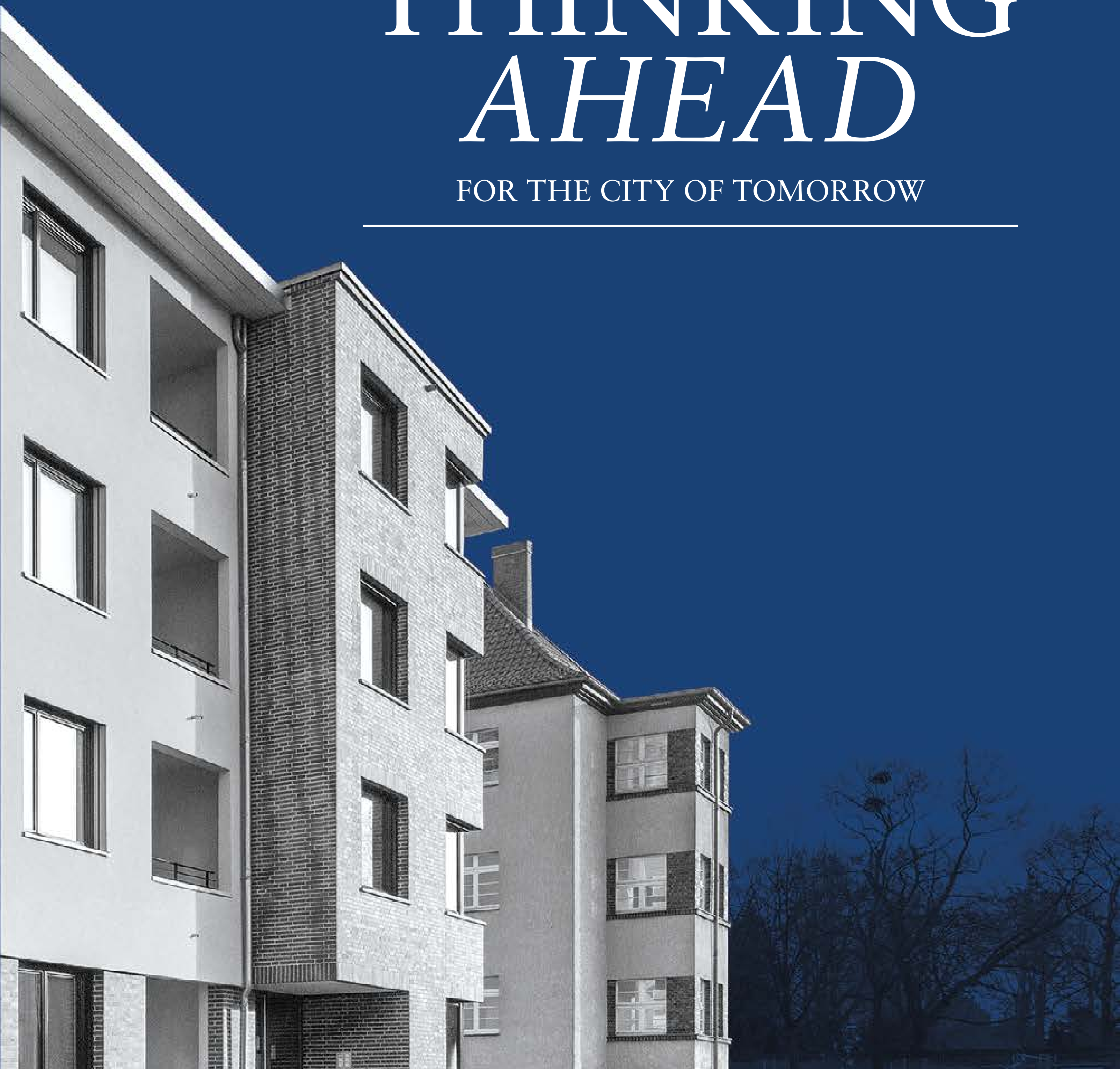
Deutsche Wohnen

ANNUAL REPORT 2016

THINKING *AHEAD*

FOR THE CITY OF TOMORROW



GROUP KEY FIGURES OF THE DEUTSCHE WOHNEN AG

Profit and loss statement		2016	2015	Change
Rental income	EUR m	704.5	634.0	11.1 %
Earnings from Residential Property Management	EUR m	586.4	519.2	12.9 %
Earnings from Disposals	EUR m	54.3	68.9	21.2 %
Earnings from Nursing and Assisted Living	EUR m	16.8	15.6	7.7 %
Corporate expenses	EUR m	– 73.7	– 74.7	1.3 %
EBITDA	EUR m	575.1	465.0	23.7 %
EBT (adjusted)	EUR m	453.7	384.4	18.0 %
EBT (as reported)	EUR m	2,489.2	1,787.2	39.3 %
Group profit (after taxes)	EUR m	1,623.2	1,199.9[2]	35.3 %
Group profit (after taxes)[1]	EUR per share	4.69	3.60[2]	30.3 %
FFO I	EUR m	383.9	304.0[2]	26.3 %
FFO I[1]	EUR per share	1.14	0.95[2]	20.0 %
FFO II	EUR m	438.2	372.9[2]	17.5 %
FFO II[1]	EUR per share	1.30	1.16	12.1 %
EPRA Earnings	EUR m	359.5	227.9	57.7 %

Balance sheet		31/12/2016	31/12/2015	Change
Investment properties	EUR m	16,005.1	11,859.1	4,146.0
Current assets	EUR m	669.2	901.2	– 232.0
Equity	EUR m	8,234.0	6,798.1[2]	1,435.9
Net financial liabilities	EUR m	6,185.2	4,582.5	1,602.7
Loan-to-Value Ratio (LTV)	in %	37.7	38.0	– 0.3 pp
Total assets	EUR m	16,783.6	13,376.6[2]	3,407.0

Share		31/12/2016	31/12/2015	Change
Share price (closing price)	EUR per share	29.84	25.62	16.5 %
Number of shares	m	337.48	337.41	0.1
Market capitalisation	EUR bn	10.1	8.6	17.4 %

Net Asset Value (NAV)		31/12/2016	31/12/2015	Change
EPRA NAV (undiluted)	EUR m	10,017.0	7,765.6[2]	2,251.5
EPRA NAV (undiluted)	EUR per share	29.68	23.02[2]	28.9 %
EPRA NAV (diluted)	EUR per share	29.69	23.55[2]	26.1 %

Fair values		31/12/2016	31/12/2015	Change
Fair value of real estate property[3]	EUR m	15,465	11,721	3,744.0
Fair value per sqm residential and commercial area[3]	EUR per sqm	1,580	1,282	23.2 %

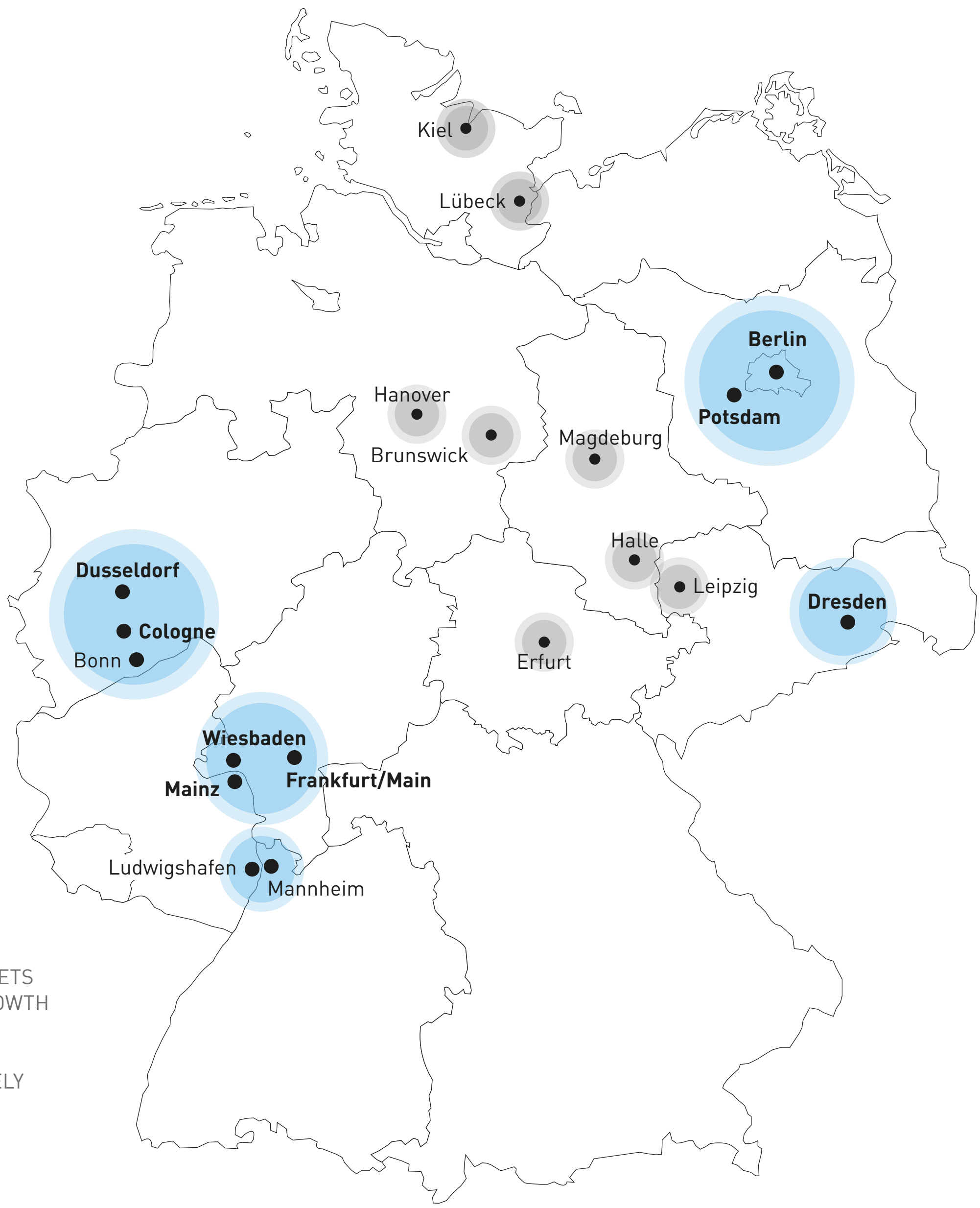
[1] Based on average number of around 337.45 million issued shares in 2016 and around 320.85 million in 2015
[2] Previous year's figures amended
[3] Only comprises residential and commercial buildings, without Nursing and Assisted Living

OUR PORTFOLIO AT A GLANCE

EUR 15.7 BILLION
VALUE OF OUR PORTFOLIO

160,000
RESIDENTIAL AND COMMERCIAL UNITS

APPROX. 70%
IN BERLIN



CORE⁺ 85%
THE MOST DYNAMIC MARKETS WITH STRONG RENTAL GROWTH

CORE 12%
MARKETS WITH MODERATELY RISING RENTS

PROFILE

DEUTSCHE WOHNEN is one of the largest publicly listed residential property companies in Germany and Europe. Our business focus is on managing and developing our residential property portfolio, which is mainly located in German metropolitan regions. Here we benefit from the dynamic development of the market and the continuing high demand for housing. Currently, our portfolio comprises more than 160,000 residential and commercial units with a total asset value of about EUR 15.7 billion.

EDITORIAL

WITH BOTH A CLEAR STRATEGY AND OUR VALUES WE ARE SHAPING THE CITY OF TOMORROW

DEAR SIR OR MADAM,

Publicly listed property companies have established themselves as a strong asset class, and it is impossible to imagine today's stock markets without them. The property sector has become particularly attractive for foreign investors with its significant market capitalisation, good future prospects, high levels of creditworthiness and good credit ratings. Moreover, it is particularly those companies that have sounder balance sheets with lower debt ratios, more stable cash flows and greater earnings power than in the past that are making a major contribution to these positive indicators. As far as financing is concerned, property companies have become more independent and can choose between a variety of offers and concepts.

Deutsche Wohnen is an important and respected player in this sector. Over the past few years, we have created for ourselves an excellent foundation, on the basis of which we can present ourselves to cities as partners and make a considerable contribution to urban development. On the pages that follow, you will be able to find examples of how we act as part of society in this way and of how we care for and develop our portfolio whilst remaining mindful of our high quality standards. All of this is done in accordance with the title of this year's report: **"Thinking ahead. For the city of tomorrow."**

We want to help with the task of shaping our cities, but politicians have to support us in this. Numerous barriers are being placed in the way of Deutsche Wohnen and other companies in our sector. For example, increasingly excessive regulations are stifling the development of the market, and the state is imposing considerable political restrictions on our business operations.

In all of this, politicians are obviously failing to recognise that private industry has always made sustainable investments and that it will continue to do so in future.

We are, like many of our competitors, prepared to close the gaps that currently exist in the German housing market. To quote just one figure: at the end of 2016 there was a shortage of approximately one million affordable flats in Germany. For this reason, we hope that politicians can work together with us and that they too recognise their responsibility towards society.

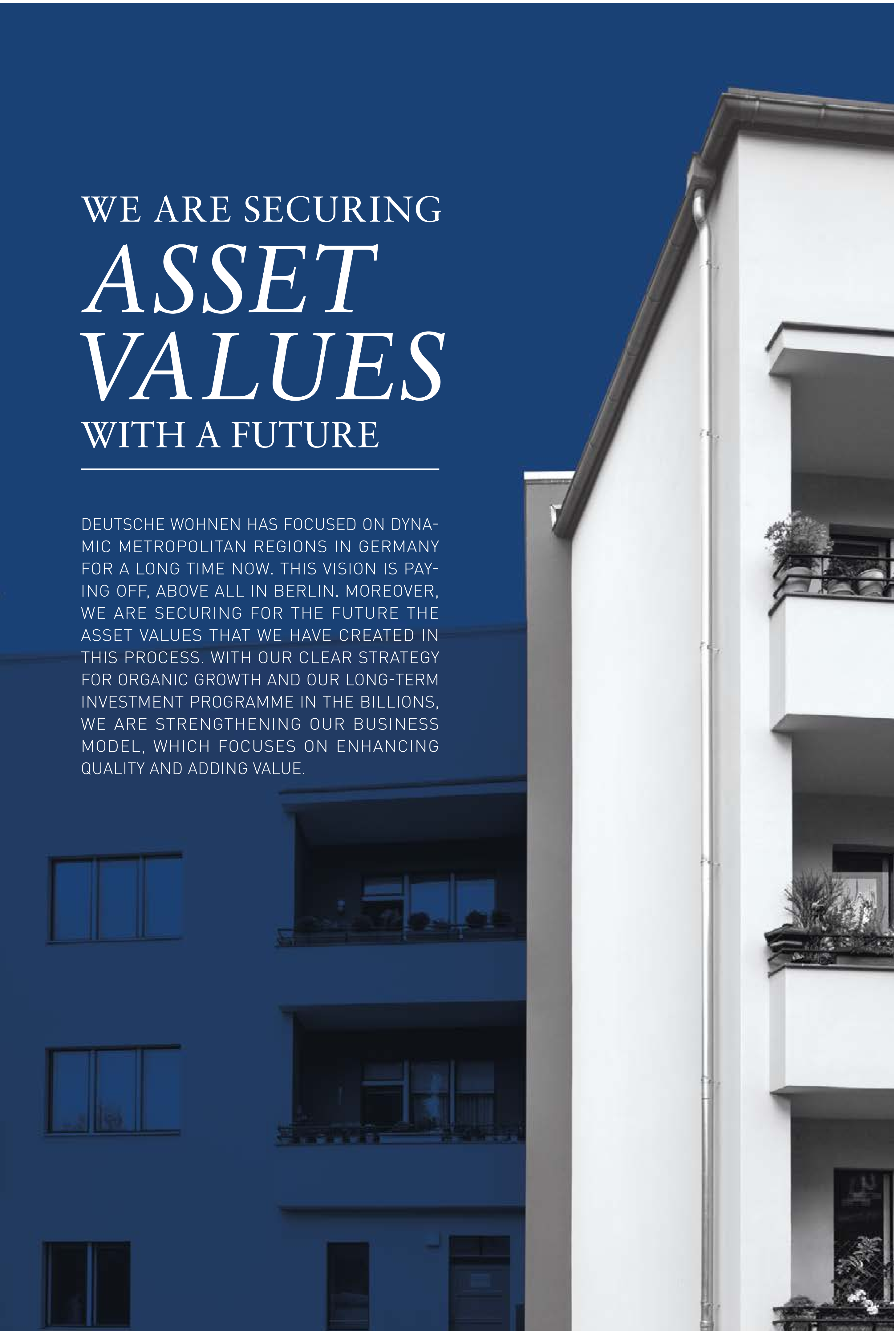
I wish you an enjoyable read.

Yours

Michael Zahn
CEO of Deutsche Wohnen AG

WE ARE SECURING *ASSET VALUES* WITH A FUTURE

DEUTSCHE WOHNEN HAS FOCUSED ON DYNAMIC METROPOLITAN REGIONS IN GERMANY FOR A LONG TIME NOW. THIS VISION IS PAYING OFF, ABOVE ALL IN BERLIN. MOREOVER, WE ARE SECURING FOR THE FUTURE THE ASSET VALUES THAT WE HAVE CREATED IN THIS PROCESS. WITH OUR CLEAR STRATEGY FOR ORGANIC GROWTH AND OUR LONG-TERM INVESTMENT PROGRAMME IN THE BILLIONS, WE ARE STRENGTHENING OUR BUSINESS MODEL, WHICH FOCUSES ON ENHANCING QUALITY AND ADDING VALUE.



// ARGENTINISCHE ALLEE/RIEMEISTERSTRASSE, BERLIN-ZEHLENDORF

! Opportunity

Annual net increase of around

40 thousand

citizens in Berlin

// Growing demand for housing and infrastructure services must be met.

// Increasing urbanisation provides good pre-conditions for further increases in portfolio value and for rising cash flows.

? Challenge

// The enormous increase in property prices as a result of growing competition in the market.

// Regulatory interventions in the market that restrict the housing industry's ability to act.

PORTFOLIO STRATEGY INCREASES HOUSING QUALITY AND ADDS VALUE

TODAY, DEUTSCHE WOHNEN is one of the three largest and most successful property companies in Europe, setting benchmarks for the sector. And it is, in particular, our ability to adapt to change at an early stage that contributes to this success story. Accordingly, we placed our strategic focus onto metropolitan regions many years ago. And thereby we benefit significantly from the continuing positive development of the housing market in German conurbations.

Above all, our vision of Greater Berlin as a European hotspot has come to fruition. Since 2007, we have expanded our holdings here through acquisitions from approximately 25,000 residential units to just under 111,000. And, in so doing, we have created value. We see great potential for increases in value in the future as well.

With our EUR 1.5 billion investment programme, we are driving internal growth through modernisation, redensification and new building. At the same time, the very promising business operations in the segment of Nursing and Assisted Living are being strengthened significantly by means of targeted acquisitions and new building.

111,000

BERLIN IS THE METROPOLIS OF THE FUTURE

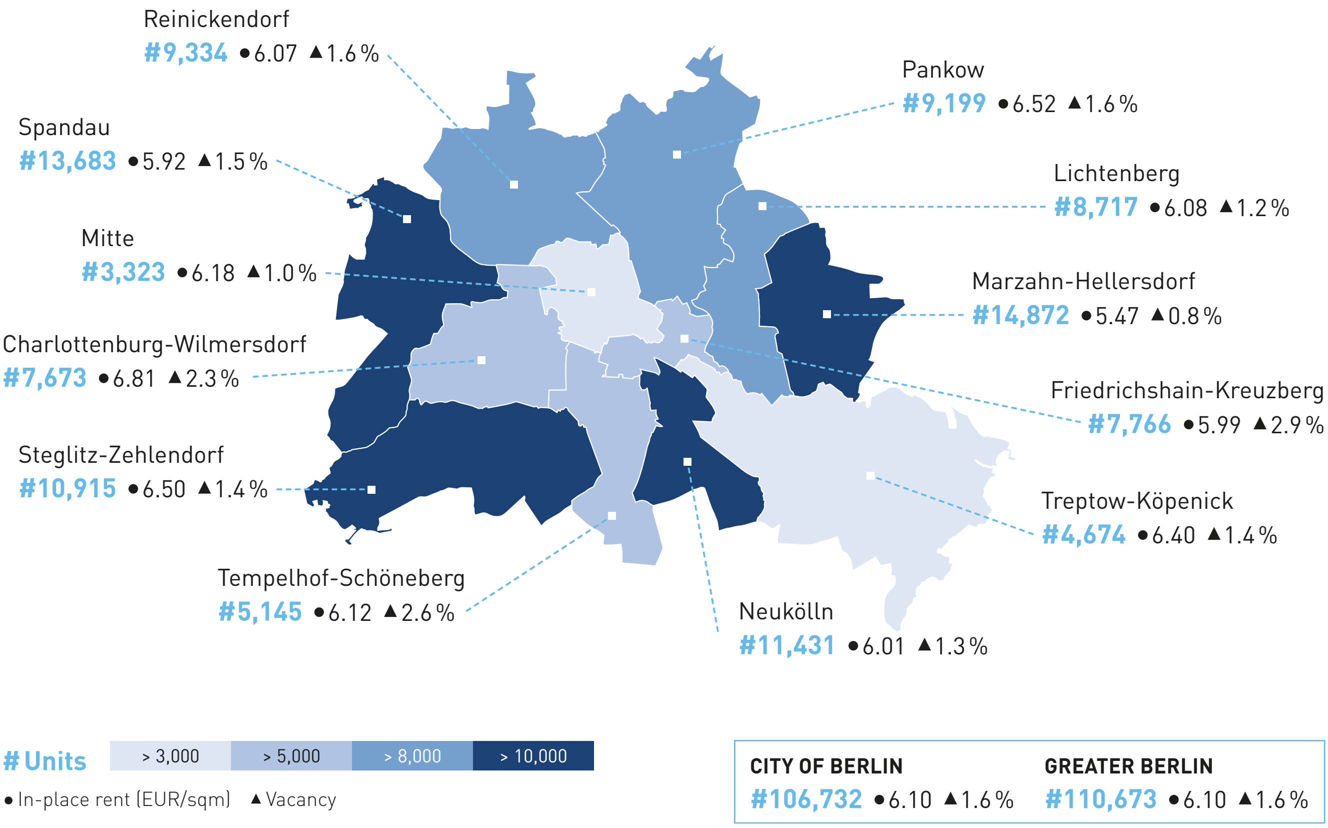
BERLIN demonstrates particularly well how our focus on a high-quality portfolio of value in the dynamic metropolitan regions of Germany is paying off – with further opportunities for value-enhancement.

In Germany's capital city, there are today 1,009 flats per 1,000 households, which corresponds to a vacancy rate of 0.9 %. Moreover, this figure makes clear that what would actually be the necessary, market-compliant vacancy rate or turnover reserve of 3 % is far from being achieved. Consequently, there is enormous demand in the market. And this demand in housing markets that are already very tight will continue to grow until 2030 because the expansion of housing supply – especially through new builds – cannot keep pace with the enormous influx of people.

Given an annual net increase in the population of 40,000 people, it would be necessary to build around 20,000 flats a year in order to be able to meet this additional demand. However, no more than 11,000 residential units were completed in 2015. And even though the number of flats being given planning permission is rising, the under-supply of new-build flats that already exists today will continue over the coming years and will, if anything, increase.

Currently, Deutsche Wohnen has a portfolio of about 107,000 flats in Berlin or 111,000 flats in Greater Berlin. This makes up just under 70 % of our residential holdings.

Berlin portfolio at a glance



CITY OF BERLIN	GREATER BERLIN
#106,732 ●6.10 ▲1.6 %	#110,673 ●6.10 ▲1.6 %

// GOEBELSTRASSE, BERLIN-SIEMENSSTADT

As at 31 December 2016, the vacancy rate in our Berlin portfolio was 1.6 % compared to 1.8 % as at 31 December 2015. The average rent was EUR 6.10 per sqm per month. This represents an increase of 3.6 % on the previous year's figure of EUR 5.89 per sqm per month.[1)] Here too we can see considerable scope for price increases in the future. According to CBRE (a major company specialising in real estate services and investment), the average market rents are even as high as EUR 9.00 per sqm per month. In Berlin, the cost of buying or renting a flat continues to be very favourable in comparison to other major German and European cities. Consequently, the increase in value – simply for the financial year just ended – is hardly a surprise.

In addition, Deutsche Wohnen can also profit from great potential for value-enhancement. In 2016, for example, the average carrying amount of our holdings rose from EUR 1,360 per sqm to EUR 1,740 per sqm – an increase of 28 %.

Apart from Berlin, our Core+ regions also comprise the Rhine-Main area with Frankfurt/Main, the Rhineland, Mannheim/Ludwigshafen and Dresden. With just under 135,000 residential units, these Core+ regions account for approximately 85 % of our entire portfolio. High rates of increase in rents and values are expected in these regions as well.

+28%

1) Not based on like-for-like

// JUNGFERNHEIDEWEG, BERLIN-SIEMENSSTADT

OUR VARIED PORTFOLIO RANGES FROM CLASSICAL MODERNIST ESTATES WITH LISTED STATUS TO BUILDINGS THAT CHARACTERISE POST-WAR HOUSING THROUGH TO CONTEMPORARY HIGH-RISE RESIDENTIAL BUILDINGS. INSPIRED BY OUR VISION THAT BERLIN WILL DEVELOP INTO A EUROPEAN HOTSPOT, WE HAVE CONSTANTLY EXPANDED OUR HOLDINGS AND ENHANCED THEIR VALUE BY INVESTING IN THEM CONTINUOUSLY.

approx. 70 %

OF OUR HOLDINGS IN

Berlin

approx. 111,000

RESIDENTIAL UNITS IN GREATER BERLIN

// FRIEDRICH-LIST-STRASSE, BERLIN-JOHANNISTHAL

// BLEICHERODER STRASSE, BERLIN-PANKOW

4 UNESCO-
WORLD HERITAGE ESTATES

// ROMY-SCHNEIDER-STRASSE, BERLIN-SPANDAU

PROGRAMME OF INVESTMENT IN OUR HOLDINGS EXPANDED TO EUR 1 BILLION

PHILIP GROSSE (CFO) AND LARS WITTAN (CIO) TALK ABOUT THE INVESTMENT STRATEGY OF DEUTSCHE WOHNEN

What is your assessment of the German residential property market right now?

» **LARS WITTAN:** The UN is predicting that over the next decades 2.5 billion people worldwide will move into conurbations. We can see this trend in Germany too.

Berlin, in particular, will continue to prosper. Lots of people want to live here. The forecasts of the Berlin Senate originally assumed that the population in 2030 would be just under 4 million. However, this figure will be reached much earlier. Over the last few years, Berlin had an annual net increase in population of more than 40,000, i.e. an increase every year equivalent to a small town like Eisenach. Moreover, according to forecasts, the population of Frankfurt/Main will also grow by around 100,000 until 2030.

» **PHILIP GROSSE:** In all of this, one thing is clear: the trend towards urbanisation in Germany is continuing. Particularly young people and young families are drawn to the metropolitan regions of Germany. Moreover, there are more and more single-person households. In conurbations, this adds to the demand for affordable housing. At the moment, new building activity cannot keep pace with these developments. Consequently, the housing markets in many metropolitan regions – and particularly in Berlin – will continue to be difficult.

We recognised this trend at a very early stage and focused our portfolio on metropolitan growth regions. Today, 97 % of our portfolio is located in such regions.

What opportunities and challenges exist for your company in tight housing markets like Berlin?

» **PHILIP GROSSE:** Rents will continue to rise despite political interventions to prevent this. Increasingly rigorous climate goals will continue to push construction costs up for the housing industry.

» **LARS WITTAN:** Deutsche Wohnen isn't just experiencing growth in cities – it is helping to shape this growth too, for example through neighbourhood management work, modernisation programmes, integration projects or new builds. We want to systematically enhance the quality of our residential holdings. We try to solve the problem of any additional costs in a socially responsible way by working with our tenants on an individual basis.

What is your current investment volume and what is it being spent on in the main?

» **PHILIP GROSSE:** In the financial year 2016, we expanded our programme of investment in our holdings significantly – from EUR 400 million to EUR 1,000 million. By 2021, we plan to carry out energy-efficient modernisations on approximately 30,000 flats and to improve their facilities so that they are appropriate to both younger and elderly tenants. The main focus of this investment activity will be Berlin. But we will also be running modernisation projects in Frankfurt/Main, Hanover or Dusseldorf.

» **LARS WITTAN:** The selection of the 30,000 residential units was based on a comprehensive, technical analysis of our holdings. Essentially, buildings in poor technical condition but located in attractive neighbourhoods will be made energy-efficient and fit for the future.

These measures will create considerable added value for our tenants and shareholders. We are investing in growing markets, in higher quality and, in so doing, are creating value for the future.

Are you also planning to free up the housing market by building new flats?

» **LARS WITTAN:** Definitely. We plan to build around 2,200 flats by 2020 – primarily in Berlin and Frankfurt/Main – for just under EUR 500 million. 400 units will be created as attic conversions and 1,800 units will be new builds.

// LARS WITTAN (CIO) AND PHILIP GROSSE (CFO)

These are first and foremost redensification projects, which means that we are using existing open spaces more efficiently. Over the long term, it is possible to create more than 10,000 flats using Deutsche Wohnen's existing land reserves.

» **PHILIP GROSSE:** In actual fact, private, publicly listed property companies could play a key role in the construction of housing for rental thanks to their excellent capital resources. Over the past few years, we have increased our equity ratio significantly to its current level of approximately 50%. As a property owner, we invest over the long term. Our priority is not to achieve a short-term return on capital but a long-term development of asset values.

» **LARS WITTAN:** The precondition is that we should be able to move with greater speed, i.e. planning procedures have to be made simpler and faster. We have to conceive cities anew on a different scale, and individual interests have to take a back seat.

What standards does Deutsche Wohnen apply to new builds?

» **LARS WITTAN:** Our answer to this question is that for us cost efficiency and sustainability do not contradict each other. We think in terms of the life cycle of properties – because it is only when a property is used over time that its quality becomes apparent. An obvious benchmark for us here are the residential estates of the 1920s and 1930s. These estates were built at a time of profound housing shortages by pioneering architects like Bruno Taut. They still work today – 90 years later – and are still in high demand.

What requirements do you have of your investments in terms of the development of asset values and returns?

» **PHILIP GROSSE:** Deutsche Wohnen sees itself as a leader in quality and innovation. We do not aim so much for short-term returns but rather for value creation over the long term. In the case of our new-build projects, our return on investment will be around 5%. What's more, we are channelling much-needed capital into the German housing market and, in doing so, are able to refurbish existing flats and to build new ones.

» **LARS WITTAN:** Furthermore, many of our tenants really welcome our modernisation work. It brings their flats – which are mostly from the 1960s and 1970s – up to a contemporary standard both optically and in terms of their technical installations.

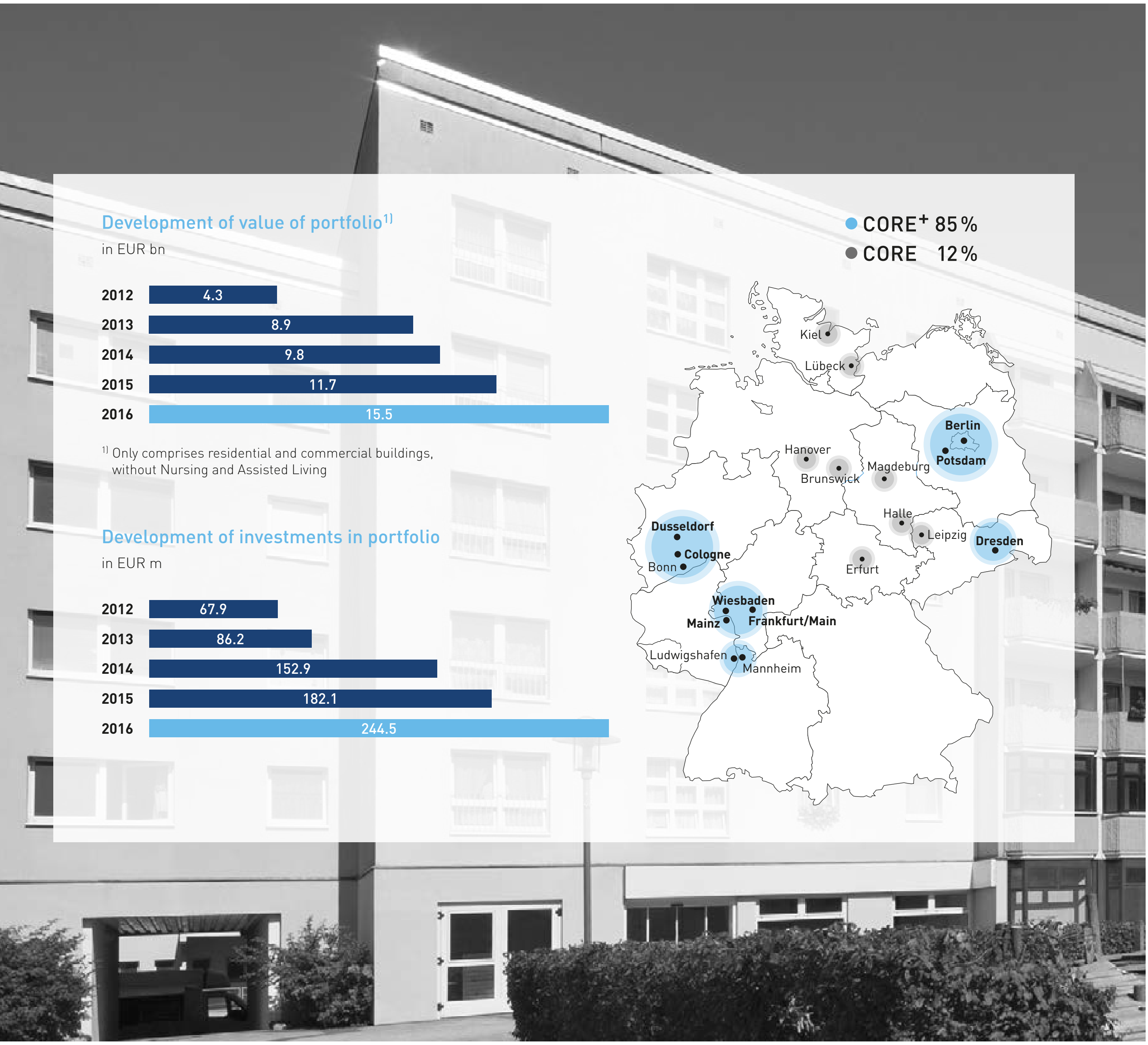
How is Deutsche Wohnen ensuring the financing of this comprehensive programme of modernisation and new building?

» **PHILIP GROSSE:** After paying a dividend, we have a freely available cash flow on the basis of our FFO I of around EUR 150 million. We want to use all of this sum for our investment programme. In addition, because of our excellent creditworthiness and the high quality of our holdings, we have access to a wide variety of sources of financing in the banking sector and the capital markets.

SUCCESSFUL TRACK RECORD IN SUSTAINABLE DEVELOPMENT

≈60,000

BETWEEN 2012 AND 2016, Deutsche Wohnen expanded its portfolio substantially – above all in Berlin. It now manages one of the most attractive portfolios in the housing sector. Particularly with the takeover of GSW, Deutsche Wohnen was able to increase its holdings in Berlin significantly by almost 60,000 residential units. With average acquisition costs of EUR 1,000 per sqm, we were able to buy property at very reasonable prices under today's market conditions. The optimisation of our capital structure, which we carried out at an early stage, paved the way for this. In just the last three years, the value of our portfolio has risen from EUR 8.9 billion to EUR 15.5 billion[1]. Today, these investments are paying off. And we want to continue this success story.



// CENTURIA, STOLLBERGERSTRASSE, BERLIN

[1] Only comprises residential and commercial buildings, without Nursing and Assisted Living

MAJOR ACQUISITIONS OF DEUTSCHE WOHNEN BETWEEN 2012 AND 2016

2012

HAMLET
5,113 RESIDENTIAL UNITS
thereof ≈ 2,000 in Brunswick

BauBeCon
23,416 RESIDENTIAL UNITS
thereof ≈ 6,000 in Berlin
and ≈ 5,700 in Hanover/Brunswick

CENTURIA
5,209 RESIDENTIAL UNITS
Berlin

≈83,000[1)]

//BauBeCon, SODTKESTRASSE, BERLIN

2013

LARRY
6,867 RESIDENTIAL UNITS
Berlin, Brandenburg,
North Rhine-Westphalia

GSW
59,949 RESIDENTIAL UNITS
Berlin

≈150,000[1)]

// GSW, GOEBELSTRASSE, BERLIN

2014

INTEGRATION OF GSW
EUR 35 MILLION ANNUAL SYNERGIES
FROM THIS MERGER

≈147,000[1)]

// GSW, LINIENSTRASSE, BERLIN

2015

WINDMILL
4,638 RESIDENTIAL UNITS
Berlin

OLAV
13,562 RESIDENTIAL UNITS
thereof ≈ 5,200 in Berlin
and ≈ 3,800 in Kiel

≈146,000[1)]

// OLAV, REICHENBERGER ALLEE, KIEL

2016

NUMBER OF RESIDENTIAL UNITS

≈158,000[1)]

[1)] Number of residential units at the end of the year

WE ARE CREATING *HOUSING* FOR ALL GENERATIONS

DEUTSCHE WOHNEN IS SHAPING THE MODERN CITY OF TOMORROW – PATIENTLY AND WITH A SENSE OF PROPORTION. BY MEANS OF MODERNISATION, REDENSIFICATION AND NEW BUILDING, WE ARE DEVELOPING ATTRACTIVE HOUSING FOR ALL GENERATIONS. THIS MEANS OFFERING AGE-APPROPRIATE HOUSING TO BOTH THE YOUNG AND THE ELDERLY AS WELL AS SERVICES FOR WHATEVER WAY OF LIFE PEOPLE CHOOSE. BECAUSE WE ARE BUILDING ON A SOLID AND ECONOMICALLY SOUND FOUNDATION IN ALL OF THIS, WE CAN MAKE LARGE CITIES MORE LIVEABLE IN THE LONG RUN.

// GOEBELSTRASSE, BERLIN-SIEMENSSTADT

// SCHULSTRASSE, ELSTAL, NEAR BERLIN

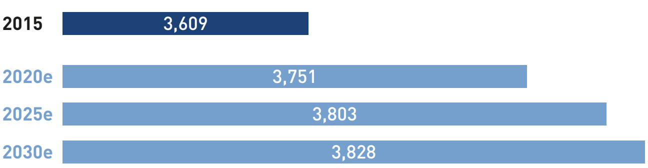
DEMAND FOR HOUSING IN GERMAN CITIES CONTINUES UNABATED

DEMAND FOR HOUSING in German cities continues to rise. By 2030, Germany will probably have just under 85 million inhabitants – four million more than in 2014. Over the same period, the number of households is expected to rise from 40.6 million to 44.3 million. In particular, metropolitan growth regions will expand due to this process of influx and migration. Above all, younger people will be attracted by the greater availability of education and employment opportunities.

However, in many places the current housing capacity can no longer accommodate this increasing population growth in conurbations. Given the current level of building activity, there will be a shortage of a further 940,000 flats in the top 10 regions of Germany by 2030. This means that building new flats is of increasing importance, and investment in new builds must be increased significantly.

Population forecast for Berlin 2015 – 2030

in thousand



Source: Berlin Senate Department for Urban Development and the Environment

! Opportunity

By 2030, Germany will have

approx. **4** million more inhabitants

// The aging population and the influx of young people into attractive metropolitan areas mean that the demand for age-appropriate housing is rising considerably.

// The development of new ways of life (old and young together instead of separately) is opening up a range of opportunities.

? Challenge

// Urbanisation means high rents in attractive, city-centre locations – with the potential for these rents to rise further.

// Efforts must be made to combat increasing gentrification and the displacement of lower-income groups in society and of the elderly.

NEW BUILDING AND REDENSIFICATION COMPLEMENT THE DEVELOPMENT OF OUR HOLDINGS

IN NOVEMBER 2016, we announced a significant expansion of our programme of new building. By 2020, we intend to create 2,200 new flats either as new builds or by means of attic conversions or the addition of floors. The investment sum for these measures amounts to just under EUR 500 million. The ten projects, which are currently in the pipeline, are mainly in Berlin, but also in Frankfurt/Main, Leipzig and Dresden.

The first, completed new-build project in Potsdam-Babelsberg is a successful prototype. The overall positive resonance we have received confirms us in our commitment to building new and sustainable housing. However, a further, potential model project continues to be on hold: For five years, we have been intensively involved in building a modern, mixed-use city neighbourhood, consisting of about 600 flats in Berlin-Westend. To achieve this, 200 existing flats would have to be demolished and the development plan for the site changed. Even though we involved various interested parties, the local borough authorities and the Senate at an early stage, we are still a long way from actually realising this plan. The reason for this is that individual interests are blocking this forward-looking design.

We have also set ourselves clear goals for the period after 2020. Over the long term, we plan to build a further 10,000 new flats, mainly in Berlin and on existing plots of land. However, when it comes to realising these projects, we always depend on the cooperation of the political decision-makers in the locality.

NEW-BUILD PROJECT IN POTSDAM-BABELSBERG SUCCESSFULLY COMPLETED

Within just two years, Deutsche Wohnen built 91 flats for rental and 12 townhouses in Potsdam-Babelsberg with a total floor space of 9,000 sqm. This redensification project was a meaningful addition to an existing railway workers' estate that was built in 1928. The whole building project was planned to be sustainable: The flats meet the energy standard KfW 70 and were given a gold award by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB). The entire residential complex is supplied with environmentally friendly heating and hot water.

- **Completion: 2016**
- **Investment: EUR 20 million in the new build and EUR 3.1 million in the refurbishment of the existing buildings**
- **Completed ahead of schedule**
- **On budget**
- **C2C[1)]-inspired building**
- **High tenant satisfaction**

1) Cradle-to-Cradle: a vision of a refuse-free economy in which companies no longer use any materials that are harmful to the environment or human health and in which all materials are permanent nutrient matter for natural cycles or closed technical cycles.

REDENSIFICATION PROJECT IN BERLIN-PRENZLAUER BERG, GRELLSTRASSE

From 2017, 100 flats will also be built in Grellstrasse in Berlin. This is being made possible by redensification measures and the closing of gaps between buildings in an existing portfolio. The project means that the current holdings on this site will be expanded to 360 residential units. It is comprehensive in nature and involves:

- the refurbishment of the existing buildings
- adding an additional floor to existing buildings
- converting the attic space
- closing a gap with a new building and
- building a nursery school

The direct link with the S-Bahn in Prenzlauer Berg also means that the issue of "intelligent mobility" is addressed.

LIVING BY THE WATER IN BERLIN-SPANDAU

Deutsche Wohnen is going to build 190 new flats on one of its own plots of land in Berlin-Spandau with direct access to the water from 2017. The procedure for obtaining expert opinions has already been completed, and a renowned firm of architects has been commissioned. The new neighbourhood is planned to be mixed-use – so it should appeal to families, single people, the young and the elderly – for living and working.

- Start of construction: 2017
- Mixed-use neighbourhood for young and old, living and working
- High energy efficiency
- Takes current and future housing requirements into consideration: a mix of different types of flat with a variety of sizes and floor plans – with some floor plans flexible
- Close cooperation with important stakeholders, e.g. the local councillor responsible for building, the city planning office and the Senate
- Adjoining areas provide development opportunities in the future

» Living by the water – especially in a large city – is something quite special. We continue to adhere to our principle of creating good quality at affordable prices.

Stefan Degen, Managing Director of Deutsche Wohnen Construction and Facilities GmbH

COMMON UNDERSTANDING OF QUALITY AND SUSTAINABILITY

STEFAN FORSTER ON WORKING WITH DEUTSCHE WOHNEN

What, in your view, are the current trends in urban development and where do you see Deutsche Wohnen in all of this?

The key challenge for the German housing market today is indisputably the need to deal with the huge influx of people into conurbations. Cities are meeting this challenge in two ways: by (1) expanding the city and (2) redensification.

Particularly with regard to redensification, property owners like Deutsche Wohnen have an important role to play. In my opinion, the potential for redensification is enormous. The advantage of this – as we say – additional building is that the technical and social infrastructure is already there. Furthermore, there are no additional land prices either. Deutsche Wohnen can make good use of these opportunities within its holdings in urban areas.

However, there is an obstacle to overcome: Usually, existing tenants are hostile to redensification plans. So, active management and extensive dialogue are very important here. In the end, the existing tenants can invariably benefit from redensification, because, for example, the quality of the residential environment is improved.

What do you understand by high-quality and sustainable building?

For me, the solution to the problem I just mentioned is quite clear. There must not be any sub-standard solutions, i.e. no new prefabricated buildings or such like. Over the long term, such solutions would be completely inappropriate. We mustn't repeat the mistakes that were made in the 1950s at a time of acute housing shortages. After all, we can see today that buildings from this period do not meet our current requirements in any way and that many owners perceive them to be a burden.

So, for me, quality and sustainability mean, in particular, intrinsic value and durability. On this point, we should be guided by the example of the old buildings that are still in existence. This means that quality in housing is also about paying attention to ceiling heights, the size of windows and appropriate open spaces. Or it's about preferring brickwork to a composite system for heat insulation because a brick facade is more durable, easier to maintain and longer lasting.

What is your opinion of the role played by politicians in new building and redensification? And what lasting solutions are achievable here?

Unfortunately, politicians usually only think over the short term, i.e. in legislative periods. They are to be judged by how many residential units they created during their term of office. However, an architect or a city planner thinks quite differently. What is important to him or her, as I explained earlier, is to create something sustainable and of long-term value, and to contribute something to people's collective memory.

// STEFAN FORSTER, MANAGING PARTNER
OF STEFAN FORSTER ARCHITEKTEN GMBH

Stefan Forster studied architecture at the Technical University of Berlin. After holding various positions, he founded Stefan Forster Architekten in 1989. After converting the business into a limited liability company, he has been one of its managing partners since 2012.

Today, redensification often fails because obsolete development plans do not provide the necessary political preconditions. What I would really like to see is politicians showing greater courage and choosing to proceed less bureaucratically. What's more, this would pay off! After all, meaningful redensification measures within existing holdings can be realised in one and a half to two years. By contrast, today the completion of changes to development plans alone takes two years!

What is your opinion of Frankfurt/Main, Leipzig and Dresden with regard to their potential as locations for newly built housing?

All three cities are prospering very well. In the case of Frankfurt/Main, this has been the case for some time now whilst Leipzig and Dresden are undergoing a kind of renaissance right now. The latter two cities have enormous growth potential, not least because they have a great deal of housing in old residential areas. And this brings me back to the points I raised before. What makes a city particularly attractive is when it has attractive buildings in city-centre locations.

I can see enormous potential here for residential property companies like Deutsche Wohnen. In particular, cities like Leipzig and Dresden are still interesting from a financial point of view because current rents and purchase prices are significantly below the national average. Moreover, together with Deutsche Wohnen we have started projects in two of these cities. And I hope we will start putting them into practice in 2017. One of these projects is Lindenau Harbour in Leipzig and the other is Miquelallee in Frankfurt/Main.

What is it like working with Deutsche Wohnen?

In principle, we really like working with large property owners because they have a very great sense of responsibility. And it's very important for us that we can work with developers as equals to create things and that there is extensive know-how on both sides. All of this is true of Deutsche Wohnen. After all, our utmost concern is to develop city-centre housing of high quality.

» It's very important for us that we can work with developers as equals to create things and that there is extensive know-how on both sides. All of this is true of Deutsche Wohnen.

HIGH-QUALITY RESIDENTIAL CARE PROVISION FOR ELDERLY PEOPLE

Nowadays, **DEMOGRAPHIC CHANGE** is very much a hot topic. And primarily it means one thing for the Nursing and Assisted Living segment: the demand for nursing and assisted living places will rise dramatically over the coming years and decades. Yet today, the German nursing care market, with a volume of EUR 40 billion, is the largest nursing care market in Europe. By 2030, an additional 800,000 people compared with 2015 will need nursing care or assistance. This increase in numbers will also mean demand for an additional 300,000 beds in nursing care facilities by 2030, which will require enormous investments to be made in this market.

! Opportunity

By 2030, a further

800 thousand PEOPLE

will need nursing care or assistance

// Demographic change is leading to rising demand for a wide variety of care services.

// The highly fragmented market, which has very promising prospects, offers scope for consolidation.

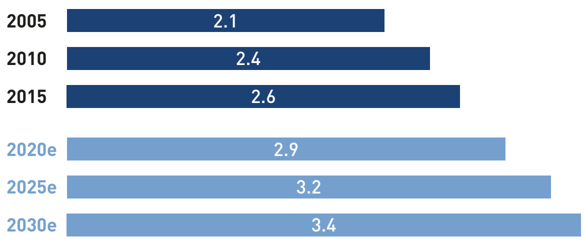
? Challenge

// The rising demand for sufficiently qualified staff has to be met in view of the strong growth of this market.

// Interventions by the state and constant changes to the general conditions for this market are making reliable planning difficult.

Amount of people dependent on assistance and care

in million



Source: Destatis and Terranus Research

DEUTSCHE WOHNEN, together with its strategic shareholding in KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, is a leading provider of high-quality nursing care and assisted living for elderly people. Building on many years of experience and an innovative care concept, KATHARINENHOF® currently operates 20 nursing care and assisted living facilities with approximately 2,000 places in the following four federal states: Berlin, Brandenburg, Lower Saxony and Saxony. In Berlin and Brandenburg, this provision is complemented by an ambulatory nursing care service. In addition, Deutsche Wohnen acquired more than 4,600 nursing care and retirement home places in the second half of 2016.

// BRUNO-RAPPEL-WEG, GARBSEN

NURSING CARE HOME PORTFOLIO ACQUIRED FROM BERLINOVO

In August 2016, Deutsche Wohnen purchased one of the largest portfolios of nursing care facilities in Germany in a bidding process. The so-called Pegasus project was acquired for EUR 420 million from the property company Berlinovo. The 28 properties, with a rental space of just under 180,000 sqm, more than 4,100 places and an annual gross rental income of EUR 27.3 million, are mainly located in Bavaria, Baden-Wuerttemberg, Rhineland-Palatinate and North Rhine-Westphalia.

This acquisition means that Deutsche Wohnen has made a considerable addition to its portfolio in the Nursing and Assisted Living segment. The current operators provide a high standard of quality and have good occupancy rates. The acquisition was made as part of Deutsche Wohnen's declared growth strategy in the Nursing and Assisted Living segment and will in future make a significant contribution to earnings whilst at the same time having a low-risk profile.

4,100

THE UFERPALAIS IN BERLIN-SPANDAU

The Uferpalais brings together in one location what, in our opinion, is an ideal mix of various forms of care provision. These include:

- assisted living of very high quality
- in-patient nursing care
- ambulatory care provision (with a 24-hour call-out service)
- day care

Our centres in Potsdam and Berlin-Alt-Britz are currently being expanded to provide the same mix.

RESPONDING PROACTIVELY TO GROWING CHALLENGES

DR JOCHEN SCHELLENBERG TALKS ABOUT HIS STRATEGY IN THE FIELD OF NURSING CARE AND ASSISTED LIVING

// DR JOCHEN SCHELLENBERG, CEO OF KATHARINENHOF SENIORENWOHN- UND PFLEGEANLAGE BETRIEBS-GMBH

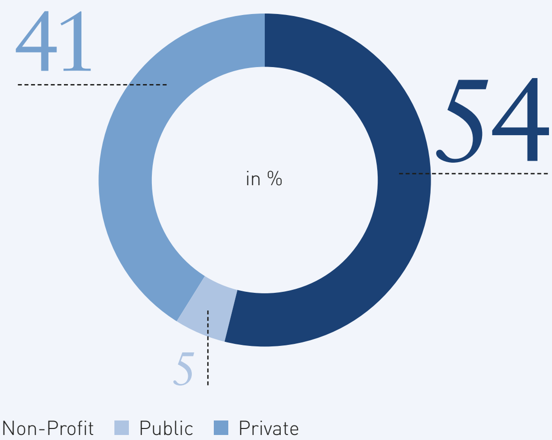
The market for nursing and assisted living is developing very dynamically. What opportunities and challenges do you see here?

Demographic change will indeed – metaphorically speaking – generate an avalanche of elderly people in need of nursing care. Of course, on the one hand, this offers our company enormous opportunities. However, on the other hand, we must ensure that we always have enough qualified staff. This is where we see the greatest challenge for our company at the moment. We are meeting this challenge proactively by adopting a range of measures in our training programmes as well as in terms of staff retention.

What legal or regulatory conditions do you have to deal with?

Since September 2006, the German Care Homes Act (Heimgesetz), which previously as a federal law had applied uniformly to the whole of Germany, has been systematically replaced by 16 individual care home laws, with each one applicable to a particular federal state. These new laws are in part very prescriptive and are also structured in very different ways. This means that nationwide operators like ourselves are faced with an increase in complexity. Overall, this increasingly regulatory approach represents an enormous challenge for us. What is more, there is a risk that private operators will withdraw from the market and that the number of beds needed in future will not be achievable. I would like to stress at this point that our sector is huge and one of the largest employers in Germany. The state should be mindful of this whenever it takes action.

Nursing home operators by number of beds



Source: Federal Statistical Office in Germany 2013

What strategy is KATHARINENHOF® pursuing in its Nursing and Assisted Living segment?

First and foremost, we want to build on our extensive know-how and make use of the great potential in this market. In keeping with our strategy, this means combining the real estate aspect and the operational aspect of nursing care facilities. Of the 20 facilities that KATHARINENHOF® operated throughout 2016, 19 are owned by Deutsche Wohnen. Together with Deutsche Wohnen, we have set ourselves a clear target for further growth. Over the medium term, the Nursing and Assisted Living segment is intended to contribute 15 % to the EBITDA of the entire Group – meaning this segment will almost double in size.

Following the acquisition of the Pegasus portfolio, Deutsche Wohnen now has more than 6,600 beds and is one of the leading providers in Germany today. With an occupancy rate of 98.6 % as at 31 December 2016 across all KATHARINENHOF® facilities, we are well above the national average of approximately 85 %. Our quality standards are a benchmark. In the rankings of the medical service of the statutory health insurance companies (Medizinischer Dienst der Krankenversicherung – MDK), which are compiled on an annual basis, all our facilities score very highly. Overall, – with our current rating of between 1.0 and 1.2 – we are in 3rd place of all providers in Germany.

How is the integration of the Pegasus portfolio going and what effects are you anticipating?

We are pleased that in the bidding process Deutsche Wohnen succeeded in acquiring this large, high-quality portfolio. However, as a first step, it is just the actual properties that have been purchased. The facilities continue to be run by the existing operators. So, Deutsche Wohnen is functioning here as a landlord or lessor. This means that we will have to build up a whole new business area, namely that of asset management for nursing care properties. Up to now, this hasn't been necessary.

Are any further acquisitions planned in the short- or medium term?

We can see three options for our future growth:

1. **Further acquisitions:** Deutsche Wohnen will continue – as it did most recently in Hamburg – to make use of acquisition opportunities in future in order to achieve a targeted expansion of the portfolio. However, only very few of the properties or portfolios that are currently on the market meet our acquisition criteria – and, in particular, our exacting quality criteria.

2. **New builds:** Deutsche Wohnen has already started two new-build projects. One of these is an 86-bed nursing care home in Chemnitz, which will be ready to go into operation in October 2017. The other is an even larger facility in Dresden that will include assisted living, in-patient nursing care and day care. Building work will start in 2017 and it is planned to open the facility in 2018. It is intended that KATHARINENHOF® should operate the facilities.

3. **Redensification:** Currently, the redensification of existing complexes already owned by Deutsche Wohnen is under consideration. They could be complemented by additional forms of care provision. However, these considerations are still at a very early stage.

Is there any potential for further internal growth, for example by expanding into related areas of business?

An important aspect in this regard is most certainly the strengthening of day care provision. This is supported by the Second German Act to Strengthen Long-term Care (Zweites Pflegestärkungsgesetz), which fully came into force from 1 January 2017. However, we always see day care as being an extension of our existing care provision. To offer day care alone on a site doesn't make much economic sense. So, in our view, the optimum mix is a combination of assisted living, in-patient nursing care, ambulatory care and day care. We provide this combination in our Uferpalais centre in Berlin-Spandau, for example.

It also makes a lot of sense, in our view, to continue to link up nursing care and housing – also on a cross-generational basis.

» The government's motto "Ambulatory rather than in-patient" for care provision of the future is not, in our view, achievable. The motto should be: "Ambulatory AND in-patient".

WE INVEST IN *QUALITY* FOR PEOPLE AND THE ENVIRONMENT

TO CREATE AND MAINTAIN HIGH-QUALITY HOUSING – THE BUSINESS MODEL OF DEUTSCHE WOHNEN MAKES A FUNDAMENTAL CONTRIBUTION TO URBAN SOCIETY. AS ONE OF THE LEADING COMPANIES IN THE EUROPEAN REAL ESTATE SECTOR, WE COMBINE OUR GROWTH POLICY WITH SUSTAINABLE DEVELOPMENT GOALS. AT THE HEART OF OUR ACTIVITIES IS A COMMITMENT TO ACHIEVING HOLISTIC URBAN DEVELOPMENT THAT CONSISTENTLY COMBINES ENERGY EFFICIENCY WITH COST EFFECTIVENESS AND THAT CREATES NEIGHBOURHOODS OFFERING VERY HIGH RESIDENTIAL STANDARDS. FORWARD-LOOKING INVESTMENTS AND APPROPRIATE MODERNISATION MEASURES FORM THE BASIS FOR THIS.

// SPRINGSIEDLUNG, BERLIN-KREUZBERG (VISUALISATION)

// DORNBRUNNER STRASSE, BERLIN-TREPTOW

RESPONSIBILITY FOR SUSTAINABLE URBAN DEVELOPMENT

THE GLOBAL CLIMATE PROTECTION GOALS are confronting countries and companies alike with significant challenges. Moreover, with its 20 million rented residential units, the housing industry in Germany has a key role to play in achieving sustainable development. Around 40 % of final energy consumption and around a third of CO_2 emissions in Germany are attributable to buildings. So, with approximately 160,000 residential and commercial units in its portfolio, Deutsche Wohnen is very much aware of its responsibility for climate-friendly growth and works consistently to achieve this.

In order to meet the climate protection targets established in the Paris Agreement and to limit global warming, it is necessary to build energy-efficient buildings and to improve the energy efficiency of existing buildings. At the same time, it is important to continue to provide affordable housing and to create neighbourhoods that offer a high quality of life. Therefore, climate protection and energy efficiency cannot be considered separately from economic and social aspects. Deutsche Wohnen has an integrated approach and plans its refurbishment work carefully and for the long term.

With forward-looking investments and comprehensive neighbourhood development, Deutsche Wohnen is helping to shape the modern city of tomorrow.

INVESTING IN CLIMATE PROTECTION

Deutsche Wohnen plans to invest a total of EUR 1 billion in the energy-efficient refurbishment and modernisation of its holdings by 2021. In doing so, we will improve the residential quality and the energy efficiency of 30,000 residential units in our Core+ regions. This will benefit the climate and will, at the same time, lower energy costs. The residential units are mainly in Berlin, but Deutsche Wohnen will be carrying out modernisation projects in Frankfurt/Main, Hanover and Dusseldorf as well.

1,000,000,000

COLLECTIVELY SAVING ENERGY

WITH SUSTAINABLE NEW-BUILD CONCEPTS and comprehensive energy-efficient refurbishments, we combine climate protection and cost-effectiveness. Over the past years, we have refurbished many of our housing estates. Other estates still have energy-saving potential, which can be realised by insulation or modern heating and hot water technology. To analyse this potential at the highest technical level and then realise it with ideal technical solutions, Deutsche Wohnen sets great store by an innovative shareholding model. To this end, we founded the joint enterprise G+D Gesellschaft für Energiemanagement mbH in 2013 together with the Magdeburg-based energy specialist GETEC. G+D has specialist know-how in the areas of energy procurement, energy generation and the distribution of energy to buildings. With the help of this expertise, we can develop individual energy supply concepts for our holdings. So, this company makes a uniform supply of gas and a commercial supply of heating and hot water to 76,000 residential units belonging to Deutsche Wohnen. G+D has also refurbished heating and hot water plants for 10,600 residential units since 2014. The gains in energy efficiency that result from this benefit both our tenants and the environment.

THE MANAGEMENT OF SHAREHOLDINGS AT DEUTSCHE WOHNEN

The legal form of our cooperation with GETEC is based on the strategic approach of Deutsche Wohnen to the management of shareholdings. When developing business areas that are not part of our core business, we think it is important to involve external partners with the relevant, nationwide skills in a very close relationship. This enables us to develop know-how that is important for the future whilst not placing an additional burden on our own corporate structures. These partnerships also create bundling advantages, for example in the form of joint procurement platforms, which lead to greater cost efficiency.

EUR APPROX. 11 MILLION

THE JOINT ENTERPRISE G+D INVEST HAS INVESTED APPROX. EUR 11 MILLION IN EFFICIENCY MEASURES FOR DEUTSCHE WOHNEN'S ENERGY SYSTEMS SINCE 2014.

» With systems that are increasingly fine-tuned and designed specifically to suit the energy consumption habits of the user, we can supply our holdings with heating and hot water in a way that meets the needs of our tenants. This reduces energy loss and minimises unnecessary CO_2 emissions. The basis for this is the specific building and consumption data.

Christian Pfeuffer, team leader for energy management in procurement and participation management, Deutsche Wohnen Construction and Facilities GmbH


// RIXDORFER STRASSE, BERLIN-TREPTOW

// MARKUS STOLL,
EXECUTIVE DIRECTOR,
AND FABIAN SEIFERT,
BRANCH MANAGER FOR
BERLIN OF GETEC

THREE QUESTIONS FOR MARKUS STOLL AND FABIAN SEIFERT OF OUR PARTNER GETEC

The joint venture with Deutsche Wohnen started almost three years ago. What have you achieved so far?

First of all, we carried out a comprehensive and detailed analysis of most of Deutsche Wohnen's 2,800 energy systems. With the help of tailor-made software, we documented and evaluated each energy system in terms of the energy source it used and its structural and technical condition as well. This data basis enabled us to work with Deutsche Wohnen to create in each case precisely the right refurbishment plans, which take into consideration all the relevant technical, legal and economic factors.

APPROX. 60

ENERGY SYSTEMS

BELONGING TO DEUTSCHE WOHNEN WERE REFURBISHED BY G+D IN 2016.

Which systems are refurbished or replaced?

Mainly, we refurbish or replace systems for generating heat and hot water by switching from oil to gas or by exchanging component parts that have become outdated. In doing this, we examine tried and trusted energy sources like natural gas as well as renewable sources of energy like bio-gas or wood pellets. We also install combined heat and power plants (CHPs), which produce heat and hot water but also electricity in a way that conserves resources. In principle, we take action where this makes sense technically and in terms of energy efficiency. Moreover, for each system that we analyse, we establish in advance the optimum time when it should be refurbished. Taking the current legal regulations into account, we plan over the very long term for the coming years in order to ensure an enduring security of supply and the greatest possible energy efficiency.

What is planned for the future?

We will continue to work with Deutsche Wohnen on achieving integrated energy management so that we can further improve the energy efficiency of our heat generation and distribution systems. At the same time, we are making our energy procurement more professional – for gas, for example, in order to make best use of synergy effects for Deutsche Wohnen's various properties.

COMBINED HEAT AND POWER PLANT GOES INTO SERVICE

IN 2016, G+D put its fifth CHP for Deutsche Wohnen into operation and, in doing so, increased the electric delivery load to 2,150 kW. These local power stations produce both electric power and heat and hot water. The new CHP in the housing estate on Imbrosweg in Berlin is operated with climate-friendly bio-gas and increases the overall production of environmentally friendly electric power in Deutsche Wohnen's portfolio from 9 GWh to 12 GWh a year.

12

12 GWH OF GREEN ENERGY are generated every year by our five combined heat and power plants and 52 solar energy plants. This means that, on the balance sheet, we can cover the entire electric power needs of our administration buildings in the long-term – which amount to around 2 GWh a year. Any additional capacities are fed into the public grid. We also use carbon-neutral electric power for supplying communal electricity to our holdings. Our renewable energy sources are primarily wind power and hydroelectric power.

// COMBINED HEAT AND POWER PLANT (CHP), BERLIN-WEISSE STADT

SWITCHING TO E-MOBILITY

Our employees have to travel a lot. Whether they are travelling from one property to another or keeping business appointments, flexible and reliable transport is essential. To ensure that this transport is climate-friendly, we are increasingly switching to bicycles or electric cars. FACILITA Berlin GmbH was the first company in the Deutsche Wohnen Group to start moving over to electric vehicles. It is running eleven such vehicles – half of its fleet. This is very much a contribution to the energy transition, and by the end of the year it is planned for the entire fleet to have switched to electric motors.

TAKING A HOLISTIC APPROACH TO CLIMATE PROTECTION

THE CONSUMPTION of heat, hot water and electric power and the associated emissions in the property sector depend on a variety of factors. Up-to-date energy technology and heat insulation that is as good as possible play just as much of a role as the usage behaviour of the tenants. We consider all of these factors in our refurbishment and modernisation measures and, in so doing, create a fundamental infrastructure for dealing with our resources in a climate-friendly way. This approach is also reflected in the overall energy consumption of our holdings.

A reliable supply of heat and hot water with gas or district heating together with excellent insulation for buildings create ideal conditions for climate-friendly heating. For this reason, Deutsche Wohnen is working to replace and modernise outdated heating systems in its older holdings step by step and to optimise the insulation of these buildings.

REFURBISHMENT FOR GREATER ENERGY EFFICIENCY

IN BERLIN, Deutsche Wohnen began with the comprehensive modernisation of two residential complexes from the 1930s in 2016. Around Pistoriusplatz, we are refurbishing 205 flats in listed buildings. A modern heating plant will then provide all residents reliably with heat and hot water. In addition, the cellar ceilings and ceilings on the topmost floor will be insulated. Overall, Deutsche Wohnen is investing EUR 5 million in the project.

In the middle of 2016, we started a comprehensive refurbishment and modernisation of three residential blocks with a total of 320 flats in the Nordic Quarter in the north-eastern part of Prenzlauer Berg. By 2017, we will have invested approximately EUR 13 million in this project. The work includes the repair and energy-efficient refurbishment of the roofs, and improvements to or the replacement of windows. In this complex too, Deutsche Wohnen is using its joint enterprise G+D to install in the cellar a modern system for generating heat and hot water.

! Opportunity

Approx. **74%**

of our residential units have an energy consumption that is lower than the average of 160 kWh/sqm per year for residential buildings in Germany.[1] Over a quarter of our residential units are in a good range of below 100 kWh/sqm (A+ to C). The median value for our holdings is 135.1 kWh/sqm per year, which represents a further improvement compared to the previous year (2015: 139.1).

// The standards expected by tenants are rising and there is greater demand for ecological and climate-friendly housing.

// With its holistic approach to modernisation work, Deutsche Wohnen is playing a pioneering role in the German residential property sector.

? Challenge

// Modern, climate-friendly housing involves investment and, therefore, higher rents.

// Increasing amounts of regulation, and framework conditions that keep changing are making it more difficult for investors to plan over the long term.

[1] The Energy Performance Certificate: Specifications for Residential Buildings (Der Energieausweis: Steckbrief für Wohngebäude), https://www.verbraucherzentrale.de/Der-Energieausweis-Steckbrief-fuer-Wohngebaeude-4, accessed: 20/2/2017.
Average figure takes energy requirements for heating and hot water provision into account.

DEVELOPING NEIGHBOUR-HOODS IN A PROCESS OF DIALOGUE

TO CREATE AND TO MAINTAIN SUSTAINABLE AND AFFORDABLE HOUSING is a key responsibility of Deutsche Wohnen. In doing this, we combine economic success with ecological and social responsibility. A holistic approach to neighbourhood development plays a decisive role here. This idea includes all measures that support a lively neighbourhood with a colourful mix of residents from various cultural and social backgrounds. Together with living conditions that support the family and are age-appropriate, this approach provides the basic preconditions for good social cohesion in the neighbourhood.

Open dialogue is necessary in order to get to know and accommodate the various expectations and needs of different residents and actors. Particularly in the case of building work, it is important to inform all the affected tenants at an early stage and to involve them in the planning process. In meetings with tenants, consultation appointments and individual conversations, we explain to the residents of our residential units the building work that is planned and agree together the next steps that will be taken. In addition, just under 300 employees are available to our tenants in 23 local Service Points to deal with questions and concerns. These opportunities for dialogue further tenants' acceptance of our refurbishment and building plans and create a forum that is characterised by mutual respect.

JUST UNDER 500 EMPLOYEES

AT DEUTSCHE WOHNEN WERE INVOLVED IN PROVIDING TENANT SUPPORT IN 2016.

// HELLERSDORFER PROMENADE, BERLIN-HELLERSDORF

INNOVATIVE DIALOGUE FORMAT

In Berlin-Kreuzberg in 2016, we tested a new format for providing information to tenants. Since May 2016, 1,700 residential units in the Otto Suhr Estate have been undergoing repairs and a comprehensive energy-efficient refurbishment in three construction phases. The scale of this project is also making new demands of our systems for informing tenants. Tried and tested formats like tenant meetings have clear limitations given the dimensions involved. To enable us to convey information meaningfully and to have a constructive exchange with individual residents, we sought professional support from a consultancy that specialises in mediation and citizens' participation. The dialogue format that resulted from this meant that each tenant received a personal appointment for a conversation along with the announcement of the modernisation work. In the course of this conversation, the tenant was able to obtain information about individual building measures and to put questions directly to the people responsible for the building work. To make all of this possible, a vacant flat in the estate was converted into an information office for five days. This intensive dialogue format was received very well. Such a form of tenant dialogue will be used for large-scale projects in future as well.

22

COMMERCIAL UNITS

IN 2016, DEUTSCHE WOHNEN LET 22 COMMERCIAL UNITS TO SOCIAL ORGANISATIONS.

In addition to a variety of residents, diverse city neighbourhoods also need a balance between commercial units and social facilities. For this reason, Deutsche Wohnen also uses criteria of social sustainability when making commercial property available, and sometimes at reduced rents. For example, after a fixed-term lease agreement had expired in the Weiße Stadt in Berlin-Reinickendorf, we decided together with the social project Reinickendorf Ost e.V. to let the vacant premises to a nursery. This decision was based on the fact that there is a high demand for nursery places in the neighbourhood.

FLATS FOR PEOPLE IN DIFFICULT SOCIAL CIRCUMSTANCES

BERLIN has developed very dynamically and has become a magnet for people from Germany and abroad over the last few years. The resulting rise in demand for housing, however, is creating social problems for the city as well. As Berlin's largest landlord, we are aware of our social responsibility and make housing available in a targeted way to people who have difficulty in the normal housing market. To realise this, we cooperate with social organisations like "NeuRaum – Wohnen nach dem Frauenhaus" (an organisation that supports women in finding a flat after they leave a women's refuge). This Caritas project is financed by the city of Berlin and provides urgently needed accommodation to women who have been affected by violence. To support this project, Deutsche Wohnen has provided 22 flats. We also offer flats to young people facing social challenges, for example in Hellersdorf or Lichtenberg. These flats are announced via social organisations that support children and young people. These organisations also look after these young adults and accompany them into adult life. After all, the first flat of one's own is an important step in this process.

We also provide flats for people who have to flee their home country. Sometimes this happens through a normal, direct letting procedure and sometimes as part of cooperation projects. To this end, we work, for example, with the charitable organisation JaKuS e.V. in Berlin, which supports young people, Pad gGmbH and the network for child and youth support (Kinder- und Jugendhilfe-Verbund), and provide housing in the form of individual flats or shared flats. The young refugees receive close support from our partners. To accompany this, Deutsche Wohnen also supports projects in its neighbourhoods aimed at integrating refugees. An example of this is the adaptation of the tried and tested certificate for independent living – a programme that gets young people ready for having their own flat. We support the projects both financially and also by making commercial units available rent-free. We also support our cooperation partners with any specialist know-how they might need. With this engagement, Deutsche Wohnen is a founding member of the initiative "Wir zusammen" (We together) – a network of well-known German companies that makes visible the wide-ranging social engagement activities from all areas of German industry.

APPROX. 900

FLATS

IN 2016, DEUTSCHE WOHNEN LET 900 FLATS SPECIFICALLY TO PEOPLE IN DIFFICULT SOCIAL CIRCUMSTANCES.

THINKING *AHEAD*

FOR THE CITY OF TOMORROW

CONTENTS

LETTER TO OUR SHAREHOLDERS

Dear Sir or Madam,
Dear Shareholders,

The past financial year was a highly successful one for our company. Deutsche Wohnen not only exceeded all expectations; its earnings also reached new record levels. This is hardly surprising because in recent years we have attained a pre-eminent position in the German property market. Our strategy of focusing on conurbations within Germany, and in particular on Berlin, is bearing fruit and is being reinforced by positive developments with regard to rents, vacancy rates and selling prices.

Group profit exceeds EUR 1.5 billion mark

We once again recorded increases in all of our key figures in the financial year 2016. Accordingly, the Group profit amounted to EUR 1,623.2 million, an increase of just over 35 % compared to what was already a high value in the previous year. With regard to property valuation, we also profited from the strong demand for housing in conurbations. As a result of our successful acquisitions and operational improvements, the key figure FFO I (Funds from Operations without disposals), which is of decisive importance for us, rose significantly by 26 % to EUR 383.9 million. We also succeeded in increasing our EPRA NAV (undiluted) per share by 29 % from EUR 23.02 to EUR 29.68. Our financing basis continues to be very solid. The LTV, at approximately 38 %, remained constant at the previous year's level, while current interest expenses decreased by 16 % as a result of the refinancing undertaken in 2015. The international rating agencies Standard & Poor's and Moody's have acknowledged this development by awarding us long-term issuer ratings of A- and A3, respectively, in each case with sound future prospects.

Our thanks go out to our entire team

Such success can only be achieved with a highly dedicated and qualified workforce. We would therefore like to take this opportunity to express our heartfelt thanks to all of the employees of Deutsche Wohnen – for their outstanding work and tireless endeavours for the benefit of the company and all of its stakeholders. We will also continue to do everything in our power, as a responsible employer, to implement diverse measures intended to foster and improve the dedication, qualifications motivation and sense of satisfaction of our employees.

Strong position on the capital markets as well

Deutsche Wohnen also remains a sought-after partner on the capital markets. The price of our share rose by approximately 19 % in 2016, thus outperforming the EPRA Germany benchmark index once again and ranking third among the total of 50 MDAX companies in terms of both free-float market capitalisation and trading volume. 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 0.74 per share for the financial year 2016.

Even greater alignment of our portfolio with our customers' requirements

Ladies and gentlemen, Deutsche Wohnen today has a portfolio comprising more than 160,000 residential and commercial units with a fair value of approximately EUR 15.7 billion at its disposal. Approximately 97 % of our holdings are located in high-growth, prosperous conurbations within Germany. The appreciation in the value of our real estate assets in the amount of EUR 2.7 billion in 2016 alone represents a new record.

We want to participate in the growth in Germany's metropolitan areas in the future and actively work towards counteracting the current shortage of housing. To this end, we have significantly increased the scope of our long-term investment programme to approximately EUR 1.5 billion. We plan to modernise approximately 30,000 residential units, for the most part with a view to energy conservation, by 2021, and additionally intend to construct approximately 2,200 new residential units by 2020 to go some way towards meeting the urgent market demand for housing.

In all of this, we always remain true to our role as a market leader in terms of quality and innovation. Our primary goal is the creation of value over the long term, not the generation of short-term returns. Meeting the needs of our customers, who increasingly place greater value on sustainable and thus higher-quality products and materials, is of crucial importance for our company. Demand for the provision of special services in relation to properties is also very much on the rise. We will also strive continuously to anticipate the needs of our customers at an early stage and to proactively offer corresponding solutions with a high degree of customer value.

from left to right

Lars Wittan
Chief Investment Officer (CIO)

Michael Zahn
Chief Executive Officer (CEO)

Philip Grosse
Chief Financial Officer (CFO)

Sustained exploitation of market opportunities
We see considerable opportunities with regard to the expansion of our property-related services. As a result, we are restructuring our management of the energy-related aspects of our portfolio with a view to reducing both CO_2 emissions and energy costs. A collaboration in the field of technical facility management has also strengthened our position in this context, enabling us to achieve an even higher degree of quality assurance as well as additional savings. As part of our multimedia activities, we are implementing forward-looking upgrades in our holdings, and thereby adding to our value chain, by means of investments both in the expansion of the cable network and in the glass fibre optic infrastructure.

We consider our Nursing and Assisted Living segment to be a further growth area, in which we have been well-positioned for many years thanks to KATHARINENHOF®. We also acquired properties comprising more than 4,600 additional nursing home beds in the second half of 2016. We believe the continued integration of our nursing and residential operations to be a strategic move which makes excellent business sense.

Ladies and gentlemen, as you can see: Deutsche Wohnen is a company with great potential. We firmly believe that the opportunities which lie ahead far outweigh any possible risks. We expect the market to once again experience growth in the financial year 2017. On the assumption of a baseline scenario, i.e. in the absence of any further acquisitions or opportunistic disposals, we expect to generate FFO I, including our most recent acquisitions, in the amount of approximately EUR 425 million.

You may rest assured that we will continue to focus on single-mindedly maintaining our successful growth trajectory – in the best interests of all of our stakeholders. Thank you for the trust you have placed in us!

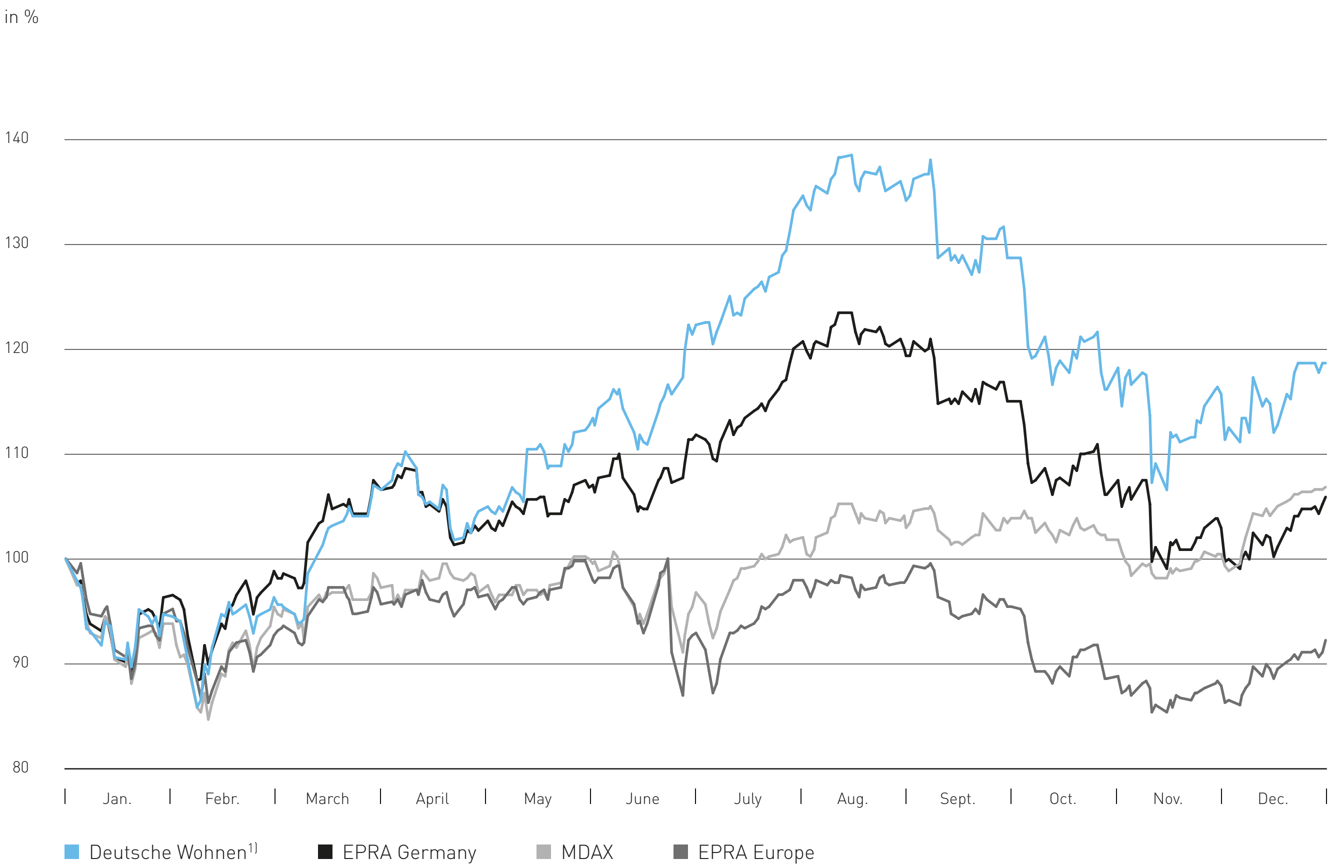
Frankfurt/Main and Berlin, March 2017

Sincerely,

Michael Zahn	Philip Grosse	Lars Wittan
Chief Executive Officer	Chief Financial Officer	Chief Investment Officer

THE SHARE

Share price performance in 2016 (indexed)



[1] Adjusted to reflect the dividend payment in 2016

2016 was a turbulent year for the financial markets

The astonishing victory of Donald Trump in the US presidential election in November 2016 resulted in a significant rallying of share prices in the fourth quarter of 2016, with the stock markets ultimately rebounding after a sluggish start to the year. This positive performance was bolstered by solid economic data for the US, a marked rise in car sales in the eurozone and in China, the extension of the ECB's bond-buying programme until the end of 2017, state aid for Italian banks and flourishing M&A business. On the other hand, the stock markets were negatively impacted not only by the surprising vote in favour of Brexit in the United Kingdom but also by concerns as to the performance of the banking sector in the eurozone, the outcome of the Italian referendum, terrorist attacks in Europe, the second raising of the key interest rate by the US Federal Reserve and the fall in the oil price to its lowest level in two years.

2016 also proved to be an extremely volatile year for the DAX, which in February fell almost 20 % from its level at the beginning of the year to below 9,000 points. Then, after a positive second half-year, it finally ended 2016 having risen by 6.9 % to 11,481 points. The performance of the MDAX, which also lists the Deutsche Wohnen share, was similar to that of the DAX. It also buckled under considerable pressure at the beginning of the year, falling to 17,595 points in February, but then rallied over the course of 2016, rising by 6.8 % and ultimately peaking at 22,189 points – an historic all-time high – on 30 December.[1]

The EPRA Germany real estate index did not entirely keep pace with the performance of the German indices in 2016, rising by just under 6 % to 944 points, while EPRA Europe ended the year at 2,053 points, having fallen by approximately 8 % – primarily as a result of the poor performance of the shares of UK companies in the wake of the Brexit vote.

Deutsche Wohnen share outperforms industry benchmark

The Deutsche Wohnen share rose in price by approximately 19 % in 2016, thus outperforming the EPRA Germany benchmark index. After falling to a low of EUR 21.60 at the beginning of 2016 and then reaching a high of EUR 34.83 on 15 August 2016, the Deutsche Wohnen share closed at EUR 29.84 at the end of the year (previous year: EUR 25.15).[2]

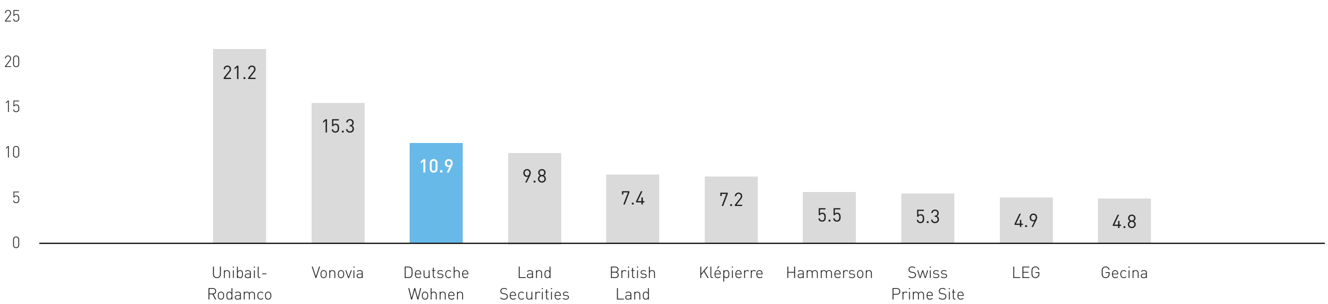
After the end of the financial year, the Deutsche Wohnen share price performed positively. On 3 March 2017, the share price at EUR 31.67 was approximately 6 % above the closing price at the end of the year.

Further rise in market capitalisation and trading volume

The market capitalisation of Deutsche Wohnen AG increased by approximately 16 % over the course of the year, amounting to approximately EUR 10.1 billion at the end of 2016, making Deutsche Wohnen AG the second largest publicly listed real estate company in Germany and the third within Europe in terms of its market capitalisation.[3]

Market capitalisation of Deutsche Wohnen AG in a Europe-wide comparison

EUR bn[1]



[1] Free-float market capitalisation EPRA analysis as at February 2017

[1] Cf. Commerzbank, Year in Review – 2016

[2] All prices for the Deutsche Wohnen shares adjusted to reflect the dividend payment in 2016

[3] On the basis of free float market capitalisation, EPRA Europe, as at February 2017

The development of the liquidity of the Deutsche Wohnen share was equally positive: The average daily Xetra trading volume increased by approximately 12 % from approximately EUR 22.7 million in 2015 to EUR 25.5 million in 2016. This further reinforced the position of the Deutsche Wohnen share on the MDAX. It ranked third among the total of 50 MDAX companies in terms of both its free-float market capitalisation and its trading volume at the end of the year.

Key figures – bearer share	**2016**	2015
Number of issued shares in m	approx. 337.5	approx. 337.4
Closing price at the end of the year[1] in EUR	29.84	25.62 (25.15)[3]
Market capitalisation in EUR bn	approx. 10.1	approx. 8.6
Highest share price during year[1] in EUR	34.83	26.08 (25.61)[3]
Lowest share price during year[1] in EUR	22.00 (21.60)[3]	19.58 (18.60)[3]
Average daily traded volume on Xetra[2]	897,346	973,008

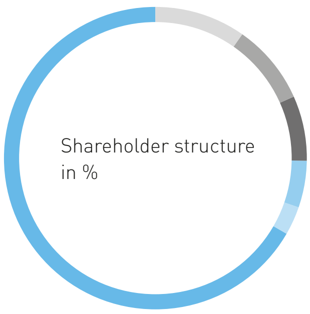
[1] Xetra closing price
[2] Traded shares adjusted
[3] Price in parenthesis adjusted to reflect any capital increases and dividend payments
Source: Bloomberg, last updated: 17/1/2017

Stable shareholder structure of Deutsche Wohnen AG

MFS, BlackRock, Norges, Vonovia and APG currently hold[4] approximately one-third of the shares of Deutsche Wohnen. The remaining two-thirds are held by domestic and foreign institutional investors and by private shareholders whose shareholdings do not exceed the statutory reporting threshold of 3 %. According to the Deutsche Börse, 93.07 % of our shares are currently in free float.[5]

Shareholders[1]

>5 %	Sun Life Financial Inc.[2]/MFS	9.94 %
	BlackRock, Inc.[2]	8.60 %
	Norges Bank (Central Bank of Norway)[2]	6.93 %
>3 %	Vonovia SE	4.99 %
	APG Asset Management N.V.[2]	3.04 %
	Total	**33.50 %**
	Others	66.50 %
	Free float according to Deutsche Börse	**93.07 %**



[1] Percentages based on most recent voting rights notification made by the specified shareholders pursuant to sec. 21 ff. of the German Securities Trading Act (WpHG). The notifications of voting rights are published on our Investor Relations website http://ir.deutsche-wohnen.com. The share of the voting rights as notified is based on the total number of voting rights at the time of notification. It is possible that the reported number of voting rights may since have changed without such change having resulted in the relevant threshold being crossed and thus triggering a new notification obligation.
[2] Attributed voting rights according to sec. 22 WpHG

[4] Last updated: 3/3/2017
[5] Deutsche Börse, December 2016

Majority of analyst evaluations positive

A total of 29 analysts are currently[6] monitoring Deutsche Wohnen AG's performance. The target price estimates for our share range from EUR 29.20 to EUR 44.40 per share. The consensus of all of the analyst estimates, at EUR 35.53, is currently[6] 19 % higher than the closing share price of EUR 29.84 at the end of 2016.

The vast majority of the analysts have assigned the Deutsche Wohnen share a positive or a neutral rating:

Rating	Number
Buy/kaufen/outperform/overweight	20
Equal weight/halten/neutral	6
Sell/underperform	2
N/A	1

Last updated: 3/3/2017

Annual General Meeting 2016 resolves in favour of a dividend of EUR 0.54

The 2016 Annual General Meeting of Deutsche Wohnen AG, at which 79.04 % of the company's share capital was represented, was held in Frankfurt/Main on 22 June 2016. The shareholders approved all of the proposed resolutions on the agenda with the requisite majority of the votes cast. The Annual General Meeting resolved almost unanimously in favour of the payment of a dividend in the amount of EUR 0.54 per bearer share for the financial year 2015, which corresponds to a total amount of approximately EUR 182.2 million and a share of the FFO I generated in 2015 of approximately 60 %. In relation to the volume-weighted average share price for 2015 of EUR 22.72 it results in a dividend yield of 2.4 %.

Expansion of wide-ranging investor relations activities

Deutsche Wohnen continued to maintain an intensive dialogue with its shareholders, with analysts and with potential investors in the financial year 2016. To this end, its Management Board and Investor Relations team attended, in particular, property tours, conferences and roadshows both within Germany and internationally. Deutsche Wohnen presented its business model at various roadshows within Europe and the US, as well as sending representatives to attend numerous conferences in locations such as New York, London, Cape Town and Amsterdam. The Investor Relations team conducted approximately 200 meetings with investors in the context of conferences and roadshows in 2016. The company intends to attend further banking conferences and roadshows in 2017, further details of which can be found on the financial calendar on 161 of our annual report, a regularly updated online version of which can 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, which are subsequently made available for download on the Investor Relations page of our website. Here our current financial reports and company presentations are also published.

For Deutsche Wohnen, Investor Relations means prompt and transparent reporting, active and regular communication with our shareholders, analysts and potential investors, and the expansion of our existing network of national and international contacts. Our Investor Relations team will continue to maintain and expand these measures in the future.

[6] Last updated: 3/3/2017

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 a few exceptions – the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board of Deutsche Wohnen AG 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 2016. In doing so, they took account of the Code of 5 May 2015, which was published in the German Federal Gazette (Bundesanzeiger) on 12 June 2015, and in December 2016, in accordance with sec. 161 of the German Stock Corporation Act (AktG), they submitted their declaration of compliance with the recommendations of the Code for the financial year 2016 and outlined in detail the position they held in the few instances of deviations from the Code. The declaration is available for inspection by shareholders and interested parties on our website at http://ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

General management structure with three bodies

Deutsche Wohnen AG, which is registered in Frankfurt/Main, is subject to the provisions of the German stock corporation law and capital market legislation and the provisions of its 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 organs 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. The age limit for members of the Management Board has been set by the Supervisory Board at the legal retirement age. The target for the proportion of women as members of the Management Board has been set at zero for the target achievement period until 30 June 2017. The selection of 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.

In the financial year 2016, the Management Board consisted, until the appointment of Mr Philip Grosse as of 1 September 2016, of two members and afterwards of three members and has a Chairperson. The work of the Management Board is governed in detail by 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 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 have been concluded for the members of the Management Board and the Supervisory Board. Since 1 July 2010, these include a deductible that meets the requirements of sec. 93 para. 2 of the German Stock Corporation Act (AktG).

The Supervisory Board advises and monitors the Management Board

The Supervisory Board consists of six members. It is not subject to any employee participation requirements. All members are elected by the Annual General Meeting as representatives of the shareholders. Their term of office is generally five years in accordance with statutory provisions 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 and sufficient gender diversity. Nevertheless, when determining the target proportion of women, the figure was, for the time being, left at the current status quo. Only persons who at the time of appointment have not yet completed their 73rd year should be proposed for election as a member of the Supervisory Board.

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 in 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 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),
  Wolfgang Clement, Dr Andreas Kretschmer

- 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 reports (quarterly and half-year) 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 recommendation of the German Corporate Governance Code.

  Members:
  Dr Andreas Kretschmer (Chairman),
  Uwe E. Flach, Dr Florian Stetter

- The **Acquisition Committee** prepares the decisions of the Supervisory Board on 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 exercise their voting rights. Each share carries one vote.

The Annual General Meeting is held annually during the first eight months of the financial year. The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the website of Deutsche Wohnen AG.

Important resolutions are passed at 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 auditors, 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 the further development of the company with them.

In order to make it easier to personally exercise their rights, Deutsche Wohnen AG 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. It is explained in the invitation to the Annual General Meeting 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 remuneration system of the Management Board is the subject of regular consultations, review and redesign in the plenary sessions of the Supervisory Board.

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

The detailed remuneration report of Deutsche Wohnen AG for the financial year 2016 can be found at http://ir.deutsche-wohnen.com/websites/deuwo/English/8460/report-on-compensation.html and on 92 to 95.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board was established by the General Meeting in sec. 6 para. 6 of the Articles of Association. Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of EUR 60,000. The Chairman of the Supervisory Board receives double the standard remuneration; the Deputy Chairman receives one and a half times the standard remuneration. Each member of the Supervisory Board's Audit Committee additionally receives lump-sum remuneration in the amount of EUR 10,000 per financial year, the Chairman of the Audit Committee double this amount. Membership in other committees of the Supervisory Board, with the exception of the Nomination Committee, is be compensated in the amount of EUR 5,000 per financial year, per member and committee. Each member of the Nomination Committee receives EUR 2,500 per meeting. Cash expenses are reimbursed. In addition, the company can, at its expense, include the members of the Supervisory Board in a D&O group insurance for executive bodies 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 sec. 93 para. 2 of the German Stock Corporation Act (AktG).

No performance-based remuneration for members of the Supervisory Board is paid. The remuneration report from 92 contains disclosure of the remuneration of the individual members of the Supervisory Board.

Directors' Dealings and shareholdings subject to mandatory disclosure

The members of the Management Board and the Supervisory Board of Deutsche Wohnen AG and their closely related parties are required in accordance with sec. 15a of the German Securities Trading Act (WpHG) (until 1 July 2016) or art. 19 of the Market Abuse Regulation (since 2 July 2016) to disclose without delay transactions in shares or securitised debt of Deutsche Wohnen AG or related financial derivatives and instruments. The company will publish these transactions immediately after they have been reported to it. In the financial year 2016, no transactions of this nature were reported to Deutsche Wohnen AG.

As at 31 December 2016, Mrs Kretschmer held 3,091 shares in Deutsche Wohnen AG. As at that date, the Supervisory Board member Dr h.c. Wolfgang Clement and his wife together held 1,000 shares. The other members of the Supervisory Board held no shares in Deutsche Wohnen AG as at 31 December 2016. The Chief Executive Officer Michael Zahn held as at 31 December 2016 26,389 shares and two natural persons who are closely associated with him held 4,000 shares in total. 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 500 shares as at 31 December 2016.

Thus, the total holdings of the aforementioned groups of individuals of shares of Deutsche Wohnen AG as at 31 December 2016 amounted to about 0.01 % of the approximately 337.5 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 AG. 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.

All business divisions and processes within Deutsche Wohnen AG 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 mandatorily to all company 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 risks.

In particular, our employees are not allowed 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 opportunity and risk management

Deutsche Wohnen AG considers it to be very important to deal responsibly with opportunities and risks. This is ensured by a comprehensive 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 AG are presented in the risk and opportunity report from 82 and the information on the consolidated accounts can be found in the notes from 106.

Committed to transparency

As part of ongoing Investor Relations activities, all events that are important to the shareholders, investors and analysts are published at the beginning of the year for the duration of each financial year in the financial calendar. The financial calendar, which is updated regularly, can also be viewed on the company's website at http://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, as well as presentations of press and analysts, conferences and roadshows are immediately available on our website.

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

Accounting

KPMG AG Wirtschaftsprüfungsgesellschaft was selected as the auditor at the Annual General Meeting 2016. KPMG AG Wirtschaftsprüfungsgesellschaft has provided an advance statement that no business, financial, personal or other relationships exist between the auditor, its executive bodies and audit leaders on the one hand, and the company or members of its executive bodies on the other, which could give rise to doubts as to its independence.

Deutsche Wohnen AG is committed to abide by the publication deadlines prescribed 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. Although these deadlines, with the exception of one interim report that was published only 46 days after the end of the period under review, were also met in the financial year 2016, due to the time needed to carefully prepare financial statements and company reports, no binding commitment can yet be given that these publication deadlines will be met.

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 of the Supervisory Board from 43.

Frankfurt/Main, March 2017

Supervisory Board   Management Board

REPORT OF THE SUPERVISORY BOARD

Uwe E. Flach
Chairman of the Supervisory Board

Dear Shareholders,

Deutsche Wohnen AG once more generated record earnings in the financial year 2016 and benefited from the persistently dynamic market environment in its Core+ and Core regions, in particular.

The consolidated profit of the Group reached a new high of EUR 1.6 billion, also due to the appreciation in the value of the portfolio. At the same time, improvements were recorded again with regard to all key figures, the Group's financing structure was optimised further and its debt ratio, at 37.7 %, could be maintained at the previous year's level as a result of its conservative financing policy.

Approximately 870 residential and commercial units and 31 nursing properties (comprising 4,600 beds) were acquired in the context of several different transactions, and approximately 4,300 residential units were sold, in the financial year. The portfolio could thus be further optimised in a targeted manner by making use of the positive market conditions.

The company's sustained success was also reflected in the positive performance of its share price and in its favourable ratings.

Trusting cooperation with the Management Board

In the financial year 2016, as in previous years, the Supervisory Board has taken great care in carrying out the duties incumbent upon it pursuant to the law, the company's Articles of Association, the German Corporate Governance Code and the rules of procedure. It has 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 the business policy, the business plan and strategy, the company's situation including the opportunities and risks, the course of the business, the risk management as well as the compliance. Discrepancies between actual and planned development 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 the risk management activities.

Meetings of the Supervisory Board

In the financial year 2016, the Supervisory Board discussed the company's current performance, individual significant events and transactions requiring its approval in 15 meetings, eight 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. In addition, resolutions relating to an acquisition were adopted on 20 July 2016 and 2 August 2016 by way of written resolution following extensive prior discussions held in plenary sessions. The average attendance rate for the meetings of the Supervisory Board was 96.7 %. In the year under review, Mr Clement, Mr Hünlein and Mr Wisser were each unable to attend one meeting; apart from these cases, all of the members of the Supervisory Board were present at all Board meetings. Furthermore, members unable to attend a meeting in some cases nonetheless took part in the adoption of resolutions by way of proxy voting.

The Supervisory Board's activities in the year under review focused on the business plan and performance of Deutsche Wohnen AG, the company's corporate strategy, planned acquisitions and the integration of acquisitions.

The performance of the segments Residential Property Management, Disposals, 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 21 January 2016** (telephone conference), the Supervisory Board addressed the matter of the takeover bid by Vonovia SE and furthermore resolved upon the amendment of the Articles of Association in light of the issuance in 2015 of shares of Deutsche Wohnen AG to external shareholders of GSW Immobilien AG.

At the **meetings held on 25, 27 and 29 January and on 7 and 9 February 2016** (all in the form of a telephone conference), the Supervisory Board addressed the matter of the current status of the takeover bid by Vonovia SE and related strategic considerations and, on 29 January in particular, the issuance of a statement in response to the amendment of the takeover bid of Vonovia SE.

At the **meeting held on 10 March 2016,** the Supervisory Board dealt mainly with the reports prepared at the meetings of the Audit Committee and the Executive Committee, the 2015 annual and consolidated financial statements and matters relating to the Management Board, in particular the determination of the Management Board bonuses for the financial year 2015. Representatives of the auditing company took part in the discussions relating to the 2015 annual financial statements, explaining items and approaches adopted in the annual financial statements of the company and the Group. Further core issues addressed related to the proposed candidate for the position of auditor of the financial statements, the proposed agenda for the Annual General Meeting, the adoption of the report of the Supervisory Board, the corporate governance report and the risk management strategy.

The focal point of the **meeting held on 9 May 2016** were the reports from the committees, the report on the company's performance in the first quarter of 2016 and the approval of the agenda and the proposals for the resolutions to be adopted at the Annual General Meeting.

The **meeting of the Supervisory Board held on 23 May 2016** centred on a discussion of strategic issues.

At the **meeting held on 22 June 2016,** the Supervisory Board addressed the composition of the Supervisory Board committees, current acquisition projects, the status of the shareholder action (domination agreement concluded with GSW Immobilien AG), the Annual General Meeting of GSW Immobilien AG on 7 July 2016 and the partnership with the Füchse Berlin handball team.

The core issues addressed at the **meeting held on 15 July 2016** (telephone conference) comprised a discussion of the acquisition project Pegasus (nursing properties) and the approval of the proposed acquisition and financing structure for the purchase.

The **meeting held on 8 August 2016** focused on reports of the committees, the discussion of the current performance of the company on the basis of the half-year report, the adoption of resolutions on matters relating to the Management Board (employment contract for and appointment of Philip Grosse as a member of the Management Board as at 1 September 2016) and the status of the shareholder action (domination agreement concluded with GSW Immobilien AG).

The focal point of the **meeting held on 30 September 2016** (telephone conference) was the handling of financing matters.

The **meeting held on 8 November 2016** focused largely on reports of the committees, the performance of the company on the basis of the report for the third quarter 2016, financing matters, current projects (dissolution of the third-party bank structure resulting from the takeover of GSW) and matters relating to the Management Board (stock option programme for Mr Grosse).

At the **meeting held on 19 December 2016,** the Supervisory Board addressed, in particular, the adoption of the business plan for 2017, acquisitions, financing matters, considerations of structural nature and the German Corporate Governance Code, and also adopted the Declaration of Compliance to be submitted jointly with the Management Board.

Efficient work in four committees of the Supervisory Board

In order to efficiently perform its duties, the Supervisory Board has formed committees, each composed of three members, and continuously evaluated their requirements and activities in the year under review.

Specifically, there existed the following four committees in the year under review:

- The Executive Committee,
- The Nomination Committee,
- The Audit Committee and
- The Acquisition Committee.

Their tasks are described in greater detail on 39 of the corporate governance report.

In principle, the resolutions of the Supervisory Board and the topics to be discussed at the Supervisory Board plenary meetings 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 rule 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 to the meetings of the Supervisory Board.

The **Executive Committee** was convened on one occasion in the year under review. The matters discussed at the meeting, which took the form of a telephone conference, involved, in particular, consultation, the adoption of resolutions and the issuance of recommendations with regard to matters relating to the Management Board (contractual matters, remuneration issues). Furthermore, a resolution was adopted on matters relating to the Management Board and corresponding recommendations issued to the Supervisory Board (employment contract for and appointment of Philip Grosse) by way of circular resolution in July 2016.

The **Nomination Committee** was convened six times in the year under review; of these meetings, three were held in the form of a telephone conference. At these meetings, proposals for the nomination of a candidate for election as a member of the Supervisory Board were prepared and submitted to Supervisory Board plenary by way of recommendation for its proposal to be put by to the Annual General Meeting, consulted on prospective succession planning with regard to the Supervisory Board and the related requirement profiles, and prepared proposals for the filling of a position on the Management Board (with the assistance of a recruitment agency during the selection process).

The **Audit Committee** met on four occasions during the year under review, at which it dealt with the relevant items of the Supervisory Board's work. These included, in particular, a preliminary examination of the annual financial statements, the consolidated financial statements and the interim reports of Deutsche Wohnen AG, and a discussion of the risk management system. It submitted its recommendation for the appointment of the auditing company for the financial year 2016 to the Supervisory Board, procured a declaration of independence from the said auditor, monitored its 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 sec. 100 para. 5 of the German Stock Corporation Act (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 project Pegasus (nursing property portfolio).

Corporate governance

The Supervisory Board subjected the further development of the company's own corporate governance standards to continuous observation and discussion. 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 38 to 42 of this annual report.

The Management Board and the Supervisory Board have discussed the requirements of the version of the German Corporate Governance Code applicable for the year under review and the implementation thereof. In December 2016, they adopted their updated joint Declaration of Compliance pursuant to sec. 161 of the German Stock Corporation Act (AktG) and made it permanently accessible to the public on the company website. The Declaration of Compliance 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 as at 31 December 2016 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, the auditing company appointed by the Annual General Meeting held on 22 June 2016 and commissioned by the Supervisory Board, which issued an unqualified audit opinion with regard thereto.

The annual financial statements of Deutsche Wohnen AG and the consolidated financial statements, the combined management report for Deutsche Wohnen AG and the Group as well as 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 23 January 2017 and 13 March 2017 ahead of the meeting of the Supervisory Board for the approval of the balance sheet. It reported on the substantial results of its 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 gave a full report to the Supervisory Board on the annual financial statements and the audit at the meeting of the Supervisory Board on 13 March 2017. In addition, the auditing company explained the main findings of its audit and was available to provide information and answers to further questions for the Supervisory Board. The Supervisory Board carefully reviewed the annual financial statements, the consolidated financial statements, the combined management report, the proposal for the utilisation of the net profit and the audit reports. There have been no objections. The Supervisory Board then approved the recommendation of the Audit Committee in accordance with the annual financial statements and consolidated financial statements as at 31 December 2016 prepared by the Management Board, thereby adopting the annual financial statements.

The adopted annual financial statements indicate 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 2017 will therefore include the adoption of a resolution on the distribution of a dividend in the amount of EUR 0.74 per share entitled to dividends.

Changes to the Supervisory Board and Management Board

Dr Florian Stetter, whose term of office ended upon the conclusion of the Annual General Meeting held on 22 June 2016, was reelected as a member of the Supervisory Board by the Annual General Meeting held on 22 June 2016.

On 8 August 2016, the Supervisory Board unanimously appointed Mr Philip Grosse as an additional member of the Management Board and as Chief Financial Officer (CFO) of the Company for a term of three years with effect from 1 September 2016. He takes responsibility for the areas of Corporate Finance, Investor Relations, Legal/Compliance and Treasury.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and the employees of Deutsche Wohnen AG and all of the Group companies for their dedicated work and provided perfomance in the financial year 2016.

Frankfurt/Main, March 2017

On behalf of the Supervisory Board

Uwe E. Flach

COMPOSITION OF THE MANAGEMENT BOARD

Michael Zahn

Chief Executive Officer (CEO)
Term of office ends on 31 December 2020

Michael Zahn has been a member of the Management Board of Deutsche Wohnen AG since 1 September 2007. In December 2008, he was appointed Chief Executive Officer, in which capacity he is responsible for the Strategy, Rental Developments & Investments, Strategic Shareholdings, Human Resources, Corporate Communication and Marketing departments.

Michael Zahn received his degree in Economics from the Albert-Ludwig-University in Freiburg im Breisgau in 1992. He completed the postgraduate courses of study Corporate Real Estate Manager and Chartered Surveyor 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. He then became a member of the Management Board of Deutsche Wohnen AG on 1 September 2007 in the wake of the latter's merger with the GEHAG Group.

Lars Wittan

Member of the Management Board (CIO)
Term of office ends on 30 September 2019

Lars Wittan assumed office as a member of the Management Board of Deutsche Wohnen AG on 1 October 2011. In his capacity as Chief Investment Officer, he is responsible for the Asset Management, Accounting, Taxation, Controlling, Risk Management and IT/Organisation departments.

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 a holder of a special statutory authority (Prokurist) 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.

Philip Grosse

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

Philip Grosse was appointed a member of the Management Board and Chief Financial Officer of Deutsche Wohnen AG on 1 September 2016. He is responsible for the Corporate Finance, Treasury, Investor Relations and Legal/Compliance departments.

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.

Status March 2017

COMPOSITION OF THE SUPERVISORY BOARD

Uwe E. Flach

Chairman
Frankfurt/Main

Company consultant,
Frankfurt/Main

Appointed until 2018

Supervisory board/committee memberships (external mandates):

- OFFICEFIRST Immobilien AG, Bonn (Chairman of the Supervisory Board since 26/9/2016)
- DZ Bank AG, Frankfurt/Main (Member of the Advisory Board until 27/4/2016)
- metabo Aktiengesellschaft, Nürtingen (Member of the Supervisory Board until 1/3/2016)

Matthias Hünlein

Oberursel

Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main

Appointed until 2020

Supervisory board/committee memberships (external mandates):

- None

Dr rer. pol. A. Kretschmer

Deputy Chairman
Dusseldorf

Managing Director of Pension Fund for Medical Practitioners of Westphalia-Lippe Einrichtung der Ärztekammer Westfalen-Lippe – KöR –, Münster

Appointed until 2020

Supervisory board/committee memberships (external mandates):

- BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board)
- Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board)

Dr Florian Stetter

Erding

Chief Executive Officer Rockhedge Asset Management AG, Krefeld

Appointed until 2021

Supervisory board/committee memberships (external mandates):

- CalCon Deutschland AG, Munich (Member of the Supervisory Board)
- ENOVO s.r.o., Slovak Republic (Managing Partner)

Dr h.c. Wolfgang Clement

Bonn

Publicist and company consultant
former Bundesminister (Federal Minister)
former Ministerpräsident (State Prime), Bonn

Appointed until 2017

Supervisory board/committee memberships (external mandates):

- Daldrup & Söhne AG, Grünwald (Chairman of the Supervisory Board)
- DIS Deutscher Industrie Service AG, Dusseldorf (Member of the Supervisory Board until 15/6/2016)
- 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)
- RWE Power AG, Essen (Member of the Supervisory Board until 15/6/2016)

Claus Wisser

Frankfurt/Main

Managing Director of Claus Wisser Vermögensverwaltungs GmbH, Frankfurt/Main

Appointed until 2019

Supervisory board/committee memberships (external mandates):

- AVECO Holding AG, Frankfurt/Main (Chairman of the Supervisory Board)

Status March 2017

COMBINED MANAGEMENT REPORT

FUNDAMENTALS OF THE GROUP

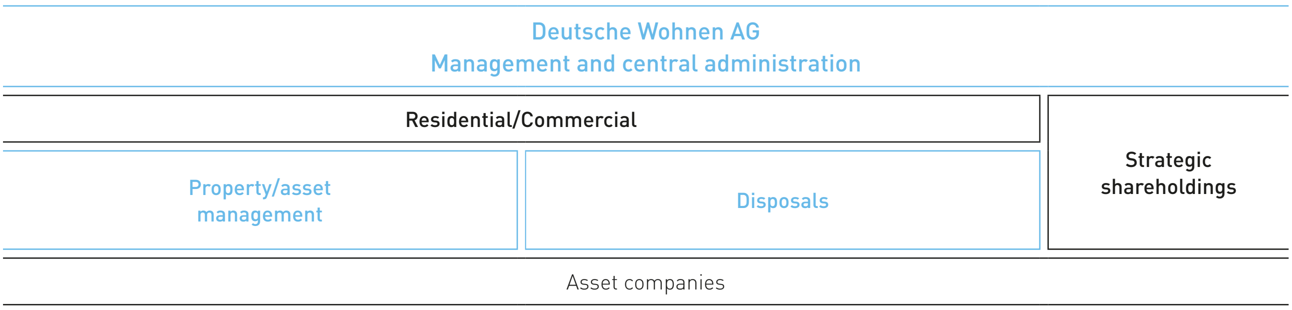
Business model of the Group

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

Its property holdings comprise more than 160,000 residential and commercial units, with a total fair value of approximately EUR 15.7 billion[1]. Our portfolio also includes nursing care facilities with approximately 6,700[2] beds and assisted living apartments. Our investment focus is on residential properties in German metropolitan areas and conurbations. The growth of the economy, positive migration figures and an insufficient level of new construction activity in German metropolitan areas provide a strong basis for a further rise in rents and thus also an increase in the value of our portfolio. We see the expansion of our nursing and commercial property portfolio as a further growth area, particularly in light of demographic trends.

Organisation and Group structure

In organisational terms, we draw a distinction between management and asset companies. Management companies are allocated to the respective business segments – with Deutsche Wohnen AG 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. All activities relating to the management and administration of residential property, the management of rental contracts and tenant support are consolidated within Deutsche Wohnen Management GmbH (DWM), Deutsche Wohnen Immobilien Management GmbH (DWI) and Deutsche Wohnen Kundenservice GmbH (DWKS), while Deutsche Wohnen Construction and Facilities GmbH (DWCF) is responsible for the technical maintenance and development of our holdings, including new-build properties.

Asset management

The asset management segment is responsible for the company's portfolio strategy, the valuation of its property holdings and its acquisition activities, and undertakes the strategic orientation and valuation of our portfolio. Potential is identified on the basis of continuous analysis, and the company's property holdings are allocated to the strategic core and growth regions and the Non-Core regions. The operational fields of activity "Operate", "Develop" and "Dispose" are derive from these three categories.

[1] Excluding advance payments, properties under construction and undeveloped land
[2] Of which, 4,132 beds had been transferred to Deutsche Wohnen AG as at 1 January 2017

Properties in particularly promising locations whose fixtures and fittings and condition are of below-average standard are allocated to the "Develop" cluster. In November 2016, Deutsche Wohnen approved an investment programme totalling just under EUR 1.5 billion on the basis of this portfolio analysis. By 2021, approximately EUR 1 billion of this amount is to be invested in existing holdings. With targeted modernisation and maintenance measures the quality of our investment portfolio will be improved significantly and thus the potential for the creation of value increased. In addition, existing spaces will be used in a more efficient manner in the context of new construction projects. These investments will have a major role to play in our internal growth over the coming years.

Disposals

The disposal of properties is managed by Deutsche Wohnen Corporate Real Estate GmbH. We continuously release capital, especially in the privatisation context in our strategic core and growth regions, and thereby strengthen our internal financing capacity. Opportunistic disposals 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.

Strategic shareholdings and property-related services

In addition to its core business activities, Deutsche Wohnen also operates within strategic shareholdings.

Nursing and assisted living: Under the brand KATHARINENHOF® and on the basis of a participation model, we manage retirement and nursing homes for senior citizens, which 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 CO_2 emissions and energy costs. At the same time, G+D is responsible for energy procurement and distribution for our holdings. As a result, economies of scale have made it possible to reduce procurement costs for gas by 10%. G+D is now also successfully supplying third-party customers in the market.

Technical facility management: Deutsche Wohnen coordinates its procurement of materials, products and services through B&O Deutsche Services GmbH – a joint venture with B&O Service und Messtechnik AG – within the scope of its technical facility management, an arrangement which enables both shareholders to benefit from economies of scale at a national level. The company also provides operational services in the context of technical facility management. This alliance, which is established under company 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 positive impact on our core operating business.

Multimedia: The multimedia business of Deutsche Wohnen relates to the area of operation of its wholly owned subsidiary Deutsche Wohnen Multimedia Netz GmbH. By means of investments both in the expansion of the cable network and in the glass fibre optic infrastructure the property holdings are upgraded in a forward-looking way and at the same time the Group enlarges its value creation chain accordingly.

Group strategy

Deutsche Wohnen AG operates as an active portfolio manager focusing on residential property and with a clear orientation towards German metropolitan areas; approximately 85% of our properties in terms of numbers are located in these Core⁺ regions. These markets are centres of high residential density, characterised by the dynamic development of economic parameters such as economic strength, income, migration, innovative capacity and competitiveness. 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 metropolitan areas and the efficiency of our real estate platform with highly-trained and qualified employees, we consider ourselves to be ideally placed in the market to benefit to the optimum degree from the growth in German metropolitan areas and to bring about a sustained increase in the value of our holdings.

Targeted investments in our property holdings are of major importance for organic growth. The current investment programme in the amount of EUR 1.5 billion is aimed at significantly improving the quality of the portfolio as a means of realising existing value potential.

Besides organic growth we focus on value-creating acquisitions as far as they suit our portfolio strategy. Deutsche Wohnen has repeatedly demonstrated its competence in the past in the context of the acquisition and integration of portfolios, and, in so doing, achieved its related goals in both quantitative and qualitative terms. As a result of the successful integration of acquired property holdings, we have generated considerable economies of scale and strengthened Deutsche Wohnen's position as one of Germany's most efficient residential property companies. Deutsche Wohnen intends to maintain its value-enhancing and focused growth in the future by means of the selective acquisition of further property portfolios, in both the residential property and the nursing and assisted living segments. Furthermore, we will continue to systematically expand our range of property-related services.

Our competitive advantages

We will further maintain our strong market position by focusing on the pursuit of a sustainable growth strategy.

Focus
We have been pursuing a well-defined investment strategy since 2008, with our portfolio focusing primarily on growth markets. Today, approximately 98 % of our portfolio is located in major cities and conurbations within Germany, and 70 % of our overall holdings in Greater Berlin alone. Our focus on business areas and regions which are undergoing particularly promising developments in demographic terms fosters stability while providing excellent opportunities for future growth.

Quality and efficiency
By concentrating our holdings on selected locations, we achieve considerable economies of scale in the area of procurement and management. This makes us one of the most efficient companies in the German residential property sector. Our costs in relation arising from vacancies and payment defaults are consistently low.

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

In order to maintain the consistently high quality and efficiency of our organisational structures and work processes, we ensure that our own employees have the necessary core competencies with regard to the management and development of our property portfolio.

Flexibility
The properties are mainly held by property companies, while the core processes concerning property management are carried out by wholly owned subsidiaries. We use strategic shareholdings to gain access to additional lucrative areas of business that relate to our property. Our focus on selected professional partners and the pooling of services places us in a position to use economies of scale, and additionally accords us the maximum degree of transparency as well as insight into the relevant markets, which in turn helps us ensure the quality of our operations and the transfer of knowledge in the business area in question. This enables us to act opportunistically and flexibly, yet without diverting our focus away from our primary business.

Capital market viability/financing
Our successful growth trajectory in recent years has further strengthened our position in the capital markets. 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 competitive advantages

Our dividend policy is restrained and sustainable and ensures that the company retains the necessary means for maintaining and increasing the value of its portfolio.

We further improved our financing and capital structure over the course of the financial year, thereby reinforcing our competitive advantage. Deutsche Wohnen's ratings have also been raised accordingly, to 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 responding to the future opportunities and risks presented by global challenges and are taking on responsibility for environmental and social issues and for our employees. We want to assume a leadership role and to promote transparency and comparability with regard to 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, investing considerable amounts in our holdings and proactively implementing modernisation and maintenance measures, in considerations such as energy efficiency and the use of high-quality, and thus more durable, materials playing a significant role in this regard, in line with our emphasis on taking a far-sighted approach in our investments in quality assurance.

With regard to the strategic orientation of our portfolio, we refer to the statements contained in the "Property portfolio" section starting on 56 of this annual report.

Sustainability management and control

Our self-image as a sustainably run company is embodied in our sustainability strategy. Our growth is primarily characterised by quality for our stakeholders and efficiency in our processes, and is achieved in keeping with the objectives of sustainable development. To this end, we maintain a corporate culture that features the essential cornerstones of authenticity, transparency and ethical conduct. Sustainability is a component of our Group strategy and as such is an integral part of our daily workflow.

Since as early as 2013, we have been providing information on our activities in connection with sustainable development and on economic, ecological and social indicators in our reports, which are prepared in accordance with the international standards of the Global Reporting Initiative (GRI). We have furthermore committed ourselves to upholding the German Sustainability Code (Deutscher Nachhaltigkeitskodex – DNK) and are in compliance with the supplementary requirements of the code that specifically apply to the housing industry.

This has resulted in six overriding fields of activity for our sustainability management and reporting endeavours, the content of which was evaluated in the context of a materiality analysis, including a survey of our external shareholders, conducted at the end of 2015:

Responsible corporate management
Both our stakeholders and Deutsche Wohnen's senior executives consider long-term economic stability to be an important issue. This is reflected in our pursuit of a targeted and value-enhancing portfolio strategy and the efficiency of our corporate structure. In addition, transparency and dialogue with our stakeholders, together with a clearly defined corporate vision and strategy with regard to sustainability, are among the five most important issues that arose from our materiality analysis.

Responsibility for our property holdings and sustainable new construction
Regular maintenance and modernisation of our properties is one of the most important issues addressed by Deutsche Wohnen. We are gradually raising the quality of our portfolio through targeted investments. We provide our tenants with high-quality service and inform them in good time and in detail of any upcoming projects.

We are meeting the growing need for housing in conurbations by taking measures to build new housing on the basis of existing land reserves and having regard to sustainability criteria.

Responsibility for employees
We strive to be a good employer offering attractive prospects for development and career advancement. It is particularly because of this that our employees consider the provision of professional training and continuing education to be the most important employee-related issue. The promotion of work-life balance and family-friendly working conditions, diversity and equality of opportunity, as well as transparent structures and rights of co-determination, are all likewise seen as prerequisites for the recruitment and retention of qualified and skilled personnel. We formulate our human resources management measures having regard to these considerations and the outcome of the annual employee interviews.

Environmental and climate protection
Deutsche Wohnen intends to contribute towards the attainment of national environmental protection objectives by implementing targeted measures in its own holdings. The modernisation of our properties with a view to energy conservation and an innovative approach to the generation of heat and energy were also among the most relevant issues in the context of our materiality analysis. We take sustainability considerations into account in selecting our suppliers and the materials for our maintenance, modernisation and new-build activities.

Social responsibility
For those surveyed, social commitment was primarily understood to mean that we take considerable responsibility for the development of residential districts. The conservation of historic buildings and monuments – an area in which Deutsche Wohnen is already a pioneer – forms the second focal point of our activities in the area of social responsibility. Here we attach particular importance to maintaining cultural identity.

Responsible nursing and assisted living
By offering high-quality nursing and assisted living, we want to create attractive accommodation for elderly people. In order to achieve this, we are working on and with innovative forms of therapy. Furthermore, our facilities are perceived as centres of cultural togetherness.

We are striving to incorporate these key ideas into our business strategy and processes and, in so doing, to create value for our stakeholders.

Group control

The management of the company extends across several levels:

At the **holding level,** all earnings and payment flows are aggregated and evaluated on the basis of the primary key performance indicators FFO I (Funds from Operations before disposals), NAV (Net Asset Value) and LTV (Loan to Value) on a quarterly basis. Segment management is undertaken using the primary key performance indicator segment earnings. All of the primary key performance indicators 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 review of Deutsche Wohnen's competitive environment.

Furthermore, operational segment management is undertaken using additional segment-specific key performance indicators:

In the **Residential Property Management segment,** changes in the rent per sqm and the vacancy rate, differentiated in accordance with defined portfolios and/or regions, are the parameters for management. This also includes 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 to realise the potential for rent increases, while controlling changes in expenses and thus constantly improving the operating results.

The **Disposals segment** is managed by monitoring the disposal prices per sqm and the margin as the difference between the carrying amount and the disposal 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,** we primarily generate internal growth by increasing nursing care charges and occupancy rates in full in-patient nursing care facilities. The assessment of operating profitability in the context of nursing property management additionally takes EBITDA before rental income into account. These parameters are likewise analysed by management on a monthly basis.

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

Considerable importance is attached to financing expenses in this context, because of this item's significant impact on Group earnings and cash flow performance. Active and ongoing management of the loan portfolio aims at the optimisation of 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 operating 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 the FFO I, which is essentially adjusted upwards or downwards to reflect one-off items, financing expenses or income having an effect on liquidity, and tax expenses or income.

With the help of regular reports, the Management Board and specialist departments are able to evaluate the economic development of the Group in a timely manner, and compare the figures with those of the previous month and year, and with those planned. In addition, the anticipated development of the Group is determined on the basis of an updated budget. In this manner, opportunities as well as negative trends can be identified at short notice and corresponding measures can be taken to make use of or counteract these opportunities or trends.

Property portfolio

Overview of portfolio and portfolio strategy

Deutsche Wohnen manages one of the largest property portfolios in Germany, comprising approximately 158,000 residential and just fewer than 2,200 commercial units (approximately 3% of its overall floor space) and generating annualised yearly rent in the amount of EUR 719 million. Our activities in this regard are focused on high-growth conurbations and metropolitan areas – so-called Core+ regions –, in which 85% of our residential units are currently located. A further 12% of our residential holdings are located in stable Core regions. At the end of 2016, the average in-place rent amounted to EUR 6.10 per sqm, with an average vacancy rate of 1.8%. In 2016, Deutsche Wohnen entered into purchase agreements for properties valued at approximately EUR 600 million; of this amount, just under EUR 500 million was attributable to nursing properties and a little more than EUR 100 million to residential properties.

In line with our focused portfolio strategy, our holdings are largely concentrated within eight regions. Our core market is the Greater Berlin region, in which approximately 111,000 residential units and approximately 1,500 commercial units, or approximately 70% of our total portfolio, are located.

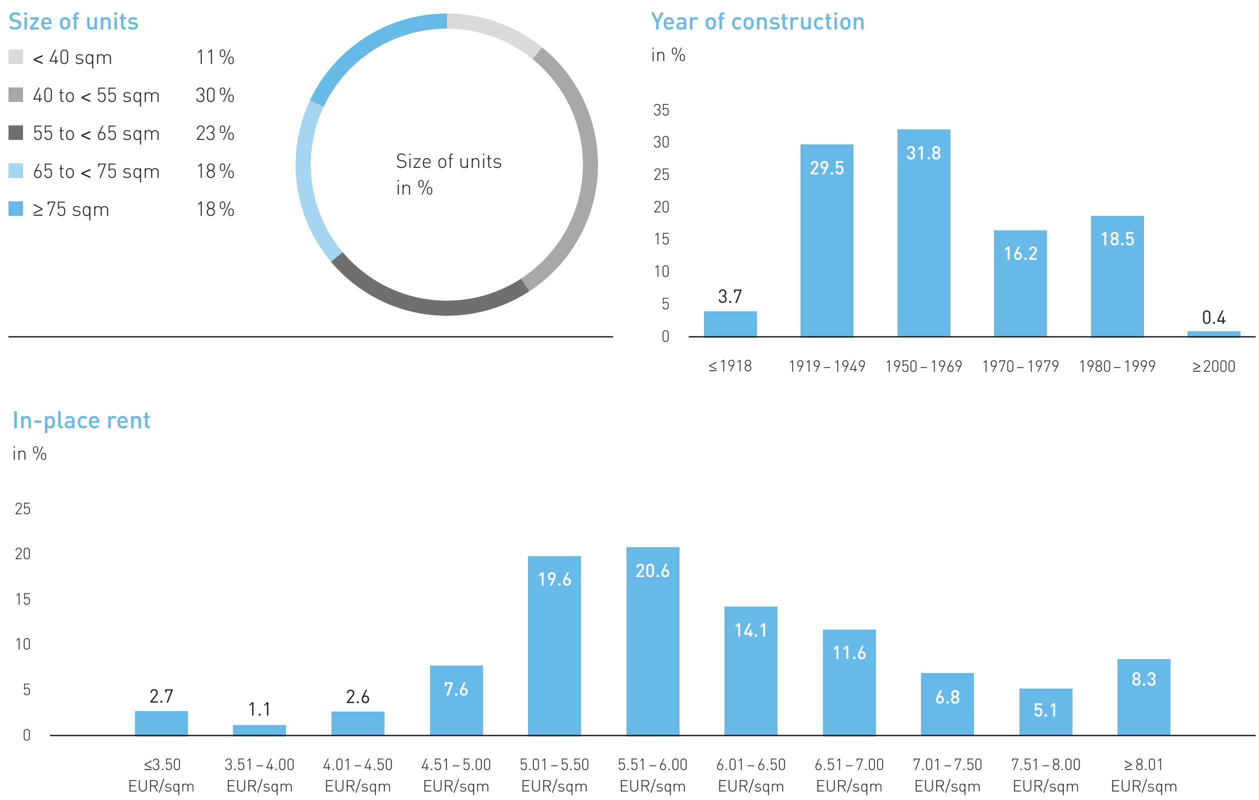
The starting point for our portfolio management activities is the segmentation of our property holdings. We undertake the clustering of our holdings in Core+, Core and Non-Core markets on the basis of a macro-analysis, using a scoring model which evaluates the attractiveness and prospects for future development of the locations, having regard to macroeconomic, sociodemographic and property-specific data, for example changes in population and number of households, local job markets, purchasing power and infrastructure data.

	31/12/2016							
	Residential units	Area	Share of total portfolio	In-place rent[1]	Vacancy	Rent potential[2]	Commercial units	Area
Property portfolio	number	sqm k	in %	EUR/sqm	in %	in %	number	sqm k
Strategic core and growth regions	**154,144**	**9,241**	**97.6**	**6.12**	**1.7**	**22.1**	**2,116**	**289**
Core+	134,820	8,048	85.3	6.20	1.7	24.9	1,885	253
Greater Berlin	110,673	6,567	70.1	6.10	1.6	24.4	1,526	185
Rhine-Main	9,625	579	6.1	7.42	2.3	24.8	141	30
Mannheim/Ludwigshafen	4,950	306	3.1	5.74	1.6	26.5	42	12
Rhineland	5,013	313	3.2	6.15	0.9	22.7	28	4
Dresden	3,152	201	2.0	5.40	2.6	17.6	90	15
Other Core+	1,407	81	0.9	9.73	0.2	14.8	58	6
Core	19,324	1,194	12.2	5.58	1.8	12.5	231	37
Hanover/Brunswick	9,146	590	5.8	5.67	1.7	19.3	96	15
Core cities East Germany	5,223	310	3.3	5.44	2.1	6.6	114	19
Kiel/Lübeck	4,955	294	3.1	5.54	1.6	11.4	21	3
Non-Core	**3,832**	**246**	**2.4**	**5.23**	**5.1**	**3.1**	**68**	**14**
Total	157,976	9,487	100.0	6.10	1.8	21.9	2,184	303

[1] Contractually owed rent for rented residential units divided by rental area
[2] New-letting rent for properties in the letting portfolio in comparison to the in-place rent for properties in the letting portfolio

The following chart provides an overview of the structure of key portfolio characteristics.

Overview of holdings
Residential units by:



In addition, we use a mirco-analysis to allocate our locations to one of three categories of site quality, on the basis of a micro-analysis: Hotspot, Growth and Stable. This classification according to micro-site will depend on the rental and price structures in place at the location of the individual property in question.

Hotspot sites are locations experiencing dynamic growth and providing the greatest potential for further growth. Growth sites are growing continuously, albeit at a less dynamic pace. Stable sites exhibit merely moderate growth.

Property portfolio according to location/micro-cluster

		31/12/2016						
		Residential units	Share of fair value	Fair value	Factor ACTUAL	Vacancy	In-place rent	Rent potential[1]
Cluster	Micro-site	number	in %	EUR/sqm		in %	EUR/sqm	in %
Core+		**134,820**	**87.5**	**1,693**	**22.7**	**1.7**	**6.20**	**30**
	Hotspot	37,270	27.6	2,028	25.4	2.2	6.64	41
	Growth	62,029	38.6	1,641	21.7	1.5	6.28	28
	Stable	35,521	21.3	1,444	21.2	1.3	5.66	23
Core		**19,324**	**10.4**	**996**	**14.9**	**1.8**	**5.58**	**17**
	Hotspot	415	0.4	1,279	16.4	4.4	6.87	70
	Growth	9,172	4.5	1,054	15.4	1.5	5.72	13
	Stable	9,737	5.5	931	14.3	1.9	5.41	9
Non-Core		**3,832**	**2.1**	**716**	**11.8**	**5.1**	**5.23**	**7**
Total		157,976	100.0	1,580	21.5	1.8	6.10	28

[1] Source: CBRE

By way of a further step, we develop appropriate investment strategies on the basis of the micro-analysis, subjecting the major performance indicators, technical condition and location of the individual properties to a scoring process and allocating the holdings to one of the following fields of activity: "Operate", "Develop" and "Dispose".

Our activities with regard to "Operate" holdings focus on new lettings and the realisation of rent potentials in line with market rents. The "Operate" holdings constitute – with a share of 77 % – the bulk of our portfolio. Properties whose fixtures and fittings and condition are of below-average standard and that are located in particularly promising locations are assigned to the "Develop" cluster (share of total portfolio: 18 %). We will be investing to a greater extent in comprehensive modernisation measures for these properties in the next few years, with a view to raising their current value potential.

The properties in the "Dispose" segment 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 make use of market opportunities.

		31/12/2016				
		Residential units	Share of area	Vacancy	In-place rent	Rent potential[1]
Cluster	Micro-site	number	in %	in %	EUR/sqm	in %
Core+		**134,820**	**84.9**	**1.7**	**6.20**	**30**
	Operate	101,006	65.1	1.3	6.17	28
	Develop	29,677	17.1	2.2	6.15	37
	Dispose	4,137	2.7	6.0	7.24	36
Core		**19,324**	**12.6**	**1.8**	**5.58**	**17**
	Operate	18,009	11.6	1.7	5.58	16
	Develop	922	0.7	2.5	5.42	24
	Dispose	393	0.3	2.0	5.94	8
Non-Core		**3,832**	**2.5**	**5.1**	**5.23**	**7**
Total		157,976	100.0	1.8	6.10	28

[1] Source: CBRE

Portfolio development

Acquisitions

In 2016, we contractually secured approximately 870 residential and commercial units, predominantly located in Core+ markets, for a total purchase price of approximately EUR 130 million. Most of these units are located in Dresden, Leipzig and Berlin.

Disposals

In the disposals context, we were able to make use of the ongoing high demand for properties, with sales of approximately 4,300 residential units (1,200 as part of our privatisation activities, and 3,100 by way of institutional disposals) involving a transfer of risks and rewards in the past financial year. The sales margin with regard to our privatisation activities remained high at just under 40 %.

Our opportunistic block sale activities included the disposal of a portfolio comprising approximately 900 residential units from among the holdings of GSW in Berlin which, according to an analysis conducted by us, were among the company's less promising residential units in terms of their condition and mircro-site, as well as a portfolio comprising 670 residential units in Merseburg, with the latter disposal reducing the number of our holdings in Non-Core regions to under 4,000 residential units. Both of these disposals were undertaken by way of systematically using the positive market situation prevailing at the time. The transfer of risks and rewards was effected in the first and third quarters of 2016, respectively.

Further details of our segment Earnings from Disposals can be found on 69 and 70 of the combined management report.

Operational development

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

		31/12/2016	31/12/2015		31/12/2016	31/12/2015
	Residential units	In-place rent[1]		Development	Vacancy	
Like-for-like	number	EUR/sqm		in %	in %	
Total	**142,034**	**6.09**	**5.91**	**2.9**	**1.7**	**1.6**
Letting portfolio[2]	137,185	6.11	5.93	3.0	1.5	1.4
Core+	**123,353**	**6.17**	**5.98**	**3.2**	**1.4**	**1.4**
Greater Berlin	103,011	6.11	5.90	3.5	1.5	1.5
Rhine-Main	8,455	7.51	7.35	2.2	1.9	0.8
Mannheim/Ludwigshafen	4,762	5.74	5.68	1.0	0.9	0.7
Rhineland	4,477	6.02	5.88	2.5	0.8	0.4
Dresden	2,648	5.32	5.18	2.6	1.8	1.9
Core	**13,832**	**5.57**	**5.50**	**1.4**	**1.7**	**1.9**
Hanover/Brunswick	8,100	5.64	5.57	1.3	1.4	1.6
Core cities East Germany	4,604	5.46	5.39	1.3	2.0	2.3
Kiel/Lübeck	1,128	5.48	5.38	2.0	3.0	2.1

[1] Contractually owed rent for rented residential units divided by rental area
[2] Excluding holdings for disposal and Non-Core

At 3.0%, like-for-like rental growth for the properties in our letting portfolio located in strategic core and growth regions was lower than in the previous year because the rent index for Berlin enabled an above-average increase in rents in 2015. The total portfolio realised annualised rent increases in the amount of EUR 18.9 million in the reporting year (previous year: EUR 21.5 million). For the total portfolio, the like-for-like rental growth amounted to 2.9% as well. We expect rental growth to reach approximately 3.5% over the course of 2017.

The vacancy rate for our letting portfolio remained very low at 1.5% on a like-for-like comparison (previous year: 1.4%).

In 2016, the new-letting rent for the letting portfolio was approximately 22% higher than the in-place rent as at the reporting date.

	31/12/2016			31/12/2015
	New-letting rent[1]	In-place rent[2]	Rent potential[3]	Rent potential[3]
Residential	EUR/sqm	EUR/sqm	in %	in %
Strategic core and growth regions (letting portfolio)	**7.48**	**6.12**	**22.1**	**–**
Core+	**7.75**	**6.21**	**24.9**	**21.2**
Greater Berlin	7.60	6.11	24.4	19.0
Rhine-Main	9.35	7.49	24.8	28.8
Mannheim/Ludwigshafen	7.26	5.74	26.5	20.2
Rhineland	7.53	6.14	22.7	22.7
Dresden	6.36	5.41	17.6	20.2
Other Core+	11.25	9.80	14.8	–
Core	**6.27**	**5.57**	**12.5**	**–**

[1] Contractually owed rent from newly concluded rental agreements in non-rent restricted holdings, which became effective in 2016
[2] Contractually owed rent for rented residential units divided by rental area
[3] New-letting rent for properties in the letting portfolio in comparison to the in-place rent for properties in the letting portfolio

Portfolio investments

We invested approximately EUR 244.5 million, or approximately EUR 25 per sqm (previous year: approximately EUR 20 per sqm), in maintenance and modernisation in the financial year 2016, with just under EUR 95 million, or a little less than half of this amount, being attributable to maintenance expenses and a little more than half to modernisation expenses. Due to the complexities involved in budgeting for major projects spanning a number of years, our modernisation expenses are subject to fluctuation from one year to the next.

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	2016	2015
Maintenance	**94.5**	**86.1**
in EUR/sqm	9.63[1]	9.45[1]
Modernisation	**150.0**	**96.0**
in EUR/sqm	15.29[1]	10.53[1]

[1] Taking into account the average floor space on a quarterly basis in the relevant period

Considerable investment in our holdings is needed if we are to further enhance the quality of the portfolio. As a result, we will be focusing to an even greater degree on such investments in the quality of our existing properties in the future. Consequently, we have increased the amount of our modernisation programme from EUR 400 million to approximately EUR 1 billion with a view to funding the extensive refurbishment and modernisation of approximately 30,000 units by 2021.

The holdings in our investment portfolio, which have been selected on the basis of a comprehensive analysis of our properties, are predominantly located in Core+ regions (96%), specifically on attractive hotspot and growth sites (>90%) exhibiting above-average development potential.

Deutsche Wohnen believes itself to be ideally placed to raise the quality of its holdings through the implementation of its enhanced modernisation programme and to generate additional potential for the creation of value.

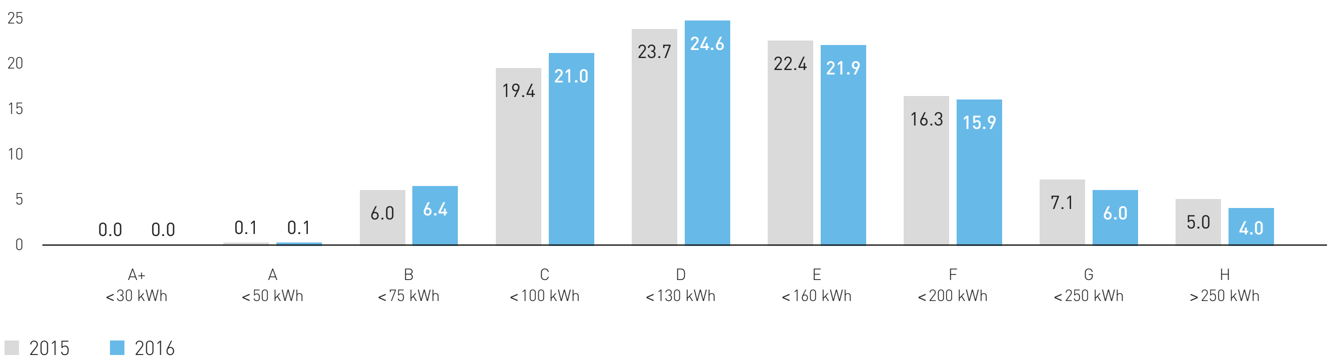
Energy efficiency of holdings

We strive to achieve a high degree of energy efficiency in our properties. The consumption levels of around 74% (previous year: 71.6%) of our residential units are lower than the average for residential buildings in Germany (160 kWh/sqm per year[1]) while those of approximately 28% of our residential units are below 100 kWh/sqm per year (A+ to C). The average consumption of our holdings amounted to 135.1 kWh/sqm per year, having once again fallen as compared to the previous year (2015: 139.1 kWh/sqm).

Our implementation of extensive modernisation measures with regard to our holdings contributed to this positive result. For example, we invested EUR 10 million in refurbishment work with a view to energy conservation in the context of four modernisation projects involving a total of approximately 2,000 residential units, ultimately lowering the final energy requirements by a little more than 20% on average to 117 kWh/sqm per year and thus realising energy savings in the amount of approximately 4 million kWh per year. By way of illustration: In the case of the use of natural gas, the improvement in energy efficiency represents a saving of approximately 1,000 tonnes of CO_2 per year.

Energy intensity of residential units

Summary of the energy efficiency categories[1] according to final energy requirements in kWh per year
in %



[1] In the absence of a clear specification of the form of heating used, deviations of around 20 kWh in the final energy requirement are possible. A categorisation according to energy efficiency, therefore, has only been made with loose reference to the German Energy Saving Ordinance (Energieeinsparverordnung – 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.

[1] The Energy Performance Certificate: Specifications for Residential Buildings (Der Energieausweis: Steckbrief für Wohngebäude), @ https://www.verbraucherzentrale.de/Der-Energieausweis-Steckbrief-fuer-Wohngebaeude-4, accessed on: 20/2/2017. Average figures take account of energy requirements for heating and generation of hot water

Portfolio valuation

Demand on the part of domestic and foreign real estate investors for larger residential portfolios remained high in 2016, in the face of a meagre supply of such properties. This excess in demand and the ongoing positive developments with regard to rent prices and vacancy rates on the German residential property market are reflected in an appreciation in the value of our property portfolio according to IAS 40 in the total amount of approximately EUR 2.7 billion as at the reporting date, with the lion's share of this appreciation in value being attributable to the adjustment of the discount and capitalisation rates to account for the positive developments in prices/market performance. The valuation result was confirmed by an external report from CB Richard Ellis GmbH.

The following overview indicates significant key valuation figures concerning our property holdings as at 31 December 2016:

	31/12/2016			
Fair value	Fair value EUR m	Fair value EUR/sqm	Multiple in-place rent	Multiple market rent
Strategic core and growth regions	**15,280**	**1,603**	**21.7**	**17.8**
Core+	14,054	1,693	22.7	18.3
Greater Berlin	11,738	1,738	23.7	18.9
Rhine-Main	1,077	1,769	19.9	16.1
Mannheim/Ludwigshafen	389	1,226	15.8	14.1
Rhineland	335	1,051	15.2	13.2
Dresden	271	1,250	19.1	16.1
Other Core+	244	2,817	23.5	20.4
Core	1,226	996	14.9	13.4
Hanover/Brunswick	595	983	14.5	12.4
Kiel/Lübeck	316	1,066	15.9	14.1
Core cities East Germany	315	957	14.8	14.9
Non-Core	**186**	**716**	**11.8**	**10.1**
Total	15,465	1,580	21.5	17.6

The most significant appreciation in value, amounting to just under EUR 2.5 billion, related to the Core+ segment, first and foremost Greater Berlin with approximately EUR 2.4 billion and then the Rhine-Main region with approximately EUR 110 million. However, the positive performance of our Core locations also enabled us to record an appreciation in value in the amount of approximately EUR 60 million, and we believe that these could potentially gain ground in the future.

	31/12/2016		31/12/2015	
Fair value	Fair value EUR m	Multiple in-place rent	Fair value EUR m	Multiple in-place rent
Strategic core and growth regions	**15,280**	**21.7**	**11,591**	**18.2**
Core+	14,054	22.7	10,697	18.7
Core	1,226	14.9	894	13.6
Non-Core	**186**	**11.8**	**130**	**12.0**
Total	15,465	21.5	**11,721**	**18.1**

Nursing properties

In addition to its residential and commercial units, Deutsche Wohnen also owns 50 nursing properties with a total of approximately 6,700 beds, 4,100 of which were acquired through its purchase of a nursing property portfolio in the second half of 2016. The residential nursing home facilities, which are mainly located in western Germany, have been leased to reputable operators on a long-term basis. The transfer of risks and rewards was effected on 1 January 2017. We also acquired three nursing care facilities in Hamburg with a total of approximately 500 beds in the fourth quarter of the year, with the transfer of risks and rewards being effected as at 31 December 2016.

We have adopted two different models with regard to the operation of our nursing case business: on the one hand, combined ownership of the properties in question and operational management of the nursing care facilities via a shareholder structure involving KATHARINENHOF®; on the other hand, ownership of properties which are managed by a number of external operators.

The nursing care segment involving the management of our properties by external operators is in contrast to our owner-operated business characterised by the stipulated amounts of rental income and the weighted average lease terms (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 our KATHARINENHOF® platform.

In view of 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 to at most 15 % of the Group's EBITDA.

Nursing care business: Property and operations

Owner-operated

	2016					
		Number of places				
	Facilities	Nursing care	Assisted living	Total	Occupancy rate	Fair value 31/12/2016
Federal state	number	number	number	number	in %	EUR m
Berlin region	12	1,072	370	1,442	98.2	
Hamburg (acquisition)	3	334	158	492	89.0	
Saxony	7	436	39	475	99.8	
Lower Saxony	1	131	–	131	98.7	
Total owner-operated business	**23**	**1,973**	**567**	**2,540**	**96.8**	**244.0**[1]

[1] Refers to 22 facilities

Pegasus acquisition: Acquisition of properties excluding operations

Various external operators

		Number of places				
	Facilities	Nursing care	Assisted living	Total	WALT	Net purchase price
Federal state	number	number	number	number		EUR m
Bavaria	7	999	–	999	12.4	
North Rhine-Westphalia	5	721	187	908	13.7	
Lower Saxony	4	661	–	661	11.2	
Rhineland-Palatinate	4	409	208	617	13.4	
Baden-Wuerttemberg	5	557	16	573	13.9	
Other	3	374	–	374	10.1	
Total external operators	**28**	**3,721**	**411**	**4,132**	**12.7**	**420.5**
Total nursing	51	5,694	978	6,672		664.5

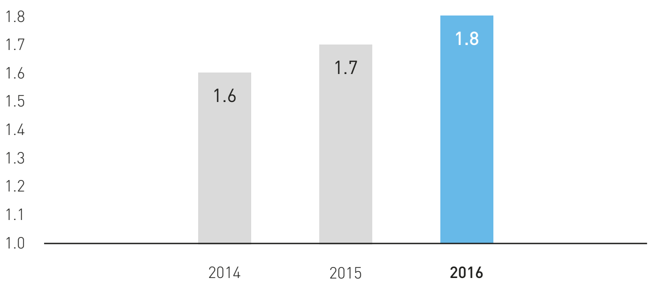
ECONOMIC REPORT

General economic conditions

German economy continues along its upward trajectory

Growth in Germany's GDP of 1.8 %: Despite persistently challenging underlying conditions, the German economy continued on its path of modest growth in 2016, with the primary driver of growth being private consumption.[1]

Changes in economic growth (GDP)
in %



Source: DIW, Winter Baselines 2016, Weekly Report 50 2016

Unemployment rate continues to fall: Private consumption was bolstered by favourable conditions on the job market and solid developments with regard to wages.[1] The number of gainfully employed persons (domiciled in Germany) increased by approximately 425,000, or 1.0 %, to 43.5 million, the highest level reached since German reunification.[2]

	2016	2015
Unemployment rate in %	6.1	6.4
Gainfully employed persons in million	43.5	43.0
Rate of inflation in %	0.5	0.2

Source: DIW, Winter Baselines 2016, Weekly Report 50 2016

Population numbers in Germany exceed high previously attained in 2002: According to initial estimates by the Federal Statistical Office, the trend towards rising German population figures also continued in 2016, with approximately 82.8 million people living in Germany at the end of 2016, approximately 600,00 more than at the beginning of the year (82.2 million). The high of just over 82.5 million previously recorded at the end of 2002 was therefore exceeded.[3]

Construction industry bolstered by new housing projects: Particularly in the larger cities, the demand for residential property remains high as a result of both the positive outlook for the job market and earnings, and the ongoing population influx. In the year under review, actual investments in the construction of residential units increased by approximately 3.6 % as compared to the previous year.[4]

Berlin's economy still experiencing exceptionally dynamic growth: In real terms, Berlin's gross domestic product is once again expected to have increased at an above-average rate of about 3 % in 2016,[5] with the region's economy thus continuing along its growth trajectory. This is also evidenced by the 7.1 % fall in the number of unemployed persons.[6] The current unemployment rate may still be higher than the national average at 9.8 %; however, this is its lowest level since German reunification and reflects the positive development of the economy in recent years.

Major expansion underway in the German residential property market

Ongoing high demand for residential property in Germany: Residential property remained one of the most popular investment targets on the German property market in 2016. The transaction volume for commercial dealings involving residential property portfolios comprising upwards of 50 units amounted to approximately EUR 13.7 billion – slightly higher than the average figure for the past five years – as evidenced by a recent analysis conducted by the commercial property and real estate services adviser CBRE.[7]

[1] DIW, Winter Baselines 2016, Weekly Report 50 2016
[2] Federal Statistical Office, press release 001/17, dated 2/1/2017

[3] Federal Statistical Office, press release 33/17, dated 27/1/2017
[4] DIW, Winter Baselines 2016, Weekly Report 50 2016
[5] IBB, Economic Situation in Berlin, December 2016
[6] City of Berlin, website: Unemployment, https://www.berlin.de/sen/wirtschaft/wirtschaft/konjunktur-und-statistik/wirtschaftsdaten/arbeitslosigkeit/, accessed on 24/1/2017
[7] CBRE, press release, dated 5/1/2017

Rise in number of households outpacing growth in population: According to the Federal Institute for Research on Building, Urban Affairs and Spatial Development (Bundesinstitut für Bau-, Stadt- und Raumforschung – BBSR), the number of households in Germany is increasing at a faster rate than the population, as the average number of persons per household continues to fall, 70 % of the country's 37.4 million households are single or two-person households, with this figure rising considerably to as much as 80 % in major cities. The number of households looks set to increase by as much as 500,000 by 2030, thereby resulting in greater demand for residential property in the German market.[8]

New construction unable to keep pace with population growth: Vacant properties now appear to be a thing of the past in German metropolitan areas. New housing construction is needed in order to meet the rising demand for residential units in light of the growing population. However, the rate of completion for construction projects – in all areas except Hamburg – remains too low to make up the shortfall[9] which, according to the German Tenants' Association (Deutscher Mieterbund – DMB), amounted to a total of 1 million residential units throughout Germany at the end of 2016. Although addressing this supply deficit calls for the construction of 400,000 new residential units every year, the number of completed properties apparently amounted to only 300,000 in 2016.[10]

Investments concentrated in German metropolitan areas: In the year under review, the main focus of all investment activity (13.8% in the first nine months of 2016) remained on Berlin.[11] Properties valued at approximately EUR 16.2 billion were sold in Berlin in 2016 as a whole. This is approximately commensurate with the volume of the transactions entered into in 2015 (EUR 16.8 billion).[12]

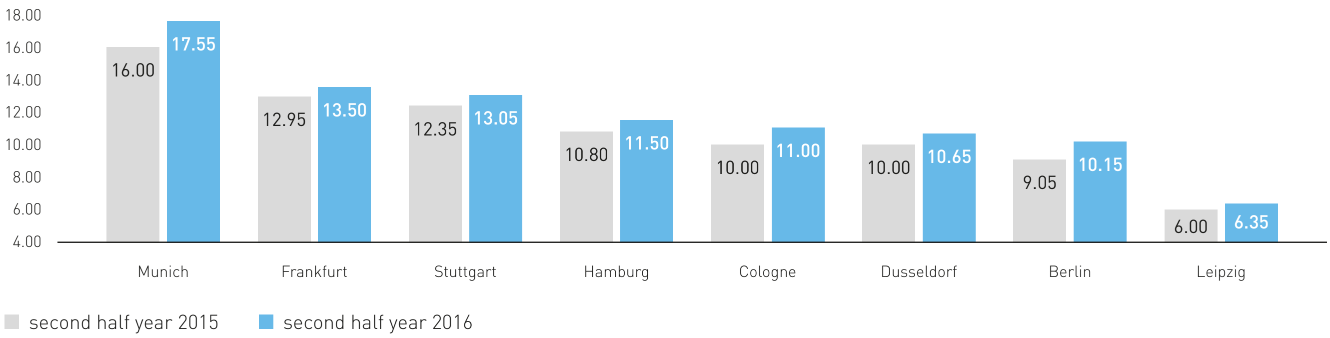
Another record year for price increases in metropolitan areas

Rental prices in record-breaking form: 2016 proved to be another record year in terms of the rise in rental prices in certain metropolitan areas. According to JLL, rents in the eight cities it surveyed – Berlin, Hamburg, Munich, Cologne, Frankfurt, Dusseldorf, Stuttgart and Leipzig – rose by just under 8 % on average, exceeding the high growth rates recorded in 2012 in a number of those cities. The most extensive increases were observed in those cities with a large population influx. The most dramatic in asking rents – by 12.3 % over the course of the year – occurred in Berlin, followed by Munich and Cologne (10 %), while Frankfurt continued along its upward trajectory of the past three years, despite recording the smallest increase in rents of the eight surveyed cities at 4.2 %.

Rental prices in Berlin now gaining ground: Asking rents in Berlin exceeded EUR 10 per sqm per month for the first time, thereby approaching the levels attained in Cologne and Dusseldorf. Munich reinforced its position as the most expensive city in Germany with average asking rents of EUR 17.55 per sqm per month.

Development of new-letting rents

in EUR/sqm/month



Source: JLL, press release, dated 16/1/2017

[8] BBSR, Residential Property Market Forecasts 2030
[9] DG HYP, Real Estate Market Report 2016/17
[10] Welt, "Tenants blame the Government for the dramatic rise in rents", 7/12/2016
[11] NAI apollo group, Facts and Figures Transaction Market Residential Property Portfolio, Q3 2016
[12] Committee on Berlin Property Values (Gutachterausschuss für Grundstückswerte in Berlin)

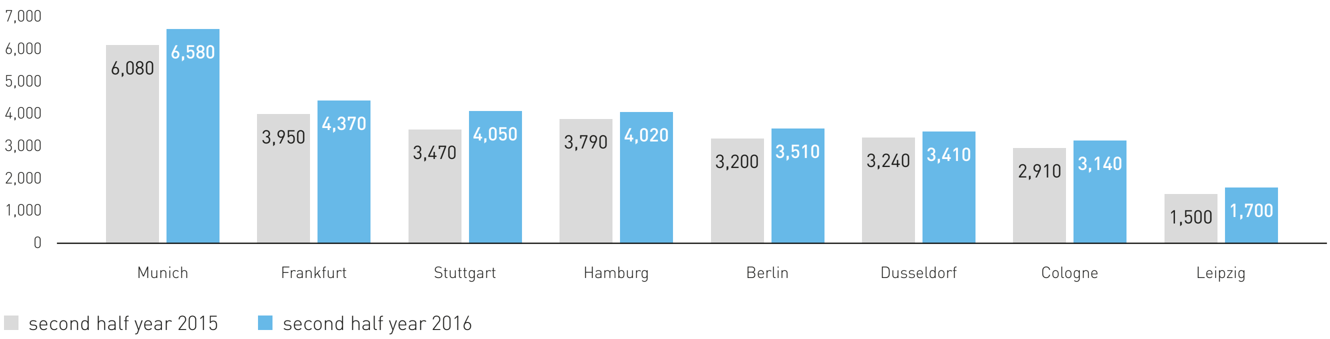
Upward trend also set to continue in the future: The trend towards rising rental prices in German metropolitan areas will in all probability continue over the next few years. Berlin's population has grown by just under 8% since 2010 to more than 3.5 million inhabitants, and is expected to increase by a further almost 15% to 4 million by 2030. In contrast, the number of residential units in the region rose by less than 2% between 2010 and 2015.[13] Today, a population influx of more than 200,000 new inhabitants must be coped with over a four-year period. Although the number of issued building permits continues to rise, the current minimum requirement for new construction of 20,000 residential units per year is not yet being met.[14]

Owner-occupied residential units becoming increasingly expensive: Purchase prices for owner-occupied residential units also continued to rise in 2016, increasing by 10% across the board over the course of the year. Stuttgart experienced the most substantial growth in this regard, at just under 17% – followed by Leipzig (+13%), Frankfurt (+11%) and Berlin (+10%). Also in terms of purchase prices Munich remained the most expensive German city, with property buyers paying an average of EUR 6,580 per sqm. Berlin overtook Dusseldorf for the first time in the ranking of the top 8 German cities, taking 5th place with prices averaging at EUR 3,510 per sqm in 2016. In Leipzig, although purchase prices increased by 13.3%, they remained the lowest as compared to the other cities at EUR 1,700 per sqm.

An end to the trend towards rising purchase prices is not to be expected in 2017, with the existing unmet demand for housing and the low level of construction activity in the major cities surveyed rendering a fall in prices unlikely over the medium term.[15]

Development of the purchase prices for owner-occupied residential units

in EUR/sqm



Source: JLL, press release, dated 16/1/2017

Management Board analysis of the economic situation and business operations

Deutsche Wohnen continued along its long-standing and successful growth trajectory, achieving and even surpassing its targets, in the financial year 2016.

Our Residential Property Management segment increased its earnings by approximately EUR 67 million or 13% as compared to the previous year, thereby exceeding our projection of EUR 570 million by EUR 16 million or approximately 3%. This result was largely due to lower vacancy rates, a higher rate of rent increases (projected rate: 2.5%; actual rate: 2.9%) and a faster pace of integration of acquired properties. In 2016, we once again revised our modernisation programme in the amount of EUR 400 million and significantly expanded its scope to EUR 1.0 billion over the next five years.

13) JLL, press release, dated 16/1/2017
14) JLL, Residential City Profile Berlin, 1st half year 2016

15) JLL, press release, dated 16/1/2017

In spite of the appreciation in the amount of EUR 1.7 billion caused by higher market prices, our Disposals segment was able to improve its gross margin as compared to 2015, raising it to 22 % (previous year: 15 %). The transaction volume decreased by 47 % from EUR 674 million to EUR 354 million. The reason for this decrease was the disposal in 2015 of a portfolio in Berlin with a transaction volume of EUR 375 million. Earnings from Disposals fell by EUR 15 million in absolute terms.

The contribution of the Nursing and Assisted Living segment towards our overall earnings increased by approximately EUR 1 million or 8 % as compared to the previous year. We have thus exceeded our projection of approximately EUR 16 million by 5 %, thanks to improvements in average occupancy rates and adjustments to nursing care charges.

Our financing basis continues to be very solid. Our LTV, at approximately 38 %, has remained stable as compared to the previous year and is thus within our target range of between 35 % and 40 %. The current interest expenses decreased by approximately EUR 21 million or 16 % as compared to the previous year, as a result of the refinancing undertaken in 2015. We thus also came in 3 % under our projection of EUR 110 million. This was due to lower interest rates of interest for our variable loans, as well as other measures taken with regard to the optimisation of our financing structure.

FFO I increased, on a year-on-year comparison, by EUR 80 million or 26 % to EUR 384 million, with the FFO I per share rising from EUR 0.95 in 2015 to EUR 1.14 in 2016. We thus reached our targets given our projection of EUR 360 million at the beginning of the year and our adjusted projection of at least EUR 380 million at the end of the first half of 2016.

The EPRA NAV (undiluted) amounted to EUR 29.68 per share at the end of the year, having risen by 29 % in spite of the impairment of goodwill in the amount of EUR 0.5 billion. The major driver of this development was the revaluation of the property portfolio, which amounted to an increase of approximately EUR 2.7 billion in 2016 as a result of the ongoing discrepancy between supply and demand, as well as catch-up effects in Berlin. This result and the dynamic pace of growth experienced also exceeded our expectations, given that, in 2015, our projection for the EPRA NAV was between EUR 25 and EUR 26 per share. Our most recent projection for the valuation on the occasion of the publication of the figures for the first nine months of the year amounted to at least EUR 2.2 billion for the financial year 2016.

The operational results for the financial year 2016 were very solid overall. The changes in rents, vacancy rates and sales prices confirmed our focus on conurbations and Berlin, in particular. We realised record earnings in the valuation context.

Notes on the financial performance and 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 2016 compared to 2015:

EUR m	2016	2015
Earnings from Residential Property Management	586.4	519.2
Earnings from Disposals	54.3	68.9
Earnings from Nursing and Assisted Living	16.8	15.6
Corporate expenses	−73.7	−74.7
Other operating expenses/income	−8.7	−64.0
Operating result (EBITDA)	575.1	**465.0**
Depreciation and amortisation	−543.7	−5.7
Fair-value adjustment of investment properties	2,667.6	1,734.1
Gains/losses from companies valuated at equity	2.0	1.8
Financial result	−211.8	−408.0
Profit before taxes	2,489.2	**1,787.2**
Current taxes	−36.5	−28.0
Deferred taxes	−829.5	−559.3[1]
Profit/loss for the period	1,623.2	**1,199.9**[1]

[1] Previous year's figure amended

Overall, Deutsche Wohnen ended the financial year 2016 with a consolidated profit/loss for the period in the amount of approximately EUR 1.6 billion (+ EUR 0.4 billion or 35.3 % as compared to 2015).

In 2016, we once again profited from the strong demand for housing in conurbations and metropolitan areas caused by a continuous population influx and rising numbers of households. This enabled us to raise rents accordingly and to lower the average vacancy rate. The increase in our earnings was also partially attributable to the transfer of risks and rewards with regard to approximately 13,500 units in the first half of the year.

In addition, consistently strong demand in the face of supply shortages, low interest rates and the high degree of liquidity in the market are generally exerting pressure to invest. Real estate property, particularly in conurbations, continues to be viewed as a "safe haven" for investment, which results in a lowering of the required returns and thus a rise in transaction prices. We therefore recorded an appreciation in the value of our real estate assets in the amount of just under EUR 2.7 billion in the financial year 2016.

We succeeded in improving adjusted earnings before taxes by EUR 69.3 million, or approximately 18%, as compared to the excellent results for the previous year, to EUR 453.7 million.

EUR m	2016	2015
Earnings before taxes	2,489.2	**1,787.2**
Gains/losses from the valuation of properties	−2,665.1	−1,734.1
Impairment of goodwill	537.3	0.0
Gains/losses from fair-value adjustments of derivative financial instruments and convertible bonds	83.4	213.7
Transaction costs and non-recurrent financing expenses	8.9	117.6
Adjusted earnings before taxes	453.7	**384.4**

The impairment of goodwill in 2016 primarily comprised – in the amount of EUR 0.5 billion – the goodwill arising out of the takeover of GSW Immobilien AG in 2013, and was largely related to the appreciation in the value of the properties of GSW Immobilien AG and its subsidiaries in the amount of EUR 1.1 billion in the financial year 2016. The GSW Group was taken over for EUR 1.8 billion as part of a stock swap in 2013. The equity of the GSW Group as at 31 December 2016 amounted to EUR 3.4 billion. Furthermore, the synergies actually resulting from the takeover amounted to more than EUR 30 million, thus exceeding the projected value of EUR 25 million. Deutsche Wohnen has ultimately created added value for its shareholders from this transaction in the current amount of EUR 2 billion, which has now been somewhat offset by the amortisation of the related goodwill in the amount of EUR 0.5 billion.

The result of the adjustment in the fair value of derivative financial instruments and convertible bonds primarily comprises the valuation of the convertible bonds: The strong performance of the share price resulted in non-cash expenses in the amount of EUR 79.6 million in the financial year (previous year: EUR 216.8 million).

The non-recurrent finance expenses and revenues comprised restructuring and transaction costs, as well as non-recurrent financing costs and non-recurrent revenues.

The restructuring costs in the amount of EUR 1.3 million (previous year: EUR 11.6 million) related primarily to the second and final phase of the integration of GSW in the previous year.

The transaction costs in the amount of EUR 2.6 million comprised expenses incurred in connection with the acquisiton of three Nursing and Assisted Living facilities in Hamburg, each of which was treated as a "business combination" in accordance with IFRS 3. The transaction costs recorded in the previous year related to non-recurrent expenses incurred in connection with the takeover bids for conwert Immobilien Invest SE and LEG Immobilien AG in the amount of approximately EUR 14.7 million and the expenses incurred in connection with the hostile takeover bid by Vonovia SE in the amount of approximately EUR 32.8 million.

Non-recurrent financing costs in the amount of approximately EUR 6.9 million were incurred in the financial year 2016. The non-recurrent financing costs for the previous year in the amount of EUR 58.7 million resulted, in particular, from the refinancing of loans in the amount of EUR 1.3 billion.

Earnings from Residential Property Management

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

	31/12/2016	31/12/2015
Residential and commercial units	160,160	148,218
Residential and commercial space in sqm k	9,790	9,147
Fair value per sqm residential and commercial areas in EUR	1,580	1,282
In-place rent residential per sqm in EUR	6.10	5.89
Like-for-like rental growth in core and growth regions (letting portfolio) in %	2.9	3.6
Residential vacancy rate in %	1.8	1.8
Maintenance costs per sqm and year in EUR[1]	9.63	9.45
Capital expenditures per sqm and year in EUR[1]	15.29	10.53

[1] In consideration of the average floor space on a quarterly basis in the relevant period

An overview of the portfolio as at 31 December 2016 can be found on 56 of the chapter "Property portfolio".

EUR m	2016	2015
Rental income	704.5	**634.0**
Non-recoverable operating costs	–9.8	–12.7
Rental loss	–6.4	–6.3
Maintenance	–94.5	–86.1
Other	–7.4	–9.7
Earnings from Residential Property Management	586.4	**519.2**
Staff and general and administration expenses	–40.7	–44.3
Operating results (Net Operating Income – NOI)	545.7	**474.9**
NOI margin in %	77.5	74.9
NOI in EUR per sqm and month[1]	4.63	4.34
Change in %	6.7	

[1] In consideration of the average floor space on a quarterly basis in the relevant period

With regard to the changes in in-place rents and capital expenditures, we refer to our portfolio figures from 59.

The losses arising from non-recoverable operating costs and rental loss based on rental income amounted to 2.3 % (previous year: 3.0 %). Other costs comprised, in particular, expenditure on marketing, ground rent and costs in relation to third-party administrative activities.

Overall, the positive performance of the individual Net Operating Income (NOI) items – due to increased revenues, cost savings and the effects of changes in the portfolio as a result of acquisitions and disposals – led to a 6.7 % rise in the NOI per sqm and month as compared to the previous year.

Earnings from Disposals

In the Disposals segment, we sold a total of 4,308 residential units (previous year: 9,405), with the transfer of risks and rewards occurring during the financial year.

EUR m	2016	2015
Sales proceeds	354.3	674.0
Cost of sales	–10.4	–21.5
Net sales proceeds	343.9	**652.5**
Carrying amounts of assets sold	–289.6	–583.6
Earnings from Disposals	54.3	**68.9**

Earnings from Disposals, viewed in absolute terms, decreased by approximately 21 % to EUR 54.3 million as a result of a fall in the transaction volume as compared to the previous year. However, the average sales margins rose in spite of the appreciations recorded in the financial year 2015 and 2016, such that Earnings from Disposals rose significantly when viewed in relative terms.

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

Privatisations

EUR m	2016	2015
Sales proceeds	146.1	**186.7**
Average sales price per in EUR/sqm	1,564	1,394
Volume in residential units	1,235	1,908
Cost of sales	–8.7	–11.5
Net sales proceeds	137.4	**175.2**
Carrying amounts of assets sold	–105.0	–132.5
Gross margin in %	39.1	40.9
Earnings	32.4	**42.7**
Carrying amounts	105.0	132.5
Loan repayment	–8.9	–62.9
Liquidity contribution	128.5	**112.3**

A total of 1,235 residential units were privatised in the reporting period. The gross margin remains high at approximately 39 % (previous year: approximately 41 %).

Institutional sales

EUR m	2016	2015
Sales proceeds	208.2	**487.3**
Average sales price in EUR/per sqm	961	952
Volume in residential units	3,073	7,497
Cost of sales	–1.7	–10.0
Net sales proceeds	206.5	**477.3**
Carrying amounts of assets sold	–184.6	–451.1
Gross margin in %	12.8	8.0
Earnings	21.9	**26.2**
Carrying amounts	184.6	451.1
Loan repayment	–35.5	–127.7
Liquidity contribution	171.0	**349.6**

In the financial year 2016, the focus of our institutional disposals activities was directed at the streamlining of our portfolio, while in the previous year opportunistic disposals of properties in structurally week locations in Berlin resulted in more than double the number of residential units sold.

Earnings from Nursing and Assisted Living

The Nursing and Assisted Living business segment is operated via a shareholding in the KATHARINENHOF® Group, which operated the following facilities in the financial year 2016:

	Facilities	Places	Income	ø occupancy in %	
Nursing and Assisted Living	number	number	EUR m	2016	2015
Berlin	7	847	32.1	97.9	95.7
Brandenburg	5	595	19.2	98.7	97.1
Saxony	7	475	13.9	99.8	100.0
Lower Saxony	1	131	4.9	98.7	98.9
Total	20	2,048	70.1	98.6	**97.2**

In addition, three facilities in Hamburg were acquired as of 31 December 2016; the operating results of these facilities are not yet reflected in the segment earnings for the financial year 2016. Of the 23 properties, 22 are owned by Deutsche Wohnen and had a fair value of EUR 244.0 million as at 31 December 2016.

The acquisition, by way of asset deal, of a nursing property portfolio comprising 28 residential nursing home facilities and a total of 4,132 beds was notarised on 5 August 2016. The residential nursing home facilities, which are mainly located in western Germany, have been leased to reputable operators on a long-term basis. The portfolio currently generates annual rental income in the amount of approximately EUR 27 million, approximately 90 % of which is attributable to full nursing care and approximately 10 % to Assisted Living services.

The quality of the service at all these facilities is above the industry average, which is reflected in the ratings granted by the Medical Service of the Health Insurance Industry: KATHARINENHOF® facilities were exclusively awarded very good ratings of between 1.0 and 1.4 in 82 categories. All of our 17 full in-patient nursing care facilities have been awarded the "Grüner Haken" ("Green Tick") commendation, a seal of quality issued by the Federal Advocacy Group for the Elderly and Those Requiring Care (Bundesinteressenvertretung für alte und pflegebetroffene Menschen – BIVA). Our high occupancy figures between 96% and 99%, which have been above average for years, show that our ambitious nursing and assistance concept is bearing fruit.

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

EUR m	2016	2015
Income		
Nursing	55.7	53.3
Living	6.5	6.1
Other	7.9	7.7
	70.1	**67.1**
Costs		
Nursing and corporate expenses	–18.0	–17.8
Staff expenses	–35.3	–33.7
	–53.3	**–51.5**
Segment earnings	16.8	**15.6**
Attributable current interest	–4.2	–4.8
Segment earnings after interest expenses	12.6	**10.8**

The segment Nursing and Assisted Living contributed to the earnings of the Deutsche Wohnen Group in 2016 with an EBITDA amounting to approximately EUR 16.8 million. After deducting the current interest rate expenses, the earnings before taxes amounted to approximately EUR 12.6 million, which represents an increase of 16.7% over the previous year.

Corporate expenses

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

EUR m	2016	2015
Staff expenses	–45.7	–44.9
Long-term remuneration component (share-based)	–2.2	–1.0
General and administration expenses	–25.8	–28.8
Corporate expenses	–73.7	**–74.7**

Viewed in absolute terms, corporate expenses fell overall, in spite of the growth of the portfolio by way of acquisitions. The cost ratio in relation to the rental income thus decreased, as compared to the previous year, from 11.8% to 10.5%.

Other operating expenses/income

Other operating expenses/income comprised expenses in the amount of EUR 16.0 million (previous year: EUR 71.6 million) and income in the amount of EUR 7.3 million (previous year: EUR 7.6 million).

Other operating expenses in the financial year 2016 comprised non-recurrent transaction costs in the amount of EUR 2.6 million incurred in connection with the takeover of three facilities for Nursing and Assisted Living in Hamburg (IFRS 3), as well as restructuring, project-related and consultancy costs. Other operating expenses for the previous year primarily comprised transaction costs incurred in connection with our takeover bids for conwert Immobilien Invest SE and LEG Immobilien AG in the amount of approximately EUR 14.7 million and our expenses in connection with the hostile takeover bid of Vonovia SE in the amount of approximately EUR 32.8 million.

Other operating income primarily comprised non-recurrent revenues from business combinations (IFRS 3) and revenues from the reversal of provisions.

The depreciation and amortisation carried out in the financial year 2016 related to the devaluation of the full amount of the goodwill arising out of the takeover of GSW Immobilien AG in 2013 in the amount of EUR 0.5 billion.

In addition, it comprised the depreciation and amortisation of intangible assets, software, properties used by the company itself, technical facilities, operating and business equipment, and other property, plant and equipment.

With regard to the adjustments to the fair value of the investment properties, reference is made to the section containing our portfolio disclosure on 62.

The earnings from companies valued in accordance with the equity method, which amounted to EUR 1.7 million (previous year: EUR 0.9 million), were largely attributable to the joint venture G+D Gesellschaft für Energiemanagement mbH.

Financial result

The financial result is made up as follows:

EUR m	2016	2015
Current interest expenses	– 106.2	– 127.0
Accrued interest on liabilities and pensions	– 18.7	– 9.5
Transaction-related interest expenditures	– 6.9	– 58.7
Fair-value adjustments of derivative financial instruments	– 3.8	3.1
Fair-value adjustments of convertible bonds	– 79.6	– 216.8
	– 215.2	**– 408.9**
Interest income	3.4	0.9
Financial result	**– 211.8**	**– 408.0**

The decrease in current interest expenses as compared to the previous year was due to refinancing measures and the fall in interest rates for variable rate loans. The average interest rate for all financing measures fell from 1.8 % p.a. in the previous year to 1.6 % p.a.

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

Transaction-related interest expenses primarily comprised prepayment penalties or redemption payments with regard to interest rate hedge transactions in the refinancing context.

The development of the price for the convertible bonds mirrored that of the price of the Deutsche Wohnen AG 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 further valuation loss. Given that the current share price is higher than the underlying conversion price, the convertible bonds are "in the money", such that a calculation on a diluted basis will result in a positive effect on the key balance sheet figures LTV or EPRA NAV.

After interest expenses, the cash flow from the portfolio increased by EUR 91 million to EUR 443.7 million, as shown in the following table:

EUR m	2016	2015
NOI from lettings	545.7	474.9
Current interest expenses (excluding Nursing and Assisted Living)	– 102.0	– 122.2
Cash flow from portfolio after current interest expenses	**443.7**	**352.7**
Interest cover ratio	**5.4**	**3.9**

The interest cover ratio (NOI relative to the current interest expenses) could once more be improved from 3.9 to 5.4 due to the rising operating results from Residential Property Management and scaling effects respectively, as well as low interest rates in the financing context.

Current taxes and deferred taxes

The current taxes for the financial year 2016 in the amount of EUR 36.5 million (previous year: EUR 28.0 million) comprise current income taxes in the amount of EUR 36.5 million (previous year: EUR 21.5 million) and in the financial year 2015 non-cash tax expenses in the amount of EUR 6.5 million arising out of the capital increase.

Deferred taxes amounted to EUR 829.5 million (previous year: EUR 559.3 million). Deferred tax expenses primarily relate to the appreciation in the value of our properties.

Financial position

Selected key figures of the consolidated balance sheet:

	31/12/2016		31/12/2015	
	EUR m	%	EUR m	%
Investment properties	16,005.1	95	11,859.1	88
Other non-current assets	109.3	1	616.3[1]	5
Total of non-current assets	**16,114.4**	**96**	**12,475.4**	**93**
Current assets	477.0	3	239.6	2
Cash and cash equivalents	192.2	1	661.6	5
Total of current assets	**669.2**	**4**	**901.2**	**7**
Total assets	**16,783.6**	**100**	**13,376.6**	**100**
Equity	**8,234.0**	**49**	**6,798.1[1]**	**51**
Financial liabilities	4,600.0	28	3,780.4	29
Convertible bonds	1,045.1	6	965.4	7
Corporate bonds	732.3	4	498.3	4
Tax liabilities	48.3	0	37.5	0
Employee benefit liabilities	67.6	0	64.6	0
Deferred tax liabilities	1,687.1	10	860.6[1]	6
Other liabilities	369.2	3	371.7	3
Total liabilities	**8,549.6**	**51**	**6,578.5**	**49**
Total equity and liabilities	**16,783.6**	**100**	**13,376.6**	**100**

[1] Previous year's figure amended

Our total assets increased, primarily as a consequence of additional purchases and the appreciation in value of our real estate holdings.

Investment properties continue to represent the largest asset items. With regard to the revaluation, we refer to the chapter "Property portfolio" from 56.

The value of other non-current assets decreased by EUR 507.0 million as compared to the previous year, primarily as a result of the depreciation and amortisation of the GSW goodwill in the financial year 2016.

The increase in the value of the current assets as compared to that on the reporting date for the previous year was primarily due to the acquisition of properties held for sale.

Equity increased, largely as a result of the Group profit realised in the amount of EUR 1,623.2 million. Furthermore, new shares were issued in the context of the offer of compensation made pursuant to the domination agreement entered into with GSW Immobilien AG. These developments were offset by the disbursement of the dividend for the financial year 2015 in the amount of EUR 182.2 million. The equity ratio amounted to 49 % as at the reporting date (previous year: 51 %).

Financing

In the financial year 2016, new portfolio financing measures were undertaken for the financing of acquisitions. As a result, the financial liabilities increased by EUR 819.6 million as compared to the previous year.

No new convertible bonds were issued in the financial year 2016. The change in the carrying amount as compared to the previous year is solely due to the valuation at fair value on the reporting dates in question.

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 %.

These financing measures also had the effect of improving key financial figures of the Group. The average interest rate thus fell as compared to the reporting date for the previous year, from approximately 1.8 % p.a. to approximately 1.6 % p.a., while the annual repayment rate was commensurate with that for the previous year, at approximately 0.7 %. The average term of the Group's loans decreased slightly from 9.2 years in the previous year to 8.1 years. The hedging ratio amounted to approximately 85 % as at 31 December 2016 (previous year: 87 %).

As in the previous year, Deutsche Wohnen AG 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	31/12/2016	31/12/2015
Financial liabilities	4,600.0	3,780.4
Convertible bonds	1,045.1	965.4
Corporate bonds	732.3	498.3
	6,377.4	**5,244.1**
Cash and cash equivalents	– 192.2	– 661.6
Net financial liabilities	6,185.2	**4,582.5**
Investment properties	16,005.1	11,859.1
Non-current assets held for sale	29.2	137.6
Land and buildings held for sale	381.5	66.9
	16,415.8	**12,063.6**
Loan-to-Value Ratio in %	37.7	**38.0**

Consolidated statement of cash flows

The most important cash flows are shown in the following:

EUR m	2016	2015
Net cash flows from operating activities before acquisitions and disposals of properties held for sale, before interest payments and income tax payments	481.6	344.2
Acquisition and disposal of investment properties	– 304.2	8.0
Interest payments	– 104.3	– 134.0
Income tax payments	– 50.7	9.8
Net cash flows form operating activies	22.4	**228.0**
Net cash flows from investing activities	– 1,093.5	– 72.3
Net cash flows from financing activities	601.7	109.5
Net change in cash and cash equivalents	– 469.4	**265.2**
Opening balance cash and cash equivalents	661.6	396.4
Closing balance cash and cash equivalents	192.2	**661.6**

Deutsche Wohnen was again able to meet its financial obligations in full at all times in 2016.

The net cash flows from operating activities increased as a result of acquisitions, a positive operational performance and lower interest payments. This was counterbalanced by investments in properties held for sale in the amount of EUR 354.8 million (previous year: EUR 28.8 million) and also higher tax payments.

The net cash flows from investing activities reflect, in particular, sales proceeds from disposals of investment properties and expenditure on investments.

The net cash flows from financing activities essentially includes all payments in connection with refinancing measures (loan repayments and new financing) and the dividend payment for the previous financial year. The amount for the previous year also comprised an incoming payment as a result of a capital measure.

Funds from Operations (FFO)

The key figure Funds from Operations without disposals (FFO I), which is decisive for us, rose significantly by approximately 26 % as compared the previous year, due to acquisitions and operational improvements in our portfolio:

EUR m	2016	2015
EBITDA	575.1	**465.0**
Valuation of current assets (properties)	2.5	0.0
Other non-recurring expenses/income	0.2	– 0.2
Transaction costs	2.6	47.5
Restructuring and reorganisation expenditure	1.3	11.6
EBITDA (adjusted)	581.7	**523.9**
Earnings from Disposals	– 54.3	– 68.9
Long-term remuneration component (share-based)	2.2	1.0[1]
Valuation at equity	2.0	1.8
Interest expenses/income	– 104.9	– 126.1
Income tax	– 36.5	– 21.5
Minority shareholdings	– 6.3	– 6.2
FFO I	383.9	**304.0**
Earnings from Disposals	54.3	68.9
FFO II	438.2	**372.9**
FFO I per share in EUR[2]	1.14	0.95[3]
FFO II per share in EUR[2]	1.30	1.16[3]

[1] Previous year's figure amended
[2] Based on the weighted average of around 337.45 million issued shares in 2016 and around 320.85 million in 2015
[3] In consideration of the effects arising out of the capital increase in June 2015 (so-called scrip adjustment of approximately 1.01)

EPRA performance indicators

The European Public Real Estate Association (EPRA) is an organisation based in Brussels, 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

	2016	2015
EPRA NAV (undiluted) in EUR m	10,017.0	7,765.6
EPRA NAV (undiluted) in EUR per share	29.68	23.02
EPRA NAV (diluted) in EUR m	11,009.3	8,717.7
EPRA NAV (diluted) in EUR per share	29.69	23.55
EPRA NNNAV (diluted) in EUR m	10,814.6	8,588.9
EPRA NNNAV (diluted) in EUR per share	29.16	23.20
EPRA Earnings in EUR m	359.5	227.9
EPRA Earnings (diluted) in EUR per share	0.97	0.62
EPRA Net Initial Yield in %	4	4
EPRA Vacancies in %	1.9	1.9

EPRA NAV

The EPRA NAV has been reported by Deutsche Wohnen since 2010. Net asset value is determined using the fair value of the property portfolio and by having the property valuation verified by CB Richard Ellis.

In the reporting year, the EPRA NAV (undiluted) per share rose by 29 % from EUR 23.02 per share to EUR 29.68 per share. In consideration of the diluting effect of the convertible bonds of 2013 and 2014 with a total nominal value of EUR 250 million and EUR 400 million, the diluted EPRA NAV is EUR 29.69 per share.

EUR m	31/12/2016	31/12/2015
Equity (before non-controlling interests)	7,962.5	6,582.7[1]
Fair value of financial instruments	47.0	44.8
Deferred taxes	2,004.4	1,138.1[1]
EPRA NAV (undiluted)	10,017.0	**7,765.6**[1]
Number of shares outstanding (undiluted) in m	337.5	337.4
EPRA NAV (undiluted) in EUR per share	29.68	**23.02**[1]
Effects of exercise of convertible bonds	992.3	952.1
EPRA NAV (diluted)	11,009.3	**8,717.7**[1]
Number of shares outstanding (diluted) in m	370.8	370.2
EPRA NAV (diluted) in EUR per share	29.69	**23.55**[1]

[1] Previous year's figure amended

We have dispensed with reporting EPRA NAV as adjusted to reflect 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 the resultant amounts of deferred taxes.

EUR m	31/12/2016	31/12/2015
EPRA NAV (diluted)	11,009.3	**8,717.7**
Fair value of derivative financial instruments	–47.0	–44.8
Fair value of financial liabilities[1]	–212.9	–135.2
Fair value of corporate bonds[1]	–18.9	–4.5
Deferred taxes[2]	84.1	55.7
EPRA NNNAV (diluted)	10,814.6	**8,588.9**
Number of shares outstanding (diluted) in m	370.8	370.2
EPRA NNNAV (diluted) in EUR per share	29.16	**23.20**

[1] Difference between the carrying amounts reported on the balance sheet and the fair values
[2] Deferred taxes on the difference between the carrying amounts reported on the balance sheet and the fair values of derivative financial instruments, financial liabilities and corporate bonds

EPRA Earnings

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

EUR m	2016	2015
Earnings as per IFRS	1,623.2	**1,199.9[2]**
Adjustments for determining the EPRA Earnings:		
Valuation result	–2,665.1	–1,734.1
Earnings from Disposals	–54.3	–68.9
Tax on profits or losses on disposal[1]	5.4	6.9
Amortisation of goodwill	537.3	0.0
Valuation of financial instruments and close-out costs	89.8	271.0
Deferred taxes	829.5	559.3[2]
Minority shareholdings	–6.3	–6.2
EPRA Earnings	359.5	**227.9**
Number of shares outstanding (undiluted) in m at the reporting date	337.5	337.4
EPRA Earnings (undiluted) in EUR per share	1.07	**0.68**
Number of shares outstanding (diluted) in m at the reporting date	370.8	370.2
EPRA Earnings (diluted) in EUR per share	0.97	**0.62**

[1] In the interests of simplicity, taxes are reported in the amount of 10% of the earnings from disposals
[2] Previous year's figure amended

EPRA Net Initial Yield (NIY)

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	2016	2015
Investment properties and non-current assets held for sale[1]	15,315.9	11,809.7
Land and buildings held for sale[1]	363.7	61.4
Less facilities under construction and advance payments[1]	–210.5	–143.6
Sub-total: completed property portfolio	**15,469.1**	**11,727.5**
Plus incidental acquisition costs of an investor, estimated at 8.0%	1,237.5	938.2
Total: completed property portfolio	16,706.6	**12,665.7**
Annualised in-place rent	719.3	647.6
Less direct management costs[2]	–120.6	–117.3
Annualised in-place rent (net)	598.7	**530.3**
EPRA Net Initial Yield (EPRA NIY) in %	3.6	**4.2**

[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.

in %	2016	2015
EPRA Vacancies	1.9	1.9

Employees

Deutsche Wohnen has undergone a major transformation in recent years in the wake of the extensive growth experienced by the company, and has thereby 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.

Deutsche Wohnen had a total of 943 employees as at 31 December 2016 (31 December 2015: 766). FACILITA Berlin GmbH, which has 120 employees, has been a wholly owned subsidiary of Deutsche Wohnen since January 2016. It performs infrastructural facility management functions for currently approximately 70,000 of our residential units in Berlin.

As of 31 December 2016, KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH employed a further 1,377 staff members.

With approximately 79 %, the majority 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. A total of 56.8 % of our employees were female as at the end of the financial year. The average length of service of nine years has remained stable as compared to previous years.

Employees	31/12/2016	31/12/2015
Deutsche Wohnen[1)]	**943**	**766**
Number of women (in %)[2)]	536 (56.8)	499 (65.1)
Number of men (in %)	407 (43.2)	267 (34.9)
Number of trainees (in %)	44 (4.5)	47 (5.8)
Average age in years	42.1	41.3

[1)] Excl. Management Board, Managing Directors and trainees; incl. employees on maternity/parental leave, temporary staff and marginal employees
[2)] Excl. Management Board, Managing Directors and trainees

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 meet a sizeable proportion of our own future requirements for highly accomplished staff from within our own ranks. Furthermore, employees and executives attended more than 1,600 sessions in the context of our target group-specific and needs-oriented training programme last year. We held four health awareness days for the benefit of our employees, at which fruit was made available free of charge and massages were provided.

In 2016, 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. The systematic employee survey 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.

Flexible working arrangements and women in management positions in %	31/12/2016	31/12/2015
Deutsche Wohnen		
Women in management positions[1)]	45.9	51.7
Employees opting for part-time employment[1)]	9.2	8.5
Employees opting to take parental leave	5.5	6.1

[1)] Excl. Management Board and trainees

Deutsche Wohnen encourages diversity and does not tolerate any discrimination against its employees on the grounds of their gender, age, background, disability or sexual orientation. We offer flexible working arrangements, for example part-time employment, to parents employed at our company with a view to helping them achieve a better work-life balance. In the year under review, 9.2 % of our employees availed themselves of this option, with 5.5 % of our workforce going on parental leave. The consistently high proportion of female employees and the large proportion of women in management positions within the company (2016: 45.9 %) provide continued motivation for our endeavours in this regard.

REPORT ON THE INDIVIDUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG

Fundamentals of Deutsche Wohnen AG

Deutsche Wohnen AG (DWAG), Frankfurt/Main, 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 (HGB) applicable to large corporations and the supplementary provisions of the German Stock Corporation Act (AktG). Deutsche Wohnen AG is a capital markets-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 AG.

Employees

As at 31 December 2016, 160 employees[1] (previous year: 158) and 42 trainees and students (previous year: 39) were employed at Deutsche Wohnen AG.

Management Board analysis of business operations

The financial year 2016 was a successful one for Deutsche Wohnen AG. We achieved, or even exceeded, our targets.

The operating results from our holding activities were not impacted by any transaction or similar extraordinary expenses in the financial year 2016. They rose by approximately EUR 62.6 million as a result of an increase in revenues in the face of a fall in costs.

The financial results increased by a further EUR 7.5 million in the past financial year due to, among other things, the discontinuation of non-recurrent financing costs from the previous year.

Profit transfers and distributions by subsidiaries amounted to EUR 123.4 million in the financial year 2016 and as such were lower than in the previous year (EUR 209.2 million), as expected.

We therefore recorded earnings before one-off items in a positive amount and an annual profit in the amount of EUR 110.4 million (previous year: EUR 127.6 million), in line with our projections.

[1] All employees incl. maternity/paternity/parental leave, incl. temporary staff and marginal employees, excl. trainees

Financial performance and financial position of Deutsche Wohnen AG

Financial performance

In the financial year 2016, Deutsche Wohnen AG realised annual profit in the amount of EUR 110.4 million on the basis of dividend payments from subsidiaries.

	2016 EUR m	2015 EUR m	Changes EUR m	Changes relative in %
Revenues	31.5	26.4	5.1	19
Other operating income	1.4	10.2	–8.8	–86
Staff expenses	–17.2	–19.7	2.5	–13
Other operating expenses	–32.7	–97.1	64.4	–66
Depreciation and amortisation	–2.1	–1.5	–0.6	40
Operating results	**–19.1**	**–81.7**	**62.6**	**–77**
Net income from interest	7.6	0.1	7.5	>100
Income from shareholdings	123.4	209.2	–85.8	–41
Unscheduled depreciation and amortisation	–0.2	0.0	–0.2	n/a
Income taxes	–1.3	0.0	–1.3	n/a
Annual earnings	110.4	**127.6**	**–17.2**	**–13**

Deutsche Wohnen AG acts as a holding company and generates revenues from the provision of business management services to the entire Group. The change in the amount of revenues as compared to the previous year is largely the result of the takeover of further companies in 2016.

Other operating income for the financial year 2015, at EUR 7.4 million, largely comprises income from the cancellation of reversals of deferred expenses and accrued income carried out in previous years and recognised as expenses in connection with the reporting on the balance sheet of the equity share resulting from the issuance of convertible bonds; this balance sheet reporting underwent changes in 2015 in the wake of the more recent case law of the German Federal Fiscal Court (BFH). Otherwise, as in the previous year, other operating income primarily comprises income from the passing on of costs within the Group and the reversal of provisions.

The decrease in staff expenses by EUR 2.5 million as compared to the previous year was largely due to lower expenses in connection with severance payments and the continued payment of wages in cases of employee sickness. Deutsche Wohnen AG had an annual average of 155 employees in 2016 (previous year: 150 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. Transaction costs in the previous year primarily related to the takeover bids for conwert Immobilien Invest SE and LEG Immobilien AG, and also the takeover bid by Vonovia SE. Given that no capital increases and no comparable takeover-related transactions were undertaken by Deutsche Wohnen AG in the financial year 2016, no comparable expenses were incurred.

The depreciation and amortisation related to the 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 improving the efficiency of our IT systems.

Net income from interest comprised interest expenses in the amount of EUR 16.6 million (previous year: EUR 20.8 million) and interest income in the amount of EUR 24.2 million (previous year: EUR 20.9 million). Interest expenses for the financial year 2015 comprised non-recurring expenses for the issuance of a corporate bond in the amount of EUR 2.1 million.

In this and in the previous financial year, Deutsche Wohnen AG primarily relied upon equity and low interest convertible bonds and corporate bonds to finance its activities. Deutsche Wohnen AG 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 –11.9 million (previous year: EUR –16.3 million) and net income generated with affiliated companies in the amount of EUR 19.5 million (previous year: EUR 16.4 million).

Value created at the subsidiary level accrues, via the earnings from shareholdings, to Deutsche Wohnen AG in its capacity as holding company. Earnings from shareholdings take account of transfers of earnings from subsidiaries pursuant to profit transfer and/or domination agreements and from partnerships in the total amount of EUR 42.5 million (previous year: EUR 10.9 million), as well as dividend payments from subsidiaries in the amount of EUR 80.9 million (previous year: EUR 198.3 million).

Overall, Deutsche Wohnen AG realised annual profit in the amount of EUR 110.4 million.

Financial position

	31/12/2016		31/12/2015		Changes
	EUR m	%	EUR m	%	EUR m
Fixed assets	3,127.0	44.8	3,123.3	45.0	3.7
Receivables and other assets	3,683.1	52.8	3,309.6	47.8	373.5
Cash and bank balances	165.2	2.4	501.0	7.2	–335.8
	6,975.3	**100.0**	**6,933.9**	**100.0**	**41.4**
Equity	4,098.7	58.8	4,166.5	60.1	–67.8
Provisions	12.9	0.2	39.8	0.6	–26.9
Liabilities	2,863.7	41.0	2,727.6	39.3	136.1
	6,975.3	100.0	**6,933.9**	**100.0**	**41.4**

The fixed assets of Deutsche Wohnen AG, amounting to EUR 3,127.0 million (previous year: EUR 3,123.3 million), primarily consist of shares in affiliated companies amounting to EUR 3,119.4 million (previous year: EUR 3,117.2 million).

Shares in affiliated companies increased by EUR 0.6 million as a result of capital contributions to subsidiaries. Further accruals in the amount of EUR 1.9 million relate to the ongoing tendering of shares of GSW Immobilien AG, Berlin.

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

The equity of Deutsche Wohnen AG increased by EUR 1.9 million in the financial year 2016 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 AG. The equity also increased by EUR 2.2 million as a result of a capital contribution in connection with share-based remuneration for members of the Management Board, and also as a result of the annual profit realised in the amount of EUR 110.4 million. The payment of a dividend in the amount of EUR 182.2 million had the effect of reducing the equity accordingly. The issued capital amounted to EUR 337.5 million as at the reporting date (previous year: EUR 337.4 million), and the equity ratio amounted to 58.8% (previous year: 60.1%).

The increase in provisions primarily involved outstanding invoices relating to consultancy fees and transaction costs.

Liabilities can be broken down as follows:

EUR m	31/12/2016	31/12/2015	Changes
Liabilities to affiliated companies	1,474.4	1,569.6	−95.2
Convertible bonds	651.2	651.2	0.0
Corporate bonds	735.9	503.0	232.9
Other liabilities	2.2	3.8	−1.6
	2,863.7	**2,727.6**	**136.1**

The liabilities to affiliated companies decreased as a result of the intra-group cash pool, which is headed up by Deutsche Wohnen AG as the central cash pool leader.

In addition to 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.

The debt ratio (ratio of debt capital to total assets) of Deutsche Wohnen AG as at the reporting date is 41.2 % (previous year: 39.9 %). The rise in the debt ratio is due, on the one hand, to the disbursements made and, on the other hand, to the changes in the balance sheet structure as a result of the central cash pool.

The presentation of a consolidated statement of cash flows is waived in accordance with sec. 264 para. 1 sent. 2 of the German Commercial Code (HGB).

Deutsche Wohnen AG was able to meet its financial obligations at all times in the financial year 2016.

As in the previous year, Deutsche Wohnen AG 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 AG has sufficient liquidity to meet its payment obligations through the intra-group cash pooling system and external credit lines.

Forecast

Deutsche Wohnen AG 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 2017, we have assumed that legal and fiscal framework conditions will not change. Furthermore, we expect the company to continue to operate successfully and 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 2017 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 AG is dependent on the financial development of its subsidiaries. Earnings are also dependent the transfer of profits and dividend distributions from subsidiaries.

In 2017, we expect to realise positive earnings, excluding one-off items, comparable to 2016.

RISK AND OPPORTUNITY REPORT

Risk management system of Deutsche Wohnen

Deutsche Wohnen AG continually examines any opportunities which may arise for securing the continued development and growth of the Group. The exploitation of such opportunities may also entail exposure to certain risks, in which case awareness, assessment and management of all of the important aspects of those risks will be of crucial importance. For this purpose, a central risk management system (RMS) is in place 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 to avert or minimise any resultant damage.

Deutsche Wohnen implements an early warning system for risks (REWS) as part of its Group-wide risk management system (RMS). The REWS constitutes a component of the audit of the annual financial statements, and is in this context assessed in light of the issue of compliance with applicable legal requirements. The most recent audit has shown that the REWS of Deutsche Wohnen is capable of identifying developments which could pose a threat to the company's continued existence, and that the measures undertaken by the Management Board for the establishment of such a REWS meet the requirements imposed by sec. 91 para. 2 of the German Stock Corporation Act (AktG) in this regard.

Principles underlying our risk management policy

Our risk strategy is aimed at ensuring the continued existence of the company and, furthermore, at increasing its value as a going concern on a sustained basis. The success of a business is contingent upon the exploitation of any opportunities which arise and the identification and assessment of any related risks. Opportunities should be exploited to an optimal degree, while any entrepreneurial risks should be addressed in a sensible 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 should be avoided.

Every employee is made aware of risk-related issues, and is encouraged to report any potential risks and act in full awareness of the risks, namely to inform himself or herself as to the risk situation within his or her area of responsibility, on the one hand, and to deal with any identified risks in a responsible manner, on the other hand. This enables the company to ensure that suitable measures for the avoidance, reduction or transfer of risks are implemented, and to adopt a sensible 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 and upon the allocation of the necessary resources, and also approves the documented performance of the risk management system, taking this into account in the corporate management context.

Deutsche Wohnen executives are designated "risk owners" and, in this capacity, assume responsibility for the identification, assessment, documentation and communication of all material risks arising within their area of responsibility. The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the overall risk management process. He initiates periodical risk management activities, consolidates the reporting of risks by the risk owners and prepares the report for submission to the Management and Supervisory Boards. The internal audit division monitors the functioning of the risk management system as part of its auditing activities.

At the present time, we are not aware of any risks which the company would not reasonably be able to counteract or which could adversely affect the financial performance or financial position of the Deutsche Wohnen Group and thereby pose a threat to its continued existence.

Instruments of the risk management system

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

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

The purpose of the Group-wide RMS as a whole is to assist in 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 functionality verified on an ongoing basis.

1. Internal control system (ICS)

The ICS with regard to the Group's accounting procedures is aimed at ensuring the correctness and effectiveness of its accounting and financial reporting activities.

The ICS in place at Deutsche Wohnen AG primarily implements the following principles: transparency, observance of a dual control policy ("four eyes" principle), separation 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, controlling and monitoring structures.

- There are Group-wide harmonised planning, reporting, controlling and early warning systems and processes in place 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 meet 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 issues of (Group) accounting, risk management, the audit of the annual financial statements and the main focal points thereof.

The internal control and risk management system with regard to the 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 AG 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. These are subject to continuous review and enhancement, and also establish reference points for identified risks on the basis of relevant key operating and financial figures. In this connection, 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 following risk categories have been identified in the context of Deutsche Wohnen's risk management activities:

1. Strategic risks
2. Political, legal and corporate risks
3. IT risks
4. Performance risks – personnel
5. Market risks
6. Performance risks – property
7. Financial risks
8. Investment risks

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 job market, monitoring the technical condition of our properties, demographic developments, monitoring projections as to supply, rents and new-build 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 and, finally, making analyses of and projections about the performance of the financial markets and changes in interest rates.

Information relating to the individual risks allocated to the various risk categories is documented with the aid of 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.

Individual risks are managed at the department level and, where they involve amounts of damage in excess of EUR 500 thousand, are verified in the context of the risk inventory and allocated to the indicated risk categories. Newly identified individual risks are subject to ad hoc notification requirements.

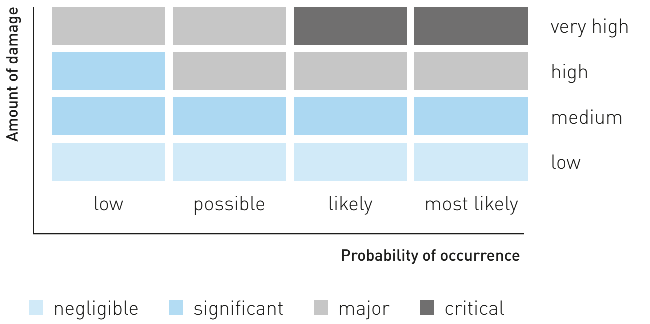
Risks are assessed on the basis of defined threshold values for the parameters amount of damage and probability of materialisation.

Thresholds

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

%	Probability of occurrence
Low	0 – 20
Possible	> 20 – 50
Likely	> 50 – 70
Most likely	> 70 – 100

For each individual risk, it is ascertained whether any factors exist which potentially indicate the occurence 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 individual risks is classified as follows: negligible, significant, major or critical.



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 of the risk owners, the risk manager and the Management Board, to ensure company-wide transparency as regard 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 is 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.

At Deutsche Wohnen, Group-wide observance of legal provisions and internal guidelines provides the basis for the effective management of the company and the maintenance of a compliance-oriented corporate culture, and is thus also a means of minimising any adverse effects on its operations.

Compliance-related risks are monitored 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 list of insiders 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 also the main point of contact for any questions employees may have and for the handling of 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 focal points of the reviews are stipulated in consultation with the Management Board and the Supervisory Board, and 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.

Risk report

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 2016 as compared to previous years, nor were any ad hoc risks reported.

Of all of the risks described above we consider financial risk and political and regulatory risk to be the most significant.

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

Strategic risks

Risks arising as a result of the failure to identify trends
Where market developments or trends are not identified, 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 the close monitoring of developments in their relevant sectors and for the prompt notification of any changes to the risk management department, which will then take appropriate action.

Political, legal and corporate risks

Legal risks
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, the lack of comprehensive regulations in concluded contracts or the insufficient management of insurance arrangements.

Orders for the suspension of construction work and the failure to optain building permits could also have an adverse effect on the company's operations as these things could 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.

On 30 April 2014, a domination agreement was concluded between Deutsche Wohnen AG, as the controlling company, and GSW Immobilien AG, as the controlled company, and took effect upon its registration in the commercial register on 4 September 2014. Pursuant to this agreement, Deutsche Wohnen AG is obligated to assume any losses incurred by GSW. Furthermore, Deutsche Wohnen AG has undertaken pursuant to the domination agreement, upon a request from the external shareholders of GSW to that effect, to acquire the latter's shares in exchange for shares of Deutsche Wohnen AG 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 (or currently EUR 1.40 (net)) the term of the domination agreement.

Currently, a special legal review procedure ("Spruchverfahren") pursuant to sec. 1 no. 1 of the German Shareholder Action Act (Gesetz über das gesellschaftsrechtliche Spruchverfahren – SpruchG) is pending at the district court of Berlin due to corresponding motions by individual shareholders of GSW for the review of the reasonableness of the offer of compensation and the compensation payment. 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.

Risks arising as a result of amendments to tenancy law
Regulatory intervention in tenancy law could 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 housing.

Other legislative amendments are regularly the subject of discussion. The next elections to the Bundestag in Germany will be held in 2017, and the possibility that further regulatory developments could occur prior or following this election cannot be excluded.

At the federal state level, the new 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.

Even if any such legislative changes do give rise to a critical level of risk exposure, we do not consider the continued existence of the company to be under any threat.

IT risks

Risks arising in connection with IT systems
Deutsche Wohnen AG uses SAP IT applications on a Group-wide basis.

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

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 required to comply with security measures relating to the IT landscape pursuant to guidelines issued to that effect, and made aware of the risks associated with this area through training measures.

Risks arising as a result of amendments to data protection legislation
The EU General Data Protection Regulation, which will come into force in 2018, will impose new requirements on companies with regard to the handling of personal data.

Deutsche Wohnen continually adapts and revises its processes, and will also do so with a view to ensuring its compliance with the new statutory requirements.

Performance risks – personnel

Personnel risks
A decisive factor for the success of our business operations is the knowledge and special skills of our employees. However, there is a risk that Deutsche Wohnen may not be able to retain the most qualified or best suited employees, a risk which we address by providing a stimulating working environment and by means of financial and non-financial incentives. We believe that Deutsche Wohnen is one of the most attractive employers in the sector in which it operates.

Risks arising in connection with staff expenses
The Deutsche Wohnen Group is subject to employee benefit liabilities arising out of the company's pension scheme in the form of pension commitments, in respect of which provisions in the amount of EUR 68 million had been established as at 31 December 2016. 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 provision.

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 the payment of equivalent amounts. All personnel-related measures are thus undertaken incorporating legal advice and consultation.

Market risks

Risks arising as a result of changes in market conditions
Market risks may arise in the lettings market if the economic situation in Germany deteriorates, causing market rents 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 net disposable 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.

Should the economic situation in Germany deteriorate, this could give rise to the risk of jobs being lost and tenants thus losing their regular income and no longer being able to pay their rent on time or at all. The Management considers the probability of this risk materialising to be low; it can be addressed at an early stage by maintaining close contact with tenants and by means of an early recognition of financial problems, thus enabling us to offer tenants smaller and cheaper residential units from Deutsche Wohnen's diversified portfolio.

In addition, a deterioration in the economy as a whole could result in a decline in interest in the purchase of properties, which would give rise to the risk, in both the individual privatisation and block sale contexts, of potential purchasers putting property investments on hold and thus causing delays in Deutsche Wohnen's disposal schedule.

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 will be governed, in particular, by developments on the property market as a whole, those on the 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 on the property market, in light of 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 amortised.

Performance risks – property

Property risks may arise in connection with individual properties, the portfolio as a whole or the locations of the properties.

At the individual property level, these will relate, in particular, to maintenance lapses, structural damage, inadequate fire protection or wear and tear to properties caused by tenants. 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.

Financial risks

Risks arising in connection with Group structures and shareholdings

With 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. These are also increasingly subject to provisions of commercial and tax law. Inadequate planning and management and a lack of effective controlling of investment proceeds could result in lower revenues.

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. Furthermore, fluctuations in the valuation of properties (IAS 40) due to negative developments in the residential property market and of derivatives could result in annual adjustments on the profit and loss statement.

Financial market risks and risks arising out of financial instruments

Following the successful refinancing and restructuring of the loan portfolio in 2014 and 2015, no significant liabilities are to be refinanced until and including 2019.

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, non-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).

Significant risk exposure for the Group arising from financial instruments comprises interest-related cash flow risk, liquidity risk and default risks. The company's Management draws up and reviews risk management guidelines for each of these risks. **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 a liquidity shortfall** is assessed on a daily basis with the aid of a liquidity planning tool. Deutsche Wohnen strives to ensure 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 variable interest rates, and is hedged using interest rate derivatives. Please refer to our statements in the Notes from 106.

The goodwill acquired in connection with the takeover of GSW Immobilien AG (EUR 535 million) is routinely subjected to annual impairment testing, which resulted in unscheduled, non-cash expenses having an effect on the financial position or financial performance of the company in 2016. These expenses amounted to EUR 535 million as at 31 December 2016.

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 265 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, and 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

External growth through acquisitions is not currently a main focal point for our company due to the lack of suitable properties. However opportunities may nevertheless present themselves in this regard in either existing or new regions, and also in the Nursing and Assisted Living segment, which we anticipate will enable us to realise synergies and cost savings. There is a possibility that we may only be able to achieve goals connected to acquisitions to a partial extent or 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 the administrative and management systems as well as the internal structures and processes. These factors may deviate from our estimates and result in a failure to realise the 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.

The selection and planning of major maintenance measures can result in the incorrect allocation of investment funds. It is also possible that additionally acquired units will not generate the expected returns, which could have an adverse effect on the Group's business operations. Moreover, incomplete information contained in due diligence reports and evaluations, as well as non-transparent allocation decisions and non-compliance with allocation provisions (e.g. in the case of applications for public funding, resulting in the incurrence of repayment obligations) may give rise to risks.

Risks arising in connection with obligations pursuant to purchase agreements concluded in the context of acquisitions

Increased risk exposure is the result of the conclusion of a larger number of purchase agreements of increased complexity. The requisite structured tracking and monitoring of the fulfilment of the resultant obligations is undertaken by the Contract Management department.

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, with the Management Board obtaining in-depth advice from both the company's Legal/Compliance department and external legal counsel from renowned law firms before entering into any specific negotiations.

Corresponding safeguarding measures, such as guarantees, indemnifications, reservations and insurances policies, are implemented. The fulfilment of all contractual obligations arising pursuant to such purchase agreements is monitored. Where possible, claims are secured through the involvement of guarantors.

Opportunities for future development

In the financial year 2016, 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 has been bolstered by persistently 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, 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 Ratio (LTV) which is lower than the average, having fallen consistently over the past few years. Our business model has been accepted by our banking partners and our credit rating has improved steadily over the years.

The 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 –, reinforce Deutsche Wohnen's position as one of the most highly ranked real estate companies in Europe. The issuer ratings accord us a greater degree of financial flexibility.

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

As at the balance sheet date, the company's market capitalisation amounted to approximately EUR 10 billion, which represents an increase of approximately 17% as compared to the previous year. As a result, Deutsche Wohnen has now made itself more visible for international investors, which could lead to advantageous financing options on the capital markets.

Opportunities arising as a result of investments

We have increased the size of our existing investment programme to approximately EUR 1.0 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 2021. In addition, we have adopted a redensification and new-build programme in the amount of just under EUR 0.5 billion with a view to enabling the efficient use of existing land reserves and the construction of approximately 2,200 additional residential units over the next four years. The opportunities presented by these projects relate primarily to sustainable investment and the creation of value.

FORECAST

General economic conditions

Germany expected to experience modest economic growth in 2017: DIW forecasts indicate that the German economy is set to grow by 1.2 %, which represents a slightly lower rate of growth than in 2016. However, this is primarily attributable to the smaller number of working days. In contrast, the dampening effect of the vote in favour of Brexit is likely to be less extensive than initially expected.[1]

Positive outlook for the German residential property market

Demand for residential property remains high: Demand for residential property on the part of private buyers remains high due to rising incomes and the availability of favourable financing options. Investors are also taking a positive view of the future prospects for these favourable financing options and the attractiveness of a stable cash flow in a "safe haven" such as the German market is considered to be. The growing population, above all in conurbations, together with insufficient construction activity are also driving demand in this context.

Rental and purchase prices continue to pick up pace: Prices for both owner-occupied residential units and investment properties will continue to rise in the future, with growth being most evident in economically strong regions.

Investment markets generating lower returns: Premium properties in the major German cities routinely generate net returns of under 3 %.[2]

Financial markets set to remain largely unchanged: Given that we do not anticipate any significant changes in the low interest rate policies currently prevailing in the financial markets, our projections have been drawn up on the basis of consistently low interest rates. Thus, favourable financing conditions and low returns on alternative forms of capital investment should continue to stimulate demand for residential property.

Forecast for the financial year 2017

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 82.

In addition, our projections reflect assumptions as regards developments both in the economy as a whole and in the residential property market. In the financial year 2017, including the acquisitions already announced, we expect to generate an FFO I of EUR 425 million. This is a baseline scenario without further acquisitions and opportunistic disposals.

Our plans for the financial year 2017 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 610 million. Here, our focus over the coming years will be on organic growth and the carrying out of refurbishment work on our holdings with a view to energy conservation. To this end, in 2016 we launched a modernisation programme in 2016, to be implemented over the coming years, in the amount of approximately EUR 1.0 million, with these funds earmarked for investment in the Core^{+} regions. A further sum of just under EUR 0.5 billion will be dedicated to new-build and redensification projects. Ongoing maintenance measures are set to remain at the previous year's level in 2017, namely between EUR 9 per sqm and EUR 10 per sqm. We do not expect any material change in the vacancy rate as compared to that recorded at the end of 2016. The projected like-for-like increase in rents amounts to 3.5 % across the total portfolio.

Our **Disposals** segment will continue to focus on privatisation measures and the disposal of the holdings in the remaining Non-Core regions. Disposals from within the strategic core and growth regions will be decided depending on the situation and the opportunities.

[1] DIW, Winter Baselines 2016, Weekly Report 50 2016
[2] JLL, Overview of the German Residential Property Market 2016, September 2016

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For the **Nursing and Assisted Living** segment we expect earnings of more than EUR 45 million following the integration of the companies acquired in 2016.

Interest expenses are likely to fall to a little more than EUR 100 million against the background of the refinancing measures taken in the past financial year. The Loan-to-Value Ratio is to be within our target corridor of 35% to 40% at the end of the year.

Assuming that the framework conditions remain stable and against the background of the favourable prospects of the German residential property market, especially in metropolitan areas, we also expect a positive development in the value of our property holdings in 2017 and as a result an increase of the EPRA NAV in comparison to 2016.

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 AG and explains the composition and amount of the individual remuneration paid to each of the Board members.

System of remuneration for the Management Board

The remuneration system for the Management Board and the total remuneration of the individual members of the Management Board are determined by the Supervisory Board and are subject to regular review. The remuneration is governed by the German Stock Corporation Act (AktG), supplemented by the regulations of the German Corporate Governance Code (GCGC).

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, the extent to which the amount of his/her remuneration is customary among his/her peers and the remuneration structures within the company. The system of remuneration as a whole is geared towards the sustainable development of the company.

The contracts of all of the members of the Management Board provide for the payment of compensation in the event that their term of office 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 for the payment of compensation in the event of an early termination of the term of office as a result of a change of control, in which case the amount of the payment is limited, in line with sec. 4.3.2 of the GCGC, to a maximum of three years' remuneration and will not constitute remuneration for more than the residual term of the employment contract.

In addition to fixed remuneration, the members of the Management Board receive variable short-term and variable long-term remuneration, which may be withheld in the event of the non-attainment of targets and is also subject to an upper limit. The members of the Management Board, moreover, receive benefits in kind in the form of insurance premiums and personal use of means of communication and company vehicles. The contracts also authorise the Supervisory Board to approve bonuses in the event of extraordinary developments, the amount of which will is limited to the amount of annual fixed remuneration of the individuals concerned. No pension arrangements have been made.

The variable short-term remuneration component – short-term incentive (STI) – is orientated towards short-term company targets, which are agreed annually 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%.

The variable long-term remuneration component – long-term incentive (LTI) – was revised in 2014. The stock option programme 2014 (Aktienoptionsprogramm – "AOP 2014") enables 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 in the financial risks and opportunities to which the company is exposed.

However, in order to safeguard the shareholders' interest in the sustainable enhancement of the value of the company, the stock options may only be exercised where, at the end of a four-year waiting period, defined performance targets have been reached, as follows: 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 above-mentioned performance targets in turn comprises a minimum target, which must be attained in order to render half of the stock options allotted to this performance target exercisable. In addition, there is a maximum target, upon the attainment of which all of the share stock 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 Adjusted NAV per share and FFO I (without disposals) per share on the basis of the company's four-year projections prior to the issuance of any stock 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 sec. 193 para. 2 sent. 4 of the German Stock Corporation Act (AktG), the waiting period for a tranche of stock 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. Stock 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.

The following stock options have been granted to date:

Name	Michael Zahn			Lars Wittan			Philip Grosse		
	2014	2015	**2016**	2014	2015	**2016**	2014	2015	**2016**
Basis: 150% of the LTI in EUR k	1,125	1,125	1,125	390	390	390	n/a	n/a	112
Reference price in EUR	16.96	24.16	24.37	16.96	24.16	24.37	n/a	n/a	28.57
Options granted (number)	66,332	46,565	46,163	22,995	16,142	16,003	n/a	n/a	3,937
Total stock options			159,060			55,140			3,937

The number of exercisable stock options per tranche will conclusively be determined upon the expiration of the waiting period and in accordance with the degree of the achievement of the above-mentioned criteria.

In addition to their respective stock options, Mr Michael Zahn holds 26,389, Mr Lars Wittan 11,104 and Mr Philip Grosse 500 shares in the company.

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

	Michael Zahn		Lars Wittan		Philip Grosse	
Options						
Level of target attainment in %	75	150	75	150	75	150
Granted stock options 2014 – 2016 (not yet exercisable)	79,531	159,060	27,571	55,140	1,968	3,937
Shares	26,389		11,104		500	
Total	105,920	185,449	38,675	66,244	2,468	4,437
Closing price for the share in 2016 in EUR	29.84		29.84		29.84	
Value of the shares and options for accounting purposes as at 31/12/2016[1] in EUR k	3,161	5,534	1,154	1,977	74	132
Relationsship to fixed remuneration for 2016 in %	383	671	307	526	68	123

[1] Reported for Illustrative purposes with regard to the closing price for the share in 2016

The members of the Management Board have been granted the following remuneration in return for their activities as members of the Board:

	Michael Zahn Chief Executive Officer since 1/9/2007				Lars Wittan Chief Investment Officer since 1/10/2011				Philip Grosse Chief Financial Officer since 1/9/2016			
EUR k	2015	**2016**	**2016 (Min.)**	**2016 (Max.)**	2015	**2016**	**2016 (Min.)**	**2016 (Max.)**	2015	**2016**	**2016 (Min.)**	**2016 (Max.)**
Fixed remuneration	825	825	825	825	376	376	376	376	0	108	108	108
Supplementary payments	34	34	34	34	24	24	24	24	0	6	6	6
Total fixed	**859**	**859**	**859**	**859**	**400**	**400**	**400**	**400**	**0**	**114**	**114**	**114**
Short-term incentive	500	500	0	625	240	240	0	300	0	58	0	73
short-term due	500	500	0	625	240	240	0	300	0	58	0	73
long-term due	0	0	0	0	0	0	0	0	0	0	0	0
Long-term incentive (AOP)	750	750	0	1,125	260	260	0	390	0	75	0	113
Total variable	**1,250**	**1,250**	**0**	**1,750**	**500**	**500**	**0**	**690**	**0**	**133**	**0**	**185**
Total amount	**2,109**	2,109	859	2,609	**900**	900	400	1,090	**0**	247	114	299

[1] The maximum limit corresponds to the level of target achievement of the three parameters, not to the share price development

The members of the Management Board have received the following amounts in return for their activities as members of the Board:

	Michael Zahn Chief Executive Officer since 1/9/2007		Lars Wittan Chief Investment Officer since 1/10/2011		Philip Grosse Chief Financial Officer since 1/9/2016	
EUR k	2015	**2016**	2015	**2016**	2015	**2016**
Fixed remuneration	825	825	376	376	n/a	108
Supplementary payments	34	34	24	24	n/a	6
Total fixed	**859**	**859**	**400**	**400**	**n/a**	**114**
Short-term incentive	725	773	313	374	n/a	0
short-term due	625	625	300	300	n/a	0
long-term due	100	148	13	74	n/a	0
Long-term incentive	450	450	143	300	n/a	0
Total variable	**1,175**	**1,223**	**456**	**674**	**n/a**	**0**
Severance payment	0	0	0	0	n/a	0
Special remuneration 2013	399	0	242	0	n/a	0
Total amount	**2,433**	2,082	**1,098**	1,074	**n/a**	114

Special remuneration was granted in 2013 for the successful acquisition of GSW Immobilien AG. The final instalment, which had been granted subject to the realisation of synergies and was to be immediately invested in shares of Deutsche Wohnen AG, was paid out in 2015.

The PSU Plan 2012 and the retained portion of his short-term variable remuneration in the total amount of EUR 0.4 million were paid out to the former member of the Management Board, Helmut Ullrich, in 2016.

Andreas Segal, a former member of the Management Board, was paid a severance package in the amount of EUR 1.6 million upon his early departure from the company. Apart from this, his agreement provided for the payment of compensation with regard to the existing LTI in the amount of EUR 0.6 million. No further amounts of remuneration were paid to Mr Segal in 2016.

Given that Mr Philip Grosse was only appointed a member of the Management Board in 2016, no amounts of remuneration were paid to him in this capacity with respect to 2015.

No loans or advances were granted to members of the Management Board of Deutsche Wohnen AG in the financial year 2016.

System of remuneration for the Supervisory Board

Each member of the Supervisory Board receives a fixed remuneration of EUR 60 k; the Chairman of the Supervisory Board receives double 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 lump-sum remuneration in the amount of EUR 10 k per financial 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, with the exception of the Nomination Committee, is paid in the amount of EUR 5 k per member, committee and financial year. Each member of the Nomination Committee receives EUR 2.5 k per committee meeting.

The Supervisory Board remuneration for the financial year amounts to EUR 542.5 k (previous year: EUR 521 k) net of value added tax. Mr Flach received EUR 147.5 k net (previous year: EUR 140 k), Dr Kretschmer received EUR 122.5 k net (previous year: EUR 118 k), Mr Clement received EUR 67.5 k net (previous year: EUR 60 k), Mr Hünlein received EUR 65 k net (previous year: EUR 68 k), Dr Stetter received EUR 75 k net (previous year: EUR 73) and Mr Wisser received EUR 65 k (previous year: EUR 63 k).

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 of 10% of the value of the damage in question. This retention amount is 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 sec. 289 para. 4 and sec. 315 para. 4 of the German Commercial Code (HGB)

Issued capital and shares

The registered capital of Deutsche Wohnen AG as at 31 December 2016 amounted to EUR 337,480,450.00 (previous year: EUR 337,411,867.00) and is divided into 337,480,450 no-par value bearer shares with a notional share of the registered capital of EUR 1.00 per share. Deutsche Wohnen AG only has bearer shares.

All shares carry the same rights and obligations. Every share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profit amongst shareholders. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sec. 12, 53a ff., 118 ff. and 186. There are no shares with special rights conferring powers of control.

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

Pursuant to sec. 21 para. 1 of the German Securities Trading Act (WpHG), any shareholder whose shareholding reaches, exceeds or falls below of 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) accordingly without delay. This notifications are published by Deutsche Wohnen AG pursuant to sec. 26 WpHG. During the financial year 2016 no direct or indirect shareholdings reached the threshold of 10 % of the voting rights.

Powers of the Management Board to issue or buy back shares

Authorised capital

By resolution of the Annual General Meeting held on 12 June 2015, which was entered into the commercial register on 14 July 2015, the Management Board has been authorised to increase the company's registered capital, with the consent of the Supervisory Board, by up to EUR 100 million once or several times in the period until 11 June 2018 by means of the issuance of up to 100 million new bearer shares against cash contributions and/or contributions in kind **(Authorised Capital 2015/I).** Shareholders are to be granted subscription rights in principle within 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 conditions 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 Deutsche Wohnen AG 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 above-mentioned 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 an 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 Deutsche Wohnen AG 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 above-mentioned 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 of the Annual General Meeting held on 11 June 2014 originally authorised the contingent increase of the registered capital of the company by up to a further EUR 15 million by means of the issuance of up to 15 million new no-par value bearer shares **(Contingent Capital 2014/II).** The contingent capital increase serves 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 domination agreement between the company and GSW dated 30 April 2014 at the exchange ratio that was adjusted pursuant to clause 5 para. 4 of the domination agreement on 4 June 2015 to 7.0790 no-par value shares of Deutsche Wohnen AG in exchange for three no-par value shares of GSW Immobilien AG.

To the extent that this is necessary pursuant to clause 5 para. 2 of the domination agreement, the company will pay compensation for fractional shares in cash. As at 31 December 2016, EUR 9,097,187.00 of this Contingent Capital 2014/II had been used – by means of the issuance of 9,097,187 new no-par value bearer shares with a corresponding increase of the registered capital –, with EUR 5,902,813.00 remaining as at 31 December 2016. Appraisal proceedings pursuant to sec. 1 no. 1 SpruchG (German Act on Appraisal Proceedings) for a review of the appropriateness of the settlement offer and the compensation are pending with the district court of Berlin due to corresponding motions of individual shareholdings of GSW. Therefore, in accordance with sec. 305 para 4 sent. 3 of the German Stock Corporation Act (AktG), GSW shareholders can exchange their GSW shares for Deutsche Wohnen shares on the basis of the terms of the offer or of the decision of the legal review procedure or of an amicable agreement reached on this matter until up to two months after publication of the final decision of the legal review procedure in the Federal Gazette. If a higher level of compensation and/or a higher settlement is decided upon by the court, then, subject to statutory provisions, minority shareholders of GSW Immobilien AG can demand an addition to the compensation or settlement they have already received. 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 issue own shares for the purposes of upholding those subscription rights. Any new shares issued as a result of the exercise of share options will 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, to the extent legally and effectively permissible. Alternatively, the new shares will be entitled to dividends as of the financial year in which they accrue.

Moreover, by resolution of the Annual General Meeting held on 12 June 2015 the registered capital is conditionally increased by up to EUR 50 million through the issuance of up to 50 million new no-par value bearer shares **(Contingent Capital 2015/I).** The contingent capital increase serves to grant shares to the holders or creditors of convertible bonds, bonds with warrants, participation rights and/or participating bonds (or combinations of these instruments) issued by Deutsche Wohnen AG or dependent companies or companies directly or indirectly majority-owned by Deutsche Wohnen AG on the basis of the authorising resolution adopted by the Annual General Meeting held on 12 June 2015 in the period until 11 June 2020. It will only be exercised insofar as conversion or option rights arising out of the abovementioned convertible bonds or 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 Management Board was authorised by a resolution of the Annual General Meeting of 12 June 2015 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 a nominal amount of up to EUR 1.5 billion and to grant the creditors thereof conversion or option rights for Deutsche Wohnen shares representing a share of the issued capital of up to EUR 50 million.

Acquisition of own shares

The acquisition of own shares is authorised pursuant to sec. 71 ff. of the German Stock Corporation Act (AktG) and also, as of 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 under sec. 53a German Stock Corporation Act (AktG), to purchase and use the company's shares prior to 10 June 2019 up to a total 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 sec. 71a ff. 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 purposes 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 pursuant to sec. 84 and sec. 85 of the German Stock Corporation Act (AktG). The Supervisory Board 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 AG additionally stipulate in sec. 5 that the Management Board has to consist of at least two members and that 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 Offices or Spokesperson of the Management Board.

According to sec. 119 para. 1 no. 5 of the German Stock Corporation Act (AktG), the Annual General Meeting decides on changes to the Articles of Association. Pursuant to sec. 10 para. 5 of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association which affect the wording only. Pursuant to sec. 10 para. 3 of the Articles of Association, the resolutions of the Annual General Meeting are passed by a simple majority of votes and, if a majority of shares is required, by a simple majority of capital, unless otherwise prescribed by law or the Articles of Association.

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

The essential agreements of Deutsche Wohnen AG and its group companies which are subject to a change of control primarily relate to financing 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 impact on the convertible bonds, registered bonds and the corporate bonds issued by Deutsche Wohnen AG. 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 the premature termination of their employment due to a change of control of the company, the members of the Management Board will receive benefits in accordance with the requirements of sec. 4.2.3 of the German Corporate Governance Code and with the limitation on the cap on remuneration prescribed in therein in each case.

CORPORATE MANAGEMENT

We have published the information according to sec. 289a of the German Commercial Code (HGB) on our website http://ir.deutsche-wohnen.com.

Frankfurt/Main, 3 March 2017

Michael Zahn Chief Executive Officer	Philip Grosse Chief Financial Officer	Lars Wittan Chief Investment Officer

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

EUR k	Notes	31/12/2016	31/12/2015 adjusted	1/1/2015 adjusted
ASSETS				
Investment properties	D.1	16,005,069	11,859,098	9,610,999
Property, plant and equipment	D.3	55,856	45,655	25,940
Intangible assets	D.4	20,518	546,329	546,074
Derivative financial instruments	D.7	41	27	41
Other non-current assets		32,177	22,255	28,574
Deferred tax assets	D.17	697	2,028[1]	5,172[1]
Non-current assets		**16,114,358**	**12,475,392**	**10,216,800**
Land and buildings held for sale	D.5	381,497	66,913	58,055
Other inventories		3,392	3,501	3,481
Trade receivables	D.6	16,419	13,368	17,704
Income tax receivables		36,705	8,094	4,032
Derivative financial instruments	D.7	0	3	13
Other financial assets		7,442	8,805	7,021
Other non-financial assets		2,495	1,405	3,295
Cash and cash equivalents	D.8	192,164	661,566	396,398
Subtotal current assets		**640,114**	**763,655**	**489,999**
Non-current assets held for sale	C.10	29,174	137,582	392,911
Current assets		**669,288**	**901,237**	**882,910**
Total assets		**16,783,646**	**13,376,629**	**11,099,710**

[1] Regarding the adjustments we refer to the information in the Notes in A.3

EUR k	Notes	31/12/2016	31/12/2015 adjusted	1/1/2015 adjusted
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the parent company				
Issued share capital	D.9	337,480	337,412	294,260
Capital reserve	D.9	3,445,300	3,558,901	2,735,911
Other reserves		−36,976	−36,538	−73,907
Retained earnings	D.9	4,219,748	2,722,969[1]	1,672,394[1]
Total equity attributable to shareholders of the parent company		**7,965,552**	**6,582,744**	**4,628,658**
Non-controlling interests	D.9	268,400	215,309[1]	180,145[1]
Total equity		8,233,952	**6,798,053**	**4,808,803**
Non-current financial liabilities	D.10	4,533,471	3,718,128	4,509,319
Convertible bonds	D.11	1,043,816	964,204	747,424
Corporate bonds	D.11	496,330	495,298	0
Employee benefit liabilities	D.12	67,596	64,551	67,655
Derivative financial instruments	D.7	34,819	33,064	126,418
Other provisions	D.15	15,543	12,357	17,209
Other financial liabilities		90,315	62,495	0
Deferred tax liabilities	D.17	1,687,074	860,673[1]	278,652[1]
Total non-current liabilities		7,968,964	**6,210,770**	**5,746,677**
Current financial liabilities	D.10	66,508	62,305	263,676
Convertible bonds	D.11	1,234	1,234	1,234
Corporate bonds	D.11	235,942	3,024	0
Trade payables		161,626	194,568	137,987
Liabilities to limited partners in funds	D.13	6,540	6,413	6,287
Other provisions	D.15	8,335	17,083	19,217
Derivative financial instruments	D.7	12,188	11,760	18,543
Tax liabilities	D.16	48,267	37,519	46,120
Other financial liabilities		34,879	26,376	34,689
Other non-financial liabilities		5,211	7,524	10,434
Subtotal current liabilities		**580,730**	**367,806**	**538,187**
Financial liabilities regarding non-current assets held for sale	C.10	0	0	6,043
Total current liabilities		580,730	**367,806**	**544,230**
Total equity and liabilities		16,783,646	**13,376,629**	**11,099,710**

[1] Regarding the adjustments we refer to the information in the Notes in A.3

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the period from 1 January to 31 December 2016

EUR k	Notes	2016	2015 adjusted
Income from Residential Property Management	E.1	704,495	633,965
Expenses from Residential Property Management	E.2	– 118,074	– 114,728
Earnings from Residential Property Management		**586,421**	**519,237**
Sales proceeds		354,301	673,986
Thereof revenues		50,605	36,689
Cost of sales		– 10,383	– 21,487
Carrying amounts of assets sold		– 289,660	– 583,613
Thereof revenues		– 37,727	– 25,630
Earnings from Disposals	E.3	**54,258**	**68,886**
Income from Nursing and Assisted Living		70,070	67,181
Expenses from Nursing and Assisted Living		– 53,227	– 51,593
Earnings from Nursing and Assisted Living	E.4	**16,843**	**15,588**
Corporate expenses	E.5	– 73,657	– 74,698
Other expenses	E.7	– 16,027	– 71,596
Other income	E.6	7,292	7,603
Subtotal		**575,130**	**465,020**
Gains from the fair-value adjustments of investment properties	D.1	2,667,637	1,734,129
Depreciation and amortisation	D.3/4	– 543,723	– 5,657
Earnings before interest and taxes (EBIT)		**2,699,044**	**2,193,492**
Finance income		3,376	876
Gains/losses from fair-value adjustments of derivative financial instruments and convertible bonds	D.7/11	– 83,388	– 213,708
Gains/losses from companies valuated at equity	B.3	1,958	1,840
Finance expenses	E.9	– 131,807	– 195,344
Profit before taxes		**2,489,183**	**1,787,156**
Income taxes	E.10	– 866,017	– 587,269[1]
Profit for the period		**1,623,166**	**1,199,887**
Thereof attributable to:			
Shareholders of the parent company		1,583,851	1,154,909[1]
Non–controlling interests		39,315	44,978[1]
		1,623,166	**1,199,887**
Earnings per share			
Undiluted in EUR		4.69	3.60[1]
Diluted in EUR		4.43	3.60[1]

[1] Regarding the adjustments we refer to the information in the Notes in A.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2016

EUR k	2016	2015
Profit of the period	1,623,166	**1,199,887[1]**
Other comprehensive income		
Items reclassified as expense at a later stage		
Net gain/loss from derivative financial instruments	2,779	61,603
Income tax effects	−885	−22,797
	1,894	**38,806**
Items not reclassified as expense at a later stage		
Actuarial losses/gains in pensions and impacts of caps for assets in pension plans	−4,493	1,695
Income tax effects	2,360	−3,075
	−2,133	**−1,380**
Other comprehensive income after taxes	−239	**37,426**
Total comprehensive income, net of tax	1,622,927	**1,237,313[1]**
Thereof attributable to:		
Shareholders of the parent company	1,583,413	1,192,278[1]
Non-controlling interests	39,514	45,035[1]

[1] Regarding the adjustments we refer to the information in the Notes in A.3

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2016

EUR k	Notes	2016	2015
Operating activities			
Profit/loss for the period		1,623,166	1,199,887[1]
Finance income		–3,376	–876
Adjustment of derivative financial instruments and convertible bonds	D.7/11	83,388	213,707
Finance expenses		131,807	195,344
Gains/losses from companies valuated at equity		–1,958	–1,840
Income taxes		866,017	587,269[1]
Profit/loss for the period before interest and taxes		**2,699,044**	**2,193,491**
Non-cash expenses/income			
Fair-value adjustment of investment properties	D.1	–2,667,637	–1,734,129
Depreciation and amortisation	D.3/4	543,723	5,657
Other non-cash operating expenses/income	G	–63,653	–90,340
Change in net working capital			
Change in receivables, inventories and other current assets		–1,638	–27,995
Change in operating liabilities		–28,274	–2,481
Net operating cash flows		**481,565**	**344,203**
Sales proceeds from properties held for sale		50,605	36,689[2]
Investments in properties held for sale		–354,821	–28,756[2]
Interest paid		–107,606	–134,914
Interest received		3,376	876
Taxes paid		–58,017	–27,266
Taxes received		7,289	37,062
Net cash flows from operating activities		**22,391**	**227,894**
Investing activities			
Sales proceeds	G	285,536	643,610[2]
Payments for investments		–1,392,992	–721,685[2]
Proceeds from investments subsidies		68	68
Proceeds from dividends from shareholdings and joint ventures		76	56
Cash and cash equivalents acquired in connections with business combinations		7,088	0
Other proceeds from investing activities		6,686	5,699
Net cash flows from investing activities		**–1,093,538**	**–72,252**
Financing activities			
Proceeds from borrowings	D.10	831,253	50,620
Repayment of borrowings	D.10	–266,884	–1,111,823
Proceeds from the issuance of corporate bonds		232,905	498,445
One-off financing costs	E.9	–6,932	–95,243
Proceeds from the capital increase	D.9	–1	906,582
Other proceeds from financing activities		0	16,750
Costs of the capital increase	D.9	–14	–20,355
Payments regarding the stock option programme		0	–260
Dividends paid to shareholder of Deutsche Wohnen AG	H	–182,230	–129,873
Dividends paid to shareholders of non-controlling interests		–6,352	–5,317
Net cash flows from financing activities		**601,745**	**109,526**
Net change in cash and cash equivalents		**–469,402**	**265,168**
Opening balance of cash and cash equivalents		**661,566**	**396,398**
Closing balance of cash and cash equivalents		**192,164**	**661,566**

[1] Regarding the adjustments we refer to the information in the Notes in A.3
[2] Change of presentation concerning IAS 2 properties which were previously reported as cash flow from investing activities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2016

EUR k	Issued share capital	Capital reserves	Pensions	Reserves for cash flow hedge	Other reserves	Retained earnings	Total equity attributable to share-holders of the parent company	Non-controlling interests	Total equity
Equity as at 1 January 2015 as reported	**294,260**	**2,735,911**	**– 14,216**	**– 59,691**	**– 73,907**	**1,736,609**	**4,692,872**	**183,193**	**4,876,065**
Corrections						– 64,215	– 64,215	– 3,047	– 67,262
Equity as at 1 January 2015 adjusted	**294,260**	**2,735,911**	**– 14,216**	**– 59,691**	**– 73,907**	**1,672,394**	**4,628,657**	**180,146**	**4,808,803**
Profit/loss for the period						1,199,887	1,199,887		1,199,887
Thereof non-controlling interests						– 44,978	– 44,978	44,978	0
Other comprehensive income after tax			– 1,380	38,806	37,426		37,426		37,426
Thereof non-controlling interests			– 3	– 54	– 57		– 57	57	0
Total comprehensive income, net of taxes			**– 1,383**	**38,752**	**37,369**	**1,154,909**	**1,192,278**	**45,035**	**1,237,313**
Capital increase	43,152	886,133					929,285		929,285
Costs of capital increase, less tax effects		– 13,842					– 13,842		– 13,842
Transfer from the capital reserve		– 50,000				50,000			
Capital contribution relating to the remuneration of the Management Board		959					959		959
Utilisation of reserves relating to the remunerations of the Management Board		– 260					– 260		– 260
Change non-controlling interests						– 4,122	– 4,122	– 9,872	– 13,994
Dividends paid						– 129,873	– 129,873		– 129,873
Others						– 20,338	– 20,338		– 20,338
Equity as at 31 December 2015 adjusted	**337,412**	**3,558,901**	**– 15,599**	**– 20,939**	**– 36,538**	**2,722,970**	**6,582,744**	**215,309**	**6,798,053**
Equity as at 1 January 2016	**337,412**	**3,558,901**	**– 15,599**	**– 20,939**	**– 36,538**	**2,722,970**	**6,582,744**	**215,309**	**6,798,053**
Profit/loss for the period						1,623,166	1,623,166		1,623,166
Thereof non-controlling interests						– 39,315	– 39,315	39,315	0
Other comprehensive income after tax			– 2,133	1,894	– 239		– 239		– 239
Thereof non-controlling interests			4	– 203	– 199		– 199	199	0
Total comprehensive income, net of taxes			**– 2,129**	**1,691**	**– 438**	**1,583,851**	**1,583,413**	**39,514**	**1,622,927**
Capital increase	68	1,786					1,854		1,854
Costs of capital increase, less tax effects		– 9					– 9		– 9
Transfer from the capital reserve		– 117,568				117,568			
Capital contribution relating to the remuneration of the Management Board		2,190					2,190		2,190
Change non-controlling interests						– 268	– 268	13,577	13,309
Dividends paid						– 182,230	– 182,230		– 182,230
Others						– 22,143	– 22,143		– 22,143
Equity as at 31 December 2016	337,480	3,445,300	– 17,728	– 19,248	– 36,976	4,219,748	7,965,552	268,400	8,233,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year as at 31 December 2016

A General information on the consolidated financial statements of the Deutsche Wohnen AG

1 The Deutsche Wohnen Group

The consolidated financial statements of Deutsche Wohnen AG ("Deutsche Wohnen") as at 31 December 2016 were prepared by the Management Board on 3 March 2017. The Supervisory Board is scheduled to approve the consolidated financial statements at its meeting on 13 March 2017. Deutsche Wohnen AG is a publicly listed real estate company based in and operating across Germany with its registered office at Pfaffenwiese 300, Frankfurt/Main, and is registered in the commercial register of the Frankfurt/Main District Court under number HRB 42388.

The business activities of Deutsche Wohnen AG 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 division 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). 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 additionally applicable pursuant to sec. 315a para. 1 of the German Commercial Code (HGB).

The consolidated financial statements have been prepared on an amortised cost basis. This excludes, in particular, investment properties, the convertible bond and derivative financial instruments, which are valued at their attributable 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 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 the use of new and revised standards and interpretations in the past financial year as well as the reporting of deferred taxes, the same accounting policies and valuation methods were applied to the consolidated financial statements as were used for the consolidated financial statements as at 31 December 2015.

The presentation of deferred tax under IAS 1.41 was changed in the fiscal year and the previous years adjusted accordingly. Deferred taxes are now presented fundamentally balanced in the respective consolidation group within a form of tax, irrespective of the time reversal. As a result, there is a EUR 324 million (EUR 347 million) higher balance of deferred taxes on 31 December 2015 (1 January 2015).

Furthermore, the passive deferred taxes were adjusted on the basis of an extended allowance for existing temporal differences in asset values and tax rates on 1 January 2015 as well as on 31 December 2015.

The following table shows the adjustments made in connection with the change in reporting method (Column A) and in connection with the corrections (Column B) as of the two reporting dates on the consolidated balance sheet and in the consolidated profit and loss statement:

	1/1/2015				31/12/2015			
	As previously reported	Adjustment		Adjusted	As previously reported	Adjustment		Adjusted
EUR m		(A)	(B)			(A)	(B)	
Retained earnings	1,662.7	–	–64.2	1,598.5	2,757.1	–	–70.7	2,686.4
Non-controlling interests	183.2	–	–3.1	180.2	218.5	–	–3.3	215.3
Deferred tax assets	351.7	–346.5	–	5.2	325.5	–323.5	–	2.0
Deferred tax liabilities	557.9	–346.5	67.3	278.7	1,110.2	–323.5	74.0	860.7
Income taxes	–	–	–	–	580.6	–	6.7	587.3
Profit/loss for the period	–	–	–	–	1,206.6	–	–6.7	1,199.9
Thereof attributable to:								
Shareholders of Deutsche Wohnen AG	–	–	–	–	1,161.4	–	–6.5	1,154.9
Non-controlling interests	–	–	–	–	45.2	–	–0.2	45.0

As a result of the adjustment carried out and recognised in profit/loss as at 31 December 2015, the earnings per share were corrected as follows:

	2015		
EUR	As previously reported	Correction	Adjusted
Earnings per share (undiluted)	3.62	0.02	3.60
Earnings per share (diluted)	3.62	0.02	3.60

First-time application in the financial year 2016:
Deutsche Wohnen was for the first time required to apply the amended IAS 19 "Employee Benefits", which supplements an option to report performance-based pension commitments in which employees participate on the balance sheet. This did not have any effect on Deutsche Wohnen.

The IASB amendments to IAS 1 "Presentation of Financial Statements" with regard to the exercise of discretion in connection with the presentation of financial statements were likewise applied for the first time and did not have any effect on Deutsche Wohnen's financial statements.

Moreover, the amendments to IFRS 11 "Joint Arrangements", which regulate the reporting on the balance sheet of acquisitions of shares in joints ventures and joint operations in accordance with the provisions of IFRS 3 "Business Combinations", were applied for the first time. These did not have any effect on Deutsche Wohnen.

In addition, the amending standards from 2013 and 2014 were applied for the first time, however these also did not have any effect on Deutsche Wohnen's consolidated financial statements.

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 consolidated financial statements in the financial year 2016.

Standards which are not yet mandatorily applicable:
The following are IFRS standards which have already been incorporated into EU law and have already been published but which are not yet mandatorily applicable:

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 of the power of disposal over the contracted goods and services. Furthermore, the revenues will be valued at the amount of consideration which the company expects to receive. IFRS 15 will replace the content of, for example, IAS 18 and IAS 11, and additionally stipulates for extensive new disclosure requirements. Its first-time application has been postponed until 1 January 2018. The outcome of an initial analysis carried out for the Deutsche Wohnen Group indicates that there will be no material effect on the company's financial performance due to the standard tenancy agreements, which on principle may be terminated on short notice, and non-attributable contractual costs.

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 comprise 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, which in the future will be in line with the risk management system of the company concerned. The previous ranges of effectiveness between 80 % and 125 % will be replaced by proof of effectiveness in quantitative and qualitative terms. Deutsche Wohnen is currently analysing the likely impact on its reporting of financial instruments on the balance sheet, and the preliminary results indicate that the first-time application of IFRS 9 will not have any significant effects on the accounting methodology of the Deutsche Wohnen Group.

In addition, various amending standards were published in 2013 and 2014. These comprise, among others, clarifications and simplifications relating to improved disclosure in the notes, having regard to materiality considerations. These amending standards are applicable for reporting periods from 1 January 2016 onwards. Deutsche Wohnen does not expect them to have any material effect on its reporting methodology.

In January 2016, the IASB published amendments to IAS 7 "Statement of Cash Flows" which impose more extensive requirements on companies with regard to the disclosure relating to their financing activities. These are to be applied for the first time from 1 January 2017. Deutsche Wohnen is currently analysing whether this is likely to have any effects.

The following IFRS standards have not yet been incorporated into EU law and as such are not yet applicable:

In January 2016, the IASB published amendments to IAS 12 "Income Taxes" which are intended to provide clarification of the recognition of deferred tax assets for unrealised losses resulting from the fair value reporting of assets on the balance sheet. The first-time application of these amendments is scheduled for 1 January 2017 onwards. Deutsche Wohnen is currently analysing whether this is likely to have any effects.

In January 2016, the IASB published a new standard governing the reporting of leasing transactions on the balance sheet, IFRS 16, pursuant to which all leasing transactions are to be reported on the balance sheet in the form of depreciable rights of use and leasing liabilities. The standard will be mandatorily applicable from 1 January 2019 onwards. Deutsche Wohnen has begun to analyse the possible effects of the application of this standard; no results are yet available.

In June 2016, the IASB announced amendments to IFRS 2 "Share-based Payment" which address issues relating to the reporting of payments of share-based remuneration involving cash compensation on the balance sheet and, in particular, the calculation of the attributable fair value of the corresponding obligations. The first-time application of these amendments is scheduled for 1 January 2018 onwards. Deutsche Wohnen is currently exmanining possible effects.

In December 2016, the IASB published amendments to IAS 40 "Investment Property" which clarify that the standard lists possible examples of a certain change in use and the resultant transfer to or from the IAS 40 category, and that this list is not exhaustive. The amendment will be 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", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" were published in the form of a collective amending standard in December 2016. The amendments comprise, in particular, clarifications which are mandatorily applicable with regard to IFRS 12 from 1 January 2017 onwards and with regard to the remaining amendments from 1 January 2018 onwards. Deutsche Wohnen is currently exmanining possible effects.

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 judgements, 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.

Judgements

In the process of applying the Group's accounting policies and valuation methods, management has made the following judgements, 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 KATHARINENHOF® Group

Deutsche Wohnen AG assumes – despite not having the voting rights majority – to own the possibility to dominate KATHARINENHOF® Group. Control is primarily the result of 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.

Estimates and assumptions

The most important assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

Attributable fair value of investment properties and properties held for sale

The attributable fair value of residential and commercial investment properties was determined internally by portfolio valuations as at 30 June 2016 and 31 December 2016 and confirmed by external parties.The properties are clustered on the basis of their location and property quality. Assumptions regarding mainly the development of rents, vacancies, maintenance costs, and discount rates are made on the basis of these clusters. These valuation assumptions are subject to uncertainties due to their long-term nature that may lead to either positive or negative value adjustments in the future. The carrying amount of the investment properties and properties held for sale amounts to EUR 16.0 billion (previous year: EUR 12.0 billion). Please see note D.1 "Investment properties" for further information.

Value of goodwill arising out of the acquisition of GSW

The value of goodwill arising out of the acquisition of GSW was determined as at 31 December 2016 on the basis of a discounted cash flow projection. The review resulted in an impairment in the amount of EUR 535.1 million. The carrying amount of the goodwill arising out of the acquisition of GSW was thus subjected to impairment in full (previous year: no impairment). The material assumptions adopted with regard to scheduled inflows of funds, the discount rate and the growth rates are subject to some uncertainty as to the accuracy of the estimates. Please see note D.4 "Intangible assets" 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 calculated 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 liability from pensions obligations as at 31 December 2016 amounted to EUR 67.6 million (previous year: EUR 64.6 million). Please see note D.12 "Employee benefit liabilities" for further information.

Deferred taxes

The reporting of deferred taxes on the balance sheet calls for, in particular, estimates aimed at reversing temporary differences as well as the use of deferred tax assets arising out of loss carry-forwards. The underlying assumptions are subject to some uncertainty. The deferred taxes as at 31 December 2016 amounted to EUR 0.7 million on the assets side of the balance sheet (previous year: EUR 2.0 million) and EUR 1,687.1 million on the liabilities side (previous year: EUR 860.7 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 Deutsche Wohnen AG and the subsidiaries it controls from the time of their acquisition, being the date on which the group obtains control. They continue to be consolidated until the date when such control ceases. The composition of Deutsche Wohnen can be seen in the list of shareholdings attached as Appendix 1 from 149.

In 2016, a total of 109 companies (previous year: 101) were included in the consolidated financial statements as fully consolidated entities (Appendix 1).

In the Residential Property Management segment, six newly acquired residential property companies without business operations were fully consolidated in 2016; of these, three had the legal form of a German "GmbH" (limited liability company) and three the legal form of a Dutch "B.V." (also a limited liability company). Furthermore, one company was deconsolidated in 2016. This deconsolidation did not have any material effect on the financial position or financial performance of the Deutsche Wohnen Group.

Moreover, on 1 January 2016 Deutsche Wohnen took over 100 % of the shares in FACILITA Berlin GmbH, Berlin, in which the Group had held 49 % of the voting rights as at 31 December 2015. This company has been a fully consolidated entity since 1 January 2016, with the result that its earnings have been included in the profit/loss for the period of Deutsche Wohnen since 1 January 2016. FACILITA Berlin GmbH, Berlin, provides services primarily to companies of the Deutsche Wohnen Group in Berlin and has been allocated to the Residential Property Management segment.

As at the date of its first-time consolidation, the fair value of the assets and liabilities acquired from FACILITA Berlin GmbH was as follows:

EUR m	
Assets	
Property, plant and equipment	0.1
Receivables and other assets	0.5
Cash and cash equivalents	6.2
	6.8
Property, plant and equipment	
Receivables and other assets	–0.7
Cash and cash equivalents	–2.7
	–3.4
Net assets	3.4

The determination of the fair value of the assets and liabilities has been completed, with no material changes in value since the date of its first-time consolidation having been identified.

The attributable fair value of the acquired trade receivables and other assets is commensurate with their carrying amount. These largely comprise receivables from Group companies, which are offset by liabilities owed to these Group companies in the same amounts.

The purchase price for the shares of FACILITA amounted to EUR 51,000. This corresponds not to their attributable fair value, rather to the purchase price for a possible buyback of the shares as originally agreed upon by the parties. The resultant revenues, taking account of the 49 % shareholding in the amount of EUR 1.7 million reported on the balance sheet by way of joint venture as at 31 December 2015, amount to EUR 1.8 million, which are included in the item "Other revenues" in the profit and loss statement.

Taking account of the acquired cash and cash equivalents in the amount of EUR 6.2 million, the item "Cash and cash equivalents acquired in connection with business combinations" under net cash flows from investing activities in the statement of cash flows includes a payment in the amount of EUR 6.2 million.

Since the date of its first-time consolidation, the revenues of the company included in the consolidated financial statements of Deutsche Wohnen have amounted to approximately EUR 14.8 million, while the earnings before taxes (EBT) have amounted to approximately EUR 1.0 million. Given that the revenues of the company largely relate to services provided on an internal Group basis within the Residential Property Management segment, these have been consolidated.

This business combination did not given rise to any material transaction costs.

Furthermore, on 31 December 2016 Deutsche Wohnen acquired 100 % of the shares in Hamburger Senioren Domizile GmbH (HSD GmbH), Hamburg, as well as 100 % of the shares in Hamburger Ambulante Pflege & Physiotherapie GmbH (HAPP GmbH), Hamburg, a wholly owned subsidiary of HSD GmbH. Moreover, three nursing and residential properties in Hamburg were also acquired in the context of this business combination. The companies and the related nursing and residential properties have been allocated to the Nursing and Assisted Living segment.

As at the date of their first-time consolidation, the provisional fair value of the assets and liabilities acquired from HSD GmbH, HAPP GmbH and the properties was as follows:

EUR m	
Assets	
Investment properties	53.2
Property, plant and equipment	2.4
Receivables and other assets	1.2
Cash and cash equivalents	0.9
	57.7
Liabilities	
Trade payables and other liabilities	–2.1
	–2.1
Net assets	55.6

The provisional fair value of the properties was validated by way of external expert opinion and accordingly taken into account in the provisional allocation of the purchase price. The recognition and the valuation of other intangible assets could not be finalised due to the brief period of time between the preparation of the financial statements and the acquisition, and will thus be undertaken over the course of the financial year 2017. On the basis of the information currently available, it may be assumed that the indicated carrying amounts for the acquired assets and liabilities are commensurate with their fair value.

The deduction of the provisional value of the net assets in the amount of EUR 55.6 million from the purchase price for the companies and the properties in the amount of EUR 67.0 million results in goodwill in the provisional amount of EUR 11.4 million. Taking account of the acquired cash and cash equivalents in the amount of EUR 0.9 million results in an outflow of cash and cash equivalents in the amount of EUR 66.1 million.

This business combination generated transaction costs, predominantly arising on tax law grounds, in the amount of EUR 2.6 million.

There have been no further changes to the basis of consolidation.

2 Consolidation methods

The financial statements for the subsidiaries are prepared using consistent accounting and valuation methods as at the same reporting date as the financial statements of the parent company. Subsidiaries are fully included in the consolidation from the time of their acquisition, this being the date on which the Group obtains control. They continue to be consolidated until the date on which the parent company's potential of control ceases.

Consolidation of capital is made 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. A difference in a positive amount resulting from this offsetting is recognised under assets as goodwill. Negative differences are recognised in the profit and loss statement once they have been reviewed accordingly. The date of the acquisition represents the date on which the Group acquires the ability to exert influence over the relevant activities of a subsidiary, becomes exposed to fluctuations in the return on its investment and acquires the power of disposal necessary to exert influence over the latter. 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 associated companies 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 not attributable to the shareholders of the parent company of the Group. Non-controlling interests are valued in the amount of the share which they represent of the identified value of the net assets of the acquired company as at the acquisition date. 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

At the reporting date, Deutsche Wohnen AG had 108 subsidiaries (previous year: 100). Access to the assets and liabilities of these is not subject to any restrictions.

Non-controlling minority shareholdings which merely confer earnings entitlements are held in some subsidiaries; these are reported as non-controlling interests under equity in the consolidated financial statements. The shareholdings of non-controlling shareholders in GSW Immobilien AG amounted to 6.1 % as at 31 December 2016 (previous year: 6.2 %). GSW Immobilien AG paid out dividends to non-controlling shareholders in the amount of EUR 5.4 million in the financial year 2016.

The following consolidated financial information relates to GSW as a major subsidiary in with non-controlling shareholdings:

EUR m	GSW-Gruppe
Non-current assets	5,573.7
Current assets	509.4
Cash and cash equivalents	5.6
Non-current liabilities	– 2,509.4
Current liabilities	– 179.2
Net assets	**3,400.1**
Earnings from Residential Property Management	188.6
Profit for the period	**907.1**
Thereof attributable to non-controlling shareholders	0.5
Other comprehensive income	2.2
Cash flows	– 116.3
Dividends	87.8

Since 1 January 2015, Deutsche Wohnen's shareholding in the KATHARINENHOF® Group, and thus its share of the voting rights in the latter, has been 49 %. At that point in time, the other shares had been acquired from Deutsche Wohnen by a group of investors. In spite of the resultant lack of majority voting rights, the KATHARINENHOF® Group is included in the consolidated financial statements of Deutsche Wohnen AG as a fully consolidated subsidiary in accordance with IFRS 10, given that, pursuant to the contractual arrangements entered into with the other shareholders and also the provisions of the articles of association, Deutsche Wohnen is able to determine the relevant activities of the KATHARINENHOF® Group and also bears the risk of variable returns in this regard. The provisions governing the tendering of the shares of the majority shareholder pursuant to these arrangements are to be viewed as conferring substantive rights within the meaning of IFRS 10.

Deutsche Wohnen AG has granted guarantees, securities and other collateral towards third parties on behalf of Group companies in the amount of EUR 1,418.1 million (previous year: EUR 967.0 million).

Shares in joint arrangements and associates

At the reporting date, Deutsche Wohnen had holdings in seven joint ventures and one associated company, with these companies being 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.

Its joint ventures and associates are currently of minor importance, having generated total annual earnings of EUR 5.1 million in the financial year 2016 (previous year: EUR 3.7 million) and being reported on the balance sheet in a total carrying amount of EUR 10.9 million (previous year: EUR 7.1 million). An at-equity valuation of the joint ventures results in earnings of EUR 2.0 million (previous year: EUR 1.8 million).

Deutsche Wohnen is not subject to any material financial obligations or guarantees/securities relating to the joint ventures or associates.

Shares in non-consolidated companies

Deutsche Wohnen holds shares in seven (previous year: 18) non-consolidated companies which are deemed to be of immaterial relevance within the Group. These generally relate to shareholdings in other property companies. No material obligations exist in relation to these companies.

Deutsche Wohnen's total risk exposure regarding these shareholdings is commensurate with their carrying amounts. The carrying amounts of the non-consolidated companies amounted to approximately EUR 0.3 million as at 31 December 2016 (previous year: EUR 5.8 million). These are reported on the balance sheet as financial instruments (AfS) at amortised cost in accordance with IAS 39, given that their fair value cannot reliably be calculated.

C Accounting policies and valuation methods

1 Assessment of the attributable fair value

The attributable fair value is the price which would be received for the disposal of an asset or paid for the transfer of a liability in the context of an orderly business transaction between market participants on the assessment date. The assessment of the attributable 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 attributable fair value of an asset or a liability is determined by reference to the assumptions on which the market participants would base their pricing of the asset or liability, assuming 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 attributable fair value. In this context, it is required to apply observable input factors to the greatest possible extent and minimise the application of non-observable input factors.

All assets and liabilities, whose attributable 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 attributable 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 attributable fair value which 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 attributable 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 attributable 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 purposes of generating value and which 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 measured at their attributable fair value. Gains or losses arising from adjustments are reported in the profit and loss statement.

Internal valuations of the residential and commercial buildings were carried out as at 31 December 2016, 30 June 2016 and 31 December 2015. The portfolio was contemporaneously valued by CB Richard Ellis GmbH, Frankfurt/Main, as at 31 December 2016, 30 June 2016 and 31 December 2015 in accordance with internationally recognised valuation methods, and the total value was confirmed. Remuneration is paid to CB Richard Ellis GmbH on the basis of a fixed rate and is thus independent of the outcome of the property valuation. Value deviations for individual properties are no larger than +/– 10 % where an absolute materiality threshold of +/– EUR 250 k is exceed. In the overall result CB Richard Ellis deviates by a rounded – 0.1 % (previous year: – 0.4 %) from the internal valuation.

Investment properties are derecognised when either they have been sold 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.

Scheduled 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. Amounts of depreciation and amortisation are recognised in the consolidated profit and loss statement under the expense item "Depreciation and amortisation".

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 derecognition 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 the end of each financial year and adjusted if appropriate.

4 Intangible assets

Deutsche Wohnen only recognises acquired intangible assets on the balance sheet. These are measured on initial recognition 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. Amounts of depreciation and amortisation are recognised in the consolidated profit and loss statement under the expense item "Depreciation and amortisation".

Intangible assets with an uncertain useful life, including goodwill in particular, are not amortised on a scheduled basis. These are subjected to impairment testing whenever this appears necessary or – in the case of goodwill – at least once a year.

5 Borrowing costs

Interest on borrowings is recognised as an expense in the period in which it arises. There were no effects from the application of IAS 23, as the qualified assets (properties) were already recognised at fair value.

6 Impairment of non-financial assets

The non-financial assets consist mainly of 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 such 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 attributable fair value less disposal costs and its value in use. The recoverable amount is determined for each individual asset, unless the asset 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 impaired and is depreciated to its recoverable amount.

Goodwill acquired in the context of the acquisition of companies and businesses are 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. These cash-generating units represent the lowest level at which these assets are monitored for corporate management purposes. Goodwill arising in connection with the acquisition of control over the GSW Group is allocated to the cash-generating unit "Rental activities of the GSW Group" in the Residential Property Management segment.

Goodwill impairment is undertaken by determining the carrying amount of the cash-generating units based on estimated future cash flows which have been derived from actual values and projected for a three-year period with a customary growth rate. 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.

For all non-financial assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 prior 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 attributable fair value through profit or loss,
- as loans and receivables,
- as available-for-sale financial assets, or
- as derivative financial instruments designed as hedging instruments in an effective hedge.

Financial assets are recognised initially at their attributable fair value. In the case of financial assets which are not classified as having been valued at their attributable fair value, transaction costs directly attributable to the acquisition of the asset are taken into account. 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, securities and loans are allocated to the Available for Sale (AfS) category and generally reported at their fair value on the balance sheet. However, equity instruments will be reported at cost on the balance sheet where their fair value 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.

Impairment of receivables from rental activities is undertaken subject to the extent to which the receivables are past due. Reasonable individual impairments are made for other receivables and assets.

Interest rate hedging transactions are reported on the balance sheet at their attributable fair value using market-based valuation models.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) will be derecognised when the contractual rights to receive cash flows from the financial asset have expired.

8 Inventories

Inventories comprise land and buildings held for sale and other inventories. Land and buildings held for sale are sold in the normal course of business, so 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 their associated financial liabilities as assets held for sale if notarised sales contracts are present as at the reporting date but the transfer of ownership takes place at a later date. Properties held for sale are valued at their attributable fair value.

11 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified by Deutsche Wohnen either

- as other financial liabilities that are carried at amortised cost,
- as financial liabilities which are reported on the balance sheet at their attributable fair value, or
- as derivative financial liabilities.

Financial liabilities and corporate bonds
Loans and corporate bonds are initially recognised at their attributable 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 bonds
Convertible bonds, being financial instruments comprising bonds and share options, which in the event of a conversion by creditors, can be serviced by the company either in cash or in the form of shares and for which quoted security prices on markets can be ascertained, are valued at the attributable fair value commensurate with their nominal value when reported for the first time. The transaction costs arising in connection with the issuance are reported as finance expenses. Due to the exercise of the option of valuing compound financial instruments at their attributable fair value, the subsequent valuation of the convertible bonds is based on the security price on the reporting date in question. Gains and losses arising as a result of the valuation are recognised in the profit and loss statement.

Trade payables and other liabilities
Liabilities are initially recognised at their attributable 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
In accordance with IAS 32, the termination rights of a limited partner are a decisive criteria for the distinction between equity and debt capital. Financial instruments granting the owner (here: limited partner) the right to return the instrument to the issuer in return for payments of money constitute a financial liability. Due to the termination rights 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 shares of the limited partners are consequently recognised as a finance expenses.

The net assets of the limited partners must be recognised at the fair value of any possible repayment amount at the end of the financial year. Value increases are recognised as finance expenses 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 6.5 million (previous year: EUR 6.4 million).

Liabilities from put options
A corresponding approach is taken in the case of shares of non-controlling shareholders who hold contractually vested put options with regard to their shares, which Deutsche Wohnen would be obligated to acquire upon an exercise of those options. Deutsche Wohnen is subject to obligations with regard to these put options in the amount of their attributable fair value of EUR 21.7 million (previous year: EUR 16.8 million).

A financial liability is derecognised when the obligation underlying the liability is discharged, 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. 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 for commitments (pensions, invalidity, surviving spouse pensions and surviving dependant benefits) for pensions and ongoing benefits to eligible active and former employees and their surviving dependants. In total, there are pension commitments for 813 employees (thereof 300 active employees and 513 withdrawn and retired employees), with pension payments on the basis of period of employment and the salary level at retirement age (previous year: 822 employees, thereof 311 active employees and 511 pensioners).

Expenses for benefits granted as part of defined contribution plans are determined using the projected unit credit method. Actuarial gains and losses are recognised 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 of Bavaria – as well as the Versorgungsanstalt des Bundes und der Länder (hereinafter VBL) – the supplementary pension fund of the Federal Republic and the Federal States. 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 by the employees' compensation, which is 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 represent 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. In future, increasing/decreasing payments of premiums by Deutsche Wohnen to the BVK and the VBL may result from possible excess or deficient cover.

13 Provisions

Provisions are recognised when the Group has a present obligation (statutory or constructive) as a result of a past event, if 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 some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss statement of the Group net of any reimbursement. 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 Lease

Leasing transactions are differentiated between finance leases and operating leases.

Deutsche Wohnen acts solely in the capacity of lessee in the context of finance leasing transactions. Given that the underlying contractual provisions transfer all significant risks and rewards associated with the ownership of an asset to the lessee, these leasing transactions are reported 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 leasing transactions which are classified as operating leases.

Payments from operating leasing agreements are principally reported in linear form as revenues (from the point of view of the lessor) or expenses (from the point of view of the lessee) over the contractual period.

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 properties
Revenue is recognised when the significant risks and rewards associated with the ownership of the disposed property have been transferred to the purchaser and no significant rights of disposal regarding the sold properties have been retained.

Services
Revenue is recognised in accordance with the delivery of the service.

Expenses
Expenses are recognised when these have been caused economically.

Interest expenses and income
Interest is recognised as expense or income in the relevant period.

As part of the long-term performance-based remuneration there are share-based remuneration components which are settled through funds. 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 when 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 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 attributable fair value and are subsequently carried at amortised cost. However, they are to be viewed in the context of rent restrictions concerning the properties, which were taken into account when determining the fair value.

17 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 recovered or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those which apply as at the reporting date.

Deferred taxes

Deferred tax is created using the balance sheet-oriented liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. 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, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except the following:

- 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, affect neither the profit/loss for the period for commercial law purposes nor taxable earnings may not be recognised.

- Deferred tax assets from taxable 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 profit 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 profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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 apply or have been announced 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. Deferred tax assets that are recognised in and off the profit and loss statement are allocated on the basis of a reasonable pro rata proportion (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.

18 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge against interest rate risks. These derivatives are recognised at their attributable fair value when the corresponding agreement is entered into and are subsequently reported at their attributable fair value. Derivative financial instruments are recognised as financial assets if their attributable fair value is positive and as financial liabilities if their attributable fair value is negative. The subsequent valuation is carried out on the basis of the attributable fair value.

The attributable fair value 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 takes account of the risk of non-performance (counterparty risk) and the company's own credit risk in accordance with IFRS 13.42ff.

Deutsche Wohnen recognises concluded interest rate swaps in accordance with the hedge accounting regulations of IAS 39, where the conditions for the application of this standard are 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 part of the value adjustment of the hedge is directly recognised in equity without affecting earnings. The non-effective part is recognised in the profit and loss statement of the Group. Deutsche Wohnen has tested the effectiveness of the concluded interest hedges on a prospective (hypothetical derivative method) and a retrospective basis. 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 fair value of the interest rate swaps is classified as either short-term or long-term assets/liabilities, depending on the term of the contracts in question.

Deutsche Wohnen only hedges cash flows which relate to future interest expenses.

19 Share-based remuneration

The Management Board of Deutsche Wohnen has been receiving share-based remuneration in the form of subscription rights (stock options) since the financial year 2014. The stock option programme is fundamentally an option plan implemented using equity instruments.

The expenses incurred as a result of the issuance of the stock options are valued at the attributable fair value of the granted stock options at the time of their granting and calculated using generally recognised option pricing models. The expenses resulting from the issuance of the stock options are reported, together with a corresponding increase in equity (capital reserve).

The diluting effect of the outstanding stock 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 terms underlying results 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 attributable fair value. Fair value developed as follows during the financial year:

EUR m	31/12/2016	31/12/2015
Start of period	11,859.1	**9,611.0**
Acquisitions	1,411.7	712.4
Additions by way of business combinations	53.2	0.0
Other additions	157.1	103.7
Disposals	–114.4	–165.1
Fair-value adjustment	2,667.6	1,734.1
Transfer	–29.2	–137.0
End of period	16,005.1	**11,859.1**

The transfer essentially includes the property reclassified as non-current assets for disposal in the current financial year. Acquisitions comprise, among other things, advance payments for acquisitions of investment properties.

The valuation (Level 3 of the Fair Value Hierarchy – valuation on the basis of valuation models) as at 31 December 2016, 30 June 2016 and as at 31 December 2015 was completed in accordance with the following principles, which were developed in the context of the internal periodic valuation:

Valuation on the basis of defined clusters:

- Derivation of annual rent increases and target vacancies based on the location and physical characteristics of the properties,
- Derivation of capitalisation rates for the detailed phase of the projection process,
- Derivation of discount rates in perpetuity.

Derivation 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 in-place 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 or an expected sales price less cost of sales,
- Calculation of a fair value based on the administrative unit as at the reporting date.

The capitalisation rate and the discount rate were derived from the property-specific risk assessments.

The maintenance expenses are calculated using type- and property-specific approaches 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.

The valuation result of EUR 2,667.6 million is fully recognised in the profit and loss statement of the Group. Until disposal of the valuated properties in line with the market the valuation result is unrealised.

A review of the valuation by an independent third party takes place on 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 "corridors" present in the individual cluster and the weighted average:

	Core⁺			Core	Non-Core
31 December 2016	Berlin	Other	Total	Total	Total
Carrying amount in EUR m	11,435	2,351	13,786	1,221	99
Carrying amount in EUR/sqm	1,755	1,394	1,681	995	628
Share of carrying amount in %	75.7	15.6	91.3	8.1	0.7
In-place rent in EUR/sqm	6.10	6.42	6.17	5.58	4.96
Rent increases p.a. in %	2.59	2.12	2.52	1.26	1.02
Vacancy rate in %	1.6	1.8	1.8	1.8	5.0
Multiplier	23.9	17.9	22.6	14.9	11.2
Discount factor in %	4.9	6.3	5.2	6.8	7.5
Capitalisation factor in %	3.8	5.4	4.1	5.7	6.4
Maintenance costs p.a. in EUR/sqm	10.52	10.40	10.50	9.59	8.24

	Core⁺			Core	Non-Core
31 December 2015	Berlin	Other	Total	Total	Total
Carrying amount in EUR m	8,745	2,041	10,786	946	127
Carrying amount in EUR/sqm	1,372	1,251	1,348	893	641
Share of carrying amount in %	73.7	17.2	90.9	8.0	1.1
In-place rent in EUR/sqm	5.89	6.29	5.97	5.49	4.79
Rent increases p.a. in %	2.59	2.15	2.51	1.30	1.03
Vacancy rate in %	1.7	1.5	1.7	2.0	6.3
Multiplier	19.4	16.5	18.7	13.6	12.0
Discount factor in %	5.7	6.1	5.8	6.7	7.4
Capitalisation factor in %	4.6	5.2	4.7	5.6	6. 3
Maintenance costs p.a. in EUR/sqm	9.80	9.41	9.72	9.07	8.03

There may exist interactions between unobservable input factors. For example, an increase in the vacancy rate could affect the discount factor due to a higher risk or a decrease in the vacancy rate could lead to potentially higher rental growth. Furthermore, higher achievable rents could also require higher maintenance expenses, for instance.

Adjustment of the key valuation parameters (rent increase 20% lower than projected; increase in the discount rate of 0.1%; increase in the capitalisation rate of 0.1%) results in the following non-cumulated fair-value adjustments on the basis of the carrying amount of the properties:

	Core+			Core	Non-Core
31 December 2016	Berlin	Other	Total	Total	Total
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

	Core+			Core	Non-Core
31 December 2015	Berlin	Other	Total	Total	Total
Rent increases in %	−4.11	−3.52	−4.00	−2.43	−1.99
Discount factor in %	−0.73	−0.75	−0.74	−0.71	−0.71
Capitalisation factor in %	−1.33	−1.20	−1.31	−0.97	−0.84

Some of the investment properties serve as collateral for loans. There are also agreements in individual cases pursuant to which the condition of the properties may not deteriorate, or pursuant to which the average minimum investment amounts have been determined on a per-square-metre basis.

2 Lease commitments

The tenancy agreements concluded by Deutsche Wohnen with its tenants generated rental income in the amount of EUR 704.5 million (previous year: EUR 634.0 million). The expenses directly associated with the investment properties amounted to EUR 118.1 million (previous year: EUR 114.7 million).

In 2017, Deutsche Wohnen will receive minimum lease payments totalling approximately EUR 183.8 million pursuant to existing operating lease agreements with third parties from the current property portfolio for its residential property segment (implied statutory notice period: three months).

In context with its assisted living and nursing properties, Deutsche Wohnen will additionally receive minimum lease payments in the amount of approximately EUR 5.7 million in 2017 (average contractually stipulated notice period: one month).

Besides legal restrictrions, Deutsche Wohnen is partly subject to restrictions with regards to rental increases related to certain preferential tenants and in relation to grants in the form of subsidised-interest loans or investment subsidies. Additionally, we must comply with legal obligations when privatising 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:

31/12/2016				
EUR m	Owner occupied properties	Technical facilities and machinery	Plant and equipment	Total
Cost				
Start of period	14.4	31.1	18.5	64.0
Additions	0.6	12.1	3.3	15.9
Additions by way of business combinations	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
End of period	15.0	41.6	23.2	79.8
Cumulative depreciation and amortisation				
Start of period	3.1	5.5	9.7	18.3
Additions	0.6	4.3	2.4	7.3
Additions by way of business combinations	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
Transfers	0.0	0.0	0.0	0.0
End of period	3.7	8.4	11.8	23.9
Net carrying amounts	11.3	33.2	11.4	55.9

31/12/2015				
EUR m	Owner occupied properties	Technical facilities and machinery	Plant and equipment	Total
Cost				
Start of period	15.1	9.7	16.3	41.1
Additions	0.1	22.5	3.8	26.4
Additions by way of business combinations	0.0	0.0	0.0	0.0
Disposals	0.0	–1.1	–1.7	–2.8
Transfers	–0.8	0.0	0.1	–0.7
End of period	**14.4**	**31.1**	**18.5**	**64.0**
Cumulative depreciation and amortisation				
Start of period	2.7	3.6	8.9	15.2
Additions	0.6	2.4	2.4	5.4
Additions by way of business combinations	0.0	0.0	0.0	0.0
Disposals	0.0	–0.5	–1.6	–2.1
Transfers	–0.2	0.0	0.0	–0.2
End of period	**3.1**	**5.5**	**9.7**	**18.3**
Net carrying amounts	**11.3**	**25.6**	**8.8**	**45.7**

The land and buildings included in property, plant and equipment (EUR 11.3 million, previous year: EUR 11.3 million) are mainly property-secured.

EUR 29.5 million (previous year: EUR 21.4 million) are contained under technical facilities and fixed assets leased with machinery, which are to be allocated as financial leasing to the Group as economic ownership.

4 Intangible assets

Intangible assets developed as follows:

	31/12/2016		
EUR m	Goodwill	Other	Total
Cost			
Start of period	537.3	16.7	554.0
Additions	0.0	2.7	2.7
Additions by way of business combinations	11.4	0.1	11.5
Disposals	537.3	0.0	537.3
End of period	**11.4**	**19.5**	**30.9**
Cumulative depreciation and amortisation			
Start of period	0.0	7.7	7.7
Addition	537.3	2.7	540.0
Disposals	537.3	0.0	537.3
End of period	**0.0**	**10.4**	**10.4**
Net carrying amounts	**11.4**	**9.1**	**20.5**

	31/12/2015		
EUR m	Goodwill	Other	Total
Cost			
Start of period	537.3	19.6	556.9
Additions	0.0	2.3	2.3
Additions by way of business combinations	0.0	0.0	0.0
Disposals	0.0	−5.2	−5.2
End of period	**537.3**	**16.7**	**554.0**
Cumulative depreciation and amortisation			
Start of period	0.0	10.8	10.8
Additions	0.0	2.0	2.0
Disposals	0.0	−5.1	−5.1
End of period	**0.0**	**7.7**	**7.7**
Net carrying amounts	**537.3**	**9.0**	**546.3**

The addition of goodwill in the amount of EUR 11.4 million is due to the provisional allocation of the purchase price in connection with the business combinations in the Nursing segment (see section B.1 "Basis of consolidation" for further information). A description of the qualitative factors involved in the recognition of the goodwill cannot be provided due to the provisional nature of the allocation of the purchase price as at the reporting date.

The annual impairment testing of the goodwill arising out of the takeover of the GSW Group resulted in an impairment of the entire carrying amount of the goodwill in the amount of EUR 535.1 million, which was recognised in the consolidated profit and loss statement under the item "Depreciation and amortisation" for the Residential Property Management segment. This impairment is primarily due to adjustments of the carrying amounts for the value of the properties within the cash-generating unit and secondarily to the change in the discount rate. The impairment testing was undertaken on the basis of the following planning assumptions and market-based parameters:

- Projected inflow of funds: The projections are based on historical empirical figures and take account of expected market growth in specific business areas on the basis of the location of the real estate portfolio in question.

- After the three-year period, the cash flows are extrapolated using a growth rate of 1.0 % (previous year: 1.0 %), which will not exceed the presumed average market or industry growth rate.

- Discount rate: The discount rate for the reporting units is determined on the basis of average weighted capital costs in line with industry standards. A discount rate, based on the Group's weighted capital cost rate, of 4.22 % (previous year: 3.77 %) before taxes is used to determine the present value. The rise in the discount rate is largely attributable to higher market-based parameters in the context of the calculation of the assumed equity-related costs.

- Growth rate: Growth rates are based on published industry-related market research.

The value in use of the cash-generating unit corresponds to approximately EUR 5.3 billion.

5 Land and buildings held for sale

The increase in land and buildings held for sale is largely due to the structuring of the property portfolio and the allocation of properties to the Disposals segment. In the financial year 2016, proceeds were realised in the amount of EUR 50.6 million (previous year: EUR 36.7 million). The proceeds were partly offset by carrying amounts of assets sold in the amount of EUR 37.7 million (previous year: EUR 25.6 million).

6 Trade receivables

Receivables are made up as follows:

EUR m	**31/12/2016**	31/12/2015
Receivables from rental activities	10.5	10.2
Receivables from the disposal of land	3.7	2.1
Other trade receivables	2.2	1.1
	16.4	**13.4**

Receivables from rental activities are interest-free and are in principle overdue. Impairments are carried out based on the age structure and depending on whether the tenants are active or former tenants. There have been write-downs formed of almost all overdue receivables.

In the financial year 2016, rent receivables in the amount of EUR 3.3 million (previous year: EUR 4.4 million) were depreciated and amortised or impaired. The impairment of receivables as at 31 December 2016 amounted to EUR 20.5 million (previous year: EUR 19.1 million).

Receivables from the disposal of land are interest-free and are in principle due for payment between 1 and 90 days.

The receivables from the sale of land are fully recoverable and only overdue to a very minor extent.

Other receivables are interest-free and are in principle due for payment between 1 and 90 days.

7 Derivative financial instruments

Deutsche Wohnen Group concluded several interest hedging transactions in a nominal amount of EUR 1.0 billion (previous year: EUR 1.1 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 2017 to 2025. The strike rates are between – 0.25 % and 3.56 % (previous year: between – 0.18 % and 3.56 %). The sum of both the positive and the negative fair value amounts of these transactions amounted to EUR – 47.0 million as at 31 December 2016 (previous year: EUR – 44.8 million).

There are no significant default risks as the interest rate swaps were concluded with banks having 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 192.2 million (previous year: EUR 661.6 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 for the development of the Group's equity.

a) Issued share capital

As at 31 December 2016, the issued capital of Deutsche Wohnen AG amounted to approximately EUR 337.48 million (previous year: EUR 337.41 million) divided into approximately 337.48 million no-par value shares, each representing a notional share of the issued capital of EUR 1.00. The shares of Deutsche Wohnen AG are all bearer shares. All shares have been paid in full.

All shares carry the same rights and obligations. Every share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profits amongst shareholders. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sec. 12, 53 ff., 118 ff. and 186. There are no shares with special rights conferring powers of control.

The Management Board of Deutsche Wohnen AG is not aware of any restrictions which affect the voting rights or transfer of shares.

In the event of capital increases, the new shares are issued as bearer shares.

Changes in authorised capital

EUR k	2016
Authorised Capital 2015/I	
As at 1 January 2016	100,000
Utilisation	0
As at 31 December 2016	**100,000**

By resolution of the Annual General Meeting held on 12 June 2015, which was entered into the commercial register on 14 July 2015, the Management Board has been authorised to increase the company's issued capital, with the consent of the Supervisory Board, by up to EUR 100 million once or several times during the period until 11 June 2018 by means of the issuance of up to 100 million new ordinary bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2015/I). Shareholders must in principle be granted subscription rights within the scope of the authorised capital. However, in certain cases, the Management Board is 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.

Changes in contingent capital

EUR m	2013/I	2014/I	2014/II	2014/III	2015/I	Total
As at 1 January 2016	16,076	25,000	5,971	12,880	50,000	109,927
Capital increase by means of the issuance of compensation shares (GSW domination agreement)	–	–	–69	–	–	–69
As at 31 December 2016	**16,076**	**25,000**	**5,902**	**12,880**	**50,000**	**109,858**

The issued capital may be contingently increased by up to EUR 109.86 million by means of the issuance of up to approximately 109.86 million new no-par value bearer shares with dividend rights generally from the start of the financial year of their issuance (contingent capital 2013/I, contingent capital 2014/I, contingent capital 2014/II, contingent capital 2014/III and contingent capital 2015/I).

Issuance of option rights, bonds with warrants or conversion rights, profit participation rights or profit-sharing bonds
The resolution adopted at the Annual General Meeting held on 12 June 2015 authorised the Management Board, 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 1,500 million once or several times until 11 June 2020, and to grant the creditors thereof conversion or option rights for Deutsche Wohnen AG shares representing a share of the issued capital of up to EUR 50 million.

Acquisition of own shares
The acquisition of own shares is authorised pursuant to sec. 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 (TOP 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 subject to compliance with the principle of equal treatment (sec. 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. Shares acquired using this authorisation together with other shares of the company previously acquired and still held by the company or other shares attributable to the company pursuant to sec. 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 used 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 113.6 million in 2016 (previous year: an increase of EUR 823.0 million).

In 2016, EUR 117.6 million (previous year: EUR 50.0 million) was withdrawn from the capital reserve.

The capital reserve increased by EUR 2.2 million in the financial year 2016 as a result of the share-based remuneration of the members of the Management Board (previous year: EUR 0.7 million).

A further increase was the result of additional payments from the issuance of new bearer shares in fulfilment of the offer of compensation made to the GSW shareholders pursuant to the domination agreement in the amount of EUR 1.8 million (previous year: EUR 21.7 million). In the previous year, the capital increase with subscription rights implemented in June 2015 gave rise to premium payments in the amount of EUR 864.4 million, from which the costs incurred in connection with the capital increases in the amount of EUR 20.4 million and the income tax effects accruing in relation to these costs in the amount of EUR 6.5 million.

c) Retained earnings
Retained earnings comprise the revenue reserve of Deutsche Wohnen and the accumulated profit/loss carried forward.

The statutory reserve is mandatory for German stock corporations. In accordance with sec. 150 para. 2 of the German Stock Corporation Act (AktG), an amount equivalent to 5% of the profit for the financial year is to be retained. The statutory reserve has a cap of 10% of the issued capital. In accordance with sec. 272 para. 2 nos. 1–3 of the German Commercial Code (HGB), any existing capital reserve is to be taken into account and the provisions required for the statutory reserve are 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.

Financial liabilities as a whole increased in 2016, primarily as a result of the taking out of new bank loans in connection with property acquisitions.

The financial liabilities are hedged at approximately 80% (previous year: approximately 83%) at a fixed rate and/or through interest rate swaps. The average rate of interest was approximately 1.8% (previous year: approximately 2.0%).

The loan renewal structure based on current outstanding liability is as follows:

EUR m	Carrying amount 31/12/2016	Nominal value 31/12/2016	2016	2017	2018	2019	2020	≥ 2021
Loan renewal structure 2016	4,599.9	4,690.2	**–**	**23.7**	**19.0**	**67.5**	**271.3**	**4,308.7**
Loan renewal structure 2015	3,780.4	3,879.7	18.8	14.3	21.3	78.9	223.3	3,523.1

The liabilities are almost entirely secured by property as collateral.

11 Bonds and convertible bonds

In December 2016, Deutsche Wohnen issued diverse forms of short-term commercial papers in the nominal amount of EUR 233 million.

The following Deutsche Wohnen bonds and convertible bonds were outstanding as at 31 December 2016:

Type	Issuance	Maturity max.	Nominal EUR m	Coupon % p.a.	Carrying amount EUR m	Conversion price EUR/share
Convertible bond	2013	2020	250.0	0.5	435.3	17.454
Convertible bond	2014	2021	400.0	0.875	609.8	21.011
Total convertible bonds			**650.0**		**1,045.1**	
Corporate bond	**2015**	**2020**	**500.0**	**1.375**	**499.3**	**–**
Commercial papers programme	**2016**	**2017**	**233.0**	**0.05**	**232.9**	**–**

12 Employee benefit liabilities

The company's pension scheme consists of defined benefit and defined contribution plans. The average term of the obligations is approximately 14.7 years (previous year: 14.5 years); payments from pension benefit plans for 2017 are expected in the amount of EUR 3.7 million (less payments on plan assets) (previous year: EUR 3.9 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 %	31/12/2016	31/12/2015
Discount rate	1.61	2.03
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 are estimated annually, depending, 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 1.61 %.

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	31/12/2016	31/12/2015
Present value of employee benefit liabilities	74.8	72.1
Less attributable fair value of the plan assets	–7.2	–7.5
	67.6	**64.6**

The following table shows the development of the present value of the performance-oriented liabilities and the attributed fair value of the plan assets:

EUR m	31/12/2016	31/12/2015
Opening balance employee benefit liabilities	72.1	75.4
Pension payments	–3.6	–3.6
Interest cost	1.4	1.4
Service cost	0.5	0.5
Actuarial gains/losses	4.4	–1.7
Closing balance employee benefit liabilities	74.8	**72.1**
Thereof pension plans with financing from plan assets	12.4	10.6
Thereof pension plans without financing from plan assets	62.4	61.5
Opening balance plan assets	7.5	7.8
Interest income from plan assets	0.1	0.1
Pension payments from plan assets	–0.4	–0.4
Closing balance plan assets	7.2	**7.5**

The pension expenses comprise the following:

EUR m	31/12/2016	31/12/2015
Interest cost	–1.3	–1.3
Service cost	–0.5	–0.5
	–1.8	**–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 profit and loss statement of the Group, whilst current pension payments, service expenses and adjustments to current pensions are recognised as "staff expenses".

Expenses for defined contribution plans in the total amount of EUR 5.9 million (previous year: EUR 5.9 million) were incurred. Therefore, total expenses for pension plans (defined benefit and defined contribution) amounted to EUR 6.3 million (previous year: EUR 6.4 million). For 2017, based on the current number of employees, the cost will total approximately EUR 5.6 million.

A drop in the interest rate of 0.25 % would result in an increase in pension obligations of 3.93 %; an interest rate increase of 0.25 % would result in a reduction of pension obligation of 3.71 %. A drop in the pension progression of 0.25 % would result in an increase in pension obligations of 2.03 %; a pension progression increase of 0.25 % would result in a reduction of pension obligation of 4.16 %.

The sensitivity calculations are based on the average term of the pension liabilities determined as at 31 December 2016. 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 2016 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 any further changes to the relevant actuarial parameters, which could lead to material adjustments of the carrying amounts of the reserves for employee benefit liabilities during the next year, to be likely.

There exist provisions for commitments in case of occupational disability in favour of the members of the Management Board in an amount of EUR 6 k (previous year: EUR 7 k), which are recognised in the employee benefit liabilities as well.

13 Liabilities to limited partners in funds

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB 14 a put option relating to their limited partnership interests from 2005 to 2019. Under these agreements, the Group is obliged to acquire the interests initially (in 2005) at 105 % of the paid-in capital upon request. From 2005, the agreed purchase price for the interest increases by five percentage points per annum. Outstanding dividend payments are taken into account for limited partnership interests that are offered to us.

Liabilities developed as follows during the financial year:

EUR m	2016	2015
Opening balance liabilities	6.4	**6.3**
Payment for tender	0.0	0.0
Disposals of shares	0.0	0.0
Reversal	0.0	0.0
Accrued interest	0.1	0.1
Closing balance liabilities	6.5	**6.4**

The liabilities to limited partners in funds as at 31 December 2016 in the full amount (previous year: EUR 6.4 million) were reported as short-term.

14 Liabilities arising out of finance leases

Deutsche Wohnen has outsourced the provision of 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 amounted to EUR 31.0 million at the end of the year (previous year: EUR 22.2 million).

The finance leases give rise to the following financial liabilities:

	31/12/2016			31/12/2015		
EUR m	Due within one year	Due in 1 to 5 years	Due after 5 years	Due within one year	Due in 1 to 5 years	Due after 5 years
Payments	3.8	14.5	15.6	2.6	10.2	11.8
Interest component	–0.4	–1.3	–1.1	–0.3	–1.1	–1.0
Redemption component	3.4	13.2	14.4	**2.3**	**9.2**	**10.7**

15 Other provisions

The other provisions comprise the following:

EUR m	Revitalisation	Restructuring	Other	Total
Start of period	5.5	6.3	17.6	29.4
Additions by way of company acquisitions	0.0	0.1	0.1	0.2
Utilisation	−3.0	−6.0	−2.8	−11.8
Reversal	0.0	0.0	−2.0	−2.0
Additions	0.1	1.5	6.5	8.1
End of period	2.6	1.9	19.4	23.9
Thereof non-current	0.0	0.0	15.5	15.5
Thereof current	2.6	1.9	3.9	8.4

The provision for revitalisation (EUR 2.6 million, previous year: EUR 5.5 million) relates 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 housing conditions.

The provision for restructuring measures primarily comprises obligations arising out of the social compensation plan arrangements in relation to GSW Immobilien AG.

Other provisions (EUR 19.4 million; previous year: EUR 17.6 million) relate to a large number of third-party obligations.

Additions comprise accrued interest on non-current provisions in the amount of EUR 2.4 million.

16 Tax liabilities

Tax liabilities (EUR 48.3 million, previous year: EUR 37.5 million) primarily comprise provisions for current taxes and for possible tax-related risks arising in connection with external audits.

17 Deferred taxes

The deferred taxes comprise the following:

EUR m	31/12/2016	31/12/2015	Change
Deferred tax assets			
Properties	1.2	1.9	−0.7
Pensions	9.6	8.2	1.4
Loss carry-forwards	265.4	280.4	−15.0
Interest rate swaps	14.9	13.4	1.5
Loans	0.2	0.8	−0.6
Convertible bonds	52.7	13.3	39.5
Other	13.1	7.4	5.7
	357.0	**325.4**	**31.6**
Netting	−356.3	−323.5[1]	−32.8
Balance sheet	0.7	2.0	−1.2
Deferred tax liabilities			
Loans	21.8	28.1[1]	−6.3
Properties	2,008.5	1,144.3[1]	864.2
Other	13.1	11.7[1]	1.3
	2,043.4	**1,184.1**	**859.3**
Netting	−356.3	−323.5[1]	−32.8
Balance sheet	1,687.1	860.7	826.4
Deferred taxes (net)	−1,686.4	**−858.7**	**−827.7**

[1] Adjusted figures for the previous year; see note A.3 "Application of IFRS in the financial year" for further information

The changes in deferred taxes in 2016 and 2015 were as follows:

EUR m	31/12/2016	31/12/2015
Reported directly in other comprehensive income	1.5	−25.5
From company acquisitions	0.3	0.0
Recognised in profit/loss	−829.5	−559.3[1]
	−827.7	**−584.8**[1]

[1] Adjusted figures for the previous year; see note A.3 "Application of IFRS in the financial year" for further information

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 are likewise recognised without effects on the result and amount to EUR 7.1 million (previous year: EUR 4.1 million) for actuarial gains and losses, as well as EUR 8.3 million (previous year: EUR 9.1 million) for the changes in the fair value of the effective hedging transactions. Further amounts arising in connection with company acquisitions but not having an effect on earnings amounted to EUR 0.3 million (previous year: EUR 0 million).

The increase in deferred tax liabilities with regard to properties in the financial year 2016 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 1,081.0 million (previous year: EUR 1.3 billion) and trade tax loss carry-forwards in the amount of EUR 959.8 million (previous year: EUR 1.1 billion). The corporation tax loss carry-forward that was not capitalised amounts to EUR 154.9 million (previous year: approximately EUR 0.3 billion) and the trade tax loss carry-forward to EUR 131.7 million (previous year: approximately EUR 0.2 billion). In general, loss carry-forwards do not expire.

In the 2016 fiscal year, no accrued deferred taxes were balanced for temporal differences amounting to EUR 69.3 million (previous year: EUR 87.6 million) because it is unlikely that sufficient taxable income will be achieved for these amounts in the near future.

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	2016	2015
Potential rental income	719.2	648.1
Subsidies	2.2	4.6
	721.4	**652.7**
Vacancy loss	– 16.9	– 18.7
	704.5	**634.0**

2 Expenses from Residential Property Management

The expenses from Residential Property Management are made up as follows:

EUR m	2016	2015
Maintenance costs	94.5	86.1
Non-recoverable operating expenses	9.8	12.7
Rental loss	6.4	6.3
Other expenses	7.4	9.7
	118.1	**114.8**

3 Earnings from Disposals

The earnings from Disposals include income from sales proceeds, costs of sale 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	2016	2015
Income for Nursing and Assisted Living	70.1	67.2
Nursing and corporate expenses	– 18.0	– 17.9
Staff expenses	– 35.3	– 33.7
	16.8	**15.6**

5 Corporate expenses

The corporate expenses are made up as follows:

EUR m	2016	2015
Staff expenses	47.9	**45.9**
General and administration expenses		
IT costs	7.0	6.7
Building costs	3.7	7.6
Legal, consultancy and audit costs	5.2	4.1
Communication costs	2.6	2.3
Printing and telecommunication costs	1.6	2.5
Travel expenses	0.9	1.2
Insurance	1.0	0.8
Other	3.8	3.6
	25.8	**28.8**
	73.7	**74.7**

The Deutsche Wohnen Group employed an average of 891 employees, which relate to the residential segment, in the financial year (previous year: 763 employees).

6 Other income

Other operating income primarily comprise non-recurrent revenues from business combinations (IFRS 3) and revenues from the reversal of provisions.

7 Other expenses

Other operating expenses in the financial year 2016 comprise non-recurrent transaction costs in the amount of EUR 2.6 million incurred in connection with the takeover of three facilities for Nursing and Assisted Living in Hamburg (IFRS 3), as well as restructuring, project-related and consultancy costs. Other operating expenses for the previous year primarily comprised transaction costs incurred in connection with our takeover bids for conwert Immobilien Invest SE and LEG Immobilien AG in the amount of approximately EUR 15 million and our expenses in connection with the hostile takeover bid extended by Vonovia SE in the amount of approximately EUR 33 million.

8 Share-based remuneration

The stock option programme launched in 2014 provides for the issuance of a maximum of 12,879,752 subscription rights to the members of the Management Board of Deutsche Wohnen AG and to selected executives of the Deutsche Wohnen Group under the following conditions:

The subscription rights will be issued to beneficiaries in annual tranches until the expiration of four years from the date of the registration of the contingent capital in the commercial register, but at least until the expiration of 16 weeks after the closing of the ordinary Annual General Meeting in 2018. The amount of the annual tranches will be determined by dividing the target amount of the variable remuneration for the beneficiary in question by a reference value, which will be commensurate with the arithmetic mean of the closing price for the Deutsche Wohnen share 30 days prior to the issuance of the stock 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 will expire upon the expiration of the relevant period.

The subscription rights may only be exercised if 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 (sec. 626 para. 1 of the German Civil Code (BGB)) and

- The performance targets "Adjusted NAV per share" (40 % weighting), "FFO I per share" (40 % weighting) and "Share price" (20 % weighting) are attained.

The performance targets for each individual tranche of the stock options relate to the development of the (i) Adjusted NAV per share, (ii) FFO I (without disposals) per share and (iii) Share price development, as compared to the EPRA/NAREIT Germany Index, calculated in accordance with the following provisions.

Within each of the aforementioned performance targets there is a minimum target, which must be attained in order for half of the stock options based on this performance target to be generally exercisable, as well as a maximum target, upon the attainment of which all of the stock options allotted to this performance target will become exercisable in accordance with the weighting of the performance target in question. The minimum target is in each case reached at 75% of target achievement and the maximum target at 150% of target achievement. The individual minimum and maximum targets are set by the company on the basis of its four-year-projections prior to the issuance of the annual tranche of stock options. Subject to any special arrangements for termination of the service or employment relationship of the beneficiary prior to the expiration of the waiting period, the number of exercisable stock options per tranche equals the total number of stock options of the respective tranche multiplied by the percentage rate calculated from the sum of the percentage rates based on attainment of one or several 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 allocable subscription rights per eligible person is calculated on the basis of the degree of attainment of the performance targets. When acquiring the shares (exercise of the issued subscription rights), the beneficiary must pay EUR 1.00 per share. The shares acquired following the exercise of the options will have full voting rights and entitlement to dividends.

In the past financial year, a total of 66,103 subscription rights were conferred, with the result that 218,137 subscription rights were outstanding at the end of the year (previous year: 152,034).

When calculating the value of the issued options, it was assumed that the performance targets "Adjusted NAV per share" and "FFO I (without disposals) per share" will have been met 150% by the end of the waiting period. With regard to meeting the target "Share price development", the value of the subscription rights was calculated on the basis of an assumed volatility of 30.41%, a risk-free interest rate of −0.14% and an expected dividend return of 2.89%. The distribution of the stock option value calculated for the subscription rights over the vesting period was calculated in consideration of the special contractual provisions that exist for the termination of service or employment relationship of the beneficiary.

The expenses relating to the stock option programme as reported in the consolidated financial statements amount to EUR 2.2 million (previous year: EUR 1.0 million).

9 Finance expenses

The finance expenses comprises the following:

EUR m	2016	2015
Current interest expenses	106.2	127.0
Accrued interest on liabilities and pensions	18.7	9.5
Non-recurring expenses in connection with the refinancing	6.9	58.7
	131.8	**195.3**

10 Income taxes

Companies resident in Germany that have the legal form of a corporation are subject to German corporation tax in the amount of 15% (previous year: 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 partners 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 2016 for the Group's parent company Deutsche Wohnen AG is 30.18% (previous year: 30.18%).

The income tax expense/benefit comprises the following:

EUR m	2016	2015
Current tax expense	–36.5	**–21.5**
Tax expense from capital increase costs	0.0	**–6.5**
Deferred tax expense		
Properties	–865.3	–577.5[1]
Loss carry-forwards	–15.0	3.9
Loans	5.7	4.8[1]
Convertible bonds	39.5	7.7
Interest rate swaps	2.4	–11.4[1]
Pensions	–1.0	1.3
Other	4.3	11.9
	–829.5	**–559.3**[1]
	–866.0	**–587.3**[1]

[1] Adjusted figures for the previous year; see note A.3 "Application of IFRS in the financial year" for further information

The reconciliation of tax expense/benefit is provided in the following overview:

EUR m	2016	2015
Consolidated accounting profit before taxes	2,489.2	1,787.2
Applicable tax rate in %	30.18	30.18
Resulting tax expense	–751.11	**–539.3**
Permanent effect of expenses not deductible for tax purposes and trade tax corrections, as well as tax-exempt revenues	12.0	–7.7
Changes in unrecognised deferred taxes on loss carry-forwards and active temporary differences	45.8	–51.0
Income tax expenses from other periods	–5.7	8.1
Impairment of goodwill	–162.1	0.0
Other effects	–5.0	2.6[1]
	–866.0	**–587.3**[1]

[1] Adjusted figures for the previous year; see note A.3 "Application of IFRS in the financial year" for further information

Current income tax expenses in the financial year 2016 include expenses from other periods in the amount of EUR 5.7 million (previous year: income EUR 8.1 million). Of the EUR 45.8 million adjustment of the deferred taxes not recorded on losses carried forward and accrued temporal differences, EUR 2.2 million is reduced from 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. Segment information is not reported by geographical region as the property and, therefore, all operational activities are in Germany.

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 either take place as individual privatisation, i.e. by selling an individual residential unit (for example to a tenant), or as 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 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) 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 primarily is operated by KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH (KATHARINENHOF®) and its subsidiaries, and comprises the marketing and management of nursing and residential care homes as well as services for the care of the senior citizens who live in these homes.

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 on 153.

The following table shows the reconciliation of the segment assets to the consolidated balance sheet and the segment earning to the consolidated profit and loss statement:

EUR m	31/12/2016	31/12/2015
Segment assets	16,746.2	13,366.5
Deferred taxes	0.7	2.0
Income tax receivables	36.7	8.1
Total assets	**16,783.6**	**13,376.6**

EUR m	2016	2015
Segment earnings	657.5	603.7
Corporate expenses	–73.7	–74.7
Other expenses	–16.0	–71.6
Other income	7.3	7.6
Result of fair-value adjustment of investment properties	2,667.7	1,734.1
Depreciation and amortisation	–543.7	–5.7
Earnings before interest and taxes (EBIT)	**2,699.0**	**2,193.5**
Finance income	3.4	0.9
Gains/losses from fair-value adjustments of derivative financial instruments and convertible bonds	–83.4	–213.7
Gains/losses from companies valuated at equity	2.0	1.8
Finance expenses	–131.8	–195.3
Profit before taxes	**2,489.2**	**1,787.2**
Income taxes	–866.0	–587.3
Profit for the period	**1,623.2**	**1,199.9**

G Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows how the Group's cash and cash equivalents have 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 (2016: EUR 63.7 million; previous year: EUR 90.4 million). In total, Deutsche Wohnen received EUR 336.1 million (previous year: EUR 680.3 million) from property disposals. Payments for investments include payments for modernisation and acquisition of investment properties and land and buildings held for sale.

The Group has funds amounting to EUR 437 million (previous year: EUR 10 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.

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	2016	2015
Consolidated earnings for the calculation of undiluted earnings	1,583.9	1,154.9
./. Interest from convertible bond (after taxes)	3.3	0.0
./. Valuation effect resulting from convertible bond (after taxes)	55.6	0.0
Adjusted consolidated earnings for the calculation of diluted earnings	**1,642.8**	**1,154.9**

The average number of issued shares (diluted and undiluted) amounts to:

Shares k	2016	2015
Shares issued at start of period	337,412	294,260
Addition of issued shares in the relevant financial year	69	43,152
Shares issued at end of period	**337,480**	**337,412**
Average of shares issued, undiluted	**337,452**	**320,849**
Diluting number of shares due to exercise of conversion rights and stock option programme	33,414	28
Average of shares issued, diluted	**370,866**	**320,876**

The earnings per share for continuing operations amount to:

EUR	2016	2015
Earnings per share		
Undiluted	4.69	3.60
Diluted	4.43	3.60

In the year 2016, a dividend was distributed for the financial year 2015 amounting to EUR 182.2 million or EUR 0.54 per share. A dividend in the amount of EUR 0.74 per share is planned for 2016. Based on the number of outstanding shares on 31 December 2016, this corresponds to a dividend payment of overall EUR 249.7 million.

I Other disclosures

1 Disclosure of financial instruments

Financial risk management

Financial risk management is an integral part of the risk management system and thus contributes towards the achievement of the main aim of the company, namely to sustainably guarantee the profitability of Deutsche Wohnen – which is mainly focused on the management and development of its own residential holdings. Please refer to the risk and opportunity report in the Group management report for a comprehensive description of the risk management system.

The measures relating to financial risk management are described below:

The main financial instruments used by the Group – with the exception of derivative financial instruments – are bank loans, convertible bonds, a corporate bond, commercial paper 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 in the future.

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:

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	31/12/2016
Trade receivables	LaR	16.4	16.4	0.0	0.0	16.4
Other assets						
Securities	AfS	0.0	n/a	0.0	0.0	0.0
Financial assets and loans receivable	AfS	17.3	n/a	0.0	10.9	28.3
Other financial assets	LaR	11.3	11.3	0.0	0.0	11.3
Derivative 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	FLHfT	0.0	0.0	6.5	0.0	6.5
Trade payables	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	94.2	94.2	0.0	0.0	94.2
Derivative 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		**5,588.1**	**5,819.9**	**1,098.6**	**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 at Cost)
FLHfT – Liabilities assessed at fair value and recognised in profit/loss (Financial Liabilities Held for Trade)

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	31/12/2015
Trade receivables	LaR	13.4	13.4	0.0	0.0	13.4
Other assets						
Securities	AfS	0.3	n/a	0.0	0.0	0.3
Financial assets and loans receivable	AfS	11.3	n/a	0.0	7.1	18.4
Other financial assets	LaR	12.5	12.5	0.0	0.0	12.5
Derivative financial instruments	FAHfT	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	LaR	661.6	661.6	0.0	0.0	661.6
Total financial assets		**698.9**	**687.4**	**0.0**	**7.1**	**706.1**
Financial liabilities	FLaC	3,780.4	3,915.6	0.0	0.0	3,780.4
Convertible bonds	FLHfT	0.0	0.0	965.4	0.0	965.4
Corporate bond	FLaC	498.3	502.8	0.0	0.0	498.3
Liabilities to limited partners in funds	FLHfT	0.0	0.0	6.4	0.0	6.4
Trade payables	FLaC	194.6	194.6	0.0	0.0	194.6
Other liabilities						
Liabilities from finance leases	n/a	0.0	0.0	0.0	22.2	22.2
Other financial liabilities	FLaC	66.7	66.7	0.0	0.0	66.7
Derivative financial instruments						
Interest rate hedges (no hedge accounting)	FLHfT	0.0	0.0	18.5	0.0	18.5
Cash flow hedges (interest rate swaps)	n/a	0.0	0.0	26.3	0.0	26.3
Total financial liabilities		**4,540.0**	**4,679.7**	**1,016.6**	**22.2**	**5,578.8**

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 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 the disclosure in the explanatory notes – with the exception of the liabilities with regard to put options of co-shareholder (Level 3) – was undertaken on the basis of Level 2 of the Fair Value Hierarchy.

With regard to derivatives, the DCF valuation method was applied, using observed market parameters, in particular market interest rates. The calculation of the fair value of the convertible bonds and bonds was undertaken on the basis of the quoted market prices for the securities in question. The liabilities with regard to put options are commensurate with discounted contractually stipulated purchase prices which can be deduced from predictable cash flows.

As a result of the reassessment of off-exchange trading in convertible bonds as trading on a non-active market within the meaning of IFRS 13, the convertible bonds were reallocated from Level 1 to Level 2 of the Fair Value Hierarchy at the end of the reporting period. This reallocation did not have any effect on earnings.

The following table shows the contractual, undiscounted payments:

EUR m	Carrying amount 31/12/2016	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 bond	732.3	239.8	6.9	6.9	506.9
Liabilities to limited partners in funds	6.5	6.5	0.0	0.0	0.0
Trade payables and other liabilities	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	94.2	65.6	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**

EUR m	Carrying amount 31/12/2015	Maturities 2016	2017	2018	≥ 2019
Original financial liabilities					
Financial liabilities	3,780.4	115.3	118.2	122.3	4,220.9
Convertible bonds	965.4	4.8	4.8	4.8	663.0
Corporate bond	498.3	6.9	6.9	6.9	513.8
Liabilities to limited partners in funds	6.4	6.4	0.0	0.0	0.0
Trade payables and other liabilities	194.6	194.6	0.0	0.0	0.0
Other liabilities					
Liabilities from finance lease	22.2	2.6	2.6	2.6	16.8
Other financial liabilities	66.7	66.2	0.5	0.0	0.0
Derivative financial liabilities	44.8	12.0	11.5	9.9	11.1
Total	**5,578.9**	**408.6**	**144.3**	**146.3**	**5,425.5**

The profits and losses from financial assets and liabilities are as follows:

31/12/2016									
EUR m	Valuation category in accordance with IAS 39	From interest	From dividends	From subsequent valuations			From disposals	From other comprehensive 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	–97.5	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)	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

31/12/2015									
EUR m	Valuation category in accordance with IAS 39	From interest	From dividends	From subsequent valuations			From disposals	From other comprehensive income components	Net earnings
				Fair value	Impairment	Appreciation in value			
Loans and receivables	LaR	0.8	0.0	0.0	–15.5	9.8	0.0	0.0	**–4.9**
Financial liabilities carried at amortised cost	FLaC	–135.4	0.0	0.0	0.0	0.0	–58.7	0.0	**–194.1**
Liabilities carried at fair value and recognised in profit/loss (held for trading purposes)	FLHfT	–1.2	0.0	–213.7	0.0	0.0	0.0	0.0	**–214.9**
Total		**–137.4**	**0.0**	**–213.7**	**–15.5**	**9.8**	**–58.7**	**0.0**	**–415.5**

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 approximately 52 % (previous year: 50 %), and a Loan-to-Value Ratio of 37.7 % (previous year: 38.0 %).

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. To make this combination capital cost-efficient, the Group concludes interest rate swaps at specified intervals by 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 1 % in the interest rate at the reporting date would have led to an increase/reduction in the interest expenses of EUR 8.9 million/EUR – 5.1 million (previous year: EUR 6.5 million/EUR – 3.9 million). On the basis of the derivative financial instruments, a raising/lowering of the interest rate by 0.5 % as at the balance sheet date would have resulted in an increase/decrease in interest expenses of EUR 9.5 million/EUR – 9.9 million (previous year: EUR 7.2 million/EUR – 7.4 million). Applied to the Group equity, an interest adjustment in the same amount would have led to an increase/reduction of approximately EUR 9.5 million/EUR – 9.9 million (previous year: EUR 13.4 million/EUR – 13.9 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 may arise from fixed-interest liabilities and interest hedged loans if the interest level on the market is falling beneath the interest level of the loans concluded in the Group. In that case Deutsche Wohnen negotiates with its banks and conducts adjustments and refinancing to avoid interest rate disadvantages.

Netting of financial assets and financial liabilities

Financial assets and liabilities are only be netted pursuant to global netting agreements where an enforceable legal set-off 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 off-set 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 305.5 million (previous year: EUR 296.1 million) were offset against instalments on advance payments of operating costs in the amount of EUR 335.2 million (previous year: EUR 315.0 million) on the balance sheet for the financial year 2016. The derivatives were not subject to any set-off 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 49 % as at the reporting date (previous year: 50 %).

- **Loan-to-Value Ratio**
  The ratio of financial liabilities compared to the value of the investment properties is defined as the Loan-to-Value Ratio.

EUR m	31/12/2016	31/12/2015
Financial liabilities	4,600.0	3,780.4
Convertible bonds	1,045.1	965.4
Corporate bonds	732.3	498.3
	6,377.4	**5,244.1**
Cash and cash equivalents	−192.2	−661.6
Net financial liabilities	6,185.2	**4,582.5**
Investment properties	16,005.1	11,859.1
Non-current assets held for sale	29.2	137.6
Land and buildings held for sale	381.5	66.9
	16,415.8	**12,063.6**
Loan-to-Value Ratio in %	37.7	**38.0**

3 Hedging

As at 31 December 2016 and 31 December 2015, various interest hedges were in place in the context of hedging transactions in accordance with IAS 39 through which variable interest rate conditions can be exchanged for fixed interest rate conditions. The non-effective part thereof – whose value change is shown in the consolidated profit and loss statement – is in a negligible amount (previous year: negligible).

Expenses in the amount of EUR 5.9 million (previous year: EUR 5.8 million) were reported in the consolidated profit and loss statement as a result of the reversal of the hedging reserve reported in equity.

4 Events after the balance sheet date

Deutsche Wohnen AG has issued new convertible bonds with a term expiring in July 2024 and a total nominal value of EUR 800 million. The new convertible bonds were issued in the full amount of their nominal value and bear a coupon for interest of 0.325 % p.a. The conditions for conversion can be viewed on the Deutsche Wohnen homepage.

In addition, Deutsche Wohnen AG increased the amount of its registered issued capital by approximately 5.1 % at the end of February 2017, by way of exclusion of the subscription rights of the shareholders. The 17,174,110 new no-par value bearer shares were issued at a price of EUR 31.75 per new share. They confer full dividend rights from 1 January 2016 onwards. The gross emission proceeds from the capital increase amounted to approximately EUR 545 million.

On 22 February 2017, Deutsche Wohnen AG bought back the convertible bonds falling due in 2020 for a purchase price totalling approximately EUR 467 million. The creditors were offered approximately 99 % of the original total nominal value of the convertible bonds falling due in 2020 in the amount of EUR 250 million in accordance with the procedure for the extension of such offers. Thus, following the implementation of this buy-back, convertible bonds falling due in 2020 with a nominal value of just under EUR 3 million still remain outstanding.

In March 2017, the Deutsche Wohnen Group acquired a Berlin real estate portfolio at a price of approximately EUR 655 million. The transfer of risks and rewards is expected in the second quarter of 2017. The average rent is EUR 6.92 per sqm. The portfolio is located within the Berlin S-Bahn-Ring and is made up primarily of apartment buildings, built around the turn of the century.

We are not aware of any other significant events after the reporting date.

5 Commitments and contingencies

Hereditary building rights contracts result in annual financial commitments of EUR 2.6 million (previous year: EUR 2.4 million).

Other financial commitments relating to agency agreements concerning IT services amount to a total of EUR 7.2 million (previous year: EUR 12.5 million).

Other service contracts result in annual financial commitments of EUR 7.3 million (previous year: EUR 5.7 million).

In addition, current liabilities arise from the acquisition of several property portfolios in an amount of EUR 48.7 million (previous year: EUR 1,004.1 million) resulting.

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a development and redevelopment agency (sec. 158 and 167 of the German Federal Building Code (BauGB)). Rhein-Pfalz Wohnen GmbH performs the duties bestowed upon it by local authorities as their trustee.

The GSW subgroup has undertaken entries on 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: 10.6 million).

6 Obligations arising out of lease commitments

Operating lease agreements result in payments for up to one year in the amount of EUR 1.9 million (previous year: EUR 1.7 million), for one to five years in the amount of EUR 5.4 million (previous year: EUR 4.5 million), and for more than five years in the amount of EUR 3.3 million (previous year: EUR 2.9 million).

7 Auditors' services

By way of resolution adopted by the Annual General Meeting held on 22 June 2016, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was newly appointed as the auditor of the financial statements of Deutsche Wohnen AG and the Group. The following table shows the fees paid to KPMG in the financial year 2016 and the fees paid to the auditor of the financial statements in the financial year 2015, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The following expenses (net) were incurred in the year under review:

EUR k	2016	2015
Audit	1,001	600
Other certification and valuation services	19	431
Reimbursement of insurance premiums	0	506
Tax advice	0	110
Other consultancy services	126	58
	1,146	**1,705**

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 when defining the significant influence that the Deutsche Wohnen Group's related parties 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 in supervisory boards and other executive bodies within the meaning of sec. 125 para. 1 sent. 5 of the German Stock Corporation Act (AktG)
Michael Zahn Chief Executive Officer	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) 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 since 15/9/2016) GETEC Wärme & Effizienz AG, Magdeburg (Member of Real estate consulting since 8/11/2016)
Lars Wittan Member of the Management Board	Degree in business administration (Dipl.-Betriebswirt)	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Member of the Supervisory Board)
Philip Grosse Member of the Management Board since 1/9/2016	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 AG

The Supervisory Board is composed of the following members:

Name	Occupation	Memberships in supervisory boards and other executive bodies within the meaning of sec. 125 para. 1 sent. 5 of the German Stock Corporation Act (AktG)
Uwe E. Flach Chairman	Company consultant, Frankfurt/Main	OFFICEFIRST Immobilien AG, Bonn (Chairman of the Supervisory Board since 26/9/2016) DZ Bank AG, Frankfurt/Main (Member of the Advisory Board until 27/4/2016) metabo Aktiengesellschaft, Nürtingen (Member of the Supervisory Board until 1/3/2016)
Dr Andreas Kretschmer Deputy Chairman	Managing Director of Pension Fund for Medical Practitioners of Westphalia-Lippe Einrichtung der Ärztekammer Westfalen-Lippe – KöR –, Münster	BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board) Amprion GmbH, Dortmund (Deputy Chairman of the Supervisory Board)
Dr h.c. Wolfgang Clement	Publicist and company consultant former Bundesminister (Federal Minister) former Ministerpräsident (State Prime), Bonn	Daldrup & Söhne AG, Grünwald (Chairman of the Supervisory Board) DIS Deutscher Industrie Service AG, Dusseldorf (Member of the Supervisory Board until 15/6/2016) 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) RWE Power AG, Essen (Member of the Supervisory Board until 15/6/2016)
Matthias Hünlein	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	None
Dr Florian Stetter	Chief Executive Officer Rockhedge Asset Management AG, Krefeld	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

In 2016 there were no transactions with related parties.

9 Remuneration of the Management Board and Supervisory Board

The contractually granted remuneration of members of the Management Board and the Supervisory Board comprised the following:

EUR m	2016	2015
Payments made to members of the Management Board		
Non-performance-based remuneration	1.4	1.7
Performance-based remuneration	1.9	2.5
Other	0.0	2.3
Total	3.3	**6.5**
Payments made to members of the Supervisory Board		
Fixed remuneration	0.5	0.5
Variable remuneration	0.0	0.0
Total	0.5	**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 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 stock 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 from 92.

10 Corporate governance

The Management Board and the Supervisory Board of Deutsche Wohnen AG and GSW Immobilien AG have submitted a declaration of conformity with the German Corporate Governance Code in accordance with sec. 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.ag.

Frankfurt/Main, 3 March 2017

Michael Zahn	Philip Grosse	Lars Wittan
Chief Executive Officer	Chief Financial Officer	Chief Investment Officer

Appendix 1 to the Notes to the consolidated financial statements

SHAREHOLDINGS[1]

as at 31 December 2016

Company and registered office	Share of capital %	Equity EUR k	Profit/loss EUR k	Reporting date
Subsidiaries, fully consolidated				
AGG Auguste-Viktoria-Allee Grundstücks GmbH, Berlin	100.00[2]	25.0	0.0	2016
Algarobo Holding B.V., Baarn, Netherlands	100.00	13,583.6	1,573.4	2016
Aufbau-Gesellschaft der GEHAG mit beschränkter Haftung, Berlin	100.00	6,893.3	1,384.1	2016
BauBeCon Assets GmbH, Berlin	100.00[2]	45,110.9	7,363.9	2016
BauBeCon BIO GmbH, Berlin	100.00[2]	8,626.5	0.0	2016
BauBeCon Immobilien GmbH, Berlin	100.00[2]	401,555.9	35,198.5	2016
BauBeCon Wohnwert GmbH, Berlin	100.00[2]	26,710.2	0.0	2016
DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	89.52	32,126.7	656.6	2015
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100.00[2]	25.0	0.0	2016
Deutsche Wohnen Berlin I GmbH, Berlin	94.00[2]	1,488.1	0.0	2016
Deutsche Wohnen Berlin II GmbH, Berlin (formerly: Wohnungsbaugesellschaft „Aufbau 97" mbH, Berlin)	94.90[2]	4,296.1	419.9	2016
Deutsche Wohnen Berlin III GmbH, Berlin (formerly: Muldershof XVIII B.V., Rijssen, Netherlands)	94.90	25,705.1	3,707.2	2016
Deutsche Wohnen Berlin X GmbH, Berlin	94.80[2]	7,691.7	0.0	2016
Deutsche Wohnen Berlin XI GmbH, Berlin	94.80[2]	7,504.6	0.0	2016
Deutsche Wohnen Berlin XII GmbH, Berlin	94.80[2]	1,761.1	0.0	2016
Deutsche Wohnen Berlin XIII GmbH, Berlin	94.80[2]	6,858.4	81.7	2016
Deutsche Wohnen Berlin XIV GmbH, Berlin	94.80[2]	10,111.1	1,805.0	2016
Deutsche Wohnen Berlin XV GmbH, Berlin	94.80[2]	12,102.0	1,164.8	2016
Deutsche Wohnen Berlin XVI GmbH, Berlin	94.80[2]	6,596.9	313.9	2016
Deutsche Wohnen Berlin XVII GmbH, Berlin	94.80[2]	5,914.2	0.0	2016
Deutsche Wohnen Berlin XVIII GmbH, Berlin	94.80[2]	3,256.7	0.0	2016
Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100.00[2]	1,025.0	0.0	2016
Deutsche Wohnen Beteiligungsverwaltungs GmbH & Co. KG, Berlin	100.00[3]	20.0	14.3	2016
Deutsche Wohnen Construction and Facilities GmbH, Berlin	100.00[2]	275.0	0.0	2016
Deutsche Wohnen Corporate Real Estate GmbH, Berlin	100.00[2]	25.0	0.0	2016
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100.00	919,640.6	– 1,825.8	2016
Deutsche Wohnen Dresden I GmbH, Berlin	100.00[2]	5,087.3	67.5	2016
Deutsche Wohnen Dresden II GmbH, Berlin	100.00[2]	3,452.9	335.1	2016
Deutsche Wohnen Energy GmbH, Berlin	100.00[2]	25.0	0.0	2016
Deutsche Wohnen Fondsbeteiligungs GmbH, Berlin	100.00[2]	25.0	0.0	2016
Deutsche Wohnen Immobilien Management GmbH, Berlin	100.00[2]	1,331.9	0.0	2016
Deutsche Wohnen Kiel GmbH, Berlin (formerly: SCAN Deutsche Real Estate Kiel GmbH, Berlin)	94.90	34,194.0	4,387.0	2016
Deutsche Wohnen Kundenservice GmbH, Berlin	100.00[2]	25.7	0.0	2016

[1] Additionally, the company is indirectly involved in a working group
[2] Waiver according to sec. 264 para. 3 of the German Commercial Code (HGB) due to inclusion in these consolidated financial statements
[3] Waiver according to sec. 264b 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
Deutsche Wohnen Management GmbH, Berlin	100.00[2]	325.0	0.0	2016
Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100.00[2]	325.6	0.0	2016
Deutsche Wohnen Multimedia Netz GmbH, Berlin (formerly: Deutsche Wohnen Service Magdeburg GmbH, Berlin)	100.00[2]	638.0	342.4	2016
Deutsche Wohnen Reisholz GmbH, Berlin	100.00[2]	3,563.5	0.0	2016
Deutsche Wohnen Service Center GmbH, Berlin	100.00[2]	311.8	158.9	2016
Deutsche Wohnen Service Merseburg GmbH, Merseburg	100.00	286.0	– 19.6	2016
Deutsche Wohnen Zweite Fondsbeteiligungs GmbH, Berlin	100.00[2]	25.2	0.0	2016
Draaipunt Holding B.V., Baarn, Netherlands	94.90	6,672.7	1,437.3	2015
DWRE Alpha GmbH, Berlin	100.00[2]	343.8	0.0	2016
DWRE Braunschweig GmbH, Berlin	100.00[2]	16,325.2	0.0	2016
DWRE Dresden GmbH, Berlin	100.00[2]	25.0	0.0	2016
DWRE Erfurt GmbH, Berlin	100.00[2]	880.2	0.0	2016
DWRE Halle GmbH, Berlin	100.00[2]	25.0	0.0	2016
DWRE Hennigsdorf GmbH, Berlin	100.00[2]	1,085.3	0.0	2016
DWRE Leipzig GmbH, Berlin	100.00[2]	25.0	0.0	2016
Eisenbahn-Siedlungs-Gesellschaft Berlin mit beschränkter Haftung, Berlin	94.90	11,889.8	0.0	2016
Erste Objekt Adlerhorn Verwaltungs GmbH, Berlin (formerly: RM 1613 Vermögensverwaltungs GmbH, Munich)	94.00	20.6	– 4.4	2016
FACILITA Berlin GmbH, Berlin	100.00	3,976.2	695.0	2016
Fortimo GmbH, Berlin	100.00[2]	6,127.2	0.0	2016
Gehag Acquisition Co. GmbH, Berlin	100.00	926,148.1	– 549.3	2016
GEHAG Beteiligungs GmbH & Co. KG, Berlin	100.00[3]	21,912.1	434.3	2016
GEHAG Dritte Beteiligungs GmbH, Berlin	100.00[2]	378.8	0.0	2016
GEHAG Erste Beteiligungs GmbH, Berlin	100.00	45.0	0.0	2016
GEHAG Erwerbs GmbH & Co. KG, Berlin	99.99[3]	45,904.8	1,506.4	2016
GEHAG GmbH, Berlin	100.00	1,749,455.5	96,311.4	2016
GEHAG Grundbesitz I GmbH, Berlin	100.00[2]	26.0	0.0	2016
GEHAG Grundbesitz II GmbH, Berlin	100.00[2]	25.0	0.0	2016
GEHAG Grundbesitz III GmbH, Berlin	100.00[2]	– 9.5	19.3	2016
GEHAG Vierte Beteiligung SE, Berlin	100.00[2]	20,220.5	0.0	2016
GEHAG Zweite Beteiligungs GmbH, Berlin	100.00[2]	17,431.5	0.0	2016
GGR Wohnparks Alte Hellersdorfer Straße GmbH, Berlin	100.00[2]	5,859.9	0.0	2016
GGR Wohnparks Kastanienallee GmbH, Berlin	100.00[2]	28,716.8	4,143.9	2016
GGR Wohnparks Nord Leipziger Tor GmbH, Berlin	100.00[2]	6,680.3	0.0	2016
GGR Wohnparks Süd Leipziger Tor GmbH, Berlin	100.00[2]	3,390.2	0.0	2016
Grundstücksgesellschaft Karower Damm mbH, Berlin	100.00[2]	1,099.3	0.0	2016
GSW Acquisition 3 GmbH, Berlin	100.00[2]	78,368.1	759.3	2016
GSW Berliner Asset Invest Verwaltungs-GmbH, Berlin	100.00	33.7	– 7.2	2016

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[3] Waiver according to sec. 264b 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
GSW Corona GmbH, Berlin	100.00[2]	3,071.6	0.0	2016
GSW Fonds Weinmeisterhornweg 170–178 GbR, Berlin	52.08	–5,567.2	157.2	2016
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100.00	480.7	74.6	2016
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100.00[2]	90,255.7	0.0	2016
GSW Immobilien AG, Berlin	93.88	1,322,056.9	121,149.6	2016
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.00[3]	409.0	42.0	2016
GSW Pegasus GmbH, Berlin	100.00[2]	12,224.2	9,477.6	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.44[3]	–11,579.7	4,998.5	2016
Hamburger Ambulante Pflege- und Physiotherapie „HAPP" GmbH, Hamburg	100.00[3]	22.7	–119.0	2015
Hamburger Senioren Domizile GmbH, Hamburg	100.00[3]	8.9	1,610.2	2015
Hamnes Investments GmbH, Berlin (formerly: Hamnes Investments B.V., Baarn, Netherlands)	100.00[3]	10,058.0	1,065.6	2016
Haus und Heim Wohnungsbau-GmbH, Berlin	100.00[2]	2,798.7	0.0	2016
HESIONE Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main	100.00	98.7	16.2	2016
Holzmindener Straße/Tempelhofer Weg Grundstücks GmbH, Berlin	100.00[2]	25.0	0.0	2016
Intermetro GmbH, Berlin	100.00[2]	8,501.4	0.0	2016
KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin	49.00	2,089.5	4,889.5	2016
KATHARINENHOF Service GmbH, Berlin	100.00	25.0	0.0	2016
Larry I Targetco (Berlin) GmbH, Berlin	100.00[2]	77,057.2	0.0	2016
Larry II Targetco (Berlin) GmbH, Berlin	100.00[2]	70,878.6	0.0	2016
LebensWerk GmbH, Berlin	100.00	457.1	0.0	2016
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	99.99[3]	14,393.7	10,047.6	2016
Marienfelder Allee 212–220 Grundstücksgesellschaft b.R., Berlin	94.00	7,369.6	788.5	2016
Promontoria Holding V B.V., Amsterdam, Netherlands	94.90	5,453.2	2,285.2	2015
Promontoria Holding X B.V., Baarn, Netherlands	94.90	5,677.9	1,265.1	2015
Rhein-Main Wohnen GmbH, Frankfurt/Main	100.00[2]	1,065,769.8	25,822.8	2016
Rhein-Mosel Wohnen GmbH, Mainz	100.00[2]	371,038.7	8,322.5	2016
Rhein-Pfalz Wohnen GmbH, Mainz	100.00[2]	761,597.8	174.1	2016
RMW Projekt GmbH, Frankfurt/Main	100.00[2]	16,238.3	0.0	2016
Seniorenresidenz „Am Lunapark" GmbH, Leipzig	100.00	102.3	0.0	2016
SGG Scharnweberstraße Grundstücks GmbH, Berlin	100.00[2]	25.0	0.0	2016
Sophienstraße Aachen Vermögensverwaltungsgesellschaft mbH, Berlin	100.00[2]	2,193.0	0.0	2016
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100.00	1,860.8	–277.4	2016
Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	324.1	9.6	2016
Wohnanlage Leonberger Ring GmbH, Berlin	100.00[2]	850.9	0.0	2016
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin	94.90[3]	–82.6	35.7	2016
Zisa Verwaltungs GmbH, Berlin	100.00	55.6	–4.2	2016
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100.00	57.3	–3.2	2016
Zweite Objekt Adlerhorn Verwaltungs GmbH, Berlin (formerly: RM 1614 Vermögensverwaltungs GmbH, Munich)	94.00	21.2	–3.8	2016

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[3] Waiver according to sec. 264b 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
Joint ventures, consolidated at equity				
B&O Deutsche Service GmbH, Berlin	49.00	229.3	84.3	2015
Funk Schadensmanagement GmbH, Berlin	49.00	255.0	155.0	2015
G+D Gesellschaft für Energiemanagement mbH, Magdeburg	49.00	4,325.1	1,264.3	2015
Gartenstadt Potsdam GmbH, Potsdam (formerly: Brillant 2370. GmbH, Berlin)	50.00	2,460.3	– 64.7	2016
GIM Immobilien Management GmbH, Berlin	49.00	312.1	84.8	2015
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.33	244.8	28.3	2015
Siwoge 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50.00	4,963.9	14.9	2015
Associated companies, consolidated at equity				
Zisa Beteiligungs GmbH, Berlin	49.00	– 17.1	– 13.1	2014
Shareholdings, not consolidated				
AVUS Immobilien-Treuhand GmbH & Co. KG, Berlin	100.00	370.4	– 17.8	2015
GbR Fernheizung Gropiusstadt, Berlin	45.59	620.3	– 31.3	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Wohnen am Brosepark KG i.L., Berlin	20.80	16.1	53.3	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Köpenicker Landstraße KG i.L., Berlin	0.26	811.8	118.8	2015
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Neue Krugallee KG i.L., Berlin	66.38	28.3	– 2.0	2016
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Grundstücksgesellschaft Ostseestraße KG i.L., Berlin	0.07	– 90.9	30.0	2015
STRABAG Residential Property Services GmbH, Berlin	0.49	246.7	0.0	2015

Appendix 2 to the Notes to the consolidated financial statements

CONSOLIDATED SEGMENT REPORTING

for the financial year 2016

EUR m	External revenue 2016	External revenue 2015	Internal revenue 2016	Internal revenue 2015	Total revenue 2016	Total revenue 2015
Segments						
Residential Property Management	704.4	633.9	15.7	14.3	720.1	648.2
Disposals	354.3	674.0	11.2	8.5	365.5	682.5
Nursing and Assisted Living	70.1	67.2	0.0	0.0	70.1	67.2
Reconciliation with consolidated financial statement						
Central functions and other operational activities	2.5	1.7	83.8	72.2	86.3	73.9
Consolidations and other reconciliations	–2.4	–1.7	–110.7	–95.0	–113.1	–96.7
	1,128.9	**1,375.1**	0.0	**0.0**	1,128.9	**1,375.1**

EUR m	Segment earnings 2016	Segment earnings 2015	Assets 31/12/2016	Assets 31/12/2015	Depreciation and amortisation 2016	Depreciation and amortisation 2015
Segments						
Residential Property Management	586.4	519.2	15,358.6	12,271.9	–536.7	–1.3
Disposals	54.3	68.9	417.6	209.7	–0.1	–0.1
Nursing and Assisted Living	16.8	15.6	716.5	174.0	–4.2	–1.9
Reconciliation with consolidated financial statement						
Central functions and other operational activities	–82.4	–138.7	253.5	710.9	–2.7	–2.4
Consolidations and other reconciliations	0.0	0.0	0.0	0.0	0.0	0.0
	575.1	**465.0**	16,746.2	**13,366.5**	–543.7	**–5.7**

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Deutsche Wohnen AG, Frankfurt/Main, comprising the Consolidated Balance Sheet, the Consolidated Profit and Loss Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the notes to the financial statements, together with the management report of the situation of the company and the group for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the management report of the situation of the company and the group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the management report of the situation of the company and the group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the management report of the situation of the company and the group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report of the situation of the company and the group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management report of the situation of the company and the group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report of the situation of the company and the group is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, March 10, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by

Schmidt	Drotleff
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(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 2016 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."

Frankfurt/Main, 3 March 2017

Michael Zahn	Philip Grosse	Lars Wittan
Chief	Chief	Chief
Executive Officer	Financial Officer	Investment Officer

GLOSSARY

Cost ratio
Staff expenses and general and administration expenses in relation to the current gross rental income.

Current gross rental income
The current gross rent 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".

D&O (directors and officers) group insurance
Personal liability insurance that provides general cover to corporate bodies for damages incurred due to neglect of duty.

EBIT
Earnings before interest and taxes.

EBITDA
Earning before interests, taxes, depreciation and amortisation.

EBT
Earnings before taxes. The company discloses an adjusted EBT as well: EBT (as reported) is adjusted for the result of fair-value adjustment of investment properties, the result of fair-value adjustments to derivative financial instruments and other one-off effects.

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

Fair value
Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties which do not depend on each other.

FFO
Funds from Operations: From the company's point of view, an essential operational figure for property companies geared towards liquidity derived from the group's profit and loss statement. Based on the net result for the period (profit/loss), adjustments for depreciation and amortisation, one-off effects as well as non-cash financial expenses/income and non-cash tax expenses/income, not affecting liquidity, are made. The FFO II (incl. disposals) is adjusted for the earnings from disposals to determine the FFO I (without disposals).

Financial Covenants
Agreements contained in some financing contracts in which the borrower promises to comply with certain key financial figures specified in the additional agreement for the term of the credit agreement.

In-place rent (per sqm)
Contractually owed net cold rent from the rented units (current gross rental income) divided by the rented area.

LTV ratio
Loan-to-Value Ratio: Quantifies the ratio between the sum of the net financial liabilities and the value of the investment properties plus the non-current assets held for sale and the land and buildings held for sale.

Modernisation measures
Typical modernisation measures are the renovation of the bathrooms, the installation of new in-house supply pipes and windows, the reconditioning or retrofitting of balconies, as well as the implementation of energy saving measures such as the installation of insulating glass windows and thermal insulation measures.

Multiple in-place rent
Net present value divided by the current gross rental income as at December of the business year multiplied by 12.

Multiple market rent
Net present value divided by the market rent as at December of the business year multiplied by 12.

Net asset value (NAV)
Indicates the net asset value or intrinsic/inherent value of a property company. The EPRA NAV is calculated based on equity (before minorities) adjusted for the effect of the exercise of options, convertibles and other equity interests as well as adjustments of the market value of derivative financial instruments and deferred taxes (net of assets and liabilities), i.e. the adjustment of balance sheet items that have no impact on the group's long-term performance.

Net cold rent
Contractually agreed rent payments; additional expenses (e.g. trash collection, water, janitor) and heating costs are not included.

Net operating income (NOI)
The Net operating income represents the operating earnings from Residential Property Management after deduction of incurred personnel and G&A costs in this business segment.

New-letting rent
Deutsche Wohnen determines the new-letting rent by calculating the actual average agreed monthly net cold rent payments per sqm based on the new leases for units not subject to rent controls for the respective properties during the financial year.

Potential gross rental income
The potential gross rental income is the sum of current gross rental income and vacancy loss.

Vacancy loss
The vacancy loss corresponds to the sum of the respective last contractually agreed net cold rent payments for the areas that are not rented but are lettable for the review period or as of the reporting date of the referred properties.

Vacancy rate
The vacancy rate quantifies the ratio between the vacancy loss and the potential gross rental income as of the respective reporting date. 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.

QUARTERLY OVERVIEW

for the financial year 2016[1)]

Profit and loss statement		Q1	Q2	Q3	Q4	2016
Earnings from Residential Property Management	EUR m	147.2	144.9	152.6	141.7	586.4
Earnings from Disposals	EUR m	23.7	13.0	9.7	7.9	54.3
Earnings from Nursing and Assisted Living	EUR m	4.6	4.1	5.0	3.1	16.8
Corporate expenses	EUR m	– 16.5	– 18.1	– 17.8	– 21.3	– 73.7
EBITDA	EUR m	159.2	144.0	148.2	123.7	575.1
EBT (adjusted)	EUR m	131.9	111.1	116.8	93.9	453.7
EBT (as reported)	EUR m	127.6	751.5	50.4	1,559.7	2,489.2
Group profit (after taxes)	EUR m	100.6	522.4	15.4	984.8	1,623.2
Group profit (after taxes)	EUR per share	0.29	1.51	0.04	2.86	4.69
FFO I	EUR m	100.9	95.8	104.7	82.5	383.9
FFO I	EUR per share	0.30	0.28	0.31	0.25	1.14
FFO II	EUR m	124.6	108.8	114.4	90.4	438.2
FFO II	EUR per share	0.37	0.32	0.34	0.27	1.30

Balance sheet		31/3	30/6	30/9	31/12	31/12
Investment properties	EUR m	12,692.9	13,454.4	13,481.7	16,005.1	16,005.1
Current assets	EUR m	794.9	775.1	807.1	669.2	669.2
Equity	EUR m	6,986.2	7,324.3	7,315.5	8,234.0	8,234.0
Net financial liabilities	EUR m	5,488.4	5,701.1	5,795.5	6,185.2	6,185.2
Loan-to-Value Ratio (LTV)	in %	42.0	41.2	41.7	37.7	37.7
Total assets	EUR m	14,431.9	15,181.0	15,265.9	16,783.6	16,783.6

Net Asset Value (NAV)		31/3	30/6	30/9	31/12	31/12
EPRA NAV (undiluted)	EUR m	7,893.8	8,449.3	8,472.0	10,017.0	10,017.0
EPRA NAV (undiluted)	EUR per share	23.39	25.04	25.10	29.68	29.68
EPRA NAV (diluted)	EUR per share	23.90	25.59	25.81	29.69	29.69

Fair values		31/3	30/6	30/9	31/12	31/12
Fair value of real estate properties[2)]	EUR m	12,600	13,498	13,528	15,465	15,465
Fair value per sqm residential and commercial area[2)]	EUR per sqm	1,284	1,372	1,379	1,580	1,580

[1)] As reported
[2)] Only comprises residential and commercial buildings, without Nursing and Assisted Living

MULTI-YEAR OVERVIEW

for the financial years 2014 – 2016

Profit and loss statement		2014	2015	2016
Earnings from Residential Property Management	EUR m	505.8	519.2	586.4
Earnings from Disposals	EUR m	52.4	68.9	54.3
Earnings from Nursing and Assisted Living	EUR m	16.3	15.6	16.8
Corporate expenses	EUR m	– 90.5	– 74.7	– 73.7
EBITDA	EUR m	454.5	465.0	575.1
EBT (adjusted)	EUR m	283.3	384.4	453.7
EBT (as reported)	EUR m	1,021.5	1,787.2	2,489.2
Group profit (after taxes)	EUR m	822.0[2]	1,199.9[2]	1,623.2
Group profit (after taxes)[1]	EUR per share	2.71[2,3]	3.60[2]	4.69
FFO I	EUR m	219.0[2]	304.0[2]	383.9
FFO I	EUR per share	0.75[3]	0.95[2]	1.14
FFO II	EUR m	271.4[2]	372.9[2]	438.2
FFO II	EUR per share	0.93[3]	1.16	1.30

Balance sheet		31/12/2014	31/12/2015	31/12/2016
Investment properties	EUR m	9,611.0	11,859.1	16,005.1
Current assets	EUR m	882.9	901.2	669.2
Equity	EUR m	4,808.8[2]	6,798.1[2]	8,234.0
Net financial liabilities	EUR m	5,131.3	4,582.5	6,185.2
Loan-to-Value Ratio (LTV)	in %	51.0	38.0	37.7
Total assets	EUR m	11,099.7[2]	13,376.6[2]	16,783.6

Net Asset Value (NAV)		31/12/2014	31/12/2015	31/12/2016
EPRA NAV (undiluted)	EUR m	5,329.1[2]	7,765.5[2]	10,017.0
EPRA NAV (undiluted)	EUR per share	17.87[2,3]	23.02[2]	29.68
EPRA NAV (diluted)	EUR per share	18.41[2,3]	23.55[2]	29.69

Fair values		31/12/2014	31/12/2015	31/12/2016
Fair value of real estate properties[4]	EUR m	9,785	11,721	15,465
Fair value per sqm residential and commercial area[4]	EUR per sqm	1,062	1,282	1,580

[1] Based on average number of around 337.45 million issued shares in 2016, around 320.85 million in 2015 and around 291,63 million in 2014
[2] Previous year´s figures amended
[3] With consideration of the effects arising out of the capital increase in June 2015 (so-called scrip adjustment of approximately 1.01)
[4] Only comprises residential and commercial buildings, without Nursing and Assisted Living

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FINANCIAL CALENDAR 2017

21/03/2017	Publication of consolidated/annual financial statements 2016 – Annual Report 2016
22/03/2017	Commerzbank German Real Estate Forum 2017, London
23/03/2017	HSBC Real Estate Conference 2017, Frankfurt/Main
28/03/2017	Roadshow, London
29/03/2017	Bank of America European Real Estate Conference, London
30/03/2017	Roadshow, Paris
12/05/2017	Publication of interim report as at 31 March 2017/1st quarter
19/05/2017	Warburg Conference, Hamburg
02/06/2017	Annual General Meeting 2017, Frankfurt/Main
07/– 08/06/2017	Kempen & Co. European Property Seminar, Amsterdam
13/– 15/06/2017	Exane BNP Paribas European CEO Conference, Paris
21/– 23/06/2017	Deutsche Bank dbAccess German, Swiss & Austrian Conference, Berlin
22/06/2017	Morgan Stanley Europe & EEMEA Property Conference, London
11/08/2017	Publication of interim report as at 30 June 2017/half-year
12/– 13/09/2017	Bank of America Merrill Lynch Global Real Estate Conference, New York
18/– 20/09/2017	Berenberg & Goldman Sachs German Corporate Conference, Munich
19/– 21/09/2017	Baader Investment Conference, Munich
04/– 06/10/2017	Expo Real, Munich
14/11/2017	Publication of interim report as at 30 September 2017/1st – 3rd quarter
28/– 29/11/2017	UBS Global Real Estate Conference, London

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