

## » ANNUAL GENERAL MEETING 2018

**Deutsche Wohnen SE  
Berlin**

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**Annual General Meeting of Deutsche Wohnen SE,  
on Friday, 15 June 2018, at 10:00 a.m. (CEST)**

at Kap Europa, Osloer Straße 5, 60327 Frankfurt/Main

**Management Board report on Agenda Item 7 (Resolution on the creation of Authorized Capital 2018/I with the possibility to exclude subscription rights and cancel the existing authorized capital, as well as the associated amendment to the Articles of Association)**

With regard to Agenda Item 7 of the Annual General Meeting on June 15, 2018, the Management Board and the Supervisory Board propose to cancel the partially unutilized Authorized Capital 2017 and replace this with a new authorized capital (Authorized Capital 2018/I). Pursuant to Article 5 SE-Regulation in conjunction with Section 203 para. 2 sentence 2, in conjunction with Section 186 para. 4 sentence 2 Stock Corporation Act (AktG), the Management Board shall provide this report on Agenda Item 7 concerning the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares:

By means of a resolution of the Annual General Meeting on June 2, 2017, the Management Board was authorized, with the consent of the Supervisory Board, to increase the share capital of the Company, on one or several occasions during the period until June 1, 2020, by up to EUR 110,000,000.00, by issuing up to 110,000,000 new, no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2017).

The Management Board was also authorized by resolution of the Annual General Meeting on June 2, 2017, with the consent of the Supervisory Board until June 1, 2022, to issue one or multiple convertible bearer bonds, bonds with warrants, participation rights and/or participating bonds (or a combination of these instruments) with a nominal value of up to EUR 3,000,000,000.00 with or without restrictions on maturity. On October 4, 2017, the Company, by means of a private

placement, issued a convertible bond with a total nominal value of EUR 800,000,000.00 against cash contributions and with the exclusion of shareholders' subscription rights pursuant to Section 186 para. 3 sentence 4 Stock Corporation Act (AktG). These were initially convertible into approximately 15.7 million new or existing bearer shares of Deutsche Wohnen SE. This corresponds to a pro rata amount of the Company's share capital of approximately 4.4% of the share capital, based both on the date on which the authorization became effective and on the date on which the authorization was exercised.

Pursuant to Article 5 para. 2 (iii) of the Articles of Association of the Company, when accounting for the restrictions set out by Section 186 para. 3 sentence 4 Stock Corporation Act (AktG), inter alia, shares shall be included that were issued to serve bonds carrying conversion or option rights, or conversion or option obligations, or are to be issued based on the conversion price prevailing at the time of the resolution of the Management Board on the utilization of the Authorized Capital 2017, provided these bonds were issued, as specified by Section 186 para. 3 sentence 4 Stock Corporation Act (AktG), during the period of this authorization, with the exclusion of subscription rights. Accordingly, the authorization to exercise the Authorized Capital 2017 against cash contributions and exclusion of subscription rights pursuant to Article 4a para. 2 (iii) of the Articles of Association was already utilized to a considerable extent.

In order for the Company to remain flexible in the future to increase its equity capital as necessary (including issuing new shares against cash contributions and with the exclusion of subscription rights), the existing Authorized Capital 2017 is to be canceled, a new authorized capital is to be resolved and the Articles of Association are to be amended accordingly. The new authorized capital under item 7 a) of the agenda to the Annual General Meeting on June 15, 2017, shall authorize the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital, on one or several occasions during the period until June 14, 2023, by up to EUR 110,000,000.00, by issuing up to 110,000,000 new no-par value bearer shares in return for contributions in cash and/or in kind (Authorized Capital 2018/I).

The Authorized Capital 2018/I will enable the Company to continue to raise the capital it needs for its further development on the capital markets in the short term by issuing new shares, and to be flexible enough to benefit from a favorable market environment in order to fulfill any future financing requirements quickly. As decisions regarding the fulfillment of any future capital requirements generally have to be taken at short notice, it is important that the Company is not restricted by the frequency of the Annual General Meetings or by the long notice period required for convening an Extraordinary General Meeting. Legislators have made accommodations for this situation in the form of the "Authorized Capital".

Upon utilization of the Authorized Capital 2018/I for the issuance of shares against contributions in cash, shareholders shall have subscription rights in principle (Article 5 SE-Regulation in conjunction with Section 203 para. 1 sentence 1, in conjunction with Section 186 para. 1 Stock Corporation Act (AktG)), although indirect subscription rights within the meaning of Section 186 para. 5 Stock Corporation Act (AktG) shall also suffice. According to the law, the issuance of shares with the granting of such an indirect subscription right is not deemed to be an exclusion of subscription rights. Shareholders are ultimately granted the same subscription rights as with a direct subscription. For settlement-related reasons, only one or several banks are involved in the transaction.

The Management Board shall, however, be authorized, with the consent of the Supervisory Board, to exclude subscription rights in certain cases.

- (i) The Management Board shall, with the consent of the Supervisory Board, be able to exclude subscription rights for fractional amounts. The aim of this exclusion of subscription rights is to simplify the process of issuing new shares with basic subscription rights to shareholders, as this makes a technically feasible subscription ratio possible. The value of the fractional amounts is usually low per shareholder; therefore, the potential dilutive effect is likewise considered to be low. On the other hand, the cost of issuing shares without such an exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and easier to carry out. The fractions of new shares excluded from the shareholders' subscription rights shall be realized either by sale on the stock exchange or in any other manner so as to best further the Company's interests. The Management Board and Supervisory Board deem the potential exclusion of subscription rights as factually justified for these reasons and reasonable in consideration of shareholder interests.
- (ii) The Management Board shall also be able to exclude subscription rights, with the consent of the Supervisory Board, insofar as this is necessary to grant the holders or creditors of convertible bonds, bonds with warrants, participation rights and/or participating bonds (or combinations of these instruments) (bonds). The terms and conditions of issuance for bonds with conversion or option rights or conversion or option obligations often contain a dilution protection provision, which grants the holders or creditors a subscription right to new shares in the event of subsequent share issues and certain other measures. They will thus be treated as though they were already shareholders. In order to be able to provide the bonds with such dilution protection, shareholders' subscription rights must be excluded from these shares. This facilitates the placement of the bonds and thus fulfills the shareholders' interests in the Company having an optimum financial structure. Furthermore, the exclusion of subscription rights also has the advantage for the holders or creditors of bonds that, in the case of the authorization being

exercised, the option or conversion price for the holders or creditors of already existing bonds does not have to be discounted in accordance with the respective terms and conditions of the bonds.

- (iii) Subscription rights can also be excluded in the event of cash capital increases, if the shares are issued at a price that is not significantly lower than the market price and such an increase in capital does not exceed 10% of the share capital (simplified exclusion of subscription rights in accordance with Section 186 para. 3 sentence 4 Stock Corporation Act (AktG)).

The authorization enables the Company to respond flexibly to any favorable capital market situations that arise and to flexibly place new shares at very short notice, i.e., without having to offer subscriptions for at least two weeks. The exclusion of subscription rights allows for an extremely quick response and placement close to the market price, i.e., without the usual discount for issuing subscriptions. This lays the foundations for achieving the highest possible disposal amount and for increasing equity as much as possible. The authorization for the simplified exclusion of subscription rights is objectively justified not least by the fact that an increased cash inflow can often be generated.

Such a capital increase must not exceed 10% of the share capital that exists on the date on which the authorization becomes effective or on the date on which it is exercised. The resolution proposal also provides for a deduction clause. The restriction to a maximum of 10% of the share capital, to which this exclusion of subscription rights relates, shall include shares that were issued to serve bonds with conversion or option rights or conversion or option obligations pursuant to Section 221 para. 4 sentence 2, in conjunction with Section 186 para. 3 sentence 4 Stock Corporation Act (AktG), during the term of this authorization, with the exclusion of subscription rights, or which are to be issued based on the conversion price prevailing at the time of the resolution of the Management Board concerning the utilization of the Authorized Capital 2018/I, insofar as these bonds were issued, as specified by Section 186 para. 3 sentence 4 Stock Corporation Act (AktG), during the period of this authorization, with the exclusion of subscription rights. The sale of treasury shares shall also be included, insofar as they are sold within the term of this authorization based on an authorization pursuant to Section 71 para. 1 No. 8 sentence 5 clause 2, in conjunction with Section 186 para. 3 sentence 4 Stock Corporation Act (AktG), with the exclusion of subscription rights.

The simplified exclusion of subscription rights strictly specifies that the issue price of the new shares may not be significantly lower than the market price. Any discount on the prevailing market price or the volume-weighted market price during an appropriate period prior to the final fixing of the issue amount

shall, with the exception of special circumstances in individual cases, presumably be no more than approx. 5% of the relevant market price. This also takes into account the shareholders' protection requirement in terms of a dilution of the value of their shareholding. Fixing the issue price close to the market price ensures that the value of a subscription right to the new shares is very low, to all intents and purposes. Shareholders have the option to maintain their relative shareholding by acquiring the requisite number of shares on the stock exchange.

- (iv) Subscription rights can also be excluded for capital increases against contributions in kind. The Company should also be able to continue to make acquisitions, in particular of companies, parts of companies, participations or other assets (in particular real estate portfolios and shares in real estate companies), and respond to acquisition and merger offers, to strengthen its competitiveness, and increase the profitability and value of the Company. Furthermore, the exclusion of subscription rights shall also be used to serve conversion or option rights, or conversion or option obligations, arising from bonds issued against contributions in kind.

Experience shows that shareholders of attractive acquisition targets will sometimes have a strong interest – e.g. in order to maintain a certain influence over the contribution in kind – in acquiring no-par value shares in the Company as compensation. The option to use other means of payment, rather than just cash, but also shares, or exclusively shares, also has the advantage – from the perspective of achieving an optimum financing structure – where new shares can be used as acquisition currency, of protecting the Company's liquidity, avoiding borrowing, and allowing the seller to participate in future share performance. This results in an improvement in the Company's competitive position in terms of acquisitions.

The option to use Company shares as acquisition currency thus gives the Company the necessary scope to seize such acquisition opportunities quickly and flexibly, and allows the Company to acquire even larger entities in return for shares. It should also be possible, in some circumstances, to acquire assets (in particular, real estate portfolios and shares in real estate companies) in return for shares. In both cases, it must be possible to exclude shareholders' subscription rights. Given that such acquisitions often have to be made at short notice, it is important that these decisions can not only be resolved at Annual General Meetings, which are held just once a year, or at extraordinary general meetings passing of the statutory invitation period. This requires an authorized capital, which the Management Board is able to access quickly with the consent of the Supervisory Board.

The same applies to the servicing of conversion or option rights, or conversion or option obligations, arising from bonds, which are likewise issued for the

purpose of acquiring companies, parts of companies, participations in companies, or other assets, based on the authorization under Agenda Item 8 of the Annual General Meeting on June 15, 2018, with the exclusion of shareholders' subscription rights. New shares are issued against contributions in kind, either in the form of the bond to be provided or the contribution in kind made on the bond. This increases the Company's flexibility with respect to servicing the conversion or option rights, or conversion or option obligations. Offering bonds instead of or in addition to granting shares or cash contributions can be an attractive alternative, which increases the Company's competitive position in terms of acquisitions, due to the additional flexibility of bonds. The shareholders are protected by the subscription right allocated to them upon issue of the bonds with conversion or option rights, or conversion or option obligations.

Instances in which subscription rights can be excluded for bonds carrying conversion or option rights or conversion or option obligations are detailed in the report on Agenda Item 8. When opportunities arise to merge with other companies or to acquire companies, parts of companies, participations in companies, or other assets, the Management Board shall carefully check in each case whether it should make use of the authorization to increase capital by granting new shares. This also includes, in particular, reviewing the valuation ratio between the company and the investment made in the company or other assets, as well as the setting of the issue price for new shares and the other terms of share issuance. The Management Board shall use the authorized capital only if it is confident that the merger with or acquisition of the company or part of the company or the acquisition of a shareholding in return for the granting of new shares is in the best interests of the Company and its shareholders. The Supervisory Board shall only grant its required consent if it is of the same opinion.

- (v) Moreover, in the event of the implementation of Share Dividends (also known as Scrip Dividend), in the context of which shares of the Company are used (fully and/or selectively) for the purpose of securing dividend claims of shareholders, subscription rights may be excluded. This is to enable the Company to pay dividends with optimal conditions. In the case of Share Dividends, shareholders are offered to deposit their claim for the payment of dividends, which arose with the resolution of the General Meeting on the appropriation of profits, fully or partially as a contribution in kind to the Company, and receive shares of the Company as consideration. The distribution of Share Dividends may take place in the form of a subscription rights issue with consideration of the rules set forth in Article 5 SE-Regulation in conjunction with Section 186 para. 1 Stock Corporation Act (AktG) (minimum subscription period of two weeks) and Section 186 para. 2 Stock Corporation Act (AktG) (publication of the issue amount at least three days

before expiration of the subscription period). Depending on the situation on the capital markets, it may be preferable to set up the Share Dividends in such a way, that the Management Board offers, under the principle of equal treatment (Article 5 SE-Regulation in conjunction with Section 53a Stock Corporation Act (AktG)), all shareholders, who are entitled to dividends, new shares as consideration for their dividend claims, thereby commercially granting commercial subscription rights to shareholders, but overall excluding shareholders' subscription rights for new shares. Such exclusion of subscription rights allows for the payment of Share Dividends without the limitations of Article 5 SE-Regulation in conjunction with Section 186 para. 1 and 2 Stock Corporation Act (AktG) mentioned above and hence under more flexible conditions. Considering that all shareholders are offered new shares and that excess dividend sums are compensated by cash payments, the exclusion of subscription rights seems justified and appropriate.

The aforementioned authorizations for excluding subscription rights may not, in sum, exceed 10% of the share capital, either at the date on which the authorization becomes effective or the date on which such authorization is exercised. This 10% limit shall also include treasury shares sold during the term of this authorization, with the exclusion of subscription rights, as well as those shares issued to serve bonds (including participation rights) carrying conversion or option rights or a conversion obligation (or a combination of these instruments), provided the bonds or participation rights were issued during the term of this authorization, with the exclusion of shareholders' subscription rights. Furthermore, the above-mentioned 10% restriction shall also include those shares issued from conditional capital to serve stock option rights, provided that the stock option rights are granted during the term of this authorization. This restriction also limits any potential dilution of voting rights of shareholders excluded from subscription rights. In consideration of all of these circumstances, the authorization to exclude subscription rights within the outlined limits is necessary, commensurate, appropriate and in the interest of the Company.

If, during the course of a financial year, the Management Board exercises one of the aforementioned authorizations to exclude subscription rights as part of a capital increase from the Authorized Capital 2018/I, the Management Board shall report on this matter at the next Annual General Meeting.

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