised cost using the effective interest method. Profits and losses are recognised in the profit and loss for the period when the debts are derecognised or when amortisation takes place.

Participation rights

The employees of GEHAG have the opportunity of taking an interest in GEHAG in the form of participation rights as silent partners. These participation rights are acquired at a nominal amount and provide entitlement to a share in the profits. After eight years, the employee has the right to cancel the participation rights agreement. When exercising the right of cancellation, the accumulated balance of the capital account is paid out (nominal value + profit share ./. loss share). There is no obligation to make an additional payment. Participation rights are reported as noncurrent borrowed capital (EUR 0.3 million) under financial liabilities.

Convertible bonds

(84) Convertible bonds were issued as part of the acquisition of the GEHAG Group. Convertible bonds are viewed as compound financial instruments which consist of liability and equity components. The liability component as of the issue date is valuated with a discount of future payments at the appropriate interest rate customary for the market.

(85) The equity and liability components were assessed by means of an independent expert as of the issue effective date. The total of both components represents the total value of the convertible bonds.

Trade payables and other liabilities

(86) At initial recognition, the liabilities are valuated at fair value. After initial recognition, the liabilities are subsequently valuated at amortised cost using the effective interest method. Profits and losses are recognised in the profit and loss for the period when the debts are derecognised or when amortisation takes place.

Liabilities to Fund limited partners

(87) In accordance with IAS 32 (rev. 2003), the cancellation options of the limited partners are an important criterion for the separation of equity and borrowed capital. Financial instruments, which grant the holder (here: limited partner) the right of return to the issuer against payment of a sum of money, represent a financial liability. Due to the existing rights of cancellation of the limited partners, the limited partner shares and the "net assets of the shareholders" are included in the reported borrowed capital.

In accordance with IAS 32.35 (rev. 2003), the share of the limited partners and minority shareholders in the profits are consequently to be reported as financial expense.

(88) The net assets of the limited partner have to be recognised as of the end of the financial year end at the fair value amount of a possible repayment amount. Thus, increases in value are recognised as a financing expense and impairment as financing income in the profit and loss statement. The amount of the repayment obligation is in accordance with the articles of the company.

(89) Within Deutsche Wohnen, liabilities to Fund limited partners total EUR k 48,006 (previous year: EUR k 46,631).

(90) A financial liability is derecognised when the obligation upon which this liability is based is met, cancelled or has expired. If an existing financial liability is exchanged for another financial liability with the same lender at substantially different contract terms and conditions or if the terms and conditions of an existing liability are changed significantly, such an exchange or change is treated as a derecognition of the original liability and the entry of a new liability. The difference between the respective book values is recognised in the profit and loss statement for the period.

12 Pensions and other post-employment benefits

(91) Pension provisions are formed for obligations (pension, invalidity, widow/widower pension and orphan pension benefits) from deferred benefits and from current benefits to entitled active and former employees and their surviving dependents.

(92) The expenses for the benefits granted as part of the defined benefit plans are established using the projected unit credit method. Actuarial profits and losses are recognised directly in retained earnings in the statement of recognised income and expense ("SORIE").

(93) Any possible expense related to former working hours is allocated on a straight-line basis over the average period until non-forfeiture of the benefits. If benefits are non-forfeitable immediately after the introduction or change of a pension plan, the expense related to former working hours is to be recognised immediately in the profit and loss statement.

(94) The Deutsche Wohnen Group pays contributions from defined contribution plans based on legal requirements to state pension fund providers. The current contribution payments are reported as social insurance contributions under personnel expenses. With the payment of the contributions there are no further benefit obligations for the Group.

(95) There are also pension plans in accordance with the regulations governing public-sector supplementary pensions. This is based on membership of a Group company in the Bavarian pension fund for professional groups (Bayerische Versorgungskammer, BVK). This supplementary pension comprises a partial or full pension for reduced earnings capacity and an old-age pension as a full pension or a surviving dependents' pension. The charge levied by the BVK is determined as the portion of the employee's remuneration used to calculate the supplementary pension contribution.

(96) The BVK therefore represents a multi-employer defined benefit plan 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.

(97) No specific information is known about any overfunding or underfunding of the plan or the related future effects on Deutsche Wohnen Group. However, an external expert opinion from previous years puts Deutsche Wohnen's currently unfunded pension obligations to the BVK at EUR 12.35 million. This could be regarded as an indication of a deficit, which could result in an increase in the contribution payments made by Deutsche Wohnen to the BVK in future.

13 Provisions

(98) A provision is set if the Group has a current (legal or factual) obligation based on a past event, if the outflow of resources embodying economic benefits is probable, and a reliable estimate of the amount of the obligation is possible. If the Group expects at least in part restitution of a provision recognised as a liability (for example in connection with an insurance policy), the restitution is only recognised as a separate asset if the restitution is as good as certain. The expense for creating the provision is reported in the profit and loss statement after deduction of the restitution. If the impact of the interest rate is significant, provisions are discounted at an interest rate before tax, which reflects the specific risks of the liability, if applicable. In the case of a discount, the increase in provisions necessary over time is recognised as financial expenses.

14 Leases

(99) Leasing transactions are divided into finance leases and operating leases. Contractual regulations, which transfer all significant opportunities and risks associated with the ownership of an asset to the lessee, are reported as finance leases. The leasing object is recorded as an asset with the lessee, and the corresponding obligations are recorded as liabilities. All other leasing transactions are reported as operating leases.

15 Realising income

(100) Income is recognised when it is probable that the economic benefits will flow to the Group and the amount of the income can be reliably determined. In addition, the following criteria have to be met when realising income:

Rental income

(101) Rental income from investment property is recognised monthly over the period of the lease in accordance with the tenancy agreement.

Sale of property

(102) Income is recognised when the significant risks and opportunities associated with the ownership of the property sold have been transferred to the buyer.

Services

(103) Income is recognised in accordance with the performance of the service.

Interest income

(104) Income is recognised when the interest occurred (using the effective interest method, i. e. the discount rate with which the estimated future cash flows over the expected term of the financial instrument are discounted to the net book value of the financial asset).

16 Government grants

(105) Government grants are recognised when there is sufficient certainty that the grants will be awarded and the company meets the associated conditions. In the case of grants related to expenses, these are scheduled over the period which is required in order to set them off against the appropriate expenses which they shall compensate.

(106) Deutsche Wohnen has received government grants in the form of redemption subsidies, redemption loans and interest-subsidised loans.

(107) Redemption subsidies, in the form of rent subsidies, are recognised in the profit and loss statement. This is recognised in the revenue from residential property management.

(108) The redemption and interest-subsidised loans are project-related loans and are reported as financial liabilities. Both offer benefits compared to loans at

market conditions such as lower interest rates or interest and redemption-free periods. The loans have been valuated at fair value and are subsequently valuated at amortised cost. However, they are to be seen in conjunction with restrictions in the property's rent development, which were considered in the fair value valuation.

17 Taxes

Current tax refund claims and tax liabilities

(109) The current tax refund claims and tax liabilities for the current period and for previous periods are to be measured at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The calculation of the amount is based on the tax rates and tax laws which apply on the balance sheet date.

Deferred taxes

(110) The formation of deferred taxes uses the asset and liability method for all temporary differences on the balance sheet date between the valuation of an asset or liability in the balance sheet and the tax value. Deferred tax liabilities are recognised for all temporary differences which are to be taxed, with the exception of the following: The deferred tax liability from taxable temporary differences which are associated with shareholdings in subsidiaries and affiliated companies, and shares in joint ventures, is not recognised, if the reversal of the temporary differences is manageable over the course of time and if it is probable that the temporary differences will not be reversed in the foreseeable future.

(111) Deferred tax assets are recognised for all deductible temporary differences, unused tax loss carry-forwards and unused income tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the unused loss carry-forwards and income tax credits can be offset. The exceptions to this are as follows:

» Deferred tax assets from deductible temporary differences, which arise from the initial recognition of an asset or a liability in a business transaction, which is not a company merger and which at the time of the business transaction does not have an impact on the profit and loss for the period pursuant to commercial law nor the taxable profit and loss, may not be recognised.

» Deferred tax assets from taxable temporary differences which are associated with shareholdings in subsidiaries, affiliated companies and shares in joint ventures, may only be recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be offset.

(112) The book value for deferred tax assets is reviewed as of every balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax assets can be offset at least in part. Deferred tax assets which are not recognised are reviewed as of every balance sheet date and recognised to the extent that it has become probable that a future taxable profit allows the deferred tax assets to be realised.

(113) Deferred tax assets and liabilites are measured on the basis of tax rates which are expected to apply for the period in which an asset is realised or a liability is met. This is based on the tax rates (and tax regulations) which apply or are announced as of the balance sheet date.

(114) Income tax related to items recognised directly in equity is recognised in equity and not in the Group profit and loss statement.

(115) Deferred tax assets and liabilities are offset against each other if the Group has a legally enforceable right to offset tax assets against tax liabilities, and if they relate to income tax levied against the same taxable entity by the same taxation authority.

Change of tax rates

(116) With the corporate tax reform 2008, the tax rates (among other things) have changed as of January 1, 2008. The corporate tax rate was lowered from 25% to 15%. Furthermore, the trade tax base rate has been reduced from 5% to 3.5%. The new tax rates have been used in the calculation of deferred taxes.

Value added tax

(117) Revenues, expenses and assets are recognised after the deduction of value added tax. The exceptions to this are as follows:

» if value added tax on the purchase of assets or services cannot be recovered from the taxation authority, it is recognised as part of the production cost of the asset or as part of the expenses;
and

» receivables and liabilities are recognised together with the amount of value added tax contained therein.

(118) The amount of the value added tax recoverable from or payable to the taxation authority is reported in the balance sheet under receivables or liabilities.

18 Derivatives and hedging

(119) The Group uses derivatives (interest rate swaps) to hedge against interest rate risks. These derivative financial instruments are recognised at fair value when the respective agreement is entered into and subsequently measured 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 based on the mark-to-market method.

(120) Deutsche Wohnen reports finalised interest rate swaps in the balance sheet on the basis of the Hedge Accounting regulations of IAS 39. In addition to the existing documentation of the hedging correlation between hedging and underlying transaction, a requirement for Hedge Accounting is the proof of the effectiveness of the hedging correlation between hedging and underlying transaction. If an effective correlation exists, the effective part of the changes in value of the hedging is directly recognised in equity. The non-effective part is directly 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 noncurrent assets/debts. Deutsche Wohnen has tested the effectiveness of the finalised interest-rate hedging on prospective (Critical Terms Method) and retrospective basis. For derivatives which do not meet the criteria for hedge accounting, profits or losses from changes in the fair value are immediately recognised in profit or loss.

No ineffective parts of the changes in value of the hedging that were reported within the Hedge Accounting occurred in the effectiveness test as of the balance sheet date December 31, 2008. As of December 31, 2007, no hedging was reported within Hedge Accounting.

The Deutsche Wohnen Group only hedges cash flows which relate to future interest payments.

D CONSOLIDATED BALANCE SHEET DISCLOSURES

Non-current assets

1 Investment property

(121) Investment property is measured at fair value. The fair value has developed as follows in the financial year:

	12/31/2008	12/31/2007
	k EUR	k EUR
Start of period	3,271,205	1,341,596
Additions due to company acquisition	0	1,790,248
Additions due to portfolio acquisition	0	138,936
Other additions	21,268	22,692
Disposals due to sale	−95,727	−53,215
Adjustment of fair value	−276,528	30,948
Transfer	−19,545	0
End of period	2,900,673	3,271,205

(122) The following principles were used for the valuation as of December 31, 2008.

(123) The following were derived based on the cluster:
» Derivation of annual rates of increase in rent (−0.25% to 2.2%)
» Derivation of target vacancy rates in a period of 1 to 4.5 years (2% to 11%)
» Derivation of capitalisation rates and discount rates.

(124) Based on the property:
» Establishment of the market rent as of the balance sheet date,
» Development of rent per m² of rental area relating to the adjustment of market rent and actual rent,
» Development of costs (maintenance, administration, rent loss risk and non-apportionable operating costs, interest on heritable building rights if relevant),
» Evaluation of cash flow from annual proceeds and payments and the terminal value at the end of year 10, based on the stabilised cash flow expected in year 11, or an expected sales price less sales expenses,
» Calculation of a fair value based on the administrative unit as of the balance sheet date.

(125) The capitalisation and discount rates were derived based on risk-free rate (10-year average of net yields of federal bonds: 3%) and real estate-specific risk estimates. In the process, discount rates between 6.1% and 8.35% were used. The weighted average of the discount rates comes to 6.79%. The capitalisation rates are between 4.75% and 7.5%. A discount rate shift of 0.1% causes a value adjustment of EUR 49 million.

The result yields an average value of EUR 881 per m² and a target rent multiplier of 13.7 as of December 31, 2008 or a multiplier of 10.9 based on the target rent in 2018.

The investment property essentially serves as collateral for the loans.

(126) **In the previous year,** an external valuation took place as of June 30, 2007, for which the external valuator performed another plausibility check as of December 31, 2007. There were no substantial changes in value during this process. The following principles were used for the valuation as of June 30, 2007:

(127) The following were derived based on the cluster:
» Derivation of annual rates of increase in rent,
» Derivation of target vacancy rates in a period of 1 to 4.5 years (2% to 10%).
» Derivation of capitalisation rates and discount rates.

(128) Based on the property:
» Establishment of the market rent as of the balance sheet date,
» Development of rent per m² of rental area relating to the adjustment of market rent and actual rent,
» Development of the vacancy rate when making cluster-specific assumptions concerning the target vacancy rate,
» Development of costs (maintenance, administration, rent loss risk and non-apportionable operating costs, interest on heritable building rights if relevant),
» Evaluation of cash flow from annual proceeds and payments and the terminal value at the end of year 10, based on the stabilised cash flow expected in year 11, or an expected sales price less sales expenses,
» Calculation of a fair value based on the administrative unit as of the balance sheet date.

(129) The capitalisation and discount rates were derived based on risk-free rate (10-year average of net yields of federal bonds: 4.5%) and cluster-specific risk estimates. In the process, discount rates between 5.5% and 8.75% and capitalisation rates between 4.75% and 8% were used, according to the cluster.

(130) All of the Group's investment property is leased under operating leases. The related rental income amounted to EUR 210.3 million (previous year: EUR 144.6 million). The expenses directly associated with the investment property were EUR 127.7 million (previous year: EUR 89.7 million).

(131) 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 interest-subsidised loans or investment subsidies. Additionally, legal obligations when privatising housing have to be met.

2 Property, plant and equipment

In accordance with IAS 16, classified land and buildings, technical equipment and operating and office equipment are reported under this item. The development in the financial year was as follows:

	12/31/2008	12/31/2007
	k EUR	k EUR
Acquisition costs		
Start of period	31,927	8,184
Changes in the consolidated companies	−12,824	25,773
Additions	2,695	4,752
Disposals	−466	−4,635
Transfers	2,834	−2,147
End of period	24,166	31,927
Accumulated depreciation		
Start of period	3,979	4,286
Changes in the consolidated companies	974	0
Additions	1,560	1,514
Disposals	−92	−1,529
Transfers	0	−292
End of period	6,421	3,979
Remaining book values	17,745	27,948

The land and buildings included in tangible assets (EUR 9 million, previous year: EUR 7.3 million) are essentially secured by real estate collateral.

3 Intangible assets

(132) Intangible assets have developed as follows:

	12/31/2008	12/31/2007
	k EUR	k EUR
Purchase costs		
Start of period	1,200	845
Changes in the consolidated companies	−54	198
Additions	4,570	157
End of period	5,716	1,200
Accumulated depreciation		
Start of period	830	655
Additions	234	175
End of period	1,064	830
Remaining book values	4,652	370

The additions are essentially due to the SAP changeover of Deutsche Wohnen.

4 Shares in affiliated companies

(133) The following companies were included in the consolidated annual financial statements at equity:

	Share	12/31/2008	12/31/2007
	%	k EUR	k EUR
SES Stadtentwicklungsgesellschaft Eldenaer Straße mbH	50.00	165	135
GbR Fernheizung Gropiusstadt	44.26	330	300
		495	435

(134) The following table shows the summarised information for the reported affiliated companies:

	12/31/2008	12/31/2007
	k EUR	k EUR
Share in the balance of affiliated companies		
Current assets	745	2,646
Non-current assets	0	5
Current liabilities	135	1,786
Equity	610	865
Revenue and profit contributed by the affiliated companies		
Revenue	255	27
Result	60	18

5 Land and buildings held for sale

(135) In the financial year 2008, revenue totalling EUR k 2,455 (previous year: EUR k 812) was generated. At the same time there was shortfall from book value totalling EUR k 1,977 (previous year: EUR k 480).

6 Trade receivables

(136) Trade receivables comprised the following:

	12/31/2008	12/31/2007
	k EUR	k EUR
Receivables from rental activities	14,809	7,569
Receivables from property sales	4,888	9,264
Other trade receivables	1,505	1,729
	21,202	18,562

Receivables from rental activity are interest-free and are fundamentally overdue. The valuation adjustments are formed on the basis of the age structure and/or are dependent upon whether the tenants are active or former tenants. Based upon this procedure, the extent of overdue, non-impaired trade receivables is very low.

In the financial year 2008, rental claims totalling EUR 1.9 million (previous year: EUR 2.4 million) were written off, against payments on written-off rental claims in the amount of EUR 0.2 million (previous year: EUR 0.2 million). The value adjustment for receivables amounted to EUR 4.4 million as of December 31, 2008 (previous year: EUR 5.0 million).

Receivables from property sales are interest-free and are in principle due between 1 and 90 days. A value adjustment was made to the receivables from property sales in the financial year 2007 totalling EUR 2.1 million.

The non-impaired receivables from property sales are due as follows:

	of which: as of the balance sheet date neither impaired nor overdue	of which: as of the balance sheet date non-impaired and overdue in the following time bands			
	k EUR	k EUR	k EUR	k EUR	k EUR
		less than 30 days	between 30 and 60 days	between 61 and 90 days	more than 91 days
2008	2,804	1,591	0	0	493
2007	4,391	291	1,392	181	2,209

The other receivables are interest-free and are on principle due between 1 and 90 days.

7 Derivative financial instruments

(137) Deutsche Wohnen has concluded several interest rate hedgings. The following overview represents the essential contract terms:

Nominal amount				12/31/2008	12/31/2007
k EUR	Strike	From	Maturity	k EUR	k EUR
230,000	3.90%	07/01/2003	07/01/2013	−7,549	6,855
172,000	4.74%	09/20/2007	12/29/2017	−15,897	−2,308
122,250	3.40%	04/10/2006	12/31/2015	−268	8,421
108,370	4.10%	12/08/2006	12/30/2016	−4,368	3,833
78,000	4.74%	09/20/2007	12/29/2017	−7,209	−1,045
72,500	3.24%	04/10/2006	12/31/2012	−468	3,918
48,200	4.18%	01/18/2007	12/30/2016	−2,160	1,096
50,000	4.09%	04/10/2007	12/30/2016	−2,169	1,659
50,000	4.68%	03/20/2008	12/29/2017	−4,385	−451
50,000	3.89%	07/21/2008	12/31/2013	−1,357	0
45,000	3.88%	07/10/2008	06/28/2013	−1,072	0
30,000	3.47%	06/30/2003	06/30/2013	−182	1,075
33,500	3.38%	04/10/2006	12/31/2015	−42	2,457
23,175	3.50%−4.50%	07/29/2005	12/30/2016	−896	739
30,000	3.45%	04/10/2006	12/31/2015	−122	2,143
25,000	4.06%	04/10/2008	12/31/2015	−1,069	0
2,540	5.00%	10/02/2006	10/03/2016	−136	35
1,170,535				−49,349	28,427

Based on the hedging contracts shown above, the requirements of Hedge Accounting were fulfilled as of December 31, 2008. The difference between the current market value of the effective hedging as of the balance sheet date (EUR 45.3 million) and the current market value of the effective hedging against the previous balance sheet date (EUR 0 million) was accordingly recognised as a change in equity. The deferred taxes attributable to it (EUR 14 million) are also recognised in the equity.

There are no significant credit risks as the interest rate swaps were concluded with major banks. If the interest rate level changes, the market value changes accordingly. Returns and expenses are recognised in the equity for the effective part of the hedging, the non-effective part is recognised in the current result. If the interest rate level should rise/fall by 50 basis points, the market value of the interest rate swap rises/falls by approximately EUR 31.6 million (previous year: EUR 30 million).

8 Cash and cash equivalents

The cash equivalent of EUR 42 million (previous year: EUR 47.9 million) consists mainly of credit balances at banks, checks and cash in hand. Credit balances at banks are on call deposits and earn interest at varying rates for daily callable credit balances. Current investments are for varying periods of between one day and three months according to the requirements of the company. As of the balance sheet date, the Deutsche Wohnen Group had cash equivalents in the amount of EUR 14.7 million (previous year: EUR 21.1 million) which were not freely available. This was in essence the cash equivalent of DB 14 and rent deposits.

9 Equity

(138) Concerning the development of equity, we refer to the statement concerning changes in the Group's equity.

a) Subscribed capital

(139) The registered capital amounts to EUR 26.4 million (previous year: EUR 26.4 million). The registered capital comprises 26.4 million no-par shares with a notional share of EUR 1 per share. The shares have been issued completely and paid in full.

(140) The company shares are registered or bearer shares. If the shares are issued as registered shares, the registered shareholders are entitled to request - in writing or in text form (§ 126 b German Civil Law Code (BGB)) – to the Management Board, that the registered shares for which they are listed in the company's share register are converted into bearer shares. The conversion requires the consent of the Management Board.

(141) When capital increases take place, the new shares are issued as bearer shares.

(142) The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital on one or several occasions in the period until August 9, 2011, by up to an aggregate of EUR 3.6 million of authorised capital by issuing up to 3.6 million new ordinary bearer shares against cash or non-cash contributions (authorised capital). The original authorised capital amounted to EUR 10 million.

(143) The share capital is contingently increased by up to a further EUR 10 million with the issue of no-par value bearer shares carrying profit participation rights from the beginning of the financial year in which they were issued (contingent capital).

(144) The contingent capital increase serves to grant shares to creditors or holders of bonds with rights or convertible bonds, or profit participation rights with conversion or option rights, which in accordance with the authorisation of the Annual General Meeting of August 10, 2006, will be issued by the company or by a company which is 100% directly or indirectly affiliated to the company in the period up to August 9, 2011, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with rights or convertible bonds or participation rights are exercised or the conversion obligations from such bonds are met and if own shares are not used for this purpose.

(145) The share capital is contingently increased by up to a further EUR 2.7 million with the issue of 2.7 million new no-par value bearer shares carrying profit participation rights from the beginning of the financial year in which they were issued (contingent capital II).

(146)The contingent capital increase serves to grant shares to creditors or holders of bonds with option or convertible bonds, or profit participation rights with option or conversion rights, which, in accordance with the authorisation of the Annual General Meeting on June 17, 2008, will be issued by the company or by a company which is controlled or majority-owned by the company during the period until June 16, 2013, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with option right or convertible bonds and/or participation rights with option or conversion rights are exercised or conversion obligations from such bonds are fulfilled, and insofar as own shares are not used for this purpose.

(147) The share capital is contingently increased by up to EUR k 100 with the issue of up to 100,000 no-par bearer shares (contingent capital III). The contingent increase in capital is only implemented so far as the owners of the subscription rights, which are granted on the authority of the decision taken on item 12 of the agenda of the Annual General Meeting on June 17, 2008 regarding persons entitled to new shares, exercise these subscription rights. The new shares participate in profit sharing from the beginning of the financial year in which they originate through the exercising of the subscription rights.

(148) The Management Board is empowered by the decision taken by the Annual General Meeting on June 21, 2007 to acquire, in observance of the Act on Equal Rights (§ 53a German Corporations Act (Aktiengesetz)), own shares of the company of up to 10% of the total existing registered capital of the company until December 20, 2008.

b) Capital reserves

(149) The creation of the capital reserves was resolved by the Extraordinary Annual General Meeting in 1999 and through the shares issued and the equity contribution to the convertible bonds issued in connection with the GEHAG transaction. In the financial year 2008, EUR 79.8 million were withdrawn from the capital reserve. As of the balance sheet date, the reserve amounts to EUR 269.7 million (previous year: EUR 349.5 million).

c) Accumulated consolidated result

(150) The accumulated consolidated result includes the revenue reserves of Deutsche Wohnen as well as the accumulated profit/loss carried forward.

(151) The legal reserve is mandatory for listed companies. In accordance with § 150 section (2) of the German Corporations Act (AktG), an amount of 5% of the profit for the financial year is to be retained. The legal reserve has an upper limit of 10% of the share capital. In the process, existing capital reserves are to be considered in accordance with § 272 section (2) No. 1–3 of the German Commercial Code (HGB) in a manner which reduces the required provision to the legal reserve accordingly This is measured on the basis of the registered capital which exists and is legally-effective on the balance sheet date and which is to be reported in this amount in the respective annual balance sheet. The legal reserve remains unchanged at EUR 1 million.

d) Minority interests

(152) The minority interests are of the GEHAG Group.

Noncurrent liabilities

10 Financial liabilities

(153) The company has taken on bank loans in particular to finance the GEHAG transaction and the purchase of property.

(154) The financial liabilities comprise the following:

	12/31/2008	12/31/2007
	k EUR	k EUR
Company-related loans	1,474,657	1,632,172
Project-related loans	614,306	547,075
Participation rights	210	308
	2,089,173	2,179,555
of which noncurrent	1,991,077	2,034,087
of which current	98,096	145,468
	2,089,173	2,179,555

The company-related loans are loans which were taken on as part of portfolio acquisitions in 2007 or 2006 or in connection with company acquisitions. These loans have variable interest rates and a remaining term of between four and eight years. The average interest rates are between 4.61% and 5.69%.

(155) The following overview lists the loans which are greater than EUR 10 million:

	Nominal Remaining	12/31/2008	Remaining Balance 12/31/2007	Term	Swap Rate	Interest Rate
Syndicated loan	440,000	399,233	396,166	12/31/2012	86%	EURIBOR + margin
Acquisition of GEHAG	410,000	405,000	385,000	12/31/2017	85%	EURIBOR + margin
Loan 1						
Loan tranche (a)	127,823	121,432	127,823	05/06/2014	None	5,79%
Loan tranche (b)	51,129	48,573	51,129	05/06/2009	None	5,37%
Loan tranche (c)	71,837	68,245	71,837	05/06/2014	None	5,74%
Purchase loan 1	183,000	163,500	183,000	12/31/2015	100%	EURIBOR + margin
Purchase loan 2	230,000	209,083	225,086	12/31/2016	90%	EURIBOR + margin
Loan 2	270,000	0	89,400	09/30/2008	None	EURIBOR + margin
Purchase loan 3	45,000	41,625	43,125	12/31/2015	74%	EURIBOR + margin
Purchase loan 4	19,000	17,966	19,000	12/31/2013	89%	EURIBOR + margin
Others < EUR 10.0 million	0	0	40,606			
	1,847,789	1,474,657	1,632,172			

(156) As part of a down-stream merger in 2002, GEHAG has taken over loans totalling EUR 421 million. With a credit agreement of October 15, 2003, the borrowings and other financial liabilities taken on were converted into noncurrent property financing (syndicated loan of EUR 440 million). The syndicated loan is used as rollover credit and the interest rate is based on EURIBOR plus a margin. Of the total credit volume, EUR 372.5 million is hedged long-term with four payer swaps against interest rate risks. The credit period is limited to December 31, 2012. Land charges, personally enforceable promises to pay, assignment of rights and claims from rent and lease agreements, and purchase contracts serve as collateral.

(157) A loan agreement of EUR 410 million was concluded for the financing of the GEHAG transaction. The loan is divided into four facilities. The interest is determined based on EURIBOR plus a margin. The term is until December 31, 2017.

(158) Loan one was taken on as part of the disengagement of the Deutsche Bank Group and the associated restructuring of finance.

(159) Purchase loans one and two can be used either as current or noncurrent loans. As of the balance sheet date, funds were only taken on as current EURIBOR loans. The terms of the purchase loans end on December 31, 2015/2016.

(160) Purchase loans three and four are connected to the financing of the property that is to be allocated to the section of nursing and residential care homes.

(161) A credit line of EUR 270 million was made available to the Deutsche Wohnen Group; as of December 31, 2007, EUR 89.4 million had been drawn from the credit line (loan two). This credit line was called in by Deutsche Wohnen.

The property-related loans are loans which can be directly allocated to property. These have been taken up in the past primarily for purchases or modernisation purposes. In the case of a sale, these are to be repaid. The average interest rates of the loans are between 0% and 7.5%. The loans with no or low interest – for which in return rent is granted at conditions below the market rent – are measured at amortised cost.

(162) The residual terms are as follows:

	Amount	Residual term to 1 year	Residual term over 1 to 5 years	Residual term over 5 Jahre
	k EUR	k EUR	k EUR	k EUR
Financial liabilities as of 12/31/2008	2,089,173	98,096	202,228	1,788,849
Financial liabilities as of 12/31/2007	2,179,555	145,468	255,917	1,778,170

(163) The liabilities are secured to the amount of EUR 1,577 million (previous year: EUR 1,616 million) by the properties.

11 Convertible bonds

(164) The convertible bonds were issued as part of the GEHAG acquisition on July 31, 2007. They can be converted at any time between the day of issue and the date of repayment into shares of the company. At the time of issue, the convertible bonds were convertible at a conversion price of EUR 45/share.

	12/31/2007	12/31/2008
	k EUR	k EUR
Nominal value of convertible bonds		25,000
Equity component		–1,102
		23,898
Debt component at the start of the period	24,339	23,898
Accrued interest	1,091	441
Debt component at the end of the period	25,430	24,339

(165) If the convertible bonds are not converted into ordinary shares, they will be taken back on July 31, 2010 at the nominal value plus 9% interest. No interest is paid until the settlement date.

(166) The revenue from the issue of the convertible bonds was divided into debt and equity components. The equity component reflects the value of the options in connection with the right to convert the bond into equity.

(167) The fair value of the convertible bonds basically corresponds to the book value due to the short remaining term and the basically unchanged market parameters since their issue. The convertible bonds mature on July 31, 2010, and are reported as a noncurrent liability.

12 Pension provisions

(168) The company's occupational pension scheme consists of defined benefit and contribution pension plans.

(169) Pension provisions 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 the pension obligation (net present value of the projected benefit of the pension commitment) was calculated in accordance with actuarial methods on the basis of an external expert and the following factors:

	12/31/2008	12/31/2007
	%	%
Discount factor	5.90	5.60
Salary dynamics	2.00	2.00
Pension trend	1.75	1.75
Increase in the income threshold for contribution assessment	2.00	2.00
Mortality tables	R 05G	R 05G

(170) The salary trend includes expected future salary increases. This is estimated and depends among other things on the inflation rate and the length of service in the company.

(171) The net pension expenses/revenue comprises the following:

	12/31/2008	12/31/2007
	k EUR	k EUR
Interest expense	–2,127	–1,021
Service period expense reported under employee expenses	–400	–268
Curtailment	0	310
Release	1,023	0
	–1,504	–979

The following overview shows the development of the pension obligations:

	12/31/2008	12/31/2007
	k EUR	k EUR
Pension obligation, start of period	41,562	5,084
Pension payments	–2,171	–1,306
Changes in the consolidated companies	–1,177	39,686
Interest expense	2,127	1,021
Service period expense	400	268
Curtailment	0	–310
Release	–1,023	0
Adjustment of current pensions	36	52
Actuarial profits/losses	–454	–2,933
Pension obligation, end of period	39,300	41,562

The pension commitments extend to old-age, disability, widow/widower and orphan pensions. The reference base is the final fixed annual gross salary. Depending on the position in the company, there are different benefit plans.

(172) The pro-rata expense from the accrued interest is recognised under the interest expense in the income statement, while current pension payments, service costs and adjustments of current pensions are recognised in the personnel expenses item.

(173) The amounts for the current and previous three reporting periods are as follows:

	12/31/2008	12/31/2007	12/31/2006	12/31/2006
	k EUR	k EUR	k EUR	k EUR
Defined benefit obligations	39,300	41,562	5,084	5,121
Adjustments based on empirical figures	–874	–174	–30	n/a

(174) For defined contribution pensions, expenses totalling EUR 3.9 million (previous year: EUR 1.6 million) were recognised. For 2009, based on the current number of employees, expenses totalling EUR 3 million will be recognised.

13 Liabilities to Fund limited partners

(175) On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB 14 the right to sell back the limited partner shares from 2005 to 2019. Under these agreements, the Group is obliged to acquire the shares initially (in 2005) at 105% of the paid-in capital share on request. From 2005, the agreed purchase price for the shares increases by five percentage points per year. Furthermore, outstanding dividend payments are considered for limited partner shares that were sold back.

(176) The liabilities have developed as follows in the financial year:

	12/31/2008	12/31/2007
	k EUR	k EUR
Liabilities at the start of the period	46,631	49,783
Payment for shares sold	–439	–5,195
Dividends	0	–497
Accrued interest	1,814	2,540
Liabilities at the end of the period	48,006	46,631

(177) Liabilities to Fund limited partners are reported under noncurrent liabilities because no further limited partners had exercised their right to sell back as of December 31, 2008. Maturities may change due to the actual exercise of the option to sell shares.

14 Provisions

(178) Provisions comprise the following:

	Revitalization	Restructuring	Others	Total
	k EUR	k EUR	k EUR	k EUR
Start of period	11,043	3,444	6,328	20,815
Changes in the consolidated companies				
Utilization	– 113	– 1,089	– 1,187	– 2,389
Release	0	– 96	– 1,483	– 1,579
Additions	1,276	3,981	698	5,955
End of period	12,206	6,240	4,356	22,802
non-current	12,206	0	300	12,506
current	0	6,240	4,056	10,296

(179) The provision for revitalisation relates to the privatisation agreement between the Land Berlin and GEHAG. According to this agreement, GEHAG is committed to invest a total of originally EUR k 25,565 for improving housing conditions. There are no regulations in the agreement concerning the time period. The calculation assumes a period until 2017 and an interest rate of 5%. The additions concern the accrued interest effect of the provision.

(180) The restructuring provision takes into account obligations from a social compensation plan, severance payments and salaries for released employees.

15 Tax liabilities

(181) Tax liabilities include mainly the present value (EUR k 80,737; previous year: EUR k 77,397) from the compensation for the EK02 stocks in the Deutsche Wohnen Group. In accordance with the Annual Tax Act 2008, the previous regulation concerning the treatment of EK02 stocks is being abolished and instead a for us compulsory flat-rate payment is being introduced. In accordance with this, the closing balance of EK02 as of December 31, 2006 is taxed flat-rate at 3%, regardless of the utilisation. Remaining stock is not applicable and triggers no further increases in corporation tax. The resultant tax amount is to be paid either within a period of ten years from 2008 to 2017 in ten equal annual instalments or at present value in a one-off amount. The whole EK02 stock of the Deutsche Wohnen Group amounts to EUR 3.2 billion. The valuation was based on an interest rate of 4.2%. Furthermore, it was assumed that the payment will be in 10 annual instalments and not in a one-off payment at present value.

16 Deferred taxes

(182) Deferred taxes comprise the following:

	12/31/2008	Change	12/31/2007
	k EUR	k EUR	k EUR
Deferred tax assets			
Property	55,373	8,207	47,166
Loss carry-forwards	14,952	– 15,802	30,754
Other provisions	4,010	116	3,894
Employer pension plans	1,738	– 545	2,283
Interest rate swaps	15,356	14,112	1,244
Others	1,130	– 143	1,273
	92,559	5,945	86,614
Deferred tax liabilities			
Property	52,178	54,687	106,865
Interest rate swaps	0	9,713	9,713
Loans	18,454	521	18,975
Others	1,028	– 746	282
	71,660	64,175	135,835
Deferred taxes – net	20,898	70,119	– 49,221
Recognized directly in equity as change	13,919		– 883
Recognized in the income statement as tax income/expense	56,200		– 7,980
	70,119		– 8,863

(183) The actuarial profits and losses from the pensions and the changes in the current market value of the effective hedging are recognised directly in equity (SORIE). The related deferred taxes are also recognised directly in SORIE and amount to EUR 0.1 million (previous year: EUR 0.9 million) for the actuarial profits and losses, and to EUR 14 million (previous year: EUR 0 million) for the changes in the current market value of the effective hedging.

Deutsche Wohnen has corporation tax loss carry-forwards totalling EUR 1 billion (previous year: EUR 1.1 billion) and trade tax loss carry-forwards totalling EUR 1.0 billion (previous year: EUR 0.9 billion). Corporation tax loss carry-forwards that were not valuated amount to ca. EUR 1 billion, trade tax loss carry-forwards to ca. EUR 0.9 billion. On principle, loss carry-forwards do not forfeit. Deferred tax assets were capitalised to tax loss carry-forwards only to the value of existing deferred tax liabilities.

17 Leases

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

(185) In 2009, Deutsche Wohnen will receive minimum lease payments totalling ca. EUR 51 million (previous year: EUR 48.2 million) from existing operating lease agreements with third parties (implied legal period of notice three months) and with the current property stock. In 2009, Deutsche Wohnen will furthermore receive minimum lease payments totalling EUR 31 million from property related to residential care homes and nursing; for a period between one and five years, the payments will amount to ca. EUR 124 million, and for more than five years they will amount to ca. EUR 155 million. For this, a remaining lease of five years after the fifth year was assumed. The tenancy agreements are in principle indefinite and end with the passing of the tenants or, if there is a default of payments, cancellation on the part of the landlord is possible.

E CONSOLIDATED PROFIT AND LOSS STATEMENT DISCLOSURES

(186) The consolidated profit and loss statement is prepared using the total cost approach. We furthermore would like to point out again that the GEHAG Group is included in the financial year 2007 with only five months and the comparability therefore limited.

18 Revenue

(187) Revenue comprises the following:

	2008	2007
	k EUR	k EUR
Residential property management	277,351	180,784
Nursing and residential care homes	33,117	16,124
Care-giving activities	3,484	3,124
Telecommunications services	0	2,981
Other services	1,560	1,341
	315,512	204,354

The revenue from residential property management comprises the following:

	2008	2007
	k EUR	k EUR
Estimated rent and other income	210,274	144,564
Income shortfalls	– 15,103	– 12,383
Actual rent and other income	195,171	132,181
Revenue from billing of cost allocations	82,180	48,603
	277,351	180,784

(188) The revenue from nursing and residential care homes is realised by KATHARINENHOF®.

19 Cost of purchased services

(189) The cost of purchased services comprises the following:

	2008	2007
	k EUR	k EUR
Expenses for residential property management	127,708	89,718
Expenses for nursing and residential care homes	9,031	3,312
Telecommunications services	0	2,267
Other expenses	2,346	1,617
	139.085	96.914

The expenses for residential property management comprise the following:

	2008	2007
	k EUR	k EUR
Operating costs	83,536	52,625
Maintenance expenses	36,842	32,162
Other expenses	7,330	4,931
	127,708	89,718

20 Personnel expenses

(190) Deutsche Wohnen Group employed on average 1,396 employees (previous year: 1,361 employees):

	2008	2007
	Employees	Employees
Residential property	458	622
Nursing and residential care homes	938	723
Telecommunications	0	16
	1,396	1,361

(191) There were two employees employed in the affiliated companies (previous year: eight employees).

(192) Personnel expenses are composed as follows:

	2008	2007
	k EUR	k EUR
Residential property	25,277	23,672
Nursing and residential care homes	18,264	7,713
Telecommunications	0	344
	43,541	31,729

21 Other operating expenses

(193) Other operating expenses comprise the following:

	2008	2007
	k EUR	k EUR
Cost of data processing and communications	4,753	2,752
Legal, consultancy and audit costs	2,809	2,462
Value adjustments for receivables	2,663	4,214
Cost of sales	4,164	3,296
Cost of office space	2,578	3,859
Vehicle and travel costs	1,203	1,035
Insurances	474	238
Administrative and miscellaneous costs	12,578	9,412
	31,222	27,268

22 Restructuring and reorganisation expenses

(194) The restructuring and reorganisation costs include primarily employee costs (EUR 13.2 million, previous year: EUR 7.3 millions) for severance payments and salary payments to released or retired employees, as well as expenses associated with integration and reorganisation (EUR 10.9 million, previous year: EUR 2.5 million).

23 Expenses relating to the stock exchange prospectus

(195) The expenses relating to the stock exchange prospectus in the financial year 2007 (EUR 1.8 million) include primarily legal, consultancy and audit costs.

24 Financial expenses

(196) The increase in financial expenses is primarily attributable to the necessary financing for the portfolios which were newly acquired in the financial year and for the acquisition of the GEHAG Group.

(197) Financial expenses comprise the following:

	2008	2007
	k EUR	k EUR
Interest	107,274	62,506
Accrued interest on liabilities and pensions	14,329	10,233
Others	5,678	0
	127,281	72,739

25 Income tax

(198) For companies located in Germany with the legal form of a public limited company, corporation tax of 15% (previous year: 25%) as well as a solidarity surcharge of 5.5% (2008 and 2007) of the corporation tax due are accrued. These companies are also subject to trade tax, the amount depending on 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 partner for corporation tax purposes. The trade tax reduces its own assessment basis and for public limited companies the assessment basis for the corporation tax. Limited use of the corporation and trade tax loss carry-forwards is to be considered as of the assessment period 2004. In the process, a positive tax assessment basis is unlimited up to EUR 1 million, amounts beyond EUR 1 million may only be reduced by maximum 60% by an existing loss carry-forward.

(199) The Corporate Tax Reform Act 2008 was passed by a resolution of the Bundesrat (Federal Council of Germany) on July 6, 2007. The law primarily aims at a reduction in tax rates and, for counter-financing purposes, a broadening of the assessment basis; the deductibility of interest payable is limited to 30% of the taxable EBITDA, the trade tax will in future no longer represent a tax deductible expense. The expected income tax rate for 2009 for the Group's parent company Deutsche Wohnen AG will nominally amount to 31.93%. This tax rate was already used for the calculation of deferred tax as of December 31, 2008 and 2007.

(200) The income tax expense for the current financial year comprises the following:

	2008	2007
	k EUR	k EUR
Current tax expense		
Current income tax	– 271	– 1,824
EK02 taxation	0	29,808
	– 271	27,984
Deferred tax expense		
Property	– 62,893	9,904
Loss carry-forwards	15,802	7,494
Loans	– 521	– 6,581
Other provisions	– 116	– 2,403
Interest rate swaps	– 9,773	– 1,057
Pensions	412	– 230
Others	889	852
	– 56,200	7,979
	– 56,471	35,963

For the financial year 2008, the current income tax takes into account income relating to other periods totalling EUR 0.9 million (previous year: expenses EUR 3.3 million).

The change in the tax expense/revenue can be seen in the following overview:

	2008	2007
	k EUR	k EUR
Consolidated profit before tax	– 328,797	65,749
Applicable tax rate	31.93 %	40.86 %
Expected tax expense	– 104,985	26,865
Negative consolidation difference	0	– 26,191
Tax expense from EK02	0	29,808
Not-activated fiscal losses, write-offs on activated loss carry-forwards from previous years, as well as changes in the tax balance sheet	44,253	0
Non-taxable expenses	1,813	0
Effect from change in tax rate	0	3,483
Other effects	2,448	1,998
	– 56,471	35,963

F SEGMENT REPORTING

(201) Deutsche Wohnen reports by business segments. Segment information is not reported by geographical region, as the property and therefore all of the operational activities are in Germany.

(202) Deutsche Wohnen focuses within its business activities on the following three main areas of activity:

Residential property management

(203) The primary business activity of Deutsche Wohnen is the management of residential property as part of an active stock management. Concerning the business side of the property management division, the entire operational activity takes place in the four regional operational centres in Mainz, Frankfurt/Main, Koblenz, and Neustadt a.d. Weinstraße, as well as in Berlin within the GEHAG Group. The stock 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 property. The focus of property management is on the optimisation of rental income. Therefore, as part of the maintenance of the buildings, possible measures which could potentially increase rent are continually reviewed, tenant change is used to enhance value and services providing the greatest possible savings are bought and passed on to the tenants.

Property held for sale is included in this segment.

Housing privatisation

(204) The housing privatisation segment is another pillar of the Deutsche Wohnen Group's operational business. Privatisation can be in the form of individual privatisation, i. e. by selling an individual residential unit (e. g. to tenants), or it can also be in the form of bloc sales.

(205) The housing privatisation segment includes all aspects of the preparation and realisation of the sale of property from the own portfolio as part of portfolio optimisation and adjustment.

(206) Housing privatisation can also take place in connection with the future acquisition of portfolios for portfolio adjustment and for financing.

(207) In view of the housing privatisation segment's change in focus, continual measurement and assessment of the property stock takes place with the aim of optimising the portfolio. The sale's aim is to sell all of the residential units in a property. In the case of scattered properties, the properties which are to be privatised are also offered for individual sale. In future, the annual privatisation volume is to be around 500 residential units. For larger properties/partial portfolios, however, the aim is to complete a bloc sale.

(208) With regards to certain residential units, particularly in Rhineland-Palatinate, and in view of individual stock of the GEHAG Group, Deutsche Wohnen's privatisations are subject to certain restrictions due to the acquisition agreements. Due to these obligations, the Group is partly bound to certain specifications (e.g. sale to tenants, social conditions, etc.) when making privatisation decisions. In part also due to these restrictions, it is not possible to sell the respective property for a certain time period.

Services

(209) With the acquisition of the majority interest in the GEHAG Group, the management of nursing homes and the provision of telecommunications services has become a further pillar of the business activities of Deutsche Wohnen. The nursing homes business is run by KATHARINENHOF® Seniorenwohn- und Pflegeanlagen Betriebs-GmbH (KATHARINENHOF®) and includes 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. The telecommunications services are performed by AKF – Telekabel TV und Datennetze GmbH. The AKF – Telekabel TV und Datennetze GmbH was sold during the reporting year.

(210) Intercompany transactions primarily concern agency agreements which are carried out at conditions which are customary for the market.

(211) The segment reporting is attached as Appendix 2 in the explanatory notes to the consolidated annual financial statement.

(212) The transition from the segment assets or segment liabilities to the consolidated balance sheet can be seen in the following table:

	12/31/2008	12/31/2007
	k EUR	k EUR
Segment assets	3,028,694	3,430,909
Deferred taxes	92,559	86,614
Receivables from income tax	5,479	2,879
	3,126,732	3,520,402

	12/31/2008	12/31/2007
	k EUR	k EUR
Segment liabilities	2,323,500	2,366,576
Deferred taxes	71,660	135,835
Liabilities from income tax	82,281	81,865
	2,477,440	2,584,276

G CASH FLOW STATEMENT DISCLOSURES

(213) The cash flow statement shows the changes in the Group's cash funds due to cash inflows and cash outflows in the course of the financial year. In accordance with IAS 7 (Cash Flow Statements), a distinction is made between cash flows from operating, investing and financing activities.

(214) In total, EUR 14.7 million (previous year: EUR 21.1 million) are not freely available to the Group. This concerns the cash and cash equivalents for DB 14 and rent deposits held in trust.

(215) The Group has at its disposal funds amounting to EUR 49.4 million (previous year: EUR 212.3 million) from financing commitments that had not been utilised as of the balance sheet date.

(216) Cash flows from investment and financing activities are determined when payment is made. The cash flow from operating activities, on the other hand, is indirectly derived from the consolidated profit for the year.

H EARNINGS PER SHARE

(217) In the calculation of the basic earnings per share, the consolidated profit is divided by the weighted number of shares in circulation in the financial year.

(218) In the calculation of the diluted earnings per share, the consolidated profit is adjusted for the interest expenses related to the convertible bonds and divided by the weighted number of shares in circulation in the financial year, including the shares which would result from the conversion.

(219) The following table contains the amounts upon which the calculations of the basic and diluted earnings per share are based:

	2008	2007
	k EUR	k EUR
Consolidated profit for calculating the basic earning per share	–255,905	29,786
./. convertible bond interest (after tax)	1,091	309
Adjusted consolidated profit for calculating the diluted earning per share	**–254,814**	**30,095**
Shares issued, start of period	26,400	20,000
Shares issued as of August 9, 2007	0	6,400
Ausgegebene Aktien, Periodenende	26,400	26,400
Shares issued, end of period	**26,400**	**22,525**
+ conversion rights	556	231
Average shares issued, diluted	**26,956**	**22,756**
Earnings per share in EUR		
basic	–9.69	1.32
diluted	–9.45	1.32

The earnings per share for the divisions to be continued amounts to:

	2008	2007
Earnings per share	EUR	EUR
basic	–10.32	1.32
diluted	–10.27	1.32

The following dividends were distributed:

		2008	2007
Dividends	k EUR	0	17.600
Number of shares at the time of the distribution	Thousand shares	26,400	20,000
Dividend per share	EUR/share	0.00	0.88

I OTHER DISCLOSURES

Risk management

General information on risk management

(220) The risk management system (RMS) is an instrument for achieving the central aim of the company, i. e. to develop into a profitable and sustainable property company which mainly concentrates on the management and development of its own housing stock. It provides the basis for active risk control and serves as a basis for information for the Management Board and the Supervisory Board concerning the current risk situation of the company.

(221) Risk management is a continual process which is divided into the following phases:

» Establishing the standards
» Risk identification and analysis
» Risk control
» Reporting
» Risk controlling

(222) Risks are monitored in accordance with the risk management guidelines established by management in a qualified and timely manner. The risk management guidelines establish the roles and responsibilities, set the basic principles of the RMS, and define the framework for the assessment and control of risk. Risk is proactively controlled by using early warning systems.

In the following, the measures relating to financial risk management are described:

(223) With the exception of derivative financial instruments, the main financial instruments used by the Group 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 financial assets and liabilities, such as trade receivables and trade payables, which result directly from its business activities.

(224) The Group also carries out derivative transactions in the form of interest rate swaps. The purpose of these derivatives is the management of interest risks which relate to the Group's business activities and its sources of finance. There has been no trading of interest rate swaps and this will not take place in the future either.

The following table shows the arrangement of the financial instruments in the appropriate classes in accordance with IFRS 7.6 and the allocation of the valuation categories in accordance with IAS 39:

Balance sheet valuation in accordance with IAS 39	Valuation category in accordance with IAS 39	Book value 12/31/2008	Amortized cost	Fair Value recognized in the income statement	Fair Value 12/31/2008
		k EUR	k EUR	k EUR	k EUR
Financial assets					
Trade accounts receivables	(1)	21,202	21,202		21,202
Other assets	(1)	2,796	2,796		2,796
Cash and cash equivalents	(1)	41,974	41,974		41,974
Financial liabilities					
Financial liabilities	(3)	2,089,173	2,089,173		2,089,173
Convertible bonds	(3)	25,430	25,430		25,430
Liabilities to fund limited partners	(3)	48,006		48,006	48,006
Trade payables	(3)	22,800	22,800		22,800
Other liabilities	(3)	26,640	26,640		26,640
Derivative financial instruments	(4)	49,349			49,349
(1) Loans and receivables		65,972			
(2) Assets recognized at fair value in the income statement		0			
(3) Liabilities recognized at amortized cost		2,212,049			
(4) Not assigned to a category		49,349			

Balance sheet valuation in accordance with IAS 39	Valuation category in accordance with IAS 39	Book value 12/31/2007	Amortized cost	Fair Value recognized in the income statement	Fair Value 12/31/2007
		k EUR	k EUR	k EUR	k EUR
Financial assets					
Trade accounts receivables	(1)	18,562	18,562		18,562
Other assets	(1)	3,907	3,907		3,907
Cash and cash equivalents	(1)	47,874	47,874		47,874
Derivative financial instruments	(2)	32,231		32,231	32,231
Financial liabilities					
Financial liabilities	(3)	2,179,555	2,179,555		2,179,555
Convertible bonds	(3)	24,339	24,339		24,339
Liabilities to fund limited partners	(3)	46,631		46,631	46,631
Trade payables	(3)	25,420	25,420		25,420
Other liabilities	(3)	24,451	24,451		24,451
Derivative financial instruments	(4)	3,804		3,804	3,804
(1) Loans and receivables		70,343			
(2) Assets recognized at fair value in the income statement		32,231			
(3) Liabilities recognized at amortized cost		2,300,396			
(4) Liabilities recognized at fair value in the income statement		3,804			

The following overview shows the contractual payments (undiscounted interest payments and scheduled redemption payments) for the years 2009 to 2012:

	Book value 12/31/2008	2009	2010	2011	2012
	EUR m	EUR m		EUR m	EUR m
Financial liabilities [1]	2,089.2	201.1	147.1	133.7	136.2
Convertible bonds	25.4		27.3		
Liabilities to fund limited partners	48.0	48.0[2]			
Liabilities from taxes	82.3	21.6	9.6	9.6	9.6
Trade payables	22.6	22.6			
Other liabilities	30.1	30.1			

	Book value 12/31/2007	2008	2009	2010	2011
	EUR m	EUR m	EUR m		EUR m
Financial liabilities [1]	2,179.60	204.6	153.2	104.0	103.2
Convertible bonds	24.3			27.3	
Liabilities to fund limited partners	46.6	46.6[2]			
Liabilities from taxes	81.9	13.7	9.6	9.6	9.6
Trade payables	25.4	25.4			
Other liabilities	24.5	24.5			

1) The payments relating to interest-rate swaps are taken into consideration in the payments of financial liabilities.
2) The actual payments depend on the actual exercise of the option to sell shares by the limited partners; the estimate of the payment is therefore uncertain.

	Interest	Value adjustment	Fair Value	Net loss
2008	k EUR	k EUR	k EUR	k EUR
Loans and receivables		1,923		1,923
Assets recognized at fair value in the income statement			32,197	32,197
Liabilities recognized at amortized cost	114,025			114,025
Liabilities recognized at fair value in the income statement	1,814			1,814
	115,839	1,923	32,197	149,959

	Interest	Value adjustmentg	Fair Value	Net loss
2007	k EUR	k EUR	k EUR	k EUR
Loans and receivables		2,029		2,029
Assets recognized at fair value in the income statement			4,041	4,041
Liabilities recognized at amortized cost	69,178			69,178
Liabilities recognized at fair value in the income statement	2,540		3,804	6,344
	71,718	2,029	7,845	81,592

(225) The significant risks to the Group relating to financial instruments consist of interest contingent risks to the cash flow, liquidity risks, default risks and market price risks. The company management prepares and monitors guidelines for the risk management of each of these risks, which are described in the following:

Default risk

(226) Default risk, or the risk that a contractual partner does not meet his or her payment obligations, is controlled by using borrowing limits and control procedures. If appropriate, the company acquires collateral. For Deutsche Wohnen, there is no significant default risk in relation to an individual contractual partner or a group of similar contractual partners. The maximum default risk is the book value of the financial assets reported in the balance sheet.

Liquidity risk

(227) The Group daily monitors the risk of a liquidity squeeze by employing a liquidity planning tool. This tool takes into account the receipts and payments from operational business and the payment of financial liabilities.

(228) Deutsche Wohnen aims to have sufficient liquidity to meet future obligations at all times. Deutsche Wohnen currently has a borrowed capital ratio of approximately 79.2 % (previous year: 73.4 %) and a loan-to-value ratio (= total of financial liabilities divided by investment property) of 70.6 % (previous year: 65.4 %).

Interest contingent cash flow risks

(229) The risk of changes in interest rates, to which the Group is exposed, is mainly due to noncurrent liabilities with variable interest rates.

(230) The Group's interest expenses are controlled by a combination of fixed interest and variable interest-based borrowed capital. In order to construct this combination of fixed interest and variable interest-based borrowed capital in a cost-efficient manner, the Group concludes interest rate swap agreements. At specified intervals and based on an agreed nominal amount, the Group accordingly exchanges the difference between fixed interest and variable interest amounts with the contractual partner. These interest rate swaps hedge the underlying borrowed capital. Accordingly, the risk of an interest rate change exists only for financial liabilities with a floating rate that are not protected by interest rate swaps. Applied to these financial obligations, an increase/reduction of the interest rate by 1 % would have led to an increase/a reduction of the interest expense by EUR 1.5 million (previous year: EUR 0.6 million).

Market risks

(231) The financial instruments of Deutsche Wohnen which are not reported at fair value comprise primarily cash and cash equivalents, trade receivables, other current assets, financial liabilities, trade payables and other liabilities.

(232) The book value of cash and cash equivalents is very close to their fair value due to the short term of these financial instruments. For receivables and liabilities which are based on normal trade credit conditions, the book value based on the historical cost is also very close to the current market value.

(233) Fair value risks can primarily result from fixed-rate loans. A large part of the bank loans and overdrafts of Deutsche Wohnen is at fixed rate, so that the impact of fluctuations in interest rates can be estimated for the medium term.

Capital management

(234) 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 maximize shareholder value.

(235) The management of the capital structure takes into account bank loans, overdrafts and convertible bonds. This is based on the remaining balance.

(236) Important operational figures for capital management are:

» The equity/borrowed capital ratio and the debt-to-equity ratio

  The Group aims to achieve an equity ratio of 30 %. Future investments will therefore be made against a background of balanced financing, among other things.

» Loan-to-value ratio

The ratio of financial liabilities to the value of investment property is called the loan-to-value ratio.

	2008	2007
	k EUR	k EUR
Financial liabilities	2,089,173	2,179,555
Convertible bonds	25,430	24,339
	2,114,603	2,203,894
Cash and cash equivalents	–41,974	–47,874
Net financial liabilities	2,072,628	2,156,020
Investment property	2,900,673	3,271,205
Non-current assets held for sale	17,696	4,597
Land and buildings held for sale	19,355	21,887
	2,937,724	3,297,689
Loan-to-Value-Ratio	70.6%	65.4%

Hedge accounting

(237) As of December 31, 2008, there are various interest rate hedgings (payer swaps), with which variable interest rate conditions are exchanged against fixed interest rate conditions.

Events after the balance sheet date

(238) Significant occurrences after the balance sheet date are not known to us.

Other financial obligations and contingent liabilities

(239) As of December 31, 2008, the Group has at its disposal contingent liabilities amounting to EUR 4.6 million (previous year: EUR 8.5 million). They relate primarily to settlement guarantees for partial retirement credit balances and guarantees securing bank loans and advances.

(240) Financial obligations relating to heritable building right contracts totalled EUR 12 million (previous year: EUR 11.2 million).

(241) Other financial obligations relating to agency agreements concerning IT services totalled EUR 3.1 million (previous year: EUR 2 million).

(242) A Group company (Rhein-Pfalz Wohnen GmbH) has been certified as development and redevelopment agency (§§ 158 and 167 Baugesetzbuch (Federal Building Code)). Rhein-Pfalz Wohnen GmbH performs assignments delegated by local authorities as their trustee.

As of December 31, 2008, the company holds bank balances amounting to EUR 3.2 million (previous year: EUR 0.4 million) in trust relating to property renovation and development measures. The assignments for which Rhein-Pfalz Wohnen GmbH is responsible as trustee have been transferred to the development company Rhein-Pfalz GmbH & Co. KG under the terms of the agency agreement entered into with this company as of June 30, 2001.

Leases

Payments from leasing agreements of up to one year amount to EUR 1.9 million (previous year: EUR 2.2 million), of one up to five years EUR 3.7 million (previous year: EUR 4.9 million), and of more than five years EUR 0 million (previous year: EUR 0 million).

Auditors' services

(243) The fees of the auditors Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft recognised as expenses in the financial year amounted to EUR k 483 (previous year: EUR k 393) for the audit and EUR k 980 (previous year: EUR k 980) for other services. The other services resulted from the project-accompanying audit in connection with the SAP introduction (previous year for audit of the prospectus and due diligence services in connection with the GEHAG transaction).

Disclosures concerning related parties

(244) Companies and persons who have the possibility of controlling or exercising a significant influence on the financial and business policy of the Deutsche Wohnen Group are considered to be related parties. When defining the significant influence which Deutsche Wohnen's related parties have on the financial and business policy, the existing control relationships were taken into account.

» Related companies

(245) The associated, jointly managed and affiliated companies included in the consolidated annual financial statements are to be considered related companies.

(246) Service and cash management agreements exist within the Group. The services between the companies are eliminated in the consolidation.

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» Related persons

(247) The following persons are to be considered related persons:

Name	Tenure	Memberships in supervisory boards and other supervisory committees in the sense the § 125 par. 1 s. 3 of the German Stock Corporation Act (AktG)
Michael Zahn, economist, Chairman of the Management Board	from September 1, 2007	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin, Chairman of the Supervisory Board (since April 7, 2008) Sanierungs- und Gewerbebau-AG, Aachen, Chairman of the Supervisory Board
Helmut Ullrich, lawyer, Chief Financial Officer	from August 1, 2007	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin, (since April 7, 2008)

The former Directors of Deutsche Wohnen AG, Mr. Andreas Lehner, Mr. Michael Neubürger and Dr. Michael Gellen are also to be considered related persons in 2007.

» Members of the Supervisory Board of Deutsche Wohnen AG

The Supervisory Board is composed as follows:

Name	Tenure	Profession	Memberships in supervisory boards and other supervisory committees in the sense the § 125 par. 1 s. 3 of the German Stock Corporation Act (AktG)
Hermann T. Dambach, Chairman	from June 17, 2008	Managing Director of Oaktree GmbH, Frankfurt/Main	GEHAG GmbH, Berlin Nordenia International AG, Greven Sanierungs- und Gewerbebau-AG, Aachen Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH, Berlin (until April 07, 2008) R&R Ice Cream Ltd., North Yorkshire/Great Britain German ACORN Real Estate, Cologne (Deputy Chairman of the Supervisory Board
Dr. Andreas Kretschmer, Vice Chairman		Managing Director of Ärzteversorgung Westfalen-Lippe an organization of the Ärztekammer Westfalen-Lippe – a corporation under public law –, Münster	BIOCEUTICALS Arzneimittel AG, Bad Vilbel IVG Institutional Funds GmbH, Wiesbaden Private Life Biomed AG, Hamburg Biofrontera AG, Leverkusen TRITON, St. Helier/Jersey GEHAG GmbH, Berlin
Jens Bernhardt		Managing Partner, Bernhardt Advisory GmbH, Bad Homburg	GEHAG GmbH, Berlin
Uwe E. Flach	from June 17, 2008	Senior Advisor Oaktree GmbH, Frankfurt/Main	Nordenia International AG, Greven (Chairman of the Supervisory Board) STADA Arzneimittel AG, Bad Vilbel Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board until April 7, 2008) Haus und Heim Wohnungsbau-AG, Berlin (Chairman of the Supervisory Board) Andreae-Noris Zahn AG (ANZAG), Frankfurt/Main (until February 12, 2008), GEHAG GmbH, Berlin (Chairman of the Supervisory Board) German ACORN Real Estate, Cologne (Chairman of the Supervisory Board) Versatel AG (since February 11, 2009)
Matthias Hünlein		Managing Director Tishman Speyer, Frankfurt/Main	A.A.A. Aktiengesellschaft Allgemeine Anlagenverwaltung, Frankfurt/Main
Hans-Werner Jacob	until January 3, 2008	Member of the Management of Deutsche Bank AG, Frankfurt/Main	GEHAG GmbH, Berlin
Dr. Florian Stetter		Managing Director of STRABAG Property and Facility Services GmbH, Frankfurt/Main	GEHAG GmbH, Berlin

Transactions with related persons

(248) During the financial year, the Director Helmut Ullrich acquired an on-sale apartment of the GEHAG GmbH at the list price and at usual market terms, of which the Supervisory Board was informed. Otherwise, no business transactions took place between the related persons and Deutsche Wohnen in the financial year.

(249) A consultancy agreement exists between Oaktree GmbH and Deutsche Wohnen AG. The agreement can be cancelled within a period of one month to the end of the month. Remuneration is dependent upon the services performed and is limited to EUR k 300 per year, plus value added tax. Any travel costs are reimbursed separately. In 2008, EUR k 0 (previous year: EUR k 50) were billed for services rendered.

Remuneration and compensation for the Board of Directors and the Supervisory Board

(250) For the remuneration of the Directors, the following expenses which are due in the short term were incurred:

(251) There are no pension provisions for active members or members who have left the Management Board or the Supervisory Board.

(252) In the Annual General Meeting on 17 June, 2008, the Supervisory Board compensation was adjusted. Accordingly, each Member of the Supervisory Board receives a fixed compensation of EUR k 20, the Chairman of the Supervisory Board double that amount, and a Vice Chairman one and a half times the amount of the compensation. The compensation granted the Supervisory Board in the financial year amounts to EUR k 150, i.e. EUR k 175 with value added tax. Furthermore, expenses in the amount of EUR k 19 were reimbursed to the members of the Supervisory Board.

	Fixed remuneration	Variable remuneration	Severance payments	Total
2008	k EUR	k EUR	k EUR	k EUR
Michael Zahn	300	200	0	500
Helmut Ullrich	300	200	0	500
	600	400	0	1,000

	Fixed remuneration	Variable remuneration	Severance payments	Total
2007	k EUR	k EUR	k EUR	k EUR
Michael Zahn, since September 1, 2007	100	0	0	100
Helmut Ullrich, since August 1, 2007	97	583	0	680
Andreas Lehner, until October 31, 2007	211	0	1,450	1,661
Michael Neubürger, until April 19, 2007	58	0	1,320	1,378
Dr. Michael Gellen, from April 20, 2007 to July 31, 2007	32	0	0	32
	498	583	2,770	3,851

Corporate Governance

(253) The Management Board and the Supervisory Board have issued the declaration of conformity with the German Corporate Governance Code required in accordance with § 161 German Corporations Act (AktG), which has been made permanently available to shareholders online under www.deutsche-wohnen.com.

Frankfurt/Main, March 13, 2009

Michael Zahn
Chairman of the Management Board

Helmut Ullrich
Chief Financial Officer

DEUTSCHE WOHNEN AG

SHAREHOLDINGS (APPENDIX 1 IN THE EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENT)

Deutsche Wohnen AG, Frankfurt/Main Share ownership as at December 31, 2008		Share of capital	Equity*	Result*
		%	k EUR	k EUR
No.	Name and registered office			
1.	Aufbau-Gesellschaft der GEHAG mbH, Berlin	100,00	938.4	504.3
2.	DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	32,17	30,739.9	–601.2
3.	Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100,00	23.9	0.0
4.	Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100,00	–904.6	0.0
5.	Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt/Main	100,00	17.5	–3.7
6.	Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100,00	–99,558.4	–99,690.9
7.	Deutsche Wohnen Kundenbetreuung GmbH, Berlin	100,00	25.0	0.0
8.	Deutsche Wohnen Management GmbH, Frankfurt/Main	100,00	21.2	0.0
9.	Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100,00	25.6	0.0
10.	Deutsche Wohnen Service GmbH, Berlin	100,00	25.0	0.0
11.	Deutsche Wohnen Technik GmbH, Berlin	100,00	25.0	0.0
12.	Deutsche Wohnen Vertrieb GmbH, Berlin	100,00	17.7	0.0
13.	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin	94,90	1,019.4	0.0
14.	ESG Grundwert Beteiligungs GmbH, Berlin	100,00	18.3	–6.9
15.	ESG Grundwert I GmbH & Co. KG, Berlin	100,00	–5.0	–5.9
16.	ESG Grundwert II GmbH & Co. KG, Berlin	100,00	–4.6	–5.5
17.	ESG Grundwert III GmbH & Co. KG, Berlin	100,00	–4.6	–5.5
18.	Fortimo GmbH, Berlin	100,00	6,127.2	1.842.6
19.	GEHAG GmbH, Berlin	100,00	72,375.5	–58,714.5
20.	GEHAG Akquisition Co. GmbH	100,00	1,309.0	–816.2

DEUTSCHE WOHNEN AG

SHAREHOLDINGS (APPENDIX 1 IN THE EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENT)

Deutsche Wohnen AG, Frankfurt/Main Share ownership as at December 31, 2008		Share of capital	Equity*	Result*
		%	k EUR	k EUR
No.	Name and registered office			
21.	GEHAG Erwerbs GmbH & Co. KG	99.99	20,404.7	–8.8
22.	GEHAG Immobilien Management GmbH, Berlin	100.00	19.2	0.0
23.	GEHAG Erste Beteiligungs GmbH, Berlin	100.00	17.3	–6.4
24.	GEHAG Zweite Beteiligungs GmbH, Berlin	100.00	494.0	0.0
25.	Haus und Heim AG, Berlin	97.29	888.2	126.3
26.	HESIONE Vermögensverwaltungsgesellschaft mbH	100.00	22.9	–3.6
27.	KATHARINENHOF® Service GmbH, Berlin	100.00	10.9	–14.1
28.	KATHARINENHOF® Seniorenwohn- und Pflegeanlagen Betriebs GmbH, Berlin	100.00	1,950.0	0.0
29.	Kellinghusen Rosengarten und an der Lieth GmbH, Berlin	100.00	26.2	1.2
30.	Main-Taunus Wohnen GmbH & Co. KG, Eschborn	100.00	19,768.2	15,422.1
31.	Rhine-Main Wohnen GmbH, Frankfurt/Main	100.00	180,305.0	0.0
32.	Rhine-Mosel Wohnen GmbH, Mainz	100.00	97,916.1	4,287.4
33.	Rhine-Pfalz Wohnen GmbH, Mainz	100.00	31,017.0	0.0
34.	RMW Projekt GmbH, Frankfurt/Main	100.00	16,230.6	0.0
35.	Sanierungs- und Gewerbebau-AG, Aachen	99.44	2,193.0	0.0
36.	Sanierungs- und Gewerbebau-AG & Co. KG, Aachen	99.55	1,405.0	398.8
37.	Stadtentwicklungsgesellschaft Eldenaer Straße mbH i.L., Berlin	50.00	711.6	60.0
38.	Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	35.5	79.9
39.	AVUS Immobilien Treuhand GmbH & Co. KG, Berlin	100.00	n/a	n/a
40.	GbR Fernheizung Gropiusstadt, Berlin	44.26	575,0	66.0

* Based on HGB's financial statement

DEUTSCHE WOHNEN AG
GROUP SEGMENT REPORTING (APPENDIX 2)

Deutsche Wohnen AG, Frankfurt/Main
Consolidated Segment Reporting for the Fiscal Year 2008

	k EUR	k EUR	k EUR	k EUR	k EUR	k EUR
	Residential property management		Privatization		Services	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Segment revenue from third parties	277,351	180,784			33,117	19,105
Revenue from privatization			17,409	5,285		
Other revenue	0	30,948			5,455	
Transactions with other segments	1,356	501				
Segment revenue	278,707	212,233	17,409	5,285	38,572	19,105
Expenses related to goods and services received	–127,708	–89,718			–9,031	–5,579
Personnel expenses					–18,265	–8,057
Other operating expenses			–4,164	–4,254	–2,574	
Adjustment of market value of investment property	–276,528					
Depreciation					–421	–1,180
Profit from affiliated companies						
Financial income					8	300
Adjustment of market value of derivative financial instruments						
Financial expenses					–16	–509
Income tax					–16	–11
Segment expenses	–404,236	–89,718	–4,164	–4,254	–30,315	–15,036
Segment profit or loss	–125,529	122,515	13,245	1,031	8,257	4,069
Segment assets	2,917,390	3,280,499	41,939	35,748	17,819	30,553
Segment liabilities					2,399	20,514
Segment investments	21,312	161,628	0	0	0	0

DEUTSCHE WOHNEN AG
GROUP SEGMENT REPORTING (APPENDIX 2)

Deutsche Wohnen AG, Frankfurt/Main
Consolidated Segment Reporting for the Fiscal Year 2008

	k EUR	k EUR	k EUR	k EUR	k EUR	k EUR
	Other and Group		Transition		Group	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Segment revenue from third parties	5,044	4,465			315,512	204,354
Revenue from privatization					17,409	5,285
Other revenue	5,968	70,390			11,423	101,338
Transactions with other segments	44,312	40,320	–45,668	–40,821	0	0
Segment revenue	55,324	115,175	–45,668	–40,821	344,344	310,978
Expenses related to goods and services received	–2,346	–1,617			–139,085	–96,914
Personnel expenses	–25,276	–23,672			–43,541	–31,729
Other operating expenses	–48,576	–34,813			–55,314	–39,067
Adjustment of market value of investment property					–276,528	0
Depreciation	–1,373	–509			–1,794	–1,689
Profit from affiliated companies	60	18			60	18
Financial income	2,532	4,436			2,540	4,736
Adjustment of market value of derivative financial instruments	–32,197	–7,845			–32,197	–7,845
Financial expenses	–127,265	–72,230			–127,281	–72,739
Income tax	56,487	–35,952			56,471	–35,963
Segment expenses	–177,955	–172,184			–616,670	–281,192
Segment profit or loss	–122,630	–57,008	–45,668	–40,821	–272,326	29,786
Segment assets	51,546	84,109			3,028,694	3,430,909
Segment liabilities	2,321,101	2,346,063			2,323,500	2,366,577
Segment investments	7,266	3,824			28,578	165,452

AUDITOR'S OPINION

We have audited the consolidated annual financial statements – consisting of the consolidated balance sheet, the profit and loss statement, the Group cash flow statement, the statement of changes in Group equity, and the explanatory notes to the consolidated annual financial statement – and the financial report for the company and the Group for the financial year from January 1 to December 31, 2008. The bookkeeping and the preparation of the consolidated annual financial statements and the financial report for the company and the Group in accordance with IFRS, as they are applicable in the EU, and the supplemental regulations according to § 315a sec. 1 of the German Commercial Code [HGB] are the responsibility of the legal representatives of the company. It is our task to issue an assessment of the consolidated annual financial statements and the financial report for the company and the Group on the basis of the audit carried out by us.

We have carried out our audit of the consolidated annual financial statements in accordance with § 317 of the German Commercial Code (HGB), taking into account the established German principles for proper and orderly reporting relating to audits of financial statements of the Institute of German Auditors (Institut der Wirtschaftsprüfer, IDW). The audit is to be planned and implemented in a manner that inaccuracies and breaches, which can have a significant impact on the presentation of the view of the revenue, financial and asset position conveyed by the consolidated annual financial statements – also taking into account the principles of proper and orderly bookkeeping - and by the financial report for the company and the Group, are recognised with sufficient reliability. When determining the audit procedures, the knowledge of the business activity and of the economic and legal environment of the Group, as well as the expectations regarding possible errors are taken into account. In the course of the audit, the effectiveness of the internal control system relating to accounting standards and the evidence for the information in the consolidated annual financial statements and the financial report for the company and the Group are assessed primarily on the basis of random checks.

The audit includes the assessment of annual financial statements of the companies included in the consolidated annual financial statements, the separation of the consolidated companies, the accounting and consolidation principles applied, and the essential estimates of the legal representatives, as well as the assessment of the overall view of the consolidated annual financial statements and the financial report for the company and the Group. We are of the view that our audit constitutes a sufficiently firm basis for our assessment.

Our audit has not resulted in any objections.

According to our assessment – based on the knowledge obtained during the audit – the consolidated annual financial statements take into account the principles of proper and orderly bookkeeping according to IFRS as they apply in the EU, and comply with the supplemental regulations according to § 315a sec. 1 of the German Commercial Code (HGB), and convey a view of the revenue, financial and asset position of the company which corresponds with the actual circumstances. The management report for the company and the Group is consistent with the consolidated annual financial statements, conveys overall an appropriate view of the position of the Group and presents the opportunities and risks related to its future development appropriately.

Eschborn / Frankfurt / Main, March 13, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Ewald Völker
Auditor

Gunnar Glöckner
Auditor

ASSURANCE OF THE LEGAL REPRESENTATIVES

"We assure to the best of our knowledge that in accordance with the applicable financial accounting principles the consolidated annual financial statements convey a view of the revenue, financial and asset position of the Group which corresponds with the actual circumstances, and that in the Group financial report the business performance including the financial result and the position of the Group is portrayed in a manner that the significant opportunities and risks of the company's likely development are depicted."

Frankfurt / Main, March 13, 2009

Deutsche Wohnen AG

Michael Zahn
Representative
Executive Committee

Helmut Ullrich
Executive Committee

CONSOLIDATED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT

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CONSOLIDATED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT

1 BUSINESS AND GENERAL CONDITIONS

1.1 ORGANISATION AND STRUCTURE

Deutsche Wohnen AG is the sole parent corporation and officiates as holding for the management and asset companies. Together they constitute Deutsche Wohnen.

Deutsche Wohnen focuses on the following three segments in the context of its business activities:

Residential property management
The primary business activity of Deutsche Wohnen is the management of residential property as part of an active stock management. Concerning the business side of the property management division, the entire operational activity takes place in the four regional operational centres in Mainz, Frankfurt/Main, Koblenz, and Neustadt a. d. Weinstraße, as well as in Berlin within the GEHAG Group. The stock 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 property. The focus of property management is on the optimisation of rental income. Therefore, as part of the maintenance of the buildings, possible measures which could potentially increase rent are continually reviewed, tenant change is used to enhance value and services providing the greatest possible savings are bought and passed on to the tenants.

Disinvestments
The Disinvestment Business Division is another pillar in Deutsche Wohnen Group's operational business activities. On the one hand, privatization measures can be in the form of single privatization by selling separate residential objects (e. g. to a tenant), but also by way of bloc sales. The business division, which deals with the privatization of residential objects, comprises all aspects of the preparation and execution of the sale of residential objects from the own portfolio as part of the ongoing portfolio optimization's process and streamlining. Furthermore, the privatization of residential objects can take place in connection with future acquisition of portfolios for the purpose of portfolio streamlining as well as for financing purposes.

In view of the housing privatisation segment's change in focus, continual measurement and assessment of the property stock takes place with the aim of optimising the portfolio. The sale's aim is to sell all of the residential units in a property. In the case of scattered properties, the properties which are to be privatised are also offered for individual sale. In future, the annual privatisation volume is to be around 500 residential units. For larger properties/partial portfolios, however, the aim is to complete a bloc sale.

Services
With the acquisition of the majority interest in the GEHAG Group, the management of nursing homes and the provision of telecommunications services has become a further pillar of the business activities of Deutsche Wohnen. The nursing homes business is run by KATHARINENHOF® Seniorenwohn- und Pflegeanlagen Betriebs-GmbH (KATHARINENHOF®) and includes 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. The telecommunications services are performed by AKF – Telekabel TV und Datennetze GmbH. The AKF – Telekabel TV und Datennetze GmbH was sold during the reporting year.

1.2 LEGAL CORPORATE STRUCTURE

Registered Capital and Shares
The registered capital of Deutsche Wohnen AG amounts to EUR 26.4 million and is divided into 26.4 unit shares with a nominal share in the registered capital of EUR 1 per share. About 97.4 % of the shares are bearer shares (25,722,178 units), while the remaining 2.6 % of the shares are registered shares (677,822 units). The same rights and duties apply to all shares. Each share guarantees a vote in the annual general meeting and is normative for the share of the stockholders in the profit of the company. The rights and duties of the shareholders result in detail from the regulations of the German Stock Corporation Act, referring especially to §§ 12, 53 a and the following, 118 and the following and 186 of the said act.

No restrictions regarding the voting rights or the transference of the shares are known to the Management Board of Deutsche Wohnen AG.

When capital increases take place, the new shares are issued as bearer shares.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital on one or several occasions during the period until August 9, 2011, by up to an aggregate of EUR 3.6 of authorized capital by issuing up to 3.6 new ordinary bearer shares against cash or non-cash contributions (authorized capital). The capital which was originally authorized amounted to EUR 10 million.

The share capital is contingently increased by up to a further EUR 10 million with the issue of no-par value bearer shares carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital I).

The contingent capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, or profit participation rights with conversion or subscription rights, which in accordance with the authorization of the General Meeting on August 10, 2006, will be issued by the company or by a company which is 100% directly or indirectly affiliated to the company during the period until August 9, 2011, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with warrants or convertible bonds or convertible bonds or profit participation rights are exercised or the conversion rights from such debt securities are met and if own shares are not used for this purpose.

The share capital is contingently increased by up to a further EUR 2.7 million with the issue of 2.7 million no-par value bearer shares carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital II).

The contingent capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, or profit participation rights with conversion or subscription rights, which, in accordance with the authorization of the General Meeting on June 17, 2008, will be issued by the company or by a company which is controlled or majority-owned by the company during the period until June 16, 2013, provided that the issue is against cash. The capital increase will only be carried out if rights related to the previously mentioned bonds with option right or convertible bonds and/or participation rights with option or conversion rights are exercised or conversion obligations from such bonds are fulfilled, and insofar as own shares are not used for this purpose.

The share capital is contingently increased by up to EUR 100,000 with the issue of up to 100,000 no-par bearer shares (contingent capital III).

The contingent increase in capital is only implemented so far as the owners of the subscription rights, which are granted on the authority of the decision taken on item 12 of the agenda of the Annual General Meeting on 17 June, 2008 regarding persons entitled to new shares exercise these subscription rights. The new shares participate in profit sharing from the beginning of the financial year in which they originate through the exercising of the subscription rights.

The Management Board is empowered by the decision taken by the annual general meeting on June 21, 2007 to acquire, in observance of the act on equal rights (§ 53 a German Stock Corporation Act), up to December 20, 2008 own shares of the company of up to 10 % of the total existing registered capital of the company.

There are no shares with privileges granting controlling powers.

If employees of Deutsche Wohnen AG should own shares they have no controlling rights over the Management Board.

Substantial participation
The Oaktree Capital Group Holdings GP is involved in Deutsche Wohnen AG via the OCM Luxembourg Real

Estate Investments S. à. R. l. and the OCM Luxembourg Opportunities Investments S. à. R. l. with a 24.2 % share.

The Asset Value Investors Ltd, London is involved with a 10.01 % share in Deutsche Wohnen AG. The shares are partially allocated to them via the British Empire Securities and General Trust PLC, London.

Further capital participations, which exceed the 10 % boundary of the voting rights have not been reported.

Nomination and removal of the members of the Management Board and changes to the articles

Members of the Management Board are appointed and dismissed according to § 84 and § 85 German Stock Corporation Act (AktG). The supervisory board appoints members of the Management Board for a maximum period of five years. It is allowed to re-instate an appointee or to prolong the term of office, however only for a maximum period of five years. The articles of Deutsche Wohnen AG adds a supplement in this regard in § 5 (2), namely that the supervisory board determines the number of members of the Management Board. It can appoint deputy members of the Management Board and also nominate a member of the Management Board as the Chairman of the Management Board or as the Speaker of the Management Board.

In compliance with § 119 Section 3 number 5 German Stock Corporation Act (AktG) the annual meeting decides upon constitutional amendments. For amendments to the articles that only implicate the wording, the supervisory board in compliance with § 11 section 5 of the articles has the authority of amendment. In compliance with § 11 Section 3 of the articles, the decisions of the general assembly are taken by way of a simple majority of votes and in so far as a majority of capital stock is required, by a simple majority of capital stock, except where the law or the articles determines otherwise. In compliance with § 4 Section 4 of the articles, amendments to the articles, on account of a changeover from bearer stocks to registered shares immediately thereafter or after preceded requesting by the stock holders pursuant of § 24 German Stock Corporation Act (AktG) require a general assembly resolution backed by a majority of 95 % of the represented registered capital. The same applies to an amendment to § 4 section 3 3. § 4 a section 4 of the articles, which determines that the supervisory board is authorized to change slight wording of the articles of the company after implementing a capital increase or, on termination of the authorising deadline without increase.

2 CORPORATE STRATEGY AND RUNNING OF THE CORPORATION

Corporate strategy

Deutsche Wohnen sees itself as an active manager of residential properties ranging from the middle to the upper price segments, situated at economically attractive locations with above-average rent developmental potential. Its main aim is to use this potential through the increase of rentals in the context of the rent index adaptations or through focused modernisation measures in order to enhance the company value.

The following strategies will help us achieve this:

» **Focusing on residential properties:** We concentrate on developing our own housing stock and have in the process the entire value appreciation range on display.

» **Clear product strategy:** We have the upper price segments as goal. At the same time we focus on price-free (legally uncontrolled), inner-city locations and coherent property groupings.

» **Regional portfolio strategy:** Our residential portfolio focuses on both core markets, Berlin and Rhine Main. Acquisitions within our portfolio in other built-up densely populated centres are striven at; the retailed sale of our units located outside the core markets takes place on an ongoing basis.

» **Realization of available rental potentials and decrease of vacancies:** Our rent increases are currently already significant. Continuity in the daily rental business and by remaining focused on efficient maintenance and modernisation developments will keep the steady flow of long-term rental income on a high level.

» **Value-oriented distribution policy:** We provide a distribution policy consisting of a profitably gained gross cash flow together with a mindset oriented towards constant value appraising.

In addition, we continuously review our processing and cost structure in order to increase profitability. After the apparent staff cutbacks of the past year, the optimization of the processes in the administrative and IT branches occupy centre stage at present. A fundamental change in strategy against the background of the current financial market crisis is presently not necessary.

Running the company

The primary business and management goal of the Management Board of Deutsche Wohnen AG is the maximisation of the shareholder's value and the accomplishment and maximisation of free cash flows. The central planning and piloting systems of the company are constructed and aligned accordingly.

A key figure for the operative business activity and therewith norm for the operative force is embodied by the EBITDA from the residential property management, in other words the operative earnings before interests, taxes, depreciations and amortizations from this business division. In addition, the average rentals and vacant rate are essential piloting beacons for management and for the continuous optimization of the real estate portfolio of the corporation.

Interconnected with the supervising and piloting of the operative expenditure to collect rental revenues, like for example maintenance expenditure or rental marketing expenditure, one extrapolates on measures or develops strategies to increase rental revenue potentials within regulated effort-escalations in order to achieve a constant improvement in operative results. This established system enables one, correctly so, to identify real estate substance with slighter development potentials for selling purposes, even so also to determine short-termed potentials for the company from portfolio acquisitions.

Within the framework of the monthly reportings, the section for portfolio management reports to the Management Board on the development of the key figures in comparison with the budgeted amount, divided according to locations or subsidiary companies.

The further operative expenditures such as personnel costs and material expenses and the non-operative magnitudes such as financial expenses and taxes are also a component part of the central planning and piloting system within the monthly report to the Management Board. Also here the existing development is drawn up to be compared with the budgeted amount.

At the same time a considerable significance is assigned to the financial expenditure, because they have fundamental influence in store for the Group's result as well as the cash flow development. The piloting of the financial expenses is the responsibility of the finance department. An active and up-to-date management of the loan obligations, connected with a permanent market supervision makes a constant optimization of the financial result possible. The liquid means are planned in a rolling 12-month cycle and arranged and controlled on a daily basis.

The code Funds From Operations (FFO) is implemented for the determination and for the planned blueprint comparison of cash flow obtained through the operative business activity. The Group EBITDA presents the exit value for the ascertainment of the FFO which is complemented by liquidity-effective financial expenditure/yields and tax expenses/yields.

By means of the monthly reportings, the economic development of the company can be assessed for purposes of the Management Board as well as the specialty departments. On a monthly basis a comparison between previous month, preceding year and anticipated budget amounts are provided together with the anticipated development on the basis of a projected forecast. Opportunities, but also negative developments can be identified in this manner on the short term and measures for the utilization or preventative steps can be deduced.

Sustainability

In the focal point of the activities of Deutsche Wohnen, the social responsibility for the tenant, as well as the ecological responsibility towards the environment are placed besides the management of the portfolios with its main aim of profit making.

Our awareness of the limitations of resources allows us to consciously seek for possibilities to use and to apply these limited resources as effectively as possible. Also in 2008, we continued our efforts to increase energy efficiency in the real estate holdings. In this way several inefficient heating systems were replaced by for example modern power-heat long distance heating connections. The squandering of valuable primary energy and the production of CO_2 emissions was brought to an end in a residential area in Berlin - Zehlendorf, as an example. In this way, we save valuable primary energy and perform a sustainable contribution to the environmental protection. A judgment by the German High Court endorsed our efforts, in which projects that lead to primary energy savings are acknowledged as modernising improvements. Because of this positive experience, we will also in 2009 and beyond continue with this program in a successive way.

Deutsche Wohnen was also able to show that the preservation of historical sites together with environmental protection go hand in hand. In 2008 we successfully changed and connected the heating sources to an interconnected district heating system in the so-called

Weiße Stadt (White City) in Berlin, a UNESCO world heritage site. In addition, we made further investments in the energy generating plant for the area. In this way, the CO_2-emissions could be decreased by around 34 %, which corresponds to 2,500 tons annually. Simultaneously, our tenants also participate in the enhanced utilisation of the new energy source in a direct and permanent manner by way of the accounting of service charges.

In the sense of a long-term value appraising of our portfolio, it is being examined on an on-going basis to ascertain which ecological measures can be transferred under the aspects of environmental protection and economic viability.

3 FUNDAMENTAL LEGAL AND ECONOMIC FACTORS

3.1 ECONOMIC FRAME WORK

Unfavourable general conditions lead to the expectation of a downturn in the overall economic trend in 2008 already a year ago. However, the ballooning effect of the real estate crisis in the USA to become a global financial and economic crisis was not foreseeable. In the meantime, Germany found itself in a recession towards the end of 2008. Already in the summer half-year, the real gross domestic product had noticeably decreased, mainly due to the decline in exports. Also private consumer spending could not recover after a weak phase that lasted until the middle of the year because of the steady price increasing.

The recession will continue at least into the current year 2009. Uncertainty exists however over its depth and duration. Besides extensive pessimism, there are however also indications that a gradual upward trend in the economy is finding support. In most countries, monetary and fiscal policy measures were taken and others are being considered in order to mitigate the crisis. Positive impulses can be signalled from the partly rapid decline in the oil price and in the value of the Euro since the summer. For further development it will be significant in how far lost confidence can be restored again. Under the prerequisite that no further gloomy pictures of the downward trend would set in, one could reckon with a gradual stabilisation of the economic trend by the middle of the year 2009. The real gross domestic product will still have grown in 2008 by about 1.5 %. In the course of 2009, it is generally reckoned with a shrinking gross domestic product whereby the prognoses of its shape and size lies far and in between. The employment will sink and unemployment will increase further. The inflation rate has already clearly sunk beneath the 2 % stability mark.

3.2 GERMAN RESIDENTIAL MARKET

The German residential market consists, according to the German Federal Statistical Office, of 39.9 million units in which approximately 82.2 million persons live. These 39.9 million residential units - making Germany the largest housing market in Europe - belong to approximately 40 % owner occupiers with about a further 37 % consisting of small landlords. Only about 9 million residential units are run by commercial suppliers, like Deutsche Wohnen. The special economic value of the housing market shows its percentage of 48 % of the entire gross capital asset in 2008. This corresponds to a sum of EUR 6,100 billion, which is two and a half times more than the annual German gross domestic product.

The number of residential dwellings in Germany increased between 1987 and 2007 by around 7 million. Especially the years after the reunification were characterized by an increase of more than 1 % per annum. The last 10 years, however, show weaker growth. Parallel to that, the building construction permits and building construction completions sunk to a historically low level. For every 10,000 inhabitants, there were on average only 30 residential units completed. Remarkably low are the building construction applications for multiple family residential units, only about 100,000 building construction permits were approved annually.

An entirely different trend is to be discerned in residential living areas. These climbed since 1995 from approximately 83 m² to 86 m² per residential unit in 2007. On average every inhabitant inhabits nearly 43 m². Actually, the difference in magnitude between privately owned residential units and rented residential units are quite distinct: Privately owned residential units are on average 60 % larger than a rented residential unit, a tendency that will become increasingly stronger according to the estimates of the German Federal Office for Building Construction and Planning.

The housing market is less susceptible to economic fluctuations since long-term trends are decisive in this market unlike in the demand for commercial and retail trade properties. Although the population shrinks, the number of households will clearly increase by way of the persistent trend towards smaller households in the next years. Therefore the need for residential units in the coming years will continue to grow steadily. In built-up and densely populated urban areas the excess in demand is already discernible.

4 BUSINESS DEVELOPMET OF THE SEGMENTS

Our daily operations are focussed on our housing portfolio, which is divided into strategic clusters. In total the Group manages 50,489 housing units, 495 business units and 15,911 garages/parking places. Deutsche Wohnen holds a 32.6 % share of DB14. These are to be consolidated fully on the basis of extensive warranty promises vis-à-vis the fund.

4.1 RESIDENTIAL PROPERTY MANAGEMENT

Deutsche Wohnen's core business activity is the management and development of our own property portfolio. Different development and utilization strategies are developed for premises through specific valuations based on their locational and property characteristics.

Premises with high sustainable market potential and an efficient management structure are identified and tagged as so-called core stock, by far the most important partial portfolio. At the centre of the corporate activity is located the process to adapt permanent rent increases to the market rent together with the cost reduction of vacant units.

The sales portfolio deals with the so-called segmented property inventorial supplies (5,017 WE) to be sold to tenants/owner occupiers, as well as a further 9,059 housing units in markets from which the Group would like to withdraw.

In the past fiscal year, the average rent in the core portfolio Cluster A could be increased to EUR 5.31 per m², which means that the gap to the market rental level could be reduced even further.

The current attainable market rent lies at EUR 5.90 per m², i. e. currently we lie with our average rental amount with nearly 13 % and in Cluster B with nearly 30 % still under the current attainable market rent. The rent development process needs to be accelerated through targeted modernization measures.

The vacancy rate of the partial portfolio was restored to under 4 % over the past fiscal year. In Cluster A, the building units, which are rented on an ongoing basis, successfully decreased vacant units by a clear 19 % to a presently 3.4 %. In Cluster B by way of targeted and partly apportionable investments, the average rentals were increased by 4.9 % to EUR 4.72 per m² on the one hand, and, on the other hand, the vacant units were reduced from 9.3 % to 7.1 % (– 24 %).

In the entire portfolio during the reporting period we achieved rental revenues in the Group and supplementary earnings of EUR 210.3 million (in the same period last year: EUR 144.6 million). After deduction of vacant unit costs and bad debt losses, the amount accrued in revenue amounted to EUR 195.2 million (preceding year: EUR 132.2 million).

Of special significance to the maintenance of portfolio quality and therefore to the leasing result are continuous selective maintenance measures optimized for results as well as individual modernizations. In 2008, the result-effective maintenance itself amounted to EUR 11.57 per m², which meant EUR 36.8 million. In

				Residential		Commercial	Parking
	Units	Area Tm²	Rents EUR/m²	Vacancy rate %	Units	Area Tm²	Units
Core portfolio	33,792	2,038	5.23	3.9	401	69	8,050
Berlin	22,758	1,369	5.02	2.9	289	38	1,853
Frankfurt/Main	3,661	217	6.68	3.9	49	16	1,843
Rhine-Main	3,285	203	5.76	8.5	55	14	1,945
Rheintal-Süd	4,088	249	4.72	4.7	8	1	2,409
Disposal	14,076	884	4.75	11.3	63	6	5,237
Single Privatisation	5,017	334	5.19	11.7	16	2	1,855
Bloc sales	9,059	550	4.48	10.9	47	4	3,382
Own properties*	47,868	2,922	5.09	5.9	464	75	13,287
DB 14	2,621	179	5.41	5.5	31	8	2,624
Own properties incl. DB 14	50,489	3,101	5.10	5.9	495	83	15,911

* not incl. North Hessen

addition, the property inventorial substance was improved by way of targeted modernisation measures to the amount of EUR 21.3 million

The resulting revenue from rentals amounted to EUR 147.8 million in the financial year.

The effects of the current economic development due to the financial market crisis were not noticeable in our rental business.

4.2 DISINVESTMENTS

The business segment Disinvestments handles a portfolio of around 14,100 residential units that are to be sold to tenants, self occupants and capital investors through individual privatization or through bloc sales as part of the portfolio reorganization.

With a transaction volume of EUR 119.7 million (1,798 units) and sales and marketing costs of EUR 4.2 million (3.5%), the division earned a contribution margin of EUR 115.5 million. If the book value is taken into consideration, a profit of EUR 13.2 million has been accrued.

In the past fiscal year, Deutsche Wohnen was able to sell 573 residential units to tenants/own occupiers at an average price of EUR 1,378 per m². At the same time the selling prices rose to around 35% more than the current book values.

Further, 1,225 units were sold to predominantly institutional investors during the reporting period. Here the negative influence of the financial crisis prevented a better result, especially in the second half of the year.

The average redeemed selling price reached about EUR 741 per m² and was therewith slightly (2%) over the book value.

4.3 ELDERLY CARE

The business segment Senior Citizen Housing is operated by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH. It concentrates especially on the operative running of a quality, first class and fully equipped in-patient treatment system mainly in Berlin, i.e. the new German provinces. Altogether nearly 1,500 beds are taken care of in this branch making it one of the largest private suppliers of its kind in Germany. With an occupancy rate of 97% in the core markets, high in comparison with the sector average, and the adoption of new homes, turnover increased to EUR 33.1 million.

4.4 TELECOMMUNICATION

The AKF – Telekabel TV und Datennetze GmbH was successfully sold last year. With a gross selling price of EUR 30 million ensued a deconsolidation's profit of EUR 16.4 million.

Strategically, the selling of AKF was consistent with the main strategic aim of continued focusing on the core business. The purchase contract with Versatel, the telecommunications provider, was signed after a bidding process on June 18, 2008. After the start of the delaying condition of the approval through the controlling authority, the transmission of the shares became effective on July 4, 2008.

5 DISCLOSURES TO THE ASSET, FINANCIAL AND PROFIT POSITION

5.1 ASSET AND FINANCIAL POSITION OF DEUTSCHE WOHNEN AG

The fixed capital assets of Deutsche Wohnen AG of EUR 291.3 million (preceding year: EUR 286.3 million) consist essentially of stocks in affiliated companies of EUR 286.3 million. In addition, through the SAP introduction in 2008 expenditures of EUR 4.5 came into play. The operative implementation resulted on January 1, 2009.

	Rents			Vacancy	Market Rents	Potential
	EUR/m² 12/31/2008	EUR/m² 12/31/2007	% 12/31/2008	% 12/31/2007	EUR/m²	%
Overall	5.23	5.09	3.9	4.8	5.9	12.8
Cluster A	5.31	5.18	3.4	4.2	5.8	9.2
Cluster B	4.72	4.50	7.1	9.3	6.1	29.2

The entire existing current assets amount to EUR 423.3 million (preceding year: EUR 460.5 million) and consist to a large extend of claims against affiliated companies to the amount of EUR 422.9 million (preceding year: EUR 458.5 million).

In the financial year 2008, Deutsche Wohnen AG was always in a position to meet its financial obligations.

The registered equity amounts to EUR 26.4 million (preceding year: EUR 26.4 million).

The entire obligations of Deutsche Wohnen AG amounted on December 31, 2008 to EUR 415 million (preceding year: EUR 368.3 million) of which 55% are long-term loans with a running time of more than five years, 10% medium-term (one to five years) and 35% short-term loans (shorter than a year). The target date related degree of indebtedness of Deutsche Wohnen AG (ratio of externally borrowed capital to the balance sum) amounts to 58% (preceding year: 50%). These losses are caused above all by the devaluation of real estate assets as a consequence of sunken market value.

The allocated borrowed capital share of the convertible bonds issued in 2007 was transferred in 2008 to a corporate company.

5.2 EARNINGS POSITION OF DEUTSCHE WOHNEN AG

Through the start of the business activity of Deutsche Wohnen AG as a management holding in 2008 and with that, the associated personal reconstruction, the profit and loss account in comparison with the preceding years is only partially comparable. Through the implementation of the new job description, the personnel and other additional operational expenditures increased. Furthermore, revenue proceeds were obtained for the first time from business transaction implications. The deterioration in the annual profit and loss figures is to be laid essentially on the absorption of loss-acceptance accrued by subsidiaries. Furthermore, the positive profit and loss figures of 2007 were influenced substantially through the yield out of an internal sale of stocks to affiliated companies (EUR 19.2 million).

Other operational income contains essentially income from the revocation of the provision on interest swaps based on the established valuation units. In the preceding year, the income from the company-internal selling of capital investments amounted to EUR 19.2 million.

Personnel expenditure in 2008 included the salaries on an annual average of 55 employees. In preceding years, merely expenditures concerning the members of the Management Board were included.

In the other operational expenditures were expenditures for consultation and auditing to the amount of EUR 4.5 million (in the preceding year: EUR 2.3 million) included.

Because of the expenditures/income from the profit transfer of subsidiaries out of profit and loss transfer agreements or contracts of domination to the amount of EUR 59.5 million (preceding year: Yield EUR 6.1 million) it burdenend the 2008 figures substantially.

5.3 ASSET AND FINANCIAL POSITION OF THE GROUP

The asset side of the Group's balance sheet is essentially determined by the investment properties (EUR 2,900.7 million) (93% of the entire assets of EUR 3,126.7 million). The investment properties include all real estate held as long-term assets, with the exception of those that are owned and used by Deutsche Wohnen. The determination of the time value to be enclosed to the investment properties, resulted on the basis of an internal valuation.

The entire Group equity amounts to EUR 649.3 million (preceding year: EUR 936.1 million). The consumption of the equity in comparison to the previous year has been caused essentially by the valuation of the real estate units and the market value adaptation connected to it to the amount of EUR 276.5 million. The equity quota decreased therewith from 27% to 21%.

The ratio of the net financial liabilities to the real estate assets decreased as a consequence from 65.4% to 70.6%.

The long-term financial liabilities of Deutsche Wohnen amounted to EUR 1,991.1 million by December 31, 2008; this figure decreased through redemptions from EUR 2,034.1 million on December 31, 2007.

Deutsche Wohnen disposes over all together EUR 27.3 million liquid assets with an additional credit line of EUR 49.4 million.

The planning for the next years are based essentially upon the streamlining of part portfolios in non-strategically located markets and the continuous disposing of partitioned residential areas. The free means obtained through these measures will be used especially for redemption and for investments in the development portfolio.

5.4 EARNINGS POSITION OF THE GROUP

The 2007 period to be compared contains the GEHAG Group only for five months.

The earnings position of the group is determined essentially by three special effects. The valuation of the properties on December 31, 2008, which lead to a negative market value adaptation to the amount EUR 276.5 million had the largest effect. That caused our portfolio to depreciate by around 8.7%. With this valuation we take the current market environment in consideration – especially against the background of very restrained financing ability/capacity. The essential value directive of the appraising is the discount rates and capitalization rates, which have increased because of risk premiums in comparison with the previous year. On the other hand the fundamental data (rent and vacancy) in 2008 developed very well, as already mentioned elsewhere. Perspectivally seen, we assume that the market environment will normalize itself again and that the risk premiums will decline, so that in the further development of our rents and vacancies, the valuation will again inject positive impulses into the earnings position. For the next effect the valuation of the interest swaps is to be singled out, which lead to an valuation loss of EUR 32.2 million (preceding year: EUR 7.8 million). Thirdly, in the 2008 business year restructuring expenses and reorganization expenses to the amount of EUR 24.1 were amassed.

Besides the income from the residential property management, revenue proceeds from living under medical observation and nursing care (KATHARINENHOF® GmbH; EUR 33.1 million; preceding year: EUR 16.1 million), telecommunication service (AKF EUR 0 million; preceding year: EUR 3 million) and nursing/care activity (so-called WEG administration; EUR 3.5 million; preceding year: EUR 3.1 million) components of the entire income.

The personnel expenditure amounted to EUR 43.5 million (preceding year: EUR 31.7 million). In the residential property management's segment, as well as the disinvestment segment it was possible in the course of the reorganization of the Group to save about 30% of the jobs as on July 1, 2008. The occurred costs for severance/continued wage payment during leave of absence to the amount of EUR 13.2 million were registered as restructuring and reorganization costs and not as an ongoing personnel expense. We expect that these measures will create a persistent saving volume of ca. EUR 10 million per year.

The upward trend of the financial result is basically to be channelled back to the increased interest expenses resulting from the acquisition of the GEHAG Group. Besides, the DB 14 conducted a special payout, which in as far as it concerns the issuers outside the corporation was recorded as an expenditure.

Major Items of the Group's Profit and Loss Account	2008	2007
	EUR m	EUR m
Income	315.5	204.4
of which income residential property management	277.3	180.8
of which expected rental income and miscellaneous earnings	210.3	144.6
Result from property privatization	17.4	5.3
Maintenance expenses	–36.8	–32.2
Earnings from operating costs (allocation costs)	–83.5	–52.6
Personnel expenses	–43.5	–31.7
Depreciation	–1.8	–1.7
Other operating expenses	–31.2	–27.3
Operational result	106.4	48.2
Results from the first consolidation of the GEHAG group	0.0	64.1
Adjustment of the market values of Investment properties	–276.5	30.9
Financial result	–157.0	–75.8
Earnings before taxes	–328.8	65.7
Income taxes	56.5	–36.0
Group result	–255.9	29.8

All in all, we exceeded our operative goals for 2008 and clearly became more efficient and more flexible with the reorganization of the Group. The Group result was especially influenced negatively by in effect non-cash valuation losses on investment properties, as well as the interest swaps. Moreover, nonrecurring expenditures for the restructuring had a burdensome effect.

6 SUPPLEMENT REPORT

Significant occurrences after the deadline are not known to us.

7 RISK AND OPPORTUNITY REPORT

7.1 RISK MANAGEMENT

Deutsche Wohnen AG is continuously engaged in the identification of all possible opportunities, through which the further development and the growth of the company can be secured. In order to be able to utilize such opportunities, it is necessary to also take risks. The knowledge of all essential risks, its estimation and ongoing inspection are rightly so essential in order to be able to manage the risks professionally. For that reason, Deutsche Wohnen implemented a central risk management system with the aim to identify, measure, pilot and to safeguard every part of the company against potentially damaging risks. A central component part of this system is a detailed reporting, which on the basis of relevant operative figures and financial indices, establishes a reference to the identified risk fields and to underlay a continuous supervision and further development. Special attention is placed here on the key figures for the development of the rentals and the residential privatizations, on the cash flow, the liquidity and the balance structure indices.

Through an intensive communication within the leadership group of the company, all decision makers always have up-to-date knowledge over all relevant developments in the company. Deviating developments or emerging risks that could be potentially dangerous to the company inventory, are uncovered at an early stage and corresponding counter measures are initiated.

Information originating in the risk management section will be assembled extensively on a quarterly basis and made available to all decision makers. The Supervisory Board receives for each and every one of its sessions extensive information to all relevant questions and developments. In addition, the internal risk management handbook is updated once on an annual basis.

7.2 RISK REPORT

Risks from the financial crisis
Central task of the risk management of the year 2008 was to tackle the risks which emerged due to the financial crisis and to initiate appropriate measures. Due to the financial crisis, Deutsche Wohnen will have to face risks on both corporate level and on individual busniess segment level.

On corporate level, especially the following risks can prove to be a threat:

» Financial risks

The current very tense situation within the German banks could basically cause problems with financing for Deutsche Wohnen. Banks could be no longer in a position or have the will to extend expiring credit facilities. The refinancing volume of Deutsche Wohnen until 2011 lies by about EUR 160 million as of December 31, 2008 there of EUR 84 million are due in 2009. Deutsche Wohnen interacts with more than 10 banks with the predominant part of the business relations to be designated as long-term. It is not to be excluded that refinancing will be more expensive and that the future contractual negotiations will take much more time. We do not expect a bottle-neck situation with regard to our liquidity provision, at least not as observed from the current perspective.

Banks also could only conduct credit extensions on the specification of worsening credit conditions which would have direct effects on the profit and loss statement, as well as on the liquidity position of Deutsche Wohnen. This risk is certainly to be assessed as minor, seen against the background of the 3-year horizon with comparatively low refinancing volumes.

Basically at present the latent danger lingers that banks can become insolvent despite extensive measures by the German Federal Government or unable to pay or no longer be capable of meeting their obligations. This risk can, also for those banks who have signed contracts with Deutsche Wohnen, not be excluded. At the moment, however, no such signs are to be discerned.

Banks could also on the basis of non-observance of agreed upon covenants by Deutsche Wohnen accelerate loans or cancel credit extensions. For the expired fiscal year 2008, we kept our covenants

» Risk of insurance losses

Deutsche Wohnen has taken out a multitude of insurance policies to cover its business activity against risks. As prominent examples show recently that also large insurance companies can be substantially harmed by the effects of the financial crisis, we have revised our present insurance situation and obtained concrete alternative offers. Should an insurer go under, then the existing insurance can immediately be replaced by a new insurer. This risk has been strongly reduced.

» Cancellation Risks by External Suppliers and Service Providers

In the property management, Deutsche Wohnen collaborates with a number of smaller external suppliers and service providers. Should in the course of the financial crisis one or more of these business partners go out of business, we continue to be confident that we are in a position to relatively quickly replace them with competitors. A bigger risk is presented by the IT service provider, which oversees and accompanies the introduction of SAP in Deutsche Wohnen.

At the present moment, we have no reason to believe that our service provider could fail. The happening of such a risk would nevertheless have a substantial impact on the current business activities of Deutsche Wohnen.

» Shortfalls in rental payments

In the current economic position it must be reckoned with increasing job closures, with irregular earnings by tenants and that, subsequently, rentals will on an increasing basis not be paid punctually or any more. To the manifestation of this specific risk, management has added the tag of medium probability. Seen in advance, this risk can be met by establishing a close contact with the tenants as well as an early recognition system concerning lurking financial problems. Tenants could then be offered smaller and more affordable residential units from the diversified portfolio of Deutsche Wohnen. In retrospect, through target-specific marketing actions we make the public aware of vacant units. The marketing campaigns of the past years were primarily focused upon the Berlin properties, where the vacant units could be reduced markedly. We therefore are confident that we will be able to recognize shortfalls in payment rather sooner than later and, on the other hand, that vacant units can be reduced even in the current market environment.

» Downward Trend in Privatization

Both in individual privatizations and in the area of bloc sales the danger looms that the investments of potential buyers could be placed on hold, which would hamper the sales strategy of Deutsche Wohnen. In the area of individual privatizations, the current trend is to recognize that residential units have become secure assets during uncertain times and that inquiries in this segment would continue streaming in. The economic development can however also here prevent potential purchasers from obtaining the necessary financial means to make an acquisition. With regard to bloc sales, the financial crisis is noticeable in so far that potential purchasers have problems momentarily to received a commitment from the banks in spite of clearly increased equity capital resources. In some instances, sound financial agreements got retracted again. Therefore Deutsche Wohnen does not leave the buyer to search all by himself for a financing bank any more, no we have become active ourselves. With such a portfolio and financing package we are confident to be able to realize our sales plans on the medium term.

Strategic risks

In 2008 Deutsche Wohnen again pursued the changed business strategy, which was reached in 2007. Concerning this strategy, basic risks do exist.

» Risks based on lacking acceptance of the strategy

Risks could arise from the fact that the selected strategy fails to find acceptance and approval in the capital market and that the company therewith fails to secure access to capital and the subsequent winning over of more long-term, supporting investors. In order to meet this risk, we publish in our obliged statutory publications all relevant key figures that put the success and the sustainability of the strategy above board. We have our finger on the pulse of the capital market in order to discuss and to clarify the ratio and the effectiveness of the strategy. We estimate that the entrance probability of this risk remains to be slight.

» Risk based on trend ignorance

When market developments or trends are not recognized, one can run the risk which threaten the very existence of the company. In order to decrease this risk, all company divisions are sensitized on a regular basis to carefully observe developments in its sectors and to bring forward changes timely to the attention of the risk management, who could then launch further measures.

We estimate that the entrance probability of this risk remains to be slight.

» Risk of Image Loss/Reputation Damage

Protective measures to guard against image loss and steps to continue improving our reputation are important factors for us to be able to continue our success story in our business environment. That is why we have developed a dominant culture, which provides internally for the staff members, but also externally for the communicative interchange with customers and suppliers, clear directives for ongoing trust-inspiring and fair cooperation. We take determined action against unfounded attempts to damage our reputation.

Political, legal and societal risks

Political risks comprise living in the activity field of Deutsche Wohnen where possible damages due to nationalisation, expropriation or terrorism may theoretically occur. We are not able to recognize these risks from the current situational point of view.

Legal risks that could lead to losses for the company occur by not heeding to legal prescriptions, the failure to implement new or changed laws, lack of comprehensive regulations in signed contracts or the lacking management of the insurances.

In order to avoid possible legal offences, it is essential to provide a sufficient supervision as well as the implementation of changes in directives, laws i.e. jurisdiction. Likewise, contracts should be adequately laid out, contractual amendments should be executed timely, and also legacy contracts must be supervised in order to avoid risks such as for example additional costs, a possible lawsuit or image damages. In this connection the company has at its disposal an own Corporate Law Department, which supervises such risks.

For the company, a sufficient supervision of cases of damage and insurance is important to prevent an over insurance or deficient cover in insurance protection, because possible deficits in the avoidance or prevention of these risks can lead to deteriorating earnings positions for the company as consequence. Excessive insurance cover on the other hand does lead to not necessary cost burdens. The company exchanges views with a connected insurance group so that such risks can be supervised professionally.

Injunctions to stop construction work and even inadequate building permits can have a negative effect because both can lead to unexpected costs and a delay in building construction work. Removal of contaminated land and the implementation of changed legal principles could cause an aftermath of increased expenditures. The company estimates that the entrance probability of this risk remains to be slight.

Company law directives risks: Furthermore, risks sprouting from cooperations or mergers, are classified here. In order to take action against these risks, the Management Board instructs in a concrete case a thorough analysis to be able to access a comprehensive overview and to make proper suggestions on how to deal with the identified risks. Besides, the Management Board, even before such concrete negotiations start, invites advice from the internal Corporate Law Section, as well as from external law consultants from well-known law firms. The Management Board is aware that a strategic external growth is not to be pursued under all circumstances.

Risks from the non-observance of corporate governance

The non-observance of rules of a well-run business management (Corporate Governance) could lead Deutsche Wohnen primarily into losing its good reputation and to damages to its image as a transparent and fair operating company. We attempt to oppose these risks through a voluntary self-commitment in the context of the German Corporate Governance Code, which Deutsche Wohnen acknowledges and pursuits within the framework of the declaration of conformity. The latest version of the compliance statement is available to shareholders at all times at www.deutsche-wohnen.com.

IT risks

On January 1, 2009 Deutsche Wohnen AG, after nearly one year of preparation and test phases, started a new company-wide IT application (SAP). Especially in the beginning phase, it could come temporarily to business impairment through problems in the application of the new IT system, although up to now everything functions smoothly.

Basically one must reckon with the risk of a total fall-out of the application that could lead to considerable interruptions in the normal running of the company. For this reason, Deutsche Wohnen entered into contract with its IT service provider for functional business processes, maintenance processes and administration processes as well as effective supervision mechanisms in order to anticipate and cooperate against such a risk which would imply loss of data. Internally, we work through regular user training, through the targeted build-up and extension of our SAP competence as well as through regular training for our IT personnel on an optimal support of our business processes and the meeting of the data protection there. We estimate the risk of a long lasting total system fall out as very slight, the effects of the changeover would be however not insignificant.

Human resource risks

A decisive factor for the business success of Deutsche Wohnen AG is represented by the employees with their knowledge and their special capacities. The danger remains that Deutsche Wohnen could fail to keep the best-qualified and most suitable employees for its own business. We try to do something about this by securing a motivating working environment and by offering financial and non-financial incentives. We consider Deutsche Wohnen to be one of the most attractive employers in its branch.

Basically an insufficient staff development plan, i.e. attitude politics concerning excessive capacities and through that an increase in personnel expenditures or to under-capacities, which in its turn can lead to an unfulfillment of essential activities. Furthermore, it can come to the point where the original knowledge and ability of the personnel of Deutsche Wohnen no longer satisfy the present demands of the job situation. Although this is considered to be a risk of slight importance, the company nevertheless meets this risk through advanced training programs and wastes no time with the reoccupation of key positions.

Market risks

Market risks in the rental market could emerge if the economic climate in Germany continues its downward trend, which could cause the market rents to stagnate or to drop. In addition, it can come to the point in a stagnating or shrinking economy that unemployment increases, which can restrict the financial possibilities of the tenants. To aggravate matters even further, a decline in the available net income of people, be it because of unemployment, duty increases, tax adaptations or utility expense increases, the business course of Deutsche Wohnen will be influenced negatively by a decrease in new rentals, lower new tenancy rentals and an increasing in vacant units.

Executive management considers this scenario to have a medium-scale likelihood. Deutsche Wohnen attempts, by way of an active renting management and the ongoing care of the existing tenants and rental-interested parties to recognize and identify, before it is too late, financial bottleneck situations among the tenants and to jointly search for solutions within the Deutsche Wohnen property portfolio.

An intensification of competition can cause market rentals to stagnate or to drop, new rentals to be connected to higher expenditures or vacancy to increase. Deutsche Wohnen intervenes in this competitive environment by addressing the market in a variety of ways and means, by making potential tenants aware over the Internet or by implementing other conventional ways (advertisements, placards, rental offices) of vacant residential units.

Changes on the capital markets can cause Deutsche Wohnen to not be evaluated appropriately as a listed company on the stock market and in the most unfavourable scenario to be left not being able to sufficiently make ends meet with own equity capital. This risk is estimated to have a medium-scale likelihood. We continue to be in close contact with existing and potential investors as well as financial analysts in order to lay the informative base for a fair estimation of Deutsche Wohnen shares.

Object risks

Object risks can emerge on the level of the individual object, the portfolio and the location of the objects.

On the level of the individual object, object risks have to do especially with maintenance neglects, damages to buildings, insufficient fire protection or damage to wear and tear of objects by the tenants. On portfolio level, the risks manifest themselves as the caking in of the structure of the property holdings, that can increase in maintenance and refurbishment expenses and the aggravated position of non-rentability units. The position of the property portfolio can by way of short-term possible changes in the environment like the extension of flight routes or extensions to rail schedules or long-term changes to the infra-structure and the population be subject to a risk of deterioration.

In the case that these risks should make their appearance it would have a negative impact on the earnings position of Deutsche Wohnen. By way of the Asset Management Department, which is established on holdings level, the portfolios and their development are constantly supervised and optimized; actions are undertaken against apparent and negative developments. The management of Deutsche Wohnen consider these risks to be slight.

Financial-economical risks

Due to a variety of participations and a complex participating structure, increased transparency and a higher piloting expenditure are necessary to prevent negative aftereffects on the business process of the company.

Additionally, the dependence on commercial and legal-taxation parameters is increased. Inadequate planning and piloting, as well as insufficient control of earnings from affiliated companies could cause a drop in revenue.

The fundamental change of tax parameters (deduction limitations, EK02) can lead to financial risks. The continuous tax consultation through external tax advisers supports the management of Deutsche Wohnen on a regular basis and simultaneously brings it on the latest positioning with respect to on-going changes, so that necessary adequate measures can timely be taken by management. Moreover there are internal tax specialists who continuously supervise the developments and tendencies and analyze their possible effects on Deutsche Wohnen. The risk, resulting from increases in the market interest level within the Deutsche Wohnen Group through a mostly predominant share in long-term loans with long-term agreed-to interests, is excluded.

In addition, financial risks through the input of derivative instruments in the form of interest swaps are prevented, with which variable interest payments in fixed interest payments are traded in exchange and which are through these means secured against market value changes.

To the financial economic risks, Deutsche Wohnen also pays a delayed capital flow in revenue proceeds and loan awards, as well as unforeseen expenditures that can lead to liquidity bottleneck situations. Moreover, fluctuations in the appraising of real estate (IAS 40) and derivatives can lead to annual corrections affecting net income. A further risk is presented by the increase of bad debt losses, which could create a favourable climate for result and liquidity risks. In the case of a complete tendering by the funds issuer of the DB 14, then Deutsche Wohnen would be burdened with an additional liquidity requirement to the amount of EUR 48 million. This liquidity would have to be generated by way of financing or through additional selling. In the past, the funds issuers tendered for between 2% to 6% of the entire shares per year. These risks are being met through a continuous supervision and liquidity planning. The entrance probability of these risks are estimated by Deutsche Wohnen against the current market background to be in the middle area.

Investment risks

The selection and planning of large scale restoration and maintenance measures can lead to an incorrect allocation of investment means, equally so it is possible that the purchase of additional units does not correspond to the yield expectations. This could have a negative influence on the business course of the company.

Also incomplete declarations in Due Diligence reports and analyses as well as non-transparent allocation decisions and the side-stepping of allocation directives (for example with the utilization of public subsidies with repayment consequence) can gravely increase the risk factor.

Further risk factors, that stand in close proximity to investments by the company, are those where the planned costs are exceeded, where deadlines are not observed as well as the undercutting of facility standards. This can create additional expenditure for the company. Equally so can delayed start-ups, rental losses (in some case rental reductions) or insufficient deficiency pursuits lead to an increase in expenditure. The company will always assemble a team consisting of internal and external qualified personnel for every investment.

Deutsche Wohnen tackles these risks by way of a multi-stage decision-making process, in the framework of which all risks are carefully analyzed and weighed. For larger investments, the company brings together a team, in each case, consisting of internal and external qualified personnel. These investment risks are therefore considered to have a slight entrance probability.

7.3 OPPORTUNITIES FOR FUTURE DEVELOPMENT

Deutsche Wohnen consolidated its position as the second largest German real estate company listed on the stock exchange and with the take over of GEHAG provided proof of its integration capacity. This process lead to an experience profit for staff members and management, which can be used for possible future integrations with new accrued experienced value. Deutsche Wohnen is therefore now set up as a consolidating platform in order to use the on-offer market opportunities and to actively cooperate with the consolidation of the market.

In the current existing portfolio, the main locations of Berlin and Frankfurt am Main continue to provide good growth prospects and, in comparison with the other large urban areas, have now positioned themselves as the leading group. A good and thorough blend of the portfolio regarding the residential unit sizes and micro locations within the densely populated and built-up areas, supplied with an intensive tenant care service, this all offers the possibility to generate constant yields from the portfolio also in a difficult economic environment.

The usage of the IT platform SAP in many ways opened up opportunities for the future: on the one hand, SAP allows an even stricter supervision of all operative figures. Defective development and setbacks can be recognized more quickly and in this way counter measures can be initialized. On the other hand, work flow routines can become even more efficient, and should lead to further cost-cutts. Even more, SAP offers the possibility, to quickly integrate objects that are new additions to the portfolio - be they acquisitions or mergers – and to administer and manage them efficiently.

These opportunities, together with a dynamic and motivated work force, will allow Deutsche Wohnen to grow and to steadily enhance its internal business value.

8 EMPLOYEES AND ORGANIZATION

A decisive factor for the business success of Deutsche Wohnen is our staff members. Their motivation, their commitment and last but not least their qualification are the base for the implementation of the company strategy and the planned growth of the corporation.

Deutsche Wohnen Group and GEHAG Group have united in August 2007 to become Deutsche Wohnen. Thereby the second largest listed residential property company in Germany came into existence. In the context of the transaction, we have assessed the synergetic potential of our staff members with approximately EUR 10 million. With the reorganisation of the groups in the past year, we managed to achieve these targets and therewith improved the efficiency and flexibility markedly. The necessary personnel dismissals were executed in a socially acceptable way without exception, simultaneously were all key positions filled with new appointees, both internally and externally.

In the management holding Deutsche Wohnen AG there are, besides the Management Board, staff members employed in the central divisions like asset management, staff, law, financing/controlling/bookkeeping, communication, investor relations and marketing. In these non-operative areas 77 staff members are employed. In the operative core business divisions of residential property management, as well as individual privatizing were 282 staff members employed at the end of 2008. The total number of staff members in the core division of residential property management is 359.

A further 938 staff members are engaged in the division of real estate for the senior citizens.

9 REMUNERATION REPORT

The Supervisory Board determines the total compensation and compensation structure for members of the Management Board and regularly reviews it for reasonableness. In the context of the decision making process of the Supervisory Board, the presidential committee is responsible for the service period and content of the service contracts of the Management Board members. The remuneration of the Management Board members is determined by the size, the branch and the alignment of the company, its economical and financial position, the duties of the respective Management Board member as well as the amount and structure of similar packages of similar companies. The remuneration is compiled in such a way that it is competitive internationally and nationally in order to offer an incentive for committed and successful work.

Management Board compensation is performance-oriented. It includes both performance-related and performance-independent components as well as components with a long-term incentive effect and risk elements.

Success-independent components are the fixed allowance (basic salary) and fringe benefits. The basic salary is paid monthly as a salary. Supplementary components consist of company car usage, travel allowance and reimbursements and subsidies for insurance policies.

The annual bonus is determined by the Supervisory Board at its discretion on the basis of the company's business development. The bonus amount is fixed by the degree to which advance targets have been met or exceeded.
For the remuneration of the Management Board, the following expenses which are due in the short-term were occurred:

	Fixed Compensation	Variable Compensation	Settlements	Total
2008	k EUR	k EUR	k EUR	k EUR
Michael Zahn	300	200	0	500
Helmut Ullrich	300	200	0	500
	600	400	0	1,000

10 FORECAST REPORT

Future Alignment of the Business and the Corporation

Deutsche Wohnen AG will also in 2009 continue to pursue and to develop further its specified company strategy of 2007. The goal of the business operations is still to increase its business value through the provision of high-value services to the "object residential property" and internal structure and process optimization. Regionally, the business remains focused on built-up densely populated areas with growth potential in Germany. Sectorally, Deutsche Wohnen will continue to be active in the residential property segment. A program that inter-acts within the system and whose component parts are in contact with each other remain to be centre-staged:

» Earnings Optimization: the consistent mutuality of rental adjustments conforming to the rental legal structure and new rentals provide rental and earning increases.

» Sales Program: In 2009 the portfolio quality will improve due to selective sales measures. On the one hand, the identified objects for bloc sales should be sold as soon as possible. On the other hand, also the small unit sales of the individual privatization portfolio serve the optimization of the entire portfolio.

» Growth: Simultaneously and together with the sales program, Deutsche Wohnen pursues an acquisitions program. Because the portfolio size is not supposed to decrease constantly, therefore, in order not to jeopardise already reached efficiency increases and scale effects, possible portfolio purchases are constantly monitored. The demands on possible acquisition portfolios are high, because these are to be integrated in the optimized and qualitatively high-valued existing portfolio structure without the dragging down of the already reached quality level.

» Advancement of the Corporate Structure: after the successful integration of GEHAG and the introduction of the uniform IT Platform SAP, Deutsche Wohnen will continue to optimize the structure and operative organization in 2009. In a structured, internal process possibilities to increase the efficiency are identified and elevated. The consequences from the resulted personnel rationalization to the amount of ca. EUR 10 million will become fully manifested and visual in 2009.

Furthermore, the newly created branch of Corporation Development will continue to be occupied with the examination of value creation sequences within residential properties on promising operative areas, especially those that complement the yield demands and core competencies of Deutsche Wohnen and to supplement the existing operative areas even further.

We have markedly improved our competitive position with the successful and quick integration of both companies to such an extent that the nonrecurring costs of the merger has also been well invested. Now we face the task to scale the business model of Deutsche Wohnen. Besides the continuation of the operative business and a solid liquidity base, Deutsche Wohnen must open up towards continued growth.

For the purposes of an individual company closing report we expect for 2009 and 2010 a balanced result before interest, taxes, special items and the operative figures from affiliated companies.

Looking Forward:
Total Economy and Residential Property Market

Leading economic research institutes forecast a demanding 2009. The strong networking of the German economy with the remaining European countries and the international economy will cause the real economical effects of the financial crisis to hit the German economic hard without brakes to be applied. In the 2009 annual economic report, a decline of the gross domestic product of 2.25% is therefore expected for 2009, other prognoses mention an even stronger decline.

The German residential market will in 2009 be characterized by only few new building construction activities, so that an increase in household numbers will face a relatively constant level of supply. The migrating population trend to leave rural regions and to settle in the cities should increase the demand for residential space in the cities. The economic development, especially the increased unemployment figure, is expected to reinforce the tendency for smaller residential units in the rental market. In the ownership area on the other hand, we expect no decline in the demand because the real estate might be again hailed as a certain asset in unsteady times.

DISCLAIMER

This report contains future oriented declarations. Future oriented declarations are statements that do not describe facts of the past, they also contain declarations of assumption, expectations, intentions and opinions of Deutsche Wohnen.

Numerous well known and unknown risks, uncertainties and other factors, many of which lie outside the influence sphere of Deutsche Wohnen, can contribute to the fact that the actual results, the capital funds or the development of the company may considerably deviate from the future oriented statements, that are represented or implied in this report. The company accepts therefore no responsibility for the fact that the assumptions on which future arranged statements rest are correct, or for the realization of predicted developments.

The future oriented statements in this report are based, in addition, upon information, estimations and prognoses, which are available to the management of Deutsche Wohnen at this point in time. Deutsche Wohnen accepts no obligation to revise or to correct future oriented statements in view of new information or future events after the publication of this report.

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Version April 2009

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Chairman of the Management Board, Berlin

Helmut Ullrich
Chief Financial Officer, Berlin

SUPERVISORY BOARD

Version April 2009

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Chairman, Bad Homburg

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FINANCIAL CALENDAR

Publication of Business Report 2008

05/28/2009	Publication of interim report as of 03/31/2009
06/16/2006	Ordinary Annual General Meeting in Berlin
08/27/2009	Publication of interim report as of 06/30/2009
11/26/2009	Publication of interim report as of 09/30/2009

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