OFFERING CIRCULAR DATED SEPTEMBER 22, 2009

# Offering Circular

**for the public offering**

and

**admission to the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange**

of

55,440,000 new ordinary bearer shares with no par value (no par value shares) from the capital increase against cash contributions resolved by an extraordinary meeting of the shareholders on August 7, 2009 with subscription rights for the shareholders of Deutsche Wohnen AG

— each such share representing a notional value of €1.00
and full dividend entitlement as of January 1, 2009 —

of

# Deutsche Wohnen AG

Frankfurt am Main, Germany

**Subscription price of €4.50 per no par value share**

**— International Securities Identification Number (ISIN) (bearer shares): DE 000A0HN5C6 —**

**— WKN (bearer shares): A0HN5C —**

**— Trading Symbol (bearer shares): DWNI —**

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**Joint Global Coordinators & Joint Bookrunners**

**BofA Merrill Lynch** **UBS Investment Bank**

September 22, 2009

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# SUMMARY

*The following summary is intended to be read as an introduction to this offering circular. Because more detailed information is contained elsewhere in this offering circular, you should base your investment decision on a review of the entire offering circular. Deutsche Wohnen AG, Frankfurt am Main, Germany (the "Company", and together with its subsidiaries, "we," "our Group," "Deutsche Wohnen" or the "Deutsche Wohnen Group"), along with Merrill Lynch International, London ("Merrill Lynch") and UBS Limited, London ("UBS," and together with Merrill Lynch, the "Global Coordinators" or "Underwriters"), assume responsibility for the content of this summary pursuant to Section 5(2) Sentence 3 No. 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz, *the "WpPG"). They can be held liable for this summary's content, but only if it is misleading, inaccurate or contradictory when read in conjunction with the other parts of this offering circular. If an investor files claims in court on the basis of the information contained in this offering circular, the plaintiff investor may be required by the laws of the individual member states of the European Economic Area ("EEA") to bear the cost of translating the offering circular before the proceedings begin.*

## Summary of the Business of Deutsche Wohnen

Deutsche Wohnen is, according to its own estimates, Germany's second-largest publicly traded residential real estate company, measured in terms of market capitalization, and property portfolio, which currently includes 50,611 units (50,122 of which are residential units). Our business strategy focuses on attractive residential properties, currently in the important business centers of Berlin and the Rhine-Main area. Due to our concentration on residential real estate, we believe that we are less affected by cyclical fluctuations than companies specializing in commercial real estate. Our business is divided into three key segments: Residential Property Management, Sales (comprising block sales of property and the single unit privatizations of individual apartments) and Assisted Living and Elderly Care. The Residential Property Management and Sales segments are supported by our portfolio management unit, which is responsible for the strategic positioning of the existing and future property portfolio.

The Residential Property Management segment, which is the focus of our company's business, includes all activities relating to residential property management and administration, lease management and tenant assistance. Our strategic goal in this segment is to maintain and optimize our net cold rent. We aim to accomplish this by focusing on existing net cold rent uplift potential, vacancy reduction by maintaining and increasing the attractiveness of our residential property portfolio (for example, by maintaining and modernizing our rental stock) and by ensuring efficient management of our residential properties (through an ongoing review of possible management alternatives in the regional property groupings or "clusters"). We believe that by focusing our portfolio on core regions and continually optimizing the net cold rent from our real estate portfolio, we can generate organic growth.

The Sales segment includes all activities relating to the sale of residential units, buildings and land. Our residential holdings intended for sale are broken down into individual unit sales and block sales. In individual unit sales, our objective is to sell apartments, mainly to owner-occupants, at prices exceeding their fair value. The disposal portfolio for block sales comprises apartments in locations that no longer fit into our business strategy. These mainly include residential units and buildings in rural areas and individual buildings in and outside of the core regions (known as "scattered holdings"). The majority of these properties are sold to institutional investors, generally at least at fair value, although, at times, below fair value in order to adjust the portfolio. All sales of residential units are intended to optimize and consolidate our property portfolio and occur on an ongoing, but staggered basis.

Our Assisted Living and Elderly Care segment manages and markets nursing and residential care facilities for seniors, the vast majority of which we own, under the KATHARINENHOF® brand. These facilities provide full inpatient care with the aim of promoting an active lifestyle for nursing care patients while preserving their independence as much as possible. Our assisted living facilities provide older people with rental apartments along with an extensive range of services tailored to their needs. The Assisted Living and Elderly Care segment is referred to as the "Services" segment in our Group's segment reporting.

As of June 30, 2009 our residential property portfolio consisted of 50,122 residential units with a total residential floor area of 3.1 million m$^2$ (based on the total residential floor area listed in the leases). The estimated rent income, based on our entire residential portfolio (total portfolio), amounted to €5.17 per m$^2$ as of June 30, 2009. The average apartment size was 61 m$^2$. The vacancy rate was 5.4% as of the same date. In addition to residential properties, our real estate portfolio includes 489 commercial units and commercial floor space totaling 85 thousand m$^2$ (based on the total commercial floor space listed in the leases), as well as 11 nursing care facilities with space for 1,125 nursing care residents and 4 assisted living facilities with

229 apartments, one of which is also a nursing care facility. Of the 14 facilities, including nursing care facilities and assisted living facilities, two are not owned by Deutsche Wohnen. The nursing care facilities and assisted living facilities, which we own, were grouped into a total of ten assisted living and elderly care facilities in the property appraisal report from the independent appraisers CB Richard Ellis GmbH (the "Property Appraisal Report"). According to the Property Appraisal Report, the total market value of our real estate portfolio (residential and commercial properties, assisted living and elderly care) was €2,864.9 million as of June 30, 2009. We valued our real estate portfolio at €2,864.6 million as of the same reporting date. Our net asset value less real-estate related deferred taxes amounted to €638.3 million as of June 30, 2009. On June 30, 2009, we had a total staff of 1,268 employees (942 of whom worked in the Assisted Living and Elderly Care segment).

### Summary of the Competitive Strengths and Strategy of Deutsche Wohnen

### Summary of our Competitive Strengths

Based on the size and quality of our residential property portfolio, the focus of our portfolio on core and growth regions, and the quality of our management and employees, we believe that we are favorably positioned to generate sustained value growth in the existing residential property portfolio and also to build on the foundation of our portfolio in the German residential real estate market by selectively acquiring additional property portfolios.

We believe our strengths vis-à-vis our competition lie primarily in the following areas:

- a high-quality, attractive property portfolio that generates strong rental income in two important business centers in Germany (Berlin and the Rhine-Main area);
- the skills, experience and market knowledge of our management team and employees;
- access to various potential sellers of residential properties and new property portfolios;
- integration expertise and scalability of the business platform; and
- achievement of net cold rent increases through strategic asset and portfolio management.

***High-quality, attractive existing property portfolio that generates strong rental income in two important business centers in Germany (Berlin and the Rhine-Main area).*** As of June 30, 2009, our residential property portfolio consisted of 50,122 residential units, 71% of which, in relation to our owned portfolio of 47,501 residential units, are located in the two important business centers of Berlin and the Rhine-Main area. We believe that our residential property portfolio is a high-quality, attractive portfolio that generates strong rental income, mainly due to our geographical focus on two regions that complement each other due to the following characteristics. The Berlin region benefits from a relatively low average contractual net cold rent level, a population that has been growing for years due to immigration, and an increase in the number of households due to the high proportion of one-person households, which leads to strong demand for apartments. Due to the above-average percentage of highly qualified workers compared with Germany as a whole, the Berlin region offers strong innovative potential and future viability. The Rhine-Main area is characterized by a population with above-average incomes and strong purchasing power and by relatively high contractual net cold rent levels. In the future, we anticipate strong economic growth, as well as population increases in both regions, which is expected to raise demand for residential properties overall and have a positive influence on our rental income. We believe that our existing portfolio of residential properties forms a strong platform for selective acquisitions of additional property portfolios.

***Skills, experience and market knowledge of our management team and employees.*** Our management team has a great deal of experience in portfolio management and the acquisition of residential real estate assets. In addition to the acquisition of GEHAG GmbH ("GEHAG" and, together with its subsidiaries, the "GEHAG Group") in August 2007, our current management team was able to successfully complete the acquisition and integration of several smaller real estate portfolios between 2003 and 2007. The management team is also supported in all aspects of our business by an experienced and skilled managerial staff. The leasing of residential units or their sale as part of privatization projects is also handled primarily by our own experienced and skilled employees. Due to their many years of experience in the residential real estate industry, our management team and staff both possess extensive knowledge of the German residential property market, including the special characteristics of the relevant regions.

***Access to various potential sellers of residential properties and new real estate portfolios.*** We believe that we possess a wide-ranging network of business contacts in the real estate industry and an excellent reputation in the market. Our network enables us to obtain timely information regarding real estate

portfolios for sale and therefore to efficiently make contact with sellers of residential property portfolios. Due to our network and the broad market knowledge of our management team and employees in the purchase of small and large-scale property portfolios, we believe that we are in the position to invest in high-income, high-growth portfolios. Moreover, our past activities, particularly with respect to portfolio sales by German states and municipalities, have enabled us to build a reputation as a reliable partner.

***Integration expertise and scalability of the business platform.*** The Company's business organization is flexible and streamlined. After the acquisition of the GEHAG Group in 2007, the target number of positions for full-time employees was reduced from 488 to 340. Due to our flat corporate hierarchy and the market knowledge of our management team and employees, decisions to invest in new residential property portfolios can be made and implemented quickly based on well-founded information. We believe that this organizational structure will enable us to expand our existing portfolio through purchases of smaller-scale portfolios without incurring substantial additional fixed costs. Moreover, we believe that our Company is in the position to quickly and efficiently optimize the cost structures of portfolios after acquisition. For example, after the acquisition of the GEHAG Group in 2007, operating expenses were reduced by 17% (in the first six months of 2009 compared with the first six months of 2008) due to the efficient and rapid implementation of cost optimization and restructuring measures, particularly cutting personnel and streamlining administration. As a result, we were able to increase our funds from operations ("FFO," which is derived from the consolidated profit and loss statement and which the Company believes is an important liquidity indicator for real estate companies) from €10.9 million in the first six months of 2008 to €17.8 million in the first six months of 2009. Our FFO per share rose from €0.41 in the first six months of 2008 to €0.67 in the first six months of 2009.

***Achievement of net cold rent increases through strategic asset and portfolio management.*** Our strategic asset and portfolio management activities involve a review of each potential investment before acquisition to determine whether the specific residential real estate assets to be acquired are a suitable high-income and high-growth investment. This review clarifies whether the planned investment fits into the existing portfolio, for example in terms of risk mix, compatibility in certain segments and regions, the effects of the acquisition on personnel and administrative expenses, and the necessity of additional special measures, such as modernization or revitalization. Strategic asset and portfolio management also includes identifying the potential for value growth in the existing portfolio and in possible acquisition targets, as well as realizing this upside potential by implementing concepts to add value, for example, modernizing units or leveraging vacancies due to tenant turnover. Also, strategic portfolio management involves continually reviewing the property portfolio with the goal of optimizing the portfolio and selling off certain real estate holdings. Due to our asset and portfolio management activities, we were able to increase the estimated rent income in our total portfolio from €4.90 per $m^2$ as of December 31, 2007 to €5.10 per $m^2$ as of December 31, 2008 and to €5.17 per $m^2$ as of June 30, 2009. We also reduced the vacancy rate from 6.4% as of December 31, 2007 to 5.9% as of December 31, 2008 and to 5.4% as of June 30, 2009.

### Summary of our Strategy

The focus of our business is to enhance shareholder value. To accomplish this goal after the acquisition of the GEHAG Group it was necessary to restructure and integrate the two companies and build up a competitive and scalable platform. We largely completed this phase of the restructuring and integration in 2008. The next phase will focus on improving our financial position, in particular by undertaking an appraisal of our real estate holdings that is still transparent and reflective of market conditions and also reducing our debt load. Cost savings and a reduction in ongoing interest expense should result from both of these phases. Growth and value enhancement will be the priority of the third phase.

Our Company sees itself as an active manager of mid-priced apartments in economically attractive locations with above-average net cold rent uplift potential. A key element of our business strategy is to develop this potential by increasing net cold rent as part of rent index adjustments, new leases at market rent and by undertaking targeted measures to modernize our core portfolio in order to grow shareholder value. The implementation of this strategy is driven mostly by the portfolio structure (location, condition, share of non-rent-controlled properties, year of construction, etc.) and the business principles derived from it. The core elements of the strategy are as follows:

- focus on management of our own residential properties in growth regions in Germany;
- leveraging of net cold rent uplift potential and vacancy reduction in our core portfolio;
- growth through targeted acquisitions;

- value-oriented sales of individual units and the streamlining of our portfolio; and

- optimization of our financing structure, particularly by reducing financial liabilities.

***Focus on management of our own residential properties in growth regions in Germany.*** In the future, we aim to concentrate our efforts increasingly on the management of our residential property portfolio in order to maintain and increase net cold rent. In this process, the strategic focus will continue to be on the German residential real estate market and on the management of our own residential property holdings. For this reason, we follow a regional approach and concentrate on managing a compact portfolio in a few core regions, particularly Berlin and the Rhine-Main area. In addition, we plan to expand our residential property portfolio to other regions that we believe offer strong growth potential and net cold rent uplift potential.

***Leveraging the net cold rent uplift potential and vacancy reduction in our core portfolio.*** We aim to increase the income generated by our current holdings of residential real estate by increasing net cold rent through continued active asset and portfolio management. The increase in net cold rent should be generated mainly by: modernization measures in selected properties; maintenance and further improvement of the tenant structure; targeted increases in net cold rent to market levels in the course of natural tenant turnover; rent increases in line with rent index growth; and vacancy reduction. The portfolio is also streamlined through sales to owner-occupiers and block sales to institutional investors. Our focus on residential property management in core regions and locations with rent growth potential is a key element in optimizing our residential property portfolio and increasing profitability. Since our current net cold rent in these regions and locations is below the normal market rent that we have determined based on newly leased properties, we believe there is the potential for further increases in net cold rent. For example, the leasing of 2,300 non-rent-controlled units in the first six months of 2009 generated an average net cold rent of €6.16 per $m^2$. Our own portfolio has a rent increase potential of approximately 18.5%, based on the estimated rent income of our own portfolio (excluding rent controlled properties) of €5.20 per $m^2$.

***Growth through targeted acquisitions.*** As of June 30, 2009, we held a portfolio consisting of 50,122 residential units. We are positioned as a residential real estate "consolidation platform," that is, we are in the position to integrate new portfolios into our existing organizational structures quickly and therefore to take advantage of economies of scale. In the future, we plan to acquire selected suitable residential property portfolios in centrally located regions with identifiable potential rent growth, in order to develop increased growth potential, which is otherwise generally limited to the management of the existing portfolio. In principle, we estimate that for entry into new markets in growth regions outside of the core Berlin and Rhine-Main regions, the necessary portfolio size for sustainable management is at least approximately 2,000 apartments per location. Within our core regions, we would also consider acquiring portfolios smaller than 2,000 units, but generally only if these portfolios logically complement the residential property portfolio in the respective core region. In all acquisitions, we look in particular for a reasonable purchase price to ensure the potential for asset value growth as part of our asset and portfolio management efforts.

***Value-oriented sale of individual properties and portfolio streamlining.*** Our property portfolio intended for sale is broken down into units to be sold individually and block sales. In individual sales, our objective is to sell apartments, mainly to owner-occupiers, at prices exceeding the fair value. Approximately 5,000 units are intended for individual sales, approximately 500 residential units (or 10% of the disposal portfolio) of which are earmarked for sale each year. As of June 30, 2009, we had already officially recorded 403 contracts of sale for the current fiscal year; this represents 80% of our target for 2009. The disposal portfolio for block sales comprises apartments in locations that no longer fit into our business strategy. The majority of these properties are sold to institutional investors, generally at least at fair value, although, at times, below fair value in order to adjust the portfolio. In the course of future portfolio acquisitions, properties acquired may have a subset of residential units that do not fit into our business strategy, and we would plan to sell these blocks to optimize our portfolio.

***Optimization of the financing structure, particularly by reducing financial liabilities.*** We plan to optimize our current financing structure. Our goal is to repay specified, scheduled financial liabilities to banks to reduce our debt ratio and interest payments on the one hand and to optimize our repayment and financing structure on the other. We aim to reduce our loan-to-value ratio (ratio of net financial liabilities to the value of investment property plus noncurrent assets held for sale and land and buildings held for sale, "LTV Ratio") in the medium term from 69.9% currently (June 30, 2009) to a target range of between 60% and 65%. Among other things, we anticipate that the issue proceeds of approximately €250 million expected to accrue to our Company from the subscription offer will be used in part to reach these goals.

## Summary of Key Information Regarding the Company

**Commercial register record, registered office and fiscal year** . . . . The Company is registered with the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main under number HRB 42388.

The Company's registered office is at Pfaffenwiese 300, 65929 Frankfurt am Main, Germany. The Company's telephone number is +49-(0)69-97 69 70 0.

The Company's fiscal year is the calendar year.

**Share capital and shares (prior to completion of the offering)** . . . . . . . The Company's current share capital is €26,400,000 and is divided into 26,400,000 ordinary shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00.

The Company's shares are divided into registered shares and bearer shares. Following the share exchange on September 10, 2009, 26,188,777 of the total 26,400,000 shares (approximately 99.2%) were bearer shares, and 211,223 (approximately 0.8%) were registered shares.

**Management board** . . . . . . . . . . . . The Company's management board consists of two members, Mr. Michael Zahn (CEO) and Mr. Helmut Ullrich.

**Supervisory board** . . . . . . . . . . . . . The Company's supervisory board consists of the following six members: Mr. Jens Bernhardt, Mr. Hermann T. Dambach (Chairman), Mr. Uwe E. Flach, Mr. Matthias Hünlein, Dr. Andreas Kretschmer and Dr. Florian Stetter.

**Principal shareholders** . . . . . . . . . . Based on the notices received by the Company pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*, the "WpHG") and according to the information of the respective shareholders, the following shareholders hold significant amounts of the stock of Deutsche Wohnen AG:

| Shareholder | |
|---|---|
| Oaktree Capital Group Holdings GP, LLC | |
| via OCM Luxembourg Real Estate Investment S.à r.l. | 12.12% |
| via OCM Luxembourg Opportunities Investment S.à r.l. | 12.12% |
| Asset Value Investors Ltd. | 10.01% |
| thereof British Empire Securities and General Trust plc | 5.19% |
| Deutsche Asset Management Investmentgesellschaft mbH via Zurich Deutscher Herold Lebensversicherung AG | 5.75% |
| Arnhold and Bleichroeder Advisers LLC via First Eagle Overseas Fund | 5.24% |
| Ärzteversorgung Westfalen-Lippe via Feri Finance AG | 3.33% |
| Sun Life Financial via MFS Investment Management | 3.01% |
| Other shareholders[1] | 48.42% |

1) *Other shareholders includes those shareholders whose shareholdings represent less than 3% of the total voting rights in Deutsche Wohnen AG.*

**Auditor** . . . . . . . . . . . . . . . . . . . . . The auditor of the Company's consolidated and unconsolidated financial statements for the current fiscal year is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (formerly Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft), Mergenthalerallee 3-5, 65760 Eschborn/Frankfurt am Main, Germany.

**Employees** . . . . . . . . . . . . . . . . . . . We employed a total of 1,268 people as of June 30, 2009, 942 of whom worked in Assisted Living and Elderly Care.

## Summary of the Offering

**Subscription Offer** . . . . . . . . . . . . . The "Subscription Offer" relates to 55,440,000 new ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend entitlement from January 1, 2009 (the "New Shares").

The New Shares come from the capital increase against cash contributions resolved by an extraordinary meeting of the Company's shareholders on August 7, 2009, with indirect subscription rights. The resolution on the capital increase was recorded in the Commercial Register of the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, on September 10, 2009. The completion of the capital increase has not yet been recorded in the Commercial Register; it is expected to be recorded on October 7, 2009.

The Subscription Offer to the Company's shareholders is expected to be published in the financial newspaper, *Börsenzeitung*, and in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*) on September 23, 2009.

**Admission to trading** . . . . . . . . . . . The application for admission of the New Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange is expected to be filed on or about September 24, 2009. A decision on admission is expected on or about October 7, 2009.

**Start of trading** . . . . . . . . . . . . . . . Trading in the New Shares is expected to begin on October 9, 2009. The New Shares will be included in the existing quotation for the Company's bearer shares on that day.

**Exercise of subscription rights, Additional Subscription ("*Mehrbezug*")** . . . . . . . . . . . . . . . To avoid having their subscription rights lapse, the shareholders of Deutsche Wohnen AG will be encouraged, through publication of the Subscription Offer, which is tentatively scheduled for September 23, 2009, to exercise their subscription rights in the period from September 24, 2009 up to and including October 7, 2009 (the "Subscription Period"). In addition to the subscription rights granted pursuant to the subscription ratio, Deutsche Wohnen AG grants an additional subscription right to those shareholders who are entitled to subscription rights.

**Subscription ratio** . . . . . . . . . . . . . The subscription ratio is 10:21, that is, the holder of ten Existing Shares (as defined below) is entitled to subscribe for 21 New Shares at the subscription price.

**Subscription price** . . . . . . . . . . . . . The subscription price for each New Share subscribed for is €4.50.

**Subscription agent** . . . . . . . . . . . . . The subscription agents are the German branches of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany.

| | |
|---|---|
| **Subscription rights trading** | The subscription rights (ISIN: DE000A0Z2ZQ4/WKN: A0Z2ZQ) will be traded during the period from and including September 24, 2009 up to and including October 5, 2009 in the regulated market segment (floor trading) of the Frankfurt Stock Exchange. In accordance with market practice in Germany, the price of the subscription rights is fixed once per day. From September 24, 2009 onward, all of the shares already issued by the Company (the "Existing Shares") will be listed on the Frankfurt Stock Exchange without subscription rights (*ex Bezugsrecht*). Merrill Lynch may, in coordination with UBS, undertake suitable measures on behalf of the Underwriters to ensure liquidity for orderly subscription rights trading and other measures normally undertaken in this regard, such as, in particular, purchasing and selling subscription rights in the New Shares or undertaking hedging transactions in the Company's shares or corresponding derivatives. |
| **Delivery and settlement of subscribed shares** | The subscription price for each New Share subscribed for is due and payable no later than October 7, 2009. The New Shares subscribed for as part of the Subscription Offer are expected to be made available by credit to the collective securities account from October 9, 2009. |
| **Stabilization** | In connection with the offering of New Shares, stabilization measures may be undertaken to the extent permitted by law. |
| **Placement of unsubscribed shares** | The Underwriters will offer any New Shares not subscribed for as part of the Subscription Offer in a private placement to qualified investors in Germany and other countries (qualified institutional buyers in the United States in accordance with Rule 144A under the U.S. Securities Act of 1933, as amended, (the "Securities Act") and outside of the United States in reliance on Regulation S of the Securities Act). |
| **Firm subscription commitments** | OCM Luxembourg Real Estate Investments S.à r.l. and OCM Luxembourg Opportunities Investments S.à r.l. have made a binding commitment to the Underwriters and the Company to subscribe for New Shares in a total amount of €51.5 million corresponding to 20.6% of the total offering volume. The corresponding payments are in particular subject to the non-termination of the Underwriting Agreement by the Underwriters and will be made upon final settlement of the New Shares as part of the Offering. |
| **Lock-up agreements** | The Company has agreed with the Underwriters, to the extent permitted by law, within a period of six months after the inclusion of the New Shares in the current listing of Deutsche Wohnen AG's bearer shares, not to directly or indirectly issue, sell, offer, commit to sell, or otherwise transfer or dispose of any of the Company's shares, options on such shares, or securities that can be converted into or exchanged for such shares or that carry rights to acquire such shares, and further not to announce any capital increase from authorized capital or to initiate a capital increase (except for purposes of issuing shares (i) as part of its or its subsidiaries' existing employee participation plans, (ii) to satisfy conversion rights of holders of convertible bonds issued by the Company, (iii) based on a capital increase from Company funds, (iv) in connection with a capital increase by way of contribution in kind, to the extent that the buyer assumes the aforementioned obligations) or to enter into other transactions (including with respect to derivative instruments), the economic effect of which would be similar to that of the measures described above, without the prior consent of the Global Coordinators, whose consent may not be unreasonably withheld or delayed. |

| | |
|---|---|
| **Selling restrictions** | The New Shares and the subscription rights have not been and will not be registered under the Securities Act or with the securities regulatory authorities of any state of the United States and may not be offered or sold in, or delivered directly or indirectly to, the United States, except pursuant to an exemption from the registration requirements of the Securities Act. |
| **Costs of the offering and net issue proceeds** | The total issue costs, including commissions for the Underwriters, are expected to be approximately €13 million.<br><br>The Company expects the net issue proceeds from the capital increase to be approximately €236.5 million. |
| **Use of issue proceeds** | We intend to use approximately €120 million of the net issue proceeds to reduce debt. Our LTV Ratio is intended to be reduced in the medium term to the target range of 60% to 65% as a result of the reduction in debt. As a result of the reduction in the LTV Ratio, we believe our position for negotiating future loan extensions will be strengthened. In addition, the net issue proceeds should contribute to a substantial strengthening of the balance sheet. We intend to use our resulting strategic and financial flexibility to implement our strategic aims of growth through selected acquisitions of attractive and promising real estate portfolios. |
| **Representation/delivery** | The New Shares of the Company (ISIN DE000A0HN5C6 / WKN A0HN5C) will be evidenced by a global share certificate deposited for collective custody with Clearstream Banking AG, Neue Börsenstraße 1, 60487 Frankfurt am Main, Germany.<br><br>Pursuant to Article 4(5) Sentence 2 of the Company's articles of association, the Company's shareholders are not entitled to have their shares evidenced by individual share certificates. Unless the Subscription Period is extended or the offering called off, the New Shares are expected to be made available by credit to the collective securities account by October 9, 2009 in the case of shares subscribed for as part of the Subscription Offer and by October 12, 2009, that is, the date of closing of the private placement, for those acquired in the private placement. |
| **ISIN, WKN and ticker symbol of the shares** | The International Securities Identification Number ("ISIN") for the Company's bearer shares is DE000A0HN5C6. Their German securities identification number (*Wertpapierkennnummer*) ("WKN") is A0HN5C. Their ticker symbol is DWNI.<br><br>The ISIN for the Company's registered shares is DE0006283302. Their WKN is 628330, and their ticker symbol is DWN.<br><br>The (interim) ISIN for the Company's registered shares for the registered shares tendered to Deutsche Bank is DE000A0XFUU5. Their WKN is A0XFUU. |
| **ISIN and WKN of the subscription rights** | The ISIN for the subscription rights is DE000A0Z2ZQ4. Their WKN is A0Z2ZQ. |
| **Designated sponsor** | Close Brothers Seydler Bank, Deutsche Bank AG and WestLB have assumed the role of designated sponsor of the Company's shares traded on the Frankfurt Stock Exchange and are entitled to designate an appropriately admitted third party to perform these functions. |
| **Paying agent and registrar** | The paying agent and registrar is Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany. |

## Selected Consolidated Financial Information

*The following tables contain key consolidated financial information under IFRS, with the exception of the miscellaneous performance indicators and ratios, for the six months ended June 30, 2009 and June 30, 2008, the fiscal years ended December 31, 2008 and December 31, 2007, and for the partial fiscal year from July 1, 2006 to December 31, 2006 (the"2nd PFY 2006") of our Group. The consolidated financial information was obtained from the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG for the six months ended June 30, 2009 (with comparative figures for the six months ended June 30, 2008) and the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and December 31, 2007, each set of which was prepared in accordance with IFRS as adopted by the European Union ("IFRS"). The consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal year ended December 31, 2007. Some of the miscellaneous performance indicators and ratios reproduced below were taken from the Company's accounting records.*

*The following consolidated financial information is not directly comparable from period to period. This is primarily due to the acquisition of the GEHAG Group in 2007 and the compliance with requirements, beginning in the 2008 fiscal year, to account for hedging instruments against interest rate risks (interest rate swaps) as hedge accounting in accordance with IAS 39. As a result of the acquisition of the GEHAG Group in the 2007 fiscal year, total assets as of December 31, 2007 more than doubled compared to December 31, 2006. In the 2007 fiscal year, the GEHAG Group was included in the consolidated financial information for only five months (from the time of first consolidation), but for all 12 months of the 2008 fiscal year. As a result of hedge accounting, fair value adjustments of interest rate swaps, to the extent that they are related to effective hedging relationships, amongst other things, are recognized in equity, whereas the results from fair value measurement were previously recognized in the consolidated profit and loss statement. In addition, the 2006 calendar year consisted of two partial fiscal years. The reason for the division of the 2006 calendar year into two partial fiscal years was the termination of the control agreement between Deutsche Wohnen AG and DB Real Estate Management GmbH (now RREEF Management GmbH) as of June 30, 2006.*

*The 2nd PFY 2006 to December 31, 2006 is presented in the following tables. Consolidated financial information for the partial fiscal year from January 1, 2006 to June 30, 2006 (the "1st PFY 2006") is not discussed in this offering circular. The audited consolidated financial statements of Deutsche Wohnen AG for the 1st PFY 2006 are reprinted in the financial section of this offering circular. The main reason for discussing just the consolidated financial information for the 2nd PFY 2006 is that the valuation of the investment property was retrospectively changed as of July 1, 2006 to the model of the valuation at fair value and the consolidated financial information for the 2nd PFY 2006, as prior-year comparison figures, contained in the consolidated financial statements as of and for the fiscal year ended December 31, 2007 was retrospectively corrected as a result of a determination by the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.) of an accounting error. The consolidated financial statements for the 1st PFY 2006 and the 2nd PFY 2006 were not amended by the Company.*

*The consolidated financial information presented in the following tables represents a selection of the financial data contained in our Group's financial statements and is shown in thousands and millions of euros (€ thousand and € million) commercially rounded to the nearest whole thousand or million euros, respectively. Due to rounding, some of the figures in the tables do not add up exactly to the total figures shown, and some of the percentages do not add up to exactly 100%.*

*The following consolidated financial information represents a summary of the financial information contained in this offering circular. Investors should base their investment decisions on a review of the complete offering circular.*

## Consolidated Profit and Loss Statement

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | | | In € thousand | | |
| Revenues | 147,361 | 149,435 | 315,512 | 204,354 | 62,085 |
| Result from sales[1] | 4,562 | 6,722 | 17,409 | 5,285 | 8,136 |
| Sales proceeds | 18,715 | 22,282 | 119,710 | 58,501 | 78,474 |
| Carrying amounts of assets sold | (14,153) | (15,560) | (102,301) | (53,215) | (70,338) |
| Other operating income | 3,298 | 5,440 | 11,423 | 6,291 | 1,868 |
| Profit from business combination | — | — | 0 | 64,099 | 0 |
| **Total income** | **155,221** | **161,597**[2] | **344,344** | **280,030**[2] | **72,089**[2] |
| Costs of purchased services | (57,987) | (60,627) | (139,085) | (96,914) | (28,746) |
| Personnel expenses | (19,037) | (22,591) | (43,541) | (31,729) | (8,354) |
| Other operating expenses | (10,919) | (13,410) | (31,222) | (27,268) | (11,784) |
| Restructuring and reorganization expenses | (5,387) | (16,790) | (24,092) | (9,989) | 0 |
| Expenses relating to the listing prospectus | — | — | 0 | (1,810) | 0 |
| **Total expenses** | **(93,330)** | **(113,418)** | **(237,940)** | **(167,710)** | **(48,884)** |
| Result from fair value adjustment of investment property | 0 | 496[2] | (276,528) | 30,948[2] | 12,941[2] |
| Depreciation | (1,410) | (803) | (1,794) | (1,689) | (249) |
| Result from affiliated companies | — | — | 60 | 18 | 0 |
| **Earnings before interest and taxes (EBIT)** | **60,481** | **47,872** | **(171,859)** | **141,596** | **35,897** |
| Financial income | 371 | 775 | 2,540 | 4,736 | 733 |
| Result from the fair value measurement of derivative financial instruments | (456) | 25,884 | (32,197) | (7,845) | (55) |
| Financial expenses | (56,255) | (62,261) | (127,281) | (72,739) | (16,238) |
| **Earnings before taxes** | **4,140** | **12,270** | **(328,797)** | **65,749** | **20,337** |
| Income taxes | (6,533) | (11,486) | 56,471 | (35,963) | (9,412) |
| Result from continuing operations | (2,392) | 784 | (272,326) | 29,786 | 10,925 |
| Result from discontinued operations | 0 | (329) | 16,421 | 0 | — |
| **Result for the period** | **(2,392)** | **455** | **(255,905)** | **29,786** | **10,925** |

1) *The result from Sales was referred to as result from Property Privatization until June 30, 2009.*

2) *In comparison to the disclosure in the unaudited condensed consolidated interim financial statements for Deutsche Wohnen AG for the six months ended June 30, 2008 and the disclosure in the consolidated financial statements of Deutsche Wohnen AG for the year ended December 31, 2007, which are reprinted in the financial section of this offering circular, the result from the fair value adjustment of investment property is reported as a separate line item after "total expenses" and not accounted for as part of "total income." As a result, "total income" has decreased in comparison to the "total income" for the six months ended June 30, 2008, which is included in the unaudited consolidated interim financial statements for Deutsche Wohnen AG for the six months ended June 30, 2008, from €162,093 thousand to €161,597 thousand and in comparison to the "total income" for the 2007 fiscal year, which is included in the consolidated financial statements as of and for the fiscal year ended December 31, 2007, from €310,978 thousand to €280,030 thousand and, for the 2nd PFY 2006, from €85,030 thousand to €72,089 thousand.*

## Consolidated Balance Sheet

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|
| | unaudited | audited | audited | audited |
| | | In € thousand | | |
| Assets | | | | |
| **Noncurrent assets** | 3,007,298 | 3,016,322 | 3,386,740 | 1,384,560 |
| thereof: | | | | |
| Investment property | 2,888,911 | 2,900,673 | 3,271,205 | 1,341,596 |
| Property, plant and equipment | 17,168 | 17,745 | 27,948 | 3,898 |
| Intangible assets | 4,220 | 4,652 | 370 | 189 |
| Deferred tax assets | 96,598 | 92,559 | 86,614 | 38,559 |
| **Current assets** | **77,797** | **110,410** | **133,662** | **101,317** |
| thereof: | | | | |
| Cash and cash equivalents | 19,545 | 41,974 | 47,874 | 33,516 |
| **Total assets** | **3,085,095** | **3,126,732** | **3,520,402** | **1,485,877** |
| **Equity and liabilities** | | | | |
| **Total equity** | **635,505** | **649,292** | **936,125** | **736,420** |
| **Total noncurrent liabilities** | **2,104,575** | **2,297,979** | **2,361,955** | **697,196** |
| thereof: | | | | |
| Noncurrent financial liabilities | 1,811,110 | 1,991,077 | 2,034,087 | 562,186 |
| Convertible bonds | 25,998 | 25,430 | 24,339 | 0 |
| Pension obligations | 39,259 | 39,300 | 41,562 | 5,084 |
| Liabilities towards fund limited partners | 40,314 | 48,006 | 46,631 | 49,783 |
| Tax liabilities | 63,227 | 60,652 | 68,126 | 0 |
| Derivative financial instruments | 36,201 | 49,349 | 0 | — |
| Deferred tax liabilities | 76,065 | 71,660 | 135,835 | 79,669 |
| **Current liabilities** | **345,016** | **179,461** | **222,322** | **52,261** |
| **Total equity and liabilities** | **3,085,095** | **3,126,732** | **3,520,402** | **1,485,877** |

## Consolidated Cash Flow Statement

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | | | In € thousand | | |
| Cash flow from operating activities | 15,620 | 773 | (10,342) | (10,479) | (9,678) |
| Cash flow from investing activities | 16,387 | 13,182 | 88,759 | (299,007) | 4,588 |
| Cash flow from financing activities | (54,434) | (20,009) | (84,316) | 323,844 | (26,521) |
| **Net changes in cash and cash equivalents** | **(22,428)** | **(6,054)** | **(5,900)** | **14,358** | **(31,611)** |
| Cash at the start of the period | 41,974 | 47,874 | 47,874 | 33,516 | 65,127 |
| **Cash at the end of the period** | **19,547** | **41,820** | **41,974** | **47,874** | **33,516** |

### Miscellaneous Performance Indicators and Ratios[1)]

The following table shows an overview of the performance indicators and ratios on the reporting dates:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9)] |
|---|---|---|---|---|
| | unaudited | unaudited | unaudited | unaudited |
| Loan-to-value ratio in%[2)] | 69.9 | 70.6 | 65.4 | 39.9 |
| NAV in € million[3)] | 638.3 | 646.6 | 981.4 | 778.0 |
| NAV per share in € | 24.18 | 24.49 | 37.17 | 38.90 |
| Estimated rent income[4)] in the core portfolio in € per $m^2$ | 5.29 | 5.23 | 4.97 | N/A |
| Estimated rent income in the total portfolio in € per $m^2$ | 5.17 | 5.10 | 4.90 | N/A |
| Vacancy rate[5)] in the core portfolio in% | 3.3 | 3.9 | 4.8 | N/A |
| Vacancy rate in the total portfolio in% | 5.4 | 5.9 | 6.4 | N/A |

1) *Prospective investors should bear in mind that these performance indicators and ratios reported by our Group are not financial measures defined in accordance with IFRS or the German Commercial Code (Handelsgesetzbuch, the "HGB") and, as such, may be calculated by other companies using different methodology. These performance indicators and ratios, therefore, are not directly comparable to similar such figures and ratios reported by other companies.*

2) *The loan-to-value ratio ("LTV Ratio") is the ratio of total net financial liabilities to the value of investment property plus noncurrent assets held for sale and land and buildings held for sale. The following table shows how the LTV Ratio was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006. We calculated the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 using a different method than applied for the 2008 fiscal year. In order to ensure comparability of the figures for these periods, the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 was calculated using the same method applied for the 2008 fiscal year:*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9)] |
|---|---|---|---|---|
| | unaudited | audited | audited | audited |
| | | In € million (unless otherwise indicated) | | |
| Financial liabilities | 2,039.9 | 2,089.2 | 2,179.6 | 573.7 |
| Convertible bonds | 26.0 | 25.4 | 24.3 | 0.0 |
| —Cash and cash equivalents | (19.5) | (42.0) | (47.9) | (33.5) |
| **Net financial liabilities** | **2,046.4** | **2,072.6** | **2,156.0** | **540.2** |
| Investment property | 2,888.9 | 2,900.7 | 3,271.2 | 1,341.6 |
| Noncurrent assets held for sale | 18.1 | 17.7 | 4.6 | 3.3 |
| Land and buildings held for sale | 19.2 | 19.4 | 21.9 | 8.4 |
| **Total real estate holdings** | **2,926.2** | **2,937.7** | **3,297.7** | **1,353.3** |
| **Loan-to-value ratio (in%)** | **69.9%** | **70.6%** | **65.4%** | **39.9%**[*)] |

*) *Unaudited.*

3) *The net asset value ("NAV") shows the intrinsic or inherent value of a of real estate company. It is the sum of all assets less liabilities (= equity) and is adjusted for any real-estate related deferred taxes. The real-estate related deferred taxes relate to deferred tax assets and liabilities from investment property (June 30, 2009: negative €2.2 million; December 31, 2008: €3.2 million; December 31, 2007: negative €59.7 million; December 31, 2006: negative €54.7 million), deferred tax assets from loss carryforwards, to the extent of available real-estate related deferred tax liabilities (June 30, 2009: €15.0 million; December 31, 2008: €15.0 million; December 31, 2007: €29.9 million; December 31, 2006: €28.6 million), deferred tax liabilities from real-estate related loans (June 30, 2009: negative €18.5 million; December 31, 2008: negative €18.5 million; December 31, 2007: negative €19.0 million; December 31, 2006: negative €15.6 million), as well as deferred tax assets from real-estate related provisions and deferred tax liabilities from investment subsidies received (June 30, 2009: €2.9 million; December 31, 2008: €3.0 million; December 31, 2007: €3.5 million; December 31, 2006: €0.0 million). In international usage, our calculation of NAV would be the "net net asset value" since our equity is already adjusted for real-estate related deferred taxes. The NAV per share is a benchmark for the stock price. However, prospective investors should bear in mind that the NAV per share is not an indication of*

*the future performance of the Company's stock. The following table shows how our NAV was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006:*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | |
| Total equity | 635.5 | 649.3 | 936.1 | 736.4 |
| Real-estate related deferred taxes | 2.8 | (2.7) | 45.3 | 41.6 |
| **NAV** | **638.3** | **646.6** | **981.4** | **778.0** |
| **NAV per share in €** | **24.18** | **24.49** | **37.17** | **38.90** |

4) *The estimated rent income is the total of the net cold rent and vacancy income shortfall. Vacancy income shortfall corresponds to the last contractual net cold rent payments for the area not rented, but rentable during the relevant period or as of the relevant date, in relation to the relevant property. The estimated rent income per m² corresponds to the estimated rent income calculated for the relevant effective date, divided by the rented area relating to the relevant property.*

5) *The vacancy rate is the ratio of vacancy income shortfall to the estimated rent income, as of the relevant effective date. Referring to the estimated rent income ensures that the size and actual expense of the individual units is adequately represented in the vacancy rate.*

The following table shows an overview of the performance indicators and ratios of the relevant periods:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | January 1 – December 31, 2006 |
|---|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | | |
| FFO[6] | 17.8 | 10.9 | 26.1 | 4.1 | 7.2 |
| FFO per share in € | 0.67 | 0.41 | 0.99 | 0.16 | 0.36 |
| EBITDA (adjusted)[7] | 67.3 | 65.0 | 130.5 | 60.0 | 23.2 |
| Fair value result[8] | 4.6 | 6.7 | 17.4 | 5.3 | 8.1 |

6) *The Company believes that funds from operations ("FFO"), which is derived from the consolidated profit and loss statement, is an important liquidity indicator for real estate companies. It is calculated by taking the result for the period and adjusting it for non-cash effects and non-recurring expenses and is a measure of the Company's ability to make loan payments and investments (for example, the acquisition of new properties). The following table shows, step-by-step, how the Company calculated its FFO using the results of the Deutsche Wohnen Group for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006. The Company calculated the FFO for 2007 and for the 2nd PFY 2006 using a different method to that used for 2008. In order to ensure the comparability of these figures for these periods, the calculation of the FFO for 2007 and the 2nd PFY 2006 was calculated using the current calculation for the 2008 fiscal year. The FFO yield is calculated by taking the FFO and dividing it by the market capitalization of Deutsche Wohnen's stock as of September 17, 2009. The FFO yield is estimated to be 10.4% for the full year 2009. The Company calculated annualized FFO yield for the full year 2009 by doubling the FFO generated in the six months ended June 30, 2009. This annualized FFO yield for the full year 2009 is thus the result of a purely mathematical operation. Investors should note that it is not necessarily indicative of future performance. The FFO yield was 7.6% based on the FFO for the 2008 fiscal year and 1.2% based on the FFO for the 2007 fiscal year.*

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | | |
| **Result for the period** | (2.4) | 0.5 | (255.9) | 29.8 | 10.9 |
| Depreciation | 1.4 | 0.8 | 1.8 | 1.7 | 0.2 |
| Result from fair value adjustment of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Result from discontinued operations | 0.0 | 0.3 | (16.4) | 0.0 | 0.0 |
| Profit from business combination | — | — | 0.0 | (64.1) | 0.0 |
| Result from fair value measurement of derivative financial instruments | 0.5 | (25.9) | 32.2 | 7.8 | 0.1 |
| Accrued interest on liabilities and pensions | 7.5 | 7.5 | 14.3 | 10.2 | 2.2 |
| Special DB 14 payout | — | — | 5.7 | — | — |
| Deferred taxes and EK02 tax expense | 5.4 | 11.3 | (56.2) | 37.8 | 6.8 |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | — | — | 0.0 | 1.8 | 0.0 |
| **FFO** | **17.8** | **10.9** | **26.1** | **4.1** | **7.2** |
| **FFO per share in €** | **0.67** | **0.41** | **0.99** | **0.16** | **0.36** |

7) *The adjusted EBITDA is a performance indicator that is derived from the consolidated profit and loss statement. To determine its amount, Deutsche Wohnen takes the earnings before interest and taxes (EBIT), which is adjusted for the result from fair value adjustment of investment property, depreciation, the result from affiliated companies, restructuring and reorganization expenses, the profit from business combination and the expenses incurred in connection with the listing prospectus in 2007. The adjusted EBITDA so calculated functions as a liquidity indicator that the Company uses to measure operating performance. EBIT (adjusted) is calculated from EBITDA (adjusted) by deducting depreciation and net financial expenses (financial expenses less financial income). The corresponding EBT (adjusted) amounted to €10.0 million for the six months ended June 30, 2009, €2.7 million for the six months ended June 30, 2008 and €4.0 million for the fiscal year ended December 31, 2008. The following table shows how the adjusted EBITDA was calculated for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006:*

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | Unaudited, in € million | | | | |
| **Earnings before interest and taxes (EBIT)** | **60.5** | **47.9** | **(171.9)** | **141.6** | **35.9** |
| Result from fair value measurement of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Depreciation | 1.4 | 0.8 | 1.8 | 1.7 | 0.2 |
| Result from affiliated companies | — | — | (0.1) | 0.0 | 0.0 |
| **Subtotal** | **61.9** | **48.2** | **106.4** | **112.3** | **23.2** |
| Profit from business combination | — | — | — | (64.1) | — |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | — | — | 0.0 | 1.8 | 0.0 |
| **EBITDA (adjusted)** | **67.3** | **65.0** | **130.5** | **60.0** | **23.2** |

8) *The fair value result shows the difference between the sales proceeds we generated from properties and the carrying amounts of assets sold for properties valued at fair value (fair value disposal). As a rule, we strive to generate a fair value gain.*

9) *As described at the beginning of the "Selected Consolidated Financial Information" in the Summary, the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

### Segment Data

We divide our business operations into three business segments: Residential Property Management, Sales, and Assisted Living and Elderly Care. The "Assisted Living and Elderly Care" business segment is referred to as the "Services" segment in our segment reporting, but corresponds to the "Assisted Living and Elderly Care" business segment. In the segment reporting for the period ended June 30, 2009, we renamed one segment from "Property Privatization" to "Sales." In addition, with the first-time application of the provisions of IFRS 8 "Operating Segments," we have adapted the definition of our segment profit or loss to the internal reporting of our Group. The segment profit or loss as of and for the six months ended June 30, 2009 (and for the comparable six-month period ended June 30, 2008) comprises the earnings before interest and taxes ("EBIT") adjusted for restructuring and reorganization expenses. As such, income tax expense is no longer reflected in the segment profit or loss (EBIT). We have also adjusted the segment revenue for our Sales segment. This segment revenue now shows the revenue from the sale of units without deduction of the carrying amount of the properties sold. No changes have been made to the way the segments we report are divided. The "Services" segment also included the telecommunications services provided by AKF—Telekabel TV und Datennetze GmbH ("AKF" and together with its subsidiaries the "AKF Group"). The AKF Group was sold and deconsolidated as of July 3, 2008. Consequently, the revenue and expenses relating to the services provided by the AKF Group were treated as from discontinued operations under IFRS 5 and not included in the segment reporting for the 2008 fiscal year. We intend to change the name of our "Services" segment to "Assisted Living and Elderly Care" in the future. We also include the "Other and Group Function" and "Reconciliation" columns in our segment reporting. The column "Other and Group Function" primarily included our Group financing activities until December 31, 2008.

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[8] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | In € million | | | In € million | |
| **Residential Property Management** | | | | | |
| Segment revenue[1)2)] | 130.7 | 131.6 | 278.7 | 212.2 | 70.5 |
| Segment expenses[2)] | N/A | N/A | (404.2) | (89.7) | (27.1) |
| Segment profit or loss[3)] | 77.3 | 75.5 | (125.5) | 122.5 | 43.5 |
| **Sales[4)]** | | | | | |
| Segment revenue[1)5)] | 18.7 | 22.3 | 17.4 | 5.3 | 8.1 |
| Segment expenses | N/A | N/A | (4.2) | (4.3) | (5.6) |
| Segment profit or loss[3)] | 2.5 | 4.8 | 13.2 | 1.0 | 2.6 |
| **Services[6)]** | | | | | |
| Segment revenue[1)] | 16.4 | 15.0 | 38.6 | 19.1 | 0.0 |
| Segment expenses | N/A | N/A | (30.3) | (15.0) | 0.0 |
| Segment profit or loss[3)] | 4.5 | 3.9 | 8.3 | 4.1 | 0.0 |
| **Other and Group Function** | | | | | |
| Segment revenue[1)] | 0.3 | 2.8 | 55.3 | 115.2 | 19.0 |
| Segment expenses[7)] | N/A | N/A | (178.0) | (172.2) | (41.5) |
| Segment profit or loss[3)] | (17.0) | (19.1) | (122.6) | (57.0) | (22.5) |

1) *The segment data for the six months ended June 30, 2009 and June 30, 2008 include the respective external revenues only, not the total segment revenue.*

2) *In the 2007 fiscal year and the 2nd PFY 2006, the segment revenue included the result from the fair value adjustment of investment property. In the 2008 fiscal year, this item was captured in segment expenses.*

3) *The segment profit and loss for the six month periods ended June 30, 2009 and June 30, 2008 reflects the EBIT adjusted for restructuring and reorganization expenses.*

4) *The name of this segment was changed as of June 30, 2009 from Property Privatization to Sales.*

5) *The segment revenue for 2008, 2007 and the 2nd PFY 2006 included sales proceeds less the carrying amounts of assets sold. Sales proceeds amounted to €119.7 million in 2008, €58.5 million in 2007 and €78.47 million in the 2nd PFY 2006. In comparison to the segment revenue for the 2008 and 2007 fiscal years and the 2nd PFY 2006, segment revenue for the six months ended June 30, 2009 and June 30, 2008 only included sales proceeds. If, as in previous reporting, the carrying amounts of assets sold had been deducted, segment revenue for the six months ended June 30, 2009 would have amounted to €4.6 million and for the six months ended June 30, 2008 to €6.7 million.*

6) *The Company intends to rename the "Services" segment "Elderly Care and Residential Care Homes." This segment also captured in 2007 the telecommunications services provided by the AKF Group. The AKF Group was sold and deconsolidated as of July 3, 2008.*

7) *The segment expenses for 2008, 2007 and the 2nd PFY 2006 in the Other and Group Function column include all of the interest expense from Group financing.*

8) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

## Summary of Risk Factors

### Market and competition risks

- Changes in general economic and business conditions, such as the continuing economic crisis, could have a detrimental effect on the German real estate market and our business.
- It could become more difficult, for various reasons, for us to acquire properties on attractive terms, which would impair the future performance and particularly the growth of our business.
- Sales prices of our residential properties could come under pressure.

### Risks related to our business

- The loss of net cold rent, rent reductions, higher vacancy rates and our inability to charge economically reasonable net cold rent could have a detrimental effect on our revenues and earnings in the Residential Property Management segment.
- We are dependent on regional market developments.
- If we are unable to generate positive cash flow from our business operations, we could be forced to sell properties or borrow money on financially unfavorable terms.
- Our high level of debt, the terms of current and future borrowings and the hedging transactions we have entered into could increase our third-party financing costs and related expenses. If we breach conditions of our loan agreements, we could be required to repay the loans before they ordinarily would become due. If we fail to make payments on our loans when due, our creditors could dispose of significant collateral we furnished to secure the loans.
- In the event of a downturn in the real estate market, the fair value model could require us to adjust current fair values of our investment property (such as in the case of a change in interest rate levels or a deterioration of the market), which could have adverse effects on our consolidated balance sheet and our consolidated profit and loss statement.
- There is a risk that we could incorrectly appraise the value of acquired properties or property portfolios or real estate companies; privatizations and additional portfolio purchases and attainable net cold rent could develop differently than we expect.
- The Property Appraisal Report and/or existing or future financial information contained in this offering circular might incorrectly assess the value of our properties.
- We are exposed to risks related to the structural condition of the properties and their maintenance and repair.
- Unscheduled sales of residential units and longer than anticipated preparation and modernization measures relating to the sales could result in increased costs or delayed realization of revenues and earnings in the Sales segment.
- The acquisition of real estate involves risks that cannot be avoided despite prior legal, tax and economic due diligence.
- We are subject to numerous legal requirements that limit our economic freedom of action in connection with the acquisition and management of real estate portfolios and companies previously held by government entities.
- We could be subject to liability claims for several years after selling properties.
- The Company’s cash flow and possible future dividend payments are dependent on the profitability of its subsidiaries or must be augmented by borrowed capital.
- We bear risks in connection with possible acquisitions and investments.
- The current number of employees in central functions and the small number of management executives could impair our development.
- We could be subject to additional claims for pension and benefits obligations.
- Our use of standardized contracts could multiply the risks as compared with the use of individual contracts.

- We could sustain substantial losses from damage not covered by, or exceeding the coverage limits of, our insurance policies.
- We could be exposed to risks from residual pollution including wartime ordnance, soil conditions and contaminants in building materials, as well as from possible building code violations.
- Our business is subject to the general legal and tax environment in Germany.
- We could be required to pay additional taxes following tax audits of our Group and our Group companies.
- We might not be in a position to take tax deductions for our interest payments.
- The change in tax treatment of EK02 Inventories effectuated by the German Annual Tax Act of 2008 (*Jahressteuergesetz 2008*) could have a detrimental effect on our net assets, financial condition and results of operations.
- There are uncertainties with respect to the amount of tax-loss carryforwards and interest carryforwards.
- Our computer systems could malfunction or become impaired.
- We are subject to potential financial risks from the GEHAG Group's former activities in real estate investment funds and from potential prospectus liability.
- We could suffer a liquidity squeeze as a consequence of the right of sell-out held by the limited partners of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG.
- Our inability to increase prices as economically necessary in the Assisted Living and Elderly Care segment could have an adverse effect on the revenues and earnings development of that segment.
- The Assisted Living and Elderly Care segment could be subject to greater regulatory constraints as a consequence of legal reforms.
- Our ability to dispose of certain senior homes is constrained by conditions imposed as a consequence of our having received public subsidies.

**Risks related to the offering**

- Our two largest shareholders could exert substantial influence on the decisions reached by the general shareholders' meeting and block important decisions or shape such decisions to serve their interests.
- Any future sales of the Company's shares by the largest shareholders could weigh on the market price of the Company's shares.
- The market price of the Company's shares has been volatile and could continue to be volatile.
- Future capitalization measures could lead to substantial dilution of existing shareholders' interests in the Company.
- The holdings of shareholders who do not participate in the offering will be substantially diluted.
- Active trading in the subscription rights might not develop, and the subscription rights could be subject to greater price fluctuations than the Company's shares.

# RISK FACTORS

*Before deciding to purchase our shares, prospective investors should carefully review and consider the following risk factors and the other information contained in this offering circular. The occurrence of one or more of these risks alone or in combination with other circumstances could have material adverse effects on our net assets, financial condition and results of operations. The market price of our shares could fall if any of these risks were to materialize, in which case investors could lose all or part of their investments. The risks described below might, in retrospect, prove to be incomplete and therefore might not be the only risks to which we are exposed. Additional risks and uncertainties of which we are currently unaware or do not consider to be significant could also have material adverse effects on our net assets, financial condition and results of operations.*

*The order in which the risk factors are presented is not an indication of the likelihood of the risks actually occurring, the significance or degree of the risks or the scope of any potential impairment to our business. The risks mentioned could materialize individually or cumulatively.*

## Market and Competition Risks

### *Changes in general economic and business conditions, such as the continuing economic crisis, could have a detrimental effect on the German real estate market and our business.*

Our core business is the management of residential properties and the sale of individual apartments. Accordingly, we rely significantly on earnings from rentals. Our performance, therefore, depends largely on the amount of net cold rent generated or capable of being generated, the expenses we incur in generating such rents, the proceeds generated or capable of being generated and the value of the properties. These performance factors and the value of the properties are subject to general economic and business conditions.

The global financial crisis, triggered by the mortgage crisis in the United States and other factors, forced banks to take extraordinarily large asset write-downs on their balance sheets and led to a substantial increase in loan spreads in the financial markets. As a consequence, banks' refinancing costs increased significantly. This triggered a worldwide economic crisis that expanded to essentially all business sectors, particularly manufacturing. This economic crisis could continue to worsen. The real estate sector would be significantly affected by a continuing economic crisis. This could lead to insolvencies among our business associates (including financial institutions that serve as hedge counterparties) and result in our not receiving moneys owed to us. Furthermore, the creditworthiness of tenants and potential real estate purchasers could deteriorate. When tenants' creditworthiness deteriorates, such as when jobs are lost, there is a risk that tenants will be unable to meet their payment obligations of the net cold rent plus the agreed incidental costs or will be forced to terminate their leases with us, which could result in us receiving less net cold rent. Moreover, it is possible that if the economy fails to recover in Germany, and consequently, the unemployment rate remains elevated or continues to increase, real incomes could stagnate or even decline and come under additional pressure through increases in taxes, energy prices and the cost of living and consequently, demand from potential tenants and purchasers of residential properties could decline. Additionally, demographic developments or local employment conditions in certain core regions could affect the real estate market, particularly the demand for housing. In addition to the loss of net cold rent, we could also experience increased vacancies. We might then no longer be able to re-let the apartments on the original terms, or might be able to do so only after making additional investment to maintain the attractiveness of the property.

Despite a rise in interest rate levels in recent years, the key interest rate level remains low due to the financial crisis. It is possible that the interest rate for real estate loans in Germany and elsewhere will increase significantly in the future. Any such development could negatively affect the willingness of potential buyers to make real estate purchases, could require purchase price adjustments and could constrain our sales of apartments. Additionally, due to the recent developments in the financial markets, financial institutions could require that borrowers in Germany meet more stringent qualifications. This could lead to potential buyers of residential properties refraining from the purchase of a property due to worsened financing terms or even the unavailability of credit. Thus, for example, we were recently unable to close a block sale of a large portfolio because of the potential purchasers' inability to obtain financing. A significant increase in loan interest rates and more stringent borrower qualification requirements could also impair our ability to finance portfolio acquisitions through debt, and our ability and that of our competitors generally to refinance for some time. Consequently, we and competitors could be forced to sell portfolios at substantial discounts, due in large part to the difficult financing conditions experienced by buyers. As a result, we could be exposed to

the risk of diminution in the fair value of our real estate portfolio and could be required to recognize the corresponding losses from the resulting fair value adjustments of our investment property.

Worsening business and general economic conditions could impair the future performance of our property management business, privatization business, our acquisitions, and have significant adverse effects on our net assets, financial condition and results of operation.

***It could become more difficult, for various reasons, for us to acquire properties on attractive terms, which would impair the future performance and particularly the growth of our business.***

Our commercial success depends, among other things, on our ability to continue to acquire residential real estate portfolios and properties with appreciation potential and/or net cold rent uplift potential in economically attractive regions at reasonable prices, and with good tenant structure, high-quality locations and at favorable occupancy rates, with sustainably high net cold rent or net cold rent uplift potential. Additionally, the success of our business model depends on our being able to integrate and successfully market newly acquired properties in our residential property portfolio. It could become more difficult, for various reasons, for us to acquire properties at attractive prices.

For one thing, the German real estate market was characterized in recent years by a high level of buyer interest because German property prices were considered relatively attractive when compared with properties in other countries, and investors were thus able to achieve relatively attractive returns. Thus, many investors, including foreign financial investors, bought German residential real estate. As a rule, such investors acquire large real estate portfolios that are offered through auctions or tenders in which we also participate. Foreign investors, in particular, sometimes have considerable financial resources that allow them to submit high bids for real estate portfolios. The increased presence of foreign investors, as well as the generally high level of investor interest in German real estate has caused residential property prices to increase in the past.

Additionally, real estate inventories held by municipalities and the states have been privatized in Germany in recent years, especially prior to 2007. Our real estate inventory also was partially assembled through such privatizations. With respect to the decision to sell their real estate holdings, the states and municipalities are influenced by public opinion of such privatizations. If, in the future, public opinion in municipalities and states should increasingly turn against privatization, or if privatization activities are scaled back due to other political considerations, municipalities and states could cancel current privatization activities and refrain from initiating further privatizations. This could lead to a constriction of supply and an increase in prices of residential properties on the German market, which in turn could result in our having fewer or no properties available for acquisition, or our having to pay higher prices due to the limited supply.

If we are unable to acquire suitable properties on attractive terms in the future, this could limit our future growth. If there are only few or no new properties available for acquisition, our earnings from the sale of a decreasing number of properties for sale and/or our earnings from residential property management of a decreasing number of properties for lease would decline. This could have a significant adverse effect on our net assets, financial condition and results of operations.

Our acquisition of additional real estate portfolios can be financed not only by taking on additional debt, but also by issuing and offering new shares in the capital markets. If we are unable to obtain the necessary capital on the capital markets on reasonable terms, we might be unable to make further acquisitions, or might be able to do so only to a limited extent or, if debt financing is available, only by taking on additional debt. If we are no longer able to obtain the debt or equity financing we need to acquire additional real estate portfolios, or if we are able to do so only on onerous terms, our further business development and competitiveness could be severely constrained.

***Sales prices of our residential properties could come under pressure.***

Our Sales segment can continue to be successful in the market only if we succeed in disposing the inventories of our residential property portfolio that are slated for sale at a profit. This depends primarily on the prices we can achieve in the residential real estate market, which are affected by various supply and demand factors.

Government bodies or industrial companies that own residential real estate could increasingly seek to sell apartments to tenants, owners and investors, as well as financial investors. For example, considerable housing inventories have been privatized in Germany in recent years. An increase in the supply of residential properties could put pressure on sales prices, particularly in the local markets in which we own residential

property. In addition to increased supply, pressure on sales prices could also occur through a decline in demand or a combination of the two factors. Currently, private individuals often acquire real estate to provide for retirement, as investment in housing in Germany has become increasingly more important as an element of retirement planning. If real estate becomes less popular as a retirement planning tool in the future, the demand for residential property could decrease, with the consequence that apartments could only be sold at lower prices. As a whole, lower sales prices for our apartments would reduce our earnings or even cause us to sustain losses. Lower sales prices could also result in our being required, for the respective accounting period, to adjust the fair value of our real estate portfolio on our consolidated balance sheet, and to record losses on our consolidated profit and loss statement from the resulting fair value adjustments of our investment property. Moreover, the absence of a liquid real estate market could temporarily make the sale of properties entirely impossible. In addition, low sales prices for real estate or a decline in sales would also lead to lower cash receipts, which could adversely affect our financial condition and results of operations.

We operate in a highly competitive market (including rentals and sales) in Germany in the field of residential real estate, commercial property and senior homes. We are exposed not only to domestic competitors, but also foreign competitors. The consequences of increased competition could be lower sales proceeds, lower margins, lower net cold rent and increased acquisition prices for portfolios. Some of our current competitors could have a broader customer base to which they can sell properties or significantly greater financial resources than we do, and could build on these strengths by engaging in more aggressive pricing.

All of these factors could have a significant adverse effect on our net assets, financial condition and results of operations.

### Risks Related to Our Business

***The loss of net cold rent, rent reductions, higher vacancy rates and our inability to charge economically reasonable net cold rent levels could have a detrimental effect on our revenues and earnings in the Residential Property Management Segment.***

Our commercial success depends significantly on our ability to maintain and increasing our rental income. This involves various risks.

Low demand for housing generally or at a particular location due to the economic, social or other conditions prevailing there can lead to higher vacancies and result in lower net cold rent. Vacancies resulting in diminished net cold rent also occur when apartments must or should be refurbished and thus cannot be rented out. Low demand for housing could also force us to lease our apartments on less than favorable terms, or to tenants who pose a greater risk of rent losses due to reduced creditworthiness.

If tenants fail to meet their rent payment obligations in whole or in part (such as due to a deterioration of their economic situation, perhaps because of a job loss), or if larger numbers of tenants give notice of termination without our being able to re-let the property in short order, this would cause us to sustain losses in net cold rent and could have a significant adverse effect on our results of operations. To the extent that we are able to re-let an apartment, there is a risk that we might no longer be able to do so on the original terms, or might be able to do so only after making additional investment to maintain the attractiveness of the property.

The amount of net cold rent we can generate and our ability to increase our net cold rent from existing tenants depend on several factors. These factors include, in particular, the demand for housing, the local market rent, the condition and location of the apartment, modernization measures undertaken and their scope, and tenant turnover. Moreover, in setting the net cold rent levels for our residential properties, we are subject to the restrictions of the German landlord-tenant laws, as well as, where applicable, conditions imposed as a consequence of our having received public subsidies, or restrictions under privatization agreements. As a consequence, we might not be able to fix or increase net cold rent in a manner or to the extent that would be in our economic interest. Even if increased maintenance costs would merit higher net cold rent as a business matter, we are subject to certain limits in our ability to increase net cold rent.

In addition to our inability to increase our net cold rent, we could also experience loss of net cold rent, rent reductions and increased vacancies in situations where, for example, the properties are situated at an undesirable location (such as due to social or economic conditions) or where there is only limited demand for housing because of local market conditions, resulting in a decline in net cold rent. We also are required to conduct our property management business in such a manner that the properties are maintained in the condition as required by the leases and by law. If this should not be possible and if the required maintenance measures are not performed on time or at all, this could lead to a reduction in net cold rent. Additionally, we

could experience vacancy income shortfall through a planned vacancy when we decide to refurbish a property.

All of these factors, individually or collectively, could have a significant adverse effect on our revenue and earnings situation and thus have a significant adverse effect on our net assets, financial condition and results of operations.

***We are dependent on regional market developments.***

Our real estate inventories are concentrated in Berlin and in the Rhine-Main area (Frankfurt am Main, Wiesbaden and Mainz). Accordingly, we are dependent on market trends in Germany and, in particular, trends in these regional markets. The general conditions in and development of the regional markets are important to our success. The key factors affecting performance and valuation also flow from the economic environment of these regional real estate markets. Performance and valuation are dependent on various factors, including demand, tenant creditworthiness, purchasing power of the population, attractiveness of the particular location, the labor market situation, infrastructure, social structure, and supply and demand for real estate in the respective locations and markets.

Because regional markets within Germany do not develop uniformly, our dependence on only a few regional markets can adversely affect our earnings targets in the event of a decline in the attractiveness of the respective markets; this can put us at a disadvantage as compared with competitors who have a more diversified real estate portfolio. Additionally, negative developments in our core region would affect not only individual properties, but the entire regional portfolio.

The factors described above could lead to a downturn in the regional markets in which we own real estate. This could have a significant adverse effect on our net assets, financial condition and results of operations.

***If we are unable to generate positive cash flow from our business operations, we could be forced to sell properties or borrow money on financially unfavorable terms.***

In order to service our loan debt (principal and interest), we need to achieve positive cash flow from business operations and investments. We generally generate such cash flow from net cold rent and proceeds from apartment sales. In fiscal years 2006, 2007 and 2008, we generated negative cash flow from operations due to, among other things, the interest expenses from the acquisition of the GEHAG Group in 2007. If we are unable to generate positive cash flow from our business operations in the future, we could be forced to sell apartments (single unit privatizations and block sales) irrespective of the market situation and possibly on terms unfavorable to us, expend cash, or borrow money on financially unattractive terms. As a whole, this could have significant adverse effects on our net assets, financial condition and results of operations.

***Our high level of debt, the terms of current and future borrowings and the hedging transactions we have entered into could increase our outside financing costs and related expenses. If we breach conditions of our loan agreements, we could be required to repay the loans before they ordinarily would become due. If we fail to make payments on our loans when due, our creditors could dispose of the significant collateral we furnished to secure the loans.***

In the past, we have taken on debt in the form of loans and a convertible bond to refinance existing obligations, as well as to finance acquisitions, and we also intend to do so in the future.

Our ability to refinance by taking on new debt or extending existing loans could be impeded as a result of our loan-to-value ratio ("LTV Ratio"). The LTV Ratio is the ratio of total net financial liabilities to the value of investment property plus noncurrent assets held for sale and land and buildings held for sale. Our LTV Ratio prior to the completion of the subscription rights offering is approximately 70%. We plan to use a part of the issue proceeds from the subscription rights offering to repay financial debt, with the goal of reducing our LTV Ratio to 60 to 65% in the medium term after completion of the offering. Despite this reduction, as a result of our LTV Ratio banks could refuse to grant us new loans, or they could make new loans available to us only on unfavorable financial terms, and refuse to extend existing credit lines, or extend them only on unfavorable terms. In addition, several of our material loan agreements, collectively representing approximately 70% of our loan debt, provide for the payment of a variable interest rate that is based on interest rate levels in the Euro Area. Accordingly, an increase in current interest rate levels in the Euro Area could substantially increase our current and future financing costs in connection with refinancing of existing obligations and financing of future acquisitions. We have entered into hedging transactions to protect against interest rate increases for current liabilities. We cannot guarantee that we can fully and

effectively protect against the risks of interest rate fluctuations through hedging transactions. In addition, we could also sustain losses from hedging transactions.

If we breach the provisions of a loan agreement or the convertible bond and are not in position to cure the breach, and if the creditors or convertible bond holders fail to waive compliance with the provisions, this could constitute cause for termination under the terms of the respective instrument. Several financing agreements, in particular, provide for compliance with certain financial covenants, and our failure to comply with such covenants would trigger the creditor's right to terminate the financing arrangement. A right of termination by our creditors or convertible bond holders could have serious negative consequences for us; for example, all debt outstanding under the respective loan agreement or convertible bond could become due immediately. In addition, if there are grounds to terminate one loan agreement or the convertible bond, this could entitle bond holders or creditors under other loan agreements also to terminate their respective agreements. We might not be able to refinance the loans or convertible bond as they become due except on significantly less favorable financial terms. If our loans and our convertible bond should become due by reason of an early termination, this would force us to refinance elsewhere on short notice and possibly also only on significantly less favorable economic terms. If we were unable to obtain refinancing in short order, it is possible that, in a worst case, we would be forced into insolvency.

To secure our loan repayment obligations or those of our subsidiaries, we have pledged to creditors the shares of various Group companies, as well as claims under rental and leasing agreements, purchase agreements, and real estate sales agreements, and have taken out mortgages secured by properties held by Group companies. If we or our respective subsidiaries are unable to perform the obligations under the financing agreements, the respective creditor could seize the collateral, especially real property and pledged shares of Group companies, without further negotiations. This could mean the loss of portions of our real estate inventory or individual Group companies on economically unfavorable terms and thus have significant adverse effects on our net assets, financial condition and results of operations.

These factors as a whole could have a significant adverse effect on our net assets, financial condition and results of operations.

***In the event of a downturn in the real estate market, the fair value model could require us to adjust current fair values of our investment property (such as in the case of a change in interest rate levels or a deterioration of the market), which could have adverse effects on our consolidated balance sheet and our consolidated profit and loss statement.***

We record investment property, that is, real estate that is held to generate rental income and/or for appreciation, at fair value. Fair value is the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The recording of investment property at the cost of acquisition or production occurs only at the time the property is received. On the balance sheet dates subsequent to the accession of the property, the fair value of the respective property is used. The best evidence of fair value is normally supplied by the development of the real estate market, including regional market developments and general economic conditions or interest rate levels. Accordingly, there is a risk that in the event of a downturn in the real estate market or the general economic situation, we will need to correct the values of our real estate inventories on the consolidated balance sheet. The same would be true if competitors, due to financial difficulties, were forced to sell their portfolios at lower prices. Any change in fair value must be recognized as a profit or loss under the fair-value adjustment. For example, fair value adjustments of our investment property resulted in a profit from an increase in the fair value by €31 million in fiscal year 2007, and a loss from a reduction in the fair value by €277 million in fiscal year 2008. Any required fair value adjustments could have significant adverse effects on our financial condition and results of operations, as well as the market price of our shares. Additionally, there would be negative effects on performance indicators, particularly our NAV and LTV Ratio.

***There is a risk that we could incorrectly appraise the value of acquired properties or property portfolios or real estate companies; privatizations, additional portfolio purchases and attainable net cold rent could develop differently than we expect.***

Prior to any acquisition, we carry out an intensive examination and evaluation of the properties to be acquired. In this respect, we set a yield target, taking into account the need for required maintenance, refurbishment or modernization measures. We carry out such work with the objective of optimizing the respective property to make it possible for us, for example, to achieve higher net cold rent and thereby increase the yield on the property. Additionally, we determine which properties in a new portfolio should be allocated to the Residential Property Management segment for the purpose of generating continuing rental

income, and which properties should be allocated to the Sales segment. Such an allocation last occurred in late 2007 and early 2008 in connection with a comprehensive clustering of our entire real estate inventory.

The assumptions made in connection with the acquisition of a real estate portfolio, particularly with respect to anticipated net cold rent, modernization expenses and possible proceeds from a privatization, could, however, subsequently turn out to be incorrect, in whole or in part, because of many factors that can affect the realization of these assumptions. In addition, valuation methods used could subsequently turn out to have been unsuitable. Accordingly, there is a risk that the acquired properties achieve less than the originally calculated yields due to inaccurate projections and assumptions. Moreover, it could subsequently become more difficult to lease or sell the property, the market rent at that location could develop unfavorably, and there could be vacancies and vacancy income shortfall. In addition, the multitude of factors that affect the market rent that can be charged in a particular market make it difficult to project future net cold rent, so that the net cold rent projected in connection with the acquisition of a property can develop differently than planned.

Erroneous valuations in connection with the acquisition of real estate portfolios and other unforeseeable events could result in our being unable to achieve our projected yields and could have significant adverse effects on our business, financial condition and results of operations.

### *The Property Appraisal Report and/or existing or future financial information contained in this offering circular could incorrectly assess the value of our properties.*

The property appraisal report by the independent appraisers CB Richard Ellis GmbH (the “Property Appraisal Report”) contained in this offering circular is based on standard valuation principles and represents the opinion of the independent appraiser who prepared the report. The Property Appraisal Report is based on assumptions that could subsequently turn out to have been incorrect. The assumptions underlying the appraisals are tested merely through random sampling, as is customary in such appraisals. Additionally, the valuation of real estate is based on a multitude of factors that also enter into subjective valuations by the appraiser. These factors include, for example, the general market environment, interest rate levels, the creditworthiness of the tenants, the rental market, the development of the location and tax considerations. The valuation of real estate contained in the Property Appraisal Report, therefore, is subject to numerous uncertainties. Moreover, appraisal methods that are currently generally accepted and that were used for the purpose of developing the Property Appraisal Report could subsequently be determined to have been unsuitable. Also, the assumptions underlying the appraisals of the properties in the past or in the future could later be determined to have been erroneous.

The values assigned to the appraised properties in the Property Appraisal Report and/or our already published or yet to be published financial information (consolidated financial statements and consolidated interim financial statements) could exceed the proceeds that we can generate from the sale of the appraised properties. This could also apply to sales that occur on or shortly after the respective valuation date. Accordingly, the Property Appraisal Report does not represent the future or current actually achievable sales price of our properties or property portfolio.

A change in the factors underlying the appraisal and/or assumptions could also cause the fair value determined for the respective valuation date to fall short of the book value of a property, which would result in a fair value loss. We would be required immediately to directly recognize such a negative change in value as a loss resulting from the fair value adjustment of investment property for the particular accounting period. This could have significant adverse effects on our net assets, financial condition and results of operations.

### *We are exposed to risks related to the structural condition of the properties and their maintenance and repair.*

Our newly acquired properties are inspected prior to purchase in the course of a technical and thorough due diligence investigation with respect to their structural condition and, to the extent necessary, the existence of harmful environmental impacts. It is possible, however, that damage or quality defects could remain undiscovered entirely, or that the scope of such problems is not fully apparent in the course of the due diligence investigation, and/or that defects become apparent only at a later time. In general, sellers exclude all liability for hidden defects. If liability for hidden defects has not been fully excluded, it is possible that the representations and warranties made in the purchase agreement with respect to the property failed to cover all risks and potential problems relating to the acquisition. As to the older inventory in the real estate portfolio, no investigation or review was undertaken as to the existence of harmful environmental

contamination. As a result, it is possible that significant environmental pollution, such as the use of construction materials containing asbestos, was not recognized in the older inventory. We are currently aware of two contaminated properties (in Bobingen and Frankfurt, both in Germany). We have identified five further property units as potentially contaminated areas. We could be exposed to financial liability for any required remediation measures.

Additionally, we could be exposed to unexpected problems or unrecognized risks, such as delays in the implementation of maintenance, refurbishment or modernization measures in connection with acquired residential real estate portfolios, which might not have been contractually protected against. As a result, we could be unable to lease a property as planned, effectuate increases in net cold rent or privatize residential units, our financial condition could deteriorate, and the value of the acquired assets could decline.

After acquiring properties, we undertake to maintain rented properties in good condition. For this reason, and also to avoid loss of value, we perform maintenance and repairs. In addition, it is necessary to modernize properties to increase their appeal. Such measures can be large-scale and expensive. In this connection, risks can arise in the form of higher costs than planned or unforeseen additional expenses for maintenance, repair or modernization that cannot be passed on to the tenant. Moreover, work can be delayed, for example, by reason of bad weather, poor performance or insolvency of contractors or the discovery of unforeseen structural defects.

The occurrence of one or more of the aforementioned events could have a significant adverse effect on our net assets, financial condition and results of operations.

***Unscheduled sales of residential units and longer than anticipated preparation and modernization measures relating to the sales could result in increased costs or delayed realization of revenues and earnings in the Sales segment.***

In addition to Residential Property Management, our business also includes the sale of apartments. In this respect, we differentiate between individual sales and block sales of entire portfolios. Our goal is to carry out the sales in such a manner that all residential units in properties slated for sale in the context of the sales strategy are sold. We currently plan to sell up to 14,100, or possibly more, residential units in the short to medium term, primarily in the Rhineland-Palatinate region, in order to optimize our current real estate portfolio. As of June 30, 2009, we have achieved 80% of our fiscal year 2009 target — 500 units per year — for individual sales to owner-occupants. By contrast, our ability to achieve our target for block sales to institutional investors — 9,000 units in the short to medium term — is problematic against the backdrop of the financial crisis and the ensuing credit crunch. Accordingly, we can provide no assurances that sales (single unit privatizations and block sales) can be carried out in the projected numbers, within the projected timeframe or on favorable terms. The factors that could affect a possible sale include, among other things, the demand for real estate, the creditworthiness of the purchasers and the number of competitors.

If we are unsuccessful in the future in selling the apartments to the extent projected, our management of unsold or partially sold properties would consume greater administrative resources than planned. Moreover, preparation or refurbishment measures could extend over a longer time than we originally planned which, among other things, could lead to higher costs and lower sales prices and, consequently, increase the risk of a decline in value during such time. Significant price reductions in the course of further sales could reduce the profit margin on apartment sales, or even cause that margin to turn negative. These developments could have a significant adverse effect on our net assets, financial condition and results of operations.

***The acquisition of real estate involves risks that cannot be avoided despite prior legal, tax and economic due diligence.***

We and the former owners of the properties acquired by us regularly have, or had, only the opportunity to conduct a limited due diligence investigation; accordingly, we or the former owners might not have been in a position to examine whether the original owners of the properties, and/or the property itself, obtained all required building permits and satisfied all permit conditions; received all necessary licenses and fire, health and safety certificates; and satisfied all comparable requirements. Moreover, we or the former owners might not have been in a position to carry out all follow-up investigations, inspections, and appraisals/inventories (or to obtain the results of such inquiries). Accordingly, in the course of acquisition of residential real estate portfolios, specific risks might not be, or might not have been, recognized or correctly evaluated. Thus, legal and/or economic liabilities could have been overlooked or misjudged. In purchase agreements that we enter into with sellers of real estate portfolios, the sellers make various warranties. It is conceivable, however, that these warranties do not cover all risks, or that they fail to sufficiently cover such risks. Additionally, a

warranty made by a seller could be unenforceable due to the seller's insolvency. In some cases, a real estate seller makes no representation or warranty as to the sufficiency and correctness of the information that is made available in the context of a due diligence investigation, or as to whether such information remains correct during the period between the conclusion of the due diligence investigation and the closing of the acquisition of the respective property. Accordingly, such risks can arise despite a thorough due diligence investigation, and they could have significant adverse effects on our net assets, financial condition and results of operations.

***We are subject to numerous legal requirements that limit our economic freedom of action in connection with the acquisition and management of real estate portfolios and companies previously held by government entities.***

In acquiring and managing real estate portfolios purchased from government entities such as the states and municipalities, we are often subject to various restrictions due to contractual obligations. For example, purchase agreements relating to real estate owned by government entities typically provide that tenants be afforded preference in the event of the sale of their units, that older tenants receive certain protection from eviction, that no luxury refurbishment may be undertaken, and that the social concerns and objectives of the city planners are to be observed.

By way of example, the Heimstätte Rheinland-Pfalz GmbH acquisition agreement, in conjunction with the supplemental agreement, contemplates that the apartments can be privatized primarily to tenants (and to third parties only subject to strict conditions). Similar limitations are also contained in the agreements relating to the acquisition of a residential property portfolio from GSW Gemeinnützige Wohnungs- und Siedlungsbau Gesellschaft Berlin mbH ("GSW"), the "Fortimo Inventories", which prohibit luxury refurbishments and require that tenants receive preference in the privatization. Additionally, such agreements often contain conditions requiring governmental consents.

In addition, there are restrictions relating to GEHAG. GEHAG, once a government owned entity, was partially privatized in 1998. Under the terms of the share purchase agreements entered into with the Federal State of Berlin and other parties and GEHAG's articles of association, the Federal State of Berlin, as minority shareholder with a share capital of €50, is entitled to certain consent rights. Such rights relate, in particular, to dispositions of GEHAG shares, employee matters and housing policy. Thus, the GEHAG Group's apartments must be available to broad strata of the population. GEHAG's articles of association, as well as the privatization agreements also provide that two officials of the Federal State of Berlin will belong to the 12 member supervisory board of GEHAG until 2033. Moreover, any amendment to GEHAG's articles of association will require the consent of the Federal State of Berlin until November 17, 2018. Additionally, certain provisions of GEHAG's articles of association may be amended only with the consent of the Federal State of Berlin until November 17, 2033. These provisions include, among others, the location of GEHAG's registered office, the business purpose of the company and the composition of the supervisory board. The former shareholders of GEHAG have submitted to these provisions. By reason of our acquisition of the majority of shares of the GEHAG Group, we are also bound by these provisions. Accordingly, for certain fundamental decisions, we must consult with the Federal State of Berlin and thus could be prevented from making necessary amendments to GEHAG's articles of association and dispositions of the GEHAG Group's residential properties. Additionally, GEHAG has established a supervisory board in accordance with the provisions of the German One-Third Codetermination Act (*Drittelbeteiligungsgesetz*) in which four of its twelve members are worker representatives.

We also are subject to restrictions with respect to properties held by Eisenbahn-Siedlungsgesellschaft Berlin mbH ("ESG"). Following its partial privatization in 2000, ESG, too, is subject to restrictions and preemptive rights exercisable by the government in the form of the Bundeseisenbahnvermögen ("BEV"). Thus, for example, ESG's articles of association require that the eight-member supervisory board of ESG include four members of BEV. The articles of incorporation bestow a double voting right on one of these four members in the event of a tie vote, meaning that we do not control a majority of votes on the supervisory board. The limitations also include restrictions on the sale of properties and allow increases in net cold rent for some preferred tenants only under certain conditions. Preferred tenants are essentially active and inactive employees of BEV and Deutsche Bahn AG. As of June 30, 2009, these preferred tenants occupied approximately 24% of ESG's property inventory. This corresponds to 1,342 apartments. Additionally, there are restrictions with respect to the transfer and pledge of shares of ESG, the authorization of third parties or affiliates of the shareholders for the acquisition of new shares from capital increases at ESG, and certain structural measures at ESG such as mergers, transformations, dissolution or liquidation. These restrictions relating to material business decisions of the GEHAG Group could have a negative effect on our

economic development and, in particular, the sale of the relevant apartments. Additionally, restructuring measures that would be required or reasonable from a tax perspective could be impeded or even prevented and preclude our realizing possible cost savings. Moreover, we could be limited in our ability to sell shares of GEHAG or ESG.

These restrictions could result in our being unable to optimally manage or sell the relevant apartments or undertake productivity improvement and modernization measures as desired. This could result in lower income from residential property management and sales and could have a significant adverse effect on our net assets, financial condition and results of operations.

***We could be subject to liability claims for several years after selling properties.***

In connection with the sale of properties, we make representations, warranties and negative declarations of knowledge to the purchasers with respect to certain characteristics of the properties. The resulting obligations continue to exist after the sale, usually for several years. In particular, we could be subject to claims for damages from purchasers who assert that the representations we made to them were untrue, or that we failed to meet our obligations. This could lead to legal disputes or litigation with the purchasers, as a consequence of which we could be required to make payment to the purchasers. To the extent that we made warranties to third parties in connection with refurbishment measures and claims are asserted against us because of defects, it is not always certain that we will have recourse against the companies that performed the work. Legal disputes and the obligation to pay damages could have a significant adverse effect on our net assets, financial condition and results of operations.

***The Company's cash flow and possible future dividend payments are dependent on the profitability of its subsidiaries or must be augmented by borrowed capital.***

Deutsche Wohnen AG is a holding company; the Company does not conduct its operating business itself but exclusively through its subsidiaries. To cover its operating costs, the Company relies on, among other things, distributions that it receives from its subsidiaries and other investment interests or, as the case may be, payments under profit transfer agreements and scheduled repayment of loans it has granted to the subsidiaries. It is not assured that such funds will always be sufficient in the future to satisfy all of the Company's payment obligations. If this should not be the case, the Company would need to obtain additional funds.

The Company has also entered into domination and profit and loss transfer agreements with several of its subsidiaries. Based on these agreements, the Company is required to equalize any annual deficit sustained by the dominated companies insofar as such losses cannot be covered by retained earnings that were created during the term of the agreement. The right to equalization becomes due as of the balance sheet date and is quantified by the amount of the recorded deficit.

As part of the realignment of operating activities, with a focus on the Residential Property Management business segment, the Company intends to, as a rule, pay dividends only to the extent that they are covered by the Company's cash flow available for dividends. If there is insufficient cash flow available for dividends, the Company will likely pay no dividend. If the Company should decide to borrow money to make it possible to pay dividends, this could have significant adverse effects on our net assets, financial condition and results of operations.

***We bear risks in connection with possible acquisitions and investments.***

We intend to continue to grow. Future business acquisitions and investments could involve considerable risk. In addition to the risks from the properties themselves, economically successful acquisitions tie up management resources that then cannot be deployed elsewhere in the company. Business acquisitions and investments can lead to greater indebtedness and higher interest expenses. Additionally, the integration of employees from the newly acquired companies could fail. Anticipated synergies, economies of scale and cost savings might not be realized in whole or in part or might occur only later. This could result in higher administrative and management costs.

Our plans to grow the volume of business and possible start-up activity in new core regions would require adaptation of our operational and organizational structure, particularly the continued development of suitable planning and controlling processes, as well as the hiring of additional qualified employees to the extent that our growth exceeds our available resources. To the extent that such growth occurs through acquisitions of, or investments in, other companies, it is also necessary that we successfully integrate the acquired business units or investments into our business in order to achieve the desired results with the

acquisition or investment. We cannot guarantee that the systems, operations or controls for the support of the expansion of our business are appropriate. We might no longer be in a position to effectively control our internal and external growth or to obtain the resources and employees necessary to do so.

Accordingly, we cannot guarantee the success of previous or future potential acquisitions and investments. If acquisitions or investments fail to achieve the desired results, it could have significant adverse effects on our net assets, financial condition and results of operations.

***The current number of employees in central functions and the small number of management executives could impair our development.***

We have only a small number of management executives and other employees in central areas responsible for our Residential Property Management and Sales core business segments. Our success depends significantly on the performance of our management executives and qualified employees in key positions, particularly management board members Michael Zahn and Helmut Ullrich and other management executives with substantial sector expertise, particularly in the areas of accounting, portfolio and asset management, and sales. Additionally, it is particularly important to the planned expansion of our business that we hire additional qualified employees to the extent that our expansion exceeds our available resources. Due to the intense competition for management executives in the real estate field, we cannot guarantee that we will succeed in the future in hiring the necessary management executives and new employees. The loss of one or both management board members or other key employees, and the difficult task of attracting new highly qualified management executives, could impair our growth and the make it difficult to maintain our Group control function. Because of the small number of employees we have in central areas, we believe we have a suitable risk management system, though not one as heavily-staffed as may be found at larger companies. As a result, it is possible that risks to our Company might be recognized only belatedly. The occurrence of one or more of the risks described above could have a significant adverse effect on our net assets, financial condition and results of operations.

***We could be subject to additional claims for pension and benefits obligations.***

At the Group level, we are liable for pension obligations based on retirement provisions in the form of pension grants. For this purpose, we created provisions for pension obligations in the IFRS consolidated interim financial statements as of June 30, 2009 to the amount of €39.3 million. The actual amount of such obligations, however, cannot be fully calculated in advance and involves substantial uncertainty. If our actual pension obligations exceed our pension reserves, this could have significant adverse effects on our net assets, financial condition and results of operations.

Moreover, there is a statutory obligation to conduct adjustment reviews and, if applicable, to adjust the amount of pension payments. If such a review was not undertaken in the past or if pension adjustments were not made as required by law, we would be subject to an obligation to pay the unpaid pension adjustments, including the outstanding arrears. This could also have significant adverse effects on our net assets, financial condition and results of operations.

In addition to the performance-oriented pension plans, employees of subsidiaries who were formerly employed by Rhein-Pfalz Wohnen GmbH are covered by a pension plan governed by the rules of the supplemental civil service pension plan because of the employees' membership in the Bayerische Versorgungskammer (BVK) — Zusatzversorgungskasse of the Bavarian municipalities. The pay-as-you-go financing arrangement for this pension plan bears the risk of contribution adjustments that could lead to our having to increase our contributions to BVK in the future.

Our subsidiaries use pension schemes that have no longer been adapted to current laws since the 1990s or since they became effective. Even though these pension schemes were closed to new hires, they continue to apply to employees who were active at the time the schemes were closed, as well as to retirees, and to departed employees whose entitlements have vested. These pension schemes contain provisions that do not comply with current laws; such provisions could be discriminatory in part and therefore invalid. Additional claims could also arise from discrimination against part-time and marginally-employed workers with respect to their rights to a pension, from discrimination against registered partners in a civil union with respect to their rights to survivorship benefits, and the unequal treatment of women and men.

Finally, all continuing obligations under pension schemes — with the exception of the pension schemes in effect at KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH ("KATHERINENHOF," and together with its subsidiaries, the "KATHARINENHOF Group") — are governed by individual contracts incorporating such schemes by reference, making across-the-board changes to the pension schemes

impracticable. Rather, the consent of pension-eligible individuals could be required to implement any changes. Moreover, the pension schemes, because they are incorporated by reference in individual contracts, are all subject to the same rules of interpretation which are applied to general terms and conditions of business, which could lead to additional provisions being invalid which, in turn, could lead to additional financial burdens.

Thus, we bear considerable financial risk from the above described pension schemes if the current reserves are insufficient. If this should be the case and/or unforeseen benefit claims, contribution obligations or back payment obligations arise to a material level, this could have significant adverse effects on our net assets, financial condition and results of operations.

***Our use of standardized contracts could multiply the risks as compared with the use of individual contracts.***

We maintain legal relationships with a large number of persons, primarily employees and purchasers and tenants of residential properties. In this context, we also use standardized documents and standard-form contracts. If such documents or contracts contain provisions which are disadvantageous to us, or if clauses in such documents or contracts are invalid and thus displaced by statutory provisions which are unfavorable to us, this will affect a large number of standardized terms or contracts. It is impossible to fully protect against risks from the use of such standardized contractual terms, due to the frequent changes to the legal framework, particularly court decisions relating to general terms and conditions of business. One example of this is the Federal Supreme Court's decision relating to the invalidity of cosmetic repair clauses that provide "rigid" deadlines for the tenant's performance of cosmetic repairs. The invalidity of such clauses results in the landlord being made responsible for maintenance and being required to shoulder increased maintenance costs. Even in the case of contracts prepared with legal advice, it is impossible for us to avoid problems of this nature in advance or in the future, because changes could occur in the legal framework, particularly case law, making it impossible for us to avoid the ensuing legal disadvantages. This could have significant adverse effects on our net assets, financial condition and results of operations.

***We could sustain substantial losses from damage not covered by, or exceeding the coverage limits of, our insurance policies.***

Our properties are all insured against losses due to fire or natural hazards. However, our insurance policies are subject to exclusions and limitations of liability. It is possible, therefore, that losses could arise that exceed the respective limits of coverage. It is also possible that an insurance company that issued a policy to us could become insolvent (for example, we have policies with subsidiaries of AIG Europe S.A., a subsidiary of American International Group, Inc., which is an insurance company that has suffered heavy financial losses during the current financial crisis). This could have a significant adverse effect on our net assets, financial condition and results of operations.

***We could be exposed to risks from residual pollution including wartime ordnance, soil conditions and contaminants in building materials, as well as from possible building code violations.***

It is possible that properties we own or acquire contain ground contamination, hazardous materials, other residual pollution and/or wartime relics (including potentially unexploded ordinance). Moreover, building components might contain hazardous substances (such as polychlorinated biphenyls (PCBs) or asbestos), or the properties could bear other environmental risks. We bear the risk of cost-intensive remediation and removal of such wartime ordnance, hazardous materials, residual pollution or ground contamination. The discovery of such residual pollution, particularly in connection with the lease or sale of properties, can also trigger claims for damages and other breach of warranty claims. The remediation of any pollution and the related additional measures could affect us negatively and involve considerable additional costs. We also are exposed to the risk that it might no longer be possible to take recourse against the polluter or the previous owners of the properties. Moreover, the existence or even merely the suspicion of the existence of wartime ordnance, hazardous materials, residual pollution or ground contamination can negatively affect the value of a property and our ability to lease or sell such a property. We are currently aware of two contaminated properties (in Bobingen and Frankfurt, both in Germany). We have identified five further property units as potentially contaminated areas.

Our business is also exposed to the risk of noncompliance with building codes or environmental regulations. Even though we conduct thorough inspections during the acquisition of individual properties, there is a risk that building codes or environmental regulations were not complied with. It is also possible that landlord responsibilities could be further expanded with respect to fire protection and environmental protection,

which could require additional refurbishment, maintenance and modernization measures. The projected cost of such measures is based on the assumption that the required permits are issued promptly and consistent with our plans. It is possible, however, that the required building permits will not always be issued promptly. If such permits are not issued promptly, or are issued only subject to conditions, this can lead to substantial delays in correcting the problems and result in higher than projected costs and lower net cold rent for the relevant properties.

Our Group companies own properties, many of which are more than 40 years old. Numerous factors, including the age of the structure, noncompliance with building codes or potential residual pollution such as contamination of roof rafters with PCBs and wood preservatives or the use of asbestos or other materials hazardous to the environment or health, could result in our being required to perform expensive refurbishment, maintenance and modernization measures. In addition, we are not always able to obtain from the seller the records and documents that we need in order to fully verify that the buildings were constructed in accordance, and that their use complies, with planning laws and building code requirements. These circumstances could lead to additional costs and have an adverse effect on our proceeds from sales and rentals of the relevant properties.

The occurrence of one or more of the aforementioned events could result in additional costs and have a significant adverse effect on our net assets, financial condition and results of operations.

***Our business is subject to the general legal and tax environment in Germany.***

Our business is subject to the general legal framework applicable to housing, commercial real estate and senior homes or nursing homes. This framework includes German landlord-tenant law, as well as special provisions in other laws, particularly the German Nursing Homes Act (*Heimgesetz,* the "HeimG"), social legislation, construction laws, historic preservation laws and tax laws. Any disadvantageous changes to domestic or European laws or changes in the interpretation or application of existing laws could, therefore, have a negative effect on us. In particular, an expansion of tenant protection laws in connection with conversions of apartments into condominiums could have negative effects on the sale of condominiums to investors. Other changes to tenant protection laws could make it more difficult to evict tenants, and changes to regulations governing the tenant's responsibility for ancillary costs or modernization investments could have an adverse effect on the profitability of our investments and results of operations.

More restrictive environmental laws could cause us to incur greater expenses if, for example, the provisions on the handling of asbestos or other hazardous construction materials were made more restrictive and we were required to take action. If, during the course of a refurbishment or modernization, it should be discovered that a building acquired by us is subject to historic preservation laws, the need to comply with the respective historic preservation requirements could lead to significant delays in the refurbishment or modernization process, the inability to carry out particular refurbishment or modernization measures, and also significantly higher costs for the particular project. These factors could result in our being unable to perform our contractual obligations to a buyer, with the consequence that the buyer's obligation to make payment would be excused or deferred. The same would be true if the legal requirements relating to existing and permitted properties and their use become more onerous, particularly with respect to construction and environmental requirements; similarly, requirements might be imposed to increase the availability of handicapped-accessible and adapted housing.

As a seller of properties, we are liable to tenants for any breach of lease agreements by the buyer. This applies also and specifically where we no longer have any control over the property. Moreover, we continue to be exposed to liability for breach of contract even in the event that the buyer resells the property and the subsequent buyer breaches lease agreements. If, however, a seller notifies the tenant of the change of ownership and the tenant fails to avail itself of the opportunity to terminate the tenancy at the earliest permitted termination date, the seller is released from liability. As a rule, when selling properties we inform all tenants in writing of the change of landlord.

However, changes in tax legislation, administrative practice or case law, possible at any time on short notice, could have adverse tax consequences for us. For example, there could be increases in the rates of property transfer tax, property tax or capital gains tax. Additionally, changes could be made to the ability to depreciate owned real estate. This could have a significant adverse effect on the attractiveness of residential real estate and our Sales business. Despite a general principle prohibiting retroactive application, amendments to applicable laws, orders and regulations can also be retroactive. Additionally, divergent statutory interpretations by the tax authorities or the courts are possible.

If these changes in the legal or tax framework conditions should occur, individually or together, or if other changes of the legal or tax framework conditions that negatively affect our business should arise, this could have a significant adverse effect on our net assets, financial condition and results of operations

### *We could be required to pay additional taxes following tax audits of our Group and our Group companies.*

Our Group companies are regularly subject to tax audits. The most recent tax audit of Deutsche Wohnen AG covered the fiscal years up to and including 1999 and was closed in fiscal year 2006. The tax office is currently auditing Deutsche Wohnen AG and Rhein-Main Wohnen GmbH (Rhein-Main Wohnen GmbH prior to the merger and the former Rhein-Nahe Wohnen GmbH) for 2000 to 2004, and GEHAG for 2001 to 2003. No audit results are yet available. The audits at Rhein-Pfalz Wohnen GmbH and Rhein-Mosel Wohnen GmbH for 2000 to 2004 have been largely completed.

All of the tax assessment notices issued since those dates are subject to re-audit. Additionally, there were numerous mergers and restructuring measures within our Group that could result in obligations for back taxes. Moreover, due to a shareholder loan in the past and the resulting application of Section 8a of the German Corporate Tax Act (*Körperschaftsteuergesetz,* the "KStG") relating to the non-deductibility of interest, our tax-loss carryforwards could be reduced and our Group corporate tax liability could increase because of interest that is not tax-deductible. Finally, we may not be entitled to and, therefore, might be unable to utilize tax-loss carryforwards to the extent we anticipated.

As a consequence of current or future tax audits or previously completed tax audits for which no final tax assessments have been issued or divergent legal interpretations by the tax authorities, we could be obliged to pay back taxes. Back taxes or demands for back taxes could have a significant adverse effect on our net assets, financial condition and results of operations.

### *We might not be in a position to take tax deductions for our interest payments.*

In the course of our business, we have entered into numerous financing transactions with third parties, including the financing of our acquisitions of real estate portfolios. These debt financing arrangements require us to pay principal and interest. Since 2008, the tax deductibility of debt interest might be limited by Section 4h of the German Income Tax Act (*Einkommensteuergesetz*, the "EStG") in conjunction with Section 8a of the KStG (the interest deduction ceiling). Because of the interest limit, the deductibility of net interest expense by a business is generally limited to 30% of taxable EBITDA, unless certain exceptions apply. Any nondeductible amount that exceeds the 30% ceiling can only be carried forward and may be deductible in future years under certain circumstances. If we are affected by the application of these provisions to a greater extent in the future, this would result in a higher tax burden and, consequently, have a significant adverse effect on our net assets, financial condition and results of operations.

### *The change in tax treatment of EK02 Inventories effectuated by the Annual Tax Act of 2008 (Jahressteuergesetz 2008) could have a detrimental effect on our cash flows, financial condition and results of operations.*

Several of our subsidiaries were formerly non-profit housing companies. These subsidiaries have large holdings of enhanced figures for corporation tax purposes (the "EK02 Inventories"), which resulted from the tax-free realization of undisclosed reserves in the change from non-profit status to fully taxable status. Under the law in effect until December 31, 2007, payouts by these companies in the years up to and including 2018 that are funded by such EK02 Inventories cause an increase in corporate income tax (including solidarity surcharge) of 45.2% (3/7 of the payout plus solidarity surcharge) for the company making the payout. The proportion that is funded by the payout from the EK02 Inventories is required to be determined by applying the provisions of the KStG. Under the Annual Tax Act of 2008, the old rule on the treatment of EK02 Inventories was abolished and instead a flat-rate taxation introduced. The closing balance of EK02 as of December 31, 2006, is taxed at a flat-rate of 3%, regardless of the utilization. The remaining EK02 Inventory is omitted and triggers no further increases in corporate income tax. The resultant tax amount is to be generally paid either within a period of ten years from 2008 to 2017 in ten equal annual installments or at present value in a one-off payment. Based on the values in the tax returns for the 2006 assessment period, subsidiaries of the Deutsche Wohnen Group hold a total of approximately €3.2 billion in EK02 Inventories. Thus, the increase in flat-rate corporate income tax amounts to €96 million. In the unaudited condensed consolidated interim financial statements as of and for the period ended June 30, 2009, a liability, which is discounted at 4.3%, of approximately €80.3 million is stated as a current and noncurrent tax debt for

obligations from the EK02 tax expense, based on the assumption that the tax amount is paid in ten equal annual installments of approximately €9.6 million per year from 2008 to 2017.

Because of the retroactive taxation of originally tax-free earnings, as well as the discrimination against our subsidiaries by excluding the ability to elect to retain the existing scheme — companies owned at least 50% by municipal or non-profit owners were given an election in the Annual Tax Act of 2008 to continue to be subject to the former legal scheme with respect to EK02 Inventories — the affected companies have appealed or have at least corresponded with the tax authorities. If, in the event of litigation, the courts should find the new scheme to be lawful, this could have a significant adverse effect on our liquidity and financial condition. If, on the other hand, we were to prevail, we would be required to pay the purchase price holdback to the amount of €25 million to the sellers of the GEHAG Group, which would correspondingly reduce the positive effect of the desired court decision on our financial condition.

***There are uncertainties with respect to the amount of tax-loss carryforwards and interest carryforwards.***

Our Group companies have tax-loss carryforwards and interest carryforwards. A loss carryforward is the sum of the losses that were sustained during an assessment period that we were unable to set off against positive income. An interest carryforward represents the total interest that we were unable to deduct for tax purposes in prior years under the interest deduction ceiling. These loss and interest rate carryforwards can, subject to certain restrictions, reduce future taxable income. These corporate and business tax-loss carryforwards and interest carryforwards could be lost in the future, in whole or in part, at the level of Deutsche Wohnen AG and its direct and indirect subsidiaries pursuant to Section 8c of the KStG (or, where applicable, in conjunction with Section 10a Sentence 9 of the German Trade Business Tax Act (*Gewerbesteuergesetz*, the "GewStG") and Section 8a of the KStG) if, within a period of 5 years, 25% or more of the shares or voting rights of the company are combined, directly or indirectly, to be held by one shareholder or several shareholders whose interests are aligned ("harmful acquisition"). Shares are deemed to have been combined (including by way of a capital increase) for these purposes if they are assigned to a single acquirer, persons related to such acquirer, or a group of acquirers whose interests are aligned. Because much of the subscribed capital is being assigned within the meaning of Section 8c of the KStG in the context of this offering, there is a risk that we and our subsidiaries will be unable to utilize, in whole or in part, our corporate tax and business tax-loss carryforwards in the amount of approximately €1 billion as of December 31, 2008, and we might be unable to fully or even partially utilize potentially arising interest carryforwards.

We could also lose tax-loss carryforwards at the level of Deutsche Wohnen AG pursuant to Section 8 paragraph 4 of the old version of the KStG. We are allowed to utilize prior loss carryforwards only if the economic identity of Deutsche Wohnen AG remains preserved within the meaning of Section 8 paragraph 4 of the old version of the KStG. This would not be the case if this capital increase, together with earlier share transfers, were to result in a greater than 50% change in the shareholder structure and predominantly new assets were contributed to Deutsche Wohnen AG within a certain period.

We cannot control this risk because the elimination, in whole or in part, of loss carryforwards and interest carryforwards would be triggered by measures and transactions (including subscription to the capital increase) at the shareholder level. A loss of tax-loss carryforwards and interest carryforwards could have a significant adverse effect on our net assets, financial condition and results of operations.

***Our computer systems could malfunction or become impaired.***

Any malfunction or impairment of our computer systems could interrupt our operations and lead to increased costs. Starting in late 2008, we installed new software (SAP); we cannot guarantee that it is free of defects. It is possible that future technological developments could adversely affect the functionality of our computer systems and require further action, which could require us to spend substantial funds to prevent or repair computer malfunctions. We cannot guarantee that even anticipated and/or recognized malfunctions can be avoided in every case by appropriate preventive security measures. Additionally, we have outsourced a portion of our computer systems to external service providers. We cannot guarantee that such risks will not also materialize with such service providers. As a whole, this could have a significant adverse effect on our net assets, financial condition and results of operations.

***We are subject to potential financial risks from the GEHAG Group's former activities in real estate investment funds and from potential prospectus liability.***

The GEHAG Group was formerly involved in the organization and establishment of real estate investment funds. The funds business was operated by GEHAG Group companies until 2005. In 2005, a majority of the shares of the Closed-end Real Estate Fund business segment was transferred to an affiliate of HSH Real Estate AG. In the context of this transaction, HSH Real Estate AG granted a release for the benefit of the GEHAG Group. The GEHAG Group is subject to potential financial risks, especially risk of liability for its earlier activities relating to investment funds. It is possible that some risks are not covered by the release, and that we will be required to pay damages to aggrieved investors. These risks could have a significant adverse effect on our net assets, financial condition and results of operations.

***We could suffer a liquidity squeeze as a consequence of the right of sell-out held by the limited partners of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG.***

In separate agreements, the limited partners of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG ("DB 14"), Eschborn, which was first consolidated in our financial statements in the 2nd PFY 2006, have each been granted a right of sell-out, in effect from 2005 to 2019, by Rhein-Pfalz Wohnen GmbH, the exercise of which would require us to redeem the shares at a starting price (in 2005) of 105% of the paid-in capital share. Starting from 2005, the agreed purchase price for the shares increases annually by three to seven percentage points, depending on the development of rents. Additionally, outstanding dividend distributions for tendered limited partner interests are taken into account. Our obligation to redeem the shares at a fixed price embodies a risk that we might be required to purchase shares of the company at prices higher than their market value. This could impair our future profitability. If all, or a substantial majority of, the limited partners were to exercise their right of sell-out at the same time and, at such time, we lacked sufficient liquidity from operations and were unable to raise additional funds or were able to do so only on unfavorable terms, this could have significant adverse effects on our net assets, financial condition and results of operations and, in an extreme case, could even cause us to be insolvent.

***Our inability to increase prices as economically necessary in the Assisted Living and Elderly Care segment could have an adverse effect on the revenues and earnings development of that segment.***

Our Assisted Living and Elderly Care segment is currently subject, in particular, to the provisions of Book XI of the German Social Welfare Act (*Sozialgesetzbuch*, the "SGB") and the HeimG. These statutes govern, among other things, the remuneration scheme for nursing home contracts or the goods and services for which the long-term care insurance scheme pays reimbursement for necessary basic care and housekeeping care, as well as cost reimbursement. In developing our fee schedule, we are required to comply with these legal mandates and cannot, therefore, exercise unfettered discretion in structuring the fees. For example, fee increases — insofar as they could be implemented in the respective regional market — must be approved by the reimbursing entities (nursing care agencies or social welfare agencies). If a requested fee increase is not approved, it might be impossible to increase fees, or possible only by way of protracted administrative proceedings. Should we be unable to increase our fees to the extent necessary for business reasons, this could have a significant adverse effect on our net assets, financial condition and results of operations.

***The Assisted Living and Elderly Care segment could be subject to greater regulatory constraints as a consequence of legal reforms.***

As part of the federalism reforms entered into force on September 1, 2006, legislative authority relating to nursing homes, which applies to the senior and nursing home sector, was transferred from the federal government to the state governments. Each of the states is currently working on its own state-specific nursing home legislation. Until such state laws enter into force, the federal HeimG remains in effect. To date, the states of Baden-Württemberg, Bavaria and North Rhine-Westphalia have enacted their own nursing home statutes. As state-specific nursing home laws are developed, we expect that there will increasingly be different standards for the operation of senior homes and nursing homes, and new regulatory framework conditions could lead to higher costs and have a negative impact on the Assisted Living and Elderly Care segment. Moreover, laws governing health and welfare could be reformed. This could result in increased costs for the care of long-term care patients that can no longer be borne by the nursing care agencies. As a whole, this can have significant adverse effects on our net assets, financial condition and results of operations.

***Our ability to dispose of certain senior homes is constrained by conditions imposed as a consequence of our having received public subsidies.***

GEHAG and KATHARINENHOF received €27.2 million in public construction subsidies in connection with the nursing home facilities in the New Federal States in accordance with article 52 of the German Long Term Care Insurance Act (*Pflege-Versicherungsgesetz*). The conditions imposed in connection with the receipt of public subsidies require KATHARINENHOF and GEHAG to operate the facilities as nursing homes for seniors for the duration of the subsidy allocation period (which for acquired or newly erected buildings is generally 40 years from the date of the approval notice) and require the consent of the subsidizing agencies for any sale of the subsidized facilities. If we violate these conditions, we could be required to repay the public subsidies.

### Risks Related to the Offering

***Our two largest shareholders could exert substantial influence on the decisions reached by the general shareholders' meeting and block important decisions or shape such decisions to serve their interests.***

As a result of the assignment of their shares of GEHAG Group to Deutsche Wohnen AG for newly-issued shares by way of a capital increase against in-kind contributions, OCM Luxembourg Real Estate Investment S.à r.l. and OCM Luxembourg Opportunities Investment S.à r.l. (together, the "Oaktree Companies") became the largest shareholders of Deutsche Wohnen AG, each holding approximately 12.12% of the shares of Deutsche Wohnen AG. After completion of the offering, OCM Luxembourg Real Estate Investments S.à r.l. is expected to hold approximately 12.12% and OCM Luxembourg Opportunities Investments S.à r.l. approximately 9.67% of the shares in the Company. Both Oaktree Companies are wholly owned by partnerships, the general partner of which is Oaktree Capital Group Holdings GP, LLC; this entity, accordingly, will control approximately 21.8% of the shares of our Company. Under the terms of our convertible bonds, the Oaktree Companies have the right, as of August 9, 2008, to convert the bonds into additional shares of our Company.

Our articles of association provide, among other things, that resolutions of the general shareholders' meeting are adopted by simple majority vote and, to the extent a majority of shares is required, by simple majority of shares, unless otherwise required by applicable law or the articles of association. The average attendance at German general shareholders' meetings is often less than 50% of the share capital. At our general shareholders' meeting on June 16, 2009 in Berlin, 65.32% of the share capital was represented, and at the general shareholders' meeting on June 17, 2008 in Frankfurt, 61.27% of the share capital was represented. In the event of low attendance at a general shareholders' meeting of Deutsche Wohnen AG, it is possible that the Oaktree Companies could hold more than 50% of the voting rights or share capital represented at the adoption of a resolution. The Oaktree Companies would then be in a position, solely with their own votes, to bring about the adoption of Deutsche Wohnen AG shareholder resolutions requiring a simple majority of votes or capital. This would affect numerous matters for resolution, including the election of supervisory board members, payment of dividends, election of the auditor and most amendments to the articles of association and decisions relating to capital increases.

If the Oaktree Companies should hold three-quarters of the capital represented at a general shareholders' meeting due to a particularly low attendance rate by the other shareholders, the Oaktree Companies would then also be in a position to adopt resolutions requiring such a qualified majority, which would include any conceivable resolution within the competence of the general shareholders' meeting.

It might also be impossible for the general shareholders' meeting to adopt resolutions opposed by the Oaktree Companies. This could occur, in particular, in the case of resolutions requiring a qualified majority of at least three-quarters of the share capital represented at the meeting.

Because of their voting power in the general shareholders' meeting, the Oaktree Companies can exercise substantial influence over our business. If the Oaktree Companies exercise their influence in the general shareholders' meeting in a manner detrimental to Deutsche Wohnen, this could have significant adverse effects on our net assets, financial condition and results of operations, as well as the market price of our shares.

### *Any future sales of the Company's shares by the largest shareholders could weigh on the market price of the Company's shares.*

Upon completion of the offering described in this offering circular, the number of issued shares of Deutsche Wohnen AG will be 81,840,000. The two Oaktree Companies, as the largest shareholders of the company, will hold approximately 21.8% of the issued shares after completion of the offering. If the Oaktree Companies were to sell substantial amounts of stock on the public exchange or if market participants were to become convinced that such sales might occur, this could have a significant adverse effect on the market price of the Company's shares.

### *The market price of the Company's shares has been volatile and might continue to be volatile.*

The market price of the Company's shares has been volatile in the past and might continue to be volatile and characterized by fluctuating trading volumes in the future. Securities markets in general and real estate shares in particular have been extremely volatile in the past. The market price of the Company's shares can also be subject to significant fluctuations and could decline considerably in spite of positive business developments. The market price of the Company's shares can experience major fluctuations due to, in particular, changes in the Company's actual or projected results of operations or those of the Company's competitors, changes of earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of the strategy described in this offering circular, as well as the evaluation of the related risks, changes in general economic conditions, changes in shareholders and other factors. Additionally, general fluctuations in share prices, particularly of shares of companies in the same sector, could lead to pricing pressures on our shares, even where there may not necessarily be a reason for this in the Company's business or earnings outlook.

### *Future capitalization measures could lead to substantial dilution of existing shareholders' interests in the Company.*

We could require additional capital in the future to finance our business operations and growth or to repay our debts. Both the raising of additional equity through the issuance of new shares and the potential exercise of conversion or option rights by the holders of existing or yet-to-be-issued convertible bonds or bonds with warrants could lead to a dilution of shareholder interests. Additionally, the acquisition of other companies or investments in companies in exchange for newly issued shares of our Company, as well as the exercise of stock options by our employees in the context of future stock option programs or the issuance of shares to employees in the context of future employee stock participation programs could lead to such dilution.

### *The holdings of shareholders who do not participate in the offering will be substantially diluted.*

Subscription rights that are not exercised by and including October 7, 2009 will expire valueless. If a shareholder fails to exercise his or her subscription right, such shareholder's proportionate share of the total equity will decline. If a shareholder also fails to sell his or her subscription rights, such shareholder will sustain a monetary dilution in the amount of the value of the subscription rights.

### *Active trading in the subscription rights might not develop, and the subscription rights could be subject to greater price fluctuations than the Company's shares.*

We intend to allow the subscription rights to be traded during the period from September 24, 2009 up to and including October 5, 2009 in the regulated market segment (floor trading) of the Frankfurt Stock Exchange. We do not intend to apply for trading of subscription rights on any other securities exchange. We cannot guarantee that active trading in the subscription rights will develop on the Frankfurt Stock Exchange or that sufficient liquidity will be available during the subscription rights trading period. Consistent with German market practice, prices for the subscription rights will be set only once daily. The market price of the subscription rights will depend, among other things, on the market price of our shares, but could also be subject to significantly greater price fluctuations than the market price of the Company's shares.

# GENERAL INFORMATION

## Responsibility Statement

Deutsche Wohnen AG, with its registered office at Pfaffenwiese 300, 65929 Frankfurt am Main, Germany, and registered with the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main under number HR B 42388 (the "Company" or "we", and together with its subsidiaries, "we," "our Group," the "Deutsche Wohnen Group" or "Deutsche Wohnen"), along with Merrill Lynch International, London, United Kingdom, ("Merrill Lynch") and UBS Limited, London, United Kingdom, ("UBS," and together with Merrill Lynch, the "Global Coordinators" or "Underwriters"), assume responsibility for the contents of the German-language offering circular pursuant to Section 5(4) of the WpPG and declare, pursuant to Section 5(4) of the WpPG, that the information contained therein is, to their knowledge, correct and contains no material omissions, and that they have taken all reasonable care to ensure that the information contained therein is, to their knowledge, correct and no facts have been omitted that are likely to affect its import. Notwithstanding Section 16 of the WpPG, neither the Company nor the Underwriters are required by law to update the offering circular.

If an investor files claims in court on the basis of the information contained in this offering circular, the plaintiff investor may be required by the laws of the individual member states of the European Economic Area ("EEA") to bear the cost of translating the offering circular before the proceedings begin.

## Purpose of this Offering Circular

For the purpose of the public offering of new shares and their admission to trading in the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard), this offering circular relates to 55,440,000 ordinary bearer shares with no par value from the capital increase against cash contributions resolved by an extraordinary meeting of the Company's shareholders on August 7, 2009, each such share representing a notional value of €1.00 and full dividend entitlement as of January 1, 2009.

## Forward-Looking Statements

This offering circular contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events. This applies, in particular, to statements in this offering circular containing information on future earning capacity, plans and expectations regarding the business of Deutsche Wohnen, its growth and profitability, and general economic conditions to which it is exposed. Statements made using wording such as "should," "is likely," "will," "believes," "proceeding on the premise," "expects," "assumes," "estimates," "intends," "is of the opinion," "to our knowledge," "in our estimation" or similar wording indicate forward-looking statements. Forward-looking statements in this offering circular are based on estimates and assessments made to the best of the Company's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause our actual results, including the financial condition and profitability of our Group, to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. In light of the uncertainties and assumptions, it is also possible that the future events mentioned in this offering circular might not occur. In addition, the forward-looking estimates and forecasts reproduced in this offering circular from third-party reports could prove to be inaccurate. See below "*—Sources of Market Data*." Moreover, it should be noted that neither the Company nor any of the Underwriters assumes any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments.

## Appraisers

The independent, external appraisers of CB Richard Ellis GmbH, Hausvogteiplatz 11a, 10117 Berlin, Germany, prepared a report on the fair value of the Deutsche Wohnen Group's housing stock as of June 30, 2009 pursuant to IAS 40, which is reprinted in this offering circular on pages E-1 et seq. CB Richard Ellis GmbH employs publicly appointed and sworn experts, members of the Royal Institution of Chartered Surveyors (RICS), as well as real estate experts certified in the area of valuations by HypZert GmbH. The appraisers have consented to the inclusion of the Property Appraisal Report in the unmodified form authorized by them and have approved the context in which it is presented. Deutsche Wohnen represents that it is not aware of any material change in the value of the properties appraised in the report since the appraisal date of June 30, 2009.

## Sources of Market Data

Unless otherwise indicated, the information provided in this offering circular on the market environment, developments, growth rates, trends and competitive situation in the markets and segments in which Deutsche Wohnen operates is taken from publicly available sources unless otherwise indicated, including, but not limited to, third-party studies or estimates of the Company that are also predominantly based on data or figures from publicly available sources. The information from third-party sources that is cited here has been reproduced accurately. As far as the Company is aware and can independently verify with respect to such published information, no facts have been omitted that would render the information published false or misleading.

This offering circular also contains estimates of market data and information derived from these estimates that would not be available from publications issued by market research firms or from any other independent sources. This information is based on internal estimates of the Company and, as such, may differ from the estimates made by competitors of Deutsche Wohnen or from data collected in the future by market research firms or other independent sources. To the extent the Company derived or summarized the market information contained in this offering circular from a number of different studies, an individual study is not cited unless the respective information can be taken from it directly.

The Company has not independently verified the market data and other information on which third parties have based their studies or the external sources on which the Company's own estimates are based. Therefore, the Company assumes no responsibility for the accuracy of the information on the market environment, market developments, growth rates, market trends and competitive situation presented in this offering circular from third-party studies or the accuracy of the information on which its own estimates are based.

The following sources, in particular, were used in the preparation of this offering circular:

- German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Report on transactions involving large residential real estate portfolios in Germany (*BBR-Bericht Kompakt: Transaktionen großer Wohnungsportfolios in Deutschland*), January 2008;
- German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Report on the sharp decline in transactions involving large residential real estate portfolios (*BBR-Bericht Kompakt: Starker Rückgang der Transaktionen großer Wohnungsportfolios)*, January 2009;
- German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Regional Planning Forecast 2020 (*Raumordnungsprognose 2020*), published in 2004;
- Deutsche Bundesbank, *Monthly Report*, February 2009;
- Deutsche Bundesbank, *Monthly Report*, June 2009;
- DIP Deutsche Immobilien-Partner, Market and Facts (*Markt und Fakten*) 2009;
- empirica/LBS Research, October 21, 2005;
- Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Berlin (*Commercial Marktreport Wohn- & Geschäftshäuser Berlin*) 2008/2009;
- Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Frankfurt (*Commercial Marktreport Wohn- & Geschäftshäuser Frankfurt*) 2008/2009;
- European Central Bank, *Monthly* Bulletin, June 2009;
- Appraisal for the German Association for Housing, Building and Regional Planning (*Deutscher Verband für Wohnungswesen, Raumordnung und Städtebau e.V.*) and the German Association for Economic Property Research (*Gesellschaft für Immobilienwirtschaftliche Forschung*), The Real Estate Markets From a National Economic Perspective (*Die Immobilienmärkte aus gesamtwirtschaftlicher Perspektive*), July 23, 2009;
- HSH Nordbank, Real Estate Sector Report (*Branchenstudie Immobilien*), October 2008;
- Hypoport AG, www.hypoport.de;
- Jones Lang LaSalle, Residential City Profile — 2008, Frankfurt am Main;
- *Property* magazine, June 20, 2009, based on a current CBRE study;

- German Federal Statistical Office (*Statistisches Bundesamt*), database, www.destatis.de, press release no. 16 dated January 14, 2009;
- German Federal Statistical Office (*Statistisches Bundesamt*), database, www.destatis.de, press release no. 197 dated May 26, 2009;
- German Federal Statistical Office (*Statistisches Bundesamt*), Data Report (*Datenreport*), 2008;
- German Federal Statistical Office (*Statistisches Bundesamt*), Project Report, Real Estate in Germany (*Projektbericht, Immobilienwirtschaft in Deutschland*), 2006;
- German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook (*Statistisches Jahrbuch*) 2008; and
- German Federal Statistical Office (*Statistisches Bundesamt*), Construction and Living (*Bauen und Wohnen*), Construction (*Bautätigkeit*) 2008, dated July 31, 2009.

### Documents Available for Inspection

For the period during which this offering circular remains valid, hard copies of the following documents are available for inspection during regular business hours at the Company's offices at Pfaffenwiese 300, 65929 Frankfurt am Main, Germany:

- the Company's articles of association;
- the Property Appraisal Report dated July 31, 2009 prepared by CB Richard Ellis GmbH entitled Summary of the report on determining the fair value of Deutsche Wohnen AG's housing stock as of June 30, 2009 pursuant to IAS 40 for publication in the offering circular (*Kurzfassung des Berichtes zur Ermittlung des Fair Values gem. IAS 40 des Wohnungsbestandes der Deutsche Wohnen AG zum Stichtag 30. Juni 2009 zum Zwecke der Veröffentlichung im Prospekt*);
- the Company's unaudited condensed consolidated interim financial statements (IFRS pursuant to IAS 34) for the six months ended June 30, 2009 (including comparative figures for the prior-year period from January 1 to June 30, 2008);
- the Company's audited consolidated financial statements (IFRS) for the fiscal year ended December 31, 2008;
- the Company's audited consolidated financial statements (IFRS) for the fiscal year ended December 31, 2007;
- the Company's audited consolidated financial statements (IFRS) for the 2nd PFY 2006;
- the Company's audited consolidated financial statements (IFRS) for the 1st PFY 2006; and
- the Company's audited unconsolidated financial statements (*HGB*) for the fiscal year ended December 31, 2008.

All future consolidated financial statements and condensed consolidated interim financial statements of the Company will be available from the Company and the paying agent designated in this offering circular. See below "*General Information on the Company—Notices, Paying Agent and Registrar.*" The consolidated financial statements will also be announced in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*).

# THE OFFERING

## General

The offering consists of a total of 55,440,000 New Shares of the Company. The New Shares come from the capital increase resolved by an extraordinary meeting of the Company's shareholders on August 7, 2009, by up to €250,000,000 against cash contributions through the issuance of up to 250,000,000 new no par value bearer shares (*Stückaktien*) (the "New Shares"), with the aim of generating gross sales proceeds of €250 million. The management board and supervisory board resolved on September 21, 2009 to set the subscription price at €4.50 per New Share. Based on this subscription price, the total number of New Shares to be issued was set at 55,440,000, which shall be offered to the Company's existing shareholders for indirect subscription at a ratio of 10:21 (that is, ten Existing Shares entitles its holder to subscribe for 21 New Shares) (the "Subscription Offer").

The resolution of the capital increase by the extraordinary meeting of the Company's shareholders was recorded in the Commercial Register of the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany (the "Commercial Register"), on September 10, 2009. The Company expects completion of the capital increase to be recorded in the Commercial Register on October 7, 2009. Once the completion of the capital increase of €55.44 million is recorded in the Commercial Register, the Company's share capital will amount to €81.84 million.

Any New Shares that are not subscribed for in the Subscription Offer will be offered for sale in a private placement to qualified investors in Germany and elsewhere (the Subscription Offer and the private placement together referred to as the "Offering"). The New Shares will be offered in the United States only to "qualified institutional buyers" in reliance on Rule 144A of the U.S. Securities Act of 1933, as amended (the "Securities Act") and outside the United States in accordance with Regulation S under the Securities Act.

The Offering is based on an underwriting agreement dated September 22, 2009 between the Company and the Underwriters. The Offering is subject to, among other things, entry of the completion of the capital increase in the Commercial Register, which is expected to occur on October 7, 2009.

OCM Luxembourg Real Estate Investments S.à r.l. and OCM Luxembourg Opportunities Investments S.à r.l. have made a binding commitment to the Underwriters and the Company to subscribe for New Shares in a total amount of €51.5 million corresponding to 20.6% of the total offering volume. The corresponding payments are in particular subject to the non-termination of the Underwriting Agreement by the Underwriters and will be made upon final settlement of the New Shares as part of the Offering.

Under certain circumstances, the Offering may be terminated prematurely. See below "—*Subscription Offer*."

## Timetable

The timetable for the Offering is as follows:

| | |
|---|---|
| September 22, 2009 | Approval of the German-language prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (the "BaFin") |
| | Publication of the German-language prospectus on the Company's website and making printed versions of the prospectus available free of charge at the offices of the subscription agent and the Company |
| September 23, 2009 | Publication of the Subscription Offer, including subscription price, in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*) and in the financial newspaper *Börsenzeitung* |
| September 24, 2009 | Subscription rights credited to the Company's shareholders based on their holdings as of the evening of September 23, 2009 |
| September 24, 2009 | Beginning of the Subscription Period and subscription rights trading<br>Filing of the admission application with the Frankfurt Stock Exchange |
| October 5, 2009 | End of subscription rights trading |
| October 7, 2009 | End of the Subscription Period |
| October 7, 2009 | Last day for payment of the subscription price |

| | |
|---|---|
| October 7, 2009 . . . . . . . . . . | Entry of the capital increase's completion in the Commercial Register of the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany |
| October 7, 2009 . . . . . . . . . . | Decision on admission by the Frankfurt Stock Exchange and publication of the decision in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*) and at http://www.deutsche-boerse.com, the website of the Frankfurt Stock Exchange |
| October 8, 2009 . . . . . . . . . . | Publication of the outcome of the Subscription Offer on the Company's website |
| October 9, 2009 . . . . . . . . . . | Deliver via the collective custody system of subscribed New Shares |
| October 9, 2009 . . . . . . . . . . | Inclusion of the New Shares in the Company's existing stock quotation |
| October 12, 2009 . . . . . . . . . | Delivery via the collective custody system of unsubscribed shares purchased in the private placement |

## Subscription Offer

The following is an English translation of the Subscription Offer. The German-language version is expected to be published in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*) and in the financial newspaper *Börsenzeitung* on September 23, 2009:

"Deutsche Wohnen AG

Frankfurt am Main

(ISIN DE000A0HN5C6 / WKN A0HN5C)

An extraordinary meeting of the shareholders of Deutsche Wohnen AG (the "Company") resolved on August 7, 2009 to increase the Company's share capital against cash contributions by up to €250,000,000, from €26,400,000 to up to €276,400,000, by issuing up to 250,000,000 new ordinary bearer shares with no par value (*Stückaktien*) (the "New Shares"), each such share representing a notional value of €1.00. The resolution on the capital increase was recorded in the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, on September 10, 2009. The New Shares entitle holders to any dividend payments as of January 1, 2009. The management board and supervisory board resolved on September 21, 2009 to set the subscription price at €4.50 per New Share and, thus, the total number of New Shares to be issued at 55,440,000.

Merrill Lynch International, London, United Kingdom ("Merrill Lynch") and UBS Limited, London, United Kingdom ("UBS") (together, the "Underwriters") have agreed, pursuant to an underwriting agreement dated September 22, 2009 (the "Underwriting Agreement"), to (i) offer the New Shares to the existing shareholders of Deutsche Wohnen AG for indirect subscription at a ratio of 10:21, subject to the terms set forth below under "Important Notice"; (ii) underwrite the New Shares and (iii) once completion of the capital increase has been recorded in full in the Commercial Register, allot the underwritten shares to the shareholders based on the exercise of their subscription rights. DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany, shall subscribe for the New Shares and deliver them to the shareholders who exercise their subscription rights. One Existing Share of Deutsche Wohnen AG entitles the holder to one indirect subscription right; one indirect subscription right entitles its holder to subscribe for 2.1 New Shares.

The New Shares will be offered to existing shareholders for indirect subscription at a subscription price of €4.50 per New Share. Any unsubscribed New Shares can be placed in the market. Any such market placement should be conducted at the best possible price, but must be conducted at least at the subscription price. Fractional subscription rights will be traded during subscription rights trading.

Furthermore, Deutsche Wohnen AG grants an additional subscription right to holders of subscription rights (see "*—Binding Offer to Subscribe for Additional Shares by way of the Additional Subscription Right (Additional Subscription)*").

The completion of the capital increase is expected to be recorded in the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, on October 7, 2009.

The subscription rights under the Existing Shares, all of which are held in collective custody, will be automatically credited to the accounts of the custodian banks based on the amount of shares held as of the evening of September 23, 2009 by Clearstream Banking AG, Neue Börsenstraße 1, 60487 Frankfurt am Main, ("Clearstream Banking AG").

Subscription rights are attached to all of the registered and bearer shares of Deutsche Wohnen AG with ISIN: DE000A0HN5C6 / WKN: A0HN5C, ISIN: DE0006283302 / WKN: 628330 and ISIN: DE000A0XFUU5 / WKN: A0XFUU.

To avoid exclusion from the exercise of their subscription rights, we request that our shareholders exercise their subscription rights in the New Shares during the period

**from September 24, 2009 up to and including October 7, 2009**

through their custodian bank at one of the subscription agents listed below during regular banking hours (the "Subscription Period"). Subscription rights that are not exercised in a timely manner will lapse and become worthless.

Subscription agents are the German branches of

**DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany.**

In accordance with the subscription ratio of 10:21, shareholders can subscribe for 21 New Shares for every ten Existing Shares of the Company at the subscription price of €4.50 per New Share. Subscription rights attaching to Existing Shares can be used collectively to subscribe for New Shares.

The Company's registered shareholders will receive one subscription right to subscribe for new bearer shares for each registered share. If they exercise these subscription rights with resulting delivery of new bearer shares, they will hold both registered and bearer shares. The Company's registered shares and bearer shares have unique ISINs / WKNs and, in particular, unique registration requirements for participation in the Company's general meetings. Registered shareholders have the possibility to exchange their registered shares for bearer shares of the Company on a quarterly basis. The next dates for exchange, as published in the German Securities Notices (*Wertpapiermitteilungen*) on October 5, 2006, are December 10, 2009 and February 11, 2010.

### *Subscription price*

The subscription price is €4.50 per New Share and is payable no later than October 7, 2009.

### *Subscription rights trading*

In connection with the offering of the New Shares, subscription rights will be traded on a stock exchange. The subscription rights (ISIN DE000A0Z2ZQ4 / WKN A0Z2ZQ) for the New Shares will be traded during the period from September 24, 2009 up to and including October 5, 2009 on the regulated market (*regulierter Markt*) (floor trading) of the Frankfurt Stock Exchange. In accordance with market practice in Germany, the price of the subscription rights is fixed once per day. The market rate of the subscription rights depends, inter alia, on the development of the price of the shares in Deutsche Wohnen AG, but it can substantially deviate from the price of the shares. No compensation will be paid for unexercised subscription rights. Upon the expiration of the subscription period, unexercised subscription rights will lapse and become worthless. Starting September 24, 2009, the Company's Existing Shares will be listed on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange without subscription rights (*ex Bezugsrecht*).

Merrill Lynch may, in coordination with UBS, undertake suitable measures on behalf of the Underwriters to ensure liquidity for orderly subscription rights trading and other measures normally undertaken in this regard, such as, in particular, purchasing and selling subscription rights in the New Shares or undertaking hedging transactions in the Company's shares or corresponding derivatives. Such measures and hedging transactions can influence the stock price or market rate of the subscription rights and the shares in the Company. However, there is no guarantee that active trading in the Company's subscription rights will develop on the Frankfurt Stock Exchange and that there will be enough liquidity during the period of subscription rights trading.

### *Binding Offer to Subscribe for Additional Shares by way of the Additional Subscription Right (Additional Subscription)*

Pursuant to a settlement agreement with its shareholders in connection with written objections to the resolution of the general shareholders' meeting of Deutsche Wohnen AG on August 7, 2009, Deutsche Wohnen AG is obliged to grant an additional subscription right to each holder of subscription rights.

Each holder of subscription rights can issue a binding offer for the subscription of additional new shares, along with exercising the subscription rights in the shares to be distributed to the shareholder in accordance with the subscription ratio.

Each holder of subscription rights can make binding offers for Additional Subscription of new shares through its depositary bank within the Subscription Period (from inclusive September 24 up to and including October 7, 2009) to DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany, within normal banking hours. The holders of subscription rights, who wish to make a binding offer to subscribe for additional New Shares, are requested to do so using the relevant instruction form provided by the depositary banks.

The subscription price for Additional Subscription is to be paid by October 7, 2009 at the latest.

If it is not possible to transfer to the subscription rights holder all of the additional New Shares he or she would like, the available New Shares are allocated to the subscription rights holders in accordance with the number of shares subscribed for by way of the subscription right, although the maximum for any subscription rights holder is the number of available shares for which the holder has exercised his or her Additional Subscription right ("Maximum Subscription"). If available shares are not allocated as a result of reaching Maximum Subscription, these shares are to be allocated as provided above, provided that only those subscription rights holders are considered who have not been allocated the number of shares for which the holders have exercised Additional Subscription rights. This process is continued until all of the available shares have been allocated. An Additional Subscription is only permissible in relation to full shares or a number of shares. If the new shares were to be allocated in fractional amounts as a result of several subscription rights holders exercising their Additional Subscription rights, the fractional amounts are rounded down to the next lowest whole number of shares. The prerequisite for enforcement of the Additional Subscription rights is that the respective holder of subscription rights must, at least in part, exercise his or her subscription rights.

If subscription is not fully conducted in the manner requested as a result of one of the above stated grounds, the amount tendered for the subscription is returned to the subscription right holder, together with any fees incurred.

### *Important notice*

The Underwriters are entitled to terminate the Underwriting Agreement or to extend the period of the Subscription Offer under certain circumstances. These circumstances include, in particular, material adverse changes in the cash flows, financial condition or results of operations of Deutsche Wohnen AG and its subsidiaries, material restrictions on stock exchange trading or banking activities, the outbreak or escalation of hostilities, the declaration of a national state of emergency by the Federal Republic of Germany, the United Kingdom or every other member state of the EEA or the United States or other catastrophes and crises that have or are expected to have material adverse effects on the financial markets. The Underwriters are further relieved from their obligations if the completion of the capital increase is not recorded in the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, by 23:59 CEST, October 8, 2009 and Merrill Lynch and UBS in their capacity as Global Coordinators and Deutsche Wohnen AG fail to reach an agreement on a later deadline.

If the Underwriting Agreement is terminated prior to the registration of the capital increase with the Commercial Register, the subscription rights will lapse. In this case, the institutions brokering subscription rights trading will not rescind any transactions already completed with investors. Accordingly, investors who have acquired subscription rights through a stock exchange would suffer a loss. However, if the Underwriters terminate the Underwriting Agreement after the registration of the capital increase with the Commercial Register, shareholders and purchasers of subscription rights who have exercised their subscription rights will be entitled to acquire New Shares at the subscription price. The shareholders and those acquiring subscription rights, who have exercised their subscription rights, can only withdraw from exercising those rights within the subscription period.

If the Underwriters terminate the Underwriting Agreement after the completion of the Subscription Offer, which is possible until October 12, 2009, the termination would apply only to New Shares subscribed for other than as part of the Subscription Offer. In contrast to this, OCM Luxembourg Real Estate Investments S.à r.l. and OCM Luxembourg Opportunities Investments S.à r.l. can also withdraw from their subscription obligations if the Underwriters withdraw from the Underwriting Agreement. Purchase agreements relating to the unsubscribed New Shares are therefore conditional upon there being no such termination. To the extent that there have been any short sales of shares prior to the cancellation of the crediting of shares, persons selling those shares will bear the risk of being unable to meet their obligations by delivering New Shares.

### *Form and certification of the New Shares*

The New Shares (ISIN DE000A0HN5C6 / WKN A0HN5C) will be represented by a global share certificate which is expected to be deposited with Clearstream Banking AG on October 7, 2009. Under the Company's articles of association, shareholders are not entitled to have their shares evidenced by individual share certificates. Unless the subscription period is extended or the offer is cancelled, the New Shares are expected to be made available by credit to the collective securities account from October 9, 2009 in the case of those subscribed for as part of the Subscription Offer and from October 12, 2009, that is, after the end of the private placement, for those acquired in the private placement.

### *Commissions*

The subscription of New Shares is subject to customary banking commissions from the depository banks.

### *Stock exchange trading in the New Shares*

The application for admission of the New Shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange is expected to be filed on September 24, 2009 and expected to be approved on October 7, 2009. The Company plans to have all of the New Shares included in the existing quotation on the Frankfurt Stock Exchange for Deutsche Wohnen's listed shares (ISIN DE000A0HN5C6 / WKN A0HN5C) on October 9 2009.

### *Placement of unsubscribed Shares/private placement*

The Underwriters will offer any New Shares not subscribed for as part of the Subscription Offer in a private placement to qualified investors in Germany and other countries (qualified institutional buyers in the United States in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act).

### *Publication*

The German-language offering circular was published on the website of Deutsche Wohnen AG (www.deutsche-wohnen.com) on September 22, 2009. Printed copies of the offering circular are available in Germany free of charge from Deutsche Wohnen AG.

### *Selling restrictions*

The New Shares and the subscription rights have not been and will not be registered under the Securities Act or with the securities regulatory authorities of any state of the United States and may not be offered or sold in, or delivered directly or indirectly to, the United States, except pursuant to an exemption from the registration requirements of the Securities Act.

In connection with the offering of the New Shares, Merrill Lynch is acting as the stabilization manager and may undertake measures, jointly determined with UBS, aimed at supporting the market price of the Company's ordinary shares in order to counterbalance any existing sales pressure ("Stabilization Measures"). The stabilization manager is not obligated to initiate Stabilization Measures. Therefore, there is no guarantee that Stabilization Measures will be initiated at all. In the event that Stabilization Measures are initiated, they can be stopped at any time without prior notification. Such Stabilization Measures may be taken as of the date of publication of the subscription price and must end no later than on the thirtieth calendar day following the expiration of the Subscription Period, that is, most likely on November 6, 2009 ("Stabilization Period").

Stabilization Measures may cause the market price of the shares of the Company to be higher than it would be absent such measures. In addition, the market price may temporarily reach a level that is not sustainable. Under no circumstances will any measures be taken to stabilize the market price of the Company's shares at a level above the issue price, that is, higher than the subscription price mentioned above for the New Shares.

The following information will be published in the manner specified by Section 3 of the German Ordinance on Securities Trading Disclosure and Insider Lists (*Wertpapierhandelsanzeige- und Insiderverzeichnisverordnung,* the "WpAIV") within one week after the end of the Stabilization Period: (i) whether or not Stabilization Measures were implemented, (ii) the date Stabilization Measures began, (iii) the date of the most recent Stabilization Measure and (iv) the price range within which the Stabilization Measure occurred for each date on which a Stabilization Measure was implemented.

Frankfurt am Main, in September, 2009

Deutsche Wohnen AG

The management"

### Lock-up Agreements

To the extent permitted by law, the Company has agreed with the Underwriters, for a period of six months after the inclusion of the New Shares in the current listing of Deutsche Wohnen AG's bearer shares not to

directly or indirectly issue, sell, offer, commit to sell, or otherwise transfer or dispose of any of the Company's shares, options on such shares, or securities that can be converted into or exchanged for such shares or that carry rights to acquire such shares, and further not to announce any capital increase from authorized capital or to initiate a capital increase (except for purposes of issuing shares (i) as part of its or its subsidiaries' existing employee participation plans, (ii) to satisfy conversion rights of holders of convertible bonds issued by the Company, (iii) based on a capital increase from Company funds, (iv) in connection with a capital increase by way of contribution in kind, to the extent that the buyer assumes the aforementioned obligations) or to enter into other transactions (including with respect to derivative instruments), the economic effect of which would be similar to that of the measures described above, without the prior consent of the Global Coordinators, which consent may not be unreasonably withheld or delayed.

## Dilution

To the extent that shareholders do not exercise their subscription rights, each shareholder's share in the Company would be diluted by 67.7%.

The net book value of the Company (corresponding to the total equity of the Company) amounted to €635.5 million as of June 30, 2009 (based on the unaudited condensed consolidated interim financial statements prepared pursuant to IFRS for the six months ended June 30, 2009), which corresponds to €24.1 per share (based on the 26,400,000 outstanding shares of the Company as of September 22, 2009).

Following consummation of the capital increase resolved by an extraordinary meeting of the Company's shareholders on August 7, 2009 and concretized by the management board, with approval from the supervisory board on September 21, 2009, by €55,440,000, from €26,400,000 to €81,840,000, through the issuance of 55,440,000 New Shares against cash contributions as part of the Offering, which is expected to be recorded in the Commercial Register on October 7, 2009, and if the subscription/placement price was €4.50 per New Share, the net book value of the Company, after subtracting the estimated issue costs of €13 million, would have been €872.0 million as of June 30, 2009, which corresponds to €10.7 per share (based on the 81,840,000 outstanding shares of the Company after completion of the capital increase contemplated in this Offering). This would equate to a direct decrease in the net book value of the Company by €13.4 (55.6%) per share for existing shareholders who do not exercise their subscription rights, and a direct increase of approximately €6.2 (137.8%) per share for those who acquire the New Shares.

## Costs of the Offering and Net Issue Proceeds

The total issue costs, including commissions for the Underwriters, are expected to be approximately €13 million. The Company expects the net issue proceeds from the capital increase to be approximately €236.5 million.

## Additional Selling Restriction Notices

The New Shares and the subscription rights have not been and will not be registered under the Securities Act or with the securities regulatory authorities of any state of the United States and may not be offered or sold in, or delivered directly or indirectly to, the United States, except pursuant to an exemption from the registration and notification requirements of U.S. securities laws and in compliance with all other applicable U.S. regulations. Thus, pursuant to the Underwriting Agreement, the Underwriters have agreed (i) to refrain from offering or selling the New Shares or subscription rights in the United States except to persons they reasonably believe to be qualified institutional buyers in accordance with Rule 144A under the Securities Act or except in accordance with Rule 903 of Regulation S under the Securities Act and (ii) that neither they, nor any third-party acting on their behalf, have undertaken or will undertake with regard to the New Shares and subscription rights (x) "directed selling efforts" in the United States within the meaning of Regulation S under the Securities Act or (y) "general solicitation" or "general advertising" in the United States, each within the meaning of Rule 502(c) of Regulation D under the Securities Act.

Deutsche Wohnen AG does not intend to register the Offering or any portion thereof in the United States or to conduct a public offering of the New Shares or subscription rights in the United States.

Sales in the United Kingdom are also subject to restrictions. Each Underwriter has severally warranted to the Company that it and any of its subsidiaries or any other person acting on its behalf

(i) has invited or will invite participation in investment activities in connection with the offer or the sale of the New Shares within the meaning of Section 21 of the Financial Services and Markets Act 2000

("FSMA"), and has initiated or will initiate such investment activities, only to the extent that Section 21(1) of FSMA does not apply to the Company and

(ii) has complied and will comply with all applicable provisions of the FSMA with respect to all activities already undertaken by it or to be undertaken in the future in relation to the New Shares in, from, or otherwise involving the United Kingdom.

The Underwriters have also agreed in the Underwriting Agreement that they have not publicly offered and will publicly offer the New Shares in any member state of the EEA that has implemented the Prospectus Directive (Directive 2003/71/EC) from the date of implementation of the Prospectus Directive unless

(i) an offering circular for the New Shares has been published in advance that has been approved by the competent authorities in the relevant member state or in another member state of the EEA that has implemented the Prospectus Directive, and the competent authorities in the member state in which the Offering is taking place have been notified of this fact in compliance with the Prospectus Directive,

(ii) the Offering is directed at legal entities that are licensed to perform financial market activities and are subject to regulation or, if not so licensed or regulated, whose sole business purpose is to invest in securities,

(iii) the Offering is directed at companies that meet at least two of the following three requirements according to their most recent consolidated or unconsolidated annual financial statements, namely: (1) an average of at least 250 employees in the last fiscal year; (2) total assets as reported on the balance sheet in excess of €43,000,000 and/or (3) net annual revenue of more than €50,000,000 or

(iv) the Offering takes place under circumstances which do not require the publication of an offering circular by the Company pursuant to Article 3 of the Prospectus Directive.

### Underwriters and Underwriting Agreement

On September 22, 2009, Deutsche Wohnen AG, Merrill Lynch and UBS entered into an Underwriting Agreement with respect to the Subscription Offer and the offer of New Shares for which subscription rights are not exercised. The Global Coordinators for the Offering are Merrill Lynch and UBS.

Pursuant to the Underwriting Agreement, each of the Underwriters has severally agreed to underwrite the number of New Shares listed below and to offer them to the shareholders of Deutsche Wohnen AG for subscription. The Company has agreed to issue the corresponding number of New Shares.

| Underwriter | Address | Number of New Shares |
|---|---|---|
| Merrill Lynch International | Merrill Lynch Financial Centre<br>2 King Edward Street<br>London EC1A 1HQ<br>United Kingdom | 27,720,000 |
| UBS Limited | 1 Finsbury Avenue<br>London EC2M 2PP<br>United Kingdom | 27,720,000 |

Any New Shares not subscribed for as part of the Subscription Offer will be offered in a private placement to qualified investors in Germany and other countries (to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act).

Pursuant to the Underwriting Agreement, the Underwriters will pay the Company at least the subscription price for any New Shares for which subscription rights have not been exercised by October 7, 2009.

Under the Underwriting Agreement, the Company is obligated to pay the Underwriters a commission of approximately €10.6 million. The Underwriting Agreement also stipulates that the Company must release the Underwriters from certain liabilities and that their obligations under the agreement are contingent on the fulfillment of certain conditions, including, for example, the receipt of standard legal opinions and reports that the Underwriters deem satisfactory.

See above "—*Subscription Offer—Important Notice*" for additional information on termination of the Underwriting Agreement.

### Other Legal Relationships between the Company and the Underwriters

The Underwriters have entered into a contractual relationship with the Company in connection with the Offering and admission to trading of the Company's New Shares. The Company has engaged Merrill Lynch and UBS to serve as Joint Global Coordinators and Joint Bookrunners. Merrill Lynch and UBS will advise the Company on the transaction and coordinate the structuring and execution of the transaction. Upon successful execution of the transaction, the Underwriters will receive a commission. In addition, the Underwriters or companies affiliated with them may from time to time enter into business relationships with companies of our Group or perform services on their behalf as part of the normal course of business.

# INFORMATION ON THE OFFERED NEW SHARES

## Legal Framework for Creation of the New Shares

Sections 182 et seq. of the German Stock Corporation Act (*Aktiengesetz*, the "AktG") provide the legal framework for creation of the New Shares. Through a resolution to amend the Company's articles of association adopted by an extraordinary meeting of the Company's shareholders on August 7, 2009, the share capital of the Company was increased from €26,400,000, comprised of 26,400,000 no par value shares, by up to €250,000,000 against cash contributions to up to €276,400,000 through the issuance of up to 250,000,000 new ordinary bearer shares with no par value, each such share representing a notional value of €1.00. The resolution of the capital increase was recorded in the Commercial Register maintained by the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, on September 10, 2009. The management board and supervisory board resolved on September 21, 2009 to set the subscription price at €4.50 per share. Based on this subscription price, the total number of New Shares to be issued was set at 55,440,000.

## Admission to Trading, Individual Share Certificates, Delivery

The Company, working together with Merrill Lynch and UBS, will file an application expected on September 24, 2009 to have the 55,440,000 New Shares in the Company resulting from the capital increase resolved on August 7, 2009 admitted to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. A decision from the management board of the Frankfurt Stock Exchange concerning admission of the New Shares to trading is expected on October 7, 2009. The Frankfurt Stock Exchange alone decides whether the New Shares are admitted to trading. Trading is expected to commence October 9, 2009.

The New Shares will be delivered to buyers in the form of co-ownership rights in a global share certificate to be deposited with the collective securities depositary Clearstream Banking AG. The New Shares subscribed for under the Subscription Offer are expected to be credited to investors' accounts starting from October 9, 2009, while the New Shares purchased in the private placement are expected to be credited after completion of the private placement starting from October 12, 2009 through the book-entry facilities of Clearstream Banking AG. According to the Company's articles of association, shareholders are not entitled to receive individual share certificates.

See below "*Description of the Share Capital—Issued Share Capital and Shares*" for additional information on the rights attaching to shares of the Company.

## Form, Voting Rights

The New Shares of the Company are ordinary bearer shares with no par value (*Stückaktien*). All of the New Shares each have a notional value of €1.00. Each New Share grants its holder one vote at the Company's general shareholders' meeting. There are no restrictions on voting rights.

## Subscription Rights for Holders of Registered Shares

The Company's registered shareholders will receive one subscription right to subscribe for new bearer shares for each registered share held. If they exercise these subscription rights and new bearer shares are delivered to them, they will hold both registered shares and bearer shares. The Company's registered shares and bearer shares have unique ISINs/WKNs and, in particular, different requirements for registering to participate in the Company's general shareholders' meetings. Registered shareholders are able to exchange their registered shares for bearer shares of the Company with the consent of the management board. Exchanges are possible on a quarterly basis, on dates that are published in the German Securities Notices (*Wertpapiermitteilungen*) and on the Company's website (www.deutsche-wohnen.com). The next dates, according to information published in the German Securities Notices on October 5, 2006, are December 10, 2009 and February 11, 2010.

## Dividend Entitlement, Share of Liquidation Proceeds

The New Shares entitle holders to any dividend payments as of January 1, 2009, in other words, for the entire 2009 fiscal year and all subsequent fiscal years. If the Company is liquidated, the holders of the New Shares are entitled to any liquidation proceeds in proportion to their holdings in the Company's share capital.

### ISIN, WKN, Trading Symbol

The New Shares are intended to be incorporated into the existing listing on the sub-segment of the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard).

- International Securities Identification Number (ISIN): DE000A0HN5C6
- German Securities Code (WKN): A0HN5C
- Trading Symbol: DWNI

### Disposal Restrictions and Transferability

The New Shares are freely transferable. Except for the restrictions listed in "*The Offering—Subscription Offer—Selling Restrictions*," there are no legal restrictions on trading the New Shares.

# REASONS FOR THE OFFERING AND USE OF ISSUE PROCEEDS

Assuming that all of the New Shares are subscribed for or placed at the subscription price, the Company expects to receive net proceeds from the Offering of approximately €236.5 million after the deduction of approximately €13 million in estimated offering expenses for which it is responsible. The additional offering expenses payable by the Company are projected to total approximately €500,000.

The Company will use approximately €120 million from the proceeds it receives in connection with the capital increase described in this offering circular (total net proceeds) to reduce debt, of which €48.6 million is for the repayment of a loan facility becoming due and €62.5 million for other loan repayments. Additional loan repayments are planned for 2010, which will be partly funded by the issue proceeds. For additional information on these repayments, see "*Material Agreements—Financing Agreements—Loan agreement between Deutsche Wohnen AG (et al) and Helaba*" and "*Material Agreements—Financing Agreements—Additional loan agreements of GEHAG and its subsidiaries.*" The purpose of these repayments and additional efforts to reduce the debt load is to reduce Deutsche Wohnen's LTV Ratio to a targeted range of between 60% and 65% over the medium term. The Company believes that reducing its LTV Ratio will improve its negotiating power for future extensions of loan terms. Moreover, the total net proceeds will be used to help substantially strengthen the Company's balance sheet. The Company would like to use its resulting strategic and financial flexibility to take advantage of business opportunities in the marketplace and to continue to pursue its growth strategy through the selective purchase of attractive real estate portfolios with solid development potential.

# USE OF PROFIT, EARNINGS PER SHARE AND DIVIDEND POLICY

## General Rules on Profit and Dividend Payments

German law requires that we report a distributable balance sheet profit (*Bilanzgewinn*) in our unconsolidated financial statements, which are prepared in accordance with the German Commercial Code (HGB), in order for us to adopt a resolution on the payment of a dividend. The distributable balance sheet profit equals the net income for the year adjusted for profit/loss carryforwards, plus withdrawals, minus allocations to reserves. Certain reserves are required by German law and must be deducted when calculating the profit available for distribution.

Resolutions on the payment of a dividend for any fiscal year, as well as the amount and payment date of the dividend, are adopted at the general shareholders' meeting held the following fiscal year. The general shareholders' meeting must be held within the first eight months of the fiscal year and include on its agenda a proposal put forth by the management board and approved by the supervisory board on use of the profit. Dividends approved by the general shareholders' meeting are payable immediately. Since all of the Company's shares are evidenced by global certificates deposited with Clearstream Banking AG, Clearstream Banking AG transfers the dividends to the shareholders' custodian banks for crediting to their accounts. German custodian banks are under the same obligation to distribute the funds to their customers. Shareholders who have their shares held in safekeeping by a custodian bank situated outside Germany must inquire at the respective bank regarding the terms and conditions applicable in their case.

Shareholders' stakes in the distributable profit are determined on the basis of how much of the total share capital they hold. Individual shareholders are not entitled to receive a dividend unless a resolution on use of the profit is adopted at the general shareholders' meeting. Dividend entitlements expire after the default limitation period of three years. Once the limitation period passes, the dividend remains with the Company.

Holders of New Shares are fully entitled to receive dividend payments for the current 2009 fiscal year and all subsequent fiscal years.

## Earnings per Share and Dividend Policy

The following table shows the Company's earnings per share, based on the IFRS consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and 2007, as well as the annual dividend paid per share and net income/loss for the year and net distributable profit, based on the respective unconsolidated financial statements prepared in accordance with the HGB, for the fiscal years ended December 31, 2007 and 2008 and for the partial fiscal year from July 1, 2006 to December 31, 2006. The consolidated result for the period and the earnings per share given for the partial fiscal year from July 1, 2006 to December 31, 2006 were taken from the adjusted comparison figures presented in the IFRS consolidated financial statements for the fiscal year ended December 31, 2007.

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006[3] |
|---|---|---|---|
| | Audited, in € million (unless otherwise indicated) | | |
| Consolidated result for the period (IFRS) | (255.9) | 29.8 | 10.9 |
| Basic earnings per share (IFRS) in €[1] | (10.32) | 1.32 | 0.55 |
| Net income (loss) for the year (HGB) | (80.3) | 0.4 | (8.9) |
| Net retained profit (HGB) | 0.0 | 0.4 | 17.6 |
| Dividend paid per share in €[2] | — | 0.88 | 2.63 |
| Dividend payment for the respective (partial) fiscal year | — | 17.6 | 52.6 |

1) *The basic earnings per share for the 2008 and 2007 fiscal years relates to the earnings from continued operations. The AKF Group qualified as discontinued operations.*

2) *The dividend paid per share was calculated on the basis of the number of Company shares there were at the time of the distribution (2008: 26.4 million shares; 2007: 20.0 million shares; 2nd PFY 2006: 20.0 million shares).*

3) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

Currently, any dividends that we pay are tax-exempt for our shareholders. The reason for this lies in the fact that dividends are paid from the tax-recognized contribution account (formerly the "EK04," or equity class 04, account), a line item reported in Deutsche Wohnen AG's equity for tax purposes. In 1999 the sum of €522,514,737.98 was placed into this account in the run-up to the share placement on the basis of a shareholder resolution dated June 30, 1999. The resolution dealt with the availability of a shareholder contribution in that same amount which had been allocated to the capital reserves (pursuant to Section 272(2) No. 4 of the HGB). Since that time, the balance of the contribution account has been reduced by the annual withdrawals.

The capital reserves totaled €269.1 million as of December 31, 2008. Assuming that no additional amounts are placed into the tax-recognized contribution account on the basis of payments into the capital reserve account and that there are no changes to the relevant portions of the tax code, the balance in the tax-recognized contribution account is sufficient for us to continue making dividend payments that are tax-free at shareholder level for several years to come. In addition, the volume of funds in the tax-recognized contribution account will go back up if and when, in the context of future capital increases, additional amounts in excess of the notional value of new shares are posted to capital reserves. We intend to continue paying dividends out of the contribution account to the extent permitted by tax law and to the extent it is economically feasible to do so.

In the past, the funds required to pay dividends were primarily financed from the repayment of the loans extended to subsidiaries. The subsidiaries, in turn, typically financed these repayments through the sale of apartments. Sometimes dividends were also financed with borrowed capital. As part of realigning the operating business to focus on Residential Property Management, we generally intend to pay dividends going forward only when they can be covered by cash flow available for distributions from Deutsche Wohnen AG. Our short-term objectives are to strengthen the balance sheet, build up Deutsche Wohnen AG's cash reserves and continue to implement our selective growth strategy. We are aiming to reduce the debt load of Deutsche Wohnen AG to an LTV Ratio of between 60% and 65% in the medium term. For these reasons, we are not likely to pay a dividend in the near future. However, we believe that we will once more be in a position to pay our shareholders an attractive dividend from the operating profit and free capital reserves of Deutsche Wohnen AG within the meaning of Section 272(2) No. 4 of the HGB in the medium term.

# CAPITALIZATION

## Capitalization

The following table shows the Company's capitalization including debt based on the historical figures taken from the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG in accordance with IFRS as of June 30, 2009 and following completion of the Offering (based on placement at the subscription price):

| | **As of June 30, 2009, prior to completion of the Offering** | **Based on the figures as of June 30, 2009, after completion of the Offering[3)]** |
|---|---|---|
| | **In € thousands** | |
| | **(unaudited)** | **(unaudited)** |
| Cash and cash equivalents | 19,545 | 256,025[4)5)] |
| Current liabilities: | | |
| Current financial liabilities | 228,782 | 228,782[5)] |
| Trade payables | 29,409 | 29,409 |
| Liabilities to Fund limited partners | 7,434 | 7,434 |
| Other provisions | 8,900 | 8,900 |
| Derivative financial instruments | 30,078 | 30,078 |
| Tax liabilities | 19,399 | 19,399 |
| Other liabilities | 21,015 | 21,015 |
| **Total current liabilities** | **345,017** | **345,017[5)]** |
| thereof guaranteed | — | — |
| thereof secured | 103,152 | 103,152 |
| Noncurrent financial liabilities | 1,811,110 | 1,811,110 |
| Convertible bonds | 25,998 | 25,998 |
| Pension obligations | 39,259 | 39,259 |
| Liabilities to Fund limited partners | 40,314 | 40,314 |
| Tax liabilities | 63,227 | 63,227 |
| Derivative financial instruments | 36,201 | 36,201 |
| Other provisions | 12,401 | 12,401 |
| Deferred tax liabilities | 76,065 | 76,065 |
| **Total noncurrent liabilities** | **2,104,575** | **2,104,575** |
| thereof guaranteed | — | — |
| thereof secured | 1,456,240 | 1,456,240 |
| Subscribed capital | 26,400 | 81,840 |
| Share premium | 269,677 | 450,717[6)] |
| Accumulated consolidated earnings | 339,125 | 339,125 |
| Minority interests | 302 | 302 |
| **Total equity** | **635,505** | **871,985** |
| Net financial liabilities[1)] | 2,046,345 | 1,809,865 |
| **Total capitalization[2)]** | **3,085,095** | **3,321,575[5)]** |
| Contingent liabilities | 0 | 0 |

1) *Net financial liabilities is calculated from current financial liabilities plus noncurrent financial liabilities and convertible bonds, less cash and cash equivalents.*

2) *Total capitalization is calculated from total current liabilities plus total noncurrent liabilities and total equity.*

3) *The calculation of the figures in this column was based on the figures from the unaudited consolidated Group interim financial statements of Deutsche Wohnen AG for the six months ended June 30, 2009 (IFRS), as well as the subscription price of €4.50 and the issuance of 55,440,000 New Shares.*

4) *The change in cash and cash equivalents results from the issue proceeds of €249.5 million (subscription price per share of €4.50 multiplied by 55,440,000 New Shares) less costs of the Offering expected to amount to €13 million.*

5) *On the assumption that Deutsche Wohnen's special redemption payments of €45 million and €17.5 million from issue proceeds in connection with the Helaba III loan agreement and the repayment of a loan of €48.6 million (for further information, see "Material Agreements—Financing Agreements—Loan agreement between Deutsche Wohnen AG (et al.) and Helaba" and "Material Agreements—Financing Agreements—Additional loan agreements of GEHAG and its subsidiaries") are due and were paid, current financial liabilities would be reduced by €111.1 million to €117.7 million. Consequently, cash and cash equivalents would be reduced to €144.9 million, total current liabilities to €233.9 million and total capitalization to €3,210.5 million.*

6) *Capital reserves increases by the amount of the difference between the par value per share (€1.00) and the subscription price per share (€4.50) multiplied by the number of New Shares (55,440,000 New Shares). The costs of the Offering expected to amount to €13 million were deducted from this amount. With regard to the costs of the Offering, it was assumed that these costs can be fully charged against capital reserves and no deferred taxes are to be taken into account.*

### Statement on Working Capital

We believe that we currently have sufficient working capital to meet all of our payment obligations over the next 12 months.

# SELECTED CONSOLIDATED FINANCIAL INFORMATION

*The following tables contain key consolidated financial information under IFRS, with the exception of the miscellaneous performance indicators and ratios, for the six months ended June 30, 2009 and June 30, 2008, the fiscal years ended December 31, 2008 and December 31, 2007, and for the partial fiscal year from July 1, 2006 to December 31, 2006 ("2nd PFY 2006") of our Group. The consolidated financial information was obtained from the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG for the six months ended June 30, 2009 (with comparative figures for the six months ended June 30, 2008) and the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and December 31, 2007, each set of which was prepared in accordance with IFRS as adopted by the European Union ("IFRS"). The consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal year ended December 31, 2007. Some of the miscellaneous performance indicators and ratios reproduced below were taken from the Company's accounting records.*

*The following consolidated financial information is not directly comparable from period to period. This is primarily due to the acquisition of the GEHAG Group in 2007 and the compliance with requirements, beginning in the 2008 fiscal year, to account for hedging instruments against interest rate risks (interest rate swaps) as hedge accounting in accordance with IAS 39. As a result of the acquisition of the GEHAG Group in the 2007 fiscal year, total assets as of December 31, 2007 more than doubled compared to December 31, 2006. In the 2007 fiscal year, the GEHAG Group was included in the consolidated financial information for only five months (from the time of first consolidation), but for all 12 months of the 2008 fiscal year. As a result of hedge accounting, fair value adjustments of interest rate swaps, to the extent that they are related to effective hedging relationships, amongst other things, are recognized in equity, whereas the results from fair value measurement were previously recognized in the consolidated profit and loss statement. In addition, the 2006 calendar year consisted of two partial fiscal years. The reason for the division of the 2006 calendar year into two partial fiscal years was the termination of the control agreement between Deutsche Wohnen AG and DB Real Estate Management GmbH (now RREEF Management GmbH) as of June 30, 2006.*

*The 2nd PFY 2006 is presented in the following tables. Consolidated financial information for the partial fiscal year from January 1, 2006 to June 30, 2006 (the "1st PFY 2006") is not discussed in this offering circular. The audited consolidated financial statements of Deutsche Wohnen AG for the 1st PFY 2006 are reprinted in the financial section of this offering circular. The main reason for discussing just the consolidated financial information for the 2nd PFY 2006 is that the valuation of the investment property was retrospectively changed as of July 1, 2006 to the model of the valuation at fair value and the consolidated financial information for the 2nd PFY 2006, as prior-year comparison figures, contained in the consolidated financial statements as of and for the fiscal year ended December 31, 2007 was retrospectively corrected, as a result of a determination by the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.) of an accounting error. The consolidated financial statements for the 1st PFY 2006 and the 2nd PFY 2006 were not amended by the Company.*

*The consolidated financial information presented in the following tables represents a selection of the financial data contained in our Group's financial statements and is shown in thousands and millions of euros (€ thousand and € million) commercially rounded to the nearest whole thousand or million euros, respectively. Due to rounding, some of the figures in the tables do not add up exactly to the total figures shown, and some of the percentages do not add up to exactly 100%.*

*The following consolidated financial information should be read together with the "Management's Discussion and Analysis of Net Assets, Financial Condition and Results of Operations" section, the unaudited interim condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 printed in the financial section and the audited consolidated financial statements as of and for the years ended December 31, 2008 and 2007 printed in the financial section, as well as the accompanying notes and further financial information disclosed elsewhere in this offering circular.*

## Consolidated Profit and Loss Statement

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | | | In € thousand | | |
| Revenues | 147,361 | 149,435 | 315,512 | 204,354 | 62,085 |
| Result from sales[1] | 4,562 | 6,722 | 17,409 | 5,285 | 8,136 |
| Sales proceeds | 18,715 | 22,282 | 119,710 | 58,501 | 78,474 |
| Carrying amounts of assets sold | (14,153) | (15,560) | (102,301) | (53,215) | (70,338) |
| Other operating income | 3,298 | 5,440 | 11,423 | 6,291 | 1,868 |
| Profit from business combination | — | — | 0 | 64,099 | 0 |
| **Total income** | **155,221** | **161,597**[2] | **344,344** | **280,030**[2] | **72,089**[2] |
| Costs of purchased services | (57,987) | (60,627) | (139,085) | (96,914) | (28,746) |
| Personnel expenses | (19,037) | (22,591) | (43,541) | (31,729) | (8,354) |
| Other operating expenses | (10,919) | (13,410) | (31,222) | (27,268) | (11,784) |
| Restructuring and reorganization expenses | (5,387) | (16,790) | (24,092) | (9,989) | 0 |
| Expenses relating to the listing prospectus | — | — | 0 | (1,810) | 0 |
| **Total expenses** | **(93,330)** | **(113,418)** | **(237,940)** | **(167,710)** | **(48,884)** |
| Result from fair value adjustment of investment property | 0 | 496[2] | (276,528) | 30,948[2] | 12,941[2] |
| Depreciation | (1,410) | (803) | (1,794) | (1,689) | (249) |
| Result from affiliated companies | — | — | 60 | 18 | 0 |
| **Earnings before interest and taxes (EBIT)** | **60,481** | **47,872** | **(171,859)** | **141,596** | **35,897** |
| Financial income | 371 | 775 | 2,540 | 4,736 | 733 |
| Result from the fair value measurement of derivative financial instruments | (456) | 25,884 | (32,197) | (7,845) | (55) |
| Financial expenses | (56,255) | (62,261) | (127,281) | (72,739) | (16,238) |
| **Earnings before taxes** | **4,140** | **12,270** | **(328,797)** | **65,749** | **20,337** |
| Income taxes | (6,533) | (11,486) | 56,471 | (35,963) | (9,412) |
| Result from continuing operations | (2,392) | 784 | (272,326) | 29,786 | 10,925 |
| Result from discontinued operations | 0 | (329) | 16,421 | 0 | — |
| **Result for the period** | **(2,392)** | **455** | **(255,905)** | **29,786** | **10,925** |

1) *The result from Sales was referred to as result from Property Privatization until June 30, 2009.*

2) *In comparison to the disclosure in the unaudited condensed consolidated interim financial statements for Deutsche Wohnen AG for the six months ended June 30, 2008 and the disclosure in the consolidated financial statements of Deutsche Wohnen AG for the year ended December 31, 2007, which are reprinted in the financial section of this offering circular, the result from the fair value adjustment of investment property is reported as a separate line item after "total expenses" and not accounted for as part of "total income." As a result, "total income" has decreased in comparison to the "total income" for the six months ended June 30, 2008, which is included in the unaudited consolidated interim financial statements for Deutsche Wohnen AG for the six months ended June 30, 2008, from €162,093 thousand to €161,597 thousand and in comparison to the "total income" for the 2007 fiscal year, which is included in the consolidated financial statements as of and for the fiscal year ended December 31, 2007, from €310,978 thousand to €280,030 thousand and, for the 2nd PFY 2006, from €85,030 thousand to €72,089 thousand.*

## Consolidated Balance Sheet

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|
| | unaudited | audited | audited | audited |
| | | In € thousand | | |
| **Assets** | | | | |
| **Noncurrent assets** | 3,007,298 | 3,016,322 | 3,386,740 | 1,384,560 |
| thereof: | | | | |
| Investment property | 2,888,911 | 2,900,673 | 3,271,205 | 1,341,596 |
| Property, plant and equipment | 17,168 | 17,745 | 27,948 | 3,898 |
| Intangible assets | 4,220 | 4,652 | 370 | 189 |
| Deferred tax assets | 96,598 | 92,559 | 86,614 | 38,559 |
| **Current assets** | **77,797** | **110,410** | **133,662** | **101,317** |
| thereof: | | | | |
| Cash and cash equivalents | 19,545 | 41,974 | 47,874 | 33,516 |
| **Total assets** | **3,085,095** | **3,126,732** | **3,520,402** | **1,485,877** |
| **Equity and liabilities** | | | | |
| **Total equity** | **635,505** | **649,292** | **936,125** | **736,420** |
| **Total noncurrent liabilities** | **2,104,575** | **2,297,979** | **2,361,955** | **697,196** |
| thereof: | | | | |
| Noncurrent financial liabilities | 1,811,110 | 1,991,077 | 2,034,087 | 562,186 |
| Convertible bonds | 25,998 | 25,430 | 24,339 | 0 |
| Pension obligations | 39,259 | 39,300 | 41,562 | 5,084 |
| Liabilities towards Fund limited partners | 40,314 | 48,006 | 46,631 | 49,783 |
| Tax liabilities | 63,227 | 60,652 | 68,126 | 0 |
| Derivative financial instruments | 36,201 | 49,349 | 0 | — |
| Deferred tax liabilities | 76,065 | 71,660 | 135,835 | 79,669 |
| **Current liabilities** | **345,016** | **179,461** | **222,322** | **52,261** |
| **Total equity and liabilities** | **3,085,095** | **3,126,732** | **3,520,402** | **1,485,877** |

## Consolidated Cash Flow Statement

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | | | In € thousand | | |
| Cash flow from operating activities | 15,620 | 773 | (10,342) | (10,479) | (9,678) |
| Cash flow from investing activities | 16,387 | 13,182 | 88,759 | (299,007) | 4,588 |
| Cash flow from financing activities | (54,434) | (20,009) | (84,316) | 323,844 | (26,521) |
| **Net changes in cash and cash equivalents** | **(22,428)** | **(6,054)** | **(5,900)** | **14,358** | **(31,611)** |
| Cash at the start of the period | 41,974 | 47,874 | 47,874 | 33,516 | 65,127 |
| **Cash at the end of the period** | **19,547** | **41,820** | **41,974** | **47,874** | **33,516** |

### Miscellaneous performance indicators and ratios[1)]

The following table shows an overview of the performance indicators and ratios on the reporting dates:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9)] |
|---|---|---|---|---|
| | unaudited | unaudited | unaudited | unaudited |
| Loan-to-value ratio in%[2)] | 69.9 | 70.6 | 65.4 | 39.9 |
| NAV in € million[3)] | 638.3 | 646.6 | 981.4 | 778.0 |
| NAV per share in € | 24.18 | 24.49 | 37.17 | 38.90 |
| Estimated rent income[4)] in the core portfolio in € per m$^2$ | 5.29 | 5.23 | 4.97 | N/A |
| Estimated rent income in the total portfolio in € per m$^2$ | 5.17 | 5.10 | 4.90 | N/A |
| Vacancy rate[5)] in the core portfolio in% | 3.3 | 3.9 | 4.8 | N/A |
| Vacancy rate in the total portfolio in% | 5.4 | 5.9 | 6.4 | N/A |

1) *Prospective investors should bear in mind that these performance indicators and ratios reported by our Group are not financial measures defined in accordance with IFRS or HGB and, as such, may be calculated by other companies using different methodology. These performance indicators and ratios, therefore, are not directly comparable to similar such figures and ratios reported by other companies.*

2) *The Loan-to-value ratio (LTV Ratio) is the ratio of total net financial liabilities to the value of investment property plus noncurrent assets held for sale and land and buildings held for sale. The following table shows how the LTV Ratio was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006. We calculated the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 using a different method than applied for the 2008 fiscal year. In order to ensure comparability of the figures for these periods, the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 was calculated using the same method applied for the 2008 fiscal year:*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9)] |
|---|---|---|---|---|
| | unaudited | audited | audited | audited |
| | | In € million (unless otherwise indicated) | | |
| Financial liabilities | 2,039.9 | 2,089.2 | 2,179.6 | 573.7 |
| Convertible bonds | 26.0 | 25.4 | 24.3 | 0.0 |
| - Cash and cash equivalents | (19.5) | (42.0) | (47.9) | (33.5) |
| **Net financial liabilities** | **2,046.4** | **2,072.6** | **2,156.0** | **540.2** |
| Investment property | 2,888.9 | 2,900.7 | 3,271.2 | 1,341.6 |
| Noncurrent assets held for sale | 18.1 | 17.7 | 4.6 | 3.3 |
| Land and buildings held for sale | 19.2 | 19.4 | 21.9 | 8.4 |
| **Total real estate holdings** | **2,926.2** | **2,937.7** | **3,297.7** | **1,353.3** |
| **Loan-to-value ratio (in%)** | **69.9%** | **70.6%** | **65.4%** | **39.9%**[*)] |

*) *Unaudited.*

3) *The NAV shows the intrinsic or inherent value of a of real estate company. It is the sum of all assets less liabilities (= equity) and is adjusted for any real-estate related deferred taxes. The real-estate related deferred taxes relate to deferred tax assets and liabilities from investment property (June 30, 2009: negative €2.2 million; December 31, 2008: €3.2 million; December 31, 2007: negative €59.7 million; December 31, 2006: negative €54.7 million), deferred tax assets from loss carryforwards, to the extent of available real-estate related deferred tax liabilities (June 30, 2009: €15.0 million; December 31, 2008: €15.0 million; December 31, 2007: €29.9 million; December 31, 2006: €28.6 million), deferred tax liabilities from real-estate related loans (June 30, 2009: negative €18.5 million; December 31, 2008: negative €18.5 million; December 31, 2007: negative €19.0 million; December 31, 2006: negative €15.6 million), as well as deferred tax assets from real-estate related provisions and deferred tax liabilities from investment subsidies received (June 30, 2009: €2.9 million; December 31, 2008: €3.0 million; December 31, 2007: €3.5 million; December 31, 2006: €0.0 million). In international usage, our calculation of NAV would be the "net net asset value" since our equity is already adjusted for real-estate related deferred taxes. The NAV per share is a benchmark for the stock price. However, prospective investors should bear in mind that the NAV per share is not an indication of the future performance of the Company's*

*stock. The following table shows how our NAV was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006:*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | |
| Total equity | 635.5 | 649.3 | 936.1 | 736.4 |
| Real-estate related deferred taxes | 2.8 | (2.7) | 45.3 | 41.6 |
| **NAV** | **638.3** | **646.6** | **981.4** | **778.0** |
| **NAV per share in €** | **24.18** | **24.49** | **37.17** | **38.90** |

4) *The estimated rent income is the total of the net cold rent and vacancy income shortfall. Vacancy income shortfall correspond to the last contractual net cold rent payments for the area not rented, but rentable during the relevant period or as of the relevant date, in relation to the relevant property. The estimated rent income per $m^2$ corresponds to the estimated rent income calculated for the relevant effective date, divided by the rented area in relation to the relevant property.*

5) *The vacancy rate is the ratio of vacancy income shortfall to the estimated rent income, as of the relevant effective date. Referring to the estimated rent income ensures that the size and actual expense of the individual units is adequately represented in the vacancy rate.*

The following table shows an overview of the performance indicators and ratios of the relevant periods:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | January 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | | |
| FFO[6] | 17.8 | 10.9 | 26.1 | 4.1 | 7.2 |
| FFO per share in € | 0.67 | 0.41 | 0.99 | 0.16 | 0.36 |
| EBITDA (adjusted)[7] | 67.3 | 65.0 | 130.5 | 60.0 | 23.2 |
| Fair value result[8] | 4.6 | 6.7 | 17.4 | 5.3 | 8.1 |

6) *The Company believes that FFO, which is derived from the consolidated profit and loss statement, is an important liquidity indicator for real estate companies. It is calculated by taking the result for the period and adjusting it for non-cash effects and non-recurring expenses and is a measure of the Company's ability to make loan payments and investments (for example, acquire new properties). The following table shows, step-by-step, how the Company calculated its FFO using the results of the Deutsche Wohnen Group for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006. The Company calculated the FFO for 2007 and for the 2nd PFY 2006 using a different method to that used for 2008. In order to ensure the comparability of these figures for these periods, the calculation of the FFO for 2007 and the 2nd PFY 2006 was calculated using the current calculation for the 2008 fiscal year. The FFO yield is calculated by taking the FFO and dividing it by the market capitalization of Deutsche Wohnen's stock as of September 17, 2009. The FFO yield is estimated to be 10.4% for the full year 2009. The Company calculated annualized FFO yield for the full year 2009 by doubling the FFO generated as of June 30, 2009. This FFO yield for the full 2009 year is the result of a purely mathematical operation. Investors should note that it is not necessarily indicative of future performance. The FFO yield was 7.6% based on the FFO for the 2008 fiscal year and 1.2% based on the FFO for the 2007 fiscal year.*

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | | | Unaudited, in € million (unless otherwise indicated) | | |
| **Result for the period** | **(2.4)** | **0.5** | **(255.9)** | **29.8** | **10.9** |
| Depreciation | 1.4 | 0.8 | 1.8 | 1,7 | 0.2 |
| Result from fair value adjustment of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Result from discontinued operations | 0.0 | 0.3 | (16.4) | 0.0 | 0.0 |
| Profit from business combination | — | — | 0.0 | (64.1) | 0.0 |
| Result from fair value measurement of derivative financial instruments | 0.5 | (25.9) | 32.2 | 7,8 | 0.1 |
| Accrued interest on liabilities and pensions | 7.5 | 7.5 | 14.3 | 10.2 | 2.2 |
| Special DB 14 payout | — | — | 5.7 | — | — |
| Deferred taxes and EK02 tax expense | 5.4 | 11.3 | (56.2) | 37.8 | 6.8 |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | 0.0 | 0.0 | 0.0 | 1.8 | 0.0 |
| **FFO** | **17.8** | **10.9** | **26.1** | **4.1** | **7.2** |
| **FFO per share in €** | **0.67** | **0.41** | **0.99** | **0.16** | **0.36** |

7) *The adjusted EBITDA is a performance indicator that is derived from the consolidated profit and loss statement. To determine its amount, Deutsche Wohnen takes the EBIT, which is adjusted for the result from fair value adjustment of investment property, depreciation, the result from affiliated companies, restructuring and reorganization expenses the profit from business combination and the expenses incurred in connection with the listing prospectus in 2007. The adjusted EBITDA, so calculated, functions as a liquidity indicator that the Company uses to measure operating performance. EBIT (adjusted) is calculated from EBITDA (adjusted) by deducting depreciation and net financial expenses (financial expenses less financial income). The corresponding EBT (adjusted) amounted to €10.0 million for the six months ended June 30, 2009, €2.7 million for the six months ended June 30, 2008 and €4.0 million for the fiscal year ended December 31, 2008. The following table shows how the adjusted EBITDA was calculated for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006:*

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[9] |
|---|---|---|---|---|---|
| | | | Unaudited, in € million | | |
| **Earnings before interest and taxes (EBIT)** | **60.5** | **47.9** | **(171.9)** | **141.6** | **35.9** |
| Result from fair value adjustment of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Depreciation | 1.4 | 0.8 | 1.8 | 1.7 | 0.2 |
| Result from affiliated companies | — | — | (0.1) | 0.0 | 0.0 |
| **Subtotal** | **61.9** | **48.2** | **106.4** | **112.3** | **23.2** |
| Profit from business combination | — | — | — | (64.1) | — |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | — | — | 0.0 | 1.8 | 0.0 |
| **EBITDA (adjusted)** | **67.3** | **65.0** | **130.5** | **60.0** | **23.2** |

8) *The fair value result shows the difference between the sales proceeds we generated from properties and the carrying amounts of assets sold for properties valued at fair value (fair value disposal). As a rule, we strive to generate a fair value gain.*

9) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

## Segment Data

We divide our business operations into three business segments: Residential Property Management, Sales, and Assisted Living and Elderly Care. The "Assisted Living and Elderly Care" business segment is referred to as the "Services" segment in our segment reporting, but corresponds to the "Assisted Living and Elderly Care" business segment. In the segment reporting for the period ended June 30, 2009, we renamed one segment from "Property Privatization" to "Sales." In addition, with the first-time application of the provisions of IFRS 8 "Operating Segments," we have adapted the definition of our segment profit or loss to the internal reporting of our Group. The segment profit or loss as of and for the six months ended June 30, 2009 (and for the comparable six-month period ended June 30, 2008) comprises the EBIT adjusted for restructuring and reorganization expenses. As such, income tax expense is no longer reflected in the segment profit or loss (EBIT). We have also adjusted the segment revenue for our Sales segment. This segment revenue now shows the revenue from the sale of units without deduction of the carrying amount of the properties sold. No changes have been made to the way the segments we report are divided. The "Services" segment also included the telecommunications services provided by AKF — Telekabel TV und Datennetze GmbH ("AKF" and together with its subsidiaries the "AKF Group"). The AKF Group was sold and deconsolidated as of July 3, 2008. Consequently, the revenue and expenses relating to the services provided by the AKF Group were treated as from discontinued operations under IFRS 5 and not included in the segment reporting for the 2008 fiscal year. We intend to change the name of our "Services" segment to "Assisted Living and Elderly Care" in the future. We also include the "Other and Group Function" and "Reconciliation" columns in our segment reporting. The column "Other and Group Function" primarily included our Group financing activities until December 31, 2008.

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[8] |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| | In € million | | | In € million | |
| **Residential Property Management** | | | | | |
| Segment revenue[1)2)] | 130.7 | 131.6 | 278.7 | 212.2 | 70.5 |
| Segment expenses[2)] | — | — | (404.2) | (89.7) | (27.1) |
| Segment profit or loss[3)] | 77.3 | 75.5 | (125.5) | 122.5 | 43.5 |
| **Sales[4)]** | | | | | |
| Segment revenue[1)5)] | 18.7 | 22.3 | 17.4 | 5.3 | 8.1 |
| Segment expenses | — | — | (4.2) | (4.3) | (5.6) |
| Segment profit or loss[3)] | 2.5 | 4.8 | 13.2 | 1.0 | 2.6 |
| **Services[6)]** | | | | | |
| Segment revenue[1)] | 16.4 | 15.0 | 38.6 | 19.1 | 0.0 |
| Segment expenses | — | — | (30.3) | (15.0) | 0.0 |
| Segment profit or loss[3)] | 4.5 | 3.9 | 8.3 | 4.1 | 0.0 |
| **Other and Group Function** | | | | | |
| Segment revenue[1)] | 0.3 | 2.8 | 55.3 | 115.2 | 19.0 |
| Segment expenses[7)] | — | — | (178.0) | (172.2) | (41.5) |
| Segment profit or loss[3)] | (17.0) | (19.1) | (122.6) | (57.0) | (22.5) |

1) *The segment data for the six months ended June 30, 2009 and June 30, 2008 include the respective external revenues only, not the total segment revenue.*

2) *In the 2007 fiscal year and the 2nd PFY 2006, the segment revenue included the result from the fair value adjustment of investment property. In the 2008 fiscal year, this item was captured in segment expenses.*

3) *The segment profit and loss for the six months ended June 30, 2009 and June 30, 2008 reflects the EBIT adjusted for restructuring and reorganization expenses.*

4) *The name of this segment was changed as of June 30, 2009 from Property Privatization to Sales.*

5) *The segment revenue for 2008, 2007 and the 2nd PFY 2006 included sales proceeds less the carrying amounts of assets sold. Sales proceeds amounted to €119.7 million in 2008, €58.5 million in 2007 and €78.47 million in the 2nd PFY 2006. In comparison to the segment revenue for the 2008 and 2007 fiscal years and the 2nd PFY 2006, segment revenue for the six months ended June 30, 2009 and June 30, 2008 only included sales proceeds. If, as in previous reporting, the carrying amounts of assets sold had been deducted, segment revenue for the six months ended June 30, 2009 would have amounted to €4.6 million and for the six months ended June 30, 2008 to €6.7 million.*

6) *The Company intends to rename the "Services" segment "Elderly Care and Residential Care Homes." This segment also captured in 2007 the telecommunications services provided by the AKF Group. The AKF Group was sold and deconsolidated as of July 3, 2008.*

7) *The segment expenses for 2008, 2007 and the 2nd PFY 2006 in the Other and Group Function column include all of the interest expense from Group financing.*

8) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Investors should read the following management's discussion and analysis of net assets financial condition and results of operations of our Group together with the "Business," "Risk Factors" and financial sections of this offering circular. The following discussion contains forward-looking statements that are subject to risks, uncertainties and other factors which may cause actual events to differ from those expressed or implied in the forward-looking statements (see above "Risk Factors" and "General Information—Forward-Looking Statements").*

*The financial information contained in the following discussion is based on the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG for the period from January 1, 2009 to June 30, 2009 (with comparative figures for the period from January 1, 2008 to June 30, 2008) and the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and December 31, 2007. The year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements for the fiscal year ended December 31, 2007 have been adjusted relative to the audited consolidated financial statements of Deutsche Wohnen AG for the 2nd PFY 2006. All sets of financial statements have been prepared in accordance with IFRS as adopted by the European Union and are reprinted in the financial section of this offering circular. The audited consolidated financial statements of Deutsche Wohnen AG for the 1st PFY 2006 are also reprinted in the financial section of this offering circular. Financial information for the 1st PFY 2006 is not discussed in this offering circular. Additional information for the 2008 fiscal year has been taken from the audited unconsolidated financial statements of Deutsche Wohnen AG for the fiscal year ended December 31, 2008, which were prepared in accordance with the German Commercial Code (the "HGB") using the "nature of expense" method and are reprinted in the financial section of this offering circular. IFRS and HGB differ in material ways. Some of miscellaneous performance indicators and ratios reproduced below were taken from the Company's accounting records.*

*Where financial data in the following tables is labeled "audited," this means that it was taken or derived from the audited financial statements mentioned above. The label "unaudited" is used in the following tables to indicate financial data that was taken or derived from a source other than the audited financial statements mentioned above, as well as financial data taken or derived from the Company's unaudited consolidated interim financial statements. All of the financial data presented in the text and tables of this section of the offering circular are shown in thousands and millions of euros (€ thousand and € million), respectively, commercially rounded to the nearest whole thousand or million euros. Unless expressly given otherwise, the percentage changes that are stated in the text and the tables have been commercially rounded to one decimal point. Because of this rounding, the figures shown in the tables do not in all cases add up exactly to the respective totals given, and the percentages shown do not always add up exactly to 100.0%.*

## Overview

Deutsche Wohnen is, according to its own estimates, Germany's second-largest publicly traded residential real estate company, measured in terms of market capitalization and a property portfolio which currently includes 50,611 units (50,122 of which are residential units). Our business strategy focuses on attractive residential properties, currently in the important business centers of Berlin and the Rhine-Main area. Due to our concentration on residential real estate, we believe that we are less affected by cyclical fluctuations than companies specializing in commercial real estate. Our business is divided into the segments Residential Property Management, Sales (comprising block sales and single unit privatizations) and Assisted Living and Elderly Care. The Residential Property Management and Sales segments are supported by our portfolio management unit, which is responsible for the strategic positioning of the existing and future property portfolio.

The Residential Property Management segment, which is the focus of our Company's business, includes all activities relating to residential property management and administration, lease management and tenant assistance. The Sales segment includes all activities relating to the sale of residential units, buildings and land. Our Assisted Living and Elderly Care segment manages and markets nursing and residential care facilities for seniors, the vast majority of which we own, under the KATHARINENHOF® brand.

As of June 30, 2009 our residential property portfolio consisted of 50,122 residential units with a total residential floor space of 3.1 million $m^2$ (based on the total residential floor area listed in the leases). The

estimated rent income, based on our entire residential portfolio (total portfolio), amounted to €5.17 per $m^2$ as of June 30, 2009. The average apartment size was 61 $m^2$. The vacancy rate was 5.4% at the same date. In addition to residential properties, our real estate portfolio includes 489 commercial units and commercial floor space totaling 85 thousand $m^2$ (based on the total commercial floor space listed in the leases), as well as 11 nursing care facilities with space for 1,125 residents and 4 assisted living facilities with 229 apartments, one of which is also a nursing care facility. Of the 14 facilities, including nursing care facilities and assisted living facilities, two are not owned by Deutsche Wohnen. The nursing care facilities and assisted living facilities that we own were grouped into a total of ten assisted living and elderly care facilities in the Property Appraisal Report from the independent appraisers CB Richard Ellis GmbH. According to the Property Appraisal Report, the total market value of our real estate portfolio (residential and commercial properties, Assisted Living and Elderly Care) was €2,864.9 million as of June 30, 2009. We valued our real estate portfolio at €2,864.6 million as of the same reporting date. Our net asset value less real-estate related deferred taxes amounted to €638.3 million as of June 30, 2009. On June 30, 2009, we had a total staff of 1,268 employees (942 of whom worked in the Assisted Living and Elderly Care segment).

## Comparability of the Financial Data Contained in the Financial Statements

### Comparability of the financial data contained in the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009

The financial data as of and for the six months ended June 30, 2009 and June 30, 2008 contained in the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG as of and for the six months ended June 30, 2009, are generally comparable. In the course of the 2008 fiscal year, we fulfilled, for the first time, the requirements of the IAS 39 hedge accounting rules for hedging cash-flow risks from variable interest loans. Accordingly, in the unaudited condensed consolidated interim financial statement as of and for the six months ended June 30, 2009, the fair values of interest rate swaps are reported as noncurrent liabilities and in part as current liabilities, in each case under "derivative financial instruments" (€66.3 million). As of December 31, 2008, interest rate swaps were recorded as noncurrent liabilities. As part of the regulations of the Improvement Project by IASB to be applied for the first time from 2009, it was established that the interest rate swaps are to be divided into noncurrent and current liabilities. As such, noncurrent and current components of the interest rate swaps were disclosed in the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2009 and the comparative figures as of December 31, 2008 were adjusted. In addition to the reporting change in the consolidated balance sheet, there was a change in the treatment of the fair value adjustment of interest rate swaps. As long as the hedging relationship is effective, the fair value adjustments are recognized in equity and not as affecting results in the consolidated profit and loss statement. In the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009, losses of €16.5 million (before accounting for deferred taxes) were stated in equity and €0.5 million was recorded in the consolidated profit and loss statement arising from the fair value measurement for the six months ended June 30, 2009, while in the six months ended June 30, 2008, income of €25.9 million from the fair value measurement of derivative financial instruments was recognized in the consolidated profit and loss statement. For additional information on hedge accounting, see the notes to the consolidated financial statements of Deutsche Wohnen AG for the 2008 fiscal year on page F-18 et seq.

### Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007

The comparability of the financial data contained in the consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal years ended December 31, 2008, and December 31, 2007 is primarily affected by changes in the consolidated companies and by the fulfilling, for the first time in the 2008 fiscal year, of the requirements to account for hedging instruments (interest rate swaps) on the basis of hedge accounting in accordance with IAS 39. The material changes are described below in further detail.

#### *Acquisition of subsidiaries*

Through various related individual transactions, we acquired the majority of the shares in the GEHAG Group on August 9, 2007 (first-time consolidation). Since this time, our Group has, consequently, held 99.99% of the GEHAG Group. Total acquisition costs of €371 million were incurred during the acquisition process. For additional information on the acquisition of the GEHAG Group, see below "*Material*

*Agreements—Material Agreements Related to the Acquisition of the GEHAG Group.*" The fair values determined for the identifiable assets and liabilities at the time of the acquisition are as follows:

| | Fair Value as of the time of acquisition of the GEHAG Group |
|---|---|
| | Audited, in € million |
| Investment property | 1,790.2 |
| Tangible assets | 25.8 |
| Intangible assets | 0.2 |
| Affiliated companies | 0.4 |
| Deferred tax assets | 64.9 |
| Derivative financial instruments | 36.3 |
| Other assets | 36.1 |
| Cash and cash equivalents | 15.6 |
| **Total assets** | **1,969.5** |
| Financial liabilities | 1,121.0 |
| Pension provisions | 39.7 |
| Deferred tax liabilities | 64.1 |
| Liabilities to shareholders | 78.0 |
| Other liabilities | 231.7 |
| **Total liabilities** | **1,534.5** |
| Net asset position | 435.0 |
| Negative consolidation difference | (64.1) |
| **Acquisition costs** | **370.9** |

The purchase price for the shares in the GEHAG Group consisted of a cash component, the issuance of convertible bonds, and the issuance of 6.4 million shares in the Company. See below "*Description of the Share Capital—Development of the Share Capital since the Company's Formation*" for more information. The amount of the negative consolidation difference is attributable, amongst other things, to the development of the share price of the newly issued shares 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 Company's share price decreased from approximately €39 to approximately €29. Given the number of issued shares, this amounted to a decrease in the purchase price of approximately €64.0 million.

The GEHAG Group contributed €112.9 million to revenues and negative €16.6 million to the result for the period in 2007 since the acquisition. If the business combination had occurred at the start of 2007, the revenues would have amounted to €210.4 million and the result for the period in 2007 to €248.8 million.

Neither the financial data for 2007 nor the financial data for 2008 of our Group were adjusted for the effects from the GEHAG acquisition. Therefore, a comparison between the 2007 and 2008 fiscal years is only of limited informative value. An adjustment for the effects of the GEHAG acquisition is shown below under "*—Results of Operations—Comparison of the fiscal years ended December 31, 2008 and December 31, 2007*," which is part of the discussion of the individual line items in the consolidated profit and loss statement.

### *Divestiture of subsidiaries*

With a purchase agreement dated June 13 and 18, 2008, the shares in the AKF Group were sold at a cash purchase price of €19.9 million. The effective date of the transfer was July 3, 2008. A profit contribution of €16.4 million resulted from the deconsolidation of the AKF Group. The revenue and expenses relating to the telecommunications services provided by the AKF Group were treated as from discontinued operations under IFRS 5 and reported separately in the 2008 consolidated profit and loss statement.

### *Hedge accounting for hedging instruments (interest rate swaps)*

In the course of the 2008 fiscal year, we fulfilled, for the first time, the requirements of the IAS 39 hedge accounting rules for hedging cash-flow risks from variable interest rate loans. Accordingly, as of December 31, 2008, the current fair values of interest rate swaps were stated as noncurrent liabilities under "derivative financial instruments" (€49.3 million); no noncurrent assets resulted. In contrast, interest rate swaps as of December 31, 2007, were reported as current liabilities or as current assets, since the

requirements for hedge accounting had not yet been fulfilled. Losses of €45.3 million (before accounting for deferred taxes) were recognized in the consolidated financial statements as of and for the fiscal year ended December 31, 2008, in equity and expenses of €32.2 million from the fair value measurement of derivative financial instruments were recorded in the consolidated profit and loss statement, while in the consolidated financial statements as of and for the fiscal year ended December 31, 2007, the fair value measurement of derivative financial instruments was reported entirely in the consolidated profit and loss statement as an expense of €7.8 million. The expenses in fiscal year 2008 were incurred intra-period, since the requirements of the hedge accounting rules were only fulfilled in the course of 2008. For additional information on hedge accounting, see the notes to the consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2008 on page F-18 et seq.

### Comparability of the financial data for the 2007 fiscal year and the 2006 partial fiscal years

The financial data for fiscal year 2007 and the 2006 partial fiscal years are not comparable with each other for various reasons that are discussed in further detail below.

#### *Partial fiscal years in 2006 and examination by the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.)*

In 2004 and 2005, the fiscal year was the same as the calendar year. The 2006 calendar year was divided into two partial fiscal years, namely a partial fiscal year from January 1, 2006 to June 30, 2006, and a partial fiscal year from July 1, 2006 to December 31, 2006. The background for the division of calendar year 2006 into two partial fiscal years was that due to the termination of the control agreement between Deutsche Wohnen AG and DB Real Estate Management GmbH (now: RREEF Management GmbH) as of June 30, 2006, the Company's general shareholders' meeting had originally resolved on March 23, 2006 to have the Company's future fiscal years start on July 1 of each year and end on June 30 of the following year. Therefore, a partial fiscal year was established for the period from January 1, 2006 to June 30, 2006. Following a resolution of the general shareholders' meeting on August 10, 2006, the Company's fiscal year is, once again, the same as the calendar year, starting January 1, 2007. Consequently, an additional partial fiscal year was established for the period from July 1, 2006 to December 31, 2006. The respective statutory consolidated financial statements in accordance with IFRS are available for the two partial fiscal years in 2006. Consolidated financial statements for calendar year 2006 that would combine the two partial fiscal years were not to be prepared.

FREP examined the consolidated financial statements of Deutsche Wohnen AG for the partial fiscal year from July 1, 2006 to December 31, 2006 and concluded that there were accounting errors. The Company included the first-time consolidation of DB Immobilienfonds 14 Rhein-Pfalz GmbH & Co. KG ("DB 14") in its consolidated financial statements for this partial fiscal year in accordance with SIC 12 and realized a profit from business combination in the amount of €8.8 million. However, as the Company had already borne the risks of DB 14 in prior years because of an indirect majority holding in the fund, FREP concluded that full consolidation should also have taken place in those prior years. As a result, FREP held that the realization of income from the first-time consolidation of DB 14 was in violation of IAS 8.42. The Company adjusted its financial reporting to correct for this error in accordance with IAS 8.42(b) and IDW RS HFA 6, sub-sections 45 et seq., but not in the consolidated financial statements as of and for the partial fiscal year ended December 31, 2006. Instead, it corrected the error retrospectively in the first complete set of financial statements that were approved for publication by the supervisory board after the error had been discovered, namely in the consolidated financial statements as of and for the fiscal year ended December 31, 2007.

Consequently, all assets and liabilities of DB 14 were already recognized as of June 30, 2006 in the consolidated financial statements as of and for the fiscal year ended December 31, 2007, with the figures for the 2nd PFY 2006 included for comparison. Furthermore, the assets and liabilities contained in the consolidated balance sheet as of June 30, 2006, from the business relations between Deutsche Wohnen and DB 14, especially the derivative financial instruments and the resulting deferred taxes, were eliminated. To present comparable figures, the profit from business combination, due to the negative consolidation difference from the original first-time consolidation of DB 14 as of December 31, 2006, was already directly recognized in accumulated consolidated result as of June 30, 2006 in the consolidated financial statements as of and for the fiscal year ended December 31, 2007. In the consolidated profit and loss statement for the 2007 fiscal year, the profit from business combination, due to the negative consolidation difference from the original first-time consolidation of DB 14 as of December 31, 2006, for the comparison period from July 1, 2006 through December 31, 2006, was eliminated in the consolidated profit and loss statement, and, on the one hand, the expenses and income of DB 14 in the second half of 2006 were recognized and, on the other

hand, the adjustments resulting from the consolidation were performed. For additional information, see the table below under "*—Discussion of effects related to the adjustment of DB 14 and to the change in the valuation method for investment property.*"

### *Change in the valuation of investment property in 2007*

In its consolidated financial statements as of and for the fiscal year ended December 31, 2007, Deutsche Wohnen changed its valuation of investment property from the cost method to the fair value method. The change to the fair value method occurred retrospectively (IAS 8.19, 23). The comparison figures for the partial fiscal year from July 1, 2006 to December 31, 2006 were adjusted accordingly.

Compared to the financial data for the period from July 1, 2006 to December 31, 2006 reported in the consolidated financial statements of Deutsche Wohnen AG for the partial fiscal year from July 1, 2006 to December 31, 2006, this valuation adjustment resulted in an increase in the investment property, an increase in deferred tax assets and deferred tax liabilities, and a write-off of the noncurrent accruals and deferrals. The deferred income for the interest rate advantage from subsidized loans was written off because the restrictions from the renting of the properties concerned were accounted for in the fair value measurement of the property. In addition to these balance sheet adjustments, this also resulted in a reduction in the result from sales (referred to as "result from Property Privatization" until June 30, 2009), an increase in trade receivables, a reduction in depreciation, a reduction in other operating income due to the write-off of noncurrent deferrals and accruals, and an adjustment affecting results in the fair value of property in the consolidated profit and loss statement for the partial fiscal year from July 1 to December 31, 2006. The change in the consolidated balance sheet also changed the deferred taxes reported in the consolidated profit and loss statement. The maintenance and repair portion of tenant charges, formerly accounted for as an asset, is now recognized as an expense in connection with the implementation of the fair value method.

### *Discussion of effects related to the adjustment of DB 14 and to the change in the valuation method for investment property*

Presented in the following table are the effects for balance sheet purposes that resulted from the change in the valuation method for investment property of Deutsche Wohnen and the necessary adjustments related to the consolidation of DB 14 as of July 1, 2006:

| | As of July 1, 2006 | | | | |
|---|---|---|---|---|---|
| | Cost method | Adjustment fair value method | Fair value | Adjustment DB 14 | Adjusted |
| | Audited, in € million | | | | |
| Investment property | 799.4 | 372.9 | 1,172.3 | 186.1 | 1,358.4 |
| Other noncurrent assets | 23.8 | | 23.8 | (23.6) | 0.2 |
| Deferred tax assets | 40.4 | (12.5) | 27.9 | (1.6) | 26.3 |
| Receivables and other assets | 18.0 | (2.3) | 15.8 | 2.7 | 18.5 |
| Derivatives | 6.1 | | 6.1 | (6.1) | 0.0 |
| Cash and cash equivalents | 54.4 | | 54.4 | 10.8 | 65.1 |
| Noncurrent assets held for sale | 8.5 | 11.3 | 19.8 | | 19.8 |
| Noncurrent financial liabilities | 407.2 | | 407.2 | 111.4 | 518.6 |
| Other provisions | 4.2 | | 4.2 | (3.9) | 0.3 |
| Liabilities to Fund limited partners | 0.0 | | 0.0 | 54.8 | 54.8 |
| Deferred tax liabilities | 2.2 | 55.0 | 57.2 | 3.5 | 60.7 |
| Deferred income (long-term) | 36.2 | (36.2) | 0.0 | | 0.0 |
| Other provisions | 11.9 | | 11.9 | 0.3 | 12.2 |
| Trade payables and other liabilities | 24.7 | | 24.7 | 0.4 | 25.1 |
| Derivatives | 7.1 | | 7.1 | (7.1) | 0.0 |
| **Accumulated consolidated profit** | **201.4** | **350.5** | **551.9** | **8.8** | **560.7** |

For the consolidated profit and loss statement in the consolidated financial statements of Deutsche Wohnen AG for the fiscal year ended December 31, 2007, there were changes and adjustments to the following items in the presentation of the comparison period from July 1, 2006 to December 31, 2006:

| | July 1 – December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Cost method | Adjustment fair value method | Fair value | Adjustment DB 14 | Adjusted |
| | Audited, in € million | | | | |
| Revenues | 57.3 | | 57.3 | 4.8 | 62.1 |
| Carrying amount of assets sold | (44.4) | (25.9) | (70.3) | | (70.3) |
| Other operating income | 2.3 | (0.8) | 1.6 | 0.3 | 1.9 |
| Profit from business combination | 8.8 | | 8.8 | (8.8) | 0.0 |
| Result from fair value adjustment of investment property | 0.0 | 12.9 | 12.9 | | 12.9 |
| Expenses for trade receivables | (27.8) | (0.6) | (28.4) | (0.3) | (28.7) |
| Other operating expenses | (11.0) | | (11.0) | (0.8) | (11.8) |
| Depreciation, amortization and impairment losses | (14.8) | 14.6 | (0.2) | | (0.2) |
| Financial income | 0.9 | | 0.9 | (0.2) | 0.7 |
| Financial expenses | (12.6) | | (12.6) | (3.8) | (16.4) |
| Income and expenses from derivatives | (0.3) | | (0.3) | 0.3 | 0.0 |
| Income tax | 0.7 | (9.8) | (9.1) | (0.4) | (9.4) |
| **Net result for the period** | **29.3** | **(9.6)** | **19.7** | **(8.8)** | **10.9** |

Moreover, the DB 14 adjustments result in the following changes to the comparison period from July 1, 2006 to December 31, 2006 in the consolidated cash flow statement included in the consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007:

| | July 1 – December 31, 2006 | Adjustment DB 14 | July 1 – December 31, 2006 Adjusted |
|---|---|---|---|
| | Audited, in € million | | |
| Cash flow from operating activities | (11.6) | 1.9 | (9.7) |
| Cash flow from investing activities | 15.7 | (11.1) | 4.6 |
| Cash flow from financing activities | (25.0) | (1.5) | (26.5) |
| **Changes in the fiscal year** | **(20.9)** | **(10.7)** | **(31.6)** |
| **Cash and cash equivalents at the start of the period** | **54.4** | **10.7** | **65.1** |
| **Cash and cash equivalents at the end of the period** | **33.5** | **0.0** | **33.5** |

No adjustments were made to the consolidated cash flow statement as a result of the fair value change.

*Discussion of the financial data for the partial fiscal year from July 1, 2006 to December 31, 2006*

Due to the factual circumstances discussed above, especially the varying lengths of the accounting periods, comparing the financial data for all of 2007 (period from January 1, 2007 to December 31, 2007) based on the audited consolidated financial statements of Deutsche Wohnen AG for the 2007 fiscal year with the financial data for the partial fiscal year of July 1, 2006 to December 31, 2006 would be of no informative value. A comparison of the financial data for the second half of 2007 (period from July 1, 2007 to December 31, 2007) with the financial data (as adjusted due to the aforementioned changes) for the partial fiscal year of July 1, 2006 to December 31, 2006, would likewise be of no informative value because of the acquisition of the GEHAG Group as of August 9, 2007. For additional information on the acquisition of the GEHAG Group, see above "—*Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*" and below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group.*"

Against the background of the previous discussion, no discussion is provided in the section entitled "—*Results of Operations—Presentation of results of operations for the 2nd PFY 2006*" comparing the financial data of the 2nd PFY 2006 and the 2007 fiscal year; instead, material financial data from the consolidated profit and loss statement and the segment reporting is discussed, and in the section entitled "—*Liquidity and Capitalization—Consolidated cash flow statements—Discussion of cash flow for the*

*2nd PFY 2006*," material financial data from the statement of cash flows as of and for the period from July 1, 2006 to December 31, 2006 is discussed. This discussion is based on the adjusted (for the aforementioned factual circumstances) figures for the 2nd PFY 2006, as found in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007. Those consolidated financial statements of Deutsche Wohnen AG are reprinted on page F-62 et seq.

The consolidated financial statements of Deutsche Wohnen AG for the 1st PFY 2006 (the financial data of which are not discussed in this section of the offering circular) are shown in the financial section on pages F-161 et seq.

## Segment Reporting

We divide our business operations into three business segments: Residential Property Management, Sales, and Assisted Living and Elderly Care. The "Assisted Living and Elderly Care" business segment is referred to as the "Services" segment in our segment reporting, but corresponds to the "Assisted Living and Elderly Care" business segment. In the segment reporting for the period ended June 30, 2009, we renamed one segment from "Property Privatization" to "Sales." In addition, with the first-time application of the provisions of IFRS 8 "Operating Segments," we have adapted the definition of our segment profit or loss to the internal reporting of our Group. The segment profit or loss as of and for the six months ended June 30, 2009 (and for the comparable six-month period ended June 30, 2008) comprise the EBIT adjusted for restructuring and reorganization expenses. As such, income tax expense is no longer reflected in the segment profit or loss (EBIT). We have also adjusted the segment revenue for our Sales segment. This segment revenue now shows the revenue from the sale of units without deduction of the carrying amount of the properties sold. No changes have been made to the way the segments we report are divided. The "Services" segment also included the telecommunications services provided by the AKF Group. The AKF Group was sold and deconsolidated as of July 3, 2008. Consequently, the revenue and expenses relating to the services provided by the AKF Group were treated as from discontinued operations under IFRS 5 and not included in the segment reporting for the 2008 fiscal year. We intend to rename our "Services" segment to "Assisted Living and Elderly Care" in the future. We also include the "Other and Group Function" column and "Reconciliation" column in our segment reporting. Our segments as well as the Other and Group Function column and Reconciliation column are described in more detail below.

Presented or discussed in the sections "*—Results of Operations—Comparison of the six-month periods ended June 30, 2009, and June 30, 2008—Segment discussion*," "*—Results of Operations—Comparison of the years ended December 31, 2008, and December 31, 2007—Segment discussion*" and "*—Results of Operations—Discussion of results of operations for the 2nd PFY 2006—Segment discussion*" are the economic developments in the individual segments for the respective periods, in each case on the basis of external revenues/segment revenue, segment expenses and the segment profit or loss. Segment revenue comprises all of our revenue in the respective segment, with the exception of financial income. As such, the items shown include revenues (external revenues/revenue from third parties), the revenue from privatization, other operating income (other revenue), revenue from transactions with other segments, result from fair value adjustment of investment property and, for 2007, the line item "profit from business combination" resulting from the negative consolidation difference arising out of the first-time consolidation of the GEHAG Group. The last two items mentioned are reported under "other revenue." For additional information on the profit from business combination, see "*—Results of Operations—Comparison of the years ended December 31, 2008, and December 31, 2007—Profit from business combination.*"

Segment expenses in each instance comprise expenses related to goods and services received, personnel expenses, other operating expenses, depreciation, profit from affiliated companies, the adjustment of market value (fair value) of investment property (expense), the adjustment of market value of derivative financial instruments and, up to December 31, 2008, income tax. Financial income and financial expenses are predominantly reported under "Other and Group Function" and not apportioned among the segments. The segment profit or loss is the difference between the segment revenue and segment expenses. As mentioned previously, the segment profit or loss as of and for the six months ended June 30, 2009 and June 30, 2008 reflect the EBIT adjusted for restructuring and reorganization expenses.

### Residential Property Management segment

The Residential Property Management segment records the income from the management of our residential properties (in particular, the net cold rent). Expenses are primarily incurred in connection with modernization measures and maintenance on our real estate portfolio, operating costs, and the marketing of properties. Also attributed to this segment is the result from fair value adjustment of investment property.

The Residential Property Management segment constitutes our core segment. In the 2008 fiscal year, it generated revenues of €277.3 million.

### Sales segment

The Sales segment records the income generated by way of single unit privatizations, namely sales of individual properties (for example, to tenants) and block sales. Expenses in this segment are primarily incurred through sales commissions and promotional measures. The name of this segment was changed as of June 30, 2009 from "Property Privatization" to "Sales."

### Services segment

The Services segment records the income from Assisted Living and Elderly Care. We plan to rename this segment from "Services" to "Assisted Living and Elderly Care" in the future. This segment was first added to our segment reporting following the first consolidation of the GEHAG Group in August 2007. Accordingly, the GEHAG Group's respective financial data in 2007 was recorded in this segment only for a total of five months (starting with first-time consolidation on August 9, 2007 up to the balance sheet date of December 31, 2007). Starting in 2008, the financial data of the GEHAG Group was recorded for the entire year of January 1 through December 31. For additional information on the acquisition of the GEHAG Group, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*" and below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group*." The Services segment also included the telecommunication services provided by the AKF Group. The AKF Group was sold and deconsolidated as of July 3, 2008. Consequently, as described above, the income and expenses from the services provided by the AKF Group are not included as discontinued operations pursuant to IFRS 5 in the segment reporting for the 2008 fiscal year. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Divestiture of subsidiaries*."

### Other and Group Function column

The Other and Group Function column comprises the provision of internal services and all of the Group's personnel, administrative, and financing activities. Financial liabilities and, until December 31, 2008, financial expenses are reported in particular. Administration and control is carried out through Deutsche Wohnen AG's finance department.

### Reconciliation column

Under the reconciliation column, intra-Group segment revenue is eliminated in connection with the reconciliation to the consolidated financial statements.

## Miscellaneous Performance Indicators and Ratios of Deutsche Wohnen

### Overview

In our view, the ratios and performance indicators described below constitute the most important measures for the discussion and analysis of developments in our business and our results. The ratios and performance indicators presented below are grouped into financial ratios, performance indicators, operating ratios and performance indicators. Each ratio and performance indicator is explained in terms of what it expresses for business purposes and how it is calculated. The calculations of the ratios and performance indicators as discussed below for the six months ended June 30, 2009, and June 30, 2008, the 2008 and 2007 fiscal years, and the 2nd PFY 2006 are primarily based on the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009, the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007, and the Company's accounting records. Potential investors should note that the ratios and performance indicators we report do not constitute measures defined in accordance with IFRS or HGB. For this reason, it is possible that other companies apply a different method in calculating these ratios and performance indicators. This means that these ratios and performance indicators cannot be directly compared with similar ratios and performance indicators of other companies.

### Financial ratios and performance indicators

- **Loan-to-Value Ratio (LTV Ratio)**

The loan-to-value ratio (LTV Ratio) is the ratio of net financial liabilities to the value of investment property plus noncurrent assets held for sale and certain land and buildings held for sale. We are striving to achieve an LTV Ratio of 60-65% in the medium term. The following table shows how the LTV Ratio was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006. We calculated the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 using a different method than applied for the 2008 fiscal year. In order to ensure comparability of the figures for these periods, the LTV Ratio for the 2007 fiscal year and the 2nd PFY 2006 was calculated using the same method applied for the 2008 fiscal year:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[2] |
|---|---|---|---|---|
| | unaudited | audited | audited | audited |
| | | In € million (unless otherwise indicated) | | |
| Financial liabilities | 2,039.9 | 2,089.2 | 2,179.6 | 573.7 |
| Convertible bonds | 26.0 | 25.4 | 24.3 | 0.0 |
| —Cash and cash equivalents | (19.5) | (42.0) | (47.9) | (33.5) |
| **Net financial liabilities** | **2,046.4** | **2,072.6** | **2,156.0** | **540.2** |
| Investment property | 2,888.9 | 2,900.7 | 3,271.2 | 1,341.6 |
| Noncurrent assets held for sale | 18.1 | 17.7 | 4.6 | 3.3 |
| Land and buildings held for sale | 19.2 | 19.4 | 21.9 | 8.4 |
| **Total real estate holdings** | **2,926.2** | **2,937.7** | **3,297.7** | **1,353.3** |
| **Loan-to-value ratio (in %)** | **69.9%** | **70.6%** | **65.4%** | **39.9%**[1] |

1) *Unaudited.*

2) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007.*

- **Net asset value (NAV)**

The net asset value (NAV) shows the intrinsic value of a real estate company. It is the sum of all assets less liabilities (which equals equity) and is adjusted for any real-estate related deferred taxes. The real-estate related deferred taxes relate to deferred tax assets and liabilities from investment property (June 30, 2009: negative €2.2 million; December 31, 2008: €3.2 million; December 31, 2007: negative €59.7 million; December 31, 2006: negative €54.7 million), deferred tax assets from loss carryforwards, to the extent of available real-estate related deferred tax liabilities (June 30, 2009: €15.0 million; December 31, 2008: €15.0 million; December 31, 2007: €29.9 million; December 31, 2006: €28.6 million), deferred tax liabilities from real-estate related loans (June 30, 2009: negative €18.5 million; December 31, 2008: negative €18.5 million; December 31, 2007: negative €19.0 million; December 31, 2006: negative €15.6 million), as well as deferred tax assets from real-estate related provisions and deferred tax liabilities from investment subsidies received (June 30, 2009: €2.9 million; December 31, 2008: €3.0 million; December 31, 2007: €3.5 million; December 31, 2006: €0.0 million). In international usage, our NAV would be considered to be the "net net asset value" since our equity is already adjusted for real-estate related deferred taxes. The NAV per share is a benchmark for the share price. Prospective investors should note, however, that the NAV per share is not an indication of the future performance of the stock of Deutsche Wohnen AG. The following table shows how our NAV was calculated as of June 30, 2009, December 31, 2008, December 31, 2007 and December 31, 2006:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2006 (adjusted)[1] |
|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | |
| Total equity | 635.5 | 649.3 | 936.1 | 736.4 |
| Real-estate related deferred taxes | 2.8 | (2.7) | 45.3 | 41.6 |
| **NAV** | **638.3** | **646.6** | **981.4** | **778.0** |
| **NAV per share in €** | **24.18** | **24.49** | **37.17** | **38.90** |

1) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

- **Funds from operations (FFO)**

We believe that FFO, which is derived from the consolidated profit and loss statement, is an important liquidity indicator for real estate companies. It is calculated by taking the result for the period and adjusting it for non-cash effects and non-recurring expenses and is a measure of our ability to make loan payments and investments (for example, acquire new properties). The following table shows how we calculated our FFO using the results of our Group for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006. The Company calculated the FFO for 2007 and for the 2nd PFY 2006 using a different method to that used for 2008. In order to ensure the comparability of these figures for these periods, the calculation of the FFO for the 2007 fiscal year and the 2nd PFY 2006 was analogous to the current calculation for the 2008 fiscal year:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[1] |
|---|---|---|---|---|---|
| | Unaudited, in € million (unless otherwise indicated) | | | | |
| **Result for the period** | (2.4) | **0.5** | (255.9) | **29.8** | **10.9** |
| Depreciation | 1.4 | 0.8 | 1.8 | 1.7 | 0.2 |
| Result from fair value adjustment of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Result from discontinued operations | 0.0 | 0.3 | (16.4) | 0 | 0.0 |
| Profit from business combination | — | — | 0 | (64.1) | 0.0 |
| Result from the fair value measurement of derivative financial instruments | 0.5 | (25.9) | 32.2 | 7.8 | 0.1 |
| Accrued interest on liabilities and pensions | 7.5 | 7.5 | 14.3 | 10.2 | 2.2 |
| Special DB 14 payout | — | — | 5.7 | — | — |
| Deferred taxes and EK02 tax expense | 5.4 | 11.3 | (56.2) | 37.8 | 6.8 |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | 0.0 | 0.0 | 0.0 | 1.8 | 0.0 |
| **FFO** | **17.8** | **10.9** | **26.1** | **4.1** | **7.2** |
| **FFO per share in €** | **0.67** | **0.41** | **0.99** | **0.16** | **0.36** |

1) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007.*

- **EBITDA (adjusted)**

The adjusted EBITDA is a performance indicator derived from the consolidated profit and loss statement. We ascertain this performance indicator by taking EBIT, which is then adjusted for the result of the fair value adjustment of investment property, depreciation, the result from affiliated companies, restructuring and reorganization expenses, the profit from business combination and expenses related to the listing prospectus in 2007. EBT (adjusted) is calculated from EBITDA (adjusted) by deducting depreciation and net financial expenses (financial expenses less financial income). The corresponding EBT (adjusted) amounted to €10.0 million for the six months ended June 30, 2009, €2.7 million for the six months ended June 30, 2008 and €4.0 million for the fiscal year ended December 31, 2008. For additional information on the restructuring and reorganization expenses, see below "—*Results of Operations—Comparison of the fiscal years ended December 31, 2008 and December 31, 2007—Restructuring and reorganization expenses*." The adjusted EBITDA is a liquidity indicator based on which we measure operating performance.

The following shows the calculation of the adjusted EBITDA for the six months ended June 30, 2009 and June 30, 2008, for the 2008 and 2007 fiscal years and for the 2nd PFY 2006:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | July 1 – December 31, 2006 (adjusted)[1] |
|---|---|---|---|---|---|
| | | | Unaudited, in € million | | |
| **Earnings before interest and taxes (EBIT)** | **60.5** | **47.9** | **(171.9)** | **141.6** | **35.9** |
| Result from fair value adjustment of investment property | 0.0 | (0.5) | 276.5 | (30.9) | (12.9) |
| Depreciation | 1.4 | 0.8 | 1.8 | 1.7 | 0.2 |
| Result from affiliated companies | — | — | (0.1) | 0.0 | 0.0 |
| **Subtotal** | **61.9** | **48.2** | **106.4** | **112.3** | **23.2** |
| Profit from business combination | — | — | — | (64.1) | — |
| Restructuring and reorganization expenses | 5.4 | 16.8 | 24.1 | 10.0 | 0.0 |
| Expenses relating to the listing prospectus | — | — | 0.0 | 1.8 | 0.0 |
| **EBITDA (adjusted)** | **67.3** | **65.0** | **130.5** | **60.0** | **23.2** |

1) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007.*

## Operating ratios and performance indicators

- **Estimated rent**

The estimated rent income is the total of the net cold rent and vacancy income shortfall. Vacancy income shortfall corresponds to the last contractual net cold rent payments for the area not rented, but rentable during the relevant period or as of the relevant date, in relation to the relevant property. The estimated rent income per $m^2$ corresponds to the estimated rent income calculated for the relevant effective date, divided by the rented area in relation to the relevant property. Our business activities are focused on increasing the net cold rent while, at the same time, minimizing vacancies. This increase in net cold rent is to be generated through the use of adjustments to the rent index, through targeted modernization measures that can be allocated to tenants, and through vacancy reduction. In contrast to the estimated rent income, net cold rent states the actual income from rent we have received as cash. The following table shows the estimated rent income per $m^2$ in the core portfolio and the entire portfolio:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|---|
| | | In € per $m^2$ | |
| In the core portfolio | 5.29 | 5.23 | 4.97 |
| Change (in %) | 1.15 | 5.23 | N/A |
| In the total portfolio | 5.17 | 5.10 | 4.90 |
| Change (in %) | 1.37 | 4.08 | N/A |

- **Vacancy rate**

The vacancy rate is the ratio of vacancy income shortfall to the estimated rent income, as of the relevant effective date. Referring to the estimated rent income ensures that the size and actual expense of the individual units is adequately represented in the vacancy rate. One of our strategic aims, along with focusing on ongoing increases in rent, is vacancy reduction. Through vacancy reduction, the vacancy income shortfall

and the result of operating costs can be positively affected. The following table shows the vacancy rate in percent in the core portfolio and in the entire portfolio:

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|---|
| | | In % | |
| In the core portfolio | 3.3 | 3.9 | 4.8 |
| Change (in %) | (15.38) | (18.75) | N/A |
| In the total portfolio | 5.4 | 5.9 | 6.4 |
| Change (in %) | (8.47) | (7.81) | N/A |

- **Fair value result**

The fair value result is the difference between the sales proceeds we generated from properties and the carrying amounts of assets sold for properties valued at fair value (fair value disposal). As a rule, we strive to generate a fair value gain.

## Major Factors Affecting Results of Operations

Our Group is exposed to various trends in its business segments. Factors that may influence the development of our business, which we believe are material, market-related and external, as well as those stemming from our operating business, are discussed below. The standard of measurement in determining the effects of these factors on the results of operations are the financial and operating performance indicators and ratios of our Group discussed above. For additional information on internal performance indicators and ratios of our Group, see above "*—Miscellaneous Performance Indicators and Ratios of Deutsche Wohnen.*" Also discussed are other factors that affect our overall results of operations.

### *Market-related external factors*

Our business activities are subject to general economic conditions. Consequently, cyclical and economic conditions beyond our control, including economic growth, unemployment rates, price trends and interest rate levels, affect opportunities for acquisitions, purchase prices, rental income levels and the potential for property sales. For example, lower capital market interest rates in Germany, leading to more favorable financing terms, would tend to increase demand for residential properties. Conversely, rising capital market interest rates, and the economically less favorable financing terms for the sale of properties that they bring, have an adverse effect on our earnings. Rising interest rates also increase our refinancing costs. In addition, inflation-driven price increases or decreases affect our expense items. We strive to pass on any expense increases to the tenants in the form of higher net cold rent and utility expense payments, to the extent legally permitted.

Political and regulatory decisions and developments such as, for example, public subsidies for residential space also influence supply and demand in the residential property market and affect price trends for rented residential units and privately owned residential units. Furthermore, an increase in the new construction of residential units can reduce our potential for privatization services and adversely affect the results of operations.

### *Factors from our operating activities*

#### *Estimated rent income and vacancy rate*

Our estimated rent income is determined by the rents per $m^2$ and the amount of rented space, with the estimated rent income depending, in particular, on the location and condition of the property. In principle, estimated rent income is not subject to any significant seasonal or cyclical fluctuations. Significant changes may result primarily from sales, which lead to a loss of estimated rent income due to the disposal of properties. Vacant residential units and the implementation of rent increases also have a considerable effect on our earnings. The vacancy rates differ by region; in our core portfolio, the vacancy rates amounted to 3.3% as of June 30, 2009, 3.9% as of December 31, 2008, and 4.8% as of December 31, 2007. The vacancy rate has a detrimental effect on the level of vacancy income shortfall and of allocatable operating expenses.

### *Maintenance expenses and non-recoverable operating expenses*

Expenses incurred in the management of investment property are not insignificant and affect our results of operations. They include, in particular, maintenance and operating expenses. As regards operating expenses, only the non-recoverable operating expenses affect the results of operations.

### *Sale prices and sales proceeds*

Our sales proceeds are the cumulative sum of the generated sale prices, conditional upon the number of sold properties and their respective prices. However, the level of the respective generated sale price depends substantially on the location and condition of the property. In addition, tenant structure and purchasing power are relevant. On the whole, sales proceeds are also subject to regional fluctuations.

Moreover, our income depends, on the one hand, on the availability of appropriate properties on the market for purchase and possible subsequent privatization by our Group and, on the other hand, on the properties available for sale, in particular, on the extent to which we can acquire residential property portfolios and successfully undertake value-enhancing measures.

Earnings in the Sales segment also depend on our acquisition of residential properties at attractive prices with the potential to rise in value. Paramount to the acquisition of properties at reasonable purchase prices are the supply of large residential property portfolios, the condition and location of the properties, access to the respective sellers, the ability to prevail over competitors and the capacity of the banks and our Group to obtain financing.

### *Selling expenses, pre-sale expenses*

With regard to individual sales of residential units, our selling expenses are primarily incurred within the Sales segment. Selling expenses mainly include pre-sale expenses and broker commissions.

### *Personnel expenses*

Personnel expenses primarily consist of salaries and wages, social insurance expenses, and pension plan expenses. All these expenses are significantly affected by the size of the workforce, as well as by the current remuneration structures. The following table shows the average number of employees as of and for the six months ended June 30, 2009 and the 2008 and 2007 fiscal years:

| | January 1 – June 30, 2009 | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|---|
| | | Employees per segment | |
| Residential Property Management and Sales[1] | 356 | 458 | 622 |
| Services[2] | 901 | 938 | 739 |
| **Total** | **1,257** | **1,396** | **1,361** |

1) *Also includes the employees from Group functions.*

2) *The Company plans to rename this segment from "Services" to "Assisted Living and Elderly Care" in the future.*

The following table shows our personnel expenses in absolute numbers, as well as expressed as a percentage of revenues for the six months ended June 30, 2009 and for the 2008 and 2007 fiscal years:

| | January 1 – June 30, 2009 | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|---|
| | | Personnel expenses | |
| Personnel expenses in € million | 19.0 | 43.5 | 31.7 |
| expressed as a percentage of revenues | 12.9% | 13.8% | 15.5% |

In spite of increased personnel expenses in absolute numbers, personnel expenses as a percentage of revenues decreased from 16% in 2007 to 14% in 2008, mainly as a result of sharper increases in the revenues in 2008 compared to 2007 and initial effects from the restructuring in the residential properties segment. The increase in personnel expenses in absolute terms can be primarily attributed to the GEHAG transaction in 2007, due to which personnel expenses were recognized for only five months in 2007 and twelve months in 2008.

*Restructuring and reorganization expenses*

As part of the restructuring and reorganization, the following expenses were incurred:

| | January 1 – June 30, 2009 | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|---|
| | **Restructuring and reorganization expenses in € million** | | |
| Severance payments and salary payments to released or retired employees | 3.4 | 13.2 | 7.3 |
| Expenses associated with integration and reorganization | 2.0 | 10.9 | 2.7 |
| **Total** | **5.4** | **24.1** | **10.0** |

For further information, see below "*—Results of Operations—Comparison of the fiscal years ended December 31, 2008 and December 31, 2007—Restructuring and reorganization expenses*" and "*—Results of Operations—Comparison of the six-month periods ended June 30, 2009 and June 30, 2008*."

### *Other factors*

*Our payments related to EK02 Inventories*

Within our Group, there are various housing companies with large holdings of EK02 Inventories. EK02 Inventories are a result of the change of taxable status from non-profit status to general taxability. Under the law in effect until December 31, 2007, payouts by these companies in the years up to and including 2018 that are funded by such EK02 Inventories cause an increase in corporate income tax (including solidarity surcharge) of 45.2% for the company making the payout. Under the Annual Tax Act 2008 (*Jahressteuergesetz 2008*), the old rule on the treatment of EK02 Inventories was abolished and instead a flat-rate taxation was introduced. The closing balance of EK02 as of December 31, 2006 is taxed at a flat-rate of 3%, regardless of the utilization. The remaining inventory is omitted and triggers no further increases in corporation tax. The resulting tax amount is generally 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 payment. Based on the values in the tax returns for the 2006 assessment period, subsidiaries of our Group are holding a total of €3.2 billion in EK02 Inventories. Consequently, the increase in flat-rate corporate income tax amounts to approximately €96.0 million, on the assumption that the tax amount is paid in ten equal annual instalments of approximately €9.6 million per year from 2008 until 2017. In the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009, a liability, discounted at 4.3%, of approximately €80.3 million is stated as a current and noncurrent tax debt. Proceedings have already been initiated against the relevant companies, or at least letters have been exchanged with the tax authorities, because of the subsequent taxation of originally tax-free profits and the discrimination against the subsidiaries due to the exclusion from the right to vote on retaining the current structure. For additional information, see below "*Business—Litigation—Ongoing proceedings*." Accrued interest effects will arise in the future in the consolidated profit and loss statements. On the assumption of the payment of tax in 10 equal annual amounts, liquidity will be affected, with a €9.6 million per year decrease in operational cash flow. For additional information on the EK02 Inventories, see above "*Risk Factors—Risks Related to Our Business—The change in tax treatment of EK02 Inventories effectuated by the Annual Tax Act of 2008 (Jahressteuergesetz 2008) could have a detrimental effect on our net assets, financial condition and results of operations*."

*Acquisition of shares in the GEHAG Group*

Deutsche Wohnen AG acquired the majority of shares in the GEHAG Group effective as of August 9, 2007 (first-time consolidation). Since this time, we have held a total of 99.99% in the GEHAG Group. Acquisition costs of €371 million in total were incurred in the acquisition. The transaction had material effects on our financial condition and results of operations. For additional information on the acquisition of the GEHAG Group, see above "*—Comparability of the Financial Data Contained in the Financial Statements —Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*" and below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group*."

### *Fair value adjustment (market value adjustment) of investment property and of derivative financial instruments (interest rate swaps)*

Two significant value drivers must be considered in the fair valuation of investment property. The first is the annual cash flow arising from operational performance (endogenous) and the second is the discount rates and capitalization rates that result exogenously from the market. Endogenous parameters are primarily net cold rent and vacancy rate trends, maintenance and administrative expenses, and operating expenses. The fair value of the investment property fluctuates depending on the movement of the input amounts. The exogenous input amounts also result in fluctuations; when discount rates and capitalization rates increase, the market value decreases, and vice versa. Even small percentage fluctuations in the market value can have considerable effects on the results of operations. For additional information on investment property, see below "*—Overview of Investment Property.*"

In the course of the 2008 fiscal year, we fulfilled, for the first time, the requirements of the IAS 39 hedge accounting rules applicable to the accounting for hedging instruments (interest rate swaps) in hedging against cash-flow risks from variable interest loans. When interest rate levels fluctuate, the fair value of the interest rate swaps also fluctuates. If interest rate levels increase (decrease), then the fair value of the interest rate swaps entered into by our Group that provide for the exchange of fixed interest rates for variable interest rates will increase (decrease). Under hedge accounting, that portion of a hedging relationship that does not meet the effectiveness requirements of IAS 39 is recognized in the profit and loss statement. For additional information on hedge accounting, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009.*"

### *Costs of financing*

Our acquisition of residential properties is largely debt-financed. Therefore, the results of operations are materially affected by financing costs and the availability of debt, so entering into financing agreements at favorable terms, especially low interest rates, is of considerable importance to our Group.

### *Financial markets crisis*

The crisis on the financial markets and the resulting economic crisis is affecting the risk premiums of banks and creating difficulties with loan renewals. Risk premiums cause interest rates to increase, thus leading to increased financing costs. Risk premiums also affect the discount rates and capitalization rates in valuing investment property. In the course of the financial markets crisis, the central banks have reduced the key lending rates, which has reduced interest rates in general. Because of the lower interest rates, the fair values of the derivative financial instruments finalized by our Group are negative, which results in lower equity and, therefore, lower NAV. For additional information, see above "*Risk Factors—Risks Related to Our Business.*"

### *DB 14 right of sell-out*

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH (a Deutsche Wohnen Group company) has granted the limited partners of DB 14 a right of sell-out for their limited partner shares. Under these agreements, our Group is obliged to acquire the shares initially (in 2005) at 105% of the paid-in share capital on request. The accepted purchase price for the shares increases annually by three to seven percentage points starting from 2005. An exercise of the DB 14 limited partners' right of sell-out in full within a short period of time would place a significant burden on our financial condition. As of the six months ended June 30, 2009, we held 34% of the capital of DB 14. In the six months ended June 30, 2009, €1.3 million was paid to the limited partners of the fund, in 2008, €6.1 million, and in 2007, €5.7 million. These payments relate to both the shares subject to the sell-out and the dividend payment by DB 14 to the limited partners. For additional information, see above "*Risk Factors—Risks Related to Our Business—We could suffer a liquidity squeeze as a consequence of the right of sell-out held by the limited partners of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG.*" We could incur liquidity shortages from the right of sell-out granted to the DB 14 limited partners.

## Discussion of Individual Items in the Profit and Loss Statement

### *Revenues*

Revenues primarily involve revenue from managing investment property (residential property management), support and service activities (*Betreuungsaktivitäten*) (third-party management (*Fremdverwaltung*)), care-giving and residential care homes, and other goods and services.

### *Result from sales*

Result from sales consists of the difference between sales proceeds and the carrying amounts of assets sold.

Sales proceeds include all proceeds related to sales of properties, commercial units and real estate. Proceeds are only recognized upon the transfer of benefits and associated liabilities. The carrying amounts of assets sold are the fair value disposals of the properties, commercial units and real estate sold.

### *Cost of purchased services*

Cost of purchased services primarily includes residential property management expenses and expenses related to Assisted Living and Elderly Care. Residential property management expenses primarily involve maintenance and operating expenses.

### *Personnel expenses*

Personnel expenses primarily include salaries and wages, social security expenses, pension plan expenses, and Christmas allowances for our employees.

### *Financial expenses*

Financial expenses include the interest under bank loans and other loans, as well as fees. Interest accruals under discounted obligations are also reported here.

### *Income taxes*

Income taxes contain current tax expenses and deferred taxes. For companies domiciled in Germany with the legal form of a public limited company, corporation tax of 15% is due in 2008 (2007: 25%), plus a solidarity surcharge of 5.5% (2008 and 2007) of the corporation tax due. These companies are also subject to trade tax, the amount of which depends on tax rates set by local authorities. The nominal income tax rate for our Group's parent company, Deutsche Wohnen AG, is expected to be 31.93% in fiscal year 2009. This tax rate served as the basis for calculation of deferred taxes as of December 31, 2008, and December 31, 2007.

## Results of Operations

The following discussion compares our results of operations as of and for the six months ended June 30, 2009 and June 30, 2008, and as of and for the fiscal years ended December 31, 2008 and December 31, 2007. Also discussed are the developments within the segments ("Segment discussion"). The results of operations for the 2nd PFY 2006 are discussed as well, including a discussion of information from the segments. For additional information, see above "*—Segment Reporting*."

## Comparison of the six-month periods ended June 30, 2009 and June 30, 2008

The following discussion presents our consolidated profit and loss statements as of and for the six months ended June 30, 2008 and June 30, 2009, based on our unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 (with figures for the respective 2008 period). The unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 were prepared in accordance with IFRS (IAS 34) and are reprinted in the financial section of this offering circular on pages F-2 et seq.

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € thousand | |
| Revenues | 147,361 | 149,435 |
| Result from sales[1] | 4,562 | 6,722 |
| Sales | 18,715 | 22,282 |
| Carrying amounts of assets sold | (14,153) | (15,560) |
| Other operating income | 3,298 | 5,440 |
| **Total income** | **155,221** | **161,597**[2] |
| Cost of purchased services | (57,987) | (60,627) |
| Personnel expenses | (19,037) | (22,591) |
| Other operating expenses | (10,919) | (13,410) |
| Restructuring and reorganization expenses | (5,387) | (16,790) |
| **Total expenses** | **(93,330)** | **(113,418)** |
| Interim result | 61,891 | 48,179[2] |
| Result from fair value adjustment of investment property | 0 | 496[2] |
| Depreciation | (1,410) | (803) |
| **Earnings before interest and taxes (EBIT)** | **60,481** | **47,872** |
| Financial income | 371 | 775 |
| Result of fair value measurement of derivative financial instruments | (456) | 25,884 |
| Financial expenses | (56,255) | (62,261) |
| **Earnings before taxes** | **4,140** | **12,270** |
| Income taxes | (6,533) | (11,486) |
| **Result from continuing operations** | **(2,392)** | **784** |
| Result from discontinued operations | 0 | (329) |
| **Result for the period** | **(2,392)** | **455** |

1) *The result from Sales was referred to as result from Property Privatization until June 30, 2009.*

2) *Compared with the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG as of June 30, 2008, the result of the fair value adjustment of investment property is reported in the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG as of June 30, 2009 after the interim result and no longer under total income. In the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2008, the reported total income is €162,093 thousand and the interim result is €48,675 thousand.*

### *Revenues*

Revenues decreased from €149,435 thousand in the first half of 2008 to €147,361 thousand in the first half of 2009, which corresponds to a drop of 1.4%. It comprised the following:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € million | |
| Residential Property Management | 130.7 | 131.6 |
| Assisted Living and Elderly Care | 16.4 | 15.0 |
| Other | 0.3 | 2.8 |
| **Total** | **147.4** | **149.4** |

Despite the decrease in net cold rent because of sales, revenue from Residential Property Management decreased only slightly since increases in the net cold rent and the vacancy reduction nearly offset this effect. Estimated rent income decreased from €104.5 million in the first half of 2008 to €103.0 million, a drop of 1.4%. By contrast, a reduction in the vacancy rate caused vacancy income shortfall to decrease from €7.6 million in the first half of 2008 to €6.8 million in the first half of 2009, a drop of 10.5%. The estimated rent income for the entire portfolio increased from €5.07 per $m^2$ as of June 30, 2008 to €5.17 per $m^2$ as of June 30, 2009, an increase of 2%. The vacancy rate decreased from 6.4% as of June 30, 2008 to 5.4% as of June 30, 2009. A total of 2,300 new leases were signed in the first half of 2009, at an estimated rent income of €6.16 per $m^2$. The average estimated rent of the leases signed in the first half of 2009 was approximately 18.5% higher than the current estimated rent income of the entire portfolio of non-rent-controlled properties.

Revenues from Assisted Living and Elderly Care increased by 9.3% to €16.4 million, up from €15.0 million in the first half of 2008. This growth is predominantly the result of the acquisition of new facilities.

*Result from Sales (result from Property Privatization until June 30, 2009)*

The result from sales decreased from €6,722 thousand in the first half of 2008 to €4,562 thousand in the first half of 2009, a decline of 32%. This was chiefly attributable to differences in the location and features of the properties sold and, as a result, the proceeds that could be generated on their sale. For example, properties in Frankfurt an der Oder, Germany, sold above fair value, but at lower sales prices in the first half of 2009.

The following table summarizes the sales (single unit privatizations and block sales) that were recorded in the first half of 2009 and first half of 2008:

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited | |
| Number of units sold | 392 | 345 |
| Sales proceeds, in € million | 18.7 | 22.3 |
| Carrying amounts of assets sold (fair value disposal), in € million | (14.1) | (15.6) |
| **Result from sales[1] in € million** | **4.6** | **6.7** |
| **Sales margin[2] in%** | **32.6%** | **42.9%** |

1) *The result from Sales was referred to as the result from Property Privatization until June 30, 2009. It was also previously referred to as the fair value gain.*

2) *The sales margin is the ratio of the result from sales (fair value gains) to the carrying amounts of assets sold (fair value disposals).*

*Other operating income*

The decrease in other operating income from €5,440 thousand in the first half of 2008 to €3,298 thousand in the first half of 2009, a drop of 39%, is predominantly the result of a decrease in the reversal of write-downs on receivables.

*Cost of purchased services*

The cost of purchased services decreased from €60,627 thousand in the first half of 2008 to €57,987 thousand in the first half of 2009, a drop of 4.4%. The chief component of these expenses is expenses for residential property management, which stood at €56.1 million in the first half of 2008 and €53.6 million in the first half of 2009. The decrease in expenses is largely attributable to the lower vacancy rate and related decrease in maintenance expenses.

*Personnel expenses*

Personnel expenses decreased from €22,591 thousand in the first half of 2008 to €19,037 thousand in the first half of 2009, a drop of 15.7%. There were personnel expenses of €8.7 million in the Assisted Living and Elderly Care segment in the first half of 2009 (the first half of 2008: €8.2 million), whereby the increase is primarily due to the newly acquired facilities. Personnel expenses associated with residential property were €10.3 million in the first half of 2009 compared with €14.4 million in the first half of 2008. The reduction in personnel expenses is primarily the result of the restructuring of Deutsche Wohnen in 2008, which included the elimination of approximately 140 positions.

*Other operating expenses*

The decrease in other operating expenses from €13,410 thousand in the first half of 2008 to €10,919 thousand in the first half of 2009, a drop of 18.6%, is mainly attributable to the decline in headcount and, consequently, the reduction in material expenses.

*Restructuring and reorganization expenses*

Restructuring and reorganization expenses decreased from €16,790 thousand in the first half of 2008 to €5,387 thousand in the first half of 2009, a drop of 68%. The majority of the related expenses were reported in 2008, since the bulk of the restructuring and reorganization was completed in 2008. In particular, restructuring expenses (severance payments and continued salary payments) of €13.0 million were already

incurred in the first six months of 2008. Additional employee reductions were made as part of the optimization process in the first half of 2009, resulting in restructuring expenses of €3.4 million. Apart from the restructuring costs, additional expenses of €2.0 million were incurred in the first half of 2009 (€3.7 million in the first half of 2008) in connection with the integration of infrastructure and internal work processes.

### *Depreciation*

Depreciation increased by 76%, from €803 thousand in the first half of 2008 to €1,410 thousand in the first half of 2009. This increase is largely attributable to the capitalization of expenses in connection with the launch of SAP at the Company effective January 1, 2009. Capitalized expenses of €4.5 million will be depreciated over a useful life of 5 years.

### *Result from the fair value measurement of derivative financial instruments*

The result from the fair value measurement of derivative financial instruments decreased from €25,884 thousand in the first half of 2008 to negative €456 thousand in the first half of 2009. The primary reasons for this decrease were the first-time fulfillment of the requirements of the IAS 39 hedge accounting rules applicable to the accounting for hedging instruments (interest rate swaps) in hedging against cash-flow risks from variable interest loans. For additional information on hedge accounting, see above under "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009.*"

### *Financial income and financial expenses (financial result)*

The financial result represents the difference between the financial income, which decreased by 52%, from €775 thousand in the first half of 2008 to €371 thousand in the first half of 2009, and the financial expenses, which decreased by 10%, from €62,261 thousand in the first half of 2008 to €56,255 thousand in the first half of 2009. The primary reason for the decrease in financial expenses was loan repayments made in 2008, which led to a reduction in current interest expense.

### *Income taxes*

Income taxes decreased from €11,486 thousand in the first half of 2008 to €6,533 thousand, a drop of 43%. This is largely attributable to the fact that the change in deferred taxes on derivative financial instruments, like the fair value measurement of derivative financial instruments, was recognized in Group total equity. In the first half of 2008, the fair value measurement of derivative financial instruments were recognized in the consolidated profit and loss statement, which meant that the deferred taxes (expenses) were also to be recognized there. Under hedge accounting rules, the result from fair value measurement is reported directly in Group total equity if the respective hedging instruments are effective hedges. The same applies to the deferred taxes related to them.

### *Result from discontinued operations*

The result of discontinued operations in the first half of 2008 included the pre-tax and post-tax result from the sale of the AKF Group. Because the AKF Group was sold on July 3, 2008, it had to be presented separately in the consolidated interim financial statements for the six months ended June 30, 2008 pursuant to IFRS 5. For additional information, see above under "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Divestiture of subsidiaries.*"

### *Result for the period*

The result for the period decreased from €455 thousand in the first half of 2008 to negative €2,392 thousand in the first half of 2009, mainly because of the result from the fair value measurement of derivative financial instruments that had been reported in the consolidated profit and loss statement in the first half of 2008. The restructuring and reorganization expenses had an offsetting effect.

*Segment discussion*

The following table shows selected financial data from Deutsche Wohnen's segments and the Other and Group Function column for the six months ended June 30, 2009 and June 30, 2008. The financial data is taken from the unaudited condensed consolidated interim financial statements as of June 30, 2009 (with figures for comparison of the prior-year). The unaudited consolidated interim financial statements as of June 30, 2009 were prepared in accordance with IFRS (IAS 34) and are reprinted in the financial section of this offering circular on pages F-2 et seq. For additional information, see above under "—*Segment Reporting*."

## Residential Property Management segment

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € million | |
| **External revenues** | 130.7 | 131.6 |
| **Segment profit or loss (EBIT)**[1)] | 77.3 | 75.5 |

1) *Adjusted for restructuring and reorganization expenses.*

### External revenues

External revenues decreased from €131.6 million in the first half of 2008 to €130.7 million in the first half of 2009, a drop of 0.7%. The decrease in net cold rent resulting from the sale of properties in 2008 (approximately 1,800 units) was offset by increases in net cold rent and vacancy reduction.

### Segment profit or loss (EBIT)

The segment's profit (EBIT) increased by 2.4%, from €75.5 million in the first half of 2008 to €77.3 million. The increase is largely attributable to the decrease in maintenance expenses as a result of vacancy reduction.

## Sales segment

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € million | |
| **External revenues** | 18.7 | 22.3 |
| **Segment profit or loss (EBIT)**[1)] | 2.5 | 4.8 |

1) *Adjusted for restructuring and reorganization expenses.*

### External revenues

External revenues decreased from €22.3 million to €18.7 million, a decrease of 16.1%. The decrease in segment revenue is mainly due to the differences in location and property features of the units sold. In the first six months of 2009, units in Frankfurt/Oder, Germany, were mostly sold, which led to a decline in the average sale price.

### Segment profit or loss (EBIT)

The segment's profit (EBIT) decreased from €4.8 million in the first half of 2008 to €2.5 million in the first half of 2009, a drop of 47.9%. The decrease was largely attributable to the lower transaction volume.

## Services segment

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € million | |
| **External revenues** | 16.4 | 15.0 |
| **Segment profit or loss (EBIT)**[1)] | 4.5 | 3.9 |

1) *Adjusted for restructuring and reorganization expenses.*

### External revenues

External revenues increased by 9.3%, from €15.0 million in the first half of 2008 to €16.4 million in the first half of 2009, mainly because of an increase in nursing home revenue and the acquisition of new facilities.

### Segment profit or loss (EBIT)

The segment's profit (EBIT) increased by 15.4%, from €3.9 million in the first half of 2008 to €4.5 million in the first half of 2009, mainly because the increase in revenue was not offset by a corresponding increase in expenses.

### Other and Group Function column

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 |
|---|---|---|
| | Unaudited, in € million | |
| **External revenues** | 0.3 | 2.8 |
| **Segment profit or loss (EBIT)[1]** | (17.0) | (19.1) |

1) *Adjusted for restructuring and reorganization expenses.*

### External revenues

External revenues decreased from €2.8 million in the first half of 2008 to €0.3 million in the first half of 2009, a drop of 89.3%. This decrease is primarily attributable to a decrease in revenue on properties managed by third parties.

### Segment profit or loss (EBIT)

The segment's loss (EBIT) narrowed by 11.0%, from €19.1 million in the first half of 2008 to €17.0 million in the first half of 2009. This improvement is predominantly the result of lower personnel and administrative expenses.

### Comparison of the fiscal years ended December 31, 2008 and December 31, 2007

The following table shows Deutsche Wohnen's consolidated profit and loss statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007, based on the audited consolidated financial statements of Deutsche Wohnen AG as of December 31, 2008. The audited consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007 were prepared in accordance with IFRS and are reprinted in the financial section of this offering circular on pages F-12 et seq. and F-62 et seq.

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Revenues | 315,512 | 204,354 |
| Result from sales[1] | 17,409 | 5,285 |
| Sales | 119,710 | 58,501 |
| Carrying amounts of assets sold | (102,301) | (53,215) |
| Other operating income | 11,423 | 6,291 |
| Profit from business combination | 0 | 64,099 |
| **Total income** | **344,344** | **280,030**[2] |
| Cost of purchased services | (139,085) | (96,914) |
| Personnel expenses | (43,541) | (31,729) |
| Other operating expenses | (31,222) | (27,268) |
| Restructuring and reorganization expenses | (24,092) | (9,989) |
| Expenses relating to the listing prospectus | 0 | (1,810) |
| **Total expenses** | **(237,940)** | **(167,710)** |
| Interim result | 106,404 | 112,320[2] |
| Result from fair value adjustment of investment property | (276,528) | 30,948[2] |
| Depreciation | (1,794) | (1,689) |
| Result from affiliated companies | 60 | 18 |
| **Earnings before interest and taxes (EBIT)** | **(171,859)** | **141,596** |
| Financial income | 2,540 | 4,736 |
| Result from the fair value measurement of derivative financial instruments | (32,197) | (7,845) |
| Financial expenses | (127,281) | (72,739) |
| **Earnings before taxes** | **(328,797)** | **65,749** |
| Income taxes | 56,471 | (35,963) |
| Result from continuing operations | (272,326) | 29,786 |
| Result from discontinued operations | 16,421 | 0 |
| **Result for the period** | **(255,905)** | **29,786** |

1) *The result from Sales was referred to as the result from Property Privatization until June 30, 2009.*

2) *Compared with the consolidated financial statements of Deutsche Wohnen AG as of December 31, 2007 presented in the financial section of this offering circular, the result of the fair value adjustment of investment property is not reported under total income, but rather after the interim result. Consequently, total income for 2007 has decreased from €310,978 thousand to €280,030 thousand and the interim result has decreased from €143,268 thousand to €112,320 thousand compared to the corresponding amounts in the consolidated financial statements for the fiscal year ended December 31, 2007.*

*Revenues*

Revenues increased by 54% from €204,354 thousand in 2007 to €315,512 thousand in 2008. Revenues consists of the following:

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Residential Property Management | 277,351 | 180,784 |
| Estimated rent income and other income | 210,274 | 144,564 |
| Vacancy income shortfall | (15,103) | (12,383) |
| Net cold rent and other income | 195,171 | 132,181 |
| Revenue from billing of cost allocations | 82,180 | 48,603 |
| Assisted Living and Elderly Care | 33,117 | 16,124 |
| Care-giving Activities | 3,484 | 3,124 |
| Telecommunications Services | 0 | 2,981 |
| Other Services | 1,560 | 1,341 |
| **Total** | **315,512** | **204,354** |

The increase in revenues from residential property management by 53% from €180,784 thousand in 2007 to €277,351 thousand in 2008 is primarily because the GEHAG Group was consolidated for only five months in 2007 and for twelve months in 2008. For additional information on the GEHAG acquisition, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*" and below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group.*" The GEHAG Group generated revenues of €134.2 million in total for the full twelve months in 2007 and €142.5 million in 2008 from residential property management. Without the GEHAG Group, we generated revenues of €123.2 million in total in 2007 and €134.9 million in 2008 from residential property management. The average estimated rent for our entire stock was €5.10 per $m^2$ as of December 31, 2008 and €4.90 per $m^2$ as of December 31, 2007. The vacancy rate for our entire stock was 5.9% as of December 31, 2008 and 6.4% as of December 31, 2007.

The main reason for the increase in revenues from Assisted Living and Elderly Care by 105% from €16,124 thousand in 2007 to €33,117 thousand in 2008 is that due to the GEHAG acquisition, revenues were only taken into account for five months in 2007 and for twelve months in 2008. The assisted living and elderly care business was first consolidated with the GEHAG Group's consolidation in August 2007. Total revenues in this segment were €26.5 million in 2007.

The decrease in revenues from telecommunications services from €2,981 thousand in 2007 to €0 in 2008 can be attributed to the sale of the AKF Group and its deconsolidation in 2008. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Divestiture of subsidiaries.*"

*Result from Sales (result from Property Privatization until June 30, 2009)*

The result from sales increased by 229% from €5,285 thousand in 2007 to €17,409 thousand in 2008. The main reason for this was the acquisition of the GEHAG Group in 2007. The following table provides an overview of sales made in 2007 and 2008:

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| Units sold (audited) | 1,798 | 883 |
| Sales proceeds in € million (audited) | 119.7 | 58.5 |
| Carrying amounts of assets sold (fair value disposal) in € million (audited) | (102.3) | (53.2) |
| **Result from sales[1] in € million (audited)** | **17.4** | **5.3** |
| **Sales margin[2] in% (unaudited)** | **17.0%** | **10.0%** |

1) *The result from Sales was referred to as the result from Property Privatization as of June 30, 2009. It is also referred to as fair value gain.*

2) *The sales margin expresses the relationship between the result from sales (Fair Value Gain) to the carrying amounts of assets sold (fair value disposal).*

### *Other operating income*

The increase in other operating income by 82% from €6,291 thousand in 2007 to €11,423 thousand in 2008 is primarily because the GEHAG Group was consolidated for only five months in 2007 and for twelve months in 2008.

### *Profit from business combination*

Profit from business combination decreased from €64,099 thousand in 2007 to €0 in 2008 and is equal to the negative consolidation difference between acquisition costs and the acquired net assets related to the acquisition of the shares in the GEHAG Group. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries.*" The purchase price for the shares in the GEHAG Group consisted of a cash component, the issuance of convertible bonds and the issuance of 6.4 million new shares in Deutsche Wohnen AG. For additional information, see "*Description of the Share Capital—Development of the Share Capital since the Company's Formation.*" The profit from business combination is attributable, amongst other things, to the development of the share price of the newly issued shares between the time of the signing of the purchase contract and the actual effective date of the transfer. Between July 2, 2007 (signing of the purchase contract) and August 9, 2007 (effective date of the transfer), Deutsche Wohnen's share price decreased from approximately €39 to approximately €29.

### *Cost of purchased services*

Cost of purchased services increased by 43.5% from €96,914 thousand in 2007 to €139,085 thousand in 2008. The GEHAG transaction in August 2007 was the main reason for this, due to which the GEHAG Group was accounted for only five months in 2007 and twelve months in 2008.

### *Personnel expenses*

The increase in personnel expenses by 37% from €31,729 thousand in 2007 to €43,451 thousand in 2008 is primarily because the GEHAG Group was consolidated for only five months in 2007 and for twelve months in 2008.

### *Other operating expenses*

The increase in other operating expenses by 15% from €27,268 thousand in 2007 to €31,222 thousand in 2008 is primarily because the GEHAG Group was consolidated for only five months in 2007 and for twelve months in 2008. Other operating expenses consisted of the following in 2008 and 2007:

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | **Audited, in € thousand** | |
| 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 |
| Insurance | 474 | 238 |
| Administrative and miscellaneous costs | 12,578 | 9,412 |
| **Total** | **31,222** | **27,268** |

### *Restructuring and reorganization expenses*

The increase in restructuring and reorganization expenses by 141% from €9,989 thousand in 2007 to €24,092 thousand in 2008 is primarily due to personnel restructuring and the reorganization of business processes related to the GEHAG Group's integration into our Group. Following the GEHAG acquisition, headcount was reduced by approximately 140 employees in 2008 (approximately 30% of the total number

of employees in the Residential Property Management and Sales (Disinvestments) segments). Reorganization expenses were incurred (2007: €2.5 million; 2008: €10.9 million) in addition to restructuring expenses (2007: €7.3 million; 2008: €13.2 million), which include severance and wage continuation payments for those employees made redundant. Those reorganization expenses primarily include legal and other consulting costs, contract rescission costs and costs for standardizing operations.

### *Result from fair value adjustment of investment property*

The result from fair value adjustment of investment property decreased from €30,948 thousand in 2007 to negative €276,528 thousand in 2008. The primary cause is the valuation of investment property that was conducted as scheduled. An internal valuation was performed by our Group (not by an external auditor) as of December 31, 2008. The revaluation was based on various parameters, including annual increases in net cold rent, target vacancy levels, as well as capitalization rates and discount rates. The latter were derived based on a risk-free interest rate (10-year average of net yields of German federal bonds: 3%) and real estate-specific risk assessments. The capitalization rates and discount rates increased in 2008 compared to 2007 and, therefore, contributed to the downward valuation adjustments of properties. Consequently, the weighted average of the discount rates increased from 5.99% in 2007 to 6.79% in 2008 and the weighted average capitalization rate from 5.36% in 2007 to 5.72% in 2008. The increase in the discount rates and capitalization rates can be primarily attributed to the increase in risk premiums related to the financial markets crisis. A shift in the discount rates by 0.1% results in a value adjustment of €49 million.

### *Depreciation*

Depreciation increased by 6% from negative €1,689 thousand in 2007 to negative €1,794 thousand in 2008. On the one hand, the GEHAG Group was consolidated for only five months in 2007 and twelve months in 2008, and on the other hand, the sale and the deconsolidation of the AKF Group had a countervailing effect (see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Divestiture of subsidiaries.*")

### *Result from the fair value measurement of derivative financial instruments*

The negative result from the the fair value measurement of derivative financial instruments increased by 310% from negative €7,845 thousand in 2007 to negative €32,197 thousand in 2008. The reason was a fair value measurement of derivative financial instruments as of December 31, 2008. The decrease in market values was mainly due to the lower interest rate levels compared to the previous year. This was primarily due to the decreases in the key lending rates of the central banks related to the financial markets crisis. For example, the 3-month EURIBOR decreased from 4.68 as of December 31, 2007 to 2.89 as of December 31, 2008.

### *Financial income and financial expenses (financial result)*

The financial result consists of financial income, which decreased by 46% from €4,736 thousand in 2007 to €2,540 thousand in 2008, and of financial expenses, which increased by 75% from negative €72,739 thousand in 2007 to negative €127,281 thousand in 2008. The primary reason for the increased financial expenses is due to the impact of the financing for the GEHAG Group acquisition for the full year. For additional information on the acquisition of the GEHAG Group, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*" and below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group.*"

### *Income taxes*

Income taxes increased from negative €35,963 thousand in 2007 to €56,471 thousand in 2008. The main reason is the devaluation of the investment property, which, as a countervailing effect, resulted in a decrease in deferred tax liabilities or an increase in deferred tax assets. An increase in deferred tax assets due to the decrease of the market values of the interest rate swaps was also recorded. See above "*—Fair value*

*adjustment (market value adjustment) of investment property and of derivative financial instruments (interest rate swaps).*" The following table shows the development of the income taxes:

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| 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 carryforwards | 15,802 | 7,494 |
| Loans | (521) | (6,581) |
| Other provisions | (116) | (2,403) |
| Interest rate swaps | (9,773) | (1,057) |
| Pensions | 412 | (230) |
| Other | 889 | 852 |
| | (56,200) | 7,979 |
| **Income taxes** | **(56,471)** | **35,963** |

### *Result from discontinued operations*

The result from discontinued operations in 2008 comprises the result of the sale of the AKF Group. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Divestiture of subsidiaries.*"

### *Result for the period*

The result for the period decreased from €29,786 thousand in 2007 to negative €255,905 thousand in 2008. The main reasons were the fair value adjustment of investment property, the decreased result from the fair value measurement of derivative financial instruments and increased financial expenses.

### *Segment discussion*

The following table shows selected financial data from our segments and the Other and Group Function column as of and for the fiscal years ended December 31, 2008 and December 31, 2007. The financial data are taken from the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal years ended December 31, 2007 and December 31, 2008. The audited consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007 were prepared in accordance with IFRS and are reprinted in the financial section of this offering circular on pages F-12 et seq. and F-62 et seq. For additional information, see above "*—Segment Reporting.*"

### Residential Property Management segment

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Segment revenue from third parties | 277,351 | 180,784 |
| Other revenue | 0 | 30,948 |
| Transactions with other segments | 1,356 | 501 |
| **Segment revenue** | **278,707** | **212,233** |
| Cost of purchased services | (127,708) | (89,718) |
| Adjustment of market value of investment property | (276,528) | 0 |
| **Segment expenses** | **(404,236)** | **(89,718)** |
| **Segment profit or loss** | **(125,529)** | **122,515** |

### Segment revenue

Segment revenue increased by 31.3% from €212,233 thousand in 2007 to €278,707 thousand in 2008. This was primarily due to the first-time consolidation of the GEHAG Group. In 2007, the revenue of the GEHAG

Group was included only for five months, in 2008, however, for twelve months. Other revenue in 2007 included the fair value adjustment of investment property. In 2008, these revenues were no longer stated under segment revenue but under segment expenses. See below "*—Segment expenses*."

### Segment expenses

Segment expenses increased from negative €89,718 thousand in 2007 to negative €404,236 thousand in 2008. This was primarily due to the first-time consolidation of the GEHAG Group. In 2007, the expenses of the GEHAG Group were included only for five months, in 2008, however, for twelve months. The disproportionate increase in segment expenses compared with segment revenue is due to a reclassification of the results from the fair value adjustment of investment property. In 2007, that result, amounting to €30,948 thousand, was still stated under other revenue, which was reported under segment revenue. In 2008, that result was presented under segment expenses.

### Segment profit or loss

Segment profit or loss decreased from €122,515 thousand in 2007 to negative €125,529 thousand in 2008. This development was primarily triggered by the fair value adjustment of investment property, which amounted to negative €276,528 thousand in 2008 compared with €30,948 thousand in 2007. The change in the amount of €307 million (revenue of €30,948 thousand in 2007, reported under other revenue, against expenses for the fair value adjustment of negative €276,528 thousand in 2008, reported under segment expenses) significantly affected the segment profit or loss.

### Sales segment (Property Privatization segment until June 30, 2009)

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Result from sales[1] | 17,409 | 5,285 |
| **Segment revenue** | **17,409** | **5,285** |
| Other operating expenses | (4,164) | (4,254) |
| **Segment expenses** | **(4,164)** | **(4,254)** |
| **Segment profit or loss** | **13,245** | **1,031** |

1) *The result from Sales was referred to as result from Property Privatization until June 30, 2009. It is also referred to as fair value gain.*

### Segment revenue

Segment revenue in the Sales segment increased by 229.4% from €5,285 thousand in 2007 to €17,409 thousand in 2008. This was due to an increased fair value gain (result from sales), resulting from the difference between the sales proceeds we generated in the course of the sales of property and the carrying amounts at fair value of assets sold. This increase was partly due to an increased sales margin in 2008 compared with 2007 and partly due to an increase in the number of property units sold in 2008 compared with 2007. Both effects primarily resulted from the GEHAG acquisition.

### Segment expenses

Segment expenses in the Sales segment decreased slightly, by 2.1%, from €4,254 thousand in 2007 to €4,164 thousand in 2008. This was due to the heightened deployment of internal resources, that is, increased use of own sales staff and subsequent savings in commission payments to third parties.

### Segment profit and loss

The segment profit and loss in the Sales segment increased from €1,031 thousand in 2007 to €13,245 thousand in 2008. This was primarily due to increased segment revenue and slightly decreased segment expenses.

### Services segment

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Segment revenue from third parties | 33,117 | 19,105 |
| Other revenue | 5,455 | 0 |
| **Segment revenue** | **38,572** | **19,105** |
| Cost of purchased services | (9,031) | (5,579) |
| Personnel expenses | (18,265) | (8,057) |
| Other operating expenses | (2,574) | 0 |
| Depreciation | (421) | (1,180) |
| Financial income | 8 | 300 |
| Financial expenses | (16) | (509) |
| Income tax | (16) | (11) |
| **Segment expenses** | **(30,315)** | **(15,036)** |
| **Segment profit or loss** | **8,257** | **4,069** |

### Segment revenue

Segment revenue in the services segment increased by 101.9% from €19,105 thousand in 2007 to €38,572 thousand in 2008. The Services segment was first added to our segment reporting with the first-time consolidation of the GEHAG Group in August 2007. Accordingly, the GEHAG Group's respective financial data in 2007 were recorded in this segment only for a total of five months (starting with first-time consolidation on August 9, 2007 up to the balance sheet date of December 31, 2007). Starting in 2008, the financial data of the GEHAG Group were recorded for the entire year of January 1 through December 31.

### Segment expenses

Segment expenses in the Services segment increased by 101.6% from €15,036 thousand in 2007 to €30,315 thousand in 2008. The reason for this was the first-time consolidation of the GEHAG Group in 2007. For additional information, see above "—*Segment revenue.*"

### Segment profit and loss

Segment profit or loss in the Services segment increased by 102.9% from €4,069 thousand in 2007 to €8,257 thousand in 2008. The reason for this was the first-time consolidation of the GEHAG Group in 2007. For additional information, see above "—*Segment revenue.*"

#### *Other and Group Function column*

| | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|
| | Audited, in € thousand | |
| Segment revenue from third parties | 5,044 | 4,465 |
| Other revenue | 5,968 | 70,390 |
| Transactions with other segments | 44,312 | 40,320 |
| **Segment revenue** | **55,324** | **115,175** |
| Cost of purchased services | (2,346) | (1,617) |
| Personnel expenses | (25,276) | (23,672) |
| Other operating expenses | (48,576) | (34,813) |
| Depreciation | (1,373) | (509) |
| Profit from affiliated companies | 60 | 18 |
| Financial income | 2,532 | 4,436 |
| Adjustment of market value of investment property | (32,197) | (7,845) |
| Financial expenses | (127,265) | (72,230) |
| Income tax | 56,487 | (35,952) |
| **Segment expenses** | **(177,955)** | **(172,184)** |
| **Segment profit or loss** | **(122,630)** | **(57,008)** |

### Segment revenue

Segment revenue in the Other and Group Function column decreased by 52% from €115,175 thousand in 2007 to €55,324 thousand in 2008. This development is primarily due to a decrease in other revenue from €70,390 thousand in 2007 to €5,968 thousand in 2008. This is primarily attributable to the profit from business combination due to the negative consolidation difference from the first-time consolidation of the GEHAG Group in 2007. That profit amounted to €64.1 million in 2007. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries*."

### Segment expenses

Segment expenses in the Other and Group Function column increased by 3% from €172,184 thousand in 2007 to €177,955 thousand in 2008. This is primarily due to the first-time consolidation of the GEHAG Group in August 2007. The GEHAG Group's respective financial data in 2007 were recorded in this segment only for a total of five months (starting with first-time consolidation on August 9, 2007 up to the balance sheet date of December 31, 2007). Starting in 2008, the financial data of the GEHAG Group was recorded for the entire year of January 1 through December 31.

### Segment profit and loss

Segment profit or loss in the Other and Group Function column decreased by 115% from negative €57,008 thousand in 2007 to negative €122,630 thousand in 2008. The trigger for this development was primarily the profit from business combination due to the negative consolidation difference from the first-time consolidation of the GEHAG Group (€64.1 million). For additional information, see above under "*—Segment revenue*."

## Presentation of results of operations for the 2nd PFY 2006

Presented below is our consolidated profit and loss statement for the 2nd PFY 2006. The financial data in the table were taken from the adjusted comparison figures for the 2nd PFY 2006 in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007. The audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007 were prepared in accordance with IFRS and are reprinted in the financial section of this offering circular on pages F-62 et seq.

The following does not compare the financial data from two periods. This is due to the inability to compare the financial data of the 2007 fiscal year and the two partial fiscal years in 2006. For additional information, see above "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data for the 2007 fiscal year and the 2006 partial fiscal years*." Consequently, individual items from our consolidated profit and loss statement for the 2nd PFY 2006 are discussed following the table.

| | July 31 – December 31, 2006 (adjusted)[2] |
|---|---|
| | Audited, in € thousand |
| Revenues | 62,085 |
| Result from sales[1] | 8,136 |
| Sales proceeds | 78,474 |
| Carrying amounts of assets sold | (70,338) |
| Other operating income | 1,868 |
| Result from fair value adjustment of investment property | 12.941 |
| **Total income** | **85,030** |
| Cost of purchased services | (28,746) |
| Personnel expenses | (8,354) |
| Other operating expenses | (11,784) |
| **Total expenses** | **(48,884)** |
| Interim result | 36,146 |
| Depreciation | (249) |
| **Earnings before interest and taxes (EBIT)** | **35,897** |
| Financial income | 733 |
| Financial expenses | (16,293) |
| **Earnings before taxes** | **20,337** |
| Income taxes | (9,412) |
| **Result for the period** | **10,925** |

1) *The result from Sales was referred to as the result from Property Privatization until June 30, 2009. It is also referred to as fair value gain.*

2) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

*Revenues*

Revenues in the 2nd PFY 2006 amounted to €62,085 thousand. It contains revenues from residential property management (€58.3 million), revenue from service and support activities (€1.0 million), and other income (€2.8 million). As of December 31, 2006, the property stock (including DB 14) amounted to 23,630 units. The average estimated rent (excluding DB 14) was €5.05 per $m^2$, at an average vacancy rate (excluding DB 14) of 7.29%.

*Result from Sales (result from Property Privatization until June 30, 2009)*

The result from sales was €8,136 thousand in the 2nd PFY 2006 and consisted of sales proceeds (€78.5 million) minus carrying amounts of assets sold (€70.4 million). 1,300 units were privatized in total in the 2nd PFY 2006.

*Result from fair value adjustment of investment property*

The result from fair value adjustment of investment property was €12,941 thousand in the 2nd PFY 2006.

*Cost of purchased services*

The Cost of purchased services of €28,746 thousand in the 2nd PFY 2006 comprise the expenses for residential property management (€27.1 million) and other expenses (€1.6 million). Expenses for the residential property management primarily include operating costs (€16.5 million) and maintenance expenses (€9.6 million).

*Personnel expenses*

Personnel expenses amounted to €8.4 million in the 2nd PFY 2006. The Group's average workforce during this period was 271 employees.

### *Other operating expenses*

The other operating expenses of €11.8 million in the 2nd PFY 2006 primarily include cost of sales (€5.6 million) and administrative and miscellaneous costs (€3.0 million).

### *Financial expenses*

Financial expenses amounted to €16,293 thousand in the 2nd PFY 2006 and primarily include current interest payments on property-related loans.

### *Income tax*

Income taxes amounted to €9,412 thousand in the 2nd PFY 2006 and primarily contain current income tax (€2.6 million) and deferred taxes (€6.8 million).

### *Segment discussion*

The following tables show selected financial data from our segments and the Other and Group Function column for the 2nd PFY 2006. The financial data were taken from the adjusted comparison figures for the 2nd PFY 2006 in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007. The audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007 were prepared in accordance with IFRS and are reprinted in the financial section of this offering circular on pages F-62 et seq. For additional information, see above "—*Segment Reporting*."

The following does not compare the financial data from two periods. This is due to the inability to compare the financial data for the 2007 fiscal year and the two partial fiscal years in 2006. For additional information, see above "—*Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data for the 2007 fiscal year and the 2006 partial fiscal years*."

### Residential Property Management segment

| | July 1 – December 31, 2006 (adjusted)[1] |
|---|---|
| | **Audited, in € thousand** |
| Segment revenue from third parties | 57,510 |
| Other revenue | 12,941 |
| Transactions with other segments | 98 |
| **Segment revenue** | **70,549** |
| Cost of purchased services | (27,080) |
| **Segment expenses** | **(27,080)** |
| **Segment profit or loss** | **43,469** |

1) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

### Segment revenue

Segment revenue amounted to €70,549 thousand in total in the 2nd PFY 2006. Segment revenue from third parties primarily includes revenue from residential property management. As of December 31, 2006, the property stock amounted to 23,630 units. The average estimated rent (excluding DB 14) in the 2nd PFY 2006 was €5.05 per $m^2$, at an average vacancy rate (excluding DB 14) of 7.29%. The other revenue of €12,941 thousand in the 2nd PFY 2006 comprises the fair value adjustment of investment property.

### Segment expenses

Segment expenses amounted to €27,080 thousand in the 2nd PFY 2006 and contain the residential property management expenses. The latter primarily consists of operating costs (€16.5 million) and maintenance expenses (€9.6 million).

### Segment profit or loss

The segment profit or loss totaled €43,469 thousand in the 2nd PFY 2006.

*Sales segment (Property Privatization segment until June 30, 2009)*

| | **July 1 – December 31, 2006 (adjusted)[2]** |
|---|---|
| | **Audited, in € thousand** |
| Result from sales[1] | 8,136 |
| **Segment revenue** | **8,136** |
| Other operating expenses | (5,573) |
| **Segment expenses** | **(5,573)** |
| **Segment profit or loss** | **2,563** |

1) *The result from sales was referred to as the result from Property Privatization until June 30, 2009. It is also referred to as fair value gain.*

2) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

### Segment revenue

The segment revenue of €8,136 thousand in the 2nd PFY 2006 contains the result from sales. The latter results from the difference between the sales proceeds of €78.5 million and the carrying amounts of assets sold of €70.3 million in the 2nd PFY 2006.

### Segment expenses

Segment expenses amounted to €5,573 thousand in the 2nd PFY 2006 and primarily take into account sales-related expenses such as, for example, notary costs and commissions.

### Segment profit or loss

The segment profit or loss in the Sales segment amounted to €2,563 thousand in the 2nd PFY 2006.

*Services segment*

The services segment was first implemented in our reporting with the acquisition of the GEHAG Group in August 2007 and was therefore not yet shown in the 2nd PFY 2006.

*Other and Group Function column*

| | **July 1 – December 31, 2006 (adjusted)[1]** |
|---|---|
| | **Audited, in € thousand** |
| Segment revenue from third parties | 4,575 |
| Other revenue | 1,868 |
| Transactions with other segments | 12,514 |
| **Segment revenue** | **18,957** |
| Cost of purchased services | (1,666) |
| Personnel expenses | (8,354) |
| Other operating expenses | (6,211) |
| Depreciation | (249) |
| Financial income | 733 |
| Financial expenses | (16,293) |
| Income tax | (9,412) |
| **Segment expenses** | **(41,452)** |
| **Segment profit or loss** | **(22,495)** |

1) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*

### Segment revenue

Segment revenue in the Other and Group Function column amounted to €18,957 thousand in the 2nd PFY 2006 and primarily includes transactions with other segments (mainly revenue from management activities by our Group for our subsidiaries).

### Segment expenses

Segment expenses in the Other and Group Function column amounted to €41,452 thousand in the 2nd PFY 2006. They primarily account for expenses related to goods and services received, personnel expenses, other operating expenses, and financial expenses.

### Segment profit or loss

Segment profit or loss in the Other and Group Function column amounted to negative €22,495 thousand in the 2nd PFY 2006.

## Overview of Investment Property

Our total assets more than doubled from €1.5 billion as of December 31, 2006 to €3.1 billion as of June 30, 2009. This is due to the acquisition of the GEHAG Group in August 2007. For additional information, see "*—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and December 31, 2007—Acquisition of subsidiaries.*" Our key balance sheet item is investment property, which amounted to €2.9 billion as of June 30, 2009. This figure accounts for approximately 93% of total assets.

Investment property comprises property that is held for the purposes of generating rental income or capital appreciation. The property is not held for owner occupancy or for sale in the course of ordinary business activities. Investment property includes land with residential and business buildings, unimproved land, and land with heritable third-party building rights. Our Group carries investment property as "assets held for sale" under current assets where notarial purchase contracts exist on the balance sheet date, but the transfer of ownership occurs later. These are reclassified and recognized at the lower of the selling price or the fair value. Upon initial recognition, investment property is measured at cost, including incidental costs. After initial recognition, investment property is measured at fair value. Gains or losses from the adjustment are recognized as income or expenses in consolidated results. Measurement in each case is as of the balance sheet date. Prepayments or assets under construction related to investment property are measured at cost and reported under investment property.

Capitalization and discount rates are key value drivers. These were derived based on a risk-free interest rate (10-year average of net yields of German government bonds: 3.0% as of December 31, 2008) and real estate-specific risk estimates. Discount rates between 6.10% and 8.35% were used for the valuation as of December 31, 2008. The capitalization rates fall within a range from 4.75% to 7.50%. A discount rate shift of 0.1% causes a value adjustment of €49 million. The purchase of the GEHAG Group caused investment property to increase by 154% from €1.3 billion as of December 31, 2006 to €3.3 billion as of December 31, 2007. As of December 31, 2008, investment property amounted to €2.9 billion, a decrease of 12%. The reasons for this were the fair value adjustment of €0.3 billion in 2008 and sales of €0.1 billion. This balance sheet item totaled €2.9 billion as of June 30, 2009.

## Liquidity and Capitalization

### Overview

One source of financing for our Group is operating cash flow (before interest and tax). This figure amounted to €64.1 million for the six months ended June 30, 2009 (six months ended June 30, 2008: €46.7 million) and €99.0 million in 2008 (2007: €52.5 million; 2nd PFY 2006: €4.2 million). Cash flow from operating activities is calculated by deducting taxes and interest paid and adding interest received. Another source of financing is cash flow from investing activities, which is mainly comprised of proceeds from sales. Payments for acquisitions/investments are generally financed externally. In addition, we also obtain financing from banks.

## Consolidated cash flow statements

The following table contains the consolidated cash flow statement of our Group for the six months ended June 30, 2009 and 2008 based on the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG as of and for the six months ended June 30, 2009 (with comparative figures for the corresponding prior-year period in 2008); the consolidated cash flow statement for the fiscal years ended December 31, 2008 and 2007 based on the audited consolidated financial statements as of and for the fiscal year ended December 31, 2008; and the consolidated cash flow statement for the 2nd PFY 2006, based on the adjusted comparative prior-year figures for the 2nd PFY 2006 in the audited consolidated financial statements for the fiscal year ended December 31, 2007. The unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 were prepared in accordance with IFRS (IAS 34) and are reproduced in the financial section of this offering circular on pages F-2 et seq. The audited consolidated financial statements as of and for the fiscal years ended December 31, 2008 and 2007 were also prepared in accordance with IFRS and are reproduced in the financial section of this offering circular on pages F-12 et seq. and F-62 et seq.

| | January 1 – June 30, 2009 | January 1 – June 30, 2008 | January 1 – December 31, 2008 | January 1 – December 31, 2007 | January 1 – December 31, 2006 (adjusted) |
|---|---|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) (in € thousand) | (audited) | (audited) |
| **Operating activities** | | | | | |
| Result for the period before tax and interest/from continuing segments | 60,025[1)] | 73,427[1)] | (204,056) | 133,751[1)] | 35,897 |
| Result for the period after tax from discontinued segments | — | — | 16,421 | 0 | 0 |
| Non-cash expenses/earnings | | | | | |
| Non-cash earnings from business combination | — | — | 0 | (64,099) | 0 |
| Fair value adjustment of investment property | 0 | (496) | 276,528 | (30,948) | (12,941) |
| Depreciation | 1,410 | 1,775 | 1,794 | 1,689 | 249 |
| Adjustment of interest rate swaps | 456 | (26,072) | 32,197 | 7,845[3)] | — |
| Other non-cash expenses/earnings | (7,402) | 603 | (17,246) | 2,160[3)] | (7,941) |
| Changes in the net working capital | | | | | |
| Changes in receivables, inventories and other current assets | 8,607 | 3,676 | (5,248) | 45,099 | 10,333 |
| Changes in operating liabilities | 1,035 | (6,211) | (1,345) | (43,023) | (21,355) |
| **Operating cash flow** | **64,131** | **46,702** | **99,045** | **52,475** | **4,242** |
| Interest paid | (46,670) | (46,731) | (109,577) | (62,472) | (11,294) |
| Interest received | 371 | 802 | 2,540 | 1,396 | 0 |
| Taxes paid | (2,212) | 0 | (2,350) | (1,878) | (2,626) |
| **Cash flow from operating activities** | **15,620** | **773** | **(10,342)** | **(10,479)** | **(9,678)** |
| **Investing activities** | | | | | |
| Proceeds from sales | 20,463 | 26,522 | 104,684 | 96,397 | 34,771 |
| Payments for investments | (2,753) | (13,170) | (28,578) | (165,452) | (23,276) |
| Other payments | — | — | 0 | (497) | (508) |
| Payments for the purchase of a receivable as part of the acquisition of subsidiaries | — | — | 0 | (78,000) | 0 |
| Proceeds from the sale of subsidiaries | — | — | 18,770 | 0 | 0 |
| Payments for the acquisition of subsidiaries less purchased cash | — | — | 0 | (146,261) | 0 |
| Payments made in connection with DB 14 | (1,323) | (170) | (6,117) | (5,195) | (6,399) |
| **Cash flow from investing activities** | **16,387** | **13,182** | **88,759** | **(299,007)** | **4,588** |
| **Financing activities** | | | | | |
| Proceeds from borrowings | 29,584 | 19,437 | 82,032 | 380,989 | 34,878 |
| Redemption of loans | (84,018) | (39,446) | (166,348) | (39,545) | (8,799) |
| Payout to shareholders | 0 | 0 | 0 | (17,600) | (52,600) |
| **Cash flow from financing activities** | **(54,434)** | **(20,009)** | **(84,316)** | **323,844** | **(26,521)** |
| **Net changes in cash and cash equivalents** | **(22,428)** | **(6,054)** | **(5,900)** | **14,357** | **(31,611)** |
| **Cash at the start of the period** | **41,974** | **47,874** | **47,873** | **33,516** | **65,127** |
| **Cash at the end of the period** | **19,547** | **41,820** | **41,974** | **47,873** | **33,516** |

1) *Result for the period before tax and interest (continuing and discontinued operations)*

2) *As described at the beginning of the "Selected Consolidated Financial Information," the consolidated financial information for the 2nd PFY 2006 is based on the adjusted year-on-year comparative figures for the 2nd PFY 2006 that are contained in the audited consolidated financial statements of Deutsche Wohnen AG as of and for the year ended December 31, 2007.*
3) *Compared to the audited consolidated financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2007, expenses from the adjustment of interest rate swaps of €7,845 thousand for the 2007 fiscal year were reported separately in operating cash flow in the audited financial statements of Deutsche Wohnen AG as of and for the fiscal year ended December 31, 2008. The result for the period before tax and interest for the 2007 fiscal year was €141,596 thousand in the consolidated cash flow statement in the consolidated financial statements for the fiscal year ended December 31, 2007.*

### *Comparison of the six-month periods ended June 30, 2009 and June 30, 2008*

#### Cash flow from operating activities

Cash flow from operating activities increased from €773 thousand in the six months ended June 30, 2008 to €15,620 thousand in the six months ended June 30, 2009. This is mainly due to the effects of restructuring and integration following the GEHAG acquisition, which are reflected in the decrease in personnel expenses and material expenses. The increase in taxes paid from €0 thousand in the six months ended June 30, 2008 to negative €2,212 thousand in the six months ended June 30, 2009 is principally attributable to the payment of withholding tax (EK02) for individual subsidiaries of Deutsche Wohnen AG. For additional information, see "*Risk Factors—Risks Related to Our Business—The change in tax treatment of EK02 Inventories effectuated by the Annual Tax Act of 2008 (Jahressteuergesetz 2008) could have a detrimental effect on our cash flows, financial condition and results of operations*" and "*Business—Litigation—Ongoing proceedings*."

#### Cash flow from investing activities

Cash flow from investing activities increased by 24% from €13,182 thousand in the six months ended June 30, 2008 to €16,387 thousand in the six months ended June 30, 2009. This was mainly the result of a lower volume of investment. Payments in connection with DB 14 were primarily due to the right of sell-out of €0.9 million (prior-year period: €0.2 million) and dividend distributions of €0.4 million (prior-year period: €0.0 million). For further information on the right of sell-out, see "*—Major Factors Affecting Results of Operations—Other factors—DB 14 right of sell-out*."

#### Cash flow from financing activities

Cash flow from financing activities changed by 172% from negative €20,009 thousand in the six months ended June 30, 2008 to negative €54,434 thousand in the six months ended June 30, 2009. The reason for this was the larger redemption payments made with the aim of reducing our Group's debt.

### *Comparison of the fiscal years ended December 31, 2008 and December 31, 2007*

#### Cash flow from operating activities

Cash flow from operating activities increased slightly, by 1%, from negative €10,479 thousand in 2007 to negative €10,342 thousand in 2008. Both the 2007 and 2008 fiscal years were marked by non-recurring items and non-cash income and expenses. Adjusting for these items results in only a minimal year-on-year change in operating cash flow. The primary non-cash items were the fair value adjustments on investment property (2008: negative €276,528 thousand; 2007: €30,948 thousand), profit from business combination in 2007 (€64,099 thousand) and the adjustment of interest rate swaps (2008: negative €32,197 thousand; 2007: negative €7,845 thousand). These expenses/income materially affected the initial amount of cash flow from operating activities (result for the period before tax and interest from continuing operations).

The increase in interest payments by 75% from €62,472 thousand in 2007 to €109,577 thousand is largely attributable to financing for the acquisition of the GEHAG Group. The related interest payments are recognized for a total of 12 months in 2008, but for only approximately five months in 2007. The increased income from residential property management compensated for this effect resulting in only a slight change in cash flow from operating activities.

#### Cash flow from investing activities

Cash flow from investing activities increased by 130% from negative €299,007 thousand in 2007 to €88,759 thousand in 2008. In 2007, payments associated with the acquisition of the GEHAG Group amounting to €78,000 thousand (acquisition of a receivable from the previous owners of GEHAG) and to €146,261 thousand (net cash purchase price) were particularly significant. Additional payments for investments in 2007 totaling €165,452 thousand arose mainly for portfolio acquisitions. In 2008, a total of €28,578

thousand was invested, although this figure primarily relates to capitalization measures and costs associated with the capitalization eligibility of the SAP computer system. Sales of properties as part of Property Privatization totaled €96,397 thousand in 2007. In 2008, cash amounting to €104,684 thousand was received from Sales. Payments in connection with DB 14 mainly result from shares sold back by the fund limited partners *(Fonds-Kommanditisten)*. Payments of €0.4 million in 2008 and €5.2 million in 2007 were made for DB 14's limited partner shares with a right of sell-out. For further information, see "*—Major Factors Affecting Results of Operations—Other factors—DB 14 right of sell-out*."

### Cash flow from financing activities

Cash flow from financing activities decreased by 126% from €323,844 thousand in 2007 to negative €84,316 thousand in 2008. This change is largely attributable to the GEHAG acquisition financed in 2007. In 2008, no purchases were made and therefore no associated loans were obtained. Furthermore, the focus in 2008 was on reducing our Group's debt, which is reflected in net redemption payments of €84,316 thousand. The payout to shareholders in 2007 amounting to €17,600 thousand was for the 2nd PFY 2006. In 2008, no payout was made for 2007.

### *Presentation of cash flow for the 2nd PFY 2006*

### Cash flow from operating activities

Cash flow from operating activities amounted to negative €9,678 thousand in the 2nd PFY 2006. This figure is based on the result for the period before taxes and interest from continuing operations (€35.9 million) and is adjusted for non-cash income/expenses.

### Cash flow from investing activities

Cash flow from investing activities totaled €4,588 thousand in the 2nd PFY 2006. This figure is comprised of proceeds from sales within the sale of properties of €34.8 million and payments for investments (mainly portfolio acquisitions) totaling €23.3 million. Additional payments (€6.4 million) were made to the fund limited partners of DB 14, mostly for the shares sold back. For additional information, see "*—Major Factors Affecting Results of Operations — Other factors — DB 14 right of sell-out*."

### Cash flow from financing activities

Cash flow from financing activities totaled negative €26,251 thousand in the 2nd PFY 2006. This figure was mainly influenced by the dividend payment of €52.6 million for the 2005 fiscal year and the 1st PFY 2006. Net borrowing of €26.1 million compensated for this effect. The net borrowing arose due to the dividend payment, among other factors.

## Cash management system

Our Group has implemented a cash management system. The companies of our Group can move excess liquidity into the system and borrow money when liquid funds are needed.

## Liabilities

The following section describes the financial liabilities, other liabilities (excluding financial liabilities) and other financial obligations and contingent liabilities of our Group for the six months ended June 30, 2009 and the fiscal years ended December 31, 2008 and 2007. The information as of June 30, 2009 is derived from the unaudited condensed consolidated interim financial statements of Deutsche Wohnen AG as of and for the six months ended June 30, 2009; the information as of December 31, 2008 and 2007 is obtained from the audited consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and 2007. The unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 were prepared in accordance with IFRS (IAS 34). The audited consolidated financial statements as of December 31, 2008 and 2007 were also prepared in accordance with IFRS and are reproduced in the financial section of this offering circular on pages F-12 et seq. and F-62 et seq.

*Financial liabilities*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|---|
| | (unaudited) | (audited) In € million | (audited) |
| Company-related loans | 1,448.7 | 1,474.7 | 1,632.2 |
| Property-related loans | 590.9 | 614.3 | 547.1 |
| Participation rights | 0.2 | 0.2 | 0.3 |
| **Total** | **2,039.9** | **2,089.2** | **2,179.6** |

In addition to the financial liabilities, we have €65 million of unused lines of credit available. Based on the volume, 93% of the loans are either fixed interest rate loans or variable rate loans with interest rate hedging transactions. Approximately 71% of the loans are subject to financial covenants.

The average remaining term of the loans is 10 years. The loans to be renewed in 2010 are secured by way of a mortgage, 76% of which have an LTV Ratio of below 52%.

The maturities can be broken down as follows:

| | Total | Residual term up to 1 year | Residual term more than 1 and less than 5 years | Residual term over 5 years |
|---|---|---|---|---|
| | | In € million | | |
| Financial liabilities as of June 30, 2009 (unaudited) | **2,039.9** | 228.8 | 631.4 | 1,179.7 |
| Financial liabilities as of December 31, 2008 (audited) | **2,089.2** | 98.1 | 202.2 | 1,788.9 |
| Financial liabilities as of December 31, 2007 (audited) | **2,179.6** | 145.5 | 255.9 | 1,778.2 |

Company-related loans are loans that were obtained for the purpose 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 as of December 31, 2008 were between 4.61% and 5.69%. Material loan agreements are outlined in "*Material Agreements—Financing Agreements*." The Company expects that the average interest rate on the face value of its financial liabilities for the 2009 fiscal year will be approximately 4.3%.

The property-related loans are loans which can be allocated directly to property. In the past, these loans were obtained mainly for purchases or modernization purposes. In the case of a sale, these loans must be repaid. The average interest rates on these loans are between 0% and 7.5% (generally fixed interest rates). Zero-interest or low-interest loans for which estimated rent income is granted at conditions below the market rate in return are measured at amortized cost. For additional information on zero-interest and low-interest loans, see below "*Legal Environment—Limitations of German Tenancy Law—Restrictions with private subsidies*."

*Other liabilities (excluding financial liabilities)*

| | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|---|
| | (unaudited) | (audited) | (audited) |
| | In € thousand | | |
| **Noncurrent** | | | |
| Convertible bonds | 25,998 | 25,430 | 24,339 |
| Pension obligations | 39,259 | 39,300 | 41,562 |
| Liabilities to Fund limited partners | 40,314 | 48,006 | 46,631 |
| Tax liabilities | 63,227 | 60,652 | 68,126 |
| Derivative financial instruments | 36,201 | 49,349 | 0 |
| Other provisions | 12,401 | 12,506 | 11,375 |
| Deferred tax liabilities | 76,065 | 71,660 | 135,835 |
| **Total noncurrent liabilities (excluding financial liabilities)** | **293,465** | **306,902** | **327,868** |
| **Current** | | | |
| Trade payables | 29,409 | 22,800 | 25,420 |
| Liabilities to Fund limited partners | 7,434 | 0 | 0 |
| Other provisions | 8,900 | 10,296 | 9,440 |
| Derivative financial instruments | 30,078 | 0 | 3,804 |
| Tax liabilities | 19,399 | 21,629 | 13,739 |
| Other liabilities | 21,015 | 26,640 | 24,451 |
| **Total current liabilities (excluding financial liabilities)** | **116,234** | **81,366** | **76,854** |
| **Total liabilities (excluding financial liabilities)** | **409,700** | **388,267** | **404,722** |

Convertible bonds were issued as part of the GEHAG acquisition. For additional information, see "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group*." The convertible bonds can be converted into Deutsche Wohnen shares at any point between the day of issue and the redemption date of July 31, 2010. At the time of issue, the bonds were convertible at a conversion price of €45/share. If the convertible bonds are not converted to shares, they must be redeemed by our Group on July 31, 2010 at par value in the total amount of €25 million plus 9% interest. No interest is paid until the settlement date.

The decrease in pension obligations by 5% from €41,562 thousand as of December 31, 2007 to €39,300 thousand as of December 31, 2008 is mainly due to releases resulting from restructuring in the course of the GEHAG acquisition. Pension obligations generally change due to claims on pension payments, newly vested claims (expense during service period) and accrued interest. Pension provisions are set up for obligations (retirement, disability, widow/widower pension and orphan pension benefits) from deferred benefits and from current benefits to entitled active and former employees and their surviving dependents. New employees are not accepted into the pension plans.

Liabilities to Fund limited partners relate to a right of sell-out granted by individual agreements, which Rhein-Pfalz Wohnen GmbH granted to the fund limited partners of DB 14 for the limited partner shares from 2005 to 2019. Under these agreements, our Group is obligated to acquire the shares initially (in 2005) at 105% of the paid-in capital share on request. Starting in 2005, the agreed purchase price for the shares increases by three to seven percentage points per year. Furthermore, outstanding dividend payments are made for sold back limited partner shares. In accordance with IAS 32 (revised 2003), the cancellation options of the limited partners represent an important criterium for distinguishing between equity and liabilities. Financial instruments that grant the holder (here: limited partner) the right to return the financial instruments 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" have to be recognized in the reported liabilities. The net assets of the limited partners must be reported at fiscal year-end at the fair value of a possible repayment. Increases in value are recognized as a financing expense and decreases as financing income in the consolidated profit and loss statement.

Noncurrent and current tax liabilities (June 30, 2009: €82,626 thousand; December 31, 2008: €82,281 thousand; December 31, 2007: €81,865 thousand) mainly include the present value of payment for the EK02 inventories held by our Group. For additional information on our EK02 Inventories, see above "*Risk Factors—Risks Related to Our Business—The change in tax treatment of EK02 Inventories effectuated by the Annual Tax Act of 2008 (Jahressteuergesetz 2008) could have a detrimental effect on our cash flows, financial condition and results of operations*" and "*Business—Litigation—Ongoing proceedings*."

Derivative financial instruments consist of interest rate swaps entered into in order to hedge cash flow risks arising from future interest payments. The increase in interest rate swaps from €3,804 thousand as of December 31, 2007 to €49,349 thousand as of December 31, 2008 is due to lower interest rate levels (EURIBOR yield curve). If interest rate levels were to increase/decrease by 50 basis points, the fair value of the interest rate swaps would increase/decrease by approximately €31.6 million (based on figures as of December 31, 2008). For additional information, see "—*Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data contained in the financial statements for the fiscal years ended December 31, 2008 and December 31, 2007—Hedge accounting for hedging instruments (interest rate swaps).*"

### *Other financial obligations and contingent liabilities*

The following table provides an overview of the other financial obligations and contingent liabilities of our Group:

| In € million | As of June 30, 2009 | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|---|
| | (unaudited) | (audited) | (audited) |
| **Obligations under** | | | |
| Contingent liabilities | 3.4 | 4.6 | 8.5 |
| Heritable building right contracts[1) ] | 12.0 | 12.0 | 11.2 |
| Agency agreements | 2.7 | 3.1 | 2.0 |
| Trust agreements | 3.2 | 3.2 | 0.4 |
| Leases | 6.1 | 5.6 | 7.1 |
| Thereof due | | | |
| within 1 year | 3.6 | 1.9 | 2.2 |
| more than 1 and less than 5 years | 2.5 | 3.7 | 4.9 |
| in over 5 years | 0 | 0 | 0 |
| **Total** | **27.4** | **28.5** | **29.2** |

1) *This item comprises interest on heritable building rights.*

Obligations from contingent liabilities primarily result from settlement guarantees for partial retirement credit balances and guarantees securing bank loans and advances. Obligations from agency agreements mainly relate to obligations arising from IT services.

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a development and reconstruction agency (Sections 158 and 167 of the German Federal Building Code (*Baugesetzbuch,* the "BauGB")). Rhein-Pfalz Wohnen GmbH performs assignments delegated by local authorities as their trustee. As of December 31, 2008, it holds bank balances amounting to €3.2 million (December 31, 2007: €0.4 million) in trust relating to property renovation and development measures.

Obligations from leasing contracts relate mainly to office equipment.

## Capital Expenditures

Capital projects are planned by the Company in connection with two housing estates in Berlin that have been designated as UNESCO world heritage sites. Based on the measures as currently planned, the investment volume will be between €12 million and €14 million. These projects will be financed through equity and debt of the Group and, in part, subsidized by the federal government and Federal State of Berlin.

From January 1, 2009 to the date of this offering circular, the Company had not incurred any significant capital expenditures.

In the 2008 fiscal year, a total of €21 million was invested into the existing property portfolio in the form of modernization measures. In addition, approximately €4.5 million was spent on software implementation (SAP-based). These investments were funded from equity and from borrowings.

The 2007 fiscal year was dominated by the acquisition of the GEHAG Group. The GEHAG Group was acquired for a purchase price of €371 million. See "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group.*" Apart from the GEHAG Group, additional portfolios with a total worth of €138.9 million were acquired. These acquisitions were financed from borrowings.

In the 2nd PFY 2006, one portfolio was acquired for the sum of €18.9 million. The funds for the acquisition were borrowed. In addition, €6.4 million was spent to service the sell-out rights of the limited partners of the DB 14 fund. For additional information, see above under "—*Liabilities—Other liabilities (excluding financial liabilities)*" and "—*Major Factors Affecting Results of Operations—Other factors—DB 14 right of sell-out*."

### Critical Accounting Policies

Critical accounting, measurement, reporting and consolidation principles are outlined in the notes to the respective consolidated financial statements that are reprinted in the financial section of this offering circular. The application of these principles requires estimates and assumptions that affect the presentation of assets and liabilities, the reporting of contingent liabilities at the balance sheet date and the presentation of income and expenses. The actual amounts can ultimately differ from the amounts contained in the respective financial statements, which are based on estimates and assumptions. For additional information, see the notes to the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2009 reproduced in the financial section of this offering circular on page F-2 et seq. and the notes to the audited consolidated financial statements for the fiscal years ended December 31, 2008 and 2007 reprinted on pages F-12 et seq. and F-62 et seq.

### Information from the Unconsolidated Financial Statements (in accordance with the German HGB) for the Fiscal Year Ended December 31, 2008

The financial statements of Deutsche Wohnen AG prepared in accordance with the HGB for the fiscal year ended December 31, 2008 were fundamentally affected by the decline in the value of the real estate portfolio and the reorganization of our Group. The decline in the value of the real estate portfolio has resulted in losses at directly and indirectly held subsidiaries that are also reflected at Deutsche Wohnen AG due to control agreements. Furthermore, in 2008 Deutsche Wohnen AG assumed the holding functions exercised by former Group management companies, such as legal issues, human resources and organization, accounting and investor relations. As a result, personnel expenses increased along with other operating expenses compared with the 2007 figures. By transferring the losses, Deutsche Wohnen AG generated a net loss for the year of €80,277 thousand, which was compensated for by the retained earnings from 2007 (€433 thousand) and share premium draw downs (€79,844 thousand). Therefore, Deutsche Wohnen AG has equity of €296,501 thousand and an equity ratio of 42%.

# BUSINESS

## Overview

Deutsche Wohnen is, according to its own estimates, Germany's second-largest publicly traded residential real estate company, measured in terms of market capitalization, and property portfolio, which currently includes 50,611 units (50,122 of which are residential units). Our business strategy focuses on attractive residential properties, currently in the important business centers of Berlin and the Rhine-Main area. Due to our concentration on residential real estate, we believe that we are less affected by cyclical fluctuations than companies specializing in commercial real estate. Our business is divided into the segments Residential Property Management, Sales (comprising block sales and single unit privatisations) and Assisted Living and Elderly Care. The Residential Property Management and Sales segments are supported by our portfolio management unit, which is responsible for the strategic positioning of the existing and future property portfolio.

The Residential Property Management segment, which is the focus of our Company's business, includes all activities relating to residential property management and administration, lease management and tenant assistance. Our strategic goal in this segment is to maintain and optimize our net cold rent. We aim to accomplish this by focusing on existing net cold rent uplift potential, vacancy reduction by maintaining and increasing the attractiveness of our residential property portfolio (for example, by maintaining and modernizing our rental stock) and by ensuring efficient management of our residential properties (through an ongoing review of possible management alternatives in the regional property groupings or "clusters"). We believe that by focusing our portfolio on core regions and continually optimizing the net cold rent from our real estate portfolio, we can generate organic growth.

The Sales segment includes all activities relating to the sale of residential units, buildings and land. Our residential holdings intended for sale are broken down into individual unit sales and block sales. In individual unit sales, our objective is to sell apartments, mainly to owner-occupants, at prices exceeding the fair value. The disposal portfolio for block sales comprises apartments in locations that no longer fit into our business strategy. These mainly include residential units and buildings in rural areas and individual buildings in and outside of the core regions (known as "scattered holdings"). The majority of these properties are sold to institutional investors, generally at least at fair value, although, at times, below fair value in order to adjust the portfolio. All sales of residential units are intended to optimize and consolidate our property portfolio and occur on an ongoing, but staggered basis.

Our Assisted Living and Elderly Care segment manages and markets nursing and residential care facilities for seniors, the vast majority of which we own, under the KATHARINENHOF® brand. These facilities provide full inpatient care with the aim of promoting an active lifestyle for nursing care patients while preserving their independence as much as possible. Our assisted living facilities provide older people with rental apartments along with an extensive range of services tailored to their needs. The Assisted Living and Elderly Care segment is referred to as the "Services" segment in our Group's segment reporting.

As of June 30, 2009 our residential property portfolio consisted of 50,122 residential units with a total residential floor area of 3.1 million $m^2$ (based on the total residential floor area listed in the leases). The estimated rent income based on our entire residential portfolio (total portfolio), amounted to €5.17 per $m^2$ as of June 30, 2009. The average apartment size was 61 $m^2$. The vacancy rate was 5.4% as of the same date. In addition to residential properties, our real estate portfolio includes 489 commercial units and commercial floor space totaling 85 thousand $m^2$ (based on the total commercial floor space listed in the leases), as well as 11 nursing care facilities with space for 1,125 nursing care residents and 4 assisted living facilities with 229 apartments, one of which is also a nursing care facility. Of the 14 facilities, including nursing care facilities and assisted living facilities, two are not owned by Deutsche Wohnen. The nursing care facilities and assisted living facilities, which we own, were grouped into a total of ten assisted living and elderly care facilities in the Property Appraisal Report from the independent appraisers CB Richard Ellis GmbH. According to the Property Appraisal Report, the total market value of our real estate portfolio (residential and commercial properties, Assisted Living and Elderly Care) was €2,864.9 million as of June 30, 2009. We valued our real estate portfolio at €2,864.6 million as of the same reporting date. Our NAV less real-estate related deferred taxes amounted to €638.3 million as of June 30, 2009. On June 30, 2009, we had a total staff of 1,268 employees (942 of whom worked in the Assisted Living and Elderly Care segment).

## Competitive Strengths

Based on the size and quality of our residential property portfolio, the focus of our portfolio on core and growth regions, and the quality of our management and employees, we believe that we are favorably

positioned to generate sustained value growth in the existing residential property portfolio and also to build on the foundation of our portfolio in the German residential real estate market by selectively acquiring additional property portfolios.

We believe our strengths vis-à-vis our competition lie primarily in the following areas:

- a high-quality, attractive property portfolio that generates strong rental income in two important business centers in Germany (Berlin and the Rhine-Main area);
- the skills, experience and market knowledge of our management team and employees;
- access to various potential sellers of residential properties and new property portfolios;
- integration expertise and scalability of the business platform; and
- achievement of net cold rent increases through strategic asset and portfolio management.

***High-quality, attractive existing property portfolio that generates strong rental income in two important business centers in Germany (Berlin and the Rhine-Main area).*** As of June 30, 2009, our residential property portfolio consisted of 50,122 residential units, 71% of which, in relation to our owned portfolio of 47,501 residential units, are located in the two important business centers of Berlin and the Rhine-Main area. We believe that our residential property portfolio is a high-quality, attractive portfolio that generates strong rental income, mainly due to our geographical focus on two regions that ideally complement each other due to the following characteristics. The Berlin region benefits from a relatively low average contractual net cold rent level, a population that has been growing for years due to immigration, and an increase in the number of households due to the high proportion of one-person households, which leads to strong demand for apartments. Due to the above-average percentage of highly qualified workers compared to Germany as a whole, the Berlin region offers strong innovative potential and future viability. The Rhine-Main area is characterized by a population with above-average incomes and strong purchasing power and by relatively high contractual net cold rent levels. In the future, we anticipate strong economic growth, as well as population increases in both regions, which is expected to raise demand for residential properties overall and have a positive influence on our rental income. We believe that our existing portfolio of residential properties forms a strong platform for selective acquisitions of additional property portfolios.

***Skills, experience and market knowledge of our management team and employees.*** Our management team has a great deal of experience in portfolio management and the acquisition of residential real estate assets. In addition to the acquisition of the GEHAG Group in August 2007, our current management team was able to successfully complete the acquisition and integration of several smaller real estate portfolios between 2003 and 2007. The management team is also supported in all aspects of our business by an experienced and skilled managerial staff. The leasing of residential units or their sale as part of privatization projects is also handled primarily by our own experienced and skilled employees. Due to their many years of experience in the residential real estate industry, our management team and staff both possess extensive knowledge of the German residential property market, including the special characteristics of the relevant regions.

***Access to various potential sellers of residential properties and new real estate portfolios.*** We believe that we possess a wide-ranging network of business contacts in the real estate industry and an excellent reputation in the market. Our network enables us to obtain timely information regarding real estate portfolios for sale and therefore to efficiently make contact with sellers of residential property portfolios. Due to our network and the broad market knowledge of our management team and employees in the purchase of small and large-scale property portfolios, we believe that we are in the position to invest in high-income, high-growth portfolios. Moreover, our past activities, particularly with respect to portfolio sales by German states and municipalities, have enabled us to build a reputation as a reliable partner.

***Integration expertise and scalability of the business platform.*** The Company's business organization is flexible and streamlined. After the acquisition of the GEHAG Group in 2007, the target number of positions for full-time employees was reduced from 488 to 340. Due to our flat corporate hierarchy and the market knowledge of our management team and employees, decisions to invest in new residential property portfolios can be made and implemented quickly based on well-founded information. We believe that this organizational structure will enable us to expand our existing portfolio through the purchase of smaller-scale portfolios without incurring substantial additional fixed costs. Moreover, we believe that our Company is in the position to quickly and efficiently optimize the cost structures of portfolios after acquisition. For example, after the acquisition of the GEHAG Group in 2007, operating expenses were reduced by 17% (in the first six months of 2009 compared with the first six months of 2008) due to the efficient and rapid

implementation of cost optimization and restructuring measures, particularly cutting personnel and streamlining administration. As a result, we were able to increase our FFO from €10.9 million in the first six months of 2008 to €17.8 million in the first six months of 2009. Our FFO per share rose from €0.41 in the first six months of 2008 to €0.67 in the first six months of 2009.

***Achievement of increases in net cold rent through strategic asset and portfolio management.*** Our strategic asset and portfolio management activities involve a review of each potential investment before acquisition to determine whether the specific residential real estate assets to be acquired are a suitable high-income and high-growth investment. This review clarifies whether the planned investment fits into the existing portfolio, for example in terms of risk mix, compatibility in certain segments and regions, the effects of the acquisition on personnel and administrative expenses, and the necessity of additional special measures, such as modernization or revitalization. Strategic asset and portfolio management also includes identifying the potential for value growth in the existing portfolio and in possible acquisition targets, as well as realizing this upside potential by implementing concepts to add value, for example, modernizing units or leveraging vacancies due to tenant turnover. Also, strategic portfolio management involves continually reviewing the property portfolio with the goal of optimizing the portfolio and selling off certain real estate holdings. Due to our asset and portfolio management activities, we were able to increase the estimated rent income in our total portfolio from €4.90 per $m^2$ as of December 31, 2007 to €5.10 per $m^2$ as of December 31, 2008 and to €5.17 per $m^2$ as of June 30, 2009. We also reduced the vacancy rate from 6.4% as of December 31, 2007 to 5.9% as of December 31, 2008 and to 5.4% as of June 30, 2009.

## Strategy

The focus of our business is to enhance shareholder value. To accomplish this goal after the acquisition of the GEHAG Group it was first necessary to restructure and integrate the two companies and build up a competitive and scalable platform. We largely completed this phase of the restructuring and integration in 2008. The next phase will focus on improving our financial position, in particular by undertaking an appraisal of our real estate holdings that is still transparent and reflective of market conditions and also reducing our debt load. Cost savings and a reduction in ongoing interest expense should result from both of these phases. Growth and value enhancement will be the priority of the third phase.

Our Company sees itself as an active manager of mid-priced apartments in economically attractive locations with above-average net cold rent uplift potential. A key element of our business strategy is to develop this potential by increasing net cold rent as part of rent index adjustments, new leases at market rent and by undertaking targeted measures to modernize our core portfolio in order to grow shareholder value. The implementation of this strategy is driven mostly by the portfolio structure (location, condition, share of non-rent-controlled properties, year of construction, etc.) and the business principles derived from it. The core elements of the strategy are as follows:

- focus on management of our own residential properties in growth regions in Germany;
- leveraging of net cold rent uplift potential and vacancy reduction in our core portfolio;
- growth through targeted acquisitions;
- value-oriented sales of individual units and the streamlining of our portfolio; and
- optimization of our financing structure, particularly by reducing financial liabilities.

***Focus on management of our own residential properties in growth regions in Germany.*** In the future, we aim to concentrate our efforts increasingly on the management of our residential property portfolio in order to maintain and increase net cold rent. In this process, the strategic focus will continue to be on the German residential real estate market and on the management of our own residential property holdings. For this reason, we follow a regional approach and concentrate on managing a compact portfolio in a few core regions, particularly Berlin and the Rhine-Main area. In addition, we plan to expand our residential property portfolio in other regions that we believe offer strong growth potential and net cold rent uplift potential.

***Leveraging of net cold rent uplift potential and vacancy reduction in the core portfolio.*** We aim to increase the income generated by our current holdings of residential real estate by increasing net cold rent in the course of continuing active asset and portfolio management. The increase in net cold rent should be generated mainly by: modernization measures in selected properties; maintenance, further improvement of the tenant structure; targeted increases in net cold rent to market levels in the course of natural tenant turnover; increases in net cold rent in line with the rent index growth; and vacancy reduction. The portfolio is also streamlined through sales to owner-occupiers and block sales to institutional investors. Our focus on

residential property management in core regions and locations with rent growth potential is a key element in optimizing our residential property portfolio and increasing profitability. Since our current net cold rent in these regions and locations is below the normal market rent that we have determined, based on newly leased properties, we believe there is the potential for further increases in net cold rent. For example, the leasing of 2,300 non-rent-controlled units in the first six months of 2009 generated an average net cold rent of €6.16 per $m^2$. Our own portfolio has a rent increase potential of approximately 18.5%, based on the estimated rent income of our own portfolio (excluding rent controlled properties) of €5.20 per $m^2$.

***Growth through targeted acquisitions.*** As of June 30, 2009, we held a portfolio consisting of 50,122 residential units. We are positioned as a residential real estate "consolidation platform," that is, we are in the position to integrate new portfolios into our existing organizational structures quickly and therefore to take advantage of economies of scale. In the future, we plan to acquire selected suitable residential property portfolios in centrally located regions with identifiable potential rent growth, in order to develop increased growth potential, which is otherwise generally limited to the management of the existing portfolio. In principle, we estimate that for entry into new markets in growth regions outside of the core Berlin and Rhine-Main areas, the necessary portfolio size for sustainable management is at least approximately 2,000 apartments per location. Within our core regions, we would also consider acquiring portfolios smaller than 2,000 units, but generally only if these portfolios logically complement the residential property portfolio in the respective core region. In all acquisitions, we look in particular for a reasonable purchase price to ensure the potential for asset value growth as part of our asset and portfolio management efforts.

***Value-oriented sale of individual properties and portfolio streamlining.*** Our property portfolio intended for sale is broken down into units to be sold individually and block sales. In individual sales, our objective is to sell apartments, mainly to owner-occupiers, at prices exceeding the fair value. Approximately 5,000 units are intended for individual sales, approximately 500 residential units (or 10% of the disposal portfolio) of which are earmarked for sale each year. As of June 30, 2009, we had already officially recorded 403 contracts of sale for the current fiscal year; this represents 80% of our target for 2009. The disposal portfolio for block sales comprises apartments in locations that no longer fit into our business strategy. The majority of these properties are sold to institutional investors, generally at least at fair value, although, at times, below fair value in order to adjust the portfolio. In the course of future portfolio acquisitions, properties acquired may have a subset of residential units that do not fit into our business strategy, and we would plan to sell these blocks to optimize our portfolio.

***Optimization of the financing structure, particularly by reducing financial liabilities.*** We plan to optimize our current financing structure. Our goal is to repay specified, scheduled financial liabilities to banks to reduce our debt ratio and interest payments on the one hand and to optimize our repayment and financing structure on the other. We aim to reduce our LTV ratio in the medium term from 69.9% currently (June 30, 2009) to a target range of between 60% and 65%. Among other things, we anticipate that the issue proceeds of approximately €250 million expected to accrue to our Company from the Offering will be used in part to reach these goals.

## Key Information on the Company's History and Recent Developments

| | |
|---|---|
| 1996 | Establishment of the Company as Kera Beteiligungs AG; no operations initially. |
| 1998/1999 | Renaming the Company "Deutsche Wohnen AG" and start of operating activities. |
| 2000 | Placement of 100% of shares by former sole shareholder Deutsche Grundbesitz Management GmbH (then DB Real Estate Management GmbH, now RREEF Management GmbH), Eschborn, a wholly owned subsidiary of Deutsche Bank AG (together with its subsidiaries, the "Deutsche Bank Group"), with private and institutional investors. |
| | Contribution of residential and commercial units to the closed-end real estate fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG. |
| 2006 | Deconsolidation of Deutsche Wohnen AG from the Deutsche Bank Group's consolidated financial statements. |
| | Exchange of the majority of registered shares for bearer shares of Deutsche Wohnen AG by way of an exchange offer. |
| | Capital increase from the company's funds and 1:5 stock split. |

2007 Acquisition of the shares of the GEHAG Group with approximately 27,000 residential units in Berlin and Brandenburg, several senior homes and nursing home facilities, as well as a telecommunications service provider with approximately 80,000 connected households.

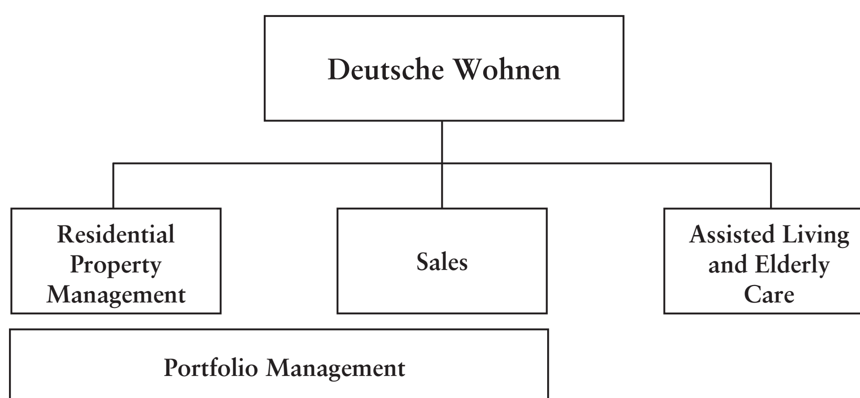
2008 Integration of the GEHAG Group into our Group by way of creation of a new, competitive organizational structure and reorientation of our investment management and real estate portfolio strategy to focus on the management of properties in the core regions of Berlin and Rhine-Main.

In this context, sale of residential holdings comprising 1,169 apartments falling outside of our core portfolio for regional or product-specific reasons and sale of the Telecommunications business area (the AKF Group).

**Business Segments of Our Group**

As part of comprehensive restructuring after the acquisition of the GEHAG Group in 2007, our organizational structure was overhauled in order to create a streamlined and efficient platform for purchasing and integrating additional real estate portfolios into our Company.

As a result of the restructuring, our business operations now focus solely on the following three business segments:




Portfolio Management provides support to the Residential Property Management and Sales business segments. Essentially, Portfolio Management's mission is the strategic positioning of the existing and future portfolios.

Within our Group, Deutsche Wohnen AG functions as a financial and management holding company for approximately 40 Group companies. Its responsibilities include the following in particular: strategic corporate development, coordination of and negotiations in conjunction with acquisitions of real estate portfolios, financing for our Group, financial controlling and risk management for its direct and indirect subsidiaries.

**Residential Property Management segment**

*Overview*

Our business activities focus on managing residential properties as part of active portfolio management. All residential property management activities in Berlin and Frankfurt am Main are provided by Deutsche Wohnen Management GmbH. Deutsche Wohnen Management GmbH has approximately 240 employees and is divided into decentralized and centralized units. The key centralized services provided are rent management, purchasing of residential property management-related services, the Service Center, and administrative activities such as rent accounting and operating cost billing. The decentralized units are known as "Service Points" and are located in various regions across Germany.

*Project management*

Rent development and project management are coordinated centrally from the office in Berlin for our entire portfolio. A key focus here is on the strategic planning of modernization measures and renovation projects as part of portfolio management.

Modernization measures are undertaken to sustainably increase the market value of apartments, permanently improve general housing conditions or effect sustainable energy savings. In this context,

modernization expenses recognized in the profit and loss statement are specifically incurred for properties where further net cold rent uplift potential has been identified. Modernization projects that can be capitalized (for example, installation of heating systems and balconies, modernization measures aimed at improving energy efficiency, extension and/or improvement of electrical wiring, or the installation of new bathrooms) are suitable in particular for achieving significant increases in net cold rent. Based on available data from our in-house portfolio management system and auxiliary macro and micro research data, we routinely analyze and identify the net cold rent uplift potential at locations represented in our housing portfolio that can be generated through modernization measures and renovation projects. In order to assign a value to this potential, Deutsche Wohnen Management GmbH first calculates the expected costs associated with the projects and the increases in net cold rent that can be achieved, taking into account statutory regulations, and then uses these figures to calculate the profits that can in turn be generated from the future increases in net cold rent. We expect the increase in rental income to be achieved mainly through targeted rent increases in the course of natural tenant turnover to enhance net cold rent that is below market levels. Since our current net cold rent in these regions and locations is below the market rent we have determined based on newly leased properties, there is potential here for further rent increases. For example, the leasing of 2,300 non-rent-controlled units in the first six months of 2009 generated an average net cold rent of €6.16 per $m^2$. Our portfolio has a rent increase potential of approximately 18.5%, based on the estimated rent income for non-rent-controlled properties of €5.20 per $m^2$. Our tenant turnover rate based on our total portfolio averages approximately 10% per year and is a factor in realizing this net cold rent uplift potential.

In principle, the renovation of residential properties involves fundamentally improving a building's structural condition. We knowingly take into account the temporary vacancy of buildings required in such cases (planned vacancy).

As a rule, we aim to manage all properties for the long term. However, for purposes of portfolio optimization in the current core regions and enhancing the efficiency of management of the total portfolio, alternatives (continued management of a property or single unit privatisations) are compared and contrasted based on investment calculations performed using the discounted cash flow method, and management subsequently chooses a course of action from the various options presented. Our portfolio management unit also continually reviews the residential property portfolio for risks and optimization potential and, if necessary, recommends portfolio optimization measures in structurally weak regions and in our holdings in non-core geographic areas.

We contract with third-party companies for concrete planning and completion of modernization and renovation measures. Maintenance services are also generally provided by an external general contractor or technical systems vendor. Deutsche Wohnen Management GmbH is only responsible for managing, coordinating and monitoring the performance of these services.

### *Rent management*

The rent management staff in the central offices in Berlin and Frankfurt am Main implements rent changes applicable to the rent-controlled holdings, reviews possible rent increase potential in the non-rent-controlled holdings and adjusts the rent structure to match current market conditions on an ongoing basis. In this context, fixtures in our residential properties that could be a factor in raising rents are also examined, while rent development/management staff also determine possible potential for optimization, which can, in individual cases, lead to modernization projects in occupied apartments when tenants move, or to minor projects being carried out for entire building units, or to complex modernization and maintenance projects. In this case, the rent development and project management units work closely with our centralized technical services unit to handle management and coordination of the commercial aspects of these projects. At the same time, our rent management staff calculates the operating costs incurred, bills tenants for these and informs tenants of the required adjustments to pre-payments. The employees in our facility management unit continually develop potential savings and approaches to improving processes. See "—*Central services management*."

### *Receivables management*

Receivables management, which also operates from our central offices in Berlin and Frankfurt am Main, includes both rent accounting and collections/litigation. All rent and deposit accounts are monitored on an ongoing basis and all incoming payments are tracked systematically. Where receivables are outstanding, collections/litigation staff take the necessary steps to successfully collect the receivables.

### *Central services management*

Our central services management unit is further divided into the facility management (formally central purchasing) and central technical services teams. The facility management team is tasked with updating existing key processes and procurement procedures, adapting them to our corporate strategy, continually optimizing them and managing them internally and externally. Potential for improvement in various areas of property management-related services and types of care is identified taking into consideration current market developments, processes are adapted to boost profits, and business models are developed and updated. Existing contracts are managed comprehensively, and subsequent contracts are strategically aligned with our corporate philosophy. Central services management is also responsible for managing maintenance projects and modernization of individual apartments as part of strategic portfolio management. We rely on system vendors for the actual performance of maintenance and modernization measures. These vendors are the direct contacts for tenants for maintenance projects up to €1,000. A price list is provided to system vendors that they use to invoice individual services associated with modernization projects in individual apartments and changes of tenants.

### *Service Center*

Set up in 2009, the Service Center in Berlin is the central administrative office for all of our Group's locations. Service Center employees field phone reports (for example, reports of problems) and pre-sort these. They also review and pre-sort incoming mail. Many issues can be handled directly by the Service Center (forwarding of problem reports to system vendors, processing of initial complaints, managing tenant data in SAP, etc.). The goal is to define additional standardized processes to be handled directly by Service Center employees. All issues that require a detailed on-site review are forwarded to competent Service Point employees or to the employees in the central services units.

### *Service Points*

The eight Service Points in Neustadt an der Weinstrasse, Koblenz, Mainz, Frankfurt am Main, Berlin-Britz, Berlin-Reinickendorf, Berlin-Wilmersdorf and the headquarters (Berlin) are the contact point for tenants and other interested parties. The Service Points provide commercial and technical housing and rental services and also have back-office employees. The employees handle all special concerns of our Group's tenants directly on-site. Technical problems arising in the properties can therefore be inspected quickly and measures taken to rectify these problems. The timely completion of work on apartments during tenant changes and the correction of technical problems costing up to €1,000 are the responsibility of our technical service partners (system vendors) in technical building management services. Monitoring of system vendor operations is a responsibility of the Service Points, as is the coordination of maintenance work costing more than €1,000. Furthermore, the support provided by back-office staff to our Service Point employees is invaluable. The housing advisors (at Service Point headquarters only) support the housing service and receivables management with their tenant visits, as well as rent development and project management by way of participation in walk-throughs before larger-scale construction projects are carried out in the apartments.

### *Key figures of the Residential Property Management segment*

The following table provides an overview of the key figures of our Residential Property Management segment as of June 30, 2009, as of December 31, 2008 and as of December 31, 2007:

| | **As of June 30, 2009** | **As of December 31, 2008** | **As of December 31, 2007** |
|---|---|---|---|
| Estimated rent income in € per m$^2$ | 5.17 | 5.10 | 4.90 |
| Vacancy rate in % | 5.4% | 5.9% | 6.4% |
| No. of apartments | 50,122 | 50,489 | 51,127 |

The tenant turnover rate for our total portfolio overall averages approximately 10% per year. Of the approximately 2,300 new leases arranged in the first six months of 2009, we increased the average rent for the non-rent-controlled properties in the real estate portfolio by approximately 18.5% from €5.20 per m$^2$ to €6.16 per m$^2$. The estimated rent for the total portfolio increased by approximately 5.5% since December 31, 2007 from €4.90 to €5.17 as of June 30, 2009 due to increases in net cold rent and reduced vacancies. The Company estimates that personnel and material expenses will amount to approximately €357 per unit for ongoing administration in the Residential Property Management segment in the 2009 fiscal year. These personnel and material expenses include the personnel and material expenses of our Group that are directly or indirectly attributable to Deutsche Wohnen Management GmbH.

### *Management of commercial properties*

Management of the commercial units in our portfolio is handled in parallel with the management of our residential properties. The commercial units currently held in our real estate portfolio are mainly integrated into the residential properties managed by us and primarily include retail businesses within residential buildings and, to a lesser extent, office space.

### *Telecommunications services provided until 2008*

Within the Residential Property Management segment, we offered telecommunications services to third parties and tenants, primarily in Berlin, Hesse, North Rhine-Westphalia and Brandenburg, via an independent broadband cable network through the AKF Group, which was a wholly owned subsidiary of GEHAG up to 2008. These services included networking of apartments for telephone services, provision of analog and digital radio and television services, and provision of interactive, Internet-based products (multimedia networks/services). The AKF Group was sold as of July 3, 2008 (transfer date).

## Sales segment

### *Overview*

The Sales segment is the second component of our operations. As opposed to residential property management, generating proceeds from sales of property is only a secondary focus of our business. Nonetheless, property sales will continue to play a key role in the active management of our portfolio. This segment draws a distinction between individual sales and block sales. Individual sales involve the sale of individual apartments (for example, to tenants) and the sale of privatized holdings, that is, portfolios, in which units have already been privatized under German law according to the German Condominium Act (*Wohnungseigentumsgesetz*). In block transactions, several apartments or buildings are sold as a package.

### *Description of sales activities*

Block sales involve all aspects of preparation and completion of the sale of apartments in our portfolio within the scope of portfolio optimization. The main purpose of portfolio optimization is to divest our Company of properties that are not a good fit with our business strategy and to focus on our core portfolio. Sales aimed at structural optimization of the residential housing portfolio are currently being conducted mainly in northern and southern Rhineland-Palatinate and Brandenburg. In addition, we also sell scattered holdings in order to consolidate our portfolio in the core regions. Moreover, block sales can be conducted in connection with the future acquisition of portfolios for the purpose of portfolio optimization and financing.

Since 1999, we have conducted single sales of properties in the portfolio in all regions and all construction-year categories. This contributed substantially toward maintaining a homogenous residential property portfolio. The current disposal portfolio contains approximately 5,000 residential units. Of these, we plan to privatize (that is, sell) approximately 500 residential units per year. In the first six months of 2009, on the basis of notarially recorded contracts, we already achieved 80% of this target with a sales margin of 34%.

The specific responsibilities of the Sales segment are as follows: target group research and contact, fulfillment of statutory land register requirements for buildings (obtaining a certificate of delimitation, which is required under German law to sell an apartment as a condominium (*Abgeschlossenheitsbescheinigung*), notarial recording and, if necessary, execution of the condominium declaration in the land register), preparation for sale (implementation of focused modernization projects to increase margins), and contract performance.

*Overview of key figures of the Sales segment*

The following table provides an overview of the key figures of our Sales segment for the six months ended June 30, 2009 and the 2008 and 2007 fiscal years:

| | **January 1 – June 30, 2009** | **January 1 – December 31, 2008** | **January 1 – December 31, 2007** |
|---|---|---|---|
| Result from property sales (in € million) | 4.6 | 17.4 | 5.3 |
| Segment expenses (sales)[1] (in € million) | (2.1) | (4.2) | (4.3) |
| No. of units sold as reported in the financial statements | 392 | 1,798 | 789 |
| Avg. selling price (in € per m$^2$) | | | |
| Sales to tenants/occupants (individual sales) | 1,223 | 1,378 | 1,269 |
| Sales to institutional investors (block sales) | 173 | 741 | 730 |

1) *For segment expenses (Sales), see above "Management's Discussion and Analysis of Net Assets, Financial Condition and Results of Operations—Results of Operations—Segment discussion—Sales segment (Property Privatization segment until June 30, 2009)."*

In the first half of 2009, we achieved an average sales price of €1,223 per m$^2$ in individual sales (that is, sales to tenants/occupants) which corresponds to a sales margin of 38% (the sales margin in individual sales was 35% in 2008). The variation in sales prices in the period shown was minimal, since the apartments themselves did not differ greatly in terms of their features. The decrease in the average sales price in block sales (that is, sales to institutional investors) was largely due to the location and condition of the properties. Most of the properties that sold in the first half of 2009 were located in Frankfurt an der Oder, Germany, which caused the average sales price to decline. At 8%, the sales margin for block sales is of the same order of magnitude as in the prior year (sales margin in 2008: 2%).

We are subject to limitations on privatization arising from purchase contracts for certain apartments or individual portfolios. See below "*Material Agreements*." Due to these obligations, we must comply with certain rules (for example, sale to tenants, social conditions, etc.) when making privatization decisions. See "*Material Agreements—Acquisition and Divestiture Agreements—Heimstätte Rheinland-Pfalz GmbH acquisition agreement*" and "*Material Agreements—Acquisition and Divestiture Agreements—ESG Berlin GmbH acquisition agreement*."

## Assisted Living and Elderly Care segment

With the acquisition of a majority share in the GEHAG Group, the Assisted Living and Elderly Care segment became an additional independent segment of our business activities. See below "*Material Agreements—Material Agreements Related to the Acquisition of the GEHAG Group*." This segment is operated by way of KATHARINENHOF, a wholly owned subsidiary of GEHAG and therefore an indirect subsidiary of Deutsche Wohnen AG, and includes the marketing and management of nursing and residential care facilities for seniors, as well as services assisting the seniors living in these facilities.

The vast majority of the properties managed by the Assisted Living and Elderly Care segment are owned by the GEHAG Group and are made available to the KATHARINENHOF Group for use by the real estate companies of the GEHAG Group. The annual result generated by the KATHARINENHOF Group in the Assisted Living and Elderly Care segment is transferred to GEHAG by way of a control and profit/loss transfer agreement. The Assisted Living and Elderly Care facilities not owned by the GEHAG Group are made available for the KATHARINENHOF Group to operate through lease contracts with third-party owners.

As of June 30, 2009, we operated a total of 11 nursing care facilities with space for 1,125 nursing care residents and 4 assisted living facilities with 229 apartments, one of which is also a nursing care facility. Of the 14 facilities, including nursing care facilities and assisted living facilities, two are not owned by Deutsche Wohnen. The nursing care facilities and assisted living facilities owned by Deutsche Wohnen were grouped into a total of ten assisted living and elderly care facilities in the Property Appraisal Report. Occupancy (in the assisted living and elderly care facilities) was 94.1% for the six months ended June 30, 2009, 91.3% in the 2008 fiscal year and 93.4% in the 2007 fiscal year.

The goal of full inpatient nursing care is to promote an active lifestyle for patients requiring this care. An attempt is made to promote the health of each nursing care patient individually and maintain his or her independence. Assisted living offers older people rental apartments along with an extensive choice of services they can select from freely, ranging from minor assistance with everyday tasks to meals and events. Residents all live independently in their own apartments with guaranteed assistance in the case of emergencies. In

addition, the facilities feature common rooms and fitness centers, as well as additional services, such as physiotherapy, swimming pools, cosmetic treatments and hair salons. The specific services offered vary from facility to facility.

The revenues of the Assisted Living and Elderly Care segment amounted to €16.4 million in the six months ended June 30, 2009 and €33.1 million in fiscal 2008 (fiscal 2007 (excluding telecommunication services): €16.1 million). The segment's result (results of KATHARINENHOF; not including any rents attributable to GEHAG residential facilities for seniors, loan interest for leased properties, maintenance costs or similar as these are borne by the real estate companies of the GEHAG Group or are not charged) totaled €4.5 million (EBIT, adjusted for restructuring and reorganization expenses) in the six months ended June 30, 2009 and €8.3 million in fiscal 2008 (fiscal 2007: €2.4 million).

**Portfolio management**

*Overview*

Portfolio management supports the activities of the Residential Property Management and Sales business segments. Essentially, portfolio management involves the strategic positioning of the existing and future real estate portfolios. A key focus is on the assignment of properties to clusters, which distinguishes between the core portfolio and the disposal portfolio. Portfolio management supports the Residential Property Management and Sales business segments in various activities. Furthermore, portfolio management is responsible for performing internal services and all personnel, administrative and financing activities, including portfolio management, for the Residential Property Management and Sales business segments by identifying the existing potential to increase the net cold rent of locations in the residential property portfolio and by assisting in the selection of units to be sold.

*Core and disposal portfolios*

Our core portfolio of real estate generally includes properties that we aim to manage for the long term. Essentially, these include the properties located in the core regions of Berlin and the Rhine-Main area, as well as the southern Rhine Valley and exhibit further potential for value growth. In order to better manage the core portfolio, these properties are broken down into Cluster A (core portfolio) and Cluster B (development properties). For more information on the core portfolio, see "—*Overview of the Residential Property Portfolio of our Group*." The disposal portfolio consists of privatized holdings, as well as holdings that do not fit with our long-term business strategy.

*Support provided by portfolio management in the purchase of residential property portfolios*

As part of our growth strategy, we aim to expand our existing real estate portfolio by purchasing residential property portfolios in high-growth urban areas in Germany. Our portfolio management unit manages the acquisition process.

During the preparation process for acquisitions, a key responsibility of the portfolio management unit is market analysis and the selection of suitable small- and large-scale portfolios. A number of criteria are considered when selecting suitable properties, for example, net cold rent, vacancies, location, structural quality, tenants, proportion of publicly subsidized residential units and infrastructure. The acquisition of residential property portfolios is always based on profitability considerations, that is, the expansion of our existing residential holdings must sustainably and positively influence our Group's relevant performance indicators (for example, Cash Flow, FFO, Fair Value or NAV).

The most important individual criteria for portfolio acquisitions are as follows:

- Location: The micro location, that is, the immediate vicinity of the properties within a municipality, plays a key role in long-term rentability and medium-term privatization potential of apartments. Locations must feature stable macroeconomic performance indicators. A sufficient supply of jobs in the location itself or within a reasonable distance is a material factor.
- Market potential: The development of the relevant regional market environment also influences our ability to generate stable, long-term cash flows from the leasing and sale of apartments.
- Potential to increase net cold rent: Our focus is on realizing existing rent increase potential. The modernization of apartments is a key factor here. For this reason, we generally avoid purchasing newly built buildings to manage. Another reason is the higher acquisition price.

- Portfolio size: Our acquisition strategy does not include the purchase of individual properties. Small-scale portfolios are acquired within the current core regions. As a rule, we estimate the necessary portfolio size required for sustainable management in new growth regions outside of our core Berlin and Rhine-Main regions to be approximately 2,000 apartments per location at a minimum.
- Commercial share: The real estate portfolios to be acquired cannot include more than a small percentage of commercial space. The main reason for this stipulation is our consistent focus on residential properties. The commercial space currently held in our real estate portfolio is generally an integral part of residential properties.
- Vacancy rate: Depending on the reason (unattractive location or focused optimization of the tenant structure) and further planning (subsequent sale, short-term renovation or modernization for purposes of increasing rent), the vacancy rate can be a criterion for or against an investment.

In addition to market analysis and support in the selection of suitable real estate portfolios, portfolio management also conducts due diligence audits in connection with the acquisition of real estate portfolios. Due diligence audits are normally conducted prior to portfolio acquisitions and enable us to determine suitable purchase price offers. Due diligence measures cover all relevant data relating to the target portfolio, as well as the business, legal and tax situation of the real estate company to be analyzed (in the case of share deals). Finally, portfolio management is also responsible for annual calculations of the fair value of the property portfolio, which is included in the calculation of our NAV. See above "*Management's Discussion and Analysis of Net Assets, Financial Condition and Results of Operations—Overview of Investment Property.*"

## Overview of the Residential Property Portfolio of Our Group

Our residential property portfolio as of June 30, 2009 included approximately 50,000 residential units with a total residential floor area of approximately 3.1 million $m^2$. Most of the units are located in the Rhine-Main, Rhineland-Palatinate and Berlin regions. The following table provides an overview of the important operational figures of our residential property portfolio:

### Real estate figures

| | June 30, 2009 | December 31, 2008 | December 31, 2007 |
|---|---|---|---|
| **Residential property portfolio** | | | |
| *Number of units* | | | |
| Owned portfolio | 47,501 | 47,868 | 48,506 |
| Core portfolio | 33,777 | 33,792 | 33,812 |
| Cluster A | 29,190 | 29,205 | 29,214 |
| Cluster B | 4,587 | 4,587 | 4,598 |
| Disposal portfolio | 13,724 | 14,076 | 14,694 |
| DB 14[1)] | 2,621 | 2,621 | 2,621 |
| Total holdings | 50,122 | 50,489 | 51,127 |
| *Floor area (in thousands of $m^2$)* | | | |
| Owned portfolio | 2,896 | 2,922 | 3,017 |
| Core portfolio | 2,037 | 2,038 | 2,040 |
| Cluster A | 1,763 | 1,763 | 1,765 |
| Cluster B | 274 | 274 | 275 |
| Disposal portfolio | 859 | 884 | 977 |
| DB 14 | 179 | 179 | 179 |
| Total holdings | 3,075 | 3,101 | 3,196 |

| | June 30, 2009 | December 31, 2008 | December 31, 2007 |
|---|---|---|---|
| *Estimated rent income (in € per $m^2$)* | | | |
| Owned portfolio | 5.15 | 5.09 | 4.89 |
| Core portfolio | 5.29 | 5.23 | 4.97 |
| Cluster A | 5.37 | 5.31 | 5.06 |
| Cluster B | 4.83 | 4.72 | 4.41 |
| Disposal portfolio | 4.82 | 4.75 | 4.69 |
| DB 14 | 5.47 | 5.41 | 5.33 |
| Total holdings | 5.17 | 5.10 | 4.90 |
| *Market rent (in € per $m^2$)[2)]* | | | |
| Core portfolio | 6.00 | 5.90 | 5.90 |
| Cluster A | 5.90 | 5.80 | 5.80 |
| Cluster B | 6.15 | 6.10 | 6.10 |
| *Potential of estimated rent income to market rent (in %)* | | | |
| Core portfolio | 13.4% | 12.8% | 18.7% |
| Cluster A | 9.9% | 9.2% | 14.6% |
| Cluster B | 27.3% | 29.2% | 38.3% |
| *Vacancy rate (in %)[3)]* | | | |
| Owned portfolio | 5.3% | 5.9% | 6.5% |
| Core portfolio | 3.3% | 3.9% | 4.8% |
| Cluster A | 2.9% | 3.4% | 4.2% |
| Cluster B | 5.8% | 7.1% | 9.3% |
| Disposal portfolio | 10.6% | 11.3% | 10.2% |
| DB 14 | 6.2% | 5.5% | 5.4% |
| Total holdings | 5.4% | 5.9% | 6.4% |
| *Share of funding (units in %)* | | | |
| Owned portfolio | 19.7% | 20.3% | 19.8% |
| Core portfolio | 19.7% | 20.1% | 20.1% |
| Cluster A | 22.0% | 22.5% | 22.5% |
| Cluster B | 5.9% | 5.8% | 5.7% |
| Disposal portfolio | 19.6% | 20.9% | 19.1% |
| DB 14 | 84.3% | 84.3% | 86.9% |
| Total holdings | 23.1% | 23.6% | 23.2% |
| *Construction year cluster (according to units in %)* | | | |
| Before 1950 | 34.4% | 34.6% | 35.2% |
| 1951-1970 | 41.4% | 41.3% | 41.4% |
| 1971-1990 | 16.0% | 15.9% | 15.6% |
| After 1990 | 8.2% | 8.2% | 7.8% |
| **Commercial** | | | |
| *Number of units* | | | |
| Owned portfolio | 458 | 464 | 466 |
| DB 14 | 31 | 31 | 31 |
| Total holdings | 489 | 495 | 497 |
| *Floor area (in thousands of $m^2$)* | | | |
| Owned portfolio | 77 | 75 | 76 |
| DB 14 | 8 | 8 | 8 |
| Total holdings | 85 | 83 | 83 |
| **Parking** | | | |
| *Number of units* | | | |
| Owned portfolio | 13,228 | 13,287 | 13,857 |
| DB 14 | 2,624 | 2,624 | 2,624 |
| Total holdings | 15,852 | 15,911 | 16,481 |
| Maintenance | | | |
| Maintenance expenses (in € million) | 13.8 | 36.8 | 32.2 |
| Maintenance expenses (in € per $m^2$) | 4.40 | 11.57 | 11.31[4)] |

1) *DB 14 is included as a "Special Purpose Entity" (SPE) in our consolidated financial statements. For this reason, we list the holdings and associated operational figures separately in this section and the following summaries of this section.*

2) *We determine the market rent by calculating the average net cold rent stipulated in new leases during the period prior to the respective measurement date (that is, the first half of 2009 and all of 2008 and 2007).*

3) *The vacancy of a residential property is included in the vacancy rate starting the first month of vacancy.*

4) *The calculation of the maintenance expenses (in € per $m^2$) as of December 31, 2007 accounted for the GEHAG Group, which was acquired in 2007, for the full 2007 calendar year. However, the GEHAG Group was actually first consolidated effective as of August 9, 2007.*

The following table offers an overview of the fair value assessment of our residential property portfolio based on our calculations:

### Fair value calculation according to IAS 40

| | As of June 30, 2009 | As of December 31, 2008 |
|---|---|---|
| *Berlin* | | |
| Fair value (in € million) | 1,430 | 1,427 |
| Fair value (in € per $m^2$) | 933 | 928 |
| Number of units | 24,800 | 24,865 |
| Factor (estimated rent income) | 14.5 | 14.7 |
| *Brandenburg* | | |
| Fair value (in € million) | 55 | 54 |
| Fair value (in € per $m^2$) | 498 | 433 |
| Number of units | 1,692 | 1,857 |
| Factor (target rental income) | 9.8 | 8.8 |
| *Rhine-Main/Rheintal Süd* | | |
| Fair value (in € million) | 832 | 843 |
| Fair value (in € per $m^2$) | 1,059 | 1,067 |
| Number of units | 12,301 | 12,382 |
| Factor (estimated rent income) | 14.7 | 14.9 |
| *Rest of Rhineland-Palatinate* | | |
| Fair value (in € million) | 258 | 259 |
| Fair value (in € per $m^2$) | 562 | 563 |
| Number of units | 7,420 | 7,439 |
| Factor (estimated rent income) | 10.0 | 10.0 |
| *Rest of Deutsche Wohnen* | | |
| Fair value (in € million) | 41 | 44 |
| Fair value (in € per $m^2$) | 555 | 562 |
| Number of units | 1,288 | 1,325 |
| Factor (estimated rent income) | 9.2 | 9.4 |
| *DB 14* | | |
| Fair value (in € million) | 170 | 169 |
| Fair value (in € per $m^2$) | 902 | 902 |
| Number of units | 2,621 | 2,621 |
| Factor (estimated rent income) | 13.0 | 13.0 |
| *Total* | | |
| Fair value (in € million) | 2,786 | 2,796 |
| Fair value (in € per $m^2$) | 884 | 881 |
| Number of units | 50,122 | 50,489 |
| Factor (estimated rent income) | 13.6 | 13.7 |

We divide our real estate holdings into the core portfolio and the disposal portfolio. Together they make up our owned portfolio. The portfolio of DB 14 has a special role, and it is not included in our owned portfolio.

The core portfolio includes properties that are intended to be managed by our Group for the long term. This essentially includes the real estate holdings that are in the core regions of Berlin and Rhine-Main and have the potential to increase in value. The core portfolio is subdivided into cluster A (approximately 29,000 residential units) and cluster B (approximately 5,000 residential units). The existing earning potential of cluster A units is increased within the framework of long-term management through index adjustments, vacancy reduction and leases to new tenants at market rent. Cluster B has an above-average potential for net cold rent increases. Compared to cluster A, rent could only be increased in the medium term through

additional investments (modernization improvements). We would only sell these holdings if opportunities developed on the market which would make a sale preferable to a long-term management holding.

The disposal portfolio is subdivided into the single sales cluster (approximately 5,000 residential units) and the block sale cluster (approximately 9,000 residential units). The single privatization cluster includes privatized residential units that are to be sold as part of single unit privatizations. Properties in the block sales cluster are to be sold individually or as block sales as part of portfolio reorganization, particularly due to the disadvantages of their location.

The following table provides an overview of our core portfolio, disposal portfolio, owned portfolio (total holdings made up of our core portfolio and owned portfolio) and our total portfolio (total of our owned portfolio and DB 14's real estate portfolio) as of June 30, 2009:

| | Residential | | | | | Commercial | | Parking | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Units | Area | Share of funding | Estimated rent income[1] | Vacancy rate[2] on rent | Units | Area | Units | Fair Value[3] | | Multiplier on estimated rent income |
| | # | In thousands of $m^2$ | % | €/$m^2$ | % | # | In thousands of $m^2$ | # | € million | € per $m^2$ | # |
| Core portfolio | 33,777 | 2,037 | 19.7 | 5.29 | 3.3% | 377 | 70 | 8,047 | 2,049 | 958 | 14.9 |
| Berlin[4] | 22,757 | 1,369 | 13.7 | 5.08 | 2.5% | 270 | 37 | 1,855 | 1,325 | 922 | 14.4 |
| Frankfurt am Main[5] | 3,660 | 217 | 5.7 | 6.76 | 2.6% | 43 | 17 | 1,825 | 339 | 1,448 | 17.8 |
| Rhine-Main | 3,272 | 203 | 31.8 | 5.81 | 6.9% | 54 | 14 | 1,960 | 213 | 982 | 16.4 |
| Rheintal-Süd | 4,088 | 249 | 57.9 | 4.76 | 5.3% | 10 | 1 | 2,407 | 172 | 687 | 12.1 |
| Disposal portfolio | 13,724 | 859 | 19.6 | 4.82 | 10.6% | 81 | 7 | 5,181 | 583 | 673 | 11.4 |
| Individual privatizations | 4,840 | 322 | 3.7 | 5.33 | 11.3% | 20 | 2 | 1,820 | 293 | 903 | 13.8 |
| Block sales | 8,884 | 537 | 27.6 | 4.52 | 10.1% | 61 | 5 | 3,361 | 290 | 535 | 9.7 |
| Owned portfolio | 47,501 | 2,896 | 19.7 | 5.15 | 5.3% | 458 | 77 | 13,228 | 2,632 | 876 | 13.9 |
| DB 14 | 2,621 | 179 | 84.3 | 5.47 | 6.2% | 31 | 8 | 2,624 | 170 | 902 | 13.0 |
| Total properties | 50,122 | 3,075 | 23.1 | 5.17 | 5.4% | 489 | 85 | 15,852 | 2,802 | 884 | 13.6 |

1) *The estimated rent income per $m^2$ corresponds to the estimated rent income calculated for the relevant effective date, divided by the rented area in relation to the respective property.*

2) *Our vacancy rate describes the ratio of vacancy income shortfall to the estimated rent income, as of the relevant effective date.*

3) *The total portfolio is comprised of the fair value of the residential real estate portfolio in accordance with IAS 40, which accounts for €2,786 million, and the fair value of the property, plant and equipment we use, which accounts for €16 million (recorded as €8.2 million in accordance with IAS 16).*

4) *The market rent of our core portfolio in Berlin, Germany, was €5.83 per $m^2$ as of June 30, 2009. Deutsche Wohnen calculates the market rent from the average net cold rent of the leases newly agreed during the periods preceding the relevant date.*

5) *The market rent of our core portfolio in Frankfurt am Main, Germany, was €7.76 per $m^2$ as of June 30, 2009. Deutsche Wohnen calculates the market rent from the average net cold rent of the leases newly agreed during the periods preceding the relevant date.*

## Customers and Sales & Marketing

Our residential properties are sold through our own sales department, as well as through real estate brokers. However, sales are conducted primarily by our own employees, who are compensated with variable salary benefits. Our own sales rate in 2007 and 2008 was approximately 75%. The duties of the sales department therefore include the control of its own sales and that of external real estate brokers as part of customer communication. The external real estate brokers are usually paid a commission.

Target sales groups are, in particular, owner-occupants (buyers who were not already tenants of the real estate property being sold), as well as tenants and private investors. As of June 30, 2009, a total of 25 employees worked in the sales department.

The sale of nursing homes and elderly care units is carried out according to region and facility. Our residential units are rented out through regional service points.

## Market and Competition

We are a residential real estate company that focuses on residential unit management, including, in particular the rental of our own residential units and the management of our own housing portfolio as well as sales of the

housing portfolio. We also operate senior housing through an indirect subsidiary. Our business activities are solely restricted to the Federal Republic of Germany, particularly to our core regions of Berlin and Rhine-Main.

## Market

### *Overview*

Our business activities are influenced by numerous factors. These factors include demographic and political factors, as well as economic developments in Germany. The development of the residential property market in Germany is extremely important for our development. This market environment plays a decisive role in the future development of purchase prices and rents, the residential housing portfolio in Germany, the comparatively low home ownership rates compared to other European countries, and new building construction activities.

### *Economic data in Germany*

The German economy experienced strong growth until the middle of 2008. Its gross domestic product (GDP) was €2,495.8 billion in 2008 and, on a price-adjusted basis, increased by 1.3%, compared to 2007 (2007: €2,428.2 billion). However, the German economy did not grow nearly as strongly in 2008 as it did during the two previous years. Building investments grew by 2.7% in 2008 compared to the preceding year. The increase in building investments continued the recovery of demand for new buildings in 2006 and 2007. However, investments in residential dwellings increased only by 0.7% in 2008. However, the strong demand for new construction in 2008 also led to higher prices. The increase in costs of construction for new residential buildings was 2.9% compared to 2007. The increase in prices for construction of new residential buildings was, however, much lower from 2007 to 2008 than from 2006 to 2007 (+6.7%). (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, www.destatis.de).

Economic growth in 2008 was solely domestic-based. Gross investments contributed most to GDP growth. Investments in machinery and equipment rose by 5.3% (following +6.9% in 2007) and investments in construction rose by 2.7%. Consumer spending increased by 0.5% in 2008. This was primarily attributable to a 2.2% increase in government spending. Spending by private consumers remained stagnant compared to the preceding year. The economic output was achieved by an average of 40.4 million employed persons in 2008, which was 582,000 persons more (+1.5%) than a year earlier, which means employment reached its highest level since the German reunification. According to preliminary results based on the labor force survey, the number of unemployed persons (international definition) decreased by 471,000 to 3.1 million (−13.1%). That is the lowest number of unemployed persons since 1993. In 2008, the disposable income of households increased by 2.6% to €1,553 billion. This is the highest rate of growth since 2001. As in 2007, the development of the final consumption expenditure of households at current prices (+2.2%) did not keep pace in 2008 with the growth in disposable income. Accordingly, the savings rate of households increased by 0.6 percentage points to 11.4%. The last time it was that high was in 1994. (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, www.destatis.de, press release no. 16 dated January 14, 2009).

In the first quarter of 2009 Germany's economic output declined from the previous quarter for the fourth successive quarter in a row. The gross domestic product (GDP) was 3.8% lower than in the fourth quarter of 2008 based on adjustments for price, seasonal and calendar effects. From October to December 2008, the German economy contracted by 2.2%, and in the second and third quarters of 2008 by 0.5%. There were considerably fewer investments in construction than during the same period of the previous year, although at 7.8% the decrease was smaller than the decline in investments in machinery and equipment. Negative trends were recorded both for capital formation in residential buildings (−8.9%) and in other buildings and structures, which were 6.2% lower than in the first three months of 2008. (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, www.destatis.de, press release no. 197 dated May 26, 2009).

### *Demographic development in Germany*

According to provisional results, Germany had a population of approximately 82,218,000 on December 31, 2007. That was 97,000 inhabitants or 0.1% less than at the end of 2006 (82,315,000). The Federal Republic of Germany is a densely populated country. Its population density is approximately 230 persons per $km^2$. The comparative figure for the European Union is 116. The population decline in 2007 affected the new German states in particular (−107,000 inhabitants or −0.8% compared to 2006) and thus continued the decline between 2005 and 2006 (−101,000 inhabitants). (Source: German Federal Statistical Office

(*Statistisches Bundesamt*), database, www.destatis.de, Subject: Population, http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/Bevoelkerung/Aktuell,templateId=renderPrint.psml.).

According to a forecast by the German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), the population in Germany will remain stable to a large extent until 2020 and will then decrease. The percentage of inhabitants under the age of 20 will shrink by over 18% by 2020 and the percentage of inhabitants over the age of 60 is expected to increase by approximately 19%. Other forecasts with regard to the general population development in Germany present a more positive picture. However, this development is not uniform for the entire country, but rather differs from state to state (Source: German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Regional Planning Forecast 2020 (*Raumordnungsprognose 2020*), 2004). This could result in positive effects from migration movements for individual regions and cities in the future.

### *Private pension funds*

As a result of the reform of the state-run pension funds in Germany, private pension funds are becoming more and more important for a wide range of social classes to maintain their standard of living as they get older. The reform affects employed persons, as well as retirees, since the official replacement rate (*Rentenniveau*), which is the ratio of retirement benefits to the last earned net income, will decline considerably over time and portions of the retirement benefits will increasingly be taxed. Many people view the real estate that they use themselves, as well as real estate that are capital investments to be important components of their private pension fund and consider them to be relatively stable financial investments. This could result in positive effects on the demand for our residential properties, particularly through privatizations for tenants.

### *Residential property market in Germany*

#### Residential property portfolio and home ownership rates

At the end of 2005, there were a total of 39.6 million residential units in Germany. 77.5% of the residential units were in the former West German states and 22.5% were in the former East German states and Berlin. Since 1987, there has been an increase in residential properties of 19.3% nationwide, with an increase of 17.2% in western Germany and 27.3% in eastern Germany. The buildings, which are mainly used for residential purposes, made approximately 3.3 billion $m^2$ of residential floor area and 38.8 million residential units available in 2005. 62.5% of the residential buildings were single-unit dwellings, while 20.1% were comprised of two residential units and 17.4% comprised of three or more residential units. Breaking down the residential units completed in 2005 by property owner, 78.5% of the buildings were private households, 21.0% of the buildings were commercially owned, 0.3% of the buildings were government-owned and 0.2% were owned by non-profit organizations (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Project report, Real Estate in Germany 2006).

According to the German Federal Statistical Office, in 2006 approximately 42% of the residential units were owner-occupied residential units and approximately 58% were rental or sublet residential units. The home ownership rate has remained stable since 2002. The percentage of ownership of residential units was 44.7% in western Germany and 30.6% in eastern Germany. (Source: Federal Statistical Office, Project report, Real Estate in Germany 2006).

The German Federal Office for Building and Regional Planning predicts that the number of households (and therefore the number of residential units) will continue to increase as a result of the general reduction of household size from approximately 2.3 persons in 1990 to an estimate of fewer than 2.1 persons per household in 2020. In other words, it expects an increase of approximately 1.1 million households (from 39.4 million to 40.5 million) from 2006 to 2020. The number of single-occupier and two-person households will continue to increase, while the number of multi-person households will drastically decline. By 2020 the number of single-occupier households will increase by 9% to 16.5 million and the number of two-person households will increase by 11% to 14.7 million. The number of family households, on the other hand, will decline by 16% or 1.8 to 9.4 million (Source: HSH Nordbank, Real Estate Sector Report (*Branchenstudie Immobilien*), October 2008). An increase in households can be expected particularly in cities and densely populated areas. It is also expected that the residential floor area demand per person will continue to increase due to an increased awareness of comfortable living and the aging population (Source: empirica/LBS Research, October 21, 2005).

By contrast, the supply volume of new construction housing has been on the decline for years. Based on building permits granted, the amount of residential floor space to be constructed decreased from 35.7 million

$m^2$ in 2003 to 20.3 million $m^2$ in 2008. Likewise, the number of building permits issued for new residential construction decreased from 291,906 in 2003 to 171,456 in 2008 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Construction and Living (*Bauen und Wohnen*), Construction (*Bautätigkeit*) 2008, dated July 31, 2009).

The average residential floor area per residential unit was 94 $m^2$ in western Germany, while the average floor space per residential unit in eastern Germany was 77 $m^2$. There was also more living space available per inhabitant in western Germany; the floor area per inhabitant in western Germany was 41.9 $m^2$ and 38.4 $m^2$ in eastern Germany. Therefore, the residential floor area per inhabitant has increased considerably from 1987, when it was 34.6 $m^2$. The largest residential floor area per apartment is 97.9 $m^2$ in Rhineland-Palatinate, while the residential units in Berlin are more than 30 $m^2$ smaller on average. The residential floor area per inhabitant is between 36.0 $m^2$ in Hamburg and 46.8 $m^2$ in the Saarland (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Project Report, Real Estate in Germany (*Projektbericht, Immobilienwirtschaft in Deutschland)*, 2006).

Of the approximately 39.6 million residential units in Germany, approximately 15.9 million units are in the hands of owner-occupiers. Of the remaining 23.7 million residential units, approximately 14.5 million units are rented out by private small companies and landlords. Professional and commercial landlords own approximately 9.2 million of these residential units, of which approximately 5.2 million are rented out by municipal and public authorities, churches and associations. Only approximately 4.1 million residential units are owned by professional, private sector owners (Source: Appraisal for the German Association for Housing, Building and Regional Planning (*Deutscher Verband für Wohnungswesen, Raumordnung und Städtebau e.V.*) and the German Association for Economic Property Research (*Gesellschaft für Immobilienwirtschaftliche Forschung*), The Real Estate Markets from a National Economic Perspective (*Die Immobilienmärkte aus gesamtwirtschaftlicher Perspektive*), July 23, 2009).

### Price trends for resales

Residential property prices in Germany, compared to other European countries, have remained relatively stable since the mid-1990s and have not experienced any major cyclical fluctuations. After a slight increase in the second half of the 1990s, prices for the resale of owner-occupied homes and owner-occupied residential units in Germany have declined from 2000 to 2005 and recovered only slightly by the end of 2008 (Source: Deutsche Bundesbank, *Monthly Report*, February 2009). In contrast, Hypoport AG's Hedonic House Price Index, which is published every month, shows a continuous decline in prices for the existing residential property sector from September 2008 to April 2009; however, it showed a slight price increase in May and June 2009. The prices in new housing transactions are the only ones that have increased steadily from November 2007 to February 2009. In 2008 the increase was just under 4%, but by June 2009 it had fallen again to just under 3% (Source: Hypoport AG, www.hypoport.de).

Interest rates for medium and long-term mortgage loans, which remain low when compared to the past, have not influenced residential property sales in Germany to the same extent as they have in other European real estate markets. As of April 2009, the interest rates for financing the construction of new residential properties for the private sector with a term of more than 10 years had dropped to 4.67% (Source: Deutsche Bundesbank, *Monthly Report*, June 2009), but the owner-occupied housing rate continues to remain approximately 42% (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook (*Statistisches Jahrbuch*) 2008). In 2008, the prices for home ownership in the euro area increased on average by 1.7% compared to 4.4% the preceding year, while the respective values in Germany only increased 0.2% (2008) and 0.7% (2007) (Source: European Central Bank, *Monthly Bulletin*, June 2009). In other countries in the euro area prices for residential properties increased drastically in some cases over the past few years and owner-occupied housing rates rose. Compared to the stable development in Germany, these markets have experienced some drastic market corrections (Source: Deutsche Bundesbank, *Monthly Report*, June 2009).

### Development of residential rents

The gross contractual cold rent, that is, the contractual net cold rent plus the basic expenses and utilities (operating costs, such as garbage pick-up, water, and property management) averaged €410 per month in 2006, which corresponded to an average rent of €5.94 per $m^2$. Residential rents are calculated according to the criteria of location, furnishings and quality of the building, as well as the length of time the household has lived there. The above described average rent includes all rents paid (in other words also the rent for apartments that have been rented out for many years). The rent for apartments that have been occupied by the same household for more than 25 years is €5.34 per $m^2$. An apartment that was occupied beginning in

2005 would cost 18% more on average, or €6.31 per $m^2$. The rent also varies depending on the size of the apartment. An average rent of €7.45 per $m^2$ is paid for apartments up to 40 $m^2$, while the rent for apartments that are more than 100 $m^2$ is only €5.50 per $m^2$. The rent for a very small apartment is therefore on average 36% more than the rent for a very large apartment. There are also noticeable differences in the amount of rent depending on the age of the apartments. For example, the rent for apartments in older buildings that were built before 1918 is only €5.44 per $m^2$, while the rent in buildings built after 2001 is approximately 28% higher at €6.94 per $m^2$. Rents increased by an average of 7% between 2001 and 2006, and there is no difference in the rate between the former East German states and the former West German states. The available residential floor area has increased by 4% since 1998, so the average residential floor area has increased to 90 $m^2$. However, the size of the apartments in the former East and West German states differs drastically. While the average apartment size in the former East German states is 77 $m^2$, the average apartment in the former West German states is 94 $m^2$ (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Data Report (*Datenreport*), 2008).

## Latest privatizations in Germany

After years of stagnation, the residential property market in Germany is now characterized by extensive privatizations of government-owned apartments, particularly municipalities, as well as the sale of apartments by companies that work in other sectors, for the most part in the form of bulk sales to (usually) foreign investors.

With regard to the purchase of additional residential property portfolios, the low price level compared to other European countries makes the German market interesting for investors such as Deutsche Wohnen, especially because of the wide range of large-volume residential property portfolios. However, we cannot foresee if this trend will continue in the secondary market through the sale of large-volume residential property portfolios.

In the past few years, large stocks of residential property have already been sold due to the government's financial shortfalls and the sales activities of German corporate groups: these include the sale of GAGFAH (*Gemeinnützige Aktiengesellschaft für Angestellten-Heimstätten*) with approximately 82,000 residential units, by the Bundesversicherungsanstalt für Angestellte (BfA); the sale of GSW with approximately 66,000 residential units by the State of Berlin; the sale of approximately 48,000 residential units by ThyssenKrupp AG; NILEG Immobilien Holding GmbH's sale of approximately 30,000 apartments by NORD/LB; the sale of Viterra AG with approximately 115,000 residential properties by E.ON AG; the sale of BauBeCon Immobilien GmbH with approximately 20,000 residential units by the Beteiligungsgesellschaft der Gewerkschaften; and finally, the sale of WOBA DRESDEN GmbH with approximately 48,000 apartments by the City of Dresden. This wave of privatizations subsided in 2007/2008 due to strong public resistance. With the exception of the sale of LEG Nordrhein-Westfalen's residential property portfolio to Whitehall Real Estate Funds/Goldman Sachs and their investment companies in the summer of 2008 (approximately 110,000 apartments) the transaction market for large portfolios as a whole has ground to a halt. However, according to CB Richard Ellis Deutschland, government sales of residential properties should increase in the years after 2009 because of the financial crisis and the government's need to refinance (Source: *Property* Magazine, June 29, 2009, based on a current CBRE study).

The number of portfolio transactions increased significantly from 2004 to 2007 (from approximately 20 to over 66 in 2007). This has a lot to do with the increasingly smaller portfolio sizes. These are predominantly transactions with a maximum of 2,000 apartments (Source: German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Report on transactions involving large residential real estate portfolios in Germany (*BBR-Bericht Kompakt: Transaktionen großer Wohnungsportfolios in Deutschland*), January 2008). The number of portfolio transactions in 2008 dropped to the level of 2002 with 16 transactions, although the trend towards sales of smaller portfolios continued to increase (Source: German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung*), Report on the sharp decline in transactions involving large residential real estate portfolios in Germany (*BBR-Bericht Kompakt: Starker Rückgang der Transaktionen großer Wohnungsportfolios*), January 2009).

The sale prices for residential property investments are at a relatively moderate level when compared with sale prices internationally. The trend of increasing profits that has been observable over the long term also improves the competitiveness of German investment offers. The current restraint on the German investment market is in no way a sign of the lack of appeal of German properties. Difficult circumstances in the capital markets with regard to the availability of credit are solely responsible for the slowdown in revenue flow. The fundamental economic data and the property (its profitability, viability and expected profits) therefore

increasingly become the focus of attention. (Source: DIP Deutsche Immobilien-Partner, Market and Facts (*Markt und Fakten*), 2009).

### *Residential real estate market in select German locations*

#### Berlin

With a population of approximately 3.4 million, Berlin is the most populous city in Germany. Migration into the city has been steady for many years, causing the population to grow further. While forecasts indicate that population growth will end in 2015, the increase in the number of households is projected to continue until 2030 due to the high proportion of single people. According to forecasts, the favorable economic development in the past two years will continue in Germany in 2009 in a slightly weakened form. Despite the continuing financial crisis and increasing energy prices, GDP growth in 2008 is expected to be 2.3%. Entrepreneurs in Berlin have a positive attitude due to the robust local economy (GDP 2008: +1.3%). At this time, Germany's capital city enjoys a constantly growing and significant service sector (81.8% of gross value added, 86.4% of all employed persons). Berlin offers a strong potential for innovation and thus good prospects for the future; these factors are repeatedly emphasized in national and international city rankings. Berlin was recognized just behind London and Paris as one of the top locations for foreign direct investment (FDI Awards 2008). The following factors represent the basis for a renewed industrial upturn: an above-average proportion of highly qualified employees compared to the rest of Germany (13.8% vs. 9.9%), an extraordinary willingness to found new and viable companies, an increase in patent applications, and the Berlin Senate's focus on supporting high-technology clusters and growing economic sectors in the form of competency fields. Today, Berlin already holds a top position internationally in certain industries (including health care, biotechnology, medical technology, and solar energy), and companies are migrating to the city. Due to its existing transportation infrastructure, Berlin is easy to reach both from within Germany and internationally. A new major international airport, Berlin Brandenburg International, is being constructed to replace the existing Tegel and Schönefeld airports starting in 2011 and further strengthen Berlin as an economic location through a large number of direct connections (Source for all information: Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Berlin (*Commercial Marktreport Wohn- & Geschäftshäuser Berlin*) 2008/2009).

Berlin has the largest residential market in Germany, with approximately 1.8 million residences. 89.9% of the residential stock is located primarily in residential apartment buildings and commercial buildings with a commercial proportion of less than 20%. The highest occupancy rates (over 97%) are found in the districts Mitte, Wilmersdorf, and Charlottenburg. In neighborhoods with large numbers of prefabricated concrete buildings (*Plattenbaubeständen*), such as Hellersdorf and Marzahn, the vacancy rates reach maximum values of 8.4% and 7.9%, respectively. Areas with high vacancy rates also include Weissensee (6.3%), Spandau (5.8%) and Wedding (5.6%). On the other hand, the market is tight in popular locations and for selected residence types and qualities (Source: Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Berlin (*Commercial Marktreport Wohn- & Geschäftshäuser Berlin*) 2008/2009).

#### Frankfurt am Main

With a population of more than 657,000, Frankfurt am Main is the largest city in the state of Hesse and the fifth largest city in Germany. The metro area (the city together with its nearer suburbs) has a population of 1.8 million, while the entire Rhine-Main area has a population of 5.8 million. Frankfurt is at the center of the second-largest concentration of large German cities, in the middle of the most important economic region in Germany. The university and several colleges educate around 47,000 students. The European Central Bank (ECB), the Deutsche Bundesbank (German Central Bank), the Frankfurt Stock Exchange, and more than 200 national and international banks make the city into one of the most significant financial centers in the world. Frankfurt also enjoys an excellent reputation as a city of trade fairs and services. Almost all noteworthy accounting firms, law firms, and consulting firms have an office in Frankfurt today. Major chemical companies, advertising agencies, insurance companies, and software manufacturers are also represented in Frankfurt or the Rhine-Main area in large numbers (Source for all information: Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Frankfurt (*Commercial Marktreport Wohn- & Geschäftshäuser Frankfurt*) 2008/2009).

In 2008, Frankfurt am Main had approximately 355,600 residential units, representing an increase of 2,180 units compared to the prior year, or 8,470 units compared to 2003. In 2008, the vacancy rate was 2.3%. (Source: Jones Lang LaSalle, Residential City Profile — 2008, Frankfurt am Main). The average contractual net cold rent (not including utilities and service costs) for new construction in Frankfurt am Main has been constant since 2005 and is currently €9.75 per m$^2$. The average rent for re-rentals has

increased slightly over the past few years and is now €8.70 per $m^2$. For residential units larger than 150 $m^2$ in old buildings and newly constructed residential units with high-quality appointments, high demand and low supply permit prices in the range of €14 to €17 per $m^2$; even higher rents are charged in exceptional cases (Source: Engel & Völkers, Commercial Market Report on Residential and Office Buildings in Frankfurt (*Commercial Marktreport Wohn- & Geschäftshäuser Frankfurt*) 2008/2009).

## Competition

In the residential management and sales business segments, we compete with other real estate companies that also focus on residential management, the sale of residential real estate, or the operation of Assisted Living and Elderly Care. We see ourselves as a competitor of large and medium-sized German real estate companies and international investors. In residential real estate sales, we also compete with the internal sales departments of large real estate holding companies, which frequently sell their own real estate.

Our key unique characteristics include the legal form of Deutsche Wohnen AG as a stock corporation under German law (*Aktiengesellschaft*) and our regional focus on the two metropolitan areas of Berlin and Rhine-Main. Therefore, an examination of the competitive situation will focus on the capital markets on the one hand, and the local residential markets — both the rental market and the single unit privatizations market — on the other.

### *Capital Markets*

Deutsche Wohnen believes that it is Germany's second-largest publicly traded residential real estate company, measured in terms of market capitalization and a property portfolio currently comprising 50,611 units (50,122 of which are residential units).

Our direct competitors in the residential real estate sector include, in particular, GAGFAH S.A., which (according to its own information) is one of the largest private residential management and residential privatization companies listed in Germany, with approximately 172,000 residential units throughout all of Germany. Like our Group, it focuses on the business segments of residential management and sales. Although the GAGFAH Group's residential housing portfolio is spread throughout Germany, there is also a major concentration in Berlin, Hamburg, and Dresden. GAGFAH S.A. has been publicly traded on the Frankfurt Stock Exchange in Germany since 2006.

### *Residential Markets*

In the two regions of Berlin and Rhine-Main where our strategy is focused, we compete with numerous small private providers, as well as with municipal and large private commercial housing companies as a landlord, manager, and seller of apartments and single-family and multiple-family dwellings. The most important competitors are the following companies that are active both across Germany and also regionally:

- **GAGFAH S.A.:** For details, see "—*Capital Markets*" above;
- **Deutsche Annington Immobilien GmbH (DAIG):** DAIG has a portfolio of approximately 217,000 rented and managed residential units in approximately 630 locations, which are managed, rented, and sold by the company itself. Approximately 13,000 of these residential units are located in the Rhine-Main area and approximately 10,000 in Berlin. The corporate group was founded in 2001 in the course of the takeover of government-owned railroad housing companies, and consolidated into its present form in summer 2005 due to the acquisition of the Viterra residential housing portfolio. The principal shareholder is Terra Firma Capital Partners Limited, London. (Source: DAIG);
- **Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft Berlin mbH (GSW):** GSW has a portfolio of approximately 70,000 residential units in the Berlin region. In a similar fashion to the GEHAG Group, this long-established company (founded in 1924) was partially privatized in 2004 and focuses primarily on residential management. The principal shareholder is an international financial investor consortium under the leadership of Cerberus Capital Management L.P., and Goldman Sachs Group Inc., both of New York, USA. (Source: GSW); and
- **Municipal housing companies like Deutsche Gesellschaft zur Förderung des Wohnungsbaus AG, Berlin (DEGEWO) or NASPA Immobilien GmbH.**

*Assisted Living and Elderly Care market*

In the Assisted Living and Elderly Care segment, we compete with Pro Seniore, as well as Marseille-Kliniken AG and Maternus Kliniken AG, among others, with regard to the acquisition of real estate. We compete with a large number of local providers of assisted living and elderly care in the area of assisted living and elderly care management.

## Land and Facilities and Other Significant Property, Plant and Equipment

The following table provides a summary of the space owned or rented by our Group. The investment property portfolio of our Group is explained in more detail under "—*Overview of the Residential Property Portfolio of our Group*."

| Location | Address | Use | Ownership Status |
|---|---|---|---|
| City of Frankfurt am Main | Pfaffenwiese 300 | Office space | Owned by a Group company |
| City of Berlin | Mecklenburgische Str. 57 | Office space | Owned by a Group company |
| City of Mainz | Rhabanusstr. 3 | Office space | Rented |
| City of Koblenz | Rudolf-Virchow Str. 11 | Office space | Rented |
| City of Neustadt an der Weinstraße | Lindenstr. 13 | Office space | Rented |

Both of the properties owned by Group companies are encumbered with several mortgages and liens (*Grundschulden*) totaling €42.3 million (Frankfurt am Main) and €184.5 million (Berlin). In the six months ended June 30, 2009, our expenses for rented real estate amounted to approximately €0.4 million; in 2008, €0.8 million and in 2007, €0.5 million.

Furthermore, property, plant and equipment are carried on the balance sheet of our Group that consist primarily of technical equipment, as well as office equipment and furnishings. The total value of these property, plant and equipment was €8.2 million as of June 30, 2009, €8.7 million as of December 31, 2008, and €20.6 million as of December 31, 2007.

## Patents, Licenses and Trademarks

The companies in our Group hold no patents. The following trademarks are currently registered at the German Patent and Trademark Office in Munich in favor of our Group, or have been applied for there:

- A word mark/logo "Deutsche Wohnen AG," of July 17, 2009
- A word mark/logo "GEHAG Gruppe," of May 21, 2007
- A logo of the "GEHAG Gruppe," of May 21, 2007
- A word mark "KATHARINENHOF," of March 1, 1999
- A word mark/logo "KATHARINENHOF," of August 6, 2001

Our Group holds the following Internet domains:

b-w-i.de; deutsche-wohnen.com, deutsche-wohnen.de, deutsche-wohnen.eu; deuwo.com, deuwo.de, deuwo.eu; esg-berlin.de; gehag.de, gehag-forum.de, gehag-gruppe.de, gehag-vv.de; hufeisensiedlung-berlin.de; initiative-welterbe.de; katharinenhof.net; krankenhausviertel-pankow.de; mtwohnen.de; rheingauviertel-wilmersdorf.de; rhein-pfalz-wohnen.de; sagebau.de; under-construction-online.de; waldsiedlung-berlin.de; waldsiedlung-zehlendorf.de

The companies in our Group hold no other significant intellectual property rights.

## Employees

The following table contains a summary of the average number of employees (excluding management, trainees and employees on parental leave and partial retirement) of our Group in the six months ended June 30, 2009, as well as in the 2008 and 2007 fiscal years, each subdivided by segment.

| Number of employees by segment | January 1 – June 30, 2009 | January 1 – December 31, 2008 | January 1 – December 31, 2007 |
|---|---|---|---|
| Residential Property Management and Sales | 356 | 458 | 622 |
| Assisted Living and Elderly Care | 901 | 938 | 739 |
| **Total** | **1,257** | **1,396** | **1,361** |

The decrease in the number of employees in the Residential Property Management and Sales segments as of June 30, 2009 in comparison to December 31, 2008 and December 31, 2007 is due to the restructuring in 2008 and the related reduction in headcount. The increase in the number of employees in the Assisted Living and Elderly Care segment (KATHARINENHOF Group) from 739 at the end of 2007 to 901 as of June 30, 2009 is primarily due to the acquisition of additional facilities.

Works councils do not exist in any of our Group companies with the exception of KATHARINENHOF. Likewise, no entrepreneurial co-determination exists on the supervisory board of Deutsche Wohnen AG. Only GEHAG has a supervisory board that is constituted according to the German One-Third Employee Representation Act (*Drittelbeteiligungsgesetz*), meaning that four of the twelve supervisory board members are employee representatives.

Due to historical reasons, there are different models for company pension plans for former employees of our Group prior to our acquisition of shares in GEHAG and the former employees of the GEHAG Group, whose contracts we took over and continued on an individual basis. No new employees are accepted into the pension plans. Various past internal Group restructuring initiatives in which existing companies in our organizational structure were completely dissolved and transferred — in some cases transferred into entirely new structures, and in other cases into existing structures and various companies of our Group — form the background to these contractual continuations on an individual basis.

Pension provisions are formed for obligations (pension, disability, widow/widower pension and orphan pension benefits) from deferred benefits and from current benefits to eligible active and former employees and their surviving dependents. The expenses for the benefits granted as part of defined benefit plans are established using the projected unit credit method. Actuarial profits and losses are recognized directly in retained earnings in the statement of recognized income and expense. Any retroactively calculated service cost is dispersed on a linear basis over the average period until vesting of the deferred benefit occurs. Insofar as pension rights are immediately vested upon implementation or modification of a pension plan, the retroactively calculated cost must be recognized immediately in the profit and loss statement.

In addition to payment of the legally required contributions to government pension insurance carriers, an additional retirement benefit plan exists according to the regulations for supplementary benefits in public service. This is due to the membership of one of the Group's companies in BVK. The supplementary benefits comprise a partial or full pension for reduction in earning capacity, as well as an old-age pension in the form of full pension or survivor pension. The assessment charged by BVK is set according to the remuneration of the employees subject to a supplementary pension. Accordingly, BVK represents a common defined benefit plan for several employers, which is carried as a defined contribution plan under IAS 19.30(a) because BVK does not provide sufficient information to treat it as a defined benefit plan.

## Litigation

In the course of their business activities, companies of the Deutsche Wohnen Group are regularly parties to rental and warranty disputes, as well as labor law disputes, but none of these are material either individually or as a whole with regard to the financial situation or profitability of our Group. Except for the circumstances described below, no company of our Group is currently, or has been in the past twelve months, party to a government intervention, a court or arbitration proceeding or an administrative proceeding (including those proceedings that are still pending or could be initiated to our knowledge) that could have a material effect on the financial situation or results of operations of our Group or has had such an effect in recent times.

## Ongoing proceedings

GEHAG filed suit in the Potsdam Regional Court with a complaint dated November 30, 2006 against the Evangelische Kirchengemeinde Blankenfelde for payment of approximately €371,115. The object of the proceeding is contributions for site development costs as well as other expenses that GEHAG incurred with regard to a heritable building right to be issued in its favor, which was not in fact issued. GEHAG is pursuing the suit by joinder of parties with bbg Berliner Baugenossenschaft eG. The Potsdam Regional Court dismissed the claim in its ruling of September 13, 2007. GEHAG filed an appeal with the Berlin Court of Appeal (*Kammergericht*). The proceeding is still pending.

On November 12, 2007, GSW Immobilien GmbH filed suit in the Berlin Regional Court against Fortimo GmbH, a GEHAG subsidiary, for payment of €283,782 in management remuneration from a real estate purchase and management agreement dated August 31, 2007. The suit was dismissed in its entirety on May 27, 2008. GSK Immobilien GmbH filed an appeal of the ruling on July 3, 2008, which has not yet been decided.

In connection with our EK02 Inventories, Rhein-Pfalz Wohnen GmbH, Rhein-Mosel Wohnen GmbH, Sanierungs- und Gewerbebau AG and ESG have filed an objection to the lump-sum tax notices issued by the Tax Office. For additional information, see "*Risk Factors—Risks Related to Our Business—The change in tax treatment of EK02 Inventories effectuated by the Annual Tax Act of 2008 (Jahressteuergesetz 2008) could have a detrimental effect on our cash flows, financial condition and results of operations.*" In addition, proceedings related to the continuation of the former legal situation (regarding the exercise of voting rights) are still pending on the basis of petitions by Rhein-Pfalz Wohnen GmbH, Rhein-Mosel Wohnen GmbH, Rhein-Main Wohnen GmbH, GEHAG and Aufbaugesellschaft der GEHAG mbH.

In the past, GEHAG Group companies participated in the design and creation of real estate funds ("GEHAG Funds"). The funds business was operated by GEHAG Group companies until 2005. Due to this earlier activity, investors in the closed-end real estate funds filed a total of approximately 160 claims for damages arising from prospectus liability against the initiators and founders of the funds, including GEHAG, the vast majority of which were dismissed or concluded without a payment obligation for GEHAG. Of these claims, approximately 30 suits are still pending at present. In connection with the GEHAG Funds funds business on which the suits are based, the former GEHAG shareholder HSH Real Estate AG issued a release agreement in favor of GEHAG, according to which GEHAG is indemnified for third-party claims arising from the funds business.

BSZ GmbH has asserted a claim for compensation and damages from house and apartment management agreements against Rhein-Main Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG and has filed claims in the Frankfurt am Main Regional Court (*Landgericht*) for payment of a total of approximately €350,000 in September 2009.

Some of our Group companies were in the last twelve months, or are currently, defendants in lawsuits with former employees. The objects of these proceedings are the payment of a settlement or the amount of such a settlement, primarily resulting from a social plan (measures aimed at reducing the impact of large-scale layoffs). Overall, the amount of the disputed claims and claims, that have been established but are still open, arising from the social plan and other severance packages is approximately €1.4 million.

A claim has been filed against DB 14, a closed-end real estate fund of the Deutsche Wohnen Group, by the Bobenheim-Roxheim municipality for repayment of a loan in the amount of €602,569.26. The parties are disputing the effectiveness of the extraordinary termination of the loan by the municipality. The municipality has threatened legal action to enforce its claim.

Rhein-Main Wohnen GmbH was requested by a purchaser of a condominium to rescind the purchase agreement, to reimburse the purchaser with the purchase price and to pay damages totaling approximately €240,000. Legal action has been threatened, in the event that these demands are not satisfied.

## Concluded proceedings

A suit against GEHAG as joint and several debtor along with other defendants dated December 23, 2004 was originally brought before the Nuremberg-Fürth Regional Court and later the Berlin Regional Court, originally for payment of €1,022,583.76 and later increased by €51,129.19. The suit was due to claims arising from prospectus liability in connection with Josef Meyer Immobilien Verwaltungs-KG — LBB Fonds 3 — ("LBB Fonds 3"). The suit was ended by withdrawal of the complaint dated January 23, 2009, without obligations for GEHAG.

An additional total of six suits against GEHAG as a joint and several debtor along with several additional defendants due to claims arising from prospectus liability in connection with Bavaria Immobilien Beteiligungsgesellschaft mbH & Co. Immobilienverwaltungs KG LBB Fonds 5 ("LBB Fonds 5") were all withdrawn by the plaintiffs. Any claims against GEHAG from GEHAG's participation in LBB Fonds 3 and LBB Fonds 5 are not covered by the release agreement with HSH Real Estate AG discussed above.

On November 9, 2005, GEHAG filed a claim in the amount of €205,674.76 plus interest against LBB Fonds 3 in connection with a construction project in the Karow-Nord district of Berlin, Germany. The Nuremberg-Fürth Regional Court (*Landgericht*) upheld the claim in a ruling dated March 13, 2007. Upon appeal by the defendants, the claim was dismissed.

In a proceeding before the Berlin Regional Court GEHAG filed a claim in connection with the restitution of real estate that GEHAG managed before restitution and from which it generated rental income and for which it incurred investment expenses. GEHAG filed the claim according to the German Act to Regulate Open Asset Questions (*Gesetz zur Regelung offener Vermögensfragen*) against Industrie Baugesellschaft Centrum Am Bülowplatz AG on July 18, 2005, for payment of €2,155,653.25 to reimburse expenses for modernization and repair tasks for the period of third-party management of the real estate. In a parallel proceeding pursued by the defendant following the decision of the German Federal Supreme Court (*Bundesgerichtshof*), however, the parties agreed to a settlement of all mutual claims without settlement payments.

In a complaint dated May 11, 2004, WEG Dillgestrasse filed suit in the Berlin Regional Court against the GEHAG Group for a payment of €279,628.42 plus interest due to defects in common property and determination of the obligation to pay damages due to any possible further defects. The suit was ended on June 13, 2009, by a settlement in exchange for a non-recurring payment by GEHAG in the amount of €160,000. This payment has already been made.

Multiple actions to overrule the resolution of the general shareholders' meeting of Sanierungs- und Gewerbebau AG of December 18, 2007 to exclude minority shareholders pursuant to Section 327a AktG were dismissed by a ruling of the Aachen Regional Court, as well as a ruling on appeal of the Cologne Higher Regional Court (*Oberlandesgericht*) dated June 4, 2009. The transfer resolution was recorded for Sanierungs- und Gewerbebau AG in the Commercial Register on June 17, 2009. The deadline for application for the court action to determine the cash settlement for the excluded minority shareholders ends on September 17, 2009. We cannot exclude the possibility that such suits will be filed.

### Insurance

Our Group has purchased various operating insurance policies, which include, inter alia: pecuniary damage insurance; building and landowner insurance; environmental and environmental damage insurance; operating and construction liability insurance; and property insurance policies, such as comprehensive operating insurance and building, group accident, electronics, infidelity, fire, burglary, water damage, and storm insurance.

In addition, directors' and officers' (D&O) liability insurance is in force for the members of the management board and the supervisory board. We consider our Group to be appropriately covered with regard to the nature of its business activities and the related risks in the context of the available insurance offerings and rates. However, it is impossible to exclude the possibility that our Group will incur damages that are not covered by its insurance policies or that exceed the coverage limits of these insurance policies. Moreover, there can be no guarantee that it will be possible for our Group to obtain adequate insurance coverage in the future.

# LEGAL ENVIRONMENT

Our business activities are subject to legal requirements. The essential regulatory framework for our business activities is discussed below.

### Limitations of German Tenancy Law

German tenancy law distinguishes between residential and commercial space. The majority of our property portfolio is governed by residential tenancy law, which in large part favors tenants through extensive social safeguards. In particular, it imposes restrictions on our Group with regard to terminations and rent increases.

### Statutory protection against eviction

As a rule, the landlord may terminate a tenancy for residential space on a statutory basis only if the landlord has a legitimate interest in ending the tenancy. Under the law, a legitimate interest in ending the tenancy arises if the tenant commits a culpable contractual breach, the owner has a claim of personal use in the property for himself, his family members, or members of his household, or the owner would otherwise be prevented from reasonable economic utilization and would therefore suffer considerable detriment.

"Reasonable economic utilization" as grounds for termination is intended to ensure the free economic disposability of property. Such grounds exist if the owner were to suffer considerable detriment from continuing the tenancy (for example, receiving a significantly lower purchase price; expenses significantly exceed income). However, a landlord's intention of converting housing into individually owned residential units, for example, would not qualify. In fact, the German Civil Code (*Bürgerliches Gesetzbuch*, the "BGB") completely prohibits personal use and reasonable economic utilization as grounds for termination by the purchaser for a limited time (three years after transfer of title) if the residential space was already rented to a tenant before the transfer of title and is then sold. In regions where housing supplies are deemed to be insufficient, the German state governments may extend this prohibition against termination for up to ten years by statutory order.

### Statutory limits on rent increases

With lease agreements that are not subject to rent control, the landlord may assert a right of contractual adjustment, subject to statutory and contractual requirements, up to locally prevailing comparative rent levels if the rent has remained unchanged for the five months preceding the intended increase. As a rule, however, the rent cannot increase by more than 20% in three years (capping limit). When freely financed residential units are modernized, the landlord may also increase the annual rent by 11% of the costs incurred in the modernization, subject to statutory and contractual requirements.

### Statutory restrictions in selling residential space

If rented residential space that has been converted for individual ownership, or is intended for such conversion, is to be sold to third parties, the BGB provides the tenant with a statutory preemptive purchase right, that is, the tenant has the right to purchase the space on the same terms as the buyer. No preemptive right exists, however, if the unit was already individually owned or if a conversion was already specifically intended at the time of renting.

### Owner's maintenance obligations

Under German law, the owner must maintain the property (this obligation extends to the structure, the facade, the roof of the building, and also the interior of the residential units). In general, the landlord cannot transfer this maintenance obligation.

However, subject to compliance with some statutory limitations, the owner may assign the maintenance obligation for a residential unit's interior to the tenant.

Starting January 1, 2009 for sales or new rentings of residential units, potential buyers or tenants must be given an energy certificate upon request that discloses the property's energy efficiency. In undertaking modernization measures, additions or extensions, an energy certificate must be prepared if an engineering assessment of the entire building's energy consumption is performed in the course of the modernization that allows the certificate to be prepared at a reasonable cost. The energy certificate is generally valid for ten years. For buildings completed no later than 1965, the owner must already have had an energy certificate available starting July 1, 2008. The Energy Savings Ordinance (*Energieeinsparverordnung*) of June 27,

2007, also requires structural alterations for energy conservation. Failure to comply with these rules can be penalized as an administrative offense.

### Restrictions with publicly or privately subsidized housing

The German federal government, federal states, and municipalities are required by law to subsidize housing construction, that is, to subsidize residential units that are intended and suitable for large segments of the population based on size, fixtures and rent. "Publicly subsidized" housing construction is governed by two significant requirements: first, such housing may only be occupied by tenants holding housing eligibility certificates; second, the landlord is subject to certain limits on the amount of the rent.

Housing construction for agency employees of the German railway services or similar categories of persons has been subsidized with state funds through housing construction support funds by the federal government, the municipalities, and, in the past, also by former state enterprises such as the former Deutsche Bundesbahn (now Deutsche Bahn AG).

### Restrictions with public subsidies

Recipients of public housing subsidies can only charge a cost-covering rent during the sponsorship period stipulated by law. The cost-covering rent is the rent necessary to cover all expenses for the property. It is adjusted over time. Under certain circumstances, higher incidental expenses may permit an increase of the average rent and, accordingly, of the individual rent. However, aside from a few exceptions, such rent increases require the respective sponsor's approval. The cost-covering rent includes an amount fixed by statute for administrative and maintenance costs, which is determined independently of costs actually incurred.

Starting the year after a scheduled repayment of the public subsidies, the landlord may increase the rent in increments up to prevailing market rates (though only within the limits in the aforementioned rules under German tenancy law, in particular, the capping limit). In case of early repayment of public funds, a ten-year extension period generally applies during which the cost-covering rent principle continues to apply. The selection of tenants for publicly subsidized social housing is restricted in that the subsidy recipient may only rent to persons who have a housing eligibility certificate for such housing. The landlord is generally free to select tenants only after public sponsorship has ended.

The statutory basis for publicly subsidized residential space is mainly found in the First and Second Housing Laws (*Wohnungsbaugesetz*), the 1970 Rent Ordinance for New Construction (*Neubaumietverordnung*), the Controlled Tenancies Law (*Wohnungsbindungsgesetz*), the Second Calculation Ordinance (*Berechnungsverordnung*), and the Residential Space Promotion Law (*Wohnraumförderungsgesetz*), which replaced the First and Second Housing Laws starting January 1, 2002. Additionally, the legislative capacity to subsidize social housing was transferred to the German federal states as of September 1, 2006, in the course of federalism reform legislation. So far, housing promotion and controlled tenancies legislation has gone into effect in the federal states of Baden-Württemberg, Bavaria, and Hamburg. Other federal states are planning similar legislation that, with respect to the aforementioned obligations under public law regarding publicly sponsored housing, is essentially guided by the preceding federal law. With regard to our property portfolio, public subsidies may also have been approved under the German Historical Debt Relief Act (*Altschuldenhilfegesetz*). That act granted financial support to municipalities and to communally owned housing construction and management organizations that acquired properties in the former German Democratic Republic after German reunification.

Approximately 23.1% of the properties owned by our Group are publicly subsidized and thus subject to rent limitations and/or intended use restrictions.

Sales of publicly subsidized housing may, in some cases, require the sponsor's approval. Moreover, if a property is converted for individual ownership and subsequently sold for owner-occupancy, subsidies that have been received must be paid back.

In addition to subsidies from the German federal government and the federal states, municipalities, too, provide subsidies in certain cases. In exchange for such subsidies, a municipality usually receives a right to determine the respective building's intended use. Accordingly, the municipality can designate the respective tenants for the property.

### Restrictions with private subsidies

Housing may also be subsidized by private companies, particularly through company loans, which are granted to create housing for a company's employees. Such subsidies consistently stipulate occupancy rights in the sponsor's favor, especially in case of company loans that fund construction or grants that are subject to term limits. Here, too, the holder of occupancy rights may require that the owner of residential units governed by such rights only rent the units to tenants designated by the rights holder.

### Restrictions with properties governed by historic preservation and/or special urban planning laws; restrictions due to copyrights in architectural services

Some of our Group's properties (especially the GEHAG portfolio in Berlin) are located in urban renewal and urban preservation areas. Additionally, some buildings are registered as historic sites. The statutory rules of the BauGB and legislation by the federal states for the preservation of monuments apply in those instances. These laws generally restrict certain structural changes and the use of the property, and they require the owner to maintain the protected structure and its surroundings.

Owners of properties located within an urban renewal area must obtain governmental approval to demolish or structurally alter a building, to enter into lease agreements running for more than a year, to sell the properties, and to grant liens and mortgages. Owners of properties located in an officially defined urban renewal area also must pay the municipality a compensatory monetary amount toward the funding of the redevelopment. This compensatory amount is equal to the increase of the land value resulting from the redevelopment.

Owners of properties located in a preservation area must obtain government approval for demolishing or structurally altering a building or for changing the building's use. Moreover, ordinances in force for up to five years might require approval for converting the status of residential units to individual ownership for owner-occupancy (units for individual ownership or part-ownership).

Owners of buildings listed as historic sites have the specific obligation to preserve and maintain the buildings in a predominantly unchanged state. Compliance with these requirements is monitored and enforced by the relevant government agency. Any change to the structure or use of a building requires specific administrative approval. The owners of structures governed by historic preservation laws must also notify the relevant agency of any intended sale of such a structure The municipality generally has a preemptive right of purchase in such cases. We believe that approximately 9.3% of our properties (which corresponds to 24.1% of the fair value) are listed as historic sites and that, therefore, the individual buildings must for the most part be maintained in an unchanged state because of historic, artistic, scientific, or urban renewal concerns.

Our properties may be works of architectural significance and therefore possibly also subject to copyrights, especially with regard to the respective architect's services. Structural changes in such instances may be subject to the designer's or architect's consent.

### Social Welfare Laws and Commercial Laws Applicable to Nursing Homes and Senior Homes

KATHARINENHOF, a Group company, operates senior homes. Such operations are governed by the HeimG, and the special requirements of Book XI of the SGB must also be observed.

Persons in need of care are entitled to care at inpatient facilities if home care or semi-inpatient care is not feasible or can otherwise not be considered due to the special circumstances in a given case. Such persons may choose among the accredited institutions of various sponsoring bodies. Nursing care fund benefits are provided in kind and in cash. A care facility's nursing care benefits are funded through nursing care insurance, though only up to defined cost limits (depending on the level of the care allowance). Costs in excess of that must be borne by the person in need of care.

As a rule, the nursing care funds discharge their duty of providing coverage with the help of accredited inpatient care facilities such as the senior homes and nursing homes operated by KATHARINENHOF. Pursuant to Book XI of the SGB, only nursing care homes that have entered into contracts of care ("accredited care institutions") may provide outpatient and inpatient care through care facilities. The contracts of care are entered into by a care facility's sponsoring body (or an association authorized to represent sponsoring bodies of equal status) and the state federations of the nursing care funds, in consensus with the regional social welfare funding bodies in the respective federal state (unless that state's law has assigned responsibility for the respective care facility to a local funding body). If a care facility meets the requirements for entering into a contract of care, then it has the right to enter into such a contract. The contract of care stipulates the nature, substance and scope of the general care services that the care facility is

to provide to the policy holders during the term of the contract ("mandate of care"). The contract obligates the care facility to provide the policy holders with care in accordance with the mandate of care. Additional provisions concerning the terms governing the provision of care are found in the master contracts applicable throughout each federal state between the state federations of the nursing care funds and the associations of the sponsoring bodies. The contracts of care directly bind all nursing care funds within the country. The state federations of the nursing care funds may terminate a contract of care only under certain conditions.

The care facilities accredited under a contract of care are entitled to compensation for the care known as care rates. The care rates are to be borne by the nursing home residents, and if a resident is in need of care, borne by his or her cost carrier, thus, by the nursing care funds and social welfare funding bodies. To that end, the sponsoring body of every single accredited nursing home enters into care rates agreements with the nursing care funds and with the relevant social welfare funding bodies. Room and board must be borne by the person in need of care ("nursing home fee"). As to nursing home residents who, pursuant to Book XI of the SGB, are entitled to care insurance benefits, the nursing care funds and the social welfare funding bodies also agree on these fees with the sponsoring bodies of the care facilities.

Capital investments can be financed through public grants in accordance with state law. Such investments include, for example, the costs necessary for the construction, acquisition, and maintenance of the buildings and other depreciable assets that are necessary to operate the care facilities, the costs of acquiring and improving real properties, the renting, use, or co-use of real properties, buildings or other depreciable assets, and the start-up or internal changeover costs of care facilities. To the extent that capital investment expenditures are not covered by public grants, a subsidized nursing home may charge the persons in need of care separately for parts of the capital investments. However, this requires the approval of the relevant government agency at the state level. Unsubsidized care facilities merely have to notify those agencies of the separate assessment of investment costs. In case of care facilities that are not publicly subsidized, the social welfare funding body must assume any separately assessed costs only if an agreement to that effect is in place.

Nursing homes are subject to extensive economic efficiency and quality control measures. Violations may result in the termination of the contract of care or in a cut in the compensation for the care.

### Joint basic requirements for senior homes and nursing homes

The operation of senior homes and nursing homes is governed by the HeimG. A civil law residential contract must be entered into between a home's sponsoring body and the residents of the home concerning the services to be provided by the home's sponsoring body and the fees to be paid by the residents. As to nursing homes, the services and fees must comply with the rules of Book XI of the SGB. As to senior homes, the stipulated fees must be reasonable in relation to the services. The operation of a home is linked to legal requirements. Reports must be filed on the operations so that the relevant government agency can review whether the respective home meets those requirements. Homes are subject to state supervision. In the event that defects are found, the state supervisory body may issue orders against the home's sponsoring body ranging all the way to prohibition of operations.

Homes are also subject to several regulations. The Minimum Building Regulation for Nursing Homes (*Heimmindestbauverordnung*) contains minimum requirements for a home's design. The Home Staffing Regulation (*Heimpersonalverordnung*) imposes minimum requirements on the qualifications of a home's staff. The Home Security Regulation (*Heimsicherungsverordnung*) applies if a home's sponsoring body accepts cash or non-cash benefits for the room and board of a resident or applicant. The Home Cooperation Regulation (*Heimmitwirkungsverordnung*) governs the activities of a home's residents.

## Liability for Environmental Damage and Contamination

Liability for residual pollution and harmful changes to soil, as well as for the contamination of buildings with asbestos and other harmful materials may arise from rules and regulations under both public law and civil law. Liability under public law for residual pollution cannot be excluded through agreements under civil law. Civil law liability for breaches of warranty, however, can be limited or excluded.

### Responsibility under public law for environmental damage and contamination

Under the German Federal Soil Protection Act (*Bundesbodenschutzgesetz,* the "BBodSchG"), the responsibility for residual pollution and harmful changes to soil (hereinafter, each a "Contamination") lies with, amongst others, the perpetrator of the Contamination, such perpetrator's universal successor, the current owner of the property, the party in actual control of the property, and the previous owner of the contaminated property if such owner transferred title after March 1, 1999, and knew or must have known

about the Contamination. Liability is not conditioned on fault, that is, the relevant government agency need not prove intent or negligence on the part of the party held responsible for the remediation. Administrative powers arising from the BBodSchG include risk assessments, investigative orders, remediation orders, and other necessary measures to prevent harmful changes to soil or residual pollution.

In principle, there is no statutory ranking order according to which the parties responsible for remediation must be held liable. Instead, this decision is at the discretion of the respective agency. In that regard, aside from the proximity to the damage and the respective causal contribution, effectiveness of remediation is the prevailing factor. Thus, the current owner of the contaminated property is usually held responsible first because that owner is generally in the best position to undertake the necessary remediation work. However, pursuant to the BBodSchG there is a civil law right of indemnity based on pro rata causation among the responsible parties, regardless of who is held liable by the government, This indemnity right may take the form of an explicit contractual agreement and may also be waived However, whether and to what extent that right can actually be enforced depends on the circumstances in each case.

### Asbestos

German law distinguishes between two types of asbestos: (i) friable asbestos and (ii) other types of asbestos, each resulting in different legal consequences.

Friable asbestos can release asbestos fibers into building air due to aging and external force. Friable asbestos is generally found in construction materials that provide fire safety, noise abatement, moisture protection, heat insulation, and thermal protection. Other types of asbestos are involved if the material containing asbestos is firm and no asbestos fibers can escape into the air, thus not posing a risk to human health.

Under the rules of the asbestos guidelines (*Asbest-Richtlinien*) of the German federal states, the standard for determining a remediation obligation is the presence of any threat to health in any specific case. Therefore, except in the event of structural alterations, there is generally no obligation to remove non-friable asbestos under the asbestos guidelines because of the lack of fiber formation.

As to friable asbestos, the asbestos guidelines prescribe criteria for assessing the urgency of taking remedial action in case of contamination. This is determined according to three levels of urgency. Urgency level I requires immediate remediation of the structure. Urgency level II requires reassessments at intervals of no more than two years, urgency level III a reassessment at intervals of no more than five years. Remediation measures under the asbestos guidelines include demolition, removal, or coating of the asbestos products and separation of the asbestos products from the respective space to ensure that fibers do not become airborne.

In case of asbestos contamination, the tenant can assert a commensurate right of rent abatement. German courts have decided that the presence of a defect for purposes of warranty requirements under tenant law can be presumed if the onset of a health threat cannot be excluded. Accordingly, the courts have permitted rent abatements even in cases involving urgency levels II or III, which, under the asbestos guidelines, merely require that the level of risk be monitored. Tenants may also claim compensatory damages if the defect was present at the time of contract formation. Finally, subject to the conditions of Section 536a(2) of the BGB, tenants also have the right to remedy the defect on their own and require that their reasonable expenses be reimbursed.

### Civil law liability

Civil law liability for residual pollution can arise from contractual warranty provisions or statutory law. Warranty obligations can generally be waived or limited by contract. According to statutory provisions, a perpetrator of Contamination can be liable for damages or for remediation of the Contamination and its consequences. We could be subject to such liabilities if a property that our Group currently owns or formerly owned is detrimentally affecting the property of third parties. This civil law liability exists independently of official action under the provisions of the BBodSchG.

### Commercial Law Framework

In Germany, the business activities of our Group are regulated first and foremost by the German Industrial Code (*Gewerbeordnung,* the "GewO"). Important provisions are found particularly in Section 34c of the GewO and the regulations promulgated thereunder, and especially in the Regulations for Real Estate Brokers and Developers (*Makler- und Bauträgerverordnung,* the "MaBV"). While Section 34c of the GewO requires licenses for some business activities of our Group, the most important provisions of the MaBV require the disclosure of certain information to government agencies, compliance with record retention obligations, and an annual audit of the respective companies of our Group by independent auditors.

The relevant regulations under industrial law that specifically govern senior homes and nursing homes have already been discussed under "*—Social Welfare Laws and Commercial Laws Applicable to Nursing Homes and Senior Homes*."

# MATERIAL AGREEMENTS

The following discusses agreements to which the Company or another company of our Group is a party and that are of material significance to our Group:

## Financing Agreements

### Loan agreement between Deutsche Wohnen AG (et al.) and Helaba

On September 9, 2009, Helaba, Deutsche Wohnen AG, Rhein-Main Wohnen GmbH, and Main-Taunus Wohnen GmbH & Co. KG combined and unified the two existing loan agreements with Landesbank Hessen-Thüringen Girozentrale, Frankfurt an Main, Germany ("Helaba") (the two existing loan agreements are hereinafter referred to as "Helaba I" and "Helaba II") into a new loan agreement ("Helaba III"). The following has essentially been agreed to:

Deutsche Wohnen AG, Rhein-Main Wohnen GmbH, and Main-Taunus Wohnen GmbH & Co. KG, as borrowers, and Helaba, as lender, are entering into a loan agreement for altogether five loan facilities of a cumulative total of approximately €643 million (balance as of June 30, 2009: approximately €632 million). Under this loan agreement, the Helaba I and Helaba II loan agreements will be fully redeemed at their current principal balances of approximately €228 million (Helaba I) and approximately €404 million (Helaba II) (as of June 30, 2009). In this context, the parties have agreed that there are no outstanding claims from Helaba I and Helaba II.

The new loan agreement provides for Deutsche Wohnen AG as the borrower for loan facility A in an amount of approximately €48.6 million, loan facility B in an amount of approximately €68.2 million, and loan facility C in an amount of approximately €121.4 million. Rhein-Main Wohnen GmbH, as the borrower for loan facility D, is provided an amount of approximately €374.5 million, and Main-Taunus Wohnen GmbH & Co. KG, as the borrower for loan facility E, is provided an amount of €30 million.

Loan facility A, the due date of which was extended through the conclusion of Helaba III, will now become due on October 31, 2010. Loan facilities B and C have terms ending May 6, 2014. Loan facilities D and E have terms ending December 31, 2017. The annual interest rate for loan facility A is EURIBOR (on a 3-month basis) plus a margin at prevailing market rates. The annual interest rates for loan facilities B and C are 5.74% and 5.79%, respectively. The annual interest rates for loan facilities D and E are EURIBOR (on a 3-month basis) plus a margin at prevailing market rates.

Deutsche Wohnen AG is jointly and severally liable for all facilities. Rhein-Main-Wohnen GmbH is jointly and severally liable for facilities A through D. Main-Taunus Wohnen GmbH & Co. KG is liable only for facility E. All credit facilities are secured through enforceable personal acknowledgements of debt by the borrowers, rent receivables assignments and pledges of accounts, as well as through a negative pledge, which is applicable to the entire Group. Under the negative pledge, the borrowers, with certain exceptions, are permitted, only with Helaba's consent, to, among other things, take out a loan, individually guarantee financing to third parties or purchase real estate. Furthermore, the facilities are to be secured by way of mortgage over the portfolios of Rhein-Main Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG as of September 30, 2009 and December 31, 2009.

Loan facility A is now due in a single sum by October 31, 2010. Annual amounts of approximately €3.6 million and approximately €6.4 million, respectively, are stipulated as scheduled redemption payments on loan facilities B and C, payable as of June 30 of each calendar year. Rhein-Main Wohnen GmbH is to make scheduled loan redemption payments of approximately €1.2 million each on loan facility D as of the end of each calendar year quarter, starting in 2015. Main-Taunus Wohnen GmbH & Co KG is to make scheduled loan redemption payments of approximately €93 thousand each on loan facility E as of the end of each calendar year quarter, starting in 2015. No scheduled loan redemption payments are to occur on loan facilities D and E prior to 2015.

The borrowers are also obligated to pay an amount of €45 million by October 31, 2010, and €25 million by December 31, 2010, as special redemption payments. In the event of sales of units from the collateralized real estate portfolio, special redemption payments are to be made out of the generated sales proceeds first, in terms of priority, on loan facilities D and E, in an amount of €200.00 per $m^2$ of the rental space sold up to December 31, 2014, and €600.00 per $m^2$ starting on January 1, 2015.

The financial covenants in the Helaba I and Helaba II loan agreements are combined in the new Helaba III loan agreement into two performance indicators, namely, the debt service cover ratio (relationship between net rental income and debt service) ("DSCR") and the exit yield (relationship between net rental income and

the remaining amount of the loan at its respective level at the time of calculation). The DSCR must be at least 102.5% as of June 30, 2010, and will be increased in steps to 110% by 2017. The exit yield must be 7.00% as of June 30, 2010, and will be increased in steps to 8.50% by 2017. These performance indicators are to be reviewed semiannually, and for the first time as of June 30, 2010, at the level of the collateral portfolios of the borrowers and of our Group. The review at our Group level will be dispensed with as soon as the collateralization through mortgages has been ensured and the aforementioned repayments of €48.6 million, €45 million and €25 million have been made.

Pursuant to an agreement with Helaba, amounts totaling €111.1 million, which are currently due by October 31, 2010, will become due for repayment five banking days after the issue proceeds from the capital increase have been credited to the Company's bank account, but no earlier than December 31, 2009, if the capital increase described in this offering circular is successfully completed and gross issue proceeds of approximately €250 million are generated. These amounts currently due for repayment by October 31, 2010 relate to (i) loan facility A totaling €48.6 million, (ii) the extraordinary mandatory repayment in connection with the loan agreement with GEHAG 2. Beteiligungs GmbG totaling €17.5 million (see "*—Additional loan agreements of GEHAG and its subsidiaries*"), and (iii) the extraordinary mandatory repayment of Helaba III in the total amount of €45 million. If the Company generates gross issue proceeds of less than €250 million from the capital increase described in this offering circular, the total amount to be paid by December 31, 2009 shall be reduced in total to 50% of the gross issue proceeds less a lump sum amount of €12 million for costs related to the capital increase.

### Loan agreement between GEHAG and HSH Nordbank AG

On June 13, 2008, a loan agreement was entered into by Deutsche Wohnen AG subsidiary GEHAG and HSH Nordbank AG for four tranches amounting to a total credit volume of approximately €458 million, primarily to refinance other loans. As of June 30, 2009, the credit that had been drawn upon under this agreement amounted to approximately €378 million. An amount of €50.0 million is available under this loan agreement as a revolving line of credit. The maturity-dependent EURIBOR (on a 3-month basis) plus a margin at prevailing market rates has been agreed on as the variable interest for the fixed-rate loan. GEHAG has finalized various interest rate hedges in an amount of €365 million in total to hedge against the interest rate risks. Under the agreement, GEHAG must comply with certain financial covenants, amongst other things. These financial covenants include the relationship between debt and annual contractual net cold rent, the DSCR and the exit yield. As of the time of the next test, the DSCR was 108% and the exit yield was 9.43%. Collateral has been provided in the form of rent assignments, mortgages, pledges of accounts, and personally enforceable promises to pay.

### Additional loan agreements of GEHAG and its subsidiaries

Further acquisitions in 2005 through 2007 were financed through additional separate loans. These include a loan from Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) from December 5, 2005, for €183 million (balance as of June 30, 2009: €166 million) to finance the acquisition of the Fortimo portfolio, a loan from Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) on December 16, 2005, for €45 million (principal balance as of June 30, 2009: €41 million) and two loans from Helaba on January 15, 2007, and February 20, 2007, respectively, for a total amount of €26.2 million (balance as of June 30, 2009: €24.2 million) to finance the acquisition of additional nursing homes (Jakob and Friedrich projects). The maturity-dependent EURIBOR (on a 3-month basis) plus a mortgage-category dependent nominal spread was agreed on as the interest rate in each instance. GEHAG has finalized interest rate hedges in an amount of €435.1 million in total to hedge against the interest rate risks.

Furthermore, GEHAG 2. Beteiligungs GmbH and ESG have concluded two additional loans with Helaba on August 28, 2006 for part financing of the acquisition of ESG for a total of €230 million (balance as of June 30, 2009: €207.3 million). The parties to the contract have agreed to make an extraordinary mandatory repayment of €17.5 million, which is due by October 31, 2010 and which will become payable in full if the capital increase described in this offering circular is successfully completed, or payable in part if gross issue proceeds of less than €250 million are generated (see "*—Loan agreement between Deutsche Wohnen AG (et al.) and Helaba*"). In addition, the parties have agreed to amend the financial covenants.

Security for the loan agreements is particularly provided in each instance through mortgages and liens on the real properties of the acquisition objects that were financed, provided that, with regard to the financings where GEHAG is not the borrower, a joint liability of GEHAG was partially established through promises of liability by GEHAG as the parent company (unrestricted comfort letter). Some loan agreements include financial covenants that generally refer to the DSCR, the interest coverage ratio (relationship of EBIT to

interest expenses) (“ICR”), and the exit yield. These financial covenants have each been individually defined in the loan agreements. As part of the loan agreements for the acquisition of the Fortimo inventories and ESG, the DSCR for both was 110% and the exit yield was 8% (Fortimo) and 8.75% (ESG) as of the time of the next test. The ICR was 180% as of the time of the next test in connection with the loan for the acquisition of the Fortimo inventories. As to the loan agreement of December 16, 2005, between GEHAG and Deutsche Pfandbriefbank AG to finance the nursing homes, it was agreed that the profit and loss transfer agreement between GEHAG and the KATHARINENHOF operating company may only be terminated with the consent of Deutsche Pfandbriefbank AG. GEHAG is also obligated to maintain the investment interest in KATHARINENHOF during the term of the loan and to continue the nursing homes operated by KATHARINENHOF or, alternatively, to have changes concerning the operation of the properties approved by the lender in writing.

### Deutsche Wohnen and GEHAG Group property financings

Aside from the aforementioned loans, our Group is currently drawing on property financing loans of a volume of approximately €699.9 million from various lenders. These obligations are secured in the long term through fixed-interest-rate agreements. Collateral is in place for the most part through mortgages and liens on the financed properties.

### Material Agreements Related to the Acquisition of the GEHAG Group

With several agreements dated July 2, 2007, we acquired approximately 99.99% of the GEHAG Group. Gehag Acquisition Co. GmbH served as the transaction vehicle, which, as of July 2, 2007, held approximately 99.99% of GEHAG or, alternatively, had entered into purchase and assignment agreements concerning the GEHAG shares. GEHAG was the parent company of the GEHAG Group, with approximately 27,000 residential units in Berlin, several senior homes and nursing homes, as well as a telecommunication services provider. In turn, the Oaktree Companies held equity interests in Gehag Acquisition Co. GmbH, each with a share of €12,500 at a total initial capital of €25,000.

The Oaktree Companies each placed Gehag Acquisition Co. GmbH shares of a nominal value of €12,500 into Deutsche Wohnen AG or, alternatively, agreed to transfer them to an indirect wholly owned subsidiary of the Company (Deutsche Wohnen Direkt Immobilien GmbH). The following was agreed in exchange: (i) the issuance of 6,400,000 new ordinary bearer shares in Deutsche Wohnen AG, each such share representing a notional value of €1.00, through a capital increase from authorized capital with the exclusion of shareholder subscription rights; (ii) the issuance of convertible bonds of a nominal value of €25 million; (iii) payment of a cash amount of approximately €179 million, of which €25 million was retained to offset the potential additional cost to the GEHAG Group vis-à-vis the Deutsche Wohnen Group due to the possible EK02 taxation; and (iv) the assumption of receivables under shareholder loans of the Oaktree Company to GEHAG of a nominal amount of €78 million in total, at an amount corresponding to the nominal amount. Also assumed were obligations of Gehag Acquisition Co. GmbH and its 99.99% subsidiary, GEHAG Erwerbs GmbH & Co. KG for the payment of purchase price debts related to the only partially completed acquisition of 40% of the shares in GEHAG from third parties at the amount of €137.9 million.

The agreements underlying the GEHAG acquisition contain both guarantees by the Oaktree Companies to Deutsche Wohnen AG and Deutsche Wohnen Direkt Immobilien GmbH, as are customary in corporate acquisitions of this nature, as well as relatively low maximum limits of liability. In exchange, as is customary in corporate acquisitions, the statutory liability provisions were excluded to the extent permitted.

Once all conditions precedent were met, the shares in Gehag Acquisition Co. GmbH were transferred to Deutsche Wohnen AG and Deutsche Wohnen Direkt Immobilien GmbH, respectively, on August 9, 2007, and all other transactions stipulated in the underlying agreements were carried out as well. In December 2007, the remaining shares in GEHAG were transferred to Gehag Acquisition Co. GmbH and GEHAG Erwerbs GmbH & Co. KG.

Thus, in addition to Deutsche Wohnen AG and Deutsche Wohnen Direkt Immobilien GmbH, only the Federal State of Berlin remained as a shareholder of GEHAG after the transaction was completed, holding a share of a nominal value of €50.00. In connection with the GEHAG privatization, the Federal State of Berlin agreed not to dispose of that share until December 31, 2033.

A number of special rights are linked to the State of Berlin’s equity interest. For example, until the conclusion of the general shareholders’ meeting that decides on the annual financial statements for fiscal year 2032, the State of Berlin can nominate two delegates to GEHAG’s twelve-member supervisory board. Moreover, resolutions to modify the articles of association adopted for the period until November 17, 2018 as well as

sales of shares in GEHAG, require the unconditioned approval of the State of Berlin. Starting at that time and ending November 17, 2033 modifications to the articles of association will still require the approval of the State of Berlin in some areas. Additionally, the respective shareholders have a number of obligations to the State of Berlin under the privatization agreements. This includes, for example, the obligation to exercise voting rights such that neither the registered office nor the corporate headquarters of GEHAG is moved to another location outside the city limits of Berlin, to obtain the approval of the State of Berlin as a rule when entering into affiliate agreements and to invest DEM 50 million into the improvement of the residential surroundings of certain facilities in Berlin in the years following 1998. In today's currency, €14.6 million of this investment obligation remains outstanding.

The convertible bonds of a total nominal value of €25 million issued as consideration in the GEHAG acquisition are divided into 500 ordinary bearer bonds, each having a nominal value of €50,000. The term of the convertible bonds is three years through July 31, 2010, provided that they have not been previously repaid, converted, bought back, or canceled. They bear interest at an effective annual rate of 3%. No recurring interest payments are made on the bonds. The convertible bonds entitle holders to exchange them for ordinary bearer shares with a nominal value of €1.00 during the period from July 31, 2008 to July 31, 2010. The conversion price per share is €45.00, subject to possible adjustments (for example, under this capital increase, or in case of a stock split or stock consolidation, reductions in share capital, mergers, or restructurings). The adjustment of the conversion price under this capital increase will be carried out by the principal conversion agent pursuant to the bond terms, taking the dilution effect and dividend disadvantage caused by the capital increase into account. The conversion price will not be adjusted if the adjusted conversion price were to be greater than the conversion price on the target date under the computational formula prescribed by the bond terms.

If the average volume-weighted XETRA price for the ordinary bearer shares of Deutsche Wohnen AG on at least 20 trading days within a period of 40 consecutive trading days at the Frankfurt Stock Exchange exceeds the conversion price in effect on those trading days by 130%, then Deutsche Wohnen AG has the right to call in the convertible bonds. The convertible bonds are represented in a global certificate without interest coupons and are generally governed by the general terms for convertible bonds. With the debt assumption agreement of December 22, 2008, Rhein-Main Wohnen GmbH has assumed the legal rights and obligations of Deutsche Wohnen AG under the global certificate and the bond terms as of December 31, 2008. In that debt assumption agreement, Deutsche Wohnen AG guarantees the fulfillment of the repayment obligation of Rhein-Main Wohnen GmbH.

## Acquisition and Divestiture Agreements

### Hoechst acquisition agreement

Under a purchase and assignment agreement dated November 27, 1998, Deutsche Wohnen AG, together with GKT Mergers & Acquisitions Consult Fünfte Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main, acquired all shares in Hoechst Bauen und Wohnen GmbH, Frankfurt am Main (subsequently merged with the entity now known as Rhein-Main Wohnen GmbH) and in Wohnungsbau Hoechst GmbH, Frankfurt am Main (now Main-Taunus Wohnen GmbH & Co. KG) from Hoechst AG, Frankfurt am Main. The total purchase price was DM595,714,204.

Related to that, Deutsche Wohnen AG also acquired surcharge receivables (*Aufgeldforderungen*) totaling approximately DM264 million from InfraServ GmbH to which the latter was entitled from Hoechst Bauen und Wohnen GmbH and Wohnungsbau Hoechst GmbH, at a corresponding purchase price. These surcharge receivables were related to a real property swap agreement entered into in front of a notary by Hoechst AG, with the consent and for the account of InfraServ GmbH, on the one hand, and by Hoechst Bauen und Wohnen GmbH and Wohnungsbau Hoechst GmbH, on the other hand.

In the purchase and assignment agreement of November 27, 1998, Deutsche Wohnen agreed, amongst other things, to ensure that Hoechst Bauen und Wohnen GmbH and Wohnungsbau Hoechst GmbH and their assignees make written offers of purchase to the respective tenants at prevailing market conditions prior to a sale of residential units. in a five-year timeframe. Reservations of rights of consent for the transfer of individual or all rights under the agreement as well as shares purchased under the agreement, expired on January 1, 2009. Deutsche Wohnen AG assumed joint and several liability for all obligations of GKT Mergers & Acquisitions Consult Fünfte Beteiligungs- und Verwaltungs GmbH under the purchase and assignment agreement.

### Heimstätte Rheinland-Pfalz GmbH acquisition agreement

Under a purchase and assignment agreement dated November 3, 1998, Deutsche Wohnen AG, together with GKT Mergers & Acquisitions Consult Fünfte Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main, acquired the majority of shares in Heimstätte Rheinland-Pfalz GmbH, Mainz (now Rhein-Pfalz Wohnen GmbH), GESIWO Wohnungsgesellschaft mbH, Neustadt an der Weinstraße (now Rhein-Main Wohnen GmbH, upon merger of Rhein-Main Wohnen GmbH with Rhein-Nahe Wohnen GmbH) and MOSELLAND Wohnungsgesellschaft mbH, Koblenz (now Rhein-Mosel Wohnen GmbH) from the shareholders at that time, namely, the Federal Republic of Germany, the State of Rhineland-Palatinate, Provinzial Feuerversicherungsanstalt der Rheinprovinz, Bayerische Landesbrandversicherung AG, Bayerischer Versicherungsverband Versicherungs AG, Landesversicherungsanstalt Rheinland-Pfalz and Landesbank Rheinland-Pfalz). The total purchase price was DM578,527,082.

Deutsche Wohnen AG assumed joint and several liability for all obligations of GKT Mergers & Acquisitions Consult Fünfte Beteiligungs- und Verwaltungs GmbH under this purchase and assignment agreement.

Contractual limitations on the disposal of the acquired shares, companies and properties arising from the purchase agreement, and from an adjustment agreement dated October 29, 1998, between the Federal Republic of Germany, the State of Rhineland-Palitinate, Landesbank Rheinland-Pfalz, Heimstätte Rheinland-Pfalz, GESIWO Wohnungsgesellschaft, and Moselland Wohnungsgesellschaft (Heimstätte Group), expired on November 3, 2008.

Under a real estate purchase agreement dated November 14, 1996, Rhein-Pfalz Wohnen GmbH (formerly Heimstätte Rheinland-Pfalz GmbH) assumed an obligation to the Federal Republic of Germany to undertake new constructions or modernizations of residential units as part of the publicly subsidized social housing construction program and to the use of such residential units for specific purposes for a period of at least 15 years through November 14, 2011.

### ESG Berlin GmbH acquisition agreement

Under a purchase and assignment agreement dated July 10, 2006, GEHAG Zweite Beteiligungs GmbH (formerly Hauptstadtsee 610. VV GmbH), a wholly owned subsidiary of GEHAG, acquired approximately 95% of the shares in ESG from ESG Berlin Baum, Drimmer, Pielen, Prajs GbR. The remaining share of approximately 5% is held by the Federal Railway Fund (*Bundeseisenbahnvermögen,* the "BEV"), which continues to exert a guiding and governing influence on ESG as a social welfare institution, on the basis of the privatization agreement of December 13, 2000 ("Privatization Agreement"). The purchase price was approximately €152 million.

The Privatization Agreement and other related agreements contain commitments to which the respective shareholders and companies affiliated with them, hence also GEHAG Zweite Beteiligungs GmbH and GEHAG, must submit themselves. The commitments involve the sale of residential units, rent increases, tenant selection, and obligations to employees of ESG. Moreover, the renovation of residential units with the objective of increasing rents is categorically barred without the consent of the tenants. Residential units that become vacant are to be rented preferably to "eligible persons" (that is, employees of BEV, Deutsche Bahn AG, companies affiliated with Deutsche Bahn AG, employees assigned to the companies of the Deutsche Bahn Group, as well as inactive employees of the foregoing and relatives). Subject to certain requirements, rent increases for eligible persons are allowed through December 13, 2010, only in a maximum amount equal to the sum of the percentage increases in the cost-of-living price index during the immediately preceding twelve months and 3% per year. Additionally, residential units that were rented to the same eligible persons without interruption between December 13, 2000 and the time of a sale may be sold to third parties only if the unit was previously offered to the tenant at a discount of 10%. Furthermore, only a total of 20% of the residential portfolio may be sold between December 31, 2000 and December 31, 2012 (that is, 1,308 residential units in total).

The Privatization Agreement also requires GEHAG Zweite Beteiligungs GmbH and GEHAG to furnish ESG with sufficient equity and liquidity from December 13, 2000 to December 13, 2015.

The Privatization Agreement permits an assignment of the ESG shares only with BEV's consent.

ESG has a supervisory board consisting of eight members. Four of those members are nominated by BEV and are subject to a right of BEV to issue instructions. One of those members is entitled to two votes in the event of a tie vote, so that BEV holds a majority on the supervisory board in borderline cases.

The commitments to tenants, the other aforementioned restrictions, and also BEV's control over ESG are subject to large penalty payments and can only be modified with BEV's consent.

### Sale of shares in AKF Telekabel TV- und Datennetze GmbH

Under an agreement dated June 13, 2008, and a contract modification dated June 18, 2008, GEHAG sold its equity interest in AKF, including AKF's equity interests, to Versatel Kabel Asset GmbH, a subsidiary of Versatel AG, for a gross purchase price of €30 million. The purchase agreement was implemented on July 3, 2008. The warranties contained in the agreement are subject to warranty periods that expire between March 2010 and July 2013.

### Portfolio Acquisition and Sale Agreements

Between January 1, 2008, and June 30, 2009, our Group reported sales of 2,190 residential units (fiscal year 2008: 1,798; January 1 to June 30, 2009: 392) through block sales and single unit privatizations, with a total volume of approximately €138,443,000 (fiscal year 2008: approximately €119,725,000; January 1 to June 30, 2009: approximately €18,718,000). The most significant sales during this period are described in the following:

Under a notarized real estate purchase agreement dated June 26, 2008, Deutsche Wohnen Asset Immobilien GmbH, Rhein-Main Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG sold properties with 670 residential units located in the towns of Münster and Bobingen, Germany, to GERES Investment S.à r.l., Luxembourg, for a total purchase price of €45,400,000.

Under a notarized real estate and heritable building rights (*Erbbaurecht*) purchase agreement dated November 28, 2008, Rhein-Pfalz Wohnen GmbH agreed to sell properties with 631 residential units and heritable building rights located in Hanau, Germany, to REIP P-third S.à r.l., Luxembourg, for a total purchase price of €12,590,000. This purchase agreement has not yet entered effect. With a letter dated September 7, 2009, Rhein-Pfalz Wohnen GmbH withdrew from the agreement.

Under a notarized real estate purchase agreement dated July 17, 2008, Fortimo GmbH sold properties with 117 residential units located in Berlin on the streets Von-Laue-Straße, Ladenbergstraße and Rudeloffweg to Beamten-Wohnungs-Verein zu Berlin eG for a total purchase price of €16,000,000.

Under two notarized recorded real estate purchase agreements dated August 29, 2008, GEHAG sold properties with 51 individually-owned residential units located in Berlin-Wilmersdorf to a private individual for a total purchase price of €3,745,000.

### Affiliate Agreements

Deutsche Wohnen AG has entered into control and profit and loss transfer agreements with the following subsidiaries in order to create fiscal units for corporate income tax purposes:

- Deutsche Wohnen Management GmbH;
- Deutsche Wohnen Service GmbH;
- Deutsche Wohnen Management- und Service GmbH; and
- Deutsche Wohnen Corporate Real Estate GmbH (formerly Deutsche Wohnen Corporate Immobilien GmbH).

Under these control and profit and loss transfer agreements, the respective subsidiary has placed the management of its company under the control of Deutsche Wohnen AG. Furthermore, the subsidiaries are to transfer their annual surplus, as it would result without the transfer of profit and losses, to Deutsche Wohnen AG. In exchange, Deutsche Wohnen AG is obligated to offset any annual shortfalls that may arise in the subsidiaries. The control and profit and loss transfer agreements have minimum terms of five years and can be terminated after these fixed terms subject to a notice period of six months. They otherwise automatically extend for additional periods of one year.

Deutsche Wohnen AG has entered into a control agreement with Rhein-Pfalz Wohnen GmbH. This agreement can initially be terminated as of December 31, 2011, subject to a notice period of six months.

## Other Material Agreements

### DB 14

In 1999, our Group contributed a property portfolio of 2,624 residential units and 28 commercial spaces to the Deutsche Bank Group's closed-end property fund called DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG ("DB 14"). In addition to Deutsche Grundbesitz Beteiligungsgesellschaft mbH, Rhein-Pfalz Wohnen GmbH (a subsidiary of Deutsche Wohnen AG) is the managing partner in the fund, which is organized as a limited partnership (*Kommanditgesellschaft)*, and holds a capital share. The day-to-day administration of the fund's assets has been assigned to a company of the Deutsche Bank Group (now DWS Finanz-Service GmbH) under an agency agreement with DB 14.

In placing the closed-end fund shares, Rhein-Pfalz Wohnen GmbH has granted the fund's subscribing limited partners an irrevocable right to tender partnership shares to Rhein-Pfalz Wohnen GmbH or to a third party it designates, which may be exercised on an annual basis for the last time as of December 31, 2019. Accordingly, we are obliged to acquire the shares upon request initially (in 2005) at 105% of the paid-in capital share. Starting in 2005, the agreed purchase price for the shares increases by five to seven percentage points per year. Due to such tenders, our Group's capital share increased to a total of approximately 34% as of June 30, 2009.

Under an agreement with DB 14 concerning the commercial and technical management of the properties, Rhein-Pfalz Wohnen GmbH is performing the commercial and technical management of all real estate assets of DB 14. The agreement has a term ending December 31, 2019.

Furthermore, Rhein-Pfalz Wohnen GmbH has assumed various contractual obligations vis-a-vis DB 14:

Under a rent guarantee and maintenance agreement, Rhein-Pfalz Wohnen GmbH guarantees an annual contractual net cold rent of €9,965,170.15 to DB 14 starting on January 1, 2000. The amount of this guaranteed contractual net cold rent increases each year by 0.5% starting in 2000. If the total rental income in a calendar year is higher than the guaranteed contractual net cold rent, Rhein-Pfalz Wohnen GmbH has the right to claim 70% of the amount of the excess rent as its own revenue; the remaining 30% is due to DB 14. As consideration for assuming the rent guarantee, DB 14 pays Rhein-Pfalz Wohnen GmbH 2% of the contractual net cold rent plus any value-added tax (VAT). Rhein-Pfalz Wohnen GmbH also assumes DB 14's maintenance and repair obligations related to properties arising from the ownership and provision of rental space. DB 14 reimburses Rhein-Pfalz Wohnen GmbH for maintenance and repair costs on an annual basis at a flat rate of DM 6.00 per $m^2$ of rental space plus VAT, with this reimbursement amount increasing annually by 1% starting in 2000. The agreement has a term ending on December 31, 2019.

A loan guarantee agreement is also in place between DB 14 and Rhein-Pfalz Wohnen GmbH. Under this agreement, Rhein-Pfalz Wohnen GmbH has agreed to assume all loans and liabilities vis-a-vis lenders. In exchange, DB 14 makes fixed annual interest and redemption payments. The loans are secured by mortgages and liens against these properties. The purpose of the agreement is to guarantee the interest and redemption payments calculated by Rhein-Pfalz Wohnen GmbH related to spin-offs. The agreement has a term ending December 31, 2019.

### Systems provider agreements

Our Group has entered into four systems provider agreements for the building management of its entire residential portfolio (except for facilities for seniors), with a total annual volume of approximately €11 million. Above all, the agreements involve the servicing of technical building systems, maintenance, tenant changes, and processing of insured losses. To facilitate the implementation of the contracts, the four service providers are integrated into our Group's SAP system.

On October 27, 2008, Deutsche Wohnen Management- und Servicegesellschaft mbH, Deutsche Wohnen Asset Immobilien GmbH, Deutsche Wohnen Beteiligungen Immobilien GmbH, Rhein-Main Wohnen GmbH, Rhein-Pfalz Wohnen GmbH, Rhein-Mosel Wohnen GmbH, Main-Taunus Wohnen GmbH & Co. KG, and DB 14 entered into a systems provider agreement and an agreement for the servicing of technical systems with HSG Zander GmbH concerning certain of the residential portfolio of the contract companies of Deutsche Wohnen located in the Rhine-Main region, effective January 1, 2009 to December 31, 2010; these agreements are automatically extended for additional periods of twelve months each if no termination has been declared within a notice period of three months prior to the expiration of the respective contract term.

On October 27, 2008, GEHAG entered into a systems provider agreement and an agreement for the servicing of technical systems with Gegenbauer Property Services GmbH concerning certain of GEHAG's residential portfolio located in certain areas of Berlin; these agreements have a fixed term ending December 31, 2011, subject to automatic extensions for additional periods of 36 months each if no termination has been declared within a notice period of three months prior to the expiration of the respective contract term.

On October 27, 2008, Rhein-Main Wohnen GmbH, Rhein-Pfalz Wohnen GmbH, Rhein-Mosel Wohnen GmbH, DB 14, GEHAG, ESG and Haus und Heim Wohnungsbau AG entered into a systems provider agreement and an agreement for the servicing of technical systems with URBANA Energietechnik AG & Co. KG concerning certain of the residential portfolio of our contract companies located in the areas of Berlin/Brandenburg, Rhine-Main, and Saarland; these agreements have a fixed term ending December 31, 2011, subject to automatic extensions for additional periods of 36 months each if no termination has been declared within a notice period of three months prior to the expiration of the respective contract term.

On October 27, 2008, Fortimo GmbH, GEHAG and Aufbau-Gesellschaft der GEHAG entered into a systems provider agreement and an agreement for the servicing of technical systems with B&O Service- und Messtechnik AG concerning certain of the residential portfolio of our contract companies located in certain areas of Berlin; these agreements have a fixed term ending December 31, 2011, subject to automatic extensions for additional periods of 36 months each if no termination has been declared within a notice period of three months prior to the expiration of the respective contract term.

# TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

Discussed below are the material transactions and legal relationships that have existed between the Company and other companies of our Group, on the one hand, and related parties and companies, on the other, in the fiscal years 2008, 2007 and 2006, as well as in 2009 until the date of this offering circular. Business relations among companies of our Group are not discussed here.

Companies and persons deemed to be related to Deutsche Wohnen AG under International Accounting Standard ("IAS") 24 are:

- companies of our Group that are controlled by Deutsche Wohnen AG, in which the Company holds an investment interest that provides the Company with significance influence, or in whose joint management the Company participates;
- companies associated with Deutsche Wohnen AG for purposes of IAS 28 that are not consolidated by Deutsche Wohnen AG, and joint ventures in which the Company is a partner company;
- members of the management board and the supervisory board of Deutsche Wohnen AG and their direct family members, as well as companies controlled by members of the management board or supervisory board of the Company or their direct family members, or in which such persons exert material influence, or in which they directly or indirectly hold a substantial share of voting rights; and
- the shareholders of the Company whose shareholdings grant them a significant influencing power over the Company, and all companies and enterprises in which such shareholders can exert a controlling influence and/or in which these shareholders hold more than 50% of the voting rights.

## Business Relationships between Deutsche Wohnen AG and Companies of the Deutsche Wohnen Group

### Agency agreements

Deutsche Wohnen AG and some Group companies entered into agency agreements with various Group companies, effective July 1, 2008, under which Deutsche Wohnen AG, Deutsche Wohnen Service GmbH, Deutsche Wohnen Management GmbH, Deutsche Wohnen Vertrieb GmbH, Deutsche Wohnen Kundenbetreuung GmbH, and Deutsche Wohnen Technik GmbH provided various services to the respective other party. Those services included, among other things, services in the areas of leasing and sales management, consulting to residents and tenants, rent and receivables management, central purchasing and contract administration, customer service, technical management including maintenance and modernization, personnel, legal and financial matters, marketing, IT, business management, and portfolio controlling. The agreements have indefinite terms and can be terminated at any time at the end of a month. Since May 2009, the aforementioned services are essentially still provided only by Deutsche Wohnen AG, Deutsche Wohnen Management GmbH, and Deutsche Wohnen Vertrieb GmbH, and since August 2009 instead of the latter, Deutsche Wohnen Corporate Real Estate GmbH (formerly Deutsche Wohnen Corporate Immobilien GmbH). The agency agreements were adapted accordingly or discontinued.

## Business Relationships with Current and Former Principal Shareholders of the Company and with Companies and Enterprises Over Which These Principal Shareholders Can Exert a Controlling Influence

### Consulting agreement with the Oaktree Companies

A consulting agreement is in place between the Oaktree Companies and Deutsche Wohnen AG for consulting services at the request of our Group in projects involving the acquisition of equity interests in companies and of property portfolios. The agreement can be terminated at the end of a month subject to a notice period of one month. The remuneration depends on the services provided and is limited to €300,000 per year plus VAT and expenses.

### Control agreement with DB Real Estate Management GmbH

In connection with the acquisition of its real estate portfolio in 1998/1999 and the public placement of the shares of Deutsche Wohnen AG, Deutsche Wohnen AG and DB Real Estate Management GmbH (formerly Deutsche Grundbesitz Management GmbH and now RREEF Management GmbH) had entered into a control agreement on May 7, 1999, based on which Deutsche Wohnen AG placed the management of its

company under the control of DB Real Estate Management GmbH. The sole shareholder of DB Real Estate Management GmbH was Deutsche Bank AG. Due to the control agreement, the business policy of Deutsche Wohnen AG was substantially determined by DB Real Estate Management GmbH. In the control agreement, DB Real Estate Management GmbH had also agreed to offset any net loss for the period arising during the contract term of 15 years, to the extent that offsetting cannot be done out of available reserves. The control agreement also provided that in consideration for the performance of its management function, DB Real Estate Management GmbH would receive a dividend-driven remuneration if and to the extent that the total amount of dividends by Deutsche Wohnen AG attributable to registered shares in a fiscal year exceeded a specific amount.

Under a termination agreement dated May 12, 2006, and with the approval of the Company's extraordinary shareholders' meeting on March 23, 2006, the control agreement was terminated on May 12, 2006 as part of the efforts to financially separate Deutsche Wohnen AG from the Deutsche Bank Group. The effective date of termination was June 30, 2006 (end of the partial fiscal year that was created by a resolution of the same extraordinary shareholders' meeting).

### Additional agreements with companies of the Deutsche Bank Group

In addition to the aforementioned control agreement, an agency agreement was in place between Deutsche Wohnen AG and DB Real Estate Investment GmbH (now RREEF Investment GmbH) under which DB Real Estate Investment GmbH provided IT services at prevailing market terms and conditions. As consideration, Deutsche Wohnen AG paid DB Real Estate Investment GmbH €1.1 million in 2006. This agreement was terminated March 28, 2007.

# GENERAL INFORMATION ON THE COMPANY

## Formation, Name and Commercial Register Entry

Deutsche Wohnen AG is a stock corporation (*Aktiengesellschaft*) organized under German law. It was incorporated as KERA Beteiligungs Aktiengesellschaft, a stock corporation organized under German law, on November 19, 1996 and was registered with the Commercial Register of the Local Court (*Amtsgericht*) of Frankfurt am Main, Germany, under number HRB 42388 on December 12, 1996. The founder and sole shareholder was Deutsche Bank AG. Initially, the Company had no active business operations. It first started to conduct business in 1998. The Company changed its name to Deutsche Wohnen AG pursuant to a resolution adopted by an extraordinary shareholders' meeting on October 30, 1998, which was recorded in the Commercial Register of the Local Court of Frankfurt am Main on January 6, 1999. The Company conducts business as Deutsche Wohnen.

## Company History

The cornerstone of our Group's formation took place in 1998/99 with the acquisition of the residential real estate portfolios of the former Hoechst AG and the Heimstätte Rheinland-Pfalz Group. Our Group took on its current form through its merger with the GEHAG Group in July 2007.

In 1999, all of Deutsche Wohnen AG's four million no par value registered shares, each such share representing a notional value of approximately €2.56, were sold in a private placement to retail and institutional investors by the Company's then sole shareholder, DB Real Estate Management GmbH (formerly Deutsche Grundbesitz Management GmbH and now RREEF Management GmbH), Eschborn, Germany, a wholly owned subsidiary of Deutsche Bank AG. The Company's initial public offering took place on November 2, 1999, with its shares trading on the regulated market of the Luxembourg Stock Exchange and on the open markets of the Düsseldorf and Berlin/Bremen stock exchanges. The shares of Deutsche Wohnen AG were admitted to trading in the official market segment (*amtlicher Markt*) of the Frankfurt Stock Exchange on July 14, 2006. They have traded in the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange since November 1, 2007. At the request of the Company, the listing on the Luxembourg Stock Exchange was cancelled as of the close of December 12, 2006.

As part of DB Real Estate Management GmbH's placement of the Company's shares in 1999, DB Real Estate Management GmbH granted those registered shareholders who were recorded in the Company's stock register as of June 30, 2009, the right to sell their shares to DB Real Estate Management GmbH by December 31, 2009. In view of this right, Deutsche Wohnen AG and DB Real Estate Management GmbH executed a control agreement on May 7, 1999, under which Deutsche Wohnen AG gave control of its business to DB Real Estate Management GmbH. The sole shareholder of DB Real Estate Management GmbH was Deutsche Bank AG.

In early 2006, Deutsche Wohnen AG and DB Real Estate Management GmbH decided to cancel their control agreement and financially separate Deutsche Wohnen AG from the Deutsche Bank Group in order to facilitate the sustainable growth of Deutsche Wohnen AG. The State of Rhineland-Palatinate and Hoechst GmbH, legal successor of the former Hoechst AG, had already consented to a waiver of the control requirement in 2005.

On the basis of a concept formulated by Deutsche Wohnen AG and the Deutsche Bank Group, on March 23, 2006 an extraordinary shareholders' meeting of the Company approved the cancellation of the control agreement with DB Real Estate Management GmbH with a majority of 99% of the capital represented. Another condition that DB Real Estate Management GmbH set for the financial separation was that at least 90% of the shareholders take advantage of the opportunity also resolved at the extraordinary shareholders' meeting on March 23, 2006 to exchange their existing Company registered shares for bearer shares and, in connection with that, waive their right of sell-out. Once these conditions were satisfied as of the closing of trading on May 8, 2006, the control agreement was cancelled on May 12, 2006 with effect starting at the close of June 30, 2006 (the end of the partial fiscal year introduced by a resolution of the same extraordinary shareholders' meeting). As of June 30, 2009, 25,722,178 of the total 26,400,000 shares (approximately 97.4%) were bearer shares, and 677,822 (approximately 2.6%) were registered shares. As of June 30, 2009, the right of sell-out date, the right of sell-out was exercised for a total of 579,675 (approximately 2.2% of the Company's shares) of the 677,822 registered shares. For more information on the right of sell-out, see below "*Description of the Share Capital—Right of Sell-out*." As of the date of exchange, September 10, 2009,

466,599 of the 677,822 registered shares were exchanged for bearer shares; consequently, there is a total of 211,223 registered shares outstanding as of September 10, 2009 (approximately 0.8% of the shares of Deutsche Wohnen AG).

In the course of its merger with Berlin-based GEHAG, Deutsche Wohnen AG acquired, in two stages, all of the shares of GEHAG from the Oaktree Companies. As consideration, the two Oaktree Companies received 6.4 million new bearer shares in Deutsche Wohnen AG and a convertible bond with a total nominal value of €25 million.

## Registered Office, Fiscal Year, Duration and Purpose of the Company

The Company's registered office is located at Pfaffenwiese 300, 65929 Frankfurt am Main, Germany, and its telephone number is +49 (0)69 97 69 70-0.

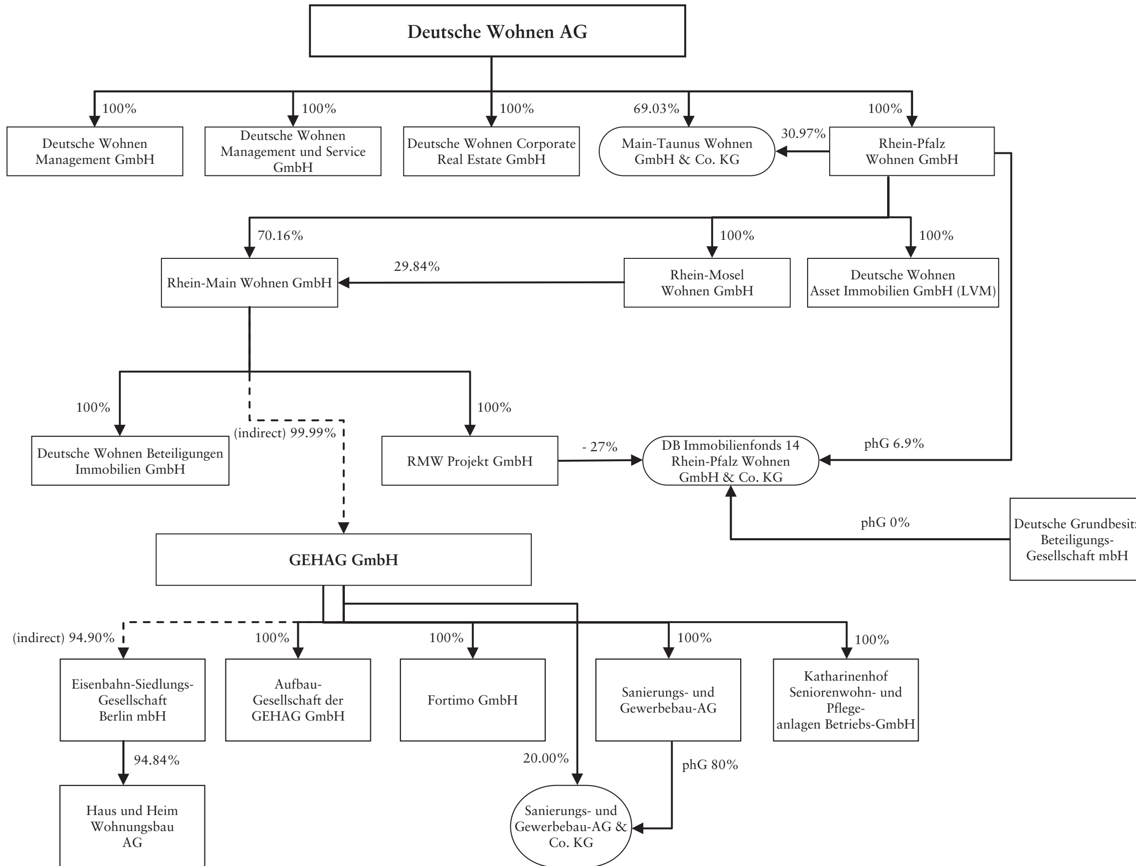
The Company's fiscal year has been the calendar year since January 1, 2007. The fiscal years from January 1, 2006 to June 30, 2006 and from July 1, 2006 to December 31, 2006 were partial fiscal years. The partial fiscal years were introduced because the control agreement that existed at the time between the Company and DB Real Estate Management GmbH had to be cancelled as of the end of a fiscal year, in this case June 30, 2006, according to the AktG. The duration of the Company is indefinite.

Pursuant to Article 2 of the Company's articles of association, its purpose is to acquire and administer own assets, particularly equity stakes in other companies, especially in companies active in the construction, supervision, management, administration and sale of buildings and structures in all legal forms and for all of purposes. The Company does not carry out any operations that require governmental authorization. The Company may work to realize this purpose itself or do so through subsidiaries and affiliates. To the extent permitted by law, the Company is entitled to conduct all business and to take all measures that seem appropriate to foster this purpose, particularly the acquisition and sale of land, to establish branch offices both in Germany and abroad and to enter into affiliate agreements.

### Structure of the Deutsche Wohnen Group and Significant Shareholdings

Deutsche Wohnen AG is the parent company of our Group, which consists of more than 40 companies. Its primary function within our Group is to function as a finance and management holding company. The operating business is conducted exclusively by subsidiaries, all of which were founded and have their registered office in the Federal Republic of Germany.

The current structure of our Group is as follows (only major subsidiaries are shown):




phG = personally liable shareholder (*persönlich haftender Gesellschafter*)

The following table shows the financial data (in € million, unless otherwise indicated) pursuant to the HGB, for the major subsidiaries of Deutsche Wohnen AG as of December 31, 2008:

| Name | Area of activity | Nominal capital | Book value of the shares | Reserves | Payables to Deutsche Wohnen AG | Receivables from Deutsche Wohnen AG | Annual net profit/ loss | Dividend paid to Deutsche Wohnen in the 2008 fiscal year |
|---|---|---|---|---|---|---|---|---|
| | | (in € millions) | (in € millions) | (in € millions) | (in € millions) | (in € millions) | (in € millions) | (in € millions) |
| **Direct participations** | | | | | | | | |
| Rhein-Pfalz Wohnen GmbH. . . . . . | Property management | 9.72 | 237.1 | 21.3 | 148.2 | 66.9 | 0.0 | 0.0 |
| Deutsche Wohnen Management and Servicegesellschaft mbH. . . . . . . | Management | 0.02 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Main Taunus Wohnen GmbH & Co. KG. . . . . . . . . . . . . . . . . | Property management | 4.35 | 49.1 | 0.0 | 0.0 | 8.6 | 15.4 | 0.0 |
| Deutsche Wohnen Management und Servicegesellschaft mbH. . . . . . . | Property management | 0.03 | 0.0 | 0.0 | 3.5 | 1.8 | 0.0 | 0.0 |
| Deutsche Wohnen Corporate Real Estate GmbH*) . . . . . . . . . . . . | Management | 0.02 | 0.0 | 0.0 | 0.0 | 0.8 | (3.7) | 0.0 |
| **Indirect participations** | | | | | | | | |
| GEHAG GmbH . . . . . . . . . . . . . | Property management | 13.00 | 148.4 | 64.7 | 77.1 | 0.0 | (58.7) | 0.0 |
| Rhein-Main Wohnen GmbH. . . . . . . . . . . . . . . . . . . | Property management | 13.12 | 146.5 | 167.2 | 186.7 | 0.0 | 0.0 | 0.0 |
| Fortimo GmbH . . . . . . . . . . . . . | Property management | 0.02 | 6.1 | 6.1 | 0.0 | 0.0 | 1.8 | 0.0 |
| Eisenbahn-Siedlungs- Gesellschaft mit beschränkter Haftung. . . . . . | Property management | 10.74 | 11.7 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rhein-Mosel Wohnen GmbH . . . . . | Property management | 10.03 | 74.7 | 76.0 | 0.0 | 0.8 | 4.3 | 0.0 |
| Deutsche Wohnen Asset Immobilien GmbH . . . . . . . . . . . . . . . . . | Property management | 0.02 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deutsche Wohnen Beteiligung Immobilien GmbH . . . . . . . . . . | Property management | 0.02 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Aufbau - Gesellschaft der GEHAG GmbH . . . . . . . . . . . . . . . . . | Property management | 0.05 | 0.1 | 1.9 | 0.0 | 0.0 | 0.5 | 0.0 |
| Haus und Heim Wohnungsbau-Aktiengesellschaft . . . . . . . . . . | Property management | 0.20 | 8.4 | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 |
| Sanierungs- und Gewerbebau-Aktiengesellschaft . . . . . . . . . . | Property management | 0.52 | 1.1 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sanierungs- und Gewerbebau-Aktien-gesellschaft & Co. Kommandit-gesellschaft . . . . . . . . . . . . . . | Property management | 1.40 | 1.1 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 |
| DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG. . . . . | Property management | 58.00 | 18.9 | 0.0 | 0.0 | 0.0 | (0.6) | 0.0 |
| KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH . . . . . . . . . . . . . . . . . | Management | 1.95 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| RMW Projekt GmbH . . . . . . . . . | Interim holding company | 0.02 | 0.0 | 16.2 | 0.0 | 0.6 | 0.0 | 0.0 |

*) *Formerly Deutsche Wohnen Corporate Immobilien GmbH.*

## Auditor

The auditor for the consolidated and unconsolidated financial statements of Deutsche Wohnen AG for the current year is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (formerly Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft), Mergenthalerallee 3-5, 65760 Eschborn, Frankfurt am Main, Germany, ("E&Y"). E&Y is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer K. d. ö.R*) in Berlin.

E&Y audited the unconsolidated financial statements of Deutsche Wohnen AG for the fiscal year ended December 31, 2008, which were prepared on the basis of the HGB, as well as the consolidated financial statements of Deutsche Wohnen AG for the fiscal years ended December 31, 2008 and December 31, 2007, which were prepared in accordance with IFRS as adopted by the European Union and the additional requirements of German commercial law pursuant to Section 315a (1) of the HGB, and issued in each case an unqualified auditor's opinion. In addition, E&Y audited the consolidated financial statements of Deutsche Wohnen AG for the 2nd PFY 2006, which were prepared in accordance with IFRS as adopted by the European Union and the additional requirements of the HGB pursuant to Section 315a(1) of the HGB, and issued an unqualified auditor's opinion. FREP examined the consolidated financial statements of Deutsche Wohnen AG for the 2nd partial fiscal year 2006 and concluded that there was an accounting error. The Company undertook the first-time consolidation of the special purpose company DB 14 in its consolidated financial statements for this partial fiscal year in accordance with SIC 12 and realized a profit from business

combination in the amount of €8.8 million. As a result of the risks of DB 14 borne by the majority indirectly by the Company in prior years, FREP concluded that full consolidation should have taken place in those prior years. As a result, FREP held that the realization of income from the first-time consolidation of DB 14 was in violation of IAS 8.42. In accordance with IAS 8.42(b) and IDW RS HFA 6, sub-sections 45 et seq., the Company did not correct this error in the consolidated financial statements for the 2nd PFY 2006, but rather corrected it retrospectively in the first complete set of financial statements which were approved for publication by the supervisory board after discovering the error, that is in the consolidated financial statements for the fiscal year ended December 31, 2007. The opening balance sheet for the comparative period from July 1, 2006 to December 31, 2006, the earliest period presented in the consolidated financial statements for the fiscal year ended December 31, 2007, and the numbers for this comparative period were adjusted accordingly. See above "*Management's Discussion and Analysis of Net Assets, Financial Condition and Results of Operations—Comparability of the Financial Data Contained in the Financial Statements—Comparability of the financial data for the 2007 fiscal year and the 2006 partial fiscal years—Partial fiscal years in 2006 and examination by the German Financial Reporting Enforcement Panel ("FREP") (Deutsche Prüfstelle für Rechnungslegung e.V.)*" for additional information.

The consolidated financial statements of Deutsche Wohnen AG for the 1st PFY 2006, which were prepared in accordance with IFRS as adopted by the European Union and the additional requirements of German commercial law pursuant to Section 315a (1) of the HGB were audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany, and issued an unqualified auditor's opinion.

## Admission to Stock Exchange Trading

The Company's share capital prior to completion of the capital increase that is the subject of this offering circular consists of 26,400,000 shares and had been admitted to stock exchange trading on the official market (*amtlicher Markt*) (which has now been combined with the former organized market (*geregelter Markt*) to form the regulated market (*regulierter Markt*)) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange since July 14, 2006; since November 1, 2007 the shares have been admitted to trading on the regulated market segment (*regulierter Markt*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange.

Deutsche Wohnen AG has been included in the SDAX® Index of the Frankfurt Stock Exchange since September 18, 2006.

## Notices, Paying Agent and Registrar

Pursuant to the Company's articles of association, its notices are published in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*). To the extent permitted by law, notices may also be sent by registered mail. All notices required under German securities laws are published in a national newspaper designated for stock exchange notices of the Frankfurt Stock Exchange and, if required under the Exchange Admission Ordinance (*Börsenzulassungs-Verordnung*), in the printed version of the German Federal Gazette (*Bundesanzeiger*). Pursuant to Section 14(2) of the WpPG, the offering prospectus, any supplements to the offering prospectus as well as the annual documents pursuant to Section 10 of the WpPG are published on the Company's website (www.deutsche-wohnen.com). Printed copies of the offering circular are available from the Company's Frankfurt office at Pfaffenwiese 300, 65929 Frankfurt am Main, Germany.

The paying agent and registrar is Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany.

## Designated Sponsors

Close Brothers Seydler Bank, Deutsche Bank and WestLB have assumed the role of designated sponsor of the Company's ordinary bearer shares. Designated sponsors ensure, in particular, greater liquidity in the market for the shares by issuing fixed ask and bid prices.

# DESCRIPTION OF THE SHARE CAPITAL

## Issued Share Capital and Shares

The Company's share capital currently amounts to €26,400,000. It consists of 26,400,000 ordinary shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00.

The Company's shares are divided into registered shares and bearer shares. Following the exchange on September 10, 2009, of the total 26,400,000 shares 26,188,777 (approximately 99.2%) were held as bearer shares, while 211,223 (approximately 0.8%) were held as registered shares. If the shares are issued as registered shares, registered shareholders are entitled to request from the management board in writing or in text form (as defined by Section 126b of the BGB) that the registered shares recorded on their behalf in the Company's stock register be converted to bearer shares. Conversions are subject to the consent of the management board. Any new shares issued under capital increases will be issued as bearer shares. The next scheduled dates for exchanges, according to information published in the German Securities Notices (*Wertpapier-Mitteilungen*) on October 5, 2006, are December 10, 2009 and February 11, 2010.

A resolution of the general shareholders' meeting passed by a majority of 95% of the share capital represented is required in order to amend the Company's articles of association to provide for a direct conversion of bearer shares to registered shares or to permit such a conversion upon the advance request of shareholders pursuant to Section 24 of the AktG. The same requirement applies to an amendment of the provision that stipulates that new shares created under capital increases are issued as bearer shares. This majority requirement will expire on January 1, 2010.

Article 4(5) of the articles of association states that shareholders are not entitled to have their shares evidenced by individual share certificates.

The Company's Existing Shares have been deposited with Clearstream Banking AG, Neue Börsenstraße 1, 60487 Frankfurt am Main, Germany, in the form of global share certificates without dividend coupons.

Neither the Company nor any of its subsidiaries currently holds any shares of Deutsche Wohnen AG.

## Development of the Share Capital since the Company's Formation

The share capital of the Company amounted to DM100,000 when it was formed. It was increased by DM19,900,000 to DM20,000,000 and divided into 4,000,000 no par value shares by a resolution of an extraordinary meeting of the Company's shareholders on October 30, 1998. The general shareholders' meeting of June 20, 2001 resolved to convert the share capital to euros. The Company's share capital then amounted to €10,225,837.62 and was divided into 4,000,000 ordinary shares with no par value (no par value shares), each such share representing a notional value of approximately €2.56.

On August 10, 2006, the general shareholders' meeting resolved to increase the Company's share capital from own funds by €9,774,162.38, from €10,225,837.62 to €20,000,000, by converting a €9,774,162.38 portion of the capital reserves reported on the balance sheet as of December 31, 2005. No new shares were issued and the share capital as it existed at the time was newly divided, so that five shares representing a notional value of €1.00 each replaced every no par value share that would have represented a notional value of €5.00 (following the capital increase from own funds). Subsequently, the share capital was divided into 20,000,000 no par value shares.

Through a resolution of the management board on July 2, 2007, which was approved by the supervisory board on July 2, 2007, the Company's share capital was increased from authorized capital by €6,400,000 by issuing 6,400,000 new no par value bearer shares against non-cash contributions. This increased the total share capital from €20,000,000 to €26,400,000 and the total number of no par value shares to 26,400,000. Each of the Oaktree Companies was permitted to underwrite and subscribe for a total of 3,200,000 new shares.

On August 7, 2009, an extraordinary shareholders' meeting of the Company resolved to increase the share capital against cash contributions by up to €250,000,000, from €26,400,000 to up to €276,400,000. The management board and supervisory board resolved on September 13, 2009 to set the subscription price at €4.50 per share and, thus, the total number of New Shares to be issued at 55,440,000.

Several shareholders have objected in writing to the resolution of the extraordinary shareholders' meeting on August 7, 2009 to increase the Company's share capital by up to €250,000,000 against cash contributions. However, the Company has concluded an out-of-court settlement with these shareholders, under which the shareholders agree to not file an action against the resolution. In accordance with this settlement, the

Company has granted the holders of statutory subscription rights the possibility to subscribe for additional New Shares, as part of the capital increase resolved by the extraordinary shareholders' meeting on August 7, 2009, to the extent that holders of subscription rights do not exercise their subscription rights. As part of this settlement, the Company has agreed to establish subscription rights trading and allow the holders of statutory subscription rights Additional Subscription of the New Shares under the capital increase resolved by the extraordinary shareholders' meeting on August 7, 2009, to the extent that holders of subscription rights have not exercised their subscription rights. Furthermore, the Company has agreed to provide all of the shareholders with additional information on the Company's business and the capital increase.

An additional shareholder informed the Company that he reserves the right to file a plea to nullify the resolution. The Company believes that there are clearly no grounds for a plea of nullity, which, in accordance with the AktG, is only permissible in very limited circumstances. However, it is possible that this shareholder or other shareholders might file such a plea.

The implementation of the capital increase is expected to be registered with the Commercial Register of the Local Court (*Amtsgericht*) of Frankfurt am Main on October 7, 2009. This capital increase is the subject of this offering circular.

### Authorized Capital

The Company's authorized capital as of the date of this offering circular is €3,600,000.

By a resolution of the general shareholders' meeting on August 10, 2006, the management board was authorized, subject to the consent of the supervisory board, to increase the Company's share capital on one or more occasions before August 9, 2011 by up to a total of €10,000,000 by issuing up to 10,000,000 new ordinary bearer shares against cash or non-cash contributions. The management board utilized this authorization through a management board resolution of July 2, 2007, which was approved by the supervisory board on July 2, 2007, and increased the share capital by €6,400,000 by issuing 6,400,000 new no par value bearer shares against non-cash contributions. See above "*—Development of the Share Capital since the Company's Formation.*"

As a result of partial utilization of this authority, the management board is authorized, subject to the consent of the supervisory board, to increase the Company's share capital on one or more occasions before August 9, 2011 by up to a total of €3,600,000 by issuing up to 3,600,000 new ordinary bearer shares against cash or non-cash contributions. Shareholders are to be granted subscription rights. However, the management board is authorized, subject to the consent of the supervisory board, to exclude shareholders' statutory subscription rights for one or more capital increases from authorized capital if the exclusion:

- serves the purpose of consolidating fractional amounts;
- is for capital increases against non-cash contributions, including but not limited to those involving the acquisition of companies, parts of companies or equity stakes in companies, or capital increases aimed at issuing shares to holders of convertible bonds or bonds with warrants or profit participation rights with conversion or subscription rights that were issued in exchange for non-cash contributions;
- is for a capital increase against cash contributions, and the issue price of the new shares is not materially below the market price within the meaning of Sections 203(1) and (2) as well as 186(3) Sentence 4 of the AktG of previously listed shares of the same class and with the same terms at the time the final issue price is determined, and the aggregate proportionate amount of the share capital attributable to the new shares for which the subscriptions rights are being excluded pursuant to Section 186(3) Sentence 4 of the AktG does not exceed 10% of the Company's share capital, whether at the time the authorization goes into effect or at the time it is exercised. Shares that were or are to be issued to satisfy the rights of convertible bonds or bonds with warrants or profit participation rights with conversion or subscription rights should count towards the 10% threshold to the extent that the instruments were issued under the exclusion of subscription rights in analogous application of Section 186(3) Sentence 4 of the AktG. Any own shares sold under exclusion of shareholders' subscription rights pursuant to Section 71(1) No. 8 Sentence 5 and Section 186(3) Sentence 4 of the AktG during the term of the authorized capital shall also be counted towards the 10% threshold. To qualify as "not materially below market price," the issue price must be less than 5% below the market price, which is defined for these purposes as the computed average of the stock's price in the Frankfurt Stock Exchange's XETRA closing auction (or a comparable successor system) for the last ten trading days;
- is necessary to grant subscription rights for new shares to the holders of warrants or convertible bonds or profit participation rights with conversion or subscription rights that were granted by the Company or an

affiliated company directly or indirectly wholly-owned by the Company, to the degree to which such holders would be entitled to them once they exercised their option or conversion rights or satisfied their conversion obligations.

All other details of the shares and the terms on which they are issued are decided by the management board and approved by the supervisory board.

### Contingent Capital

The amount of contingent capital the Company has registered with the Commercial Register is €12,800,000. It was created by three contingent capital increases.

### Contingent Capital I

By a resolution of the Company's general shareholders' meeting on August 10, 2006, the share capital was increased on a contingent basis by up to €10,000,000 through the issuance of new no par value bearer shares with dividend entitlement from the beginning of the fiscal year in which they are issued (Contingent Capital I, entered in the Commercial Register as Contingent Capital 2006/I). The purpose of this contingent capital increase is to grant shares to holders of warrants or convertible bonds or holders of profit participation rights with conversion or subscription rights that the Company or an affiliated company directly or indirectly wholly-owned by the Company issues before August 9, 2011 on the basis of the authorization that was also granted on August 10, 2006 by the general shareholders' meeting, provided that the issue is against cash. The contingent capital increase will only be implemented to the extent that subscription rights or conversion rights under these warrants, convertible bonds and/or profit participation rights are exercised or conversion obligations under such instruments are satisfied, and only to the extent that treasury shares are not used. The management board is authorized to determine further details of the implementation of the contingent capital increase (Article 4b of the Company's articles of association).

By a resolution of the management board on July 2, 2007, which was approved by the supervisory board on the same day, Deutsche Wohnen AG issued convertible bonds with a total nominal value of €25 million on July 31, 2007. The bonds are divided into 500 bearer bonds with a nominal value of €50,000 each. The convertible bonds were issued as three-year bonds with a term ending July 31, 2010, provided they are not repaid, converted or redeemed and cancelled prior to that time. There are no periodic interest payments on the bonds. Instead, they are repaid at 109% of their nominal value at the end of the term. Holders of the convertible bonds are entitled to convert their bonds into bearer shares at a nominal value of €1.00 in the period from July 31, 2008 to July 31, 2010. The initial conversion price per share is €45.00. The statutory subscription rights of shareholders for the issued bonds were excluded pursuant to the authorization resolved by the general shareholders' meeting on August 10, 2006. Each of the Oaktree Companies was permitted to underwrite and subscribe for a total of 250 convertible bonds.

### Contingent Capital II

By a resolution adopted at the Company's general shareholders' meeting on June 17, 2008, the Company's share capital was increased on a contingent basis by up to €2,700,000 through the issuance of new no par value bearer shares with dividend entitlement from the beginning of the fiscal year in which they are issued (Contingent Capital I, entered in the Commercial Register as Contingent Capital 2008/I). The purpose of the contingent capital increase is to grant shares to holders of warrants or convertible bonds or holders of profit participation rights with conversion or subscription rights that the Company or a company controlled or majority owned by the Company issues before June 16, 2013 on the basis of the authorization that was also granted on June 17, 2008 by the general shareholders' meeting, provided that the issue is against cash. The contingent capital increase will only be implemented to the extent that subscription rights or conversion rights under the aforementioned warrants, convertible bonds and/or profit participation rights are exercised or conversion obligations under such instruments are satisfied, and only to the extent that treasury shares are not used (Article 4c of the Company's articles of association). The management board is authorized to determine further details of the implementation of the contingent capital increase.

### Contingent Capital III

On June 17, 2008, the general shareholders' meeting also resolved to increase the share capital on a contingent basis by a further €100,000 (Contingent Capital III, entered in the Commercial Register as Contingent Capital 2008/II). The contingent capital increase will only be implemented to the extent that holders of subscription rights issued on the basis of the Company's Performance Share Program, an employee

compensation program that was also resolved on June 17, 2008, exercise their subscription rights. The new shares will be entitled to dividends from the beginning of the fiscal year in which they are issued (Article 4d of the Company's articles of association).

### Right of Sell-out

DB Real Estate Management GmbH (now RREEF Management GmbH) granted all of the registered shareholders entered in the Company's stock ledger as of June 30, 2009 the irrevocable right to sell their registered shares to DB Real Estate Management GmbH by December 31, 2009. The sell-out price per registered share corresponds to the original purchase price of €140.00 when the shares were acquired (excluding premium) (approximately €28.00 following the capital increase from own funds and stock split) plus annual compounded interest in the amount of 4.5% (based on 365 interest days per year). This amount is to be reduced by the sum of all dividends paid on the sell-out shares, which, for purposes of the calculation, will also increase by interest on the dividend at an annual compounded rate of 4.5% (based on 365 interest days per year). The result is an adjusted sell-out price of €26.12. In addition to the sell-out price, any original owners who exercise their sell-out rights will receive a 50% share of any additional proceeds that DB Real Estate Management GmbH generates by reselling the shares. To accept the offer, shareholders had to give DB Real Estate Management GmbH written notice on June 30, 2009. As of June 30, 2009, the right of sell-out date, the right of sell-out was used for a total of 579,675 (approximately 2.2% of the Company's shares) of the 677,822 outstanding registered shares as of June 30, 2009 (approximately 2.6% of the Company's shares).

See above under "*General Information on the Company—Company History*" for additional information on the registered shareholders' sell-out rights.

### Authorization to Purchase and Sell Own Shares

A resolution was adopted at the general shareholders' meeting on June 16, 2009 that authorizes the management board through December 15, 2010, subject to the consent of the supervisory board and provided it complies with the legal requirement of equal treatment, to purchase up to a total of 10% of the Company's existing share capital. The shares can be purchased in one or more tranches and may used for any purpose permitted by law. The shares may also be sold. In particular, the shares can be sold by means other than on a stock exchange; they can be sold as part of a merger of companies, sold to satisfy conversion or subscription rights or conversion obligations under convertible bonds or bonds with warrants or profit participation rights and sold at a price near the market price if sold as part of a placement, with the possibility to exclude subscription rights in any of these three cases; the shares may also be retired. In addition, the management board can exclude shareholders' subscription rights for fractional amounts with the approval of the supervisory board if the treasury shares are sold as part of an offering to the Company's shareholders.

### Performance Share Program

On June 17, 2008, the general shareholders' meeting resolved to create a Performance Share Program in which subscription rights to the Company's shares can be issued to members of the management board and other executives of the Company and subordinate affiliated companies in accordance with separate subscription agreements. The Performance Share Program does not entitle participants to subscribe for one share per subscription right, as is typical of such programs, but rather for a fraction of a share according to a formula. In return, shares can be subscribed for at the reduced price of one euro. Ultimately, the only financial advantage to participants is the difference in the stock price between issuance and exercise of the subscription price. The Performance Share Program will be funded by contingent capital ("Contingent Capital III"). This program has not yet been implemented, and no subscription agreement has been executed as of yet.

### General Provisions Governing a Change in the Share Capital

In accordance with the AktG, the share capital of a stock corporation may be increased by a resolution of the general shareholders' meeting with a majority of at least three-quarters of the share capital represented when the vote is taken, unless the stock corporation's articles of association prescribe different majority requirements. The Company has exercised its right to stipulate a smaller majority of shares. Pursuant to Article 11(3) of its articles of association, the Company's general shareholders' meeting adopts its resolutions by a simple majority of the votes cast and, to the extent that a majority vote of shares is required, by a simple majority of the shares present, except as otherwise required by the law or the articles of association.

The shareholders may also create authorized capital. The creation of authorized capital requires a resolution adopted by a majority of three-quarters of the share capital represented when the vote is taken to authorize the management board to issue shares of up to a specific nominal amount within a period of no more than five years. The nominal amount of the authorized capital may not exceed half of the share capital existing at the time of the authorization.

Additionally, shareholders may resolve to create contingent capital to issue shares to holders of convertible bonds or other securities that grant their holders the right to subscribe for shares, to grant shares as consideration in a merger with another company, or to offer shares to officers and employees, provided that, in each case, a corresponding resolution is approved by a three-quarters majority of the share capital represented when the vote is taken. The nominal amount of contingent capital created for the issuance of shares to officers and employees may not exceed 10% of the share capital existing at the time of the resolution. In all other cases, it may not exceed half of the share capital existing at the time of the resolution.

A resolution to decrease the share capital requires approval by a three-quarters majority of the share capital represented when the vote is taken.

### General Provisions Governing Subscription Rights

In accordance with the AktG, each shareholder is generally entitled to subscription rights for new shares that are distributed in a capital increase (including convertible bonds, warrants, profit participation rights or profit participation bonds). Subscription rights are freely transferable. Subscription rights can be traded on one or more German stock exchanges during a fixed period prior to commencement of the Subscription Period. The general shareholders' meeting can exclude subscription rights with a majority of votes cast and a majority of at least three-quarters of the share capital represented when the vote is taken. In addition, a resolution of the management board is required to exclude subscription rights, which must show that the reason for excluding subscription rights is that the Company's interests are better served in excluding subscription rights than the shareholders' interests in preserving subscription rights. Without such justification, the exclusion of subscription rights when issuing new shares is permissible if the Company increases capital against cash contributions, the capital increase does not amount to more than 10% of the current share capital, and the subscription price of the new shares does not significantly exceed the share price.

Subscription rights enable shareholders to maintain their current percentage of share capital and their voting rights ("dilution protection"). If the shareholders' subscription rights are excluded, the provisions of Section 255(2) of the AktG require that the fixed subscription price of the new shares may not be "unreasonably low". The new shares may only be issued at a price which fully compensates for the loss of the total participation-related assets of the shareholder whose subscription rights are excluded. The issue price of the new shares must always be based on the actual value of the stock corporation.

By virtue of the nature of a contingent capital increase, a shareholder's general subscription right is excluded. In order to protect shareholders, the nominal value of the contingent capital, regardless of its purpose, may not exceed half of the share capital. If the contingent capital grants subscription rights to a specific group of recipients, the nominal amount may not exceed 10% of the share capital.

### General Provisions Governing the Liquidation of the Company and the Division of the Liquidation Proceeds

Except in the case of a liquidation based on insolvency proceedings, the Company may only be liquidated by a resolution of the general shareholders' meeting, which requires a majority of at least three-quarters of the share capital represented when the vote is taken. In this case, any assets remaining after all of the Company's liabilities have been settled will be distributed among the shareholders in proportion to their share of the share capital, pursuant to the provisions of the AktG. Certain requirements for the protection of creditors must be complied with in this process.

### Exclusion of Minority Shareholders

In accordance with the provisions of Section 327a et seq. of the AktG concerning the exclusion of minority shareholders (squeeze-outs), the general shareholders' meeting of a stock corporation may, at the request of a shareholder who owns 95% of the share capital (majority shareholder), resolve to transfer the shares of the remaining minority shareholders to the majority shareholder in exchange for a fair cash settlement. The amount of the cash settlement to be offered to the minority shareholders must take into account the "circumstances of the company" (*die Verhältnisse der Gesellschaft*) at the time of the resolution of the

general shareholders' meeting. The amount of the settlement must be based on the full value of the company, which is usually calculated using the discounted earnings method (*Ertragswertmethode*).

Section 319 et seq. of the AktG concerning integrations (*Eingliederungen*) provides that the general shareholders' meeting of a stock corporation may resolve to integrate their company into another company if 95% of the shares of the company to be integrated are held by the future principal company. The former shareholders of the integrated company are entitled to an adequate settlement payment, which must generally be granted in the form of the principal company's own shares. The amount of the settlement payment must be calculated based on the merger value ratio (*Verschmelzungswertrelation*) between the two companies, that is, the exchange ratio that would be considered appropriate if the two companies had merged. Integration is only possible if the future principal company is a stock corporation with its registered office in Germany.

In accordance with the provisions of Section 39a et seq. of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*, the "WpÜG"), as part of a takeover bid or mandatory offer,the bidder who owns at least 95% of the voting share capital of the target company may request that the remaining voting shares be transferred to him by order of court in return for granting an appropriate settlement payment. If the bidder also holds shares representing at least 95% of the target company's share capital, the remaining preferred shares without voting rights must be transferred to the bidder. upon request The type of settlement payment should correspond to the consideration provided in the takeover bid or mandatory offer, and there must always be a cash option. The consideration offered in connection with the takeover bid or mandatory offer is deemed an appropriate settlement if the bidder has, for the purpose of the offer, acquired shares equal to at least 90% of the share capital subject to the offer. In addition, Section 39c of the WpÜG provides that after a takeover bid or mandatory offer, those shareholders of the target company who did not accept the offer may accept it within three months following the expiration of the acceptance period (sell-out) if the bidder is entitled to request the transfer of the outstanding voting shares under Section 39a of the WpÜG.

### Shareholding Notification and Disclosure Requirements

Since the Company's shares are admitted to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the regulated market's sub-segment, the Company, as a publicly traded company, is subject to the shareholding notification requirements of the German Securities Trading Act (*Wertpapierhandelsgesetz*, the "WpHG").

Section 21 of the WpHG requires that anyone who acquires, sells or in some other way reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in an issuer whose country of origin is the Federal Republic of Germany and whose shares are admitted to trading on an organized market must immediately but no later than within four trading days notify the issuer and at the same time the BaFin. The notice can be drafted in either German or English and either sent in writing or via telefax (Section 18 of the WpAIV). The notice must declare the individual or entity's address, the share of voting rights held and the date of reaching, exceeding or falling below the respective threshold. As a domestic issuer, Deutsche Wohnen AG must publish such notices immediately, but no later than within three trading days after receiving them, via media outlets, including those which one can assume will disseminate the information throughout the European Union and in the non-E.U. contracting parties to the EEA Agreement. Deutsche Wohnen must also transmit the notice to the BaFin and to the electronic Company Register (*elektronischer Unternehmensregister*) for storage. There are exceptions to the notice requirement: trading activities of investment services enterprises involving up to 5% of voting rights, shares held solely for clearing and settlement purposes or held in safekeeping for short periods of time and acquisitions and sales made for market making purposes.

In connection with the notice requirements, the WpHG contains various provisions to ensure that shareholdings are allocated to the person who actually controls the voting rights attached to the shares. For example, if a party required to report controls a third party who, in turn, holds shares, then the reporting party also must report those shares held by the third party. Similarly, shares held by a third party on behalf of a party required to report or held by an entity controlled by the party required to report must be reported by the party that is required to report.

If a shareholder willfully fails to file a notice or provides false information, the shareholder is excluded from exercising the financial rights attached to its shares for the duration of the delay. If the failure relates specifically to the share of voting rights held and the shareholder acted willfully or was grossly negligent, the shareholder is generally not permitted to exercise the administrative (voting) rights attached to his shares for

a period of six months after he files the necessary notification. In addition, a fine may be imposed for failure to comply with the notification obligation.

Moreover, under Section 25 of the WpHG, any person who directly or indirectly holds financial instruments that grant the holder the unilateral right under a legally binding agreement to acquire previously issued voting shares of an issuer whose country of origin is the Federal Republic of Germany is subject to a notification obligation if the sum of the shares they can so acquire, together with any voting right stakes they may already hold in the issuer or which are attributable to them pursuant to Sections 21 and 22 of the WpHG (voting rights shares), reaches, exceeds or falls below any of the thresholds mentioned, with the exception of the 3% threshold.

Furthermore, Section 27a of the WpHG requires any shareholder whose holdings reach or exceed the 10% threshold or a higher threshold to notify the issuer of the aims being pursued with the acquisition of the voting rights and the origin of the funds used for the acquisition within 20 trading days of the date on which the respective threshold is met or exceeded. Once this information is received, and even if no notification is received, the issuer has to publish it in the form discussed above, or give notice that the disclosure requirement was not met, within no more than three trading days following the issuer's access to the notification. The issuer's articles of association may stipulate that the shareholders are not subject to a notification obligation.

In addition, the WpÜG provides that any person whose voting rights reach or exceed 30% of Deutsche Wohnen's voting shares must publish this fact and the percentage of voting rights held in at least one national newspaper designated for stock exchange notices (*Börsenpflichtblatt*) or by means of an electronically operated information dissemination system for financial information within seven calendar days and, unless released from this obligation, must subsequently submit a public mandatory offer addressed to all of Deutsche Wohnen's shareholders.

### Disclosure of Transactions Involving Persons Holding Managerial Responsibilities within Listed Stock Corporations

Under the WpHG, persons holding managerial responsibilities within listed stock corporations ("directors") are required to notify the stock corporation and the BaFin within five business days of their own transactions involving shares of the company or related financial instruments, including, in particular, derivatives. This obligation also applies for directors' related parties. Domestic issuers must publish this notification immediately after receiving it, notify the BaFin of its publication and send a copy to the electronic Company Register.

Notification is not required if the total sum of all transactions involving a director and his or her related parties is less than €5,000 for the calendar year.

Director for these purposes means any managing partner or member of the company's management, administrative or supervisory bodies and any person who has regular access to insider information and is authorized to make important managerial decisions.

Related parties include spouses, registered civil partners, dependent children and other relatives who have been living in the same household as the director for at least one year when the relevant transaction is made. Notice is also required for legal entities in which a director and/or any of the aforementioned parties holds supervisory responsibilities, which are controlled by a director or such parties, which were established for the benefit of a director or such a party or the economic interests of which are substantially equivalent to those of a director or such a party.

Negligent non-compliance with these notification requirements may result in the imposition of a statutory fine.

# ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

## Overview

The Company's governing bodies are the management board (*Vorstand*), the supervisory board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers and responsibilities of these governing bodies are regulated in the AktG, the Company's articles of association (*Satzung*), and the bylaws (*Geschäftsordnungen*) of the management board and the supervisory board.

The management board is responsible for managing the Company in accordance with the law, the articles of association and the bylaws of the management board, taking into account the resolutions of the general shareholders' meeting. The management board represents the Company in its dealings with third parties. The management board is required to ensure the establishment and operation by the Company of an appropriate risk management and risk controlling system facilitating the timely identification of developments that might jeopardize the continued existence of the Company. Furthermore, the management board is obligated to regularly report to the supervisory board regarding the operations of the Company. In addition, the management board is obligated to present to the supervisory board, no later than at the last supervisory board meeting of each fiscal year, certain matters of business planning for the following fiscal year for approval by the supervisory board. Furthermore, as regards all matters of particular significance to the Company, each member of the management board who becomes aware of such matters must immediately report these verbally or in writing to the chairman and the vice chairman of the supervisory board or to all members of the supervisory board.

The supervisory board appoints the members of the management board and has the right to remove them for good cause. Simultaneous membership of the management board and the supervisory board is prohibited. The supervisory board advises the management board in the management of the Company and monitors its management activities. The management board may not transfer management tasks to the supervisory board. However, pursuant to the bylaws of the management board, the management board must obtain the consent of the supervisory board for certain transactions.

The members of the management board and of the supervisory board have a duty of loyalty and care to the Company. In fulfilling these duties, the members of both boards have to take into account a broad range of interests, especially those of the Company, its shareholders, employees and creditors. The management board must take into account, in particular, the rights of shareholders to receive equal treatment and equal information. If the members of the management board or supervisory board act in breach of their duties, they are jointly and severally liable for damages to the Company.

Under German stock corporation law, neither individual shareholders nor any other person may use their influence on the Company to cause a member of the management board or supervisory board to act in a manner that would be detrimental to the Company. Persons using their influence to cause a member of the management board or supervisory board, a commercial attorney in fact (*Prokurist*) or a person with power of attorney (*Handlungsbevollmächtigter*) to act in a manner causing damage to the Company or its shareholders are liable to compensate the Company for any resulting damage. Moreover, the members of the management board and supervisory board are jointly and severally liable for breaches of their duties if, as a result, the Company suffers damages.

Generally, an individual shareholder may not take court action against members of the management board or supervisory board if he believes that they have acted in breach of their duties to the Company and, as a result, the Company has suffered damages. Claims for damages by the Company against the members of the management board or supervisory board may generally only be pursued by the Company itself; in the case of claims against members of the supervisory board, the Company is represented by the management board, and in case of claims against members of the management board, it is represented by the supervisory board. Pursuant to a ruling by the German Federal Court of Justice (*Bundesgerichtshof*), the supervisory board is obligated to asserts claims for compensatory damages which are likely to be successful against the management board, unless there are important grounds relating to the Company's interests that would conflict with such an assertion of claims and such grounds outweigh, or are at least comparable to, the grounds in favor of an assertion of claims. If the respective entity vested with the power of representation decides against an assertion of a claim, claims for damages must be asserted against members of the management board or supervisory board if the general shareholders' meeting passes a resolution to this effect by simple majority of votes. In such a case, the general shareholders' meeting may appoint a special

representative to assert the claims for damages. In addition, a minority of shareholders whose aggregate shareholdings amount to one-tenth of the share capital or a proportionate amount of €1,000,000 may apply to the court for the appointment of a special representative who will be assigned the task to assert the claim for damages, in place of the Company. If there are facts that substantiate the suspicion that the Company has incurred damages caused by fraud or gross violations of the law or of the articles of association, shareholders whose aggregate shareholdings amount to one percent of the share capital or a proportionate amount of €100,000 have the option, subject to certain preconditions, to apply to the competent court for permission to assert the Company's claims for damages against board members in their own names. Such a claim becomes inadmissible if the Company asserts the claims for damages itself.

The Company may only waive or settle a claim for damages against board members if at least three years have elapsed since the vesting of the claim, so long as the shareholders approve the waiver or settlement in the general shareholders' meeting by a simple majority and provided that a minority of shareholders whose aggregate shareholdings amount to at least one-tenth of the share capital do not record an objection to such resolution in the minutes of the meeting.

## Management Board

### Overview

Pursuant to Article 5 of the articles of association, the Company's management board must consist of at least two members. The supervisory board determines the exact number of members. At present, the management board has two members. Michael Zahn is currently appointed as the C.E.O.

On October 18, 2006, the supervisory board issued bylaws of the management board, which were revised on June 16, 2009. According to these bylaws, the management board shall adopt its resolutions by simple majority if it consists of more than two members. If the management board consists of two members, resolutions must be unanimous. If consensus cannot be reached on a matter to be decided, it is presented to the chairman of the supervisory board. The whole management board decides on all matters of particular significance and importance for the Company or the Group.

The Company is legally represented by two members of the management board or by one management board member acting jointly with a commercial attorney in fact (*Prokurist*).

Pursuant to the articles of association and the bylaws of the management board and supervisory board, certain management board business transactions require the consent of the supervisory board internally. These are:

- the acquisition, sale and charging of real property and rights equivalent to real property, as well as the construction of buildings;
- the formation, acquisition and sale of equity investments, and
- the establishment and closing of branch offices.

The supervisory board has delegated the decision-making responsibility for transactions involving real property, rights equivalent to real property and equity investments to the Acquisition Committee, provided the value of the individual transactions does not exceed €100 million. The following transactions and measures do not require separate approval by the supervisory board if they are part of a business plan that has been approved by the supervisory board: transactions and measures that were individually approved in the business plan; the acquisition, sale and encumbrance of real property and rights equivalent to real property where the value of the individual transaction does not exceed €50 million; the formation, acquisition and sale of equity investments where the value of the individual transaction does not exceed €50 million; construction carried out on real property owned by the Company provided the compensation agreed upon for the individual project does not exceed €10 million; as well as transactions with or between affiliated companies of our Group.

### Members of the Management Board

The management board of the Company currently consists of two members. The following table lists the members of the Company's management board and their respective areas of responsibility.

| Name | Member since | Appointed until | Areas of Responsibility |
|---|---|---|---|
| Michael Zahn (CEO) . . . . . . . . . . . . . . . . | September 1, 2007 | December 31, 2011 | Property management<br>Rentals/sales<br>Human resources<br>Nursing homes<br>Portfolio management/ acquisition<br>Public relations<br>Investor relations |
| Helmut Ullrich (CFO). . . . . . . . . . . . . . . . . | August 1, 2007 | December 31, 2010 | Finance<br>Accounting/taxes<br>Corporate planning/ controlling<br>Risk management<br>Organization/IT<br>Compliance and Legal<br>Internal Auditing |

A short presentation of the current management board members is set forth below:

#### *Michael Zahn*

Michael Zahn received his degree in economics from the Albert-Ludwig University in Freiburg im Breisgau, Germany, in 1992. In parallel with his professional activity, he completed postgraduate courses to become a Corporate Real Estate Manager and Chartered Surveyor at the European Business School in Oestrich-Winkel, Germany. Michael Zahn began his professional career in 1993 with the association of Berlin-Brandenburg housing enterprises (*Verband Berlin-Brandenburgischer Wohnungsunternehmen*), Domus AG, in Berlin, Germany. In 1996, he moved to GEWOBA GmbH as deputy managing director and shortly after, in 1997, to GEHAG AG. Between 1997 and 2007, Michael Zahn worked in various management roles for the GEHAG Group. From 2007 to June 30, 2009, he was also appointed as chief financial officer of KATHARINENHOF, a subsidiary of GEHAG. In the course of the merger of Deutsche Wohnen AG and the GEHAG Group, he was appointed as a member of the management board in September 2007 and as speaker of the management board in October 2007. In December 2008, Michael Zahn was appointed as chairman of the management board of Deutsche Wohnen AG.

#### *Helmut Ullrich*

Helmut Ullrich completed his university education in 1977 with a law degree from the Rheinische-Friedrich-Wilhelms University in Bonn, Germany, and finished his term as a junior lawyer at the Cologne Higher Regional Court with his admission to the bar in 1980. In 1996, he became a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Since 1989, Helmut Ullrich held various executive positions in the real estate segment of the Deutsche Bank Group. Since 1997, these included the roles of CFO and COO of DB Real Estate Management GmbH, Eschborn, Germany, and of DB Real Estate Investment GmbH (now RREEF Management GmbH and RREEF Investment GmbH), Eschborn, Germany. From 2002 to 2007, he was chairman of the supervisory board of Deutsche Wohnen AG, Frankfurt am Main, Germany. In August 2007, in the course of the merger of Deutsche Wohnen AG and the GEHAG Group, he was appointed as a member of the management board.

The members of the management board can be reached at the Company's address.

The following table lists all of the companies and enterprises in which the members of the management board have held seats on an administrative, management or supervisory body or comparable German or foreign

controlling body or of which they were partners during the last five years, with the exception of the subsidiaries of our Group.

| | |
|---|---|
| Michael Zahn . . . . . . . . . . . . . . | *Current appointments*:<br>None<br>*Terminated appointments*:<br>None |
| Helmut Ullrich . . . . . . . . . . . . . | *Current appointments*:<br>None<br>*Terminated appointments*:<br>DB Real Estate Management GmbH, Eschborn, Germany (now: RREEF Management GmbH, Eschborn, Germany)<br>DB Real Estate Investment GmbH, Eschborn, Germany (now: RREEF Investment GmbH, Eschborn, Germany)<br>DB Real Estate Spezial Invest GmbH, Eschborn, Germany<br>JADE Residential Property AG, Eschborn, Germany<br>Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, Germany<br>DEUTSCHBAU Immobilien-Dienstleistungen GmbH, Düsseldorf, Germany<br>DEUTSCHBAU Wohnungsbaugesellschaft mbH, Berlin, Germany<br>Deutschbau-Holding GmbH, Düsseldorf, Germany |

### Employment Agreements

The employment agreement of January 10, 2008 between Helmut Ullrich and the Company ends on December 31, 2010. The employment agreement of January 10, 2008 between Michael Zahn and the Company ends on December 31, 2011. The employment agreement as managing director of KATHARINENHOF was terminated amicably as of June 30, 2009. The above employment agreements do not provide for any benefits upon termination.

Apart from those indicated above, no other employment agreements have been executed between the members of the management board, the supervisory board and the Company or its subsidiaries.

### Compensation, Shareholdings and Other Legal Relationships

According to their employment contracts, the compensation of the members of the management board of the Company consists of a fixed annual base salary and a variable annual bonus. For the 2008 calendar year, the fixed annual base salaries of Michael Zahn and Helmut Ullrich amounted to €300 thousand each. Under his employment contract with KATHARINENHOF, Michael Zahn received additional fixed compensation of €12,000 for the 2008 calendar year. The service agreement with KATHERINENHOF was terminated on June 30, 2009. For the 2008 calendar year, the contractually agreed annual bonuses of Michael Zahn and Helmut Ullrich amounted to €200 thousand each. The contractually agreed annual bonuses were calculated on the basis of 100% target achievement. However, no such concrete targets were agreed for either 2008 or 2009. Instead, the bonus is set by the supervisory board based on the budget. This way of proceeding entails the risk that the management board members might be entitled to the full compensation amount, regardless of the Company's results. Finally, the Company has given an undertaking to both management board members to set up a stock option plan with an equivalent value of €100,000 each. This obligation has not yet been implemented. See "*Description of the Share Capital—Performance Share Program*."

In addition, the management board members are entitled to a company car, reimbursement of travel expenses, and a subsidy for health insurance that includes their family members. The Company has purchased group accident insurance that (also) covers the management board members and provides for the payment of death and disability benefits. The Company provides the management board members with retirement and survivor benefits in the form of direct insurance.

The Company has taken out D&O insurance along with an additional excess policy with no deductible. The D&O insurance and the excess policy provide insurance coverage for financial losses resulting from breaches of duty by the governing bodies in exercising their functions.

From the management board members, Helmut Ullrich currently holds 4,500 shares in the Company. This corresponds to approximately 0.017% of the 26.4 million issued shares. With the exception of this matter mentioned above, there are no actual or potential conflicts of interest between the responsibilities of the

members of the management board to the Company and their personal interests or other responsibilities. There are no family relationships between individual members of the management board or between management board members and members of the supervisory board. There are no service agreements between the Company or its subsidiaries and the members of the management board, which would provide for any benefits upon their termination.

During the last five years, no sanctions or penalties were imposed against the members of the management board owing to breaches of German or foreign provisions of capital market law. In addition, there were no convictions for fraud during this period. The members of the management board have not been involved in any corporate bankruptcies, insolvency proceedings or liquidations during the last five years. During the last five years, the members of the management board have not been targets of any official allegations and/or sanctions or penalties imposed by the authorities or regulatory authorities (including designated professional bodies), nor have they been disqualified by a court at any time from acting as members of the administrative, management or supervisory bodies of a company or from performing management or executive functions at a company.

## Supervisory Board

### Overview

Pursuant to Article 7(1) of the articles of association, the Company's supervisory board consists of six members. It is not subject to codetermination as provided by the German One-Third Employee Representation Act (*Drittelbeteiligungsgesetz*) or the German Codetermination Act (*Mitbestimmungsgesetz*). Therefore, the members of the supervisory board are all elected by the general shareholders' meeting as representatives of the shareholders. The members are elected for the longest permissible period pursuant to Sections 30 and 102 of the AktG, unless the general shareholders' meeting fixes a shorter term of office at the election. The supervisory board members are elected for the period up to the conclusion of the general shareholders' meeting at which a resolution is passed on their discharge for the fourth fiscal year after the commencement of their term of office. The fiscal year in which their term of office begins is not counted. Reelection, including repeated reelection, is permissible. For each member of the supervisory board, the shareholders may, at the same time the respective member is elected, appoint substitute members who will replace the elected supervisory board member in the event of his premature departure in the order fixed at the time of the appointment. The general shareholders' meeting may remove each member of the supervisory board it has elected with a majority of at least three-quarters of the votes cast. Each member of the supervisory board can resign from office even without good cause by submitting a written declaration to that effect to the management board with one month's notice. This does not affect the right to resign for good cause.

By a resolution dated June 16, 2009, the supervisory board changed some provisions of its bylaws. Accordingly, the supervisory board now elects from among its members a chairman and a vice chairman. Currently, Hermann T. Dambach has been elected Chairman and Dr. Andreas Kretschmer Vice Chairman.

The Supervisory Board forms committees from among its members. It has an Executive Committee, which is responsible for discussions and resolutions related to urgent matters, remains in constant communication with and advises the Management Board, prepares the Supervisory Board's meetings and decides on the content of and executes employment agreements with the members of the Management Board; a Nomination Committee, which prepares election recommendations for the general shareholders' meeting; an Audit Committee, which undertakes an advance review of the unconsolidated and consolidated financial statements for any given fiscal year, discusses compliance and risk management with the Management Board and prepares the recommendation for appointment of the external auditors; an Acquisition Committee, which deliberates with the Management Board on the goals and conditions for acquiring or selling property or making equity investments; and a Capital Markets and Communications Committee, which discusses share price movement, the shareholder structure, important topics related to the capital markets and communications policy.

Pursuant to Section 108(2) of the AktG, the supervisory board has a quorum if at least three members, and at least one-half of the members of the supervisory board as mandated by law or the articles of association, participate in the voting. The resolutions of the supervisory board are passed with a simple majority, unless otherwise mandated by law. In the event of a tied vote, the chairman or, if he is unable to vote, the vice chairman, has the deciding vote.

### Members of the Supervisory Board

The following table lists the members of the Company's supervisory board and the positions they hold outside the Company.

| Name | Member since[1)] | Appointed until | Committee Memberships | Principal occupation outside of the Company |
|---|---|---|---|---|
| Herrmann T. Dambach (Chairman) . . . . . . . . . . . | June 17, 2008[2)] | 2013 general shareholders' meeting | Executive Committee<br>Nomination Committee<br>Acquisition Committee<br>Capital Markets and Communications | Managing director of Oaktree GmbH, Frankfurt am Main, Germany |
| Dr. Andreas Kretschmer (Vice Chairman) . . . . . . . . | June 28, 2000 | 2010 general shareholders' meeting | Executive Committee<br>Nomination Committee<br>Audit Committee<br>Acquisition Committee<br>Capital Markets and Communications | Managing director of Ärzteversorgung Westfalen Lippe, Münster, Germany |
| Jens Bernhardt . . . . . . . . . | August 10, 2006 | 2011 general shareholders' meeting | Capital Markets and Communications | Managing director of Bernhardt Advisory GmbH, Bad Homburg, Germany |
| Uwe E. Flach . . . . . . . . . . | June 17, 2008 | 2013 general shareholders' meeting | Audit Committee | Senior advisor to Oaktree GmbH, Frankfurt am Main, Germany |
| Matthias Hünlein . . . . . . . | June 28, 2000 | 2010 general shareholders' meeting | Executive Committee<br>Nomination Committee<br>Acquisition Committee | Managing director of Tishman Speyer, Frankfurt am Main, Germany |
| Dr. Florian Stetter . . . . . . . | March 23, 2006 | 2011 general shareholders' meeting | Audit Committee | Managing director of STRABAG Property and Facility GmbH, Frankfurt am Main, Germany |

1) *The supervisory board members are elected for the period up to the conclusion of the general shareholders' meeting at which the discharge resolution for the fourth fiscal year after the commencement of their term of office is voted on; the fiscal year in which their term of office begins is not counted.*

2) *Initially appointed by court order of September 7, 2007 to serve until the 2008 annual meeting.*

The following table lists all of the companies and enterprises in which the members of the supervisory board have held seats on an administrative, management or supervisory body or comparable German or foreign controlling body or of which they were partners during the last five years, with the exception of the subsidiaries of our Group.

| | |
|---|---|
| Hermann T. Dambach<br>(Chairman) | *Current appointments:*<br>Nordenia International AG, Greven, Germany (deputy chairman of the supervisory board)<br>R&R Ice Cream Ltd., North Yorkshire, United Kingdom (board member)<br>OCM German Real Estate Holding GmbH, Hamburg, Germany (managing director) |
| Dr. Andreas Kretschmer<br>(Vice Chairman) | *Current appointments:*<br>BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany (chairman of the supervisory board)<br>IVG Institutional Funds GmbH, Wiesbaden, Germany (supervisory board)<br>Private Life Biomed AG, Hamburg, Germany (chairman of the supervisory board)<br>TRITON, St. Helier, Jersey, Channel Islands (advisory committee)<br>Biofrontera AG, Leverkusen, Germany (deputy chairman of the supervisory board)<br>Deutsche Apotheker- und Ärztebank eG, Düsseldorf, Germany (advisory board)<br><br>*Terminated appointments*:<br>Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden, Germany (supervisory board)<br>DEUTSCHBAU Immobilien-Dienstleistungen GmbH, Düsseldorf, Germany (supervisory board)<br>Bayerische Hypo- und Vereinsbank AG, Munich, Germany (advisory board)<br>AP-Asset Management AG, Pfäffikon, Switzerland (advisory board) |
| Jens Bernhardt | None |
| Matthias Hünlein | *Current appointments*:<br>A. A. A. Aktiengesellschaft Allgemeine Anlageverwaltung, Frankfurt am Main, Germany (supervisory board)<br><br>*Terminated appointments*:<br>Deutsche Commercial Property AG, Eschborn, Germany (chairman of the supervisory board)<br>ARBI Beteiligungsgesellschaft mbH, Eschborn, Germany (advisory board)<br>Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, Germany (supervisory board)<br>Deutsche Commercial Property Anlagegesellschaft mbH & Co. KG, Eschborn, Germany (advisory board)<br>JADE Residential Property AG (management board)<br>DEGRU 4-Beteiligungsgesellschaft mbH (managing director)<br>JADE Projekt GmbH (managing director)<br>DB Real Estate Spezial Invest GmbH (managing director)<br>Deutschbau Holding GmbH (managing director) |

| | |
|---|---|
| Uwe E. Flach | *Current appointments*:<br>Nordenia International AG, Greven, Germany (chairman of the supervisory board)<br>STADA Arzneimittel AG, Bad Vilbel, Germany (supervisory board)<br>OCM German Real Estate Holding GmbH, Hamburg, Germany<br>Versatel AG, Dusseldorf, Germany (supervisory board)<br><br>*Terminated appointments*:<br>Andreae-Noris Zahn AG (ANZAG), Frankfurt am Main, Germany (supervisory board)<br>Deutsche Börse AG, Frankfurt am Main, Germany (supervisory board) |
| Dr. Florian Stetter | None |

The members of the supervisory board can be reached at the Company's address.

### Compensation, Shareholdings and Other Legal Relationships

Pursuant to Article 7(6) of the articles of association, each member of the supervisory board receives a fixed annual compensation payment of €20,000 for his activity. The chairman of the supervisory board receives twice this amount and a vice chairman one and a half times the compensation of an ordinary supervisory board member. If a fiscal year is shorter than twelve months, compensation is paid on a pro rata basis. In 2008, the total remuneration of the members of the Company's supervisory board amounted to €150 thousand (excluding VAT).

The supervisory board members are further entitled to reimbursement of all expenses. In addition, the Company has purchased, at its own expense, D&O insurance for the members of the supervisory board.

As of December 31, 2008, the supervisory board members Uwe E. Flach and Dr. Florian Stetter held 4,000 and 3,207 shares in Deutsche Wohnen AG, respectively; this corresponded to approximately 0.015% and 0.012% of the 26.4 million shares issued, respectively. As of December 31, 2008, the spouses of Uwe E. Flach and Dr. Andreas Kretschmer held 2,000 and 1,163 shares in Deutsche Wohnen AG, respectively, which corresponded to approximately 0.008% and 0.004% of the 26.4 million shares issued, respectively. The remaining members of the supervisory board held no Deutsche Wohnen AG shares as of December 31, 2008.

With the exception of this matter mentioned above, there are no actual or potential conflicts of interest between the responsibilities of the members of the management board to the Company and their personal interests or other responsibilities. There are no family relationships between individual members of the supervisory board or between supervisory board members and members of the management board. There are no service agreements in place between the Company or its subsidiaries and the members of the supervisory board that would provide for benefits in the event of termination of the respective service relationship.

During the last five years, no sanctions or penalties were imposed against the members of the supervisory board owing to breaches of German or foreign provisions of capital market law. In addition, there were no convictions for fraud during this period. The members of the supervisory board were not involved in any corporate bankruptcies, insolvency proceedings or liquidations during the last five years. During the last five years, the members of the supervisory board have not been targets of any official allegations and/or sanctions or penalties imposed by statutory or regulatory authorities (including designated professional bodies), nor have they been disqualified by a court at any time from acting as members of the administrative, management or supervisory bodies of a company or from performing management or executive functions at a company.

### General Shareholders' Meeting

The general shareholders' meeting is the body in which shareholders can exercise their rights within the Company. The general shareholders' meeting of the Company is convened by the management board of the Company in the cases provided for by law or the articles of association, if required in the interests of the Company. Pursuant to Article 10(1) of the articles of association, the general shareholders' meeting takes place at the registered office of the Company or at a German stock exchange. Notice of the general shareholders' meeting, accompanied by the agenda, is issued no later than thirty days before the day on which shareholders must register prior to the meeting. This period does not include the day on which the

convening notice is issued and the day on which the general shareholders' meeting takes place. The general shareholders' meeting is convened through publication in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*).

If the interests of the Company so require, the general shareholders' meeting can also be convened by the supervisory board. Pursuant to Section 122 of the AktG, shareholders whose shares constitute at least 5% of the share capital may demand that the general shareholders' meeting be convened; this demand must be made in writing, stating the purpose and be directed to the management board. Using the same procedure, shareholders whose combined shares constitute at least 5% of the Company's share capital, or a proportional interest of €500,000, may demand that items be submitted for vote at a general shareholders' meeting. In addition, shareholders must prove that they have owned their shares for at least three months and that they will hold their shares until their motion has been decided upon. If the demand is not met, a court may authorize the shareholders who issued the demand to convene the general shareholders' meeting. The convening notice or publication must make reference to such authorization.

Those holders of registered shares who are registered in the Company's stock register on the date of the general shareholders' meeting, and who have registered their participation on time as defined by Article 10(7) of the articles of association, are eligible to participate in the general shareholders' meeting and to exercise their voting rights pursuant to Article 10(5) of the articles of association.

Those holders of bearer shares who have registered their participation on time as defined by Article 10(7) of the articles of association are eligible to participate in the general shareholders' meeting and to exercise their voting rights pursuant to Article 10(6) of the articles of association. In order to exercise the rights attributable to bearer shares, the holders of bearer shares must also prove to the Company their eligibility to participate in the general shareholders' meeting and to exercise their voting rights. Written evidence of the shareholdings in German or English prepared by the custodian institution must be presented by the end of the seventh day before the date of the general shareholders' meeting (Section 126b of the BGB). The written evidence of shareholding must relate to the date defined by law.

Registration of participation as defined in Articles 10(5) and (6) of the articles of association is deemed to be on time as defined in Article 10(7) of the articles of association if it is received by the management board at the registered office of the Company, or at another location specified in the convening notice, no later than on the seventh day before the date of the general shareholders' meeting; registration of participation must be made in writing, by fax or, if the management board so decides, in another way to be defined by the management board (primarily electronically). If the seventh day before the date of the general shareholders' meeting is a Sunday, a public holiday at the registered office of the Company, or a Saturday, the last day of the period of registration is the next working day. For the purposes of this provision, Saturday is not regarded as a working day.

The general shareholders' meeting must take place within the first eight months of each fiscal year. In addition, pursuant to Section 121(1) of the AktG, an extraordinary meeting of the shareholders must be convened by the management board if the interests of the Company so require.

The general shareholders' meeting votes on the use of the distributable profit and on the discharge of the members of the management board and those of the supervisory board for the fiscal year completed before the respective general shareholders' meeting. The general shareholders' meeting also appoints an external auditor for the respective current fiscal year. The general shareholders' meeting approves the annual financial statements of the Company if the management board and the supervisory board fail to do so.

Pursuant to Article 11 of the articles of association, each individual share confers one vote in the general shareholders' meeting. Voting rights can be exercised through a proxy. Neither German stock corporation law nor the articles of association require a minimum participation at a general shareholders' meeting for a quorum. Resolutions are adopted by the general shareholders' meeting with a simple majority and, if the law requires a majority of share capital, with a simple majority of share capital, unless otherwise provided by mandatory applicable law or the articles of association.

Under the AktG, certain resolutions of fundamental importance mandatorily require, in addition to a majority of the votes cast, a majority of at least three-quarters of the share capital represented at the vote. These resolutions include primarily:

- capital reductions,
- creation of authorized or contingent capital,
- exclusion of subscription rights,

- corporate transformation measures such as mergers, spin-offs and changes in legal form,
- transfer of all the assets of the Company,
- execution and amendment of inter-company agreements (for example, control and profit-transfer agreements),
- changes to the Company's business objectives,
- dissolution of the Company.

### Corporate Governance

The German Corporate Governance Code, which was passed in February 2002 and last amended on June 6, 2008 (the "Code"), includes recommendations and suggestions for the management and supervision of German listed companies with regard to shareholders and general shareholders' meetings, management and supervisory boards, transparency, accounting and auditing. There is no obligation to comply with the recommendations or suggestions of the Code. However, German stock corporation law requires that the management board and supervisory board of a German listed company declare annually which of the recommendations were or will be complied with, or which recommendations were not or will not be applied and why. This declaration is to be made permanently accessible to shareholders. However, deviations from the suggestions contained in the Code need not be disclosed.

Since its last declaration of conformity on June 12, 2009, Deutsche Wohnen AG has complied with the recommendations of the Government Commission of the German Corporate Governance Code (taking into account the June 6, 2008 version of the Code, with the following exceptions:

- There is no deductible (Section 3.8, Sentence 4 of the Code) in the directors' & officers' group liability insurance taken out for the members of the management board and the supervisory board. In the Company's view, the liability risks entailed in a deductible could impair Deutsche Wohnen AG's aim to attract particularly suitable persons for the management board and the supervisory board, since generally a deductible is not standard internationally. In addition, this group insurance covers a large number of executives, and differentiation according to members of the management and supervisory boards and other executives does not seem appropriate.
- A nomination committee of the supervisory board (Section 5.3.3 of the Code), composed exclusively of shareholder representatives, that proposes suitable candidates to the supervisory board for recommendation to the general shareholders' meeting was not formed in December 2008. The election of the court-appointed supervisory board members Hermann T. Dambach and Uwe E. Flach by the general shareholders' meeting of June 17, 2008 did not require a nomination committee, since the members unanimously agreed that these supervisory board members should be proposed as candidates to the general shareholders' meeting.
- The articles of association provide only for fixed, not performance-related, compensation of the members of the supervisory board. Compensation does not take into account the chairmanship and committee memberships of the supervisory board. Payments to the members of the supervisory board or advantages extended for services provided individually are not listed separately in the Corporate Governance Report (Section 5.4.6 of the Code). With regard to the supervising function of the supervisory board, the Company prefers a fixed remuneration for the supervisory board in order to ensure the required independent controlling function of the supervisory board. The Company does not comply with the recommendation of the Code to take into account the chairmanship and committee memberships of the supervisory board members in determining their compensation because, in the Company's opinion, the performance of these tasks is sufficiently covered by the existing compensation. Finally, the Company chose not to list the compensation of supervisory board members separately since, owing to the transparent provision of the articles of association, a separate listing would not provide any useful additional information. Supervisory board members received no compensation for services personally performed outside their supervisory board activities.
- The consolidated financial statements and the condensed consolidated interim financial statements reports were publicly accessible within the periods provided by law and not within 90 days of the end of the fiscal year or within 45 days of the end of the reporting period, respectively (Section 7.1.2, sentence 4, of the Code). Owing to the time required for the careful preparation of financial statements and company reports, earlier publication dates are currently not possible.

# SHAREHOLDER STRUCTURE

On the basis of the notifications received by the Company in accordance with the WpHG and pursuant to the information provided by the respective shareholders, the following shareholders have significant shareholdings in the Company:

| Shareholders | Subsidiary attributable to the shareholder | Number of shares held | Stake/ Share of voting rights |
|---|---|---|---|
| **Oaktree Capital Group Holdings GO, LLC** | | | |
| | via OCM Luxembourg Real Estate Investment S.à r.l. | 3,200,000 | 12.12% |
| | via OCM Luxembourg Opportunities Investment S.à r.l. | 3,200,000 | 12.12% |
| **Asset Value Investors Ltd.** | | 2,643,696 | 10.01% |
| | thereof via British Empire Securities and General Trust plc | 1,370,698 | 5.19% |
| **Deutsche Asset Management Investmentgesellschaft mbH** | | | |
| | via Zurich Deutscher Herold Lebensversicherung AG | 1,517,500 | 5.75% |
| **Arnhold and Bleichroeder Advisers LLC** | | | |
| | via First Eagle Overseas Fund | 1,383,380 | 5.24% |
| **Sun Life Financial** | | | |
| | via MFS Investment Management | 794,640 | 3.01% |
| **Ärzteversorgung Westfalen-Lippe** | | | |
| | via Feri Finance AG | 878,157 | 3.33% |
| **Other shareholders**[1] | | 12,782,627 | 48.42% |

1) *Other shareholders includes those shareholders whose shareholdings represent less than 3% of the total voting rights in Deutsche Wohnen AG.*

All of the Company's shares confer the same voting rights.

OCM Luxembourg Real Estate Investments S.à r.l. and OCM Luxembourg Opportunities Investments S.à r.l. have made a binding commitment to the Underwriters and the Company to subscribe for New Shares in a total amount of €51.5 million corresponding to 20.6% of the total offering volume. The corresponding payments are in particular subject to the non-termination of the Underwriting Agreement by the Underwriters and will be made upon final settlement of the New Shares as part of the Offering.

# TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

*The following section outlines certain key German tax principles that may be relevant with respect to the acquisition, holding, or transfer of shares/subscription rights. This summary does not purport to be a comprehensive or exhaustive description of all German tax considerations that may be relevant to shareholders. This presentation is based upon domestic German tax laws in effect at the time of preparation of this offering circular and the provisions of double taxation treaties currently in force between Germany and other countries. It is important to note that the legal situation may change, possibly with retroactive effect.*

*The tax information presented in this offering circular is not a substitute for tax advice. Therefore, it is recommended that any prospective investor consult with a tax advisor concerning the tax consequences of acquiring, holding, selling and gifting or bequeathing shares and/or subscription rights. The same applies with respect to the rules governing the refund of any dividend withholding tax (Kapitalertragsteuer) withheld. Only an individual tax consultation can appropriately account for the particular tax situation of each investor.*

## Taxation of the Company

The Company's taxable income, whether distributed or retained, is generally subject to corporate income tax (*Körperschaftsteuer*) at a uniform rate of 15% plus solidarity surcharge (*Solidaritätszuschlag*) of 5.5% thereon, resulting in a total tax liability of 15.825%.

Profit distributions (*Gewinnanteile*) and other compensation received by the Company from domestic or foreign corporations are exempt from corporate income tax; however, 5% of such revenues is considered a nondeductible business expenses and, as such, are subject to corporate income tax plus solidarity surcharge. Ultimately, therefore, 95% of the amount of profit distributions and other compensation that the Company receives from corporations is exempt from corporate income tax. The same applies to profits earned by the Company from the sale of shares in another domestic or foreign corporation. Losses incurred from the sale of such shares are not deductible for tax purposes.

In addition, the Company is subject to trade tax (*Gewerbesteuer*) with respect to its taxable trade profit (*Gewerbeertrag*) from permanent establishments in Germany (*inländische Betriebsstätten*). When determining the amount on which to assess the trade tax, among other things, 25% of the interest expense on debt, as well as 25% of the interest portion of rent, lease payments and royalties, is added back into the amount of taxable profits from permanent establishments in Germany determined for corporate income tax purposes, to the extent these interest payments cumulatively exceed €100,000. Since 2008, trade tax is no longer deductible as a business expense at the level of the Company. In other words, the trade tax owed does not reduce the income subject to corporate income tax nor does it reduce the income subject to the trade tax itself.

The amount of the trade tax depends on the local municipalities in which the Company maintains its permanent establishments. It generally amounts to between approximately 10% and 17% of the taxable trade profit (*Gewerbeertrag*), depending on the local trade tax multiplier.

Profit distributions received from other corporations and capital gains from the sale of shares in other corporations are treated in principle in the same manner for trade tax purposes as for corporate income tax purposes. However, profit distributions received from domestic and foreign corporations are effectively 95% exempt from trade tax only if the Company held and continues to hold at least 15% of the registered share capital (*Grundkapital or Stammkapital*) of the distributing corporation as of and from the beginning of the relevant tax assessment period. Additional limitations apply with respect to profit distributions received from foreign corporations.

Currently, tax-loss carryforwards can be used to fully offset taxable income for corporate income tax and trade tax purposes up to an amount of €1 million. When the taxable profit for the year or taxable profit subject to trade taxation exceeds this threshold, only up to 60% of the amount exceeding the threshold may be offset by tax-loss carryforwards. The remaining 40% is subject to tax (minimum taxation) (*Mindestbesteuerung*). Generally speaking, unused tax-loss carryforwards may be carried forward indefinitely and used in subsequent assessment periods to offset future taxable income in accordance with this rule.

Germany's 2008 Corporate Tax Reform Act introduced an "interest barrier." Generally speaking, when the Company calculates its taxable income, the interest barrier rules prevent it from deducting any more than the equivalent of 30% of its taxable EBITDA (taxable earnings adjusted for interest expense, interest income

and certain depreciation/amortization and other reductions), if its net interest expense, that is, the excess of interest expense over interest income for a given fiscal year, is €3 million or higher in the 2008 and 2009 assessment periods and €1 million or higher as from the 2011 assessment period onward and no extenuating circumstances apply. Special rules apply in the case of shareholder loans. Interest expense that is not deductible in a given year can be carried forward to subsequent fiscal years of the Company (interest carryforward) and increase the interest expense in those subsequent years.

Unused losses and interest carryforwards are forfeited in full if within five years more than 50% of the subscribed capital, membership interests, equity interests or voting rights are transferred, whether directly or indirectly, to an acquiring party or individuals/entities affiliated with same or a similar change of ownership occurs (harmful acquisition) (*schädlicher Beteiligungserwerb*). A group of acquirers with aligned interests is also considered an acquiring party for these purposes. In addition, any current year losses incurred prior to the acquisition will not be deductible. If a volume between 25% up to and including 50% is transferred, a proportional amount of the unused losses and interest carryforwards is forfeited.

## Taxation of Shareholders

Shareholders are taxed in connection with the holding of shares (taxation of dividend income), the sale of shares (taxation of capital gains) and the gratuitous transfer of shares (inheritance and gift tax).

## Taxation of Dividend Income

In the past, the Company paid dividends out of a tax-recognized contribution account (formerly EK04). If the Company can continue to pay dividends from this account, the dividends, as investment income, are not subject to withholding tax, personal income tax (plus the solidarity surcharge and church tax, if any) or corporate income tax, as the case may be. However, the dividends lower the acquisition costs of the shares, which can lead to a higher capital gain subject to tax in the event of a sale of the shares. To the extent that the dividends are larger than the lowered acquisition costs, a capital gain is recognized, which may be subject to tax in accordance with the provisions outlined below.

### *Dividend Withholding Tax*

The Company must withhold and remit to the German tax authorities a dividend withholding tax in the amount of 25% on dividends distributed by the Company plus solidarity surcharge of 5.5% on the amount of the withholding tax, for a total of 26.375%. The basis for the dividend withholding tax is the dividend approved for distribution by the Company's general shareholders' meeting.

Dividend withholding tax is, in principle, withheld regardless of whether and, if so, to what extent the shareholder must report the dividend for tax purposes and regardless of whether or not the shareholder is a resident of Germany.

Where dividends are distributed to a company domiciled in another member state of the European Union within the meaning of Article 3(1)a) of the Parent-Subsidiary Directive (EC Directive 90/435/EEC of the Council of July 23, 1990, as amended), the withholding of the dividend withholding tax may be waived, or its amount refunded, upon application, provided that additional requirements are met. This also applies to dividends distributed to a permanent establishment located in another European Union member state of such a parent company or of a parent company that is tax resident in Germany if the stake in the dividend-paying subsidiary is part of the respective permanent establishment's business assets.

The dividend withholding tax rate for dividends paid to other non-resident shareholders will be reduced in accordance with the applicable double taxation treaty, if any, between Germany and the shareholder's country of residence, provided that the shares are not held as part of the business assets of a permanent establishment or fixed base (*feste Einrichtung*) in Germany or as part of business assets for which a permanent representative in Germany has been appointed. The reduction in the dividend withholding tax is generally obtained by applying to the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*), with its registered office (*Hauptdienstsitz*) in Bonn-Beuel, An der Küppe 1, D-53225 Bonn, Germany, for a refund of the difference between the dividend withholding tax withheld, including solidarity surcharge, and the amount of withholding tax actually owed under the applicable double taxation treaty, which is usually 15%. Forms for the refund procedure may be obtained from the Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) (http://www.bzst.bund.de), as well as German embassies and consulates.

Corporations that are not tax resident in Germany will receive a refund of two-fifths of the dividend withholding tax withheld and remitted to tax authorities. This is without prejudice to any further reduction or exemption provided under the Parent-Subsidiary Directive or a double taxation treaty.

Foreign corporations will generally have to meet certain criteria defined by statute in order to receive an exemption from or (partial) refund of German dividend withholding tax.

*Resident Shareholders*

#### Individuals who hold the shares as private assets

For individuals who are tax resident in Germany (that is, as a rule, individuals whose domicile, usual residence, registered office or place of management is located in Germany) and hold the shares as **private assets**, the withholding tax will generally serve as a final tax, that is, once deducted, the shareholder's income tax liability on the dividends will be deemed settled, and he or she will no longer have to declare them on his or her annual tax return.

The purpose of the flat tax rate is to provide for final taxation of the income earned, in other words taxation that is unconnected to the individual's personal income tax rate. Shareholders can apply to have their dividend income assessed in accordance with the general rules on determining an individual's tax bracket if this would result in a lower tax burden. Here, the basis for taxation would be the gross dividend income less the savers' allowance of €801 (€1,602 for married couples filing jointly), with no deduction for costs actually incurred to generate the dividend income. Any tax already withheld would be credited against the income tax so determined and any overpayment refunded.

#### Shares held as business assets

If the shares form part of a shareholder's **business assets**, taxation of the dividends depends upon whether the shareholder is a corporation, sole proprietor or partnership (*Mituntermehmenschaft*).

When shares are held as part of a shareholder's business assets, the dividend withholding tax to be withheld according to the above principles is not typically regarded as a final tax. Instead, shareholders are able to have the dividend withholding tax credited against their personal or corporate income tax liability plus solidarity surcharge liability and have any overpayment refunded.

#### Corporations

Dividends received by **resident corporations** are generally 95% exempt from corporate income tax and solidarity surcharge, while the remaining 5% is considered a nondeductible business expenses and, as such, is subject to corporate income tax (plus solidarity surcharge). Moreover, actual business expenses that stand in direct economic relation to the dividends are deductible. However, the full amount of any dividends remaining after deduction of business expenses related to the dividends is subject to trade tax, unless the corporation held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. In the latter case, the aforementioned exemption of 95% of the dividend income applies analogously for trade tax purposes, but the business expenses directly related to the dividends (for example, financing costs) are not deductible unless they exceed the amount of dividend income exempted.

#### Sole proprietors (individuals)

If the shares are held as part of a **sole proprietor's (individual's)** business assets, 40% of the dividend income is tax-exempt (partial income method) (*Teileinkünfteverfahren*) and 60% of the expenses economically related to the dividends or capital gains is deductible. The partial-income method will also apply when individuals holds the shares indirectly through a partnership (with the exception of personal investors who hold their shares via an asset management partnership). If the shares form part of the business assets of a permanent establishment maintained in Germany for a commercial enterprise the shareholder owns, the full amount of the dividend income (after deduction of business expenses that stand in economic relation to the dividends) is also subject to trade tax, unless the taxpayer held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. Trade tax is generally credited as a lump sum against the shareholder's personal income tax liability.

#### Partnerships

If the shareholder is a **partnership**, personal income tax or corporate income tax, as the case may be, and the solidarity surcharge, are assessed at the level of each partner rather than at the level of the partnership. The

taxation of each partner depends upon whether the partner is a corporation or an individual. If the partner is a corporation, the dividend income is generally 95% tax-exempt (see above "—*Corporations*"). If the partner is an individual, only 60% of the dividend income is subject to income tax (see above "—*Sole proprietors (individuals)*"). If the shares form part of the business assets of a domestic permanent establishment of a commercial enterprise of the partnership, the full amount of the dividend income is subject to trade tax at the level of the partnership. In the case of partners who are individuals, the trade tax the partnership pays on his or her stake in the partnership's income is generally credited as a lump sum against the individual's personal income tax liability. If the partnership held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, the dividends are not subject to trade tax. However, if the partners are corporations, the 5% of the dividend income considered to be nondeductible business expenses will be subject to trade tax. The business expenses directly related to the dividends (for example, financing costs) are not deductible unless they exceed the amount of dividend income exempted.

#### Financial and Insurance Sector

Special rules apply to companies active in the financial and insurance sectors.

#### *Non-Resident Shareholders*

If a shareholder (individual or corporation) who is subject to non-resident taxation in Germany holds shares as part of the business assets of a permanent establishment or fixed base in Germany or as part of **business assets** for which a permanent representative in Germany has been appointed, the same taxation rules that are applicable to resident shareholders apply. The withholding tax withheld and remitted to the German tax authorities is credited against the respective shareholder's personal income tax or corporate income tax liability. If the amount withheld exceeds the personal or corporate income tax liability, the difference is refunded. The same applies to the solidarity surcharge. These shareholders are essentially subject to the same rules applicable to resident shareholders, as discussed above.

In all other cases, the withholding of the dividend withholding tax discharges any tax liability of the shareholder in Germany. A refund or exemption is granted only as discussed in the section on dividend withholding tax above. See "—*Taxation of Dividend Income—Dividend Withholding Ta*x").

### Taxation of Capital Gains

#### *Resident Shareholders*

Gains on the sale of shares/subscription rights that are held as **private assets** by *resident shareholders* and were acquired after December 31, 2008 are generally always taxable regardless of the length of time held. The tax rate is (generally) a uniform 25% plus 5.5% solidarity surcharge thereon (as well as any church tax). Losses on the sale of such shares/subscription rights can only be used to offset gains made on the sale of shares/subscription rights during the same year or in a subsequent year.

If the shares were acquired after December 31, 2008 and held in safekeeping or administered by a German financial institution, a German financial services provider (including the German branch of a foreign institution), a German brokerage or a German investment bank, that institution or firm will withhold what is generally considered a final tax of 25% (plus 5.5% solidarity surcharge thereon and any church tax). If the shares were held in safekeeping or administered by the respective institution or firm after acquisition, the amount of tax withheld is generally based on the difference between the proceeds from the sale, after deducting expenses that stand in direct relation to the sale, and the amount paid to acquire the shares. The withholding tax rate of 25% (plus 5.5% solidarity surcharge thereon and any church tax) will be applied to 30% of the sales proceeds if the shares were not administered by the same custodian bank since acquisition and the original cost of the shares cannot be verified or such a verification is not feasible. When subscription rights are sold, the cost is set at €0 and the tax is assessed on the proceeds from the sale. If the tax authorities treat an exercise of subscription rights for subscription rights in German private assets as a sale, the German depositary bank would have to provide the outstanding amount, potentially without payment from the holder of the subscription right.

Shareholders/subscription rights holders can apply to have gains on the sale of their shares/subscription rights assessed in accordance with the general rules on determining an individual's tax bracket, rather than the system of final taxation, if this would result in a lower tax burden. Here, as well, the basis for taxation would be the gross income less the savers' allowance of €801 (€1,602 for married couples filing jointly), with

no deduction for costs actually incurred to generate the income. Any tax already withheld would be credited against the income tax so determined and any overpayment refunded.

In the case of a subscription rights sale, the possibility exists that the tax authorities will take the position that the subscription rights were acquired at the time the Existing Shares were acquired. In such a case, the rules on the taxation of private sales transactions in effect prior to the 2008 German Corporate Tax Reform Act (*Unternehmensteuerreformgesetz*) would apply if the Existing Shares were acquired prior to January 1, 2009. Gains on the sale of subscription rights would then only be taxable if the subscription rights were acquired within one year of the sale of the subscription rights or the existing shareholder held at least 1% of the Company's capital at any time during the five years preceding the sale. Losses on the sale of the subscription rights would not be deductible if the subscription rights were sold more than one year after the acquisition of the Existing Shares and the shareholder did not hold at least 1% of the Company's capital at some time during the five years preceding the sale. If the tax authorities took a different view and regarded the subscription rights as being acquired after December 31, 2008, the rules regarding the taxation of resident shareholders discussed above would apply with the necessary modifications.

In the current opinion of the tax authorities, exercising subscription rights, which are considered to be acquired prior to January 1, 2009, is also regarded as a sale of the subscription rights, to the extent that the shareholders' Existing Shares in private assets are retained and there is no shareholding of at least 1%. The day on which the subscription rights offer is accepted is regarded as the time of the sale. The market rate of the subscription rights at the time of acceptance of the subscription rights offer is used to determine the sale price.

Notwithstanding the foregoing, if a shareholder or, in the case of a gratuitous transfer, any of the shareholder's legal predecessors held, directly or indirectly, at least 1% of the Company's capital at any time during the five years preceding the sale, the capital gains realized by said shareholder will be subject to the partial-income method and not the final flat tax, that is, 60% of the capital gains will be taxable at the individual's personal income tax rate, and 60% of the expenses economically related to the capital gains will be deductible.

Gains on the sale of shares held by an individual or corporation as **business assets** are also subject to the 25% withholding tax (plus 5.5% solidarity surcharge thereon and any church tax) if they are held in safekeeping or administered by a German paying agent or a German paying agent handles their sale. The tax withheld, however, is not considered to be a final tax. In this case, the amount of tax withheld can be also credited against the shareholder's personal or corporate income tax liability and any overpayment refunded.

If the shares/subscription rights form part of a shareholder's business assets, then taxation of the capital gains realized depends upon whether the shareholder is a corporation, sole proprietor or partnership.

1. Generally speaking, capital gains earned on the sale of shares by corporations domiciled in Germany is 95% exempt from corporate income tax (including solidarity surcharge) and trade tax, irrespective of the stake represented by the shares and the length of time the shares are held. However, 5% of the capital gains is considered a nondeductible business expense and, as such, is subject to corporate income tax (plus solidarity surcharge) and trade tax. Losses from the sale of shares and any other reductions in profit do not qualify as tax-deductible business expenses. Gains realized on the sale of subscription rights are subject in full to corporate income tax and trade tax. Losses from the sale of subscription rights and other reductions in profit reduce the taxable income.

2. If the shares/subscription rights were acquired after December 31, 2008 and form part of the business assets of a sole proprietor (individual) who is a tax resident of Germany, 60% of the capital gains on their sale is subject to the progressive income tax plus solidarity surcharge thereon. Similarly, only 60% of losses from such sales and 60% of expenses economically related to such sales are deductible. If the shares/subscription rights are attributable to the permanent establishment maintained in Germany by a commercial enterprise of the shareholder, 60% of the capital gains is also subject to trade tax. However, the trade tax is credited as a lump sum against the shareholder's personal income tax liability.

3. If the shareholder is a partnership, personal income tax or corporate income tax, as the case may be, is assessed at the level of each partner rather than at the level of the partnership. The taxation of each partner depends upon whether the respective partner is a corporation or an individual. If the partner is a corporation, the tax principles applying to capital gains which are outlined in subsection 1 apply. If the partner is an individual, the tax principles applying to capital gains which are outlined in subsection 2 apply. In addition, capital gains from the sale of shares/subscription rights attributable

to a permanent establishment maintained in Germany by a commercial enterprise of the partnership are subject to trade tax at the level of the partnership. As a rule, only 60% of the gains in this case is subject to trade tax if the partners in the partnership are individuals, while 5% is subject to trade tax if the partners are corporations and shares are sold. Capital losses and other reductions in profit related to the disposed shares/subscription rights are generally not deductible or only partially deductible. See the principles discussed in subsections 1 and 2 above. If the losses or reductions relate to subscription rights sold by a partner that is a corporation, they are deductible in full. Generally speaking, if the partner in question is an individual, the trade tax the partnership pays on his or her stake in the partnership's income is credited as a lump sum against his or her personal income tax liability.

Special rules apply to capital gains realized by companies active in the financial and insurance sectors, as well as by pension funds. See below.

*Non-Resident Shareholders*

If the shareholder is an individual who is not a resident of Germany, his or her capital gains are subject to German income tax only if s/he holds a relevant stake within the meaning of Section 17(1) of the German Income Tax Act (*Einkommensteuergesetz*) or if the shares form part of the business assets of a permanent establishment in Germany. Most double taxation treaties executed with Germany exclude German taxation in the former case.

## Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds

If financial institutions (*Kreditinstitute*) or financial services providers (*Finanzdienstleistungsinstitute*) hold or sell shares that are allocable to their trading book (*Handelsbuch*) pursuant to Section 1a of the German Banking Act (*Gesetz über das Kreditwesen,* the "KWG"), they will not be able to use the partial-income method and have 60% of their gains exempted from taxation or enjoy the 95% exemption from corporate income tax plus solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares that are acquired by a financial enterprise (*Finanzunternehmen*) within the meaning of the KWG for purposes of realizing short-term gains from proprietary trading and to shares held through a permanent establishment in Germany by financial institutions, financial services providers and financial enterprises with their registered office in another member state of the European Union or another contracting party to the EEA Agreement. Likewise, the tax exemption described earlier afforded to corporations for dividend income and capital gains from the sale of shares does not apply to shares that qualify as a capital investment in the case of life insurance and health insurance companies or which are held by pension funds. Certain exceptions apply to corporate-income-tax-paying shareholders that have their registered office in another member state of the European Union if the Parent-Subsidiary Directive (Directive 90/435/EEC of the Council of July 23, 1990, as amended) applies to them.

## Inheritance and Gift Tax

The transfer of shares/subscription rights to another person by will or gift is generally subject to German inheritance and gift tax only if

1. the decedent, donor, heir, beneficiary or other transferee maintained his or her domicile or a usual residence in Germany or had its place of management or registered office in Germany at the time of the transfer, or is a German citizen who has spent no more than five consecutive years outside Germany without maintaining a residence in Germany (special rules apply to certain former German citizens who neither maintain their domicile nor have their usual residence in Germany),

2. the shares/subscription rights were held by the decedent or donor as part of business assets for which a permanent establishment was maintained in Germany or for which a permanent representative in Germany had been appointed, or

3. the decedent or donor, either individually or collectively with related parties, held, directly or indirectly, at least 10% of the Company's registered share capital at the time of the inheritance or gift.

The few German treaties for the avoidance of double taxation regarding inheritance and gift tax currently in force usually provide that any foreign inheritance or gift tax paid can be credited against the German inheritance or gift tax.

### Other Taxes

No German transfer tax, value-added tax, stamp duty or similar taxes are assessed on the purchase, sale or other transfer of shares. Provided that certain requirements are met, business owners may, however, opt for the payment of value-added tax on transactions that are otherwise tax-exempt. No net wealth tax is currently imposed in Germany.

# Valuation Short Report

Principal:

Deutsche Wohnen AG
Pfaffenwiese 300
65929 Frankfurt am Main

Date of Valuation:
30 June 2009

Date of Report:
7 September 2009

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**Part II** **Nursing Home Portfolio**

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# PART I

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RESIDENTIAL PORTFOLIO

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# PART I RESIDENTIAL PORTFOLIO

## 1 Subject Portfolio

Most of the 1,768 subject properties of the portfolio are residential buildings (1,562 properties). The remainder is divided into mixed-used buildings (37 properties), commercial buildings (22 properties) and units containing only parking spaces (146 units) as well as others (1 unit).

## 2 Regional Allocation

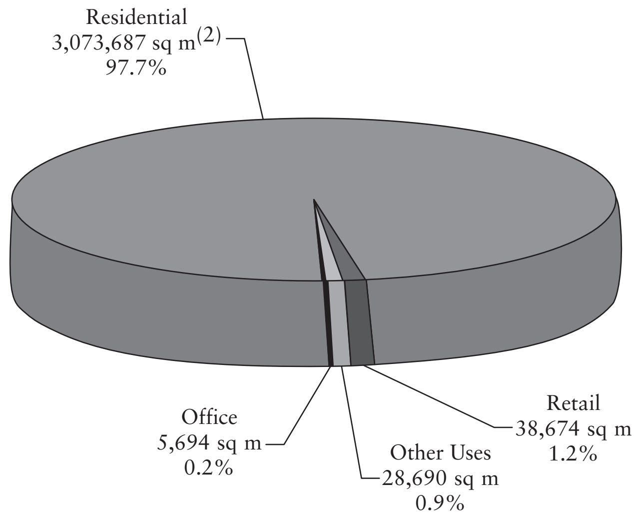
As shown in the following map, the properties of the portfolio are located in 169 cities throughout Germany with a focus on the regions of Berlin and Rhine-Main.

*Source: Microsoft, MapPoint Europa 2009*

The following graphs and overviews are based on the information provided to us by Deutsche Wohnen AG and the analysis of the Fair Value calculation with the date of valuation being 30 June 2009.

## 3 Types of Use by Total Lettable Area

(Total: 3,146,746 sq m[(1)])

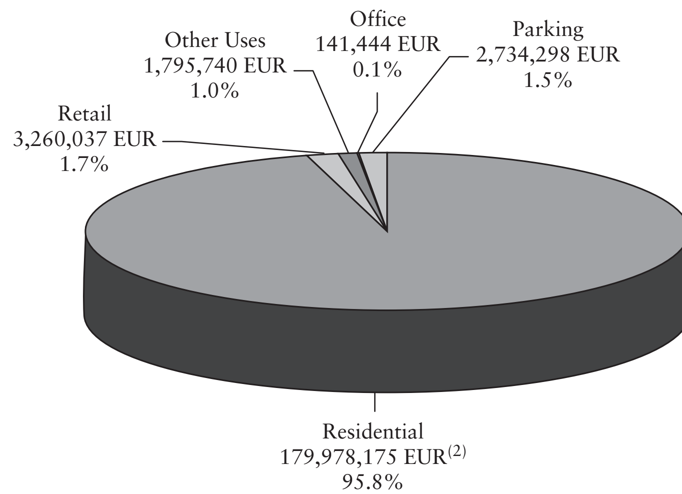



*(1) without owner-occupied properties*

*(2) without 108 mansards (Total Area c. 1,270 sq m)*

## 4 Actual Current Income (Annualised) by Type of Use

(Total: 187,909,693 EUR[(1)])




*(1) without owner-occupied properties*

*(2) without 108 mansards (Total Area c. 1,270 sq m)*

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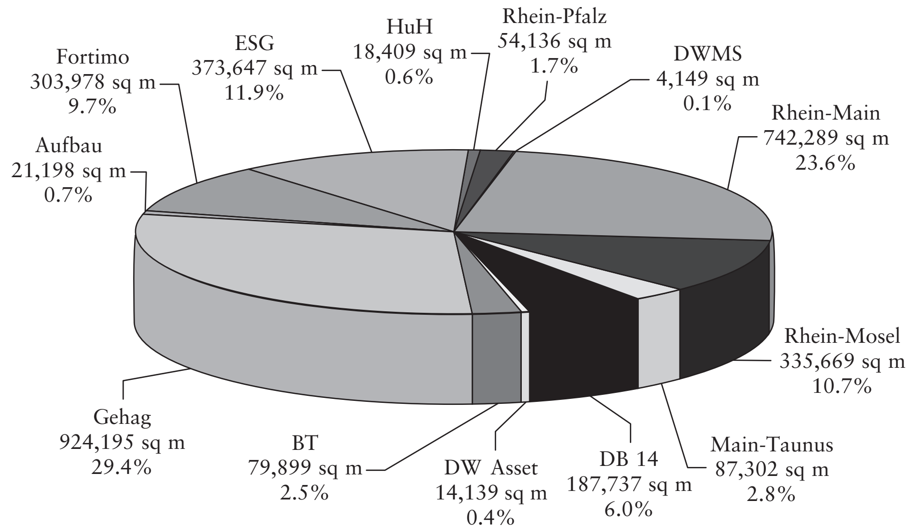
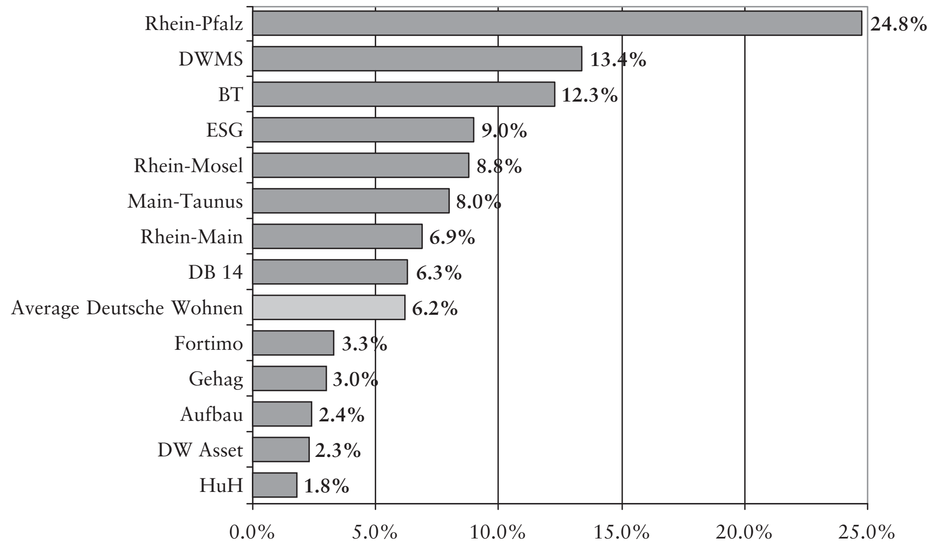
## 5 Total Lettable Area by Entity

(Total: 3,146,746 sq m [(1)])



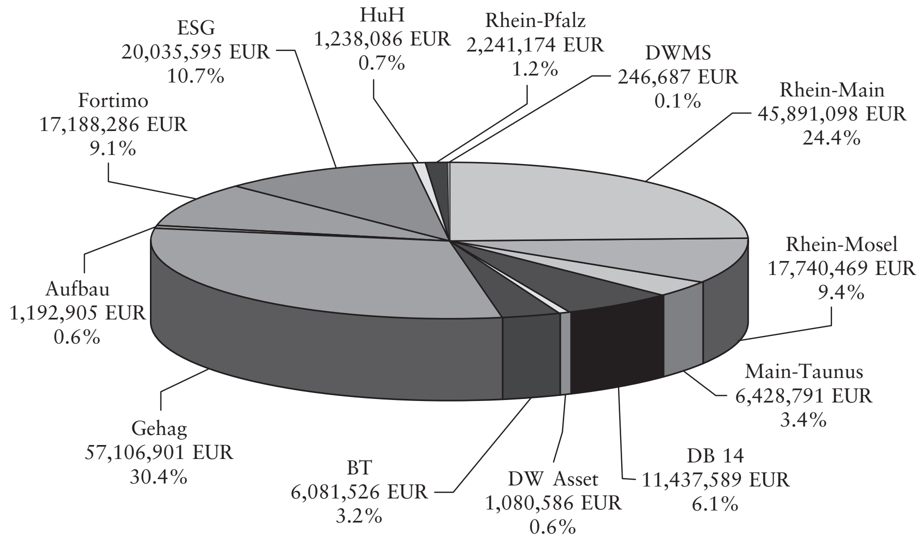

(1) *without owner-occupied properties*

## 6 Vacancy by Entity (% of Space)



## 7 Actual Current Income (Annualised) by Entity

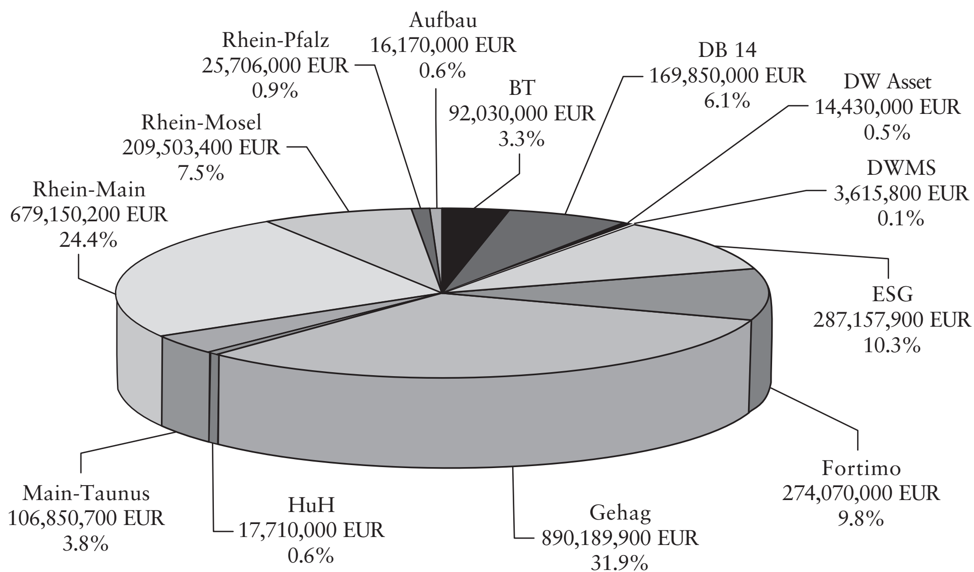
(Total: 187,909,693 EUR[(1)])




(1) *without owner-occupied properties*

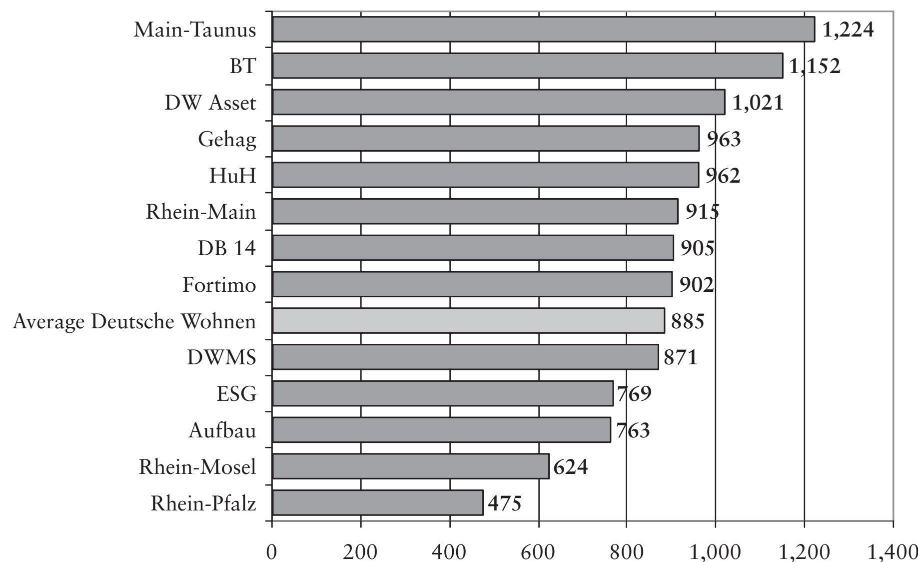
## 8 Fair Value by Entity

(Total: 2,786,433,900 EUR[(1)])




(1) *without owner-occupied properties*

## 9 Fair Value by Entity in EUR per sq m




## 10 Fair Value of Residential Portfolio

Based upon the information provided to us, the specific comments and assumptions, we are of the opinion that the aggregate of the individual Fair Values of the subject properties (net capital value), rounded on an asset-by-asset basis, as at 30 June 2009, is:

**2,786,433,900 EUR**

**(Two billion, seven hundred and eighty-six million,**
**four hundred and thirty-three thousand, nine hundred Euro)**

The gross capital value is 2,968,283,251 EUR including 181,849,351 EUR purchaser's costs (6.5%).

The aggregate of the individual Fair Values presented here takes account of the marketing period of the individual properties and does not reflect any discount or premium on the sale of the whole portfolio.

## 11 Key Valuation Data

As instructed we valued the portfolio on an asset-by-asset basis. The following table shows the key valuation data on an aggregated portfolio level:

| | |
|---|---|
| Total lettable area(1): | 3,146,746 sq m |
| Average Fair Value per sq m lettable area: | 885 EUR |
| Actual current rental income (gross)(2): | 187,909,693 EUR |
| Potential rental income (gross)(2): | 201,115,788 EUR |
| Estimated Rental Value (gross)(2): | 218,573,735 EUR |
| Multiplier (based on current rent): | 14.8 times |
| Multiplier (based on potential rent): | 13.9 times |
| Multiplier (based on Rental Value): | 12.8 times |

*(1) without owner-occupied properties*

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*(2) annualised*

(Definitions are contained in the glossary (page G-1).)

The Principal, Deutsche Wohnen AG, has divided the Residential Portfolio into six regional clusters ("Regional Clusters"). The following table shows for information only the number, area, vacancy, current rent per sq m and the gross multiplier on potential rent. The following table refers only to residential units and illustrates together with the graphs the division of total lettable area, the Fair Values and the Fair Values per sq m by these clusters.

## 12 Residential Units by Regional Cluster[(1)]

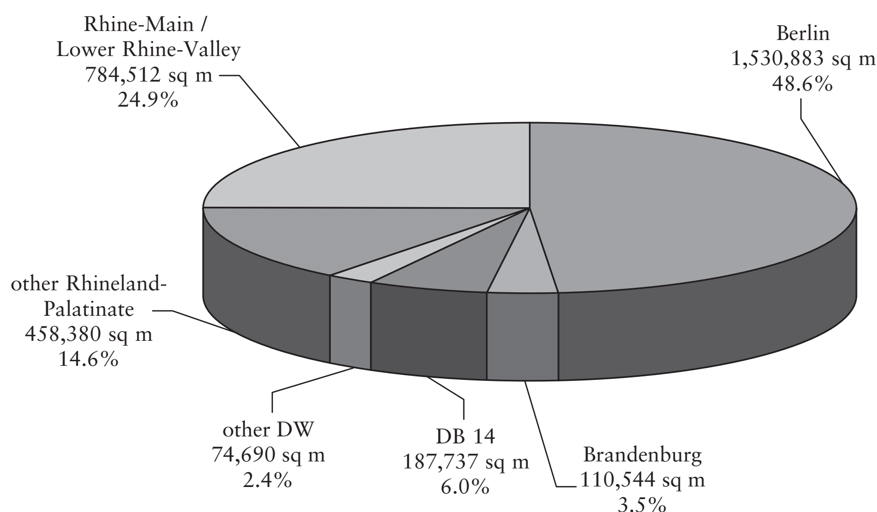
| Regional Clusters | Number of Residential Units | Residential Area in sq m | Current Residential Rent in EUR per sq m | Gross Multiplier on Potential Rent |
|---|---|---|---|---|
| Berlin | 24,800 | 1,502,448 | 5.07 | 14.9 times |
| Brandenburg | 1,690 | 108,747 | 4.46 | 10.0 times |
| DB 14 | 2,621 | 178,624 | 5.32 | 13.5 times |
| Other Deutsche Wohnen | 1,286 | 71,601 | 4.82 | 9.4 times |
| Other Rhineland-Palatinate | 7,412 | 457,072 | 4.62 | 10.4 times |
| Rhine-Main/ Lower Rhine-Valley | 12,205 | 755,195 | 5.84 | 14.4 times |
| **Total** | 50,014 | 3,073,687 | 5.18 | 13.9 times |

*(1) without 108 mansards (Total Area c. 1,270 sq m)*

(Definitions are contained in the glossary (page G-1).)

## 13 Total Lettable Area by Regional Cluster

(Total: 3,146,746 sq m)

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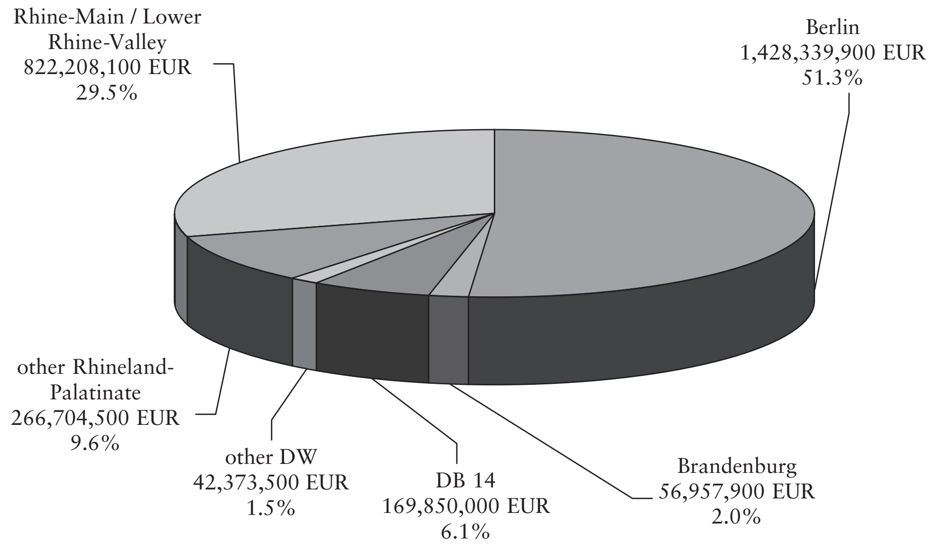
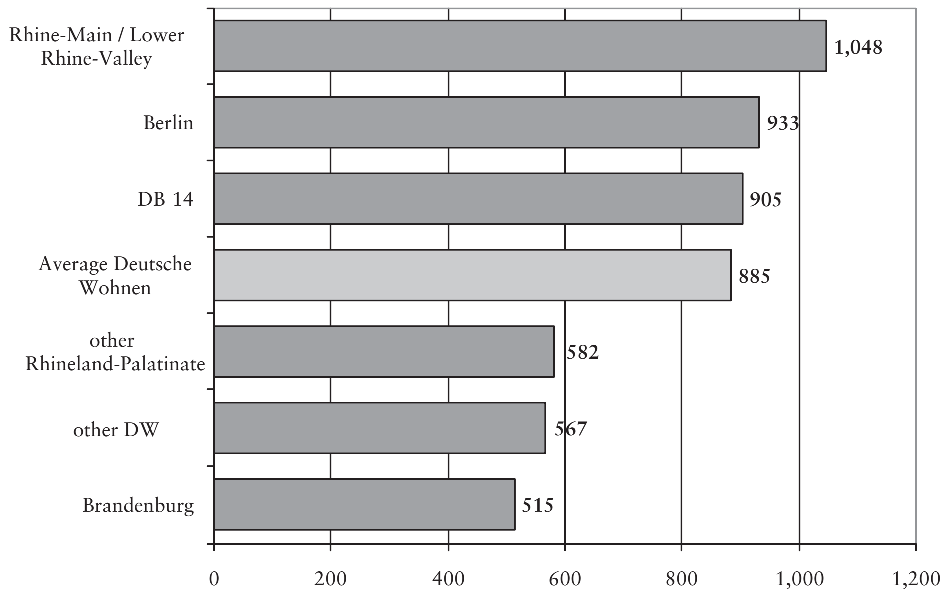
## 14 Fair Value by Regional Cluster

(Total: 2,786,433,900 EUR)




## 15 Fair Value by Regional Cluster in EUR per sq m



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# PART II NURSING HOME PORTFOLIO

## 1 Subject Portfolio

We valued the 10 nursing homes of a subsidiary of Deutsche Wohnen AG, Katharinenhof Seniorenwohn- und Pflegeanlage Betriebs-GmbH, defined as the “Nursing Home Portfolio”.

## 2 Regional Allocation

As shown in the map below, the 10 nursing homes are located in 9 cities throughout Germany.

*Source: Microsoft, MapPoint Europa 2009*

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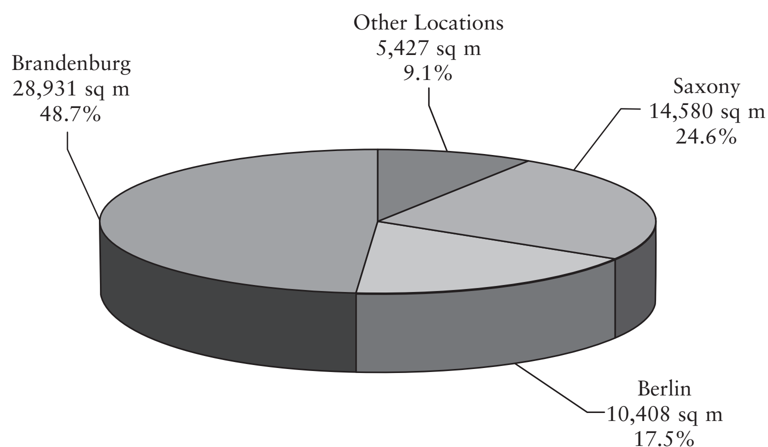
The following graphs and overviews are based on the information provided to us by Deutsche Wohnen AG and the analysis of the Fair Value calculations with the date of valuation being 30 June 2009.

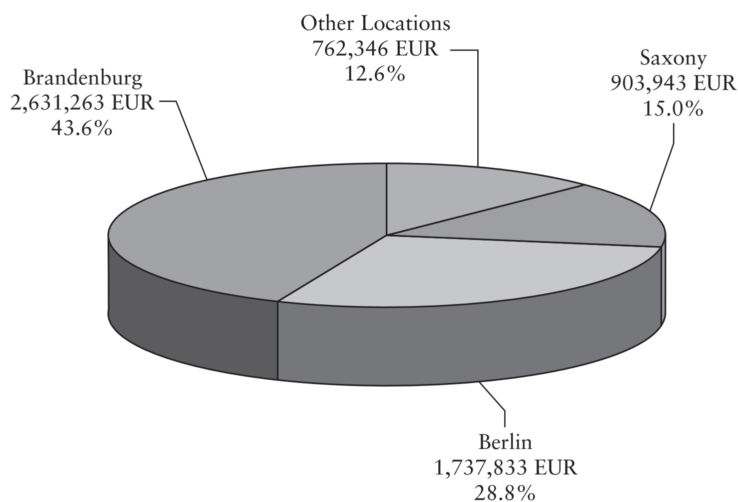
### 3 Total Lettable Area by Region

(Total: 59,346 sq m)



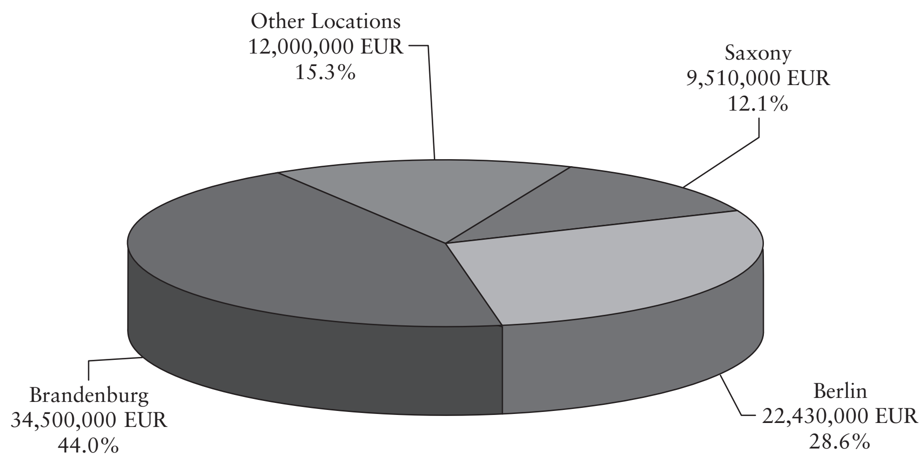

### 4 Actual Current Income (Annualised) by Region

(Total: 6,035,385 EUR)

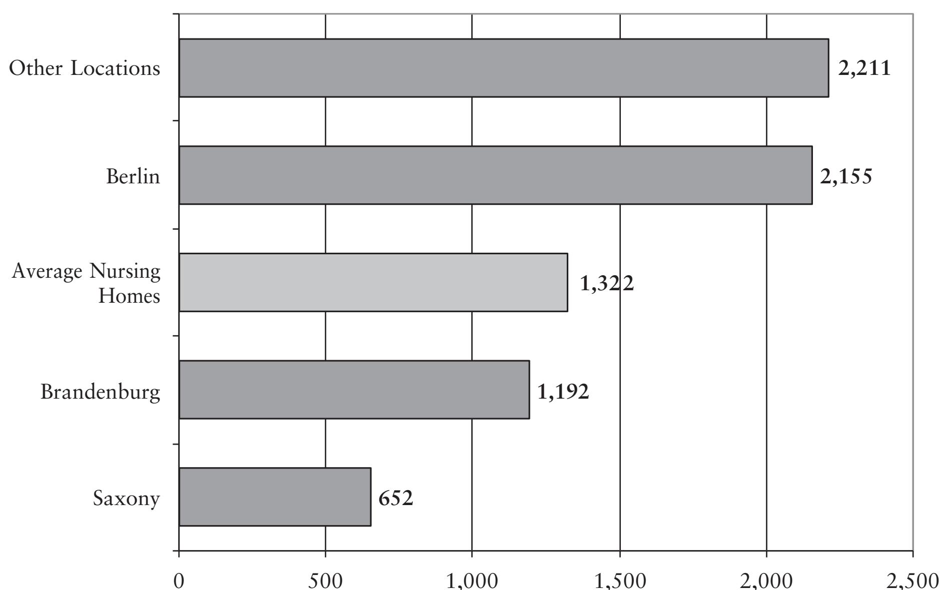


## 5 Fair Value by Region

(Total: 78,440,000 EUR)




## 6 Fair Value by Region in EUR per sq m




## 7 Fair Value of Nursing Homes

Based upon the provided information, the specific comments and assumptions, we are of the opinion that the aggregate of the individual Fair Values of the nursing homes (net capital value), rounded on an asset-by-asset basis, as at 30 June 2009, is:

**78,440,000 EUR**

**(Seventy-eight million, four hundred and forty thousand Euro)**

The gross capital value is 83,095,229 EUR including 4,655,229 EUR purchaser's costs (5.9%).

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The aggregate of the individual Fair Values presented here takes account of the marketing period of the individual properties and does not reflect any discount or premium on the sale of the whole portfolio.

## 8 Key Valuation Data

As instructed we valued the portfolio on an asset-by-asset basis. The following table shows the key valuation data at the portfolio level:

| | |
|---|---:|
| Total lettable area: | 59,346 sq m |
| Average Fair Value per sq m lettable area: | 1,322 EUR |
| Actual current rental income (gross)[1]: | 6,035,385 EUR |
| Potential rental income (gross)[1]: | 6,101,354 EUR |
| Estimated Rental Value (gross)[1]: | 6,094,093 EUR |
| Multiplier (based on current rent): | 13.0 times |
| Multiplier (based on potential rent): | 12.9 times |
| Multiplier (based on Rental Value): | 12.9 times |

*(1) annualised*

(Definitions are contained in the glossary (page G-1).)

| Region | Total lettable area in sq m | Potential rental income in EUR[1] | Gross Multiplier on Potential Rent |
|---|---:|---:|---:|
| Berlin | 10,408 | 1,737,833 | 12.9 times |
| Brandenburg | 28,931 | 2,697,232 | 12.8 times |
| Saxony | 5,427 | 762,346 | 12.5 times |
| Other Locations | 14,580 | 903,943 | 13.2 times |
| **Total** | **59,346** | **6,101,354** | **12.9 times** |

*(1) Annualised*

(Definitions are contained in the glossary (page G-1).)

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# PART III TOTAL FAIR VALUE

Based upon the provided information, the specific comments and assumptions, we are of the opinion that the aggregate of the individual Fair Values of the properties of the Residential- and Nursing Home-Portfolios (net capital value of 1,768 properties and 10 nursing homes), rounded on an asset-by-asset basis, as at 30 June 2009, is:

**2,864,873,900 EUR**

(**Two billion, eight hundred and sixty-four million,**
**eight hundred and seventy-three thousand, nine hundred Euro**)

The gross capital value is 3,051,378,480 EUR including 186,504,580 EUR purchaser's costs (6.5%).

The aggregate of the individual Fair Values presented here takes account of the marketing period of the individual properties and does not reflect any discount or premium on the sale of the whole portfolio.

# PART IV

CERTIFICATE

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# PART IV

CERTIFICATE

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# PART IV CERTIFICATE

## 1 Date of Instruction and Instruction

CB Richard Ellis GmbH ("CBRE") conducted a valuation of the portfolio of Deutsche Wohnen AG, which comprised 1,768 properties, respectively 50,014 residential units and also the 10 nursing homes on an individual basis at 30 June 2009. CBRE assigned the 1,768 properties to 905 inspection clusters (see paragraph 12).

As instructed, we compiled and delivered a Short Report, which is a summary of the full valuation report and will be incorporated in a prospectus in both German and English language.

The properties were valued on the basis of economic units ("Wirtschaftseinheiten").

## 2 Purpose of Valuation

Our Short Report will be used by the Principal as one of many sources of information regarding the value of the subject properties for increase of capital stock and for internal IFRS accounting purposes. At the same time, the Short Report complies with the legal requirements, particularly the regulation (EG) No 809/2004 from 29 April 2004 and the given application note of the Committee of European Securities Regulators (CESR).

## 3 Instructing Party

Deutsche Wohnen AG
Pfaffenwiese 300
65929 Frankfurt am Main

(hereinafter the "Principal")

## 4 Editor

CB Richard Ellis GmbH
Hausvogteiplatz 11A
10117 Berlin
Deutschland

(hereinafter "CBRE")

CBRE is a limited liability company (GmbH), registered in accordance with the commercial law of Germany, register 13347. CB Richard Ellis was founded on 3 April 1973 and has been present in Germany, with its headquarters in Feuerbachstraße 26-32 in Frankfurt/Main.

CBRE is not under a regulating regime of any public authority, however CBRE employs Members of Royal Institution of Chartered Surveyors (RICS), publicly appointed and sworn-in valuers and valuers accredited by HypZert GmbH in the businessline valuation.

## 5 Addressees

The Report is addressed to and only for the use of:

- The Principal;
- Merrill Lynch International, c/o Merrill Lynch International Bank Limited, Neue Mainzer Str. 52, 60311 Frankfurt/Main, Deutschland;
- UBS Limited, c/o UBS Deutschland AG, Stephanstrasse 14-16, 60313 Frankfurt/Main.

## 6 Date of Valuation

As instructed the date of valuation is 30 June 2009.

## 7 Subject Properties

The subject properties within the valuation of Fair Values represent 1,768 properties. In addition, we valued 10 nursing homes in 9 cities.

## 8 Values Assessed

The subject properties have been valued by "Fair Value" according to IAS 40.5 of "International Financial Reporting Standards" (IFRS) that are published by the "International Accounting Standards Board" (IASB) and is defined as follows:

*"Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction."*

In the course of ascertaining the Fair Value, we will incorporate the Principal's and its financial auditor's opinion and thereby identify the Fair Value as Net Capital Value. With regard to content, it matches the Market Value according to Practice Statement (PS) 3.2 of RICS Valuation Standards, Sixth Edition, Royal Institution of Chartered Surveyors (RICS), London and is defined:

*"The estimated amount for which a property should ex-change on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

## 9 Currency

The reporting currency is EURO.

## 10 Scope of Work

Within the scope of the Short Report we carried out the following steps:

- Analysis and evaluation of the information provided to us by the Principal and third parties instructed by the Principal.
- Inspection of the generated inspection clusters.
- Research and determination of the market situation.
- Calculation of Fair Value for each valuation unit.

## 11 Sources of Information

The calculation of Fair Values was carried out based upon the information provided to us by the Principal or third parties instructed by the Principal in terms of a physical data room, data carriers and comprehensive correspondence as well as on the basis of the inspection of the subject properties (cluster basis).

## 12 Inspection Clusters/ Inspection

All 1,768 subject properties were assigned to 905 clusters ("Inspection Clusters") with similar age, condition, location, use type, building type and fitting.

All subject properties, representing 75% of the current income, were inspected between 29 May 2009 and 16 June 2009. The clusters were inspected both internally and externally. The remainder were inspected externally only in the same period.

The 10 nursing homes were inspected both externally and internally.

## 13 Valuation Approach

In arriving at our Fair Values for the subject properties we have applied a DCF approach, based on a 10-year time horizon.

The DCF model involves a period-by-period estimation of gross rental income and expenditures to calculate the net operating income (cash flow) for each period, explicitly taking into account a range of variables including changes in rent due to legally permissible rent increases and growth in market rents as well as expenditures on maintenance, repairs and renovation, vacancies etc. over the period of the time horizon.

The resulting net cash flows are discounted at a selected discount rate, normally set by considering money-market rates and allowing for a risk premium derived from net initial yields observed in the market. The terminal value of the properties at the end of the time horizon is estimated using forecasts of the then rental income and appropriate capitalisation rates (income capitalisation method).

After allowing for purchaser's costs (notary fees, land transfer tax, agency fees), the result is the Fair Value of the property.

## 14 Valuation Parameter

In accordance with the valuation approach, the Fair Value calculation is based on expected cash flows. These reflect market expectations and incorporation and update of previous valuations of the subject properties or one respectively several comparable properties.

The valuation parameters have been assessed in good faith by CBRE and according to the information provided by the Principal.

The valuation parameters comprise mainly:

- Level of rents for the first and the following lettings.
- Vacancy durations and costs.
- Non recoverable costs for the owner.
- Tenant improvements and costs for reletting.
- Object- and lease contract-specific rates of interest of the invested capital.

## 15 General Valuation Assumptions

### *15.1 Floor Areas*

If not otherwise stated, we have not measured the properties but have relied upon the schedules of area that were provided to us within the tenancy lists and additional information. In undertaking our work, we have assumed that these floor areas are correct.

### *15.2 The Property*

Landlord's fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our valuations. Tenant-specific process plant and machinery, tenants' fixtures and specialist trade fittings have been excluded from our valuations. For the valuation of the properties 1153.1415 (Saalestr. in Berlin), 1257.1000 (Am Steingarten in Mannheim) and 1257.13 (Hanauer Landstr. in Frankfurt) we assumed that the existing furniture in the apartments will be sold together with the property within a transaction.

### *15.3. Contamination and site condition*

We were provided by the Principal with information concerning contamination for 14.8% of the subject properties (262 units). For 1,506 units (representing about 85.2%) we were not provided with further information.

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According to the information provided to us, we assumed that the sites of 2 valuation units (1250.2185, Frankfurt and 1250.4206, Bobingen) are contaminated. Appropriate surveys were available, which did not contain any cost approach for the removal but advised to monitor the site. The existing contamination was considered in adjustments to the discount rates. Five other valuation units are suspected to be contaminated. About 14.4% (255 units) of all valuation units are not contaminated.

We assume that the sites of the not contaminated properties and the sites of the properties without information concerning contamination were used in the past and will be used in the future for activities without any contamination potential.

In the last-mentioned cases, we assume that no environmental audit or geological survey was carried out respectively the subject properties (inclusive of the buildings) are not contaminated and have no contamination potential.

As we were not specifically instructed, we have not undertaken any investigation into the past or present uses of either the properties or any adjoining or nearby land, to establish whether there is any potential for contamination from these uses, and assume that none exists.

However, should it be subsequently established that such contamination exists at the properties or on any adjoining land or that any premises have been or are being put to contaminative use, this may have a detrimental effect on the value reported.

### *15.4 Technical Survey*

CBRE inspected the properties but did not carry out any building surveys. The properties have not been measured as part of CBRE's inspection nor have the services or other installations been tested.

### *15.5 Legal Requirements / Consents and Authorisation for the Use of the Property*

An investigation of the compliance of the properties with legal requirements (including (permanent) planning consent, building permit, acceptance, restrictions, building, fire, health and safety regulations etc.) or with any existing private-law provisions or agreements relating to the existence and use of the site and building has not been carried out.

In preparing our valuation, we have assumed that all necessary consents and authorisations for the use of the property and the processes carried out at the properties are in existence, will continue to subsist and are not subject to any onerous conditions.

### *15.6 Title, Tenure, Planning and Lettings*

The Fair Value calculation is based on the rent roll provided, the extracts from the land register as well as information from the Principal.

*Thus:*

(1) 5% of the subject properties (representing 3.3% of the Fair Value) are built on sites relating to heritable building rights. The remainder of the subject properties inclusive of their sites at 30 June 2009 is in the freehold of the Principal or its subcompanies;

(2) no circumstances which have a negative impact on Fair Values result from encumbrances and limitations in section II of the land register;

(3) we assume that the lease contracts listed in the rent roll were in existence on the date of valuation;

(4) there are no entries in the land charges register with a negative impact on Fair Values.

### *15.7 Rent Control*

According to the information provided to us by the Principal, 23.1% of the subject properties are subject to rent controls.

### *15.8 Monument Protection*

According to the information provided to us by the Principal, we assume that 9.3% of the subject properties (representing 24.1% of the Fair Value) are listed monuments.

### *15.9 Tenants*

No investigations have been carried out concerning either the status of payments of any contractually agreed rent at the date of valuation, or of the creditworthiness of any tenant(s). Since no information to the contrary has been brought to our attention, we have assumed that there are no outstanding rental payments and that there are no reservations concerning the creditworthiness of any of the tenants.

### *15.10 Taxes, Contributions, Charges*

Since no information to the contrary has been brought to our attention, we have assumed that all public taxes, contributions, charges etc. which could have an effect on value, have been levied and paid as at the date of valuation.

### *15.11 Insurance Policy*

Since no information to the contrary has been brought to our attention, we have assumed that the subject properties are covered by a valid insurance policy that is adequate both in terms of the sum assured and the types of potential loss covered.

### *15.12 Assumptions regarding the Future*

For the purpose of determining the fair value of the subject properties, we have assumed that the existing business will continue (as regards both the manner and the extent of usage of the subject properties) for the remainder of the useful life determined for the buildings, or that comparable occupants would be available to take over the use of the subject properties.

### *15.13 Pending Litigation, Legal Restrictions (Easements on Real Estate, Rent Regulation etc.)*

Since no information to the contrary has been brought to our attention, we have assumed that the properties are free from any pending litigation, that the ownership is unencumbered and that there are no other legal restrictions such as easements on real estate, rent regulations, restrictive covenants in leases or other outgoings which might adversely affect value.

## 16 Fair Value

Based upon the provided information, the specific comments and assumptions, we are of the opinion that the aggregate of the individual Fair Values of the subject properties of the portfolio (net capital value) (1,768 properties and 10 nursing homes), rounded on an asset-by-asset basis, as at 30 June 2009, is:

**2,864,873,900 EUR**

(**Two billion, eight hundred and sixty-four million,
eight hundred and seventy-three thousand, nine hundred Euro**)

The gross capital value is 3,051,378,480 EUR including 186,504,580 EUR purchaser's costs (6.5%).

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The aggregate of the individual Fair Values presented here takes account of the marketing period of the individual properties and does not reflect any discount or premium on the sale of the whole portfolio.

### 17 Market Instability

In accordance with Guidance Note 5 of the RICS Valuation Standards, we would draw your attention to the following comment regarding current market conditions.

The current crisis in the global financial system, including the failure or rescue of major banks and financial institutions, has created a significant degree of uncertainty in commercial real estate markets across the world. In this environment, it is possible that prices and values could go through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions. The lack of liquidity in the capital markets means that it may be very difficult to achieve a successful sale of these assets in the short term and we would recommend that the situation and the valuations are kept under regular review and specific marketing advice is obtained should you wish to effect a disposal.

### 18 Publication

CBRE agrees to the inclusion of the Short Report in unchanged form in the English prospectus. Apart from that neither the whole nor any part of our Short Report nor any references thereto may be included in any published document, circular statement nor published in any way without our prior written approval of the form and context in which it will appear.

### 19 Instruction

The Report was compiled as instructed for the Addressees, the Principal; Merrill Lynch International c/o Merrill Lynch International Bank Limited, Neue Mainzer Str. 52, 60311 Frankfurt/Main, Germany and UBS Limited, c/o UBS Deutschland AG, Stephanstrasse 14-16, 60313 Frankfurt/Main in relation to the capital raise, the private placement and the admission of shares at the Frankfurt stock exchange. The Short Report was prepared on the basis of contractual agreements and is subject to these. CBRE is liable for contractual demands to the Addressees of the Report only.

### 20 Confirmation of Independence

Hereby, we affirm that CBRE has carried out the Fair Value calculation to the best of our knowledge as an independent valuer, by order of Deutsche Wohnen AG and that all previous valuations for Deutsche Wohnen AG represent less than 5% of the annual turnover of the business line Valuation of CB Richard Ellis GmbH. In addition, we point out that we have no actual or potential conflict of interest that could have influenced CBRE's independence. This statement refers as well to all other business lines of CB Richard Ellis GmbH, including the business lines Investement and Agency.

Yours faithfully

**Dr. Henrik Baumunk**

Managing Director
Head of Residential Valuation Germany

For and on behalf of
CB Richard Ellis GmbH

Yours faithfully

**Simon Ritsch *MRICS***

Managing Director
Head of International Valuation Germany

For and on behalf of
CB Richard Ellis GmbH

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# Financial Information

*The following English-language unaudited condensed group interim financial statements (F-2—F-11) and consolidated financial statements (F-12—F-60, F-62—F-114, F-116—F-158 and F-161—F-191), as well as annual financial statements (F-192—F-204) are translations of the German-language unaudited condensed group interim financial statements and consolidated financial statements as well as annual financial statements.*

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# UNAUDITED CONDENSED GROUP INTERIM FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2009 (IFRS)

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2009

| | 30/06/2009 | 31/12/2008 |
|---|---|---|
| | k EUR | k EUR |
| **Assets** | | |
| Investment property | 2,888,911 | 2,900,673 |
| Property, plant and equipment | 17,168 | 17,745 |
| Intangible assets | 4,220 | 4,652 |
| Other noncurrent assets | 156 | 198 |
| Investments in affiliated companies | 245 | 495 |
| Deferred tax assets | 96,598 | 92,559 |
| **Noncurrent assets** | **3,007,298** | **3,016,322** |
| Land and buildings held for sale | 19,166 | 19,355 |
| Other inventories | 2,012 | 1,908 |
| Trade receivables | 12,905 | 21,202 |
| Receivables from income taxes | 2,653 | 5,479 |
| Other assets | 3,384 | 2,796 |
| Cash and cash equivalents | 19,545 | 41,974 |
| **Subtotal current assets** | **59,665** | **92,714** |
| Noncurrent assets held for sale | 18,132 | 17,696 |
| **Current assets** | **77,797** | **110,410** |
| **Total assets** | **3,085,095** | **3,126,732** |

| | 30/06/2009 | 31/12/2008 |
|---|---|---|
| | k EUR | k EUR |
| **Equity and liabilities** | | |
| Equity attributable to equity holders of the parent | | |
| Subscribed capital | 26,400 | 26,400 |
| Share premium | 269,677 | 269,677 |
| Accumulated consolidated earnings | 339,125 | 352,913 |
| **Total** | **635,203** | **648,990** |
| Minority interests | 302 | 302 |
| **Total equity** | **635,505** | **649,292** |
| Noncurrent financial liabilities | 1,811,110 | 1,991,077 |
| Convertible bonds | 25,998 | 25,430 |
| Pension obligations | 39,259 | 39,300 |
| Liabilities to Fund limited partners | 40,314 | 48,006 |
| Tax liabilities | 63,227 | 60,652 |
| Derivative financial instruments | 36,201 | 32,570 |
| Other provisions | 12,401 | 12,506 |
| Deferred tax liabilities | 76,065 | 71,660 |
| **Total noncurrent liabilities** | **2,104,575** | **2,281,200** |
| Current financial liabilities | 228,782 | 98,096 |
| Trade payables | 29,409 | 22,800 |
| Other provisions | 8,900 | 10,296 |
| Liabilities to Fund limited partners | 7,434 | 0 |
| Derivative financial instruments | 30,078 | 16,779 |
| Tax liabilities | 19,399 | 21,629 |
| Other liabilities | 21,015 | 26,640 |
| **Total current liabilities** | **345,016** | **196,240** |
| **Total equity and liabilities** | **3,085,095** | **3,126,732** |

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2009

| | H1 / 2009 | H1 / 2008 | Q2 / 2009 | Q2 / 2008 |
|---|---|---|---|---|
| | k EUR | k EUR | k EUR | k EUR |
| **Revenues** | **147,361** | **149,435** | **76,161** | **77,268** |
| Result from sales* | | | | |
| Sales proceeds | 18,715 | 22,282 | 13,167 | 14,688 |
| Carrying amounts of assets sold | −14,153 | −15,560 | −10,034 | −9,828 |
| Total | 4,562 | 6,722 | 3,134 | 4,860 |
| Other operating income | 3,298 | 5,440 | 1,300 | 2,372 |
| **Total income** | **155,221** | **161,597** | **80,595** | **84,500** |
| Costs of purchased services | −57,987 | −60,627 | −31,802 | −35,202 |
| Personnel expenses | −19,037 | −22,591 | −9,354 | −11,145 |
| Other operating expenses | −10,919 | −13,410 | −5,142 | −5,405 |
| Restructuring and reorganisation expenses | −5,387 | −16,790 | −1,221 | −15,521 |
| **Total expenses** | **−93,330** | **−113,418** | **−47,519** | **−67,273** |
| **Interim result** | **61,891** | **48,179** | **33,076** | **17,227** |
| Result from the fair value adjustment of investment property** | 0 | 496 | 0 | 17 |
| Depreciation | −1,410 | −803 | −914 | −434 |
| **Earnings before interest and taxes (EBIT)** | **60,481** | **47,872** | **32,162** | **16,810** |
| Financial income | 371 | 775 | 93 | 510 |
| Result from the fair value measurement of derivative financial instruments | −456 | 25,884 | −456 | 49,853 |
| Financial expenses | −56,255 | −62,261 | −28,346 | −31,505 |
| **Earnings before taxes** | **4,140** | **12,270** | **3,453** | **35,668** |
| Income taxes | −6,533 | −11,486 | −3,621 | −12,075 |
| Result from continuing operations | −2,392 | 784 | −169 | −23,593 |
| Result from discontinued operations | 0 | −329 | 0 | −472 |
| **Result for the period** | **−2,392** | **455** | **−169** | **23,121** |
| Attributable to: | | | | |
| Equity holders of the parent | −2,392 | 455 | −169 | 23,121 |
| Minority interests | 0 | 0 | 0 | 0 |
| **Total** | **−2,392** | **455** | **−169** | **23,121** |
| **Earnings per share** | | | | |
| basic | −0.09 | 0.02 | −0.01 | 0.88 |
| diluted | −0.09 | 0.04 | −0.01 | 0.87 |

* *The result from sales has until now been designated as result from the privatisation business.*

** *Compared with the unaudited Group interim financial statements of Deutsche Wohnen AG as of June 30, 2008, the result from the fair value adjustment of the investment property is reported in the unaudited condensed Group interim financial statements of Deutsche Wohnen AG as of June 30, 2009 after the interim result and no longer in the total income. In the unaudited Group interim financial statements as of June 30, 2008, the statement of the total income amounts to EUR k 162,093 and of the interim result to EUR k 48,675.*

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS OF JANUARY 1 TO JUNE 30, 2009

| | H1 / 2009 | H1 / 2008 | Q2 / 2009 | Q2 / 2008 |
|---|---|---|---|---|
| | k EUR | k EUR | k EUR | k EUR |
| **Result for the period** | **−2,392** | **455** | **−169** | **23,121** |
| Unrealised losses from derivative financial instruments (after deduction of deferred taxes) | −11,393 | 0 | 11,307 | 0 |
| **Result for the period** | **−13,785** | **455** | **11,138** | **23,121** |
| Attributable to: | | | | |
| Equity holders of the parent | −13,785 | 455 | 11,138 | 23,121 |
| Minority interests | 0 | 0 | 0 | 0 |

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## GROUP CASH FLOW STATEMENT FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2009

| | H1 / 2009 | H1 / 2008 |
|---|---|---|
| | k EUR | k EUR |
| **Operating activities** | | |
| Result for the period | −2,392 | 455 |
| Financial income | −371 | −775 |
| Financial expenses | 56,255 | 62,261 |
| Income taxes | 6,533 | 11,486 |
| **Result for the period before interest and taxes** | **60,025** | **73,427** |
| Non-cash expenses / earnings | | |
| Fair value adjustment of investment property | 0 | −496 |
| Depreciation | 1,410 | 1,775 |
| Adjustment of interest rate swaps | 456 | −26,072 |
| Other non-cash expenses / earnings | −7,402 | 603 |
| Changes in the net working capital | | |
| Changes in receivables, inventories, and other current assets | 8,607 | 3,676 |
| Changes in operating liabilities | 1,035 | −6,211 |
| **Operating cash flow** | **64,131** | **46,702** |
| Interest paid | −46,670 | −46,731 |
| Interest received | 371 | 802 |
| Taxes paid | −2,212 | 0 |
| **Cash flow from operating activities** | **15,620** | **773** |
| **Investing activities** | | |
| Proceeds from sales | 20,463 | 26,522 |
| Payments for investments | −2,753 | −13,170 |
| Payments made in connection with DB 14 | −1,323 | −170 |
| **Cash flow from investing activities** | **16,387** | **13,182** |
| **Financing activities** | | |
| Proceeds from borrowings | 29,584 | 19,437 |
| Payments made for the redemption of loans | −84,018 | −39,446 |
| **Cash flow from financing activities** | **−54,434** | **−20,009** |
| **Net changes in cash and cash equivalents** | **−22,428** | **−6,054** |
| **Cash at the start of the period** | **41,974** | **47,874** |
| **Cash at the end of the period** | **19,547** | **41,820** |

Unaudited Condensed Group Interim Financial Statements

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF JUNE 30, 2009

| | | | Accumulated consolidated result | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Share premium | Pensions | Cash flow hedge reserve | Other reserves | Subtotal | Minority interests | Equity |
| | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR |
| **Equity as of January 1, 2008** | **26,400** | **349,521** | **1,894** | **0** | **558,008** | **935,823** | **302** | **936,125** |
| Result for the period | | | | | 455 | 455 | | 455 |
| **Equity as of June 30, 2008** | **26,400** | **349,521** | **1,894** | **0** | **558,462** | **936,278** | **302** | **936,580** |
| **Equity as of January 1, 2009** | **26,400** | **269,677** | **2,215** | **−31,250** | **381,947** | **648,989** | **302** | **649,291** |
| Result for the period | | | | | −2,392 | −2,392 | | −2,392 |
| Unrealised losses | | | | −16,474 | | −16,474 | | −16,474 |
| Deferred taxes on unrealised losses | | | | 5,081 | | 5,081 | | 5,081 |
| **Result for the period** | | | | **−11,393** | **−2,392** | **−13,785** | **0** | **−13,785** |
| **Equity as of June 30, 2009** | **26,400** | **269,677** | **2,215** | **−42,643** | **379,555** | **635,204** | **302** | **635,506** |

## NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

### *I. General Information*

Deutsche Wohnen AG is the parent of the entire Deutsche Wohnen Group. In the holding, Group-wide issues such as company strategy, portfolio management, personnel, investor relations/business communication, and planning/control are managed. The operations of the subsidiaries focus on rental business and the sale of the property which is mainly located in Berlin and in the Rhein-Main region. According to their own valuation, Deutsche Wohnen is the second largest listed real estate company in Germany by market capitalisation.

The consolidated financial statements have been prepared in EUR. Unless otherwise stated, all figures are rounded to thousand (k EUR) or million (EUR m). Slight mathematical rounding differences may be reflected in the tables and references.

### *II. Fundamentals and Methods of the Consolidated Annual Financial Statements*

The condensed Group interim financial statements for the period from January 1 to June 30, 2009 were prepared in accordance with IAS 34 Interim Reporting, as it is to be applied in the EU. The Group interim financial statements were released for publication on August 27, 2009.

These interim financial statements do not contain all information and statements required for consolidated annual financial statements and are therefore to be read in conjunction with the consolidated annual financial statements as of December 31, 2008.

The consolidated 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.

The consolidated financial statements comprise the financial statements of Deutsche Wohnen AG and its subsidiaries as of June 30, 2009. The financial statements of the consolidated companies are prepared according to uniform accounting and valuation principles at the same balance sheet date as is used for the preparation of the financial statements of the parent.

In the preparation of the consolidated financial statements, discretionary judgements, 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 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.

The business activity of the Deutsche Wohnen Group is essentially free of seasonal or economic influences.

### *III. Changes in the Consolidated Companies*

There were no changes in the scope of consolidation.

### *IV. Changes in Accounting Policies*

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

In the first quarter of 2009, the new standards and interpretations to be applied that are mandatory for financial years beginning after January 1, 2009 were applied completely. The application of the standards led to adjustments of the elements of the Group's interim financial statements (especially of the consolidated balance sheet, the Group profit and loss statement, and the Group's statement of income and accumulated earnings). The previous year's comparison values were adjusted accordingly. In the context of the initial application of the regulations of IFRS 8 regarding segment reporting, no changes of the business segments reported by the Deutsche Wohnen Group resulted. In the segment reporting, the housing privatisation segment was renamed sales. Furthermore, the definition of the segment result and the segment revenue in the sale segment were adjusted.

In April 2009, IASB published a further omnibus standard regarding the changes of different IFRS. The collection of standards has the primary goal of eliminating inconsistencies and of clarifying formulations. Separate transition regulations exist for every standard. The Deutsche Wohnen Group expects no essential changes from the initial application.

## *V. Selected Notes on the Consolidated Balance Sheet*

The assets of the Deutsche Wohnen Group comprise of 93% of the investment property. The reduction compared to December 31, 2008 is essentially due to sales. To ensure the plausibility of the real estate valuation (determination of the current market value) undertaken by the Deutsche Wohnen Group, an external expert was commissioned with the independent valuation of the property portfolio. In the context of his calculations, the external expert determined a valuation for the real estate assets of the Deutsche Wohnen Group which deviated from the internally determined property value by altogether approx. 0.02%. The amount of the deviation per single property amounted to a valuation corridor of +/−10% of the internally determined property value. Altogether the valuation for the property amounted according to internal valuation to EUR 2,880.3 million and according to external valuation to EUR 2,879.6 million. The individual valuation of property clusters leads to almost identical valuation amounts calculated internally and externally.

The tangible assets consist essentially of technical facilities and operational and office equipment.

Derivative financial instruments consist of interest rate swaps measured at fair value. These were not acquired for speculation purposes, but exclusively in order to minimize the risks of interest rate changes and thus cash flow risks of variable rate loans. Due to a further reduction of the interest rate, the negative market value increased from EUR 49.3 million to EUR 66.3 million as of the end of the year. In the course of the financial year 2008, Deutsche Wohnen met the requirements of the Hedge Accounting regulations of IAS 39 with regard to the accounting of hedging instruments entered to hedge loans with a variable interest rate against cash flow risks. Accordingly, the current market values of the interest rate swaps in the Group interim financial statements as of June 30, 2009 were reported in part as noncurrent liabilities and in part as current liabilities under the item "Derivative financial instruments". On the other hand, the interest rate swaps as of June 30, 2008 are reported exclusively as current liabilities, since at this time the requirements for Hedge Accounting had not yet been fulfilled. The changed statement does not represent a change of the accounting methods, but rather results on basis of the now existing documentation of hedging correlations between underlying transactions (variably interest-bearing loans) and hedging instruments (interest rate swaps). In addition to the balance sheet change, a change occurred in the handling of the market value adjustment of the interest rate swaps. As far as the hedge is effective, the market value adjustments are reported in the equity and not recognised in the Group's profit and loss statement. In the Group interim financial statements as of June 30, 2009, losses amounting to EUR 16.5 million (before taking deferred taxes into account) were reported in the equity and EUR 0.5 million were reported in the Group profit and loss statement due to market value adjustment for the six month period ending on June 30, 2009, while in the six month period ending on June 30, 2008, earnings from the market value adjustment of derivative financial instruments were reported in the Groups profit and loss statement.

The development of the equity can be seen in the statement of changes in shareholders' equity on page 20.

The financial liabilities decreased in comparison with December 31, 2008 essentially due to redemptions. In the first six months, total loans in the amount of EUR 84 million were repaid. This was offset by new loan extensions in the amount of EUR 29.6 million. The increase of the current financial liabilities is due, among other things, to the unscheduled repayment in connection with the planned increase in capital. These payments are under the condition that the increase in capital will take place and depend additionally on the actual amount of realized issue proceeds.

The liability component of the convertible bond issued as part of the purchase price of the GEHAG Group is reported in the balance sheet as Convertible bond. The change is due to accrued interest for the first six months.

The accrued taxes essentially take into account the payment obligation for EK 02.

## *VI. Selected Notes on the Consolidated Profit and Loss Statement*

Revenues comprise the following:

| | H1/2009 | H1/2008 |
|---|---|---|
| | EUR m | EUR m |
| Residential property management | 130.7 | 131.6 |
| Nursing and residential care homes | 16.4 | 15.0 |
| Miscellaneous | 0.3 | 2.8 |
| **Total** | **147.4** | **149.4** |

Costs of purchased services essentially affect expenses for residential property management (EUR 53.6 million, same period of the previous year EUR 56.1 million).

The reduction of personnel expenses from EUR 22.6 million to EUR 19 million is essentially due to the restructuring in 2008. Apart from this, EUR 8.7 million (previous year EUR 8.2 million) account for the care division.

The restructuring and reorganization costs include primarily compensations and continued payments of wages (EUR 3.4 million, previous year EUR 13 million) for further job reductions and reorganisation expenses (EUR 2 million; same period last year: EUR 3.7 million).

The financial expenses are composed as follows:

| | H1/2009 | H1/2008 |
|---|---|---|
| | EUR m | EUR m |
| Current interest | 48.8 | 54.7 |
| Accrued interest on liabilities and pensions | 7.5 | 7.5 |
| **Total** | **56.3** | **62.2** |

The result from discontinued operations includes the result of the AKF Group as of June 30, 2008.

## *VII. Cash Flow Statement Disclosures*

The financial resource fund consists of the cash balance and the bank balance. In addition, we have credit lines at banks in the amount of EUR 65 million at our disposal.

## *VIII. Segment Reporting Disclosures*

In the first quarter of 2009, the regulations of the IFRS 8 were applied for the first time for the segment reporting. Compared to the previous periods, the segment result was adjusted on the basis of the internal reporting of the Deutsche Wohnen Group. Thus, from now on, there are no more income tax expenses reported in the segment result. The adjustment of the segment result was made in order to bring it in line with the controlling of the Deutsche Wohnen Group, which is performed on a before tax basis for the corresponding segments.

The following table shows the segment income and the segment result for the Deutsche Wohnen Group:

| | External revenues | | Segment result (EBIT*) | |
|---|---|---|---|---|
| | H1 / 2009 | H1 / 2008 | H1 / 2009 | H1 / 2008 |
| | EUR m | EUR m | EUR m | EUR m |
| Residential property management | 130.7 | 131.6 | 77.3 | 75.5 |
| Sales | 18.7 | 22.3 | 2.5 | 4.8 |
| Services | 16.4 | 15.0 | 4.5 | 3.9 |
| Others and Group function | 0.3 | 2.8 | −17.0 | −19.1 |
| Reconciliation | 0.0 | 0.0 | −1.4 | −0.7 |
| **Group** | **166.1** | **171.7** | **65.9** | **64.4** |
| Reconciliation to earnings before taxes | | | | |
| Restructuring and reorganisation expenses | | | −5.4 | −16.8 |
| Result from discontinued operations | | | 0.0 | 0.3 |
| **Earnings before interest and taxes** | | | **60.5** | **47.9** |
| Financial result and result from the fair value measurement of derivative financial instruments | | | −56.3 | −35.6 |
| **Earnings before taxes** | | | **4.2** | **12.3** |

* *adjusted for restructuring and reorganisation expenses*

## *IX. Other Disclosures*

### *Related companies and individuals*

No changes occurred in the related companies / individuals in comparison with the information as of December 31, 2008.

### *Management and Supervisory Board*

No changes occurred in the management and supervisory board compared to the information as of December 31, 2008.

### *Events after the balance sheet date*

It was concluded on the extraordinary general meeting on August 7, 2009 to raise the share capital by up to EUR 250 million against cash contributions by issuing of new shares.

### *Risk Report*

Concerning the risks of the future business development, we refer to the statements made in the risk report of the consolidated annual financial statements as of December 31, 2008. Due to the current financial crisis, we would like to especially point out the following: The risks resulting from the refinancing of loans are at present largely limited in the Deutsche Wohnen Group by a predominant share in noncurrent loans. In the next three years, our refinancing volume only amounts to EUR 150 million. Nevertheless, due to the more restrictive lending practice as a consequence of the financial crisis, future problems concerning entering and extending borrowings can not be ruled out.

The value of our real estate assets was assessed and confirmed as of June 30, 2009 by means of an independent expert.

Frankfurt / Main, August 2009

**The Management Board**

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG FOR THE YEAR ENDED DECEMBER 31, 2008 (IFRS)

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | k EUR | k EUR |
| **ASSETS** | | | |
| Investment property | D.1 | 2,900,673 | 3,271,205 |
| Property, plant and equipment | D.2 | 17,745 | 27,948 |
| Intangible assets | D.3 | 4,652 | 370 |
| Other noncurrent assets | | 198 | 168 |
| Investments in affiliated companies | D.4 | 495 | 435 |
| Deferred tax assets | D.16 | 92,559 | 86,614 |
| **Noncurrent 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 |
| Receivables from income taxes | | 5,479 | 2,879 |
| Other assets | | 2,796 | 3,907 |
| Cash and cash equivalents | D.8 | 41,974 | 47,874 |
| **Subtotal current assets** | | **92,714** | **129,065** |
| Noncurrent assets held for sale | C.10 | 17,696 | 4,597 |
| **Current assets** | | **110,410** | **133,662** |
| **Total Assets** | | **3,126,732** | **3,520,402** |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to equity holders of the parent company | | | |
| Subscribed capital | D.9 | 26,400 | 26,400 |
| Share premium | D.9 | 269,677 | 349,521 |
| Accumulated consolidated earnings | D.9 | 352,913 | 559,902 |
| | | **648,990** | **935,823** |
| Minority interests | | 302 | 302 |
| **Total equity** | | **649,292** | **936,125** |
| Noncurrent 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 to Fund limited 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 noncurrent liabilities** | | **2,297,979** | **2,361,955** |
| Current financial liabilities | D.10 | 98,096 | 145,468 |
| Trade payables | | 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 equity and liabilities** | | **3,126,732** | **3,520,402** |

## 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 |
| **Revenues** | E.18 | **315,512** | **204,354** |
| Result from property privatisation | | | |
| Sales proceeds | | 119,710 | 58,501 |
| Carrying amounts of assets sold | | −102,301 | −53,215 |
| | | **17,409** | **5,285** |
| Other operating income | | 11,423 | 6,291 |
| Profit from business combination | | 0 | 64,099 |
| **Total income** | | **344,344** | **280,030*** |
| Costs of purchased services | 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 reorganisation expenses | E.22 | −24,092 | −9,989 |
| Expenses relating to the listing prospectus | E.23 | 0 | −1,810 |
| **Total expenses** | | **−237,940** | **−167,710** |
| **Interim result** | | **106,404** | **112,320*** |
| Result from fair value adjustment of investment property | D.1 | −276,528 | 30,948* |
| Depreciation | 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 from the fair value measurements 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 operations | | −272,326 | 29,786 |
| Result of discontinued operations | | 16,421 | 0 |
| **Result for the period** | | **−255,905** | **29,786** |
| Attributable to: | | | |
| Equity holders of the parent company | | −255,905 | 29,786 |
| Minority interests | | 0 | 0 |
| | | **−255,905** | **29,786** |
| **Earnings per Share** | | | |
| basic | | −9,69 | 1,32 |
| diluted | | −9,45 | 1,32 |

* *In comparison to the previous year, the result from the fair value adjustments of the investment property is reported after the interim result and no longer in the total income. The marked items have therefore changed; originally they reported the following values: total income k EUR 310,978, interim result k EUR 143,268.*

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## GROUP CASH FLOW STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2008

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | k EUR | k EUR |
| **Operating activities** | | | |
| Result for the period before tax and interest from divisions to be continued | | −204,056 | 133,751 |
| Result for the period after tax from discontinued operation | | 16,421 | 0 |
| Non-cash expenses / earnings | | | |
| Non-cash earnings from business combination | | 0 | −64,099 |
| Fair Value adjustment of investment property | D.1 | 276,528 | −30,948 |
| Depreciation | | 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 other current assets | | −5,248 | 45,099 |
| Changes in 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 activities** | | **−10,342** | **−10,479** |
| **Investing activities** | | | |
| 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 investing activities** | | **88,759** | **−299,007** |
| **Financing activities** | | | |
| Proceeds from borrowings | | 82,032 | 380,989 |
| Redemption of loans | | −166,348 | −39,545 |
| Payout to shareholders | | 0 | −17,600 |
| **Cash flow from financing activities** | | **−84,316** | **323,844** |
| **Net changes of cash and cash equivalents** | | **−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** |

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2008

| | Shares | Subscribed capital | Share premium | Accumulated consolidated result | Total | Minority interests | Equity |
|---|---|---|---|---|---|---|---|
| | k each | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR |
| Notes | D.9 | D.9 | D.9 | D.9 | | B | |
| **Equity as of December 31, 2006** | **20,000** | **20,000** | **170,755** | **545,666** | **736,421** | **0** | **736,421** |
| Results recognised 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** | | **0** | **0** | | **31,836** | **0** | **31,836** |
| Issuance of 6,400,000 shares in connection with the GEHAG transaction | 6,400 | 6,400 | 177,664 | 0 | 184,064 | | 184,064 |
| Equity part of the convertible bonds issued in connection with the GEHAG transaction | | | 1,102 | 0 | 1,102 | | 1,102 |
| Acquisition of minority interests through company acquisitions | | | | | | 302 | 302 |
| Dividends | | | | −17,600 | −17,600 | | −17,600 |
| **Equity as of December 31, 2007** | **26,400** | **26,400** | **349,521** | **559,902** | **935,823** | **302** | **936,125** |
| Results recognised 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** | | **0** | **0** | **−286,834** | **−286,834** | **0** | **−286,834** |
| Share premium draw down | | | −79,844 | 79,844 | 0 | | 0 |
| **Equity as of December 31, 2008** | **26,400** | **26,400** | **269,677** | **352,912** | **648,989** | **302** | **649,292** |

**Annex to the Statement of changes in equity**

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2008

| | k EUR | k EUR |
|---|---|---|
| **Result included directly in equity December 31, 2006 (after tax)** | | **−156** |
| Net result from actuarial profits and losses | | 2,050 |
| **Result included directly in equity December 31, 2007 (after tax)** | | **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 (after tax)** | | **−29,035** |

# Notes to the Consolidated Financial Statements

## FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2008

## A GENERAL INFORMATION ON THE CONSOLIDATED 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 represent the 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 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 have not been obligatory to apply in the financial year 2008 yet. 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 they 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 is mandatory regarding these financial instruments.

- 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 shall account for revenues 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 revenues are 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 combinations

(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 combinations 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 does 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 would lead in future 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 conditions — 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, vacancy 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 out-flows 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 held.

*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 non-current 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 (variable 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 over control. Consolidation 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 sold. 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 sold. Only insignificant cash flows were earned from the discontinued operation.

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** |
| Incidental acquisition costs | 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 |
| Incidental acquisition costs | 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 business combination 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. Consolidation 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 negative 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 held 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 to 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 recognise the transferred asset within the scope of its ongoing commitment.

### *8 Inventories*

(78) Inventories include land held for sale with finished and unfinished buildings, construction 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 consolidated 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 in 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 over-funding 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 consideration of deferred taxes is based on 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 investments 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 business combination 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 investments 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 liabilities 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

### Noncurrent 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 |
| Reclassifications | −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 $m^2$ 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 $m^2$ 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 $m^2$ 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 consolidation group | −12,824 | 25,773 |
| Additions | 2,695 | 4,752 |

| | 12/31/2008 | 12/31/2007 |
|---|---|---|
| | k EUR | k EUR |
| Disposals | −466 | −4,635 |
| Reclassifications | 2,834 | −2,147 |
| **End of period** | **24,166** | **31,927** |
| **Accumulated depreciation** | | |
| Start of period | 3,979 | 4,286 |
| Changes in the consolidation group | 974 | 0 |
| Additions | 1,560 | 1,514 |
| Disposals | −92 | −1,529 |
| Reclassifications | 0 | −292 |
| **End of period** | **6,421** | **3,979** |
| **Net book value** | **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 consolidation group | −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** |
| **Net book value** | **4,652** | **370** |

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

## 4 Investments in affiliated companies

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

| | 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 net 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 basically 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 | | | |
|---|---|---|---|---|---|
| | | less than 30 days | between 30 and 60 days | between 61 and 90 days | more than 91 days |
| | k EUR | k EUR | k EUR | k EUR | k EUR |
| 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 | Strike | From | Maturity | 12/31/2008 | 12/31/2007 |
|---|---|---|---|---|---|
| k EUR | | | | 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 approval 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 approval 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 I).

(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 authorised 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 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) Share premium*

(149) The creation of the share premium 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 share premium. As of the balance sheet date, the reserve amounts to EUR 269.7 million (previous year: EUR 349.5 million).

### *c) Accumulated consolidated earnings*

(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 share premium 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 |
| thereof noncurrent | 1,991,077 | 2,034,087 |
| thereof 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 | Remaining Balance 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 roll-over 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 issued convertible bonds were 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 obligations

(168) The company's occupational pension scheme consists of defined benefit and defined 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 period of employment 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 consolidation group | −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 Other 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 consolidation group | | | | |
| Utilisation | −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 |
| noncurrent | 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 German Federal State 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 employees in leave of absence.

## 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 |
| 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 |
| Recognised directly in equity as change | 13,919 | | −883 |
| Recognised 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 property, 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 nature of expense method. 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 is 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 |
| Vacancy income shortfall | −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 Employees | 2007 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 employees in leave of absence or terminated 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 listing prospectus

(195) The expenses relating to the listing 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 |
| Current 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 depends 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).

A reconciliation of the tax expense / income is shown 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 at arm's length.

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

(212) The reconciliation 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 out-flows 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 |
| Shares issued, end of period | 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 |
|---|---|---|
| | EUR | EUR |
| Earnings per share | | |
| 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 a qualified and timely manner in accordance with the risk management guidelines established by management. The risk management guidelines establish the roles and responsibilities, set the basic principles of the RMS, and define the framework for the 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 | Amortised cost | Fair Value recognised 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 |

| | Balance sheet valuation in accordance with IAS 39 | | | | |
|---|---|---|---|---|---|
| | Valuation category in accordance with IAS 39 | Book value 12/31/2008 | Amortised cost | Fair Value recognised in the income statement | Fair Value 12/31/2008 |
| | | k EUR | k EUR | k EUR | k EUR |
| 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 recognised at fair value in the income statement | | 0 | | | |
| (3) Liabilities recognised at amortised 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 | Amortised cost | Fair Value recognised 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 recognised at fair value in the income statement | | 32,231 | | | |
| (3) Liabilities recognised at amortised cost | | 2,300,396 | | | |
| (4) Liabilities recognised 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.*

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

| 2007 | Interest | Value adjustment | Fair Value | Net loss |
|---|---|---|---|---|
| | k EUR | k EUR | k EUR | k EUR |
| Loans and receivables | | 2,029 | | 2,029 |
| Assets recognised at fair value in the income statement | | | 4,041 | 4,041 |
| Liabilities recognised at amortised cost | 69,178 | | | 69,178 |
| Liabilities recognised 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 maximise 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 |
| Noncurrent 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 263 (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.

- **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 of § 125 par. 1 s. 3 of the German Companies 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 of § 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 organisation 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 |

| Name | Tenure | Profession | Memberships in supervisory boards and other supervisory committees in the sense of § 125 par. 1 s. 3 of the German Stock Corporation Act (AktG) |
|---|---|---|---|
| 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 Management Board and the Supervisory Board*

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

| 2008 | Fixed remuneration | Variable remuneration | Severance payments | Total |
|---|---|---|---|---|
| | 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 |

| 2007 | Fixed remuneration | Variable remuneration | Severance payments | Total |
|---|---|---|---|---|
| | 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 |

(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 June 17, 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.

### *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 Companies Act (AktG), which has been made permanently available to shareholders online under www.deutsche-wohnen.com.

Frankfurt / Main, March 13, 2009

| | |
|---|---|
| Michael Zahn<br>Chairman of the<br>Management Board | Helmut Ullrich<br>Chief Financial Officer |

**Annex 1 to the Notes to the Consolidated Financial Statements**

**Deutsche Wohnen AG, Frankfurt / Main Share ownership as of December 31, 2008**

| No. | Name and registered office | Share of capital % | Equity* k EUR | Result* k EUR |
|---|---|---|---|---|
| 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 Vertriebs 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 |
| 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. | Rhein-Main Wohnen GmbH, Frankfurt / Main | 100.00 | 180,305.0 | 0.0 |
| 32. | Rhein-Mosel Wohnen GmbH, Mainz | 100.00 | 97,916.1 | 4,287.4 |
| 33. | Rhein-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 | n / a | n / a |

* *Based on HGB's financial statement*

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

| | Residential property management | | Privatisation | | Services | |
|---|---|---|---|---|---|---|
| | 12/31/2008 | 12/31/2007 | 12/31/2008 | 12/31/2007 | 12/31/2008 | 12/31/2007 |
| | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR |
| Segment revenue from third parties | 277,351 | 180,784 | | | 33,117 | 19,105 |
| Revenue from privatisation | | | 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 |

**Annex 2 to the Notes to the Consolidated Financial Statements**

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

| | Other and Group Function | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|
| | 12/31/2008 | 12/31/2007 | 12/31/2008 | 12/31/2007 | 12/31/2008 | 12/31/2007 |
| | k EUR | k EUR | k EUR | k EUR | k EUR | k EUR |
| Segment revenue from third parties | 5,044 | 4,465 | | | 315,512 | 204,354 |
| Revenue from privatisation | | | | | 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 |

*The following auditor's opinion is a translation of the German-language auditor's opinion (Bestätigungsvermerk), which refers to the consolidated financial statements of Deutsche Wohnen AG prepared on the basis of International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] as well as the combined management report of Deutsche Wohnen AG and Deutsche Wohnen Group prepared on the basis of German commercial law (HGB) for the fiscal year ended December 31, 2008 as a whole and not solely to the consolidated financial statements presented in this offering circular on the preceding pages.*

# AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Deutsche Wohnen AG, Frankfurt/Main, Germany, comprising the consolidated balance sheet as of 31 December 2008, the consolidated profit and loss statement, the consolidated statement of changes in equity, the group cash flow statement for the year then ended and the notes to the consolidated financial statements, and the group management report which has been combined with the management report of the company for the fiscal year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the German Commercial Code [HGB], are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report which has been combined with the management report of the company are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Dec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report which has been combined with the management report of the company is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt/Main, March 13, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

| Völker<br>Wirtschaftsprüfer<br>[German Public Auditor] | Glöckner<br>Wirtschaftsprüfer<br>[German Public Auditor] |
|---|---|

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

## FOR THE YEAR ENDED DECEMBER 31, 2007 (IFRS)

## DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

| | notes | 2007<br>in EUR thousands | 2006 (adjusted)<br>in EUR thousands |
|---|---|---|---|
| Assets | | | |
| Investment property | D.1 | 3,271,205 | 1,341,596 |
| Property, plant and equipment | D.2 | 27,948 | 3,898 |
| Intangible assets | D.3 | 370 | 189 |
| Other noncurrent assets | | 168 | 318 |
| Investments in affiliated companies | D.4 | 435 | 0 |
| Deferred tax assets | D.16 | 86,614 | 38,559 |
| Noncurrent assets | | 3,386,740 | 1,384,560 |
| Land and buildings held for sale | D.5 | 21,887 | 8,388 |
| Other inventories | | 1,725 | 366 |
| Trade receivables | D.6 | 18,562 | 52,459 |
| Derivative financial instruments | D.7 | 32,231 | 0 |
| Current tax receivables | | 2,879 | 1,652 |
| Other current assets | | 3,907 | 1,596 |
| Cash and cash equivalents | D.8 | 47,874 | 33,516 |
| Subtotal current assets | | 129,065 | 97,977 |
| Noncurrent assets held for sale | D.10 | 4,597 | 3,340 |
| Current assets | | 133,662 | 101,317 |
| Total assets | | 3,520,402 | 1,485,877 |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the parent | | | |
| Subscribed capital | D.9 | 26,400 | 20,000 |
| Share premium | D.9 | 349,521 | 170,754 |
| Accumulated consolidated result | D.9 | 559,902 | 545,666 |
| | | 935,823 | 736,420 |
| Minority interests | | 302 | 0 |
| Total equity | | 936,125 | 736,420 |
| Noncurrent financial liabilities | D.10 | 2,034,087 | 562,186 |
| Convertible bonds | D.11 | 24,339 | 0 |
| Pension obligations | D.12 | 41,562 | 5,084 |
| Liabilities to Fund limited partners | D.13 | 46,631 | 49,783 |
| Noncurrent tax liabilities | D.15 | 68,126 | 0 |
| Other noncurrent liabilities | | 0 | 255 |
| Other provisions | D.14 | 11,375 | 219 |
| Deferred tax liabilities | D.16 | 135,835 | 79,669 |
| Total noncurrent liabilities | | 2,361,955 | 697,196 |
| Current financial liabilities | D.10 | 145,468 | 11,504 |
| Trade payables | | 25,420 | 10,618 |
| Other provisions | D.14 | 9,440 | 599 |
| Derivative financial instruments | D.7 | 3,804 | 55 |
| Current tax liabilities | D.15 | 13,739 | 4,184 |
| Other current liabilities | | 24,451 | 25,301 |
| Total current liabilities | | 222,322 | 52,261 |
| Total equity and liabilities | | 3,520,402 | 1,485,877 |

## DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN

## CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE FISCAL YEAR 2007

| | notes | 2007<br>in EUR thousands | Short fiscal year 07/01/ 12/31/2006 (adjusted)<br>in EUR thousands |
|---|---|---|---|
| Revenues | E.18 | 204,354 | 62,085 |
| Profit from housing privatization | | | |
| Sales proceeds | | 58,501 | 78,474 |
| Carrying amounts of assets sold | | −53,216 | −70,338 |
| | | 5,285 | 8,136 |
| Other operating income | | 6,291 | 1,868 |
| Income from business combination | B.1 | 64,099 | 0 |
| Profit from fair value adjustment of investment property | D.1 | 30,948 | 12,941 |
| Total income | | 310,978 | 85,030 |
| Cost of purchased services | E.19 | −96,914 | −28,746 |
| Personnel expenses | E.20 | −31,729 | −8,354 |
| Other operating expenses | E.21 | −27,268 | −11,784 |
| Restructuring and reorganization expenses | E.22 | −9,989 | 0 |
| Expenses related to the listing prospectus | E.23 | −1,810 | 0 |
| Total expenses | | −167,710 | −48,884 |
| Interim result | | 143,268 | 36.146 |
| Depreciations | | −1,689 | −249 |
| Profit from affiliated companies | D.4 | 18 | 0 |
| Earnings before interest and taxes (EBIT) | | 141,597 | 35,897 |
| Financial income | | 4,736 | 733 |
| Financial expenses | E.24 | −80,584 | −16,293 |
| Profit before taxes | | 65,749 | 20,337 |
| Income taxes | E.25 | −35,963 | −9,412 |
| Result for the period | | 29,786 | 10,925 |
| Attributable to: | | | |
| Equity holders of the parent | | 29,786 | 10,925 |
| Minority interests | | 0 | 0 |
| | | 29,786 | 10,925 |
| Earnings per share | | | |
| basic | | 1.32 | 0.55 |
| diluted | | 1.32 | 0.55 |

## DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN

## GROUP CASH FLOW STATEMENT FOR THE FISCAL YEAR 2007

| | 2007 | Short fiscal year 07/01/-12/31/2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Operating activities | | |
| Result for the period before interest and tax | 141,596 | 35,897 |
| Non-cash expenses/earnings | | |
| Non-cash consolidation difference | −64,099 | 0 |
| Fair value adjustment of investment property | −30,948 | −12,941 |
| Depreciation and amortization expense | 1,689 | 249 |
| Profit from affiliated companies | 18 | 0 |
| Other non-cash expenses/income | 2,178 | −7,941 |
| Change in net working capital | | |
| Change in receivables, inventories and other current assets | 45,099 | 10,333 |
| Change in operating liabilities | −43,023 | −21,355 |
| Operating cash flow | 52,475 | 4,242 |
| Interest paid | −62,472 | −11,294 |
| Interest received | 1,396 | 0 |
| Tax paid | −1,878 | −2,626 |
| Cash flow from operating activities | −10,479 | −9,678 |

## DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN

## GROUP CASH FLOW STATEMENT FOR THE FISCAL YEAR 2007 (CONTINUATION)

| | 2007 | Short fiscal year 07/01/-12/31/2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Investing activities | | |
| Proceeds from the sale of property | 96,397 | 34,771 |
| Payments made to acquire investment property | −165,452 | −23,276 |
| Other payments | −497 | −508 |
| Payment made for the acquisition of receivables as part of the acquisition of subsidiaries | −78,000 | 0 |
| Payments made to acquire subsidiaries less cash and cash equivalents received | −146,261 | 0 |
| Payments made for the acquisition of minority shareholdings of the DB 14 | −5,195 | −6,399 |
| Cash flow from investing activities | −299,007 | 4,588 |
| Financing activities | | |
| Proceeds from borrowings | 380,989 | 34,878 |
| Repayment of loans | −39,545 | −8,799 |
| Distributions to shareholders | −17,600 | −52,600 |
| Cash flow from financing activities | 323,844 | −26,521 |
| Net change of cash and cash equivalents | 14,358 | −31,611 |
| Cash and cash equivalents at beginning of period | 33,516 | 65,127 |
| Cash and cash equivalents at end of period | 47,874 | 33,516 |

## DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2007

| | Shares | Subscribed Capital | Share Premium | Accumulated consolidated result | Total | Minority interests | Equity |
|---|---|---|---|---|---|---|---|
| | in thousands | in EUR Thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Notes | D.9 | D.9 | D.9 | D.9 | | B | |
| Equity as of June 30, 2006 | 20,000 | 10,226 | 207,053 | 201,383 | 418,662 | 0 | 418,662 |
| Effect of the fair value conversion (see notes A.6) | | | | 350,506 | 350,506 | | 350,506 |
| Correction of the first consolidation of DB 14 (see notes A.5) | | | | 8,779 | 8,779 | | 8,779 |
| Equity as of June 30, 2006 (adjusted) | 20,000 | 10,226 | 207,053 | 560,668 | 777,947 | 0 | 777,947 |
| Income and expenses recognized directly in equity | | | | 149 | 149 | | 149 |
| Result for the period | | | | 10,925 | 10,925 | | 10,925 |
| Total result for the period | | | | 11,074 | 11,074 | | 11,074 |
| Contributions | | 9,774 | | 26,524 | 36,298 | | 36,298 |
| Withdrawals | | | −36,298 | 0 | −36,298 | | −36,298 |
| Distributions | | | | −52,600 | −52,600 | | −52,600 |
| Equity as of December 31, 2006 | 20,000 | 20,000 | 170,755 | 545,666 | 736,421 | 0 | 736,421 |
| Income and expenses recognized directly in equity | | | | 2,050 | 2,050 | | 2,050 |
| Result for the period | | | | 29,786 | 29,786 | 0 | 29,786 |
| Total result for the period | | | | 31,836 | 31,836 | | 31,836 |
| Issue of 6,400,000 shares relating to the GEHAG transaction | 6,400 | 6,400 | 177,664 | 0 | 184,064 | | 184,064 |
| Equity relating to the convertible bonds issued in connection with the GEHAG transaction | | | 1,102 | 0 | 1,102 | | 1,102 |
| Additional minority shareholdings related to company acquisition | | | | | | 302 | 302 |
| Distributions | | | | −17,600 | −17,600 | | −17,600 |
| Equity as of December 31, 2007 | 26,400 | 26,400 | 349,521 | 559,902 | 935,823 | 302 | 936,125 |

# Deutsche Wohnen AG, Frankfurt am Main
# Notes to the Consolidated Financial Statements

**For the Fiscal Year Ended December 31, 2007**

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

### *1 Deutsche Wohnen Group*

(1) The consolidated financial statements of Deutsche Wohnen AG ("Deutsche Wohnen") as of December 31, 2007, were released for publication upon resolution of the Management Board on March 25, 2008. The Supervisory Board is expected to approve the consolidated financial statements in its meeting on April 8, 2008. Deutsche Wohnen AG is a nationally operating property company based in Germany whose registered office is Pfaffenwiese 300, Frankfurt am Main, and is registered in the commercial register of the Frankfurt am Main Local Court under the number HRB 42388.

(2) Deutsche Wohnen AG's business activities are restricted exclusively to its role as the holding company for the companies included in the Group. The operations of the subsidiaries focus on residential property management and housing privatization of the property which is mainly located in Berlin and in the Rhine-Main/Rhineland Palatinate area. Since the acquisition of the GEHAG Group, Deutsche Wohnen has become the second largest listed residential property company in Germany.

(3) The consolidated financial statements have been prepared in Euros. Unless otherwise stated, all figures are rounded in EUR thousand. Slight mathematical rounding differences may be reflected in the tables and references. The consolidated financial statements for the short fiscal year of July 1 to December 31, 2006, serve as the comparison period. We also inform that the GEHAG Group was not included in the consolidated financial statements of Deutsche Wohnen in the short fiscal year of July 1 to December 31, 2006, which further limits comparability.

### *2 Consolidated financial statements*

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

(6) The consolidated financial statements comprise the financial statements of Deutsche Wohnen and its subsidiaries as of December 31 of a given fiscal year. The financial statements of the consolidated companies are prepared according to uniform accounting and valuation principles at the same balance sheet date as is used for the preparation of the financial statements of the parent.

### *3 Application of IFRS in the fiscal year*

(7) No significant effects on the Group's net assets, financial position and results of operations resulted from the application of the newly revised standards and interpretations. However they did result in additional disclosures. The following new/revised IFRS/IAS and interpretations were applied for the first time in 2007:

- IFRS 7 *Financial instruments*

(8) This standard requires additional disclosures which enable the person reading the financial statements to assess the significance of the financial instruments for the Group's financial position and earnings power as well as the nature and extent of the risks related to the use of these financial instruments. The disclosures related to this are revealed in particular in the disclosures concerning balance sheet and income statement items which reflect financial instruments.

- IAS 1 *Presentation of financial statements*

(9) New disclosures related to this revision enable the reader of the financial statements to assess the Group's targets, methods and processes concerning capital management.

- IFRIC 8 *Scope of IFRS 2*

(10) This interpretation requires the application of IFRS 2 for all company transactions concerning equity instruments granted to employees, where a company cannot specifically identify some or all of the goods or services received.

- IFRIC 9 *Reassessment of embedded derivatives*

(11) In accordance with this interpretation, the company has to assess whether there is an embedded derivative in a contract using a structured instrument at the time of the conclusion of the contract. A reassessment is only allowed if there is a considerable change in the contract's terms and conditions which result in a significant change of the cash flows.

- IFRIC 10 *Interim financial reporting and impairment*

(12) This states that an impairment loss related to a goodwill, to equity instruments held or to financial assets, which are recognized in the balance sheet of an interim financial report at historical cost, must not be reversed in the following financial statement.

(New/revised) IFRS/IAS and interpretations to be applied for the first time in following fiscal years: No significant effects on the Group's net assets, financial position and results of operations are expected to result from the application of the following newly revised standards and interpretations. They will though in some cases result in additional disclosures.

- IFRS 8 *Operating segments*

(13) IFRS 8 replaces IAS 14 Segment reporting. IFRS 8 requires the company to report financial and descriptive information concerning the segments which are subject to reporting requirements. Segments which are subject to reporting requirements represent operating segments or group of operating segments. Operating segments represent components of a company for which separate financial information is available, which is regularly checked by the management of the operational division. IFRS 8 is to be applied in fiscal years which start on or after January 1, 2009.

(14) The Group has decided against early application of IFRS 8 and continues to use IAS 14 Segment reporting. The new standard will have an impact on the manner in which financial information concerning the Group's divisions is published, but not on the recognition and valuation of assets and liabilities in the consolidated financial statements.

- IAS 1 (revised) *Presentation of financial statements*

(15) According to the revised IAS 1, changes in equity which are not the result of transactions with owners are in future to be separated from changes in equity which are the result of transactions with owners and more detailed disclosures concerning other accumulated equity are to be made. The revised IAS 1 is to be applied for the first time in fiscal years which start on or after January 1, 2009.

- IFRS 2 *Share-based Payment*

(16) The amendment to IFRS 2 was published in January 2008 and is to be applied for the first time in fiscal years which start on or after January 1, 2009. The amendment relates, on the one hand, to the clarification that the term of vesting conditions only includes service and performance conditions. On the other hand, the accounting regulations for early cancellation of share-based payment plans are extended to include cases of cancellation by the employees. The temporary provisions provide for retrospective application of the new regulation.

- IFRS 3 *Business Combinations*

(17) The amendment to IFRS 3 was published in January 2008 and is to be applied for the first time in fiscal years which start on or after January 1, 2009. The standard was subject to a comprehensive revision as part of the convergence project of IASB and FASB. The important amendments relate in particular to 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

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 recognized. Furthermore, the revaluation of pre-existing investments recognized in the profit and loss statement when control is obtained for the first time (successive business acquisition), the mandatory consideration of a counter-performance — 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 transitional provisions provide for prospective application of the new regulation. There are no amendments for assets and liabilities which relate to business combinations which took place before application of the new standard for the first time.

- IAS 27 *Consolidated and Separate Financial Statements in accordance with IFRS*

The revised standard IAS 27 was published in January 2008. The amendments are to be applied for the first time in fiscal years which start on or after July 1, 2009. The amendments are the result of the joint project of IASB and FASB concerning the revision of accounting regulations applicable to business combinations. The amendments concern primarily the accounting of shares over which the company has no controlling influence (minority interests), which in future fully participate in 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 recognized in the income statement. The impact from the sale of shares which do not result in the loss of control is, on the other hand, to be recognized directly in equity. The transitional provisions, which in principle require retrospective application of changes made, require prospective application in the circumstances listed above. There are thus no amendments for assets and liabilities which relate to such transactions before application of the new standard for the first time.

- IAS 32 *Financial Instruments:* Presentation and IAS 1 Presentation of Financial Statements

The amendment to IAS 32 and IAS 1 was published in February 2008 and is to be applied for the first time in fiscal years which start on or after January 1, 2009. The amendment relates to the classification of redeemable partner investments as liability or equity. In accordance with the previous regulation, businesses were in part forced to report the capital for company law purposes as financial liabilities due to the partners' legal right to cancel. In future, these partner investments are in general to be classified as equity, provided settlement is agreed at fair value and the investments made represent a subordinate claim on the net assets of the business.

- IAS 23 *Borrowing costs*

The revised standard is to be applied for the first time in fiscal years which start on or after January 1, 2009. The standard requires borrowing costs, which can be attributed to a qualified asset, to be capitalized. The Group will apply this change prospectively in accordance with the standard's transitional regulations. Borrowing costs will therefore be capitalized to qualified assets from January 1, 2009. There will be no changes for previously incurred borrowing costs which were expensed immediately.

- IFRIC 11 *IFRS 2 — Transactions with own shares and shares in the Group*

(18) According to IFRIC 11 agreements, whereby employees are granted rights in a company's equity instruments, are to be reported in the balance sheet as share-based payment transactions offset by equity instruments, if the company acquires the instruments from a third party or if the shareholders provide the necessary equity instruments. IFRIC 11 is to be applied in fiscal years which start on or after March 1, 2007.

(19) As the companies included in the consolidated financial statements do not grant any share-based payments in the sense of IFRS 2, this interpretation has no impact on the consolidated financial statements.

- IFRIC 12 *Service Concession Arrangements* (to be applied for the first time in fiscal years which start on or after January 1, 2008).

- IFRIC 13 *Customer loyalty programs*

(20) The interpretation is to be applied for the first time in fiscal years which start on or after July 1, 2008. According to this interpretation, benefits granted to customers (awards) are to be shown in the balance sheet as a sales component 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 benefits granted (awards) and treated as a deferred item. The revenue is recognized in the period in which the benefits granted (awards) will be exercised or expire. No significant effects on the Group's net assets, financial position and results of operations are expected to result from the application of the following revised interpretations, as the circumstances upon which these standards and interpretations are based are not present.

- IFRIC 14 *The limit on a defined benefit asset, minimum funding requirements and their interaction* (to be applied for the first time in fiscal years which start on or after January 1, 2008).

## 4 Material judgments, estimates and assumptions

(21) In the preparation of the consolidated 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 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 carrying amount of the assets or liabilities concerned.

### Discretionary judgments

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

#### *Obligations under operating leases — Group as lessor*

(23) The Group has entered lease agreements to rent its investment property. It was determined—based on an analysis of the contract terms and conditions — that all significant risks and rewards of the properties leased under operating leases remain with the Group, which reports these contracts as operating leases. The carrying amount of investment property is EUR 3,271.2 million (previous year EUR 1,341.6 million).

### Estimates and assumptions

(24) The key forward-looking 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 fiscal year — are explained in the following.

#### *Fair value of investment property*

(25) The fair value of investment property was calculated on June 30, 2007, on the basis of a portfolio assessment conducted by an external, independent expert. As of December 31, 2007, a validation of the values took place. 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, vacancy 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. The carrying amount of investment property is EUR 3,271.2 million (previous year EUR 1,341.6 million).

#### *Deferred tax assets*

(26) Deutsche Wohnen only reports deferred tax assets to the extent of available deferred tax liabilities against which they can be offset. Deferred tax assets were not capitalized beyond this.

*Minority interests*

(27) The minority interests (with 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 only entitled — in the case of a distribution — to a dividend to the amount of 4 per cent of the capital it holds.

*Pensions and other post-employment benefits*

(28) 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 uncertainties because of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to EUR 41.6 million as of December 31, 2007 (previous year EUR 5.1 million).

*Liabilities to Fund limited partners*

(29) 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 tendered fully in the following year. The liability amounted to EUR 46.6 million as of December 31, 2007 (previous year EUR 49.8 million).

## 5 Investigation of the Deutsche Prüfstelle für Rechnungslegung (DPR)

(30) The audit procedure of the Deutsche Prüfstelle für Rechnungslegung e.V. (German Financial Reporting Enforcement Panel) in relation to the short fiscal year of July 1 to December 31, 2006, is completed. The DPR concludes that DB 14 should have already been included in the con- solidated financial statements of the Deutsche Wohnen Group in previous years. We agree with this conclusion and have correspondingly adjusted the consolidated financial statements for the short fiscal year of July 1 to December 31, 2006.

(31) The correction took place as of June 30, 2006. With this, all assets and liabilities of DB 14 are to be posted as of June 30, 2006. Furthermore, the assets and liabilities included in the consolidated balance sheet, in particular the derivative financial instruments and the related deferred taxes, are to be eliminated. The resulting balance is to be recognized directly in equity in the retained earnings. The expenses and revenues of DF 14 for the second half of the year and the adjustments related to the consolidation are to be recognized in the consolidated profit and loss statement of July 1 to December 31, 2006.

(32) The related changes in the consolidated balance sheet and the changes due to the transition to the fair value method are shown in a table in the following chapter.

## 6 Changes in accounting policies

(33) Deutsche Wohnen basically applied the same accounting policies as in the previous year, with the following exceptions:

*Change to fair value method for investment property*

(34) As already mentioned in the company communication concerning the acquisition of the GEHAG Group, Deutsche Wohnen is changing the valuation of its investment property over from the cost method to the fair value method. The change to the fair value method took place retrospectively (IAS 8.19, 23). Deutsche Wohnen's previous consolidated financial statements were for a short fiscal year from July 1 to December 31, 2006. The retrospective adjustment took place as of July 1, 2006.

This value adjustment, based on the historical figures released by Deutsche Wohnen, results in the following changes to the historical financial data reported for the period July 1 to December 31, 2006: an increase in investment property value; an increase in deferred tax assets and liabilities, and a derecognition of noncurrent accruals and deferrals. The deferrals and accruals for the interest rate advantage from low interest loans had to be written off because rental restrictions for the respective

properties are already accounted for in the fair value measurement of the properties. In addition to these adjustments in the balance sheet, a reduction in the privatization sector (income from the sale of residential properties), an increase in costs of purchased services through allowances for the maintenance and repair portion of tenant charges, a reduction in depreciation, a reduction in other operating income as a result of the write off of noncurrent deferrals and accruals, as well as an adjustment in the fair value of properties have been made to the consolidated profit and loss statement for the short fiscal year from July 1 to December 31, 2006. The change in the balance sheet also led to a change in the consolidated profit and loss statement for the deferred taxes reported. The maintenance and repair portion of tenant charges, formerly reported as an asset, are now recorded as an expense in connection with the implementation of the fair value method.

(35) The following table shows the effects to the balance sheet at the time of the change to the new method (July 1, 2006), including a correction made for DB 14:

| | 07/01/2007 Cost method | Adjustment Fair value method | 07/01/2006 Fair value method | Adjustment DB 14 | 07/01/2006 (adjusted) |
|---|---|---|---|---|---|
| | in EUR millions | in EUR millions | in EUR millions | in EUR millions | in EUR millions |
| Investment property | 799.4 | 372.9 | 1,172.3 | 186.1 | 1,358.4 |
| Other noncurrent assets | 23.8 | | 23.8 | −23.6 | 0.2 |
| Deferred tax assets | 40.4 | −12.5 | 27.9 | −1.6 | 26.3 |
| Receivables and other assets | 18.0 | −2.3 | 15.8 | 2.7 | 18.5 |
| Derivative financial instruments | 6.1 | | 6.1 | −6.1 | 0.0 |
| Cash and cash equivalents | 54.4 | | 54.4 | 10.8 | 65.1 |
| Noncurrent assets held for sale | 8.5 | 11.3 | 19.8 | | 19.8 |
| Noncurrent financial liabilities | 407.2 | | 407.2 | 111.4 | 518.6 |
| Other provisions | 4.2 | | 4.2 | −3.9 | 0.3 |
| Liabilities to Fund limited partners | 0.0 | | 0.0 | 54.8 | 54.8 |
| Deferred tax liabilities | 2.2 | 55.0 | 57.2 | 3.5 | 60.7 |
| Deferred income (long-term) | 36.2 | −36.2 | 0.0 | | 0.0 |
| Other provisions | 11.9 | | 11.9 | 0.3 | 12.2 |
| Trade payables and other liabilities | 24.7 | | 24.7 | 0.4 | 25.1 |
| Derivative financial instruments | 7.1 | | 7.1 | −7.1 | 0.0 |
| Accumulated consolidated profit | 201.4 | 350.5 | 551.9 | 8.8 | 560.7 |

Following are the changes for the consolidated financial statements for the short fiscal year from July 1 to December 31, 2006:

| | 2nd short fiscal year 2006 Cost method | Adjustment Fair Value method | 2nd short fiscal year 2006 Fair Value | Adjustment DB 14 2nd short fiscal year 2006 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|---|---|---|
| | in EUR millions | in EUR millions | in EUR millions | in EUR millions | in EUR millions |
| Revenues | 57.3 | | 57.3 | 4.8 | 62.1 |
| Carrying amount of assets sold | −44.4 | −25.9 | −70.3 | | −70.3 |
| Other operating income | 2.3 | −0.8 | 1.6 | 0.3 | 1.9 |
| Profit from business combination | 8.8 | | 8.8 | −8.8 | 0.0 |
| Profit from fair value adjustment of investment property | 0.0 | 12.9 | 12.9 | | 12.9 |
| Costs of purchased services | −27.8 | −0.6 | −28.4 | −0.3 | −28.7 |
| Other operating expenses | −11.0 | | −11.0 | −0.8 | −11.8 |
| Depreciation, amortization and impairment losses | −14.8 | 14.6 | −0.2 | | −0.2 |
| Financial income | 0.9 | | 0.9 | −0.2 | 0.7 |
| Financial expenses | −12.6 | | −12.6 | −3.8 | −16.4 |
| Income and expenses from derivative financial instruments | −0.3 | | −0.3 | 0.3 | 0.0 |
| Income taxes | 0.7 | −9.8 | −9.1 | −0.4 | −9.4 |
| Net result for the period | 29.3 | −9.6 | 19.7 | −8.8 | 10.9 |
| Earnings per share | 1.47 | −0.48 | 0.99 | −0.44 | 0.55 |

There are the following changes to the cash flow statement as a result of the error correction of DB 14:

| | 07/01/-12/31/2006 | Adjustment DB 14 | 07/01/-12/31/2006 (adjusted) |
|---|---|---|---|
| | in EUR millions | in EUR millions | in EUR millions |
| Cash flow from operating activities | −11.6 | 1.9 | −9.7 |
| Cash flow from investing activities | 15.7 | −11.1 | 4.6 |
| Cash flow from financing activities | −25.0 | −1.5 | −26.5 |
| Changes in the fiscal year | −20.9 | −10.7 | −31.6 |
| Cash and cash equivalents at the start of the period | 54.4 | 10.7 | 65.1 |
| Cash and cash equivalents at the end of the period | 33.5 | 0.0 | 33.5 |

The adoption of the fair value method caused no changes of the consolidated cash flow statement.

For the consolidated balance sheet as of December 31, 2006, there were the following adjustments as a result of the change to the fair value method:

| | Cost method | Adjustment opening balanced sheet | Adjustment 07/01/-12/31/2006 | Fair value method |
|---|---|---|---|---|
| | in EUR millions | in EUR millions | in EUR millions | in EUR millions |
| Investment property | 956.6 | 372.8 | 12.1 | 1,341.6 |
| Deferred tax assets | 51.8 | −12.5 | −0.7 | 38.6 |
| Other assets | 10.2 | −2.3 | −0.6 | 7.3* |
| Noncurrent assets held for sale | 2.7 | 11.3 | −10.5 | 3.4 |
| Noncurrent deferred income | −35.4 | 36.2 | −0.8 | 0.0 |
| Deferred tax liabilities | −15.6 | −55.0 | −9.1 | −79.7 |
| | | 350.5 | −9.6 | |

*) *Due to the reporting change described below concerning the service charges as trade receivables, EUR 1.6 million is reported in the balance sheet (EUR 7.3 million−EUR 5.7 million = EUR 1.6 million).*

The error correction of DB 14 did not have a significant impact on the consolidated balance sheet as this had already been consolidated as of December 31, 2006.

### *Report on operating costs*

Contrary to the previous year, the Deutsche Wohnen Group has reported construction in progress from operating costs under receivables from rental activities offset against payments on account received for operating costs. This change does not have an impact on the profit and loss statement.

### *Combining of balance sheet items*

(36) Furthermore, balance sheet items — which were still reported as separate balance sheet items as of December 31, 2006 — were combined for reasons of clarity and materiality.

The following table summarizes the reporting changes made:

| | Balance sheet format | |
|---|---|---|
| | old 2006 | new 2006 |
| | in EUR thousands | in EUR thousands |
| Financial assets | 173 | 173 |
| Receivables and other assets | 145 | 145 |
| Other noncurrent assets | | 318 |
| Land without buildings | 2,480 | 2,480 |
| Land with finished buildings | 5,908 | 5,908 |
| Land and buildings held for sale | | 8,388 |
| Work in progress, other inventories | 28,153 | 28,153 |
| Reported operating costs as receivables from rental activities | | −27,787 |
| Other inventories | | 366 |
| Receivables from rental activities | 4,284 | 4,284 |
| Operating costs from work in progress, other inventories | | 27,787 |
| Service charges from other current assets | | 5,775 |
| Payments on account | | −32,547 |
| | | 5,299 |
| Receivables from property sales | 47,160 | 47,160 |
| Trade receivables | | 52,459 |
| Receivables and other assets | 10,250 | 10,250 |
| Maintenance portion of service charges recognized as expense | | −2,879 |
| | | 7,371 |
| Reported service charges as receivables from rental activities | | −5,775 |
| Other assets | | 1,596 |
| Noncurrent bank loans and overdrafts | 503,587 | 503,587 |
| Noncurrent liabilities to other lenders | 58,599 | 58,599 |
| Noncurrent financial liabilities | | 562,186 |
| Current bank loans and overdrafts | 9,004 | 9,004 |
| Current liabilities to other lenders | 2,500 | 2,500 |
| Current financial liabilities | | 11,504 |
| Current trade payables | 10,401 | 10,401 |
| Payments on account | 32,764 | 32,764 |
| Reported operating costs as receivables from rental activities | | −32,547 |
| Trade payables | | 10,618 |

(37) The voluntary change in the accounting policy was made in order to provide more reliable and relevant information concerning the Deutsche Wohnen Group's net assets, financial position, results of operations, and cash flows. The new accounting policy also conforms to current industry practice, making it much easier to compare with the market competitors.

## B CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

### Consolidated companies

(38) The consolidated 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 over control. Inclusion in the consolidated financial statements ends as soon as the parent company no longer has control. The composition of the Deutsche Wohnen Group is in accordance with the list of shareholdings attached as Annex 1.

*Changes in the scope of consolidation*

(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) The acquisition of the shares in the GEHAG Group by Deutsche Wohnen is based on the following contractual agreements:

- On July 2, 2007, Deutsche Wohnen AG entered a contribution agreement with OCM Luxembourg Real Estate Investments S.à.R.L. and OCM Luxembourg Opportunities Investments S.à.R.L. (subsequently referred to as "the OCM companies"), which jointly held the share capital of Gehag Acquisition Co. GmbH. Gehag Acquisition Co. GmbH holds for its part almost 85 per cent in GEHAG GmbH which has its registered office in Berlin and is the parent company of the GEHAG Group. In accordance with the contribution agreement, the OCM companies each contributed shareholdings of 30 per cent (each corresponding to a share of EUR 7,500 in the share capital) in Gehag Acquisition Co. GmbH to Deutsche Wohnen AG. In return for contributing its shares in Gehag Acquisition Co. GmbH to Deutsche Wohnen AG, the OCM companies each received 3,200,000 new bearer shares for Deutsche Wohnen AG with a notional share in the registered capital of EUR 1.00 each and a price of EUR 28.76 per share as of the reference date of the completion of the acquisition from a capital increase from the authorized capital excluding the subscription right of shareholders. They also each received convertible bonds with a nominal value of EUR 12.5 million each.
- By an agreement dated again July 2, 2007 ("the share purchase agreement"), the OCM companies sold shareholdings of 20 per cent each in Gehag Acquisition Co. GmbH to Deutsche Wohnen Direkt Immobilien GmbH, an indirect wholly owned subsidiary of Deutsche Wohnen AG. The contractually agreed cash purchase price in return for the sale of the remaining shares of the OCM companies in Gehag Acquisition Co. GmbH to Deutsche Wohnen Direkt Immobilien GmbH totaled around EUR 179 million. As part of the share purchase agreement, Deutsche Wohnen AG also acquired receivables from shareholders loans of the OCM companies to GEHAG GmbH with a nominal value totaling EUR 78 million at a purchase price corresponding to the receivable amount. Furthermore, the contract allowed for an adjustment of the purchase price if mandatory EK02 taxation were introduced. With the Tax Amendment Act 2008 this mandatory EK 02 taxation came into force, so that the cash purchase price was reduced by a partial amount of EUR 25 million.
- After occurrence of all of the conditions precedent in accordance with the contribution agreement and the share purchase agreement, the shares in Gehag Acquisition Co. GmbH were transferred to Deutsche Wohnen AG or Deutsche Wohnen Direkt Immobilien GmbH on August 9, 2007. The other transactions agreed in the contribution agreement and in the share purchase agreement were carried out as well.

(41) The other shareholders of GEHAG GmbH were HSH Real Estate AG at 9.9 per cent, its subsidiary KALAIS GmbH at 5.1 per cent and the State Berlin at 0.0004 per cent (equivalent to a share in the business at a nominal value of EUR 50). With a purchase agreement dated June 12, 2007, Gehag Acquisition Co. GmbH and its 99.99 per cent subsidiary GEHAG Erwerbs GmbH & Co. KG agreed with HSH Real Estate AG and KALAIS GmbH to the transfer of these shareholdings to GEHAG GmbH.

(42) As a result, the Deutsche Wohnen Group holds 99.99 per cent of the shares in the GEHAG Group. The following table shows the preliminary — the final analysis has not as yet been completed — composition of the acquisition costs.

(43) The preliminary fair values determined for the assets and liabilities which could be identified at the time of the acquisition and the corresponding carrying amounts directly before the time of the acquisition were as follows:

| | Fair value at the time of the acquisition | Previous carrying amounts |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Investment property | 1,790,248 | 1,790,248 |
| Property, plant and equipment | | |
| Intangible assets | | |
| Investments in affiliated companies | 417 | 417 |
| Deferred tax assets | 64,884 | 55,265 |
| Derivative financial instruments | 36,272 | 36,272 |
| Other assets | 62,091 | 62,091 |
| Cash and cash equivalents | 15,617 | 15,617 |
| | 1,969,529 | 1,959,910 |
| Financial liabilities | 1,120,957 | 1,156,674 |
| Pension 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 | |
| Cost of acquisition | 370,942 | |

The difference between the fair value of the other liabilities and the carrying amount is due to the EK02 taxation (EUR 47.1 million) in the GEHAG Group, which was already taken into account.

The preliminary costs of acquisition comprise the following:

| | in EUR thousands |
|---|---|
| Contribution agreement of July 2, 2007 | |
| - Issue of 6,400,000 shares at fair value (closing price EUR 28.76/share at the time of the acquisition) | 184,064 |
| - Convertible bonds | 25,000 |
| | 209,064 |
| Share purchase agreement of July 2, 2007 | |
| - Cash purchase price | 179,145 |
| - Correction related to EK02 guarantee | −25,000 |
| | 154,145 |
| Incidental costs of acquisition | 7,733 |
| | 370,942 |

(44) The convertible bond was reported at fair value. The liabilities component totaled EUR 23.9 million at the time of the acquisition.

(45) 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. It fell between July 2, 2007 and August 9, 2007 from approximately 39 EUR/share to approximately 29 EUR/share. With the number of shares issued this corresponds to a reduction in the purchase price of approximately EUR 64 million.

(46) With the acquisition of the company, cash and cash equivalents totaling EUR 15,617 thousand were acquired.

The net purchase price to be paid concerning the acquisition of the GEHAG Group is calculated as follows:

| | in EUR thousands |
|---|---|
| Purchase price | 154.145 |
| Incidental costs of acquisition | 7.733 |
| Acquired cash and cash equivalents | −15.617 |
| | 146.261 |

(47) Minority interests of EUR 302 thousand resulted from the acquisition of the GEHAG Group. This corresponds with the shareholding of the State Berlin of 0.0004 per cent and minority interests of other subsidiaries.

(48) Since the time of the acquisition, the GEHAG Group has contributed EUR 112.9 million to revenues and EUR −16.6 million to the result. If the business combination had already taken place at the start of the year, the revenues would have amounted to EUR 210.4 million and the result to EUR 248.8 million.

### *2 Consolidation methods*

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

(50) 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 remaining difference is immediately recognized as a "lucky buy" in the profit and loss statement.

(51) 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.

(52) 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 consolidated profit and loss statement and in the consolidated balance sheet. These are 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*

(53) 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. Investment property includes land with residential and commercial buildings, land without buildings and land with heritable third-party building rights.

(54) At the initial recognition, investment property is measured using the cost method including incidental costs of acquisition. After initial recognition, the investment property is measured at fair value. Profits or losses from the adjustment are recognized in the consolidated profit as revenues or expenses. Payments on account or construction in process related to investment property are measured using the cost method and reported under investment property.

(55) A valuation was carried out by Catella Property Valuation GmbH as of June 30, 2007. This was validated again as of December 31, 2007. There were no significant changes in value.

(56) The following process was utilized for the valuation as of June 30, 2007. The properties were assigned to clusters. Homogeneous groups (clusters) were formed, which differed from each other in respect of the location and quality of the administrative units and therefore their respective risk.

(57) The cluster formation was in line with the following scheme:

| 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 |

(58) The following principles were used for the valuation as of June 30, 2007:

(59) The following were derived based on the cluster:

- derivative with respect to annual rent increase rates (0.75%-3.4%),
- derivative with respect to target vacancy rates (2 per cent to 10 per cent) in a period of 1 to 4 years,
- derivative with respect to capitalization interest rates and discount interest rates.

(60) Based on properties:

- determination of the market rent as of the balance sheet date,
- development of rent per $m^2$ 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, risk of default of rent payments, non-recoverable operating costs, ground rent as far as relevant),
- calculation 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 selling price less selling costs.
- calculation of a fair value based on the administrative unit as of the balance sheet date.

(61) The capitalization and discount interest rates were derived based on risk-free interest (10-year average of net yields of federal bonds: 4.5 per cent) and cluster-specific risk estimates. In the process, discount interest rates between 5.5 and 8.75 per cent and capitalization interest rates between 4.75 per cent and 8.0 per cent were used, according to the cluster.

(62) An investment property is derecognized on disposal or permanent withdrawal from use and when no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the year the property was retired or disposed of.

(63) Properties are transferred from the stock of investment property when there is a change in its utilization which is due to the start of owner occupancy or the commencement of the selling process.

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

## *2 Property, plant and equipment*

(65) Property, plant and equipment are recognized at acquisition or manufacturing cost less accumulated, scheduled depreciation and accumulated impairment losses. Subsequent costs are only recognized if

it is probable that a future economic benefit associated with the property, plant and equipment will flow to the company.

(66) Property, plant and equipment are subsequently measured at carrying amount. 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 4-10 years.

(67) The carrying amounts of property, plant and equipment are checked for impairment, as soon as there are indications that the carrying amount of an asset exceeds its recoverable amount.

(68) An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses relating to the asset's disposal are recognized in the profit or loss calculation as the difference between the net disposal proceeds and the carrying amount of the asset when the item is derecognized.

(69) Carrying amounts related to the assets, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

### *3 Intangible assets*

(70) In the Deutsche Wohnen only purchased intangible assets are reported. These are measured at cost and systematically amortized using the straight-line method over the respective useful life of the asset. The useful life is between 3-5 years.

### *4 Investments in associates*

(71) Investments in associates are reported in accordance with the equity method. An associate is a company in which the Group has a significant influence and which is neither a subsidiary nor a joint venture.

(72) In accordance with the equity method, investments in associates are recognized in the balance sheet at cost plus 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 determines 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 associate. The balance sheet date and the accounting policies for similar business transactions and events of the associate are consistent with those of the Group.

### *5 Borrowing costs*

(73) Interest on borrowing costs is recognized as an expense in the period in which it is incurred.

### *6 Impairment of non-financial assets*

The Group examines whether there are indications that an asset could be impaired at each balance sheet date. 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 value in use. 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 carrying amount exceeds its recoverable amount, the asset is impaired and is depreciated to its recoverable amount.

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

(75) Assets are examined as of every balance sheet date to determine whether the indications for a previously recognized 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 taken into account when determining the recoverable amount. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This amount, however, may not exceed the carrying amount

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 result for the period.

### *7 Financial assets*

(76) Financial assets in terms of IAS 39 are either classified

- as financial assets, at fair value through profit or loss,
- as loans and receivables,
- as financial investments held-to-maturity or
- as available-for-sale financial assets.

(77) At initial recognition financial assets are measured at fair value. Concerning financial investments excluding financial investments at fair value through profit or loss, transaction costs which are to be assigned directly to the acquisition of the asset are also considered. The financial assets are designated to measurement categories at initial recognition. Reclassifications are made, provided that they are permitted and necessary, at the end of the fiscal year.

(78) All purchases and sales of financial assets which are customary for the market are recognized 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.

(79) Except for derivatives (interest rate swaps), no financial assets held for speculation purposes and financial investments held-to-maturity have been reported in the Deutsche Wohnen Group so far.

(80) Receivables and other assets recognized 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 measured at amortized cost using the effective interest method, less impairment. Profits and losses are recognized in the profit and loss for the period when the loans and receivables were derecognized or impaired, or when amortization takes place.

(81) 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.

(82) A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognized 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.

(83) 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*

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

(85) The initial measurement is at cost. As of the balance sheet date, the measurement is at the lower value of the two figures — cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of the business, less the estimated costs to completion and the estimated costs to sell.

### *9 Cash and cash equivalents*

(86) Cash and cash equivalents in the balance sheet comprises cash in hand, bank balances and short-term investments with original maturities of less than three months.

### *10 Assets held for sale*

(87) 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 measurement is at the lower value of the two amounts — the carrying amount 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 privatization segment.

### *11 Financial liabilities*

(88) Financial liabilities in terms of IAS 39 are either classified

- as financial liabilities at fair value through profit or loss,
- as other financial liabilities measured at amortized cost.

*Financial liabilities*

(89) At initial recognition, loans are measured at fair value, less the transaction costs which are directly associated with the borrowing. After initial recognition, the interest loans are subsequently measured at amortized cost using the effective interest method. Profits and losses are recognized in the profit and loss for the period when the debts were derecognized or when amortization 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*

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

(91) The equity and the liability component were assessed by means of an independent expert. The total of both components represents the total value of the convertible bonds.

*Trade payables and other liabilities*

(92) At initial recognition, the liabilities are measured at fair value. After initial recognition, the liabilities are subsequently measured at amortized cost using the effective interest method. Profits and losses are

recognized in the profit and loss for the period when the debts are derecognized or when amortization takes place.

*Liabilities to Fund limited partners*

(93) In accordance with IAS 32 (rev 2003), the cancellation options of the limited partners are an important criterion for the designation 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 to be reported as financial expenses.

(94) The net assets of the limited partner have to be recognized as of the end of the fiscal year end at the fair value amount of a possible repayment amount. Thus, increases in value are recognized as a financial expense and impairment as a financial revenue in the income statement. The amount of the repayment obligation result from the articles of the company.

(95) In Deutsche Wohnen liabilities to Fund limited partners total EUR 46,631 thousand (previous year EUR 49,783 thousand).

(96) A financial liability is derecognized 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 recognition of a new liability. The difference between the respective carrying amounts is recognized in the profit and loss for the period.

### *12 Pensions and other post-employment benefits*

(97) Pension obligations 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.

(98) 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 recognized directly in retained earnings in the statement of recognized income and expense ('SORIE').

(99) Possible past service costs are allocated straight-line over the average period until non-forfeiture of the benefits. If benefits are non-forefeitable immediately after the introduction or change of a pension plan, past service costs are to be recognized immediately in the profit and loss.

(100) 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 security under personnel expenses. With the payment of the contributions there are no further benefit obligations for the Group.

(101) 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 Bayerische Versorgungskammer (BVK — Bavarian pension fund for professional groups). The 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.

(102) 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.

(103) No concrete 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 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 the future.

### *13 Provisions*

(104) A provision is recognized 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 recognized (for example in connection with an insurance policy), the restitution is only recognized separately if the restitution is as good as certain. The expense for creating the provision is reported in the income statement after deduction of the restitution. If the impact of the interest rate is significant, provisions are discounted at an interest rate before taxes, which reflect the specific risks of the liability, if applicable. In the case of a discount, the increase in provisions necessary over time is recognized as financial expense.

### *14 Leases*

(105) Leasing transactions are differentiated between 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 leasing. 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 Revenue recognition*

(106) Income is recognized 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 realizing income:

*Rental income*

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

*Sale of properties*

(108) Income is recognized when the significant risks and opportunities associated with the ownership of the properties sold have been transferred to the buyer.

*Services*

(109) Income is recognized in accordance with the performance of the service.

*Interest income*

(110) Income is recognized 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*

(111) Government grants are recognized 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 certain expenses, these are scheduled over the period which is required in order to set them off against the appropriate expenses which they shall compensate.

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

(113) Redemption subsidies, in the form of rent subsidies, are recognized in the profit and loss statement. These are recognized in the revenues from residential property management.

(114) The redemption and interest-subsidized 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 measured at fair value and are subsequently measured at amortized cost. However, they are to be seen in conjunction with restrictions in the property's rent development, which were considered in the fair value calculation.

### *17 Taxes*

#### *Current tax refund claims and tax liabilities*

(115) 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*

(116) 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 its tax value. Deferred tax liabilities are recognized 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 investments in subsidiaries, associates and joint ventures, is not recognized, 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.

(117) Deferred tax assets are recognized for all deductible temporary differences, unused tax loss carryforwards 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 carryforwards 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 business combination, 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 recognized.
- Deferred tax assets from taxable temporary differences which are associated with investments in subsidiaries, associates and joint ventures, may only be recognized 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.

(118) The carrying amount 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 asset can be offset at least in part. Deferred tax assets which are not recognized are reviewed as of every balance sheet date and recognized to the extent that it has become probable that a future taxable profit allows the deferred tax asset to be recognized.

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

(120) Income taxes related to items recognized directly in equity is recognized in equity and not in the profit and loss statement.

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

#### *Change of tax rates*

(122) Due to the company tax reform 2008, the tax rates (among other things) have changed as of January 1, 2008. The corporate income tax rate has fallen from 25% to 15%. Furthermore, the trade

tax base rate has been reduced from 5 per cent to 3.5 per cent. The new tax rates have been used in the calculation of deferred taxes.

*Value added tax*

(123) Revenues, expenses and assets are recognized 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 recognized as part of the production cost of the asset or as part of the expenses; and
- Receivables and liabilities are recognized together with the amount of value added tax contained therein.

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

### *18 Derivative financial instruments and hedges*

(125) The Group uses derivative financial instruments (interest rate swaps) to hedge itself against interest rate risk. These derivative financial instruments are recognized at fair value when the respective agreement is entered into and subsequently measured at fair value. Derivative financial instruments are recognized as assets if their fair value is positive, and are recognized as liabilities if their fair value is negative. The measurement is based on the market-to-market method.

(126) For derivative financial instruments which do not meet the criteria for hedge accounting, profits or losses from changes in the fair value are immediately recognized in profit or loss.

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

## D CONSOLIDATED BALANCE SHEET DISCLOSURES

**Noncurrent assets**

### 1 Investment property

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

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Start of period | 1,341,596 | 1,358,413 |
| Additions due to company acquisition | 1,790,248 | 0 |
| Additions due to portfolio acquisition | 138,936 | 18,850 |
| Other additions | 22,692 | 21,729 |
| Disposals due to sale | −53,215 | −70,337 |
| Adjustment of fair value | 30,948 | 12,941 |
| End of period | 3,271,205 | 1,341,596 |

(128) Investment property mainly serves as securities for borrowings. All of the Group's investment property is leased under operating leases. The related rental income amounted to EUR 144.6 million (2nd short fiscal year 2006 (adjusted): EUR 43.2 million). The expenditure directly associated with the investment property was EUR 89.7 million (2nd short fiscal year 2006 (adjusted): EUR 27.1 million).

(129) Deutsche Wohnen is partly subject to restrictions with regard to rental increases related to certain preferential tenants and in relation to grants in the form of interest-subsidized loans or investment subsidies. Additionally, legal obligations when privatizing 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 fiscal year was as follows:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Acquisition cost | | |
| Start of period | 8,184 | 8,212 |
| Changes in the scope of consolidation | 25,773 | 0 |
| Additions | 4,752 | 38 |
| Disposals | −4,635 | −66 |
| Transfers | −2,147 | 0 |
| End of period | 31,927 | 8,184 |
| Accumulated depreciation | | |
| Start of period | 4,286 | 4,145 |
| Additions | 1,514 | 207 |
| Disposals | −1,529 | −66 |
| Transfers | −292 | 0 |
| End of period | 3,979 | 4,286 |
| Carrying amounts | 27,948 | 3,898 |

The land and buildings included in property, plant and equipment are essentially secured by real estate collateral.

## 3 Intangible assets

(130) Intangible assets have developed as follows:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Acquisition cost | | |
| Start of period | 845 | 645 |
| Changes in the scope of consolidation | 198 | 0 |
| Additions | 157 | 199 |
| End of period | 1,200 | 844 |
| Accumulated depreciation | | |
| Start of period | 655 | 613 |
| Additions | 175 | 42 |
| End of period | 830 | 655 |
| Carrying amounts | 370 | 189 |

## 4 Investments in associates

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

| | Share | 12/31/2007 |
|---|---|---|
| | % | in EUR thousands |
| SES Stadtentwicklungsgesellschaft Eldenaer Strasse mbH | 50.00 | 135 |
| GbR Fernheizung Gropiusstadt | 44.26 | 300 |
| | | 435 |

(132) Both companies—which have their registered office in Berlin — are in Deutsche Wohnen's consolidated financial statements for the first time due to the first-time inclusion of the GEHAG Group.

(133) The following table shows the summarized information for the reported associates:

| | 12/31/2007 |
|---|---|
| | in EUR thousands |
| Investment in associate | |
| Current assets | 2,646 |
| Noncurrent assets | 5 |
| Current liabilities | 1,786 |
| Equity | 865 |
| Revenue and profit contributed by the associate | |
| Revenues | 27 |
| Profit | 18 |

## 5 Land and buildings held for sale

(134) The increase in land and buildings held for sale is primarily attributable to the first-time consolidation of the GEHAG Group (EUR 13,976 thousand). In the fiscal year 2007, revenues totaling EUR 812 thousand (2nd short fiscal year 2006: EUR 2,791 thousand) were generated. At the same time there were reductions in the carrying amount totaling EUR 480 (2nd short fiscal year 2006: EUR 1,666 thousand) thousand.

## 6 Trade receivables

(135) Trade receivables comprised the following:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Receivables from rental activities | 7,569 | 5,299 |
| Receivables from property sales | 9,264 | 47,160 |
| Other trade receivables | 1,729 | 0 |
| | 18,562 | 52,459 |

Receivables from rental activities are interest-free and are basically overdue. The valuation allowances are formed on the basis of the age structure and 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.

The valuation adjustments for receivables from rental activities were as follows:

| | 12/31/2007 | 12/31/2006 | 06/30/2006 |
|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands |
| Valuation adjustments made | 8,072 | 1,710 | 1,463 |
| Additions due to company acquisition | −6,467 | 0 | 0 |
| | 1,605 | 1,710 | 1,463 |
| Net addition / write-off | −105 | 247 | |

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 fiscal year 2007 totaling 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 timebands | | | |
|---|---|---|---|---|---|
| | | Less than 30 days | Between 30 and 60 days | Between 61 and 90 days | More than 91 days |
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| 2007 | 4,391 | 291 | 1,392 | 181 | 2,209 |
| 2006 | 45,841 | 381 | 790 | 0 | 148 |

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

## 7 Derivative financial investments

(136) Deutsche Wohnen has entered several interest rate hedges. If the interest rate swaps are to be hedged, this is done with an underlying transaction. The following overview represents the significant contract terms:

| Nominal | Strike | From | Maturity | 12/31/2007 | 12/31/2006 |
|---|---|---|---|---|---|
| in EUR thousands | | | | in EUR thousands | in EUR thousands |
| 230,000 | 3.9% | 07/01/2003 | 07/01/2013 | 6,855 | 0 |
| 125,000 | 3.4% | 04/10/2006 | 12/31/2015 | 8,421 | 0 |
| 101,700 | 4.1% | 12/08/2006 | 12/30/2016 | 3,833 | 0 |
| 75,000 | 3.2% | 04/10/2006 | 12/31/2012 | 3,918 | 0 |
| 50,000 | 4.2% | 01/18/2007 | 12/30/2016 | 1,096 | 0 |
| 50,000 | 4.1% | 04/10/2007 | 12/30/2016 | 1,659 | 0 |
| 35,000 | 3.5% | 06/30/2003 | 06/30/2013 | 1,075 | 0 |
| 34,250 | 3.4% | 04/10/2006 | 12/31/2015 | 2,457 | 0 |
| 30,000 | 3.5% | 04/10/2006 | 12/31/2015 | 2,143 | 0 |
| 31,307 | 3.5% - 4.5% | 07/29/2005 | 12/30/2016 | 739 | 0 |
| 2,596 | 5.0% | 10/02/2006 | 10/03/2016 | 36 | −55 |
| 764,853 | | | | 32,232 | −55 |
| 172,000 | 4.7% | 09/20/2007 | 12/29/2017 | −2,308 | 0 |
| 78,000 | 4.7% | 09/20/2007 | 12/29/2017 | −1,047 | 0 |
| 50,000 | 4.7% | 03/20/2008 | 12/29/2017 | −451 | 0 |
| 300,000 | | | | −3,806 | 0 |
| 1,064,853 | | | | 28,426 | −55 |

In the fiscal year, financial expenses were recognized from the adjustment totaling EUR 7,845 thousand (previous year: EUR 55 thousand). The interest rate swap of the previous year (EUR 55 thousand) is from now on reported under current liabilities.

Interest rate swaps for a nominal amount of EUR 120.0 million and at interest rates between 3.88 and 4.06 per cent were again concluded in March 2008.

There are no significant credit risks as the interest rate swaps were concluded with major banks with first-class credit ratings. With changes in interest rate levels the market values change accordingly. Revenues and expenses are recognized in the current profit. If the interest rate level should rise/fall by 50 basis points, the interest rate swap rises/falls by approximately EUR 30 million (previous year EUR 0.1 million).

## 8 Cash and cash equivalents

The cash equivalent of EUR 47.9 million (previous year: EUR 33.5 million) consists mainly of credit balances at banks, cheques and cash on hand. Credit balances at banks are on call deposit and earn interest at varying rates. Short-term investments are for varying periods of between one day and three months according to the requirements of the company. As at the balance sheet date the Deutsche

Wohnen Group had cash equivalents to an amount of EUR 21.1 million (previous year: EUR 21.5 million) which was not freely available. This was in essence the cash equivalent of DB 14 and rental security deposits.

## 9 Equity

(137) Concerning the development of equity, the statement concerning changes in the Group equity is referred to.

### *a) Subscribed capital*

(138) With the issue of 6,400,000 shares as part of the GEHAG transaction, the amount of registered share capital is EUR 26.4 million (previous year EUR 20 million). The registered share capital comprises 26,400,000 no-par value shares with a notional share of EUR 1 per share in the registered share capital. The shares have been issued completely and paid in full.

(139) 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 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 approval of the Management Board.

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

(141) The Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011, by up to an aggregate of EUR 3,600,000 of authorized capital by issuing up to 3,600,000 new ordinary bearer shares against cash or non-cash contributions (authorized capital). The capital which was originally authorized amounted to EUR 10,000,000. It was reduced by the issue of 6,400,000 shares as part of the GEHAG transaction.

(142) The share capital is contingently increased by up to a further EUR 10,000,000.00 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). 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 of August 10, 2006, will be issued by the company or by a company which is 100 per cent 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 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 issue of the convertible bonds as part of the GEHAG transaction would correspondingly reduce the contingent capital in case of a conversion.

(143) The Management Board was authorized by the resolution of the Annual General Meeting of June 21, 2007, to acquire own shares of the company corresponding to a total of up to 10 per cent of the share capital in the period leading up to December 20, 2008. However the principle of equal treatment (§ 53 a of the Aktiengesetz [German Stock Corporation Act]) needs to be observed.

### *b) Share premium*

(144) The creation of the share premium was resolved by the Extraordinary General Meeting in 1999. Share premium amounted to EUR 349.5 million as of the balance sheet date (December 31, 2006: EUR 170.8 million). The increase is attributable to the extra amount in the fiscal year for the 6,400,000 shares issued in connection with the GEHAG transaction (EUR 177.6 million) and the equity contribution to the convertible bonds issued (EUR 1.1 million).

### *c) Accumulated consolidated profit*

(145) The accumulated consolidated profit includes the retained earnings of Deutsche Wohnen as well as the accumulated profit/loss carried forward.

(146) The legal reserve is mandatory for corporations. In accordance with § 150 paragraph (2) of the German Stock Corporation Act (AktG), an amount of 5 per cent of the profit for the fiscal year is to be retained. The legal reserve has an upper limit of 10 per cent of the share capital. In the process, existing retained earnings 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 amount to be retained to the legal reserve correspondingly. This is measured on the basis of the subscribed capital which exists and is legally-effective on the reporting date and which is to be reported in this amount in the respective annual balance sheet. The legal reserve remains unchanged at EUR 1.0 million.

(147) Furthermore, the valuation differences between the HGB (German Commercial Code) and IFRS accounting standards (EUR 28.9 million), the effect of the change in the measurement of investment property in the balance sheet from the cost method to the fair value method (EUR 350.5 million) and the DB 14 correction (EUR 8.8 million) are here reported.

(148) The income and expenses which are recognized directly in equity (SORIE) consider the share of the actuarial profits and losses related to the pension obligations, less the deferred taxes allocated to them (EUR 2.1 million; previous year EUR 0.2 million).

(149) For 2007 the Management Board proposes to carry forward the profit of Deutsche Wohnen totaling EUR 433 thousand to a new account.

### d) *Minority interests*

(150) The minority interests are the result of the first consolidation of the GEHAG Group.

## Non-Current Liabilities

### 10 Financial liabilities

(151) The company has taken on bank loans in particular to finance the GEHAG transaction and the purchase of properties. With the increase in borrowed finance, financial expenses have increased accordingly.

(152) The financial liabilities comprise the following:

| | 12/31/2007 | | 12/31/2006 | |
|---|---|---|---|---|
| | Carrying amount | Nominal amount | Carrying amount | Nominal amount |
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Company-related loans | 1,632,172 | 1,632,172 | 250,789 | 250,789 |
| Project-related loans | 547,075 | 668,907 | 322,901 | 417,416 |
| Participation rights | 308 | 308 | 0 | 0 |
| | 2,179,555 | 2,301,387 | 573,690 | 668,205 |
| of which noncurrent | 2,034,087 | | 562,186 | |
| of which current | 145,468 | | 11,504 | |
| | 2,179,555 | | 573,690 | |

The company-related loans are loans which were taken on as part of portfolio acquisitions in 2007 or 2006 or in relation to company acquisitions. These loans have variable interest rates and a remaining term of between 4 and 8 years. The average interest rates are 4.61 to 5.69 per cent. The loans are hedged by means of interest rate swaps to approximately 86 per cent against the interest-induced risk to cash flow. Interest rate swaps for a nominal amount of EUR 120.0 million and at interest rates between 3.88 and 4.06 per cent were again concluded in March 2008.

(153) The following overview lists the loans which are greater than EUR 10.0 million:

| | Nominal amount | Remaining balance | Term | Interest Rate |
|---|---|---|---|---|
| Syndicate loan | 440,000 | 396,166 | 12/31/2012 | EURIBOR + margin |
| Acquisition of GEHAG | 410,000 | 385,000 | 12/31/2017 | EURIBOR + margin |
| Loan 1 | | | | |
| Loan tranche[(a)] | 127,823 | 127,823 | 05/06/2014 | 5.79% |
| Loan tranche[(b)] | 51,129 | 51,129 | 05/06/2009 | 5.37% |
| Loan tranche[(c)] | 71,837 | 71,837 | 05/06/2014 | 5.74% |
| Purchase loan 1 | 183,000 | 183,000 | 12/31/2015 | EURIBOR + margin |
| Purchase loan 2 | 230,000 | 225,086 | 12/31/2016 | EURIBOR + margin |
| Loan 2 | 270,000 | 89,400 | 09/30/2008 | EURIBOR + margin |
| Purchase loan 3 | 45,000 | 43,125 | 12/31/2015 | EURIBOR + margin |
| Purchase loan 4 | 19,000 | 19,000 | 12/31/2013 | EURIBOR + margin |
| Others < EUR 10.0 million | | 40,606 | | |
| | 1,847,789 | 1,632,172 | | |

(154) As part of a down-stream merger in 2002, GEHAG has taken over loans totaling EUR 421 million. With a credit agreement of October 15, 2003, the borrowings and other financial liabilities taken on were converted into long-term project financing (syndicate loan of EUR 440 million). The syndicate loan is used as roll-over credit and the interest rate is based on EURIBOR plus a margin. Of the total credit volume, EUR 340 million is hedged long-term with three 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.

(155) A loan agreement of over EUR 410 million was entered for the financing of the GEHAG transaction. The loan is divided into 4 facilities. The interest is determined based upon EURIBOR, plus a margin. The term is until December 31, 2017. 78 per cent of the loan is hedged long-term against interest rate risks by means of interest rate swaps.

(156) Loan 1 was taken on as part of the disengagement of the Deutsche Bank Group and the associated restructuring of finance.

(157) Purchase loans 1 and 2 can be used either as short-term or long-term loans. As of the balance sheet date, funds were only taken on as short-term EURIBOR loans. The terms of the purchase loans end on December 31, 2015/ 2016.

(158) Purchase loans 3 and 4 are related to the financing of properties that is to be allocated to the section of nursing and residential care homes.

(159) A borrowing limit of EUR 270 million was made available to the Deutsche Wohnen Group; as of December 31, 2007, EUR 89.4 million had been drawn on the credit line.

(160) The project-related loans are loans which can be directly allocated to properties. These have been taken up in the past primarily for purchases or modernization purposes. In the case of a sale, these are to be reduced accordingly. The average interest rates of the loans are between 0.0 and 7.5 per cent. The loans with no or low interest rates — for which in return rent is granted at conditions below the market rent—are measured at amortized cost. In the Deutsche Wohnen Group, the price-fixed stock totals approximately 23 per cent.

(161) The residual terms are as follows:

| | Summe | Residual term to 1 year | Residual term over 1 to 5 years | Residual term over 5 years |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Financial liabilities as of 12/31/2007 . . | 2,179,555 | 145,468 | 255,917 | 1,778,170 |
| Financial liabilities as of 12/31/2006 . . | 573,690 | 11,504 | 128,766 | 433,420 |

(162) The liabilities are secured to the amount of EUR 1,616.0 million (previous year EUR 376.9 million) by properties.

## 11 Convertible bonds

(163) 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 ordinary 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 |
|---|---|
| | in EUR thousands |
| Nominal value of convertible bonds . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 25,000 |
| Equity component . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | −1,102 |
| | 23,898 |
| Debt component as of the day of issue . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 23,898 |
| Deferred interest . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 441 |
| Debt component as of 12/31/2007 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 24,339 |

(164) If the convertible bonds are not converted into ordinary shares, they will be taken back on July 31, 2010 at the nominal value multiplied by 109 per cent. No interest is paid until the settlement date.

(165) The issued convertible bonds were divided into debt and equity components. The equity component reflects the value of the option in connection with the right to convert the bond into equity.

(166) The fair value of the convertible bonds basically correspond with the carrying amount 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 obligations

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

(168) 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.

(169) 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 the following factors:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | % | % |
| Discount factor . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5.60 | 4.40 |
| Salary dynamics . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 2.00 | 3.00 |
| Pension trend . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 1.75 | 1.75 |
| Increase in the income threshold for contribution assessment . . . . . . . . . | 2.00 | 2.75 |
| 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/revenues comprise the following:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Interest expenses | −1,021 | −113 |
| Service period expenses reported under employee expenses | −268 | −14 |
| Curtailment | 310 | 0 |
| Actuarial profits reported in SORIE | 2,933 | 63 |
| | 1,954 | −64 |

The actuarial profits/losses are directly recognized in equity — by also taking into account deferred taxes — in the accumulated consolidated financial statements (EUR 2.1 million, previous year EUR 0.2 million).

The following overview shows the development of the pension obligations:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Pension obligation, start of period | 5,084 | 5,121 |
| Pension payments | −1,308 | −160 |
| Changes in the scope of consolidation | 39,685 | 0 |
| Interest expenses | 1,021 | 113 |
| Service period expense | 268 | 14 |
| Curtailment | −310 | 0 |
| Adjustment of current pensions | 53 | 59 |
| Actuarial profits/losses | −2,933 | −63 |
| Pension obligation, end of period | 41,562 | 5,084 |

(172) The increase in the pension obligation is basically attributable to the pension obligation towards the employees of the GEHAG Group. 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.

(173) Interest costs are recognized ratably as expense under the accrued interest expenses item in the income statement, while current pension payments, service costs and adjustments of current pensions are recognized in the personnel expenses item.

(174) The adjustments included in the actuarial profits are EUR -174 thousand are based on empirical figures. There were no adjustments of this kind in previous years.

(175) The amounts for the current and previous four reporting periods are as follows:

| | 12/31/2007 | 12/31/2006 | 06/30/2006 | 12/31/2005 |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Defined benefit obligations | 41,562 | 5,084 | 5,121 | 5,355 |

(176) For defined contribution pensions, expenditure totaling EUR 1601 thousand (previous year: EUR 911 thousand) was recognized. For 2008, based on the actual employee status, expenditure totalling EUR 3.4 million will be recognized.

## 13 Liabilities to Fund limited partners

(177) 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 per cent of the paid-in capital

share on request. From 2005, the agreed purchase price for the shares increases by five percentage points per annum. Furthermore, outstanding dividend payments are considered for limited partner shares that were sold back.

(178) The liabilities have developed as follows in the fiscal year:

| | 12/31/2007 | 12/31/2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Liabilities at the start of the period | 49,783 | 54,817 |
| Payment for shares sold back | −5,195 | −6,399 |
| Dividends | −497 | 0 |
| Accrued interest | 2,540 | 1,365 |
| Liabilities at the end of the period | 46,631 | 49,783 |

(179) Liabilities to Fund limited partners are reported under noncurrent liabilities because no further limited partners had exercised their rights to sell back as of December 31, 2007. Maturities may change due to the actual exercise of the right to sell back shares.

## 14 Provisions

(180) Provisions comprise the following:

| | Revitalization | Restructuring | Others | Total |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Start of period | 0 | 0 | 818 | 818 |
| Changes in the scope of consolidation | 10,994 | 0 | 4,702 | 15,696 |
| Utilization | −131 | 0 | −231 | −362 |
| Reversal | 0 | 0 | −805 | −805 |
| Additions | 180 | 3,444 | 1,844 | 5,468 |
| End of period | 11,043 | 3,444 | 6,328 | 20,815 |
| Noncurrent | 11,043 | 0 | 332 | 11,375 |
| Current | 0 | 3,444 | 5,996 | 9,440 |

(181) The provision for revitalization relates to the privatization agreement between the State Berlin and GEHAG. According to this agreement, GEHAG is committed to invest a total of originally EUR 25,565 for improving housing conditions. There are no regulations in the agreement concerning the time period. The calculation assumes a period up to 2017 and an interest rate of 5 per cent. The additions concern the accrued interest effect of the provision.

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

## 15 Tax liabilities

(183) Non-current and current tax liabilities include mainly the present value (EUR 77,397 thousand; previous year EUR 0 thousand) from the payment for the EK 02 stocks in the Deutsche Wohnen Group. In accordance with the Annual Tax Law 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 per cent, regardless of the usage. 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 10 years from 2008 to 2017 in ten equal annual installments 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 measurement was based on an interest rate of 4.2 per cent. Furthermore, it was assumed that the payment will be in 10 annual installments and not in a one-off payment at present value.

## 16 Deferred taxes

(184) Deferred taxes comprise the following:

| | 12/31/2006 | Additions due to company acquisition | Change | 12/31/2007 |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Deferred tax assets | | | | |
| Properties | 9,400 | 47,889 | −10,123 | 47,166 |
| Loss carryforwards | 28,629 | 9,619 | −7,494 | 30,754 |
| Other provisions | 266 | 2,571 | 1,057 | 3,894 |
| Pension obligations | 254 | 2,682 | −653 | 2,283 |
| Interest rate swaps | 10 | 0 | 1,234 | 1,244 |
| Others | 0 | 2,123 | −850 | 1,273 |
| | 38,559 | 64,884 | −16,829 | 86,614 |
| Deferred tax liabilities | | | | |
| Properties | 64,089 | 42,995 | 219 | 106,865 |
| Interest rate swaps | 0 | 10,882 | 1,169 | 9,713 |
| Loans | 15,580 | 9,976 | 6,581 | 18,975 |
| Others | 0 | 280 | −2 | 282 |
| | 79,669 | 64,133 | 7,966 | 135,835 |
| Deferred taxes — net | −41,110 | 751 | −8,863 | −49,222 |

| | 2007 | 2nd short fiscal year 2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| As a change to SORIE not recognized in profit | −883 | −86 |
| As a tax expense recognized in profit | −7,980 | 3,439 |
| | −8,863 | 3,353 |

(185) The actuarial profits and losses from the pensions are recognized directly in equity (SORIE). The related deferred taxes are also recognized directly in SORIE.

The Deutsche Wohnen Group has corporation tax loss carryforwards totaling EUR 1,090.1 million (previous year EUR 199.2 million) and trade tax carryforwards totaling EUR 908.8 million (previous year EUR 73.9 million)[1)]. In principle, the tax loss carryforwards do not expire. Deferred tax assets were capitalized to tax loss carryforwards only to the value of existing deferred tax liabilities.

## 17 Leases

(186) 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 property, from which it obtains the largest part of its income and revenues.

(187) The Deutsche Wohnen Group will receive minimum lease payments in 2008 totaling EUR 193.0 million (previous year: 90.0 million) from existing operating lease agreements with third parties based on the current property stock. Furthermore, the Deutsche Wohnen Group will receive from properties related to residential care homes and nursing minimum lease payments in 2008 totaling EUR 31 million, for between one and five years the payments will amount to ca. EUR 124 million and for more than 5 years they will will amount to ca. EUR 155 million. In the process, a remaining lease

*1) The corporation tax loss carryforward — not valued — totalled approximately EUR 1.0 million, the trade tax carryforward — not valued — totalled approximately EUR 0.9 million.*

of 5 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. There were also leasing agreements in the previous year for property from which Deutsche Wohnen would have received payments (up to one year: EUR 1.2 million, for between one and five years EUR 3.2 million and for longer than five years EUR 0.7 million).

## E CONSOLIDATED PROFIT AND LOSS STATEMENT DISCLOSURES

(188) The consolidated profit and loss statement is prepared using the nature of expense method.

### 18 Revenues

(189) Revenues comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Residential property management | 180,784 | 58,310 |
| Nursing and residential care homes | 16,124 | 0 |
| Caregiving activities | 3,124 | 963 |
| Telecommunications services | 2,981 | 0 |
| Other services | 1,341 | 2,812 |
| | 204,354 | 62,085 |

The revenues from residential property management comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Estimated rents and other income | 144,564 | 47,019 |
| Vacancy income shortfall | −12,383 | −3,862 |
| Actual rents and other income | 132,181 | 43,157 |
| Revenues from billing of cost allocations | 48,603 | 15,153 |
| | 180,784 | 58,310 |

(190) The revenues from nursing and residential care homes are achieved by Katharinenhof GmbH. These were considered for the first time with the first-time inclusion of the GEHAG Group in the consolidation.

### 19 Costs of purchased services

(191) The costs of purchased services comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Expenses for residential property management | 89,718 | 27,080 |
| Expenses for nursing and residential care homes | 3,312 | 0 |
| Telecommunications services | 2,267 | 0 |
| Other expenses | 1,617 | 1,666 |
| | 96,914 | 28,746 |

The expenses for residential property management comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Operating costs | 52,625 | 16,474 |
| Maintenance expenses | 32,162 | 9,624 |
| Other expenses | 4,931 | 982 |
| | 89,718 | 27,080 |

## 20 Personnel expenses

(192) Deutsche Wohnen Group employed on average 1,361 employees (previous year 271 employees) in the fiscal year. There were 8 employees employed by the associated companies.

## 21 Other operating expenses

(193) Other operating expenses comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Legal, consultancy and audit costs | 2,462 | 995 |
| Allowances for receivables | 4,214 | 378 |
| Costs of office space | 3,859 | 588 |
| Costs of sales | 3,296 | 5,597 |
| Costs of data processing and communication | 2,752 | 773 |
| Vehicle and travel costs | 1,035 | 384 |
| Insurances | 238 | 107 |
| Administrative and miscellaneous costs | 9,412 | 2,963 |
| | 27,268 | 11,784 |

The allowances for receivables include an allowance for a receivable relating to a sale from 2005 (EUR 2.1 million, previous year: EUR 0.0 million).

## 22 Restructuring and reorganization expenses

(194) The restructuring and reorganization costs include primarily personnel costs (EUR 7.3 million, previous year: EUR 0.0 million) for severance payments and salary payments to released or retired employees as well as associated legal and consultancy costs (EUR 1.4 million, previous year: EUR 0.0 million) and expenses associated with the integration and reorganization (EUR 1.1 million, previous year: EUR 0.0 million).

## 23 Expenses relating to the listing prospectus

(195) The expenses relating to the listing prospectus (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 of the portfolios which were newly acquired in the fiscal year and the acquisition of the GEHAG Group.

(197) Financial expenses comprise the following:

| | 2007 | 2nd short fiscal year 2006 |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Interest | 62,506 | 14,017 |
| Adjustment of interest rate swaps | 7,845 | 55 |
| Accrued interest on liabilities and pensions | 10,233 | 2,221 |
| | 80,584 | 16,293 |

## 25 Income taxes

(198) For companies located in Germany with the legal form of a public limited company, corporation tax of 25 per cent and a solidarity surcharge of 5.5 per cent of the corporation tax due are imposed. 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 carryforwards are 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 a maximum of 60 per cent by an existing loss carryforward.

(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 fall in tax rates and, for counter-financing purposes, a broadening of the assessment basis; the deductibility of financial costs is limited to 30 per cent of the taxable EBITDA, the trade tax will in future no longer represent a tax deductible expense. The expected income tax rate for 2008 for the Group parent Deutsche Wohnen AG will nominally amount to 31.93 per cent. This tax rate was already used for the calculation of deferred tax as of December 31, 2007.

(200) The income tax expenses for the current fiscal year comprise the following:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Current tax expenses | | |
| Current income taxes | −1,824 | 2,626 |
| EK 02 taxation | 29,808 | 0 |
| Deferred tax expenses | | |
| Properties | 9,904 | 9,130 |
| Loss carryforwards | 7,494 | −2,951 |
| Loans missing | 6,581 | 398 |
| Interest rate swaps | 2,403 | −10 |
| Other provisions | −1,057 | 737 |
| Pensions | −230 | −18 |
| Others | 852 | 500 |
| | 35,963 | 9,412 |

For the fiscal year 2007, the current income taxes take into account income relating to other periods totaling EUR 3.3 million (previous year expenses of EUR 0.1 million).

The reconciliation in the tax expenses/revenues can be seen in the following overview:

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Consolidated profit before taxes | 65,749 | 20,337 |
| Applicable tax rate | 40.86% | 40.86% |
| Expected tax expenses | 26,865 | 8,310 |
| Negative consolidation difference | −26,191 | 0 |
| Tax expense from EK 02 | 29,808 | 0 |
| Effect from change in tax rate | 3,483 | 0 |
| Other effects | 1,998 | 1,102 |
| | 35,963 | 9,412 |

## F SEGMENT REPORTING

(201) The Deutsche Wohnen reports by business segments. Segment information is not reported by geographical region as properties 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. In the residential property management segment, all of the activities are performed by the previous four regional offices in Mainz, Frankfurt am Main, Koblenz and Neustadt a.d. Weinstrasse as well as the GEHAG Group in Berlin. The stock management includes the modernization and maintenance of the property portfolio of Deutsche Wohnen, the management of tenancy agreements, support of tenants and the marketing of property. The focus of property management is on the optimization 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.

Properties held for sale are included in this segment.

### *Housing privatization*

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

(205) The housing privatization segment includes all aspects of the preparation and realiziation of the sale of property from the own portfolio as part of portfolio optimization and adjustment.

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

(207) In view of the housing privatization segment's change in focus, continual measurement and assessment of the property stock takes place with the aim of optimizing 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 privatized are also offered for individual sale. In future, the annual privatization volume should be around 500 residential units. For larger properties/part portfolios, however, the aim is to complete a block sale.

(208) With regards to certain residential units — particularly in Rheinland-Pfalz — and in view of individual stocks of the GEHAG Group, Deutsche Wohnen's privatizations are subject to certain restrictions due to the acquisition agreements. Due to these obligations, it is partly bound to certain

specifications (e.g. sale to tenants, social conditions, etc.) when making privatization decisions. In part also due to those restrictions, it is not possible to sell the property concerned for a certain 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 Pflegeanlage Betriebs-GmbH 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 the homes. The telecommunications services are performed by AKF — Telekabel TV und Datennetze GmbH.

(210) The values for the previous year have been adjusted due to the change over from the cost method to the fair value method.

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

(212) The segment reporting is attached as Annex 2 in the explanatory notes to the consolidated financial statement.

(213) The segment reporting was basically adjusted due to the change to the fair value method and the correction of DB 14. The important adjustments are described below. Depreciation in the residential property management segment accordingly no longer applies. The revenues from residential property management have risen from EUR 52.7 million by the revenue of DB 14 (EUR 4.8 million) to EUR 57.5 million. Earnings from housing privatization have fallen due to the change to the fair value method from EUR 35.3 million to EUR 8.1 million. The reclassification of the sales vacancy rate is no longer necessary.

(214) The reconciliation from the segment assets or segment liabilities to the consolidated balance sheet can be see in the following table:

| | 12/31/2007 | 12/31/2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Segment assets | 3,430,909 | 1,445,666 |
| Deferred taxes | 86,614 | 38,559 |
| Receivables from income taxes | 2,879 | 1,652 |
| | 3,520,402 | 1,485,877 |

| | 2007 | 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Segment liabilities | 2,366,576 | 665,605 |
| Deferred taxes | 135,835 | 79,669 |
| Liabilities from income taxes | 81,865 | 4,184 |
| | 2,584,276 | 749,458 |

## G CASH FLOW STATEMENT DISCLOSURES

(215) 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 fiscal year. In accordance with IAS 7 (cash flow statements), a distinction is made between cash flows from operating, investing and financing activities.

(216) In total, EUR 21.1 million is not freely available to the Group. This concerns the cash and cash equivalents for DB 14 and rental deposits held in trust.

(217) The Group has at its disposal, funds amounting to EUR 212.3 million (previous year EUR 270.0 million) from financing commitments that had not been utilized as of the balance sheet date.

(218) Cash flows from investing 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

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

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

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

| | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|
| Consolidated profit for calculating basic earnings per share | 29,786 | 10,925 |
| ,/, Convertible bond interest (after taxes) | 309 | 0 |
| Adjusted consolidated profit for calculating diluted earnings per share | 30,095 | 10,925 |

| | 2007 | Short fiscal year 2006 |
|---|---|---|
| Shares issued, start of period | 20,000 | 20,000 |
| Shares issued as of August 9, 2007 | 6,400 | 0 |
| Shares issued, end of period | 26,400 | 20,000 |
| Average shares issued, basic | 22,525 | 20,000 |
| + conversion rights | 231 | 0 |
| Average shares issued, diluted | 22,756 | 20,000 |
| Earnings per share | | |
| basic | 1.32 | 0.55 |
| diluted | 1.32 | 0.55 |

The following dividends were distributed:

| | | 2007 | 2nd short fiscal year 2006 (adjusted) |
|---|---|---|---|
| Dividends | in EUR thousands | 17,600 | 52,600 |
| Number of shares at the time of the distribution | Thousand shares | 20,000 | 20,000 |
| Dividends per share | EUR/share | 0.88 | 2.63 |

## I OTHER DISCLOSURES

### *Risk management*

#### *General information on risk management*

(222) The risk management system (RMS) is an instrument for achieving the central goal of the company, i.e. to become 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.

(223) 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

(224) 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 measurement and control of risk. Risk is proactively controlled by using the early warning system.

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

(225) With the exception of derivatives, 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 liabilities, which result directly from its business activities.

(226) 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 result from 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 future either.

(227) The following table shows the designation of the financial instruments in the appropriate classes in accordance with IFRS 7.6 and the allocation of the measurement categories in accordance with IAS 39:

| | Measurement category in accordance with IAS 39 | Carrying amount 12/31/2007 | Balance sheet valuation in accordance with IAS 39 | | Fair value 12/31/2007 |
|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recognized in the profit and loss statement | |
| | | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Assets | | | | | |
| Trade 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 |
| Liabilities | | | | | |
| Finance 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..... | (4) | 46,631 | | 46,631 | 46,631 |
| Trade receivables ..... | (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 measured at fair value through profit or loss ....... | | 32,231 | | | |
| (3) Liabilities recognized at amortized cost .... | | 2,253,765 | | | |
| (4) Liabilities measured at fair value through profit or loss ....... | | 50,435 | | | |

| | Measurement category in accordance with IAS 39 | Carrying amount 12/31/2006 | Balance sheet valuation in accordance with IAS 39: Amortized cost | Balance sheet valuation in accordance with IAS 39: Fair value recognized in the profit and loss statement | Fair value 12/31/2006 |
|---|---|---|---|---|---|
| | | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Assets | | | | | |
| Trade receivables | (1) | 52,459 | 52,459 | | 52,459 |
| Other assets | (1) | 1,596 | 1,596 | | 1,596 |
| Cash and cash equivalents | (1) | 33,516 | 33,516 | | 33,516 |
| Liabilities | | | | | |
| Finance liabilities | (3) | 573,690 | 573,690 | | 573,690 |
| Liabilities to Fund limited partners | (4) | 49,783 | | 49,783 | 49,783 |
| Trade receivables | (3) | 10,618 | 10,618 | | 10,618 |
| Other liabilities | (3) | 25,301 | 25,301 | | 25,301 |
| Derivative financial instruments | (4) | 55 | | 55 | 55 |
| (1) Loans and receivables | | 87,571 | | | |
| (2) Assets measured at fair value through profit or loss | | 0 | | | |
| (3) Liabilities recognized at amortized cost | | 609,609 | | | |
| (4) Liabilities measured at fair value through profit or loss | | 49,838 | | | |

(228) The following overview shows the contractual payments (undiscounted interest and redemption payments) for years 2008 to 2011.

| | Carrying amount 12/31/2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| | EUR millions | EUR millions | EUR millions | EUR millions | EUR millions |
| Financial liabilities[1] | 2,179.6 | 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 receivables | 25.4 | 25.4 | | | |
| Other liabilities | 24.5 | 24.5 | | | |

| | Carrying amount 12/31/2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| | EUR millions | EUR millions | EUR millions | EUR millions | EUR millions |
| Financial liabilities[1] | 573.7 | 27.5 | 37.9 | 83.9 | 35.8 |
| Liabilities to Fund limited partners | 49.8 | 49.8[2] | | | |
| Liabilities from taxes | 4.2 | 4.2 | | | |
| Trade receivables | 10.6 | 10.6 | | | |
| Other liabilities | 25.3 | 25.0 | 0.3 | | |

1) *The payments relating to interest-rate swaps are considered in the payments of financial liabilities.*

2) *The actual payments depend on the actual exercise of the right to sell back share by the limited partners, and the estimate of the payment is therefore uncertain.*

| 2007 | Interest | Valuation adjustment | Fair value | Net loss |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Loans and receivables | | 2,029 | | 2,029 |
| Assets measured at fair value through profit or loss | | | 4,041 | 4,041 |
| Liabilities recognized at amortized cost | 69,178 | | | 69,178 |
| Liabilities measured at fair value through profit or loss | 2,540 | | 3,804 | 6,344 |
| | 71,718 | 2,029 | 7,845 | 81,592 |

| 2nd Short fiscal year 2006 | Interest | Valuation adjustment | Fair value | Net loss |
|---|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Loans and receivables | | 247 | | 247 |
| Liabilities recognized at amortized cost | 14,873 | | | 14,873 |
| Liabilities measured at fair value through profit or loss | 1,365 | | 55 | 1,420 |
| | 16,238 | 247 | 55 | 16,540 |

(229) The significant risks to the Group resulting from financial instruments consist of interest-induced risks to 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 as follows:

### *Default risk*

(230) Default risks, or the risk that a contractual partner does not meet its 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 carrying amount of financial assets reported in the balance sheet.

### *Liquidity risk*

(231) 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.

(232) Deutsche Wohnen aims to have sufficient liquidity to meet future obligations at all times. Deutsche Wohnen currently has a borrowed capital ratio of approximately 73 per cent (previous year: 50 per cent) and a loan-to-value ratio (= total of financial liabilities divided by investment property) of 67 per cent (previous year: 43 per cent).

### *Interest-induced cash flow risk*

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

(234) The Group's interest expenditures is 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.

*Market risks*

(235) 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 liabilities, and other liabilities.

(236) The carrying amount 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 carrying amount based on the historical cost is also very close to the fair value.

(237) Fair value risk 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***

(238) 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.

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

(240) Important figures for capital management are:

- Equity/borrowed capital ratio and debt-to-equity ratio

The Group aims to achieve an equity ratio of 30 per cent. 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.

| | 2007 | 2006 (adjusted) |
|---|---|---|
| | in EUR thousands | in EUR thousands |
| Financial liabilities | 2,179,555 | 573,690 |
| Convertible bonds | 24,339 | 0 |
| | 2,203,894 | 573,690 |
| Fair value of investment property | 3,271,205 | 1,341,596 |
| Loan-to-value-ratio | 67.4% | 42.8% |

***Hedge accounting***

(241) As of December 31, 2007 there are various interest rate hedges (payer swaps), with which variable interest rate conditions can be exchanged against fixed interest rate conditions.

***Events after the balance sheet date***

(242) The Management Board announced a restructuring program for the whole Group on February 11, 2008. This affects around 140 employees. The restructuring program is to lead to personnel cost savings totaling EUR 10 million per annum. The costs for the implementation are estimated at approximately EUR 10 million.

***Other financial obligations and contingent liabilities***

(243) Contingent liabilities as of December 31, 2007, totaled EUR 8.5 million (previous year EUR 3.4 million). They relate primarily to settlement guarantees for partial retirement credit balances and guarantees securing bank loans and grants.

(244) Financial obligations relating to leasehold agreements totaled EUR 11.2 million (previous year: EUR 10.7 million).

(245) Other financial obligations relating to agency agreements concerning IT services totaled EUR 2.0 million (previous year: EUR 1.1 million).

(246) A Group company (Rhein-Pfalz Wohnen GmbH) has been certified as development and redevelopment agency in accordance with sections 158 and 167 of the Baugesetzbuch (Federal Building Code). Rhein-Pfalz Wohnen GmbH performs assignments delegated by local authorities as their trustee.

(247) As of December 31, 2007, the company holds bank balances amounting to 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. The bank accounts were transferred in 2007. In this context, the company raised loans for local authorities amounting to EUR 0.0 million (previous year: EUR 3.6 million) as a trustee. No risk results from this; the transfer took place in 2007.

(248) The Group companies administer rental deposit accounts on behalf of tenants amounting to EUR 29.7 million (previous year: EUR 4.4 million).

### *Leases*

The following lease payments are due in future:

| 2007 | up to 1 year | longer than 1 year and up to 5 years | longer than 5 years |
|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands |
| Leasehold agreements | 62 | 304 | 3,448 |
| Leasing agreements | 2,194 | 4,928 | 0 |
| | 2,256 | 5,232 | 3,448 |

| 2nd short fiscal year 2006 | up to 1 year | longer than 1 year and up to 5 years | longer than 5 years |
|---|---|---|---|
| | in EUR thousands | in EUR thousands | in EUR thousands |
| Leasehold agreements | 51 | 253 | 2,859 |
| Leasing agreements | 1,200 | 4,555 | 0 |
| | 1,251 | 4,808 | 2,859 |

### *Auditors' services*

(249) The fees of the auditors Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft recognized as expenses in the fiscal year amounted to EUR 393 thousand for the audit and EUR 980 thousand for other services. The other services are primarily the audit costs relating to the listing prospectus and due diligence services in connection with the GEHAG transaction.

### *Disclosures concerning related parties*

(250) 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

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

(252) In the Group there are service and cash management agreements. The services between the companies are eliminated due to consolidation.

(253) There is a consultancy agreement between the main shareholder and Deutsche Wohnen AG. The agreement can be cancelled with a period of one month to the end of the month. Remuneration is dependent upon the services performed and is limited to EUR 300 thousand per annum, plus value added tax. Any travel costs are reimbursed separately. In 2007, EUR 50 thousand were billed.

## Related persons

(254) The following persons are to be considered as related persons:

*Members of the Management Board of Deutsche Wohnen AG*

- *Michael Zahn, Berlin, Speaker of the Management Board*
- *Helmut Ullrich, Königstein*

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

*Members of the Supervisory Board of Deutsche Wohnen AG*

- *Hermann T. Dambach, Bad Homburg, Chairman, since September 7, 2007 Managing Director of Oaktree GmbH, Frankfurt am Main*

*Memberships in other Supervisory Boards and other Supervisory Committees*

- *GEHAG GmbH, Berlin*
- *Nordenia International AG, Greven*
- *Sanierungsund Gewerbebau-AG, Aachen*
- *ESG Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH, Berlin*
- *OCM German Real Estate Holding AG, Hamburg*
- *R&R Ice Cream Ltd., North Yorkshire / United Kingdom*
- *Dr. rer. pol. Andreas Kretzschmer, Vice chairman Managing Director of Ärzteversorgung Westfalen-Lippe an organization of the Ärztekammer Westfalen-Lippe—a corporation under public law—, Münster*

*Memberships in other Supervisory Boards and other Supervisory Committees*

- *BIOCEUTICALS Arzneimittel AG, Bad Vilbel*
- *Biofrontera AG, Leverkusen*
- *Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden*
- *Private Life Biomed AG, Hamburg*
- *TRITON, St. Helier / Jersey*
- *Uwe E. Flach, Frankfurt/Main, (from January 16, 2008) Corporate Consultant, Financial Sector, Frankfurt am Main*

*Memberships in other Supervisory Boards and other Supervisory Committees*

- *Nordenia International AG, Greven (Chairman of the Supervisory Board)*
- *Stada AG, Bad Vilbel*
- *Andreae-Noris Zahn AG (ANZAG), Frankfurt am Main -GEHAG GmbH, Berlin, (Chairman of the Supervisory Board)*
- *Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH, Berlin*
- *Haus und Heim Wohnungsbau-Aktiengesellschaft, Berlin (Chairman of the Supervisory Board)*
- *Member of the Advisory Board of DZ Bank AG, Frankfurt am Main*
- *Dr. Florian Stetter, Managing Director of DeTe Immobilien und Service GmbH, Frankfurt am Main*

*Membership in other Supervisory Boards and other Supervisory Committees*

- *GEHAG GmbH, Berlin*
- *gep Global Equity Partners, Wien*
- *Conject.com, München*
- *Matthias Hünlein Managing Director Tishman Speyer, Frankfurt am Main*

*Membership in other Supervisory Boards and other Supervisory Committees*

- *A.A.A. Aktiengesellschaft Allgemeine Anlagenverwaltung, Frankfurt am Main*
- *Jens Bernhardt Managing Director Oppenheim Vermögenstreuhand GmbH, Köln*

*Membership in other Supervisory Boards and other Supervisory Committees*

- *GEHAG GmbH, Berlin*
- *Hans-Werner Jacob (until January 3, 2008) Member of the Management of Deutsche Bank AG, Private Banking, Frankfurt am Main*

*Membership in other Supervisory Boards and other Supervisory Committees*

- *GEHAG GmbH, Berlin*
- *Helmut Ullrich (until July 31, 2007) Managing Director of DB Real Estate Management GmbH, Eschborn, (until July 31, 2007)*

## Transactions with related persons

(255) In the fiscal year, no business transactions took place between the related persons and Deutsche Wohnen.

### *Remuneration for the Management Board and the Supervisory Board*

(256) For the remuneration of the Management Board, the following expenses which are due in the short-term were occurred:

| **2007** | **Fixed remuneration** | **Variable remuneration** | **Severance payments** | **Total** |
|---|---|---|---|---|
| | **in EUR thousands** | **in EUR thousands** | **in EUR thousands** | **in EUR thousands** |
| Michael Zahn, since September 01, 2007 | 100 | 0 | 0 | 100 |
| Helmut Ullrich, since August 01, 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 |

| **2nd short fiscal year 2006** | **Fixed remuneration** | **Variable remuneration** | **Severance payments** | **Total** |
|---|---|---|---|---|
| | **in EUR thousands** | **in EUR thousands** | **in EUR thousands** | **in EUR thousands** |
| Andreas Lehner | 93 | 551 | 0 | 644 |
| Michael Neubürger | 84 | 364 | 0 | 448 |
| | 177 | 915 | 0 | 1,092 |

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

(258) The Supervisory Board has received remuneration totaling EUR 79 thousand (2006: EUR 42 thousand).

### *Corporate Governance*

(259) The Management Board and Supervisory Board have issued the Declaration of Conformity with the German Corporate Governance Code required in accordance with § 161 AktG (German Stock Corporation Act), which has been made permanently available to shareholders on the Internet under www.deutsche-wohnen.com.

Frankfurt am Main, March 25, 2008

| Michael Zahn | Helmut Ullrich |
|---|---|
| Speaker of the Management Board | Chief Financial Officer |

**Appendix 1**
to the Notes to the Consolidated Financial Statements

**DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN**

| Shareholdings Name and Registered Office, | Share in Capital | Equity* | Result |
|---|---|---|---|
| | % | in EUR thousands | in EUR thousands |
| Aufbau-Gesellschaft der GEHAG mbH, Berlin (GEHAG-Aufbau) | 100.00 | 434.2 | −994.7 |
| ESG Grundwert Beteiligungs GmbH, Berlin | 100.00 | 24.9 | −0.1 |
| GEHAG GmbH | 100.00 | 131,107.0 | −74,133 |
| ESG Grundwert I GmbH & Co. KG | 100.00 | 0.9 | −0.1 |
| ESG Grundwert II GmbH & Co. KG | 100.00 | 0.9 | −0.1 |
| ESG Grundwert III GmbH & Co. KG | 100.00 | 0.9 | −0.1 |
| Gehag Akquisition Co. GmbH | 100.00 | 2,125.0 | −6.5 |
| HESIONE Vermögensverwaltungsgesellschaft mbH | 100.00 | 23.9 | −1.1 |
| GEHAG Erwerbs GmbH & Co KG | 99.99 | 19,193 | −2.0 |
| GEHAG Erste Beteiligungs GmbH, Berlin | 100.00 | 23.7 | −1.0 |
| GEHAG Zweite Beteiligungs GmbH, Berlin | 100.00 | 494.0 | −6,623.8 |
| GEHAG Immobilien Management GmbH, Berlin | 100.00 | 19.2 | 0.0 |
| GEHAG Immobilien Vertriebs GmbH, Berlin | 100.00 | 17.7 | 0.0 |
| GEHAG Versicherungsvermittlungs- und Vermögensverwaltungs GmbH, Berlin | 100.00 | 25.6 | 0.0 |
| GEHAG Wohnungsverwaltungs- und Vertriebs-GmbH, Berlin | 100.00 | 79.9 | 0.0 |
| GEHAG Service Technik GmbH, Berlin | 100.00 | 25.0 | 0.0 |
| KATHARINENHOF Service GmbH, Berlin | 100.00 | 36.0 | 16.0 |
| Pflegedienst Daheim GmbH, Berlin | 100.00 | 4.6 | −19.3 |
| BWI Berliner Wohnimmobilien GmbH, Berlin | 100.00 | 25.0 | 0.0 |
| KATHARINENHOF Seniorenwohn- und Pflegeanlagen Betriebs GmbH, Berlin (Katharinenhof) | 100.00 | 1,950.0 | 0.0 |
| Fortimo GmbH, Berlin | 100.00 | 4,284.6 | 0.0 |
| AKF — Telekabel TV und Datennetze GmbH, Frankfurt | 100.00 | 3,483.0 | 0.0 |
| AKF — Betreibungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main | 100.00 | 621.1 | −203.9 |
| Main-Taunus Wohnen GmbH & Co. KG, Eschborn | 100.00 | 8,252 | 3,906 |
| Deutsche Wohnen Management- u. Servicegesellschaft mbH, Frankfurt am Main | 100.00 | 26 | 0 |
| Rhein-Pfalz Wohnen GmbH, Mainz | 100.00 | 31,017 | −6,807 |
| Rhein-Main Wohnen GmbH, Frankfurt am Main | 100.00 | 239,190 | 8,801 |
| Rhein-Mosel Wohnen GmbH, Mainz | 100.00 | 93,629 | −1,318 |
| RMW Projekt GmbH, Frankfurt am Main | 100.00 | 16,231 | 0 |
| Deutsche Wohnen Asset Immobilien GmbH, Frankfurt am Main | 100.00 | 24 | 0 |
| Deutsche Wohnen Beteiligung Immobilien GmbH, Frankfurt am Main | 100.00 | −905 | −928 |
| Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt am Main | 100.00 | 21 | −3 |
| Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt am Main | 100.00 | 133 | −891 |
| Deutsche Wohnen Eigentum Immobilien GmbH, Frankfurt am Main | 100.00 | 21 | −3 |
| Sanierungs- und Gewerbebau-AG, Aachen | 99.44 | 2,193.0 | 0.0 |
| Sanierungs- und Gewerbebau-AG & Co. KG, Aachen | 99.55 | 1,405.0 | 0.0 |
| Eisenbahn-Siedlungsgesellschaft mbH, Berlin | 94.90 | 1,019.4 | −6,226.7 |
| Haus und Heim AG, Berlin | 97.29 | 761.9 | 26.1 |
| Kabel Service Prenzlau GmbH, Prenzlau | 90.00 | 25.0 | 0.0 |
| DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn | 32.17 | 38,881 | −751 |
| SES Stadtentwicklungsgesellschaft Eldenaer Strasse mbH, Berlin | 50.00 | 687.6 | 36.9 |
| GbR Fernheizung Gropiusstadt, Berlin | 44.26 | 563 | −32 |
| AVUS Immobilien Treuhand GmbH & Co. KG | 100.00 | not specified | not specified |

*) *Disclosures are based on HGB (German Commercial Code) accounting standards*

## Appendix 2
to the Notes to the Consolidated Financial Statements

### DEUTSCHE WOHNEN AG, FRANKFURT AM MAIN
### CONSOLIDATED SEGMENT REPORTING FOR THE FISCAL YEAR 2007,

| | Residential property management | | Housing privatization | | Services | | Other and Group function | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) | 12/31/2007 | 2nd short fiscal year 2006 (adjusted) |
| | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands | in EUR thousands |
| Segment revenues from third parties | 180,784 | 57,510 | | | 19,105 | 0 | 4,465 | 4,575 | | | 204,354 | 62,085 |
| Revenues from privatization | | | 5,285 | 8,136 | | | | | | | 5,285 | 8,136 |
| Other revenues | 30,948 | 12,941 | | | | | 70,390 | 1,868 | | | 101,338 | 14,809 |
| Transactions with other segments | 501 | 98 | | | | | 40,320 | 12,514 | −40,821 | −12,612 | 0 | 0 |
| Segment revenues | 212,233 | 70,549 | 5,285 | 8,136 | 19,105 | 0 | 115,175 | 18,957 | −40,821 | −12,612 | 310,978 | 85,030 |
| Expenses related to goods and services received | −89,718 | −27,080 | | | −5,579 | 0 | −1,617 | −1,666 | | | −96,914 | −28,746 |
| Expenses related to sales activities | | | | | | | | | | | 0 | 0 |
| Personnel expenses | | | | | −8,057 | 0 | −23,672 | −8,354 | | | −31,729 | −8,354 |
| Other operational expenses | | | −4,254 | −5,573 | | | −34,813 | −6,211 | | | −39,067 | −11,784 |
| Depreciation and amortization expense | | | | | −1,180 | 0 | −509 | −249 | | | −1,689 | −249 |
| Profit from associates | | | | | | | 18 | 0 | | | 18 | 0 |
| Financial income | | | | | 300 | 0 | 4,436 | 733 | | | 4,736 | 733 |
| Financial expenses | | | | | −509 | 0 | −80,075 | −16,293 | | | −80,584 | −16,293 |
| Income taxes | | | | | −11 | 0 | −35,952 | −9,412 | | | −35,963 | −9,412 |
| Segment expenses | −89,718 | −27,080 | −4,254 | −5,573 | −15,036 | 0 | −172,184 | −41,452 | | | −281,192 | −74,105 |
| Segment profit or loss | 122,515 | 43,469 | 1,031 | 2,563 | 4,069 | 0 | −57,008 | −22,495 | | | 29,786 | 10,925 |
| Segment assets | 3,280,499 | 1,347,260 | 35,748 | 50,500 | 30,553 | 0 | 84,109 | 47,906 | | | 3,430,909 | 1,445,666 |
| Segment liabilities | | | | | 20,514 | 0 | 2,346,063 | 665,604 | | | 2,366,577 | 665,604 |
| Segment investments | 161,628 | 3,701 | 0 | 0 | 0 | 0 | 3,824 | 26,505 | | | 165,452 | 30,206 |

*The following auditor's opinion is a translation of the German-language auditor's opinion (Bestätigungsvermerk), which refers to the consolidated financial statements of Deutsche Wohnen AG prepared on the basis of International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] as well as the combined management report of Deutsche Wohnen AG and Deutsche Wohnen Group prepared on the basis of German commercial law (HGB) for the fiscal year ended December 31, 2007 as a whole and not solely to the consolidated financial statements presented in this offering circular on the preceding pages.*

# AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Deutsche Wohnen AG, Frankfurt/Main, Germany, comprising the consolidated balance sheet as of 31 December 2007, the consolidated profit and loss statement, the consolidated statement of changes in equity, the group cash flow statement for the year then ended and the notes to the consolidated financial statements, and the group management report which has been combined with the management report of the company for the fiscal year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the German Commercial Code [HGB], are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report which has been combined with the management report of the company are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Dec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report which has been combined with the management report of the company is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt/Main, March 26, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

| Völker | Spall |
|---|---|
| Wirtschaftsprüfer [German Public Auditor] | Wirtschaftsprüfer [German Public Auditor] |

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Short Fiscal Year ended December 31, 2006 (IFRS)

## Deutsche Wohnen AG, Frankfurt am Main

## Consolidated Balance Sheet as of December 31, 2006

| | Assets in EUR | Notes | Dec 31, 2006 | June 30, 2006 |
|---|---|---|---|---|
| A. | **Noncurrent assets** | | | |
| I. | Investment property | (1) | 956,579,764.60 | 799,434,870.60 |
| II. | Property, plant and equipment | (2) | 3,897,897.89 | 4,067,833.85 |
| III. | Intangible assets | (3) | 188,805.00 | 31,643.00 |
| IV. | Noncurrent financial assets | (4) | 172,921.87 | 23,845,180.63 |
| V. | Noncurrent receivables and other noncurrent assets | | 145,326.00 | 2,216,850.70 |
| VI. | Deferred tax assets | (16) | 42,420,000.00 | 40,417,000.00 |
| | **Total noncurrent assets** | | **1,003,404,715.36** | **870,013,378.78** |
| B. | **Current assets** | | | |
| I. | Properties held for sale and other inventories | (5) | | |
| | a) Land without buildings | | 2,479,657.75 | 2,503,417.92 |
| | b) Land with finished buildings | | 5,907,943.42 | 7,545,573.15 |
| | c) Construction in progress, other inventories | | 28,152,724.93 | 30,835,566.79 |
| | | | **36,540,326.10** | **40,884,557.86** |
| II. | Current receivables and other current assets | (6) | | |
| | a) Receivables from rental activities | | 4,284,329.28 | 4,087,612.73 |
| | b) Receivables from property sales | | 47,160,064.98 | 3,458,371.15 |
| | c) Current tax receivables | | 1,652,277.65 | 1,067,680.08 |
| | d) Current receivables and other current assets | | 10,249,862.73 | 18,023,183.19 |
| | e) Derivative financial instruments | | 0.00 | 6,144,000.00 |
| | | | **63,346,534.64** | **32,780,847.15** |
| III. | Cash and cash equivalents | (7) | **33,515,685.27** | **54,356,434.35** |
| C. | **Noncurrent assets held for sale** | (8) | **2,709,053.66** | **8,505,438.77** |
| | **Total current assets** | | **136,111,599.67** | **136,527,278.13** |
| | **Total assets** | | **1,139,516,315.03** | **1,006,540,656.91** |

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

## Deutsche Wohnen AG, Frankfurt am Main

## Consolidated Balance Sheet as of December 31, 2006

| | Equity and Liabilities in EUR | Notes | Dec 31, 2006 | June 30, 2006 |
|---|---|---|---|---|
| A. | **Equity** | (9) | | |
| I. | Subscribed capital | | 20,000,000.00 | 10,225,837.62 |
| II. | Share premium | | 170,754,317.92 | 207,052,559.57 |
| III. | Accumulated consolidated result | | 29,702,430.21 | 29,553,878.21 |
| IV. | Consolidated net profits | | 175,098,444.00 | 171,830,233.52 |
| | **Total equity** | | **395,555,192.13** | **418,662,508.92** |
| B. | **Noncurrent liabilities** | | | |
| I. | Bank loans and overdrafts | (10) | 503,587,203.03 | 407,160,671.16 |
| II. | Liabilities to other lenders | (10) | 58,599,066.68 | 20,703,195.48 |
| III. | Derivative financial instruments | (11) | 54,795.07 | 0.00 |
| IV. | Pension obligations | (12) | 5,083,618.00 | 5,121,280.00 |
| V. | Other provisions | (13) | 254,480.27 | 4,180,493.86 |
| VI. | Liabilities to Fund limited partners | (14) | 49,783,237.83 | 0.00 |
| VII. | Other noncurrent liabilities | (15) | 219,139.70 | 5,341,389.79 |
| VIII. | Deferred tax liabilities | (16) | 6,179,849.51 | 2,190,000.00 |
| IX. | Deferred income | (10) | 35,446,554.16 | 36,189,965.46 |
| | **Total noncurrent liabilities** | | **659,207,944.25** | **480,886,995.75** |
| C. | **Current liabilities** | | | |
| I. | Bank loans and overdrafts | (10) | 9,004,049.09 | 6,132,837.57 |
| II. | Liabilities to other lenders | (10) | 2,499,798.29 | 1,405,276.00 |
| III. | Current tax liabilities | (13) | 4,184,292.00 | 6,278,661.89 |
| IV. | Other provisions | (13) | 599,197.02 | 881,340.33 |
| V. | Payments on account | (17) | 32,763,820.82 | 41,276,916.32 |
| VI. | Liabilities from rental activities | (18) | 10,401,092.18 | 8,219,781.02 |
| VII. | Trade payables and other liabilities | (19) | 25,300,929.25 | 35,683,339.11 |
| VIII. | Derivative financial instruments | (20) | 0.00 | 7,113,000.00 |
| | **Total current liabilities** | | **84,753,178.65** | **106,991,152.24** |
| | **Total equity and liabilities** | | **1,139,516,315.03** | **1,006,540,656.91** |

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

## Deutsche Wohnen AG, Frankfurt am Main

## Consolidated Profit and Loss Statement for the period From July 1 to December 31, 2006

| In EUR | Notes | | Second short fiscal year from July 1 to Dec 31, 2006 | First short fiscal year from Jan 1 to June 30, 2006 |
|---|---|---|---|---|
| 1. Revenues | (21) | | | |
| a) from residential property management | | 59,857,079.53 | | 46,592,380.00 |
| b) from property sales | | 2,790,888.00 | | 526,000.00 |
| c) from care activities | | 962,775.61 | | 1,177,635.84 |
| d) from other services | | 21,061.60 | | 47,875.12 |
| | | | 63,631,804.74 | 48,343,890.96 |
| 2. Profit from housing privatization | (22) | | | |
| a) Sale proceeds | | 78,473,527.84 | | 18,728,995.44 |
| b) Carrying amounts of assets sold | | 44,391,366.76 | | 10,987,137.93 |
| | | | 34,082,161.08 | 7,741,857.51 |
| 3. Changes in inventories | (23) | | −6,343,612.34 | 6,263,729.91 |
| 4. Other operating income | (24) | | 2,347,102.36 | 2,435,936.57 |
| 5. Cost of purchased services | (25) | | | |
| a) Residential property management | | 26,086,404.55 | | 24,310,820.22 |
| b) Property sales | | 1,665,552.85 | | 286,044.70 |
| | | | 27,751,957.40 | 24,596,864.92 |
| **Gross profit** | | | **65,965,498.44** | **40,188,550.03** |
| 6. Personnel expenses | (26) | | 8,354,117.06 | 8,995,318.50 |
| 7. Depreciations | (27) | | 14,757,639.92 | 7,096,420.35 |
| 8. Other operating expenses | (28) | | 10,961,379.87 | 9,815,242.30 |
| 9. Income from business combination | (29) | | 8,779,377.52 | 0.00 |
| 10. Income from financial assets | (30) | 317,674.74 | | 318,436.48 |
| 11. Other interest and similar income | (31) | 570,658.30 | | 783,220.52 |
| 12. Impairment losses on financial assets | (32) | 691.63 | | 163,107.00 |
| 13. Interest and similar expenses | (33) | 12,574,539.42 | | 12,411,126.25 |
| **14. Net finance costs** | (34) | | **−11,686,898.01** | **−11,472,576.25** |
| 15. Gains and losses on derivative financial instruments | | | 344,000.00 | 167,000.00 |
| **16. Profit before tax** | | | **28,640,841.10** | **2,641,992.63** |
| 17. Income taxes *(income; previous year: expense)* | | | 726,988.55 | 904,726.07 |
| 18. Other taxes | | | 23,474.04 | 31,289.75 |
| **19. Profit after tax** | | | **29,344,355.61** | **1,705,976.81** |
| Basic/diluted earnings per share | | | 1.47 | 0.09 |

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

**Deutsche Wohnen AG, Frankfurt am Main**

**Group Cash Flow Statement for the Short Fiscal Year from July 1 to December 31, 2006**

| | July 1 to Dec 31, 2006 | Jan 1 to June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| 1. Consolidated profit before interest paid and received and income taxes (insofar as recognized in the income statement for the reporting period) | 40,600 | 14,283 |
| 2. Depreciation and amortization expense | 14,758 | 7,259 |
| 3. Increase/decrease (-) in provisions | −4,209 | −171 |
| 4. Non-cash income from business combination | −8,779 | 0 |
| 5. Profit from housing privatization | −34,082 | −7,742 |
| 6. Interest paid (-)/ received incl. previous year's deferred interest | −8,630 | −18,366 |
| 7. Income taxes paid (-)/ received | −2,626 | −637 |
| 8. Increase (-)/ decrease in deferred taxes | −3,439 | 335 |
| 9. Increase (-)/ decrease in inventories, trade receivables, derivatives and other assets that are not attributable to investing or financing activities | 10,333 | 130 |
| 10. Increase/decrease (-) in trade payables, derivatives and other liabilities that are not attributable to investing or financing activities | −21,355 | 12,887 |
| 11. Change in other balance sheet items | 5,863 | 98 |
| **12. Cash flows from operating activities** | **−11,566** | **8,076** |
| 13. Proceeds from disposal of investment property | 34,771 | 18,621 |
| 14. Payments to acquire investment property | −23,276 | −4,307 |
| 15. Payments to acquire intangible assets | −200 | 0 |
| 16. Proceeds from disposal of financial assets and capital repayments | 23 | 90 |
| 17. Payments to acquire minority interests in consolidated companies | 0 | −10 |
| 18. Payments to acquire financial assets | −331 | −284 |
| 19. Payments to acquire limited partner shares in DB IF 14 | −6,399 | −163 |
| 20. Payments to acquire DB IF 14 after deduction of cash held by DB IF 14 | 11,127 | 0 |
| **21. Cash flows from investing activities/housing sales** | **15,715** | **13,947** |
| 22. Payments to owners (dividend) | −52,600 | 0 |
| 23. Proceeds from issuance of loans | 34,878 | 4,193 |
| 24. Repayments of loans | −6,646 | −19,063 |
| 25. Change in other current financial liabilities | −621 | 0 |
| **26. Cash flows from financing activities** | **−24,989** | **−14,870** |
| **27. Net change in cash and cash equivalents** | **−20,840** | **7,153** |
| 28. Cash and cash equivalents at beginning of period | 54,356 | 47,203 |
| **29. Cash and cash equivalents at end of period** | **33,516** | **54,356** |

The Group has funds amounting to EUR 270.0 million from financing commitments that had not been utilized at the balance sheet date.

As was the case as of June 30, 2006, cash and cash equivalents comprise cash (EUR 14 thousand; June 30, 2006: EUR 12 thousand) and bank balances (EUR 33,502 thousand; June 30, 2006: EUR 54,344 thousand). Bank balances include rental deposits of EUR 269 thousand (June 30, 2006: EUR 199 thousand).

In fiscal year 2006, cash funds of EUR 10,332 thousand (June 30, 2006: EUR 10,518 thousand) were pledged to a bank as cash collateral.

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

## Deutsche Wohnen AG, Frankfurt am Main

## Consolidated Statement of Changes in Equity for the Short Fiscal Year from July 1 to December 31, 2006

| | Subscribed capital | Share premium | Accumulated consolidated result | Consolidated net profits | Subtotal | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| | | | in EUR thousand | | | | |
| **Balance at Dec 31, 2005 in accordance with IFRS** | 10,226 | 228,340 | 29,446 | 148,456 | 416,468 | 391 | 416,859 |
| Profit for the year | | | | 1,706 | 1,706 | | 1,706 |
| Change from repurchase of shares | | 381 | | | 381 | −391 | −10 |
| Withdrawals | | −21,668 | | | −21,668 | | −21,668 |
| Contributions | | | | 21,668 | 21,668 | | 21,668 |
| Income and expense recognized directly in equity | | | 107 | | 107 | | 107 |
| **Balance as of June 30, 2006 in accordance with IFRS** | 10,226 | 207,053 | 29,553 | 171,830 | 418,662 | 0 | 418,662 |
| Distributions | | | | −52,600 | −52,600 | | −52,600 |
| Profit for the year | | | | 29,344 | 29,344 | | 29,344 |
| Withdrawals | | −36,298 | | | −36,298 | | −36,298 |
| Contributions | 9,774 | | | 26,524 | 36,298 | | 36,298 |
| Income and expense recognized directly in equity | | | 149 | | 149 | | 149 |
| **Balance at Dec 31, 2006 in accordance with IFRS** | 20,000 | 170,755 | 29,702 | 175,098 | 395,555 | 0 | 395,555 |

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

## Deutsche Wohnen AG, Frankfurt am Main

## Notes for the Consolidated Financial Statements for the Short Fiscal Year July 1 to Dec 31, 2006

### I. General Information

The consolidated financial statements of Deutsche Wohnen AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the supplementary Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), effective at the reporting date, and in compliance with section 315a of the HGB (German Commercial Code). The term International Financial Reporting Standards (IFRS) refers to all accounting standards issued by the International Accounting Standards Board since 2002, thereby replacing the term International Accounting Standards (IAS). Accounting standards issued by the IASB before this name change are still referred to as IAS and are reflected in the preparation of the consolidated financial statements.

The company complied in full with all standards and interpretations as adopted by the EU at the balance sheet date. The prior-year figures were determined using the same principles.

Deutsche Wohnen AG is a Germany-based, national operating property company whose registered office is Pfaffen-wiese 300, Frankfurt am Main, and is registered in the commercial register of the Frankfurt am Main Local Court under the number HRB 42388. Deutsche Wohnen AG's business activities are restricted exclusively to its role as the holding company for the companies included in the Group. The operations of the subsidiaries focus on residential property management, portfolio management and housing privatization, i.e. the sale of apartments to tenants and investors.

Following the termination of the control agreement with DB Real Estate Management GmbH as of the end of June 30, 2006, Deutsche Wohnen AG expanded its property portfolio by acquiring a total of 883 residential units and four commercial units, as well as 57 garages and parking spaces. These residential property portfolios are distributed across attractive locations in Hanau, Mannheim and Kandel.

The consolidated financial statements of Deutsche Wohnen were included in the consolidated financial statements of Deutsche Bank AG, Frankfurt am Main, until June 30, 2006. Following deconsolidation from Deutsche Bank AG's consolidated Group, the disclosures on items in the balance sheet and income statement referring to formerly affiliated companies within this Group are no longer reported.

Company's fiscal year was changed by resolution of the Extraordinary General Meeting on March 23, 2006. It began on July 1 of each year and ended on June 30 of the following year. The period between January 1, 2006 and June 30, 2006 was a short fiscal year. This was a precondition of the termination of the control agreement.

The Annual General Meeting again resolved to change the fiscal year on August 10, 2006. It now begins on January 1 of each year and ends on December 31. The period between July 1, 2006 and December 31, 2006 is also a short fiscal year.

As a result of the resolutions described above, the 2006 calendar year comprised two short fiscal years for Deutsche Wohnen Group. The comparative figures in the income statement are not fully comparable due to the business activities within the context of housing privatization activities and its strong sales performance in the second half of 2006.

### II. Accounting Policies

#### Basis of preparation

The consolidated financial statements have generally been prepared using the historical cost approach, with the exception of the measurement of derivatives. The consolidated financial statements have been prepared in Euros. Unless otherwise stated, all figures are given in EUR thousand or EUR million, rounded using the standard business rounding convention. The income statement was prepared using the nature of expense method.

The consolidated financial statements as of December 31, 2006 are based on the following Standards that are relevant to Deutsche Wohnen Group:

International Financial Reporting Standards (IFRS):

| | |
|---|---|
| IFRS 3 . . . . . . . . . . . . . . | Business Combinations |
| IFRS 5 . . . . . . . . . . . . . . | Noncurrent Assets Held for Sale and Discontinued Operations |

International Accounting Standards (IAS):

| | |
|---|---|
| IAS 1 . . . . . . . . . . . . . . . | Presentation of Financial Statements |
| IAS 2 . . . . . . . . . . . . . . . | Inventories |
| IAS 7 . . . . . . . . . . . . . . . | Cash Flow Statements |
| IAS 8 . . . . . . . . . . . . . . . | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 . . . . . . . . . . . . . . | Events after the Balance Sheet Date |
| IAS 12 . . . . . . . . . . . . . . | Income Taxes |
| IAS 14 . . . . . . . . . . . . . . | Segment Reporting |
| IAS 16 . . . . . . . . . . . . . . | Property, Plant and Equipment |
| IAS 17 . . . . . . . . . . . . . . | Leases |
| IAS 18 . . . . . . . . . . . . . . | Revenue |
| IAS 19 . . . . . . . . . . . . . . | Employee Benefits |
| IAS 20 . . . . . . . . . . . . . . | Accounting for Government Grants and Disclosure of Government Assistance |
| IAS 23 . . . . . . . . . . . . . . | Borrowing Costs |
| IAS 24 . . . . . . . . . . . . . . | Related Party Disclosures |
| IAS 27 . . . . . . . . . . . . . . | Consolidated and Separate Financial Statements |
| IAS 32 . . . . . . . . . . . . . . | Financial Instruments: Presentation |
| IAS 33 . . . . . . . . . . . . . . | Earnings per Share |
| IAS 36 . . . . . . . . . . . . . . | Impairment of Assets |
| IAS 37 . . . . . . . . . . . . . . | Provisions, Contingent Liabilities and Contingent Assets |
| IAS 38 . . . . . . . . . . . . . . | Intangible Assets |
| IAS 39 . . . . . . . . . . . . . . | Financial Instruments: Recognition and Measurement |
| IAS 40 . . . . . . . . . . . . . . | Investment Property |

Individual items in both the profit and loss statement and the balance sheet have been combined to enhance clarity. These items are disclosed and explained separately in the notes. A number of additional items have been recognized in accordance with the requirements for formats applicable to residential property companies.

In accordance with IAS 1, the balance sheet presentation distinguishes between noncurrent and current assets and liabilities. Items are regarded as current if they are due within one year or can be allocated to a single operating cycle.

No taxable distributions are made due to the former nonprofit-making nature of individual subsidiaries.

Deutsche Wohnen AG's Management Board will authorize the consolidated financial statements for submission to the Supervisory Board on March 9, 2007. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them.

## III. Changes in Accounting Policies

The accounting policies applied correspond to the policies applied in the previous year, with the following exceptions:

- In the reporting year, the items disclosed in the previous year under "other current provisions" were broken down into provisions and liabilities. EUR 11.0 million was reclassified from other current provisions to liabilities. In the previous year, the reversal of other provisions was reported under other operating income (EUR 0.3 million). As a result of the reclassification, income from the reversal of current provisions was allocated to the corresponding expense items.
- In accordance with the recommendations of the European Public Real Estate Association (EPRA), profit from the housing privatization of investment property was reported in a separate item in the income

statement (December 31, 2006: EUR 34.1 million; June 30, 2006: EUR 7.7 million). Other operating income of EUR 7.9 million and other operating expenses of EUR 0.2 million were allocated to this item.

In addition to the mandatory IFRS effective in 2006, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) issued further IFRS and IFRICs that have already been endorsed by the EU but will only be effective beginning on a later date. However, only those standards and interpretations relevant to Deutsche Wohnen are discussed in the following. The Company does not exercise the option of voluntary early adoption of these standards/ interpretations.

The IASB published IFRS 7 "Financial Instruments: Disclosures" on August 18, 2005. This replaces the existing IAS 30 and takes over all guidance in IAS 32 on disclosures in the notes to the financial statements. In addition, amendments and additions were made to IAS 1 with regard to capital disclosures. The Standard lays the groundwork for fundamental changes in the disclosure requirements for financial instruments. Essentially, information is required on management's objectives, policies, risk-taking, risk management methods and processes. The disclosure requirements in accordance with IFRS 7 and the amended capital disclosure requirements in accordance with IAS 1 are applicable for the first time for reporting periods beginning on or after January 1, 2007; early adoption is recommended. The new provisions of IFRS 7 result in no changes in measurement for Deutsche Wohnen; however, detailed notes disclosures and presentation are required.

No significant effects on the net assets, financial position and results of operations are expected to result from the future application of the newly published IFRIC 7, IFRIC 8 and IFRIC 9, which have been endorsed by the EU as of December 31, 2006 and for which the company has not exercised the option of early adoption.

## Basis of consolidation accounting

## IV. Consolidation Group

Deutsche Wohnen AG and all subsidiaries are included in the consolidated financial statements. Deutsche Wohnen holds the majority of voting rights in these companies either directly or indirectly, or bears the majority of the economic risks of the company concerned.

The Group of consolidated companies consists of 13 companies. Six of these were consolidated for the first time as of December 31, 2006.

The following table lists the consolidated companies:

| Name and Registered Office | Interest held in% |
|---|---|
| Main-Taunus Wohnen GmbH & Co. KG, Eschborn | 100.00 |
| MT Wohnen GmbH, Frankfurt am Main | 100.00 |
| Rhein-Pfalz Wohnen GmbH, Mainz | 100.00 |
| Rhein-Main Wohnen GmbH, Frankfurt am Main | 100.00 |
| Rhein-Mosel Wohnen GmbH, Mainz | 100.00 |
| RMW Projekt GmbH, Frankfurt am Main | 100.00 |

Companies included in the consolidated financial statements for the first time:

| Name and Registered Office | Interest held in% |
|---|---|
| Deutsche Wohnen Asset Immobilien GmbH, Frankfurt am Main | 100.00 |
| Deutsche Wohnen Beteiligung Immobilien GmbH, Frankfurt am Main | 100.00 |
| Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt am Main | 100.00 |
| Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt am Main | 100.00 |
| Deutsche Wohnen Eigentum Immobilien GmbH, Frankfurt am Main | 100.00 |
| DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn | 24.59 |

As of December 31, 2006, Deutsche Wohnen Group holds a 24.59% (nominal EUR 14.3 million) interest in the closed-end real estate investment fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG (DB IF 14). DB IF 14 is a special purpose entity in accordance with SIC 12.10 d and was fully consolidated for

the first time as of the end of December 31, 2006, because Deutsche Wohnen obtained control of the company.

DB IF 14 was consolidated for the first time as of the end of December 31, 2006 due to the Management Board's reassessment of the exercise of rights of tender by the fund's limited partners. In addition, the Management Board decided that tendered limited partner shares should not be placed and resold on the secondary market.

During the consolidation process, the assets and liabilities in the fund's balance sheet were initially included in the consolidation; with the exception of the profit from the business combination, initial consolidation had no effect on the profit and loss statement in 2006.

The fair values of DB IF 14's identifiable assets and liabilities at the time of the acquisition are broken down as follows:

| | Dec 31, 2006 |
|---|---|
| | in EUR Million |
| Noncurrent assets | |
| • Investment property | +186.1 |
| • Noncurrent receivables and other noncurrent assets | +2.7 |
| Current assets | |
| • Cash and cash equivalents | +11.1 |
| Total assets | 199.9 |

| | Dec 31, 2006 |
|---|---|
| | in EUR Million |
| Noncurrent liabilities | |
| • Bank loans and overdrafts and liabilities to other lenders | +123.3 |
| • Liabilities to Fund limited partners | +49.8 |
| • Deferred tax liabilities | +6.2 |
| Current liabilities | |
| • Bank loans and overdrafts and liabilities to other lenders | +3.2 |
| • Other liabilities | +0.7 |
| Total liabilities | 183.2 |
| Fair value of net assets | 16.7 |

The acquisition costs amounted to EUR 7.9 million and are broken down as follows:

| | Carrying amount Dec 31, 2006 |
|---|---|
| | in EUR Thousand |
| Limited/general partner's shares | 13,780 |
| Derivative financial instruments (assets) | 5,862 |
| Noncurrent provisions | −3,782 |
| Derivative financial instruments (liabilities) | −7,175 |
| Deferred taxes | −754 |
| Acquisition costs | 7,931 |

The Group received EUR 11.1 million in cash acquired with DB IF 14 as part of the acquisition.

The general and limited partner shares in DB IF 14 were transferred to Deutsche Wohnen Group when the fund was launched in 1999 and as a result of the acquisition of tendered limited partner shares.

Previously, DB IF 14 had prepared its balance sheet in accordance with the provisions of German commercial law. The carrying amounts in accordance with IFRS could not be calculated with a reasonable effect within a reasonable time frame immediately prior to the business combination. The income from the business combination results from the fact that the net assets acquired and measured at fair value at the time of

acquisition exceeded the general and limited partner shares carried at amortized cost and the guarantees and obligations issued to the fund.

Revenue and profit for the full year assuming that the business combination had already been completed by July 1, 2006 cannot be calculated with a reasonable effect, since DB IF 14 did not prepare interim financial statements in accordance with IFRS as of June 30, 2006 and was also not required to do so.

Deutsche Wohnen Asset Immobilien GmbH, Deutsche Wohnen Beteiligung Immobilien GmbH, Deutsche Wohnen Corporate Immobilien GmbH, Deutsche Wohnen Direkt Immobilien GmbH, and Deutsche Wohnen Eigentum Immobilien GmbH were established as shelf companies in October 2006 and have been included since then in the consolidated financial statements.

## V. Consolidation Methods

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies. Carrying amounts based on tax rules are not used in the consolidated financial statements. The single-entity financial statements of the investees are prepared as of the reporting date of the consolidated financial statements.

Intragroup profits and losses, revenue, income, expenses and other transactions as well as receivables and liabilities between consolidated companies are eliminated in full.

## VI. Material Judgments and Estimates

### Discretionary judgments

Management made the following discretionary judgments in applying the accounting policies, which materially affected the amounts in the financial statements. This does not include decisions involving estimates.

### Obligations under operating leases — Group as lessor

The Group has entered into leases to commercially rent its investment property. It was determined that all significant risks and rewards incidental to ownership of the properties leased under operating leases remain with the Group.

### Consolidation of DB IF 14

Management classifies DB IF 14 as a special purpose entity in accordance with SIC 12.10 d and fully consolidated the fund in Deutsche Wohnen's consolidated financial statements for the first time as of the end of December 31, 2006 due to Deutsche Wohnen having obtained control of the company.

### Estimates and assumptions

The key forward-looking assumptions and the other significant sources of uncertainty for estimates existing as of the reporting date, on the basis of which there is a considerable risk that a significant adjustment of carrying amounts of assets and liabilities will be necessary in the coming fiscal year, are explained in the following.

### Impairment of property, plant and equipment

The Group examines whether there are indications that an asset could be impaired at each balance sheet date. There were such indications in the past fiscal year. Impairment losses relate to investment property allocated to Segment I (residential property management) in the segment reporting under IAS 14. The impairment loss on undeveloped land in Frankfurt am Main (Unterliederbach) is allocated to Segment III (EUR 7.2 million).

### Deferred tax assets

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that future taxable income will be available against which the loss carryforwards can actually be utilized. Management is required to exercise a considerable amount of discretion based on the expected timing and

amount of future taxable income and future tax planning strategies when calculating the amount of deferred tax assets.

As of December 31, 2006 deferred tax assets were recognized on utilizable loss carryforwards, as well as EUR 42.4 million on temporary differences between IFRS carrying amounts and the tax base (June 30, 2006: EUR 40.4 million). Deferred tax liabilities on temporary differences between IFRS carrying amounts and the tax base amounted to EUR 6.2 million (June 30, 2006: EUR 2.2 million).

### Pension obligations and other post-employment benefits

The expense from post-employment defined benefit plans is determined using actuarial calculations. The actuarial measurement is based on assumptions relating to discount rates, expected returns on plan assets, 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. Provisions for pensions and similar obligations amounted to EUR 5.1 million as of December 31, 2006 (June 30, 2006: EUR 5.1 million). Further information can be found in note 12.

## VII. Accounting Policies

### Investment property (IAS 40)

Investment property is property held to earn rentals and/or for capital appreciation. Under IAS 40.20, investment property must be measured at cost at the date of acquisition, including directly attributable transaction costs.

Subsequent measurement of all properties is based on the cost model; this means that properties are carried at cost less accumulated depreciation and accumulated impairment losses. The requirement to reverse impairment losses is complied with.

Depreciation of investment property is based on an estimated depreciation period of generally 50 years using the straight-line method. The carrying amounts, useful lives and depreciation methods are reviewed annually as part of subsequent measurement and adjusted where necessary.

Investment property was tested for impairment at the December 31, 2006 reporting date. Where there was any indication that an asset may be impaired in accordance with IAS 36, its recoverable amount was compared with its carrying amount. The value in use of the property was used as the recoverable amount.

An impairment loss was recognized if the value in use of the property was lower than its carrying amount.

The component approach is applied to the extent that the company continued to present a classification of properties into land, buildings, operating facilities and leasehold improvements in accordance with the previous accounting requirements under German commercial and tax law. A further classification of buildings into their key components would entail a disproportionately high expense, and would not provide any additional information due to the age structure of the properties.

Subsequent costs are only included in the carrying amount of an asset if it is probable that a future economic benefit associated with the property will flow to the company.

In accordance with IAS 23, the company made use of the option to include borrowing costs in cost. Such costs were not incurred in 2006.

An investment property is derecognized on disposal or withdrawal from use and when no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the income statement in the year the property was retired or disposed of.

### Business combinations (IFRS 3)

Business combinations are accounted for using the purchase method. This requires the fair value recognition of the acquiree's identifiable assets, liabilities and contingent liabilities. Any minority interest is recognized at the minority's interest in the net fair value of the assets, liabilities and contingent liabilities.

Goodwill from business combinations is initially measured at cost as the excess of the cost of the business combination over the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and

contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to the cash-generating units or groups of cash-generating units benefiting from the synergies of the business combination. This is done regardless of whether other assets or liabilities of the acquirer are assigned to these cash-generating units or groups of cash generating units.

If the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess amount is immediately recognized in income following reassessment.

### Intangible assets (IAS 38) and property, plant and equipment (IAS 16)

Purchased intangible assets with a finite useful life are recognized at cost from the time they start to be used less accumulated amortization. The carrying amount is amortized using the straight-line method over the useful life of the asset, which is usually three years. Intangible assets are subjected to impairment testing if there is an indication that they may be impaired. In the case of intangible assets with finite useful lives, the useful life and amortization method are reviewed at a minimum at the end of each fiscal year. The necessary changes in the amortization method and useful life are accounted for in the same way as changes in estimates. Amortization of intangible assets with finite useful lives is recorded in the income statement under the expense category corresponding to the intangible asset's function in the Company. The company does not hold any intangible assets with indefinite useful lives.

Property, plant and equipment is carried at cost less accumulated depreciation and — if applicable — accumulated impairment losses (cost model). In addition to the purchase price, cost includes all costs directly attributable to the acquisition as well as the estimated cost of deconstruction obligations. Third-party grants reduce the historical costs.

Straight-line depreciation is based on the following estimated useful lives:

| | |
|---|---|
| Buildings: | 25 or 50 years |
| Office equipment: | 3 to 13 years |

The costs of repairing items of property, plant and equipment, such as ongoing maintenance expenses, are generally recognized as an expense in the year in which they are incurred.

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the asset's disposal are recognized in profit or loss as the difference between the net disposal proceeds and the carrying amount of the asset when the item is derecognized.

Net book values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Office equipment is reported at cost less accumulated depreciation.

Owner-occupied property within the Group is classified as property, plant and equipment as defined in IAS 16 and measured as such. If the proportion of owner-occupied property is less than five percent, this property is reported in the aggregate under "Investment property" (IAS 40) and measured as such.

Leasehold improvements (buildings on third-party land) are also reported under property, plant and equipment that must be accounted for under IAS 16.

### Noncurrent financial assets (IAS 39)

As of December 31, 2006, noncurrent financial assets comprise other loans to various purchasers of property. They are classified as "loans and receivables" because they are not traded on an active market and have fixed or determinable payments.

Noncurrent financial assets are subsequently measured at amortized cost or at the lower present value of the expected future cash flows, in each case using the effective interest method.

The interest in DB IF 14 previously recorded under noncurrent financial assets and other loans extended to this fund were eliminated in the course of initial consolidation and are no longer reported in the balance sheet as of December 31, 2006.

### Taxes

In accordance with IAS 12, current tax liabilities and refund claims for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities.

In addition, deferred tax assets and liabilities are recognized for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS balance sheet, in the amount at which it is probable that the benefits from the temporary differences may be used against future taxable income. Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that taxable income will be available against which the unused loss carryforwards can be utilized.

The net book value of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which at least part of the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred taxes relating to items reported directly in equity (recognition of actuarial gains and losses in the statement of recognized income and expense — SORIE) are recognized in equity, not in profit or loss.

Deferred tax assets and deferred tax liabilities are eliminated if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and if they relate to income taxes assessed against the same taxable entity by the same taxation authority.

Deferred taxes are measured at the enacted rates that apply as of the balance sheet date, taking into account company-specific issues such as the extended reduction of trade tax.

Deferred taxes are calculated on the basis of the company's strategic multiyear planning, with a planning horizon of six years.

Revenue, expenses and assets are recorded net of value added tax, with the exception of the following cases:

- If value added tax on the purchase of assets or services cannot be recovered from the taxation authority, it is recognized as part of the production cost of the asset or as part of the expenses.
- Receivables and liabilities are recognized together with the amount of value added tax contained therein.

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

### Properties held for sale and other inventories (IAS 2)

In accordance with IAS 2, assets held for sale are carried as inventories. Properties with and without buildings are measured at the lower of the cost of purchased goods and services or net realizable value (sale proceeds less costs to sell).

Construction in progress and other inventories comprise heating and operating costs not yet billed to tenants as well as heating oil inventories; such items are measured at the lower of cost or the amount that can be recharged to the tenants.

### Current receivables and other current assets, cash and cash equivalents

Current receivables and other current assets are carried at amortized cost or at the lower present value of the expected future cash flows, using the original effective interest rate because they are classified as "loans and receivables".

In addition to the required specific allowances, rental receivables are also subject to general allowances on the basis of a portfolio analysis because the receivables are similar and, considered individually, insignificant.

Impairment losses are charged on receivables from property sales if there is evidence that the amounts due are not collectible in full.

Contingent assets are not recognized in the financial statements, but are disclosed in the notes in accordance with IAS 37.89 if an inflow of economic benefits is probable.

Cash and cash equivalents are carried at their nominal amounts, which also correspond to the fair value because of the short-term nature of these assets.

### Derivative financial instruments (IAS 39)

The items accounted for under noncurrent derivatives result from the right of tender (put option) granted to the limited partners of DB IF 14 and a forward transaction (exercised put options as of December 31, 2006). These derivatives were recognized at fair value through profit or loss at the date of DB IF 14's initial consolidation in Deutsche Wohnen's consolidated financial statements (December 31, 2006). The fair value is determined as the present value of the estimated future cash flows using the current market interest rate for loans to non-financial corporations (SUD 129 table published by Deutsche Bundesbank). This rate was 4.89% p.a. at the balance sheet date (June 30, 2006: 4.72% p.a.) plus a risk discount for the right of tender.

The rental and loan guarantees recognized as assets on initial consolidation and the derivatives arising from the limited partners' rights of tender recognized as liabilities were eliminated in the course of full consolidation as of December 31, 2006. These are no longer reported under current derivatives.

The Group uses derivatives to hedge interest rate risk. These derivatives are recognized at fair value when the agreement is entered into and measured at fair value in subsequent periods. Derivatives are recognized as assets if their fair value is positive, and are recognized as liabilities if their fair value is negative.

Gains or losses on changes in the fair value of derivatives that do not meet the criteria for hedge accounting are immediately recognized in profit or loss.

### Noncurrent assets held for sale (IFRS 5)

Noncurrent assets are classified as held for sale if their sale is highly probable and management is committed to a plan to sell the asset. In Deutsche Wohnen Group, this currently applies only to properties that were previously accounted for in accordance with IAS 40 and for which a notarized purchase agreement documenting the transfer of ownership, risks and rewards after the balance sheet date had been entered into as of the balance sheet date.

These properties are measured at their carrying amount or at the lower fair value less costs to sell. Depreciation of the properties is discontinued from the date of reclassification.

### Liabilities (IAS 39)

Bank loans and overdrafts and other liabilities (classified as "other financial liabilities") are initially measured at fair value. At the acquisition date, the fair value is usually the cost including directly attributable transaction costs (e.g. fees and commissions).

As a rule, these liabilities are subsequently measured at amortized cost using the effective interest method. The original effective interest rate is used to determine amortized cost.

Deutsche Wohnen Group has financed various properties using interest-subsidized loans in connection with government grants. The utilization of an interest-subsidized loan not only creates an obligation to repay the loan, but also to build residential properties to be rented under subsidized conditions.

Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes if an outflow of resources of economic benefits is possible.

### Government grants, deferred income (IAS 20)

Government grants are recognized if there is sufficient assurance that the grants will be received and that the company will comply with the conditions attached to them.

Grants relating to specific expenses are recognized as income on a systematic basis over the periods necessary to match them with the related costs they are intended to compensate.

The grants are presented in the consolidated balance sheet as deferred income. They are measured subsequently at amortized cost. Deferred income is released over the period of the obligation to rent under subsidized conditions. As a breakdown of this item by maturity would not provide any additional information, this item is allocated in full to noncurrent liabilities on the basis of the maturities involved.

Grants for assets are deducted from an asset's carrying amount in the balance sheet upon determination of the net book value.

### Pension obligations (IAS 19)

Pension provisions are measured using the projected unit credit method in accordance with IAS 19, taking into account expected future salary and pension adjustments.

Actuarial gains and losses are recognized directly in equity in the year in which they arise and presented in the "SORIE" (statement of recognized income and expense) column in the statement of changes in equity. The provision thus corresponds to the actual post-employment benefit obligation at the balance sheet date. Interest cost is recorded proportionally as an expense under the "Interest expenses" item in the income statement.

### Other provisions (IAS 19, IAS 37)

Provisions are recognized for present obligations as a result of past events that will probably lead to an outflow of resources of economic benefits and whose amount can be reliably estimated.

These provisions are measured in accordance with IAS 37 and, if appropriate, with IAS 19, using the best possible estimate of the extent of the obligation at the balance sheet date. If the effects of interest changes are material, the carrying amount of the provision is the present value of the expenditures expected.

### Revenue recognition (IAS 18)

Revenue is recognized when the service is rendered and measured at the fair value of the consideration received or receivable; it represents amounts receivable for net rent, income from cost allocations, and services in the normal course of business.

Income from service charges not yet billed is only recognized after the service charges have been billed. Prior to this, work in progress includes claims relating to unbilled heating and operating costs. The operating and heating cost portions of paid service charges for condominium owners' associations not yet billed are recognized together with these service charges under other current assets. Both items are offset by tenant prepayments, which are reported under current prepayments received. Given the uncertainty that the tenants can be billed for service charges reported on the balance sheet in their full amount, the corresponding income and expense is not reported as of the balance sheet date. Tenants are billed for the cost of allocations between the second and fourth quarter of the subsequent year. Only then are the final billable service charges fully known and revenue is recognized.

Income from the disposal of properties is recognized if the criteria under IAS 18.14 a–e are met. The transfer of the risks and rewards of ownership corresponds to the established HGB recognition principles relating to the transfer of ownership, risks, benefits, burdens and rewards. If the purchase agreement is subject to a condition subsequent or precedent under civil law in accordance with section 158 of the BGB *(Bürgerliches Gesetzbuch* — German Civil Code), income is only recognized if it is sufficiently probable that the economic benefit associated with the purchase agreement will flow to the company. A probability of at least 90% is assumed.

Interest income and expenses are recognized on an accrual basis, taking into account the investment or loan amounts received and the contractually agreed interest rates.

## VIII. Consolidated Balance Sheet Disclosures

The changes in and classification of items of noncurrent assets (investment property, property, plant and equipment, intangible assets and noncurrent financial assets) and noncurrent assets held for sale are presented in the Statement of Changes in Noncurrent Assets attached as Annex A.

### 1. Investment property

This item is used to report all properties held as noncurrent assets, except those that are owner-occupied within Deutsche Wohnen Group.

In the second short fiscal year 2006, costs of EUR 3.7 million (first short fiscal year: EUR 3.3 million) were capitalized for modernization and improvements in value, as well as for the initial installation of new fittings and fixtures and the upgrading of existing components. All measures lead to an increase in the future benefit expected from the asset and were capitalized as subsequent production costs.

Impairment losses of EUR 7.7 million (first short fiscal year: EUR 0.04 million) to the lower recoverable amount of the properties were recognized for the period from July 1 to December 31, 2006.

The fair value of investment property was determined on the basis of a comprehensive portfolio appraisal.

The portfolio is measured in accordance with IAS 40.46 c using the discounted cash flow method over a ten-year detailed planning period. The buildings in the sales program are treated as long-term property management buildings.

Assumptions are made about the amount and the development of future income and expenses on a cluster-specific basis. These assumptions are based on standard market benchmarks and market-related calculations. Ongoing maintenance expenses are generally based on an assessment of a building's characteristics. Significantly below-average maintenance expenses are assumed for new buildings (constructed after 1996). However, these administrative units are allocated to the relevant clusters as their age increases. Administrative expenses vary by usage type. On the basis of the forecast vacancy rate, half of operating expenses are calculated as being non-allocable, in line with standard market practice.

The remaining value after the detailed planning period has expired is determined as a perpetual annuity. The perpetual annuity is based on the profits generated by property management over the past year of the detailed planning period. To reflect the various degrees of property quality and the continuing aging of the properties within the ten-year analysis period, the capitalization rate is increased by a premium relating to the condition of the properties.

The discount rate was derived from the market rate of interest in accordance with IFRS. This is based on a risk-free capital market rate (10-year federal bond), adjusted for inflation, that is increased by a risk premium of 0.25% for the residential property asset class and a property-specific market risk premium of between 0.25% and 0.75% (according to location quality). This results in an average discount rate of 4.98%. Expert appraisals are not normally available.

The rental income and the expenses for managing these properties are presented in the segment reporting.

The following table shows the fair values as of December 31, 2006:

| | Fair value of core portfolio | Fair value of properties | Total |
|---|---|---|---|
| | | in EUR thousand | |
| Deutsche Wohnen Group (excluding DB IF 14) | 1,139,889 | 29,883 | 1,169,772 |
| Less properties accounted for in accordance with IAS 16 | 5,119 | — | 5,119 |
| Addition from initial consolidation of DB IF 14 | 186,086 | — | 186,086 |
| Fair value of properties accounted for in accordance with IAS 40 as of | | | |
| Dec 31, 2006 | 1,320,856 | 29,883 | 1,350,739 |
| June 30, 2006 | 1,151,454 | 42,373 | 1,193,827 |

### Contractual agreements

Among other things, Deutsche Wohnen Group companies have undertaken to the former owners to observe legally imposed social restrictions on ownership and to speak to tenants as a matter of priority if properties are to be privatized. There were no other contractual obligations to buy, construct, or develop investment property at the balance sheet date.

### 2. Property, plant and equipment

Property, plant and equipment includes two office properties in Frankfurt am Main and Mainz owner-occupied by Group companies (net book value as of December 31, 2006: EUR 3.3 million; June 30, 2006: EUR 3.4 million). The fair value of the two properties amounted to EUR 5.1 million (June 30, 2006: EUR 5.6 million).

This item is also used to report buildings on third-party land that are owner-occupied by Group companies, as well as operating and office equipment (EUR 0.5 million; June 30, 2006: EUR 0.6 million).

As in the previous year, there were no indications of impairment at the balance sheet date (December 31, 2006).

## 3. Intangible assets

Intangible assets relate exclusively to purchased software. The Group has no internally generated intangible assets. Any goodwill resulting from the initial consolidation of subsidiaries in the past has already been written off in full.

## 4. Noncurrent financial assets

The equity investment in DB IF 14 and the other loans extended to this fund were eliminated during the initial consolidation of DB IF 14 and therefore reported as a disposal.

The remaining amount relates to loans to buyers as a result of purchase price deferrals for sold rent-to-own homes (longest maturity until December 31, 2013) that are secured by charges entered in the land register. They are classified as "loans and receivables" in accordance with IAS 39.

| | Investment in DB IF 14 | Other loans to DB IF 14 | Other loans to buyers | Net book value |
|---|---|---|---|---|
| | | in EUR thousand | | |
| Net book value at July 1, 2006 | 7,166 | 16,469 | 210 | 23,845 |
| Additions | 6,399 | 0 | 8 | 6,407 |
| Change in subsequent measurement | 215 | 108 | 0 | 323 |
| Impairment loss | 0 | 0 | 1 | 1 |
| Disposals due to redemption/repayment/consolidation | 13,780 | 16,577 | 44 | 30,401 |
| Net book value as of December 31, 2006 | 0 | 0 | 173 | 173 |

## 5. Properties held for sale and other inventories

The carrying amount of land held for sale with finished buildings as of December 31, 2006 was EUR 5.9 million (June 30, 2006: EUR 7.6 million). This item relates to stocks in North Hesse (number of residential units as of December 31, 2006: 638). The decrease is due to sales during the second short fiscal year.

Construction in progress includes claims relating to unbilled operating costs amounting to EUR 27.8 million (June 30, 2006: EUR 30.5 million). Other inventories relate to reserves of heating oil amounting to EUR 0.4 million (June 30, 2006: EUR 0.3 million). For the first time, construction in progress includes claims relating to unbilled operating costs for fund properties amounting to EUR 3.5 million due to the initial consolidation of DB IF 14.

These claims were previously reported under current receivables and other current assets because the unbilled operating costs related to tenants of DB IF 14 and not tenants of Deutsche Wohnen companies. Following the consolidation of DB IF 14, these claims are reported in the same amount under work in progress at December 31, 2006.

## 6. Current receivables and other current assets

Receivables from rental activities (EUR 4.3 million; June 30, 2006: EUR 4.1 million) include gross receivables from outstanding rents and cost allocations (EUR 6.0 million; June 30, 2006: EUR 5.6 million). Allowances due to uncollectibility amounting to EUR 1.7 million (June 30, 2006: EUR 1.5 million) were charged on the gross receivables from rental activities.

Receivables from property sales increased from EUR 3.5 million as of June 30, 2006 to EUR 47.2 million as of December 31, 2006. This is due to sales including the transfer of ownership, risks and rewards as of December 31, 2006 that were notarized at the balance sheet date; the purchase prices will be paid in 2007.

Current receivables and other current assets are composed of the following items:

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| a) Receivables from management of DB IF 14 fund properties | 0 | 4,411 |
| b) Service charges not yet billed to condominium owner's associations | 5,251 | 6,482 |
| c) Shares in maintenance reserves relating to condominium owner's associations | 2,879 | 2,265 |
| d) Miscellaneous current receivables and other current assets | 2,120 | 4,865 |
| | 10,250 | 18,023 |

### Explanations of individual items:

a) The receivables from the management of DB IF 14 fund properties relating to construction in progress and receivables from rental activities as well as the other current receivables reported under this item were allocated to the relevant balance sheet items at the date of initial consolidation of the fund.

b) This relates to prepayments for operating, administrative and maintenance expenses paid to condominium owner's associations, which are accounted for as other current assets until they are billed by the administrator. An allowance of EUR 0.6 million (June 30, 2006: EUR 0.8 million) for billing and vacancy risks was charged as of December 31, 2006.

c) This item relates to appropriations to the maintenance reserves for condominium owner's associations that are reported as other current assets until they are utilized or the relevant property is sold.

d) Specific allowances amounting to EUR 0.2 million (June 30, 2006: EUR 0.3 million) were recognized for other current receivables.

The receivables do not bear interest and are usually due immediately.

The rental and loan guarantees issued to DB IF 14 that expire on December 31, 2019 were reported as derivative financial instruments until the initial consolidation of the fund. They were measured on an item-by-item basis and accounted for at fair value. Any differences resulting from subsequent measurement were recognized in profit or loss until the date of initial consolidation.

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| Derivate financial instruments from | | |
| —rental guarantee | 5,389 | 5,653 |
| —loan guarantee | 473 | 491 |
| Subtotal fair value: | 5,862 | 6,144 |
| —Disposal due to initial consolidation | −5,862 | 0 |
| Net book value | 0 | 6,144 |

### 7. Cash and cash equivalents

Bank balances include rental deposits received from tenants amounting to EUR 0.3 million (June 30, 2006: EUR 0.4 million). They generally comprise sight deposits; the variable interest rates are between 1.94% p.a. and 3.69% p.a. This item also includes a fixed-term deposit amounting to EUR 0.1 million that bears interest of 3.29% p.a. and matures on February 7, 2007.

Bank balances of EUR 11.1 million were added due to the initial consolidation of DB IF 14.

As of December 31, 2006, the Group held credit lines amounting to EUR 270.0 million that it had not utilized but for which all the conditions required for utilization had been fulfilled.

### 8. Noncurrent assets held for sale

This item includes the carrying amounts of properties (primarily residential units) for which an effective notarized purchase agreement documenting the subsequent transfer of beneficial ownership had been entered into as of December 31, 2006. The assets are debt-free.

By the end of December 2006, purchase agreements including the transfer of ownership in January 2007 or thereafter had been entered into for 45 apartments/ detached houses, three undeveloped plots of land and 37 garages and parking spaces. The aggregate agreed purchase prices amount to EUR 3.1 million.

## 9. Equity

The individual components of equity and their changes are presented in the Consolidated Statement of Changes in Equity.

Following a capital increase from the accumulated consolidated result, the registered share capital now amounts to EUR 20 million (June 30, 2006: EUR 10.2 million). The capital increase was resolved by the Annual General Meeting on August 10, 2006 and made possible by a withdrawal from the share premium amounting to EUR 9,774,162.38. The capital increase was implemented without issuing new shares. Following a 1:5 share split effective August 25, 2006 and including the capital increase from the accumulated consolidated result, the share capital was reclassified and now comprises 20,000,000 no-par value shares (previously 4,000,000 no-par value shares). The par value of each share before the share split was EUR 2.56 (DM 5.00). The par value of each share after the capital increase is EUR 1.00. All shares were held in free float as of the reporting date. The above-mentioned shares are fully paid in.

In accordance with the resolution of the Extraordinary General Meeting on March 23, 2006, new shares will only be issued as bearer shares under the amended Articles of Association. The company's shareholders were able to convert their registered shares into bearer shares upon written demand and with the approval of the Management Board.

The bearer shares resulting from the share conversion have been listed on the stock exchange since July 3, 2006. Approximately 96% of the total of 20,000,000 shares outstanding are currently bearer shares and 4% are registered shares.

The creation of the share premium was resolved by the Extraordinary General Meeting in 1999. Share premium amounted to EUR 170.8 million at the balance sheet date (June 30, 2006: EUR 207.1 million).

The accumulated consolidated result comprise three components: the legal reserve amounting to EUR 1.0 million, other retained earnings (EUR 28.8 million) that relate to initial measurement differences between the HGB and IFRS, and the proportion of actuarial gains and losses from pension obligations (EUR 0.1 million) taken directly to the statement of recognized income and expense ("SORIE").

EUR 17.6 million of the parent's net profits of EUR 52.6 million for the first short fiscal year from January 1 to June 30, 2006 was distributed in accordance with the resolution of the General Meeting on December 7, 2006. The Management Board and the Supervisory Board will also propose a total dividend of EUR 17.6 million (EUR 0.88 per share) for the second short fiscal year from July 1 to December 31, 2006 to the General Meeting. The net profits required for this were withdrawn from the share premium.

The General Meeting authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011 by up to an aggregate of EUR 10.0 million of authorized capital by issuing up to 10,000,000 new ordinary bearer shares against cash or non-cash contributions.

The Management Board is also authorized, with the approval of the Supervisory Board, in the period up to August 9, 2011 to issue bearer or registered bonds with warrants or convertible bonds as well as profit participation rights in the aggregate principal amount of up to EUR 500.0 million and a maximum term of 20 years, and to grant creditors or holders of the bonds subscription or conversion rights for up to 10,000,000 new shares of the company with a notional value of up to EUR 10.0 million, subject to the conditions of the relevant bonds with warrants or convertible bonds or of the profit participation rights.

The share capital can be contingently increased by up to EUR 10.0 million through the issue of up to 10,000,000 new no-par value bearer shares carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital). The capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, as well as profit participation rights with conversion or subscription rights.

Additionally, in observance of the principle of equal treatment, the Management Board is authorized to acquire up to 2,000,000 shares of the Company in the period up to February 9, 2008, corresponding to 10% of the share capital.

The shareholders listed below have informed us that they hold more than 5% of the shares of Deutsche Wohnen AG:

| Shareholder | Date of notification | Equity interest/ share of voting rights in% | Share of voting rights in registered share capital in EUR thousand |
|---|---|---|---|
| Deutscher Herold Lebensversicherung AG, Bonn | April 8, 2002 | 6.70 | 1,340 |
| Newton Investment Management Limited, London | January 12, 2006 | 5.88 | 1,176 |
| Insight Investment Management Limited, Edinburgh | January 3, 2007 | 6.53 | 1,306 |

We received the following notification in accordance with section 160(1) no. 8 AktG [German Stock Corporation Act] from Julius Bär Investment Management LLC, New York, on December 22, 2006 via Julius Bär Holding AG, Zurich:

"We hereby notify you in accordance with section 21(1) WpHG [Securities Trading Act] that our share of the voting rights in Deutsche Wohnen AG fell below the 5% threshold on December 18, 2006 and amounted to 4.97%. The voting rights are attributable to us in accordance with sections 21(1) and 22(1) sentence 1 no. 6 WpHG [Securities Trading Act]."

We received the following notification in accordance with section 160(1) no. 8 AktG from HBOS plc., Edinburgh, and its subsidiaries HBOS Insurance & Investment Group Limited, West Yorkshire, Insight Investment Management Limited, London, and Insight Investment Management (Global) Limited, London, on January 3, 2007 via Linklaters, Frankfurt am Main:

Disclosure on behalf of HBOS plc:

We wish to make the following disclosure in accordance with section 21(1) and section 22 of the *Wertpapierhandelsgesetz* (WpHG) [Securities Trading Act] on behalf of HBOS plc:

"HBOS plc's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to our client in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG [Securities Trading Act]."

Disclosure on behalf of HBOS Insurance & Investment Group Limited:

"HBOS Insurance & Investment Group Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to HBOS Insurance & Investment Group Limited in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG [Securities Trading Act]."

Disclosure on behalf of Insight Investment Management Limited:

"Insight Investment Management (Global) Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to Insight Investment Management (Global) Limited in accordance with section 22(1) sentence 1 no. 6 WpHG [Securities Trading Act]."

We received the following notification in accordance with section 160(1) no. 8 AktG [German Stock Corporation Act] from Asset Value Investors Limited, London, on January 16, 2007:

"After selling 42,854 shares we make the following disclosure in accordance with section 21(1) of the *Wertpapierhandelsgesetz* (WpHG) [Securities Trading Act]: As of August 17, 2006 our stake in Deutsche Wohnen went below the threshold of 5% and amounted to 4.95%. The voting rights are attributable to Asset Value Investors in accordance with section 22(1) sentence 1 no. 6 WpHG [Securities Trading Act]."

Proposal for the appropriation of profits:

Deutsche Wohnen Group generated a consolidated net profit for the 2006 short fiscal year from July 1 to December 31, 2006 of EUR 29.3 million. Including the withdrawal from the share premium (EUR 26.5 million), consolidated net profits as of December 31, 2006 amounted to EUR 175.1 million.

The Management Board and the Supervisory Board will propose a total dividend of EUR 17.6 million for the short fiscal year from July 1 to December 31, 2006 to the General Meeting.

## 10. Bank loans and overdrafts and liabilities to other lenders; deferrals

The maturities of bank loans and overdrafts and liabilities to other lenders are as follows:

| | Dec 31, 2006* | | | | | | June 30, 2006* | |
|---|---|---|---|---|---|---|---|---|
| | Bank loans and overdrafts | Addition from initial cons. of DB IF 14: bank loans and overdrafts | Total bank loans and overdrafts | Other lenders | Addition from initial cons. of DB IF 14: other lenders | Total other lenders | Bank loans and overdrafts | Other lenders |
| | In EUR thousand | | | | | | | |
| < 1 year | 6,896 | 2,108 | 9,004 | 1,385 | 1,115 | 2,500 | 6,133 | 1,405 |
| 1-2 years | 17,401 | 2,171 | 19,572 | 1,145 | 1,156 | 2,301 | 16,895 | 1,361 |
| 2-3 years | 63,495 | 2,203 | 65,698 | 1,037 | 1,207 | 2,244 | 63,049 | 1,281 |
| 3-4 years | 15,085 | 2,072 | 17,157 | 967 | 1,261 | 2,228 | 14,580 | 1,191 |
| 4-5 years | 15,148 | 2,138 | 17,286 | 975 | 1,305 | 2,280 | 14,658 | 1,159 |
| > 5 years | 361,715 | 57,323 | 419,038 | 13,953 | 35,876 | 49,829 | 332,844 | 17,036 |
| | 479,740 | 68,015 | 547,755 | 19,462 | 41,920 | 61,382 | 448,159 | 23,433 |
| **Fair value** | **479,800** | **68,015** | **547,815** | **19,500** | **41,920** | **61,420** | **—** | **—** |

* *In each case including the amounts reported under the "deferred income" item.*

Bank loans and overdrafts, other liabilities to lenders and deferred income include loans raised to finance investment property. Land charges on these properties amounting to EUR 376.9 million (June 30, 2006: EUR 210.6 million) serve as collateral.

| | Interest rate | Maturity | Dec 31, 2006 |
|---|---|---|---|
| | % | | in EUR million |
| Loans in excess of EUR 50.0 million | | | |
| EUR 127,822,970.30 | 5.79 | May 6,2014 | 127.8 |
| EUR 71,836,509.31 | 5.74 | May 6,2014 | 71.8 |
| EUR 51,129,188.12 | 5.37 | May 6,2009 | 51.1 |
| Loans below EUR 50.0 million | | | |
| | 0.25 - 7.00 | Feb 28, 2007 - Dec 31, 2019 | 358.3 |

The loans in excess of EUR 50.0 million relate to finance for investment property. The long-term loans were placed with Hessische Landesbank in 1998. In relation to the termination of the control agreement entered into with DB Real Estate Management GmbH, the loans with Hessische Landesbank were renegotiated as of July 1, 2006. In this context, Naspa Dublin reassigned the portions of the registered bonds assigned to it to Hessische Landesbank. At the same time, Nassauische Sparkasse, Wiesbaden, acquired an interest totaling EUR 15.0 million in the loans after the restructuring. The loans were secured by charges entered in the land register amounting to EUR 140.0 million.

The debt financing of the properties is long-term, i.e. more than one year. Unscheduled repayments of EUR 5.0 million (June 30, 2006: EUR 11.2 million) were made in the short fiscal year ended December 31, 2006. The average rate of interest on liabilities to external lenders was 4.64% p.a. in the year under review (June 30, 2006: 4.47% p.a.) — excluding the additions from the initial consolidation of DB IF 14. The Group reduces interest rate risk by agreeing long-term fixed-interest periods. When entering into floating rate loans with a maturity of over one year, the Group usually agrees corresponding interest rate hedges (interest rate swaps).

Deferred income relates to measured government grants. The utilization of an interest-subsidized loan not only creates an obligation to repay the loan, but also to create residential properties to be rented under subsidized conditions. This item includes an interest rate advantage resulting from the low-interest loans.

## 11. Derivative financial instruments

When entering into floating rate loans with a maturity of over one year, the Group usually agrees corresponding interest rate hedges (interest rate swaps). Interest rate risks may arise from potential changes in the market rate of interest and could lead to fluctuations in interest payments for floating rate loans. An interest rate swap agreement was entered into to hedge a floating rate loan raised in 2006. The fair value of the agreed interest rate swap was negative at the balance sheet date and amounted to EUR 0.05 million. The notional value of the interest rate swap was EUR 2.7 million. The interest rate swap was mark to market. Gains or losses on changes in the fair value of the interest rate swap are immediately recognized in income.

## 12. Pension obligations

The company's occupational pension scheme consists of defined benefit pension plans. The Company has an obligation to pay benefits to current and former employees (occupational pensions).

MT Wohnen GmbH/Main-Taunus Wohnen GmbH & Co. KG

MT Wohnen GmbH's benefit commitments are based on individual agreements (direct commitments involving deferred compensation arrangements) that provide for lump-sum payouts when a given age limit is reached, or in the event of permanent disability or death. The amount of the pension capital is determined by the actuarial conversion of the benefit cost for each calendar year into capital components in accordance with a benefit table enclosed with the benefit commitment. In the case of an early capital payment starting when the beneficiary reaches the age of 60, the beneficiary's entitlement is reduced by the percentage defined in the benefit commitment for each month between the payment and the beneficiary reaching the age of 65.

The surviving dependents' capital amounts to 60% of the beneficiary's entitlement to the pension capital on death. The permanent disability capital is determined as the total benefit cost provided until an event triggering the benefit entitlement occurs, plus the interest accrued in the meantime at the agreed interest rate.

The amount and type of benefits granted by MT Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG are governed by the *"Ordnung der betrieblichen Grundversorgung"* (Basic Pension Plan Regulations), the *"Ordnung der betrieblichen Zusatzversorgung"* (Supplementary Pension Plan Regulations) and benefit commitments based on individual agreements. According to the basic and supplementary pensions, individual agreements or company agreements, the following post-employment benefits are granted:

- Old-age pensions when beneficiaries reach the age of 65
- Early retirement pensions when beneficiaries reach the age of 60
- Permanent disability pensions in the event of permanent disability
- Surviving dependents' pensions after the death of the former employee or another beneficiary, in the form widows', widowers, orphans' and parents' pensions
- Other benefits in the form of transitional payments in the event of death, annual bonuses/share of profits in the event of retirement, and top-up payments in the event of early retirement.

The basic pension reflects portions of income up to the relevant income threshold for contribution assessment in the statutory pension insurance system; the main fund is the "Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG".

If an event triggering the benefit entitlement occurs before the beneficiary reaches the age of 55, the Company tops up the beneficiary's pension fund to include the service not yet rendered up to the age of 55. This is measured on the basis of the average monthly contribution paid by the employee to the pension fund in the past 12 months before the triggering event occurred; this monthly contribution is multiplied by the number of months comprising the supplementary period and annuitized by 42%.

The supplementary pension is granted by the company for portions of pensionable income above the relevant income threshold for contribution assessment in the statutory pension insurance system. Pensionable income is the monthly gross regular income including allowances in excess of collective agreements.

Benefits are measured on the basis of the benefit cost, which amounts to

- 11.5% of pensionable income between 100 and 133⅓%,
- 12.5% of pensionable income between 133⅓ and 166⅔%,
- 15.0% of pensionable income above 166⅔%

of the relevant income threshold for contribution assessment in the statutory pension insurance system.

The old-age and permanent disability pensions are 20% of the total benefit cost that is made available until a triggering event occurs. As with the basic pension, a supplementary period lasting until the age of 55 is allowed for in the event of early entitlement due to disability or death before the beneficiary reaches the age of 55.

Employees are entitled to a basic or supplementary pension if they have rendered at least five years' service (from the age of 20) at the Company when the triggering event occurs, and at the earliest after the probationary period has expired.

In accordance with the *Betriebsvereinbarung zur Neuordnung der betrieblichen Altersversorgung für Dienstzeiten bis zum 31. 12. 1983* (Company Agreement on the Restructuring of Occupational Pensions for Periods of Service up to December 31, 1983), employees whose employment relationship commenced before January 1, 1984 receive a vested pension based on the earlier supplementary pension that was calculated in accordance with section 2 of the *Gesetz zur Verbesserung der betrieblichen Altersversorgung* dated December 19, 1974 (German Improvement of Occupational Pension Schemes Act). The company has also granted supplementary payments to the vested pensions that increase each year in accordance with the growth in the relevant employees' incomes.

All the relevant employees were notified in writing of the amount of their vested pensions and the supplementary payments.

In addition, employees whose employment relationship ends due to early retirement receive benefits in the form of transitional or top-up payments on the basis of individual agreements. These benefits provide for further increases in the occupational pension or top-up payments for unemployment and pension insurance and for the occupational pension during the period after employees have left the company.

If a current employee dies, the company also continues to pay remuneration for the month of the employee's death plus one or three additional months. Furthermore, employees who leave the company due to retirement receive an annual bonus or a share of profits for the year in which they leave.

The basic and supplementary pension plans were closed to new members effective December 31, 1998.

Rhein-Pfalz Wohnen GmbH/Rhein-Main Wohnen GmbH/Rhein-Mosel Wohnen GmbH

Former managing directors and *Prokuristen* (authorized signatories) of these companies and their surviving dependents have vested entitlements and current pensions under benefit commitments from occupational pension plans. The pension obligations are governed by individual agreements. An entitlement to a widows' pension amounting to 60% of the current pension also exists.

Measurement of pension obligations

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.

| | Parameters used | |
|---|---|---|
| | Dec 12, 2006 | June 30, 2006 |
| | % | % |
| Discount rate p.a. | 4.40 | 4.50 |
| Expected income growth p.a. | 3.00 | 3.00 |
| Expected pension growth p.a. | 1.75 | 2.00 |
| Increase in income threshold for contribution assessment p.a. | 2.75 | 3.00 |

The 2005 G mortality tables published by Dr. Klaus Heubeck were used to calculate the life expectancy of the beneficiaries. Actuarial gains and losses, including related deferred taxes, are recognized in full and taken directly to equity as well as reported in the statement of recognized income and expense ("SORIE").

The changes in the present values of the defined benefit obligations ( = net book value) are shown in the following table:

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| Defined benefit obligations at beginning of fiscal year | 5,121 | 5,355 |
| Interest cost | 113 | 104 |
| Service cost | 14 | 24 |
| Adjustments to current pensions | 59 | 0 |
| Benefits paid | −160 | −188 |
| Actuarial gains | −63 | −174 |
| Defined benefit obligations at end of fiscal year | 5,084 | 5,121 |

Interest cost is recorded proportionally as an expense under the "Interest expenses" item in the income statement, while current pension payments, service cost and adjustments of current pensions are recognized in the "Employee expenses" item.

The amounts for the current and previous four reporting periods are shown in the following table:

| | Dec 31, 2004 | Dec 31, 2005 | June 30, 2006 | Dec 31, 2006 |
|---|---|---|---|---|
| | in EUR thousand | | | |
| Defined benefit obligations | 5,249 | 5,355 | 5,121 | 5,084 |

In addition to the defined benefit pension plans, the companies also have pension plans in accordance with the regulations governing public-sector supplementary pensions. This is based on membership of a Group company in the *Bayerische Versorgungskammer—Zusatzversorgungskasse der bayerischen Gemeinden* (BVK — Bavarian association for providers of civil service and professional pensions and other benefits). The 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.

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.

No concrete 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 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 the future.

## 13. Other provisions

Provisions changed as follows:

### A. Noncurrent provisions

| | July 1, 2006 | Release | Additions | Disposal due to consolidation | Dec 31, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provision for maintenance relating to DB IF 14 | 3,930 | 148 | 0 | −3,782 | 0 |
| Provision for deconstruction obligations | 251 | 0 | 3 | 0 | 254 |
| | 4,181 | 148 | 3 | −3,782 | 254 |

The provision for maintenance relates to the maintenance agreement entered into with DB IF 14 that expires on December 31, 2019. The guarantee amount for maintenance was compared with the forecast amount from the expected future development of maintenance expenses and discounted at the current effective interest rate (4.89% p.a.; June 30, 2006: 4.72% p.a.). This provision was eliminated during the consolidation of DB IF 14 and was disposed of accordingly as of December 31, 2006.

### B. Current provisions

| | July 1, 2006 | Utilization | Release | Additions | Dec 31, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provision for | | | | | |
| 1. Liability from surplus income not yet paid out | 544 | 430 | 0 | 120 | 234 |
| 2. Litigation risks | 337 | 26 | 18 | 72 | 365 |
| | 881 | 456 | 18 | 192 | 599 |

Explanations of individual items:

1. The liability relates to surplus income not yet paid out that is basis on contractual agreements entered into in connection with the merger of the Rhineland-Palatinate rural development project (Landsiedlung) with Rhein-Pfalz Wohnen GmbH in 1995.

2. The provisions for litigation risks primarily relate to a claim for damages as a result of a reversed residential property purchase agreement. They also include a provision for possible utilization arising from the project management activities of a Group company relating to conversion measures from previous years. Other provisions for litigation costs relate to rental disputes.

### C. Current tax liabilities

Current tax liabilities relate mainly to income tax expenses expected for 2005 and 2006 (including the solidarity surcharge in each case) and were offset against claims arising from withholding tax on dividend income plus the solidarity surcharge on interest income, or against prepayments made.

## 14. Liabilities to fund limited partners

On the basis of individual agreements, Rhein-PfalzWohnen GmbH has granted the limited partners of DB IF 14 a right of tender for 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 annum.

Liabilities to fund limited partners are reported under noncurrent liabilities because no other limited partners had exercised their rights of tender as of December 31, 2006. Maturities may change due to the actual exercise of rights of tender.

## 15. Other noncurrent liabilities

The amounts previously reported in this item primarily(EUR 5.2 million) relate to liabilities to DB IF 14 that were eliminated during the consolidation of intercompany balance as of December 31, 2006.

## 16. Deferred taxes

Deferred tax assets and liabilities changed as follows at the reporting date:

| | June 30, 2006 (Dec 31, 2005) | Change in subsequent measurement (prior period) | Additions/ disposals due to consolidation DB IF 14 | Dec 31, 2006 |
|---|---|---|---|---|
| | in EUR thousand | | | |
| Deferred tax assets | | | | |
| • utilizable loss carryforwards | 17,995 | 269 | 0 | 18,264 |
| | (17,995) | (0) | | |
| • temporary differences between IFRS carrying amounts and tax base | 22,422 | 3,317 | −1,583 | 24,156 |
| | (22,845) | (- 23) | | |
| thereof: | | | | |
| • investment property | 20,216 | 3,410 | 0 | 23,626 |
| | (20,360) | (- 144) | | |
| • noncurrent financial assets | 880 | 33 | −913 | 0 |
| | (894) | (- 14) | | |
| • pension obligations | 322 | −68 | 0 | 254 |
| | (472) | (- 150) | | |
| • other provisions noncurrent | 699 | −26 | −670 | 3 |
| | (724) | (- 25) | | |
| • other provisions current | 305 | −42 | 0 | 263 |
| | (395) | (- 90) | | |
| • derivative financial instruments current | 0 | 10 | 0 | 10 |
| | (0) | (0) | | |
| Net book value of deferred tax assets | 40,417 | 3,586 | −1,583 | 42,420 |
| | (40,840) | (- 423) | | |
| Deferred tax liabilities | | | | |
| • temporary differences between IFRS carrying amounts and tax base | 2,190 | 147 | −2,337 | 0 |
| | (2,278) | (- 88) | | |
| thereof: | | | | |
| • derivative financial instruments noncurrent | 2,190 | 147 | −2,337 | 0 |
| | (2,278) | (- 88) | | |
| • addition from initial consolidation | 0 | 0 | 6,180 | 6,180 |
| Net book value of deferred tax liabilities | 2,190 | 147 | 3,843 | 6,180 |
| | (2,278) | (- 88) | | |

The changes in deferred taxes had the following effects on the consolidated profit and loss statement:

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| Change in deferred tax assets | −3,586 | 423 |
| Change in deferred tax liabilities | 147 | −88 |
| Change in deferred taxes in the SORIE | 86 | −67 |
| Change in deferred taxes recognized in the income statement | −3,353 | 268 |

No deferred tax assets were recognized for Group companies' tax loss carryforwards amounting to EUR 121.0 million for corporation tax and EUR 62.8 million for trade tax, because they cannot be utilized during the planning horizon of six years used as a basis to calculate the deferred taxes. No concrete disclosure can be made about the maturity structure of the unrecognized tax loss carryforwards due to this analysis period.

Deferred tax assets and liabilities recognized on temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base relating to items concerning relationships with DB IF 14 (equity investments, other loans and derivatives) before consolidation were eliminated during the initial consolidation of the fund and are therefore no longer recognized as of December 31, 2006.

The recognition of deferred taxes on temporary differences reflects all balance sheet items where temporary differences have arisen between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

EUR 3.4 million of the changes/subsequent measurement of deferred taxes was recognized in the income statement. Please refer to note (34) on the profit and loss statement.

The reconciliation of the tax expenses is shown in the following table:

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| Consolidated profit before tax | 28,617 | 2,611 |
| Applicable tax rate | 40.86% | 40.86% |
| Expected tax expense | 11,693 | 1,067 |
| a) Tax effects from differences in tax rates at individual Group companies | −85 | −355 |
| b) Tax effects from differences in the tax base | −6,655 | 1,316 |
| c) Tax effects from loss carryforwards actually used | −2,304 | −1,330 |
| d) Trade tax effects | 173 | 61 |
| e) Prior-period effects | −120 | −126 |
| f) Change in deferred taxes on unrecognized temporary differences and unrecognized loss carryforwards | −3,593 | 268 |
| g) Other effects | 164 | 4 |
| Income tax expense reported in the consolidated profit and loss statement(second short fiscal year: income) | −727 | 905 |

The applicable tax rate of 40.86% represents the tax rate of the parent Deutsche Wohnen AG, which was used as the basis for calculating the expected tax expense.

Explanatory notes on the tax reconciliation:

a) The differences result from different trade tax rates levied by the authorities responsible for assessing trade tax.

b) The individual companies' tax reconciliations are based on the income tax calculations for 2006. In some cases, the actual bases for calculating trade and corporation tax differ substantially from the figure calculated in accordance with IFRS due to measurement differences and special factors relating to trade tax. In addition, current losses at individual companies cannot be used as part of the 2006 tax

assessment and do not lead to a reduction in the actual tax expense. The current losses lead to an increase in the losses that may be carried forward at these companies.

c) The loss carryforwards actually used are derived from the individual income tax calculations of the Group companies.

d) The trade tax effects relate to additions and reductions in accordance with sections 8 and 9 *Gewerbesteuergesetz* (GewStG — German Trade Tax Act).

e) The prior-period effects are the result of income tax credits for prior years.

f) This item includes the recognition of future utilizable temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base relating to investment property amounting to EUR 3,410 thousand, and to EUR 269 thousand for other future utilizable corporation and trade tax loss carryforwards resulting from the adjustment of corporate planning, since the realization of the tax benefits is regarded as likely. This item is also offset in the amount of EUR 86 thousand by write-downs charged on deferred taxes recognized in previous years on pension obligations that are taken directly to the SORIE.

## 17. Payments on account

The amount reported relates to prepayments on:

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| • Operating costs to be invoiced to tenants | 28,700 | 36,184 |
| • Addition from initial consolidation of DB IF 14 for operating costs to be invoiced | 3,847 | 0 |
| • Purchase prices received for IAS 40 properties | 67 | 5,040 |
| • Other | 150 | 53 |
| | 32,764 | 41,277 |

## 18. Liabilities from rental activities

Liabilities from rental activities include rental deposits by tenants amounting to a total of EUR 8.5 million (June 30, 2006: EUR 7.2 million), EUR 8.2 million (June 30, 2006: EUR 6.7 million) of which is freely available to the Group in accordance with the leases. With the exception of the commercial rental deposits (EUR 0.2 million), they are secured by bank guarantees. For the first time as of December 31, 2006, rental deposits include rental deposits by tenants of the DB IF 14 properties amounting to EUR 1.9 million. These were previously reported under other current liabilities.

## 19. Trade payables/other liabilities

This item is composed of the following:

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| 1. Liabilities from other taxes (primarily real estate transfer tax) | 9,667 | 10,312 |
| 2. Liabilities for other personnel expenses | 3,753 | 3,606 |
| 3. Remaining liabilities under purchase agreement obligation | 3,607 | 3,570 |
| 4. Outstanding invoices | 974 | 3,064 |
| 5. Other trade payables | 821 | 2,376 |
| 6. Proportion of administrative costs in service charges not yet settled with condominium owner's associations | 736 | 987 |
| 7. Expected development costs | 372 | 446 |
| 8. Realtors' commissions | 361 | 227 |
| 9. Audit and consulting expenses | 338 | 729 |
| 10. Liabilities from warranty retention | 292 | 339 |
| 11. Preparation of the annual financial statements and billing of operating costs | 273 | 310 |
| 12. Building renewal | 215 | 428 |
| 13. Contributions to the workmen's compensation board | 82 | 46 |
| 14. Liabilities from managing the properties held by DB IF 14 | 0 | 6,838 |
| 15. Other | 3,529 | 2,405 |
| 16. Addition due to initial consolidation of DB IF 14 | 281 | 0 |
| | 25,301 | 35,683 |

Explanations of individual items:

2. Among other things, these liabilities include the performance-related annual bonuses paid to the Management Board and the Company's employees amounting to EUR 1.8 million (June 30, 2006: EUR 1.5 million), as well as liabilities for early retirement obligations totaling EUR 1.4 million (June 30, 2006: EUR 1.4 million).

3. These liabilities relate to a subsequent purchase price increase under a purchase and assignment agreement entered into in November 1998.

8. These liabilities relate to realtors' commissions that were incurred for purchase agreements recorded up to December 31, 2006 but not invoiced at the time the financial statements were prepared.

14. The amounts reported under liabilities from managing the properties held by DB IF 14 were allocated to the "prepayments received" and "liabilities from rental activities" balance sheet items at the date of consolidation of the fund.

15. Other liabilities include liabilities amounting to EUR 0.7 million for risks and obligations under property purchase agreements as part of sales activities. They also include liabilities for heat contracting agreements totaling EUR 0.3 million. According to a ruling by the Federal Court of Justice, the operating costs already charged to tenants cannot be recharged without the consent of the tenants.

## 20. Derivative financial instruments

| | Dec 31, 2006 | June 30, 2006 |
|---|---|---|
| | In EUR thousand | |
| Put option (right of tender) | 5,714 | 5,688 |
| Forward transaction (rights of tender exercised as of December 31, 2006) | 1,461 | 1,425 |
| | 7,175 | 7,113 |
| Disposal due to consolidation | −7,175 | 0 |
| | 0 | 7,113 |

The put option for the right of tender held by DB IF 14's limited partners and the forward transaction for tenders notified to the Company recognized under derivatives were measured at fair value through profit or loss until the date of initial consolidation of DB IF 14, and eliminated during the initial consolidation of DB IF 14. The relevant item is therefore not reported in the balance sheet as of December 31, 2006.

## IX. Consolidated Profit and Loss Statement Disclosures

## 21. Revenue

Revenue is classified into the following items:

a) Residential property management

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| —Estimated rent and other income | 42,222 | 43,009 |
| —Actual rent and other income | 38,360 | 39,182 |
| —Revenue from billing of cost allocations | 21,497 | 7,410 |
| | 59,857 | 46,592 |

Revenue from residential property management results primarily from the management of investment property.

b) EUR 2.7 million (first short fiscal year: EUR 0.4 million) of the revenue from property sales (EUR 2.8 million; first short fiscal year: EUR 0.5 million) relates to privatization income from the sale of the North Hesse portfolio.

c) Revenue from management activities contains revenue from condominium management of EUR 0.7 million (first short fiscal year: EUR 0.7 million) and income from the management of the DB IF 14 fund amounting to EUR 0.3 million (first short fiscal year: EUR 0.5 million).

## 22. Profit from housing privatization

In contrast to the first short fiscal year, profit from housing privatization is no longer reported under other operating income (or under other operating expenses in the case of losses), but in a separate item. It is composed of the sale proceeds less the carrying amounts of the assets disposed. This increases transparency with regard to the presentation and reporting of gains from sales. The carrying amount for the first short fiscal year was restated accordingly in the profit and loss statement and in the cash flow statement.

## 23. Changes in inventories

Changes in inventories relate solely to changes in construction in progress (second short fiscal year: decrease of EUR 6.3 million; first short fiscal year: increase of EUR 6.3 million).

## 24. Other operating income

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| —Income from the release of current provisions | 18 | 9 |
| —Income from derecognition of liabilities | 472 | 29 |
| —Income from recoveries on receivables written off and from the reversal of allowances on rental receivables | 329 | 238 |
| —Income from the release of accrued interest-subsidized loans | 743 | 743 |
| —Effects of the subsequent measurement of financial assets and noncurrent other provisions | 471 | 452 |
| —Miscellaneous other income | 314 | 965 |
| | 2,347 | 2,436 |

Among other things, miscellaneous other income includes income from license fees and ground rent.

In the reporting year, the Company has disclosed compensation for use under other interest and similar income. The prior-year amount was not restated as it is insignificant (EUR 0.1 million).

Accounting profit on the disposal of noncurrent assets, which were reported under other operating income in the previous year, were for the first time offset against losses on the disposal of noncurrent assets in the profit from housing privatization item. The prior-year amount was restated accordingly.

## 25. Cost of purchased services

The cost of purchased services results primarily from the management of investment property and is composed of the following items:

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| —Maintenance expenses | 8,986 | 8,714 |
| —Operating costs | 16,474 | 15,007 |
| —Other residential property management expenses | 626 | 590 |
| | **26,086** | **24,311** |

## 26. Personnel expenses

Employee expenses amounted to EUR 8.4 million in the short fiscal year from July 1 to December 31, 2006 (first short fiscal year: EUR 9.0 million).

Amounts resulting from interest accrued to pension provisions are not recognized as personnel expenses. Such costs are a component of net finance costs and are included in interest and other expenses.

The Deutsche Wohnen Group employed 271 staff, including part-time employees but excluding trainees, as of December 31, 2006 (first short fiscal year: 261). The average number of employees in the second short fiscal year was 234 (FTEs; first short fiscal year: 250).

## 27. Depreciations

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| Depreciation and amortization of | | |
| —Investment property | 6,815 | 6,819 |
| —Property, plant and equipment | 207 | 225 |
| —Intangible assets | 42 | 17 |
| | 7,064 | 7,061 |
| Impairment losses | 7,694 | 35 |
| | 14,758 | 7,096 |

Impairment losses relate to investment property allocated to Segment I (residential property management) in the segment reporting under IAS 14. The exception is the impairment loss on undeveloped land in Frankfurt am Main (Unterliederbach), which is allocated to Segment III.

## 28. Other operating expenses

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| —Selling commissions; cost of property sales | 5,597 | 2,461 |
| —Write-offs and write-downs of receivables | 378 | 1,306 |
| —Out-of-period expenses | 145 | 609 |
| —Administrative expenses; miscellaneous expenses | 4,841 | 5,439 |
| | 10,961 | 9,815 |

Losses on the disposal of noncurrent assets, which were reported under other operating expenses in the previous year, were for the first time offset against gains on the disposal of noncurrent assets in the profit from housing privatization item. The prior-year amount was restated accordingly.

## 29. Income from business combination

This item relates to the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired DB IF 14 (EUR 16.7 million) over the acquisition costs (EUR 7.9 million) amounting to EUR 8.8 million, which was recognized in profit and loss.

## 30. Other interest and similar income

Interest income from deposits amounted to EUR 0.4 million (first short fiscal year: EUR 0.6 million).

## 31. Impairment losses on financial assets

This item presents impairment losses resulting from impairment testing of equity investments and other loans in accordance with IAS 39.

## 32. Interest and similar expenses

Interest and similar expenses are composed of the following items:

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| Interest expense | | |
| —Property and company financing | 11,340 | 11,098 |
| —Interest cost accrued to interest-subsidized loans | 743 | 743 |
| —Early redemption penalties | 11 | 201 |
| —Pension obligations | 113 | 104 |
| —Other | 368 | 265 |
| | 12,575 | 12,411 |

## 33. Gains and losses on derivative financial instruments

The gains or losses from the most recent measurement of the derivatives recognized on the basis of contractual agreements with DB IF 14 or the limited partners of this fund are broken down as follows:

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| Gains/losses (-) from the measurement of | | |
| —rights of tender | −26 | 827 |
| —loan guarantee | −18 | −21 |
| —rental guarantee | −264 | 452 |
| —forward transaction | −36 | −1,425 |
| (Losses) | −344 | −167 |

## 34. Income tax expense

The income tax expense relates to taxes on income paid or owed. It also includes tax refunds and deferred taxes.

| | Second short fiscal year 2006 | First short fiscal year 2006 |
|---|---|---|
| | in EUR thousand | |
| —Current income tax expense for reporting year 2006 | 2,746 | 763 |
| —Effects of tax assessments and adjustments to out-of-period tax calculations | −120 | −126 |
| —Change in deferred taxes | −3,353 | 268 |
| Income (previous year: expense) | −727 | 905 |

In the reporting year, deferred taxes of EUR 86 thousand were taken directly to equity (first short fiscal year: EUR 67 thousand). They related to the deferred taxes recognized for measurement differences between the carrying amount of pension obligations in the IFRS balance sheet and their tax base.

## 35. Earnings per share

Earnings per share is calculated by dividing the consolidated profit for the year by the number of shares.

The number of shares is now 20,000,000 following the 1:5 share split implemented in the second half of the year. The share split was implemented effective August 25, 2006. Because there have been no changes in the share classes (ordinary shares), there was no requirement to calculate diluted earnings per share for either the first short fiscal year or the second short fiscal year.

Earnings per share amounted to EUR 1.47 for the second short fiscal year (first short fiscal year: EUR 0.09). Earnings per share changed from EUR 0.43 to EUR 0.09 due to the share split in the prior period.

## X. Other Disclosures

### Contingent liabilities

Contingent liabilities as of December 31, 2006 totaled EUR 3.4 million. They result solely from obligations to third parties.

| | Dec 12, 2006 | June 30, 2006 |
|---|---|---|
| | in EUR thousand | |
| Guarantees | 3,356 | 3,257 |
| Provision of collateral for third-party liabilities | 0 | 170,546 |
| | 3,356 | 173,803 |

The provision of collateral for third-party liabilities relates to liabilities of DB IF 14. The decrease is due to the initial consolidation of the fund as of December 31, 2006.

Guarantees at the reporting date consist mainly of settlement guarantees for partial retirement credit balances and guarantees securing loans and advances by a bank.

Heritable building rights agreements result in financial obligations of EUR 10.7 million (June 30, 2006: EUR 10.7 million).

An agency agreement with DB Real Estate Investment GmbH relating to IT services that runs until 2007 results in other financial obligations totaling EUR 1.1 million (June 30, 2006: EUR 1.7 million).

Cash of EUR 10.3 million (June 30, 2006: EUR 10.5 million) was pledged as cash collateral as of June 30, 2006 to a bank as part of the provision of guarantees.

A Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a renovation and development company in accordance with sections 158 and 167 of the *Baugesetzbuch* (BauGB — Federal Building Code). The company performs assignments delegated by local authorities as their trustee.

As of December 31, 2006, the company holds bank balances amounting to EUR 0.5 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. The bank accounts were transferred in 2007. In this context, the company raised loans for local authorities amounting to EUR 3.6 million (June 30, 2006: EUR 4.8 million) as a trustee. No risk results from this; the transfer will be effected in 2007.

Since January 2006, the Group companies have administered rental deposit escrow accounts on behalf of tenants amounting to EUR 4.4 million (June 30, 2006: EUR 3.4 million).

### Leases

### Operating leases

The subsidiaries have entered into long-term heritable building right agreements with the holders of those rights; these are classified as operating leases under IFRS.

The total future undiscounted minimum lease payments that will accrue to the Group under these heritable building rights amount to EUR 3.2 million (June 30, 2006: EUR 3.3 million) and are allocated to future periods as shown in the following table:

| | in EUR thousand |
|---|---|
| - up to one year | 51 |
| - one to five years | 253 |
| - more than five years | 2,859 |

The Group has entered into leases to commercially rent its investment property. The remaining terms of these non-cancelable leases are between three and ten years. The leases usually include a clause that allows an annual increase in the lease installments according to prevailing market conditions.

Undiscounted claims for future minimum lease payments from non-cancelable operating leases are as follows as of December 31, 2006:

| | in EUR thousand |
|---|---:|
| - up to one year | 1,165 |
| - one to five years | 3,230 |
| - more than five years | 706 |

Contingent rent payments in the period under review were insignificant.

There are also operating leases under which Group companies act as lessees of office property and of operating and office equipment.

The minimum undiscounted future lease and rental payment obligations from operating leases amounted to EUR 5.8 million (June 30, 2006: EUR 2.9 million). The corresponding payment obligations are due as follows:

| | in EUR thousand |
|---|---:|
| - up to one year | 1,200 |
| - one to five years | 4,555 |
| - more than five years | 52 |

The increase is due to a new lease entered into for an administrative building in Mainz that the Group companies have selected as a new location from the middle of 2007.

EUR 0.6 million (first short fiscal year: EUR 0.5 million) from these lease obligations was recognized as an expense in the second short fiscal year. The amount of income recognized from subleases was insignificant.

## Objectives and methods of financial risk management

With the exception of derivatives, the main financial instruments used by the Group are bank loans, trade payables and loans. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various financial assets, such as trade receivables and cash, which result directly from its business activities.

### Currency risk

The Group is not exposed to any currency risk as all its business activities are settled in euros.

### Credit risk

The Group only enters into transactions with third parties with good credit standing. Where transactions are entered into on a credit basis, the business partners in question undergo a credit check. In addition, receivables portfolios are continuously monitored to ensure that the Group is not exposed to any material default risk. In the case of the Group's other financial assets, such as cash and cash equivalents, available-for-sale investments and certain derivatives, the maximum credit risk in the event of counterparty default corresponds to the net book value of these instruments.

### Liquidity risk

No liquidity risks exist in relation to the credit line amounting to EUR 270.0 million that has not been utilized and the continuous cash inflows from residential property management. The Group continually monitors the risk of any liquidity shortage using liquidity forecasts that reflect the maturities of its investments and financial assets, as well as expected cash flows from operating activities.

### Interest rate risk

The Group uses one derivative (interest rate swap) that is designed to hedge the interest rate risk that may arise from one of the Group's sources of finance.

As in previous years, the Group does not trade derivatives.

The Group manages its interest expenses by combining mainly fixed-rate and a small volume of floating rate debt. The risk of fluctuations in market interest rates to which the Group is exposed results from the small volume of noncurrent financial liabilities with floating interest rates (two loans). Including existing interest rate swaps, approx. 99.9% (June 30, 2006: 100%) of the Group's debt bore fixed interest rates as of December 31, 2006. The Group has no guidelines for determining the proportion of debt bearing fixed interest rates.

In the case of floating rate finance, rising interest rates have a direct effect on net finance costs in the form of higher interest expenses. Depending on estimates of future interest rate levels, Deutsche Wohnen uses derivatives to hedge rising interest rates. It does not use hedge accounting within the meaning of IAS 39, as the requirements for this are currently not met. The hedging instruments employed as of the reporting date are explained below.

For the first time, a Group company used an interest rate swap denominated in euros beginning on October 2, 2006 and ending on October 3, 2016. The interest rate swap was entered into with Landesbank Rheinland-Pfalz. The fixed interest rate is 4.95% p.a.; the reference interest rate is 6M EURIBOR with a spread of 0.55%. The interest rate swap serves to hedge a floating rate loan (underlying) amounting to EUR 2.6 million extended in July 2007, with an interest rate based on 6M EURIBOR plus a spread of 0.55%. The loan bears a fixed interest rate until April 2, 2007 and matures on October 3, 2016. The interest rate swap had a negative fair value of EUR 55 thousand at the balance sheet date.

Another Group company also raised a floating rate loan amounting to EUR 20.0 million with Landesbank Rheinland-Pfalz in December 2006. The loan's interest rate is based on 3M EURIBOR. In February 2007, a fixed interest rate of 4.50% was agreed for this loan effective April 1, 2007 (until September 28, 2007).

All other loans bear fixed interest rates. For information on maturities, please refer to the above disclosures on bank loans and overdrafts and liabilities to other lenders. In the case of fixed-rate financial instruments, the interest rate is fixed until the respective financial instrument matures. The Group's other financial instruments do not bear interest and are therefore not exposed to interest rate risk.

### Fair value

The carrying amount of all financial instruments recognized in the consolidated financial statements represents the fair value, with the exception of bank loans and overdrafts and liabilities to other lenders. For information on the latter, please refer to the above disclosures on bank loans and overdrafts and liabilities to other lenders. The fair value of the loans was determined by discounting the expected future cash flows using normal market interest rates.

## Consolidated Cash Flow Statement Disclosures

The consolidated cash flow statement of the Deutsche Wohnen Group shows how the Group's cash holdings have changed in the course of the fiscal year as a result of inflows and outflows. A distinction is made within the consolidated cash flow statement between cash flows from operating, investing and financing activities. Cash flows from operating activities are calculated using the indirect method in accordance with IAS 7.18 (b). All the information required under IAS 7 is presented in the consolidated cash flow statement. The combination with DB IF 14 does not represent a cash transaction because the cost consists of assets and liabilities surrendered within the Deutsche Wohnen Group. As a result of the initial consolidation of DB IF 14, the Group received cash of EUR 11.1 million that is reported in the cash flow statement under cash flows from investing activities.

## Consolidated Segment Reporting Disclosures

The changes in and classification of the segments, together with the associated income and expenses, and assets and liabilities, are presented in the consolidated segment reporting attached as Annex B.

In accordance with IAS 14, individual financial statement data is presented separately by segment. The segment classification is based on the internal reporting structures. Segmentation makes the earnings power and performance prospects of the Group divisions, as well as their opportunities and risks, more transparent.

As in the prior period, the Deutsche Wohnen Group applied the following segmentation as of December 31, 2006:

Segment I: Residential property management

This comprises lease management, the renovation and maintenance of leased properties, and tenant services, and consists mainly of the investment property in accordance with IAS 40 (the "core portfolio"), as well as all related income and expenses.

Segment II: Housing privatization

This segment consists of the preparation and implementation of the privatization process and consists of the noncurrent assets held for sale in accordance with IFRS 5, as well as the accounting profit realized on the sale of IAS 40 properties. It also includes all income and expenses from properties available for sale (IAS 2).

Segment III: Services, financing and administration

This consists of the provision of internal services, and all employee, administrative and financing activities of the Group.

Intercompany balances, transactions, profits and expenses are eliminated in full in the reconciliation to the consolidated financial statements.

The segment data was calculated as follows:

- External revenue relates to revenue generated in Germany, mainly in Hesse and Rhineland-Palatinate. No further breakdown is provided for economic considerations.
- Intersegment revenue presents the revenue generated between the segments. Transfer prices for intragroup revenue are defined on an arm's length basis. The expenses are deducted from the expense items affected.
- Income, expenses, assets and liabilities that relate to the management of the stocks in North Hesse are allocated to Segment II, and the earnings contribution is presented net. By contrast, these items are presented in the income statement under the relevant headings.
- The investments relate primarily to the investment property presented in Segment I; investments in property, plant and equipment (owner-occupied property, operating and office equipment) and intangible assets are contained in Segment III.
- Income, expenses, assets and liabilities were allocated directly to the individual segments where possible. Remaining items that cannot be reasonably allocated directly to Segments I and II are presented in Segment III. Tax amounts are also presented in Segment III.

## Related Party Disclosures

In accordance with IAS 24, related parties are defined as the Supervisory Board, the Management Board and senior employees, as well as their close family members.

Deutsche Wohnen AG's management consists of two Management Board members. Please refer to the following disclosures on the Management Board's compensation. There is also an operational management level that comprises 15 people.

## Employee Benefits (IAS 19)

Because of the different historical background to the Group companies, there are various occupational pension models in the Deutsche Wohnen Group. These mainly comprise a basic and/or supplementary pension.

The basic pension is primarily funded by Höchster Pensionskasse VVaG and includes the income of the employee up to the relevant income threshold for contribution assessment in the statutory pension insurance

system. The supplementary pension is a direct pension commitment by individual Group companies to employees with incomes above the relevant income threshold for contribution assessment in the statutory pension insurance system. The basic and supplementary pension plans were closed to new members effective December 31, 1998.

A commitment was also made to employees for a supplementary pension under the regulations governing public-sector supplementary pensions. It is based on membership of a Group company in the *Bayerische Versorgungskammer—Zusatzversorgungskasse der bayerischen Gemeinden* (Bavarian association for providers of civil service and professional pensions and other benefits). The obligation of the Company under this supplementary pension is not recognized as an expense. Please refer to note (12) on the consolidated balance sheet.

The commitments under the supplementary pensions for current and former employees and the obligations under vested pension benefits relating to occupational pension commitments to former employees are presented in the "Pension obligations" in the consolidated balance sheet.

## Auditors' Services

The fees of the auditors Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft recognized as expenses in the fiscal year amounted to EUR 236 thousand for the audit and EUR 21 thousand for other services.

The audit related to expenses for the statutory audit of the annual financial statements of the Group companies, with the exception of Deutsche Wohnen Asset Immobilien GmbH, Deutsche Wohnen Beteiligung Immobilien GmbH, Deutsche Wohnen Corporate Immobilien GmbH, Deutsche Wohnen Direkt Immobilien GmbH, Deutsche Wohnen Eigentum Immobilien GmbH and DB IF 14.

## Management Board and Supervisory Board

The total compensation of the Management Board of Deutsche Wohnen AG for the period from July 1 and December 31, 2006 is broken down as follows:

| | | Compensation component | |
|---|---|---|---|
| | Total compensation | fixed | variable |
| | in EUR thousand | | |
| Andreas Lehner | 644 | 93 | 551 |
| Michael Neubürger | 448 | 84 | 364 |

Compensation granted to members of the Supervisory Board amounted to EUR 42 thousand in the reporting year.

## Events After the Balance Sheet Date

The Deutsche Wohnen Group expanded its real estate portfolio on January 15, 2007 by acquiring 426 residential units and 12 commercial units. The properties were sold by LVM Versicherungen. The residential portfolio offered for purchase exclusively to the Deutsche Wohnen Group comprises highly attractive inner city microlocations in Münster/Westphalia (252 units) as well as Dresden, Leipzig and Erfurt (186 units). The transfer of ownership will be effected on April 1, 2007.

The total residential space acquired amounts to 30,015 $m^2$ (average size of residential space: 71 $m^2$). The estimated rent is EUR 6.70 per $m^2$, and the vacancy rate is 3.5%. In most cases, the apartments were constructed or the cores of the buildings were completely renovated in the 1990s.

## Corporate Governance

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

Frankfurt am Main, February 9, 2007

**Deutsche Wohnen AG**

| Andreas Lehner | Michael Neubürger |
|---|---|
| - Chairman of the Management Board - | - Member of the Management Board - |

## Annex A.1 to the Notes to the Consolidated Financial Statements

### Statement of Changes in Noncurrent Assets for the Short Fiscal Year from July 1 to December 31, 2006

| | Historical Cost | | | | | | | Accumulated depreciation, amortization and impairment losses | | | | | | | Net book values | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at July 1, 2006 | Addition from business combination | Additions | Disposals | Reclassifications | Transfers | Balance at Dec 31, 2006 | Balance at July 1, 2006 | Additions | Reversals of impairment losses | Disposals | Reclassifications | Transfers | Balance at Dec 31, 2006 | Balance at Dec 31, 2006 | Balance at June 30, 2006 |
| | | | | | | | | in EUR thousand | | | | | | | | |
| **I. Investment property** | | | | | | | | | | | | | | | | |
| Land with residential buildings | 853,242 | 186,086 | 3,591 | −41,053 | −1,583 | 21,055 | 1,021,338 | 101,941 | 6,868 | 0 | −4,699 | −148 | 0 | 103,962 | 917,376 | 751,301 |
| Land with commercial buildings | 22,593 | 0 | 0 | −293 | 0 | 0 | 22,300 | 3,433 | 285 | 0 | −197 | 0 | 0 | 3,521 | 18,779 | 19,160 |
| Land without buildings | 28,741 | 0 | 0 | 0 | −351 | 161 | 28,551 | 1,795 | 7,231 | 0 | 0 | 0 | 0 | 9,026 | 19,525 | 26,946 |
| Land with heritable third-party building rights | 431 | 0 | 0 | 0 | 0 | 0 | 431 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 431 | 431 |
| Technical equipment | 179 | 0 | 0 | 0 | 0 | 0 | 179 | 36 | 11 | 0 | 0 | 0 | 0 | 47 | 132 | 143 |
| Assets under construction | 1,010 | 0 | 61 | −35 | 0 | −754 | 282 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 282 | 1,010 |
| Preconstruction costs | 1,205 | 0 | 49 | −372 | 0 | 0 | 882 | 761 | 114 | 0 | −48 | 0 | 0 | 827 | 55 | 444 |
| **Total investment property** | 907,401 | 186,086 | 3,701 | −41,753 | −1,934 | 20,462 | 1,073,963 | 107,966 | 14,509 | 0 | −4,944 | −148 | 0 | 117,383 | 956,580 | 799,435 |
| **II. Property, plant and equipment** | | | | | | | | | | | | | | | | |
| Commercial or other buildings — owner-occupied | 5,879 | 0 | 1 | 0 | 0 | 0 | 5,880 | 2,497 | 100 | 0 | 0 | 0 | 0 | 2,597 | 3,283 | 3,382 |
| Buildings on third-party land — owner-occupied | 1,192 | 0 | 0 | 0 | 0 | 0 | 1,192 | 616 | 49 | 0 | 0 | 0 | 0 | 665 | 527 | 576 |
| Office equipment | 1,141 | 0 | 37 | −66 | 0 | 0 | 1,112 | 1,032 | 58 | 0 | −66 | 0 | 0 | 1,024 | 88 | 109 |
| Payments on account | 0 | 0 | 19,537 | 0 | 0 | −19,537 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total property, plant and equipment** | 8,212 | 0 | 19,575 | −66 | 0 | −19,537 | 8,184 | 4,145 | 207 | 0 | −66 | 0 | 0 | 4,286 | 3,898 | 4,067 |
| **III. Intangible assets** | | | | | | | | | | | | | | | | |
| Concessions, industrial and similar rights and assets and licenses in such rights and assets | 640 | 0 | 200 | 0 | 0 | 0 | 840 | 608 | 42 | 0 | 0 | 0 | 0 | 650 | 190 | 32 |
| Goodwill | 5 | 0 | 0 | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 |
| **Total intangible assets** | 645 | 0 | 200 | 0 | 0 | 0 | 845 | 613 | 42 | 0 | 0 | 0 | 0 | 655 | 190 | 32 |
| **IV. Noncurrent financial assets** | | | | | | | | | | | | | | | | |
| Other loans | 24,907 | −30,357 | 6,730 | −23 | −24 | 0 | 1,233 | 1,062 | 1 | 0 | −3 | 0 | 0 | 1,060 | 173 | 23,845 |
| **Total noncurrent financial assets** | 24,907 | −30,357 | 6,730 | −23 | −24 | 0 | 1,233 | 1,062 | 1 | 0 | −3 | 0 | 0 | 1,060 | 173 | 23,845 |
| **Total** | 941,165 | 155,729 | 30,206 | −41,842 | −1,958 | 925* | 1,084,225 | 113,786 | 14,759 | 0 | −5,013 | −148 | 0 | 123,384 | 960,841 | 827,379 |
| **V. Noncurrent assets held for sale** | 9,385 | 0 | 0 | −8,448 | 1,934 | 0 | 2,871 | 880 | 0 | 0 | −866 | 148 | 0 | 162 | 2,709 | 8,505 |

* *Relates to Kandel portfolio, reported as of June 30, 2006 as a prepayment under current receivables and other current assets — transfer of ownership, risks and rewards effective as of July 1, 2006.*

## Annex A.2 to the Consolidated Financial Statements

### Consolidated Statement of Changes in Noncurrent Assets for the Short Fiscal Year from January 1 to June 30, 2006

| | Cost | | | | | | Cumulative depreciation, amortization and impairment losses | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at Jan 1, 2006 | Additions | Disposals | Reclassifications | Transfers | Balance at June 30, 2006 | Balance at Jan 1, 2006 | Additions | Reversals of impairment losses | Disposals | Reclassifications | Transfers | Balance at June 30, 2006 | Balance at June 30, 2006 | Balance at Dec 31, 2005 |
| | in EUR thousand | | | | | | | | | | | | | | |
| **I. Investment property** | | | | | | | | | | | | | | | |
| Land with residential buildings | 865,766 | 2,472 | −6,695 | −8,195 | −106 | 853,242 | 96,991 | 6,586 | 0 | −847 | −789 | 0 | 101,941 | 751,301 | 768,775 |
| Land with commercial buildings | 22,791 | 90 | −129 | −159 | 0 | 22,593 | 3,258 | 257 | 0 | −23 | −59 | 0 | 3,433 | 19,160 | 19,533 |
| Land without buildings | 28,926 | 0 | −114 | −117 | 106 | 28,741 | 1,819 | 0 | 0 | 0 | −24 | 0 | 1,795 | 26,946 | 27,107 |
| Land with heritable third-party building rights | 431 | 0 | 0 | 0 | 0 | 431 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 431 | 431 |
| Technical equipment | 179 | 0 | 0 | 0 | 0 | 179 | 25 | 11 | 0 | 0 | 0 | 0 | 36 | 143 | 154 |
| Assets under construction | 264 | 754 | −8 | 0 | 0 | 1,010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,010 | 264 |
| Preconstruction costs | 1,196 | 9 | 0 | 0 | 0 | 1,205 | 761 | 0 | 0 | 0 | 0 | 0 | 761 | 444 | 435 |
| **Total investment property** | 919,553 | 3,325 | −6,946 | −8,531 | 0 | 907,401 | 102,854 | 6,854 | 0 | −870 | −872 | 0 | 107,966 | 799,435 | 816,699 |
| **II. Property, plant and equipment** | | | | | | | | | | | | | | | |
| Commercial or other buildings — owner-occupied | 5,879 | 0 | 0 | 0 | 0 | 5,879 | 2,396 | 101 | 0 | 0 | 0 | 0 | 2,497 | 3,382 | 3,483 |
| Buildings on third-party land | 1,192 | 0 | 0 | 0 | 0 | 1,192 | 566 | 50 | 0 | 0 | 0 | 0 | 616 | 576 | 626 |
| Operating and office equipment | 1,106 | 57 | −22 | 0 | 0 | 1,141 | 979 | 75 | 0 | −22 | 0 | 0 | 1,032 | 109 | 127 |
| **Total property, plant and equipment** | 8,177 | 57 | −22 | 0 | 0 | 8,212 | 3,941 | 226 | 0 | −22 | 0 | 0 | 4,145 | 4,067 | 4,236 |
| **III. Intangible assets** | | | | | | | | | | | | | | | |
| Concessions, industrial and similar rights and assets and licenses in such rights and assets | 640 | 0 | 0 | 0 | 0 | 640 | 591 | 17 | 0 | 0 | 0 | 0 | 608 | 32 | 49 |
| Goodwill | 5 | 0 | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 |
| **Total intangible assets** | 645 | 0 | 0 | 0 | 0 | 645 | 596 | 17 | 0 | 0 | 0 | 0 | 613 | 32 | 49 |
| **IV. Noncurrent financial assets** | | | | | | | | | | | | | | | |
| Other loans | 24,527 | 447 | −90 | 23 | 0 | 24,907 | 899 | 163 | 0 | 0 | 0 | 0 | 1,062 | 23,845 | 23,628 |
| **Total noncurrent financial assets** | 24,527 | 447 | −90 | 23 | 0 | 24,907 | 899 | 163 | 0 | 0 | 0 | 0 | 1,062 | 23,845 | 23,628 |
| **Total** | 952,902 | 3,829 | −7,058 | −8,508 | 0 | 941,165 | 108,290 | 7,260 | 0 | −892 | −872 | 0 | 113,786 | 827,379 | 844,612 |
| **V. Noncurrent assets held for sale** | 6,489 | 0 | −5,635 | 8,531 | 0 | 9,385 | 527 | 0 | 0 | −519 | 872 | 0 | 880 | 8,505 | 5,962 |

## Segment Reporting for the Short Fiscal Year from July 1 to December 31, 2006

| | Segment I | | Segment II | | Segment III | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Residential property management | | Housing privatization | | Services, financing and administration | | | | | |
| | Dec 31, 2006 | June 30, 2006 | Dec 31, 2006 | June 30, 2006 | Dec 31, 2006 | June 30, 2006 | Dec 31, 2006 | June 30, 2006 | Dec 31, 2006 | June 30, 2006 |
| | in EUR thousand | | | | | | | | | |
| External revenue | 52,749[2] | 52,252[2] | | | | | | | 52,749 | 52,252 |
| Profit from housing privatization | | | 35,349[1] | 7,955[1] | | | | | 35,349 | 7,955 |
| Other operating income | | | | | 2,996 | 4,263 | | | 2,996 | 4,263 |
| Internal revenue | 98 | 98 | | | 12,514 | 12,946 | 12,612 | 13,044 | 0 | 0 |
| **Segment revenue** | **52,847** | **52,350** | **35,349** | **7,955** | **15,510** | **17,209** | **12,612** | **13,044** | **91,094** | **64,470** |
| Segment expenses owed to third parties/other income | | | | | | | | | | |
| —Expenses from property management | 25,130[1] | 24,235[1] | | | | | | | 25,130 | 24,235 |
| —Expenses from sales activities | | | 5,573 | 2,647 | | | | | 5,573 | 2,647 |
| —Segment reclassification of vacancies due to sales | −2,550[3] | −2,433[3] | 2,550 | 2,433 | | | | | 0 | 0 |
| —Personnel expenses | | | | | 8,354 | 8,995 | | | 8,354 | 8,995 |
| —Other operating expenses | | | | | 17,621 | 18,977 | 12,612 | 13,044 | 5,009 | 5,933 |
| —Interest income and income from investments | | | | | 1,017 | 1,270 | 129 | 168 | 888 | 1,102 |
| —Interest expense | | | | | 12,703 | 12,579 | 129 | 168 | 12,574 | 12,411 |
| —Allowances and impairment losses on receivables and undeveloped land | 7,528 | 7,097 | | | 7,609[4] | 1,445 | | | 15,137 | 8,542 |
| —Income/expense from financial derivatives | | | | | 344 | 167 | | | 344 | 167 |
| —Income tax expense/income | | | | | −727 | 905 | | | −727 | 905 |
| —Other taxes | | | | | 23 | 31 | | | 23 | 31 |
| **Segment expenses** | **30,108** | **28,899** | **8,123** | **5,080** | **44,910** | **41,829** | **12,612** | **13,044** | **70,529** | **62,764** |
| Income from business combination | | | | | 8,779 | 0 | | | 8,779 | 0 |
| **Segment result before reconciliation** | **22,739** | **23,451** | **27,226** | **2,875** | **−20,621** | **−24,620** | **0** | **0** | **29,344** | **1,706** |
| **Segment result after reconciliation** | **22,641** | **23,353** | **27,226** | **2,875** | **−20,523** | **−24,522** | **0** | **0** | **29,344** | **1,706** |
| Segment assets | 989,017 | 834,358 | 57,029 | 21,831 | 27,240 | 398,410 | −66,230 | 248,058 | 1,139,516 | 1,006,541 |
| Segment liabilities | 44,157 | 47,691 | 776 | 5,743 | 632,798 | 782,502 | −66,230 | 248,058 | 743,961 | 587,878 |
| Investments | 3,701 | 3,325 | 0 | 0 | 26,505 | 1,194 | 0 | 0 | 30,206 | 4,519 |

1 *The difference as against the income statement relates to PF Kassel. Please refer to the segment reporting disclosures in the notes.*

2 *The difference as against the income statement also relates to PF Kassel, as well as to the changes in inventories that are allocated to revenue from residential property management in the segment reporting.*

3 *Vacancies due to sales are allocated to Segment II; the prior-year amount was restated accordingly.*

4 *The impairment losses relate mainly to undeveloped land in Frankfurt am Main (Unterliederbach) that is allocated to Segment III.*

*The following auditor's opinion is a translation of the German-language auditor's opinion (Bestätigungsvermerk), which refers to the consolidated financial statements of Deutsche Wohnen AG prepared on the basis of International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] as well as the combined management report of Deutsche Wohnen AG and Deutsche Wohnen Group prepared on the basis of German commercial law (HGB) for the short fiscal year from July 1, 2006 to December 31, 2006 as a whole and not solely to the consolidated financial statements presented in this offering circular on the preceding pages.*

# AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Deutsche Wohnen AG, Frankfurt am Main, Germany, comprising the consolidated balance sheet, the consolidated profit and loss statement, the group cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, and the group management report which has been combined with the management report of the company for the short fiscal year from July 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [Institut of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report which has been combined with the management report of the company are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report which has been combined with the management report of the company are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report which has been combined with the management report of the company. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report which has been combined with the management report of the company is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, Germany, February 9, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Völker)
Wirtschaftsprüfer
(German Public Auditor)

(Enzenhofer)
Wirtschaftsprüfer
(German Public Auditor)

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE SHORT FISCAL YEAR ENDED JUNE 30, 2006 (IFRS)

## Consolidated Balance Sheet As of June 30, 2006

| Assets in EUR | | Note | June 30, 2006 | Dec 31, 2005 |
|---|---|---|---|---|
| A. | **Noncurrent assets** | | | |
| I. | Investment property | (1) | 799,434,870.60 | 816,699,039.23 |
| II. | Property, plant and equipment | (2) | 4,067,833.85 | 4,235,153.45 |
| III. | Intangible assets | (3) | 31,643.00 | 48,646.00 |
| IV. | Noncurrent financial assets | (4) | 23,845,180.63 | 23,627,737.80 |
| V. | Noncurrent receivables and other noncurrent assets | | 2,216,850.70 | 2,168,219.04 |
| VI. | Deferred tax assets | (14) | 40,417,000.00 | 40,840,000.00 |
| | **Total noncurrent assets** | | **870,013,378.78** | **887,618,795.52** |
| B. | **Current assets** | | | |
| I. | Properties held for sale and other inventories | (5) | | |
| | a) Land without buildings | | 2,503,417.92 | 2,636,372.66 |
| | b) Land with finished buildings | | 7,545,573.15 | 7,732,095.47 |
| | c) Work in progress, other inventories | | 30,835,566.79 | 24,707,927.79 |
| | | | 40,884,557.86 | 35,076,395.92 |
| II. | Current receivables and other current assets | (6) | | |
| | a) Receivables from rental activities | | 4,087,612.73 | 4,315,194.43 |
| | b) Receivables from property sales | | 3,458,371.15 | 13,626,804.40 |
| | c) Current tax receivables | | 1,067,680.08 | 1,673,543.08 |
| | d) Current receivables and other current assets | | 18,023,183.19 | 12,320,313.85 |
| | e) Derivatives | | 6,144,000.00 | 5,713,000.00 |
| | | | 32,780,847.15 | 37,648,855.76 |
| III. | Cash and bank balances | (7) | 54,356,434.35 | 47,202,985.07 |
| C. | **Noncurrent assets held for sale** | (8) | 8,505,438.77 | 5,961,958.41 |
| | **Total current assets** | | **136,527,278.13** | **125,890,195.16** |
| | **Total assets** | | **1,006,540,656.91** | **1,013,508,990.68** |

| Equity and liabilities in EUR | | Note | June 30, 2006 | Dec 31, 2005 |
|---|---|---|---|---|
| **A.** | **Equity** | (9) | | |
| I. | Subscribed capital | | 10,225,837.62 | 10,225,837.62 |
| II. | Capital reserves | | 207,052,559.57 | 228,340,307.30 |
| III. | Retained earnings | | 29,553,878.21 | 29,446,466.21 |
| IV. | Consolidated net retained profits | | 171,830,233.52 | 148,455,965.62 |
| V. | Minority interests | | 0.00 | 390,543.36 |
| | **Total equity** | | **418,662,508.92** | **416,859,120.11** |
| **B.** | **Noncurrent liabilities** | | | |
| I. | Bank loans and overdrafts | (10) | 407,160,671.16 | 410,333,959.34 |
| II. | Liabilities to other lenders | (10) | 20,703,195.48 | 27,526,020.27 |
| III. | Post-employment benefit obligation | (11) | 5,121,280.00 | 5,354,675.00 |
| IV. | Other noncurrent provisions | (12) | 4,180,493.86 | 4,343,507.45 |
| V. | Other noncurrent liabilities | (13) | 5,341,389.79 | 5,349,399.27 |
| VI. | Deferred tax liabilities | (14) | 2,190,000.00 | 2,278,000.00 |
| VII. | Deferred income | (10) | 36,189,965.46 | 36,933,376.76 |
| | **Total noncurrent liabilities** | | **480,886,995.75** | **492,118,938.09** |
| **C.** | **Current liabilities** | | | |
| I. | Bank loans and overdrafts | (10) | 6,132,837.57 | 16,143,663.27 |
| II. | Liabilities to other lenders | (10) | 1,405,276.00 | 2,045,507.41 |
| III. | Provisions for taxes; current tax liabilities | (12) | 6,278,661.89 | 6,029,484.11 |
| IV. | Other current provisions | (12) | 11,871,772.66 | 9,631,136.10 |
| V. | Prepayments received | (15) | 41,276,916.32 | 30,186,651.70 |
| VI. | Liabilities from rental activities | (16) | 8,219,781.02 | 11,289,212.83 |
| VII. | Trade payables and other liabilities | (17) | 24,692,906.78 | 22,690,277.06 |
| VII. | Derivatives | (18) | 7,113,000.00 | 6,515,000.00 |
| | **Total current liabilities** | | **106,991,152.24** | **104,530,932.48** |
| **Total equity and liabilities** | | | **1,006,540,656.91** | **1,013,508,990.68** |

## Consolidated Income Statement From January 1 to June 30, 2006

| In EUR | Note | June 30, 2006 | June 30, 2006 | Dec 31, 2005 |
|---|---|---|---|---|
| 1. Revenue | (19) | | | |
| a) from property management | | 46,592,380.00 | | 110,440,760.32 |
| b) from property sales | | 526,000.00 | | 3,290,009.00 |
| c) from management activities | | 1,177,635.84 | | 2,058,148.51 |
| d) from other services | | 47,875.12 | | 117,219.29 |
| | | | 48,343,890.96 | 115,906,137.12 |
| 2. Changes in inventories | (20) | | 6,263,729.91 | −1,267,506.03 |
| 3. Other operating income | (21) | | 10,648,229.41 | 44,276,266.06 |
| 4. Cost of purchased services und Leistungen | (22) | | | |
| a) Property management | | 24,602,853.35 | | 49,857,080.95 |
| b) Property sales | | 286,044.70 | | 1,907,621.06 |
| | | | 24,888,898.05 | 51,764,702.01 |
| **Gross profit** | | | **40,366,952.23** | **107,150,195.14** |
| 5. Employee expenses | (23) | | | |
| a) Wages and salaries | | 7,588,404.26 | | 13,553,888.13 |
| b) Social security costs | | 1,427,299.28 | | 3,239,312.18 |
| | | | 9,015,703.54 | 16,793,200.31 |
| 6. Depreciation, amortization and impairment losses | (24) | | 7,096,420.35 | 17,423,248.24 |
| 7. Other operating expenses | (25) | | 9,973,259.46 | 33,486,780.40 |
| 8. Income from financial assets | | 318,436.48 | | 646,683.74 |
| 9. Other interest and similar income | (26) | 783,220.52 | | 5,105,890.03 |
| 10. Impairment losses on financial assets | (27) | 163,107.00 | | 795,387.66 |
| 11. Interest and similar expenses | (28) | 12,411,126.25 | | 29,945,911.28 |
| **12. Net finance costs** | | | **−11,472,576.25** | **−24,988,725.17** |
| 13. Gains and losses on financial derivatives<br>*(loss; previous year: gain)* | (29) | | 167,000.00 | 2,493,000.00 |
| **14. Result of ordinary activities** | | | **2,641,992.63** | **16,951,241.02** |
| 15. Income tax expense<br>*(expense; previous year: income)* | (30) | | 904,726.07 | 11,896,433.60 |
| 16. Other taxes | | | 31,289.75 | 12,879,865.28 |
| **17. Net income** | | | **1,705,976.81** | **15,967,809.34** |
| Attributable to: | | | | |
| Shareholders of the parent | | | 1,705,976.81 | 15,891,655.22 |
| Minority interests | | | 0.00 | 76,154.12 |
| Earnings per share | (31) | | 0.09 | 0.79 |

## Cash Flow Statement for the Short Fiscal Year from January 1 to June 30, 2006

| | Jan 1-June 30, 2006 | Jan 1-Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| 1. Consolidated profit (including minority interests) before interest paid and received and income taxes (insofar as recognized in the income statement for the reporting period) | 13,971 | 27,047 |
| 2. Depreciation and amortization expense | 7,259 | 17,888 |
| 3. Increase/decrease (-) in provisions | 2,094 | −3,928 |
| 4. Net gains (-)/losses on disposal of investment property | −7,430 | −37,073 |
| 5. Interest paid(-)/received incl. previous year's deferred interest | −18,366 | −23,108 |
| 6. Income taxes paid(-)/received | −637 | 12,028 |
| 7. Increase(-)/decrease in deferred taxes | 335 | 107 |
| 8. Increase(-)/decrease in inventories, trade receivables, derivatives and other assets that are not attributable to investing or financing activities | −154 | 10,766 |
| 9. Increase(-)/decrease in inventories, trade receivables, derivatives and other liabilities that are not attributable to investing or financing activities | 10,622 | 11,720 |
| 10. Change in other balance sheet items | 98 | −88 |
| **11. Cash flows from operating activities** | **7,792** | **15,359** |
| 12. Proceeds from disposal of investment property | 18,621 | 78,562 |
| 13. Payments to acquire investment property | −4,307 | −12,267 |
| 14. Payments to acquire intangible assets | 0 | −3 |
| 15. Proceeds from disposal of financial assets and capital repayments | 90 | 41 |
| 16. Payments to acquire minority interests in consolidated companies | −10 | −130 |
| 17. Payments to acquire subsidiaries (purchase price) | 0 | −30 |
| 18. Cash acquired with subsidiaries purchased | 0 | 27 |
| 19. Payments to acquire financial assets | −163 | −4,379 |
| **20. Cash flows from investing activities/housing sales** | **14,231** | **61,821** |
| 21. Payments to owners (dividend) | 0 | −35,000 |
| 22. Proceeds from issuance of loans | 4,193 | 0 |
| 23. Repayments of loans | −19,063 | −61,031 |
| **24. Cash flows from financing activities** | **−14,870** | **−96,031** |
| **25. Net change in cash and cash equivalents** | **7,153** | **−18,851** |
| 26. Cash and cash equivalents at beginning of period | 47,203 | 66,054 |
| **27. Cash and cash equivalents at end of period** | **54,356** | **47,203** |

As in the previous year, cash and cash equivalents comprise cash (EUR 12 thousand; previous year: EUR 17 thousand) and bank balances (EUR 54,344 thousand; previous year: EUR 47,186 thousand). Bank balances include rental deposits of EUR 360 thousand (previous year: 3,251 thousand).

In fiscal year 2006, cash funds of EUR 10,518 thousand (previous year: EUR 11,565 thousand) were pledged to a bank as cash collateral.

## STATEMENT OF CHANGES IN EQUITY FOR THE SHORT FISCAL YEAR FROM JANUARY 1 TO JUNE 30, 2006

| | Subscribed capital | Capital reserves | Statutory retained earnings | Other retained earnings | SORIE | Consolidated net retained profits | Sub total | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | in EUR thousand | | | | | | | | |
| **Balance at Jan 1, 2005 in accordance with IFRSs** | 10,226 | 274,612 | 1,022 | 29,138 | –321 | 121,050 | 435,727 | 386 | 436,113 |
| Distributions | | | | | | −35,000 | −35,000 | | −35,000 |
| Consolidated profit for the year | | | | | | 15,892 | 15,892 | 76 | 15,968 |
| Change from repurchase of shares | | −60 | | | | | −60 | −69 | −129 |
| Withdrawals | | −46,212 | | | | | −46,412 | | −46,412 |
| Appropriations | | | | | | 46,212 | 46,212 | | 46,212 |
| Adjustment from pensions | | | | | −91 | | −91 | | −91 |
| Other changes | | | | −302 | | 302 | 0 | −2 | −2 |
| **Balance at Dec 31, 2005 in accordance with IFRSs** | 10,226 | 228,340 | 1,022 | 28,836 | −412 | 148,456 | 416,468 | 391 | 416,859 |
| Distributions | | | | | | | 0 | | 0 |
| Consolidated profit for the year | | | | | | 1,706 | 1,706 | | 1,706 |
| Change from repurchase of shares | | 381 | | | | | 381 | −391 | −10 |
| Withdrawals | | −21,668 | | | | | −21,668 | | −21,668 |
| Appropriations | | | | | | 21,668 | 21,668 | | 21,668 |
| Adjustment from pensions | | | | | 107 | | 107 | | 107 |
| Other changes | | | | | | | 0 | | 0 |
| **Balance as of June 30, 2006 in accordance with IFRSs** | 10,226 | 207,053 | 1,022 | 28,836 | −305 | 171,830 | 418,662 | 0 | 418,662 |

## Notes to the Consolidated Financial Statements

### I. GENERAL INFORMATION

The consolidated financial statements of Deutsche Wohnen AG have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB), the supplementary Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), and in compliance with section 315a of the HGB (German Commercial Code).

The Company complied in full with all Standards and Interpretations that were effective and required to be applied at the balance sheet date. The prior-year figures were determined using the same principles.

The Group parent is Deutsche Wohnen AG, whose registered office is Pfaffenwiese 300, Frankfurt am Main, and is registered in the commercial register of the Frankfurt am Main local court under the number HRB 42388. Deutsche Wohnen AG's business activities are restricted exclusively to its role as the holding company for the companies included in the Group. The operations of the subsidiaries focus on residential property management and housing privatization. The control agreement dated May 7, 1999 between Deutsche Wohnen AG and DB Real Estate Management GmbH was terminated in the course of Deutsche Wohnen AG's deconsolidation from Deutsche Bank AG effective as of the end of June 30, 2006. This termination also terminates DB Real Estate Management GmbH's right to appoint two members of the Supervisory Board in accordance with the Articles of Association.

Deutsche Wohnen AG's fiscal year was changed by resolution of the Extraordinary General Meeting on March 23, 2006. It begins on July 1 of a year and ends on June 30 of the following year. The period between January 1, 2006 and June 30, 2006 is a short fiscal year. The change in the fiscal year entered into force upon completion of the agreement to terminate the control agreement between the Company and DB Real Estate Management GmbH effective as of the end of June 30, 2006. The balance sheet dates of the subsidiaries included in the consolidated financial statements remain December 31, so these subsidiaries prepared interim financial statements as of the balance sheet date of Deutsche Wohnen AG (June 30, 2006) in accordance with IAS 27.26. Because of the short fiscal year, the amounts presented in the income statement for the period under review are only comparable with the actual prior-year figures to a limited extent.

The Annual General Meeting again resolved to change the fiscal year on August 10, 2006. It now begins on January 1 of a year and ends on December 31. The period between July 1, 2006 and December 31, 2006 is a short fiscal year. The second change in Deutsche Wohnen AG's fiscal year eliminated the need for any change at the subsidiaries.

## Notes to the Consolidated Financial Statements

The consolidated financial statements as of June 30, 2006 are based on the following Standards that are relevant to the Deutsche Wohnen Group:

International Financial Reporting Standards (IFRSs):

IFRS 1 . . . . . . . . . . . . . . First-time Adoption of International Financial Reporting Standards
IFRS 3 . . . . . . . . . . . . . . Business Combinations
IFRS 5 . . . . . . . . . . . . . . Noncurrent Assets Held for Sale and Discontinued Operations
IFRS 7 . . . . . . . . . . . . . . Financial Instruments: Disclosures (early adoption)

International Accounting Standards (IASs):

IAS 1 . . . . . . . . . . . . . . . Presentation of Financial Statements
IAS 2 . . . . . . . . . . . . . . . Inventories
IAS 7 . . . . . . . . . . . . . . . Cash Flow Statements
IAS 8 . . . . . . . . . . . . . . . Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 . . . . . . . . . . . . . . Events after the Balance Sheet Date
IAS 12 . . . . . . . . . . . . . . Income Taxes
IAS 14 . . . . . . . . . . . . . . Segment Reporting
IAS 16 . . . . . . . . . . . . . . Property, Plant and Equipment
IAS 17 . . . . . . . . . . . . . . Leases
IAS 18 . . . . . . . . . . . . . . Revenue
IAS 19 . . . . . . . . . . . . . . Employee Benefits
IAS 20 . . . . . . . . . . . . . . Accounting for Government Grants and Disclosure of Government Assistance
IAS 23 . . . . . . . . . . . . . . Borrowing Costs
IAS 24 . . . . . . . . . . . . . . Related Party Disclosures
IAS 27 . . . . . . . . . . . . . . Consolidated and Separate Financial Statements
IAS 32 . . . . . . . . . . . . . . Financial Instruments: Disclosure and Presentation
IAS 33 . . . . . . . . . . . . . . Earnings per Share
IAS 36 . . . . . . . . . . . . . . Impairment of Assets
IAS 37 . . . . . . . . . . . . . . Provisions, Contingent Liabilities and Contingent Assets
IAS 38 . . . . . . . . . . . . . . Intangible Assets
IAS 39 . . . . . . . . . . . . . . Financial Instruments: Recognition and Measurement
IAS 40 . . . . . . . . . . . . . . Investment Property

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies. Carrying amounts based on tax rules are not used in the consolidated financial statements.

Individual items in both the income statement and the balance sheet have been combined to enhance clarity. These items are disclosed and explained separately in the notes. A number of additional items have been recognized in accordance with the requirements for formats applicable to residential property companies.

In accordance with IAS 1 and Accounting Interpretation No. 1 issued by the German Accounting Standards Committee, the balance sheet presentation distinguishes between noncurrent and current assets and liabilities. Items are regarded as current if they are due within one year or can be allocated to a single operating cycle.

Preparation of the consolidated financial statements requires management to make assumptions and estimates to a limited extent that affect the reported amounts of recognized assets and liabilities, income and expenses, as well as the related disclosure of contingent liabilities. The main purposes of these estimates and assumptions are to calculate the present value of expected future cash flows as part of impairment tests, or to determine fair values (derivatives, investment property), to recognize and measure provisions, as well as to determine the useful life of properties. Actual amounts may differ from the estimates and assumptions in individual cases.

Changes in accounting policies are explained in the notes.

The income statement was prepared using the nature of expense format. The consolidated financial statements have been prepared in euros, rounded using the standard business rounding convention.

No taxable distributions are made due to the former non-profit-making nature of individual subsidiaries.

Please refer to the combined management report for details of the Company's risk management objectives and methods.

Deutsche Wohnen AG's Management Board will authorize the consolidated financial statements for submission to the Supervisory Board on 27 September, 2006. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them.

### Basis of accounting

## II. BASIS OF CONSOLIDATION

The consolidated financial statements include the interim financial statements of a total of six subsidiaries in addition to the annual financial statements of the parent company, Deutsche Wohnen AG.

There was no change in the consolidated companies at the balance sheet date, which are listed in the table below:

| Subsidiaries | Share capital/ capital in EUR | Interest in share capital/capital held in % |
|---|---|---|
| a) directly affiliated | | |
| Main-Taunus Wohnen GmbH & Co. KG, Eschborn | 4,346,100.00 | 100.00 |
| MT Wohnen GmbH, Frankfurt am Main | 25,600.00 | 100.00 |
| Rhein-Pfalz Wohnen GmbH, Mainz | 9,724,750.00 | 100.00 |
| b) indirectly affiliated | | |
| Rhein-Main Wohnen GmbH, Frankfurt am Main | 13,119,000.00 | 100.00 |
| Rhein-Mosel Wohnen GmbH, Mainz | 10,026,900.00 | 100.00 |
| RMW Projekt GmbH, Frankfurt am Main | 25,000.00 | 100.00 |

The equity investments over which Deutsche Wohnen AG has neither control nor a significant influence are accounted for as financial assets in accordance with IAS 39. These include the equity investment in the closed-end real estate investment fund DB Immobilien-fonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG (DB IF 14), Eschborn.

## III. CONSOLIDATION METHODS

The single-entity financial statements were aggregated to form the consolidated financial statements applying the following principles:

Acquisition accounting for business combinations consummated before the date of transition to IFRSs use the previously applied book value method as defined in section 301(1) sentence 2 no. 1 of the HGB as allowed by the exemptions under IFRS 1. The date of initial consolidation was December 31, 1998. This initial consolidation resulted in a positive difference of EUR 472.6 million, which was realized almost in full as a hidden reserve in land and land rights with buildings. The initial consolidation gave rise to positive differences of EUR 0.4 million attributable to minority interests; hidden reserves in this amount were also realized in respect of land and land rights with buildings.

Acquisition accounting for all business combinations since January 1, 2004 has been governed by IFRS 3.

Intragroup profits and losses, revenue, income, expenses and other transactions as well as receivables and liabilities between consolidated companies are eliminated in full.

Minority interests and their interests in the consolidated profit are no longer reported as a separate item within equity for the first six months of 2006 due to the repurchase of the outstanding shares.

## IV. ACCOUNTING POLICIES

The single-entity financial statements included in the consolidated financial statements are prepared according to principles applied uniformly across the Group.

## Investment property (IAS 40)

Investment property is property held to earn rentals and/or for capital appreciation. Under IAS 40.20, investment property must be measured at cost at the date of acquisition, including directly attributable transaction costs.

Subsequent measurement of all properties under IFRSs uses the cost model; this means that properties are carried at amortized cost less accumulated impairment losses. The requirement to reverse impairment losses is complied with.

Depreciation of investment property is based on a depreciation period of generally 50 years from the date of initial consolidation in 1998, using the straight-line method. To the extent that the actual remaining useful lives of buildings were less than 50 years at January 1, 1999, they are depreciated over the relevant shorter period. The useful lives and depreciation methods are reviewed annually as part of subsequent measurement under IFRSs.

Investment property was tested for impairment at the June 30, 2006 reporting date. Where there was any indication that an asset may be impaired in accordance with IAS 36, its recoverable amount was compared with its carrying amount. The value in use of the property, which was primarily calculated on the basis of the discounted cash flow method using an interest rate of 4.38% p.a. (in accordance with the WACC method), was used as the recoverable amount. An impairment loss was recognized if the value in use of the property was lower than its carrying amount. This resulted in aggregate impairment losses of EUR 0.04 million.

The component approach is applied to the extent that the Company continued to present a classification of properties into land, buildings, operating facilities and leasehold improvements in accordance with the previous accounting requirements under German commercial and tax law. A further classification of buildings into their key components would entail a disproportionately high expense, and would not provide any additional information due to the age structure of the properties.

Subsequent costs are only included in the carrying amount of an asset if it is probable that a future economic benefit associated with the property will flow to the Company.

In accordance with IAS 23, the Company made use of the option to include borrowing costs in cost.

## Intangible assets (IAS 38) and property, plant and equipment (IAS 16)

Purchased intangible assets with a finite useful life are recognized at cost less accumulated amortization. The carrying amount is amortized using the straight-line method over the useful life of the asset, which is usually three years.

Property, plant and equipment is carried at cost less depreciation and — if applicable — accumulated impairment losses (cost model). In addition to the purchase price, cost includes all costs directly attributable to the acquisition as well as the estimated cost of restoration obligations.

Straight-line depreciation is based on the following useful lives:

| | |
|---|---|
| Buildings . . . . . . . . . . . . . . . . . . . . . . . . . | 25 or 50 years |
| Operating and office equipment . . . . . . . . . | 3 — 13 years |

The costs of repairing items of property, plant and equipment, such as ongoing maintenance expenses, are generally recognized as an expense in the year in which they are incurred.

Operating and office equipment is reported at cost less accumulated depreciation.

Owner-occupied property within the Group is classified as property, plant and equipment as defined in IAS 16 and measured as such. If the proportion of owner-occupied property is less than 5%, this property is reported in the aggregate under “Investment property” (IAS 40) and measured as such.

Leasehold improvements (buildings on third-party land) are also reported under property, plant and equipment that must be accounted for under IAS 16.

### Noncurrent financial assets (IAS 39)

Noncurrent financial assets comprise shares in the closed-end real estate investment fund DB IF 14 and other loans to this fund, as well as loans to various purchasers of property. They are classified as "loans and receivables" because they are not traded on an active market and have fixed or determinable payments.

The financial assets are subsequently measured at amortized cost or at the lower present value of the expected future cash flows, in each case using the effective interest method. The requirement to reverse impairment losses as defined in IAS 39.65 is complied with. The original effective interest rates are 4.97% p.a. or 5.15% p.a. As of June 30 2006, additional acquisition costs of approximately EUR 0.2 million were incurred for the shares of DB IF 14 tendered in 2005; these were tested for impairment in 2006 and then written down immediately.

### Deferred taxes (IAS 12)

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, in the amount at which it is probable that the benefits from the temporary differences may be used against future taxable income. Deferred tax assets are also recognized for utilizable loss carryforwards. Deferred taxes are measured using the tax rates enacted at the balance sheet date, and also reflect company-specific issues such as the extended reduction of trade tax.

Deferred taxes are calculated on the basis of the Company's strategic multiyear planning, with a planning horizon of six years.

### Properties held for sale and other inventories (IAS 2)

In accordance with IAS 2, assets held for sale are carried as inventories. Properties with and without buildings are measured at the lower of the cost of purchased goods and services or net realizable value (selling price less costs to sell).

Work in progress and other inventories comprise heating and operating costs as well as heating oil inventories not yet billed to tenants; such items are measured at the lower of cost or the amount that can be charged to the tenants.

### Current receivables and other current assets, cash and bank balances

Current receivables, other current assets and bank balances are carried at amortized cost or at the lower present value of the expected future cash flows, using the original effective interest rate because they are classified as "loans and receivables".

In addition to the required specific valuation allowances, rental receivables are also subject to collective valuation allowances on the basis of a portfolio analysis because the receivables are similar and, considered individually, insignificant.

Impairment losses are charged on receivables from property sales if there is evidence that the amounts due are not collectible in full.

Contingent assets are not recognized in the financial statements, but are disclosed in the notes in accordance with IAS 37.89 if an inflow of economic benefits is probable.

Cash and bank balances are carried at their nominal amounts, which also correspond to the fair value because of the short-term nature of these assets.

### Derivatives (IAS 39)

In the Deutsche Wohnen Group, derivatives include the right of tender (put option) granted to the limited partners of DB IF 14, the forward transactions (rights of tender exercised as of December 31, 2006) and the loan and rental guarantee under the contractual agreements with DB IF 14.

Derivatives are measured at fair value through profit or loss. The fair value is determined as the present value of the estimated future cash flows using the current market interest rate for loans to non-financial

corporations (SUD 129 table published by Deutsche Bundesbank). This rate was 4.72% p.a. at the balance sheet date (December 31, 2005: 4.47% p.a.) plus a risk discount for the right of tender.

The rental and loan guarantees issued to DB IF 14 are reported on the assets side because, according to current estimates, they will generate positive cash flows in the future.

By contrast, the expected cash outflows from the right of tender are accounted for on the liabilities side as they result from negative fair values. Under the right of tender granted, the limited partners of DB IF 14 or their legal successors may tender their shares to the Group at a contractually fixed, annually increasing purchase price from 2005 to 2019. The risk potential results primarily from the development of the value of the properties contributed to the real estate fund.

### Noncurrent assets held for sale (IFRS 5)

Noncurrent assets are classified as held for sale if their sale is highly probable and management is committed to a plan to sell the asset. In the Deutsche Wohnen Group, this currently applies only to properties that were previously accounted for in accordance with IAS 40 and for which a notarized purchase agreement documenting the transfer of ownership, risks and rewards after the balance sheet date was entered into at the balance sheet date.

These properties are measured at their carrying amount or at the lower fair value less costs to sell. Depreciation of the properties is discontinued from the date of reclassification.

### Liabilities (IAS 39), deferred income

Bank loans and overdrafts and other liabilities (classified as “other financial liabilities”) are initially measured at fair value. At the acquisition date, the fair value is usually the cost including directly attributable transaction costs (e.g. fees and commissions).

As a rule, these liabilities are subsequently measured at amortized cost using the effective interest method. The original effective interest rate is used to determine amortized cost.

The Deutsche Wohnen Group has financed various properties using interest-subsidized loans in connection with government grants. The utilization of an interest-subsidized loan not only creates an obligation to repay the loan, but also to build residential properties to be rented under subsidized conditions. These interest-subsidized loans are recognized at fair value in liabilities. The difference (proportion of the grant) as against the loan amount is presented as deferred income.

As a breakdown by maturity would not provide any additional information, this item is allocated in full to noncurrent liabilities on the basis of the maturities involved.

Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes if an outflow of resources embodying economic benefits is possible.

### Post-employment benefit obligation (IAS 19)

Pension provisions are measured using the projected unit credit method in accordance with IAS 19.

Actuarial gains and losses are recognized directly in equity in the year in which they arise and presented in the “SORIE” (statement of recognized income and expense) column in the statement of changes in equity. The provision thus corresponds to the actual post-employment benefit obligation at the balance sheet date. In accordance with IAS 19.82, interest cost is recorded ratably as an expense under the “Interest expenses” item in the income statement.

### Other provisions (IAS 19, IAS 37)

Provisions are recognized for present obligations as a result of past events that will probably lead to an outflow of resources embodying economic benefits and whose amount can be reliably estimated.

These provisions are measured in accordance with IAS 37 and, if appropriate with IAS 19, using the best possible estimate of the extent of the obligation at the balance sheet date. If the effect of the time value of money is material, the carrying amount of the provision is the present value of the expenditures expected.

## Revenue recognition (IAS 18)

Revenue is recognized when the service is rendered and measured at the fair value of the consideration received or receivable; it represents amounts receivable for net rent, income from cost allocations, and services in the normal course of business.

Income from the disposal of properties is recognized if the criteria under IAS 18.14 a — e are met. The transfer of the risks and rewards of ownership corresponds to the established HGB recognition principles relating to the transfer of ownership, risks, benefits, burdens and rewards. If the purchase agreement is subject to a condition subsequent or precedent under civil law in accordance with section 158 of the BGB (Bürgerliches Gesetzbuch — German Civil Code), income is only recognized if it is sufficiently probable that the economic benefit associated with the purchase agreement will flow to the Company. A probability of at least 90% is assumed.

Interest income and expenses are recognized on an accrual basis, taking into account the investment or loan amounts received and the contractually agreed interest rates.

## V. CONSOLIDATED BALANCE SHEET DISCLOSURES

The changes in and classification of items of noncurrent assets and noncurrent assets held for sale are presented in the Statement of Changes in Noncurrent Assets attached as Appendix A.

### 1. Investment property

This item is used to report all properties held as noncurrent assets, except those that are owner-occupied within the Deutsche Wohnen Group.

In the 2006 short fiscal year, costs of EUR 3.3 million (December 31, 2005: EUR 5.7 million) were capitalized for modernization and improvements in value, as well as for the initial installation of new fittings and fixtures, and the upgrading of existing components. All measures lead to an increase in the future benefit expected from the asset and were capitalized as subsequent production costs.

In 2006, impairment losses to the lower recoverable amount of the properties amounting to EUR 0.04 million (December 31, 2005: EUR 3.0 million) were recognized.

The fair value of investment property was determined on the basis of a comprehensive portfolio measurement.

The portfolio is measured in accordance with IAS 40.46c using the discounted cash flow method over a ten-year detailed planning period. The buildings in the sales program are treated as long-term property management buildings.

Assumptions are made about the amount and the development of future income and expenses on a cluster-specific basis. These assumptions are based on standard market benchmarks and market-related calculations. Ongoing maintenance expenses are based on an assessment of a building's characteristics. Administrative expenses vary by usage type. On the basis of the forecast vacancy rate, half of operating expenses are calculated as being non-allocable, in line with standard market practice.

The remaining value after the detailed planning period has expired is determined as a "finite annuity" in accordance with the WertV (Wertermittlungsverordnung — German Valuation Regulation). The remaining term is calculated as the difference between an assumed life of 80 years and the useful life that has already expired up to the end of the planning period.

The remaining useful life of the building in question increases/decreases according to its characteristics. An imputed land value was also recognized in the amount of the current standard land value, less site clearance costs, according to the theoretical remaining use.

The discount rate was derived from the market rate of interest in accordance with IFRSs. The market rate of interest is based on regional property yields determined by the appraisal committees and reflects the relationship between realizable selling prices and market rents. A discount rate of 4.74% was applied, reflecting the most recent valuation as of December 31, 2005.

Expert opinions are not normally available. The calculation method used to measure the properties was reviewed and declared valid by the independent property consulting company DTZ Investment-Advisors GmbH at the beginning of 2005.

The rental income and the expenses for managing these properties are given in the segment reporting.

The following table shows the fair values as of June 30, 2006:

| | Fairvalue of core portfolio | Fairvalue of properties | Total |
|---|---|---|---|
| | | in EUR thousand | |
| Deutsche Wohnen Group | 1,157,028 | 42,373 | 1,199,401 |
| less properties accounted for in accordance with IAS 16 | 5,574 | — | 5,574 |
| **Fair value of properties accounted for in accordance with IAS 40 as of** | | | |
| **June 30, 2006** | **1,151,454** | **42,373** | **1,193,827** |
| Dec 31, 2005 | 1,174,776 | 43,383 | 1,218,159 |

### Contractual agreements

Among other things, Deutsche Wohnen AG has undertaken to the former owners to observe legally imposed social restrictions on ownership and to speak to tenants as a matter of priority if properties are to be privatized.

There were no other contractual obligations to sell, construct, or develop investment property at the balance sheet date.

### 2. Property, plant and equipment

Property, plant and equipment includes two office properties in Frankfurt am Main and Mainz owner-occupied by Group companies (carrying amount as of June 30, 2006: EUR 3.4 million; December 31, 2005: EUR 3.5 million).

This item is also used to report buildings on third-party land that are owner-occupied by Group companies, as well as operating and office equipment (EUR 0.7 million; December 31, 2005: EUR 0.8 million).

As in the previous year, there were no indications of impairment in the 2006 short fiscal year.

### 3. Intangible Assets

Intangible assets relate exclusively to purchased software. The Group has no internally generated intangible assets.

Goodwill resulting from the initial consolidation of subsidiaries is written off in full.

### 4. Noncurrent financial assets

Equity investments in unconsolidated companies (DB IF 14) and other loans are presented as noncurrent financial assets. These items are classified as “loans and receivables” in accordance with IAS 39.

The equity investment in DB IF 14 bears interest of 1% p.a. based on the nominal capital.

The Group was tendered shares with a par value of EUR 4.3 million in the previous year; this corresponds to 7.44% of the shares of DB IF 14. The Deutsche Wohnen Group therefore holds a total interest in DB IF 14 of 14.38%. In accordance with the partnership agreement and a notarized waiver of voting rights, however, Deutsche Wohnen AG only holds a total of 20 voting rights (out of a total of 9,947).

This item also includes the loans extended to DB IF 14 that must be repaid at final maturity on December 31, 2019; these loans may be repaid early in part or in full, although this has not been assumed in the calculations. The unsecured loans bear interest of 3% p.a.

Noncurrent financial assets also include loans to buyers as a result of purchase price deferrals for sold rent-to-own homes (longest maturity until December 31, 2013) that are secured by charges entered in the land register.

The discrepancies in the balances of other loans brought forward in the statement of changes in noncurrent assets result from the adjustment in the prior-year figures shown for cost and cumulative depreciation, amortization and impairment losses in the same amount.

| | Equity investment in DB IF 14 | Other loans to DB IF 14 | Other loans to buyers | Carrying amounts |
|---|---|---|---|---|
| | in EUR thousand | | | |
| **Carrying amount at January 1, 2006** | **7,034** | **16,357** | **237** | **23,628** |
| Additions | 163 | 0 | 0 | 163 |
| Change in subsequent measurement | 172 | 112 | 0 | 284 |
| Impairment loss due to impairment test | 163 | 0 | 0 | 163 |
| Disposals due to redemption/repayment | 40 | 0 | 27 | 67 |
| **Carrying amount as of June 30, 2006** | **7,166** | **16,469** | **210** | **23,845** |

## 5. Properties held for sale and other inventories

The carrying amount of land held for sale with finished buildings as of June 30, 2006 was EUR 7.6 million (December 31, 2005: EUR 7.7 million). This item relates to stocks in North Hesse (number of residential units as of June 30, 2006: 823). The decrease is due to sales during the year under review.

Work in progress includes claims relating to unbilled operating costs amounting to EUR 30.5 million (December 31, 2005: EUR 24.3 million). Other inventories relate to reserves of heating oil amounting to EUR 0.3 million (December 31, 2005: EUR 0.4 million).

## 6. Current receivables and other current assets

Receivables from rental activities (EUR 4.1 million; December 31, 2005: EUR 4.3 million) include gross receivables from outstanding rents and cost allocations (EUR 5.6 million; December 31, 2005: EUR 6.0 million). Valuation allowances due to uncollectibility amounting to EUR 1.5 million (December 31, 2005: EUR 1.7 million) were charged on the gross receivables from rental activities. The valuation allowances are charged at a flat rate of 40% for receivables from current tenants and 80% for receivables from former tenants.

Receivables from property sales include the receivable from the sale of an undeveloped development property southwest of Cologne amounting to EUR 2.9 million.

Current receivables and other current assets are composed of the following items:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| a) Receivables from management of DB IF 14 fund properties | 4,411 | 3,475 |
| b) Service charges not yet settled with residential owners associations | 6,482 | 4,252 |
| c) Shares in maintenance reserves relating to residential owners associations | 2,265 | 2,925 |
| d) Miscellaneous current receivables and other current assets | 4,865 | 1,668 |
| | 18,023 | 12,320 |

## Explanations of individual items:

b) This relates to prepayments for operating, administrative and maintenance expenses paid to residential owners associations, which are accounted for as other current assets until they are billed by the administrator. A valuation allowance of EUR 0.8 million (December 31, 2005: EUR 0.2 million) for billing and vacancy risks was charged as of June 30, 2006

d) This contains prepayments for deferred operating costs of EUR 1.8 million (not reported in the previous year). By way of a notarized purchase agreement dated May 18, 2006, 32 apartments were acquired from the city of Kandel with transfer of ownership, risks, rewards and burdens effective July 1, 2006. The purchase price, which has already been paid, is reported in current receivables and other current assets. A receivable of EUR 0.5 million from affiliated companies resulting from the assumption of a

processing fee is also included in this item. Specific valuation allowances amounting to EUR 0.3 million (December 31, 2005: EUR 0.2 million) were recognized for other current receivables.

The rental and loan guarantees issued to DB IF 14 that expire on December 31, 2019 are reported as **derivatives** in accordance with IAS 39.9. They were measured on an item-by-item basis and accounted for at fair value. DB IF 14 has a unilateral termination right for the loan guarantee as of December 31, 2009. It is not expected to exercise this right.

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| —rental guarantee | 5,653 | 5,201 |
| —loan guarantee | 491 | 512 |
| **Fair value** | **6,144** | **5,713** |

The guarantee amounts are compared with the forecast amount from the expected future development of the guarantees in the period up to 2019, and discounted at a current market interest rate at the balance sheet date. Any differences were recognized in profit or loss. The future cash flows from the rental guarantees were re-estimated. This increased the fair value by EUR 0.5 million.

## 7. Cash and bank balances

Bank balances include amounts due from affiliated companies (Deutsche Bank AG) of EUR 6.4 million (December 31, 2005: EUR 12.8 million) and rental deposits received from tenants amounting to EUR 0.4 million (December 13, 2005: EUR 3.3 million).

The reduction is a result of the establishment of escrow accounts for rental deposits; amounts in such escrow accounts are disclosed as contingent liabilities.

## 8. Noncurrent assets held for sale

This item includes the carrying amounts of properties (primarily apartments) for which an effective notarized purchase agreement documenting the subsequent transfer of beneficial ownership had been entered into as of June 30, 2006. The requirements under IFRS 5 have been met. The assets are debt-free.

By the end of June 2006, purchase agreements including the transfer of ownership in July 2006 or thereafter had been entered into for 243 apartments/ detached houses, two commercial properties, 105 garages and parking spaces, and six undeveloped plots of land. The aggregate agreed purchase prices amount to EUR 16.0 million.

Purchase agreements for an additional 163 apartments/detached houses and three commercial units had been entered into by the end of August 2006.

## 9. Equity

The individual components of equity and their changes are presented in the Statement of Changes in Equity.

The share capital of Deutsche Wohnen AG reported as subscribed capital remained unchanged as against the previous year at EUR 10.2 million, and is composed of four million no-par value shares.

The shares issued are fully paid up. All shares were held in free float at the end of the year.

In accordance with the resolution of the Extraordinary General Meeting on March 23, 2006, the Articles of Association allow the Company's shareholders to convert their registered shares into bearer shares upon written demand and with the consent of the Management Board, and specify that in the future, new shares will only be issued as bearer shares.

The bearer shares resulting from the share conversion have been listed on the stock exchange since July 3, 2006. Approximately 94% of the total of 4,000,000 shares outstanding are currently bearer shares and 6% are registered shares.

The creation of the capital reserves was resolved by the Extraordinary General Meeting in 1999. Capital reserves amounted to EUR 207.1 million at the balance sheet date (December 31, 2005: EUR 228.3 million).

The minority interests presented as of December 31, 2005 were reclassified to capital reserves following their repurchase in full in the year under review.

Retained earnings include the legal reserve amounting to EUR 1.0 million (December 31, 2005: EUR 1.0 million). Other retained earnings of EUR 28.8 million relate to initial measurement differences between the HGB and IFRSs according to the classification of items in the statement of changes in equity. The proportion of actuarial gains and losses from post-employment benefit obligations taken directly to the "SORIE" equity item is deducted from retained earnings.

The net retained profits for fiscal year 2005 (EUR 35.0 million) have now been distributed in full in accordance with the resolution of the Annual General Meeting on August 10, 2006.

Furthermore, the General Meeting on August 10, 2006 resolved to increase the Company's share capital from EUR 10,225,837.62 to EUR 20,000,000.00 by converting a partial amount (EUR 9,774,162.38) of the capital reserves reported in the balance sheet as of December 31, 2005. The capital increase will be implemented without issuing new shares.

The Company's share capital of EUR 20.0 million resulting from this capital increase from capital reserves will be reclassified by a 1:5 share split and will then be composed of 20,000,000 no-par value shares.

The General Meeting authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011 by up to an aggregate EUR 10.0 million through the issue of up to 10,000,000 new ordinary registered shares against cash or non-cash contributions.

The Management Board is also authorized, with the consent of the Supervisory Board, in the period up to August 9, 2011 to issue bearer or registered bonds with warrants or convertible bonds as well as profit participation rights in the aggregate principal amount of up to EUR 500.0 million and a maximum term of 20 years, and to grant creditors or holders of the bonds subscription or conversion rights for up to 2,000,000 new shares of the Company (or, after registration of the EUR 9,774,162.38 capital increase from capital reserves and the subsequent 1:5 share split, up to 10,000,000 new shares of the Company) with a notional value of up to EUR 5.1 million subject to the conditions of the relevant bonds with warrants or convertible bonds or of the profit participation certificates.

The share capital can be contingently increased by up to EUR 5.1 million through the issue of up to 2,000,000 new registered no-par value shares (or, after registration of the EUR 9,774,162.38 capital increase from capital reserves and the subsequent 1:5 share split, up to 10,000,000 new shares of the Company) carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital). The capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, as well as profit participation rights with conversion or subscription rights.

Additionally, in observance of the principle of equal treatment, the Management Board was authorized to acquire up to 2,000,000 shares of the Company in the period up to February 9, 2008, corresponding to 10% of the share capital including the capital increase from capital reserves and the above-mentioned reclassification of the share capital.

We received the following notification in accordance with section 160(1) no. 8 AktG from Julius Baer Investment Management LLC, New York on January 30, 2006:

"We hereby notify you in accordance with sections 21(1) and 22(1) no. 6 WpHG that our share of the voting rights in Deutsche Wohnen AG exceeded the 5% threshold on August 2, 2005 and now amounts to 5.12% (exact share of voting rights: 204,822 shares). The voting rights must be allocated to us in accordance with section 22(1) no. 6 WpHG."

We received the following notification in accordance with section 160(1) no. 8 AktG from Newton Investment Management Limited, London, on January 12, 2006:

"We hereby notify you in accordance with section 21(1) WpHG that our share of the voting rights in Deutsche Wohnen AG exceeded the 5% reporting threshold on November 11, 2005 and now amounts to 5.88%. 5.88% of these voting shares must be allocated to us in accordance with section 22(1) sentence 1 no. 6 of the WpHG."

**Proposal for the appropriation of profits:**

Deutsche Wohnen AG generated a consolidated profit for the 2006 short fiscal year of EUR 1.7 million. Including the withdrawal from the capital reserves (EUR 21.7 million), consolidated net retained profits as of June 30, 2006 amounted to EUR 171.8 million.

The Management Board and the Supervisory Board will propose the distribution of a total dividend of EUR 17.6 million for the 2006 short fiscal year to the General Meeting.

## 10. Bank loans and overdrafts and liabilities to other lenders; deferred income

The maturities of bank loans and overdrafts and liabilities to other lenders are as follows:

| | June 30, 2006 | | Dec 31, 2005 | |
|---|---|---|---|---|
| | Bank loans and overdrafts* | Other lenders* | Bank loans and overdrafts* | Other lenders* |
| | in EUR thousand | | | |
| < 1 year | 6,133 | 1,405 | 16,144 | 2,046 |
| 1-2 years | 16,895 | 1,361 | 8,096 | 1,876 |
| 2-3 years | 63,049 | 1,281 | 21,051 | 1,854 |
| 3-4 years | 14,580 | 1,191 | 65,533 | 1,684 |
| 4-5 years | 14,658 | 1,159 | 17,212 | 1,633 |
| > 5 years | 332,844 | 17,036 | 334,033 | 21,820 |
| | 448,159 | 23,433 | 462,069 | 30,913 |

* *In each case including the amounts reported under the "deferred income" item.*

Bank loans and overdrafts, other liabilities to lenders and deferred income include loans raised to finance investment property. Land charges on these properties amounting to EUR 210.6 million (December 31, 2005: EUR 227.5 million) serve as collateral.

The debt financing of the properties is long-term, i.e. more than one year. Unscheduled repayments of EUR 11.2 million (December 31, 2005: EUR 46.5 million) were made in the short fiscal year ended June 30, 2006. The average rate of interest on liabilities to external lenders was 4.47% p.a. in the year under review (December 31, 2005: 4.60% p.a.). The Group reduces the risk from increased interest rates by agreeing long-term fixed-interest periods, usually of ten years.

## 11. Post-employment benefit obligation

The Company's occupational pension scheme consists of defined benefit pension plans. The Company has an obligation to pay benefits to current and former employees.

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 actuarial calculations are based on the following parameters:

| | Parameters used | |
|---|---|---|
| | June 30, 2006 | Dec 31, 2005 |
| | in % | |
| Discount rate p.a. | 4.50 | 4.00 |
| Expected income growth p.a. | 3.00 | 3.00 |
| Expected pension growth p.a. | 2.00 | 2.00 |
| Increase in income threshold for contribution assessment p.a. | 3.00 | 3.00 |

The 2005 G mortality tables published by Dr. Klaus Heubeck were used to calculate the life expectancy of the beneficiaries. Actuarial gains and losses are recognized in full and taken directly to the "SORIE" equity item, including related deferred taxes.

Provisions for pensions and similar obligations changed in the balance sheet as follows:

| | Jan 1, 2006 | Utilization | Reversal | Additions | June 30, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provisions for pensions and other post-employment benefits | 5,355 | 189 | 174 | 129 | 5,121 |

## 12. Other provisions, provisions for taxes

Provisions changed as follows:

### A. Noncurrent provisions

| | Jan 1, 2006 | Utilization | Reversal | Additions | June 30, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provision for maintenance relating to DB IF 14 | 4,097 | 0 | 167 | 0 | 3,930 |
| Other noncurrent provisions | 247 | 0 | 0 | 4 | 251 |
| | 4,344 | 0 | 167 | 4 | 4,181 |

The provision for maintenance relates to the maintenance agreement entered into with DB IF 14 that expires on December 31, 2019. The guarantee amount for maintenance is compared with the forecast amount from the expected future development of maintenance expenses and discounted at the current effective interest rate (4.72% p.a.; previous year: 4.47% p.a.).

### B. Current provisions

| | Jan 1, 2006 | Utilization | Reversal | Additions | June 30, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provision for | | | | | |
| 1) other employee expenses | 2,954 | 1,856 | 17 | 2,525 | 3,606 |
| 2) outstanding invoices | 1,219 | 814 | 292 | 2,951 | 3,064 |
| 3) audit and consulting expenses | 703 | 465 | 0 | 491 | 729 |
| 4) liability from surplus income not yet paid out | 543 | 119 | 0 | 120 | 544 |
| 5) expected construction costs | 446 | 0 | 0 | 0 | 446 |
| 6) building renewal | 428 | 0 | 0 | 0 | 428 |
| 7) realtors' commissions | 407 | 306 | 7 | 133 | 227 |
| 8) litigation risks | 346 | 0 | 9 | 0 | 337 |
| 9) preparation of the annual financial statements and billing of operating costs | 310 | 310 | 0 | 310 | 310 |
| 10) contributions to the occupational health and safety agency | 92 | 88 | 3 | 45 | 46 |
| 11) Other | 2,183 | 581 | 1 | 534 | 2,135 |
| | 9,631 | 4,539 | 329 | 7,109 | 11,872 |

Explanations of individual items:

1) Among other things, the provision includes the performance-related annual bonuses paid to the Management Board and the Company's employees amounting to EUR 1.5 million (December 31, 2005: EUR 1.2 million), as well as provisions for partial retirement obligations totaling EUR 1.4 million (December 31, 2005: EUR 1.2 million).

4) The liability relates to surplus income not yet paid out on the basis of contractual agreements entered into in connection with the merger of the Rhineland-Palatinate rural development project (Landsiedlung) with Rhein-Pfalz Wohnen GmbH in 1995.

7) The provision relates to realtors' commissions that were incurred for purchase agreements recorded up to June 30, 2006 but not invoiced at the time the financial statements were prepared.

11) The other provisions contain provisions for heat contracting agreements amounting to EUR 0.8 million. According to a ruling by the Federal Court of Justice, the operating costs already charged to tenants cannot be recharged without the consent of the tenants.

### C. Provisions for taxes, current tax liabilities

Provisions for taxes (excluding liabilities) changed as follows:

| | Jan 1, 2006 | Utilization | Reversal | Additions | June 30, 2006 |
|---|---|---|---|---|---|
| | | | in EUR thousand | | |
| Provisions for taxes | 5,680 | 0 | 100 | 699 | 6,279 |

Provisions for taxes relate primarily to income tax expenses expected for 2004, 2005 and 2006 (including the solidarity surcharge in each case) and were offset against claims arising from withholding tax on dividend income plus the solidarity surcharge on interest income, or against advance tax payments made.

In addition, the amount carried forward includes tax liabilities of EUR 0.3 million.

### 13. Other noncurrent liabilities

Following the spin-off of properties and loans to DB IF 14, liabilities to DB IF 14 relate to loan installments paid out (subsequent disbursement of fund loans) amounting to EUR 5.1 million (December 31, 2005: EUR 5.1 million). These partial loan amounts remain at Rhein-Pfalz Wohnen, which services and repays them in accordance with the interest and principal redemption plan.

### 14. Deferred taxes

Deferred tax assets and liabilities were recognized as follows at the reporting date:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Deferred tax assets | | |
| —utilizable loss carryforwards | 17,995 | 17,995 |
| —temporary differences between IFRS carrying amounts and tax base | 22,422 | 22,845 |
| | **40,417** | **40,840** |
| Deferred tax liabilities | | |
| —temporary differences between IFRS carrying amounts and tax base | 2,190 | 2,278 |

The recognition of deferred taxes on temporary differences reflects all balance sheet items where temporary differences have arisen between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

The reconciliation of the expected to the effective tax expense is shown in the following table:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Consolidated profit before tax | 2,611 | 4,071 |
| Applicable tax rate | 40.86% | 40.86% |
| Expected tax expense | 1,067 | 1,663 |
| a) Tax effects from differences in tax rates at individual Group companies | −355 | −1,574 |
| b) Tax effects from differences in the tax base | 1,316 | 6,182 |
| c) Tax effects from loss carryforwards actually used | −1,330 | −3,588 |
| d) Recognition and measurement of deferred taxes | 268 | 132 |
| e) Trade tax effects | 61 | 329 |
| f) Prior-period effects | −127 | −15,036 |
| g) Other effects | 5 | −4 |
| Effective tax expense (2005: income) | 905 | −11,896 |

The applicable tax rate of 40.86% represents the tax rate of the parent Deutsche Wohnen AG, which was used as the basis for calculating the expected tax expense.

Explanatory notes on the tax reconciliation:

a) The effects result primarily from differing tax liabilities in the Group that depend on the legal form of the companies concerned (partnership/corporation), and from local trade tax multipliers that vary depending on the location of the companies.

b) The tax effects of differences in the tax base at the reporting date June 30, 2006 result from temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

c) The loss carryforwards actually used are derived from the individual income tax calculations of the Group companies.

e) The trade tax effects are derived from the trade tax add-backs and reductions as part of the calculation of trade tax.

f) The prior-period effects are the result of income tax credits for prior years.

## 15. Prepayments received

The amount reported relates to prepayments on:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Operating costs to be invoiced to tenants | 36,184 | 29,598 |
| Purchase prices received for IAS 40 properties | 5,040 | 502 |
| Other | 53 | 87 |
| | 41,277 | 30,187 |

## 16. Liabilities from rental activities

Liabilities from rental activities include rental deposits by tenants amounting to a total of EUR 7.2 million (December 31, 2005: EUR 10.3 million), EUR 6.8 million (December 31, 2005: EUR 7.1 million) of which is freely available to the Group in accordance with the leases. With the exception of the commercial rental deposits (EUR 0.2 million), they are secured by bank guarantees.

## 17. Trade payables and other liabilities

This item is composed of the following:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Liabilities from other taxes (primarily real estate transfer tax) | 10,312 | 10,879 |
| Liabilities from managing the properties held by DB IF 14 | 6,838 | 6,099 |
| Other liabilities | 4,828 | 5,009 |
| Liabilities from warranty retention | 339 | 371 |
| Other trade payables | 2,376 | 332 |
| | 24,693 | 22,690 |

## 18. Derivatives

This item is composed of the following items as of June 30, 2006:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Put option (right of tender) | 5,688 | 6,515 |
| Forward transaction (rights of tender exercised as of December 31, 2006) | 1,425 | 0 |
| | 7,113 | 6,515 |

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB IF 14 a right of tender for the limited partner shares from 2005 to 2019 (**put option**). Under these agreements, the Group is obliged to acquire the shares initially (in 2005) at 105% of the paid-in capital share. From 2005 onwards, the agreed purchase price for the shares increases by five percentage points per annum to 175% in 2019.

Following the tender in 2005, the Group holds 14.38% of the shares in DB IF 14. The rights of tender for the shares held by third parties are measured at fair value because they represent a derivative with a negative fair value.

The risk potential results primarily from the development of the value of the properties contributed to DB IF 14. The value of the fund in 2019, based on the outstanding limited partner shares (end of 2005: 85.62%) is compared with the maximum repurchase value in 2019. Premature tender prior to 2019 represents another potential risk.

The decrease is due to changes in the discount rate and to the premature tender.

The tender of limited partner shares with a nominal value of EUR 5.9 million effective December 31, 2006 notified to the Company is recognized as a **forward transaction** in “Derivatives” in the financial statements as of June 30, 2006.

Management continues to believe that, despite the tenders in 2005 and 2006, additional future tenders are unlikely due to the current level of interest rates.

# VI. INCOME STATEMENT DISCLOSURES

## 19. Revenue

Revenue is classified into the following items:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Estimated rent and other income | 43,009 | 89,105 |
| Actual rent and other income | 39,182 | 81,014 |
| Revenue from billing of cost allocations | 7,410 | 29,427 |
| | 46,592 | 110,441 |

a) Property management Revenue from property management results primarily from the management of investment property.

b) Of the revenue from property sales (EUR 0.5 million; December 31, 2005: EUR 3.3 million), EUR 0.4 million (December 31, 2005: EUR 2.2 million) relates to privatization income from the sale of the North Hesse portfolio.

c) Revenue from management activities contains revenue from condominium management of EUR 0.7 million (December 31, 2005: EUR 1.3 million) and income from the management of the DB IF 14 fund amounting to EUR 0.5 million (December 31, 2005: EUR 0.8 million).

## 20. Changes in inventories

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Increase (previous year: decrease) in work in progress | 6,264 | −1,264 |
| Decrease in land with finished buildings | 0 | −4 |
| | 6,264 | −1,268 |

## 21. Other operating income

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Income from disposal of investment property | 7,892 | 36,070 |
| Income from the reversal of current provisions | 329 | 690 |
| Income from recoveries on receivables written off and from the reversal of valuation allowances on rental receivables | 238 | 548 |
| Income from the reversal of accrued interest-subsidized loans | 743 | 1,501 |
| Income from interest cost added back to noncurrent financial assets and noncurrent other provisions | 452 | 580 |
| Income from a compensation agreement for property management losses | 0 | 3,545 |
| Miscellaneous other income | 994 | 1,342 |
| | 10,648 | 44,276 |

Among other things, miscellaneous other income includes the reimbursement of the cost of funds procurement and income from license fees and ground rent.

## 22. Cost of purchased services

The cost of purchase services results primarily from the management of investment property and is composed of the following items:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Maintenance expenses | 9,006 | 17,750 |
| Operating costs | 15,007 | 30,900 |
| Other property management expenses | 590 | 1,207 |
| | 24,603 | 49,857 |

## 23. Employee expenses

Employee expenses amounted to EUR 9.0 million in the short fiscal year (2005: EUR 16.8 million).

Amounts resulting from interest cost added back to pension provisions are not recognized as employee expenses. Such costs are a component of net finance costs and are included in interest and other expenses.

The Deutsche Wohnen AG Group employed 261 staff, including part-time employees but excluding trainees, as of June 30, 2006 (December 31, 2005: 279). The average number of employees as of June 30, 2006 was 250 (FTEs; December 31, 2005: 265).

### 24. Depreciation, amortization and impairment losses

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Depreciation and amortization of | | |
| —Investment property | 6,819 | 13,927 |
| —Property, plant and equipment | 225 | 410 |
| —Intangible assets | 17 | 45 |
| | **7,061** | **14,382** |
| Impairment losses | 35 | 3,041 |
| | **7,096** | **17,423** |

Impairment losses result from impairment tests conducted in 2006 and relate to impairment losses on investment property allocated to Segment I (Property management) in the segment reporting under IAS 14.

### 25. Other operating expenses

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Selling commissions; cost of property sales | 2,461 | 6,530 |
| Write-offs and writedowns of receivables | 1,306 | 2,386 |
| Prior-period expenses | 609 | 13,978 |
| Losses on asset disposals | 150 | 1,160 |
| Administrative expenses; miscellaneous expenses | 5,447 | 9,431 |
| Goodwill impairment | 0 | 2 |
| | **9,973** | **33,487** |

### 26. Other interest and similar income

Interest income from deposits amounted to EUR 0.6 million (December 31, 2005: EUR 1.3 million). The amount reported for the prior year contains one-time refunded interest on tax credits amounting to EUR 3.6 million (June 30, 2006 EUR 0.1 million).

### 27. Impairment losses on financial assets

This item presents impairment losses resulting from impairment testing of equity investments and other loans in accordance with IAS 39.

### 28. Interest and similar expenses

Interest and similar expenses are composed of the following items:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Interest expenses | | |
| —Property and company financing | 11,098 | 25,558 |
| —Interest cost added back to interest-subsidized loans | 743 | 1,501 |
| —Early redemption penalties | 201 | 2,048 |
| —Tax authorities (German Tax Code s. 233) | 0 | 185 |
| —Post-employment benefit obligation | 104 | 231 |
| —Miscellaneous | 265 | 423 |
| | **12,411** | **29,946** |

## 29. Gains and losses on financial derivatives

The gains and losses from the measurement of derivatives are presented in this item and are broken down as follows:

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Gains/Losses (—) from the measurement of | | |
| —rights of tender | 827 | 365 |
| —loan guarantee | −21 | 2,414 |
| —rental guarantee | 452 | − 286 |
| —forward transaction | −1,425 | 0 |
| **Losses** (previous year: gains) | **−167** | **2,493** |

## 30. Income tax expense

The income tax expense relates to taxes on income paid or owed. It also includes tax refunds and deferred taxes.

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Current income tax expense for fiscal year 2006 | 638 | 3,007 |
| Merger-related tax benefit | 0 | −4,360 |
| Refund from successful tax case/litigation relating to surplus payments prior to the establishment of the consolidated tax group, offset against resulting tax liabilities | 0 | −11,300 |
| Effects of tax assessments and adjustments to prior-period tax calculations | −1 | 625 |
| Change in deferred taxes | 268 | 132 |
| **Expense** (previous year: income) | 905 | −11,896 |

In the year under review, deferred taxes of EUR 67 thousand were taken directly to equity (previous year: EUR 79 thousand); these relate to the deferred taxes recognized for measurement differences between the carrying amount of post-employment benefit obligations in the IFRS balance sheet and their tax base.

## 31. Earnings per share

Earnings per share is calculated by dividing the consolidated profit for the year by the number of shares.

At 4,000,000, there was no change in the number of shares up to June 30, 2006 compared with the previous year. Because there have been no changes in the share classes (ordinary shares), there was no requirement to calculate diluted earnings per share for either 2006 or 2005.

Earnings per share amounted to EUR 0.43 (previous year: EUR 3.97). Reflecting the share split resolved by the General Meeting, earnings per share for the 2006 short fiscal year amounts to EUR 0.09 (2005: EUR 0.79).

# VII. OTHER DISCLOSURES

## Contingent liabilities

Contingent liabilities as of June 30, 2006 amounted to a total of EUR 173.8 million. They result solely from obligations to third parties.

| | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| | in EUR thousand | |
| Guarantees | 3,257 | 2,801 |
| Provision of collateral for third-party liabilities | 170,546 | 172,067 |
| | 173,803 | 174,868 |

Guarantees at the reporting date consist mainly of settlement guarantees for partial retirement credit balances and guarantees securing loans and advances by a bank.

There are also contingent liabilities from the provision of collateral for third-party liabilities in the form of land charges for the properties spun off to the DB IF 14 fund in 1999.

Ownership of these properties has not yet been re-registered in the land register, nor is it necessary. There are contingent liabilities in this context from the joint and several liability for loans in the same amount that were spun off to the DB IF 14 fund together with the properties.

On the basis of a tax audit at two subsidiaries for 1998 and 1999, the disallowance of special tax-allowable reserves recognized in accordance with section 6b of the EStG (German Income Tax Act) may result in additional tax liabilities that will have to be borne by the former owner of the companies on the basis of the purchase contracts entered into in 1998. A deduction in the same amount on a payment due to the former owner in 2005 was retained for these additional tax liabilities, so there are no resulting risks for the Group companies.

Perpetual leases result in financial obligations of EUR 10.7 million.

An agency agreement with affiliated companies relating to IT services that runs until 2007 results in other financial obligations amounting to a total of EUR 1.7 million.

Cash of EUR 10.5 million was pledged as cash collateral as of June 30, 2006 to a bank as part of the provision of guarantees.

## Trust assets and liabilities

A Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a renovation and development company in accordance with sections 158 and 167 of the *Baugesetzbuch* (BauGB—Federal Building Code). The company performs assignments delegated by local authorities as their trustee.

Work completed up to December 31, 2005 in respect of property renovation and development, and land division and development measures, including trust assets and liabilities, gave rise to income and expenses not yet billed of EUR 143.8 million each (December 31, 2005: EUR 139.1 million).

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.

Since January 2006, the Group companies have administered rental deposit escrow accounts on behalf of tenants amounting to EUR 3.4 million.

## Leases

### Operating leases

The subsidiaries have entered into long-term heritable building right agreements with the holders of those rights; these are classified as operating leases under IFRSs.

The total future minimum lease payments that will accrue to the Group under these heritable building rights amount to EUR 3.3 million and are allocated to future periods as shown in the table below:

| | in EUR thousand |
|---|---|
| up to one year | 55 |
| one to five years | 218 |
| more than five years | 3,056 |

Contingent rent payments in the period under review were insignificant.

There are also operating leases under which Group companies act as lessees of office property and of operating and office equipment.

The minimum undiscounted future lease and rental payments from operating leases amounted to EUR 2.9 million. The corresponding payment obligations are due as follows:

| | in EUR thousand |
|---|---|
| up to one year | 970 |
| one to five years | 1,851 |
| more than five years | 71 |

EUR 0.5 million from these lease obligations was recognized as an expense in the first six months of 2006. The amount of income recognized from subleases was insignificant.

## Segment Reporting

The changes in and classification of the segments, together with the associated income and expenses, and assets and liabilities, are presented in the segment reporting attached as Appendix B.

In accordance with IAS 14, individual financial statement data is presented separately by segment. The segment classification is based on the internal reporting structures. Segmentation makes the earnings power and performance prospects of the Group divisions, as well as their opportunities and risks, more transparent.

As in the prior year, the Deutsche Wohnen Group applied the following segmentation as of June 30, 2006:

### Segment I: Property management

This comprises lease management, the renovation and maintenance of leased properties, and tenant services, and consists mainly of investment property in accordance with IAS 40 (the "core portfolio"), as well as all related income and expenses.

### Segment II: Sales of property and buildings

This segment consists of the preparation and implementation of the privatization process and consists of noncurrent assets held for sale in accordance with IFRS 5, as well as the book gains realized on the sale of IAS 40 properties. It also includes all income and expenses from properties available for sale (IAS 2).

### Segment III: Services, financing and administration

This consists of the provision of internal services, and all employee, administrative and financing activities of the Group.

Intercompany balances, transactions, profits and expenses are eliminated in full in the reconciliation to the consolidated financial statements. There are no material expenditures that are not recognized in the income statement.

The segment data was calculated as follows:

—External revenue relates primarily to revenue generated in Germany, mainly in Hesse and the Rhine-land-Palatinate. No further breakdown is provided for economic considerations.

—Intersegment revenue presents the revenue generated between the segments. Transfer prices for intragroup revenue are defined on an arm's length basis. The expenses are deducted from the expense items affected.

—Income, expenses, assets, and liabilities that relate to the management of the stocks in North Hesse, are allocated to Segment II, and the earnings contribution is presented net. By contrast, these items are presented in the income statement under the relevant headings.

—The investments relate primarily to the investment property presented in Segment I; investments in property, plant and equipment (owner-occupied property, operating and office equipment) and intangible assets are contained in Segment III.

—Income, expenses, assets and liabilities were allocated directly to the individual segments where possible. Remaining items that cannot be reasonably allocated directly to Segments I and II are presented in Segment III. Tax amounts are also presented in Segment III.

### Related Party Disclosures

In accordance with IAS 24, related parties are defined as the Supervisory Board, the Management Board and senior employees, as well as their close family members.

Related parties also include DB Real Estate Management GmbH and Deutsche Bank AG and their related parties. On the basis of the control agreement effective since 1999, Deutsche Wohnen AG has transferred the management of its Company to DB Real Estate Management GmbH. The sole shareholder of DB Real Estate Management GmbH is Deutsche Bank AG. In consideration for the performance of its management function, DB Real Estate Management GmbH receives a "distribution-driven remuneration" if and to the extent that the total amount of distributions by Deutsche Wohnen AG attributable to registered shares in a fiscal year exceeds a specific amount. No remuneration has been recognized in the short fiscal year due to the planned lower dividend. The control agreement was terminated as of the end of June 30, 2006.

In addition to the control agreement, there is an agency agreement on the basis of which DB Real Estate Investment GmbH provides IT services on an arm's length basis (the fee was EUR 0.6 million as of June 30, 2006). The IT services agreement will be continued irrespective of the termination of the control agreement.

DB IF 14 is also classified as a related party.

The following agreements have been entered into by Deutsche Wohnen AG and DB IF 14 since 1999:

— individual contractual arrangements with the limited partners of DB IF 14 relating to the right to tender

—rental guarantee and maintenance agreement

—loan guarantee agreement

— agreement on commercial and technical property management

Transactions with the individuals defined above were insignificant. Excluding the members of the Management Board, but including managing directors, the management team of the Deutsche Wohnen Group consists of 15 persons.

### EMPLOYEE BENEFITS (IAS 19)

Because of the different historical background to the Group companies, there are various occupational pension models in the Deutsche Wohnen Group. These mainly comprise a basic and/or supplementary pension.

The basic pension is primarily funded by Höchster Pensionskasse VVaG and includes the income of the employee up to the relevant income threshold for contribution assessment in the statutory pension insurance system. The supplementary pension is a direct pension commitment by individual Group companies to employees with incomes above the relevant income threshold for contribution assessment in the statutory pension insurance system. The basic and supplementary pension plans were closed to new members effective December 31, 1998.

A commitment was also made to employees for a supplementary pension under the regulations governing public-sector supplementary pensions. It is based on membership of a Group company in the *Bayerische Versorgungskammer—Zusatzversorgungskasse der bayerischen Gemeinden* (Bavarian association for providers of civil service and professional pensions and other benefits). The obligation of the company from this supplementary pension is not recognized as an expense (outsourced plan assets).

The commitments from the supplementary pensions for former and active employees and the obligations from vested pension benefits under occupational pension commitments to former members are presented in "Post-employment benefit obligation" in the consolidated balance sheet.

## Auditors' Services

The fees of the auditors KPMG recognized as expenses in the fiscal year amounted to EUR 320 thousand for the audit and EUR 31 thousand for other services.

The audit related to expenses for the statutory audit of the annual and consolidated financial statements of Deutsche Wohnen AG.

## Management Board and Supervisory Board

The total compensation of the Management Board of Deutsche Wohnen AG as of June 30, 2006 is broken down as follows:

| | Total compensation | Compensation component | | Special long-term incentive payment |
|---|---|---|---|---|
| | | fixed | variable | |
| | in EUR thousand | | | |
| Andreas Lehner | 667 | 92 | 75 | 500 |
| Michael Neubürger | 234 | 84 | 50 | 100 |

Compensation granted to members of the Supervisory Board amounted to EUR 12 thousand in the year under review.

## Events After the Balance Sheet Date

Please refer to the combined management report for information on non-adjusting events after the balance sheet date.

## Consolidated Financial Statements

Deutsche Wohnen AG is the majority shareholder in Rhein-Pfalz Wohnen GmbH, Main-Taunus Wohnen GmbH & Co. KG and MT Wohnen GmbH. It is therefore the Group parent and prepares exempting consolidated financial statements for these companies in accordance with section 292 of the HGB, which are filed with the commercial register of Frankfurt am Main Local Court (reg. no. HRB 42388).

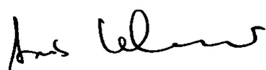
Deutsche Wohnen AG signed a control agreement with DB Real Estate Management GmbH in the context of the Annual General Meeting on May 7, 1999. As a result of this control agreement, the annual financial statements of Deutsche Wohnen AG are included in the US GAAP consolidated financial statements of Deutsche Bank AG, Frankfurt am Main. The consolidated financial statements of Deutsche Bank AG are filed with the commercial register of Frankfurt am Main local court under the number HRB 30000.

## Corporate Governance

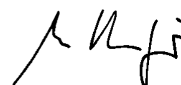
The Management Board and Supervisory Board have issued the declaration of conformity with the German Corporate Governance Code required in accordance with section 161 AktG, which has been made permanently available to shareholders on the Internet (www.deutsche-wohnen.de).

Frankfurt am Main, August 28, 2006

**Deutsche Wohnen AG**



Andreas Lehner
- Chairman of the Management Board -



Michael Neubürger
- Member of the Management Board -

## Consolidated Statement of Changes in Noncurrent Assets for the Short Fiscal Year from January 1 to June 30, 2006

| | Cost | | | | | | Cumulative depreciation, amortization and impairment losses | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at Jan 1, 2006 | Additions | Disposals | Reclassifications | Transfers | Balance at June 30, 2006 | Balance at Jan 1, 2006 | Additions | Reversals of impairment losses | Disposals | Reclassifications | Transfers | Balance at June 30, 2006 | Balance at June 30, 2006 | Balance at Dec 31, 2005 |
| | in EUR thousand | | | | | | | | | | | | | | |
| **I. Investment property** | | | | | | | | | | | | | | | |
| Land with residential buildings | 865,766 | 2,472 | −6,695 | −8,195 | −106 | 853,242 | 96,991 | 6,586 | 0 | −847 | −789 | 0 | 101,941 | 751,301 | 768,775 |
| Land with commercial buildings | 22,791 | 90 | −129 | −159 | 0 | 22,593 | 3,258 | 257 | 0 | −23 | −59 | 0 | 3,433 | 19,160 | 19,533 |
| Land without buildings | 28,926 | 0 | −114 | −117 | 106 | 28,741 | 1,819 | 0 | 0 | 0 | −24 | 0 | 1,795 | 26,946 | 27,107 |
| Land with heritable third-party building rights | 431 | 0 | 0 | 0 | 0 | 431 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 431 | 431 |
| Technical equipment | 179 | 0 | 0 | 0 | 0 | 179 | 25 | 11 | 0 | 0 | 0 | 0 | 36 | 143 | 154 |
| Assets under construction | 264 | 754 | −8 | 0 | 0 | 1,010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,010 | 264 |
| Preconstruction costs | 1,196 | 9 | 0 | 0 | 0 | 1,205 | 761 | 0 | 0 | 0 | 0 | 0 | 761 | 444 | 435 |
| **Total investment property** | 919,553 | 3,325 | −6,946 | −8,531 | 0 | 907,401 | 102,854 | 6,854 | 0 | −870 | −872 | 0 | 107,966 | 799,435 | 816,699 |
| **II. Property, plant and equipment** | | | | | | | | | | | | | | | |
| Commercial or other buildings — owner-occupied | 5,879 | 0 | 0 | 0 | 0 | 5,879 | 2,396 | 101 | 0 | 0 | 0 | 0 | 2,497 | 3,382 | 3,483 |
| Buildings on third-party land | 1,192 | 0 | 0 | 0 | 0 | 1,192 | 566 | 50 | 0 | 0 | 0 | 0 | 616 | 576 | 626 |
| Operating and office equipment | 1,106 | 57 | −22 | 0 | 0 | 1,141 | 979 | 75 | 0 | −22 | 0 | 0 | 1,032 | 109 | 127 |
| **Total property, plant and equipment** | 8,177 | 57 | −22 | 0 | 0 | 8,212 | 3,941 | 226 | 0 | −22 | 0 | 0 | 4,145 | 4,067 | 4,236 |
| **III. Intangible assets** | | | | | | | | | | | | | | | |
| Concessions, industrial and similar rights and assets and licenses in such rights and assets | 640 | 0 | 0 | 0 | 0 | 640 | 591 | 17 | 0 | 0 | 0 | 0 | 608 | 32 | 49 |
| Goodwill | 5 | 0 | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 |
| **Total intangible assets** | 645 | 0 | 0 | 0 | 0 | 645 | 596 | 17 | 0 | 0 | 0 | 0 | 613 | 32 | 49 |
| **IV. Noncurrent financial assets** | | | | | | | | | | | | | | | |
| Other loans | 24,527 | 447 | −90 | 23 | 0 | 24,907 | 899 | 163 | 0 | 0 | 0 | 0 | 1,062 | 23,845 | 23,628 |
| **Total noncurrent financial assets** | 24,527 | 447 | −90 | 23 | 0 | 24,907 | 899 | 163 | 0 | 0 | 0 | 0 | 1,062 | 23,845 | 23,628 |
| **Total** | 952,902 | 3,829 | −7,058 | −8,508 | 0 | 941,165 | 108,290 | 7,260 | 0 | −892 | −872 | 0 | 113,786 | 827,379 | 844,612 |
| **V. Noncurrent assets held for sale** | 6,489 | 0 | −5,635 | 8,531 | 0 | 9,385 | 527 | 0 | 0 | −519 | 872 | 0 | 880 | 8,505 | 5,962 |

## Segment Reporting for the Short Fiscal Year from January 1 to June 30, 2006

| | Segment I | | Segment II | | Segment III | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property management | | Sale of property and buildings | | Services, financing and administration | | | | | |
| | June 30, 2006 | Dec 31, 2005 | June 30, 2006 | Dec 31, 2005 | June 30, 2006 | Dec 31, 2005 | June 30, 2006 | Dec 31, 2005 | June 30, 2006 | Dec 31, 2005 |
| | in EUR thousand | | | | | | | | | |
| External revenue/other operating income | 52,250 | 107,758 | 7,750 | 36,458 | 4,586 | 10,376 | | | 64,586 | 154,592 |
| Intersegment revenue | 98 | 190 | | | 12,946 | 22,175 | 13,044 | 22,365 | 0 | 0 |
| **Segment revenue** | **52,348** | **107,948** | **7,750** | **36,458** | **17,532** | **32,551** | **13,044** | **22,365** | **64,586** | **154,592** |
| Segment expenses owed to third parties/other income | | | | | | | | | | |
| —Expenses from property management | 24,527 | 48,979 | | | | | | 56 | 24,527 | 48,923 |
| —Expenses from sales activities | | | 2,442 | 6,530 | | | | | 2,442 | 6,530 |
| —Employee expenses | | | | | 9,016 | 16,793 | | | 9,016 | 16,793 |
| —Other operating expenses | | | | | 18,985 | 45,544 | 13,044 | 22,365 | 5,941 | 23,179 |
| —Interest income and income from investments | | | | | 1,270 | 6,442 | 168 | 689 | 1,102 | 5,753 |
| —Interest expense | | | | | 12,579 | 30,635 | 168 | 689 | 12,411 | 29,946 |
| —Depreciation, amortization and impairment losses | 7,097 | 17,423 | | | 1,445 | 3,092 | | | 8,542 | 20,515 |
| —Income/expense from interest rate derivatives | | | | | 167 | 2,493 | | | 167 | 2,493 |
| —Income taxes | | | | | 905 | 11,896 | | | 905 | 11,896 |
| —Other taxes | | | | | 31 | 12,824 | | 56 | 31 | 12,880 |
| **Intercompany profits** | **31,624** | **66,402** | **2,442** | **6,530** | **41,858** | **88,057** | **13,044** | **22,365** | **62,880** | **138,624** |
| **Segment result** | **20,724** | **41,546** | **5,308** | **29,928** | **−24,326** | **−55,506** | **0** | **0** | **1,706** | **15,968** |
| **Segment result after reconciliation** | **20,626** | **41,356** | **5,308** | **29,928** | **−24,229** | **−55,316** | **0** | **0** | **−1,706** | **−15,968** |
| Segment assets | 834,358 | 845,436 | 21,831 | 29,954 | 398,410 | 400,118 | 248,058 | 262,000 | 1,006,541 | 1,013,508 |
| Segment liabilities | 47,691 | 42,080 | 5,743 | 1,480 | 782,502 | 815,090 | 248,058 | 262,000 | 587,878 | 596,650 |
| Investments | 3,325 | 12,151 | 0 | 0 | 1,194 | 4,564 | 0 | 0 | 4,519 | 16,715 |

## AUDITORS' REPORT

As the parent, Deutsche Wohnen AG, Frankfurt am Main, has exercised the option to combine the management report and the group management report and to publish the annual financial statements and the consolidated financial statements together. We have issued our unqualified auditors' report contained in Annex 7 as follows:

### "Auditors' Report

We have audited the consolidated financial statements — comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes — and the report on the position of the Company and the Group prepared by Deutsche Wohnen AG, Frankfurt am Main, for the short fiscal year from January 1 to June 30, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the *Handelsgesetzbuch* (HGB — German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

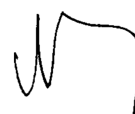
We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting–related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

**Our audit has not led to any reservations.**

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development."

Frankfurt am Main, September 27, 2006

**KPMG Deutsche Treuhand–Gesellschaft**
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



(Dr. Wätke)
Wirtschaftsprüfer

(Adams)
Wirtschaftsprüfer

# AUDITED ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG FOR THE YEAR ENDED DECEMBER 31, 2008 (GERMAN GAAP)

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## BALANCE SHEET AS OF DECEMBER 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. Payments on account | 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** | | | |
| Investments 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 and Cash equivalents | | 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** |
| EQUITY AND LIABILITIES | | | |
| A. Equity | | | |
| **I. Subscribed capital** | | **26,400,000.00** | **26,400,000.00** |
| **II. Share premium** | | **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. Provision for pensions | | 22,557.00 | 0.00 |
| 2. Other 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 to banks | 331,362,212.44 | | 338,964,158.73 |
| 3. Trade payables | 0.00 | | 796,983.97 |
| 4. Liabilities to affiliated companies | 79,876,665.82 | | 91,772.55 |
| 5. Other liabilities | 3,791,870.80 | | 4,116,737.80 |
| | | **415,030,749.06** | **368,308,809.10** |
| TOTAL EQUITY AND LIABILITIES | | **714,563,282.77** | **746,770,616.82** |

## DEUTSCHE WOHNEN AG, FRANKFURT / MAIN

## PROFIT AND LOSS STATEMENT 2008

| | 2008 | 2007 |
|---|---|---|
| | EUR | EUR |
| 1. Revenues | 11,752,619.69 | 0.00 |
| 2. Other operating revenue | 1,152,891.53 | 19,193,544.00 |
| 3. Personnel expenses<br>a) Wages and salaries EUR 4,472,604.92 (previous year: EUR 3.726.921,15)<br>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. Income from investments, thereof 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 interest and similar income thereof from affiliated companies EUR 7.594.535,21 (previous year: EUR 1.888.361,93) | 7,733,747.00 | 1,913,691.39 |
| 8. Interest and similar expenses | 20,532,219.07 | 17,950,510.72 |
| 9. Income from profit transfer agreement | 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. Result for the period (prev. year Annual surplus)** | **−80,277,413.97** | **433,019.55** |
| 14. Retained earnings | 433,019.55 | 0.00 |
| 15. Transfer from share premium reserve | 79,844,394.42 | 0.00 |
| **16. Balance sheet profit** | **0.00** | **433,019.55** |

# Notes to the Annual Financial Statements 2008
## DEUTSCHE WOHNEN AG, Frankfurt am 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 (Handelsge-setzbuch, HGB) and the supplementary provisions of the German Stock Corporation Act (Aktiengesetz, AktG). The profit and loss statement is classified using the total cost (nature of expense) format.

Due to restructuring 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 accounting method was adjusted 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 as one valuation unit. Thus, provisions for anticipated losses are not reported in the annual financial statements.

#### Property, plant and equipment

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 § 6 a 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 at 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) Property, plant and equipment

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 primarily comprise receivables from cash management agreements, granted loans and other agreements entered with 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 approval of the Management Board.

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

The Management Board is authorised, with the approval 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 (§ 53 a German Corporations Act (Aktiengesetz)), its own shares of the company of up to 10% of the total existing registered capital of the company until December 20, 2008.

### Share premium

The creation of the share premium was resolved by the Extraordinary General Meeting in 1999. Share premium amounted to EUR 269.1 million as of the balance sheet date. In the past financial year, EUR 79.8 million were taken from share premium in order to level out the 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 Stock Corporation Act (AktG), an amount of 5% of the result of the financial year is to be retained. The legal reserve is limited to an amount of 10% of the subscribed capital.

In the process, existing share premium 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 amount to be retained. 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 essentially include provisions for bonuses, profit sharing bonuses, special payments in the amount of EUR 896.500, for invoices not yet received in the amount of EUR 1.035.330, and provisions for leave / flexitime not taken in the amount of EUR 457.700.

### (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 109% of the nominal value at the end of the term. The initial conversion price is EUR 45 per share. For balance sheet purposes, convertible bonds are to be recognized separately as liability and equity component. The equity capital component is reported in the share premium.

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 to banks | 331,362 | 64,109 | 41,692 | 225,561 |
| 2. Liabilities to 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 essentially includes income from dissolving 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 mainly include 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 entered an interest rate swap of EUR 78 million to hedge against 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 market-to-market basis. Compared to the previous year, the accounting for 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 by 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 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)<br>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 West- falen-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, Cologne (Vice 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 and EUR k 175 respectively including 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, Lon-don, 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.

## Audited Annual Financial Statements

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 Wirtschaft-sprüfungsgesellschaft 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 Management Board and the Supervisory Board have issued the Declaration of Conformity with the German Corporate Governance Code required in accordance with § 161 German Stock Corporation 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

## DEVELOPMENT OF THE FIXED ASSETS 2008

| | Acquisition and Production Costs | | | | | Accumulated Depreciation | | | | | Book Values | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01/2008 | Additions | Disposals | Reclassifications | 12/31/2008 | 01/01/2008 | Additions | Disposals | Reclassifications | 12/31/2008 | 12/31/2008 | 12/31/2007 |
| | EUR | EUR | EUR | EUR | EUR | 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 | 518,488.39 | 0.00 | 0.00 | 518,488.39 | 0.00 | 40,614.92 | 0.00 | 0.00 | 40,614.92 | 477,873.47 | 0.00 |
| 2. Payments on account . . . . . . . . . | 0.00 | 3,995,058.71 | 0.00 | 0.00 | 3,995,058.71 | 0.00 | 0,00 | 0.00 | 0.00 | 0,00 | 3,995,058.71 | 0.00 |
| | 0.00 | 4,513,547.10 | 0.00 | 0.00 | 4,513,547.10 | 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 | 574,333.73 | 0.00 | 0.00 | 574,333.73 | 0.00 | 63,893.75 | 0.00 | 0.00 | 63,893.75 | 510,439.98 | 0.00 |
| | 0.00 | 574,333.73 | 0.00 | 0.00 | 574,333.73 | 0.00 | 63,893.75 | 0.00 | 0.00 | 63,893.75 | 510,439.98 | 0.00 |
| **III. Financial assets** | | | | | | | | | | | | |
| Holdings in affiliated companies . . . . . . . | 286,262,676.03 | 50,000.00 | 0.00 | 0.00 | 286,312,676.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 286,312,676.03 | 286,262,676.03 |
| | 286,262,676.03 | 50,000.00 | 0.00 | 0.00 | 286,312,676.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 286,312,676.03 | 286,262,676.03 |
| | 286,262,676.03 | 5,137,880.83 | 0.00 | 0.00 | 291,400,556.86 | 0.00 | 104,508.67 | 0.00 | 0.00 | 104,508.67 | 291,296,048.19 | 286,262,676.03 |

**Annex 1 of the Notes to the Annual Financial Statements**

## Deutsche Wohnen AG, Frankfurt / Main
## Share ownership as of December 31, 2008

| No. | Name and registered office | Share of capital | Equity* | Result* |
|---|---|---|---|---|
| | | % | k EUR | k EUR |
| 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 |
| 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. | Rhein-Main Wohnen GmbH, Frankfurt / Main | 100.00 | 180,305.0 | 0.0 |
| 32. | Rhein-Mosel Wohnen GmbH, Mainz | 100.00 | 97,916.1 | 4,287.4 |
| 33. | Rhein-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*

*The following auditor's opinion is a translation of the German-language auditor's opinion (Bestätigungsvermerk), which refers to the financial statements of Deutsche Wohnen AG as well as the combined management report of Deutsche Wohnen AG and Deutsche Wohnen Group prepared on the basis of German commercial law (HGB) for the fiscal year ended December 31, 2008 as a whole and not solely to the financial statements presented in this offering circular on the preceding pages.*

# AUDITOR'S OPINION

We have audited the annual financial statements, comprising the balance sheet, the profit and loss statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which has been combined with the management report of the Group, of Deutsche Wohnen AG, Frankfurt/Main, for the fiscal year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report which has been combined with the management report of the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report of the Company which has been combined with the management report of the Group is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Eschborn / Frankfurt / Main, February 13, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Völker
Wirtschaftsprüfer
[German Public Auditor]

Enzenhofer
Wirtschaftsprüfer
[German Public Auditor]

# GLOSSARY

| | |
|---|---|
| **Actual gross rental income*** | The actual gross rental income is calculated by multiplying the rent paid for leased units as of the measurement date, according to the rent to be paid per month in the leases, excluding utilities and VAT (contractual net cold rent), multiplied by twelve. Rent-free periods are accounted for. |
| **Certificate of delimitation (*Abgeschlossenheitsbescheinigung*)** | A condominium unit is considered to be a delimited, or self-contained, space if it enjoys complete structural separation from other units and spaces through partition walls and ceilings and, among other features, is accessible from the outside (stairwell or foyer) through its own lockable entry point. The Certificate of Delimitation and partition plan go together and determine the limits of the respective property. They serve to identify and show the demarcations between unique property and common property. |
| **Condominium declaration** | Declaration that the sole owner of a building makes to the land register office that the ownership in the property is being subdivided into co-ownership interests and that each co-ownership interest is associated with the unique property represented by a particular unit in the building. The condominium declaration is a prerequisite for dividing a property into condominium units. |
| **Contractual net cold rent** | Contractual rent payable; ancillary costs (e.g., waste disposal, water and maintenance) and heating expenses are not included. |
| **D&O insurance** | Insurance taken out on a legal entity's directors and officers in order to cover claims asserted against them for loss or harm they cause while acting in breach of their duties and for which they must take personal responsibility. |
| **DCF method** | Discounted cash flow method: method for determining value, especially the value of companies and the market value of real estate. |
| **Discounted cash flow method** | A valuation method, in particular to value companies and to establish the market value of real estate, by discounting their free cash flow. |
| **DSCR** | Debt Service Coverage Ratio: ratio between net rental incomes and debt service. |
| **EBIT** | Earnings before interest and taxes. |
| **EBITDA** | Earnings before interest, taxes, depreciation and amortization. The Company calculates its EBITDA as an adjusted EBITDA by taking the earnings before interest and taxes (EBIT), which is adjusted for the result from the fair value adjustment of investment property, depreciation, the result from affiliated companies, restructuring and reorganization expenses, the profits from business combination and the expenses related to the listing prospectus in 2007. |
| **ESG** | Eisenbahn-Siedlungsgesellschaft Berlin mbH. |
| **Estimated rent income** | Total of the net cold rent and vacancy income shortfall. |
| **Estimated rent income per m²** | Estimated rent income calculated for the relevant effective date, divided by the rentable area of the respective property. |
| **EURIBOR** | Euro Interbank Offered Rate. |
| **Fair value disposal** | Carrying amount at which properties valued at fair value are removed from the balance sheet. |
| **Fair value gain** | A positive fair value result. |

* These terms are not used by the Company, but rather solely by CB Richard Ellis in their Property Appraisal Report to calculate the fair value in accordance with IAS 40 of the real-estate portfolio of our Group as of June 30, 2009. Consequently, these terms do not necessarily have the same meaning that the Company would ascribe to these terms or similar terms.

**Fair value result** — Difference between the sales proceeds we generated from properties and the carrying amounts of assets sold for properties valued at fair value (fair value disposal). The fair value result is equal to the result from the sale.

**FFO** — Funds from operations: in the view of the Company, an important liquidity indicator for real estate companies, which is derived from the consolidated profit and loss statement. It is calculated by taking the Net Income for the period and adjusting it for non-cash effects and non-recurring expenses.

**FFO yield per share** — The FFO yield per share is calculated by taking the FFO per share and dividing it by the XETRA closing price of Deutsche Wohnen's stock on the respective reporting date.

**Financial covenants** — Conditions included in some loan agreements whereby the borrower agrees to maintain certain financial ratios and performance indicators for the term of the agreement.

**FREP** — German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung e.V.*).

**GDP** — Gross domestic product; GDP is a measure of a country's or region's total economic output.

**Gross multiplier (actual)*** — Portfolio value divided by the actual gross rental income.

**Gross multiplier (market)*** — Portfolio value divided by the gross rental income at market rent.

**Gross multiplier (potential)*** — Portfolio value divided by the potential gross rental income.

**Gross rental income at market rent*** — All space and units leased at the estimated market rent (without taking into account the average/structural vacancy rate) multiplied by 12.

**(Group) auditors** — Respective (Group) auditors of our Group.

**Helaba I-III loan agreements** — Loan agreements between Deutsche Wohnen AG and Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany.

**IAS** — International Accounting Standards.

**ICR** — Interest coverage ratio. Relationship of EBIT to interest expenses

**IFRS** — International Financial Reporting Standards (accounting standards from the International Accounting Standards Board), as adopted by the European Union.

**LTV Ratio** — The loan-to-value ratio is the ratio of net financial liabilities to the value of investment property plus noncurrent assets held for sale and land and buildings held for sale.

**Market rent** — Deutsche Wohnen determines the market rent by calculating the contractually agreed average net cold rent payments per month per $m^2$ stipulated in new leases for the accepted property during the period prior to the respective measurement date (that is, the first half of 2009, the full years 2008 and 2007).

**Market value** — The market value of a property reflects the price it could obtain in a customary business transaction at the time the value is determined.

**Modernization measures** — Typical modernization measures include updating bathrooms, installing new doors and windows, overhauling or adding balconies, adding or improving insulation and introducing additional energy-saving measures, such as thermal pane windows.

**NAV** — The net asset value shows the intrinsic or inherent value of a real estate company. It is the sum of all assets less liabilities (= equity) and is adjusted for real-estate related deferred taxes. The real-estate related deferred taxes relate to deferred tax assets and liabilities from investment property,

* These terms are not used by the Company, but rather solely by CB Richard Ellis in their Property Appraisal Report to calculate the fair value in accordance with IAS 40 of the real-estate portfolio of our Group as of June 30, 2009. Consequently, these terms do not necessarily have the same meaning that the Company would ascribe to these terms or similar terms.

| | |
|---|---|
| | deferred tax assets from loss carryforwards, to the extent of available real-estate related deferred tax liabilities were available, deferred tax liabilities from real-estate related loans, as well as deferred tax assets from real-estate related provisions and deferred tax liabilities from investment subsidies received. In international usage, Deutsche Wohnen's NAV would be the "net net asset value" since our equity is already adjusted for real-estate related deferred taxes. |
| **Net cold rent** | Net cold rent is the sum of all contractual net cold rent payments for the rented area of the respective properties during the relevant period or as of the relevant date. |
| **Owner-occupant** | Individual who purchases a residential unit not to rent out, but to occupy and use for his or her own living purposes. |
| **Potential gross rental income*** | The potential gross rental income is the total of the monthly contractual rents on all leased units as of the measurement date and the gross rental income that could be achieved if all vacant, but rentable, units were leased at market rent, multiplied by 12. |
| **Property Appraisal Report** | A report prepared by the independent appraisers of CB Richard Ellis GmbH, Hausvogteiplatz 11a, 10117 Berlin, Germany, on the fair value of the Deutsche Wohnen Group's housing stock as of June 30, 2009 pursuant to IAS 40. |
| **Real estate portfolio** | A collection of investments in various properties at various locations. |
| **Restoration work** | Restoration work often includes roof replacement, the replacement of outdated boilers and heating equipment, the replacement of plumbing and electrical wiring, the renovation of common areas and restoration of the building façade. |
| **Sales margin** | The sales margin is the ratio of fair value gain to fair value disposal. |
| **Secondary market** | Market for the acquisition and resale of smaller packages of residential units and properties that forms when large real estate companies sell off larger portfolios. |
| **Total portfolio** | The total residential portfolio of our Group (including the limited real estate fund DB Immobilienfonds 14, Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn, Germany, (DB 14)). |
| **Underwriting Agreement** | Underwriting agreement dated September 22, 2009 between Merrill Lynch, UBS and Deutsche Wohnen AG. |
| **Vacancy income shortfall** | Vacancy income shortfall corresponds to the last contractually agreed net cold rent payments for the vacant (but rentable) area of the respective property during the relevant period or as of the relevant date. |
| **Vacancy rate** | The vacancy rate is the ratio of vacancy income shortfall to the estimated rent income, as of the relevant effective date. |
| **XETRA** | "Exchange Electronic Trading": XETRA is an electronic trading system developed by Deutsche Börse AG. |

* These terms are not used by the Company, but rather solely by CB Richard Ellis in their Property Appraisal Report to calculate the fair value in accordance with IAS 40 of the real-estate portfolio of our Group as of June 30, 2009. Consequently, these terms do not necessarily have the same meaning that the Company would ascribe to these terms or similar terms.

# RECENT DEVELOPMENTS AND OUTLOOK

We believe that we are continuing to develop at a stable rate in the Residential Property Management segment. The estimated rent income in our core portfolio was able to be maintained or increased in comparison to the first six months of 2009. This also applies to the vacancy rate, which has been stable or has slightly decreased compared to June 30, 2009. With regard to the full 2009 year, we do not expect any significant changes in this segment, which could influence results of operations.

In the Sales segment, we achieved our annual target for units sold (500 units per annum) in single unit privatizations as of August 30, 2009. The fair value margin for single unit privatizations remained stable at over 30%. With regard to the full 2009 year, we expect a higher volume of sales of units in single unit privatizations than the expected 500 units. As a result of the reluctancy of banks to provide financing, block sales remain difficult in the current market.

We believe that the Assisted Living and Elderly Care segment is continuing to develop at a stable rate, with regard to results of operations.

From June 30, 2009 to the date of this offering circular, there have been no significant changes in our net assets, financial condition and results of operations.

Frankfurt am Main, September 2009

**Deutsche Wohnen AG**

| Michael Zahn<br>(CEO) | Helmut Ullrich<br>(CFO) |
|---|---|

**Merrill Lynch International**

Andreas Matthäus

**UBS Limited**

| Wolfgang Fuchs | Michael Leppert |
|---|---|