Annex B
Invitation to the Annual General Meeting
9 May 2018

Vonovia SE, Bochum
ISIN DE000A1ML7J1
WKN A1ML7J

The Management Board of Vonovia SE presents to the Annual General Meeting the following report:

<u>Management Board Report regarding Item 8 of the Agenda</u> (Resolution regarding the Cancellation of the existing and the Granting of a new Authorization to issue Convertible Bonds, Warrant Bonds, Profit Participation Rights and/or Participating Bonds (or Combinations thereof) with the Option of Excluding Subscription Rights, regarding the Cancellation of the Conditional Capital 2016 and the Creation of a Conditional Capital 2018 with a corresponding Amendment of Section 6 of the Articles of Association)

Regarding Item 8 of the Agenda of the Annual General Meeting held on 9 May 2018, the Management Board and Supervisory Board propose that the existing authorization to issue convertible bonds or warrant bonds, profit participation rights and/or participating bonds (or combinations thereof) (hereinafter also referred to collectively as “**bonds**”) and the corresponding Conditional Capital 2016 be cancelled and that a new authorization be granted and new conditional capital (Conditional Capital 2018) created with the authorization to exclude subscription rights. Pursuant to Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 4 sentence 2 AktG, the Management Board gives this report regarding Item 8 of the Agenda of the Annual General Meeting on the reasons for authorizing the exclusion of shareholders’ subscription rights:

With the approval of the Supervisory Board, the Management Board was authorized by resolution of the Annual General Meeting of 12 May 2016 to issue bearer or registered convertible bonds, warrant bonds, profit participation rights and/or participating bonds or a combination thereof (hereinafter collectively “**2016 Bonds**”) on one or several occasions up to 11 May 2021, up to an aggregate nominal amount of EUR 6,990,009,360.00 and to grant the holders or creditors option or conversion rights for shares in the Company with a proportionate amount of up to EUR 233,000,312.00 of the share capital. The conditional capital 2016 of EUR 233,000,312.00 was created to satisfy the 2016 Bonds (Section 6 para. 2 of the Articles of Association) (“**Conditional Capital 2016**”); this sum has remained unchanged up to the day on which the invitations to this Annual General Meeting were published.

Among other things in order to increase flexibility, the Management Board and Supervisory Board consider it to be expedient to cancel the existing authorization and the existing Conditional Capital 2016 and to replace them with a new authorization and new conditional capital (Conditional Capital 2018).

To be able to make use of the array of possible market instruments to securitise the conversion and option rights, it is considered to be appropriate to set the permissible issue volume at EUR 9,702,016,520.00 in the authorization and to issue the authorization for a term of five years up to 8 May 2023. The Conditional Capital that serves to satisfy the conversion and option rights is to be EUR 242,550,413.00 (this corresponds to 50% of the Company's current share capital). This conditional capital ensures that the issue volume authorization scope can likewise be used. The number of shares required to satisfy conversion or option rights or obligations or to grant shares in lieu of the cash sum due on a bond with a specific issue volume generally depends on the stock market price of the Company's share at the time at which the bond is issued. If sufficient conditional capital is available, the possibility of making full use of the scope of the authorization for the issue of bonds is guaranteed.

An appropriate capital base is essential for the Company's development. Depending on the market situation, by issuing convertible and warrant bonds, the Company can make use of attractive financing options in order to generate low-interest capital inflows for the Company. By issuing profit participation rights with conversion or option rights, the interest rate can also be based on, for example, the Company's current dividend. The Company benefits from the conversion and option premiums generated by the issue. Practice has shown that a number of financial instruments cannot be placed until option and conversion rights are granted.

With the exception of instances involving an option or conversion obligation, the conversion or option price to be determined for a share must equate either to at least 80% of the arithmetic mean of the share's closing prices in the Xetra trading (or a comparable successor system) on the ten trading days on the Frankfurt Stock Exchange prior to the day on which the Management Board makes its definitive decision regarding the issuing of bonds or regarding the Company's acceptance or allocation in relation to the issuing of bonds or – in the event that subscription rights are granted – to at least 80% of the arithmetic mean of the share's closing prices in the Xetra trading (or a comparable successor system) in the course of (i) the days on which the subscription rights are traded on the Frankfurt Stock Exchange, with the exception of the final two days of subscription rights trading, or (ii) the days from the start of the subscription period up to the point in time at which the subscription price is definitively determined. Section 9 para. 1 AktG and Section 199 AktG remain unaffected. In the case of bonds involving conversion or option rights or obligations, notwithstanding Section 9 para. 1 AktG and Section 199 AktG, the conversion or option price may be reduced by virtue of an anti-dilution provision following more detailed specification of the conditions if the Company increases the share capital during the conversion or option period while granting its shareholders subscription rights or if the Company issues other bonds or grants or guarantees any other option rights without granting the holders of bonds with conversion or option rights or obligations subscription rights in the same volume as said holders would be entitled to upon exercising their conversion or option rights or fulfilling their conversion or option obligations. Subject to the details of the conditions of the bonds, the option or conversion price may also be reduced by virtue of a cash payment when exercising the option or conversion right or fulfilling the conversion or option obligations. The conditions may also allow for a value-preserving amendment to the conversion or option price in relation to other measures which may lead to the dilution of the value of the conversion or option rights (e.g. including the payment of a dividend). In any case, the proportion of the share capital attributable to the shares received per partial bond may not exceed the nominal amount of each partial bond.

The shareholders must in principle be granted subscription rights for the bonds when bonds are issued (Section 221 para. 4 AktG in conjunction with Section 186 para. 1 AktG).

The Management Board may make use of the possibility to issue bonds to one or several credit institution(s) or one or several enterprise(s) operating pursuant to Section 53 para. 1 sentence 1 KWG or Section 53b para. 1 sentence 1 or para. 7 KWG with the obligation to indirectly offer the bonds to the shareholders for subscription in accordance with their subscription right (known as an indirect subscription right pursuant to Section 186 para. 5 AktG). This does not constitute a limitation of the shareholders’ subscription rights as the shareholders are awarded the same subscription rights as with a direct subscription. For technical reasons, just one or more banks will be involved in the handling of this.

Nonetheless, with the approval of the Supervisory Board, the Management Board shall be authorized to exclude subscription rights under certain circumstances:

(i) With the approval of the Supervisory Board, the Management Board shall be authorized to exclude subscription rights for fractional amounts. The purpose of this subscription rights exclusion is to facilitate an issuance fundamentally involving shareholder subscription rights, as it results in a subscription ratio which is technically feasible. The value of each shareholder’s fractional amount is generally low and as such their potential dilutive effect is also deemed to be low. In contrast, the cost of an issue without such an exclusion is considerably greater. The exclusion therefore makes the issue more practicable and easier to implement. The Management Board and Supervisory Board consider the potential exclusion of subscription rights for these reasons to be objectively justified and, weighed against the interests of the shareholders, to also be appropriate.

(ii) With the approval of the Supervisory Board, the shareholders' subscription rights shall be excluded in order to grant bond holders/creditors subscription rights in the same volume as said holders would be entitled to upon exercising their conversion or option rights or fulfilling their conversion or option obligations in order to compensate the dilution. This allows subscription rights to be granted to holders/creditors of bonds already issued or to be issued as an anti-dilution measure in lieu of a reduction in the option or conversion price. Incorporating such anti-dilution measures into bonds is standard market procedure.

(iii) The Management Board, in accordance with the application of Section 186 para. 3 sentence 4 AktG, shall also be authorized with the approval of the Supervisory Board to exclude subscription rights against a cash contribution when issuing bonds if the issue price of the bonds does not significantly undercut their fair value. This can be expedient to exploit favourable stock market situations at short notice and to be able to place a bond in the market quickly and flexibly with attractive conditions. As the stock markets can be volatile, achieving as advantageous an issue result as possible is often heavily dependent on whether it is possible to respond to market developments at short notice. Favourable conditions that are as market-based as possible can in principle only be set if the Company is not tied to them for an overly long offer period. In the case of subscription right issues, a considerable margin of safety is generally required in order to safeguard the chances of success of the issue for the entire offer period. Section 186 para. 2 AktG does permit the subscription price (and in the case of warrant and convertible bonds, therefore also the bond conditions) to be publicised up to the third last day of the subscription period. However, in view of the volatility of the stock markets, this still results in market risk lasting a number of days, resulting in margins of safety being applied when determining the bond conditions. Furthermore, if subscription rights are granted, placement with third parties is made more difficult/involves additional work due to the uncertainty of their exercise (subscription behaviour). After all, if subscription rights are granted, the Company is unable to react at short notice to changes in the market conditions due to the length of the subscription period, and this can lead to less favourable capital procurement for the Company.

The shareholders' interests are protected by the bonds not being issued significantly below their fair value. The fair value is to be calculated on the basis of recognised valuation principles. When setting the price while taking into account the capital market situation in question, the Management Board will keep the reduction compared with the fair value as low as possible. This results in the accounting par value of the subscription rights being so low that the shareholders are not subject to any significant economic disadvantage as a result of the exclusion of subscription rights.

The market-oriented setting of the conditions and thus the avoidance of any significant value dilution can also be achieved if the Management Board effects a bookbuilding. This process involves the investors being requested to submit purchase orders on the basis of preliminary bond conditions, in the process specifying what they consider to be, for example, the market-oriented interest rate and/or other economic components. At the end of the bookbuilding period, the conditions not yet fixed, such as the interest rate, are set in accordance with supply and demand as determined on the basis of the purchase orders submitted by the investors. In this way, the bonds' total value is determined in a market-based manner. A bookbuilding allows the Management Board to ensure that no significant dilution of the value of the shares will be caused by the exclusion of subscription rights.

The shareholders additionally have the opportunity to maintain their share of the Company's share capital by effecting stock market acquisitions at almost identical conditions. This appropriately protects their asset interests.

The authorization to exclude subscription rights pursuant to Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 3 sentence 4 AktG only applies to bonds with rights to shares to which no more than 10% of the share capital is apportioned, either at the time at which this authorization becomes effective or – in the event that this amount is the lower one – at the time at which it is exercised. The sale of the Company's own shares is to be included in this cap, provided they are sold during the term of this authorization subject to the exclusion of subscription rights pursuant to Section 71 para. 1 no. 8 sentence 5 half-sentence 2 AktG in conjunction with Section 186 para. 3 sentence 4 AktG. Furthermore, those shares issued in direct or analogous application of Section 186 para. 3 sentence 4 AktG during the term of this authorization are likewise to be included in this cap. Furthermore, those shares issued or to be issued to satisfy bonds with conversion or option rights or obligations, provided that those bonds were issued without subscription rights on the basis of another authorization according to Section 221 para. 2 AktG in analogous application of Section 186 para. 3 sentence 4 AktG, during the term of this authorization, are likewise to be included in this cap. This inclusion is effected in line with the shareholders' interests that their investments be diluted as little as possible. The upper limit, decreased under the preceding inclusion clause, shall be increased again when a new authorization to exclude shareholder subscription rights pursuant to or in line with Section 186 para. 3 sentence 4 AktG resolved upon by the General Meeting becomes effective after the decrease, to the extent of the reach of the new authorization, but up to a maximum of 10% of the share capital in accordance with the stipulations of sentence 1 of the inclusion clause. This is because in this case (or cases), the General Meeting again has the opportunity to decide on the simplified exclusion of subscription rights, meaning that the reason for inclusion had ceased to apply. When the new authorization on the simplified exclusion of subscription rights comes into force, the ban regarding the authorization for issuing the bonds without shareholder subscription rights that came into being by means of the use of the authorization for issuing of new shares or by means of the sale of the Company's own shares will namely be cancelled. On the basis of the identical majority requirements for such a resolution, the renewed authorization for the simplified exclusion of subscription rights will at the same time also contain – insofar as the statutory requirements are observed – a confirmation regarding the authorization resolution on the issuing of bonds under Item 8 on the Agenda of the Annual General Meeting on 9 May 2018 pursuant to Section 221 para. 4 sentence 2 in conjunction with Section 186 para. 3 sentence 4 AktG. In the event of a renewed exercise of an authorization to exclude subscription rights in direct or analogous application of Section 186 para. 3 sentence 4 AktG, the deduction shall apply again.

(iv) Bonds may also be issued against contribution in kind insofar as this is in the interests of the Company. Contributions in kind may in particular, but without limitation, be a company, parts of a company, interests in a company and other commodities in connection with an acquisition plan (including claims), real estate and real estate portfolios. In this case, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights insofar as the value of the contribution in kind is commensurate to the theoretical fair value of the bonds as determined on the basis of recognised valuation principles. This makes it possible to also use bonds as an acquisition currency in suitable isolated cases. Practice has shown that it is frequently necessary in negotiations to provide the consideration not only in cash, but also or exclusively in some other form. The possibility of offering bonds as a consideration results in an advantage in competition for interesting acquisition properties and offers the necessary scope for exploiting opportunities to acquire companies (even large companies), company investments and other commodities that present themselves without impacting heavily on liquidity. This can also be useful from the point of view of an optimum financing structure. In any case, the Management Board will carefully consider whether to exercise its authorization to issue bonds with conversion or option rights or obligations against contributions in kind subject to the exclusion of subscription rights. It will only do so if this is in the interests of the Company and therefore also of the shareholders.

The authorizations described in (i) to (iv) above to exclude subscription rights in the event of capital increases against cash and/or in kind contributions are limited to an amount not exceeding 20% of the share capital, either at the time at which this authorization becomes effective or – in the event that this amount is the lower one – at the time at which it is exercised. The 20% cap is also to include the Company's own shares sold during the term of this authorization subject to the exclusion of subscription rights as well as those shares issued subject to the exclusion of shareholders' subscription rights during the term of this authorization. Furthermore, those shares issued or to be issued to satisfy bonds with conversion or option rights or obligations, provided that those bonds were issued without subscription rights on the basis of another authorization according to Section 221 para. 2 AktG, during the term of this authorization are likewise to be included in this cap. This restriction also limits the potential dilution of the voting rights of the shareholders in relation to whom subscription rights have been excluded. The cap, decreased under the preceding inclusion clause, shall be increased again when a General Meeting resolution on a new authorization to exclude shareholder subscription rights becomes effective after the decrease, to the extent of the reach of the new authorization, but up to a maximum of 20% of the share capital in accordance with the stipulations of sentence 1 of the inclusion clause. This is because in this case (or cases), the General Meeting again has the opportunity to decide on the simplified exclusion of subscription rights, meaning that the reason for inclusion had ceased to apply. With all of these circumstances having been considered, the authorization to exclude subscription rights within the limits outlined is necessary, suitable, appropriate and in the interests of the Company.

The intended conditional capital serves to fulfil the conversion or option rights or obligations relating to bonds issued for Company shares or to grant the creditors/holders of bonds shares in the Company in lieu of payment of the cash sum due. The bond terms and conditions could also provide that conversion or option rights or obligations can instead be satisfied by means of the provision of treasury shares or shares from authorized capital or by means of other consideration, such as by means of cash payment or the supply of shares from other listed companies. The bond conditions may also stipulate that the number of shares received upon exercising the conversion or option rights or upon fulfilling the conversion or option obligations is variable and/or that the conversion or option price may be amended during the time to maturity within a range stipulated by the Management Board dependent on the share price developments or as a result of anti-dilution provisions. These configurations enable the Company to access financing that is closely linked to the capital markets without actually necessitating capital measures under corporate law. This takes account of the fact that an increase in the share capital may be unwelcome in future when exercising conversion or option rights or satisfying corresponding obligations. That aside, using the option of a cash payout protects the shareholders from a decline in their stake and from a dilution in their value of their shares, since no new shares are issued. In accordance with the details of the conversion or option terms and conditions, the equivalent to be paid in cash here corresponds to the average closing price in the Xetra trading (or a functionally comparable successor system replacing the Xetra system) at the Frankfurt

Stock Exchange on the ten to twenty trading days following the announcement of the cash compensation.

Insofar as the Management Board exercises one of the aforementioned authorizations to exclude subscription rights in relation to the issue of bonds within a single financial year, it shall report on this in the subsequent Annual General Meeting.

Bochum, March 2018

The Management Board of Vonovia SE