Annual Report
2017

Creating today the city of tomorrow

Deutsche Wohnen

Deutsche Wohnen is one of the leading publicly listed property companies in Germany and Europe with a business focus on managing and developing its portfolio, which consists mainly of residential properties. We profit from a vivid market development and the continously high demand for residential properties. The current portfolio comprise approximately 163,000 residential and commericial units with a total value of EUR 18.9 billion.

Group key figures of the Deutsche Wohnen SE

Profit and loss statement		2017	2016	Change
Rental income	EUR m	744.2	704.5	5.6%
Earnings from Residential Property Management	EUR m	612.8	586.4	4.5%
Earnings from Disposals	EUR m	50.3	54.3	–7.4%
Earnings from Nursing ans Assisted Living	EUR m	48.0	16.8	185.7%
Corporate expenses	EUR m	–81.3	–73.7	10.3%
EBITDA	EUR m	600.8	575.1	4.5%
EBT (adjusted)	EUR m	501.7	453.7	10.6%
EBT (as reported)	EUR m	2,598.2	2,489.2	4.4%
Group profit after taxes	EUR m	1,763.3	1,623.2	8.6%
Group profit after taxes[1]	EUR per share	4.88	4.69	3.9%
FFO I	EUR m	432.3	383.9	12.6%
FFO I (undiluted)[1]	EUR per share	1.23	1.14	7.9%
FFO I (diluted)[2]	EUR per share	1.23	1.04	18.3%
FFO II	EUR m	482.6	438.2	10.1%
FFO II (undiluted)[1]	EUR per share	1.37	1.30	5.4%
FFO II (diluted)[2]	EUR per share	1.37	1.18	16.1%
EPRA earnings	EUR m	394.5	359.5	9.7%
		31/12/2017	31/12/2016	Change
Balance sheet				
Investment properties	EUR m	19,628.4	16,005.1	3,623.3
Current assets	EUR m	772.9	669.2	103.7
Equity	EUR m	10,211.0	8,234.0	1,977.0
Net financial liabilities	EUR m	6,883.6	6,185.2	698.4
Loan-to-value ratio (LTV)	in %	34.5	37.7	–3.2
Total assets	EUR m	20,539.4	16,783.6	3,755.8
Share				
Share price (closing price)	EUR per share	36.46	29.84	22.2%
Number of shares	m	354.67	337.48	17.19
Market capitalisation	EUR bn	12.9	10.1	27.7%
Net Asset Value (NAV)				
EPRA NAV (undiluted)	EUR m	12,676.8	10,017.0	2,659.8
EPRA NAV (undiluted)	EUR per share	35.74	29.68	20.4%
EPRA NAV (diluted)	EUR per share	35.74	29.69	20.4%
Fair values				
Fair value of real estate property[3]	EUR m	18,864	15,465	3,399.0
Fair value per sqm residential and commercial area[3]	EUR per sqm	1,886	1,580	19.4%

1 Based on average number around 352.12 million issued shares in 2017 and around 337.45 million in 2016
2 Based on average number around 352.12 million issued shares in 2017 and around 370.81 million in 2016, assuming in each case a conversion of the convertible bonds in the money.
3 Only comprises residential and commercial buildings, without Nursing and Assisted Living

Overview of our portfolio

– 18.9 billion EUR portfolio value
– 163,000 residential and commercial units
– 71% in Berlin

CORE⁺ 87%
Dynamic markets with strong rental growth

CORE 12%
Markets with moderately rising rents

Architectual culture for urban living

Creating today the city of tomorrow

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Deutsche Wohnen

GERMANY IS CHANGING, AND WE ARE CHANGING WITH IT.

+40,000

is the annual net increase in the number of inhabitants in Berlin

+4 million

additional inhabitants, or approximately 85 million in total, will live in Germany by 2030

1/4

of all German citizens will be over the age of 66 by 2040

Deutsche Wohnen is one of the leading real estate companies within Germany and Europe. Our focus is on the management and development of our real estate holdings, which are primarily located in German metropolitan areas. Our portfolio currently comprises more than 163,000 residential and commercial units with a total value of approximately EUR 18.9 billion – 70% of which are located in the Greater Berlin region.

Form follows function: In the 1920s, the architect Bruno Taut developed a new type of window for kitchen spaces – a tiny detail offering a world of possibilities, and one which is also reflected in the layout of our new magazine.

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Creating today the city of tomorrow.

There is a shortage of housing in Germany! The areas most affected by this shortage are those which draw the greatest number of newcomers: the country's metropolitan areas and conurbations, which at the same time are the areas with a sound economy and ready capital. So, why is too little housing being built? The reason for this is a failure on the part of the government to create the necessary conditions. Ever more constraints, on the one hand, and demand for fast and cheap construction, on the other hand, are mutually exclusive factors. One number says it all: 40 percent of the costs incurred in connection with the construction of new builds are due to specifications imposed by the federal government, the federal states and local authorities!

And it is not enough to simply make existing building structures available. Some fundamental issues are in need of resolution. How should we use the finite space available in these locations? How should we respond to demographic change? Or – how should we manage energy consumption sensibly? In short, it is concepts for the provision of housing in the cities of tomorrow which drive us forward today. We are in the process of developing and realising these concepts, to which end Deutsche Wohnen also works closely with academics, administrators, architects and industry. In the past three years, we have invested approximately € 780 million in our existing holdings. New residential units will be built in the Greater Berlin region, Frankfurt/Main, Leipzig and Dresden in the following years.

Our economic success is contingent upon our having satisfied tenants who are happy to live in our properties. Our goal is to provide them with modern residential units offering high standards and backed up by good service. Our employees work to achieve this every day. However, sometimes things still do not go exactly as we would wish, and we strive to learn from these experiences so as to be able to better handle such situations in the future. Our efforts in this regard are very much appreciated by our tenants, most of whom feel comfortable in their home environment, as is evidenced by the results of our first tenant survey. Such positive feedback motivates us to continue along our chosen path while constantly making improvements where we can.

However, we also feel called upon to rise to a number of new challenges, particularly those presented by the younger generation, with its desire to experience "intelligent" housing, or so-called smart homes. Our digital flat-share represents a practical experiment in this regard: Students in Kreuzberg are experiencing tomorrow's way of living in the here-and-now and in the process evaluating the smart home solutions which are available on the market. In addition to setting up this "living lab", we have also developed a smart home solution of our very own this past year, which will be installed in an initial 3,000 residential units this coming year with a view to lowering the energy consumption of those properties. On the other hand, an ageing population means greater demand in another market – namely housing for the elderly – and we are expanding the range of services we offer in this area accordingly.

In all of our endeavours, we are fortunate to have the support of employees who are committed to doing their very best in carrying out work that they are enthusiastic about here at Deutsche Wohnen. They are not only crucial to our economic success – they are also a reflection of our society as a whole. At Deutsche Wohnen, individuals with long-standing experience in the housing sector work side-by-side with enthusiastic newcomers just starting out along their career path. You can read more about this on page 32.

I hope you find this issue a stimulating read!

Kind regards,

Michael Zahn
Chief Executive Officer of Deutsche Wohnen SE

Deutsche Wohnen is a major player in the German housing sector. While Berlin, where approximately 114,000 of our residential units are located, is one of our most important locations, it is by no means the only one. We have holdings in around 50 cities throughout Germany, from Kiel to Mannheim and from the Rhineland region to Dresden – diverse metropolitan areas and conurbations which have one common denominator: excellent future prospects.

	LONDON	PARIS	MADRID	BERLIN	
Current number of inhabitants	8.8	2.2	6.4	3.6	million people
Growth until 2026	+13	+1	–1	+6	Percent

SHAPING THE METROPOLIS

Our focus:

Like Germany's major metropolitan areas, we find ourselves on a growth trajectory and are currently the third largest publicly listed real estate company in Europe.
Most of our residential properties are located in attractive German metropolitan areas and conurbations, and we use this strong position to maintain our holdings while developing forward-looking housing concepts, thereby creating sustainable value for our customers and shareholders.

About 41,000 people moved to Berlin in 2017.

We will invest around 1.2 billion euro in our properties until 2022.

The top seven cities in Germany need around 88,000 new apartments until 2020.

BEHOLDEN TO THE SPIRIT OF BERLIN MODERNISM

»How a space looks without anyone in it is irrelevant; all that matters is how it looks when occupied by people.«

These are the words of the architect Bruno Taut, one of the most well-known proponents of the New Objectivity movement. Among other things, he was commissioned by the Gemeinnützige Heimstätten-, Spar- und Bau-Aktiengesellschaft (GEHAG) to design the renowned "Horseshoe Estate" in Berlin-Britz, which remains under the ownership of Deutsche Wohnen to this day. This unique historic monument is a UNESCO World Heritage site by virtue of the fact that the collection of buildings has made a notable contribution towards improving the housing and living conditions of a broad cross-section of the population. Here, as elsewhere, Deutsche Wohnen is endeavouring to provide attractive living conditions for those living on Berlin Modernist housing estates, and also enabling fans of architecture and tourists to experience these historic monuments while ensuring the preservation of important elements of Berlin's history.

Bruno Taut
1880 – 1938

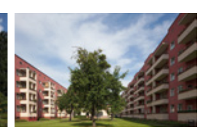
Horseshoes have long been considered to be a good luck symbol in many cultures.

»The estates designed by Bruno Taut stand for a more humane world, for social responsibility, for light, airy, sun-filled housing.«

Helge Pitz, architect

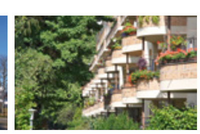
Historic monuments on UNESCO World Heritage sites owned by Deutsche Wohnen

"Horseshoe Estate" (Hufeisensiedlung) Britz



Carl Legien Housing Estate (Wohnstadt Carl Legien)

White City (Weiße Stadt)



Siemensstadt Housing Estates (Ringsiedlung Siemensstadt)

Living in Germany: The trend towards greater urbanisation continues

There is no doubt that the future belongs to our cities. Approximately 70% of all people worldwide will be living and working in urban areas by the middle of this century – at least according to the United Nations.[1] Even in Germany, it is clear where things are headed: away from rural regions and small towns, and towards conurbations and metropolitan areas.

Last year, the German Economic Institute in Cologne published some eye-opening data on the subject. Approximately 500,000 individuals are expected to move to Berlin alone in the next 20 years. This is equivalent to a rise in the population of 15%. The projected growth rates for Munich and Frankfurt/Main are likewise impressive: 11% and 14%, respectively.[2]

THE DRIVING FORCE: YOUNG PEOPLE

There are three factors which are helping to drive this trend: Young people are moving to the city to pursue their education or training and subsequently to find a job. More elderly citizens expect to benefit from better care and more recreational facilities and social interaction in the city,[3] yet often prefer to live on the outskirts of core metropolitan areas.[4]

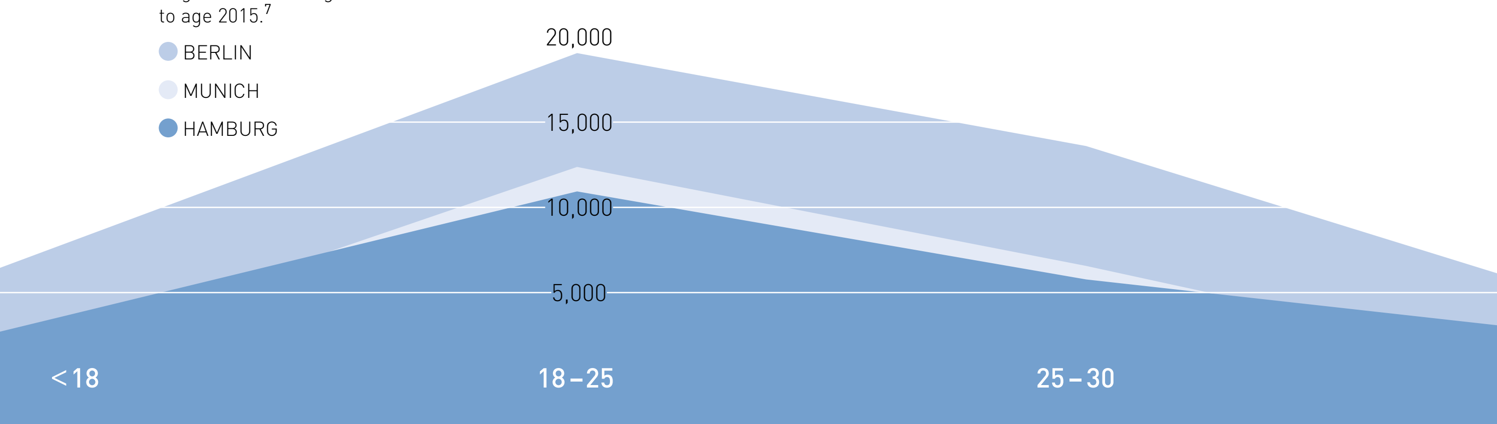
Then there are those coming from further afield, from outside of Germany, who are also often drawn to urbanised regions, a phenomenon which is reflected in the increasing internationalisation of the country's cities and conurbations.[5]

GROWTH OF GERMAN METROPOLITAN AREAS[8]

YEAR	BERLIN	FRANKFURT	MUNICH
2015	3,520,000	733,000	1,450,000
2020	3,681,000	759,000	1,504,000
2025	3,813,000	781,000	1,557,000
2030	3,920,000	798,000	1,607,000
2035	4,030,000	814,000	1,659,000

Significantly more people are moving to major cities than are moving away from them. It is above all young people who are responsible for the considerable influx of new inhabitants to "A"-ranked cities.[6]

Total balance of migration according to age 2015.[7]



Cities offering higher quality of life

A further important driver here is that cities at the beginning of the 21st century offer a higher quality of life than was the case just a few decades ago, in many cases thanks to their metamorphosis from sites of industrial activity to services locations and centres of knowledge. Conurbations and metropolitan regions are today greener, healthier and less cluttered than in the past.[9]

The consultancy firm Mercer publishes annual rankings of the cities offering the highest quality of life from a worldwide perspective. Western European and also German cities are among the top performers. According to the results in these rankings, "Auckland (3) and Vancouver (5) are the only cities among those ranking highest which are not located in Europe".[10]

The rankings are awarded on the basis of 39 criteria, which include political, social, economic and environmental considerations. The results came as no surprise to the experts at Mercer: "The strong performance of Western European cities is not surprising. Particularly when compared to other countries at an international level, they offer an excellent quality of life, whether in terms of housing, recreational activities or the availability of consumer goods."[11] The infrastructure in these cities – in particular, those in Germany – is better than in rural areas. Healthcare, local public transport services and the accessibility of airports are also important factors for ensuring a high quality of life.

CONSEQUENCES AND CONCLUSIONS

However, the great popularity of urbanised living space also has its disadvantages. Housing is in short supply in major German cities and conurbations. In really short supply. Approximately one million flats are lacking in Germany, above all in the country's metropolitan areas. And the market has responded accordingly. Prices for flats have risen by approximately one third in recent years, with rents increasing by 15%.[12]

Housing is being built in Germany – but, still not to the extent required. Most recently, 4% more – adjusted to reflect the changes in prices – has been spent on new houses, modernisation measures and maintenance work. This is equivalent to an amount of EUR 189 billion, or 61% of all of the money invested in construction in Germany.[13] However, this is still not enough to enable the housing sector to build housing in greater quantities and at a faster rate. Here is just one example: The Institute for Economic Policy at the University of Cologne has calculated that the average amount of time required to process an application for planning permission in North Rhine-Westphalia is 184 days, with 20% of all such applications spending more than nine months in the administration's intrays.[14]

Because the space available in conurbations and metropolitan areas is finite, the goal in the future will not be "simply" to build new housing; it will be to take a more intelligent approach to doing so. Thus, both the creation of new districts which extend the city and re-densification measures will play a significant role. There is considerable potential for re-densification – and the advantages of such an approach are obvious: the necessary infrastructure is already in place and the investor is not called upon to purchase new land to build on – resulting in cost savings.

In all of this, the attractiveness of the cities and districts in question must be maintained, which also means taking account of the fact that the way in which people want to live is changing. Above all, tendencies towards "smart homes" or "sharing", demographic change or trends – such as the trend towards smaller residential units – should not be ignored because they have a crucial role to play in determining the quality of life which can be attained in the urban areas of tomorrow and beyond.

RANKING QUALITY OF LIVING

1	Vienna
2	Zurich
3	Auckland
4	Munich
5	Vancouver
6	Dusseldorf
7	Frankfurt
8	Geneva
9	Copenhagen
10	Basel
10	Sydney
13	Berlin
19	Hamburg
24	Nuremberg
26	Stuttgart
61	Leipzig

Making large investments with great attention to detail

EUR 780 million – that is the extent of Deutsche Wohnen's investments between 2015 and 2017. This has enabled us to increase the value of our properties and to provide new housing. The projects in question are as varied as our holdings themselves. A look at some "building sites" ...

Diversity and quality with a waterside view

Deutsche Wohnen's construction projects are of course implemented according to building plans; however, strategic considerations also played a role in the case of its Daumstraße property in Spandau an der Havel. The company's "Diversity of Residential Units" strategy provides for the construction of as many different forms and types of residential unit as possible over the coming years, with the goal of encouraging diversity among the subsequent residents so as to attract young people and older individuals, families but also single people. The residential units in question number 224, have between one and five rooms and vary in size from 45 to 147 square metres. The second strategy – "Good Views and Good Prospects" – champions an open, stepped building design which ensures good views of the water and the surrounding landscape. Our guiding principle for this project is the attainment of the highest possible level of quality, and this manifests itself in many ways: car-free spaces, playgrounds, waterside views, a variety of floorplans or diversity of architectural style – to name just a few examples. With this in mind, we have taken care to consider the landscape and natural environment in the context of the planning and construction work for this project. The individual buildings are arranged in such a manner as to incorporate the surrounding landscape and to ensure that the existing vegetation remains undisturbed to the greatest possible extent.
Investment volume: approximately € 60 million

ARCHITECTURAL INTERPLAY

Districts which are full of life offer a high quality of life. It all comes down to finding the right mix: old and young, living and working space, all manner of lifestyles ... Precisely that was the stated goal of the project for the refurbishment of the residential and commercial building at Argentinische Allee 221 in Berlin-Zehlendorf. The building was constructed in the 1970s as part of the final phase of the urban planning measures implemented on the "Onkel-Toms-Hütte" ("Uncle Tom's Cabin") estate originally designed by the architects Bruno Taut, Hugo Häring and Otto Rudolf Salvisberg and built between 1926 and 1931. The modernisation measures placed great value on maintaining the link between the older parts of the estate and the newly constructed elements, which could be achieved by designing a clinker brick base and painting the facade. Now that the work has been completed and the additions made, more space is available and the building comprises both small and larger residential units, with wide hallways, doorways and bathrooms making it easier for elderly residents and those with physical disabilities to use the property. What is more, this project shows that it is possible to create housing which is both affordable and of high quality as a means of realising our vision of the city of the future, a vision based on the principle of sustainability. Which is why we have applied for gold standard certification of the building from the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB), which will announce its decision in the course of 2018.

Investment volume: approximately €4.9 million

Living well involves more than just having a place to live. It means being part of a living environment in which one's practical day-to-day needs are met, for example through local supply structures in the narrower sense, day-care facilities or even doctor's surgeries – such as the dental laboratory of Dr Ulli Voß and his wife Dr Anika Voß at Argentinische Allee 221 in Berlin-Zehlendorf.

Dr Voß, why did you decide to open a practice in Zehlendorf?
My wife and I have been living in Zehlendorf for 15 years and we wanted to set up shop here because we are very fond of the borough and the people who live here. The building Deutsche Wohnen offered us was the right choice, and has become a real local pearl now that it has been modernised.

Is it right to say that the dental laboratory is rather more than a conventional dentist's surgery?
That's correct. We make everything ourselves – from the root to the crown, from accounting to performing oral surgery to working in our own specialist dental laboratory. Already – just three months after taking over the premises – we have 15 people working for us, and more will certainly be joining those ranks.

Three months is a short space of time in which to set up such a large practice ...
That's right. And it was only possible because everyone pulled together. Everyone includes Deutsche Wohnen, who helped us a lot, for example in terms of the price-performance ratio with regard to the rent, which made the starting-up process easier on us; the competent assistance provided to us in planning the technical details; the speedy conclusion of the contractual negotiations; and the very pleasant personal interaction. We also did a lot of the work ourselves: My wife handled the interior design aspects and most of what needed to be done we did ourselves – with the help of our friends – from laying the floors and tiles to installing the cabinets ...

In the spirit of good neighbourliness

The Johannisthal district in south-east Berlin is the location of one of Deutsche Wohnen's housing estates from the 1920s. Its construction was commissioned by the "Wohnungsverein Eisenbahnernotsiedlung", a housing association which provided emergency accommodation to railway workers – who in this case had left their homes in territories which after World War I became part of Poland.

Deutsche Wohnen has carried out extensive refurbishment work on the estate – for example the building facades, partially windows, stairways, ground pipes and header pipes as well as open spaces. As is always the case with buildings of such architectural value, much work and effort went into every little detail, with the original paint colours being identified and samples of the plasterwork being taken from the facade during the inspections of the property, for example. In this context, we were also able to unearth much information of historical interest, such as the discovery that in those days buildings were constructed quickly and yet to a very high standard. Given that the estate was originally built to house settlers from Silesia, it also comprised stables for livestock, for example, and great value was placed on creating the sense of a close-knit community, as is evidenced by the communal buildings and central "Eichenhof" (oak courtyard). We were able to restore this sense of "neighbourhood" by adding new benches, barbecue areas and a playground, and the estate today remains a mostly quiet and family-friendly place. The architect who designed the estate was Walter Kaas, who also left his mark – in the modern style typical of the 1920s and 1930s – on other parts of Berlin.

Investment volume: approximately € 20 million

Adding new residential units to existing buildings

Deutsche Wohnen's Freiherr-vom-Stein-Straße property is an impressive one, with an approximately 180 metre-long facade consisting of nine entryways. Last year, Deutsche Wohnen managed to create a new living space here in the form of an attic conversion, a development which only becomes apparent upon a second glance and which called for great architectural finesse. Extensive modernisation measures have also been carried out. The new residential units are boast varied floorplans, giving the tenants – many of whom work on the nearby hospital premises – creative freedom in designing the layout of their homes. Therefore, they are ideal not only for couples, families and single people but also for flat-shares.

All of the rooms have separate access and are more or less the same size. The attic conversion resulted in the creation of a further 17 flats. The 1- to 5-room flats range in size from 40 to 100 sqm. In addition to the construction of the new flats, the house entryways were redesigned, bike stands set up and a central area designated for the disposal of household waste. The tenants' gardens belonging to the ground-floor flats and the redesigned inner courtyard with a newly created playground also add to the quality of the residents.

Investment volume: approximately € 7.4 million

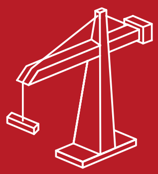
THINKING IN TERMS OF OPPORTUNITY

Our stance:

Nowhere is social and technological change more evident than in metropolitan areas. Ever more people are moving to such regions in the hope of making their own individual lifestyle concepts a reality. At the same time, digitalisation is transforming almost all aspects of our lives and, in doing so, presenting the housing sector with many challenges. We are thinking in terms of the opportunities this will bring, with a view to actively shaping our future.

90% of respondants in the real estate industry state that digitalisation is highly relevant for their companies.

Until 2022 about 4.3 billion euro will be earned with the market for smart home applications.



Since 2014, the amount of planning permission granted in Germany has been on the increase again.

KRAMPNITZ – MORE THAN JUST NEW HOUSING

The appeal of metropolitan areas is strong. An ever-growing shortage of housing is the result. Potsdam is a special case in point. No other state capital is growing at such a fast pace. Approximately 1,600 new residential units were constructed in the past year. An impressive number, and yet the city is running out of land for building ...

Deutsche Wohnen has been tapping into existing new-build potential as a means of relieving some of the pressure on the Potsdam housing market, for example in the form of the new construction project in Potsdam-Babelsberg completed in 2016, which has been awarded gold standard certification by the DGNB. Now together with the City of Potsdam, Deutsche Wohnen is creating a sustainable neighbourhood comprising approximately 1,400 residential units on the site of the former military barracks in Krampnitz.

The interplay of new builds, listed buildings and nature imbues the new district with a certain charm. Deutsche Wohnen's expertise in dealing with buildings of architectural value enables it to put such historic properties to new use as suitable housing for tomorrow's world.

1,400

residential units will be built on this brownfield site.

400

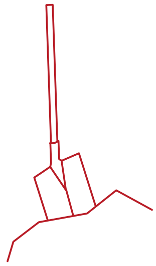
million EUR has to be invested

140

hectares – that is the overall size of the new disctrict

2019

construction work commences



2021

the first tenants move in

Presenting the plans for the former barracks in Krampnitz (from the left): Bert Nicke, Entwicklungsträger Potsdam; Lars Wittan, member of the Management Board Deutsche Wohnen SE; Jann Jakobs, Mayor of Potsdam; Bernd Rubelt, counsellor with responsibility for construction affairs; Michael Zahn, CEO of Deutsche Wohnen SE.

A new residential district is being created – in consultation with the city

The new district created in Krampnitz provides an answer to two important questions of our time: How are we to meet the growing demand for housing in metropolitan areas and conurbations, and what form will modern housing take in the future? In conversation with the Mayor of Potsdam, Jann Jakobs:

Mr Mayor, are you happy that construction work will soon be starting in Krampnitz?

Yes, because our city is growing. The number of our citizens exceeded 175,000 in the past year alone. The development of Krampnitz will contribute greatly towards providing flats for Potsdam residents.

But it is not just flats that are being built.

That's right. An entirely new district is being created on the site of a former military barracks. People will not just have a place to live there - they will have quality of life as well. There are plans for three day-care facilities, a primary school and a secondary school with the necessary sports facilities, as well as a youth centre. Space has also been set aside for retail outlets, service providers and restaurants. This is housing surrounded by greenery, with a waterside location and good transport links to Potsdam and Berlin.

It has been a long road from German reunification to the start of construction work on this project …

Krampnitz represents an important building block in the overall process of housebuilding in Potsdam. In Deutsche Wohnen, we are happy to have found a financially strong partner with experience in the conservation of listing buildings. Sometimes the ideal solution takes a little longer to materialise, but it is ultimately the end result that counts, and I have a very good feeling about the Krampnitz project.

A site with history ...

The Krampnitz Cavalry and Armoured Troops School [Kavallerie- und Panzertruppenschule] was put into commission in 1939. Later – post-1945 –, it was taken over by the Soviet Army. Thereafter, it stood vacant for a long period of time. In 2013, the City of Potsdam declared this listed group of buildings an urban development zone. Thanks to the agreement jointly concluded by the City of Posdam and Deutsche Wohnen, the site not only has a lot of history, but also a great future ahead of it.

... and a future

Krampnitz's location is doubly good. On the one hand, it is in Potsdam, the booming capital of the federal state of Brandenburg and, on the other hand, it lies between Krampnitz Lake and the adjacent forest. Here, Deutsche Wohnen will create a vibrant district which will provide an attractive place to live, particularly for families. This is, not only due to its excellent location but also the grounds of 137,000 square metres with listed buildings which are earmarked for refurbishment as part of the construction work to be carried out. These listed buildings include the "Fähnrichsheim" building, a casino and porter's lodge with a tower. The old buildings will also be allocated particular functions – for example, as restaurant locations, event venues or social facilities. Deutsche Wohnen is committed to continuing its tried and tested collaboration with the City of Potsdam and the development agency Potsdam GmbH for the realisation of this project, which will result in the creation of approximately 1,400 flats characterised by a high level of quality and sustainability.

1935–1939
Built as the "Army Riding and Driving School and Cavalry School" ("Heeres-Reit- und Fahrschule und Kavallerieschule")

1945–1991
Under the occupation of the Soviet Army

1994/2008
Accorded listed building status for main parts

2013
Formally designated an urban development zone in accordance with section 165 of the German Federal Building Code (Baugesetzbuch – BauGB).

2017
Acquisition of approximately 25 hectares by Deutsche Wohnen

Modernisation measures in Pankow – in consultation with the tenants

Carrying out modernisation measures in residential buildings comprising rental units is like two sides of a coin. On the one hand, everyone wants to live in a modern, attractive building. On the other hand, this requires construction work and sometimes also rent increases. So – what to do? The best approach is to discuss the options with the people who are affected, as was done in the case of the Grellstraße residential estate in Pankow.

This was precisely the approach taken by Deutsche Wohnen's employees, as Lars Wittan, member of the Management Board of Deutsche Wohnen SE, explains: "The condition of the Grellstraße residential estate is no longer in line with modern standards, and requires investment on our part. We are of course aware that carrying out extensive construction work in the neighbourhood and in the individual flats places considerable strain on our tenants. So, we try, through in-depth advance planning and the provision of information to residents, to keep the disruption caused by the construction measures to a minimum. We will speak to the tenants in person in Grellstraße as well, with a view to coming to individualised modernisation arrangements with each of them." According to Wittan, it is not only disruption in the form of noise and dirt which is an issue here: "We will of course – as with all of our refurbishment measures – take cases of financial and social hardship into account and reduce the contribution towards the modernisation costs to be paid by the tenants in question accordingly. We are confident that our modernisation measures will not result in the displacement of any of our tenants."

To this end, the borough and the company have jointly concluded an agreement as a public example of the socially responsible implementation of construction measures within the borough, the aim being to allay any fears on the part of the tenants prior to the start of the construction work and the award of the planning permission and conservation permits required by law. This has not involved the making of any particular concessions by Deutsche Wohnen. Rather, it is the case that the principles governing the implementation of modernisation and maintenance work which have applied within the company for a number of years were for the most part confirmed and only supplemented with provisions which are specific to at the Grellstraße residential estate. And there is even more good news – for the city, the borough and would-be tenants looking for a place to live in Pankow. 100 additional residential units will be created on the Grellstraße residential estate as a result of an infill endeavour, the addition of new storeys to existing buildings and a series of attic conversions. Because Pankow is also a popular location with young families, the district will also have a day-care facility.

A brief overview of the Grellstraße residential estate:
- 360 residential units will ultimately be built
- 2021 is the expected completion date for the construction work
- around € 40 million will be invested in the project
- 1 to 2 rooms will be the size of the residential units

Planning 2020

»In one-to-one conversations we try to develop individualised modernisation arrangements, that work for both parties.«

Lars Wittan,
Deputy Chairman of the Management Board
of Deutsche Wohnen SE

Current state 2017

HOUSING – A BRAVE NEW WORLD

“Smart flat-shares”, even “digital apartments” ... This all sounds like heaven on earth for nerds and their ilk. In reality, the smart flat-share initially looks just like a normal residential unit in an older building in Berlin-Kreuzberg, in which five female students live, like so many other young people in the nation’s capital. However: This residential unit is also a laboratory for the future – under the auspices of Deutsche Wohnen, among other initiators.

The five young women go by the names of Edona, Anna, Lara, Frauke and Natalia. The name which is called most often, however, is Alexa. “Alexa, play some music!”, “Alexa, turn the light on!” or “Alexa, what’s the weather like?” can be heard throughout the flat. Alexa is not the girls’ room-mate but a loudspeaker from Amazon which is connected to the Internet and the flat’s smart home electronics and can be used to operate the lights, the coffee machine or the entertainment system.

“For example, when I go to my room to study, I let Alexa know. She turns my desk lamp on and puts on some classical music at low volume”, explains Natalia. But that is by no means all. Alexa can be used to check whether the windows are closed or the kettle has been switched on when one is out and about. Want to turn the heating on before you get home? No problem, that can be done using an app. When you run out of washing-up liquid, just let Alexa know and Amazon will deliver a new supply. These home electronics also have our health and wellbeing in mind: Should the carbon dioxide level in the air be too high, the sensor on the ceiling will send a message recommending that you air the room.

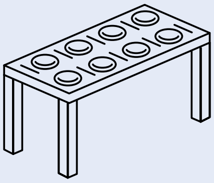
The five young flat-sharers have more in common than just their living arrangements. They have known each other for a long time because they are all studying for the same degree at the Anhalt University of Applied Sciences in Bernburg: a masters in online communication. At the suggestion of their university, they applied to take part in the "Smart Flat-Share" project of Deutsche Wohnen and the Institute of Electronic Business, and were accepted.

They are also carrying out other work for Deutsche Wohnen during the six months they spend living in the flat-share, helping to get the company's occupational health management programme up and running, in digital terms. As Natalia explains, "We analysed the current status of Deutsche Wohnen's occupational health management programme, after which we conducted an employee survey, the results of which we are currently evaluating. The next step will involve putting forward specific suggestions." They were provided with co-working stations at Deutsche Wohnen's Service Point in Spandau for this purpose.

Back to the flat-share: The main source of conflict in flat-sharing arrangements tends to be the allocation of domestic chores. So, is the emptying of the dish-washer a cause of strife among the room-mates? "No, we use an app which allocates chores and awards points when they are completed," says the 25 year-old. A glance at the evaluation graph shows that all five young women have earned almost the same number of "points for effort", although Edona is slightly ahead of the others.

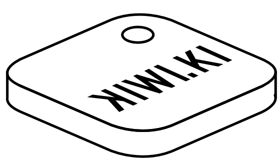
By the way, some real insight into what it is like living in a smart home can be found on the flat-share's blog: diesmartwg.com

It looks like a common shared flat, but at second sight it is a test field for future living.



Dining out while visualising the future

Berlin is a breeding ground for start-ups. More than 600 of these young companies – most of which have the digital business sector as their focus – are based in the nation's capital where, on the flip side, thousands of established companies are also at home. media:net berlinbrandenburg e.V. organised its second cross-over dinner in the year under review, as a means of gathering representatives of both new and long-standing companies around the same table. Both Deutsche Wohnen and its service partner Gegenbauer also attended the event, which brought some 25 participants together for an exciting dialogue in the creative surroundings of Fabrik 23 in the Berlin district of Wedding. The central topic under discussion at the dinner was the question of how to further improve the collaboration between Deutsche Wohnen and Gegenbauer in the future, with small teams comprising representatives of both start-ups and established businesses completing specific tasks and presenting their results to the gathering as a whole. Lars Dormeyer, Managing Director of Deutsche Wohnen SE, felt that the evening was a success from the company's standpoint: "Our conversations with our peers from the PropTech sector were very inspiring. It was particularly interesting to hear about the different approaches and points of view adopted by the start-ups. We were able to take a number of good ideas and suggestions away with us."



DOORWAY TO THE FUTURE

"Smart home" and "smart city" are the words on everyone's lips. One thing is certain: digitalisation will change the way we live in the future. What is needed are technical housing solutions which everyone can truly benefit from.

Deutsche Wohnen is already opening the door to a new future with its adoption of smart innovations and is in the process of gradually equipping all of its holdings with the KIWI electronic key system. This is technology which will make daily life easier for our customers and service providers, and which will also increase the efficiency of our asset management activities. We have also developed a smart home solution of our own, which will make living in our flats more comfortable, secure and sustainable.

The key to a whole new living experience

We have all been there: standing at the front door, laden down with bags of shopping, gym gear or the kids' toys, and no hands free to hunt for the house key. Well, this scenario can now be a thing of the past. A small transponder tucked into your bag is all you need to open the door as if by magic. Deutsche Wohnen has begun equipping its properties with new technology by the name of KIWI – initially as part of a pilot project on behalf of its service partners. In the future, KIWI will make each individual building and each individual residential unit an even more attractive place to live. A conversation with Dr Marcus Eilers, Head of Deutsche Wohnen SE's Corporate Development and Strategy division, and Karsten Nölling, CEO of KIWI, on the subject of "key technology":

A step into the direction of smart city and smart home: Dr Marcus Eilers, head of Corporate Development and Strategy and Karsten Nölling, CEO of KIWI having a conversation.

Dr Eilers, keys are a reliable and long-familiar "tool". What does Deutsche Wohnen hope to achieve with KIWI – a no-key system?

Marcus Eilers: Digitalisation is transforming our lives, making a lot of the things we do easier and more efficient. This is also true of the housing sector and particularly in the case of KIWI. Such investments constitute a real win-win situation for both residents and the company itself, one that makes things easier for everybody. This, together with the structural condition of our properties, is an important factor which increases our attractiveness as a landlord in the market and also improves the quality of the services we provide.

The new system will only be used for the front door of the residential building in question, correct?

Karsten Nölling: That is correct. It would of course also be possible to adapt the doors to the flats themselves. However, we think it best to leave that up to the individual residents. Anyone interested in having this option can contact KIWI and have the necessary modifications made.

You mentioned that the new system is also more efficient. How so?

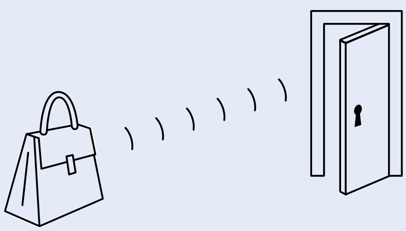
Marcus Eilers: It enables us to streamline our processes. Let me give you an example. If a tradesman needs to enter one of our buildings but does not have the correct key to hand, one of our employees will most likely have to open the door for him. KIWI makes it possible for us to remotely grant the service provider access to the building. Grabbing the wrong key or misplacing your key will no longer be an issue, and in this manner we can prevent a lot of running back and forth by our employees. This has another important advantage. It helps us to keep good tradesmen, who appreciate the additional flexibility and time savings involved in not having to wait for someone to come with a key.

In all honesty, is that not a bit of a risk – from a technical standpoint? Can one actually rely on the transponders working?

Karsten Nölling: Absolutely. KIWI has already been used in detached homes for five years. That means, in almost 60,000 residential units to date already. The technology has therefore proven its value in the context of day-to-day living. This is also evident from the fact that the Berlin Fire Brigade itself uses KIWI, and we have been an exclusive partner of Deutsche Post with regard to door access solutions since 2013.

KIWI: THIS IS HOW IT WORKS

The KIWI transponder must be within three metres of the front door in order to be able to open it. It doesn't matter where exactly it is located – it can be in your trouser pocket, your handbag or your gym bag. Once the door registers the proximity of the transponder, the buzzer is automatically activated and the door can be pushed open. Should others need to enter the building, for example in order to water plants, the door can also be opened remotely using a smartphone. Tradespeople or delivery people are able to easily enter the building without the tenant having to be present. By the way: KIWI was declared "PropTech of the Year" at the 2017 Real Estate Manager Awards [ImmobilienmanagerAward] last year.



A major step towards intelligent housing

What makes housing intelligent or smart? The right combination of the pleasurable and the practical. To this end, Deutsche Wohnen has worked with a number of partners to develop its own smart home solution offering a great many benefits ...

At the centre of it all is the gateway, a tablet computer with a touchscreen, which has a special bracket for attaching it to an electric socket or light switch. The light switch is not deactivated as a result; rather, it is replaced by a remote control. The heating system can be operated by way of an initial introductory step, which only requires the thermostats on the radiators. The new thermostats automatically maintain the desired temperature and also enable the heating system to be operated remotely. Deutsche Wohnen and its companies have developed a particularly smart solution for ensuring the supply of electricity to the thermostats. An integrated thermo-electric generator converts the warmth of the radiators into electrical energy, therefore dispensing with any need for the laying of power lines or the use of batteries. Deutsche Wohnen's more than 163,000 residential and commercial units would otherwise produce an enormous mountain of used batteries, i.e. hazardous waste, within just one or two heating periods.

This new means of operating the heating system will reduce the amount of heating fuel consumed by up to 12% per year. However, the smart home solution will be able to do a lot more in the future. It will recognise if a window is open or broken, it will take on the role of communications centre and notify the user via the display of any change in garbage collection times, for example. Last but not least, it will make residential units more secure – particularly for elderly residents. This is achieved through the use of movement sensors, for example, which inform the gateway if someone in the flat has a fall or collapses. The gateway can then automatically trigger an alarm. However, there is still quite a way to go before all this becomes a reality. That being said, tenants in the first lot of 3,000 residential units will be able to regulate their heating via the new gateway either centrally from home or remotely as early as 2018.

Our responsibility:

BRIDGING THE GENERATION GAP

Demographic change, climate change, refugee crisis – we too are also affected by the major issues of our time and are, therefore, using our economic strength to actively change things for the better. We firmly believe that only those who today align their commercial activities with the needs of tomorrow's society will achieve sustained success.

21.5 million people will be older than 66 in the year 2040.

16.2% of the population in Germany is under 18 years old.

760,000 senior citizens in Germany – and counting – are entitled to a room in a nursing home.

A convivial home, a well-kept home – not just a nursing home

What characterizes a good quality of life in one's twilight years? The first things that come to mind are of a more practical nature: good medical care, quiet and clean surroundings, balanced meals, and the list goes on … However, there is something else that is just as important: a sense of safety and security. Participating in one's own life, having someone to lend a sympathetic ear, and company in which one feels at ease. This is why the facilities of KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH are not merely nursing homes, rather places which function as social and cultural meeting points for different generations, where residents can receive care and, above all, LIVE.

»It is essentially personal connections with other human beings which make life worth living.«

Wilhelm von Humboldt

1990

Year of formation of KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH

2,500

beds are provided by the company

5

KATHARINENHOF® has facilities in five federal states: Berlin, Brandenburg, Hamburg, Lower Saxony and Saxony

2,000

Employees work to ensure the wellbeing of the residents

Bringing new life to a historic building

The term "demographic change" as it applies to our country can be paraphrased in a less ambiguous and more dramatic statement: Germany's population is getting older! And: Germany is inadequately prepared for the changes to come.

By way of example: Chemnitz. This city, located in the south-west of the Free State of Saxony, is the state's third largest metropolis after Leipzig and Dresden and the one with the oldest population. A study commissioned by the state government estimates that the city will have a shortage of 4,000 nursing care beds by 2020, with the number available last year amounting to only 3,300 approximately.

A further 87 can now be added to this number in the wake of KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH's conversion of a listed building previously owned by the former German state railways [Deutsche Reichsbahn] into a modern nursing facility in 2017. It is scheduled to open in the first quarter of 2018. There was and is great interest in this location in Chemnitz – more than 300 visitors attended the "Open Construction Site Day" event held in September 2017, which showcased a harmonious melding of the old with the new: On the one hand, the refurbished old listed building of the former German railways and, on the other hand, the newly built buildings with their modern fittings and furnishings.

With the help of its approximately 80 members of staff, the newly launched facility will be dedicated to providing care, particularly to individuals showing signs of early or advanced dementia. Its central focus, naturally, will be to ensure the physical wellbeing of the residents. However, this in itself is not enough – KATHARINENHOF®'s entire premise is based on the recognition that a person's wellbeing not only depends on the cleanliness of his or her surroundings and the availability of good food, but is also influenced by their degree of social interaction and sense of being at home. KATHARINENHOF®'s philosophy of care can be summed up in the words of Wilhelm von Humboldt: "It is essentially personal connections with other human beings which make life worth living." Thus, conversation, understanding and personal care and attention are as necessary a part of daily life as a broad range of cultural activities that enables residents to maintain contact with both the outside world and each other. This is the case in all of KATHARINENHOF®'s facilities and not just in the new one in Chemnitz. Concerts and readings, which relatives and guests of the residents are always welcome to attend, are among the activities on offer, as are visits from groups of children from day-care facilities who take part in joint music sessions with the residents.

A GROWING MARKET ...

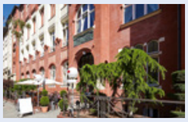
The gross added value of the nursing care sector has risen significantly over the past eleven years – from EUR 21.3 billion to EUR 36.3 billion, with the nursing services provided in nursing homes increasing by 3.8%.[15] KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH took further action in response to this growth in the market in 2017, for example taking over three nursing facilities of the Hamburger Senioren Domizile GmbH, a service provider with a long tradition in the sector, and opening three day-care facilities for the elderly in the Haus Abendstern (Potsdam), in Uferpalais (Spandau) and in KATHARINENHOF Alt-Britz in the second and third quarters of the year under review.

One of the best options available on the market ...

The concept pursued by KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH is proving to be a success. With an average occupancy rate of 98 % as at 31 December 2017, KATHARINENHOF®'s facilities are above the national average of approximately 85% and the quality of the services provided by the facilities, is setting new standards. All of the facilities were awarded a grading of between 1.0 and 1.6 by the Medical Review Board of the German Statutory Health Insurance Funds (Medizinischer Dienst der Krankenversicherung – MDK). Quite independently of the evaluation, which it is required by statute to undergo, KATHARINENHOF® is committed to implementing sound quality management practices and ensuring a high level of transparency in its operations.

AM SCHWARZEN BERG

IM SCHLOSSGARTEN



FRIEDENAU

WOLKENSTEIN

Responsibility and profitability

Powering ahead into the future – that is one way of describing Deutsche Wohnen's approach in the past year, viewed from the standpoint of energy consumption in the broadest terms. Dealing responsibly with the consumption of energy will always be the most efficient approach. In the housing industry, such an approach will entail the use of insulating materials, modern equipment and low-energy light sources in buildings. However, Deutsche Wohnen has taken things even further: The key terms here are: generating one's own energy supply, e-mobility and the coming generation.

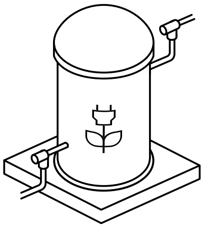
From now on the FACILITA is refuel-ing with electricity – with help from their own innovative infrastructure for charging.

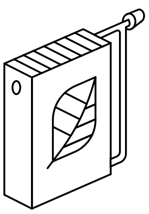
How can a company best secure its energy supply? By generating its own energy! Doing so will make it more self-reliant, more efficient and more profitable. For this reason, we have expanded the extent to which G+D Gesellschaft für Energiemanagement mbH – a joint venture between Deutsche Wochen and GETEC – supplies and distributes the energy for our holdings to 75% of the centrally-supplied properties of Deutsche Wohnen as of 1 January of this year. This is also in our tenants' best interests. G+D operates as thermal energy supplier and as such has a say in the pricing. Any reduction in the price of such thermal energy can be passed on to our tenants.

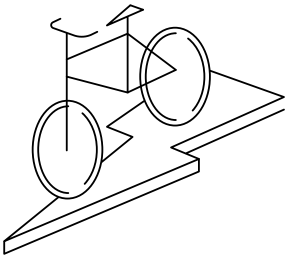
In addition, G+D took over the municipal utilities Stadtwerke Thale last year, expanding the services it offers in the process. As Lars Dormeyer, Managing Director of Deutsche Wohnen explains, "The joint acquisition of the Stadtwerke Thale successfully cemented our existing collaboration with GETEC, creating a broader basis for our partnership – which also extends beyond the supply of energy to our own property holdings. The acquisition represents G+D's first foray into the end-customer business and will significantly increase its profitability."

The Stadtwerke Thale operate an environmentally friendly local heating grid via two combined heat and power plants with approximately 2,000 units of supply. Moreover, two biogas combined heat and power plants are also integrated in the generation of thermal energy. The Stadtwerke Thale also supply approximately 5,500 household and commercial customers with electricity and natural gas within the Thale region.

A little more than 200 kilometres further away – in a north-easterly direction –, energy is not being generated by biogas combined heat and power plants but petrol consumption is being reduced. FACILITA Berlin, a subsidiary of Deutsche Wohnen, started to replace its existing fleet of vehicles last year with forms of e-mobility, a particularly smart move in FACILITA Berlin's case, given that its facility management employees spend a lot of time out and about providing support services in connection with approximately 110,000 residential units of Deutsche Wohnen located in Berlin. These services range from classical caretaker services, vacancy management activities, quality management of cleaning stairwells, maintenance of green areas and winter services as well as concierge services in selected holdings. Eleven electric cars, eleven electric bikes and 41 bikes are part of what is now a modern and more sustainable vehicle fleet. The ten conventional cars which remain will be replaced with electrically powered vehicles in 2018. One important prerequisite for this switch was the development of an innovative infrastructure for charging the vehicles, with a total of eleven charging stations being installed at four FACILITA locations in Pankow, Reinickendorf, Spandau and Steglitz for this purpose.







»Housing will always be of great importance.«

We at Deutsche Wohnen quite rightly consider ourselves to be part of one big generational melting pot: our workforce spans a total of five generations, from members of the post-war generation to baby boomers, generation X and Millenials and finally to generation Z, i.e. those of our employees born after 1996.

We are happy that this is the case, because different generations bring different skills to the table, and generational diversity is an asset which contributes towards our success. At the same time, the housing sector is feeling the effects of demographic change and a shortage of skilled personnel. A survey conducted last year brought to light that half of all companies whose operations relate to real estate properties are already suffering from a "significant" shortage of skilled personnel, a state of affairs which is very much in line with the finding that approximately every second company is experiencing a fall in the number of applicants actively seeking work.[17] The number of our employees increased by more than 100 during the year under review. Our success in recruiting new personnel is to some extent due to our awareness of the fact that different generations have different needs - needs which we strive to address as well as we can.

Deutsche Wohnen had a total of approximately 1,100 employees in the year under review. This number includes individuals with technical, commercial, management accounting and many other types of professional qualifications. We invited two of them to chat with us: Mareike Stefanowski and Andreas Stein. They belong to different generations and we are interested in finding out how they find working at Deutsche Wohnen and how they envisage housing and working in the future …

Mareike Stefanowski

… is 26 years old and has a masters degree in media psychology. After joining a one-year trainee programme at Deutsche Wohnen in 2016, she now works in the company's marketing department, with her focal point being internal communications.

Ms Stefanowski and Mr Stein, what is it that makes a working environment a motivating and pleasant one in your view?

Stefanowski: It's all about feeling as though you are working as part of a team, one in which the members exchange ideas and information and support each other. This is especially important to me, because I love working with others. Of course, it is also important to have a well-equipped workplace which enables me to communicate quickly with others – even though I do often prefer to speak on the phone when exchanging ideas with others.

Stein: The channels of communication within the company must be open. Sometimes I find myself in situations in which I am unable to move things along as quickly as I would like. I think occasional discussions and debates are a good thing and can have a motivating effect; they are ultimately all to the good. There is no corporate "culture of silence" which discourages employees from expressing their opinions. Each individual has a voice, is encouraged to use it and, when they do, it is heard.

What specifically are your expectations of Deutsche Wohnen?

Stein: That it is there for its employees and permits them to voice any concerns or needs which they may have. On the other hand, there have to be clear boundaries in place – that goes without saying. Everyone can't be allowed to just do whatever he or she wants.

Stefanowski: I feel the same way. Also, every employee should be put to work doing what he or she is best suited to doing, i.e. in an environment in which he or she can best utilise his or her skills and strengths. The underlying conditions also have to be right. For example, appropriate working time arrangements, market-aligned remuneration or holiday policies.

Andreas Stein

… has been with Deutsche Wohnen since 2007 and, in the capacity of housing consultant, assists tenants who move from one of the company's flats to another. This sixty year old holder of a pedagogy degree has also previously been a partner in a company. He also has a second degree in business management and is a qualified mediator.

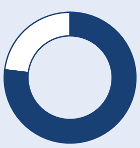
You mentioned working time arrangements. Is flexibility something that is of importance to you personally?

Stefanowski: Yes. I think it's great that there is the option of working on a flexi-time basis or from home – even if I have never taken advantage of it myself. I can imagine that there are situations in which I may well do so, for example if I have work-men in the home. It feels good to know that I have the option.

The best succeed. The best endure.

The employees of Deutsche Wohnen are what drives the company. They are its very heart and soul, and the key to its economic success According to a survey conducted in 2016, 77% of Deutsche Wohnen employees are happy or very happy with their place of work.

A fair level of remuneration may not be the be-all and end-all, but it is certainly important: The implementation of our performance-based and market-aligned system of remuneration on the basis of a number of different sources has enabled us to further increase our transparency vis-à-vis our employees.



77 %
satisfied and
very satisfied employees

Continuing education measures are another important factor. Our employees completed more than 1,450 days of training in the context of our educational programme in the year under review.

Keyword - fairness: Equality of pay and of opportunity is one of our guiding principles. The fact that approximately 43 % of our employees in management positions are women clearly demonstrates Deutsche Wohnen's commitment in this regard.

Stein: I have never yet worked from home either, but think it is very important that our company makes it possible for us to do so. I even think that we should expand on this option, in the interests of helping people to achieve a better balance between family and work.

What does lifelong learning mean to you?

Stein: It is crucial, but everyone will have his or her own personal opinion on the subject. In my view, it is a good idea to take a step back from one's everyday work and to experience new things. I myself have taken a continuing education course provided by the company. It involved training to become a mediator over a period of about one and a half years alongside my regular job. The company was very accommodating in helping me organise my time. At the time, I was in my mid-fifties and found it very invigorating and motivating to be able to take on something new – with an entirely new group of people –, even though the subject of mediation is of course something which regularly features in my day-to-day work.

Stefanowski: It is very important to me! Both in my everyday working life and in the context of continuing education courses. So much has changed in the 1 ½ years I have been with Deutsche Wohnen. Sometimes, it almost feels like I'm working at a start-up – there are so many new and unexpected developments happening from one moment to the next. I think that is a great and exciting way to work! Even if not everything turns out as expected and sometimes a change of course is called for. After all, that is also what lifelong learning is all about.

Finally, let us look ahead to the future – what do you think housing and the housing sector will be like in 30 years from now?

Stein: Housing will always be of great importance. I think that it will no longer be all about finding a property early on in which one can build a nest for life. Things will be more flexible and there will be more beautifully furnished flats. And, housing for the elderly and disabled access will play a much greater role – we will have to take things up a notch in the future. This also applies to the influx of new residents to inner cities and conurbations – this is another subject that we will have to address.

Stefanowski: I think that both smart homes and the provision of housing-related services will play an ever greater role in the future, and could involve such services such as deliveries of mail and goods or car-sharing options.

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Letter to our shareholders

Dear Shareholders,
Dear Sir or Madam,

In keeping with its own mission statement, Deutsche Wohnen's actions are driven by sustainable investment and the creation of values. At the same time, we always keep in mind the people who reside and live in our properties. They are drawn to fast-growing and prosperous metropolitan areas and they are increasingly demanding sustainable and high-quality products and materials. Our focus on the growing German metropolitan areas, and in particular Berlin, is underpinned by current market research conducted by leading institutions as well as by our operating figures in terms of rents, vacancy and average sales prices. This path has not only made us one of the largest companies in the real estate industry, but also a partner trusted by stakeholders. And rightly so, because the financial year 2017 was a very successful one – also from the point of view of our stakeholders.

Historic high: Group profit

Deutsche Wohnen once more recorded significant improvements in all of its key figures in the financial year 2017: Group profit totalled EUR 1,763.3 million, exceeding the already high level from the previous year of EUR 1,623.2 million. A key factor was the renewed appreciation of our property portfolio. The key figure FFO I – Funds from Operations without disposals – which is decisively important for us, rose significantly by 13% to EUR 432.3 million due to acquisitions and operative improvements in our portfolio. Per share the FFO I even improved by 18% (diluted). We also succeeded in increasing our EPRA NAV (net asset value) per share by 20% from EUR 29.68 to EUR 35.74.

Our financing strategy is conservative and long-term: At 34.5% the loan-to-value ratio, which measures the Group's debt ratio, is below the self-imposed target range of 35% to 40%. We were able to further reduce the average interest rate to 1.3% with an average maturity of our financing measures of eight years. Our creditworthiness has been rated A– and A3 by the international rating agencies Standard & Poor's and Moody's, each with a stable outlook.

The capital market mirrors this success

On the capital market, the successful path taken by Deutsche Wohnen has also been evident: The price of the Deutsche Wohnen share rose by approximately 25% in 2017! Thus, the share clearly outperformed the German indices DAX and MDAX as well as the benchmark EPRA Europe. The Management Board and the Supervisory Board propose the adoption by the Annual General Meeting of a resolution in favour of the payment of a dividend in the amount of EUR 0.80 per share for the financial year 2017, an increase of 8%!

Thanks to our team

We would like to take this opportunity to thank our employees for their outstanding performance. They have made the remarkable success of the past few years possible – with their commitment and their exemplary professionalism. In the future, we will continue to do our utmost to hold our own as an attractive employer in the real estate sector and promote our employees extensively and individually.

An excellent portfolio with significant appreciation in value

The positive market development of recent years continued in 2017 as well. The pace of growth is strongest in the German metropolitan areas and conurbations, where most of our holdings are located. As a result, our properties once again recorded a significant increase in value of EUR 2.4 billion in the financial year 2017.

With over 163,000 residential and commercial units, a fair value of around EUR 18.9 billion and an annualised annual rent of EUR 767 million, we manage one of the largest property portfolios in Germany today. Transactions in the amount of approximately EUR 1 billion contributed to the growth of this portfolio in 2017. Market capitalisation rose to EUR 12.9 billion in the year under review thanks to the positive development of the share price, making Deutsche Wohnen the third largest publicly listed real estate company in Europe!

With regard to our portfolio, we remain on our successful path and continue to focus on the fast-growing and prosperous conurbations of Germany. All of our holdings can be found here today. With a share of more than 70% of the total portfolio – that is about 114,000 apartments and about 1,800 commercial units – Berlin is our core market.

In order to further increase the quality of our portfolio in the future, we will invest more than EUR 1 billion in approximately 30,000 residential units with above-average future prospects by 2022. Furthermore, we have plans for extensive new construction measures, over the next few years to urgently supply.

Well-positioned for the future

Housing is changing in many ways. That's why we are increasingly offering property-related services aimed at attracting and retaining customers. In addition, these service offerings broaden our value creation chain. Through strategic shareholdings and through subsidiaries, we are increasing our contact with our customers and providing high quality services. In addition to technical facility management and multimedia, this applies above all to energy supply. Since 1 January 2018, we have already supplied 75% of the centrally supplied Deutsche Wohnen portfolio with energy through our joint venture G+D.

from left to right

Lars Wittan
Chief Operating Officer (COO)

Michael Zahn
Chief Executive Officer (CEO)

Philip Grosse
Chief Financial Officer (CFO)

We also intend to expand the Nursing and Assisted Living segment, in which we have been well-positioned for many years with our strategic subsidiary KATHARINENHOF®. The reason is quite obvious: With demographic change, demand for beds in nursing homes is increasing. We will continue to integrate our nursing and residential operations through targeted acquisitions.

Given the positive outlook for the German residential property market, particularly in metropolitan areas, we expect our property portfolio to develop positively in 2018. We also expect to realise FFO I in the amount of approximately EUR 470 million and adjusted EBITDA – without disposals – in the amount of approximately EUR 615 million in the financial year 2018.

In conclusion, we can say that Deutsche Wohnen is excellently positioned and will consistently pursue its course of success. We have created the conditions for this in recent years. We would be pleased if you continue to accompany us in the future!

Berlin, March 2018

Best regards,

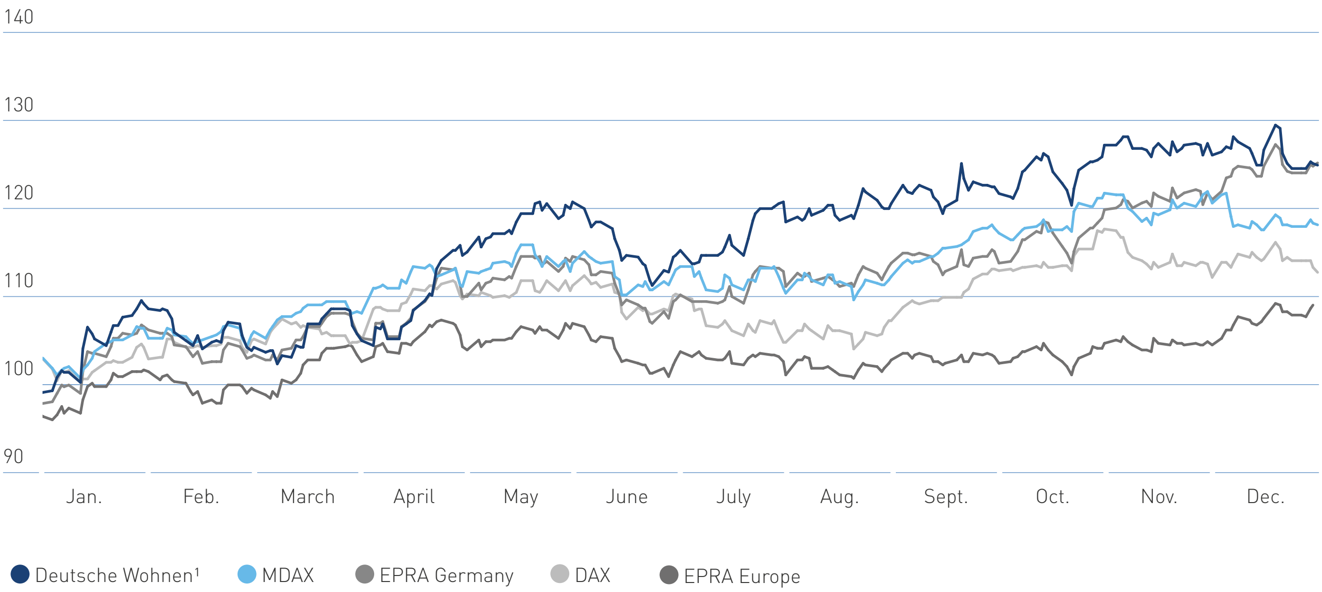
Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman
of the Management Board

Philip Grosse
Management Board

Deutsche Wohnen in the capital market

2017 share price performance (indexed)



1 Share performance in June 2017 (adjusted for dividends)

Global growth and US tax reform bolster share prices

Strong global growth, the adoption of a comprehensive tax reform in the USA, the victory of Emmanuel Macron in the presidential election in France, and the decision by the ECB to continue its bond-buying programme all resulted in a strong performance by the stock markets in 2017.

During the year, the stock markets temporarily came under pressure due to the rise in the value of the euro to a two-year high against the US dollar and the collapse of the "Jamaica" coalition negotiations in Germany.[1]

Over the course of 2017, the DAX rose by 12.5% to 12,918 points, having exceeded the 13,000-point threshold for the first time in its history in the fourth quarter. During the same period, the MDAX, on which the Deutsche Wohnen share is listed, recorded growth of 18.1% and closed at 26,201 points.

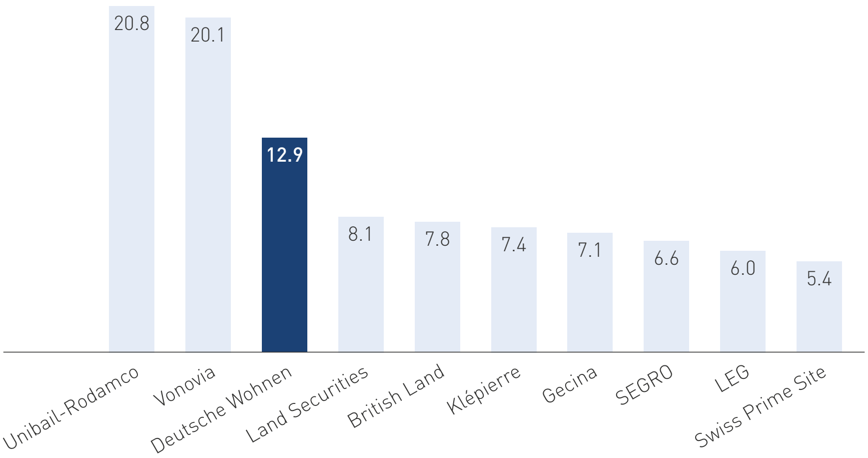
Once again the Deutsche Wohnen share performs strongly

The closing price of the Deutsche Wohnen share at the end of 2017 was EUR 36.46 (closing price 2016: EUR 29.22[2]), an increase of approximately 25%[2] compared to the previous year. Thus, it performed markedly better than the German DAX and MDAX share indices. The EPRA Germany real estate index likewise rose by approximately 25% in 2017, while the EPRA Europe index did not quite manage to keep pace during the same period and only recorded growth of approximately 9%.

The market capitalisation of Deutsche Wohnen SE increased by approximately 30% to EUR 12.9 billion in the reporting year, making Deutsche Wohnen SE the second largest publicly listed real estate company in Germany and the third largest in Europe.[3]

1 Cf. Commerzbank, Year in Review – 2017
2 Adjusted for the dividend payout 2017
3 On the basis of free float market capitalisation, EPRA Europe, as at December 2017

Market capitalisation of Deutsche Wohnen SE in a European comparison
In EUR billion.[1]



1 On the basis of free float market capitalisation, EPRA Europe, as at December 2017

The liquidity of the Deutsche Wohnen share also developed in a positive manner once again. The average daily Xetra trading turnover increased by approximately 3%, from EUR 25.6 million in 2016 to EUR 26.3 million in 2017. The average Xetra trading volume for the Deutsche Wohnen share in 2017 amounted to 781,000 shares per day, with an average of an additional 733,000 shares per day being traded through alternative platforms. Due to its increased liquidity and market capitalisation, the Deutsche Wohnen share was able to further strengthen its position in the MDAX. At the end of the year, it ranked 2nd and 3rd among the 50 MDAX companies in total on the basis of its free float market capitalisation and trading volume respectively.

Share key figures	2017	2016
Number of shares in m	approx. 354.66	approx. 337.48
Closing price at the end of the year[1] in EUR	36.46	29.84 (29.22)[3]
Market capitalisation in EUR bn	approx. 12.9	approx. 10.0
Highest share price over the year[1] in EUR	37.77	34.83
Lowest share price over the year[1] in EUR	28.71	22.00 (21.60)[3]
Average daily traded volume on Xetra[2]	780,988	897,346
Average daily traded volume on alternative trading platforms	732,778	958,839

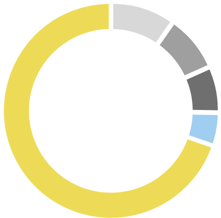
1 Xetra closing price
2 Traded shares
3 Price in brackets adjusted for capital increases and dividend payments
Source: Bloomberg, last updated: 08/01/2018

Shareholder structure remains stable

MFS, BlackRock, Norges and Vonovia currently[4] hold approximately one third of the shares of Deutsche Wohnen, with the remaining two-thirds being held by domestic and foreign institutional investors and private shareholders, whose shareholdings do not exceed the statutory reporting threshold of 3%.

Shareholders[1]

> 5%	●	Massachusetts Financial Services Company (MFS)	9.94%
	●	BlackRock, Inc.[2]	9.52%
	●	Norges Bank (Central Bank of Norway)[2]	6.93%
> 3%	●	Vonovia SE	4.99%
		Total	**31.38%**
	●	Others	68.62%



1 Percentages based on the most recent notifications of voting rights made by the stated shareholders pursuant to section 33 ff. of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The notifications of voting rights are published on our Investor Relations website (http://ir.deutsche-wohnen.com). The shares of the voting rights as notified are based on the total number of voting rights at the time of notification. It is possible that the shares of the voting rights as notified may since have changed without such change having resulted in the relevant threshold being exceeded, thus triggering a new notification obligation.
2 Attributed voting rights pursuant to section 34 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

Predominantly positive analyst evaluations

A total of 30 analysts are currently[4] monitoring Deutsche Wohnen SE's performance. The current target price ranges between EUR 31.50 and EUR 45.00 per share, with 24 analysts adopting a price target of more than/equal to EUR 36.00 per share. The average of all the analysts' estimates is EUR 39.01[4] per share, which is approximately 7% higher than the closing share price of EUR 36.46 at the end of 2017.

Rating	Number
Buy/Outperform/Overweight	18
Equal weight/ Hold/ Neutral	8
Sell	3
Not specified	1

2017 Ordinary Annual General Meeting decides to distribute a dividend of EUR 0.74

The 2017 Ordinary Annual General Meeting of Deutsche Wohnen, at which 78.33% of the company's share capital was represented, was held in Frankfurt/Main on 2 June 2017. There the shareholders passed all the proposed resolutions on the agenda with the requisite majority of the votes cast. The Annual General Meeting decided almost unanimously to distribute a dividend in the amount of EUR 0.74 per bearer share for the financial year 2016. This corresponds to a total amount of approximately EUR 262.4 million and approximately 68% of the FFO I generated in 2016, resulting in a dividend yield of 2.6% in relation to the volume-weighted average share price for 2016 of EUR 28.18.

4 As at 9 January 2018

Successful refinancing of convertible bonds and capital increase 2017

In February 2017 and again in October 2017, Deutsche Wohnen issued convertible bonds with a total volume of EUR 1.6 billion to institutional investors.

Furthermore, in February 2017, as a result of a cash capital increase in the total amount of EUR 545 million, Deutsche Wohnen increased its issued capital by approximately 5.1% to EUR 354,654,560, to the exclusion of the subscription rights of its shareholders.

The proceeds of the issue were primarily used to finance the acquisitions made in 2017 and to refinance existing convertible bonds ahead of schedule. As a result, the company was able to exploit the favourable conditions on the interest rate and capital markets to further improve its capital structure. Moreover, the premature refinancing of the convertible bonds enabled it to significantly lower the risk to shareholders of a dilution of the value of their shares.

Continuation of wide-ranging Investor Relations activities

For Deutsche Wohnen, "investor relations" means prompt and transparent reporting, active and regular communication with our shareholders, with analysts and with potential investors, and the expansion of our existing network of national and international contacts.

In the financial year 2017, Deutsche Wohnen once more maintained an intensive dialogue. To this end, its Management Board and Investor Relations team made use of property tours, and national and international conferences and roadshows, with Deutsche Wohnen presenting its business model and its strategy at various roadshows within Europe, the USA and Asia, as well as sending representatives to attend numerous conferences in locations such as New York, London, Paris, Cape Town and Amsterdam. The Investor Relations team held approximately 500 meetings with investors in 2017.

An overview of the events scheduled for the financial year 2018 can be found in the financial calendar on page 171 of our Annual Report. A regularly updated online version of our financial calendar can also be found on our Investor Relations website at http://ir.deutsche-wohnen.com.

Deutsche Wohnen holds a telephone conference on the occasion of the publication of our annual report and each of our quarterly reports, during which investors and analysts are given the opportunity to put their questions directly to the Management Board. The conferences are broadcast live as webcasts and are subsequently made available for download on the Investor Relations page of our website, where our current financial reports and company presentations are also published.

Corporate governance report

Corporate governance stands for the management and control of companies in a way that is responsible and geared to creating value over the long term. The corporate governance and corporate culture of the Deutsche Wohnen Group comply with statutory requirements and – with one exception – the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board of Deutsche Wohnen SE feel obligated to pursue good corporate governance; all areas of business are orientated towards this purpose. Our focus is on values such as competence, transparency and sustainability.

Declaration of Compliance

The Management Board and Supervisory Board were also careful to meet the standards of the German Corporate Governance Code in the financial year 2017. In doing so, they took account of the Code of 7 February 2017, which was published in the German Federal Gazette on 24 April 2017,in accordance with section 161 of the German Stock Corporation Act (AktG), they submitted their declaration of compliance with the recommendations of the Code for the financial year 2017 and outlined in detail one deviation from the Code. The declaration is available for inspection by shareholders and interested parties on our website at https://ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

General management structure comprising three executive bodies

Deutsche Wohnen SE, as a listed European public limited company (Societas Europaea, SE), has its registered office in Berlin and is subject not only to German corporate and capital markets law but also to the European legislation governing SEs, the German Act Implementing Regulation (EC) No 2157/2001 and the provisions of its own Articles of Association. With its two bodies, the Management Board and the Supervisory Board, the company has a two-tier management and supervisory structure. Above, there is the Annual General Meeting at which the shareholders are involved in fundamental decisions concerning the company. Together, these three bodies are obligated to act in the best interests of the shareholders and for the benefit of the company.

The Management Board works in the best interests of the company

The Management Board manages the company and conducts the enterprise's business under its own responsibility. In this task, it is bound by the goal of sustainable value creation in the company's interests. The members of the Management Board are appointed by the Supervisory Board. Pursuant to clause 8 (2) Articles of Association in conjunction with article 46 of Regulation (EC) No 2157/2001, the members of the Supervisory Board are appointed for five years at most. It is allowed to reappoint each member of the Supervisory Board for five years at a time. The age limit for members of the Management Board has been set by the Supervisory Board at the legal retirement age. The target for female membership of the Management Board for the target attainment period up to 30 June 2017 was set at 0% in light of the fact that there were no female members of the Management Board, the employment contracts for the current members of the Management Board provided for contractual terms extending beyond the cut-off date, and there were no plans to appoint additional members to the Management Board solely in response to the legislative amendment. This target was met at the end of the target attainment period. With the before mentioned considerations, the Supervisory Board set the new target figures in July 2017 with the same value for the time of implementation until 30 June 2020. The selection of the members of the Management Board is based, in particular, on the knowledge, skills and professional experience required for the fulfilment of the tasks of the Management Board.

The Management Board had three members in the financial year 2017 and has a chairman. The work of the Management Board is governed in detail by the Rules of Procedure, which, among other things, provide for a division of tasks according to functional aspects.

The Management Board develops the strategic direction of the company, agrees upon this with the Supervisory Board, and ensures its implementation. It also bears the responsibility for appropriate risk management and control within the company, as well as regular, timely and comprehensive reporting to the Supervisory Board. The approval of the Supervisory Board is required for certain transactions and activities of the Management Board.

The members of the Management Board must immediately disclose any conflict of interest to the Supervisory Board and their colleagues on the Management Board. Significant business transactions between members of the Management Board, as well as parties closely related to them, and the company require the approval of the Supervisory Board. Equally, the acquisition of secondary employment outside the company, requires such approval, too.

D&O group insurance policies comprising a deductible which is in line with the requirements of section 93(2) of the German Stock Corporation Act (AktG) in conjunction with article 51 of Regulation (EC) No 2157/2001, have been taken out for the members of the Management Board and the Supervisory Board.

The Supervisory Board advises and monitors the Management Board

As a general rule, the Supervisory Board is composed of six members. During the period between 2 June 2017, the date of the departure of Mr Wolfgang Clement upon the expiration of his regular term of office, and 1 October 2017, the date of the commencement of the term of office of Mr Jürgen Fenk, the new member of the Board appointed by the Annual General Meeting held on 2 June 2017, the Supervisory Board was composed of five members. The Supervisory Board is not subject to any rules governing employee participation. All members are elected to represent the shareholders at the Annual General Meeting. Their term of office is strictly five years in accordance with the provisions of statute and the Articles of Association. Members of the Supervisory Board are selected, in particular, based on the knowledge, skills and professional experience required for fulfilling their tasks. At the same time, attention should be paid to independence, diversity in terms of different professional experience and a sufficient gender diversity, accordingly to the defined competence profiles. The target proportion of female members for the attainment period until 30 June 2022 is set at 16.67%. Only persons who at the time of appointment have not yet completed their 73rd year should be proposed for election as members of the Supervisory Board. Each person of the Supervisory Board makes certain, that the appropiate time being necessary for fulfilling the position in the Supervisory Board, is made. The Supervisory Board is made up in accordance with the aims and requirements mentioned above.

The Supervisory Board advises and monitors the Management Board on its management of the company on a regular basis within the framework established by law, the Articles of Association and the Rules of Procedure. It works closely with the Management Board for the benefit of the company and is involved in decisions of fundamental importance to the company.

The Supervisory Board has Rules of Procedure; its work takes place both in plenary sessions and committees. The work of the committees is intended to increase the efficiency of the work of the Supervisory Board. The committee chairperson reports regularly to the Supervisory Board on the work of their committee. Currently, there are four committees:

- The **Executive Committee** is responsible for liaising with the Management Board and providing ongoing advice. It also prepares the meetings of the Supervisory Board, insofar as this is appropriate with regard to the scope and importance of the items to be discussed. In accordance with the resolutions of the full Supervisory Board, the Executive Committee is responsible for the conclusion and the content of the contracts for members of the Management Board. It is also responsible for giving advice and – insofar as this is permitted – making decisions about urgent issues.
  Members: Uwe E. Flach (Chairman), Matthias Hünlein, Dr. Andreas Kretschmer
- The **Nomination Committee** proposes suitable individuals to the Supervisory Board for it to recommend to the Annual General Meeting.
  Members: Uwe E. Flach (Chairman), Dr. Andreas Kretschmer, Claus Wisser
- The **Audit Committee** is responsible for the preliminary examination of the documentation for the annual financial statements and the consolidated financial statements, the preparation of the adoption or approval of these reports and the preparation of the Management Board's proposal on the utilisation of the profits by the

Management Board. It discusses the interim statements (quarterly) and half-year reports before publication. In addition, the committee discusses the principles of accounting, compliance, risk assessment, risk management and the adequacy and effectiveness of the internal control system with the Management Board. The responsibilities of the Audit Committee also include the preparation of the appointment of the auditors by the Annual General Meeting, which among other things includes an examination of the auditor's required independence, the subsequent award of the auditing contract and the determination of the audit priorities. The members of the Audit Committee have expertise in accounting and auditing regulations and the composition of the Committee meets all stipulations for independence within the meaning of the recommendations of the German Corporate Governance Code.
Members: Dr. Andreas Kretschmer (Chairman), Uwe E. Flach, Dr. Florian Stetter
– The **Acquisition Committee** prepares the groundwork for the decisions of the Supervisory Board regarding corporate and/or portfolio acquisitions.
Members: Uwe E. Flach (Chairman), Dr. Florian Stetter, Claus Wisser

Important decisions are made at the Annual General Meeting

In line with the opportunities provided by the Articles of Association, the shareholders exercise their rights at the Annual General Meeting and, in so doing, exercise their voting rights. Each share carries one vote.

The Ordinary Annual General Meeting is held during the first six months of each financial year in accordance with the stipulations of clause 13(2) of the Articles of Association and article 54(1), sentence 1, of Regulation (EC) No 2157/2001. The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting and are published on the website of Deutsche Wohnen SE.

Fundamental resolutions are passed by the Annual General Meetings. These include those relating to the appropriation of profits, the formal approval of the actions of the Management Board and the Supervisory Board, the selection of members of the Supervisory Board and the auditor, amendments to the Articles of Association and measures which affect the capital structure of the company. The Annual General Meeting provides a good opportunity to the Management Board and Supervisory Board to communicate directly with shareholders and to discuss and agree with them on the further development of the company.

In order to make it easier to personally exercise their rights, Deutsche Wohnen SE provides its shareholders with a proxy who is bound by the instructions given to him by the shareholders and who can also be reached during the Annual General Meeting. The invitation to the Annual General Meeting explains how instructions may be given in advance of the Annual General Meeting. In addition, shareholders are at liberty to be represented at the Annual General Meeting by a proxy of their choice.

Remuneration of the Management Board

The system of remuneration for the Management Board is subject to regular consultations, review and revision in the plenary sessions of the Supervisory Board.

The Management Board contracts of Deutsche Wohnen SE contain fixed and variable remuneration components. The variable component for all members of the Management Board is adjusted to the requirements of section 87(1), sentence 3, of the German Stock Corporation Act. [AktG]. It is tied to the achievement of the company's economic goals and is calculated primarily based on multiyear assessment criteria. The variable remuneration may only be claimed if there has been a correspondingly positive development in the company's business. In this way, the compensation structure is aligned to sustainable corporate development and the incentive and risk effects of the variable remuneration are optimised.

The detailed Remuneration Report of Deutsche Wohnen SE for the financial year 2017 can be found on the company's website under https://ir.deutsche-wohnen.com/websites/deuwo/English/8460/report-on-compensation.html.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board was established by the Annual General Meeting in clause 10(7) of the Articles of Association. Accordingly, the members of the Supervisory Board receive a fixed annual remuneration in the amount of EUR 75,000. The Chairman of the Supervisory Board receives three times the standard remuneration; the Deputy Chairman receives one-and-a-half times the standard remuneration. Each Supervisory Board member receives a lump-sum amount of remuneration of EUR 15,000 per financial year for his or her membership of the Audit Committee of the Supervisory Board, with the Chairman receiving twice this amount. Remuneration for membership of other Supervisory Board committees is paid in the amount of EUR 5,000 per member, committee and financial year, with the Chairman receiving double this amount in each case. The total amount of all remuneration paid to each member of the Supervisory Board, plus any remuneration paid for membership of Supervisory Board committees and comparable executive bodies of Group companies may not exceed EUR 300,000 (excluding VAT) per calendar year. Expenses are reimbursed. In addition, the company can, at its expense, include the members of the Supervisory Board in a D&O insurance policy for institutions and managers, and has done so. A deductible, payable by the members of the Supervisory Board, was agreed for this in accordance with the requirements of section 93(2) of the German Stock Corporation Act. (AktG) in conjunction with article 51 of Regulation (EC) No 2157/2001.

No performance-based remuneration is paid to members of the Supervisory Board. Details of the remuneration paid to the members of the Supervisory Board can be found in the Remuneration Report.

Directors' Dealings and shareholdings subject to mandatory disclosure

The members of the Management Board and the Supervisory Board of Deutsche Wohnen SE and their closely related parties are required pursuant to art. 19 of the Market Abuse Regulation (MAR) to disclose transactions in shares or securitised debt of Deutsche Wohnen SE or related financial derivatives and instruments without delay, as soon as the total volume of EUR 5,000 is reached within one calendar year. The company will publish these transactions immediately after they have been reported to it. The following transactions were notified to Deutsche Wohnen SE in the financial year 2017. Member of the Management Board Philip Grosse purchased 10,500 shares in total and chairman of the Management Board Michael Zahn accepted within the framework of the share option programme of the company 35,377 share options, member of the Management Board Lars Wittan accepted 18,867 share options in total and member of the Management Board Philip Grosse accepted 10,613 share options. These notifications are published on the website https://ir.deutsche-wohnen.com > Financial News > Directors' Dealings

Ms Kretschmer held 3,091 shares of Deutsche Wohnen SE as at 31 December 2017; none of the other members of the Supervisory Board held any shares in Deutsche Wohnen SE at that date. Michael Zahn, the Chief Executive Officer, held 26,389 shares, and two natural persons who are closely associated with him held a total of 4,000 shares in the company as at 31 December 2017. The member of the Management Board Lars Wittan held 11,104 shares at this time and the member of the Management Board Philip Grosse held 11,000 shares in the company as at 31 December 2017.

Thus, the total number of shares of Deutsche Wohnen SE held by the aforementioned group of individuals as at 31 December 2017 amounted to approximately 0.016% of the approximately 354.7 million shares issued by the company.

Comprehensive compliance

Compliance with legal provisions and the standards of the German Corporate Governance Code, as well as the fair treatment of business partners and competitors, are principles that are important to Deutsche Wohnen SE. The company's Compliance Officer assumes responsibility for this. The Compliance Officer manages the company's insider register and informs management, employees and business partners of the relevant legal framework and the consequences of violating insider regulations. In addition, the Compliance Officer serves as the main contact person for questions and reports of suspected violations. Furthermore the company established a whistle-blowers system, that enables employees and contractual partners to report possible indications of severe breaches of law or rules to a compliance lawyer. If asked for, this can be done anonymously; whistle-blowers are protected through the professional discretion of the compliance lawyer.

All business divisions and processes within Deutsche Wohnen are subject to regular review with regard to compliance risks.

Our code of conduct, which prescribes and defines conduct in accordance with the law, applies compulsorily to all of the company's employees. Every new employee receives and agrees to follow these guidelines upon starting their job. In addition, supervisors make their employees aware of significant compliance-related risks. Employees are trained in the fundamentals of compliance with an online training course. The training includes a final test. After completing the course successfully, the employee gets a certificate. The training is obligatory.

In particular, our employees are not permitted to accept gifts in exchange for promising a possible business transaction. The guidelines also prohibit unlawfully influencing business partners through favours, gifts or the granting of other advantages.

Appropriate management of opportunities and risks

Deutsche Wohnen SE considers it to be very important to deal responsibly with opportunities and risks. This is ensured by an extensive opportunity and risk management system, which identifies and monitors major opportunities and risks. This system is continuously being developed and adapted to changing conditions.

Detailed information is available in the Management Report: The risk management system and corporate strategic opportunities of Deutsche Wohnen SE are presented in the Risk and Opportunity Report from page 58 onwards, while information on the consolidated accounts can be found in the Notes from page 100 onwards.

Committed to transparency

As part of ongoing Investor Relations activities, all events which are of importance to the shareholders, investors and analysts are published in the financial calendar at the beginning of the year for the duration of financial year in question. The financial calendar, which is updated on a regular basis, can also be viewed on the company's website at https://ir.deutsche-wohnen.com/websites/deuwo/English/7000/financial-calendar.html.

The company informs shareholders, analysts and journalists according to uniform criteria. The information is transparent and consistent for all capital market participants. Ad hoc statements and press releases, presentations to the press and analysts and road-shows as well as finance reports are immediately available on our website.

Insider information as well as finance reports (ad hoc publicity), voting rights notifications and directors' dealings are disclosed by Deutsche Wohnen SE without delay in accordance with statutory provisions.

Accounting

The accounting within Deutsche Wohnen Groupis based on the international Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statement of Deutsche Wohnen SE is generated according to German law, in particular the German Commercial Code [HGB].

KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was appointed as the auditor for the annual financial statement and the consolidated financial statement at the 2017 Annual General Meeting. KPMG has provided an advance statement that no business, financial, personal or other relationships exist between the auditor, its executive bodies and lead auditors on the one hand, and the company or members of its executive bodies on the other hand, which could give rise to any doubts as to its independence. The individual financial statement as well as the consolidated financial statement for the financial year 2017 have been properly audited by KPMG, Berlin office, with Mr René Drotleff as responsible auditor and have been signed with non-restrictive confirmation. Mr René Drotleff is since the financial year 2016 the responsible auditor of KPMG for the company.

Deutsche Wohnen SE endeavours to abide by the publication deadlines described by the German Corporate Governance Code of 90 days after the end of the financial year for the consolidated financial statement and 45 days after the end of the reporting period for interim reports in 2017.

Further information

Further information about the activities of the Supervisory Board and its committees and its cooperation with the Management Board can be found in the report from the Supervisory Board.

Berlin, March 2018

The Supervisory Board The Management Board

Report of the Supervisory Board

Dear Shareholders,

Uwe E. Flach
Chairman of the Supervisory Board

Deutsche Wohnen SE continued to perform positively in the financial year of 2017 and once more improved key figures, benefiting from the consistently dynamic market environment in its Core+ and Core regions, in particular. This is also reflected in the best like-for-like rental growth in the company's history.

Consolidated group profit increased to EUR 1.8 billion, driven, in particular, by the appreciation of the portfolio with its focus on metropolitan areas and conurbations. At the same time, the Group's financing structure was optimised further, with its debt, ratio falling to less than 35% as a result of the company's conservative financing policy.

The positive share price development and the good ratings from Standard & Poor's and Moody's are confirmation of the company's sustainable success strategy.

The conversion of the Company into a European public limited company (Societas Europaea, SE) which was decided upon by the Annual General Meeting on 2 June 2017, was entered into the commercial register on 31 July 2017.

Trusting cooperation with the Management Board

In the financial year 2017, as in previous years, the Supervisory Board exercised great care in carrying out the tasks incumbent upon it pursuant to the law, the company's Articles of Association, the German Corporate Governance Code and the Rules of Procedure. It regularly advised the Management Board on the management of the company and monitored its activities. In addition, it was directly and promptly included in all decisions of fundamental importance to the company.

The Management Board informed the Supervisory Board regularly, promptly and fully, both orally and in writing, of all matters of relevance to the company relating to its business policy, its business plan and strategy, its situation including any opportunities and risks, the course of the business, and its endeavours with regard to risk management and compliance. Any discrepancies between actual and planned developments were explained in full. The Management Board agreed upon major business transactions with the Supervisory Board.

The Chairman of the Supervisory Board and other members of the Supervisory Board were in regular contact with the Management Board and also discussed important issues outside of the meetings of the Supervisory Board and its committees. These concerned, for example, the strategic direction of the company, its performance and its risk management activities.

Meetings of the Supervisory Board

In the financial year 2017, the Supervisory Board discussed the company's current performance, individual significant events and transactions requiring the Board's approval in the context of 11 meetings, four of which took the form of a telephone conference. At each of the meetings, the Supervisory Board granted the requested approvals to the necessary extent and in each case after careful consideration and extensive discussion of the matter at hand. The resolution to amend the Articles of Association in light of the issuance in 2016 of shares of the Company to external shareholders of GSW Immobilien AG was also passed on 23 January 2017 by way of being circulated in writing. The average attendance rate for the meetings of the Supervisory Board was 96.1%. In the year under review, Mr Hünlein could not attend two meetings and Mr Wisser could not attend one;

apart from these cases, all of the members of the Supervisory Board were present at all Board meetings. In addition, the members who were unable to attend in some cases nonetheless took part in the adoption of resolutions by way of proxy voting.

In the year under review, the Supervisory Board's activities focused on the business plan and performance of Deutsche Wohnen SE, (re-)financing measures, the company's corporate strategy, its SE conversion, its acquisition plans and the integration of acquired companies.

The performance of the Residential Property Management, Disposals and Nursing and Assisted Living segments, as well as the financial and liquidity position of the Group, were the subject of regular and intense discussion. The Supervisory Board's activities additionally focused on the review and discussion of the internal control and risk management system of the Deutsche Wohnen Group.

At the **meeting held on 26 January 2017** (telephone conference), the Supervisory Board primarily addressed the acquisition project Epicure (approximately 4,000 residential units in Berlin) and approved the proposed acquisition and financing structure. The Audit Committee reported on the status and progress of the audit of the financial statements for the financial year 2016.

At the **meeting held on 16 February 2017** (telephone conference), the Supervisory Board addressed financing issues, in particular a capital increase, the issue of a convertible bond and the buyback offer for the convertible bond issued in 2013.

At the **meeting held on 13 March 2017**, the Supervisory Board primarily addressed the reports prepared on the basis of the meetings of the committees, the 2016 annual and consolidated financial statements and Management Board matters. Representatives of the auditor took part in the discussions relating to the 2016 annual financial statements, explaining items and approaches adopted in the annual financial statements of the company and the Group. Further core issues that were addressed were current projects, the proposed candidate for the position of auditor, the adoption of the report of the Supervisory Board and the corporate governance report.

The focal points of the **meeting held on 7 April 2017** (telephone conference) were the planned conversion of the company into a European public limited company (Societas Europaea, SE), changes to Supervisory Board compensation, Management Board matters and the approval of the agenda and the proposals for the resolutions to be adopted at the Annual General Meeting.

The focal points of the **meeting of the Supervisory Board held on 5 May 2017** were the report from the Audit Committee and the report on the company's performance in the first quarter of 2017.

At the **meeting held on 2 June 2017,** the Supervisory Board addressed, in particular, the proposed resolutions for the Annual General Meeting of 2 June 2017.

The core content of the **meeting held on 14 July 2017** involved the discussion of the current performance of the company in the first half of 2017, financing issues, risk management, the setting of targets for the proportion of female members of the Supervisory Board and the Management Board as well as the SE conversion.

At the **constituent meeting of the Supervisory Board of Deutsche Wohnen SE held on 14 July 2017** the Chairman and Deputy Chairman of the Supervisory Board were elected, the committees were formed and their chairmen elected, the Management Board was appointed, the internal rules of procedure for the Supervisory Board and the Management Board were adopted and a resolution was passed to amend the Articles of Association.

The focal point of the **meeting held on 21 September 2017** (telephone conference) was to address financing issues, in particular a capital increase, the issue of a convertible bond and the buyback offer for the convertible a bond issued in 2014.

The **meeting held on 8 November 2017** focused largely on reports prepared by the committees, the performance of the company on the basis of the report relating to the third quarter of 2017, matters relating to the Management Board (including revision of the compensation system, distribution of responsibilities within the Management Board) and current acquisition projects.

At the **meeting held on 19 December 2017**, the Supervisory Board addressed, in particular, the approval of the business plan for 2018, matters relating to the Management Board and Supervisory Board and the German Corporate Governance Code, and also adopted the declaration of conformity to be submitted jointly with the Management Board. Other topics included the non-financial Group statement in the context of the reporting on the financial year 2017 and the engagement of KPMG AG, Wirtschaftsprüfungsgesellschaft, with the business audit of the non-financial Group statement as well as acquisition projects in the nursing properties segment.

Efficient work by four Supervisory Board committees

In order to be able to perform its duties efficiently, the Supervisory Board has established a number of committees, each composed of three members, the requirements and activities of which were subject to continuous evaluation in the year under review.

Specifically, the following four committees were convened in the year under review:
– the Executive Committee,
– the Nomination Committee,
– the Audit Committee and
– the Acquisition Committee.

The tasks assigned to each are described in detail in the corporate governance report from page 9 onwards.

In principle, the resolutions of the Supervisory Board and the topics to be discussed at the Supervisory Board plenary sessions are prepared by the committees. To the extent permitted by law, some of these committees have been granted decision-making powers in accordance with the Rules of Procedure or pursuant to resolutions of the Supervisory Board. The chairmen of the committees regularly and fully reported on the subject matter and outcome of committee meetings at the meetings of the Supervisory Board.

The **Executive Committee** was convened on six occasions in the year under review. The four meetings held as conference calls in February and September 2017 dealt with financing issues. The matters discussed at the meeting held in March 2017 involved, in particular, consultation, the adoption of resolutions and the making of recommendations with regard to matters relating to the Management Board (contractual matters, remuneration-related issues). In October 2017, the committee deliberated in particular on the revision of the Management Board compensation system and adopted the recommendation for a compensation adjustment.

The **Nomination Committee** was convened four times in the year under review. At these meetings, one was held in the form of a telephone conference. At these meetings, members consulted on prospective succession planning with regard to the Supervisory Board and the related job profiles. Moreover, proposals were drawn up for the nomination of candidates for election to the Supervisory Board and submitted to the Supervisory Board plenary with recommendation for its proposal to be put to the Annual General Meeting.

The **Audit Committee** met on five occasions during the year under review. At these meetings it dealt with those aspects of the Supervisory Board's work which were of relevance to it. These included, in particular, the preliminary examination of the annual financial statement, the consolidated financial statement and interim reports of Deutsche Wohnen SE and a discussion of the risk management system. It submitted its recommendation for the appointment of the auditor for the financial year 2017 to the Supervisory Board, obtained a declaration of independence from the said auditor, monitored his activities and stipulated the main focal points of the audit. The members of the Audit Committee have expertise and experience in the application of accounting principles and internal control procedures. The Chairman of the Committee, Dr. Andreas Kretschmer, is in full compliance with all of the requirements of section 100(5) of the German Stock Corporation Act [Aktiengesetz – AktG].

The **Acquisition Committee** was convened on one occasion during the year under review. This meeting was held in the form of a telephone conference and addressed, in particular, the project involving the acquisition of Epicure (residential portfolio).

Corporate governance

The Supervisory Board has continuously observed and discussed the further development of the company's own Corporate Governance Standards. Comprehensive information on corporate governance matters within the company, including the components and amounts of the remuneration paid to the members of the Supervisory Board and the Management Board, can be found on pages 9 to14 of this annual report.

The Management Board and the Supervisory Board considered the requirements of the version of the German Corporate Governance Code which was applicable for the year under review and the implementation of these requirements. In December 2017, they adopted their updated joint Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG), making it permanently accessible to the public on the company website. The Declaration of Conformity can be viewed at: http://ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

Annual and consolidated financial statements discussed in detail

The annual financial statements of Deutsche Wohnen SE as at 31 December 2017 and the consolidated financial statements prepared by the Management Board, together with the company's combined management report, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, with the auditor having been appointed by the Annual General Meeting held on 2 June 2017 and commissioned by the Supervisory Board. KPMG issued an unqualified audit opinion with regard to the above.

The annual financial statements of Deutsche Wohnen SE and the consolidated financial statements, the combined management report for Deutsche Wohnen SE and the Group, and the audit reports were made available to all of the members of the Supervisory Board immediately upon their preparation. The auditor attended the preparatory meetings of the Audit Committee held on 21 February 2018 and also 08 March 2018 ahead of the meeting of the Supervisory Board for the approval of the balance sheet. He reported on the substantial results of the audit and provided additional information. After extensive discussion, the Audit Committee approved the results of the audit of the company's annual financial statements, the consolidated financial statements and the combined management report of the company.

The Chairman of the Audit Committee reported comprehensively to the Supervisory Board on the annual financial statements and the audit at the Board meeting held on 8 March 2018. In addition, the auditing company explained the main findings of its audit and was available to provide information and answers to further questions from the Supervisory Board. The Supervisory Board carefully reviewed the annual financial statements, the consolidated financial statements, the combined management report, the non-financial Group statement, the proposal for the utilisation of the net profit and the audit reports and raised no objections. The Supervisory Board subsequently approved the recommendation of the Audit Committee with regard to the annual financial statements and consolidated financial statements as at 31 December 2017 as prepared by the Management Board, thereby adopting the annual financial statements.

The adopted annual financial statements indicate the realisation by the company of a net profit. The Supervisory Board endorses the Management Board's proposal regarding the utilisation of the net profit. The agenda for the Annual General Meeting for 2018 will therefore provide for the adoption of a resolution in favour of the distribution of a dividend in the amount of EUR 0.80 per share conferring a right to receive dividends. Furthermore the Management Board and the Supervisory Board considered giving shareholders the opportunity to choose between receiving the dividend cash down and partly converting them into shares.

Changes to the Supervisory Board and Management Board

As Mr. Wolfgang Clement's term of office ended upon the conclusion of the Annual General Meeting held on 2 June 2017, Mr. Jürgen Fenk was appointed as a member of the Supervisory Board from 1 October 2017 by the aforementioned Annual General Meeting.

There were no personnel changes to the Management Board in the financial year 2017. Lars Wittan was appointed Deputy Chairman of the Management Board in March. In addition, the distribution of responsibilities within the Management Board was adjusted as at 1 January 2018.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and the employees of Deutsche Wohnen SE and all of the Group companies for their dedicated work and efforts in the financial year 2017.

Berlin, March 2018

On behalf of the Supervisory Board

Uwe E. Flach

Composition of the Management Board

Michael Zahn has been a member of the Management Board of Deutsche Wohnen SE since 1 September 2007. In December 2008 he was appointed Chief Executive Officer. In this position he is responsible for the strategic direction of the Deutsche Wohnen Group and manages Strategy, Asset Management, M&A/Disposals, Corporate Communication, Procurement & Strategic Participations, Human Resources and Marketing. Michael Zahn received his degree in Economics from the Albert-Ludwig-University in Freiburg im Breisgau in 1992. He completed postgraduate courses of study corporate real estate Management and chartered surveying at the European Business School in Oestrich-Winkel while continuing to work in his profession. Between 1997 and 2007, Michael Zahn worked for the GEHAG Group in various management positions.

Michael Zahn
Chairman of the Management Board (CEO)
Term of office ends on 31 December 2020

Lars Wittan was appointed as a member of the Management Board of Deutsche Wohnen SE on 1 October 2011. In March 2017, he was appointed Deputy Chairman of the Management Board. As Chief Operating Officer, he is responsible for Property Management, Rent Development, Customer Service, Property Development & Technical Maintenance and IT/Organisation. Lars Wittan completed his degree in Business Administration at the Berufsakademie Berlin (iba University of Cooperative Education) in 2000. Between 2000 and 2002, he worked for the accounting firm Arthur Andersen, subsequently taking up employment at Ernst & Young. In 2006, Lars Wittan qualified as a chartered accountant and was appointed as an officer with special statutory authority at Ernst & Young. Since 2007, Lars Wittan has assumed various management positions at the Deutsche Wohnen Group, becoming a member of the Executive Committee in 2009, in which capacity he advises the Management Board on matters of strategy and management planning pertaining to the company.

Lars Wittan
Deputy Chairman of the Management Board (COO)
Terms of office ends on 31 September 2019

Philip Grosse was appointed a member of the Management Board and Chief Financial Officer of Deutsche Wohnen SE on 1 September 2016. He is responsible for Corporate Finance & Treasury, Accounting, Tax, Risk Management, Internal Audit, Investor Relations and Legal/Compliance. Philip Grosse completed his degree in Business Administration, with a focus on Banking & Finance, at the University of Würzburg in 1996. During this course of study, he spent a year (1993–1994) as a scholarship student at the European Business Management School in Swansea, United Kingdom. Between 1997 and 2012, Philip Grosse worked in the investment banking sector in Frankfurt and London – most recently in the positions of Managing Director and Head of Equity Capital Markets Germany & Austria at Credit Suisse. Since 2013, he has assumed various management positions, particularly in relation to Corporate Finance and Investor Relations, at the Deutsche Wohnen Group.

Philip Grosse
Member of the Management Board (CFO)
Term of office ends on 31 August 2019

Composition of the Supervisory Board

as at 31 December 2017

	Uwe E. Flach Chairman	Dr. Andreas Kretschmer Deputy Chairman	Jürgen Fenk
	– Company consultant, Frankfurt am Main	– Company consultant, Dusseldorf	– Managing Director and member of group executive board Signa Holding GmbH, Vienna
Appointed until	annual general meeting 2018	annual general meeting 2020	annual general meeting 2022
External mandates of supervisory board/ Commitee memberships according to section 125(1) sentence 5 of German Stock Corporation Act. [AktG]	– OFFICEFIRST Immobilien AG, Bonn (Chairman of the supervisory board: member until 31/03/2017)	– BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the supervisory board) – Amprion GmbH, Dortmund (Deputy Chairman of the supervisory board)	– None

	Matthias Hünlein	Dr. Florian Stetter	Claus Wisser
	– Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	– Chief Executive Officer, Rockhedge Asset Management AG, Krefeld	Managing Director of Claus Wisser Vermögensverwaltungs GmbH, Frankfurt/Main
Appointed until	annual general meeting 2020	annual general meeting 2021	annual general meeting 2019
External mandates of supervisory board/ Commitee memberships according to section 125(1) sentence 5 of German Stock Corporation Act. [AktG]	– None	– C&P Immobilien AG, Graz, Austria (Member of the supervisory board since 15/11/2017) – CalCon Deutschland AG, Munich (Member of the supervisory board) – ENOVO s.r.o., Bratislava, Slovak Republic (Managing partner)	– AVECO Holding AG, Frankfurt/Main (Chairman of the supervisory board)

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Foundations of the Group

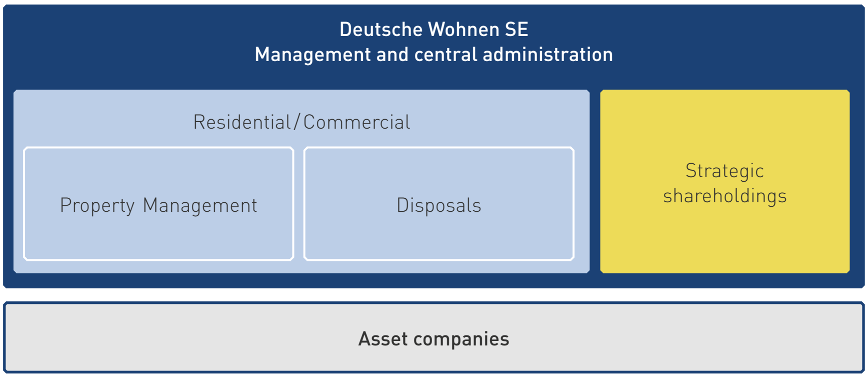
Business model of the Group

Deutsche Wohnen SE, together with its subsidiaries (hereinafter jointly referred to as "Deutsche Wohnen" or the "Group"), is currently the third largest publicly listed property company in Europe in terms of market capitalisation. The company is listed on the MDAX stock index of the Deutsche Börse.

Its property portfolio comprises more than 163,000 residential and commercial units, with a total fair value of approximately EUR 19.6[1] billion. Our portfolio also includes nursing properties with approximately 6,700[2] beds and assisted living apartments. Our investments focus is primarily on residential property in German metropolitan areas and conurbations. The growth of the economy, positive migration figures and an insufficient level of new construction activity in these regions provide a sound basis for the continued strong performance of our portfolio. We view the expansion of our nursing properties as a further growth area, particularly in light of current demographic trends.

Organisation and Group structure

In organisational terms, we draw a distinction between management and asset companies. Management companies are allocated to the corresponding business segments – with Deutsche Wohnen SE assuming a traditional holding company function comprising the areas of Asset Management, Corporate Finance, Treasury, Accounting, Controlling, Taxation, IT/Organisation, Human Resources, Marketing, Investor Relations, Corporate Communication and Legal/Compliance.



Property management

The majority of our holdings are managed by our wholly owned subsidiaries, whose activities include the management of rental contracts, the provision of customer support services, as well as the technical maintenance of our holdings, and the development of our portfolio, including new construction. The infrastructural facility management services mainly comprise – in addition to the on-site quality management activities carried out by in-house personnel – classic caretaking services such as checks ensuring compliance with our duty to implement safety precautions, monitoring the maintenance of orderliness and cleanliness within the district, administrative support services and inspections of vacant properties. The existing range of services is being constantly expanded to include additional services in customer support and quality assurance.

Disposals/Acquisitions

We continuously release capital, especially in the context of our privatisation activities in our strategic core and growth regions, thereby strengthening our internal financing capacity. Opportunistic block sales of properties in our Core+ and Core regions, in the context of sales to institutional investors, are also possible in the current positive market environment.

1 Excluding advance payments, properties under construction and undeveloped land
2 Of this number, 4,132 beds were acquired as at 1 January 2017

At the same time, we continuously consider potential acquisitions in our core regions.

Strategic shareholdings and property-related services

In addition to our core business activities, we also operate within strategic shareholdings and perform property-related services via our subsidiaries, thereby strengthening our relationships with our customers and maintaining the quality of our services.

Nursing and Assisted living

Retirement and nursing homes for senior citizens are managed under the brand name KATHARINENHOF® and on the basis of a participation model. These facilities provide full in-patient nursing care with the aim of according residents an active, independent lifestyle to the greatest possible degree, as well as a comprehensive range of services tailored to the needs of senior citizens in the form of assisted living accommodation.

Energy supply

G+D Gesellschaft für Energiemanagement mbH, Magdeburg (G+D) is a strategic cooperation between Deutsche Wohnen and GETEC – a means of jointly restructuring the management of the energy-related aspects of our portfolio with a view to improving the energy efficiency of the power-generating facilities of our properties and to sustainably reducing CO2 emissions and energy costs. At the same time, G+D is responsible for energy procurement and distribution for our holdings. As at 31 December 2017, G+D supplied energy to approximately 58% of Deutsche Wohnen's centrally-supplied holdings. From 1 January 2018 onwards G+D supplied energy to approximately 75% of Deutsche Wohnen's centrally-supplied holdings. It is also a successful player in the market for the supply of third-party customers.

Technical facility management

Deutsche Wohnen coordinates its purchases of materials, products and services through B&O Deutsche Services GmbH – a joint venture with B&O Service und Messtechnik AG – as part of its technical facility management activities, an arrangement which enables both partners to benefit from economies of scale at national level. The company also provides operational services in the context of technical facility management. This alliance, which is established under corporate law, helps us to achieve an even higher degree of quality assurance, ensure market capacities and achieve maximum cost transparency with additional savings having a direct and positive impact on our core operating business.

Multimedia

Deutsche Wohnen is investing in both the expansion of the cable network and the glass fibre optics infrastructure with a view to implementing forward-looking upgrades in its property holdings and at the same time adding to its value chain.

Group strategy

Deutsche Wohnen operates as an active portfolio manager specialising in residential property and with a clear focus on German metropolitan areas and conurbations; approximately 87% of our properties in terms of numbers are located in these Core+ regions. These markets are centres of high population density and are characterised by the dynamic development of economic parameters such as economic power, income, migration, innovative capacity and competitive strength. Approximately 12% of our holdings are located in Core regions with moderately rising rents and stable rent development forecasts.

Due to the size and quality of our property portfolio, our focus on attractive German growth regions, and the efficiency of our property platform with highly trained and qualified employees, we consider ourselves to be ideally placed in the market. Thereby we benefit from the dynamic growth in metropolitan areas within Germany and increase the value of our holdings.

Targeted investments in our property holdings are of major importance for the organic growth of the Group. The significant increase in the extent of our investments is aimed at significantly improving the quality of our portfolio as a means of realising existing value potential. We also have plans for extensive construction measures over the next few years to supply urgently needed housing in our core regions.

In addition to organic growth we focus on value-creating acquisitions insofar as they are in line with our portfolio strategy. Deutsche Wohnen has repeatedly demonstrated its competence in the past in the context of the acquisition and integration of portfolios, and thereby achieved its related goals in both quantitative and qualitative terms. As a result of the successful integration of our property holdings, we have generated economies of scale and strengthened Deutsche Wohnen's position as one of Germany's leading residential property companies. We also intend to achieve value-enhancing and focussed growth in the future by means of the selective acquisition of additional property portfolios in both the residential property and the nursing and assisted living segments. Furthermore, we will continue to expand our range of property-related services.

Competitive advantages

We intend to reinforce our strong market position by focussing on the implementation of a sustainable growth strategy.

Focus

We have been pursuing a well-defined investment strategy since 2008, with our portfolio focussing primarily on growth markets. Today, approximately 99% of our overall holdings are located in major cities and conurbations within Germany, with 71% in Greater Berlin alone, which places Deutsche Wohnen's portfolio at a considerable advantage over those of its competitors. Our focus on business areas and regions which are subject to promising developments in demographic terms fosters stability over the long term while providing excellent opportunities for future growth.

Quality and efficiency

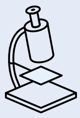
The concentration of our holdings on selected locations means that we are able to achieve considerable economies of scale in the area of management and procurement. Moreover our costs in relation to vacancies and payment defaults are consistently low.

Our expenditure on maintenance and modernisation flows directly into our growth markets with a view to enhancing existing value potential, as it is in these locations in wich the greatest potential is to be found for the sustained creation of value through improvements in the quality of our residential holdings.

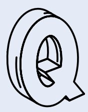
In order to maintain the consistently high quality and efficiency of our organisational structures and work processes, our core competences in terms of the management and development of our property portfolio, as well as the privatisation of residential units, are vested in by our own employees, who are highly professional, possess considerable know-how and are thus able to ensure that our main areas of business generate continuous cash flows.

Flexibility

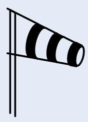
While our properties are primarily held by property companies, the core processes relating to property management are provided by wholly owned subsidiaries. We use strategic shareholdings to gain access to further profitable business sectors related to real estate. Focussing on selected professional partners and pooling services places us in a position to use economies of scale. Furthermore we get the maximum degree of transparency as well as insight into the relevant markets, which in turn helps us to ensure the quality of our operations and the transfer of knowledge in the respective business area. This enables us to act opportunistically and flexibly, without diverting the focus away from our primary business.



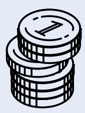
Focus
of the portfolio on growth markets



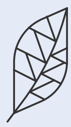
Quality and efficiency
in work processes and in the management of our properties



Flexibility
in our organisational structure



Capital market viability / financing
strengthens our market position



Sustainability
through transparency and responsibility

Capital market capability/financing

Our successful growth trajectory in recent years has further strengthened our position in the capital market. Today, Deutsche Wohnen is among the three largest European property companies – on the basis of free float market capitalisation – and has gained ground in all of the major indices.

Our dividend policy adopts a restrained and sustainable approach and ensures that the company retains the necessary means for maintaining and increasing the value of our portfolio.

We further improved our financing and capital structures over the course of the financial year, thereby reinforcing our competitive advantage. Our capital structure has been awarded ratings of A3 (Moody's) and A– (Standard & Poor's), and we intend to continue to pursue a solid investment and dividend policy to further consolidate our market position in the future.

Sustainability

As a sustainably managed company, we are already preparing ourselves for the opportunities and risks that will result from global challenges in the future and acknowledge our responsibility towards the environment, society and our employees. We intend to assume a leadership role and to promote the transparency and comparability of sustainable approaches within the residential property sector. We believe that sustainable action will secure the future viability of the Deutsche Wohnen Group and benefit our stakeholders.

Such action includes, for example, making considerable investments in our holdings and pro-actively implementing modernisation and maintenance measures, with considerations such as energy efficiency and the use of high-quality, and thus more durable, materials playing a significant role. After all, quality means for us, taking a far-sighted approach in our investments. More detailed information on our approach to the issue of sustainability, as well as the concepts and measures implemented by us in this regard, can be found in the Non-Financial Statement.

Group management

The management of the company extends across several levels:

At the **Group level**, all income and payment flows are aggregated and evaluated on the basis of the primary management parameters FFO I (Funds from Operations before disposals), EPRA NAV (Net Asset Value, adjusted for any goodwill) and LTV (loan to value) on a quarterly basis. Segment management is undertaken using the primary management parameter segment earnings. All of the primary management parameters are subjected to a benchmark analysis on a quarterly basis and are then taken into account in the context of a SWOT analysis conducted by way of a review of Deutsche Wohnen's competitive environment.

Furthermore, operational segment management is undertaken using additional segment-specific management parameters:

In the **Residential Property Management segment**, changes in the rent per square metre and the vacancy rate, differentiated in accordance with defined portfolios and/or regions, are the parameters for management purposes, which also include the scope of and earnings from new lettings and the development of letting-related costs, such as maintenance costs, costs relating to the marketing of properties to let, operating costs and rental losses. All parameters are evaluated and compared to detailed budget estimates on a monthly basis. Measures can be derived and strategies developed on this basis for enhancing the potential for rent increases, while controlling changes in expenses and thus constantly improving operating results.

The **Disposals segment** is managed by monitoring the average sales prices per square metre and the margin, which is the difference between the IFRS carrying amount and the average sales price. In the process, the ascertained values are compared to the target figures and the market, and are adjusted where necessary.

In the **Nursing and Assisted Living segment** of KATHARINENHOF®, internal growth is primarily generated by increasing nursing charges and occupancy rates in full in-patient nursing facilities. The management of this segment also takes the EBITDA before lease income into account in assessing operating profitability in the context of nursing property management. These parameters are likewise analysed by management on a monthly basis.

Other operational expenses, such as staff costs, general and administration expenses, as well as non-operational indicators, such as finance expense and taxes, are also part of the central planning and management system and of the monthly report to the Management Board. Current developments at the Group level are also highlighted in this context and compared to the target figures.

Considerable weight is attached to finance expense in this context, because of this item's significant impact on profit/loss for the period and cash flow performance. The active and ongoing management of our loan portfolio enables us to optimise our capital structure and financial results over the long term.

We use the indicator Funds from Operations before disposals (FFO I) as a means of measuring the cash flow generated from operational business activities and comparing this to the projected figures for this item. The EBITDA, excluding earnings from disposals, then provides the starting point for determining FFO I, which is essentially adjusted upwards or downwards to reflect one-off items, finance expense or income having an effect on liquidity, and tax expense or income.

With the help of regular reports, the Management Board and specialist departments can evaluate the economic development of the Group in a timely manner, and compare the values with those of the previous month and year, and with those that are planned. In addition, the expected development of the Group is determined on the basis of an updated budget. In this way, opportunities as well as negative trends can be identified, and corresponding measures taken to exploit or counteract these opportunities or trends at an early stage.

Property portfolio

Overview of portfolio and portfolio strategy for residential properties

Deutsche Wohnen manages one of the largest property portfolios in Germany, comprising approximately 161,000 residential and just under 2,500 commercial units (approximately 3.5% of its overall floor space) and generating annualised rental income in the amount of EUR 767 million. Our activities are focussed on high-growth metropolitan areas and conurbations – so-called Core+ regions –, in which 87.4% of our residential property portfolio is currently located, with a further 11.8% of our residential units being located in Core markets. At the end of 2017, the average in-place rent for the properties in Deutsche Wohnen's portfolio amounted to EUR 6.40 per sqm, with a consistently low vacancy rate of 2.0%. Our portfolio was further strengthened in 2017 by transactions in the amount of approximately EUR 1 billion.

In line with our focussed portfolio strategy, our properties are largely concentrated within prosperous metropolitan areas and conurbations with upwards of 500,000 inhabitants. Our core market is Greater Berlin, where approximately 114,000 residential units and approximately 1,800 commercial units are located. This corresponds to about 71% of our total portfolio.

The starting point for our portfolio management activities is the segmentation of our properties: Our properties are clustered in Core+, Core and Non-Core markets on the basis of a macro-analysis, using a scoring model which evaluates the attractiveness and prospects for future development of the locations having regard to macroeconomic, sociodemographic and property-specific data. Among other factors, changes in the population and number of households, local job markets, purchasing power and infrastructure data are analysed.

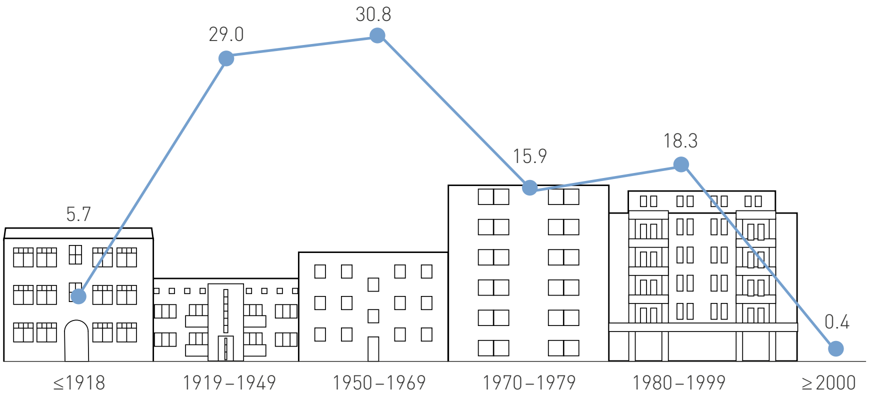
Property portfolio
31/12/2017

	Residential					Commercial	
	Residential units	Area	Share of entire portfolio	In-place rent[1]	Vacancy rate	Commercial units	Area
	number	sqm k	in %	EUR/sqm	in %	number	sqm k
Strategic core and growth regions	**159,331**	**9,581**	**99.2**	**6.41**	**2.0**	**2,446**	**341**
Core+	**140,445**	**8,415**	**87.4**	**6.52**	**2.0**	**2,252**	**311**
Greater Berlin	114,289	6,794	71.1	6.46	2.0	1,799	215
Rhine-Main	9,845	593	6.1	7.63	2.0	130	28
Dresden/Leipzig	5,368	353	3.3	5.70	3.0	229	41
Rhineland	5,006	312	3.1	6.24	0.8	27	13
Mannheim/Ludwigshafen	4,957	306	3.1	5.98	1.9	44	12
Other Core+	980	57	0.6	10.40	0.2	23	2
Core	**18,886**	**1,165**	**11.8**	**5.68**	**2.0**	**194**	**31**
Hanover/Brunswick	9,127	589	5.7	5.79	1.8	89	14
Kiel/Lübeck	4,946	293	3.1	5.62	2.0	13	2
Core cities Eastern Germany	4,813	283	3.0	5.52	2.2	92	14
Non-Core	**1,337**	**88**	**0.8**	**4.88**	**5.0**	**20**	**4**
Total	**160,668**	**9,668**	**100.0**	**6.40**	**2.0**	**2,466**	**345**

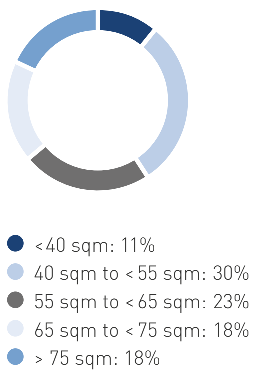
1 Contractually owed rent for rented residential units divided by rental area

The following charts provide an overview of the structure of material portfolio characteristics.

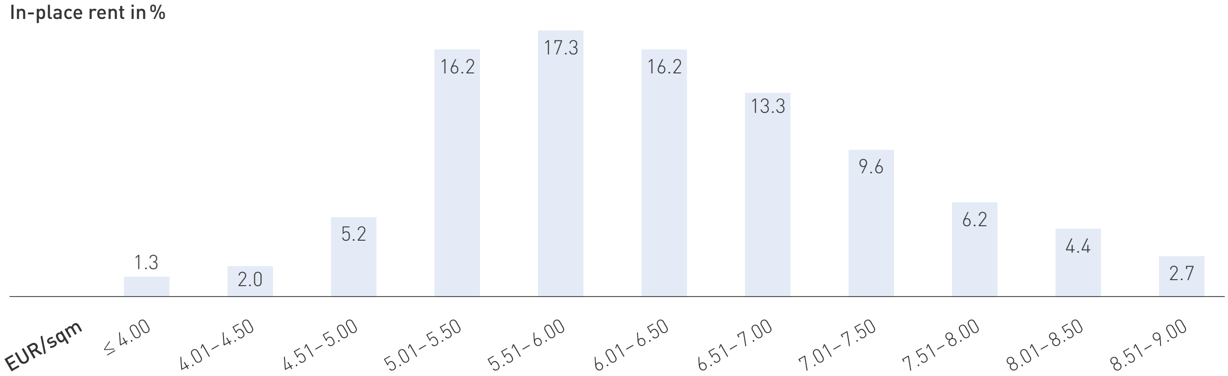
Year of construction in %



Apartment size in %



In-place rent in %



In addition, we place our locations in one of three categories, on the basis of a micro-analysis: hotspot, growth and stable. This analysis particularly considers information relating to changes in rents and prices, sociodemographic aspects and infrastructure. Hotspot locations are experiencing dynamic growth and providing the greatest potential for growth. Growth locations are continually growing, but at a less dynamic pace. Stable locations exhibit merely moderate growth.

Property holdings according to micro-cluster and location 31/12/2017

Cluster	Micro location	Residential units number	Share of fair value in %	Fair value EUR/sqm	Multiple in-place rent	Vacancy rate in %	In-place rent EUR/sqm
Core+		**140,445**	**92.4**	**2,000**	**25.6**	**2.0**	**6.52**
	Hotspot	38,558	30.8	2,414	29.3	3.1	6.95
	Growth	65,872	40.4	1,926	24.2	1.5	6.62
	Stable	36,015	21.1	1,698	23.9	1.4	5.92
Core		**18,886**	**7.3**	**1,149**	**16.9**	**2.0**	**5.68**
	Hotspot	416	0.3	1,401	17.5	4.2	7.03
	Growth	9,427	3.4	1,194	17.4	2.1	5.78
	Stable	9,043	3.6	1,092	16.4	1.7	5.55
Non-Core		**1,337**	**0.3**	**705**	**13.1**	**5.0**	**4.88**
Total		**160,668**	**100.0**	**1,886**	**24.6**	**2.0**	**6.40**

We develop targeted investment strategies based on the portfolio analysis. We score the major performance indicators, technical condition and location of the individual properties and classify each of the properties according to one of the following fields of activity: "Operate", "Develop" and "Dispose".

Our activities with regard to "Operate" properties focus on new lettings and the realisation of rent potential in accordance with market rents. The "Operate" properties constitute the bulk (80%) of our portfolio. Properties whose fixtures, fittings and condition are of below-average standard but that are located in particularly promising locations are assigned to the "Develop" cluster (share of total portfolio: 17%). In these properties, we will be investing to a greater extent in comprehensive modernisation measures in the next few years in order to raise their current value potential.

The properties classified as "Dispose" are offered for sale in the residential privatisation and block sales contexts. These disposals comprise privatisation activities involving attractive margins, block sales for portfolio streamlining purposes in non-core regions and opportunistic disposals in Core and Core+ regions intended to selectively exploit market opportunities.

31/12/2017

Cluster	Microlocation	Residential units number	Share of area in %	Vacancy rate in %	In-place rent EUR/sqm
Core+		**140,445**	**87.0**	**2.0**	**6.52**
	Operate	109,340	68.9	1.5	6.54
	Develop	28,438	16.2	3.1	6.44
	Dispose	2,667	1.9	7.8	6.16
Core		**18,886**	**12.1**	**2.0**	**5.68**
	Operate	17,449	11.0	1.9	5.68
	Develop	922	0.7	1.9	5.66
	Dispose	515	0.3	4.1	5.86
Non-Core		**1,337**	**0.9**	**5.0**	**4.88**
	Dispose	1,337	0.9	5.0	4.88
Total		**160,668**	**100.0**	**2.0**	**6.40**

Portfolio development

Acquisitions

In 2017, we acquired approximately 6,200 residential and commercial units, exclusively located in Core+ markets, for a total purchase price of approximately EUR 1 billion. These properties are primarily premium-quality "Gründerzeit" buildings located in attractive districts in Berlin, Dresden and Leipzig.

Disposals

In the disposals context, we were able to exploit the ongoing high demand for properties, with sales of approximately 2,849 residential units (707 as part of our privatisation activities, and 2,142 by way of disposals to institutional investors) with a transfer of risks and rewards in the past financial year. The sales margin remained at the previous year's level of approximately 23% in spite of appreciations in value. Our portfolio streamlining activities involved the disposal of portfolios – particularly in Oberhausen, Bielefeld, Ahrensburg, Celle and Duisburg comprising a total of approximately 1,500 units.

Further details of our segment earnings from Disposals can be found on pages 40 and 41 of the combined management report.

Operational development

The following overview shows the changes in in-place rent and vacancy rates in a like-for-like comparison, i.e. only for residential properties which were managed by our company on a consistent basis over the past twelve months.

Like-for-like

		31/12/2017	31/12/2016		31/12/2017	31/12/2016
	Residential units	In-place rent[1]	In-place rent[1]	Development	Vacancy rate	Vacancy rate
	number	EUR/sqm	EUR/sqm	in %	in %	in %
Total	**154,613**	**6.37**	**6.10**	**4.4**	**1.8**	**1.6**
Letting portfolio[2]	**149,941**	**6.39**	**6.12**	**4.5**	**1.6**	**1.5**
Core+	**131,258**	**6.49**	**6.20**	**4.8**	**1.6**	**1.5**
Greater Berlin	108,121	6.43	6.11	5.3	1.7	1.5
Rhine-Main	8,852	7.72	7.46	3.5	1.4	1.8
Rhineland	4,913	6.22	6.13	1.4	0.7	0.8
Mannheim/Ludwigshafen	4,419	5.97	5.71	4.5	0.8	0.8
Dresden/Leipzig	3,973	5.44	5.36	1.5	1.7	1.9
Other Core+	980	10.40	10.33	0.7	0.2	0.1
Core	**18,683**	**5.68**	**5.58**	**1.9**	**1.9**	**1.7**
Hanover/Brunswick	9,090	5.79	5.66	2.2	1.8	1,6
Kiel/Lübeck	4,945	5.62	5.54	1.5	2.0	1,6
Core cities Eastern Germany	4,648	5.53	5.44	1.6	2.0	1.9

1 Contractually owed rent for rented residential units divided by rental area
2 Excluding Non-Core

In the year under review, annualised rent increases in the amount of EUR 30.8 million were realised across the total portfolio (previous year: EUR 18.9 million). The increase in rents of the like-for-like portfolio amounted to 4.4% and as much as 5.3% in the Greater Berlin region, with this development also being impacted by adjustments made on the basis of the rent index for Berlin, which was published in May. We expect an increase in rents of approximately 3% over the course of 2018.

The vacancy rate for our like-for-like letting portfolio remained very low at 1.6% (previous year: 1.5%). This slight increase results from modernisation work carried out in the context of our capex projects.

Portfolio investments

We invested approximately EUR 332 million, or approximately EUR 33 per sqm (previous year: approximately EUR 25 per sqm), in maintenance and modernisation in the financial year 2017, with EUR 105 million, or approximately one third of this amount, being attributable to maintenance expenses and approximately two thirds to modernisation measures. Due to the complexity of multiannual major projects, our modernisation expenses are subject to annual fluctuation.

The following table illustrates the maintenance expenses as well as the modernisation measures for the past financial year in comparison to the previous year:

EUR m	2017	2016
Maintenance	**104.7**	**94.5**
in EUR per sqm p.a.	10.52[1]	9.63[1]
Modernisation	**227.4**	**150.0**
in EUR per sqm p.a.	22.85[1]	15.29[1]
Maintenance and modernisation	**332.1**	**244.5**
in EUR per sqm p.a.	33.37[1]	24.92[1]

1 Taking account of the average floor space on a quarterly basis in the relevant period

We invest considerable amounts in our properties with a view to further increasing the energy efficiency and the overall quality of our portfolio and in the interests of realising existing value potential. Thus we will refurbish and modernise approximately 30,000 units by 2022 as part of our EUR 1.2 billion modernisation programme.

Our properties are predominantly located in Core+ markets (>90%) in attractive hotspot and growth locations (>90%) with above-average development potential.

Portfolio valuation

Demand from domestic and foreign real estate investors for larger residential portfolios remained high in 2017, in the face of a very limited supply of such properties. This deficit in supply and the ongoing positive developments of rent prices and vacancy rates on the German residential property market are reflected in an appreciation of our property portfolio in accordance with IAS 40 in the total amount of approximately EUR 2.4 billion as at the reporting date. The main part of this appreciation is due to adjustments of the discount and capitalisation rates to account for the positive developments in prices/market performance. The valuation result was confirmed by way of an external report from CB Richard Ellis GmbH.

The following overview indicates significant key valuation figures concerning our property holdings as at 31 December 2017:

Fair value 31/12/2017

	Fair value EUR m	Fair value EUR/sqm	Multiple in-place rent	Multiple market rent
Strategic core and growth regions	**18,799**	**1,897**	**24.7**	**19.0**
Core+	**17,425**	**2,000**	**25.6**	**19.5**
Greater Berlin	14,628	2,090	27.1	20.2
Rhine-Main	1,192	1,924	21.0	16.6
Dresden/Leipzig	638	1,618	23.0	19.3
Rhineland	417	1,285	16.8	14.6
Mannheim/Ludwigshafen	366	1,151	16.0	13.6
Other Core+	184	3,149	24.9	20.7
Core	**1,375**	**1,149**	**16.9**	**14.3**
Hanover/Brunswick	702	1,164	16.8	13.9
Kiel/Lübeck	359	1,218	18.0	15.2
Core cities Eastern Germany	313	1,053	16.0	14.4
Non-Core	**65**	**705**	**13.1**	**10.3**
Total	**18,864**	**1,886**	**24.6**	**19.0**

The most significant appreciation amounts to just under EUR 2.2 billion and is related to the Core+ segment, first and foremost the Greater Berlin region (approximately EUR 2.0 billion). However, the positive performance of our Core locations also enabled us to record an appreciation in the amount of approximately EUR 0.2 billion.

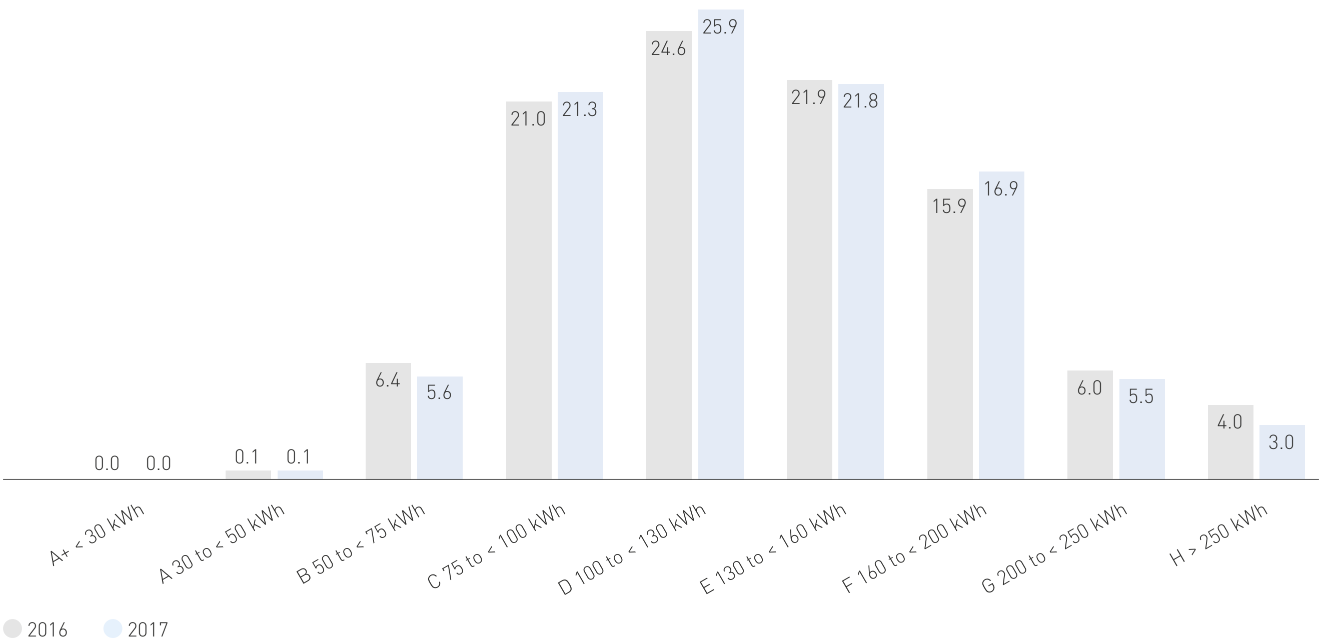
Fair value

	31/12/2017		31/12/2016	
	Fair value EUR m	Multiple in-place rent	Fair value EUR m	Multiple in-place rent
Strategic core and growth regions	**18,799**	**24.7**	**15,280**	**21.7**
Core+	17,425	25.6	14,054	22.7
Core	1,375	16.9	1,226	14.9
Non-Core	65	13.1	186	11.8
Total	**18,864**	**24.6**	**15,465**	**21.5**

Energy efficiency of properties

Most of Europe's consumption of energy relates to existing buildings. Through our comprehensive modernisation measures we are gradually increasing the energy efficiency of our properties. The current consumption level of approximately 74.5% of our residential units is lower than the average for residential buildings in Germany (160 kWh/sqm per year[3]). Approximately 27% of our residential units are at a reasonable level, below 100 kWh/sqm per year (A+ to C). The average consumption of our holdings amounts to 133.4 kWh/sqm per year, having once again fallen as compared to the previous year (2016: 135.1 kWh/sqm).

Energy intensity per units
Consolidation in energy efficiency classes[1] regarding final energy requirements in kWh/sqm
in %



1 The weighted average of the final energy consumptions on the basis of the current energy performance certificate of properties. Discrepancies in the final energy requirements of approximately 20 kWh may arise due to the non-specification of the type of heating in question. The allocation according to current category of energy efficiency of properties is therefore based solely on the classification in accordance with the German Energy Saving Ordinance [EnEV]. Taking account of approximately 30,000 listed units for which no energy performance certificate is required, the data comprises approximately 100% of our total portfolio.

3 The Energy Performance Certificate: Specifications for Residential Buildings (Der Energieausweis: Steckbrief für Wohngebäude): https://www.verbraucherzentrale.de/Der-Energieausweis-Steckbrief-fuer-Wohngebaeude-4

Nursing properties

In addition to its residential and commercial units, Deutsche Wohnen owns 51 nursing home facilities with approximately 6,700 beds. We run our nursing sector on the basis of two different models. Some of our nursing properties are managed by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH, in which we have a 49% shareholding; the remaining facilities are managed by a number of external operators.

The externaly managed part of our nursing segment is, in contrast to the part which belongs to the participation model, characterized by the stipulated amount of rental income and the weighted average lease term (WALT). The degree of operational risk which is attributable to the involvement of external operators is classified as moderate, given that the operation of the properties in question can also be undertaken by KATHARINENHOF®.

Given the considerable appeal of the German nursing services market, which is experiencing rising demand in the face of demographic changes, we intend to further expand our nursing care segment over the medium term until it accounts for as much as 15% of the Group's EBITDA.

Nursing care business: Properties and operations

Nursing properties
Operated by KATHARINENHOF®
2017

		Number of places				
Federal state	Facilities	Nursing care	Assisted living	Total	Occupancy 31/12/2017	Fair value 31/12/2017
	Number	Number	Number	Number	in %	EUR m
Berlin region	12	1,070	371	1,441	98.1	
Hamburg	3	335	157	492	94.5	
Saxony	7	436	56	492	99.7	
Lower Saxony	1	131	–	131	98.3	
Total KATHARINENHOF®-facilities	**23**	**1,972**	**584**	**2,556**	**97.7**	**262.4**[1]

1 Relates to 22 facilities

Nursing properties
Managed by other external operators
2017

		Number of places				
Federal state	Facilities	Nursing care	Assisted living	Total	WALT	Fair value 31/12/2017
	Number	Number	Number	Number		EUR m
Bavaria	7	999	–	999	11.5	
North Rhine-Westphalia	5	721	187	908	12.8	
Lower Saxony	4	661	–	661	10.2	
Rhineland-Palatinate	4	409	208	617	12.4	
Baden-Württemberg	5	557	16	573	13.0	
Other	3	374	–	374	9.1	
Total other external operators	**28**	**3,721**	**411**	**4,132**	**11.7**	**450.1**
Total Nursing	**51**	**5,693**	**995**	**6,688**		**712.5**

Economic report

German economy is booming for the fourth year in a row

Growth in Germany's GDP of 2.2%: The rate of growth of the German economy continued to gather pace in 2017, with the primary drivers of this growth being private consumption as well as an increase in business investment. Surveys showed that industry in general and the construction industry in particular were both experiencing a higher level of demand than what has been the average for many years.[1]

Unemployment rate continues to fall: The significant rise in employment figures once again boosted consumption in the year under review.[2] The number of people in work increased by approximately 638,000, or 1.5%, to 44.3 million. This was in line with the dynamic and consistent rise in employment figures which has been evident over the past twelve years.[3]

Gross amount of salaries and wages increased by 4.4%: This significant rise is due, on the one hand, to the 1.7% increase in the number of employees as compared to the previous year and, on the other hand, to the rise in gross salaries and wages in the amount of 2.7% per employee, with the average wage per employee increasing by 2.4%.[4]

Population in Germany rises to 82.8 million inhabitants: Initial estimates by the Federal Statistical Office indicate that the trend towards rising German population numbers also continued in 2017 (previous year: 82.5 million inhabitants), with the expected immigration surplus once again more than counterbalancing the expected fall in the birth rate.[5]

Construction industry bolstered by new housing projects: In the year under review, actual investments in the construction of residential units increased by approximately 3.4% as compared to the previous year. The considerable backlog of commissioned construction projects, well-filled order books and low interest rates contributed to the continuation of this upward trajectory.[6]

Berlin's economy still booming: In real terms, the gross domestic product of the nation's capital increased by approximately 2.5% in 2017[7], such that Berlin's rate of economic growth remains higher than the national average. Its unemployment rate also fell further in the year under review.[8]

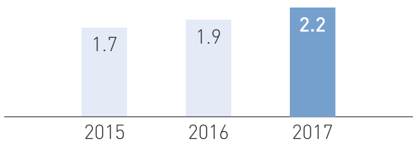
German housing market still experiencing an upward trend

Residential property market still very buoyant in Germany: The German residential property market had a very successful year in 2017 as well, with the transaction volume for residential properties and portfolios increasing by 15% to approximately EUR 15.7 billion and therefore exceeding the average level for the previous ten years by 40%.[9]

Berlin remains the most important focus of investment: Of all of the German metropolitan cities, Berlin once again remained the main focus of all investment activity, accounting for 14.6% of all transactions concluded in all of the federal states in the first half of 2017.[10]

General economic conditions

Changes in economic growth (GDP) on a 3-year comparison[1]
in %



	2017	2016
Unemployment rate in %	5.7	6.1
Gainfully employed persons in EUR m	44.3	43.6
Rate of inflation in %	1.7	0.5

Source: DIW, Winter Baselines 2017, Weekly Report 50 2017

1 DIW, Winter Baselines 2017, Weekly Report 50 2017
2 DIW, Winter Baselines 2017, Weekly Report 50 2017
3 Federal Statistical Office, press release 001/18 from 02/01/2018
4 Federal Statistical Office, press conference on the subject of "Gross Domestic Product of Germany in 2017" held on 11/01/2018, statement by Albert Braakmann
5 Federal Statistical Office, press release 019/18 from 16/01/2018
6 DIW, Winter Baselines 2017, Weekly Report 50 2017
7 Investitionsbank Berlin, Berlin's Economy, July 2017
8 Senate Department for Economics, Energy and Public Enterprises, Market Report on the Economic Situation in Berlin, 3rd Quarter 2017
9 JLL, Investment Market Overview for Germany, 4th Quarter 2017
10 NAI apollo group, Facts and Figures Transaction Market Residential Property Portfolio, Q1 2017

Housing shortage persists: The Federal Institute for Research on Building, Urban Affairs and Spatial Development [Bundesinstitut für Bau-, Stadt- und Raumforschung – BBSR] estimates that the number of households will increase by a further 500,000 or so by 2030, thereby resulting in greater demand for residential property in the German market. Given that the number of persons per household is expected to fall further, the number of households in Germany is increasing at a faster rate than the population. 70% of the country's 37.4 million households are single or two-person households, with this figure rising to as high as 80% in major cities.[11]

Rate of construction of new housing unable to keep pace with demand: The dynamic rise in population numbers over the past few years has resulted in ever-increasing demand for housing, which remains unmet despite the marked improvement in the rate of completion of construction projects.[12] In 2017, the number of completed residential units exceeded 300,000 for the first time. However, this was once again insufficient to meet the annual requirement of at least 350,000 units. So, this deficit in supply persists.[13]

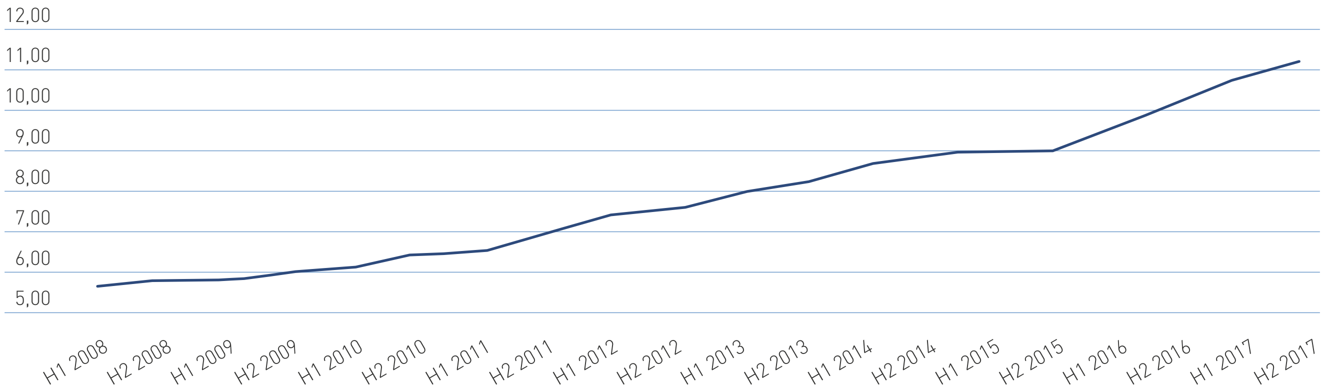
Ongoing momentum in metropolitan areas

Sustained rise in rents: The sustained growth in population numbers in German conurbations has resulted in a shortage of housing and thus in a tight residential property market, a situation which is also reflected in the rise in rents. Rents for first-time occupancy of properties in Dusseldorf, Frankfurt, Hamburg and Munich have increased by approximately 50% over the past ten years, with this development being even more pronounced in Berlin.[14]

In the first six months of 2017, the average rise in rents in the eleven[15] largest German cities amounted to 4.7%.[16]

Rents in Berlin continuing along their upward trajectory: In the second half of 2017, quoted rents in Berlin rose to EUR 11.10 per sqm, which represents an increase of 9.1% when viewed over the course of the entire year, or 2.8% in comparison with the first six months of the year, which is higher than the average rate of growth recorded since 2004.[17]

Development of median rents
in EUR/sqm/month



Source: JLL, Residential City Profile Berlin, 2nd half year 2017

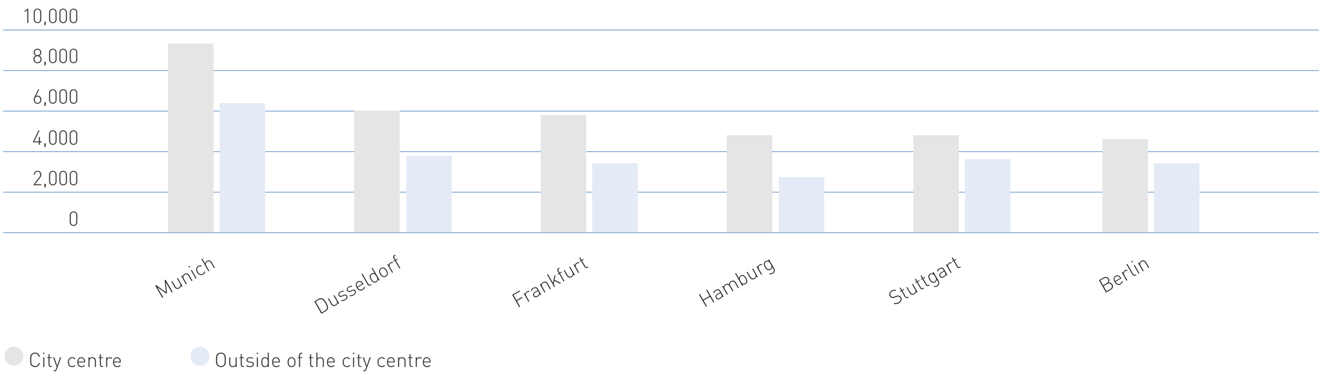
11 BBSR, Residential Property Market Forecasts 2030
12 DG HYP, Real Estate Market Report Germany 2017/18
13 Deutsche Bank Research, German Housing Market 2018, 15/01/2018
14 DG HYP, Real Estate Market Report Germany 2017/2018
15 Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, Stuttgart, Dresden, Essen, Leipzig, Dortmund
16 NAI apollo group, German Housing Market Report 2017
17 JLL, Residential City Profile Berlin, 2nd half year 2017, February 2018

Berlin housing market continues to experience dynamic growth: The trend towards higher rents is expected to continue, with the continuing rise in demand for housing in Berlin being bolstered by positive job market data, sustained economic growth and ever-increasing population numbers. The ongoing shortfall in construction activity with regard to new builds will also ensure that the situation remains tense.[18]

Purchase prices are also still on the rise: 2017 was the ninth year in the current property cycle, which commenced at the beginning of 2009. The situation remains particularly tense in metropolitan areas, where purchase prices for houses and residential units increased by approximately 80% between 2009 and 2017, while also rising significantly by 60% and 50% in so-called B,C and D level cities respectively over the same period. Prices are now rising at an even greater rate in the wake of the tense situation in the market in 2017. Purchase prices for houses increased by approximately 6.5% on average, while those for flats rose by more than 10%. As in previous years, this development was most pronounced in metropolitan areas and major cities.

In the last three years an increase of 30% in the purchase prices for existing properties has been recorded in German metropolitan areas, with this number rising to approximately 36% in Berlin.[19]

Prices of flats within and outside of the city centre
EUR per sqm



Source: Deutsche Bank Research, German Housing Market 2018

Management Board analysis of economic situation

Deutsche Wohnen succeeded in maintaining its long-standing and successful growth trajectory in the financial year 2017 and achieved its stated targets once more.

Our Residential Property Management segment realised earnings in the amount of approximately EUR 613 million, which represents an increase of approximately EUR 26 million or 4.5% as compared to the previous year. We therefore matched our forecast of EUR 610 million, whilst the recorded 4.4% rise in rents emphatically exceeded our forecast of 3.5%. However, this positive effect was counterbalanced by a higher disposals volume and a rise in maintenance expenses, which at EUR 10.52 per sqm fell slightly above the projected range. At 2.0%, the vacancy rate as at the end of the year was 0.2% higher than in the previous year, with this rise being attributable to measures implemented as part of our investment programme since the beginning of 2017.

In spite of the appreciation in value of our properties as a result of higher market prices, the average gross margin realised by our Disposals segment was, at 23%, comparable to that achieved in 2016 (22%). The transaction volume decreased by 13% from around EUR 354 million to EUR 309 million as a result of the lower number of units sold overall. However, this effect was almost entirely counterbalanced by significantly higher selling prices. Our sales proceeds fell, in absolute terms, by EUR 4 million to around EUR 50 million.

18 Deutsche Bank Research, German Housing Market 2018, 15/01/2018
19 Deutsche Bank Research, German Housing Market 2018, 15/01/2018

The contribution of the Nursing and Assisted Living segment towards our overall earnings increased by approximately EUR 31 million or 186% as compared to the previous year. We thus exceeded our forecast of approximately EUR 45 million by 6%, with the increase as compared to the previous year being largely due to our acquisitions. We were able to achieve higher average occupancy rates, better adjustments to nursing care charges and a swifter integration of the nursing facilities acquired at the end of 2016 than anticipated.

Our financing continues to be very solid. Our LTV, at approximately 35%, which is at the lower end of our target range of between 35% and 40%, remained stable as compared to the previous year. The current interest expenses decreased by approximately EUR 6 million or approximately 6% as compared to the previous year as a result of the refinancing undertaken in 2016 and 2017 and in spite of the increase in financial liabilities. We are thus precisely in line with our forecast of EUR 100 million.

FFO I increased, on a year-on-year comparison, by EUR 48 million or 13% to EUR 432 million – with FFO I per share rising from EUR 1.14 in 2016 to EUR 1.23 in 2017 –, thus slightly exceeding our forecast of EUR 425 million at the beginning of the year by 2%.

EPRA NAV (undiluted) amounted to approximately EUR 36 per share as at the end of the year, having risen by 20%, with the major driver of this development being the increase in the value of the property portfolio 2017 in the amount of approximately EUR 2.4 billion. The ongoing discrepancy between supply and demand in conurbations within Germany once more resulted in a rise in prices.

Overall, the operational results for the financial year 2017 were as expected, and the developments with regard to rents, vacancy rates and average sales prices confirmed our strategic focus on urban conurbations.

Notes on the financial performance and financial position

Financial performance

The following overview shows the business performance of the individual segments as well as other items in the consolidated profit and loss statement for the financial year 2017 compared to 2016:

EUR m	2017	2016
Earnings from Residential Property Management	612.8	586.4
Earnings from Disposals	50.3	54.3
Earnings from Nursing and Assisted Living	48.0	16.8
Corporate expenses	–81.3	–73.7
Other expenses/revenues	–29.0	–8.7
Operating result (EBITDA)	**600.8**	**575.1**
Depreciation and amortisation	–7.4	–543.7
Fair-value adjustment of investment properties	2,397.0	2,667.6
Earnings from companies valued at equity	3.0	2.0
Financial result	–395.2	–211.8
Earnings before taxes	**2,598.2**	**2,489.2**
Current taxes	–32.6	–36.5
Deferred taxes	–802.3	–829.5
Profit/loss for the period	**1,763.3**	**1,623.2**

Overall, Deutsche Wohnen ended the financial year 2017 with a profit for the period in the amount of approximately EUR 1.8 billion (+ EUR 0.1 billion or 9.0% as compared to 2016).

We were able to raise our adjusted earnings before taxes by EUR 48.0 million or approximately 11%, as compared to the previous year, to EUR 501.7 million.

EUR m	2017	2016
Earnings before taxes	**2,598.2**	**2,489.2**
Profit/loss from the valuation of properties	–2,396.7	–2,665.1
Amortization of goodwill	0.0	537.3
Gains/losses from fair-value adjustments of derivative financial instruments and from convertible bonds	226.0	83.4
Non-recurrent expenses and revenues	74.2	8.9
Adjusted earnings before taxes	**501.7**	**453.7**

The amortization of goodwill in the previous year primarily comprised – in the amount of EUR 0.5 billion – the goodwill arising from the takeover of GSW Immobilien AG in 2013.

The result of the adjustment of the fair value of derivative financial instruments and convertible bonds primarily comprised the valuation of the convertible bonds. The strong performance of the share price resulted in non-cash expenses in the amount of EUR 229.0 million in the financial year (previous year: EUR 79.6 million).

The non-recurring expenses and revenues comprised restructuring costs (EUR 0.9 million; previous year: EUR 1.3 million), transaction and non-recurring financing costs (EUR 75.5 million; previous year: EUR 11.5 million) and non-recurring income (EUR 2.2 million; previous year: EUR 3.9 million).

The transaction-related and non-recurring financing costs for the financial year largely comprised property transfer tax in the amount of EUR 23.4 million and financing costs in the amount of approximately EUR 51.7 million (previous year: EUR 6.9 million).

Earnings from Residential Property Management

The following overview shows portfolio key figures as at the reporting dates:

	31/12/2017	31/12/2016
Residential and commercial units	163,134	160,160
Residential and commercial space in sqm k	10,013	9,790
Fair value per sqm residential and commercial areas in EUR	1,886	1,580
In-place rent residential per sqm in EUR	6.40	6.10
Like-for-like rental growth in core and growth regions (letting portfolio) in %	4.5	2.9
Residential vacancy rate in %	2.0	1.8
Maintenance costs per sqm/year in EUR[1]	10.52	9.63
Capital expenditure per sqm/year in EUR[1]	22.85	15.29

1 Taking account of the average floor spaces on a quarterly basis in the relevant period.

An overview of the portfolio as at 31 December 2017 can be found on the section entitled "Property portfolio".

EUR m	2017	2016
Rental income	**744,2**	**704.5**
Non-recoverable operating costs	–9.3	–9.8
Rental loss	–6.4	–6.4
Maintenance	–104.7	–94.5
Other	–11.0	–7.4
Earnings from Residential Property Management	**612.8**	**586.4**
Staff costs, general and administration expenses	–45.3	–40.7
Operating results (Net Operating Income – NOI)	**567.5**	**545.7**
NOI margin in %	76.3	77.5
NOI in EUR per sqm and month[1]	4.75	4.63
Change in %	2.6	

1 Taking account of the average areas on a quarterly basis in the relevant reporting period.

With regard to the changes in in-place rent and investment expenses, we refer to our portfolio disclosure.

The losses arising from non-recoverable operating costs and rental loss amounted to 2.1% of gross rental income (previous year: 2.3%).

The staff costs and general and administration expenses amounted to approximately 6.1% (previous year: 5.8%) of gross rental income.

The Net Operating Income (NOI) increased, in absolute terms, by EUR 21.8 million, or 4.0%, as compared to the previous year. The NOI margin in relation to gross rental income fell slightly, in line with expectations, from 77.5% to 76.3%. When adjusted to reflect the increase in maintenance expenses, it remained around the previous year's level.

Earnings from Disposals

In the Disposals business segment, we sold a total of 2,849 residential units (previous year: 4,308), with the transfer of risks and rewards taking place in the financial year.

EUR m	2017	2016
Sales proceeds	308.6	354.3
Cost of sales	–7.2	–10.4
Net proceeds	**301.4**	**343.9**
Carrying amounts of assets sold	–251.1	–289.6
Earnings from Disposals	**50.3**	**54.3**

The average sales price increased by approximately 32% to EUR 1,504 per sqm (previous year: EUR 1,142 per sqm), so that earnings from Disposals were still on a par with those realised in the previous year in spite of the 34% fall in disposals of residential properties.

In the face of the appreciation in the value of the properties and the higher access value of the acquired properties, the sales margin in relation to the carrying amounts remained, at 23%, at around the previous year's level (22%).

In the following, the key figures and earnings are shown broken down according to residential unit privatisation and institutional disposals:

Privatisations

EUR m	2017	2016
Sales proceeds	**106.0**	**146.1**
Average sales price in EUR/sqm	2,086	1,564
Volume in residential units	707	1,235
Cost of sales	–5.7	–8.7
Net proceeds	**100.3**	**137.4**
Carrying amounts of assets sold	–81.5	–105.0
Gross margin in %	30.1	39.1
Earnings	**18.8**	**32.4**
Carrying amounts	81.5	105.0
Loan repayment	–5.8	–8.9
Liquidity contribution	**94.5**	**128.5**

We recorded an increase in prices to more than EUR 2,000 per sqm in the context of our privatisation activities, which resulted in a comparatively large liquidity contribution for this area of operations in spite of the considerably lower number of units actually sold.

Institutional sales

EUR m	2017	2016
Sales proceeds	**202.6**	**208.2**
Average sales price in EUR/sqm	1,313	961
Volume in residential units	2,142	3,073
Cost of sales	–1.5	–1.7
Net proceeds	**201.1**	**206.5**
Carrying amounts of assets sold	–169.6	–184.6
Gross margin in %	19.5	12.8
Earnings	**31.5**	**21.9**
Carrying amounts	169.6	184.6
Loan repayment	–2.3	–35.5
Liquidity contribution	**198.8**	**171.0**

Our disposals to institutional investors in the financial year 2017 were focussed on streamlining our holdings in Non-Core regions, which we were able to achieve with an average gross margin of just under 20%.

Earnings from Nursing and Assisted Living

Besides the nursing properties the Nursing and Assisted Living business segment especially comprises the shareholding in the KATHARINENHOF® Group, which managed the following facilities in the financial year 2017:

Nursing and Assisted Living	Facilities	Places	Proceeds	Average occupancy 2017	Average occupancy 2016
	Number	Number	EUR m	in %	in %
Berlin	7	847	34.3	98.4	97.9
Brandenburg	5	594	21.1	97.2	98.7
Saxony	7	492	15.0	99.6	99.8
Lower Saxony	1	131	5.1	97.5	99.7
Hamburg	3	492	16.1[1]	93.0	n/a
Total	**23**	**2,556**	**91.6[1]**	**97.1**	**98.6**

1 The data for the facilities in Hamburg relates to the revenues generated in connection with full inpatient Nursing and Assisted Living operations. The revenues generated in connection with physiotherapy and out-patient nursing services have not been taken into account.

As at 31 December 2016, three facilities had been acquired in Hamburg (operations and properties), and their operating results are reflected in the segment earnings for the financial year 2017. Of the 23 properties, 22 are owned by Deutsche Wohnen and had a fair value of EUR 262.4 million as at 31 December 2017 (previous year: EUR 244.0 million).

The ambitious nursing and assistance concept of KATHARINENHOF® has let to higher-than-average occupancy rates of between 96% and 99% for a number of years now.

The earnings for the Nursing and Assisted Living segment in the past financial year are as follows:

EUR m	2017	2016
Proceeds		
Nursing care	72.4	55.7
Residential	8.7	6.5
Leasing income	27.3	0.0
Intragroup leasing income	15.1	11.9[1]
Other	12.3	7.9
	135.8	**82.0**
Costs		
Nursing and corporate expenses	–22.2	–18.0
Staff expenses	–49.9	–35.3
Leased properties	–0.6	0.0
Intragroup leasing expenses	–15.1	–11.9[1]
	–87.8	**–65.2**
Earnings from Nursing and Assisted Living	**48.0**	**16.8**
Attributable current interest	–4.0	–4.2
Earnings from Nursing and Assisted Living after interest	**44.0**	**12.6**

1 Previous year's figure amended

The Nursing and Assisted Living segment contributed to Deutsche Wohnen's earnings with EBITDA in the amount of approximately EUR 48.0 million in 2017. After deducting the expenses attributable to the current interest rate, the earnings before taxes amounted to approximately EUR 44.0 million, which represents an increase of approximately EUR 31.4 million over the previous year, largely as a result of acquisitions.

Corporate expenses

Corporate expenses include all of the staff costs, general and administration expenses, excluding the segment Nursing and Assisted Living.

EUR m	2017	2016
Staff expenses	–52.4	–45.7
Long-term remuneration components (share-based)	–1.4	–2.2
General and administration expenses	–27.5	–25.8
Total corporate expenses	**–81.3**	**–73.7**

The cost ratio increased slightly, in line with expectations, from 10.5% in the previous year to 10.9% in relation to gross rental income as a result of staff hires and pay rises.

Other operating expenses/revenues

Other operating expenses/revenues comprised expenses in the amount of EUR 37.8 million (previous year: EUR 16.0 million) and revenues in the amount of EUR 8.8 million (previous year: EUR 7.3 million).

Other operating expenses in the financial year 2017 primarily comprised transaction-related property transfer tax in the amount of EUR 23.4 million.

Financial result

The financial result is made up as follows:

EUR m	2017	2016
Current interest expenses	–100.2	–106.2
Accrued interest on liabilities and pensions	–18.7	–18.7
Transaction-related interest expenses	–51.7	–6.9
Fair-value adjustments of derivative financial instruments	3.0	–3.8
Fair-value adjustments of convertible bonds	–229.0	–79.6
	–396.6	**–215.2**
Interest revenues	1.4	3.4
Financial result	**–395.2**	**–211.8**

The decrease in current interest expenses as compared to the previous year was due to refinancing measures and the fall in interest rates for floating-rate loans. The average interest rate for all financing amounts fell from 1.6% p.a. in the previous year to 1.3% p.a.

Non-cash accrued interest relate primarily to low interest-bearing loans and employee benefit liabilities.

The transaction-based interest expenses largely comprise prepayment penalties or redemption payments with regard to interest rate hedge transactions in the context of the early refinancing of loans in the amount of EUR 36.8 million, as well as EUR 14.1 million in non-recurring financing costs incurred in connection with the issuance of two convertible bonds with a total nominal value of EUR 1,600.0 million in the financial year 2017.

The development of the price for the convertible bonds mirrors that of the price of the Deutsche Wohnen SE share. The convertible bonds are reported at their fair value on the consolidated balance sheet. The positive performance of the share price resulted in a valuation loss.

After interest expenses, the cash flow from the portfolio increased by EUR 27.6 million to EUR 471.3 million, as shown in the following table:

EUR m	2017	2016
NOI from lettings	567.5	545.7
Current interest expenses (excluding Nursing and Assisted Living)	–96.2	–102.0
Cash flow from portfolio after current interest expenses	**471.3**	**443.7**
Interest cover ratio	**5.9**	**5.4**

It was possible once again to improve the interest cover ratio (NOI in relation to current interest expenses) from 5.4 to 5.9 as a result of the rising operating results of the Residential Property Management segment and economies of scale, as well as low interest rates in the financing context.

Current taxes and deferred taxes

The current income taxes for the financial year 2017 in the amount of EUR 32.6 million (previous year: EUR 36.5 million) comprise current income taxes in the amount of EUR 40.6 million (previous year: EUR 36.5 million), non-recurring effects in the amount of EUR 9.4 million and an additional EUR 1.4 million in non-cash tax expenses resulting from the capital increase in February 2017.

Deferred taxes amounted to EUR 802.3 million (previous year: EUR 829.5 million). Deferred tax expenses primarily relate to the appreciation in the value of our properties.

Financial position

Selected key figures on the consolidated balance sheet are as follows:

	31/12/2017		31/12/2016	
	in EUR m	in %	in EUR m	in %
Investment properties	19,628.4	96	16,005.1	95
Other non-current assets	138.1	0	109.3	1
Total of non-current assets	**19,766.5**	**96**	**16,114.4**	**96**
Current assets	409.2	2	477.0	3
Cash and cash equivalents	363.7	2	192.2	1
Total of current assets	**772.9**	**4**	**669.2**	**4**
Total assets	**20,539.4**	**100**	**16,783.6**	**100**
Equity	**10,211.0**	**50**	**8,234.0**	**49**
Financial liabilities	4,751.1	23	4,600.0	28
Convertible bonds	1,669.6	8	1,045.1	6
Corporate bonds	826.6	4	732.3	4
Tax liabilities	27.2	0	48.3	0
Employee benefit liabilities	65.7	0	67.6	0
Deferred tax liabilities	2,496.7	12	1,687.1	10
Other liabilities	491.5	3	369.2	3
Total liabilities	**10,328.4**	**50**	**8,549.6**	**51**
Total equity and liabilities	**20,539.4**	**100**	**16,783.6**	**100**

Our total assets increased, primarily as a result of acquisitions and the appreciation in value of our real estate holdings.

The investment properties continue to represent the largest asset items. With regard to the revaluation, we refer to the section entitled "Property portfolio".

The value of our current assets decreased as compared to that recorded as at the balance sheet date in the previous year due to property disposals.

Equity increased, largely due to the Group profit realised in the amount of EUR 1,763.3 million and the capital increase implemented in February 2017, by EUR 542.7 million (net, after deduction of costs). Furthermore, new shares were issued in the context of the offer of compensation made pursuant to the control agreement entered into with GSW Immobilien AG. The dividend payment for the financial year 2016 in the amount of EUR 262.4 million and changes in relation to non-controlling interests had a countervailing effect. The equity ratio amounted to 50% as at the reporting date (previous year: 49%).

Financing

In the financial year 2017, various portfolio financing measures underwent early refinancing, prolongation and upward revaluation on current market terms.

The convertible bonds issued in the financial years 2013 and 2014 were voluntarily bought back or redeemed in the financial year 2017, and two new convertible bonds were issued in the nominal amount of EUR 800.0 million in each case.

Deutsche Wohnen issued a bond to institutional investors in the financial year 2015. The bond is in the amount of EUR 500 million, its term runs until July 2020 and it bears annual interest of 1.375%. Furthermore, a number of registered bonds with terms of between 10 and 15 years and bearing interest of between 1.6% and 2.0% were issued in the financial year 2017.

These financing measures also had the effect of improving key financial figures of the Group. Accordingly, the average interest rate fell, as compared to the reporting date for the previous year, from approximately 1.6% p.a. to approximately 1.3% p.a., while the annual repayment rate fell to approximately 0.5% from 0.7% in the previous year. The average term of the Group's loans and bonds decreased slightly from 8.1 years in the previous year to 7.9 years. The hedging ratio amounted to approximately 88% as at 31 December 2017 (previous year: 85%).

As in the previous year, Deutsche Wohnen SE was given a long-term issuer rating by each of the international rating agencies Standard & Poor's and Moody's. These were unchanged at A– in the case of Standard & Poor's, and A3 in the case of Moody's – in both cases with sound prospects.

The Group's loan-to-value ratio (LTV) developed as follows:

EUR m	31/12/2017	31/12/2016
Financial liabilities	4,751.1	4,600.0
Convertible bonds	1,669.6	1,045.1
Corporate bonds	826.6	732.3
	7,247.3	6,377.4
Cash and cash equivalents	–363.7	–192.2
Net financial liabilities	**6,883.6**	**6,185.2**
Investment properties	19,628.4	16,005.1
Non-current assets held for sale	28.7	29.2
Land and buildings held for sale	295.8	381.5
	19,952.9	16,415.8
Loan-to-value ratio in %	**34.5**	**37.7**

Consolidated statement of cash flows

The most important cash flows are shown in the following:

EUR m	2017	2016
Net cash flows from operating activities	518.2	22.4
Net cash flows from investing activities	–964.1	–1,093.5
Net cash flows from financing activities	617.4	601.7
Net change in cash and cash equivalents	**171.5**	**–469.4**
Opening balance cash and cash equivalents	192.2	661.6
Closing balance cash and cash equivalents	**363.7**	**192.2**

Deutsche Wohnen was again able to meet its financial obligations in full at all times in 2017.

The net cash flows from operating activities are subject to fluctuation as a result of incoming and outgoing payments in connection with acquisitions and disposals of properties held for sale, such that the liquidated cash flows in 2017 amounted to EUR 119.8 million and those in 2016 to EUR –304.2 million.

The net cash flows from investing activities reflect, in particular, incoming payments from disposals of investment properties (EUR 115.4 million; previous year: EUR 285.5 million) and outgoing payments in connection with acquisitions (EUR 846.2 million; previous year: EUR 1,143.3 million), newly constructed buildings (EUR 8.2 million; previous year: EUR 6.5 million) and modernisation measures (EUR 227.4 million; previous year: EUR 150.0 million).

The net cash flows from financing activities primarily reflect all outgoing payments in connection with refinancing measures (the redemption and assumption of new loans and convertible bonds and the related non-recurring payments), incoming payments from the capital increase in February 2017 and the dividend payment for the previous financial year.

Funds from Operations (FFO)

The key figure Funds from Operations without disposals (FFO I), which is decisive for us, rose by approximately 13% as compared to the previous year, due to acquisitions and operating improvements in our portfolio:

EUR m	2017	2016
EBITDA	**600.8**	**575.1**
Valuation of current assets (properties)	0.3	2.5
Other non-recurrent expenses and income	22.3	0.2
Transaction costs	0.0	2.6
Restructuring and reorganisation expenses	0.9	1.3
EBITDA (adjusted)	**624.3**	**581.7**
Earnings from Disposals	–50.3	–54.3
Long-term remuneration component (share-based)	1.4	2.2
At-equity valuation	3.0	2.0
Interest expenses/revenues	–99.5	–104.9
Income taxes	–40.6	–36.5
Minorities	–6.0	–6.3
FFO I	**432.3**	**383.9**
Earnings from Disposals	50.3	54.3
FFO II	**482.6**	**438.2**
FFO I per share in EUR (undiluted)[1]	1.23	1.14
FFO I per share in EUR (diluted)[2]	1.23	1.04
FFO II per share in EUR (undiluted)[1]	1.37	1.30
FFO II per share in EUR (diluted)[2]	1.37	1.18

1 Based on the weighted average of approximately 352.12 million outstanding shares in 2017 and approximately 337.45 million in 2016; each with subordinated conversion of the in-the-money convertible bonds
2 Based on the weighted average of approximately 352.12 million outstanding shares in 2017 and approximately 370.81 million in 2016; each with subordinated conversion of the in-the-money convertible bonds

EPRA key performance indicators

The European Public Real Estate Association (EPRA) is an organisation based in Brussels, Belgium, which represents the interests of listed companies within the European property sector. EPRA's primary objective is to ensure the further development of the sector, in particular by improving the transparency of reporting structures. The following key figures have been calculated in accordance with the standards recommended by EPRA.

Overview of EPRA key figures

EPRA key figures	2017	2016
EPRA NAV (undiluted) in EUR m	12,676.8	10,017.0
EPRA NAV (undiluted) in EUR per share	35.74	29.68
EPRA NAV (diluted) in EUR m	12,676.8	11,009.3
EPRA NAV (diluted) in EUR per share	35.74	29.69
EPRA NNNAV (diluted) in EUR m	9,739.8	8,726.1
EPRA NNNAV (diluted) in EUR per share	27.46	23.53
EPRA earnings in EUR m	394.5	359.5
EPRA earnings (diluted) in EUR per share	1.11	0.97
EPRA net initial yield in %	3.1	3.6
EPRA vacancies in %	2.1	1.9
EPRA cost ratio (incl. direct vacancy costs) in %	29.0	28.1
EPRA cost ratio (excl. direct vacancy costs) in %	26.6	25.8

EPRA NAV

Deutsche Wohnen has reported its NAV in accordance with EPRA standards since 2010. The net asset value is calculated on the basis of the current market value of the property portfolio, with the property valuation being verified by CB Richard Ellis.

The EPRA NAV (undiluted) per share increased by 20% from EUR 29.68 per share to EUR 35.74 per share in the year under review. Given that the outstanding convertible bonds as at the balance sheet date were not in cash form, the diluted EPRA NAV likewise amounted to EUR 35.74 per share.

EUR m	31/12/2017	31/12/2016
Equity (before non-controlling interests)	9,888.2	7,965.6
Fair values of derivative financial instruments	2.0	47.0
Deferred taxes	2,786.6	2,004.4
EPRA NAV (undiluted)	**12,676.8**	**10,017.0**
Number of shares (undiluted) in m	354.7	337.5
EPRA NAV (undiluted) in EUR per share	**35.74**	**29.68**
Effects arising out of conversion of convertible bonds	0.0	992.3
EPRA NAV (diluted)	**12,676.8**	**11,009.3**
Number of shares (diluted) in m	354.7	370.8
EPRA NAV (diluted) in EUR per share	**35.74**	**29.69**

We have dispensed with reporting EPRA NAV as adjusted for goodwill (adjusted NAV) given that there was only goodwill in the amount EUR 11.4 million as at the reporting date.

EPRA triple net asset value (NNNAV)

The EPRA NNNAV is calculated on the basis of the EPRA NAV, taking account of the fair value of the derivative financial instruments, the fair value of the financial liabilities and corporate bonds, and any deferred taxes.

EUR m	31/12/2017	31/12/2016
EPRA NAV (diluted)	**12,676.8**	**11,009.3**
Fair values of derivative financial instruments	–2.0	–47.0
Fair value of financial liabilities[1]	–141.7	–212,9
Fair value of corporate bonds[1]	–6.7	–18.9
Deferred taxes	–2,786.6	–2,004.4[2]
EPRA NNNAV (diluted)	**9,739.8**	**8,726,1**
Number of diluted shares (in m)	354.7	370.8
EPRA NNNAV (diluted) in EUR per share	**27.46**	**23.53**

1 Difference between the carrying amounts reported on the balance sheet and the fair values
2 Previous year's figure amended

EPRA earnings

In the calculation of the EPRA earnings, which represent the recurring earnings from the core operating business, adjustments are made for valuation effects and sales proceeds, in particular.

EUR m	2017	2016
Group profit/loss in accordance with IFRS	**1,763.3**	**1,623.2**
Adjustments for the purposes of the calculation of EPRA earnings: Results of property valuation	–2,396.7	–2,665.1
Earnings from Disposals	–50.3	–54.3
Taxes on sales revenues[1]	5.0	5.4
Amortization of goodwill	0.0	537.3
Valuation of financial instruments and prepayment penalties	276.9	89.8
Deferred taxes	802.3	829.5
Minority shareholdings	–6.0	–6.3
EPRA earnings	**394.5**	**359.5**
Number of shares (undiluted) in m on the reporting date	354.7	337.5
EPRA earnings (undiluted) in EUR per share	**1.11**	**1.07**
Number of shares (diluted) in m on the reporting date	354.7	370.8
EPRA earnings (diluted) in EUR per share	**1.11**	**0.97**

1 In the interests of simplicity, taxes are reported in the amount of 10% of the earnings from Disposals.

EPRA net initial yield

The EPRA net initial yield reflects the ratio of the fair value of the portfolio to the annualised net rental income, which has been reduced by non-apportionable management costs, such as those arising in connection with maintenance, rental loss and vacancies.

EUR m	2017	2016
Investment properties and non-current assets held for sale[1]	18,832.4	15,315.9
Land and buildings held for sale[1]	278.0	363.7
Less facilities under construction and advance payments[1]	–245.4	–210.5
Sub-total: completed property portfolio	**18,865.0**	**15,469.1**
Plus incidental acquisition costs of an investor, estimated at 8.0%	1,509.2	1,237.5
Total: completed property portfolio	**20,374.2**	**16,706.6**
Annualised cash-effective rental income	767.0	719.3
Less direct management costs[2]	–135.4	–120.6
Annualised net rental income	**631.6**	**598.7**
EPRA Net Initial Yield (EPRA NIY) in %	**3.1**	**3.6**

1 Excluding Nursing and Assisted Living and undeveloped land
2 Non-recoverable operating costs, rental loss, maintenance, etc.

EPRA vacancies

The EPRA vacancy rate is calculated on the basis of the ratio of the estimated annualised market rents for the vacant properties to the market rents for the portfolio as a whole. The slight rise in the vacancy rate as compared to the previous year was attributable to vacancies resulting from modernisation measures implemented as part of our investment programme.

	2017	2016
EPRA vacancies in %	2.1	1.9

EPRA cost ratio

The EPRA cost ratio is a key figure for measuring cost efficiency, by placing management costs in relation to rental income.

EUR m	2017	2016
Payment of contractually stipulated rents (potential gross rents and subsidies)	763.7	721.4
Less adjusted EBITDA	–624.3	–581.7
Less to adjusted EBITDA: Segment earnings: Disposals	50.3	54.3
Less to adjusted EBITDA: Segment earnings: Nursing and Assisted Living	48.0	16.8
Less to adjusted EBITDA: Corporate expenses for the Disposals segment	–2.7	–2.9
Plus expenses for leased nursing facilities	0.6	0.0
Less maintenance expenses	–104.7	–94.5
Management costs	**130.9**	**113.4**
Plus maintenance expenses	104.7	94.5
Less payments of ground rent to third parties	–2.3	–2.3
EPRA costs (incl. direct vacancy costs)	**233.3**	**205.6**
Less vacancy losses	–19.5	–16.9
EPRA costs (excl. direct vacancy costs)	**213.8**	**188.7**
Payment of contractually stipulated rents (potential gross rents and subsidies)	763.7	721.4
Less payments of ground rent to third parties	–2.3	–2.3
Plus leasing income from third-party-operated nursing facilities	27.3	0.0
Plus leasing income from Group-operated nursing facilities	15.1	11.9
	803.8	**731.0**
EPRA cost ratio (incl. direct vacancy costs) in %	**29.0**	**28.1**
EPRA cost ratio (excl. direct vacancy costs) in %	**26.6**	**25.8**
EPRA cost ratio adjusted for maintenance expenses (incl. direct vacancy costs) in %	**16.0**	**15.2**
EPRA cost ratio adjusted for maintenance expenses (excl. direct vacancy costs) in %	**13.6**	**12.9**

Employees

Deutsche Wohnen has undergone considerable changes in recent years in the wake of the significant growth experienced by the company, and thereby has succeeded in establishing a reputation as an attractive employer within the property sector. It is above all our focus on strategic employee development which enables us to attract and retain skilled personnel capable of meeting our high standards with regard to corporate profitability, the quality of our holdings and customer service. We view the trend towards digitalisation as an opportunity to implement a results-oriented system for the organisation of all our personnel-related processes. This comprises, among other things, the digital logging of employees' personnel files and travel expense reports. We also offer numerous learning formats in digital form for the purpose of disseminating knowledge (webinars).

As at 31 December 2017, our company had a total of 1,111 employees (31 December 2016: 992).

As at 31 December 2017, KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, in which we have a 49% shareholding, employed 1,998 employees (31 December 2016: 1,377 employees).

The majority (approximately 73%) of the total workforce of Deutsche Wohnen was responsible for the management and administration of its properties, the management of rental contracts and the provision of tenant support services. Overall, 54% of our employees were women at the end of the financial year, and the proportion of women in management positions amounted to 43%. The average length of service of 7.6 years has remained at much the same level as in previous years.

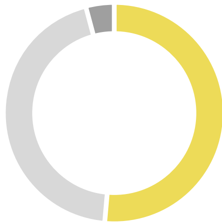
The strategic management of talent, the promotion of work-life balance and family-friendly working conditions, as well as diversity and equality of opportunity, form the cornerstones of our personnel policy. Our superior staff training, trainee and talent management programme and dual course of study options mean that we are able to supply a sizeable proportion of our own future requirements for highly accomplished staff from among our own ranks. Furthermore, employees and executives attended more than 1,450 sessions in the context of our target group-specific and needs-oriented training programme last year, with our senior managers, in particular, receiving support in adapting to the changing role of management in the wake of the growing digitalisation of the working environment and also in dealing with the challenges posed by an intergenerational workforce that is characterised by increasingly flexible forms of employment.

In 2017, the year under review, we further increased our transparency vis-à-vis our employees by means of structured annual employee interviews and the implementation of a performance-based and market-aligned system of remuneration. In addition, the systematic employee survey, which has been conducted by Deutsche Wohnen every two years since 2014, gives us important insights into our employees' requirements and provides the foundation for our needs-based personnel-related endeavours.

Deutsche Wohnen encourages diversity and does not tolerate any discrimination against its employees on grounds of, among others, gender, age, background, disability or sexual orientation. We offer flexible working arrangements, for example working from home and part-time employment options, to parents employed at our company with a view to helping them achieve a better work-life balance. In the year under review, 9% of our employees availed themselves of this option, with 2% of our workforce going on parental leave.

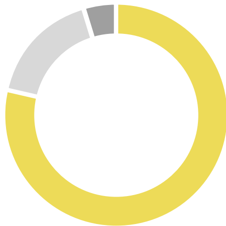
Employees

	31/12/2017	31/12/2016
Deutsche Wohnen	1,111	992
Number of women (%)	602 (54.2)	519 (56.6)
Number of men (%)	509 (45.8)	431 (43.4)
Number of trainees (%)	46 (4.1)	44 (4.4)
Average age in years	41	41



Flexible working hour arrangements and women in management positions

In %	31/12/2017	31/12/2016
Proportion of women in management positions	43.4	44.2
Proportion of employees opting for part-time employment	9.2	8.8
Proportion of employees opting to take parental leave	2.3	2.2



Report on the individual financial statements of Deutsche Wohnen SE

Foundations of Deutsche Wohnen SE

Deutsche Wohnen SE (DWSE) is the parent company of the corporate group. It acts as a holding company and, together with its employees, is responsible for performing all of the important central functions within the Group. The Individual Financial Statements have been prepared in accordance with the provisions of the German Commercial Code [Handelsgesetzbuch – HGB] applicable to large corporations, and the supplementary provisions of the German Stock Corporation Act [AktG] as well as the European Regulation and the German introductory law on European Stock Corporations. Deutsche Wohnen SE is a capital-market-oriented company and is listed on the Frankfurt Stock Exchange, among others.

The report on the financial performance and financial position of the Group and the discussion of the risks and opportunities to which it is exposed also fundamentally apply to Deutsche Wohnen SE.

Employees

On 31 December 2017, Deutsche Wohnen SE had 179 employees[1] (previous year: 160) and 46 trainees and students (previous year: 42) in its employ.

Management Board analysis of business operations

In the financial year 2017, Deutsche Wohnen SE was able to take advantage of the currently favourable market conditions to carry out a capital increase and the early refinancing of convertible bonds. In this way, further long-term funds were raised to finance the company and thus the Group.

The operating results from holding activities in the financial year 2017 were mainly influenced by non-recurring expenses in connection with the issue of convertible bonds and the costs of the capital increase. Higher revenues from the charging of administrative expenses had an offsetting effect.

In order to improve the financial results and maturity structure in the longer term, the convertible bonds issued in 2013 and 2014 were repurchased and two new convertible bonds with a nominal value of EUR 800 million each were issued. This resulted in non-recurring expenses of EUR 553.3 million, which basically resulted in Deutsche Wohnen SE reporting a net loss for the financial year 2017.

Profit transfers and distributions by subsidiaries amounted to EUR 15.9 million in the financial year 2017, in particular based on the distribution of profits by GSW Immobilien AG for 2017 only being realised in 2018. And as such were lower than in the previous year (EUR 123.4 million).

Excluding one-off items, earnings before taxes are in line with our forecast.

1 All employees incl. those on maternity/parental leave, temporary staff and marginal employees, but excl. trainees , excl. Management Board

Notes on the financial performance and financial position of Deutsche Wohnen SE

Financial performance

	2017	2016	Changes	Changes
	in EUR m	in EUR m	in EUR m	relative in %
Revenues	43.0	31.5	11.5	37
Other operating income	0.8	1.4	–0.6	–43
Staff expenses	–18.8	–17.2	–1.6	9
Other operating expenses	–56.6	–32.7	–23.9	73
Depreciation and amortisation	–3.3	–2.1	–1.2	57
Operating results	**–34.9**	**–19.1**	**–15.8**	**83**
Net income from interest	1.0	7.6	–6.6	–87
Earnings from shareholdings	15.9	123.4	–107.5	–87
Non-operating earnings	–553.0	0.0	–553.0	n/a
Extraordinary depreciations and amortisations	0.0	–0.2	0.2	–100
Income taxes	0.0	–1.3	1.3	–100
Annual earnings	**–571.0**	**110.4**	**–681.4**	**–617**

Deutsche Wohnen SE acts as a holding company and generates revenues from the provision of business management services to the entire Group.

The increase in staff expenses by EUR 1.6 million as compared to the previous year was largely due to the hiring of employees and salary increases. Deutsche Wohnen SE had an annual average of 168 employees in 2017 (previous year: 155 employees).

In addition to ongoing legal and consultancy fees and IT costs, other operating expenses comprised, in particular, costs relating to capital increases and transaction costs. In the financial year 2017, consulting costs and fees of EUR 14.1 million were incurred for the issue of two convertible bonds and of EUR 4.4 million for the capital increase in February 2017. There were no such events in the previous year.

The depreciation and amortisation for the year related to depreciation and amortisation of software and property, plant and equipment, such as tenant installations and operating and business equipment. The depreciation and amortisation of software was higher than in the previous year due to investments in office furniture and equipment and improvements in the efficiency of our IT systems.

Net income from interest comprised interest expenses in the amount of EUR 22.5 million (previous year: EUR 16.6 million) and interest income of EUR 23.5 million (previous year: EUR 24.2 million).

In this and in the previous financial year, Deutsche Wohnen SE primarily relied upon equity and low-interest-bearing convertible bonds and corporate bonds to finance its activities. Deutsche Wohnen SE received further funds in its capacity as the central cash pool leader for the Group, which it then forwarded on to subsidiaries through equity or internal Group financing measures. In light of the above, net income comprised net income generated with third parties in the amount of EUR –20.5 million (previous year: EUR –11.9 million) and net income generated with affiliated companies in the amount of EUR 21.5 million (previous year: EUR 19.5 million). Interest expenses with third parties increased due to higher nominal amounts of outstanding registered bonds and convertible bonds. Non-recurring interest expenses incurred in connection with the repurchase of convertible bonds were included in the non-operating earnings for better comparability.

Value created at the subsidiary level accrued, via the earnings from shareholdings, to Deutsche Wohnen SE in its capacity as holding company. Earnings from shareholdings take account of transfers of earnings from subsidiaries pursuant to profit transfer and/or control agreements and from partnerships in the total amount of EUR 15.9 million (previous year: EUR 42.5 million), as well as dividend payments from subsidiaries in the amount of EUR 80.9 million the previous year.

Non-operating earnings mainly included non-recurring expenses (EUR 553.3 million). These expenses arose from the repurchase by Deutsche Wohnen SE of the convertible bonds issued in the financial years 2013 and 2014 at a price above the nominal value.

Without the one-off items described above, Deutsche Wohnen SE would have achieved earnings before taxes in the amount of approximately EUR 75.3 million. This is because the net loss for the year of EUR 571.0 million includes the following one-off items: one-off expenses (EUR 553.3 million), one-off consultancy fees and expenses (EUR 18.5 million) and the postponed dividend payment of GSW Immobilien AG (EUR 74.5 million).

Financial position

		31/12/2017		31/12/2016	Changes
	in EUR m	%	in EUR m	%	in EUR m
Fixed assets	3,444.5	42.8	3,127.0	44.8	317.5
Receivables and other assets	4,271.1	53.0	3,683.1	52.8	588.0
Cash and bank balances	337.0	4.2	165.2	2.4	171.8
	8,052.6	**100.0**	**6,975.3**	**100.0**	**1,077.3**
Equity	3,812.3	47.3	4,098.7	58.8	–286.4
Provisions	11.1	0.2	12.9	0.2	–1.8
Liabilities	4,229.2	52.5	2,863.7	41.0	1,365.5
	8,052.6	**100.0**	**6,975.3**	**100.0**	**1,077.3**

The fixed assets of Deutsche Wohnen SE, amounting to EUR 3,444.5 million (previous year: EUR 3,127.0 million), primarily consist of shares in affiliated companies amounting to EUR 3,110.4 million (previous year: EUR 3,119.4 million). The decrease is mainly attributable to transactions with minority shareholders in GSW Immobilien AG.

Receivables and other assets primarily comprise receivables from affiliated companies, which increased as a result of the cash pooling system with Deutsche Wohnen SE as the central cash pool leader.

The equity of Deutsche Wohnen SE increased in the financial year 2017 by EUR 545.3 as a result of the cash capital increase in February 2017 and by EUR 0.4 million as a result of the ongoing capital increase in kind pursuant to the control agreement concluded with GSW Immobilien AG, which grants the external shareholders the right to exchange shares of GSW Immobilien AG for shares of Deutsche Wohnen SE. The equity also increased by EUR 1.4 million as a result of a capital contribution in connection with share-based remuneration for members of the Management Board. The payment of a dividend of EUR 262.4 million and the net loss for 2017 in the amount of EUR 571.0 million had the effect of reducing the equity accordingly. The issued capital amounted to EUR 354.7 million as at the reporting date (previous year: EUR 337.5 million). The equity ratio amounted to 47.3% (previous year: 58.8%).

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The liabilities comprised the following items:

EUR m	31/12/2017	31/12/2016	Changes
Liabilities to affiliated companies	1,792.6	1,474.4	318.2
Convertible bonds	1,602.3	651.2	951.1
Corporate bonds	832.3	735.9	96.4
Other liabilities	2.0	2.2	–0.2
	4,229.2	**2,863.7**	**1,365.5**

The liabilities to affiliated companies decreased as a result of the internal Group cash pool, which is headed up by Deutsche Wohnen SE as the central cash pool leader.

The convertible bond issued in the financial year 2013 with a total nominal amount of EUR 250.0 million, which would have matured in 2020, and the convertible bond issued in the financial year 2014 with a total nominal amount of EUR 400 million, which would have matured in 2021, were acquired in the financial year 2017 as part of repurchase offers at market value. The convertible bonds not offered for repurchase have been converted in accordance with the bond terms and redeemed in cash or redeemed at nominal value.

Two new unsecured convertible bonds [Wandelschuldverschreibung – WSV] were issued:

- WSV 2017 with a total nominal value of EUR 800.0 million, a maturity until 2024 and a fixed interest rate of 0.325% p. a. The initial conversion price is EUR 48.5775, which fell to EUR 48.2967 as a result of the dividend payment in June 2017.
- WSV 2017 with a total nominal value of EUR 800.0 million, a maturity until 2026 and a fixed interest rate of 0.60% p. a. The initial conversion price is EUR 50.846.

In the financial year 2017, unsecured, long-term and fixed-interest registered bonds with a nominal value of EUR 325.0 million were issued at interest rates of between 1.60% p. a. and 2.00% p. a. They mature in the years 2027 to 2032. In addition there is the unsecured corporate bond issued in the nominal amount of EUR 500.0 million in 2015, bearing interest at the rate of 1.375% p. a. and having a term ending in 2020. Short-dated corporate bonds taking the form of unsecured, commercial papers were issued in the nominal amount of EUR 233.0 million for the first time in 2016 and were repaid in the course of the financial year 2017.

The leverage ratio of Deutsche Wohnen SE (ratio of debt to total assets) as of the reporting date is 52.7% (previous year: 41.2%), the rise in the debt ratio is due, on the one hand, to the refinancing of the convertible bonds and, on the other hand, to the changes in the balance sheet structure (balance sheet extension) as a result of the central cash pool.

The presentation of a consolidated statement of cash flows is waived in accordance with section 264(1), sentence 2 of the German Commercial Code [HGB].

Deutsche Wohnen SE was able to meet its financial obligations at all times in the financial year 2017.

As in the previous year, Deutsche Wohnen SE was given a long-term issuer rating by each of the international rating agencies Standard & Poor's and Moody's; these were unchanged at A–, in the case of Standard & Poor's, and A3, in the case of Moody's, in both cases with sound prospects.

Deutsche Wohnen SE has sufficient liquidity to meet its payment obligations through the intra-Group cash pooling system and external credit lines.

Forecast

Deutsche Wohnen SE acts as a holding company within the Group and as such is dependent upon the growth of its operating subsidiaries. In our plan for the financial year 2018, we have assumed that legal and fiscal framework conditions will not change. Furthermore, we expect the company to continue to operate successfully, and we do not currently see any risks that could pose a threat to the company's existence. Overall, we once more anticipate a favourable environment for growth over the 2018 forecast period.

Our forecasts are based on the business projections derived from our planning instruments and take account of possible risks and opportunities associated with our future development. Nevertheless, some risks and opportunities associated with our future development remain, as is shown in the risk and opportunity report.

The financial position and financial performance of Deutsche Wohnen SE is linked to the financial development of its subsidiaries. Earnings are also dependent on the subsidiaries' transfer of profits and distributions.

For 2018, we expect higher earnings from shareholdings due to the distribution of GSW Immobilien AG. We therefore expect to realise annual earnings, excluding one-off items and income taxes in a positive amount at the previous year's level.

Risk and opportunity report

Risk management system of Deutsche Wohnen

Deutsche Wohnen SE continually examines opportunities which may arise for securing the development and growth of the Group. The exploitation of such opportunities may also entail exposure to certain risks, in which context awareness, assessment and management of all of the important aspects of those risks will be essential. Therefore a central risk management system (RMS) has been established within Deutsche Wohnen, which ensures the identification, measurement, management and monitoring of all material risks to which the Group is exposed. The RMS is intended to ensure that risks are identified, prioritised and communicated to the competent decision-makers at an early stage, in order to enable appropriate remedial action to be taken by the Group to avert or minimise any resultant damage.

As part of its Group-wide risk management system (RMS), Deutsche Wohnen implements an early warning system for risks (REWS), which thus extends to all of its fully-consolidated companies. The REWS is a component of the audit of the annual financial statements and is assessed with regard to its compliance with applicable legal requirements. The most recent audit has shown that the REWS of Deutsche Wohnen is able to identify developments which could pose a threat to the company's continued existence, and the measures undertaken by the Management Board for the establishment of such a REWS meet the requirements imposed by section 91(2) of the German Companies Act [Aktiengesetz – AktG] in this regard.

Principles underlying our risk management policy

Our risk strategy aims to ensure the continued existence of the company and, furthermore, to increase its value in terms of corporate responsibility and sustainability. The success of our business is contingent the exploitation of any opportunities which arise and the identification and assessment of any associated risks. Opportunities are exploited to an optimal degree, while any entrepreneurial risks are addressed in a mindful and responsible manner and proactively managed to achieve an appropriate value-enhancing result. Any risks which pose a threat to the company's continued existence are to be avoided.

Every employee is made aware of risk-related issues, and is encouraged to report any potential risks and to act fully aware of the risks, i.e. both to inform himself or herself as to the risk situation within his or her area of responsibility, and to deal with any identified risks in a responsible manner. This enables the company to ensure that suitable measures for the avoidance, reduction or transfer of risks are implemented, and to adopt a mindful approach to the taking of calculated risks. Complete information on the material risks involved is provided to all decision-makers in a timely fashion.

Responsibility

The Management Board bears overall responsibility for the Group's risk management activities. It decides upon the organisation of the related structural and procedural measures as well as the allocation of the necessary resources. Furthermore, it approves the documented results of the risk management system, taking these into account in the corporate management context.

Deutsche Wohnen managers are designated "risk owners" and, in this capacity, assume responsibility for the identification, assessment, documentation and communication of all material risks arising within their areas of responsibility. The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the overall risk management process, thereby initiating periodic risk management activities, consolidating the reporting of risks by the risk owners and preparing the report for submission to the Management and the Supervisory Board. The internal audit division monitors the functioning of the risk management system as part of its auditing activities.

We are not at the present time aware of any risks which the company would not reasonably be able to ward off or which could adversely affect the financial performance or financial position of the Deutsche Wohnen Group in such way as to pose a threat to its continued existence.

Instruments forming part of the risk management system

The purpose of the Group-wide RMS as a whole is to assist in enabling the attainment of Deutsche Wohnen's corporate targets, the early identification of any anomalies, the avoidance of any adverse effects on Deutsche Wohnen's operations, and the timely initiation of any corresponding measures which may be required.

The existing Group-wide RMS is continuously adapted in line with current trends and its operational capability verified on an ongoing basis.

The central elements of Deutsche Wohnen's risk management system are:

1. Internal control system (ICS)
2. Reporting
3. Risk management
4. Compliance
5. Internal audits

1. Internal control system (ICS)

The ICS governing the Group's accounting procedures aims to ensure the correctness and effectiveness of its accounting and financial reporting activities.

The ICS in place at Deutsche Wohnen SE primarily implements the following principles: transparency, observance of a dual control policy ("four eyes" principle), segregation of duties and compliance with standards regarding the minimum amount of information to be disclosed to employees.

The main features of our existing internal control and risk management system governing the (Group's) accounting procedures may be summarised as follows:
- Deutsche Wohnen is characterised by clearly defined organisational, corporate, control and monitoring structures.
- There are planning, reporting, controlling and early warning systems and processes which are harmonised across the Group and which facilitate the comprehensive analysis and management of performance-related risk factors and risks which pose a threat to the continued operations of the Group.
- The functions in all areas relating to the accounting process (for example, financial accounting and controlling) are clearly assigned.
- The IT systems used for accounting purposes are protected against unauthorised access.
- Standardised software is predominantly used for the financial systems adopted.
- The departments involved in (Group) financial reporting activities meet the corresponding quantitative and qualitative requirements.
- The completeness and accuracy of (Group) accounting data is regularly monitored by means of spot checks and plausibility tests carried out both manually and with the aid of the applied software.
- Significant (Group) accounting-related processes are subject to regular audits. We consistently subject all (Group) accounting-related procedures to a system of dual control ("four eyes" principle).
- The Supervisory Board deals, among other things, with significant matters relating to (Group) accounting and risk management, the audit of the financial statements and the main focal points of these statements.

The internal control and risk management system with regard to accounting procedures, the essential features of which are described above, ensures that business-related issues are properly recorded, processed and recognised on the balance sheet, and included as such in the external accounts.

The clearly defined organisational, corporate, control and monitoring structures in place, as well as the allocation of appropriate staff and equipment to the accounting department, provide the foundation for the efficient functioning of the various components of the financial reporting system. Clear statutory and internal regulations and guidelines ensure the uniform and proper implementation of financial reporting procedures.

The internal control and risk management system ensures that the accounts of Deutsche Wohnen SE and all of the companies included in the consolidated financial statement are prepared in a uniform manner and in line with the legal and statutory regulations and internal guidelines.

2. Reporting

High-quality business plans and corresponding reporting of the key operating and financial figures obtained in the controlling context form the basis of the early warning system implemented by the company.

A central component of the RMS is the submission of detailed monthly business reports which compare actual results with the projections approved by the Supervisory Board. This reporting system is subject to continuous review and enhancement. Using relevant key operating and financial figures, it also establishes reference points for identified risks. In this context, Deutsche Wohnen places particular emphasis on key figures relating to changes in the rental and privatisation contexts, and on its cash flow, liquidity and key balance sheet items.

These reporting activities enable the early identification of any anomalies and the initiation of corresponding measures.

The detailed monthly reports serve to provide the Management Board and the Supervisory Board with material information in this regard.

3. Risk management

The risk categories include 46 risks in total. Early warning indicators which are specific to the prevailing external conditions and to the company itself are allocated to these risk categories. The range of early warning indicators in question is broad and varied. The indicators involve, for example, monitoring the technical condition of our properties, analysing demographic developments and the job market, monitoring projections as to supply, rents and new construction activity in the residential property sub-markets, analysing developments in the context of new regulations governing the setting of rents, monitoring our competitors and their business operations, observing trends and developments, as well as analyses of and projections as to the performance of the financial markets and changes in interest rates.

The risks are documented by using a risk inventory on a quarterly basis. The risk manager updates the risk inventory in line with the assessments of the risk owners for the operating departments.

Risks are managed at the department level and, where they involve amounts of damage in excess of EUR 500,000 are verified in the context of the risk inventory and allocated to the indicated risk categories. Any newly identified risks will be subject to ad hoc notification requirements.

Risks are assessed on the basis of defined threshold values for the following parameters: amount of damage and probability of occurrence.

For each risk, it is ascertained whether any factors exist which potentially indicate the materialisation of that risk (= current relevance). The assessment takes account of any countermeasures which are currently being implemented. Ultimately, the threat of damage posed by the risks is classified as follows: negligible, significant, major or critical.

Thresholds

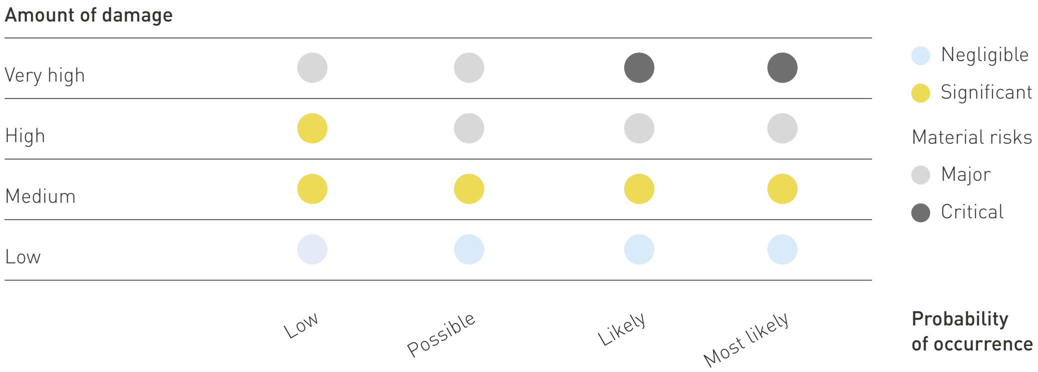
Amount of damage	EUR m
Low	0.5–2
Medium	>2–15
High	>15–50
Very high	>50–100

Pobability of occurrence	%
Low	0–20
Medium	>20–50
High	>50–70
Very high	>70–100

The following ten risk categories, together comprising a total of 46 risks, have been identified in the context of Deutsche Wohnen's risk management activities:

1. General corporate risks
2. Legal risks
3. IT risks
4. Letting risks
5. Performance risks – personnel
6. Acquisition and sales risks
7. Risks in the segment of nursing
8. Performance risks – property
9. Financial risks
10. Investment risks

Risk evaluation diagram



Deutsche Wohnen considers risks classified as major or critical to be material risks. Critical risks may be risks which threaten the continued existence of the Group.

The risk inventory is discussed at regular face-to-face meetings attended by all risk owners, the risk manager and the Management Board, with a view to ensuring company-wide transparency with regard to the risk situation and the handling of risks throughout the Group.

The company's risk management activities are documented on a quarterly basis in a risk report, which is then presented to the Management Board. The Audit Committee of the Supervisory Board is kept informed of the risk situation at its regular meetings, the basis for this being a risk management handbook which is updated as necessary.

4. Compliance

Deutsche Wohnen considers the issue of compliance to be a major element of corporate governance.

Compliance with legal provisions and with internal guidelines which are binding on all employees is the foundation of Deutsche Wohnen's management endeavours and corporate culture, and thus also a means of minimising any adverse effects on its operations.

Risks arising in relation to corporate governance matters are monitored by the legal division and in the risk inventory undertaken in the risk management context.

Our Code of Conduct, which prescribes and defines dealings which are in compliance with the law, applies to all employees throughout the company. In addition, the managerial staff ensure that their employees are made aware of material compliance-related risks.

The Compliance Officer with Group-wide responsibility in this context manages the company's insider register and informs management, employees and business partners as to the consequences of violations of regulations governing insider dealings and relevant legal framework conditions.

The Compliance Officer is the main point of contact for any questions employees may have and for handling the reports as to suspected cases of non-compliance.

5. Internal audits

The company's risk management activities are subject to frequent, non-process-specific reviews conducted by an independent party appointed by the Management Board at regular intervals, or at least every three years.

The key aspects of the reviews are stipulated in consultation with the Management Board and the Supervisory Board. The results of the reviews are presented to the Management Board, the Supervisory Board and the risk manager.

The non-process-specific reviews are conducted by an external audit firm appointed by Deutsche Wohnen.

Overall evaluation of the risk situation by the company's management

There were no significant changes in our overall risk position in the financial year 2017 despite changes to the evaluation of individual risks as compared to the previous year, nor were any ad hoc risks reported.

In our view, we have not been and are not currently exposed to any specific risks which pose a threat to the company's continued existence.

The following table provides an overview of the amount of damage and probability of occurrence of the material risks:

Category of risk	Risk	Amount of damage	Probability of occurrence
1. General corporate risks	No material risk identified		
2. Legal risks	No material risk identified		
3. IT risks	No material risk identified		
4. Letting risks	Letting risks arising from new legislation	Very high	Possible
5. Performance risks – personnel	No material risk identified		
6. Acquisition and sales risks	No material risk identified		
7. Risks in the segment of nursing	No material risk identified		
8. Performance risks – property	No material risk identified		
9. Financial risks	No material risk identified		
10. Investment risks	Risk arising from choice of suppliers and dependence on suppliers	High	Most likely
	Investment risks arising from new legislation	Very high	Possible

General corporate risks

This type of risk comprises those risks of a general nature which cannot readily be allocated to any of the other categories. According to Deutsche Wohnen's evaluation criteria, these are deemed to be non-material risks.

Failure to identify market developments and trends
Market risks may arise if the economic situation in Germany deteriorates, causing market rents or property prices to stagnate or fall. In a stagnant or shrinking economy, there may also be increased unemployment, which will limit the financial resources of tenants. A decline in disposable net income – whether due to unemployment, increased tax liability, tax adjustments or increased ancillary costs – could also have an adverse effect on Deutsche Wohnen's business operations, in the form of fewer new lettings, lower rents for new lettings or rising vacancy rates.

Where such market developments or trends are not anticipated at any early stage, this could give rise to risks which could pose a threat to the continued existence of the company. In order to minimise these risks, all of the business segments are regularly made aware of the need for close monitoring of developments in their relevant sectors and for prompt notification of any changes to the Risk Management department.

Risks arising as a result of amendments to data protection legislation
The EU General Data Protection Regulation (DSGVO), which will come into force in May 2018, will impose more stringent requirements on companies with regard to the handling of personal data. In addition, infringing parties may face large fines, which will be calculated on the basis of their revenue.

Deutsche Wohnen launched a project aimed at ensuring its compliance with the new requirements of DSGVO. It also continually adapts and redesigns its processes to this end.

Risks arising as a result of damage to the company's image and reputation
Negative reports in the media and any initiation of proceedings against executive bodies or employees of Deutsche Wohnen may have an adverse effect on its image or reputation.

As a result of the tension between the demand for and the availability of housing in Germany's conurbations, private homeowners are the focus of much attention from political players and the media, a situation which has given rise to political demands and corresponding reporting. Deutsche Wohnen, therefore, is striving for a constructive dialogue with all of its stakeholders. Moreover, we have been a supporter of social and cultural organisations and services for a number of years now.

Risks arising as a result of catastrophic events and cases of damage
A rise in the number of cases of damage or, for example, natural disasters (such as storms, floods) or changes/states of dependency arising in the insurance market could have adverse financial repercussions for the company. There are currently no indications of any such developments.

Legal risks

According to Deutsche Wohnen's evaluation criteria, these are deemed to be non-material risks.

Given the Group's number of shareholdings and complex ownership structure, increased transparency and greater management input are needed to prevent these having a negative impact on the Group's business operations.

Risks involving potential losses for the company may arise as a result of non-compliance with statutory regulations, non-implementation of new or amended legislation, a lack of comprehensive regulations in contracts that have been concluded or insufficient management of insurance arrangements.

Pending or imminent litigation could have a material effect on the company's net assets, financial position and financial performance.

On 30 April 2014, a control agreement was concluded between Deutsche Wohnen SE, as the controlling company, and GSW Immobilien AG, as the controlled company, and took effect when the agreement was entered into the commercial register on 4 September 2014. Pursuant to this agreement, Deutsche Wohnen is obligated to assume any losses incurred by GSW.

Furthermore, pursuant to the control agreement, Deutsche Wohnen SE undertook, at the request of the external shareholders of GSW, to acquire the latter's shares in exchange for shares of Deutsche Wohnen in the current ratio of 3:7.079 (offer of compensation), guaranteeing to pay any external shareholders of GSW declining this offer a compensation payment in the form of an annual guaranteed dividend of EUR 1.66 (gross) per share over the term of the control agreement.

The suitability of the offer of compensation and the compensation payment is currently subject to review in the context of a motion brought by individual shareholders of GSW for the initiation of a shareholder action pursuant to section 1(1) of the German Shareholder Action Act [Gesetz über das gesellschaftsrechtliche Spruchverfahren – SpruchG]. Should a court order or the terms of an amicable settlement result in the stipulation of a larger settlement and/or a larger amount of compensation, external shareholders of GSW may be able to demand a corresponding supplementation of their settlement or compensation payments at the expense of Deutsche Wohnen.

IT risks

According to Deutsche Wohnen's evaluation criteria, these are deemed to be non-material risks at the present time.

Risks associated with the availability of the company's IT systems

Deutsche Wohnen SE uses SAP IT applications on a Group-wide basis.

This theoretically exposes it to the a risk of total failure of these applications and, consequently, significant disruption to its business operations. As a result, we have agreed with our IT service provider on the provision of functioning operational, maintenance and administration processes and effective monitoring mechanisms. This is designed to prevent such a system failure and any possible associated data losses.

Risks arising as a result of weaknesses in or unauthorised accessing of the IT systems

As a general rule, the risk that our IT system may be exposed to attacks involving malicious software (malware), or that data may be accessed by unauthorised third parties, cannot be excluded.

We optimise our security procedures on a regular basis, plug any security loopholes and continually update the measures taken to counteract malware. All of our employees are obligated to comply with security measures relating to the IT landscape pursuant to guidelines issued to that effect, and are made aware of the risks associated with this area through training measures.

Risks arising as a result of the company's letting activities

We consider the risk of changes being made to the existing legal framework for our letting activities to be a material risk.

Regulatory intervention in tenancy law may affect the financial position of a residential property company. For example, the legislative amendment adopted by the federal government in 2015 with regard to the moderation of rent increases in Berlin restricts the scope for rent increases upon the re-letting of living space.

Other legislative amendments are regularly the subject of discussion. The possibility that further regulatory amendments may be implemented cannot be excluded in the wake of the German parliamentary election.

At the federal state level, the government in Berlin is expected to introduce further changes (for example, the extension of the existing neighbourhood preservation zones (Milieuschutzgebiete).

We are, therefore, constantly monitoring implementation legislation, cooperating with housing management committees and using the legal means at our disposal with regard to co-determination.

Although we currently consider this risk to be material, we do not believe the continued existence of the company to be under any threat.

Other risks arising in the letting context may arise as a result of defaults on rental demands or a low level of customer satisfaction, or in connection with tenancy agreements or our contractual partners. We do not consider these to be material at the present time.

Risks arising in connection with the company's personnel/employees

According to Deutsche Wohnen's evaluation criteria, these are deemed to be non-material risks at the present time.

A decisive factor for the success of our business operations is the knowledge and special skills of our employees.

Risks may arise as a result of changes to, for example, the existing legal framework (such as minimum wage regulations), the lack of corporate identification of the employees, insufficient integration of new employees, increased staff turnover, a lack of skilled personnel, or higher staff expenses due to a general rise in salaries in the market as a whole or increased social security contributions.

The HR department develops support and employee loyalty programmes and regularly adjusts the company's system of remuneration in line with the market. We accommodate the generational diversity among our workforce with the help of intelligent work station design, while health awareness days, a company-wide summer party and other benefits help to increase our attractiveness as an employer.

The Deutsche Wohnen Group has employee benefit liabilities arising out of the company's retirement provision scheme in the form of pension commitments, in respect of which provisions in the amount of EUR 66 million were established as at 31 December 2017. However, the actual amount of these liabilities cannot be calculated in full ahead of time and is subject to a considerable degree of uncertainty, with the result that the actual amount of the employee benefit liabilities may exceed the amount of the established pension provisions.

In addition, some subsidiaries/Group companies are members of the Pension Institution of the Federal Republic and the Federal States [Versorgungsanstalt des Bundes und der Länder – VBL]. Structural changes could result in the termination by the VBL of existing arrangements, and in significant claims for payment of equivalent amounts. All personnel-related measures are thus undertaken in consultation with our legal advisers.

Risks arising as a result of acquisitions and disposals

According to Deutsche Wohnen's evaluation criteria, these are deemed to be non-material risks at the present time.

New legislation

Legal or political interventions may result in sales activities being deferred or have an impact on price levels.

Market risks associated with disposals

A deterioration in the economy as a whole or a change in interest rates generally could result in a decline in interest in the purchase of properties. This would give rise to the risk, in both individual privatisations and block sales, of potential purchasers putting property investments on hold and thus causing delays in Deutsche Wohnen's disposal schedule.

Risks arising as a result of acquisitions

In the case of the acquisition of residential properties and nursing care facilities in both existing and new regions, there is a possibility that we may be able to achieve targets associated with such acquisitions either only to a certain degree or only at a later date. Furthermore, the performance of the acquired holdings will depend on various factors: the rents we expect to receive, the possible lowering of vacancy rates, the expense incurred in relation to maintenance measures, privatisation targets, the sale of non-strategic units and the costs relating to the integration process. The integration of new holdings requires the reorganisation of both administrative and management systems and internal structures and processes. These factors may diverge from our estimates and result in a failure to realise projected earnings or give rise to additional risks. We avail ourselves of the services of external and internal specialists as well as relying on ongoing project monitoring in order to minimise these risks. The Management Board is aware that growth should not be pursued at all costs.

Increased risk exposure additionally results from the conclusion of a larger number of purchase agreements of increased complexity, or from unfounded third-party claims.

In order to minimise our risk exposure, all discernible legal, financial, objective and tax-related risks are identified and analysed as a preliminary measure in the context of extensive due diligence procedures, Corresponding safeguarding measures, such as guarantees, indemnifications, reservations and insurances policies, are undertaken as a means of securing claims.

The requisite structured tracking and monitoring of the fulfilment of the resultant obligations is undertaken by the Contract Management department.

Potential deviations from business plans or assumptions held at the time of a corporate merger are identified and monitored by means of corresponding reporting activities.

Risks arising as a result of the company's nursing care operations

This risk category comprises risks specifically arising in the nursing care context. We currently consider this risk category to be non-material.

Risks may arise as a result of changes to the existing legal framework applicable to our nursing care operations, shortfalls on the part of operators or a deterioration in the quality of the services provided.

By virtue of our shareholding in the nursing home operator KATHARINENHOF®, we are ideally placed to counterbalance any shortfalls on the part of third-party operators of our nursing care facilities.

Property risks

We have identified property risks in connection with statutory requirements, environmental concerns, the structural condition and quality of our properties, as well as their surrounding areas.

Our risk assessment in this context takes account of maintenance lapses, structural damage or inadequate fire protection, in particular. Risks can also arise in connection with site contamination – including wartime contamination, pollutants in soil or hazardous substances in building materials or possible breaches of building regulations.

At the portfolio level, risks appear as a result of a concentration in the structure of the holdings. Such risks may include increased maintenance and refurbishment expenses and an increased difficulty in letting units.

We maintain an overview of the condition of our properties based on a technical analysis of our holdings, on which basis we have also established a corresponding long-term investment programme supplemented by a number of ad hoc measures. As a result of our acquisition of numerous properties in recent years, we now need to improve the quality of some of the holdings in our portfolio.

However, Deutsche Wohnen's properties are generally in a lettable condition, the overall vacancy rate being on 31 December 2017 2.0%. Moreover, the condition of the properties in technical terms is an aspect which is taken into account in the risk assessment. Therefore, we currently consider this risk category to be non-material.

Financial risks

This risk category comprises the following risks, which we currently classify as non-material.

Risks arising as a result of fluctuations in value

Deutsche Wohnen recognises its investment properties (i.e. properties which are held with a view to generating rental income or for value enhancement purposes) at their fair value on the balance sheet. The fair value amount is governed, in particular, by developments on the property market as a whole, those on regional markets, the growth of the economy and – to a lesser degree – interest rate levels. There is, therefore, a risk that, in the event of negative developments in the property market, the general economic situation or as a result of rising interest rates, the carrying amounts of its real estate assets reported by Deutsche Wohnen on its consolidated balance sheet may have to be written off.

This could also result in fluctuations in the carrying amounts for and/or revenues of shareholdings or in the value of cash items.

Liquidity risks

Deutsche Wohnen includes delayed cash flows from revenues and the granting of loans and unforeseen expenses leading to liquidity problems among its financial risks.

Financial market risks and risks arising out of financial instruments

Following the successful refinancing and restructuring of its loan portfolio, Deutsche Wohnen will not have any material volumes requiring refinancing up to and including 2019. In addition, Deutsche Wohnen has been awarded credit ratings of A– by Standard & Poor's and A3 by Moody's, making it one of the most highly ranked listed real estate companies in Europe.

However, as a general rule banks may no longer be able or willing to extend expiring credit lines. The possibility that refinancing could become more expensive and that future contractual negotiations could become more time-consuming cannot be ruled out.

Furthermore, the loan agreements concluded by the company contain financial covenants, a failure of compliance with which could result in the extraordinary termination of loans by the banks. In the case of Deutsche Wohnen, these affect key financial figures which mostly relate to its ability to service its debts (debt service cover ratio (DSCR)/interest service cover ratio (ISCR)) and its debt ratio based on rental income (multiplier).

Risk exposure for the Group arising out of financial instruments comprises interest-related cash flow risks, liquidity risks and default risks. The company's management draws up and reviews risk management guidelines for each of these areas of risk. **Default risks**, or the risk that a partner will not be able to meet its obligations, are managed by using exposure limits and control processes. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The **risk of the occurrence of a liquidity shortfall** is assessed on a daily basis with the aid of a liquidity planning tool. Deutsche Wohnen remains committed to ensuring that sufficient funds are available to meet future obligations at all times. The **interest rate risk** to which the Group is exposed primarily relates to non-current financial liabilities subject to floating interest rates, and is hedged using interest rate derivatives. Please refer to our statements in this regard in the Notes.

Risks arising in connection with tax law
Fundamental changes in tax regulations can lead to financial risks. For example, Deutsche Wohnen has established deferred tax assets in the amount of EUR 283 million on loss carry-forwards. Should the use of loss carry-forwards be subject to time restrictions or even denied entirely, this would give rise to an expense resulting from the amortisation of these deferred tax assets.

In the case of some subsidiaries, the external auditing of the data for past years has not yet been concluded and it is therefore possible that additional amounts of tax will be payable.

Deutsche Wohnen is subject to the rules relating to interest caps limiting the deduction, for tax purposes, of interest expenses in determining its income. The possibility that the application of these rules could in the future result in an additional tax burden cannot be excluded.

Changes in our shareholder and organisational structure could result in liability for property transfer tax or the loss of tax loss carry-forwards.

Investment risks

It is currently difficult to recruit skilled personnel and suppliers for the performance of construction, skilled trade and planning services. Materials which are in great demand may also become more expensive, which could result in increased construction costs or delays in construction, which in turn could result in a failure to meet financial targets or in the postponement of investments. Consequently, investment decisions are subjected to ongoing review. This risk is therefore classified as material.

Legislation is an important factor in the investment context, and one which is constantly subject to change. The risk of new building regulations coming into force is classified as material, as such legislative changes could have an adverse impact on the company's ability to achieve its financial targets.

The following risks are currently classified as non-material risks.

The selection and planning of major maintenance measures can result in an incorrect allocation of investment funds.

As a general rule, complex investment measures are always subject to cost- and time-related risks, which are countered by means of project-specific monitoring activities.

Official orders to suspend construction work and non-procurement of building permits could have an adverse effect on the company's operations as these problems can give rise to unscheduled costs or construction delays. The removal of contamination and the implementation of amendments to statutory provisions could result in increased expenses.

Opportunities for future development

In the financial year 2017, Deutsche Wohnen laid substantial groundwork for the company's continued positive performance.

Overall, the strategy over the past few years of concentrating and orientating the portfolio on and towards growth markets – while at the same time lowering the company's debt ratio and the Group refinancing interest rate – is likely to create great potential for value enhancement in the future.

Opportunities arising as a result of market developments or trends

The positive performance of our property portfolio has been bolstered by consistently dynamic market growth, while rising demand for housing, above all in conurbations, has resulted in a fall in vacancy rates.

According to the Federal Statistical Office [Statistisches Bundesamt – Destatis], the current age structure of the population is likely to have a greater impact on population growth over the next three decades than the balance of the influx of immigrants to and the outflux of emigrants from Germany

A further opportunity which has emerged for Deutsche Wohnen is the expansion of its business operations to include the nursing segment in the wake of rising demand for beds in nursing care facilities.

The Deutsche Wohnen residential property portfolio exhibits considerable potential for growth, particularly in its Core+ regions, with Berlin, Dresden, Leipzig, Dusseldorf and the Rhine-Main region ranking top among Germany's metropolitan areas.

Financial opportunities

Deutsche Wohnen's financing structure is highly stable and efficient. The Group has secured financing for the long term and has a loan-to-value (LTV) debt ratio which is lower than average, having fallen consistently over the past few years. Our business model is fully acknowledged by our banking partners and our credit rating has improved steadily over the years.

With its current ratings of A– in the case of Standard & Poor's and A3 in the case of Moody's, in both cases with sound prospects, Deutsche Wohnen remains one of the most highly ranked real estate companies in Europe. Our issuer ratings accord us a greater degree of financial flexibility.

Our favourable access to the equity and debt capital markets, together with the very low rates of interest at present, provides us with good opportunities for financing our future growth.

As at the reporting date, the company's market capitalisation amounted to approximately EUR 13 billion, which represents an increase of approximately 30% compared to the previous year. As a result, Deutsche Wohnen has now made itself more visible in the hands of international investors, which could lead to advantageous interest rates on the capital markets.

Opportunities arising as a result of investments

We have increased the amount of our existing investment programme to approximately EUR 1.2 billion, with a view to further improving the quality of the properties in our portfolio. Deutsche Wohnen intends to invest in approximately 30,000 residential units with above-average prospects for future development by 2022. We have also adopted a re-densification and new construction programme in the amount of around EUR 550 million with a view to enabling the efficient use of existing land reserves and the construction of approximately 2,500 additional residential units over the next five years. The opportunities presented by these projects relate to sustainable investment and the creation of value, rather than the generation of anticipated returns over the short term.

Forecast

General economic conditions

Economic upswing in Germany is expected to continue: The German Institute for Economic Research e. V. [DIW Berlin] forecasts growth for the German economy in 2018 at the previous year's level of 2.2%. In light of the subdued trends in wages and prices, however, there is no risk of the German economy overheating. Rather, the pace of growth is expected to slow down somewhat.

Positive outlook for the German residential property market

Residential investment market remains on the upswing: JLL predicts that in Germany a transaction volume of around EUR 14 billion to 15 billion can be achieved in the commercial residential investment market in 2018. The ongoing expansion of foreign investors into Germany, the ongoing boom in project developments and price increases for existing portfolios could contribute to this.[1]

High demand for new construction in metropolitan areas: According to the Cologne Institute for the German Economy, 88,000 new residential units will have to be built in Germany's top 7 cities by 2020 in order to meet increasing demand. Of these, Berlin alone accounts for 31,230 apartments, which represents about 35% of the total demand. However, with an average of 7,700 new residential units per year in Berlin between 2011 and 2015, only a quarter of this demand has been met. This means that construction activity is lagging significantly behind demand. In order to counteract this trend, both cities and investors should continue to focus on re-densification measures in existing properties.[2]

Interest rates are likely to remain low: With regard to the financial markets, no significant change in the policy of low interest rates is foreseeable. Therefore, it can be assumed that interest rates will remain low. Thus, favourable financing conditions and low returns on alternative forms of capital investment will probably continue to stimulate demand for residential property.

Forecast for the financial year 2018

Our forecasts are based on the business projections derived from our planning instruments and take account of possible risks and opportunities associated with our future development. Nevertheless, some risks and opportunities associated with our future development remain, as is shown in the risk and opportunity report from page 58 onwards.

In addition, our projections reflect assumptions as regards developments both in the economy as a whole and in the residential property market. We expect to realise FFO I in the amount of approximately EUR 470 million and adjusted EBITDA (excluding disposals) in the amount of approximately EUR 615 million in the financial year 2018.

Our plans for the financial year 2018 with regard to the individual segments are as follows:

We anticipate that our **Residential Property Management** segment will generate earnings in the amount of approximately EUR 640 million. Here, our focus over the coming years will be on organic growth and the energy-efficient refurbishment of our properties. To this end, in 2016 we launched a modernisation programme, to be implemented over the coming years, in the amount of approximately EUR 1.2 billion, with these funds earmarked for investment in the Core+ regions. A further EUR 550 million will be dedicated to new construction and re-densification projects. Ongoing maintenance measures will be between EUR 9 per sqm and EUR 10 per sqm in 2018. We do not expect any material change in the vacancy rate as compared to that recorded at the end of 2017. The planned like-for-like rental increase amounts to around 3% across the entire letting portfolio.

1 JLL, Investment Market Overview for Germany, 4th Quarter 2017
2 Cologne Institute for the German Economy, Migration to the major cities and the resulting demand for housing, 07.02.2017

In the **Disposals** business segment, the focus in 2018 will also be on privatisation. Disposals from within the strategic Core and Growth regions will be decided depending on the situation and the opportunities.

We expect segment earnings of around EUR 48 million for the **Nursing and Assisted Living** business segment. In addition, we intend to further expand this segment through targeted acquisitions.

Interest expenses are likely to amount to approximately EUR 100 million given the refinancing measures taken in recent financial years. The debt ratio (loan-to-value ratio) is expected to be within our target range of 35% to 40% by the end of the year.

Given unchanged general conditions and the positive outlook for the German residential property market, particularly in metropolitan areas, we expect our property portfolio to develop positively in 2018 and a resulting increase in EPRA NAV compared with 2017.

Remuneration report

The remuneration report describes the principles underlying the system of remuneration for the members of the Management Board and the Supervisory Board of Deutsche Wohnen SE, and explains the composition and amount of the individual remuneration paid to each of the Board members.

Remuneration system for the Management Board

The remuneration system for the Management Board and the total remuneration of the individual members are determined by the Supervisory Board and are subject to regular review. The amount of remuneration to be paid is governed by the German Stock Corporation Act [Aktiengesetz – AktG], supplemented by the regulations of the German Corporate Governance Code [Deutscher Corporate Governance Kodex – DCGK].

Criteria for the appropriateness of the remuneration paid to members of the Management Board are the responsibilities of the individual member, his/her personal performance, the economic situation, the success and future prospects of the company, and the extent to which the amount of remuneration is customary among his/her peers and in light of the remuneration structures in place within the company. The remuneration system as a whole focuses on the sustainable development of the company.

The contracts of all of the members of the Management Board provide a compensation payment in the event that their board activity ends early for reasons other than termination for good cause. The amount of this payment is limited to a maximum of two years' remuneration (settlement cap) and will not constitute remuneration for more than the residual term of the employment contract. The contracts also provide a compensation payment in the event of an early termination of the board activity as a result of a change of control, in which case the amount of the payment will be limited, in line with section 4.2.3 of the DCGK, to a maximum of three years' remuneration.

In addition to fixed remuneration, the members of the Management Board receive variable short-term and variable long-term remuneration. The variable short-term remuneration component is aligned with short-term company targets. The variable long-term remuneration component is intended to enable the members of the Management Board, who shape and implement the company's business strategy and are thus materially responsible for its performance, to partake of the financial risks and opportunities to which the company is exposed. The variable remuneration components may be withheld in the event of any non-attainment of targets or will be subject to an upper limit.

The members of the Management Board moreover receive benefits in kind in form of insurance premiums and personal use of means of communication and company vehicles. In case of extraordinary developments, the contracts of the Management Board additionally could provide extra payments/renumeration which are limited to the amount of the particular fixed annual salary. No pension arrangements are in place.

The variable long-term remuneration component will be revised in 2018.

Variable remuneration system until financial year 2017

The variable short-term remuneration component – short-term incentive (STI) – is set on an annual basis in a target agreement between the Management Board and the Supervisory Board. The level of target attainment is determined after the respective financial year has ended. All claims to remuneration will be forfeited if the level of target attainment is lower than 75%, with the upper limit in this regard being 125%.

Payment of the STI for the financial year 2017 was subject to the attainment of the following financial performance targets: FFO I (weighting: 20%), earnings from Disposals (weighting: 20%), EPRA NAV per share (weighting: 10%) and LTV (weighting: 10%). In addition, various strategic targets were defined, primarily with regard to the further optimisation of the capital structure, the implementation of the investment programme, the further expansion of the value-added chain, the integration of the nursing home facilities acquired in the financial year 2016, and the further development of the sustainability strategy (weighting: 30%). The decision as to whether to pay a further 10% of the STI was placed at the discretion of the Supervisory Board. At its meeting held on 8 March 2018, the Supervisory Board resolved upon the application of a degree of target attainment for STI of 125% for the Management Board for the financial year 2017.

The variable long-term remuneration component – long-term incentive (LTI) – takes the form of a share option programme ("SOP 2014").

In order to safeguard the shareholders' interest in a sustainable enhancement of the value of the company, share options may only be exercised where defined performance targets are reached by the end of the four-year waiting period. Specifically: Increase in (i) adjusted NAV per share (weighting: 40%), (ii) FFO I (without disposals) per share (weighting: 40%) and (iii) the share price development (weighting: 20%). Each of the aforementioned performance targets in turn comprises a minimum target, which must be attained in order to render half of the share options allotted to this performance target exercisable. In addition, there is a maximum target, upon the attainment of which all of the share options allotted to this performance target will become exercisable. The minimum target will be attained upon target attainment of 75% and the maximum target will be attained upon target attainment of 150%, taken across all of the individual targets. The performance targets take account of both the development in absolute terms of the key industry-specific indicators EPRA NAV per share (adjusted for goodwill) and FFO I per share on the basis of the company's four-year projections prior to the issuance of any share options, and also the relative performance of the Deutsche Wohnen share as compared to a group of its publicly listed German competitors. This is intended to encourage the beneficiaries of the programme to act in furtherance of the goal of attaining positive sustainable performance on the part of the company.

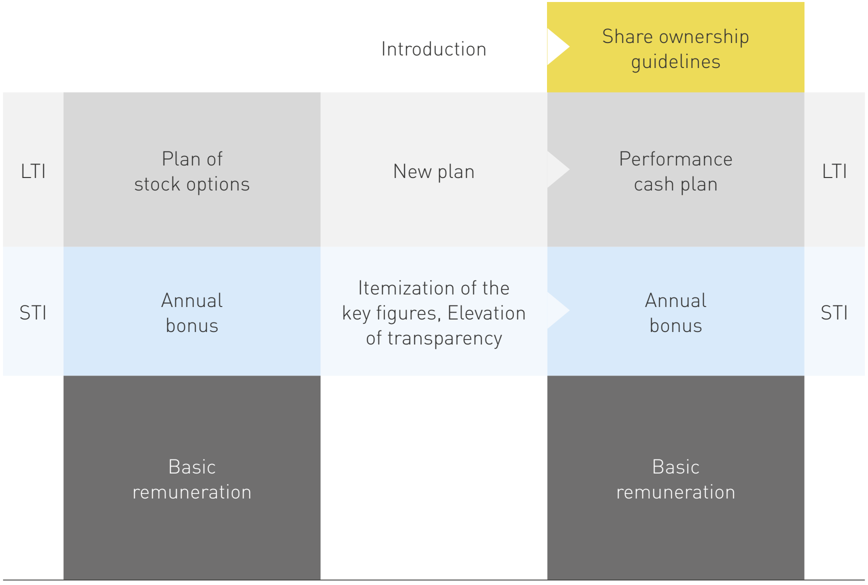
In accordance with section 193(2)(4) of the German Stock Corporation Act [AktG], the waiting period for a tranche of share options will in each case commence on the date of issue and end four years after that date. The period for the exercise of the options is three years. Share options that are not or cannot be exercised by the end of the relevant seven-year term will expire or be forfeited without reparation or compensation.

System of variable remuneration from financial year 2018 onwards

According to the recommendation of the Executive Committee the Supervisory Board resolved upon the implementation of adjustments to the system of remuneration for the members of the Management Board. The previous system of remuneration had been subjected to a review and process of enhancement with the assistance of an external remuneration consultant. The objectives for the enhancement of the system of remuneration for the members of the Management Board can be summarised as follows:
- Reduction of complexity of the system of remuneration
- Elevation of transparency and comprehensibility
- Greater alignment with the requirements of the capital markets through stronger weight of the share price performance
- Stronger representation of both current and future business strategies

The revised system of remuneration for the Management Board, described in greater detail below, is in line with both the specifications of the AktG and the recommendations and suggestions put forward by the DCGK. The changes will apply in equal measure to all of the members of the Management Board from 1 January 2018 onwards.

Overview of the new variable system of remuneration



The new system of remuneration has been established on the basis of performance-based parameters, which also depend on the company's success and the relative share price performance. The variable remuneration components will continue to be calculated primarily on a long-term basis. In the interests of reducing the complexity of the system of remuneration, the share option plan in place to date will be replaced with a performance cash plan. The introduction of Share Ownership Guidelines (SOGs) will effectively reinforce the company's capital markets orientation, while fostering synchronized interests between Deutsche Wohnen's shareholders and its Management Board.

Variable short-term remuneration component – short-term incentive (STI)
In the interests of improving the transparency and comprehensibility of the system of remuneration, the performance targets for the STI will be described in the annual report from the financial year 2018 onwards. In addition, the Supervisory Board will in the future waive its rights with regard to the discretionary payment of a portion of the STI.

The assessment basis for the STI will comprise both financial and non-financial performance targets, which will be in line with both the current business strategy and the short-term company targets. They will be agreed upon in the form of a target agreement between the Management Board and the Supervisory Board at the beginning of each financial year. The performance targets defined in the target agreement will be disclosed in advance in the remuneration report, with at least two financial and two non-financial performance targets being determined per financial year, whereby the financial performance targets will always account for a share of 80% of the overall degree of target attainment.

The following financial performance targets apply with regard to the financial year 2018: (i) the adjusted EBITDA excluding earnings from disposals (weighting: 50%), (ii) the cost ratio (the relationship of staff costs and general and administration expenses to in-place rents; weighting: 10%) and (iii) the sales proceeds (weighting: 20%). The target values for the attainment of the financial performance targets are stipulated by the Supervisory Board, having regard to the business plan (budget) for the year in question. A bonus will be paid out where the aggregated results for the three financial performance targets amounts to as much as 125% of the target value in question. No bonus will be paid out where the aggregated degree of target attainment is under 75%.

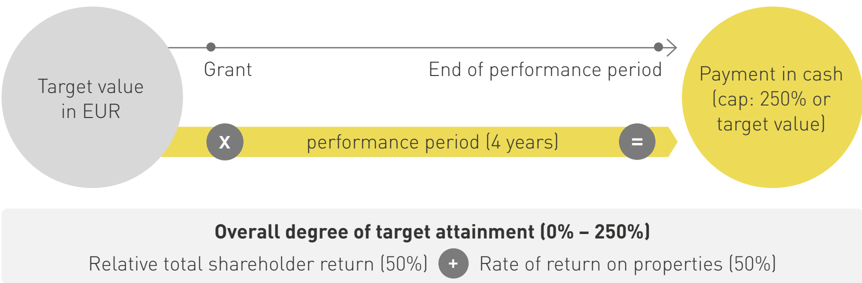
Strategic targets have been defined by way of non-financial targets in relation to the sustainability of the company's investment programme, having regard to the extent of the reduction of CO_2 emissions, the growth in the segment of nursing and assisted living, the expansion of the supply chain as well as the progress made in the „DW 4.0" project, and assigned a weighting of 20% in total. DW 4.0 addresses the necessary means of enhancing Deutsche Wohnen's ability to tap into new and existing, but as yet unused, potential, which involve the adoption of a more customer-focussed approach, a target group-oriented portfolio strategy and intergenerational personnel development measures. As in the case of the financial performance targets, the degree of attainment of the strategic targets may range between 0% and 125%, with 100% target attainment being the target value. As in the case of the financial performance targets, the degree of attainment of the strategic targets and the individual performance targets may range between 0% and 125%, with 100% target attainment being the target value.

The degree of attainment of the financial and non-financial targets is determined upon the expiration of a given financial year, and is published in the remuneration report. The final amount of the annual bonus paid out may not exceed 125% of the target value in question.

Variable long-term remuneration component – long-term incentive (LTI)

In the future, the members of the Management Board will receive variable long-term remuneration in the form of a cash payment as part of a performance cash plan. The new system of remuneration continues to be based on transparent, performance-based parameters aimed at securing the sustainable success of the company. The performance cash plan provides for the limitation of the amount of the LTI to be paid out to a maximum of 250% of the target in question.

Performance cash plan
Mode of Operation



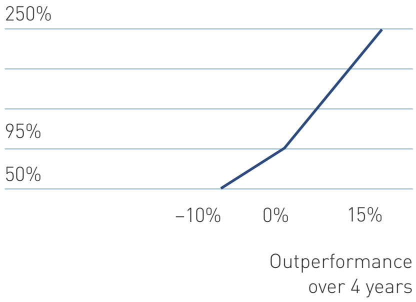
The members of the Management Board will receive a target amount in euros for each tranche of the performance cash plan. This target amount will be multiplied by the applicable degree of target attainment upon the expiration of a four-year performance period. The assessment basis for the determination of the overall degree of target attainment will comprise two equally-weighted performance targets, which are cumulatively combined. Having regard to the relative share price performance and the return on property (EPRA NAV growth and dividend return), the amount of variable long-term remuneration which will be paid out will depend on both an external comparison with the company's competitors and on an evaluation of Deutsche Wohnen's performance.

The performance target "relative share price performance" takes account of both general developments on the capital markets and the performance of the company's competitors. During the four-year performance period, the development of the total shareholder return (TSR) on the Deutsche Wohnen share is gauged on the basis of a comparison with the FTSE EPRA/NAREIT Germany index, with the extent of any outperformance being calculated as the difference between the development of the TSR on the Deutsche Wohnen share and that of the reference group. The arithmetical mean of the closing prices for the last 30 trading days prior to the commencement of the performance period is taken as the initial share price for the Deutsche Wohnen share and the FTSE EPRA/NAREIT Germany index, with the arithmetical mean of the closing prices for the last 30 trading days prior to the expiration of the performance period being taken as the final share price. Dividends paid out over the course of the years in question will be offset, on the assumption that the amounts will be reinvested, in the calculation of the relative share price performance. The scale which will apply to the performance target "relative share price performance" over the four-year performance period is as follows:
- Where the extent of the outperformance of the Deutsche Wohnen share as compared to the FTSE EPRA/NAREIT Germany index is –10%, this will constitute a degree of target attainment of 50%; where the extent of the outperformance is less than –10%, this will constitute a degree of target attainment of 0%.
- Where the development of the TSR on the Deutsche Wohnen share is the same as that for the reference group, this will constitute a degree of target attainment of 95%. The target value of 100% will therefore be achieved only in the case of a positive outperformance as compared to the reference group.
- The maximum degree of target attainment of 250% being achieved where the extent of the outperformance is upwards of +15%.
- Degrees of target attainment falling between the various threshold values will be subjected to linear interpolation.

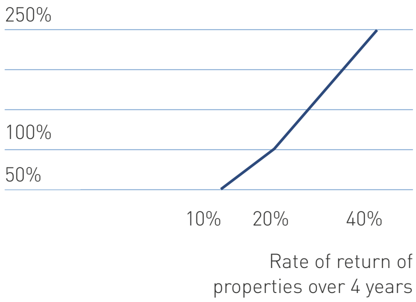
The performance target "return on property" serves as an incentive for the Management Board to increase Deutsche Wohnen's net asset value, and the amount of the dividends paid out to its shareholders, over the long term. In this context, the EPRA NAV per share (adjusted for goodwill) at the beginning of the performance period is compared to the corresponding value at the end of the performance period in percentage amounts. This value is added to the total annual dividend return, which reflects the ratio of the individual annual dividend to the EPRA NAV per share calculated for the previous year. The scale which will apply to the performance target "return on property" over the four-year performance period is as follows:
- Where the return on property is 10%, this will constitute a degree of target attainment of 50%; where the return on property is less than 10%, this will constitute a degree of target attainment of 0%.
- The target value of 100% will be achieved where the return on property amounts to upwards of 20%,
- The maximum degree of target attainment of 250% being achieved in the case of a return on property in the amount of 40%.
- Degrees of target attainment falling between the various threshold values will be subjected to linear interpolation.

The degree of attainment of the two performance targets is determined upon the expiration of the four-year performance period and is published in the remuneration report. The final amount of paid out per tranche may not exceed 250% of the target value originally awarded.

Relative share price performance
Degree of target attainment



Rate of return of properties
Degree of target attainment



Introduction of Share Ownership Guidelines (SOGs)

Share Ownership Guidelines (SOGs) will be introduced from the financial year 2018 with a view to reinforcing Deutsche Wohnen's capital markets orientation and equity culture. The members of the Management Board of Deutsche Wohnen have undertaken to invest 300% (Chief Executive Officer) or 150% (ordinary members of the Management Board) of their basic remuneration in Deutsche Wohnen shares over a period of four years and to hold these until the expiration of their term of office as Board members. To this end, each member of the Management Board of Deutsche Wohnen has undertaken to meet interim targets with regard to shareholdings over the course of an acquisition period ending on 31 December 2021. Accordingly, their total shareholdings (including already held shares) at the end of each financial year should be commensurate with at least 25% of the total amount of the STI remuneration (net salary) paid out after 1 January 2018.

Total remuneration paid to the members of the Management Board

The members of the Management Board have received the following remuneration in return for the performance of their responsibilities in this capacity:

	Michael Zahn Chief Executive Officer Since 01/09/2007				Lars Wittan Member of the Management Board Since 01/10/2011				Philip Grosse Member of the Management Board Since 01/09/2016			
EUR k	**2016**	**2017**	2017 (Min.)	2017 (Max.)	**2016**	**2017**	2017 (Min.)	2017 (Max.)	**2016**	**2017**	2017 (Min.)	2017 (Max.)
Fixed remuneration	825	975	975	975	376	432	432	432	108	323	323	323
Supplementary payments	34	34	34	34	24	24	24	24	6	18	18	18
Total fixed remuneration	**859**	**1,009**	**1,009**	**1,009**	**400**	**456**	**456**	**456**	**114**	**341**	**341**	**341**
Short-term variable remuneration	500	500	0	625	240	300	0	375	58	175	0	219
Long-term variable remuneration (SOP)	750	750	0	1,125	260	400	0	600	75	225	0	338
Total variable remuneration	**1,250**	**1,250**	**0**	**1,750**	**500**	**700**	**0**	**975**	**133**	**400**	**0**	**557**
Total	**2,109**	**2,259**	**1,009**	**2,759**	**900**	**1,156**	**456**	**1,431**	**247**	**741**	**341**	**898**

Upper limit relates to the degree of target attainment with regard to the three parameters and not to the performance of the share price

The members of the Management Board as well as the internal positions held by the Supervisory Board members have received the following amounts in return for their work in this capacity:

	Michael Zahn Chief Executive Officer Since 01/09/2007		Lars Wittan Member of the Management Board Since 01/10/2011		Philip Grosse Member of the Management Board Since 01/09/2016	
EUR k	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed remuneration	825	975	376	432	108	323
Supplementary payments	34	34	24	24	6	18
Total fixed remuneration	**859**	**1,009**	**400**	**456**	**114**	**341**
Short-term incentive	773	744	374	360	0	73
Short-term character	625	625	300	300	0	73
Long-term character	148	119	74	60	0	0
Long Term Incentive	450	450	300	300	0	0
Total variable remuneration	**1,223**	**1,194**	**674**	**660**	**0**	**73**
Total	**2,082**	**2,203**	**1,074**	**1,116**	**114**	**414**

Given that Mr Philip Grosse was appointed a member of the Management Board with effect as at 1 September 2016, he was only paid partial amounts of remuneration for his work in this capacity with respect to 2016.

No loans or advances were granted to members of the Management Board of Deutsche Wohnen SE in the financial year 2017.

The following share options on basis of the existing share options program [AOP] 2014 have been granted to date:

	Michael Zahn				Lars Wittan				Philip Grosse			
EUR k	2014	2015	2016	**2017**	2014	2015	2016	**2017**	2014	2015	2016	**2017**
Basis: 150% of the LTI in EUR k	1,125	1,125	1,125	1,125	390	390	390	600	n/a	n/a	112	337
Reference price in EUR	16.96	24.16	24.37	31.80	16.96	24.16	24.37	31.80	n/a	n/a	28.57	31.80
Options granted	66,332	46,565	46,163	35,377	22,995	16,142	16,003	18,867	n/a	n/a	3.937	10,613
Total share options				**194,437**				**74,007**				**14,550**

The number of exercisable share options per tranche will conclusively be determined upon the expiration of the four years waiting period and in accordance with the degree of the satisfaction of the above-mentioned criteria. The exercise period is three years, the exercise price is EUR 1.00.

The total expenditure of the share-based remuneration described in the report period, is for Mr Michael Zahn EURk 768, for Mr Lars Wittan EURk 399 and Mr Philip Grosse EURk 208.

In addition to their respective share options, Mr Michael Zahn holds 26,389, Mr Lars Wittan 11,104 and Mr Philip Grosse 11,000 shares in the company.

Illustrative overview of the number of the company's shares and share options held by the members of the Management Board (by way of example, on the basis of exercisability upon degrees of target attainment of 75% and 150%):

	Michael Zahn		Lars Wittan		Philip Grosse	
Options						
Degree of target attainment in %	75	150	75	150	75	150
Share options granted 2014 – 2017	97,220	194,437	37,005	74,007	7,275	14,550
Issued share capital		26,389		11,104		11,000
Total	**123,609**	**220,826**	**48,109**	**85,111**	**18,275**	**25,550**
Xetra closing price for the share in 2017 in EUR		36.46		36.46		36.46
Value of the shares and options for accounting purposes as of 31/12/2017[1] (EUR k)	4,507	8,051	1,754	3,103	666	932
In relation to amount of fixed remuneration for 2017	446	876	306	618	106	188

1 Reported for illustrative purposes with regard to the Xetra closing price for the share in 2017

System of remuneration for members of the Supervisory Board

Each member of the Supervisory Board receives a fixed remuneration of EUR 75,000; the Chairman of the Supervisory Board receives three times that amount and the Deputy Chairman of the Supervisory Board receives one and a half times that amount as remuneration. Each member of the Supervisory Board receives additional lump-sum remuneration in the amount of EUR 15,000 per year for his/her membership of the Audit Committee, with the Chairman receiving double that amount. Remuneration for membership of any other Supervisory Board committees is paid in the amount of EUR 5,000 per member, committee and financial year, with the Chairman receiving double that amount in each case. Including the remuneration of the members of the Supervisory board and comparable supervisory committees of the Group, the total amount of any remuneration per member of the Supervisory board – regardless of the number of memberships in a committee or functions – must not exceed an amount of EUR 300,000 (excluding the turnover tax thereby incurred) per year.

The Supervisory Board remuneration for the financial year 2017 amounted to EUR 738,750 (previous year: EUR 543,000), net of value added tax. Mr Uwe E. Flach received EUR 270,000 net (previous year: EUR 148,000), Dr. Andreas Kretschmer received EUR 152,500 net (previous year: EUR 123,000), Mr Wolfgang Clement received EUR 40,000 (previous year: EUR 68,000; ceased to be a member of the Supervisory Board with effect as at 2 June 2017), Mr Jürgen Fenk received EUR 18,750 (member of the Supervisory Board since 1 October 2017), Mr Matthias Hünlein received EUR 80,000 net (previous year: EUR 65,000), Dr. Florian Stetter received EUR 95,000 net (previous year: EUR 75,000), and Mr Claus Wisser received EUR 82,500 net (previous year: EUR 65,000).

The company will reimburse the members of the Supervisory Board for any reasonable expenses incurred by them in the performance of their duties. The company will also reimburse the amount of any value added tax accruing on the remuneration paid to the members of the Supervisory Board, provided that the latter are entitled to invoice the company for the value added tax on a separate basis and avail themselves of this option.

Furthermore, the company has taken out liability insurance on behalf of the members of the Supervisory Board (so-called D&O insurance), with a retention amount of 10% of the value of the damage in question. This retention amount will be limited, for all events of damage occurring within an annual policy period, to one-and-a-half times the amount of the fixed annual remuneration for the member of the Supervisory Board in question.

No loans were granted by the company to members of the Supervisory Board.

Takeover-relevant information

pursuant to section 289a and section 315a of the German Commercial Code (HGB)

Issued capital and shares

The registered share capital of Deutsche Wohnen SE as at 31 December 2017 amounted to EUR 354,666,078.00 (previous year: EUR 337,480,450.00). It is divided into 354,666,078 no-par value bearer shares, each representing a notional share of the registered capital of EUR 1.00 per share. Deutsche Wohnen SE issues bearer shares only.

All shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and determines the shareholders' shares in the profits of the company. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act [Aktiengesetz – AktG], in particular sections 12, 53a ff., 118 ff. and 186. There are no shares with special rights conferring powers of control.

Capital increase

On 21 February 2017, the company's Management Board, with the consent of the Supervisory Board, resolved upon a capital increase out of authorised capital in return for cash contributions and to the exclusion of the subscription rights of the shareholders of Deutsche Wohnen. On 23 February 2017, 17,174,110 new no-par value bearer shares with dividend rights from 1 January 2016 onwards were issued.

Share of the capital representing more than 10% of the voting rights

Pursuant to section 33(1) of the German Securities Trading Act [Wertpapierhandelsgesetz – WpHG], any shareholder whose shareholding reaches, exceeds or falls below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights of a publicly listed company must inform that company and the German Federal Financial Supervisory Authority [Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin] accordingly without delay. Any such notifications are published by Deutsche Wohnen SE pursuant to section 40 of the German Securities Trading Act (WpHG). There is no knowledge of direct or indirect shareholdings in the capital reaching the threshold of 10% of the voting rights.

Power of the Management Board to issue or buy back shares

Authorised Capital

By resolution of the Annual General Meeting held on 2 June 2017, which was entered into the commercial register on 22 June 2017, the Management Board has been authorised to increase the company's registered capital, with the consent of the Supervisory Board, by up to EUR 110 million once or several times during the period until 1 June 2020 by means of the issuance of up to 110 million new ordinary bearer shares against cash contributions and/or contributions in kind **(Authorised Capital 2017)**. Shareholders are to be granted subscription rights in principle with the scope of the authorised capital. However, in certain cases, the Management Board is entitled to exclude the subscription rights of shareholders with the agreement of the Supervisory Board and subject to the detailed provisions of the Articles of Association.

Contingent Capital

The **Contingent Capital 2013/I** in the amount of EUR 16,075,714.00 serves the issuance of shares to the owners of convertible bonds with a total nominal value of EUR 250 million issued by the company on 22 November 2013 pursuant to the authorisation of the Annual General Meeting of 28 May 2013. It will only be exercised insofar as conversion rights arising out of the abovementioned convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

The **Contingent Capital 2014/I** in the amount of EUR 25 million serves the issuance of shares to the owners of convertible bonds with a total nominal value of EUR 400 million issued by the company on 8 September 2014 pursuant to the authorisation of the Annual General Meeting of 11 June 2014. It will only be exercised insofar as conversion rights arising out of the aforementioned convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

Both the **Contingent Capital 2013/I** and the **Contingent Capital 2014/I** became irrelevant because of the repurchase and subsequent deletion of the convertible bonds, for which they were intended.

The issued capital of the company was originally contingently increased by up to a further EUR 15 million by means of the issuance of up to 15 million new no-par value bearer shares with dividend rights pursuant to a resolution adopted by the Annual General Meeting held on 11 June 2014 **(Contingent Capital 2014/II)**. This contingent capital increase is dedicated to the granting of compensation in the form of shares in the company to the external shareholders of GSW Immobilien AG („GSW") in accordance with the provisions of the control agreement between the company and GSW dated 30 April 2014, currently at the exchange ratio of 7.0790 no-par value shares of Deutsche Wohnen SE in exchange for three no-par value shares of GSW Immobilien AG, as adjusted on 4 June 2015 in accordance with section 5(4) of the control agreement. To the extent that this is necessary pursuant to section 5(2) of the control agreement, the company will pay compensation for fractional shares in cash. EUR 9,108,705.00 of this contingent capital 2014/II had been used – by means of the issuance of 9,108,705 new no-par value bearer shares with a corresponding increase in the issued capital – by 31 December 2017, with EUR 5,891,295.00 remaining as at 31 December 2017. An Appraisal Proceeding pursuant to section 1(1) of the German Act on Appraisal Proceedings [Gesetz über das gesellschaftsrechtliche Spruchverfahren – SpruchG], for a review of the appropriateness of the settlement offer and the compensation is pending with the district court of Berlin due to corresponding motions brought forward by individual shareholders of GSW. Therefore, GSW shareholders may, pursuant to section 305(4), sentence 3 of the German Stock Corporation Act [AktG], exchange their GSW shares for Deutsche Wohnen shares in accordance with the terms of the offer, the judgment in the shareholder action or an amicable settlement reached in this connection, within two months of the publication in the German Federal Gazette of the final judgment in the shareholder action. Should a court order or the terms of an amicable settlement result in the stipulation of a larger amount of compensation or a larger settlement, external shareholders of GSW may, to the extent permitted by the relevant statutory provisions, be able to demand supplementation of their settlement or compensation payments. In light of this, an issuance of shares remains a possibility.

Furthermore, the contingent increase of the registered capital by up to EUR 12,879,752.00 by means of the issuance of up to 12,879,752 new no-par value bearer shares, each representing a share of the registered capital of EUR 1.00, has been authorised **(Contingent Capital 2014/III).** This contingent capital serves solely the purpose of the issuance of share options to the members of the Management Board of the company and to selected executives of the company and affiliated companies in accordance with the more specific provisions of the authorising resolution adopted by the Annual General Meeting held on 11 June 2014. The contingent capital increase will only be implemented insofar as holders of share options exercise their subscription rights with regard to shares of the company and the company does not grant its own shares for the purpose of upholding these subscription rights. Any new shares issued as a result of the exercise of share options will – to the extent legally and effectively permissible – be entitled to dividends for the first financial year with regard to which, at the time of their issuance, no resolution had yet been adopted by the Annual General Meeting as to the use of the net profit. Alternatively, the new shares will be entitled to dividends as of the financial year in which they accrue.

The **Contingent Capital 2015/I** in the amount of EUR 50 million serves the issuance of shares to the owners of convertible bonds with a total nominal value of EUR 800 million issued by the company on 27 February 2017 pursuant to the authorisation of the Annual General Meeting of 12 June 2015. It will only be exercised insofar as conversion rights arising out of the aforementioned convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

A resolution adopted by the Annual General Meeting held on 2 June 2017 additionally authorised the contingent increase of the issued capital by up to a further EUR 67 million by means of the issuance of up to 67 million new no-par value bearer shares **(contingent capital 2017/I)**. The contingent capital increase is dedicated to the issuance of shares to the owners or creditors of convertible bonds or bonds with warrants, profit participation rights and/or profit-sharing bonds (or a combination of these instruments), which are issued before 1 June 2022 by the Company, or companies which are controlled or majority owned by the Company, on the basis of the authorising resolution adopted by the Annual General Meeting held on 2 June 2017. The resolution adopted at the Annual General Meeting held on 2 June 2017 authorised the Management Board to issue no-par value convertible and/or warrant bearer bonds and/or profit participation rights with option or conversion rights (or a combination of these instruments) in the nominal value of up to EUR 3.0 billion, and to grant the creditors thereof conversion or option rights for the Company's shares representing a share of the issued capital of up to EUR 70 million. The Company made partial use of this option by issuing a convertible bond with a total nominal amount of EUR 800 million on 4 October 2017. The share issue will only be exercised insofar as conversion rights arising out of the convertible bonds are exercised, or insofar as conversion obligations arising out of the bonds are fulfilled, and own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

Acquisition of own shares

The acquisition of own shares is authorised pursuant to section 71 ff. of the German Stock Corporation Act [AktG] and also, as at the balance sheet date, by the Annual General Meeting held on 11 June 2014 (agenda item 14). The Management Board is authorised, with the consent of the Supervisory Board and subject to compliance with the principle of equal treatment of shareholders under section 53a of the German Stock Corporation Act (AktG) to purchase and use the company's own shares to 10 June 2019 up to a total amount of 10% of the company's outstanding share capital at the time the resolution is passed, or at the time the authorisation is used if this figure is lower. Shares acquired using this authorisation together with other treasury shares the company has previously acquired and still holds or are attributable to it under section 71a ff. of the German Stock Corporation Act [AktG] may not at any time exceed 10% of the company's share capital.

The authorisation may not be used for the purpose of trading in own shares.

As at the balance sheet date, the company did not have any of its own shares.

Appointment and dismissal of members of the Management Board and amendments to the Articles of Association

Members of the Management Board are appointed and dismissed by the Supervisory Board pursuant to Articles 9 (1) and 39 (2) (Regulation (EC) No 2157/2001) and sections 84 and 85 of the German Stock Corporation Act [AktG]. The Supervisory Board of Deutsche Wohnen SE appoints members of the Management Board for a maximum of five years. A reappointment or an extension of the term of office are both permitted for a maximum of five years. The Articles of Association of Deutsche Wohnen SE additionally stipulate in clause 8 (1) and (2) that the Management Board has to consist of at least two members and otherwise the Supervisory Board determines the number of Management Board members. It may appoint deputy members of the Management Board and nominate a member of the Management Board as Chief Executive Officer or Spokesperson of the Board.

According to section 59(SE-VO) of the German Stock Corporation Act [AktG], the Annual General Meeting decides generally on changes to the Articles of Association. Pursuant to Article 59 of Regulation (EC) No 2157/2001, the Annual General Meeting fundamentally decides on amendments to the Articles of Association. Pursuant to section 14 (3) sentence 2 of the Articles of Association, amendments to the Articles of Association require a majority of two-thirds of the votes cast, unless mandatory statutory provisions require a different majority, or, if at least half of the share capital is represented, a simple majority of the votes cast. Pursuant to section 179 (1) sentence 2 of the Stock Corporation Act in conjunction with section 14(5) of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association which merely affect the wording thereof.

Change-of-control clauses and compensation agreements in the event of a takeover offer

The material agreements of Deutsche Wohnen SE and its Group companies which are subject to a change in control primarily relate to financial arrangements. As is customary in such cases, these entitle the lender to terminate the financing arrangement and demand early payment of the redemption amount in the event of a change of control.

Under certain circumstances, a change of control could have an impact on bonds issued by Deutsche Wohnen SE, especially convertible bonds, the corporate bond, exisiting credit lines and credit contracts, which are concluded by group companies and banks. The respective terms and conditions contain standard agreements that grant the holders the right to terminate and convert the bonds prematurely in case a change of control according to the definition in the terms and conditions comes into effect.

The employment contracts of the members of the Management Board likewise contain provisions applicable in the event of a change of control. In the event of premature termination of their employment due to a change in control of the company, the members of the Management Board will receive benefits in accordance with the requirements of section 4.2.3 of the German Corporate Governance Code and with the limitation on the cap on remuneration prescribed therein in each case.

Corporate management

We have published the information according to section 289f and section 315d of the German commercial code [HGB] on our website http://ir.deutsche-wohnen.com.

Berlin, 8 March 2018

Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of the
Management Board

Philip Grosse
Management Board

Non-financial Group statement

Deutsche Wohnen SE is publishing a consolidated non-financial statement for the financial year 2017 in accordance with section 315b ff. of German Commercial Code [HGB] pursuant to the German Act Implementing the CSR Directive [CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG]. This statement addresses those material, non-financial matters which have been identified as being of relevance to the business activities of Deutsche Wohnen and as having a significant impact on the environment, the company's employees, social issues human rights and the problem of corruption and bribery. This statement was prepared in line with the standards of the Global Reporting Initiative. The reported key figures are self-defined indicators of performance.

Further measures and activities undertaken by Deutsche Wohnen SE in connection with its sustainability management programme are described in the combined management report. References can be found in the corresponding sections of this non-financial statement. With regard to the risks to which the company is exposed and our management of those risks, we also refer to the risk and opportunity report on page 58 of the combined management report.

The non-financial statement has been subjected to a voluntary audit with limited security by the accounting firm KPMG AG. Further information on the sustainability-related activities of Deutsche Wohnen SE is contained in the comprehensive sustainability report, which is planned for publication in June 2018 at https://www.deutsche-wohnen.com/html/en/sustainability.php, and will be prepared in accordance with the GRI Standards (Core option).

References to more detailed information beyond the combined management report and the non-financial statement are not part of the audit.

Business model

Deutsche Wohnen is one of the leading publicly listed real estate companies within Germany and Europe. Its property holdings comprise more than 163,000 residential and commercial units, with a total value of approximately EUR 19.6 billion[1]. Its holdings also include nursing facilities with approximately 6,700 beds and assisted living apartments. Further information on the company's business model can be found in the section entitled Fundamentals of the Group on page 23 of the combined management report.

The sustainability strategy of Deutsche Wohnen

As a sustainably managed company, Deutsche Wohnen assumes responsibility for environmental and social issues and for its employees. We believe that sustainable action will secure our company's future viability and is also in the interest of our stakeholders.

Our approach to the issue of sustainability is focussed on striking a balance between cost-effectiveness, on the one hand, and energy efficiency and housing quality, on the other hand, as prerequisites for the sustained growth of our company. To this end, we strive to maintain a corporate culture – the essential cornerstones of which are authenticity, transparency and ethical business practices. This approach to sustainability, as an element of our overall Group strategy, is also reflected in our day-to-day workflows.

Since as early as 2013, we have been reporting on our activities in connection with sustainable development and on economic, ecological and social indicators in accordance with the globally recognised GRI guidelines. Furthermore, we have committed ourselves to upholding the German Sustainability Code [Deutscher Nachhaltigkeitskodex – DNK] and are in compliance with its supplementary requirements, which specifically apply to the housing industry.

1 Without deposits that were made, units under constructions and undeveloped real estate

Regular and transparent interaction with our stakeholders is of great importance for our company and, in particular, for the further development of our sustainability strategy. Our major stakeholders comprise our employees, investors and analysts, customers, business partners, politicians, trade associations and the media.

Drafting of the non-financial statement

In order to prepare the non-financial statement, we initiated an internal process last year aimed at identifying the material topics in accordance with the CSR-RUG. On the basis of the GRI Standards, Deutsche Wohnen assessed the impact of its activities on the sustainability issues specified in the legislation and evaluated their relevance to understanding the business development and results of the company. This was done in internal workshops attended by members of the relevant specialist departments and the Management Board.

The following reports address the seven material topics identified in this manner – combatting corruption, energy, materials, land degradation, contamination and remediation, employment, local communities and human rights. These topics are analogous to the factors stipulated in the CSR-RUG. The order in which these factors are addressed is based on the relevance of the impact of the activities of Deutsche Wohnen on the business environment as a whole, including the value creation chain.

Combatting corruption and bribery

Deutsche Wohnen's holdings are located in attractive metropolitan areas and conurbations which are subject to high demand for housing. Employees who have some influence over the allocation of residential units may, therefore, find themselves the targets of bribery attempts. The same may be the case when it comes to awarding contracts for maintenance, modernization and new construction. Given that any cases involving corruption and bribery would expose Deutsche Wohnen to considerable reputational risk, the company has implemented clear anti-corruption rules which form a central element of its compliance management activities.

Deutsche Wohnen places great value on compliance with legal provisions and the standards of the German Corporate Governance Code, and on the fair treatment of business partners and competitors, with the Group's executives, the Internal Revision and Compliance Officer, in particular, being responsible for ensuring such compliance. The Compliance Officer informs the management, employees and business partners about the relevant provisions of capital markets legislation and the consequences of any infringement of those regulations, while also acting as a point of contact for employees and answering any questions they may have. Individuals have the option of reporting cases of suspected non-compliance on an anonymous basis, if they so wish.

As part of the risk management system in place at Deutsche Wohnen, all of its business divisions and processes are subject to both regular and event-based review by way of a risk inventory, which addresses not only compliance risks but also corruption-related risk (see page 58 of the risk and opportunity report).

Our Code of Conduct, which prescribes and defines dealings that are in compliance with the law, applies to all employees throughout the company. In addition, our anti-corruption guidelines expressly prohibit corruption as well as any attempts to unlawfully influence business partners by according them preferential treatment, giving them gifts or granting them other benefits. All employees confirm in writing that they have received a copy of the Code and Conduct when they start working for the company.

In addition, managers are required to ensure that their employees are aware of the need for compliance with these regulations, and an e-learning programme is available for ongoing training purposes. The award of contracts is subject to a company-wide set of rules that specify signatories depending on the value of the individual contract. In each case, a second signature and a plausibility check are required as part of a system of dual control (the "four eyes" principle).

Performance indicator	
Cases of corruption in 2017	0

Environmental concerns

Deutsche Wohnen's major environmental concerns relate to energy, materials and the handling of site contamination. Responsibility for Deutsche Wohnen's environmental management activities lies with its Management Board.

Energy

The Paris Agreement sets clear targets for the reduction of energy consumption and the lowering of CO_2 emissions. So, the construction industry, including companies such as Deutsche Wohnen, must now play its part in achieving these goals. We are, therefore, focusing on championing the use of renewable energy and on improving the energy efficiency of our holdings. Our to some extent sizeable investments in the implementation of energy efficiency measures are generally having an adverse impact on our business results, at least in the short term. This demonstrates, among other things, the interdependency of economic and ecological factors, a reality which has to be reflected in any measures undertaken.

Energy concept: holdings

Deutsche Wohnen has launched an extensive programme of investment in the maintenance, refurbishment and energy-efficient modernisation of its property holdings, and intends to allocate more than EUR 1 billion to this endeavour until 2022. The measures in question will include, for example, the insulation of facades, basement ceilings and roofing, improvements in the standard of fixtures and fittings in our residential units, the replacement or energy-efficient refurbishment of windows, the renewal of heating systems and the efficient generation of energy or the use of renewable energy. In this way, Deutsche Wohnen is also ensuring its compliance with the requirements of the German Federal Emission Control Act [Bundes-Immissionsschutzgesetz – BImSchG] and the German Energy Saving Ordinance [Energieeinsparverordnung – EnEV]. Further information on these matters can be found in the section entitled "Property portfolio" under the point "energy efficiency of properties" on page 33 of the combined management report.

Performance indicator	
Average energy intensity[2]	133.4 kWh/sqm per year

Energy requirements: tenants

In the housing sector, it is customary for tenants to enter independently into contracts with utility companies for the supply of gas and electricity. Deutsche Wohnen has no direct influence over either the choice of supplier or the energy consumption of its tenants. However, we do endeavour to raise our tenants awareness of ecological considerations. For example, statements of costs based on tenants' actual consumption of resources (heating, hot and cold water) can help to bring about a change in their consumer behaviour. When more complex modernisation measures are carried out, this is achieved by installing heating cost allocators or meters for hot and cold water, which make it possible to measure the specific consumption of individual households. Approximately 90% of the electricity required for entrance and hallway lighting and the operation of technical equipment (communal electricity) in the buildings in our letting portfolio is obtained from hydro-electric power.

Energy concept: new construction

Deutsche Wohnen intends to construct 2,500 new residential units, either within new detached buildings or by way of the construction of additional storeys and attic conversions, by 2022. The total amount to be invested in these measures is just under EUR 550 million. We base our plans for the development of new city districts on established sustainability criteria, having regard to any potential for increasing energy efficiency, among other factors. Accordingly, we investigate possible means of reducing energy requirements and using renewable forms of energy at an early stage, and incorporate these into our urban development plans, for example, with the focal points being the energy standard of the envisaged buildings and the supply of heating and hot water. Deutsche Wohnen, therefore, designs and realises its new builds in accordance with integrated energy concepts. For further information, please see the section entitled "Criteria applicable to new construction projects" on page 87.

2 The weighted average of the final energy consumptions on the basis of the current energy performance certificate of properties (the approximately 30,000 listed units are usually not under consideration, because no energy performance certificate is necessary for them).

In-house energy consumption

As part of its energy audit, which was conducted in accordance with DIN EN 16247-1, Deutsche Wohnen has collected extensive data on the energy consumption of its own administrative locations and has verified this data through on-site visits. Potential for energy savings was identified on the basis of an analysis of this data and in turn used to design measures to optimise the flow of energy within the company.

Since 2012, we have been using energy from hydroelectric power to meet most of the total in-house electricity requirements of our administrative locations.

Materials

The materials used by the company also have an impact on the environment, whether in connection with the mining of raw materials, during the production process or when materials are disposed of. Deutsche Wohnen, therefore, takes environmental and health-related factors into account when procuring the materials for its activities. Given that environmentally friendly materials are generally more costly, its decisions in this regard have a direct effect on its business results.

Deutsche Wohnen's consumption of materials relates to three categories: major projects, such as the refurbishment and modernisation of residential units; smaller projects carried out as part of its ongoing maintenance activities; and new construction measures. Given that its projects are carried out by sub-contractors, Deutsche Wohnen is only able to influence the choice of the materials used by imposing specifications. As a rule, all materials used must be in compliance with German legislation and regulations, so they are not harmful to either human health or the environment. Any specifications that are more stringent than this are an additional contribution to environmental protection. Thus, Deutsche Wohnen has largely discontinued its use of styrofoam for insulation purposes in favour of cellulose or mineral wool.

Specifications for system providers

The services provided by our system providers are governed by a standard price list which covers 80% - 90% of the standardised services applicable to tenant turnover and defines the standard quality products – for example, washstands, tiles or taps – which may be selected and installed by the system providers. Another standard price list – containing appropriate quality criteria applicable in the case of frequently recurring maintenance measures with an individual contract value of more than EUR 1,000 – was developed in 2017, with a pilot project being launched for testing purposes. As part of its technical facility management activities, Deutsche Wohnen coordinates its purchases of materials, products and services via the system service provider B&O Deutsche Services GmbH, with the Construction Products Lists of the Deutsches Institut für Bautechnik (DIBt, a centre of competence for construction, serving as quality guidelines in this regard. The acceptance of the performance of the services in question is subject to a process of quality assurance, which ensures that the stipulated specifications are complied with.

Criteria applicable to new construction projects

Deutsche Wohnen conducts its new construction activities in accordance with established sustainability criteria, such as the German Assessment System for Sustainable Development [Bewertungssystem Nachhaltiges Bauen – BNB] or the standards of the German Sustainable Building Council [Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB]. New construction projects are monitored by an agency for sustainable building certification, which provides the advice, concepts and measurements which are necessary for DGNB certification. The agency also coordinates the planning and construction documentation and incorporates specifications for the use of sustainable materials into the contracts concluded with suppliers.

Only those materials which exhibit recognised health and environmental safety credentials with regard to their extraction, transportation, processing, use and disposal may be used for construction measures. To some extent, construction materials which are certified in accordance with the Cradle to Cradle® concept are also used. Responsibility for compliance and quality assurance lies with the architects commissioned to work on the projects in question.

Handling of site contamination

The majority of the residential units in the portfolio of Deutsche Wohnen were not actually constructed by the company itself. Some of these buildings were constructed using materials which at the time were deemed to be modern from a technical standpoint but would now be considered to be harmful were they to be released into the environment. Even though their effects on human health and the environment would generally be minimal, these materials should be replaced in good time before they come into contact with surrounding areas. Furthermore, any accident involving hazardous materials would be damaging to the company's reputation and could result in claims for compensation.

The handling of hazardous construction materials is subject to strict regulation in the form of guidelines and legislation. When replacing and disposing of asbestos and other hazardous waste, Deutsche Wohnen adheres to the Technical Rules for Hazardous Substances [Technische Regeln für Gefahrstoffe – TRGS], which are part of the Technical Building Rules [Technische Baubestimmungen]. Any construction materials containing asbestos or other hazardous substances which are present in existing buildings are replaced with suitable materials, and the contaminated materials are disposed of in the prescribed manner, in order to avoid any injury to individuals or damage to the environment.

In the case of modernisation or maintenance work or new construction projects, we treat the ground soil of the relevant plots of land with due care. Land for new builds is carefully examined for any evidence of contamination and treated in accordance with the applicable statutory requirements pursuant to the German Federal Soil Protection Act [Bundes-Bodenschutzgesetzes – BBodSchG].

Employee-related concerns

Deutsche Wohnen's highly qualified and motivated workforce is a crucial element in the realisation and maintenance of its successful growth trajectory, with the result that the recruitment and retention of such employees is of critical importance for the company. We strive to be a good employer, offering our employees and junior staff attractive prospects for personal development and career advancement, ensuring they receive fair remuneration and enabling them to maintain a good work-life balance. Particular emphasis is placed on the provision of professional training and continuing education opportunities. We design our personnel management measures having regard to these considerations and the outcome of the employee appraisal interviews held on an annual basis. This enables us to avoid incurring costs resulting from possible staff turnover and to counter any threat to the successful implementation of our corporate strategy.

In 2011, we adopted a Code of Conduct which is binding on all our employees and executives and which is intended to encourage them to interact with each other and with third parties in a manner based on trust and mutual respect.

Personnel development

The Human Resources management department deploys structured employee development and talent management measures to assist employees in discovering their individual strengths. The employee surveys, which are conducted every two years, the employee appraisal interviews, which have been held on an annual basis since 2015, and the system of 360° feedback for managers provide us with an important insight into the abilities and needs of our employees, enabling Deutsche Wohnen to fill key positions from within its own ranks and to foster employee loyalty among top-performing members of its workforce on a long-term basis.

We develop suitable junior employees in the course of our superior staff training, trainee and talent management programme and dual courses of studies, while our internal staff development programme ensures that we are able to offer our employees group-specific and needs-oriented training sessions.

Performance indicator	
Degree of attainment: performance reviews[3]	94%

Fair remuneration

The performance-based and market-aligned system of remuneration introduced in 2014 imposes uniform and gender-equitable standards and therefore increases the level of satisfaction among our employees as a whole. Such a system of remuneration in accordance with transparent rules ensures that employees in comparable positions receive the same amount of remuneration. We have defined four salary levels on the basis of both a market comparison for all of the positions within the individual Deutsche Wohnen companies and wage agreements applicable in the industry. Employees are allocated to one of these levels in accordance with their job description and their qualifications.

Work-life balance and additional benefits

Deutsche Wohnen offers various options for working on a part-time or flexi-time basis, or even from home, with a view to enabling its employees to achieve a greater work-life balance. The company also strives to create a healthy working environmental through its occupational health management programme, offering its employees benefits such as health awareness days, cost-free massages, fruit baskets or participation in sporting events. Deutsche Wohnen's positive performance as an employer has been recognised in the form of a number of awards. These include its certification as a "Fair Company" as part of the identically named initiative of karriere.de, the seal of "Training Excellence" ["Exzellente Ausbildungsqualität"] awarded by the Chamber of Commerce and Industry [Industrie- und Handelskammer – IHK] and being named one of the "Best Training Providers in Germany" ["Beste Ausbilder Deutschlands"] and "Best Providers of Dual Course of Study Options" ["Beste Ausbilder Duales Studium"] by Capital magazine. Further information can be found in the section entitled "Employees" on page 51 of the combined management report.

Social concerns

Contemporary living standards and an intact infrastructure are not only important for the wellbeing of each and every individual but also contribute to maintaining a positive social climate generally. Given that it is one of the leading real estate companies in Germany, Deutsche Wohnen's activities have a considerable impact on society as a whole.

Deutsche Wohnen ensures the high quality and attractiveness of its holdings through continual investments in maintenance and modernisation, and takes care to foster strong tenant communities which facilitate the stable development of its residential districts. Combined with dedicated administrative measures and fast processing times in our service offices, this enables us to maintain a low vacancy rate on a sustained basis, and thus to address any cost and reputational risks.

Design of residential districts

The impact of the design of our housing estates also extends to the surrounding districts. The majority of our buildings are surrounded by open, green spaces which are maintained by Deutsche Wohnen in the interests of providing areas for relaxation and the improvement of air quality. Other measures implemented with a view to creating an attractive living environment include the "greening" of building facades and the construction of playgrounds. In addition, we strive to achieve a diverse social mix within our districts and greater integration of marginal groups.

In the past few years, the nursing facilities in our Nursing and Assisted Living segment have developed into social and societal centres of activity, offering a wide variety of cultural events and in-house restaurants. These are open to both residents of the nursing homes and outside guests.

3 All employees who have been at Deutsche Wohnen in 2017 longer than six month, excluding minor employees.

Dialogue with tenants

Deutsche Wohnen informs its tenants at an early stage of any planned refurbishment, maintenance or modernisation measures, for example in the form of tenants' meetings, tenant consultations or personal visits. Our customers can reach us first and foremost at our Service Points on site or at our central Service Points. We strive to achieve a greater exchange of information, as well as greater tenant participation in our decision-making processes, having already successfully tested measures to secure tenant involvement in such matters as choosing the colour for the building facades.

Customer satisfaction

Given the rising demand for accommodation, particularly in metropolitan areas, affordable housing has become an important subject of public debate. Deutsche Wohnen carefully balances the interests of its tenants against those of its investors and the municipalities in which its properties are located with a view to achieve a fair outcome in all cases. Deutsche Wohnen takes cases of financial and social hardship into account and adjusts the amounts that it passes on to tenants for modernisation measures on an individual case basis. We place great value on securing long-term tenancies and on achieving a high level of customer satisfaction. To this end, we conducted a survey of all our tenants in 2017, an exercise which we intend to repeat at regular intervals in the future, as a means of obtaining ideas for specific improvements aimed at raising the overall level of satisfaction.

Performance indicator	
Tenant satisfaction with housing situation	81%

Commitment to social causes

Furthermore, through a continuous exchange of information and ideas and its collaboration with residents, politicians and social agencies, Deutsche Wohnen helps to provide attractive living conditions within urban areas and to bring about a strengthening of social structures. Its activities in the area of social commitment relate particularly to those areas in which its core capabilities can most effectively be put to use. Accordingly, these activities consist, in particular, of measures in which the issue of housing plays an important role. For example, we rent out commercial space to social organisations within our residential districts at favourable rates, provide financial support to enable the hiring of social workers and allocate residential units to socially disadvantaged individuals. Since 2015, we have been working closely with local authorities and social initiatives on the integration of refugees, donating to initiatives which have a positive impact on the communities in our housing estates and contribute to the ongoing, successful interaction of all residents.

Avoidance of human rights abuses

Deutsche Wohnen operates solely in Germany – as do its direct suppliers. In essence, human rights abuses can be precluded by the observance of national laws. These laws include, amongst other things, a ban on child labour and forced labour, a ban on discrimination and the right to freedom of association and collective negotiations.

To guarantee human rights is self-evident for us and is an integral part of our corporate culture. Deutsche Wohnen promotes diversity and does not tolerate any discrimination of staff on the basis of gender, age, origin, disability or sexual orientation, or for any other reason.

Berlin, 8 March 2018

Michael Zahn Chairman of the Management Board	Lars Wittan Deputy Chairman of the Management Board	Philip Grosse Management Board

Limited assurance report of the independent auditor regarding the separate non-financial Group statement[1]

To the Supervisory Board of Deutsche Wohnen SE, Berlin

We have performed an independent limited assurance engagement on the Separate Non-Financial Group Statement (hereinafter "Statement") of Deutsche Wohnen SE and the Group (hereinafter "Deutsche Wohnen") according to Sections 315b HGB (German Commercial Code) for the business year from January 1 to December 31, 2017.

Management's Responsibility

The legal representatives of the entity are responsible for the preparation of the Statement in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Statement in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion on the Statement based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance of whether any matters have come to our attention that cause us to believe that the Statement of the entity has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, provide a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

1 Our engagement applied to the German version of the Statement. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel on the corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of Deutsche Wohnen
- A risk analysis, including a media search, to identify relevant information on Deutsche Wohnen's sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring of disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of the data
- Inquiries of personnel on the corporate level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documentation
- Analytical evaluation of data and trends of quantitative disclosures
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Statement of Deutsche Wohnen, for the business year from January 1 to December 31, 2017, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of Use/Clause on General Engagement Terms

This assurance report is issued for the purposes of the Supervisory Board of Deutsche Wohnen SE, Berlin, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Deutsche Wohnen SE, Berlin, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Berlin, 07 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
Original German version signed by:

Laue	ppa. Scholz
Wirtschaftsprüfer	Prokuristin
[German Public Auditor]	

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Consolidated balance sheet

as at 31 December 2017

EUR m	Notes	31/12/2017	31/12/2016
Assets			
Investment properties	D.1	19,628.4	16,005.1
Property, plant and equipment	D.3	92.3	55.9
Intangible assets	D.4	19.0	20.5
Derivative financial instruments	D.7	3.3	0.0
Other non-current assets		23.1	32.2
Deferred tax assets	D.17	0.4	0.7
Non-current assets		**19,766.5**	**16,114.4**
Land and building held for sale	D.5	295.8	381.5
Other inventories		4.4	3.4
Trade receivables	D.6	15.5	16.4
Income tax receivables		47.5	36.7
Other financial assets		9.3	7.4
Other non-financial assets		8.0	2.4
Cash and cash equivalents	D.8	363.7	192.2
Subtotal current assets		**744.2**	**640.0**
Non-current assets held for sale	C.10	28.7	29.2
Current assets		**772.9**	**669.2**
Total assets		**20,539.4**	**16,783.6**

EUR m	Notes	31/12/2017	31/12/2016
Equity and liabilities			
Equity attributable to shareholders of the parent company			
Issued share capital	D.9	354.7	337.5
Capital reserve	D.9	3,078.6	3,445.3
Other reserves		–19.7	–36.9
Retained earnings	D.9	6,474.6	4,219.7
Total equity attributable to shareholders of the parent company		**9,888.2**	**7,965.6**
Non-controlling interests	D.9	322.8	268.4
Total equity		**10,211.0**	**8,234.0**
Non-current financial liabilities	D.10	4,697.4	4,533.5
Convertible bonds	D.11	1,667.3	1,043.9
Corporate bonds	D.11	819.3	496.3
Employee benefit liabilities	D.12	65.7	67.6
Derivative financial instruments	D.7	1.2	34.8
Other provisions	D.15	13.6	15.5
Other financial liabilities		217.8	90.3
Deferred tax liabilities	D.17	2,496.7	1,687.1
Total non-current liabilities		**9,979.0**	**7,969.0**
Current financial liabilitie	D.10	53.7	66.5
Convertible bonds	D.11	2.3	1.2
Corporate bonds	D.11	7.3	236.0
Trade payables		177.7	161.6
Other provisions	D.15	6.6	8.3
Derivative financial instruments	D.7	4.1	12.2
Tax liabilities	D.16	27.2	48.3
Other financial liabilities		44.1	41.3
Other non-financial liabilities		26.4	5.2
Total current liabilities		**349.4**	**580.6**
Total equity and liabilities		**20,539.4**	**16,783.6**

Consolidated profit and loss statement

for the period from 1 January to 31 December 2017

EUR m	Notes	31/12/2017	31/12/2016
Income from Residential Property Management	E. 1	744.2	704.5
Expenses from Residential Property Management	E. 2	–131.4	–118.1
Earnings from Residential Property Management		**612.8**	**586.4**
Sales proceeds		308.6	354.3
Thereof revenues		188.1	50.6
Cost of sales		–7.2	–10.4
Carrying amount of assets sold		–251.1	–289.6
Thereof revenues		–153.7	–37.7
Earnings from Disposals	E. 3	**50.3**	**54.3**
Income from Nursing and Assisted Living		120.7	70.1
Expenses from Nursing and Assisted Living		–72.7	–53.3
Earnings from Nursing and Assisted Living	**E. 4**	**48.0**	**16.8**
Corporate Expenses	E. 5	–81.3	–73.7
Other expenses	E. 7	–37.8	–16.0
Other income	E. 6	8.8	7.3
Subtotal		**600.8**	**575.1**
Gains from the fair-value adjustments of investment properties	D. 1	2,397.0	2,667.6
Depreciation and amortisation	D. 3/4	–7.4	–543.7
Earnings before interest and taxes (EBIT)		**2,990.4**	**2,699.0**
Finance income		1.4	3.4
Gains/losses from fair-value adjustments of derivate financial instruments and convertible bonds	D. 7/11	–226.0	–83.4
Gains/losses from companies valued at equity	B. 3	3.0	2.0
Finance expenses	E. 9	–170.6	–131.8
Earnings before taxes (EBT)		**2,598.2**	**2,489.2**
Income taxes	E. 10	834.9	–866.0
Profit for the period		**1,763.3**	**1,623.2**
Thereof attributable to			
Shareholders of the parent company		1,717.9	1,583.9
Non-controlling interests		45.4	39.3
		1,763.3	**1,623.2**
Earnings per share			
Undiluted in EUR		4.88	4.69
Diluted in EUR		4.74	4 43

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2017

EUR m	2017	2016
Profit for the period	**1,763.3**	**1,623.2**
Other comprehensive income		
Items reclassified as affecting net income at a later stage		
Net gain/loss from derivate financial instruments	24.6	2.8
Income tax effects	–7.4	–0.9
	17.2	**1.9**
Items not classified as affecting net income at a later stage		
Actuarial gains/losses in pensions and impacts of caps for assets in pension plans	0.3	–4.5
Income tax effects	–0.3	2.4
	0.0	**–2.1**
Other comprehensive income after taxes	**17.2**	**–0.2**
Total comprehensive income, net of tax	**1,780.5**	**1,623.0**
Thereof attributable to		
Shareholders of the parent company	1,735.1	1,583.5
Non-controllig interests	45.4	39.5

Consolidated statement of cash flows

for the period from 1 January to 31 December 2017

EUR k	Notes	31/12/2017	31/12/2016
Operating activities			
Profit/loss for the period		1,763.3	1,623.2
Finance income		–1.4	–3.4
Adjustment of derivative financial instruments and convertible bonds	D. 7/11	226.0	83.4
Finance expenses		170.6	131.8
Gains/losses from companies valuated at equity		–3.0	–2.0
Income taxes		834.9	866.0
Profit/loss for the period before interest and taxes		**2,990.4**	**2,699.0**
Non-cash expenses/income			
Fair-value adjustment of investment properties	D. 1	–2,397.0	–2,667.6
Depreciation and amortisation	D. 3/4	7.4	543.7
Other non-cash operating expenses/income	G	–52.1	–63.7
Change in net working capital			
Change in receivables, inventories and other current assets		–9.4	–1.6
Change in operating liabilities		18.9	–28.3
Net operating cash flows		**558.2**	**481.5**
Sales proceeds from properties held for sale		188.1	50.6
Investments in properties held for sale		–68.3	–354.8
Interest paid		–100.9	–107.6
Interest received		1.4	3.4
Taxes paid		–65.0	–58.0
Taxes received		4.7	7.3
Net cash flows from operating activities		**518.2**	**22.4**
Investing activities			
Sales proceeds	G	115.4	285.5
Payments for investments		–1,092.3	–1,392.9
Proceeds from investments subsidies		0.8	0.0
Proceeds from dividends from shareholdings and joint ventures		0.1	0.1
Cash and cash equivalents acquired in connections with business combinations		0.0	7.1
Other proceeds from investing activities		15.3	6.7
Payments to limited partners in funds		–3.4	0.0
Net cash flows from investing activities		**–964.1**	**–1,093.5**
Financing activities			
Proceeds from borrowings	D.10	422.6	831.2
Repayment of borrowings	D.10	–497.6	–266.9
Proceeds from the issuance of convertible bonds	D.11	1,600.0	0.0
Repayment of convertible bonds	D.11	–1,205.0	0.0
Proceeds from the issuance of corporate bonds		520.0	232.9
Repayment of corporate bonds		–428.0	0.0
One-off financing costs	E. 9	–71.3	–6.9
Proceeds from the sale of non-controlling interests		99.5	0.0
Payments for the purchase of non-controlling interests		–94.8	0.0
Proceeds from the capital increase		545.3	0.0
Other payments from financing activities		–0.8	0.0
Costs of the capital increase	D.9	–4.4	0.0
Dividend paid to shareholders of Deutsche Wohnen SE	H	–262.4	–182.2
Dividends paid to shareholders of non-controlling interests		–5.7	–6.4
Net cash flows from financing activities		**617.4**	**601.7**
Net change in cash and cash equivalents		**171.5**	**–469.4**
Opening balance of cash and cash equivalents		**192.2**	**661.6**
Closing balance of cash and cash equivalents		**363.7**	**192.2**

Consolidated statement of changes in equity

as at 31 December 2017

EUR m	Issued share capital	Capital reserves	Pensions	Reserves for cash flow hedge	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Equity as at 1 January 2016	**337.4**	**3,558.9**	**–15.6**	**–20.9**	**–36.5**	**2,723.0**	**6,582.8**	**215.3**	**6,798.1**
Profit/loss for the period						1,623.2	1,623.2		1,623.2
Therof non-controlling interests						–39.3	–39.3	39.3	0.0
Other comprehensive income after tax			–2.1	1.9	–0.2		–0.2		–0.2
Thereof non-controlling interests			0.0	–0.2	–0.2		–0.2	0.2	0.0
Total comprehensive income, net of taxes			**–2.1**	**1.7**	**–0.4**	**1,583.9**	**1,583.5**	**39.5**	**1,623.0**
Capital increase	0.1	1.8					1.9		1.9
Transfer from the capital reserve		–117.6				117.6	0.0		0.0
Capital contribution relating to the remunerations of the Management Board		2.2					2.2		2.2
Change non-controlling interests						–0.3	–0.3	13.6	13.3
Dividends paid						–182.2	–182.2		–182.2
Others						–22.3	–22.3		–22.3
Equity as at 31 December 2016	**337.5**	**3,445.3**	**–17.7**	**–19.2**	**–36.9**	**4,219.7**	**7,965.6**	**268.4**	**8,234.0**
Equity as at 1 January 2017	**337.5**	**3,445.3**	**–17.7**	**–19.2**	**–36.9**	**4,219.7**	**7,965.6**	**268.4**	**8,234.0**
Profit/loss for the period						1,763.3	1,763.3		1,763.3
Therof non-controlling interes						–45.4	–45.4	45.4	0.0
Other comprehensive income after tax			0.0	17.2	17.2		17.2		17.2
Thereof non-controlling interests			0.0	0.0	0.0		0.0	0.0	0.0
Total comprehensive income, net of taxes			**0.0**	**17.2**	**17.2**	**1,717.9**	**1,735.1**	**45.4**	**1,780.5**
Capital increase	17.2	528.5					545.7		545.7
Costs of capital increase, less tax effects		–3.0					–3.0		–3.0
Transfer from the capital reserve		–893.6				893.6	0.0		0.0
Capital contribution relating to the remunerations of the Management Board		1.4					1.4		1.4
Change non-controlling interests						4.6	4.6	9.0	13.6
Dividends paid						–262.4	–262.4		–262.4
Others						–98.8	–98.8		–98.8
Equity as at 31 December 2017	**354.7**	**3.078.6**	**–17.7**	**–2.0**	**–19.7**	**6,474.6**	**9,888.2**	**322.8**	**10,211.0**

Notes to the consolidated financial statements

for the financial year ended 31 December 2017

A. General information on the consolidated financial statements of Deutsche Wohnen SE

1 The Deutsche Wohnen Group

The consolidated financial statements of Deutsche Wohnen SE ("Deutsche Wohnen") as at 31 December 2017 were prepared by the Management Board on 8 March 2018. The Supervisory Board is scheduled to approve the consolidated financial statements at its meeting on 8 March 2018. Deutsche Wohnen SE is a publicly listed real estate company based in and operating across Germany. It has its registered office in Berlin, Mecklenburgische Strasse 57 and is registered in the commercial register of the District Court of Berlin-Charlottenburg under number HRB 190322 B. On 31 July 2017, it changed its legal form from that of a German public limited company [Aktiengesellschaft] to that of a European public limited company [Societas Europaea, SE]. Furthermore, the head office was transferred from Frankfurt to Berlin on 11 October 2017.

The business activities of Deutsche Wohnen SE are limited to its role as the holding company for the companies in the Group. These comprise, in particular, Asset Management, Corporate Finance, Investor Relations, Communication and Human Resources. The operating subsidiaries focus on residential property management and disposals relating to properties, as well as on the segment Nursing and Assisted Living.

The consolidated financial statements are presented in euros. Unless stated otherwise, figures are rounded to the nearest thousand (EUR k) or the nearest million (EUR m) EUR. For arithmetical reasons, there may be rounding differences between tables and references and the exact mathematical figures.

2 Consolidated financial statements

The consolidated financial statements of Deutsche Wohnen and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the commercial law provisions applicable in a supplementary capacity pursuant to section 315e(1) of the German Commercial Code [Handelsgesetzbuch – HGB].

The consolidated financial statements have been prepared on an amortised cost basis. This excludes, in particular, the investment properties, the convertible bonds and the derivative financial instruments, which are valued at their fair value.

The consolidated financial statements comprise the financial statements of Deutsche Wohnen and its subsidiaries as at 31 December of each financial year. The financial statements for the subsidiaries are prepared using consistent accounting policies and valuation methods as at the same reporting date as the financial statements of the parent company.

3 Application of IFRS in the financial year

With the exception of new and revised standards and interpretations, the same accounting policies and valuation methods were applied to the consolidated financial statements for the past financial year as were used for the consolidated financial statements as at 31 December 2016.

First-time application of new standards in the financial year 2017:

Deutsche Wohnen was required to apply the amended IAS 12 "Income taxes" for the first time. The purpose of the amendments is, in particular, to clarify the reporting on the balance sheet of deferred tax assets arising out of unrealised losses in the case of assets to be reported on the balance sheet at their fair value. They do not have any effect on Deutsche Wohnen's reporting methodology.

The amendments to IAS 7 ("Cash flow statements") impose more extensive disclosure requirements on entities with regard to their financing activities. The Note included herein as a result can be found under G "Notes to the consolidated statement of cash flows".

Furthermore, amendments to IFRS 12 "Disclosure of interests in other entities", which more precisely define the standard's scope of application with regard to certain types of shareholdings, are now also applicable. They do not have any effect on Deutsche Wohnen's reporting methodology.

Apart from this, there were no changes as a result of the first-time application of IFRS standards or IFRIC interpretations having a material effect on the reporting in the consolidated financial statements in the financial year 2017.

Standards which are not yet mandatorily applicable:

The following shows IFRS standards which have already been published and have already been incorporated into EU law, but which are not yet mandatorily applicable:

The IASB published the final version of IFRS 9 "Financial instruments" in July 2014. The new standard is obligatorily applicable from 1 January 2018 onwards and replaces IAS 39. The new provisions largely relate to the classification of financial instruments in accordance with the business model and the reporting on the balance sheet of expected losses on assets. Furthermore, it contains new provisions on hedge accounting.

Given that the introduction of IFRS 9 does not have any material effect on Deutsche Wohnen's reporting methodology with regard to its financial position and financial performance, the Group makes use of the simplification option pursuant to IFRS 9 and dispenses with providing any comparative information for the preceding periods. The following details the results of the analysis of the impact of IFRS 9 on Deutsche Wohnen's accounting methodology with regard to financial instruments.

The classification of financial assets is expected to result in shareholdings which are currently classified as available-for-sale financial assets in the future being reported under other comprehensive income at their fair value subject to changes in value and without any effect on earnings. The resultant effects are deemed to be immaterial, having had a carrying amount of EUR 0.4 million as at 31 December 2017. Furthermore, any fluctuations in the fair value of financial liabilities with regard to which the fair value reporting option has been selected must be reported under other comprehensive income where they are the result of changes in the counterparty risk exposure.

The convertible bonds of Deutsche Wohnen issued as at the balance sheet date of 31 December 2017 fall within the scope of these provisions. However Deutsche Wohnen's stable rating prospects mean that the amendment of IFRS 9 is not expected to have any material impact on the company's reporting methodology in the foreseeable future.

The new impairment model on the basis of expected default rates will likewise not have any material impact. Due to the property-specific debit position of the rent receivables at the beginning of the month, in particular, we do not expect there to be any material effect on the reporting of cumulated impairments for the Residential Property Management segment, given that any outstanding receivables are impaired as at the end of month. With regard to the Disposals segment, there is generally no need for any significant degree of impairment of receivables due to the special legal conditions which apply in the case of property-related transactions. In the Nursing and Assisted Living segment, impairments will be recognised at an earlier stage, although the total extent of the impairments for this segment is set to remain negligible.

The amended provisions of IFRS 9 governing hedge accounting will not have any material effect on Deutsche Wohnen's reporting methodology, given that hedging transactions solely relate to cash flows resulting from future interest payments.

In May 2014, the IASB published IFRS 15 "Revenue from contracts with customers", a new standard relating to the realisation of revenues, pursuant to which revenues will be realised upon the customer attaining the power of disposal over the contracted goods and services. Furthermore, the revenues will be valued at the amount of consideration which the entity expects to receive. IFRS 15 will replace the content of IAS 18 and IAS 11, for example, and also imposes comprehensive new disclosure requirements. It is applicable for the first-time from 1 January 2018 onwards.

The results of the analysis of the customer contracts undertaken in the wake of the introduction of IFRS 15 by Deutsche Wohnen, which exclusively lead to changes of disclosure, are reported below.

Deutsche Wohnen generally enters into contracts of short duration with its customers. No costs which are specific to each individual customer contract are incurred in connection with the acquisition or the performance of the contracts.

In the Residential Property Management segment, rental agreements are concluded which largely relate to net cold rents and operating costs. The contractual component net cold rent, as an element of an operating lease, does not fall within the scope of application of IFRS 15. For the vast majority of the operating costs of the tenancy agreement, Deutsche Wohnen acts as the principal on the basis of the provisions of IFRS 15, as the Group has the power to dispose over these goods and services and therefore has a performance obligation vis-a-vis the tenant. In particular, this assessment is based on the existence of the primary performance obligation of Deutsche Wohnen towards the tenant as well as the offsetting of the operating costs incurred, which leaves Deutsche Wohnen with a portfolio risk, in particular with regard to existing vacancies. Based on this assessment, the change in presentation shows that the operating expenses from the financial year 2018 will no longer be offset against the corresponding revenues. For the financial year 2017, the application would result in an increase in income from residential property management and in the corresponding expenses for residential property management of approximately EUR 300 million to EUR 350 million.

For 2018, the financial year of first-time adoption of IFRS 15, a similar amount is expected based on the portfolio in place as at 1 January 2018. The change in presentation has no impact on the financial management parameters of Deutsche Wohnen.

In the Disposals segment, the real estate purchase agreements entered into solely entail performance obligations (transfer of ownership of properties) which are subject to the payment of defined amounts of consideration (fixed purchase price) not comprising any financing components. Given the nature of these contractual arrangements, the provisions of IFRS 15 do not impact the revenues of the segment.

In the Nursing and Assisted Living segment, Deutsche Wohnen enters into rental agreements with external operators of nursing properties which qualify as leasing arrangements and as such do not fall within the scope of application of IFRS 15. The Group also concludes nursing home agreements with residents of its owner-operated nursing properties by virtue of its shareholding in the KATHARINENHOF® Group. These nursing home agreements essentially comprise two material service components – accommodation and nursing care – which are subject to the payment of contractually stipulated amounts of consideration. Given that the contractual component accommodation constitutes a leasing arrangement and the provision of nursing care services constitutes an income component in accordance with IFRS 15, Deutsche Wohnen will be dividing the revenues from the Nursing and Assisted Living segment into two revenue items in the consolidated profit and loss statement from 1 January 2018 onwards: "Revenues from rental arrangements" and "Revenues from the provision of nursing care services". Based on the key financial figures on the balance sheet date of the 31 December 2017, "Revenues from rental arrangements" accounts for 47% and "Revenues from provision of nursing care services" for 53% of the segment's overall revenues. Revenues from rental arrangements comprise revenues generated in connection with the rental agreements concluded with external operators, the accommodation component of the nursing home agreements and rental agreements concluded in the assisted living context.

In January 2016, the IASB published a new standard IFRS 16 on lease accounting, pursuant to which lessees must report all leases concluded for a term of at least 12 months and relating to assets which are not of low value on the balance sheet in the form of rights of use and lease liabilities subject to depreciation and amortisation, while lessors may continue to distinguish between finance leases and operating leases for accounting purposes. The new standard will be mandatorily applicable from 1 January 2019 onwards. The new standard will apply to Deutsche Wohnen as an entity which transacts in the capacity of both lessor and lessee.

The company's preliminary findings in this context indicate that the first-time application of the standard to leasing arrangements in which Deutsche Wohnen acts in the capacity of lessor will result in the reporting of a gross amount of special operating costs (for example, property tax and building insurance), given that the lessee in question will not receive any benefits with regard to these costs in accordance with the new standard. Applied as in the financial year 2017, this change in reporting requirements would result in the reporting, without any effect on earnings, of operating costs in the amount of EUR 61 million (gross), irrespective of the principal/agent considerations pursuant to IFRS 15. The interim results of the analysis of the impact of the standard on the reporting of leasing arrangements in which Deutsche Wohnen acts in the capacity of lessee indicate that hereditary building rights and rental agreements for office buildings, in particular, will have to be reported on the assets or, as the case may be, the liabilities side of the balance sheet as rights of use with corresponding lease liabilities which are subject to depreciation and amortisation. On the basis of the contracts in place on the balance sheet date of 31 December 2017, this would result in an increase in the amount of the balance sheet item "Investment properties" of approximately EUR 81.2 million due to the hereditary building rights, an increase in the amount of the balance sheet item "Property, plant and equipment" of approximately EUR 5.8 million with regard to the rental agreements, and an increase in the amount of the corresponding lease liabilities of approximately EUR 87.0 million.

In June 2016, the IASB announced amendments to IFRS 2 "Share-based payment", which address the accounting of share-based payment transactions which are to be settled in cash and relate, in particular, to the calculation of the fair value on the basis of the corresponding obligations. The first-time application of the amendment is mandatory from 1 January 2018 onwards. Deutsche Wohnen does not expect it to have any material effect on its reporting methodology.

The following IFRS standards have not yet been incorporated into EU law and as such do not yet apply:

In December 2016, the IASB published amendments to IAS 40 "Investment property" which make clear that the list of possible examples of a certain change in the use of such property and its resultant transfer to or out of the IAS 40 category contained in the standard is not an exhaustive one. The amendment is mandatorily applicable from 1 January 2018 onwards. Deutsche Wohnen does not expect the amendment to have any material effect on its reporting methodology.

Furthermore, amendments to IFRS 1 "First-time adoption of international financial reporting standards" and IAS 28 "Investments in associates and joint ventures" were published in December 2016 in the form of a collective standard amendment. These amendments relate, in particular, to clarifications which are mandatorily applicable from 1 January 2018 onwards. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In June 2017, the IASB published the interpretation IFRIC 23 "Uncertainty over income tax treatments", which makes clear that entities should, in reporting uncertain amounts of income taxes on the balance sheet, proceed on the basis that the tax authorities will verify the reported amounts in full knowledge of all of the relevant information. The interpretation will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In October 2017, the IASB published amendments to IAS 28 "Investments in associates and joint ventures" relating to long-term shareholdings in such entities. These amendments make clear that an entity will be required to apply IFRS 9 "Financial instruments", including the provisions governing impairments contained therein, to long-term investments in associates and joint ventures which essentially represent a portion of the net amount invested in the associate or joint venture in question and are not reported in accordance with the equity method. The amendments will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

In December 2017, the IASB published "Annual improvements — 2015-2017 cycle" which relate to clarifications of the standards IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income taxes" und IAS 23 "Borrowing costs". The amendments will take effect for reporting periods from 1 January 2019. Deutsche Wohnen is currently analysing whether it is likely to have any effect on its reporting methodology.

The IASB and the IFRS IC did not issue any further statements and amendments to standards having a significant effect on the consolidated financial statements during the reporting year.

4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group's accounting policies and valuation methods, management has made the following judgments, which have a significant effect on the amounts recognised in the consolidated financial statements. Insofar as statements regarding discretionary decisions in the context of individual rules had to be made, an explanation was provided for the corresponding items.

Full consolidation of the KATHARINENHOF® Group

Deutsche Wohnen SE assumes that it may be deemed to exercise control over the KATHARINENHOF® Group although it does not hold the majority of the voting rights. This position of control is due, in particular, to contractual arrangements entered into with the majority shareholder. Please see Note B.3 "Disclosure of shares in other companies" for further information.

Operating lease commitments – Group as lessor

The Group has entered into leases to rent on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Classification of nursing properties as investment properties

In its Nursing and Assisted Living segment, Deutsche Wohnen implements the nursing property business model with regard to the generation of rental income and/or for value enhancement purposes. The decision to classify the nursing properties which are managed by its subsidiary KATHARINENHOF® as investment properties was largely based on the analysis of two criteria: on the one hand, fluctuations in operating cash flows purely from the nursing care business (excluding the rents for the related residential units) are examined and, on the other hand, the earnings from the provision of nursing care services are juxtaposed against the rental income from the residential units in the nursing properties as a means of assessing the significance of the nursing care services for the material financial management parameter FFO I. Due to the relatively minor fluctuations in the operating cash flows from the aforementioned provision of nursing care services and the negligible size of the contribution of these services towards the amount of the FFO I in comparison with the rental income, these properties are reported on the balance sheet as investment properties.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

The fair value of investment properties and properties held for sale

The fair value of the residential and commercial properties held for investment purposes was determined on an internal basis by means of portfolio valuations as at 30 June 2017 and 31 December 2017. The properties are clustered on the basis of their location and property quality. Assumptions regarding changes in rents, vacancies and maintenance costs, as well as discount and capitalisation rates, are largely made on the basis of these clusters. The nursing properties were valued by an external expert as at 31 December 2017, with this valuation predominantly taking account of assumptions as to market rents and discount and capitalisation rates. All assumptions adopted in the context of valuations are subject to uncertainty due to their long-term reach, which could result in positive or even negative value adjustments in the future. The carrying amount of the investment properties and properties held for sale amounted to EUR 19.6 billion (previous year: EUR 16.0 billion). Please see Note D.1 "Investment properties" for further information.

Pensions and other post-employment benefits

Expenses relating to post-employment defined benefit plans and the value of the related employee benefit liabilities reported on the balance sheet are determined on the basis of actuarial calculations. The actuarial calculations are made on the basis of assumptions regarding discount rates, future wage and salary increases, mortality and future pension increases. Such estimates are subject to significant uncertainty due to the long-term nature of these plans. The employee benefit liabilities amounted to EUR 65.7 million as at 31 December 2017 (previous year: EUR 67.6 million). Please see Note D.12 "Employee benefit liabilities" for further information.

Deferred taxes

The reporting on the balance sheet of deferred taxes calls for, in particular, estimations with regard to tax rates, the reversal of temporary differences and the use of tax assets resulting from loss carry-forwards. The underlying assumptions are subject to some uncertainty. The deferred tax assets amounted to EUR 0.4 million as at 31 December 2017 (previous year: EUR 0.7 million) and the deferred tax liabilities to EUR 2,496.7 million (previous year: EUR 1,687.1 million). Please see Note D.17 "Deferred taxes" for further information.

B. Basis of consolidation and consolidation methods

1 Basis of consolidation

The consolidated financial statements comprise those of Deutsche Wohnen SE and the subsidiaries it controls from the time of their acquisition, i. e. from the date on which the Group obtains control over the entities in question. They will continue to be consolidated until the date on which the parent company relinquishes such control. The composition of Deutsche Wohnen can be seen in the list of shareholdings attached as Appendix 1.

A total of 129 companies (previous year: 109) were included in the consolidated financial statements by way of full consolidation (Appendix 1) in 2017.

The changes to the basis of consolidation implemented in the financial year 2017 related exclusively to the Residential Property Management segment. Twenty newly acquired residential property companies without any business operations were fully consolidated, nineteen of which have the legal form of a German limited liability company [Gesellschaft mit beschränkter Haftung – GmbH] and one which has the legal form of a Luxembourg publicly limited company [société anonyme – S.A.]. Furthermore, two new companies were newly formed (one having the legal form of a German GmbH and one with the form of a German limited partnership [Kommanditgesellschaft], and two companies with the legal form of a German GmbH were excluded from the basis of consolidation as a result of mergers.

There have been no further changes to the basis of consolidation.

On 1 January 2018, after the balance sheet date for the current annual report, Deutsche Wohnen acquired all of the shares in Helvetica Service GmbH. This transaction constitutes a company acquisition in accordance with IFRS 3. The company's activities largely comprise the administration and management of residential units for rent and commercial premises within the Greater Berlin region.

On the date of first-time consolidation, the preliminary fair value of the acquired assets and liabilities of Helvetica Services GmbH was as follows:

EUR m	
Assets	
Receivables and other assets	0.9
	0.9
Liabilities	
Tax liabilities	–0,3
Trade payables and other liabilities	–0.1
	–0.4
Net assets	**0.5**

The fair value of the trade receivables and other assets acquired is largely commensurate with their carrying amounts.

The purchase price for the shares in Helvetica Services GmbH amounted to EUR 3.3 million. The deduction of the provisional value of the net assets in the amount of EUR 0.5 million from the purchase price for the shares results in goodwill in the provisional amount of EUR 2.8 million.

No significant transaction costs were incurred in connection with this business combination.

2 Consolidation methods

The financial statements for the subsidiaries are prepared using consistent accounting policies and valuation methods as at the same reporting date as the financial statements of the parent company. Subsidiaries are fully consolidated from the time of their acquisition, this being the date on which the Group obtains control over them. They continue to be consolidated until the date on which the parent company ceases to exercise such control over them.

Capital is consolidated in accordance with the acquisition method. The acquisition costs arising in the context of the acquisition of companies and businesses are offset against the fair value of the acquired assets and liabilities at the time of the acquisition. Any difference in a positive amount resulting from this offsetting is recognised under assets as goodwill. Any differences in negative amounts are verified and then recognised in the consolidated profit and loss statement. The time of the acquisition is the point in time at which the Group acquires the ability to exercise control over the relevant activities of the subsidiary in question, becomes exposed to fluctuations in the return on its investment and has powers of disposal with which it may influence such fluctuating returns. Differential amounts arising out of disposals or acquisitions of shares of non-controlling shareholders are offset within equity.

All intra-Group balances, transactions, revenues, expenses, and gains and losses from intra-Group transactions which are included in the carrying amount of the assets are eliminated in full.

Joint ventures and associates are consolidated in accordance with the equity method pursuant to IAS 28, with the shareholding in question initially being reported at cost on the balance sheet and the recorded carrying amount thereafter being carried forward by means of pro rata changes in the equity of the associate or joint venture concerned.

Non-controlling interests represent the share of the profits and net assets which is not attributable to the shareholders of the parent company of the Group. Non-controlling interests are valued on the basis of the share of the identified value of the net assets of the acquired company attributable to them at the time of their acquisition. Non-controlling interests are reported separately in the consolidated profit and loss statement, in the consolidated statement of comprehensive income and on the consolidated balance sheet. The disclosure on the consolidated balance sheet is made within equity, separate from the equity attributable to the shareholders of the parent company.

3 Disclosure of shares in other companies

Shares in fully-consolidated subsidiaries

Deutsche Wohnen SE had 128 subsidiaries on the reporting date (previous year: 108). Its access to the assets and liabilities of these subsidiaries is not subject to any restrictions.

It holds non-controlling minority interests in some of its subsidiaries which merely confer an entitlement to a share of the earnings of those companies; these are reported in the consolidated financial statements as non-controlling interests under equity. The interests of non-controlling shareholders in GSW Immobilien AG amounted to 6.1% of the overall shareholdings as at 31 December 2017 (previous year: 6.1%). GSW Immobilien AG paid out dividends in the amount of EUR 4.9 million to non-controlling shareholders in the financial year 2017.

The following consolidated financial information relates to GSW as a major subsidiary in which Deutsche Wohnen SE holds a non-controlling interest:

EUR m	GSW Group
Non-current assets	6,695.4
Current assets	419.6
Cash and cash equivalents	5.6
Non-current liabilities	–2,886.9
Current liabilities	–163.6
Net assets	**4,070.1**
Earnings from Residential Property Management	186.5
Annual earnings	**746.0**
Other comprehensive income after taxes	3.4
Cash flow	0.0
Dividend	79.3

Since 1 January 2015, Deutsche Wohnen's shareholding and thus its related share of the voting rights in the KATHARINENHOF® Group has amounted to 49%; the remaining shares were acquired from Deutsche Wohnen by a group of investors on that date. Even though this disposal means that it no longer holds the majority of the voting rights in the KATHARINENHOF® Group, Deutsche Wohnen continues to include this subsidiary in its consolidated financial statements by way of full consolidation in accordance with IFRS 10 due to the fact that it is able, pursuant to contractual arrangements entered into with the other shareholders and the provisions of the shareholders' agreement, to dictate the relevant activities of the KATHARINENHOF® Group and is exposed to variable returns on its investment. The provisions of these agreements with regard to the tendering of the shares of the majority shareholder are to be classified as conferring substantive rights within the meaning of IFRS 10.

Deutsche Wohnen SE has assumed guarantees, sureties and other collateral vis-à-vis third parties on behalf of Group companies in the amount of EUR 1,349.8 million (previous year: EUR 1,418.1 million).

Shares in joint arrangements and associates
As at the balance sheet date, Deutsche Wohnen had holdings in seven joint ventures and two associates (previous year: seven joint ventures and one associate) which are jointly managed by Deutsche Wohnen and an external partner company. The shareholdings are reported on the balance sheet in accordance with the equity method; no quoted market prices are available.

The joint ventures and the associates are currently considered to be of minor significance, having generated annual earnings in the total amount of EUR 6.2 million in the financial year 2017 (previous year: EUR 5.1 million) and being reported on the balance sheet at a carrying amount totalling EUR 14.6 million (previous year: EUR 10.9 million). The at-equity valuation of the joint ventures resulted in a valuation gain of EUR 3.0 million (previous year: EUR 2.0 million).

Deutsche Wohnen is not subject to any material financial obligations or guarantees/securities vis-à-vis the joint ventures or associates.

Shareholdings in non-consolidated companies
Deutsche Wohnen hold shares in six (previous year: seven) non-consolidated companies which are deemed to be of minor significance within the Group. These generally relate to shareholdings in other property companies. No material obligations exist vis-à-vis these companies.

Deutsche Wohnen's total risk exposure in relation to these shareholdings is commensurate with their carrying amounts. The carrying amounts of the non-consolidated companies amounted to approximately EUR 0.4 million as at 31 December 2017 (previous year: EUR 0.3 million). These are reported at cost as financial instruments (AfS) on the balance sheet in accordance with IAS 39, given that their fair value cannot reliably be calculated.

C. Accounting policies and valuation methods

1 Assessment of the fair value

The fair value is the price which would be received in return for the disposal of an asset or paid in return for the transfer of a liability in the context of a duly executed business transaction between market participants on the assessment date. The assessment of the fair value is based on the presumption that the business transaction in the context of which the asset is sold or the liability is transferred occurs in either:

- the primary market for the asset or liability in question, or
- where no primary market exists, the most advantageous market for the asset or liability in question.

The Group must have access to the primary or most advantageous market. The fair value of an asset or a liability is determined by reference to the assumptions on which market participants would base their pricing of the asset or liability. This, in turn, is based on the assumption that the market participants would thereby be acting in their own best economic interests.

The Group applies valuation techniques which are appropriate in the individual circumstances and for which sufficient data is available for the carrying out of a valuation at the fair value, in which context it is required to apply observable input factors to the greatest possible extent and to minimise the application of non-observable input factors.

All assets and liabilities, the fair value of which is determined or reported in the financial statements, are classified in accordance with the following fair value hierarchy, based on the input parameter at the lowest level which is of overall significance for the valuation at the fair value:

- Level 1 – (Unamended) prices quoted in active markets for identical assets or liabilities.
- Level 2 – Valuation procedure pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at the fair value can be directly or indirectly observed in the market.
- Level 3 – Valuation procedure pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at the fair value cannot be observed in the market.

In the case of assets and liabilities which are recognised in the financial statements on a recurring basis, the Group will decide whether the levels within the hierarchy have been reached by carrying out a review of the classification (on the basis of the input parameter at the lowest level which is of overall significance for the valuation at the fair value) at the end of each reporting period.

2 Investment properties

Investment properties are properties that are held to generate rental income or for the purpose of generating value and that are not used by the company itself or held for sale in the course of normal business activities. Investment properties include land with residential and commercial buildings, undeveloped land and land subject to third-party leasehold rights.

Investment properties are valued initially at cost, including transaction costs. Subsequent to the initial recognition, investment properties are valued at their fair value. Gains or losses arising from changes in the fair value of investment properties are reported in the profit and loss statement.

An internal valuation of the residential and commercial buildings was carried out as at 31 December 2017, 30 June 2017 and 31 December 2016. The portfolio was concurrently valued by CB Richard Ellis GmbH, Frankfurt/Main, as at 31 December 2017, 30 June 2017 and 31 December 2016 in accordance with internationally accepted valuation methodologies, and the total value was confirmed. The amount of the remuneration paid to CB Richard Ellis is calculated on the basis of a fixed rate and thus independently of the results of the property evaluation. Where an absolute materiality threshold of +/– EUR 250,000 is exceeded, value deviations between an internal determination and an external approval for individual properties will generally be no greater than +/– 10%. Overall, the result of the valuation carried out by CB Richard Ellis diverges by approximately +0.2% (previous year: –0.1%) from that of the internal valuation. The valuation of the nursing properties was undertaken solely by CB Richard Ellis GmbH.

Investment properties are derecognised when either they have been disposed or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses from the permanent withdrawal from use or disposal of investment properties are recognised in the year of their withdrawal from use or disposal.

Properties are transferred from the investment properties portfolio if there is a change of use caused by the company either starting to use the property itself or by the commencement of development with an intention to dispose.

3 Property, plant and equipment

Property, plant and equipment are stated at cost net of cumulative depreciation and amortisation and cumulative impairment losses. Subsequent acquisition costs are recognised insofar as it is likely that a future economic benefit from the property, plant and equipment will accrue for Deutsche Wohnen.

Straight-line depreciation and amortisation is based on the estimated useful life of the asset. The useful life of buildings is 50 years. The useful life of fixed assets is four to ten years. Any depreciation and amortisation of these assets is recognised as such under expenses in the consolidated profit and loss statement.

Impairment tests regarding the carrying amounts of property, plant and equipment are performed as soon as there are indications that the carrying amount of an asset exceeds its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated profit and loss statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

4 Intangible assets

Deutsche Wohnen only recognises acquired intangible assets on the balance sheet. These are valued at cost. No economic or legal restrictions are currently in place with respect to the use of the intangible assets.

Intangible assets with a certain useful life are amortised on a straight-line basis over their respective useful lives. Their useful lives are between three and five years. Any depreciation and amortisation of these assets is recognised as such under expenses in the consolidated profit and loss statement.

Intangible assets with an uncertain useful life, including goodwill in particular, are not amortised on a scheduled basis; rather, they are subject to impairment testing at least once a year in the case of goodwill or in all other cases where this appears necessary.

5 Borrowing costs

Interest on borrowings is recognised as an expense in the period in which it arises. There are no effects from the application of IAS 23, as the relevant assets (properties) are already recognised at their fair value.

6 Impairment of non-financial assets

The non-financial assets primarily comprise property, plant and equipment, intangible assets and inventories. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less disposal costs and its value in use and is determined for each individual asset, unless the asset in question does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

Goodwill acquired in the context of the acquisition of companies and businesses is subjected to an impairment review at least once a year. For impairment testing purposes, these assets are attributed to those cash-generating units which are expected to benefit from the synergies resulting from the acquisitions of the companies and businesses in question. These cash-generating units represent the lowest level at which these assets are monitored for corporate management purposes.

The goodwill impairment testing involves the calculation of the value in use of the cash-generating units based on estimated future cash flows which have been derived from actual values and projected for a five-year period on the basis of a growth rate which is typical for the industry. The carrying amounts of the cash-generating units are, however, essentially determined by the end value, which will be dependent on the projected cash flow in the third year of the medium-term planning as well as the growth rate of the cash flows thereafter and the discount rate.

Non-financial assets are assessed on each reporting date in order to ascertain whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of scheduled depreciation and amortisation, had no impairment loss been recognised for the asset in previous years. Such reversal is recognised in the profit and loss statement. There is no revaluation of any unscheduled depreciation and amortisation of goodwill.

7 Financial assets

Financial assets within the scope of IAS 39 are classified by Deutsche Wohnen as:
- financial assets at their fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets or
- derivative financial instruments qualifying as effective hedging transactions.

All financial assets are recognised initially at their fair value plus, in the case of investments not classified at their fair value through profit and loss, transaction costs directly attributable to the acquisition of the asset in question. Financial assets are assigned to the valuation categories upon initial recognition. If permitted and necessary, reclassifications are made at the end of the financial year.

Financial assets and securities are allocated to the "Available for sale (AfS)" category and generally reported at their fair value on the balance sheet. However, they will be reported at cost on the balance sheet where the fair value of equity instruments cannot or cannot reliably be calculated.

Other than derivative financial instruments with and without a hedging context, Deutsche Wohnen has not to date recognised any financial assets held for trading purposes or financial assets held to maturity on the balance sheet.

The receivables and other assets recognised on 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 quoted in an active market. After initial recognition, loans and receivables are subsequently valued at amortised cost using the effective interest method less impairment. Gains and losses are recognised in profit/loss for the period when the loans and receivables are derecognised or impaired or when amortised.

Any impairment of receivables from rental activities will depend on the extent to which those receivables are past due. Reasonable individual impairments are made for other receivables and assets.

Interest rate swaps are reported at their fair value on the basis of market-aligned valuation models.

A financial asset (or, where applicable, a portion of a financial asset or a portion of a grouping of similar financial assets) will be derecognised upon the expiration of the contractual entitlements to cash flows from the financial asset in question.

8 Inventories

Inventories comprise land and buildings held for sale and other inventories. Land and buildings intended for disposal are sold in the normal course of business, to the effect that it may exceed a period of twelve months.

The initial valuation is made at cost. At the reporting date, the inventories are valued at the lower value of cost or cost and net realisable value. The net realisable value is the estimated selling price realisable in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

9 Cash and cash equivalents

Cash and cash equivalents on the consolidated balance sheet comprise cash on hand and cash at bank.

10 Non-current assets held for sale

The Deutsche Wohnen Group recognises investment properties and financial liabilities associated therewith as assets held for sale where notarised sales contracts are available as at the balance sheet date but the transfer of ownership take places at a later date. Properties held for sale are valued at their fair value.

11 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified by Deutsche Wohnen as:
- other financial liabilities which are valued at amortised cost,
- financial liabilities which are reported on the balance sheet at their fair value or
- derivative financial liabilities.

Financial liabilities and corporate bonds

Loans and corporate bonds are initially recognised at their fair value less the transaction costs directly associated with the taking out of the loan in question. After initial recognition, the interest-bearing loans are subsequently valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Convertible bond

Convertible bonds, which, as financial instruments comprising bonds and share options, can be redeemed by the company either in cash or in the form of shares upon their conversion by creditors, and for which securities listings can be identified on the markets, will be valued, when reported for the first time, at the fair value commensurate with their nominal value. The transaction costs arising in connection with the issuance are reported as finance expense. As a result of the application of the fair value reporting option to compound financial instruments, the convertible bonds are subsequently valued at their stock price on the relevant balance sheet date. Any gains or losses arising out of the valuation are recognised in the consolidated profit and loss statement.

Trade payables and other liabilities

Liabilities are initially recognised at their fair value. After initial recognition, they are valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Liabilities to limited partners in funds

Pursuant to IAS 32, the existence of termination rights on the part of a limited partner are a material criterion for the demarcation of equity and debt capital. Financial instruments granting the owner (here: limited partner) the right to return the instrument to the issuer in return for money payments constitute a financial liability. Due to the existence of termination rights on the part of the limited partners, the limited partnership interests and the "Net assets of shareholders" are recognised as debt capital. In accordance with IAS 32.35, the profit share of the limited partners is consequently recognised as a finance expense.

The net assets of the limited partners are recognised at the fair value of any possible repayment amount at the end of the financial year. Value increases are recognised as finance expense and impairments as finance income in the consolidated profit and loss statement. The amount of the repayment obligation is governed by the Articles of Association.

Within Deutsche Wohnen, there are liabilities to limited partners in funds of EUR 3.4 million (previous year: EUR 6.5 million).

Liabilities incurred in connection with put options

Shares of non-controlling shareholders who hold contractually vested put options with regard to their shares, which Deutsche Wohnen would be required to purchase were the shareholders to exercise those options, are treated in a corresponding manner. Deutsche Wohnen has liabilities with regard to these put options in the amount of their fair value of EUR 22.2 million (previous year: EUR 21.7 million).

A financial liability is derecognised when the obligation underlying the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability for time value. The difference between the respective carrying amounts is recognised in the profit and loss statement.

12 Pensions and other post-employment benefits

Employee benefit liabilities are recognised with regard to obligations (pension, invalidity, surviving spouse pension and surviving dependant benefits) arising in connection with pensions and ongoing benefits owed to eligible current and former employees and their surviving dependants. In total, there are pension commitments for 808 employees (of which 291 are active employees and 517 are retired employees and pensioners), which provide for pension payments on the basis of length of service and the salary level at retirement age (previous year: 813 employees, of which 300 were active employees and 513 pensioners).

Expenses for benefits granted as part of defined plans are determined using the projected unit credit method. Actuarial gains and losses are recognised, without any effect on earnings, in the consolidated statement of comprehensive income.

On the basis of statutory provisions, Deutsche Wohnen pays contributions to state pension insurance funds from defined contribution plans. These current contributions are shown as social security contributions within staff expenses. Payment of the contributions does not constitute any further obligations for the Group.

There is also a pension plan drawn up in accordance with the regulations governing public sector supplementary pensions. It is based on membership of a Group company in the Bayerische Versorgungskammer (hereinafter "BVK") – the supplementary pension fund for municipalities in Bavaria – as well as the Pension Institution of the

Federal Republic and the Federal States (Versorgungsanstalt des Bundes und der Länder, hereinafter "VBL"). The supplementary pension comprises a partial or full-reduced earnings capacity pension plus an age-related pension as a full pension or surviving dependant's pension. The charge levied by the BVK and the VBL is determined on the basis of the employees' compensation used to calculate the supplementary pension contribution. Changes in the structure of the VBL or a withdrawal from the institution could give rise to significant claims for payment of equivalent amounts.

The BVK and the VBL each therefore constitute 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 specific information is known regarding any overfunding or underfunding of the plan or the related future effects on the Deutsche Wohnen Group. Plan surpluses/deficits could in the future result in an increase/a reduction in the amount of the premiums to be paid by Deutsche Wohnen to the BVK and the VBL.

13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects that some or all of a provision liability will be reimbursed, for example pursuant to an insurance contract, the reimbursement will be recognised as a separate asset only where the receipt thereof is a virtual certainty. The expense involved in establishing the provision will be reported in the profit and loss statement net of the reimbursed amount. If the impact of the interest rate is significant, provisions are discounted at an interest rate before tax that reflects the specific risks of the liability. In the case of discounting, the increase in provisions due over time is recognised as a finance expense.

14 Leases

In the case of leases, a distinction is drawn between finance leases and operating leases.

Deutsche Wohnen acts solely in the capacity of lessee in the context of finance leases. Given that the underlying contractual provisions transfer all significant risks and rewards associated with the ownership of an asset to the lessee, these leases are reported on the balance sheet as finance leases. The lessee recognises the leased asset as an asset and the corresponding obligations are recognised as liabilities. Where the residual term is more than one year, the liability in question will be reported at its present value, with interest being compounded on an annual basis.

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

Furthermore, Deutsche Wohnen acts in the capacity of lessee in the context of leases which are classified as operating leases.

Payments made pursuant to operating leases are generally recorded as revenues (from the point of view of the lessor) or expense (from the point of view of the lessee) on a linear basis over the term of the lease in question.

15 Revenue and expenses recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In addition, the following criteria have to be met when recognising revenue:

Rental income
Rental income is recognised monthly over the period of the leases in accordance with the tenancy agreement.

Disposal of property
Revenue is recognised when the significant risks and rewards associated with the ownership of the sold properties have been transferred to the purchaser and no material rights of disposal have been retained with regard to the items of property sold.

Services
Revenue is recognised in accordance with the delivery of the service.

Expenses
Expenses are reported upon their incurrence in economic terms.

Interest expenses and interest revenues
Amounts of interest are recognised as expenses or revenues in the period in which they accrue.

As part of the long-term performance-based remuneration there are share-based remuneration components. The remuneration components to be expensed over the vesting period correspond to the fair value of the equity-based remuneration on the reporting date. The determination of fair values is based on generally accepted valuation methodologies. Liabilities are accounted for in a corresponding amount.

16 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. In the case of a grant related to an expense item, it is recognised as planned income over the period necessary to match the grant on a systematic basis to the expenses that it is intended to compensate.

Deutsche Wohnen has received government grants in the form of disbursement subsidies, disbursement loans and subsidised-interest loans.

Disbursement subsidies, in the form of rent subsidies, are recognised in the profit and loss statement for the period in which the rent in question is collected. They are recognised as income from residential property management.

Disbursement loans and subsidised-interest loans are property loans and are recognised as financial liabilities. In comparison with loans made under market conditions, both offer advantages such as lower interest rates or interest-free and redemption-free periods. The loans are valued at their fair value and are subsequently carried at amortised cost.

However, they are to be viewed in the context of restrictions with regard to changes in the rent for the properties, which are taken into account when determining the fair value of those properties.

17 Internally generated assets

Directly attributable itemised costs and production-related fixed costs accruing in the context of the implementation of construction measures are reported in the profit and loss statement as additions to the carrying amount for the property in question where it appears likely that the construction measures concerned will give rise to a future economic benefit for Deutsche Wohnen. The revenues resulting from the first-time reporting of such items are reported in the consolidated profit and loss statement under other operating income and the subsequent valuation of the addition in question is carried out on the basis of the valuation method used for the balance sheet item relating to the property concerned.

18 Taxes

Current income tax assets and liabilities

Current income tax assets and liabilities for the current period and for previous periods are valued at the amount expected to be reimbursed by or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those enacted as at the reporting date.

Deferred taxes

Income taxes are recognised and measured in accordance with IAS 12. Deferred income tax assets and liabilities are formed on temporary differences. The taxable and deductible temporary differences are calculated by comparing the IFRS carrying amounts and the local tax values of assets and liabilities (adjusted for permanent differences). The tax value is calculated according to the tax regulations of the respective tax jurisdiction where the item is taxed.

Deferred tax liabilities are recognised for all temporary differences that are subject to tax, with the following exception: In respect of taxable temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognised.

Deferred tax assets are recognised for all deductible temporary differences, as yet unused tax loss carry-forwards and unused tax credits to the extent that it is probable that taxable income will be available to which the deductible temporary differences, as yet unused tax loss carry-forwards and tax credits may be applied: The following exceptions apply:

- Deferred tax assets from deductible temporary differences which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the business transaction, affects neither the profit/loss for the period for commercial law purposes nor taxable earnings may not be recognised.
- Deferred tax assets from deductible temporary differences associated with shareholdings in subsidiaries, associates and shares in joint ventures are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable earnings will be available against which the temporary differences can be utilised.

The carrying amount for deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred tax asset to be utilised. Unreported deferred tax assets are reviewed on every balance sheet date and reported to the extent that it appears likely that future taxable earnings will allow for the realisation of the deferred tax asset in question.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that had been enacted or substantively enacted as at the reporting date.

Deferred taxes relating to items that are recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the consolidated profit and loss statement. Changes in deferred tax assets are recognised in or off the profit and loss statement on the basis of a reasonable pro rata allocation (IAS 12.63c).

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

19 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge against interest rate risks. These derivative financial instruments are recognised at their fair value at the time of the conclusion of the corresponding agreement. Derivative financial instruments are recognised as financial assets where their fair value is in a positive amount and as financial liabilities where their fair value is in a negative amount. They are subsequently valued at their fair value.

This is calculated using the discounted cash flow method, with the calculation of the present value taking account of individual credit ratings and other market factors in the form of credit rating and liquidity spreads such as are customary in the market. The valuation also takes account of the risk of non-performance (counterparty risk) and the company's own default risk in accordance with IFRS 13.42. ff..

Deutsche Wohnen reports interest rate swaps it enters into on the balance sheet in accordance with the provisions of IAS 39 governing hedge accounting, where the conditions for the application of the standard have been met. In addition to documentation of the hedging correlation between the hedge and the underlying item, one requirement for hedge accounting is proof of the effectiveness of the hedging correlation between the hedge and the underlying item. If an effective correlation exists, the effective portion of the value adjustment of the hedge will be recognised directly in equity without any effect on earnings. The non-effective portion will be recognised in the consolidated profit and loss statement. Deutsche Wohnen has tested the effectiveness of the concluded interest hedges from a prospective (hypothetical derivative method) and a retrospective standpoint. In the case of derivative financial instruments which do not meet the criteria for hedge accounting, gains or losses from changes in fair value are immediately recognised in the profit or loss statement. The interest rate swaps recognised at their fair value are classified as current or non-current assets/liabilities depending on the term of the underlying contracts.

Deutsche Wohnen only hedges cash flows which relate to future interest expenses.

20 Share-based remuneration

The Management Board of Deutsche Wohnen has been receiving share-based remuneration in the form of subscription rights (share options) since the financial year 2014. The share option programme is an option plan implemented using equity instruments.

The expenses incurred as a result of the issuance of the share options are valued at the fair value of the granted share options at the time of their granting and calculated using generally recognised option pricing models. The expenses resulting from the issuance of the share options are reported together with a corresponding increase in equity (capital reserve).

The diluting effect of the outstanding share options will be taken into account as an additional dilution in the calculation of the earnings per share to the extent that the issuance of the options and the underlying terms and conditions result in a dilution for accounting purposes of the shares of the existing shareholders.

D. Notes to the consolidated balance sheet

1 Investment properties

Investment properties are recognised at their fair value. Fair value developed as follows during the financial year:

	Residential and commercial buildings		Nursing facilities		Total	
EUR m	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Start of period	**15,312.7**	**11,697.7**	**692.4**	**161.4**	**16,005.1**	**11,859.1**
Acquisitions	1,090.5	965.7	0.7	446.0	1,091.2	1,411.7
Additions by way of company acquisitions	0.0	0.0	0.0	53.2	0.0	53.2
Other additions	230.0	154.4	4.1	2.7	234.1	157.1
Disposals	–68.2	–114.4	0.0	0.0	–68.2	–114.4
Adjustment of the fair value	2,372.7	2,638.5	24.3	29.1	2,397.0	2,667.6
Transfer	–30.8	–29.2	0.0	0.0	–30.8	–29.2
End of period	**18,906.9**	**15,312.7**	**721.5**	**692.4**	**19,628.4**	**16,005.1**

The transfer primarily relates to the properties reclassified as non-current assets and held for sale in the current financial year. The additions comprise, among other things, advance payments for acquisitions of investment properties. Other additions comprise capitalised construction measures, in particular.

The residential and commercial buildings and the nursing facilities were valued on the basis of valuation models in accordance with Level 3 of the valuation hierarchy provided for in IFRS 13 "Fair Value Measurement". The full amount of the valuation of EUR 2,397 million was recognised in the consolidated profit and loss statement. This will remain unrealised pending a market-aligned disposal of the valued properties.

Residential and commercial buildings

The valuation of the residential and commercial buildings as at 31 December 2017, 30 June 2017 and 31 December 2016 was conducted on the basis of the following principles developed in the context of the internal periodic valuation:

Valuation on the basis of defined clusters:
- Calculation of annual rent increases and target vacancies based on the location and physical characteristics of the properties,
- calculation of discount rates for the detailed budgeting phase,
- calculation of capitalisation rates in perpetuity.

Formulation of the valuation based on individual properties:
- Determination of the market rent as at the reporting date,
- development of rent per sqm of lettable area based on market rent and current gross rent,
- development of costs (maintenance, administration, rental loss and non-recoverable operating costs, ground rent (if applicable)),
- determination of cash flows from annual proceeds and payments and the terminal value at the end of year ten, based on the recurring cash flow expected in year eleven,
- calculation of a fair value based on the administrative unit as at the reporting date.

The discount and capitalisation rates were calculated on the basis of property-specific risk assessments.

The maintenance expenses are calculated using type- and property-specific approaches used with regard to individual valuation objects in the property valuation context, having regard to the condition of the property in question and any experience gathered in connection with maintenance work regularly carried out in the past.

A further review of the valuation by an independent third party takes place as at every balance sheet date. The valuation methods used for the internal valuation and for the valuation by third parties are therefore the same.

The following overview summarises the valuation parameters applied with respect to the individual clusters, and indicates all of the sub-clusters within the main Core+, Core and Non-Core clusters having an overall share of the total property value of at least 10%. Sub-clusters which do not reach this threshold are reported on a consolidated basis. The stated figures are based on the ranges present within each cluster and the weighted average:

31/12/2017

			Core+	Core	Non-Core	Total
	Berlin	Other	Total	Total	Total	Total
Carrying amount (EUR m)	14,202	2,957	17,159	1,373	63	18,595
Carrying amount (EUR/sqm)	2,102	1,580	1,989	1,149	700	1,876
Share of carrying amount in %	76.4	15.9	92.3	7.4	0.3	100.0
Current gross rent (EUR/sqm)	6.47	6.56	6.49	5.68	4.84	6.38
Market rent increases p. a. in %	3.41	1.93	3.16	1.26	0.46	3.0
Vacancy rate in %	2.3	2.4	2.3	2.6	5.7	2.4
Multiplier	27.2	19.9	25.5	16.9	13.1	24.5
Discount factor in %	4.5	5.8	4.7	6.1	7.3	4.8
Capitalisation factor in %	4.2	5.0	4.4	5.5	6.1	4.5
Maintenance costs (EUR/sqm/p. a.)	10.05	10.02	10.05	10.39	10.72	10.07

31/12/2016

			Core+	Core	Non-Core	Total
	Berlin	Other	Total	Total	Total	Total
Carrying amount (EUR m)	11,435	2,351	13,786	1,221	99	15,106
Carrying amount (EUR/sqm)	1,755	1,394	1,681	995	628	1,576
Share of carrying amount in %	75.7	15.6	91.3	8.1	0.7	100.0
Current gross rent (EUR/sqm)	6.10	6.42	6.17	5.58	4.96	6.10
Market rent increases p. a. in %	2.59	2.12	2.52	1.26	1.02	2.4
Vacancy rate in %	1.6	1.8	1.8	1.8	5.0	1.7
Multiplier	23.9	17.9	22.6	14.9	11.2	21.6
Discount factor in %	4.9	6.3	5.2	6.8	7.5	5.3
Capitalisation factor in %	3.8	5.4	4.1	5.7	6.4	4.2
Maintenance costs (EUR/sqm/p. a.)	10.52	10.40	10.50	9.59	8.24	10.40

There may be some interplay between non-observable input factors. For example a rise in the vacancy rate due to greater risk exposure may have an effect on the discount factor; a fall in the vacancy rate may potentially result in higher rent increases and higher realisable rents may also trigger an increase in maintenance expenses.

Any adjustment of the material valuation parameters (market rent increase during the detailed budgeting phase 20% lower than projected; increase in the discount rate of 0.1%; increase in the capitalisation rate of 0.1%) will result in the following non-cumulated fair value adjustments on the basis of the carrying amount of the residential and commercial buildings:

31/12/2017

			Core+	Core	Non-Core
	Berlin	Other	Total	Total	Total
Market rent increases in %	–6.33	–3.27	–5.80	–2.58	–1.01
Discount factor in %	–0.83	–0.74	–0.81	–0.76	–0.72
Capitalisation factor in %	–1.68	–1.26	–1.61	–1.12	–0.91

31/12/2016

			Core+	Core	Non-Core
	Berlin	Other	Total	Total	Total
Market rent increases in %	–4.84	–3.60	–4.63	–2,46	–2.02
Discount factor in %	–0.82	–0.75	–0.80	–0.72	–0.71
Capitalisation factor in %	–1.84	–1.12	–1.72	–0.99	–0.84

Nursing facilities

The valuation of the nursing facilities as at 31 December 2017 and 31 December 2016 was undertaken by CB Richard Ellis GmbH, and took account of the following material input factors: average market rents, discount and capitalisation rates:

	31/12/2017	31/12/2016
Market rent (EUR/sqm)	10.71	10.74
Discount factor in %	5.74	5.90
Capitalisation factor in %	5.33	6.00

Any adjustment of these material input factors (lowering of market rents by 5%; increase in the discount rate of 0.1%; increase in the capitalisation rate of 0.1%) will result in the following non-cumulated fair value adjustments on the basis of the carrying amount of the nursing properties:

	31/12/2017	31/12/2016
Market rent in %	–3.1	–3.0
Discount factor in %	–0.8	–0.7
Capitalisation factor in %	–1.1	–0.9

The investment properties to some extent serve as collateral for the loans. There are also agreements in place in individual cases pursuant to which the condition of the properties may not deteriorate or the average minimum investments have been determined on a per-square-metre basis.

2 Leases

The rental agreements concluded by Deutsche Wohnen with its tenants generated rental income in the amount of EUR 744.2 million (previous year: EUR 704.5 million). The expenses directly associated with the investment properties amounted to EUR 131.4 million (previous year: EUR 118.1 million).

In 2018, Deutsche Wohnen will receive minimum lease payments totalling approximately EUR 198 million pursuant to existing operating lease agreements concluded with third parties (termination thereof presumably subject to the statutory notice period of three months) and in connection with its current property portfolio for the Residential Property segment.

In the context of its Assisted Living and Nursing Services operations, Deutsche Wohnen will receive additional minimum lease payments in the amount of approximately EUR 3 million in 2018 (average contractually stipulated period of notice for termination: one month). Deutsche Wohnen is set to realise leasing income from the nursing properties under external management in the amount of approximately EUR 27 million in the financial year 2018.

In addition to the limitations imposed by statute, Deutsche Wohnen is also to some extent subject to restrictions with regard to rent increases in the case of tenants with certain prior claims and in connection with grants in the form of subsidised-interest loans or investment subsidies. Additionally, we are required to comply with legal stipulations in the context of the privatisation of residential units.

3 Property, plant and equipment

Land and buildings, technical facilities and plant and equipment classified under IAS 16 are reported under this item. They developed as follows during the financial year:

31/12/2017

EUR m	Owner-occupied properties	Technical facilities and machinery	Office furniture and equipment	Total
Cost				
Opening balance	15.0	41.6	23.2	79.8
Additions	1.5	42.8	4.2	48.5
Disposals	0.0	0.0	–3.1	–3.1
Transfers	2.3	0.0	–0.2	2.1
Closing balance	**18.8**	**84.4**	**24.1**	**127.3**
Cumulative depreciation and amortisation				
Opening balance	3.7	8.4	11.8	23.9
Additions	0.7	10.1	3.0	13.8
Disposals	0.0	0.0	–2.7	–2.7
Closing balance	**4.4**	**18.5**	**12.1**	**35.0**
Net carrying amounts	**14.4**	**65.9**	**12.0**	**92.3**

31/12/2016

EUR m	Owner-occupied properties	Technical facilities and machinery	Office furniture and equipment	Total
Cost				
Opening balance	14.4	31.1	18.5	64.0
Additions	0.6	12.1	3.3	15.9
Additions by way of company acquisitions	0.0	0.5	1.9	2.4
Disposals	0.0	–2.0	–0.4	–2.4
Transfers	0.0	0.0	–0.1	–0.1
Closing balance	**15.0**	**41.6**	**23.2**	**79.8**
Cumulative depreciation and amortisation				
Opening balance	3.1	5.5	9.7	18.3
Additions	0.6	4.3	2.4	7.3
Additions by way of company acquisitions	0.0	0.0	0.0	0.0
Disposals	0.0	–1.4	–0.1	–1.5
Appreciations in value	0.0	0.0	–0.2	–0.2
Closing balance	**3.7**	**8.4**	**11.8**	**23.9**
Net carrying amounts	**11.3**	**33.2**	**11.4**	**55.9**

The land and buildings included in property, plant and equipment (EUR 14.4 million, previous year: EUR 11.3 million) are property-secured.

Technical facilities and machinery included leased assets in the amount of EUR 62.5 million (previous year: EUR 29.5 million), which are attributable to the Group as the beneficial owner of the assets to which the finance leases in question relate.

4 Intangible assets

The changes in intangible assets were as follows:

31/12/2017

EUR m	Goodwill	Other	Total
Cost			
Opening balance	11.4	19.5	30.9
Additions	0.0	1.7	1.7
Disposals	0.0	–1.1	–1.1
Closing balance	**11.4**	**20.1**	**31.5**
Cumulative depreciation and amortisation			
Opening balance	0.0	10.4	10.4
Additions	0.0	3.1	3.1
Disposals	0.0	–1.0	–1.0
Closing balance	**0.0**	**12.5**	**12.5**
Net carrying amounts	**11.4**	**7.6**	**19.0**

31/12/2016

EUR m	Goodwill	Other	Total
Cost			
Opening balance	537.3	16.7	554.0
Additions	0.0	2.7	2.7
Additions by way of company acquisitions	11.4	0.1	11.5
Disposals	537.3	0.0	537.3
Closing balance	**11.4**	**19.5**	**30.9**
Cumulative depreciation and amortisation			
Opening balance	0.0	7.7	7.7
Additions	537.3	2.7	540.0
Disposals	537.3	0.0	537.3
Closing balance	**0.0**	**10.4**	**10.4**
Net carrying amounts	**11.4**	**9.1**	**20.5**

The purchase price allocation for the HSD transaction was concluded in the financial year 2017 and the provisional fair values were confirmed upon its first-time consolidation. The goodwill in the amount of EUR 11.4 million reflects the synergy effects arising as a result of the integration of the acquired companies into the Nursing and Assisted Living segment of the Deutsche Wohnen Group and has therefore been allocated in its entirety to the acquired HSD Group as the cash-generating unit.

The annual impairment test applied to the goodwill arising out of the HSD transaction did not result in any impairment. It was conducted on the basis of the following budget assumptions and market-aligned parameters:

The projected inflows of funds were calculated on the basis of historical empirical figures and take account of expected market growth in specific business areas. Should the inflow of funds be reduced by 12%, the value in use will be commensurate with the book value.

The cash flows after the five-year detailed budgeting phase are extrapolated on the basis of a growth rate of 1.0% which does not surpass the average rate of growth in the market or the industry. Should the growth rate fall to -0.45%, the value in use will be commensurate with the book value.

The discount rate is calculated on the basis of average weighted capital costs for the nursing and healthcare sector. The present value is calculated using a discount rate based on the Group's weighted capital cost rate of 9.24% before taxes. Should the discount rate be raised to 10.17%, the value in use will be commensurate with the book value.

The value in use of the cash-generating unit will be approximately EUR 15.5 million.

5 Land and buildings held for sale

The increase in the land and buildings held for disposal is largely due to the structuring of the property portfolio and the allocation of properties to the Disposals segment. In the financial year 2017, proceeds of EUR 188.1 million (previous year: EUR 50.6 million), were achieved. The proceeds were partly offset by carrying amounts of assets sold of EUR 153.7 million (previous year: EUR 37.7 million).

6 Trade receivables

Receivables are made up as follows:

EUR m	31/12/2017	31/12/2016
Receivables from rental activities	12.3	10.5
Receivables from the disposal of land	1.2	3.7
Other trade receivables	2.0	2.2
	15.5	**16.4**

Receivables from rental activities are interest-free and are always overdue. Impairments are carried out on an age distribution basis and depending on whether the tenants in question are current or former tenants. There have been write-downs formed of almost all overdue receivables.

In the financial year 2017, rent receivables in the amount of EUR 1.9 million (previous year: EUR 3.3 million were depreciated and amortised or impaired. The impairment of receivables as at 31 December 2017 amounted to EUR 20.9 million (previous year: EUR 20.5 million).

Receivables from the disposal of land are interest-free and are due between 1 and 90 days.

Receivables from the sale of land are not impaired and only overdue to a very minor extent.

Other receivables are interest-free and are generally due within a period of between 1 and 90 days.

7 Derivative financial instruments

Deutsche Wohnen concluded several interest hedging transactions in a nominal amount of EUR 1.0 billion (previous year: EUR 1.0 billion). The cash flows from the underlying transactions, which are secured in the scope of the cash flow hedge accounting, will be realised in the years from 2018 to 2027. The strike rates are between –0.80% and 1.63% (previous year: between -0.25% and 3.56%). The total fair value of these transactions (aggregation of both positive and negative amounts) amounted to EUR –1.9 million as at 31 December 2017 (previous year: EUR –47.0 million).

There are no significant default risks, given that the interest rate swaps were concluded solely with banks with good credit ratings. If the interest rate level changes, the fair value changes accordingly. Income and expenses are recognised in equity for the effective part of a hedge, while the non-effective part is recognised within current earnings.

8 Cash and cash equivalents

The cash and cash equivalents in the amount of EUR 363.7 million (previous year: EUR 192.2 million) mainly consist of cash at bank and cash on hand. Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate.

9 Equity

Please refer to the consolidated statement of changes in equity with regard to the development of the Group's equity.

a) Issued share capital

The issued capital of Deutsche Wohnen SE amounted to approximately EUR 354.7 million as at 31 December 2017 (previous year: EUR 337.5 million), comprising approximately 354.7 million no-par value bearer shares, each representing a notional share of the issued capital of EUR 1.00. The shares of Deutsche Wohnen SE are all bearer shares and have been paid in full.

All shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and determines the shareholders' shares in the profits of the company. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act [Aktiengesetz – AktG], in particular sections 12, 53a ff 118 ff and 186. There are no shares with special rights conferring powers of control.

The Management Board of Deutsche Wohnen SE is not aware of any restrictions affecting voting rights or any transfer of shares.

In the event of a capital increase, the new shares are issued as bearer shares.

Changes in authorised capital

EUR k	
Authorised capital 2015/I	
As at 1 January 2017	100,000
Cash capital increase of 23 February 2017	17,174
Resolution in favour of cancellation adopted by the Annual General Meeting held on 2 June 2017	82,826
As at 31 December 2017	**0**
Authorised capital 2017/I	
Annual General Meeting held on 2 June 2017	110,000
Utilisation	0
As at 31 December 2017	**110,000**

By resolution of the Annual General Meeting held on 2 June 2017, which was entered into the commercial register on 22 June 2017, the Management Board has been authorised to increase the company's issued capital, with the consent of the Supervisory Board, by up to EUR 110 million once or several times during the period until 1 June 2020 by means of the issuance of up to 110 million new ordinary bearer shares against cash contributions and/or contributions in kind (authorised capital 2017/I). The shareholders must always be granted subscription rights within the scope of the authorised capital. However, in certain cases, the Management Board will be entitled to exclude the subscription rights of shareholders with the consent of the Supervisory Board and subject to the detailed provisions of the Articles of Association. The authorised capital 2015/I was cancelled upon the registration of the authorised capital 2017/I.

Changes in contingent capital

EUR k	2013/I	2014/I	2014/II	2014/III	2015/I	2017/I	Total
As at 1 January 2017	16,076	25,000	5,902	12,880	50,000	0	109,858
Resolution adopted by the Annual General Meeting held on 2 June 2017	–	–	–	–	–	67,000	67,000
Elimination of the purpose of the capital according to the AoA (buyback and deletion of CBs 2013)[1]	–16,076	–	–	–	–	–	–16,067
Elimination of the purpose of the capital according to the AoA (buyback and deletion of CBs 2014)[1]	–	–25,000	–	–	–	–	–25,000
Capital increase by means of the issuance of put options (GSW control agreement)[1]	–	–	–11	–	–	–	–11
As at 31 December 2017	**0**	**0**	**5,891**	**12,880**	**50,000**	**67,000**	**135,771**

1 The changes in the capital amounts were entered into the commercial register on 2 February 2018.

The issued capital has contingently been increased by a total of up to EUR 135.77 million by means of the issuance of up to approximately 135.77 million new no-par value bearer shares with dividend rights generally from the start of the financial year of their issuance (contingent capital 2014/II, contingent capital 2014/III, contingent capital 2015/I and contingent capital 2017/I).

Issuance of option rights, bonds with warrants or conversion rights, profit participation rights or profit-sharing bonds

By resolution of the Annual General Meeting held on 2 June 2017, the Management Board has been authorised, with the consent of the Supervisory Board, to issue no-par value convertible and/or warrant bearer bonds and/or profit participation rights with option or conversion rights (or a combination of these instruments) in the nominal value of up to EUR 3,000 million once or several times until 1 June 2022, and to grant the creditors thereof conversion or option rights for Deutsche Wohnen SE shares representing a share of the issued capital of up to EUR 70 million.

Acquisition of own shares

The acquisition of own shares is authorised pursuant to section 71 et ff of the German Stock Corporation Act [AktG] and also, as at the balance sheet date, by the Annual General Meeting held on 11 June 2014 (agenda item 14). By resolution of the Annual General Meeting held on 11 June 2014, the Management Board has been authorised, with the consent of the Supervisory Board and having regard to the principle of equal treatment of shareholders (section 53a of the German Stock Corporation Act [AktG]), to acquire and use own shares of the company in the total amount of up to 10% of the issued capital existing at the time of the adoption of the resolution or – where this amount is lower – at the time of the exercise of the authorisation in accordance with the issued stipulations until 10 June 2019. The amount of any shares acquired on the basis of this authorisation together with other shares of the company already acquired and still held by the company or other shares attributable to the company pursuant to section 71a ff of the German Stock Corporation Act [AktG] may not at any time exceed 10% of the issued capital of the company.

The authorisation may not be exploited for the purposes of trading in own shares.

As at the balance sheet date, the company did not have any own shares.

b) Capital reserve

The capital reserve decreased by EUR 366.7 million in 2017 (previous year: EUR 113.6 million).

In 2017, EUR 893.6 million was withdrawn from the capital reserve (previous year: EUR 117.6 million).

It increased by EUR 528.1 million in the financial year, of which EUR 4.4 million incurred for the capital increases and EUR 1.4 million in income tax effects related to these costs were deducted. Furthermore, the capital reserve was increased by EUR 0.4 million, as a result of the contribution in kind of GSW Immobilien AG shares in place since September 2014 within the scope of the share exchange resulting from the control agreement. Furthermore, the capital reserve increased by EUR 1.4 million due to the stock option programme.

c) Generated consolidated equity

Retained earnings comprise the revenue reserve of Deutsche Wohnen and the accumulated profit/loss carried forward.

The maintenance of the statutory reserve is mandatory for German public limited companies [Aktiengesellschaften]. An amount equivalent to 5% of the profit for the financial year is to be retained pursuant to section 150(2) of the German Stock Corporation Act [AktG]. The amount of the statutory reserve is subject to a cap of 10% of the issued capital. In accordance with section 272(2)(1)–(3) of the German Commercial Code [HGB], any existing capital reserves are to be taken into account and the provisions required for the statutory reserve reduced accordingly. This is measured on the basis of the issued share capital which exists and is legally effective at the reporting date and which is to be reported in this amount on the respective annual balance sheet. The statutory reserve remains unchanged at EUR 1.0 million.

d) Non-controlling interests

The share of non-controlling interests largely relates to the shares of third parties in the earnings of the fully-consolidated holding companies not wholly owned by Deutsche Wohnen.

10 Financial liabilities

The company has taken on bank loans particularly to finance property and company transactions and property acquisitions.

Overall, the amount of the financial liabilities increased in 2017, largely as a result of the raising of the amounts of existing loans in the context of property acquisitions.

The financial liabilities are hedged at approximately 82% (previous year: approximately 80%) at a fixed rate and/or through interest rate swaps. The average rate of interest was approximately 1.5% (previous year: approximately 1.8%).

The loan renewal structure based on current outstanding liability is as follows:

EUR m	Carrying amount	Nominal value	2017	2018	2019	2020	2021	≥ 2022
Loan renewal structure 2017	4,751.1	4,828.3	–	8.8	6.6	220.4	176.3	4,416.2
Loan renewal structure 2016	4,599.9	4,690.2	23.7	19.0	67.5	271.3	356.3	3,952.4

The liabilities are almost entirely secured by property as collateral.

11 Corporate bonds and convertible bonds

In the first six months of 2017, Deutsche Wohnen issued a number of long-term registered bonds with a nominal value of EUR 325.0 million.

Furthermore, two convertible bonds were bought back at their fair value and two new convertible bonds placed on the capital markets in the financial year.

The commercial paper programme launched in 2016 was terminated and all of the commercial paper paid back in full in 2017.

The following Deutsche Wohnen bonds and convertible bonds were outstanding as at 31 December 2017:

Type	Issuance	Maturity max.	Nominal (EUR m)	Coupon % p.a.	Carrying amount (EUR m)	Conversion price (EUR/share)
Convertible bond	2017	2024	800.0	0.325	848.0	48.5775
Convertible bond	2017	2026	800.0	0.60	821.6	50.8460
Total convertible bonds			**1,600.0**		**1,669.6**	
Corporate bonds	**2015**	**2020**	**500.0**	**1.375**	**500.3**	**–**
Registered bonds	**2017**	**2027–2032**	**325.0**	**1.60–2.0**	**326.3**	**–**

12 Employee benefit liabilities

The company's pension scheme consists of defined benefit and defined contribution plans. The average term of the obligations is approx. 14.5 years (previous year: 14.7 years), payments from pension benefit plans for 2018 are expected in the amount of EUR 3.5 million (less payments on plan assets) (previous year: EUR 3.7 million).

Employee benefit liabilities are determined using the projected unit credit method in accordance with IAS 19. Future obligations are measured using actuarial methods that estimate the relevant parameters.

The level of pension obligations (defined benefit obligation of the pension commitments) was calculated in accordance with actuarial methods on the basis of an external expert report and the following factors:

in %	31/12/2017	31/12/2016
Discount rate	1.50	1.61
Future salary increases	2.50	2.50
Future pension increases	1.75	1.75
Increase in the contribution assessment ceiling	2.25	2.25
Mortality tables	R 05G	R 05G

The trend in salaries includes expected future salary increases that depend, among other things, on the inflation rate and the length of service in the company.

The employee benefit liabilities taken over in the scope of the BauBeCon acquisition are financed through the ufba – Unterstützungskasse zur Förderung der betrieblichen Altersversorgung e.V. (Assistance Fund for the Promotion of Company Pension Plans inc. soc.) – and recognised on the balance sheet as plan assets. The valuation applied an interest charge in the amount of 1.50%.

The following summary shows the financing status of the Group's pension plans, which is at the same time equivalent to the balance sheet posting:

EUR m	31/12/2017	31/12/2016
Present value of employee benefit liabilities	73.8	74.8
Less fair value of the plan assets	–8.1	–7.2
	65.7	**67.6**

The following table shows the development of the present value of the defined benefit liabilities and the fair value of the plan assets:

EUR m	2017	2016
Opening balance employee benefit liability	74.8	72.1
Pension payments	–3.1	–3.6
Interest cost	1.1	1.4
Service cost	0.6	0.5
Actuarial gains/losses	0.4	4.7
Closing balance employee benefit liability	**73.8**	**74.8**
of which pension plans with financing from plan assets	11.1	12.4
of which pension plans with out financing from plan assets	62.7	62.4
Opening balance plan assets	7.2	7.5
Interest revenues from plan assets	0.1	0.1
Pension payments from plan assets	–0.4	–0.4
Actuarial gains/losses	1.2	0.0
Closing balance plan assets	**8.1**	**7.2**

The pension expenses comprise the following:

EUR m	2017	2016
Interest cost	–1.0	–1.3
Service cost	–0.6	–0.5
	–1.6	**–1.8**

Pension commitments include old-age, disability, surviving spouse and surviving dependant pensions. They are based on the last fixed annual gross salary. Different benefit plans apply depending on the employee's position in the company.

The pro rata interest expenses are recognised as "Interest expenses" in the consolidated profit and loss statement, while current pension payments, service expenses and adjustments to current pensions are recognised as "Staff expenses".

Costs for contribution pensions in the total amount of EUR 7.2 million (previous year: EUR 5.9 million) were incurred. Therefore, total expenses for retirement provisions (defined benefit and defined contribution) amounted to EUR 8.8 million (previous year: EUR 6.3 million). For 2018, based on the current number of employees, the cost will total EUR 8.6 million.

A drop in the interest rate of 0.25% would result in an increase in pension obligations of 3.58%; an interest rate increase of 0.25% would result in a reduction of pension obligations of 3.38%. A drop in the pension progression of 0.25% would result in an increase in pension obligations of 2.71%; a pension progression increase of 0.25% would result in a reduction of pension obligations of 2.83%.

The sensitivity calculations are based on the average term of the pension liabilities determined as at 31 December 2017. They were carried out for each of the actuarial parameters classified as significant with a view to demonstrating the effect on the present value of the employee benefit liabilities calculated as at 31 December 2017 on a separate basis. Given that the sensitivity analyses are based on the average term of the expected pension liabilities and consequently do not take account of the expected payment dates, they provide only approximate information or indications of future trends.

We do not currently consider that any further changes to the relevant actuarial parameters are likely to occur which could result in material adjustments to the carrying amounts of the employee benefit liabilities over the next few years.

Provisions in the amount of EUR 9 k (previous year: EUR 6 k) have been established for commitments made for the benefit of any members of the Management Board becoming unable to work.These are also recorded under employee benefit liabilities.

13 Liabilities arising out of finance leases

Deutsche Wohnen has outsourced the majority of the services relating to the heat supply for its properties to a specialist operator. The contracting agreements concluded with the operator were classified as finance leases and reported as such on the balance sheet. The carrying amount of the liabilities arising out of finance leases was EUR 65.6 million as at the end of the year (previous year: EUR 31.0 million).

The finance leases give rise to the following financial liabilities:

31/12/2017

EUR m	Due within one year	Due in 1 to 5 years	Due after 5 years
Payments	9.7	34.2	27.4
Interest component	–0.7	–2.6	–2.4
Redemption component	**9.0**	**31.6**	**25.0**

31/12/2016

EUR m	Due within one year	Due in 1 to 5 years	Due after 5 years
Payments	3.8	14.5	15.6
Interest component	–0.4	–1.3	–1.1
Redemption component	**3.4**	**13.2**	**14.4**

14 Other provisions

The other provisions comprise the following:

EUR m	Revitalisation	Restructuring	Legal risks	Other	Total
Opening balance	**2.6**	**1.9**	**2.0**	**17.4**	**23.9**
Utilisation	–2.6	–1.5	–0.4	–0.2	–4.7
Reversal	0.0	–0.2	–0.3	–0.2	–0.7
Additions	0.0	0.8	0.3	0.6	1.7
Closing balance	**0.0**	**1.0**	**1.6**	**17.6**	**20.2**
of which: non-current	0.0	0.2	0.3	13.1	13.6
of which: current	0.0	0.8	1.3	4.5	6.6

The provision for revitalisation (EUR 0.0 million, previous year: EUR 2.6 million) is due to the privatisation agreement between the federal state of Berlin and GEHAG. In accordance with this agreement, GEHAG is obligated to invest an original total of EUR 25,565 k in the improvement of the residential environment.

The provisions for restructuring measures primarily comprise obligations arising in connection with the integration of the business operations of GSW Immobilien AG.

Other provisions (EUR 17.6 million; previous year: EUR 17.4 million) relate to a large number of third-party liabilities.

The additions include accrued interest on non-current provisions in the amount of EUR 0.1 million.

15 Tax liabilities

The amount of tax liabilities (EUR 27.2 million; previous year: EUR 48.3 million) primarily comprises provisions for current taxes and for possible tax-related risks arising in connection with external audits.

16 Deferred taxes

The deferred taxes comprise the following:

EUR m	31/12/2017	Change	31/12/2016
Deferred tax assets			
Properties	2.5	1.3	1.2
Employee benefit liability	9.4	0.1	9.6
Loss carry-forwards	266.3	0.9	265.4
Interest rate swaps	2.1	–12.8	14.9
Loans	0.1	–0.1	0.2
Convertible bonds	20.3	–32.4	52.7
Other	26.4	13.3	13.1
	327.4	**–29,7**	**357.0**
Netting	–327.0	–29.4	–356.3
Balance sheet approach	0.4	–0.3	0.7
Deferred tax liabilities			
Loans	22.0	0.2	21.8
Properties	2,778.4	769.9	2,008.5
Other	23.3	10.3	13.1
	2,823.7	**780.3**	**2,043.4**
Netting	–327.0	–29.4	–356.3
Balance sheet approach	2,496.7	809.7	1,687.1
Deferred taxes (net)	**–2,496.4**	**–809.3**	**–1,686.4**

The changes in deferred taxes in 2017 and 2016 are as follows:

EUR m	2017	2016
Reported directly in other comprehensive income	–7.6	1.5
Due to company acquisitions	0.0	0.3
Recognised in profit/loss	–802.4	–829.5
	–810.0	**–827.7**

The actuarial gains and losses from pensions and the changes in the current market value of the effective hedges are recognised directly in equity not affecting net income. The resultant deferred taxes were likewise recognised without effects on the result and amount to EUR 6.9 million (previous year: EUR 7.1 million) for actuarial profits and losses and EUR 0.9 million (previous year: EUR 8.3 million) for the changes in the fair value of the effective hedging transactions.

The increase in the amount of the deferred tax liabilities with regard to properties in the financial year 2017 was largely the result of the revaluation of the investment properties.

The Deutsche Wohnen Group has corporation tax loss carry-forwards in the amount of EUR 1,640.8 million (previous year: EUR 1,081.0 million) and trade tax loss carry-forwards in the amount of EUR 1,358.1 million (previous year: EUR 959.8 million). The amounts of corporation and trade tax loss carry forwards for which no deferred tax assets are recognised amount to EUR 718.6 million (previous year: EUR 154.9 million) and EUR 519.3 million (previous year: EUR 131.7 million). In general, loss carry-forwards do not expire.

In the 2017 fiscal year, no accrued deferred taxes were balanced for temporary differences in the amount of EUR 14.8 million (previous year: EUR 69.3 million) because it is unlikely that sufficient taxable income will be achieved for these amounts in the near future.

The temporary differences arising out of non-distributed earnings of subsidiaries for which no deferred tax amounts have been established amounted to EUR 5,614.0 million (previous year: EUR 3,549.1 million).

E. Notes to the consolidated profit and loss statement

The consolidated profit and loss statement is prepared using the total cost method.

1 Income from Residential Property Management

The income from Residential Property Management comprises the following:

EUR m	2017	2016
Potential gross rental income	762.7	719.2
Subsidies	1.0	2.2
	763.7	**721.4**
Vacancy losses	–19.5	–16.9
	744.2	**704.5**

2 Expenses from Residential Property Management

The expenses from Residential Property Management comprise the following:

EUR m	2017	2016
Maintenance costs	104.7	94.5
Non-recoverable operating costs	9.3	9.8
Rental loss	6.4	6.4
Other costs	11.0	7.4
	131.4	**118.1**

3 Earnings from Disposals

The earnings from Disposals include income from sales proceeds, disposal costs and carrying amounts of assets sold of investment properties and land and buildings held for sale.

4 Earnings from Nursing and Assisted Living

The earnings from Nursing and Assisted Living comprise the following:

EUR m	2017	2016
Income for Nursing and Assisted Living	120.7	70.1
Nursing and corporate expenses	–22.2	–18.0
Staff expenses	–49.9	–35.3
Expenses for rental objects	–0.6	0.0
	48.0	**16.8**

5 Corporate expenses

The corporate expenses comprise the following:

EUR m	2017	2016
Staff expenses	**53.8**	**47.9**
General and administration expenses		
IT costs	7.8	7.0
Building costs	3.3	3.7
Legal, consultancy and audit costs	5.8	5.2
Communication costs	2.8	2.6
Printing and telecommunication costs	1.8	1.6
Travel expenses	1.1	0.9
Insurance policies	1.0	1.0
Other	3.9	3.8
	27.5	**25.8**
	81.3	**73.7**

The number of employees of the Deutsche Wohnen Group allocated to the Residential Property segment in the financial year averaged 986 (previous year: 891 employees).

6 Other revenues

Other operating revenues primarily comprised revenues from internally generated assets and usage fees.

7 Other expenses

Other operating expenses in the financial year 2017 primarily comprised transaction-related property transfer tax in the amount of EUR 23.4 million.

8 Share-based remuneration

The share option plan launched in 2014 provides for the possibility of issuing a maximum of 12,879,752 subscription rights to the members of the Management Board of Deutsche Wohnen SE and to selected executives of the Deutsche Wohnen Group under the following conditions:

The subscription rights are issued to beneficiaries in annual tranches until the expiration of four years from the date of the entering of the contingent capital in the commercial register, or at least until the expiration of 16 weeks following the conclusion of the ordinary Annual General Meeting in 2018. The amount of the annual tranches is determined by dividing the target amount of the variable remuneration for the beneficiary in question by a reference value, which is commensurate with the arithmetical mean of the closing price for the Deutsche Wohnen share 30 days prior to the issuance of the share options concerned.

The subscription rights may be exercised for the first time after the expiration of four years (waiting period) and thereafter within three years (exercise period) and expire upon the expiration of the relevant period.

The subscription rights may only be exercised where the following conditions are met:
- The service contract concluded with the beneficiary is not terminated during the waiting period on grounds for which the latter is responsible (section 626(1) of the German Civil Code [BGB]) and
- the performance targets "adjusted NAV per share" (40% weighting), "FFO (without disposals) per share" (40% weighting) and "share price" (20% weighting) have been attained.

The performance targets for each individual tranche of the share options relate to the development of the (i) "adjusted NAV per share", (ii) "FFO (without disposals) per share" and (iii) "share price", as compared to the "EPRA/NAREIT Germany Index", calculated in accordance with the following provisions.

Each of the aforementioned performance targets in turn comprises a minimum target, which must be attained in order for half of the share options allotted to this performance target to be generally exercisable, as well as a maximum target, upon the attainment of which all of the share options allotted to this performance target become exercisable in accordance with the weighting of the performance target in question. The minimum target in each case is attained upon a degree of target attainment of 75% and the maximum target is in each case attained upon a degree of target attainment of 150%. The individual minimum and maximum targets are set by the company on the basis of its quarterly projections prior to the issuance of the annual tranche of share options. Subject to any special arrangements which apply upon the termination of the service or employment relationship of the beneficiary prior to the expiration of the waiting period, the number of exercisable share options per tranche is commensurate with the total number of share options in the tranche in question multiplied by the percentage rate produced by the total of the percentage rates resulting from the attainment of one or more performance targets in accordance with the foregoing provisions, and having regard to the aforementioned weighting of the performance targets, so as to compensate for any divergences in the attainment of the performance targets in favour of the beneficiary.

At the end of the waiting period, the number of the subscription rights eligible for allocation to each beneficiary is calculated on the basis of the degree of attainment of the performance targets. Each beneficiary pays EUR 1 per share upon exercising the allocated subscription rights. The shares acquired following the exercise of the options confer full voting rights and an entitlement to the payment of dividends.

In the past financial year, a total of 64,857 subscription rights were issued, with the result that 282,994 subscription rights were outstanding at the end of the year (previous year: 218,137).

The calculation of the value of the issued options was based on the assumption that the degree of attainment of the performance targets "adjusted NAV per share" and "FFO (without disposals) per share" will be 150% at the end of the waiting period. With regard to the attainment of the performance target "share price", the value of the subscription rights was calculated on the basis of an assumed volatility of 26.2%, a risk-free interest rate of -0.07% and an expected dividend return of 2.9%. The calculated value of the options for the subscription rights was allocated to the relevant vesting period having regard to any special contractual provisions in relation to the termination of the employment of the beneficiary in question.

The expenses relating to the share option programme as reported in the consolidated financial statements amounted to EUR 1.4 million (previous year: EUR 2.2 million).

9 Gains/losses from fair value adjustments of derivative financial instruments and convertible bonds

Gains/losses from fair value adjustments comprise negative fair value adjustments of the convertible bonds in the amount of EUR 229.0 million (previous year: EUR 79.6 million) and positive value adjustments for derivative financial instruments in the amount of EUR 3.0 million (previous year: EUR –3.8 million).

10 Finance expense

The finance expense comprises the following:

EUR m	2017	2016
Current interest expenses	100.2	106.2
Accrued interest on liabilities and pensions	18.7	18.7
Non-recuring expenses arising in the refinancing context	51.7	6.9
	170.6	**131.8**

11 Income taxes

Companies which are domiciled in Germany and have the legal form of a stock corporation [Kapitalgesellschaft] are subject to German corporation tax in the amount of 15% and a solidarity surcharge in the amount of 5.5% of the corporation tax levied. These entities are also subject to trade tax, the amount of which depends on the 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 members for corporation tax purposes. Limited use of corporation and trade tax loss carry-forwards is to be taken into account from the assessment period 2004 onwards. As a result, a positive tax assessment basis up to EUR 1 million may be reduced by an existing loss carry-forward without limitation; amounts in excess thereof may at most be reduced to 60% by an existing loss carry-forward.

The anticipated nominal income tax rate for 2017 for Deutsche Wohnen SE as the parent company of the Group is 30.18% (previous year: 30.18%).

The income tax expense/benefit comprises the following:

EUR m	2017	2016
Current tax expense	**–31.2**	**–36.5**
Tax expense resulting from capital increase-related costs	**–1.4**	**0.0**
Deferred tax expense		
Properties	–768.5	–865.3
Loss carry-forwards	0.9	–15.0
Loans	–0.2	5.7
Convertible bonds	–32.4	39.5
Interest rate swaps	–6.2	2.4
Employee benefit liability	0.3	–1.0
Other	3.7	4.3
	–802.4	**–829.5**
	–835.0	**–866.0**

The reconciliation of tax expense/benefit is provided in the following overview:

EUR m	2017	2016
Consolidated accounting profit before taxes	2,598.2	2,489.2
Applicable tax rate	30.18%	30.18%
Resulting tax expense	**−784.0**	**−751.1**
Permanent effects resulting from non-deductible expenses and trade tax corrections. as well as tax-exempt income	−14.1	12.0
Changes in unrecognised deferred taxes on loss carry-forwards and accrued temporary differences	−55.9	45.8
Income tax expenses from other periods	12.3	−5.7
Impairment of goodwill	0.0	−162.1
Other effects	6.7	−5.0
	−835.0	**−866.0**

The amount of the current income taxes for the financial year 2017 includes income from other periods in the amount of EUR 12.3 million (previous year: expenses in the amount of EUR 5.7 million). EUR 0.9 million (previous year: EUR 2.2 million) of the change in unrecognised deferred taxes on loss carry-forwards and accrued temporary differences in the amount of EUR 55.9 million had the effect of reducing the amount of the ongoing tax expenditure.

F. Segment reporting

Deutsche Wohnen reports by business segments on the basis of the information provided to the decision-makers of the Deutsche Wohnen Group.

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

1 Residential Property Management

Deutsche Wohnen's core business activity is the management of residential properties in the context of active asset management. Asset 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 residential units. The focus of property management is on the optimisation of rental income. Therefore, rental increase potential is examined continuously in the course of ongoing maintenance, tenant turnover is used as an opportunity to create value, and services are purchased based on best-available prices for real savings and passed on to the tenant.

2 Disposals

The Disposals business segment is another pillar of the Deutsche Wohnen Group's operating activities. Privatisation can take the form of either an individual privatisation transaction, i.e. the sale of an individual residential unit (for example, to a tenant), or block sales.

The Disposals business segment includes all aspects of the preparation and execution of the sale of residential units from our property portfolio as part of the ongoing portfolio optimisation and streamlining process.

In addition, the privatisation of residential property can take place in connection with the future acquisition of portfolios for the purpose of portfolio streamlining as well as for financing purposes.

Certain residential units, particularly in Rhineland-Palatinate, and individual holdings of the GEHAG Group as well as the BauBeCon Group are subject to privatisation restrictions due to the acquisition agreements. In light of the obligations, the Group is partly bound by certain specifications (for example, sale to tenants, general social conditions, etc.) when making privatisation decisions. These restrictions to some extent also prohibit the disposal of the properties in question for a specified period of time.

3 Nursing and Assisted Living

The Nursing and Assisted Living segment comprises the business operations of the company's subsidiary KATHARINENHOF® and the contributions towards the overall results attributable to the income from the lease agreements for the nursing properties managed by a number of external operators. The range of services provided by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH (KATHARINENHOF®) and its subsidiaries comprises the marketing and management of nursing and residential care homes for the elderly, as well as services relating to the care of the senior citizens residing in those properties.

Inter-company transactions primarily concern agency agreements which are carried out in accordance with the usual market conditions.

The segment reporting is attached to the notes to the consolidated financial statements as Appendix 2.

EUR m	2017	2016
Sum of segment earnings	711.1	657.5
Corporate expenses	–81.3	–73.7
Other expenses	–37.8	–16.0
Other revenues	8.8	7.3
Gains/losses from fair value adjustments of investment properties	2,397.0	2,667.7
Depreciation and amortisation	–7.4	–543.7
Earnings before interest and taxes (EBT)	**2,990.4**	**2,699.0**
Finance income	1.4	3.4
Gains/losses from fair value adjustments of derivative financial instruments and convertible bonds	–226.0	–83.4
Earnings from companies valued in accordance with the equity method	3.0	2.0
Finance expense	–170.6	–131.8
Earnings before taxes	**2,598.2**	**2,489.2**
Income taxes	–834.9	–866.0
Profit/loss for the period	**1,763.3**	**1,623.1**

G. Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows how the Group's cash position has changed during the financial year due to the inflow and outflow of funds. In accordance with IAS 7 ("Cash flow statements"), a distinction is made between cash flows from operating and from investing and financing activities.

Other non-cash operating income and expenses mainly include carrying profits from disposals (2017: EUR 52.1 million; previous year: EUR 63.7 million). In total, Deutsche Wohnen received EUR 303.5 million (previous year: EUR 336.1 million) from property disposals. Purchase of property, plant and equipment includes payments for modernisation and acquisition of investment properties and land and buildings held for sale.

The Group has funds amounting to EUR 447.2 million (previous year: EUR 437 million) at its disposal from existing financing commitments that have not been utilised as at the reporting date.

Cash flows from investing and financing activities are determined when payments are made. The cash flow from operating activities in contrast is indirectly derived from the Group's profit/loss.

The changes in liabilities arising out of finance leases during the financial year 2017 were as follows:

The segment earnings correspond to the respective subtotals of the Group profit and loss statement. The reconciliation of the segment earnings for the profit/loss for period with the Group profit and loss statement is shown in the following table:

31/12/2017

EUR m			Changes not having an effect on cash and cash equivalents			
	Initial balance sheet amount	Changes having an effect on cash and cash equivalents	Changes in the basis of consolidation	Changes in the fair value	Additions of accrued interest and interest accruals	Final balance sheet amount
Financial liabilities	4,600.0	−75.0	213.2	0.0	12.9	4,751.1
Convertible bonds	1,045.1	395.0	0.0	229.0	0.5	1,669.6
Corporate bonds	732.3	92.0	0.0	0.0	2.3	826.6
Total	**6,377.4**	**412.0**	**213.2**	**229.0**	**15.7**	**7,247.3**

H. Earnings per share

In order to calculate the basic earnings per share, the consolidated earnings are divided by the weighted number of shares outstanding in the financial year.

The diluted and undiluted earnings amount to:

EUR m	2017	2016
Consolidated earnings for calculation of undiluted earnings	1,719.9	1,583.9
./. Interest from convertible bonds (after taxes)	1.5	3.3
./. Valuation effect resulting from convertible bond (after taxes)	32.7	55.6
Adjusted consolidated earnings for calculation of diluted earnings	**1,752.1**	**1,642.8**

The average number of issued shares (diluted and undiluted) amounts to:

in shares k	2017	2016
Shares issued at start of period	337,480	337,412
Addition of issued shares in the relevant financial year	17,186	69
Shares issued at end of period	**354,666**	**337,480**
Average number of issued shares, undiluted	**352,121**	**337,452**
Number of shares to be diluted due to exercise of conversion rights and share option programme	17,770	33,414
Average number of issued shares, diluted	**369,890**	**370,866**

The earnings per share amount to:

EUR	2017	2016
Earnings per share		
Undiluted	4.88	4.69
Diluted	4.74	4.43

In 2017, a dividend was paid out for the financial year 2016 in the amount of EUR 262.4 million or EUR 0.74 per share. A dividend of EUR 0.80 per share is planned for the financial year 2017. On the basis of the number of outstanding shares as at 31 December 2017, this is commensurate with a dividend payment in the total amount of EUR 283.7 million.

I. Other Disclosures

1 Information on financial instruments

Financial risk management

The management of financial risks is an integral part of the risk management system and as such a tool for achieving the company's primary objective of ensuring the profitability of Deutsche Wohnen – which is mainly focussed on the management and development of its own residential holdings – on a sustained basis. Please see the risk and opportunity report in the Group Management Report for a detailed description of the overall risk management system.

The measures relating to financial risk management are described below:

The main financial instruments used by the Group – apart from derivative financial instruments – are bank loans, convertible bonds, a corporate bond, registered bonds and cash and cash equivalents. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which result directly from its business activities.

The Group also carries out derivative transactions in the form of interest rate swaps. The purpose of these derivative financial instruments is to manage interest rate risks that result from the Group's business activities and its sources of finance. There has been no trading of interest rate swaps, nor will there be any future trading in this area.

The following table illustrates the classification of the financial instruments into appropriate classes in accordance with IFRS 7.6 together with their allocation to valuation categories in accordance with IAS 39:

31/12/2017

EUR m	Valuation category in accordance with IAS 39	Amortised costs		Fair value recognised in profit/loss	Valuation in accordance with IAS 17/ IAS 28	Total balance sheet items
		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount
Trade receivables	LaR	15.5	15.5	0.0	0.0	15.5
Other assets						
Financial assets	AfS	0.4	n/a	0.0	14.6	14.9
loans receivable	LaR	4.2	n/a	0.0	0.0	4.2
Other financial assets	LaR	13.2	13.2	0.0	0.0	13.2
Derivate financial instruments	FAHfT	0.0	0.0	3.3	0.0	3.3
Cash and cash equivalents	LaR	363.7	363.7	0.0	0.0	363.7
Total financial assets		**396.9**	**392.3**	**3.3**	**14.6**	**414.8**
financial liabilities	FLaC	4,751.1	4,892.8	0.0	0.0	4,751.1
Convertible bonds	FLHfT	0.0	0.0	1,669.6	0.0	1,669.6
Corporate bond	FLaC	826.7	833.3	0.0	0.0	826.7
Liabilities to limited partners in funds	FLaC	177.7	177.7	0.0	0.0	177.7
Other liabilities						
Liabilities from finance leases	n/a	0.0	0.0	0.0	65.6	65.6
Other financial liabilities	FLaC	196.2	196.2	0.0	0.0	196.2
Derivate financial instruments						
Interest rate hedges (no hedge accounting)	FLHfT	0.0	0.0	4.7	0.0	4.7
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	0.5	0.0	0.5
Total financial liabilities		**5,951.7**	**6,100.0**	**1,674.8**	**65.6**	**7,692.1**

AfS – Financial assets available for disposal (Available for Sale)
LaR – Loans and Receivables
FAHfT – Financial assets assessed at fair value and recognised in profit/loss (Financial Assets Held for Trade)
FLaC – Financial liabilities carried at amortised cost (Financial Liabilities Held at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)

31/12/2016

EUR m	Valuation category in accordance with IAS 39	Amortised costs		Fair value recognised in profit/loss	Valuation in accordance with IAS 17/ IAS 28	Total balance sheet items
		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount
Trade receivables	LaR	16.4	16.4	0.0	0.0	16.4
Other assets						
Financial assets	AfS	0.3	n/a	0.0	10.9	11.3
loans receivable	LaR	17.0	n/a	0.0	0.0	17.0
Other financial assets	LaR	11.3	11.3	0.0	0.0	11.3
Derivate financial instruments	FAHfT	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	LaR	192.2	192.2	0.0	0.0	192.2
Total financial assets		**237.3**	**219.9**	**0.0**	**10.9**	**248.2**
financial liabilities	FLaC	4,600.0	4,812.9	0.0	0.0	4,600.0
Convertible bonds	FLHfT	0.0	0.0	1,045.1	0.0	1,045.1
Corporate bond	FLaC	732.3	751.2	0.0	0.0	732.3
Liabilities to limited partners in funds	FLaC	161.6	161.6	0.0	0.0	161.6
Other liabilities						
Liabilities from finance leases	n/a	0.0	0.0	0.0	31.0	31.0
Other financial liabilities	FLaC	100.7	100.7	0.0	0.0	100.7
Derivate financial instruments						
Interest rate hedges (no hedge accounting)	FLHfT	0.0	0.0	22.3	0.0	22.3
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	24.7	0.0	24.7
Total financial liabilities		**5,594.6**	**5,826.4**	**1,092.1**	**31.0**	**6,717.7**

AfS – Financial assets available for disposal (Available for Sale)
LaR – Loans and Receivables
FAHfT – Financial assets assessed at fair value and recognised in profit/loss (Financial Assets Held for Trade)
FLaC – Financial liabilities carried at amortised cost (Financial Liabilities Held at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)

The determination of the fair value of the financial assets and liabilities for valuation purposes or for the purposes of disclosure in the explanatory Notes was undertaken – in all cases except that of liabilities arising in connection with put options of co-partners (Level 3) – on the basis of Level 2 of the fair value hierarchy.

The DCF valuation methodology was applied in the case of derivatives, using observable market parameters, in particular market interest rates. The fair value of the convertible and other bonds was calculated on the basis of the market listings for the securities. The amounts of the liabilities arising in connection with put options are commensurate with the discounted contractually stipulated purchase prices, which can be calculated on the basis of projectable cash flows.

The following table shows the contractual, non-discounted payments:

31/12/2017

EUR m	Carrying amount				Maturities
		2018	2019	2020	>2021
Original financial liabilities					
Financial liabilities	4,751.1	111.3	115.3	320.4	4,934.7
Convertible bonds	1,669.6	3.8	7.4	7.4	1,639.2
Corporate bonds	826.7	12.6	12.6	512.6	380.5
Liabilities to limited partners in funds	177.7	177.7	0.0	0.0	0.0
Other liabilities					
Liabilities from finance lease	65.6	9.8	9.6	9.4	42.6
Other financial liabilities	196.2	35.0	0.0	0.0	161.2
Derivative financial liabilities	5.2	4.1	2.0	0.1	–7.6
Total	**7,692.1**	**354.2**	**146.9**	**849.9**	**7,150.5**

31/12/2016

EUR m	Carrying amount				Maturities
		2017	2018	2019	>2020
Original financial liabilities					
Financial liabilities	4,600.0	130.0	131.8	176.3	4,951.2
Convertible bonds	1,045.1	4.8	4.8	4.8	655.9
Corporate bonds	732.3	239.8	6.9	6.9	506.9
Liabilities to limited partners in funds	161.6	161.6	0.0	0.0	0.0
Other liabilities					
Liabilities from finance lease	31.0	3.8	3.7	3.7	22.6
Other financial liabilities	100.7	72.1	0.0	0.0	28.6
Derivative financial liabilities	47.0	12.5	11.6	10.0	12.5
Total	**6,717.7**	**624.6**	**158.8**	**201.5**	**6,177.7**

The profits and losses from financial assets and liabilities are as follows:

31/12/2017

EUR m	Valuation category in accordance with IAS 39	From interest	From dividends	From subsequent valuations			From disposals	From other comprehen-sive income components	Net earnings
				Fair value	Impairment	Appreciation in value			
Financial assets available for disposal	AfS	0.0	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Loans and receivables	LaR	0.4	0.0	0.0	–1.3	2.1	–2.7	0.1	**–1.4**
Financial liabilities carried at amortised cost	FLaC	–117.0	0.0	0.0	0.0	0.0	0.4	–1.3	**–117.9**
Liabilities carried at fair value and recognised in profit/loss (held for trading purposes)	FAHfT/FLHfT	–12.5	0.0	–226.1	0.0	0.0	0.0	0.0	**–238.6**
Total		**–129.2**	**0.1**	**–226.1**	**–1.3**	**2.1**	**–2.3**	**–1.2**	**–357.8**

31/12/2016

EUR m	Valuation category in accordance with IAS 39	From interest	From dividends	From subsequent valuations			From disposals	From other comprehen-sive income components	Net earnings
				Fair value	Impairment	Appreciation in value			
Financial assets available for disposal	AfS	0.0	0.0	0.0	0.0	0.0	0.5	0.0	**0.5**
Loans and receivables	LaR	0.7	0.0	0.0	–1.3	1.5	–3.9	0.2	**–2.9**
Financial liabilities carried at amortised cost	FLaC	–95.7	0.0	0.0	0.0	0.0	0.7	–0.2	**–97.1**
Liabilities carried at fair value and recognised in profit/loss (held for trading purposes)	FAHfT/FLHfT	–11.6	0.0	–83.6	0.0	0.0	0.0	0.0	**–95.2**
Total		**–108.5**	**0.0**	**–83.6**	**–1.3**	**1.5**	**–2.7**	**–0.1**	**–194.6**

There were no changes in the fair value of the convertible bonds due to changes in the default risk in the year under review.

The significant risks to the Group arising from financial instruments comprise interest-related cash flow risks, liquidity risks, default risks and market risks. Company management prepares and reviews risk management guidelines for each of these risks, as outlined below:

Default risk
Default risks, or the risk that a partner will not be able to meet its obligations, are managed by using exposure limits and control processes. If appropriate, the company is provided with collateral. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The maximum default risk is the carrying amount of the financial assets as reported in the balance sheet.

Liquidity risk
The Group reviews the risk of liquidity shortfalls daily by using a liquidity planning tool. This tool takes into account the inflows and outflows of cash from the operating activities and payments relating to financial liabilities.

Deutsche Wohnen seeks to ensure that sufficient liquidity is available to meet future obligations at all times. Deutsche Wohnen currently has a debt capital ratio of approx. 50% (previous year: 51%) and a loan-to-value ratio of 34.5% (previous year: 37.7%).

Interest-related cash flow risks
The interest rate risk to which the Group is exposed is mainly derived from non-current financial liabilities with floating interest rates.

The Group's interest expenses are managed by a combination of fixed-interest and floating-rate debt capital. In order to make this combination cost-efficient, the Group concludes interest rate swaps at specified intervals in which it exchanges the difference between the fixed-interest and floating-rate amounts as determined on the basis of an agreed nominal value with the contractual partner. These interest rate swaps hedge the underlying debt capital. Accordingly, interest rate risk only exists for floating-rate financial liabilities that are not hedged by interest rate swaps. Applied to these financial liabilities, an increase/reduction of 0.5% in the interest rate on the balance sheet date would have resulted in an increase/a reduction in the interest expenses of EUR 4.0 million/EUR –3.0 million (previous year: EUR 4.2 million/EUR –2.9 million). Applied to the derivative financial instruments, an increase/reduction of 0.5% in the interest rate on the balance sheet date would have resulted in an increase/a reduction in the interest expenses of EUR 20.5 million/EUR –21.6 million (previous year: EUR 9.5 million/EUR –9.9 million). Applied to the Group equity, an interest adjustment in the same amount would have resulted in an increase/a reduction of EUR 1.0 million/EUR –0.8 million (previous year: EUR 9.5 million/EUR –9.9 million).

Market risks
The financial instruments of Deutsche Wohnen that are not reported at fair value are primarily cash and cash equivalents, trade receivables, other current assets, financial liabilities, trade payables and other liabilities.

The carrying amount of cash and cash equivalents is very close to their fair value due to the short-term nature of these financial instruments. For receivables and liabilities which are based on usual trade credit conditions, the carrying amount based on the historical cost is also very close to the fair value.

Fair value risks can arise in connection with fixed-interest and interest-hedged loans where the market interest rate falls below the interest rate for the loans entered into by the Group. In such cases, Deutsche Wohnen will usually initiate negotiations with the banks in question and make adjustments and enter into refinancing arrangements in the interests of avoiding the implications of unfavourable interest rates.

Netting of financial assets and financial liabilities

Financial assets and liabilities will only be netted pursuant to global netting agreements where an enforceable legal offset claim exists on the balance sheet date and settlement on a net basis is planned. Where a claim for netting is not enforceable in the ordinary course of business, the global netting agreement will only give rise to a conditional set-off claim. In this case, the financial assets and liabilities will be reported on the balance sheet in their gross amounts on the balance sheet date.

Deutsche Wohnen enters into financial futures transactions as a means of hedging against cash flow risks. These derivatives are based on standard netting agreements concluded with banks, pursuant to which a conditional offset claim may arise which could result in the forward futures transactions being reported in their gross amounts on the balance sheet date.

Claims arising out of operating costs which have not yet been accounted for in the amount of EUR 319.8 million (previous year: EUR 305.5 million) were offset against instalments on advance payments of operating costs in the amount of EUR 346.3 million (previous year: EUR 335.2 million) on the balance sheet for the financial year 2017. The derivatives were not subject to any offset claims as against liabilities arising out of derivatives.

2 Capital management

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.

Management of the capital structure takes into account liabilities to banks and other creditors, and cash and cash equivalents.

The key figures for capital management are:

– The equity/debt capital ratio and the leverage ratio

The Group aims to achieve an equity ratio of 40%. Future investments will therefore be based on balanced financing, amongst other things. The equity ratio amounted to 50% as at the reporting date (previous year: 49%)

– Loan-to-value ratio

The ratio of financial liabilities to the value of the investment properties is defined as the loan-to-value ratio.

EUR m	31/12/2017	31/12/2016
Financial liabilities	4,751.1	4,600.0
Convertible bonds	1,669.6	1,045.1
Corporate bonds	826.6	732.3
	7,247.3	**6,377.4**
Cash and cash equivalents	–363.7	–192.2
Net financial liabilities	**6,883.6**	**6,185.2**
Investment properties	19,628.4	16,005.1
Non-current assets held for sale	28.7	29.2
Land and buildings held for sale	295.8	381.5
	19,952.9	**16,415.8**
Loan-to-value ratio in %	**34.5**	**37.7**

3 Hedging

As at 31 December 2017 and 31 December 2016, there were various interest hedges in place in relation to hedging transactions undertaken in accordance with IAS 39, through which variable interest rate conditions can be exchanged for fixed interest rate conditions. The non-effective part thereof – any change in the value of which is reported in the consolidated profit and loss statement – is negligible (previous year: negligible).

The reversal of the hedging reserve recognised directly in equity resulted in expenses in the amount of EUR 24.2 million (previous year: EUR 5.9 million) which were reported in the consolidated profit and loss statement.

4 Events after the balance sheet date

Significant events occurring after the reporting date are not known.

5 Commitments and contingencies

Hereditary building rights contracts result in annual financial commitments of EUR 2.5 million (previous year: EUR 2.6 million).

Other financial commitments relating to agency agreements concerning IT services total EUR 8.2 million (previous year: EUR 7.2 million).

Other financial commitments in the total amount of EUR 8.6 million (previous year: EUR 7.3 million) relate to other service contracts.

In addition, there are current obligations in the amount of EUR 144.4 million (previous year: EUR 48.7 million) resulting from the acquisition of a number of property portfolios. The purchase commitment and the investment obligations result in financial commitments of EUR 120.5 million and EUR 408.1 million, respectively.

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a refurbishment and development agency (sections 158 and 167 of the German Federal Building Code (Baugesetzbuch – BauGB). Rhein-Pfalz Wohnen GmbH performs the duties incumbent upon it as the trustee of the local authorities.

The GSW subgroup has made entries in the land register in relation to land charges arising in connection with building obligations in the total amount of EUR 10.6 million (previous year: EUR 10.6 million).

6 Obligations arising out of lease commitments

Operating lease agreements give rise to payments in the amount of EUR 2.0 million (previous year: EUR 1.9 million) for a period of up to one year, in the amount of EUR 4.2 million (previous year: EUR 5.4 million) for a period of one to five years and in the amount of EUR 1.8 million (previous year: EUR 3.3 million) for a period of more than five years.

7 Auditor's services

The auditor of Deutsche Wohnen SE and the Group is KPMG AG Wirtschaftsprüfungsgesellschaft. The following expenses (net) were incurred in the year under review:

EUR k	2017	2016
Audit services	1,011	1,001
Other certification and valuation services	74	19
Other services	0	126
	1,085	**1,146**

8 Related party disclosures

Companies and persons who have the possibility of controlling or exercising a significant influence on the financial and business policies of the Deutsche Wohnen Group are considered to be related parties. Existing control relationships were taken into account in determining the extent of the significant influence that the Deutsche Wohnen Group's related parties (individuals and companies) have on its financial and business policies.

Related companies

The affiliated companies, jointly controlled entities and affiliated companies included in the consolidated financial statements are to be considered related companies.

Transactions with related companies

Service and cash management agreements exist within the Group. Services between the companies are eliminated on consolidation.

Related parties

The following persons are to be considered related parties:

Name	Occupation	Memberships of supervisory boards and other executive bodies within the meaning of the fifth clause of section 125(1) of the German Stock Corporation Act (AktG)
Michael Zahn Chairman of the Management Board (Chief Executive Officer, CEO)	Economist	GSW Immobilien AG, Berlin (Chairman of the Supervisory Board) TLG IMMOBILIEN AG, Berlin (Chairman of the Supervisory Board) Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board; member since 17/03/2017) WCM Beteiligungs- und Grundbesitz-AG (member of the Supervisory Board from 17/11/2017 until 08/02/2018; Chairman of the Supervisory Board from 20/11/2017 until 08/02/2018) Scout24 AG, Munich (member of the Supervisory Board since 08/06/2017) G+D Gesellschaft für Energiemanagement GmbH, Magdeburg (Chairman of the Advisory Board) Funk Schadensmanagement GmbH, Berlin (Chairman of the Advisory Board) DZ Bank AG, Frankfurt/Main (member of the Advisory Board) Füchse Berlin Handball GmbH, Berlin (member of the Advisory Board) GETEC Wärme & Effizienz GmbH, Magdeburg (member of the Real Estate Advisory Board)
Lars Wittan Deputy Chairman of the Management Board (Chief Operating Officer, COO)	Degree in business administration (Dipl.-Betriebswirt)	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board)
Philip Grosse Member of the Management Board (Chief Financial Officer, CFO)	Degree in business management (Dipl.-Kaufmann)	GSW Immobilien AG, Berlin (Deputy Chairman of the Supervisory Board) GEHAG GmbH, Berlin (Deputy Chairman of the Supervisory Board)

Members of the Supervisory Board of Deutsche Wohnen SE

The Supervisory Board is composed of the following members:

Name	Occupation	Memberships in Supervisory Boards and other executive bodies within the meaning of the fifth clause of section 125(1) of the German Stock Corporation Act (AktG)
Uwe E. Flach Chairman	Management consultant, Frankfurt/Main	OFFICEFIRST Immobilien AG, Bonn (Chairman of the Supervisory Board; member until 31/03/2017)
Dr. Andreas Kretschmer Deputy Chairman	Management consultant, Dusseldorf	BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board) Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board)
Dr. h.c. Wolfgang Clement (until 02/06/2017)	Publicist and corporate consultant Former Bundesminister (Federal Minister) Former Ministerpräsident (State Premier) Bonn	Daldrup & Söhne AG, Grünwald (Chairman of the Supervisory Board) Peter Dussmann-Stiftung, Berlin (Member of the Board of Trustees) Dussmann Stiftung & Co. KGaA, Berlin (Chairman of the Supervisory Board) Landau Media Monitoring AG & Co. KG, Berlin (Member of the Supervisory Board)
Jürgen Fenk (since 01/10/2017)	Managing Director and member of the Group Executive Board of Signa Holding GmbH, Vienna	None
Matthias Hünlein	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	None
Dr. Florian Stetter	Chief Executive Officer Rockhedge Asset Management AG, Krefeld	C&P Immobilien AG, Graz, Austria (members of the Supervisory Board since 15/11/2017) CalCon Deutschland AG, Munich (Member of the Supervisory Board) ENOVO s.r.o., Bratislava, Slovak Republic (Managing Partner)
Claus Wisser	Managing Director of Claus Wisser Vermögensverwaltungs GmbH, Frankfurt/Main	AVECO Holding AG, Frankfurt/Main (Chairman of the Supervisory Board)

Transactions with related parties

No transactions were entered into with related parties in 2017.

9 Remuneration of the Management Board and Supervisory Board

The remuneration paid to the members of the Management Board and the Supervisory Board in accordance with their service contracts was as follows:

EUR m	2017	2016
Payments made to members of the Management Board		
Non-performance-based remuneration	1.8	1.4
Performance-based remuneration	2.4	1.9
Total	**4.2**	**3.3**
Payments made to members of the Supervisory Board		
Fixed remuneration components	0.7	0.5
Total	**0.7**	**0.5**

The non-performance-based components of the remuneration paid to members of the Management Board comprise a fixed amount of remuneration and supplementary payments for company cars. The non-performance-based components comprise both short-term incentives, on a short-term due and long-term due basis, and long-term incentives comprising, since 2014, remuneration payments made out of the share option programme.

The members of the Supervisory Board receive a fixed amount of remuneration only.

There is no employee benefit liability for current or retired members of the Management Board or Supervisory Board.

With regard to all other matters, we refer to the remuneration report contained in the combined management report.

10 Corporate Governance

The Management Boards and the Supervisory Boards of Deutsche Wohnen SE and GSW Immobilien AG have issued a declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the shareholders online at www.deutsche-wohnen.com and www.gsw.de.

Berlin, 8 March 2018

Michael Zahn Chairman of the Management Board	Lars Wittan Deputy Chairman of the Management Board	Philip Grosse Management Board

Appendix 1 to the Notes to the consolidated financial statements

Shareholdings[3]

as at 31 December 2017

Company and registered office

	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Subsidiaries				
AGG Auguste-Viktoria-Allee Grundstücks GmbH, Berlin	100.00[1]	25.0	0.0	2017
Algarobo Holding B.V., Baarn, Netherlands	100.00	14,773.0	1,189.4	2017
Alpha Asset Invest GmbH & Co. KG, Berlin (vormals: DW Asset Invest GmbH & Co. KG, Berlin)	70.00[2]	870.1	–129.9	2017
Amber Dritte VV GmbH, Berlin	94.90[1]	–7,166.1	–896.7	2017
Amber Erste VV GmbH, Berlin	94.90[1]	–10,420.8	–999.8	2017
Amber Zweite VV GmbH, Berlin	94.90[1]	–11,621.3	–1,450.7	2017
Aragon 13. VV GmbH, Berlin	94.90[1]	–6,003.0	–655.9	2017
Aragon 14. VV GmbH, Berlin	94.90[1]	–9,811.2	–2,557.4	2017
Aragon 15. VV GmbH, Berlin	94.90[1]	–5,950.8	–822.6	2017
Aragon 16. VV GmbH, Berlin	94.90[1]	–8,373.9	–829.0	2017
Aufbau-Gesellschaft der GEHAG mit beschränkter Haftung, Berlin	100.00	7,421.2	527.9	2017
BauBeCon Assets GmbH, Berlin	100.00[1]	46,233.4	1,122.5	2017
BauBeCon BIO GmbH, Berlin	100.00[1]	8,626.5	0.0	2017
BauBeCon Immobilien GmbH, Berlin	100.00[1]	431,224.1	29,668.1	2017
BauBeCon Wohnwert GmbH, Berlin	100.00[1]	26,710.2	0.0	2017
Beragon VV GmbH, Berlin	94.90[1]	–9,930.0	–1,970.3	2017
Ceragon VV GmbH, Berlin	94.90[1]	–7,672.9	–433.1	2017
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100.00[1]	25.0	0.0	2017
Deutsche Wohnen Berlin 5 GmbH, Berlin (vormals: Draaipunt Holding B.V., Baarn, Netherlands)	94.90	6,317.6	1,120.6	2017
Deutsche Wohnen Berlin 6 GmbH, Berlin (vormals: Promontoria Holding V B.V., Amsterdam, Netherlands)	94.90	6,428.4	2,842.4	2017
Deutsche Wohnen Berlin 7 GmbH, Berlin (vormals: Promontoria Holding X B.V., Baarn, Netherlands)	94.90	1,043.3	–3,685.8	2017
Deutsche Wohnen Berlin I GmbH, Berlin	94.00[1]	1,488.1	0.0	2017
Deutsche Wohnen Berlin II GmbH, Berlin	94.90[1]	4,809.5	513.4	2017
Deutsche Wohnen Berlin III GmbH, Berlin	94.90[1]	24,705.1	0.0	2017
Deutsche Wohnen Berlin X GmbH, Berlin	94.80[1]	7,691,7	0.0	2017
Deutsche Wohnen Berlin XI GmbH, Berlin	94.80[1]	7,504,6	0.0	2017
Deutsche Wohnen Berlin XII GmbH, Berlin	94.80[1]	1,761,1	0.0	2017
Deutsche Wohnen Berlin XIII GmbH, Berlin	94.80[1]	6,858,4	0.0	2017
Deutsche Wohnen Berlin XIV GmbH, Berlin	94.80[1]	10,666,3	555,2	2017
Deutsche Wohnen Berlin XV GmbH, Berlin	94.80[1]	12,102,0	0.0	2017
Deutsche Wohnen Berlin XVI GmbH, Berlin	94.80[1]	6,596.9	0.0	2017
Deutsche Wohnen Berlin XVII GmbH, Berlin	94.80[1]	5,914.2	0.0	2017
Deutsche Wohnen Berlin XVIII GmbH, Berlin	94.80[1]	3,256.7	0.0	2017
Deutsche Wohnen Beschaffung und Beteiligung GmbH, Berlin (vormals: Deutsche Wohnen Energy GmbH, Berlin)	100.00[1]	25.0	0.0	2017
Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100.00[1]	1,025.0	0.0	2017
Deutsche Wohnen Beteiligungsverwaltungs GmbH & Co. KG, Berlin	100.00[2]	19.4	–0.6	2017

1 Waiver according to sec. 264 para. 3 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.
2 Waiver according to sec. § 264b of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.
3 Additionally, the company is indirectly involved in a working group.

Company and registered office

	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Deutsche Wohnen Construction and Facilities GmbH, Berlin	100.00[1]	275.0	0.0	2017
Deutsche Wohnen Corporate Real Estate GmbH, Berlin	100.00[1]	25.0	0.0	2017
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100.00	918,362.3	–1,278.2	2017
Deutsche Wohnen Dresden I GmbH, Berlin	100.00[1]	5,087.3	0.0	2017
Deutsche Wohnen Dresden II GmbH, Berlin	100.00[1]	3,762.4	309.5	2017
Deutsche Wohnen Fondsbeteiligungs GmbH, Berlin	100.00[1]	25.0	0.0	2017
Deutsche Wohnen Immobilien Management GmbH, Berlin	100.00[1]	1,610.0	278.1	2017
Deutsche Wohnen Kiel GmbH, Berlin	94.90[1]	28,682.0	0.0	2017
Deutsche Wohnen Kundenservice GmbH, Berlin	100.00[1]	25.7	0.0	2017
Deutsche Wohnen Management GmbH, Berlin	100.00[1]	325.0	0.0	2017
Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100.00[1]	325.6	0.0	2017
Deutsche Wohnen Multimedia Netz GmbH, Berlin	100.00[1]	638.0	0.0	2017
Deutsche Wohnen Reisholz GmbH, Berlin	100.00[1]	3,563.5	0.0	2017
Deutsche Wohnen Service Center GmbH, Berlin	100.00[1]	403.9	92.1	2017
Deutsche Wohnen Service Merseburg GmbH, Merseburg	100.00	510.4	224.4	2017
Deutsche Wohnen Zweite Fondsbeteiligungs GmbH, Berlin	100.00[1]	25.2	0.0	2017
DWRE Alpha GmbH, Berlin	100.00[1]	343.8	0.0	2017
DWRE Braunschweig GmbH, Berlin	100.00[1]	16,325.2	0.0	2017
DWRE Dresden GmbH, Berlin	100.00[1]	25.0	0.0	2017
DWRE Erfurt GmbH, Berlin	100.00[1]	880.2	0.0	2017
DWRE Halle GmbH, Berlin	100.00[1]	25.0	0.0	2017
DWRE Hennigsdorf GmbH, Berlin	100.00[1]	1,085.3	0.0	2017
DWRE Leipzig GmbH, Berlin	100.00[1]	25.0	0.0	2017
Eisenbahn-Siedlungs-Gesellschaft Berlin mit beschränkter Haftung, Berlin	94.90	11,889.8	0.0	2017
EMD Energie Management Deutschland GmbH, Berlin	100.00	30,022.8	–2.2	2017
Eragon VV GmbH, Berlin	94.90[1]	–8,841.8	–825.3	2017
FACILITA Berlin GmbH, Berlin	100.00	4,329.6	353.5	2017
Faragon V V GmbH, Berlin	94.90[1]	–6,901.1	–480.6	2017
Fortimo GmbH, Berlin	100.00[1]	6,127.2	0.0	2017
Gartenstadt Potsdam GmbH, Potsdam	100.00	2,356.4	–103.9	2017
Gehag Acquisition Co. GmbH, Berlin	100.00	902,744.1	–23,404.0	2017
GEHAG Beteiligungs GmbH & Co. KG, Berlin	100.00[2]	21,912.1	480.0	2017
GEHAG Dritte Beteiligungs GmbH, Berlin	100.00[1]	378.8	0.0	2017
GEHAG Erste Beteiligungs GmbH, Berlin	100.00[1]	45.0	0.0	2017
GEHAG Erwerbs GmbH & Co. KG, Berlin	99.99[2]	45,904.8	1,146.7	2017
GEHAG GmbH, Berlin	100.00	1,976,437.3	126,981.8	2017
GEHAG Grundbesitz I GmbH, Berlin	100.00[1]	26.0	0.0	2017
GEHAG Grundbesitz II GmbH, Berlin	100.00[1]	25.0	0.0	2017
GEHAG Grundbesitz III GmbH, Berlin	100.00[1]	25.0	34.5	2017
GEHAG Vierte Beteiligung SE, Berlin	100.00[1]	20,220.5	0.0	2017

1 Waiver according to sec. 264 para. 3 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.
2 Waiver according to sec. 264 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.

Company and registered office

	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
GEHAG Zweite Beteiligungs GmbH, Berlin	100.00[1]	16,972.1	–459.3	2017
Geragon VV GmbH, Berlin	94.90[1]	–7,694.9	–755.8	2017
GGR Wohnparks Alte Hellersdorfer Straße GmbH, Berlin	100.00[1]	6,946.0	1,086.1	2017
GGR Wohnparks Kastanienallee GmbH, Berlin	100.00[1]	33,226.4	4,509.6	2017
GGR Wohnparks Nord Leipziger Tor GmbH, Berlin	100.00[1]	6,680.3	0.0	2017
GGR Wohnparks Süd Leipziger Tor GmbH, Berlin	100.00[1]	3,390.2	0.0	2017
Grundstücksgesellschaft Karower Damm mbH, Berlin	100.00[1]	1,099.3	0.0	2017
GSW Acquisition 3 GmbH, Berlin	100.00[1]	78,368.1	0.0	2017
GSW Corona GmbH, Berlin	100.00[1]	3,777.3	0.0	2017
GSW Fonds Weinmeisterhornweg 170–178 GbR, Berlin	53.66	–5,720.6	–153.3	2017
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100.00	998.9	518.2	2017
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100.00[1]	90,255.7	0.0	2017
GSW Immobilien AG, Berlin	93.89	1,276,365.9	33,656.7	2017
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.00[2]	420.8	23.7	2017
GSW Pegasus GmbH, Berlin	100.00[1]	15,966.3	3,742.1	2017
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.44[2]	–9,792.4	1,787.3	2017
Hamburger Ambulante Pflege- und Physiotherapie „HAPP" GmbH, Hamburg	100.00	–62.6	–49.5	2017
Hamburger Senioren Domizile GmbH, Hamburg	100.00	2.001.6	469.0	2017
Hamnes Investments GmbH, Berlin (vormals: Hamnes Investments B.V., Baarn, Netherlands)	100.00[1]	10,642.1	584,2	2017
Haragon VV GmbH, Berlin	94.90[1]	–5,484.9	–15.4	2017
Haus und Heim Wohnungsbau-GmbH, Berlin	100.00[1]	2,798.7	0.0	2017
HESIONE Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main	100.00	99.7	1.0	2017
Holzmindener Straße/Tempelhofer Weg Grundstücks GmbH, Berlin	100.00[1]	25.0	0.0	2017
Intermetro GmbH, Berlin	100.00[1]	8,501.4	0,0	2017
Iragon VV GmbH, Berlin	94,.90[1]	–6,165.8	–453.3	2017
Karagon VV GmbH, Berlin	94.90[1]	–5,240.0	–634.0	2017
KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin	49.00	2,577.8	4,627.8	2017
KATHARINENHOF Service GmbH, Berlin	100,00	25.0	0.0	2017
Laragon VV GmbH, Berlin	94,90[1]	–9,563.9	–984.4	2017
Larry I Targetco (Berlin) GmbH, Berlin	100.00[1]	77,057.2	0.0	2017
Larry II Targetco (Berlin) GmbH, Berlin	100.00[1]	70,878.6	0.0	2017
LebensWerk GmbH, Berlin	100.00	457.1	0.0	2017
Long Islands Investments S.A., Luxembourg	100.00	564.1	–625.5	2017
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	99.99[2]	8,986.8	4,640.7	2017
Maragon VV GmbH, Berlin	94.90[1]	–1,702.6	–87.1	2017
Marienfelder Allee 212-220 Grundstücksgesellschaft b.R., Berlin	94.00	7,662.7	741.3	2017
Omega Asset Invest GmbH, Berlin (vormals: GSW Berliner Asset Invest Verwaltungs-GmbH, Berlin)	50.00	35.0	1.2	2017
Rhein-Main Wohnen GmbH, Frankfurt/Main	100.00[1]	1,080,116.6	14,346.8	2017
Rhein-Mosel Wohnen GmbH, Mainz	100.00[1]	374,491.8	3,453.1	2017

1 Waiver according to sec. 264 para. 3 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.
2 Waiver according to sec. 264 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.

Company and registered office	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Rhein-Pfalz Wohnen GmbH, Mainz	100.00[1]	770,147.4	8,549.6	2017
RMW Projekt GmbH, Frankfurt am Main	100.00[1]	16,238.3	0.0	2017
RPW Immobilien GmbH & Co. KG, Berlin (vormals: DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn)	92.88	30,969.9	–1,648.9	2017
Seniorenresidenz „Am Lunapark" GmbH, Leipzig	100.00	102.3	0.0	2017
SGG Scharnweberstraße Grundstücks GmbH, Berlin	100.00[1]	25.0	0.0	2017
Sophienstraße Aachen Vermögensverwaltungsgesellschaft mbH, Berlin	100.00[1]	2.193.0	0.0	2017
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100.00	2.765.4	904.6	2017
WIK Wohnen in Krampnitz GmbH, Berlin (vormals: Brillant 2621. GmbH, Berlin)	100.00	2.263.5	–261.5	2017
Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	273.9	–50.2	2017
Wohnanlage Leonberger Ring GmbH, Berlin	100.00[1]	850.9	0.0	2017
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin	94.90[2]	–58.7	23.9	2017
Zisa Verwaltungs GmbH, Berlin	100.00	35.5	–20.0	2017
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100.00	36.3	–21.1	2017
Joint ventures, consolidated at equity				
B&O Deutsche Service GmbH, Berlin	49.00	837.3	608.0	2016
Deutsche KIWI.KI GmbH, Berlin	49.00	375.1	–4.9	2017
Funk Schadensmanagement GmbH, Berlin	49.00	158.8	58.8	2016
G+D Gesellschaft für Energiemanagement mbH, Magdeburg	49.00	9,507.1	3,182.0	2016
GIM Immobilien Management GmbH, Berlin	49.00	404.3	92.2	2016
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.33	277.9	107.6	2016
Siwoge 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50.00	4,965.4	1.6	2016
Associated companies, consolidated at equity				
KIWI.KI GmbH, Berlin	11.96	1,355.6	–3,058.6	2016
Zisa Beteiligungs GmbH, Berlin	49.00	–40.5	–13.2	2016
Shareholdings, not consolidated				
AVUS Immobilien-Treuhand GmbH & Co. KG, Berlin	100.00	359.6	–10.9	2016
GbR Fernheizung Gropiusstadt, Berlin	45.59	611.4	–42.6	2017
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Köpenicker Landstraße KG i.L., Berlin	0.26	–99.9	176.0	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Ostseestraße KG i.L., Berlin	0.07	789.2	993.6	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Wohnen am Brosepark KG i.L., Berlin	20.80	16.1	53.3	2016
STRABAG Residential Property Services GmbH, Berlin	0.49	246.7	0.0	2016

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2 Waiver according to sec. 264 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements.

Appendix 2 to the Notes to the consolidated financial statements

Consolidated segment reporting

for the financial year 2017

EUR m	External revenue		Internal revenue		Total revenue		Segment earnings	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Segments								
Residential Property Management	744.2	704.4	19.2	15.7	763.4	720.1	612.8	586.4
Disposals	308.6	354.3	9.9	11.2	318.5	365.5	50.3	54.3
Nursing and Assisted Living	120.7	70.1	0.0	0.0	120.7	70.1	48.0	16.8
Reconsiliation with consolidated financial statement								
Central functions and other operational activities	0.3	2.5	108.1	83.8	108.4	86.3	–110.3	–82.4
Consolidations and other reconciliations	–0.3	–2.4	–137.2	–110.7	–137.5	–113.1	0.0	0.0
	1,173.5	**1,128.9**	0.0	**0.0**	**1,173.5**	**1,128.9**	**600.8**	**575.1**

Independent auditor's report

To Deutsche Wohnen SE, Berlin

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Deutsche Wohnen SE, Berlin (until July 31, 2017: Deutsche Wohnen AG, Frankfurt am Main), and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2017, the consolidated profit and loss statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter: 'group management report') of Deutsche Wohnen SE for the financial year from January 1, 2017, to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the Group's non-financial statement, which is included in Section 9 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Group's non-financial statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of residential and commercial investment property as well as care facilities held for investment

For the valuation (measurement) of property held for investment, please refer to the details provided in the notes to the consolidated financial statements in Chapter A (note 4), Chapter C (notes 1 and 2) and Chapter D (note 1).

FINANCIAL STATEMENT RISK

Investment property (largely consisting of residential and commercial property as well as care facilities) is reported in the consolidated financial statements of Deutsche Wohnen as of December 31, 2017 at a value of EUR 19.6 billion. Deutsche Wohnen measures investment property at fair value. In the year under review, positive changes in fair value of EUR 2.4 billion were recognized in the consolidated profit and loss statement.

Deutsche Wohnen determines the fair value of residential and commercial investment property in-house using a discounted cash flow model. In addition, CB Richard Ellis GmbH (hereinafter referred to as 'CBRE') provides an appraisal which is used by Deutsche Wohnen to verify the in-house valuation (measurement) of residential and commercial property. Care facilities are valued (measured) exclusively by CBRE using a discounted cash flow model.

In-house valuation and CBRE's valuations (measurements) are carried out as of the measurement date (December 31).

Numerous assumptions relevant to measurement are made when assessing the value of investment property, which are complex and subject to considerable estimation uncertainties and judgments. Even minor changes in the assumptions relevant to measurement can have a material effect on the resulting fair value. The key assumptions for measuring the value of residential and commercial property as of the measurement date were annual rental growth as well as the discount and capitalization rates. The key assumptions for measuring the value of care facilities as of the measurement date were market rents, discount and capitalization rates.

Due to existing estimation uncertainties and judgments, there is the risk for the financial statements that the measurement of investment property is inappropriate.

Moreover, there is the risk for the financial statements that the disclosures on property held for investment required in the notes pursuant to IAS 40 and IFRS 13 are incomplete and inadequate.

OUR AUDIT APPROACH

Our audit procedures in particular included an assessment of the internal valuation method used with a view to compliance with IAS 40 in conjunction with IFRS 13, the accuracy and completeness of data used for real estate portfolios, as well as appropriateness of assumptions for measurement, such as annual rental growth and discount/ capitalization rates used. We conducted our audit with the involvement of our valuation experts.

We assessed the internal valuation methods in terms of the valuation model's suitability as well as (financial) mathematical accuracy, and verified that the data and assumptions relevant for measurement were appropriate as of the measurement date.

We compared the target rents processed in the in-house valuation model with the target rents stored in the ERP system. Prior to that, we confirmed the appropriateness and functionality of the controls implemented in the rental process to ensure that the target rents stored in the ERP system are in agreement with the contractual rents.

Subsequently, we assessed the appropriateness of the assumptions made for measurement using a risk-based selection of real estate. For this purpose, we assessed the appropriateness of the assumptions made for determining property-specific annual rental growth and discount/capitalization rates by comparing these to market and industry-specific benchmarks, taking into account the type and location of the properties selected based on risk. We carried out some on-site inspections to verify the respective property's condition.

We were satisfied with the qualification and objectivity of CBRE, engaged by Deutsche Wohnen to value its residential and commercial property, evaluated the valuation method used for their appraisal with regard to compliance with IAS 40 in conjunction with IFRS 13 and compared the external appraisal with the internal measurements (valuation).

Furthermore, we compared the fair values of the residential and commercial property determined by Deutsche Wohnen with observable multipliers provided by recognized external providers.

We were satisfied with CBRE's qualification and objectivity with respect to the care facilities and assessed the valuation method used. We evaluated the appraisal with regard to key assumptions for measurement as well as the completeness and accuracy of figures and amounts.

We also assessed the completeness and adequacy of disclosures on investment property required in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13.

OUR OBSERVATIONS
The assumptions and parameters for measurement of the residential and commercial investment property as well as care facilities held for investment are appropriate.

The disclosures on investment property in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13 are complete and appropriate.

Recognition and measurement of deferred tax assets and liabilities

Please refer to Sections A 4, C 18 and D 16 of the notes to the consolidated financial statements.

FINANCIAL STATEMENT RISK
Deferred tax assets in the amount of EUR 0.4 million and deferred tax liabilities in the amount of EUR 2,496.7 million are reported in the consolidated financial statements of Deutsche Wohnen as of December 31, 2017. Before netting, deferred tax assets for unused tax loss carryforwards were recognized in the amount of EUR 266.3 million. Deferred tax expenses in the amount of EUR 802.4 million are reported in the consolidated profit and loss statement.

The recognition and measurement of deferred tax assets and liabilities at Deutsche Wohnen SE are complex. The main reasons are calculation and extrapolation of the assessment basis used in connection with non-recognition of deferred tax liabilities for acquisition transactions with no effect on profit or loss (initial recognition exemption within the meaning of IAS 12.15(b)) as well as assumptions with regard to the use of tax relief, such as the extended trade tax exemption, which affect the applicable tax rates. In addition, the recognition and measurement of deferred tax assets require judgments and numerous forward-looking estimates of future tax earnings, the timing of reversal of temporary differences and the usability of loss and interest carryforwards.

There is a risk for the financial statements that the recognition and/or measurement of deferred tax assets and liabilities are inaccurate.

There is also the risk of incomplete disclosure of deferred tax assets and liabilities in the notes.

OUR AUDIT APPROACH

During our audit, we investigated in particular whether the assumptions for recognition and measurement were properly derived and determined in accordance with IAS 12.

First, we conducted a risk assessment in order to gain an understanding of the Group and its environment with regard to tax laws and regulations. We assessed the structure of the process for the recognition and measurement of deferred tax assets and liabilities. In applying a risk-based approach, we also performed the following substantive audit procedures with the assistance of our tax experts. We assessed the appropriateness of assumptions used by significant entities, particularly with regard to continuation of the initial recognition exemption and applicable tax rates as well as taking into account forward-looking estimates of future tax earnings, the timing of reversal of temporary differences and the usability of loss and interest carryforwards in relation to corporate tax planning, which we reconciled to the respective budgets. We also assessed the complex calculation relating to the initial recognition exemption.

Finally, we assessed whether the disclosures on deferred tax assets and liabilities in the notes to the consolidated financial statements were complete.

OUR OBSERVATIONS

The approach taken as well as assumptions made for measurement of deferred tax assets and liabilities are appropriate. The disclosures on deferred tax assets and liabilities in the notes to the consolidated financial statements are complete.

Other Information

Management is responsible for the other information. The other information comprises:
- the Group's non-financial statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information
- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement letter, we conducted a separate assurance engagement of the Group's non-financial statement. Please refer to our assurance report dated March 7, 2018 for information on the nature, scope and findings of this assurance engagement.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on June 2, 2017 We were engaged by the supervisory board on November 20, 2017. We have been the group auditor of Deutsche Wohnen SE (until July 31, 2017: Deutsche Wohnen AG, Frankfurt am Main) without interruption since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services to group entities that are not disclosed in the consolidated financial statements or in the group management report:

Assurance engagement of the Group's non-financial statement and other contractually agreed assurance services.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is René Drotleff.

Berlin, March 8, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
Original German version signed by:

Schmidt Wirtschaftsprüfer [German Public Auditor]	Drotleff Wirtschaftsprüfer [German Public Auditor]

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements as at 31 December 2017 give a true and fair view of the net assets, financial and earnings position of the group and the management report of the company and the group gives a true and fair view of the development of the business including the business result and the position of the group and describes the main opportunities and risks associated with the group's expected future development."

Berlin, 8 March 2018

Deutsche Wohnen SE

Michael Zahn
Chairman of the
Management Board

Lars Wittan
Deputy Chairman of the
Management Board

Philip Grosse
Management Board

Glossary

Core+, Core, Non-core
Clustering of real estate markets to assess the attractiveness and future prospects from the point of view of Deutsche Wohnen. Core locations (metropolitan cities) are characterised as particularly dynamic and fast-growing. Core locations show stable growth. Non-core locations are more likely to be considered low-growth and tend to be adjusted.

Cost Ratio
The relationship of staff costs, general and administration expenses in-place rent.

Current gross rental income
The current gross rental income corresponds to the sum of the contractually agreed net cold rent payments for the areas let of the respective properties for the period under review or as of the reporting date in EUR million. On a per sqm basis, this is called "in-place rent".

Earning before Taxes (EBT)
Earnings before Taxes; The group also calculates this indicator as adjusted earnings before taxes (Adjusted EBT): The EBT (as reported) is adjusted for the gains/losses from fair value adjustments of investment properties, gains/losses from fair value adjustments of investment derivative financial instruments and convertible bonds as well as other non-recurrent effects.

EBIT
Earnings before Interest and Taxes.

EBITDA
Earnings before Interest, Taxes, Depreciation and Amortisation. The EBITDA is calculated by subtracting corporate expenses, other expenses and revenues from the sum of the segment earnings, from residential property management, disposal and nursing and assisted living.

EBITDA (adjusted)
EBITDA plus one-off expenses and one-off revenues related to one-off projects (e.g. restructuring or acquisitions).

EPRA
(European Public Real Estate Association): non-profit industry association representing the interests of listed European real estate companies. Among other things, EPRA develops guidelines and standards for transparency in the listed real estate sector.

EPRA cost ratio
The EPRA cost ratio is a key figure for measuring cost efficiency. It is calculated by placing management costs in relation to rental income.

EPRA earnings
In the calculation of EPRA earnings, which represent the recurrent earnings from the core operating business, adjustments are made to Group, in particular for valuation effects, deferred taxex and sales proceeds.

EPRA NAV
The EPRA Net Asset Value indicates the net asset real value or intrinsic value of a real estate company. The EPRA NAV is calculated on the basis of consolidated equity (before minority interests) adjusted for the effects of the exercise of options, convertible bonds and other equity rights, and adjusted for the fair values of derivative financial instruments and deferred taxes, i.e. adjustments for items not affecting the long-term development of the Group.

EPRA Net Initial Yield (NIY)
Annualised current gross rental income in relation to the fair value of the completed real estate portfolio plus estimated incidental acquisition costs of an investor.

EPRA Triple Net Asset Value (NNNAV)
The EPRA NNNAV is calculated on the basis of the EPRA NAV, taking into account the fair value of financial liabilities, derivative financial instruments and corporate bonds, and any deferred taxes.

EPRA vacancy rate
Is calculated on the basis of the estimated annualised market rents for the vacant properties to the market rents for the portfolio as a whole.

Fair value
Fair value is the amount for which an asset could be exchanged between knowledgeable, willing business partners in an arm's length transaction.

FFO (Funds from Operations)
From the Company's point of view, a liquidity-oriented indicator relevant for real estate companies, which derives from the consolidated profit and loss statement and is the basis for the dividend distribution. Adjusted for EBITDA, adjustments are made for any one-off items, non-cash financial expense/revenues and non-cash tax expenses/revenues. FFO I (without disposals) is adjusted for the earnings from the disposal, while FFO II (including disposals) includes the sales disposals.

Financial Covenants
Agreements contained in some financing agreements, in which the borrower undertakes in order to comply with certain financial ratios specified in the collateral agreement for the term of the loan agreement.

Inplace-rent per sqm
Contractually owed net cold rent from rented residential units divided by rented area.

Institutional sales
Disposal of buildings (block sales)

Like-for-like rental growth
Like-for-like rental growth describes the operative rental growth of the part of the portfolio, which was managed continuously during a reference period. Unless otherwise described, the net cold rent per square meter at the beginning of the reference period is being compared with the respective rent at the end of the reference period. The Like-for-like rental growth is therefore being adjusted for rental changes resulting from acquisitions and disposals.

LTV Ratio
(Loan-to-value ratio) Describes the ratio of the total net financial liabilities to the value of the investment properties plus the non-current assets held for sale and the land and buildings held for sale.

Maintenance measures
Maintenance measures describe measures to maintain the functional condition of the property. These include, for example, repairs and the replacement of components.

Modernisation measures
Modernisation measures includes all measures to sustainably improve the technical condition of the properties. Typical modernisation measures are the renovation of the bathrooms, the installation of new cables and windows, the overhaul or subsequent installation of balconies and the implementation of energy-saving measures such as the installation of insulating glass windows and heat insulation.

Multiple
Compare multiple current gross rental income/multiple market rent.

Multiple market rent
Fair value divided by the annualised market rent at the respective valuation date. The new letting rents achieved in the current year are recognised as the market rent.

Multiple in-place rent
Fair value divided by the annualised current gross rental income at the respective valuation date.

Net Operating Income (NOI)
Net operating income is the operating results from the residential property management less the staff costs, general and administration expenses incurred in this context. It is equivalent to net rental income or EBITDA from letting.

New-letting rent
Deutsche Wohnen determines the new-letting rent by calculating the average agreed monthly net cold rent per sqm based on the new leases for units not subject to rent controls for the respective properties during the finanical year. The new-letting rent is used as the market rent for the valuation of the managed portfolio.

Potential gross rental income
The potential gross rental income is the sum of current gross rental income and vacancy loss.

Privatisation
Disposal of condominiums.

Rent potential
Difference between the market rent and the current gross rental income.

Vacancy loss
Vacancy loss corresponds to the sum of the last contractually agreed net cold rent payments for the non-leased but leasable space of the real estate under consideration during the period considered or at the relevant balance sheet date.

Vacancy rate
The vacancy rate describes the ratio of vacancy loss to the potential gross rent, in each case at the relevant reporting date.

Quarterly overview

for the financial year 2017[1]

Profit and loss statement

		Q1	Q2	Q3	Q4	2017
Earnings from Residential Property Management	EUR m	154.2	152.1	155.3	151.2	612.8
Earnings from Disposals	EUR m	8.6	11.9	8.0	21.8	50.3
Earnings from Nursing and Assisted Living	EUR m	12.5	12.2	12.2	11.1	48.0
Corporate expenses	EUR m	–19.1	–20.8	–18.2	–23.2	–81.3
EBITDA	EUR m	155.2	155.9	152.5	137.2	600.8
EBT (adjusted)	EUR m	115.5	131.5	121.5	133.2	501.7
EBT (as reported)	EUR m	75.2	910.9	57.7	1,554.4	2,598.2
Group profit (after taxes)	EUR m	47.3	624.7	34.0	1,057.3	1,763.3
Group profit (after taxes)	EUR per share	0.13	1.72	0.08	2.95	4.88
FFO I	EUR m	113.1	107.7	109.2	102.3	432.3
FFO I	EUR per share	0.33	0.30	0.31	0.29	1.23
FFO II	EUR m	121.7	119.6	117.2	124.1	482.6
FFO II	EUR per share	0.35	0.34	0.33	0.35	1.37

Balance sheet

		Q1	Q2	Q3	Q4	2017
Investment properties	EUR m	16,535.0	17,768.2	17,941.0	19,628.4	19,628.4
Current assets	EUR m	1,088.8	790.7	868.2	772.9	772.9
Equity	EUR m	8,737.2	9,111.8	9,146.6	10,211.0	10,211.0
Net financial liabilities	EUR m	6,108.7	6,696.5	6,785.3	6,883.6	6,883.6
Loan-to-value ratio (LTV)	%	36.1	36.9	37.0	34.5	34.5
Total assets	EUR m	17,749.2	18,707.5	18,942.1	20,539.4	20,539.4

Net Asset Value (NAV)

		Q1	Q2	Q3	Q4	2017
EPRA NAV (undiluted)	EUR m	10,511.7	11,142.4	11,190.9	12,676.8	12,676.8
EPRA NAV (undiluted)	EUR per share	29.64	31.42	31.55	35.74	35.74
EPRA NAV (diluted)	EUR per share	29.69	31.46	31.72	35.74	35.74

Fair values

		Q1	Q2	Q3	Q4	2017
Fair value of real estate properties[2]	EUR m	15,689	17,066	17,207	18,864	18,864
Fair value per sqm residential and commercial area[2]	EUR per sqm	1,603	1,709	1,718	1,886	1,886

1 As reported
2 Only comprises residential and commercial buildings, without Nursing and Assisted Living

Multi-year overview

for the financial years 2015 – 2017[1]

Profit and loss statement

		2015	2016	2017
Earnings from Residential Property Management	EUR m	519.2	586.4	612.8
Earnings from Disposals	EUR m	68.9	54.3	50.3
Earnings from Nursing and Assisted Living	EUR m	15.6	16.8	48.0
Corporate expenses	EUR m	–74.7	–73.7	–81.3
EBITDA	EUR m	465.0	575.1	600.8
EBT (adjusted)	EUR m	384.4	453.7	501.7
EBT (as reported)	EUR m	1,787.2	2,489.2	2,598.2
Group profit (after taxes)	EUR m	1,199.9[2]	1,623.2	1,763.3
Group profit (after taxes)[1]	EUR per share	3.60[2]	4.69	4.88
FFO I	EUR m	304.0[2]	383.9	432.3
FFO I[1]	EUR per share	0.95[2]	1.14	1.23
FFO II	EUR m	372.9[2]	438.2	482.6
FFO II[1]	EUR per share	1.16	1.30	1.37

Balance sheet

		2015	2016	2017
Investment properties	EUR m	11,859.1	16,005.1	19,628.4
Current assets	EUR m	901.2	669.2	772.9
Equity	EUR m	6,798.1[2]	8,234.0	10,211.0
Net financial liabilities	EUR m	4,582.5	6,185.2	6.883.6
Loan-to-value ratio (LTV)	%	38.0	37.7	34.5
Total assets	EUR m	13,376.6[2]	16.783.6	20,539.4

Net Asset Value (NAV)

		2015	2016	2017
EPRA NAV (undiluted)	EUR m	7,765,6[2]	10,017.0	12,676.8
EPRA NAV (undiluted)	EUR per share	23,02[2]	29,68	35.74
EPRA NAV (diluted)	EUR per share	23,55[2]	29,69	35.74

Fair values

		2015	2016	2017
Fair value of real estate properties[3]	EUR m	11,721	15,465	18,864
Fair value per sqm residential and commercial area[3]	EUR per sqm	1,282	1,580	1,886

1 Based on average number of around 352.12 million issued shares in 2017, around 337.45 million in 2016 and around 320.85 million in 2015
2 Previous year´s figures amended
4 Only comprises residential and commercial buildings, without Nursing and Assisted Living

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Financial calendar 2018

23/03/2018	Publication of Consolidated/Annual Financial Statements 2017 – Annual Report 2017
26/–27/03/2018	Roadshow, London
28/03/2018	Bank of America European Real Estate Conference, London
10/04/2018	Roadshow, Paris
11/04/2018	Roadshow, Brussels
12/04/2018	HSBC Real Estate Conference, Frankfurt am Main
23-26/04/2018	Roadshow Canada, USA
15/05/2018	Publication of Interim Report as at 31 March 2018
16/–17/05/2018	Roadshow, Zurich and Geneva
30/–31/05/2018	Kempen & Co. European Property Seminar, Amsterdam
06/–08/06/2018	Deutsche Bank dbAccess German, Swiss & Austrian Conference, Berlin
15/06/2018	Annual General Meeting 2018, Frankfurt/Main
21/06/2018	Morgan Stanley Europe & EEMEA Property Conference, London
14/08/2018	Publication of Interim Report as at 30 June 2018r
04/–06/09/2018	EPRA conference, Berlin
25/–26/09/2018	Bank of America Merrill Lynch Global Real Estate Conference, New York
08/–10/10/2018	Expo Real, Munich
14/11/2018	Publication of Interim Report as at 30 September 2018
19/–23/11/2018	Roadshow, Asia
29/–30/11/2018	UBS Global Real Estate Conference, London